

**Report of Earnings and Financial Statements for the  
Nine Months Ended December 31, 2019 (Consolidated)**  
(Prepared pursuant to Japanese GAAP)

February 6, 2020

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: February 6, 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 Nine Months ended December 31, 2019  
(April 1, 2019 – December 31, 2019)**

(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                                 | %      |
| Nine Months Ended December 31, 2019 | 1,135,444   | 3.7 | 30,983           | (15.9) | 15,379           | (22.5) | 4,762                                       | (58.1) |
| Nine Months Ended December 31, 2018 | 1,094,583   | 0.2 | 36,849           | (17.4) | 19,865           | (50.3) | 11,385                                      | (21.5) |

**Note:** Comprehensive income: Nine months ended December 31, 2019: ¥(82) million -%  
 Nine months ended December 31, 2018: ¥10,916 million (54.6)%

|                                     | Earnings per share | Earnings per share – diluted |
|-------------------------------------|--------------------|------------------------------|
|                                     | yen                | yen                          |
| Nine Months Ended December 31, 2019 | 28.50              | -                            |
| Nine Months Ended December 31, 2018 | 68.15              | -                            |

(2) Financial Condition

|                                     | Total assets | Net assets  | Equity ratio |
|-------------------------------------|--------------|-------------|--------------|
|                                     | million yen  | million yen | %            |
| Nine Months Ended December 31, 2019 | 2,053,540    | 475,013     | 22.3         |
| Year ended March 31, 2019           | 1,838,855    | 492,261     | 25.9         |

**Note:** Shareholders' equity: Nine Months Ended December 31, 2019: ¥459,064 million  
Year ended March 31, 2019: ¥476,387 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, 2019             | -                    | 35.00                 | -                    | 35.00              | 70.00     |
| Year ending March 31, 2020            | -                    | 35.00                 | -                    |                    |           |
| Year ending March 31, 2020 (forecast) |                      |                       | -                    | 35.00              | 70.00     |

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

## 3. Forecast of Consolidated Earnings for the Year Ending March 31, 2020

(April 1, 2019 – March 31, 2020)

(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 | 1,660,000   | 4.0 | 60,000           | (6.2) | 41,000           | 8.2 | 25,000                                      | (8.9) | 149.66             |

**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: Yes
  - (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)

|                    |                    |
|--------------------|--------------------|
| December 31, 2019: | 167,080,532 shares |
| March 31, 2019:    | 167,080,532 shares |
  - (2) Number of shares held in treasury as of period-end

|                    |               |
|--------------------|---------------|
| December 31, 2019: | 36,402 shares |
| March 31, 2019:    | 35,196 shares |
  - (3) Average number of shares during respective periods

|                    |                    |
|--------------------|--------------------|
| December 31, 2019: | 167,044,779 shares |
| December 31, 2018: | 167,046,730 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 February 6, 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

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## **1. Qualitative Information about Financial Statements**

### **(1) Consolidated operating results**

The global economy continues to grow at a moderate pace overall, but future developments remain difficult to predict, including uncertainty about the future of U.S.-China trade talks as well as negotiations for a new trade agreement between the U.K. and the EU, concerns about the economic impact of the Covid-19 coronavirus outbreak, and developments in the Middle East. Consequently, sufficient attention must be paid to the risk of a global economic downturn.

The Japanese economy has been recovering modestly due to the gradual increase in capital investment and other factors, but deterioration in corporate earnings due to the impact of the U.S.-China trade friction and a dip in personal consumption caused by the consumption tax hike have emerged, so the situation requires close monitoring.

Amid such an operating environment, the Group's orders received in the first nine months of the fiscal year ending March 31, 2020, decreased versus the previous fiscal year, mainly in the Aerospace Systems segment, and the Ship & Offshore Structure segment. Net sales increased overall, due to increases in the Aerospace Systems and the Rolling Stock segment and other segments, despite a decline in the Ship & Offshore Structure segment and other segments. Operating income and Recurring profit decreased, due to decreases in the Precision Machinery & Robot and the Motorcycle & Engine segment and other factors, despite the improvement in the Energy System & Plant Engineering segment. Net income attributable to owners of parent decreased due to the drop in recurring profit, the posting of loss on business withdrawal as extraordinary losses, and other factors.

As a result, the Group's consolidated orders received decreased ¥73.9 billion versus the same period of the previous fiscal year to ¥1,022.6 billion, consolidated net sales increased ¥40.8 billion year on year to ¥1,135.4 billion, operating income decreased ¥5.8 billion year on year to ¥30.9 billion, recurring profit decreased ¥4.4 billion year on year to ¥15.3 billion, and net income attributable to owners of parent decreased ¥6.6 billion year on year to ¥4.7 billion.

Consolidated operating performance in the nine months of the fiscal year is summarized by segment below.

### Segment Information

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

|                                   | Nine months ended December 31 |                  |           |                  |                |                  | Orders received                  |          |                |
|-----------------------------------|-------------------------------|------------------|-----------|------------------|----------------|------------------|----------------------------------|----------|----------------|
|                                   | 2018(A)                       |                  | 2019 (B)  |                  | Change (B – A) |                  | Nine months ended<br>December 31 |          |                |
|                                   | Net sales                     | Operating income | Net sales | Operating income | Net Sales      | Operating income | 2018 (A)                         | 2019 (B) | Change (B – A) |
| Aerospace Systems                 | 328.1                         | 21.2             | 371.4     | 20.5             | 43.3           | (0.7)            | 280.5                            | 245.1    | (35.4)         |
| Energy System & Plant Engineering | 168.8                         | 4.5              | 162.3     | 13.0             | (6.5)          | 8.4              | 201.6                            | 184.3    | (17.2)         |
| Precision Machinery & Robot       | 154.2                         | 14.9             | 147.0     | 5.2              | (7.2)          | (9.7)            | 172.0                            | 157.1    | (14.8)         |
| Ship & Offshore Structure         | 63.0                          | 2.8              | 53.0      | (0.7)            | (10.0)         | (3.5)            | 65.2                             | 31.6     | (33.6)         |
| Rolling Stock                     | 86.0                          | (6.4)            | 97.4      | (3.1)            | 11.3           | 3.3              | 79.6                             | 91.2     | 11.5           |
| Motorcycle & Engine               | 226.2                         | (0.0)            | 230.1     | (4.5)            | 3.8            | (4.4)            | 226.2                            | 230.1    | 3.8            |
| Other                             | 67.8                          | 2.4              | 73.9      | 2.0              | 6.0            | (0.4)            | 71.1                             | 82.8     | 11.7           |
| Adjustments                       | -                             | (2.6)            | -         | (1.3)            | -              | 1.3              | -                                | -        | -              |
| Total                             | 1,094.5                       | 36.8             | 1,135.4   | 30.9             | 40.8           | (5.8)            | 1,096.6                          | 1,022.6  | (73.9)         |

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

2. The method for calculating orders received in the Precision Machinery & Robot segment was changed in the first quarter of FY2019 from the previous simple method to a method based on more detailed order values. The value for orders received in the third quarter of the previous fiscal year has been recalculated in accordance with the new calculation method.

3. 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 is a certain level of demand from the Ministry of Defense in Japan amid the tight defense budget. Demand for commercial aircraft airframes and jet engines is increasing in conjunction with the rise in the number of air passengers.

Amid such an operating environment, consolidated orders received decreased ¥35.4 billion year on year to ¥245.1 billion due to decreases in component parts of airframes for Ministry of Defense and commercial aircraft, although component parts of commercial aircraft jet engines remain high level.

Consolidated net sales increased ¥43.3 billion year on year to ¥371.4 billion due to increases in component parts of airframes for Ministry of Defense and commercial aircraft, and component parts of commercial aircraft jet engines.

Operating income of ¥20.5 billion was on par with the previous year's result, as increased sales offset an increase in depreciation of development costs of a new program relating to component parts for commercial aircraft engines.

## **Energy System & Plant Engineering**

Regarding the business environment surrounding the Energy System & Plant Engineering segment, in addition to the recovery in resources development and oil and natural gas-related investment overseas, there is still demand for energy infrastructure maintenance in Asia. Besides, demand for distributed power sources is increasing due to stronger interest in investment in the environment and energy conservation, among other factors. In Japan, there is ongoing demand for replacing aging facilities for refuse incineration plants and industrial machinery. Meanwhile, in the energy and environmental field, although there is large potential demand for distributed power sources in Japan, investment plans are slightly delayed in light of the liberalization of electricity.

Amid such an operating environment, consolidated orders received decreased ¥17.2 billion year on year to ¥184.3 billion. Although new orders were relatively strong, including an order for major refurbishments of domestic waste disposal facilities, the year-on-year result reflects the non-recurrence of orders received for large projects in the previous fiscal year, including orders for a Combined Cycle Power Plant and an LNG tank for the Japanese market.

Consolidated net sales decreased ¥6.5 billion year on year to ¥162.3 billion, due to a decline in sales of the Energy system segment and other factors, despite increases in construction work volume on chemical plant for overseas.

Operating income increased ¥8.4 billion year on year to ¥13.0 billion, due to the profitability improvement in chemical plant for overseas and the Energy System segment and the other factors, despite a drop in sales.

## **Precision Machinery & Robot**

Regarding the business environment surrounding the Precision Machinery & Robot segment, in the construction machinery market, production is currently declining as procurement of parts from a domestic manufacturer impacted by Typhoon Hagibis has stagnated, and sales declined due to the decrease in sales in emerging markets such as India and Indonesia, as well as in South Korea. However, going forward, strong demand is expected, particularly in emerging markets.

In the robot market, market conditions remain challenging due to factors including the postponement of capital investment in the Chinese market in response to the U.S.-China trade friction. However, with respect to robots for the semiconductors market, demand has started to recover due to the resumption of investment by leading semiconductor manufacturers in Taiwan and South Korea, and demand is expected to expand steadily over the medium to long term.

Amid such an operating environment, consolidated orders received decreased ¥14.8 billion year on year to ¥157.1 billion, due to decreases in hydraulic components for construction machinery market and various robots.

Consolidated net sales decreased ¥7.2 billion year on year to ¥147.0 billion, due to decreases in hydraulic components for construction machinery market and various robots.

Operating income decreased ¥9.7 billion year on year to ¥5.2 billion, as a result of factors including a decrease in the number of robots produced in China, increases in costs of hydraulic components and research and development, in addition to the drop in sales.

## **Ship & Offshore Structure**

While demand for gas-fueled vessels is being driven higher by tighter environmental regulations and LNG development projects are beginning to take shape, the Ship & Offshore Structure segment's operating environment remains adverse due to the prolonged slump in the marine transport market, the continuation of the South Korean government's support policies for its shipbuilding industry, and other issues.

Amid such an operating environment, we received new orders LPG carriers but consolidated orders received totaled only ¥31.6 billion, ¥33.6 billion less than a year earlier when we received order for the submarine for Ministry of Defense.

Consolidated net sales decreased ¥10.0 billion year on year to ¥53.0 billion, due to decreases in volume of construction of LNG carrier and LPG carrier.

The segment posted an operating loss of ¥0.7 billion, a ¥3.5 billion deterioration from operating income a year earlier. The main factors dragging down earnings were lower revenue from newly built ships and the posting of losses from operations.



## **Rolling Stock**

Regarding the business environment surrounding the Rolling Stock segment, there continues to be stable demand in Japan for the replacement of aging railcars. Overseas, demand for new and replacement railcars is expected to increase in the U.S., including in the core New York area market. Meanwhile, in Asia, we are planning the formation of projects for emerging markets in tandem with the Japanese government's efforts to promote infrastructure-related exports.

Amid such an operating environment, consolidated orders received increased ¥11.5 billion year on year to ¥91.2 billion, due to an increase in subway cars in Japan.

Consolidated net sales increased ¥11.3 billion year on year to ¥97.4 billion, due to an increase in sales of rolling stocks for Japan and U.S., despite a decrease in components for overseas.

Operating loss improved by ¥3.3 billion year on year to an operating loss of ¥3.1 billion. This was mainly due to an increase in sales and a decrease in temporary expenses in a project in the U.S. market (the order for which was received in the same period of the previous fiscal year), despite cost fluctuations in some projects.

## **Motorcycle & Engine**

Regarding the business environment surrounding the Motorcycle & Engine segment, while the modest growth in motorcycle markets mainly in Europe is continuing, some emerging markets are weak. With respect to utility vehicles and personal watercrafts, the market continues to grow stably mainly in North America. In the general-purpose engine market, growth is slowing down temporarily due to the impact of inclement weather and U.S.-China trade friction.

Amid such an operating environment, consolidated net sales increased ¥3.8 billion year on year to ¥230.1 billion, due to an increase in utility vehicles for U.S.

Operating loss deteriorated by ¥4.4 billion year on year to an operating loss of ¥4.5 billion. This was due to the appreciation of the yen, primarily against the euro and the US dollar, compared to the same period of the previous year, an increase in manufacturing costs due to the appreciation of the Thai baht against the yen, and other factors, despite an increase in revenue.

## **Other Operations**

Consolidated net sales increased ¥6.0 billion year on year to ¥73.9 billion.

Operating income of ¥2.0 billion was on par with the previous year's result.

## **(2) Consolidated financial position**

### **(i) Assets**

Current assets were ¥1,351.6 billion, ¥215.3 billion increase from March 31, 2019 due to an increase in trade receivables.

Fixed assets were ¥701.8 billion, ¥0.6 billion decrease from March 31, 2019 due to a decrease in long-term accounts receivables.

As a result, total assets were ¥2,053.5 billion, ¥214.6 billion increase from March 31, 2019.

### **(ii) Liabilities**

Interest bearing liabilities were ¥787.6 billion, ¥348.2 billion increase from March 31, 2019.

Liabilities were ¥1,578.5 billion, ¥231.9 billion increase from March 31, 2019 due to an increase in interest bearing liabilities and other factors.

### **(iii) Net assets**

Consolidated net assets were ¥475.0 billion, ¥17.2 billion decrease from March 31, 2019 due to payment of dividends and a decrease in foreign currency translation adjustment.

### **(3) Consolidated earnings outlook**

Regarding its consolidated earnings forecast for the fiscal year ending March 31, 2020, the Company has left its forecast for consolidated net sales unchanged from the previously announced forecast (October 31). The Company has upwardly revised its consolidated operating income forecast to ¥60.0 billion, as despite expecting impacts from automobile recalls in the Motorcycle & Engine segment and a deterioration in profitability on U.S. projects in the Rolling Stock segment, the Company anticipates improved profitability of chemical plants for overseas markets in the Energy System & Plant Engineering segment, while in the Aerospace Systems segment the Company expects an improvement due to progress on cost reduction efforts and the impact of swifter collection of sales information on component parts for commercial aircraft jet engines.

The Company has left its forecasts for consolidated recurring profit and net income attributable to owners of parent unchanged from the previously announced forecasts.

Consolidated orders are forecast to decrease by ¥100.0 billion from the figures previously announced, to ¥1,550.0 billion, due to expected decreases in the Energy System & Plant Engineering segment and Ship & Offshore Structure segment, and other segments. ROIC and ROE are forecast to be 4.8% and 5.2%, respectively.

The Company's earnings forecasts assume exchange rates of ¥107 to the U.S. dollar and ¥118 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<br>March 31, 2019 | As of<br>December 31, 2019 |
| <b>Assets</b>  |                                     |                         |                            |
| Current assets   |                                     |                         |                            |
| Cash on hand and in banks  |                                     | 74,311                  | 74,408                     |
| Trade receivables  |                                     | 427,665                 | 548,257                    |
| Merchandise and finished products                                      |                                     | 68,176                  | 89,052                     |
| Work in process  |                                     | 405,087                 | 449,740                    |
| Raw materials and supplies   |                                     | 119,558                 | 128,011                    |
| Other  |                                     | 45,333                  | 66,322                     |
| Allowance for doubtful receivables                                     |                                     | (3,792)                 | (4,094)                    |
|  | Total current assets                | 1,136,340               | 1,351,697                  |
| Fixed assets   |                                     |                         |                            |
| Net property, plant and equipment                                      |                                     |                         |                            |
| Buildings and structures   |                                     | 194,939                 | 195,891                    |
| Other  |                                     | 290,729                 | 288,883                    |
|  | Total property, plant and equipment | 485,669                 | 484,774                    |
| Intangible assets  |                                     |                         |                            |
|  |                                     | 16,797                  | 18,977                     |
| Investments and other assets   |                                     |                         |                            |
| Other  |                                     | 201,471                 | 199,402                    |
| Allowance for doubtful receivables                                     |                                     | (1,422)                 | (1,311)                    |
|  | Total investments and other assets  | 200,048                 | 198,091                    |
|  | Total fixed assets                  | 702,514                 | 701,843                    |
| <b>Total assets</b>  |                                     | 1,838,855               | 2,053,540                  |
| <b>Liabilities</b>   |                                     |                         |                            |
| Current liabilities  |                                     |                         |                            |
| Trade payables   |                                     | 247,191                 | 227,269                    |
| Electronically recorded obligations - operating                        |                                     | 123,083                 | 111,157                    |
| Short-term debt  |                                     | 100,023                 | 283,420                    |
| Income taxes payable   |                                     | 10,390                  | 4,755                      |
| Provision for sales promotion expenses                                 |                                     | 497                     | 6,317                      |
| Accrued bonuses  |                                     | 21,168                  | 10,595                     |
| Provision for product warranties                                       |                                     | 13,096                  | 12,428                     |
| Provision for losses on construction contracts                         |                                     | 27,609                  | 14,214                     |
| Advances from customers  |                                     | 181,419                 | 145,900                    |
| Other  |                                     | 139,800                 | 272,256                    |
|  | Total current liabilities           | 864,280                 | 1,088,316                  |
| Long-term liabilities  |                                     |                         |                            |
| Bonds payable  |                                     | 140,000                 | 140,000                    |
| Long-term debt   |                                     | 187,568                 | 191,940                    |
| Net defined benefit liability  |                                     | 97,602                  | 101,980                    |
| Provision for the in-service issues of commercial aircraft jet engines |                                     | (*1)11,468              | (*1)13,993                 |
| Other  |                                     | 45,674                  | 42,296                     |
|  | Total long-term liabilities         | 482,313                 | 490,211                    |
| <b>Total liabilities</b>   |                                     | 1,346,593               | 1,578,527                  |

**Net assets**

|   |                  |                  |
|---|------------------|------------------|
| Shareholders' equity                                    |                  |                  |
| Common stock  | 104,484          | 104,484          |
| Capital surplus   | 54,542           | 54,542           |
| Retained earnings                                       | 324,606          | 312,726          |
| Treasury stock  | (130)            | (133)            |
| Total shareholders' equity                              | <u>483,502</u>   | <u>471,620</u>   |
| Accumulated other comprehensive income                  |                  |                  |
| Net unrealized gains (losses) on securities, net of tax | 2,682            | 2,673            |
| Deferred gains (losses) on hedges                       | (227)            | (391)            |
| Foreign currency translation adjustment                 | (4,556)          | (11,171)         |
| Remeasurements of defined benefit plans                 | (5,014)          | (3,667)          |
| Total accumulated other comprehensive income            | <u>(7,115)</u>   | <u>(12,556)</u>  |
| Non-controlling interests                               | <u>15,874</u>    | <u>15,949</u>    |
| <b>Total net assets</b>                                 | <u>492,261</u>   | <u>475,013</u>   |
| <b>Total net assets and liabilities</b>                 | <u>1,838,855</u> | <u>2,053,540</u> |

## (2) Consolidated statements of income and comprehensive income

### Consolidated statements of income

|   | Million yen                            |  |
|---|--|--|
|   | Nine Months Ended<br>December 31, 2018 | Nine Months Ended<br>December 31, 2019 |
| Net sales   | 1,094,583                              | 1,135,444                              |
| Cost of sales   | 910,113                                | 954,085                                |
| Gross profit  | 184,469                                | 181,359                                |
| Selling, general and administrative expenses                          |  |  |
| Salaries and benefits   | 40,325                                 | 41,357                                 |
| R&D expenses  | 33,427                                 | 36,371                                 |
| Other   | 73,867                                 | 72,645                                 |
| Total selling, general and administrative expenses                    | 147,620                                | 150,375                                |
| Operating income  | 36,849                                 | 30,983                                 |
| Non-operating income  |  |  |
| Interest income   | 648                                    | 530                                    |
| Dividend income   | 263                                    | 252                                    |
| Equity in income of non-consolidated subsidiaries and affiliates      | 1,014                                  | 867                                    |
| Other   | 2,585                                  | 2,157                                  |
| Total non-operating income  | 4,512                                  | 3,807                                  |
| Non-operating expenses  |  |  |
| Interest expense  | 2,505                                  | 2,787                                  |
| Foreign exchange losses   | 4,620                                  | 4,794                                  |
| Payments for the in-service issues of commercial aircraft jet engines | (*1) 9,745                             | (*1) 7,640                             |
| Other   | 4,625                                  | 4,189                                  |
| Total non-operating expenses  | 21,496                                 | 19,411                                 |
| Recurring profit  | 19,865                                 | 15,379                                 |
| Extraordinary income  |  |  |
| Gain on sales of fixed assets   | -                                      | (*2) 1,277                             |
| Total extraordinary income  | -                                      | 1,277                                  |
| Extraordinary loss  |  |  |
| Loss on withdrawal from business                                      | -                                      | (*3) 2,383                             |
| Total extraordinary loss  | -                                      | 2,383                                  |
| Income before income taxes  | 19,865                                 | 14,273                                 |
| Income taxes  | 6,721                                  | 8,416                                  |
| Net income  | 13,144                                 | 5,856                                  |
| Net income attributable to non-controlling interests                  | 1,758                                  | 1,094                                  |
| Net income attributable to owners of parent                           | 11,385                                 | 4,762                                  |

## Consolidated statements of comprehensive income

|  | Million yen                            |  |
|--|--|--|
|  | Nine Months Ended<br>December 31, 2018 | Nine Months Ended<br>December 31, 2019 |
| Net income   | 13,144                                 | 5,856                                  |
| Other comprehensive income   |  |  |
| Net unrealized gains (losses) on securities  | (1,182)                                | 1                                      |
| Deferred gains (losses) on hedges  | (387)                                  | (143)                                  |
| Foreign currency translation adjustment  | 313                                    | (2,903)                                |
| Remeasurement of defined benefit plans   | 2,363                                  | 1,352                                  |
| Share of other comprehensive income(loss) of associates<br>accounted for using equity method | (3,332)                                | (4,246)                                |
| Total other comprehensive income(loss)   | (2,227)                                | (5,939)                                |
| Comprehensive Income(loss) attributable to:  | 10,916                                 | (82)                                   |
| Owners of parent   | 9,446                                  | (678)                                  |
| Non-controlling interests  | 1,469                                  | 595                                    |

### **(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 third 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*

Consolidated subsidiaries applying U.S. accounting standards began applying Topic 606, "Revenue from Contracts with Customers" from the first quarter of the year under review.

With the application of this standard, when contracted goods or services are transferred to the customer, revenue is recognized at an amount that reflects the consideration expected to be received in exchange for the goods or services. In applying this standard, the Company adopted the method, as is permitted as a transitional measure, of recognizing the cumulative effect of a retroactive adjustment from the date at which the standard was applied and accordingly reducing retained earnings at the beginning of the current consolidated fiscal year.

As a result, retained earnings at the beginning of the third quarter of the year under review decreased by ¥4,948 million. In addition, income before income taxes for the third quarter of current fiscal year increased by ¥2,004 million over the amount that would have been recorded if the previous accounting standard had been applied.

#### *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 FY2019 third 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) Payments 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 FY2019 third 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. The provision was included within the non-operating expenses.

(\*2) Gain on sales of fixed assets

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

(\*3) Loss on withdrawal from business

Losses associated with withdrawal from certain businesses by the Energy System & Plant Engineering Company.

*Segment information*

1. Nine Months Ended December 31, 2018 (April 1, 2018 – December 31, 2018)

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

|                                   | Million yen    |                    |             |                         |
|-----------------------------------|----------------|--------------------|-------------|-------------------------|
|                                   | External sales | Intersegment sales | Total sales | Operating income (loss) |
| Aerospace Systems                 | 328,137        | 8,536              | 336,674     | 21,295                  |
| Energy System & Plant Engineering | 168,844        | 14,285             | 183,129     | 4,534                   |
| Precision Machinery & Robot       | 154,282        | 11,777             | 166,059     | 14,942                  |
| Ship & Offshore structure         | 63,066         | 2,665              | 65,732      | 2,803                   |
| Rolling stock                     | 86,088         | 16                 | 86,105      | (6,452)                 |
| Motorcycle & Engine               | 226,298        | 496                | 226,795     | (33)                    |
| Other                             | 67,865         | 29,035             | 96,900      | 2,456                   |
| Reportable segment total          | 1,094,583      | 66,813             | 1,161,397   | 39,545                  |
| Adjustments*1                     | -              | (66,813)           | (66,813)    | (2,696)                 |
| Consolidated total                | 1,094,583      | -                  | 1,094,583   | 36,849                  |

Notes: 1. Breakdown of adjustments:

| Million yen               |         |
|---------------------------|---------|
| Income                    | Amount  |
| Intersegment transactions | (60)    |
| Corporate expenses*       | (2,635) |
| Total                     | (2,696) |

\*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. Nine Months Ended December 31, 2019 (April 1, 2019 – December 31, 2019)

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

|                                   | Million yen    |                    |             |                         |
|-----------------------------------|----------------|--------------------|-------------|-------------------------|
|                                   | External sales | Intersegment sales | Total sales | Operating income (loss) |
| Aerospace Systems                 | 371,446        | 6,913              | 378,360     | 20,517                  |
| Energy System & Plant Engineering | 162,317        | 23,379             | 185,697     | 13,027                  |
| Precision Machinery & Robot       | 147,080        | 11,422             | 158,503     | 5,216                   |
| Ship & Offshore structure         | 53,016         | 6,514              | 59,531      | (788)                   |
| Rolling stock                     | 97,477         | 12                 | 97,489      | (3,147)                 |
| Motorcycle & Engine               | 230,171        | 497                | 230,668     | (4,517)                 |
| Other                             | 73,934         | 27,782             | 101,716     | 2,055                   |
| Reportable segment total          | 1,135,444      | 76,522             | 1,211,967   | 32,364                  |
| Adjustments*1                     | -              | (76,522)           | (76,522)    | (1,380)                 |
| Consolidated total                | 1,135,444      | -                  | 1,135,444   | 30,983                  |

Notes: 1. Breakdown of adjustments:

|                           | Million yen |  |
|---------------------------|-------------|--|
| Income                    | Amount      |  |
| Intersegment transactions | 105         |  |
| Corporate expenses*       | (1,486)     |  |
| Total                     | (1,380)     |  |

\* 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

## 3. Supplementary information

### (1) Consolidated cash flow statements (condensed)

|  | Million yen                            |  |
|--|--|--|
|  | Nine months ended<br>December 31, 2018 | Nine months ended<br>December 31, 2019 |
| Cash flow from operating activities        | (207,489)                              | (288,421)                              |
| Cash flow from investing activities        | (67,409)                               | (46,216)                               |
| Cash flow from financing activities        | 254,463                                | 335,815                                |
| Cash and cash equivalents at end of period | 43,259                                 | 70,914                                 |

**(2) Supplementary information on consolidated earnings forecasts for the fiscal year ending March 31, 2020**

**(i) Net sales and operating income (loss)**

Billion yen

| Reportable segment                | Outlook for the year ending March 31, 2020 (fiscal 2019) |                         |                                      |                         |                |                         | Year ended March 31, 2019 (Fiscal 2018) (actual) |                         |
|-----------------------------------|--|-------------------------|--------------------------------------|-------------------------|----------------|-------------------------|--|-------------------------|
|                                   | Revised forecast (A)                                     |                         | Forecast issued October 31, 2019 (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                 | 530.0  | 36.0                    | 520.0                                | 28.0                    | 10.0           | 8.0                     | 463.9  | 32.6                    |
| Energy System & Plant Engineering | 250.0  | 16.0                    | 250.0                                | 11.5                    | -              | 4.5                     | 253.0  | 11.6                    |
| Precision Machinery & Robot       | 220.0  | 14.5                    | 230.0                                | 16.0                    | (10.0)         | (1.5)                   | 222.0  | 21.3                    |
| Ship & Offshore Structure         | 70.0   | (2.0)                   | 70.0                                 | (2.5)                   | -              | 0.5                     | 78.9   | 1.0                     |
| Rolling Stock                     | 150.0  | (2.0)                   | 160.0                                | 1.0                     | (10.0)         | (3.0)                   | 124.6  | (13.7)                  |
| Motorcycle & Engine               | 345.0  | 3.0                     | 350.0                                | 9.0                     | (5.0)          | (6.0)                   | 356.8  | 14.3                    |
| Other                             | 95.0   | 1.5                     | 80.0                                 | 1.0                     | 15.0           | 0.5                     | 95.1   | 2.5                     |
| Adjustments                       |  | (7.0)                   |                                      | (8.0)                   |                | 1.0                     |  | (5.7)                   |
| Total                             | 1,660.0  | 60.0                    | 1,660.0                              | 56.0                    | -              | 4.0                     | 1,594.7  | 64.0                    |

**(ii) Orders received**

Billion yen

| Reportable segment                | Outlook for the year ending March 31, 2020 (fiscal 2019) |                                      |                | Year ended March 31, 2019 (Fiscal 2018) (actual) |
|-----------------------------------|--|--------------------------------------|----------------|--|
|                                   | Revised forecast (A)                                     | Forecast issued October 31, 2019 (B) | Change (A – B) |  |
| Aerospace Systems                 | 410.0  | 415.0                                | (5.0)          | 431.6  |
| Energy System & Plant Engineering | 280.0  | 330.0                                | (50.0)         | 263.5  |
| Precision Machinery & Robot       | 230.0  | 240.0                                | (10.0)         | 225.2  |
| Ship & Offshore Structure         | 60.0   | 100.0                                | (40.0)         | 81.1   |
| Rolling Stock                     | 130.0  | 130.0                                | -              | 136.0  |
| Motorcycle & Engine               | 345.0  | 350.0                                | (5.0)          | 356.8  |
| Other                             | 95.0   | 85.0                                 | 10.0           | 94.2   |
| Total                             | 1,550.0  | 1,650.0                              | (100.0)        | 1,588.7  |

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

**(iii) Before-tax ROIC**

(%)

| Reportable segment                | Outlook for the year ending March 31, 2020 (fiscal 2019) |                                      |                | Year ended March 31, 2019 (Fiscal 2018) (actual) |
|-----------------------------------|--|--------------------------------------|----------------|--|
|                                   | Revised forecast (A)                                     | Forecast issued October 31, 2019 (B) | Change (A – B) |  |
| Aerospace Systems                 | 6.5  | 6.0                                  | 0.5            | 5.0  |
| Energy System & Plant Engineering | 10.2   | 7.1                                  | 3.1            | 9.3  |
| Precision Machinery & Robot       | 10.0   | 12.2                                 | (2.2)          | 19.8   |
| Ship & Offshore Structure         | 0.1  | (1.8)                                | 1.9            | 3.2  |
| Rolling Stock                     | (3.9)  | 1.6                                  | (5.5)          | (26.4)   |
| Motorcycle & Engine               | 1.3  | 5.7                                  | (4.4)          | 8.4  |
| Total                             | 4.8  | 4.8                                  | -              | 4.5  |

Notes: 1. Forecast's assumed foreign exchange rates: ¥107 = US\$1, ¥118 = 1 euro

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