Report of Earnings and Financial Statements for the Three Months Ended June 30, 2021 (Consolidated)
(Prepared pursuant to Japanese GAAP)

August 5, 2021

Listed company's name:	**Kawasaki Heavy Industries, Ltd.**
Listed on:	1st sections of the TSE, and NSE
Stock code:	7012
URL:	https://global.kawasaki.com/
Representative:	Yasuhiko Hashimoto, President and Chief Executive Officer
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Scheduled dates:

Submission of quarterly securities filing:	August 5, 2021
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 millions of yen)

1. Consolidated Financial Results for the Three Months ended June 30, 2021 (April 1, 2021 – June 30, 2021)

(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	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three Months Ended June 30, 2021	355,631	18.3	15,166	-	13,126	-	9,869	-
Three Months Ended June 30, 2020	300,602	(14.3)	(20,661)	-	(18,931)	-	(11,771)	-

Note: Comprehensive income Three months ended June 30, 2021: ¥13,412 million -%
Three months ended June 30, 2020: ¥(13,593) million -%

	Earnings per share	Earnings per share – diluted
	yen	yen
Three Months Ended June 30, 2021	59.08	-
Three Months Ended June 30, 2020	(70.47)	-

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of March 31, 2020) from this consolidated fiscal year, and the figures for the first quarter of the consolidated fiscal year ended March 2022 are after the application of the accounting standard.

(2) Financial Condition

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
June 30, 2021	1,953,865	456,187	22.4
March 31, 2021	1,963,276	482,775	23.7

For reference: Shareholders' equity June 30, 2021: ¥438,433 million
March 31, 2021: ¥465,332 million

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of March 31, 2020) from this consolidated fiscal year, and the figures for the first quarter of the consolidated fiscal year ended March 2022 are after the application of the accounting standard.

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, 2021	-	0.00	-	0.00	0.00
Year ending March 31, 2022	-				
Year ending March 31, 2022 (forecast)		20.00	-	10.00	30.00

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 Fiscal Year Ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(Percentage figures indicate change compared with the previous fiscal year)

	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	1,530,000	2.8	40,000	-	28,000	-	19,000	-	113.36

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

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of March 31, 2020) from this consolidated fiscal year, and the figures for the first quarter of the consolidated fiscal year ended March 2022 are after the application of the accounting standard.

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 (Accounting procedures specific to preparation of quarterly consolidated financial statements)” on page 14 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

*For further details, see “2.Consolidated Financial Statements (3)Notes on financial statements (Changes in accounting policies)” on page 14 in the Accompanying Materials.

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

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

June 30, 2021:	167,080,532 shares
March 31, 2021:	167,080,532 shares

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

June 30, 2021:	38,681 shares
March 31, 2021:	38,282 shares

(3) Average number of shares during respective periods

June 30, 2021:	167,041,976 shares
June 30, 2020:	167,043,805 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 August 5, 2021, 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, which has been in decline due to COVID-19, is showing signs of recovery, due to the progress of vaccination and economic measures mainly in developed countries, including a recovery in demand for short-haul flights and a recovery in personal consumption such as leisure activities in Europe, the United States and China. Although the pace of recovery in personal consumption in Japan has stalled following the reissuance of the state of emergency, business confidence has improved mainly in the manufacturing sector, and capital investment is expected to recover to the level before the spread of COVID-19.

On the other hand, the future remains uncertain due to concerns over the effects of vaccines on variants of the virus, rising raw material prices, and the prolonged US-China problem.

In this business environment, the Group's consolidated orders received during the first quarter of this consolidated fiscal year increased mainly due to increases in the Motorcycle & Engine segment, the Precision Machinery & Robot segment, despite decreases in the Rolling Stock segment and the Aerospace Systems segment. Net sales decreased in the Aerospace Systems segment and other segments, but overall sales increased from the same period of the previous fiscal year due to higher sales in the Motorcycle & Engine segment the Precision Machinery & Robot segment and other segment. Operating income improved significantly year on year due to improvements in the Motorcycle & Engine segment and the Aerospace Systems segment. Recurring profit improved significantly due to an improvement in operating income despite deterioration in foreign exchange gains to losses. Net income attributable to owners of the parent improved significantly due to an improvement in recurring profit despite an increase in tax expenses.

As a result, the Group's consolidated orders received increased by ¥55.9 billion year on year to ¥304.2 billion, consolidated net sales increased by ¥55.0 billion year on year to ¥355.6 billion, operating income improved by ¥35.8 billion year on year to ¥15.1 billion, recurring profit improved by ¥32.0 billion year on year to ¥13.1 billion, and profit attributable to owners of parent improved by ¥21.6 billion year on year to ¥9.8 billion.

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of March 31, 2020), etc. from the beginning of the first quarter of the current fiscal year. For more information, see "2. (3) Notes on financial statements (Changes in accounting policies) and (Segment Information)".

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

Segment Information

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

	Three months ended June 30						Orders received		
	2020(A)		2021(B)		Change (B – A)		Three months ended June 30		
	Net sales	Operating income	Net sales	Operating income	Net Sales	Operating income	2020 (A)	2021 (B)	Change (B – A)
Aerospace Systems	74.6	(17.5)	70.0	(5.1)	(4.5)	12.3	45.4	37.4	(7.9)
Rolling Stock	32.3	(1.4)	28.7	(0.8)	(3.5)	0.6	18.7	9.3	(9.4)
Energy Solution & Marine Engineering	72.2	1.1	70.3	(0.3)	(1.9)	(1.5)	56.2	60.9	4.6
Precision Machinery & Robot	45.4	1.3	57.6	5.1	12.2	3.7	50.7	65.1	14.4
Motorcycle & Engine	58.9	(5.9)	113.5	14.8	54.5	20.7	58.9	113.5	54.5
Other	16.9	(0.1)	15.2	0.6	(1.7)	0.7	18.0	17.8	(0.2)
Adjustments	—	1.9	—	0.9	—	(0.9)	—	—	—
Total	300.6	(20.6)	355.6	15.1	55.0	35.8	248.2	304.2	55.9

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

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

3. From the first quarter of the current consolidated accounting period, the previous reporting segments of “Energy System & Plant Engineering” and “Ship & Offshore Structure” have been integrated into “Energy Solution & Marine Engineering”. As a result, reportable segments have been changed to “Aerospace Systems”, “Rolling Stock”, “Energy Solution & Marine Engineering”, “Precision Machinery & Robot”, “Motorcycle & Engine”, and “Other”.

Segment information for the first quarter of the previous fiscal year is presented using the new classification method.

Aerospace Systems

Regarding the business environment surrounding the Aerospace Systems segment, demand for Ministry of Defense in Japan is generally stable despite the tight defense budget. With respect to commercial aircraft, global passenger demand has been sluggish due to the COVID-19 pandemic, and demand for commercial aircraft airframes and jet engines has declined. Although demand for short-haul flights is currently recovering in some regions such as North America, the outlook remains uncertain due to concerns over the effects of vaccines against the variants of the virus.

Amid such an operating environment, consolidated orders received decreased by ¥7.9 billion year on year to ¥37.4 billion, mainly due to the impact of the application of revenue recognition accounting standards for component parts of commercial aircraft jet engines, despite an increase in helicopter and its component parts.

Consolidated net sales decreased by ¥4.5 billion year on year to ¥70.0 billion, mainly due to a decrease in component parts of jet engines for commercial aircraft resulting from the application of revenue recognition accounting standards, despite an increase in component parts of airframes for commercial aircraft.

Operating loss came to ¥5.1 billion, improving ¥12.3 billion year on year, due to an increase in sales of component parts of airframes for commercial aircraft and an improvement in profitability of component parts of jet engines for commercial aircraft.

Rolling Stock

Regarding the business environment surrounding the Rolling Stock segment,-the effect of the COVID-19 has led to a review 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, consolidated orders received amounted to ¥9.3 billion, a decline of ¥9.4 billion compared to the same period of the previous fiscal year, when the Company received orders for Shinkansen bullet trains.

Consolidated net sales decreased by ¥3.5 billion year on year to ¥28.7 billion, mainly due to a decrease in sales of railcars for other overseas and domestic markets, despite an increase in sales of railcars for the United States.

Operating loss came to ¥0.8 billion, improving ¥0.6 billion despite a decrease in sales, compared to the same period of the previous fiscal year when the profitability of overseas projects deteriorated due to the impact of the COVID-19 pandemic.

Energy Solution & Marine Engineering

The business environment surrounding the Energy Solution & Marine Engineering segment remains on a recovery track as the global economy moves from stagnation due to the COVID-19 pandemic to normalization. Demand for distributed power sources in Japan and overseas and, for energy infrastructure development in emerging countries, remains strong, while there is ongoing demand for the replacement of aging facilities for refuse incineration plants. Also, business opportunities on LPG carriers are gradually increasing. In addition, there is a growing worldwide trend toward achieving carbon neutrality, and contacts and requests for cooperation are increasing regarding decarbonization solutions, including hydrogen products of our Company’s strength. On the other hand, there are concerns that the rapid normalization of the economy will lead to higher raw material prices and higher transportation costs, which will squeeze earnings.

Amid such an operating environment, consolidated orders received increased by ¥4.6 billion from the same period of the previous fiscal year to ¥60.9 billion due to orders received for large-scale projects such as the improvement of domestic waste disposal facilities.

Consolidated net sales decreased by ¥1.9 billion year on year to ¥70.3 billion, mainly due to a decrease in sales in Ship & Offshore Structure business, despite an increase in sales in the Energy Solution business.

Operating loss came to ¥0.3 billion, deteriorating ¥1.5 billion year on year, due to changes in the product mix and other factors.

Precision Machinery & Robot

Regarding the business environment surrounding the Precision Machinery & Robot segment, in the precision machinery field, demand in the Chinese construction machinery market continued to be at a high level this fiscal year, and demand in the construction machinery market outside China also continued to be strong. However, we need to continue to monitor the situation in the Chinese market, as some construction equipment manufacturers have begun to adjust their inventories based on the sales situation of hydraulic excavators in China. In the robot field, robots for the semiconductor market, performance is strong due to an increase in capital investment by semiconductor manufacturing equipment manufacturers, and general-purpose robots performed well mainly in areas where recovery from the COVID-19 pandemic was rapid.

Amid such an operating environment, consolidated orders received increased by ¥14.4 billion year on year to ¥65.1 billion, due to an increase in hydraulic equipment for the construction equipment market and various robots for semiconductors and other applications.

Consolidated net sales increased by ¥12.2 billion year on year, to ¥57.6 billion, due to an increase in hydraulic equipment for the construction equipment market and various robots for semiconductors.

Operating income increased by ¥3.7 billion year on year to ¥5.1 billion due to sales increase.

Motorcycle & Engine

The business environment surrounding the Motorcycle & Engine segment continues to be affected by the COVID-19 pandemic. Demand for off-road models such as four-wheeled vehicles continued to be strong in the United States, a major market, as in the previous fiscal year, and the European market also remained strong. At the same time, the outlook for the Southeast Asian market remains uncertain. The supply of products is also affected by shortages of semiconductors and raw materials and disruptions in distribution.

Amid such an operating environment, consolidated net sales increased by ¥54.5 billion year on year to ¥113.5 billion due to an increase in off-road models such as motorcycles and four-wheeled vehicles for North America and an increase in motorcycles for Europe and Southeast Asia.

Operating income improved by ¥20.7 billion from the same period of the previous fiscal year to ¥14.8 billion due to an increase in sales, a weaker yen compared to the same period of the previous fiscal year, and a reduction in sales promotion expenses, along with other factors.

Other Operations

Consolidated net sales decreased ¥1.7 billion year on year to ¥15.2 billion.

Operating income improved by ¥0.7 billion year on year to ¥0.6 billion.

In the Group Vision 2030, the Group will focus on three fields; “A Safe and Secure Remotely-Connected Society”, “Near-Future Mobility” and “Energy and Environmental Solutions” and will transform our business structure into a form which promises faster growth in line with environmental changes. The Group is making steady progress in new businesses, such as the development of surgical support robots and automated PCR testing, the development of delivery robots and unmanned transport helicopters, and the promotion of hydrogen-related projects.

(2) Consolidated financial condition

(i) Assets

Current assets were ¥1,227.3 billion, ¥58.0 billion decrease from the previous fiscal year due to a decrease in trade receivables and contract assets.

Fixed assets were ¥726.5 billion, ¥48.6 billion increase from the previous fiscal year due to an increase in investments and other assets.

As a result, total assets were ¥1,953.8 billion, ¥9.4 billion decrease from the previous fiscal year.

(ii) Liabilities

Interest-bearing debt were ¥644.9 billion, ¥51.6 billion increase from the previous fiscal year.

Liabilities were ¥1,497.6 billion, ¥17.1 billion increase from the previous fiscal year due to increases in interest-bearing debt and other factors.

(iii) Net assets

Net assets were ¥456.1 billion, ¥26.5 billion decrease from the previous fiscal year due to decreases in retained earnings at the beginning of this fiscal year because of the application of Accounting Standard for Revenue Recognition and other factors.

(3) Consolidated earnings outlook

For the fiscal year ending March 2022, the outlook of consolidated net sales, operating income, recurring profit and net income attributable to owners of parent are expected to increase from the outlook announced on May 11, to ¥1,530.0 billion, ¥40.0 billion, ¥28.0 billion and ¥19.0 billion, respectively.

ROIC and ROE are expected to be 3.3% and 4.2%, respectively.

Consolidated orders received are expected to increase by 30.0 billion yen from the previous outlook to ¥1,510,0 billion due to the expected increase in the Motorcycle & Engine segment.

In this outlook, exchange rates are assumed to be ¥109 to the U.S. dollar and ¥128 to the euro.

For details, please refer to “Revision of the Earnings and Dividend Forecasts for the Fiscal Year Ending March 31, 2022” released today.

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

	Millions of yen	
	As of March 31, 2021	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	126,702	122,051
Trade receivables	460,436	-
Trade receivables and contract assets	-	410,009
Merchandise and finished products	69,223	66,471
Work in process	452,848	410,871
Raw materials and supplies	136,471	143,876
Other	43,314	77,695
Allowance for doubtful receivables	(3,589)	(3,636)
Total current assets	1,285,407	1,227,338
Fixed assets		
Net property, plant and equipment		
Buildings and structures	172,951	170,845
Other	278,308	276,020
Total property, plant and equipment	451,259	446,866
Intangible assets	22,427	22,099
Investments and other assets		
Other	205,584	258,957
Allowance for doubtful receivables	(1,403)	(1,396)
Total investments and other assets	204,180	257,560
Total fixed assets	677,868	726,526
Total assets	1,963,276	1,953,865
Liabilities		
Current liabilities		
Trade payables	247,294	202,788
Electronically recorded obligations - operating	107,849	112,025
Short-term debt	141,579	138,279
Income taxes payable	4,753	5,028
Provision for sales promotion expenses	7,380	—
Accrued bonuses	18,239	19,347
Provision for product warranties	12,550	12,261
Provision for losses on construction contracts	14,263	12,457
Advances received	153,298	—
Contract liability	—	160,078
Other	210,345	276,391
Total current liabilities	917,555	938,658
Non-current liabilities		
Bonds payable	190,000	190,000
Long-term debt	199,177	195,214
Retirement benefit liability	115,456	115,610
Provision for the in-service issues of commercial aircraft jet engines	(*1) 5,984	(*1) 5,052
Other	52,326	53,141
Total non-current liabilities	562,944	559,019
Total liabilities	1,480,500	1,497,677

Net assets		
Shareholders' equity		
Share capital	104,484	104,484
Capital surplus	54,542	54,542
Retained earnings	306,576	276,806
Treasury shares	(136)	(137)
Total shareholders' equity	465,467	435,696
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,955	1,576
Deferred gains (losses) on hedges	(179)	(653)
Foreign currency translation adjustment	(931)	2,484
Remeasurements of defined benefit plans	(979)	(670)
Total accumulated other comprehensive income	(134)	2,736
Non-controlling interests	17,442	17,754
Total net assets	482,775	456,187
Total net assets and liabilities	1,963,276	1,953,865

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Millions of yen	
	As of June 30, 2020	As of June 30, 2021
Net sales	300,602	355,631
Cost of sales	278,357	293,604
Gross profit	22,244	62,027
Selling, general and administrative expenses		
Salaries and allowances	13,458	13,966
Research and development expenses	8,145	8,885
Other	21,302	24,008
Total selling, general and administrative expenses	42,906	46,860
Operating income(loss)	(20,661)	15,166
Non-operating income		
Interest income	138	272
Dividend income	119	167
Foreign exchange gain	2,377	—
Other	1,492	1,412
Total non-operating income	4,128	1,853
Non-operating expenses		
Interest expense	1,030	885
Share of losses of entities accounted for using equity method	20	1,049
Foreign exchange losses	—	714
Other	1,347	1,244
Total non-operating expenses	2,398	3,893
Recurring profit(loss)	(18,931)	13,126
Extraordinary income		
Gain on sales of fixed assets	(*1)3,236	(*1) 1,633
Gain on sales of sales of shares of subsidiaries and associates	(*2)1,581	—
Total extraordinary income	4,817	1,633
Extraordinary loss		
Impairment loss	—	(*3)76
Total extraordinary loss	—	76
Income(loss) before income taxes	(14,114)	14,683
Income taxes	(2,366)	4,332
Net income(loss)	(11,747)	10,351
Net income attributable to non-controlling interests	24	481
Net income(loss) attributable to owners of parent	(11,771)	9,869

Consolidated statements of comprehensive income

	Millions of yen	
	As of June 30, 2020	As of June 30, 2021
Net income(loss)	(11,747)	10,351
Other comprehensive income		
Net unrealized gains (losses) on securities	(352)	(394)
Deferred gains (losses) on hedges	3	(383)
Foreign currency translation adjustment	(285)	1,796
Remeasurement of defined benefit plans	400	293
Share of other comprehensive income(loss) of associates accounted for using equity method	(1,612)	1,749
Total other comprehensive income(loss)	(1,846)	3,060
Comprehensive Income(loss) attributable to:	(13,593)	13,412
Owners of parent	(13,459)	12,724
Non-controlling interests	(134)	688

(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.

Changes in accounting policies

(Application of Accounting Standards for Revenue Recognition)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of March 31, 2020. Hereinafter referred to as "revenue recognition accounting standards".), etc. from the beginning of the first quarter of this consolidated fiscal year, and recognizes revenue at the amount expected to be received in exchange for the promised goods or services when the control of those goods or services is transferred to customers.

As a result of this adoption, a portion of the costs incurred in connection with the civil aviation engine program in which the Company is participating, which was previously recorded in cost of sales, has been reduced from sales in consideration of payments to customers. As a result, the development contribution for the civil aviation engine program, which was previously accounted for in work in process, has been transferred to investments and other assets. In addition, for after-sales services for the civil aviation engine program, although sales and cost of sales were previously recorded based on information provided by the Company's main partner, revenue is now recognized based on fulfillment of performance obligations, and variable compensation and compensation paid to customers are estimated when revenue is recognized. In addition, the Company changed the method of accounting for certain types of discounts the Company is willing to pay in accordance with the ratio of participation in the civil aviation engine program from the method previously reported based on information provided by the main partner to the method in which the amount of such discounts is estimated as variable compensation at the time of revenue recognition.

Regarding the application of the revenue recognition accounting standard, in accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the revenue recognition accounting standard, the cumulative effect of retroactive application of the new accounting policy prior to the beginning of the first quarter of this consolidated fiscal year is added to or subtracted from retained earnings at the beginning of the first quarter of this consolidated fiscal year, and the new accounting policy is applied from the beginning balance. However, the new accounting policy has not been retroactively applied to contracts that have been recognized almost all amounts of revenue in accordance with the previous treatment prior to the beginning of the first quarter of this consolidated fiscal year by applying the method specified in Paragraph 86 of the Accounting Standard for Revenue Recognition. In addition, by applying the method specified in Paragraph 86 and Item (1) of the Accounting Standard for Revenue Recognition, changes in contracts made prior to the beginning of the first quarter of this consolidated fiscal year are accounted for under the terms and conditions after reflecting all changes in contracts, and the cumulative effect of such changes is recorded in the consolidated financial statements for the first quarter of this consolidated fiscal year. The amount is adjusted to retained earnings at the beginning of the first quarter of this consolidated fiscal year.

As a result, net sales and cost of sales decreased by ¥17,095 million and ¥18,121 million, respectively, and operating income, recurring profit and income before income taxes and minority interests increased by ¥1,026 million, respectively. The balance of retained earnings at the beginning of this fiscal year decreased by ¥39,639 million.

Due to the application of revenue recognition accounting standards, notes and accounts receivable-trade, which were included in current assets in the consolidated balance sheets for the previous fiscal year, are included in "trade receivables and contract assets" from the first quarter of this consolidated fiscal year. Advances received, which were presented as current liabilities in the consolidated balance sheets for the previous fiscal year, have been presented as contract liabilities from the first quarter of this consolidated fiscal year, and provisions for sales promotion in current liabilities have been included in other under current liabilities. The Company has not reclassified the previous consolidated fiscal year using the new presentation method in accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition.

(Application of Accounting Standards for Fair Value Measurements)

The Company has applied the "Accounting Standard for Fair Value Measurements" (ASBJ Statement No. 30 of July 4, 2019. Hereinafter referred to as "Accounting Standard for Fair Value Measurements".), etc. from the beginning of the first quarter of this consolidated fiscal year, and in accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurements and Paragraph 44-2 of the "Accounting Standard for Financial Instruments " (ASBJ Statement No. 10 of July 4, 2019), the new accounting policy set forth in the Accounting Standard for Fair Value Measurements, etc. will be applied in the future. There is no impact on the quarterly consolidated financial statements.

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. 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) Gain on sales of fixed assets

Three Months ended June 30, 2020

Proceeds from the sale of housing sites of the Company and subsidiaries.

Three Months ended June 30, 2021

Proceeds from the sale of the land of the Company in Yokkaichi, Japan.

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

Proceeds from the sale of shares of associates of subsidiaries.

(*3) Impairment loss

Due to a decline in profitability from the assets of the Sakaide Works of the Energy Solution & Marine Engineering segment based on the current market environment.

Segment information

1. Three months ended June 30, 2020 (April 1, 2020 – June 30, 2020)

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

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Aerospace Systems	74,619	1,874	76,493	(17,518)
Rolling stock	32,362	1	32,364	(1,463)
Energy Solution & Marine Engineering	72,273	5,098	77,372	1,143
Precision Machinery & Robot	45,403	2,549	47,953	1,343
Motorcycle & Engine	58,974	126	59,100	(5,944)
Other	16,969	8,381	25,350	(153)
Reportable segment total	300,602	18,033	318,635	(22,593)
Adjustments*1	―	(18,033)	(18,033)	1,931
Consolidated total	300,602	―	300,602	(20,661)

Notes: 1. Breakdown of adjustments:

Millions of yen

Income	Amount
Intersegment transactions	2
Corporate expenses*	1,928
Total	1,931

* 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. Three months ended June 30, 2021 (April 1, 2021 – June 30, 2021)

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

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Aerospace Systems	70,075	2,333	72,409	(5,147)
Rolling stock	28,796	2	28,798	(851)
Energy Solution & Marine Engineering	70,331	3,463	73,794	(358)
Precision Machinery & Robot	57,651	3,990	61,642	5,112
Motorcycle & Engine	113,539	138	113,677	14,851
Other	15,236	3,968	19,204	622
Reportable segment total	355,631	13,896	369,527	14,230
Adjustments*1	―	(13,896)	(13,896)	936
Consolidated total	355,631	―	355,631	15,166

Notes: 1. Breakdown of adjustments:

Millions of yen

Income	Amount
Intersegment transactions	77
Corporate expenses*	859
Total	936

* 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) Changes in reportable segment

From the first quarter of this consolidated fiscal year, the previous reporting segments of "Energy System & Plant Engineering" and "Ship & Offshore Structure" have been integrated into "Energy Solution & Marine Engineering". As a result, reportable segments have been changed to "Aerospace Systems" and "Rolling Stock", "Energy Solution & Marine Engineering", "Precision Machinery & Robot", "Motorcycle & Engine", "Other".

Segment information for the first quarter of the previous consolidated fiscal year is presented using the new classification method.

As stated in *Changes in Accounting Policies*, the Company has applied revenue recognition accounting standards, etc. from the beginning of the first quarter of this consolidated fiscal year and has changed the accounting method for revenue recognition. As a result of this change, compared with the previous method, net sales of the "Aerospace Systems" segment decreased by ¥12,311 million, segment loss decreased by ¥1,026 million, and net sales of "Other" decreased by ¥4,783 million.

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

In Energy Solution & Marine Engineering segment, an impairment loss on fixed assets was recorded. The amount of the impairment loss in the first quarter of this consolidated fiscal year was ¥76 million.

3. Supplementary information

(1) Consolidated cash flow statements (condensed)

	Millions of yen	
	Three months ended June 30, 2020	Three months ended June 30, 2021
Cash flow from operating activities	(101,107)	(42,861)
Cash flow from investing activities	2,649	(12,404)
Cash flow from financing activities	163,834	49,809
Cash and cash equivalents at end of period	167,929	117,064

(2) Supplementary information on consolidated earnings forecasts for the fiscal year ending March 31, 2022

(i) Net sales and operating income (loss)

Billions of yen

Reportable segment	Outlook for the year ending March 31, 2022 (fiscal 2021)						Year ended March 31, 2021 (Fiscal 2020) (Actual)	
	Revised forecast (A)		Forecast issued May 11, 2021 (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	340.0	(6.0)	340.0	(8.0)	–	2.0	377.7	(31.6)
Rolling Stock	150.0	3.0	150.0	3.0	–	–	133.2	(4.5)
Energy Solution & Marine Engineering	320.0	2.5	320.0	3.5	–	(1.0)	319.5	10.3
Precision Machinery & Robot	250.0	17.0	250.0	16.0	–	1.0	240.8	14.0
Motorcycle & Engine	410.0	25.0	380.0	17.0	30.0	8.0	336.6	11.7
Other	60.0	2.0	60.0	2.0	–	–	80.4	0.4
Adjustments		(3.5)		(3.5)		–	–	(5.7)
Total	1,530.0	40.0	1,500.0	30.0	30.0	10.0	1,488.4	(5.3)

(ii) Orders received

Billions of yen

Reportable segment	Outlook for the year ending March 31, 2022 (fiscal 2021)			Year ended March 31, 2021 (Fiscal 2020) (Actual)
	Revised forecast (A)	Forecast issued May 11, 2021 (B)	Change (A – B)	
Aerospace Systems	310.0	310.0	–	329.5
Rolling Stock	70.0	70.0	–	77.0
Energy Solution & Marine Engineering	400.0	400.0	–	317.1
Precision Machinery & Robot	260.0	260.0	–	259.4
Motorcycle & Engine	410.0	380.0	30.0	336.6
Other	60.0	60.0	–	82.5
Total	1,510.0	1,480.0	30.0	1,402.4

Note: 1. Assumed exchange rate for the fiscal year ending March 2022: ¥109/USD, ¥128/EUR

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

3. From the fiscal year ending March 2022, reportable segments have been changed to "Aerospace Systems", "Rolling Stock", "Energy Solution & Marine Engineering", "Precision Machinery & Robot", "Motorcycle & Engine", and "Other". Results for the fiscal year ended March 2021 have been reclassified to the revised reportable segments.

4. As a change in accounting policies, the Company has adopted accounting standards for revenue recognition, etc. from the beginning of the first quarter under review. For more information, see "2. (3) Notes on financial statements *Changes in accounting policies* and *Segment Information*".