

**Report of Earnings and Financial Statements for the
Fiscal Year Ended March 31, 2020 (Consolidated)**
(Prepared pursuant to Japanese GAAP)

May 12, 2020

Listed company's name: **Kawasaki Heavy Industries, Ltd.**
 Listed on: 1st sections of the TSE, and NSE
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Scheduled dates:

Ordinary general meeting of shareholders June 25, 2020
 Commencement date of dividend payments June 26, 2020
 Submission of financial statements June 25, 2020

Supplementary materials to financial results Available
 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 Fiscal Year Ended March 31, 2020
(April 1, 2019 – March 31, 2020)

(1) Operating Results

Years ended March 31 (Percentage figures indicate change compared with the previous fiscal year)

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
2020	1,641,335	2.9	62,063	(3.0)	40,429	6.7	18,662	(32.0)
2019	1,594,743	1.3	64,023	14.4	37,861	(12.4)	27,453	(5.0)

Note: Comprehensive income Fiscal year ended March 31, 2020: ¥(3,049) million -%
 Fiscal year ended March 31, 2019: ¥ 23,183 million (41.5%)

Years ended March 31

	Earnings per share	Earnings per share – diluted	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
2020	111.72	-	4.0	2.1	3.7
2019	164.34	-	5.8	2.0	4.0

For reference: Equity in income of non-consolidated subsidiaries and affiliates
 Fiscal year ended March 31, 2020: ¥ 1,255million
 Fiscal year ended March 31, 2019: ¥ 1,574 million

(2) Financial Condition

March 31

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	Yen
2020	1,957,845	471,562	23.2	2,727.59
2019	1,838,855	492,261	25.9	2,851.84

For reference: Shareholders' equity March 31, 2020: ¥ 455,627 million
March 31, 2019: ¥ 476,387 million

(3) Cash Flow Position

Years ended March 31

(Million yen)

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of year
2020	(15,461)	(69,401)	115,803	102,546
2019	109,762	(85,344)	(19,771)	68,311

2. Dividends

Years ended/ending March 31

Record date or term	Dividend per share					Total dividends paid (annual) million yen	Payout ratio (consolidated) %	Dividends / Net assets (consolidated) %
	1Q	2Q	3Q	Year-end	Full year			
	Yen	Yen	Yen	Yen	Yen	million yen	%	%
2019	-	35.00	-	35.00	70.00	11,693	42.5	2.4
2020	-	35.00	-	0.00	35.00	5,846	31.3	1.2
2021 (forecast)	-	-	-	-	-		-	

Note: The Company's Articles of Incorporation stipulate that the last day of the second quarter and the last day of the fiscal year are the dates of record for dividends. The forecasts for dividends to be paid on those dates of record are, however, yet to be determined.

3. Forecast of Consolidated Earnings for the Fiscal Year Ending March 31, 2021

(April 1, 2020 – March 31, 2021)

It is currently difficult to reasonably calculate the impact on the Company's business activities of the novel coronavirus outbreak. As a result, the Company is yet to determine its consolidated earnings forecasts. The Company will promptly announce forecasts when it becomes possible to disclose them.

Notes

- 1) Changes affecting the status of material subsidiaries (scope of consolidation): None
- 2) 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
- 3) Number of shares issued and outstanding (common stock)
 - (1) Number of shares issued as of period-end (including treasury stock)

March 31, 2020:	167,080,532 shares
March 31, 2019:	167,080,532 shares
 - (2) Number of shares held in treasury as of period-end

March 31, 2020:	36,587 shares
March 31, 2019:	35,196 shares
 - (3) Average number of shares during respective periods

March 31, 2020:	167,044,577 shares
March 31, 2019:	167,046,422 shares

***Report of Earnings and Financial Statements are not subject to audit.**

***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. Overview of operating results (4) 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 by conference call on Tuesday May 12, 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.

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1. Overview of operating results

(1) Consolidated operating results

During the fiscal year ended March 31, 2020, in the global economy, the outcome of both the trade talks between the U.S. and China and the negotiations on the new trade agreement between the U.K. and the EU remained uncertain. In addition, with the worldwide spread of the novel coronavirus since the end of 2019, the impact of legally-binding measures in many countries has meant that demand for the transportation of people and goods has declined. Moreover, corporate activities have significantly stagnated on a global level due to factors such as disruptions to supply chains, and there are strong concerns that this will adversely affect the real economy going forward.

Amid such an operating environment, the Group's orders received in the fiscal year ended 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 Motorcycle & Engine segment, the Energy System & Plant Engineering and other segments. Operating income decreased, due to decreases in the Precision Machinery & Robot and the Motorcycle & Engine segment and other factors, despite the improvement in the Aerospace Systems and the Rolling Stock segment. Recurring profit increased due to a decline in the payments for the in-service issues of commercial aircraft jet engines and other factors despite the decreasing in the operating income. Despite an increase in recurring profit, net income attributable to owners of parent decreased due to the partial reversal of deferred tax assets in light of the impact of the novel coronavirus outbreak, and other factors.

As a result, the Group's consolidated orders received decreased ¥75.2 billion versus the same period of the previous fiscal year to ¥1,513.5 billion, consolidated net sales increased ¥46.5 billion year on year to ¥1,641.3 billion, operating income decreased ¥1.9 billion year on year to ¥62.0 billion, recurring profit increased ¥2.5 billion year on year to ¥40.4 billion, and net income attributable to owners of parent decreased ¥8.7 billion year on year to ¥18.6 billion. ROIC* was 4.2%, while ROE was 4.0%.

* Before-tax ROIC = EBIT (income before income taxes + interest expense) ÷ invested capital
(interest-bearing debt + shareholders' equity)

Consolidated operating performance in the fiscal year ended March 31, 2020, is summarized by segment below.

Segment Information

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

	Fiscal year ended March 31						Orders received		
	2019(A)		2020(B)		Change (B – A)		Fiscal year ended March 31		
	Net sales	Operating income	Net sales	Operating income	Net Sales	Operating income	2019 (A)	2020 (B)	Change (B – A)
Aerospace Systems	463.9	32.6	532.5	42.7	68.5	10.1	431.6	414.9	(16.6)
Energy System & Plant Engineering	253.0	11.6	242.9	17.5	(10.0)	5.9	263.5	252.3	(11.1)
Precision Machinery & Robot	222.0	21.3	217.3	12.2	(4.7)	(9.1)	225.2	218.8	(6.3)
Ship & Offshore Structure	78.9	1.0	71.6	(0.6)	(7.2)	(1.7)	81.1	56.2	(24.9)
Rolling Stock	124.6	(13.7)	136.5	(3.8)	11.8	9.9	136.0	125.7	(10.3)
Motorcycle & Engine	356.8	14.3	337.7	(1.9)	(19.0)	(16.3)	356.8	337.7	(19.0)
Other	95.1	2.5	102.4	1.2	7.2	(1.2)	94.2	107.5	13.3
Adjustments	-	(5.7)	-	(5.3)	-	0.4	-	-	-
Total	1,594.7	64.0	1,641.3	62.0	46.5	(1.9)	1,588.7	1,513.5	(75.2)

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. Although demand for commercial aircraft airframes and jet engines was increasing in conjunction with the rise in the number of air passengers, the demand for both aircraft airframes and jet engines is expected to decline due to the impact of the novel coronavirus outbreak.

Amid such an operating environment, consolidated orders received decreased ¥16.6 billion year on year to ¥414.9 billion due to decreases in component parts of airframes for Ministry of Defense and commercial aircraft, although an increase in component parts of commercial aircraft jet engines.

Consolidated net sales increased ¥68.5 billion year on year to ¥532.5 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 increased ¥10.1 billion year on year to ¥42.7 billion due to an increase in sales.

Energy System & Plant Engineering

Regarding the business environment surrounding the Energy System & Plant Engineering segment, in Japan, there is ongoing demand for replacing aging facilities for refuse incineration plants, while over the medium to long term, demand for distributed power sources in Japan and overseas, and for energy infrastructure development in emerging markets remains firmly-rooted. On the other hand, uncertainty about the future is increasing, as customers' short-term capital investment decisions may be reviewed due to the impacts of sluggish economic activity and the destabilization of resource prices resulting from the novel coronavirus outbreak.

Amid such an operating environment, consolidated orders received decreased ¥11.1 billion year on year to ¥252.3 billion. Although new orders were relatively strong, including an order for 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 ¥10.0 billion year on year to ¥242.9 billion, due to a decline in sales of the Energy system segment and other factors, despite an increase in construction work volume on chemical plant for overseas.

Operating income increased ¥5.9 billion year on year to ¥17.5 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, domestic customers reduced production due to the impact of Typhoon Hagibis in 2019, and sales in the South Korean market as well as emerging markets such as India and Indonesia were sluggish, but on the whole demand remained firm. There is uncertainty regarding the future impact of the novel coronavirus outbreak, but the construction machinery market in China is quickly recovering, and the Company will closely monitor future trends. In China, the robot market is recovering from the temporary deterioration of conditions resulting from the U.S.-China trade friction. In addition, although the impact of the novel coronavirus outbreak is uncertain, demand for robots for the semiconductor market has begun to recover due to the resumption of investment by major semiconductor manufacturers in Taiwan and South Korea, and demand is expected to steadily expand over the medium to long term.

Amid such an operating environment, consolidated orders received decreased ¥6.3 billion year on year to ¥218.8 billion, due to decreases in hydraulic components for construction machinery market although an increase in various robots.

Consolidated net sales decreased ¥4.7 billion year on year to ¥217.3 billion, due to decreases in hydraulic components for construction machinery market.

Operating income decreased ¥9.1 billion year on year to ¥12.2 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. As for the direct impacts of the novel coronavirus outbreak, although there have been no requests to push back delivery dates or cancel ordered ships at this stage, there is concern that contract closing dates may be pushed back due to delays in business negotiations.

Amid such an operating environment, we received new orders LPG carriers but consolidated orders received totaled only ¥56.2 billion, ¥24.9 billion less than a year earlier when we received order for the submarine for Ministry of Defense.

Consolidated net sales decreased ¥7.2 billion year on year to ¥71.6 billion, due to decreases in volume of construction of LNG carrier and LPG carrier.

The segment posted an operating loss of ¥0.6 billion, a ¥1.7 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 in the medium and long term. 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. On the other hand, plans for deliveries and orders for domestic and overseas rolling stock projects are expected to be reviewed due to the impact of the novel coronavirus outbreak.

Amid such an operating environment, consolidated orders received decreased by ¥10.3 billion to ¥125.7 billion from the previous fiscal year when we received orders for railcars in U.S., despite orders for railcars of Shinkansen and subway in Japan.

Consolidated net sales increased ¥11.8 billion year on year to ¥136.5 billion, due to an increase in sales of railcars for Japan and U.S., despite a decrease in components for overseas.

Consolidated operating loss improved ¥9.9 billion to an operating loss of ¥3.8 billion due to an increase in sales, a decrease in temporary expenses in the U.S. projects which were incurred in the previous fiscal year, and other factors, despite some projects being delayed to the following fiscal year and being subject to cost fluctuations due to the impact of the novel coronavirus outbreak.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, until the beginning of March 2020, while the modest growth in motorcycle markets mainly in Europe was continuing, some emerging markets are weak. For utility vehicles and personal watercraft, the market grew stably, mainly in the North American market, but in the general-purpose engines market, market growth temporarily slowed down due to inclement weather and the U.S.-China trade friction. After the novel coronavirus began to spread rapidly in major markets around the world from mid-March 2020, starting with Europe and North America, the market declined significantly due to lockdowns, temporary distributor closures, and so on.

Amid such an operating environment, consolidated net sales decreased ¥19.0 billion year on year to ¥337.7 billion, due to the novel coronavirus outbreak, and the appreciation of the yen, primarily against the euro and the other currencies, compared to the same period of the previous year.

Operating loss deteriorated by ¥16.3 billion year on year to an operating loss of ¥1.9 billion. This was due to the drop in sales and an increase in manufacturing costs due to the appreciation of the Thai baht against the yen, and recall of utility vehicles.

Other Operations

Consolidated net sales increased ¥7.2 billion year on year to ¥102.4 billion.

Operating income decreased ¥1.2 billion year on year to ¥1.2 billion.

(2) Consolidated financial condition

(i) Assets

Current assets were ¥1,258.7 billion, ¥122.4 billion increase from the previous fiscal year due to an increase in trade receivables.

Fixed assets were ¥699.0 billion, ¥3.4 billion decrease from the previous fiscal year due to a decrease in construction in progress.

As a result, total assets were ¥1,957.8 billion, ¥118.9 billion increase from the previous fiscal year.

(ii) Liabilities

Interest bearing liabilities were ¥567.4 billion, ¥128.0 billion increase from the previous fiscal year.

Liabilities were ¥1,486.2 billion, ¥139.6 billion increase from the previous fiscal year due to an increase in interest bearing liabilities and other factors.

(iii) Net assets

Consolidated net assets were ¥471.5 billion, ¥20.6 billion decrease from the previous fiscal year due to payment of dividends and a decrease in premeasurements of defined benefit plans.

(3) Cash flows

(i) Cash flows from operating activities

Operating activities used net cash of ¥15.4 billion, ¥125.2 billion increase from the previous fiscal year. Major sources of operating cash flow included income before income taxes of ¥39.3 billion and depreciation and amortization of ¥61.2 billion. Major uses of operating cash flow included expenditure of ¥48.0 billion due to an increase in inventory assets, ¥46.7 billion due to an increase in trade receivables.

(ii) Cash flows from investing activities

Investing activities used net cash of ¥69.4 billion which is ¥15.9 billion less than in the previous fiscal year, mainly due to requisition of property, plant and equipment, as well as intangible assets.

(iii) Cash flows from financing activities

Financing activities provided net cash of ¥115.8 billion, which is ¥135.5 billion more than in the previous fiscal year when financing activities used net cash of ¥19.7 billion. This was mainly due to an increase in short-term debt.

(4) Consolidated earnings outlook

With respect to the earnings forecasts for the fiscal year ending March 31, 2021, the Company expects to be severely impacted by the stagnation in global economic activity resulting from the novel coronavirus outbreak. The impact is expected to be particularly severe in the Aerospace Systems segment due to the sharp decline in passenger demand and the Motorcycle & Engine segment, which has been affected by lockdowns and sluggish personal consumption. There is a possibility that an overall loss may be recorded in FY2020. However, it is difficult to reasonably estimate performance forecast figures for each business at this time, which has led to the decision to postpone the announcement of the Forecast of Consolidated Earnings for the Fiscal Year Ending March 31, 2021. We will carefully examine the impacts on future performance, and promptly announce our outlook as soon as we are able to disclose reasonable forecast figures. Furthermore, given the current business situation, the dividend forecast for the fiscal year ending March 31, 2021 is yet to be determined.

Withdrawal of the Numerical Targets of the Medium-Term Business Plan

The impact of the novel coronavirus has led to significant changes in the environment surrounding each business, and it will be difficult for the Company to achieve the numerical targets set forth in the medium-term business plan “FY2019 MTBP”, for which the final fiscal year is FY2021. The Company will continue to pursue the basic policy of FY2019 MTBP: “Balancing autonomous business management and company-wide corporate governance”. However, in consideration of the current business and market environments, the Company has made the decision to withdraw the numerical targets for FY2021.

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. Basic rationale for selecting accounting standards

In the near term, KHI Group plans to continue to use Japanese accounting standards to disclose consolidated financial statements. The Group will continue to study the possible adoption of IFRS from the standpoint of increasing corporate value over the medium- to long-term horizon as well as promoting constructive dialogue with investors, all while taking the situation surrounding the Group both in Japan and overseas into consideration.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Years ended March 31	Million yen	
	2019	2020
Assets		
Current assets		
Cash and deposits	74,311	106,108
Trade receivables	427,665	473,204
Merchandise and finished products	68,176	75,042
Work in process	405,087	426,256
Raw materials and supplies	119,558	130,359
Other	45,333	51,176
Allowance for doubtful receivables	(3,792)	(3,367)
Total current assets	1,136,340	1,258,781
Fixed assets		
Net property, plant and equipment		
Buildings and structures	194,939	193,931
Machinery and equipment	148,620	151,196
Land	62,705	62,183
Leased assets	2,148	2,694
Construction in progress	18,227	15,959
Other	59,028	56,604
Total property, plant and equipment	485,669	482,570
Intangible assets		
	16,797	21,358
Investments and other assets		
Investments in securities	14,501	12,035
Retirement benefit asset	93	135
Deferred tax assets	70,179	70,598
Other	116,696	114,203
Allowance for doubtful receivables	(1,422)	(1,838)
Total investments and other assets	200,048	195,134
Total fixed assets	702,514	699,063
Total assets	1,838,855	1,957,845

Liabilities

Current liabilities

Trade payables	247,191	261,159
Electronically recorded obligations - operating	123,083	110,526
Short-term debt	100,023	166,188
Current portion of bonds payable	10,000	20,000
Lease obligations	319	1,542
Income taxes payable	10,390	6,116
Provision for sales promotion expenses	4,991	12,174
Accrued bonuses	21,168	22,032
Provision for product warranties	13,096	14,454
Provision for losses on construction contracts	27,609	11,464
Advances received	181,419	148,610
Other	124,986	173,456
Total current liabilities	<u>864,280</u>	<u>947,726</u>

Non-current liabilities

Bonds payable	140,000	160,000
Long-term debt	187,568	188,859
Lease obligations	1,513	873
Deferred tax liabilities	593	796
Retirement benefit liability	97,602	129,846
Provision for the in-service issues of commercial aircraft jet engines	(*1)11,468	(*1)15,689
Other	43,566	42,491
Total non-current liabilities	<u>482,313</u>	<u>538,556</u>

Total liabilities1,346,593 1,486,283**Net assets**

Shareholders' equity

Share capital	104,484	104,484
Capital surplus	54,542	54,542
Retained earnings	324,606	326,626
Treasury shares	(130)	(133)
Total shareholders' equity	<u>483,502</u>	<u>485,520</u>

Accumulated other comprehensive income

Valuation difference on available-for-sale securities	2,682	1,636
Deferred gains (losses) on hedges	(227)	(272)
Foreign currency translation adjustment	(4,556)	(11,311)
Remeasurements of defined benefit plans	(5,014)	(19,946)
Total accumulated other comprehensive income	<u>(7,115)</u>	<u>(29,892)</u>

Non-controlling interests

Non-controlling interests	<u>15,874</u>	<u>15,934</u>
Total net assets	<u>492,261</u>	<u>471,562</u>
Total net assets and liabilities	<u>1,838,855</u>	<u>1,957,845</u>

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income		Million yen	
Years ended March 31		2019	2020
Net sales		1,594,743	1,641,335
Cost of sales		1,326,668	1,370,809
Gross profit		268,075	270,526
Selling, general and administrative expenses			
Salaries and allowances		54,952	56,651
Research and development expenses		48,734	52,608
Other		100,364	99,203
Total selling, general and administrative expenses		204,052	208,463
Operating income		64,023	62,063
Non-operating income			
Interest income		909	695
Dividend income		294	288
Share of profit of entities accounted for using equity method		1,574	1,255
Penalty income		13	2,784
Insurance claim income		388	1,191
Other		3,516	3,469
Total non-operating income		6,696	9,686
Non-operating expenses			
Interest expense		3,427	3,615
Foreign exchange losses		4,721	8,479
Payments for the in service issues of commercial aircraft jet engines		(*1)14,851	(*1)11,500
Other		9,857	7,725
Total non-operating expenses		32,858	31,319
Recurring profit		37,861	40,429
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		37,861	39,323
Income taxes - current		16,704	10,546
Income taxes - deferred		(8,681)	8,500
Total income taxes		8,022	19,046
Net income		29,838	20,276
Net income attributable to non-controlling interests		2,385	1,614
Net income attributable to owners of parent		27,453	18,662

Consolidated statements of comprehensive income

Years ended March 31

Million yen

	2019	2020
Net income	29,838	20,276
Other comprehensive income		
Net unrealized gains (losses) on securities	(864)	(1,065)
Deferred gains (losses) on hedges	(675)	(21)
Foreign currency translation adjustment	(796)	(5,284)
Remeasurement of defined benefit plans	549	(15,017)
Share of other comprehensive income(loss) of associates accounted for using equity method	(4,867)	(1,936)
Total other comprehensive income(loss)	(6,654)	(23,326)
Comprehensive Income(loss) attributable to:	23,183	(3,049)
Owners of parent	21,220	(4,116)
Non-controlling interests	1,962	1,066

(3) Consolidated statements of changes in net assets

Years ended March 31	Million yen	
	2019	2020
Shareholders' equity		
Common stock		
Balance at end of previous year	104,484	104,484
Total changes during the period	-	-
Balance at end of year	104,484	104,484
Capital surplus		
Balance at end of previous year	54,573	54,542
Changes during the period		
Treasury stock disposed	(0)	(0)
Transfer of loss on disposal of treasury stock	0	0
Capital increase of consolidated subsidiaries	(30)	-
Total changes during the period	(30)	-
Balance at end of year	54,542	54,542
Retained earnings		
Balance at end of previous year	308,010	324,606
Changes in accounting policies	-	(4,948)
Balance at end of previous year which reflects changes in accounting policies	308,010	319,657
Changes during the period		
Cash dividend	(10,858)	(11,693)
Net income attributable to owners of parent	27,453	18,662
Transfer of loss on disposal of treasury stock	(0)	(0)
Total changes during the period	16,595	6,968
Balance at end of year	324,606	326,626
Treasury stock		
Balance at end of previous year	(124)	(130)
Changes during the period		
Treasury stock purchased	(7)	(3)
Treasury stock disposed	1	0
Total changes during the period	(5)	(3)
Balance at end of year	(130)	(133)
Total shareholders' equity		
Balance at end of previous year	466,944	483,502
Changes in accounting policies	-	(4,948)
Balance at end of previous year which reflects changes in accounting policies	466,944	478,554
Changes during the period		
Cash dividend	(10,858)	(11,693)
Net income attributable to owners of parent	27,453	18,662
Treasury stock purchased	(7)	(3)
Treasury stock disposed	1	0
Transfer of loss on disposal of treasury stock	-	-
Capital increase of consolidated subsidiaries	(30)	-
Total changes during the period	16,558	6,965
Balance at end of year	483,502	485,520

Comprehensive income

Net unrealized gain (loss) on securities		
Balance at end of previous year	3,526	2,682
Changes during the period		
Net changes in items other than shareholder's equity	(843)	(1,046)
Total changes during the period	(843)	(1,046)
Balance at end of year	2,682	1,636
Deferred gains (losses) on hedges		
Balance at end of previous year	403	(227)
Changes during the period		
Net changes in items other than shareholders' equity	(630)	(44)
Total changes during the period	(630)	(44)
Balance at end of year	(227)	(272)
Foreign currency translation adjustments		
Balance at end of previous year	719	(4,556)
Changes during the period		
Net changes in items other than shareholders' equity	(5,275)	(6,754)
Total changes during the period	(5,275)	(6,754)
Balance at end of year	(4,556)	(11,311)
Premeasurements of defined benefit plans		
Balance at end of previous year	(5,532)	(5,014)
Changes during the period		
Net changes in items other than shareholders' equity	517	(14,931)
Total changes during the period	517	(14,931)
Balance at end of year	(5,014)	(19,946)
Total comprehensive income		
Balance at end of previous year	(883)	(7,115)
Changes during the period		
Net changes in items other than shareholders' equity	(6,232)	(22,776)
Total changes during the period	(6,232)	(22,776)
Balance at end of year	(7,115)	(29,892)
Non-controlling interests		
Balance at end of previous year	15,324	15,874
Changes during the period		
Net changes in items other than shareholders' equity	549	60
Total changes during the period	549	60
Balance at end of year	15,874	15,934

Total net assets		
Balance at end of previous year	481,386	492,216
Changes in accounting policies		(4,948)
Balance at end of previous year which reflects changes in accounting policies	481,386	487,312
Changes during the period		
Cash dividend	(10,858)	(11,693)
Net income attributable to owners of parent (loss)	27,453	18,662
Treasury stock purchased	(7)	(3)
Treasury stock disposed	1	0
Transfer of loss on disposal of treasury stock	-	-
Capital increase of consolidated subsidiaries	(30)	-
Net changes in items other than shareholders' equity	(5,683)	(22,716)
Total changes during the period	10,875	(15,750)
Balance at end of year	492,261	471,562

(4) Consolidated statements of cash flows

Years ended March 31	Million yen	
	2019	2020
Cash flows from operating activities		
Income before income taxes	37,861	39,323
Depreciation and amortization	59,022	61,283
Increase (decrease) in allowance for doubtful accounts	(667)	238
Increase (decrease) in provision for sales promotion expenses	14	707
Increase (decrease) in provision for bonuses	1,245	889
Increase (decrease) in provision for construction warranties	100	1,412
Increase (decrease) in provision for loss on construction contracts	9,336	(16,133)
Increase (decrease) in retirement benefit liability	11,982	10,574
Increase (decrease) in Payments for the in-service issues of commercial aircraft jet engines	11,468	4,221
Interest and dividend income	(1,203)	(983)
Interest expense	3,427	3,615
Share of loss (profit) of entities accounted for using equity method	(1,574)	(1,255)
Loss (gain) on sales of non-current assets	—	(1,277)
Loss on withdrawal from business	—	2,383
Decrease (increase) in trade receivables	58,985	(46,753)
Decrease (increase) in inventories	(65,383)	(48,068)
Increase (decrease) in trade payables	6,829	2,401
Decrease (increase) in advance payments - trade	1,202	3,326
Increase (decrease) in advances received	(14,013)	(31,827)
Decrease (increase) in other current assets	(1,557)	(8,986)
Increase (decrease) in other current liabilities	2,284	18,303
Other	1,192	6,004
Subtotal	120,553	(600)
Interest and dividends received	3,859	2,500
Interest paid	(3,439)	(3,630)
Income taxes paid	(11,211)	(13,731)
Net cash provided by (used in) operating activities	109,762	(15,461)
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(82,836)	(71,947)
Proceeds from sales of property, plant and equipment and intangible assets	605	6,087
Purchase of investment securities	(1,025)	(935)
Proceeds from sales of investment securities	989	1,232
Purchase of shares of subsidiaries and associates	(3,818)	(5,400)
Other	741	1,562
Net cash provided by (used in) investing activities	(85,344)	(69,401)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(10,866)	103,758
Proceeds from long-term debt	34,772	24,348
Repayment of long-term debt	(30,709)	(28,938)
Proceeds from issuance of bonds	20,000	40,000
Redemption of bonds	(20,000)	(10,000)
Dividends paid	(10,868)	(11,710)
Dividends paid to non-controlling interests	(1,950)	(989)
Other	(149)	(664)
Net cash provided by (used in) financing activities	(19,771)	115,803
Effect of exchange rate change on cash and cash equivalents	(696)	3,293
Net increase (decrease) in cash and cash equivalents	3,949	34,234
Cash and cash equivalents at beginning of period	64,362	68,311
Cash and cash equivalents at end of period	68,311	102,546

(5) Notes on financial statements

Notes on the going-concern assumption

Not applicable

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 first quarter of the year under review decreased by ¥4,948 million. In addition, income before income taxes increased ¥3,442 million, while earnings per share increased ¥15.22 compared to the figures that would have been reported if the prior accounting standard had been applied. The impact on net assets per share is negligible.

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 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 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. Overview of reportable segments

The Company's reportable segments are components of the Company about which separate financial information is available. These segments are subject to periodic reviews by the Company's board of directors to decide how to allocate resources and assess performance. The Company's operations are divided into internal companies based on product categories. Certain authority is delegated to each of the internal companies, based on which they conduct businesses in Japan and overseas. The Company's operations are therefore segmented based on each internal company's product categories. The Company's seven reportable segments are the Aerospace Systems segment, the Energy System & Plant Engineering segment, the Precision Machinery & Robot segment, the Ship & Offshore Structure segment, the Rolling Stock segment, the Motorcycle & Engine segment, and the Other segment.

Main segment businesses are listed below.

Industry segment	Major products
Aerospace Systems	Production and sale of aircraft, jet engines, etc.
Energy System & Plant Engineering	Production and sale of general-purpose gas turbine generators, prime movers, industrial equipment, boilers, environmental equipment, steel structures, crushers, etc.
Precision Machinery & Robot	Production and sale of industrial hydraulic products, industrial robots, etc.
Ship & Offshore Structure	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Motorcycle & Engine	Production and sale of motorcycles, all-terrain vehicles (ATV), utility vehicles, personal watercraft ("JET SKI"), general-purpose gasoline engines, etc.
Other	commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

2. Method for calculating sales, profit/loss, assets, liabilities, and other items for reportable segments

The accounting methods applied to the reported business segments generally follow the accounting policies used to prepare the consolidated financial statements. The income of reporting segments is based on operating income. Inter-segment earnings and transfers are based on market prices.

As stated in 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. In conjunction with this, the method for calculating segment profit and loss was similarly changed.

With these changes, the segment profit for the Motorcycle & Engine segment for the fiscal year under review increased by ¥3,442 million over the amount that would have been reported if the previous accounting standard had been applied.

3. Sales, income (loss), assets, liabilities, and other items by reportable segment

Fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)

(Million yen)

	Sales			Segment income (loss)	Segment assets	Other items		
	External sales	Intersegment sales or transfer	Total			Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Aerospace Systems	463,958	12,089	476,048	32,611	649,260	21,299	-	24,022
Energy System & Plant Engineering	253,041	19,899	272,940	11,634	301,798	3,412	18,552	2,237
Precision Machinery & Robot	222,095	17,151	239,247	21,352	205,199	8,220	634	11,636
Ship & Offshore Structure	78,974	4,549	83,523	1,090	121,918	1,559	45,955	2,360
Rolling Stock	124,689	27	124,716	(13,797)	211,102	2,615	133	3,358
Motorcycle & Engine	356,847	718	357,566	14,366	283,770	15,317	1,549	18,505
Other Operations	95,136	41,136	136,273	2,501	93,601	1,527	3,509	861
Total	1,594,743	95,572	1,690,316	69,760	1,866,652	53,953	70,334	62,982
Adjustments	-	(95,572)	(95,572)	(5,737)	(27,797)	5,069	-	3,918
Consolidated total	1,594,743	-	1,594,743	64,023	1,838,855	59,022	70,334	66,900

Fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)

(Million yen)

	Sales			Segment income (loss)	Segment assets	Other items		
	External sales	Intersegment sales or transfer	Total			Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Aerospace Systems	532,549	6,477	539,027	42,777	745,048	22,539	-	25,121
Energy System & Plant Engineering	242,972	30,871	273,843	17,566	314,753	3,362	18,621	3,048
Precision Machinery & Robot	217,387	15,529	232,917	12,211	203,525	9,279	1,737	12,845
Ship & Offshore Structure	71,680	9,049	80,730	(637)	125,642	1,625	44,930	1,355
Rolling Stock	136,553	18	136,571	(3,819)	211,759	2,533	135	2,740
Motorcycle & Engine	337,757	772	338,529	(1,948)	282,185	15,963	1,601	21,353
Other Operations	102,435	38,927	141,362	1,235	94,174	1,562	3,682	745
Total	1,641,335	101,647	1,742,983	67,386	1,977,089	56,866	70,708	67,210
Adjustments	-	(101,647)	(101,647)	(5,322)	(19,243)	4,417	-	3,284
Consolidated total	1,641,335	-	1,641,335	62,063	1,957,845	61,283	70,708	70,495

4. Reconciliation and main components of difference between total for reportable segments and amounts on the consolidated financial statements

Fiscal year ended March 31		(Million yen)	
Sales	2019	2020	
Total for reportable segments	1,690,316	1,742,983	
Intersegment transactions	(95,572)	(101,647)	
Net sales reported on the consolidated financial statements	1,594,743	1,641,335	

Fiscal year ended March 31		(Million yen)	
Income	2019	2020	
Total for reportable segments	69,760	67,386	
Intersegment transactions	(181)	209	
Corporate expenses*	(5,555)	(5,532)	
Operating income (loss) on consolidated financial statements	64,023	62,063	

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

Fiscal year ended March 31		(Million yen)	
Assets	2019	2020	
Total for reportable segments	1,866,652	1,977,089	
Intersegment transactions etc.	(102,520)	(107,921)	
Corporate assets shared by all segments*	74,723	88,678	
Total assets on consolidated financial statements	1,838,855	1,957,845	

Note: Corporate assets shared by all segments mainly comprise fixed assets not attributed to reportable segments.

Fiscal year ended March 31		(Million yen)				
Other items	Total for reportable segments		Adjustments*		Amounts reported on the consolidated financial statements	
	2019	2020	2019	2020	2019	2020
Depreciation/amortization	53,953	56,866	5,069	4,417	59,022	61,283
Increase in property, plant and equipment and intangibles	62,982	67,210	3,918	3,284	66,900	70,495

Note: Adjustments are mainly due to fixed assets not attributed to reportable segments.

Per share data

Fiscal year ended March 31	(Yen)	
	2019	2020
Net assets per share	2,851.84	2,727.59
Earnings per share - basic	164.34	111.72

Notes:

1. Diluted net earnings per share are not stated because there are no potential shares.
2. Net income/loss per share and net income per share (diluted) were calculated based on the following:

Fiscal year ended March 31	(Yen)	
	2019	2020
Earnings per share - basic		
Net income attributable to owners of parent	27,453	18,662
Earnings not attributable to common shareholders	—	—
Net income allocated to the common shares	27,453	18,662
Average number of common shares outstanding (Thousands of shares)	167,046	167,044

Material subsequent events

Not applicable.