

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

November 9, 2021

Listed company's name: **Kawasaki Heavy Industries, Ltd.**
 Listed on: 1st sections of the TSE, and NSE
 Stock code: 7012
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Scheduled dates:
 Submission of quarterly securities filing: November 9, 2021
 Commencement of dividend payments: December 3, 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 Six Months ended September 30, 2021
(April 1, 2021 – September 30, 2021)**

(1) Operating Results

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six Months Ended September 30, 2021	681,082	3.6	20,406	-	11,085	-	4,513	-
Six Months Ended September 30, 2020	657,325	(10.8)	(21,883)	-	(18,286)	-	(27,267)	-

Note: Comprehensive income Six months ended September 30, 2021: ¥9,603 million -%
 Six months ended September 30, 2020: ¥(29,870) million -%

	Earnings per share	Earnings per share – diluted
	yen	yen
Six Months Ended September 30, 2021	26.98	-
Six Months Ended September 30, 2020	(163.23)	-

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 second 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	%
September 30, 2021	1,939,967	452,160	22.4
March 31, 2021	1,963,276	482,775	23.7

For reference: Shareholders' equity September 30, 2021: ¥ 433,970 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 second 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	-	20.00			
Year ending March 31, 2022 (forecast)			-	10.00	30.00

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

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 profit		Ordinary 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	1,550,000	4.1	40,000	-	22,000	-	15,000	-	89.68

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 above forecast of consolidated earnings 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 (4)Notes on financial statements (Accounting procedures specific to preparation of quarterly consolidated financial statements)” on page 17 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 (4)Notes on financial statements (Changes in accounting policies)” on page 17 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)

September 30, 2021:	167,921,800 shares
March 31, 2021:	167,080,532 shares
 - (2) Number of shares held in treasury as of period-end

September 30, 2021:	463,474 shares
March 31, 2021:	38,282 shares
 - (3) Average number of shares during respective periods

September 30, 2021:	167,251,505 shares
September 30, 2020:	167,043,632 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 11 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 on Tuesday November 9, 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.

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1. Qualitative Information about Financial Statements

(1) Consolidated operating results

The global economy is recovering continuously mainly in developed countries, supported by solid capital investments, a recovery in service-consumption and an improvement in the employment environment, due to the progress in COVID-19 vaccination and economic measures. The expectations are rising for a recovery in personal consumption, such as leisure activities, in Japan as well due to lifting the state of emergency.

On the other hand, the global economic outlook needs to keep a close watch on the new risk factors such as the management crisis of a major Chinese real estate company, in addition to rising raw materials prices such as crude oil, natural-gas and steel, concerns over the spread of breakthrough infection after the vaccination, and the prolonged US-China problem.

In this business environment, the Group's consolidated orders received during the second quarter of this consolidated fiscal year increased mainly due to increases in the Motorcycle & Engine segment, the Energy Solution & Marine Engineering segment. Net sales decreased in the Aerospace Systems segment, the Energy Solution & Marine Engineering 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 profit improved significantly year on year due to improvements in the Motorcycle & Engine segment and the Aerospace Systems segment. Ordinary profit improved significantly due to an improvement in operating profit despite deterioration in share of gains and losses of entities accounted for using equity method, and foreign exchange gains and losses. Profit attributable to owners of parent improved significantly due to a decrease in tax expenses as well as an improvement in ordinary profit.

As a result, the Group's consolidated orders received increased by ¥157.3 billion year on year to ¥659.5 billion, consolidated net sales increased by ¥23.7 billion year on year to ¥681.0 billion, operating profit improved by ¥42.2 billion year on year to ¥20.4 billion, ordinary profit improved by ¥29.3 billion year on year to ¥11.0 billion, and profit attributable to owners of parent improved by ¥31.7 billion year on year to ¥4.5 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. (4) Notes on financial statements (Changes in accounting policies) and (Segment Information)".

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

Segment Information

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

	Six months ended September 30						Orders received		
	2020(A)		2021(B)		Change (B – A)		Six months ended September 30		
	Net sales	Operating profit	Net sales	Operating profit	Net Sales	Operating profit	2020 (A)	2021 (B)	Change (B – A)
Aerospace Systems	168.5	(23.8)	133.3	(9.1)	(35.2)	14.7	72.4	97.2	24.7
Rolling Stock	69.1	(0.1)	57.5	1.3	(11.5)	1.5	30.3	23.1	(7.2)
Energy Solution & Marine Engineering	142.8	2.9	130.9	(0.9)	(11.8)	(3.8)	118.4	164.2	45.8
Precision Machinery & Robot	99.0	3.4	118.2	8.9	19.2	5.5	102.4	128.1	25.6
Motorcycle & Engine	139.7	(5.1)	206.8	18.5	67.0	23.7	139.7	206.8	67.0
Other	37.9	(0.1)	34.0	1.5	(3.8)	1.7	38.6	40.0	1.3
Adjustments	—	1.1	—	(0)	—	(1.1)	—	—	—
Total	657.3	(21.8)	681.0	20.4	23.7	42.2	502.2	659.5	157.3

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 second 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 North America, Europe and other regions, the outlook remains uncertain due to concerns over the spread of breakthrough infection after the vaccination.

Amid such an operating environment, consolidated orders received increased by ¥24.7 billion year on year to ¥97.2 billion, mainly due to an increase in component parts of airframes for Ministry of Defense in Japan and commercial aircraft, despite a decrease in component parts of commercial aircraft jet engines resulting from the impact of the application of revenue recognition accounting standards.

Consolidated net sales decreased by ¥35.2 billion year on year to ¥133.3 billion, mainly due to a decrease in component parts of jet engines for commercial aircraft resulting from the application of revenue recognition accounting standards, as well as a decrease in component parts of airframes for Ministry of Defense in Japan and commercial aircraft.

Operating loss came to ¥9.1 billion, improving ¥14.7 billion year on year, due to an improvement in profitability of component parts of airframes and jet engines for commercial aircraft, despite a decrease in sales.

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 ¥23.1 billion, a decline of ¥7.2 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 ¥11.5 billion year on year to ¥57.5 billion, mainly due to a decrease in sales of railcars for overseas and domestic markets.

Operating profit came to ¥1.3 billion, improving ¥1.5 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 ¥45.8 billion from the same period of the previous fiscal year to ¥164.2 billion due to orders received for large-scale projects such as maintenance and operation of domestic waste disposal facilities, and an increase in orders received for LPG carries.

Consolidated net sales decreased by ¥11.8 billion year on year to ¥130.9 billion, mainly due to a decrease in sales of vessel repair and Gas Turbine Combined Cycle (GTCC) power plants, despite an increase in the volume of work on LPG carries.

Operating loss came to ¥0.9 billion, deteriorating ¥3.8 billion year on year, due to a decrease in sales.

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 fell sharply in the first half of the previous fiscal year due to the impact of the COVID-19 pandemic. However, demand has continued to recover since the second half of the fiscal year, and lately sales have been favorable. 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 ¥25.6 billion year on year to ¥128.1 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 ¥19.2 billion year on year to ¥118.2 billion, due to an increase in hydraulic equipment for the construction equipment market and various robots for semiconductors.

Operating profit increased by ¥5.5 billion year on year to ¥8.9 billion mainly 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. On the other hand, although the Southeast Asian market has recovered compared to the same period of the previous fiscal year, the outlook 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 ¥67.0 billion year on year to ¥206.8 billion due to an increase in motorcycles for Europe and Southeast Asia, as well as an increase in motorcycles for North America and an increase in general-purpose engines.

Operating profit improved by ¥23.7 billion from the same period of the previous fiscal year to ¥18.5 billion due to an increase in sales, and a weaker yen compared to the same period of the previous fiscal year, along with other factors.

Other Operations

Consolidated net sales decreased by ¥3.8 billion year on year to ¥34.0 billion.

Operating profit improved by ¥1.7 billion year on year to ¥1.5 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 ¥1,220.8 billion, ¥64.5 billion decrease from the previous fiscal year due to a decrease in cash and deposits and notes and accounts receivable-trade, and contract assets.

Non-current assets were ¥719.1 billion, ¥41.2 billion increase from the previous fiscal year due to an increase in investments and other assets.

As a result, total assets were ¥1,939.9 billion, ¥23.3 billion decrease from the previous fiscal year.

(ii) Liabilities

Interest-bearing debt was ¥651.9 billion, ¥58.6 billion increase from the previous fiscal year.

Liabilities were ¥1,487.8 billion, ¥7.3 billion increase from the previous fiscal year due to increases in interest-bearing debt and other factors.

(iii) Net assets

Net assets were ¥452.1 billion, ¥30.6 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 is expected to be ¥1,550.0 billion, ¥20.0 billion increase from the outlook announced on August 5, due to an increase in the Motorcycle & Engine segment and other segments, despite decreased sales in the Aerospace Systems segment. Consolidated operating profit remains unchanged from the previous outlook.

In addition, the outlook of consolidated ordinary profit is expected to be ¥22.0 billion, ¥6.0 billion decrease from the previous outlook, due to the deterioration in the performance of the Chinese equity-method affiliate in the Ship & Offshore Structure segment because of the rise in steel prices and other factors. The outlook of profit attributable to owners of parent is expected to be ¥15.0 billion, ¥4.0 billion decrease from the previous outlook. ROIC and ROE are expected to be 2.8% and 3.3%, respectively.

The outlook of consolidated orders received is expected to be ¥1,460.0 billion, ¥50.0 billion decrease from the previous outlook, due to expected decrease in the Energy Solution & Marine Engineering segment and other segments.

In this outlook, exchange rates are assumed to be ¥112 to the U.S. dollar and ¥132 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

		Millions of yen	
		As of March 31, 2021	As of September 30, 2021
Assets			
Current assets			
Cash and deposits		126,702	60,590
Notes and accounts receivable - trade		460,436	-
Notes and accounts receivable - trade, and contract assets		-	405,928
Merchandise and finished goods		69,223	72,320
Work in process		452,848	432,986
Raw materials and supplies		136,471	149,766
Other		43,314	102,887
Allowance for doubtful accounts		(3,589)	(3,624)
	Total current assets	1,285,407	1,220,856
Non-current assets			
Property, plant and equipment			
Buildings and structures, net		172,951	170,157
Other		278,308	274,928
	Total property, plant and equipment	451,259	445,085
Intangible assets			
		22,427	22,113
Investments and other assets			
Other		205,584	253,287
Allowance for doubtful accounts		(1,403)	(1,375)
	Total investments and other assets	204,180	251,911
	Total non-current assets	677,868	719,111
Total assets		1,963,276	1,939,967
Liabilities			
Current liabilities			
Notes and accounts payable - trade		247,294	205,673
Electronically recorded obligations - operating		107,849	95,809
Short-term borrowings		141,579	177,461
Income taxes payable		4,753	5,361
Provision for sales promotion expenses		7,380	-
Provision for bonuses		18,239	16,827
Provision for construction warranties		12,550	11,997
Provision for loss on construction contracts		14,263	11,991
Advances received		153,298	-
Contract liabilities		-	168,456
Other		210,345	243,923
	Total current liabilities	917,555	937,503
Non-current liabilities			
Bonds payable		190,000	180,000
Long-term borrowings		199,177	195,256
Retirement benefit liability		115,456	118,370
Provision for the in-service issues of commercial aircraft jet engines		(*1) 5,984	(*1) 4,022
Other		52,326	52,654
	Total non-current liabilities	562,944	550,303
Total liabilities		1,480,500	1,487,807

Net assets

Shareholders' equity		
Share capital	104,484	104,484
Capital surplus	54,542	55,525
Retained earnings	306,576	271,454
Treasury shares	(136)	(1,160)
Total shareholders' equity	<u>465,467</u>	<u>430,304</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,955	1,736
Deferred gains or losses on hedges	(179)	(822)
Foreign currency translation adjustment	(931)	3,510
Remeasurements of defined benefit plans	(979)	(758)
Total accumulated other comprehensive income	<u>(134)</u>	<u>3,665</u>
Non-controlling interests	<u>17,442</u>	<u>18,189</u>
Total net assets	<u>482,775</u>	<u>452,160</u>
Total liabilities and net assets	<u>1,963,276</u>	<u>1,939,967</u>

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2021
Net sales	657,325	681,082
Cost of sales	588,959	564,582
Gross profit	68,366	116,500
Selling, general and administrative expenses		
Salaries and allowances	27,475	27,901
Research and development expenses	19,041	19,824
Other	43,732	48,367
Total selling, general and administrative expenses	90,249	96,094
Operating profit (loss)	(21,883)	20,406
Non-operating income		
Interest income	265	495
Dividend income	150	245
Share of profit of entities accounted for using equity method	590	—
Foreign exchange gains	1,791	—
Reversal of provision for the in-service issues of commercial aircraft jet engines	(*1) 3,005	(*1) 70
Other	2,573	3,734
Total non-operating income	8,376	4,545
Non-operating expenses		
Interest expenses	1,955	1,720
Share of loss of entities accounted for using equity method	—	7,024
Foreign exchange losses	—	1,262
Other	2,824	3,858
Total non-operating expenses	4,780	13,866
Ordinary profit (loss)	(18,286)	11,085
Extraordinary income		
Gain on sale of non-current assets	(*2) 3,236	(*2) 1,633
Gain on sales of shares subsidiaries and associates	(*3) 1,581	—
Total extraordinary income	4,817	1,633
Extraordinary losses		
Impairment losses	(*4) 3,916	(*4) 223
Total extraordinary losses	3,916	223
Profit (loss) before income taxes	(17,385)	12,496
Income taxes	9,454	6,934
Profit (loss)	(26,840)	5,562
Profit attributable to non-controlling interests	426	1,049
Profit (loss) attributable to owners of parent	(27,267)	4,513

Consolidated statements of comprehensive income

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2021
Profit (loss)	(26,840)	5,562
Other comprehensive income		
Net unrealized gains (losses) on securities	(396)	(193)
Deferred gains (losses) on hedges	427	(339)
Foreign currency translation adjustment	(2,202)	2,110
Remeasurement of defined benefit plans	1,038	214
Share of other comprehensive income(loss) of associates accounted for using equity method	(1,898)	2,249
Total other comprehensive income(loss)	<u>(3,030)</u>	<u>4,041</u>
Comprehensive Income(loss) attributable to:	<u>(29,870)</u>	<u>9,603</u>
Owners of parent	(30,137)	8,313
Non-controlling interests	267	1,290

(3) Consolidated cash flow statements

	Million of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2021
Cash flows from operating activities		
Profit (loss) before income taxes	(17,385)	12,496
Depreciation	30,223	30,105
Impairment losses	3,916	223
Increase (decrease) in allowance for doubtful accounts	(134)	(64)
Increase (decrease) in provision for sales promotion expenses	(5,621)	—
Increase (decrease) in provision for bonuses	(3,617)	(1,443)
Increase (decrease) in provision for construction warranties	(1,986)	(583)
Increase (decrease) in provision for loss on construction contracts	1,109	(2,384)
Increase (decrease) in retirement benefit liability	5,596	3,097
Increase (decrease) in provision for the in-service issues of commercial aircraft jet engines	(5,139)	(1,962)
Interest and dividend income	(415)	(741)
Interest expenses	1,955	1,720
Share of loss (profit) of entities accounted for using equity method	(590)	7,024
Loss (gain) on sale of non-current assets	(3,236)	(1,633)
Loss (gain) on sale of shares of subsidiaries and associates	(1,581)	—
Decrease (increase) in trade receivables	41,030	—
Decrease (increase) in notes and accounts receivable - trade and contract assets	—	24,854
Decrease (increase) in inventories	(30,368)	(47,971)
Increase (decrease) in trade payables	(65,822)	(54,024)
Decrease (increase) in advance payments to suppliers	(3,915)	(23,216)
Increase (decrease) in advances received	(7,650)	—
Increase (decrease) in contract liabilities	—	8,310
Decrease (increase) in other current assets	(142)	(34,804)
Increase (decrease) in other current liabilities	(24,761)	(6,669)
Other, net	(5,471)	1,828
Subtotal	<u>(94,008)</u>	<u>(85,839)</u>
Interest and dividends received	1,556	767
Interest paid	(1,874)	(1,888)
Income taxes paid	(6,430)	(7,893)
Net cash provided by (used in) operating activities	<u>(100,757)</u>	<u>(94,853)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(29,746)	(30,326)
Proceeds from sale of property, plant and equipment and intangible assets	13,739	2,625
Purchase of investment securities	(474)	(185)
Proceeds from sale of investment securities	1,326	487
Purchase of shares of subsidiaries and associates	(82)	(7)
Proceeds from sale of shares of subsidiaries and associates	1,927	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	489
Other, net	(357)	(1,267)
Net cash provided by (used in) investing activities	<u>(13,668)</u>	<u>(28,185)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	103,128	79,482
Proceeds from long-term borrowings	20,900	11,000
Repayments of long-term borrowings	(10,587)	(13,001)
Proceeds from issuance of bonds	60,000	10,000
Redemption of bonds	(20,000)	(30,000)
Dividends paid	(36)	(27)
Dividends paid to non-controlling interests	(531)	(376)
Proceeds from sale and leaseback transactions	10,014	—
Other, net	(1,644)	(1,599)
Net cash provided by (used in) financing activities	<u>161,243</u>	<u>55,478</u>
Effect of exchange rate change on cash and cash equivalents	31	165
Net increase (decrease) in cash and cash equivalents	<u>46,848</u>	<u>(67,396)</u>
Cash and cash equivalents at beginning of period	<u>102,546</u>	<u>122,166</u>
Cash and cash equivalents at end of period	<u>149,395</u>	<u>54,769</u>

(4) Notes on financial statements

Notes on the going-concern assumption

Not applicable

Notes on significant changes in the amount of shareholders' equity

Not applicable

Accounting procedures specific to preparation of quarterly consolidated financial statements

(Calculation of tax expense)

The Company calculates tax expense by rationally estimating its effective tax rate after application of tax effect accounting to pretax profit for the fiscal year which includes the second quarter under review, and multiplying quarterly pretax profit 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 profit 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 ¥49,375 million and ¥51,608 million, respectively, and operating profit, ordinary profit and profit before income taxes increased by ¥2,233 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 “notes and accounts receivable - trade, 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 “provision for sales promotion expenses” 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) Reversal of 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. The Company has made a provision of the cost related to in-service issues which the Company would cover as a member of this program. The reversal of the provision was included within the extraordinary income.

(*2) Gain on sale of non-current assets

Six Months ended September 30, 2020

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

Six Months ended September 30, 2021

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

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

Proceeds from the sale of shares of associates of subsidiaries.

(*4) Impairment losses

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

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

	Millions of yen			
	External sales	Intersegment sales	Total sales	Operating profit (loss)
Aerospace Systems	168,595	3,048	171,643	(23,865)
Rolling stock	69,194	4	69,199	(186)
Energy Solution & Marine Engineering	142,828	10,496	153,325	2,994
Precision Machinery & Robot	99,020	5,972	104,993	3,412
Motorcycle & Engine	139,784	298	140,083	(5,169)
Other	37,901	18,799	56,701	(175)
Reportable segment total	657,325	38,619	695,945	(22,989)
Adjustments*1	—	(38,619)	(38,619)	1,106
Consolidated total	657,325	—	657,325	(21,883)

Notes: 1. Breakdown of adjustments:

Millions of yen	
Profit	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 profit (loss) adjustments are based on operating profit reported on the consolidated statements of income for the corresponding period.

(2) Impairment loss on non-current assets and goodwill by reportable segment

The Energy Solution & Marine Engineering segment recorded an impairment loss on non-current assets. This impairment loss recorded in the second quarter of the year under review amounted to ¥3,916 million.

2. Six months ended September 30, 2021 (April 1, 2021 – September 30, 2021)

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

	Millions of yen			
	External sales	Intersegment sales	Total sales	Operating profit (loss)
Aerospace Systems	133,360	3,573	136,934	(9,162)
Rolling stock	57,598	4	57,603	1,377
Energy Solution & Marine Engineering	130,968	7,409	138,377	(900)
Precision Machinery & Robot	118,266	7,977	126,243	8,980
Motorcycle & Engine	206,815	358	207,174	18,591
Other	34,072	8,490	42,563	1,565
Reportable segment total	681,082	27,814	708,896	20,452
Adjustments*1	—	(27,814)	(27,814)	(46)
Consolidated total	681,082	—	681,082	20,406

Notes: 1. Breakdown of adjustments:

Millions of yen	
Profit	Amount
Intersegment transactions	111
Corporate expenses*	(158)
Total	(46)

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

2. Segment profit (loss) adjustments are based on operating profit 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 second 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 ¥40,248 million, segment loss improved by ¥2,182 million, net sales of the “Rolling stock” segment decreased by ¥24 million, segment profit increased by ¥0 million, and net sales of “Other” decreased by ¥9,102 million, segment profit increased by ¥49 million.

(3) Impairment loss on non-current assets and goodwill by reportable segment

In Energy Solution & Marine Engineering segment, an impairment loss on non-current assets was recorded. The amount of the impairment loss in the second quarter of this consolidated fiscal year was ¥223 million.

3. Supplementary information

(1) Net sales and operating profit (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 August 5, 2021 (B)		Change (A – B)		Net sales	Operating profit (loss)
	Net sales	Operating profit (loss)	Net sales	Operating profit (loss)	Net sales	Operating profit (loss)		
Aerospace Systems	320.0	(10.5)	340.0	(6.0)	(20.0)	(4.5)	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	2.5	–	–	319.5	10.3
Precision Machinery & Robot	260.0	19.0	250.0	17.0	10.0	2.0	240.8	14.0
Motorcycle & Engine	440.0	31.0	410.0	25.0	30.0	6.0	336.6	11.7
Other	60.0	2.0	60.0	2.0	–	–	80.4	0.4
Adjustments		(7.0)		(3.5)		(3.5)	–	(5.7)
Total	1,550.0	40.0	1,530.0	40.0	20.0	–	1,488.4	(5.3)

(2) 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 August 5, 2021 (B)	Change (A – B)	
Aerospace Systems	310.0	310.0	–	329.5
Rolling Stock	50.0	70.0	(20.0)	77.0
Energy Solution & Marine Engineering	330.0	400.0	(70.0)	317.1
Precision Machinery & Robot	260.0	260.0	–	259.4
Motorcycle & Engine	440.0	410.0	30.0	336.6
Other	70.0	60.0	10.0	82.5
Total	1,460.0	1,510.0	(50.0)	1,402.4

Note: 1. Assumed exchange rate for the fiscal year ending March 2022: ¥112/USD, ¥132/EUR

- The Motorcycle & Engine segment's orders received are equal to its net sales as production is based mainly on estimated demand.
- 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.
- As a change in accounting policies, the Company has adopted accounting standards for revenue recognition, etc. from the beginning of the first quarter of the current fiscal year. For more information, see "2. (4) Notes on financial statements *Changes in accounting policies and Segment Information*".