Report of Earnings and Financial Statements for the Nine Months Ended December 31, 2021 (Consolidated)

(Prepared pursuant to Japanese GAAP)

February 2, 2022

Listed company's name:	**Kawasaki Heavy Industries, Ltd.**
Listed on:	1st sections of the TSE, and NSE
Stock code:	7012
URL:	https://global.kawasaki.com/
Representative:	Yasuhiko Hashimoto, President and Chief Executive Officer
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Scheduled dates:	
Submission of quarterly securities filing:	February 9, 2022
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 millions of yen)

1. Consolidated Financial Results for the Nine Months ended December 31, 2021 (April 1, 2021 – December 31, 2021)

(1) Operating Results

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine Months Ended December 31, 2021	1,038,731	0.6	39,020	—	21,304	—	7,296	—
Nine Months Ended December 31, 2020	1,032,484	(9.1)	(3,735)	—	(56)	—	(13,969)	—

Note: Comprehensive income Nine months ended December 31, 2021: ¥18,336 million —%
Nine months ended December 31, 2020: ¥(13,672) million —%

	Earnings per share	Earnings per share – diluted
	yen	yen
Nine Months Ended December 31, 2021	43.60	—
Nine Months Ended December 31, 2020	(83.62)	—

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

(2) Financial Condition

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2021	2,045,689	457,518	21.4
March 31, 2021	1,963,276	482,775	23.7

For reference: Shareholders' equity December 31, 2021: ¥438,671 million
March 31, 2021: ¥465,332 million

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

2. Dividends

Record date or term	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Full year
	yen	yen	yen	yen	yen
Year ended March 31, 2021	—	0.00	—	0.00	0.00
Year ending March 31, 2022	—	20.00	—		
Year ending March 31, 2022 (forecast)				10.00	30.00

Note: Revisions to the most recently announced dividend forecast: None
In the Company's articles of incorporation, the dates of record are set as the last day of the fiscal second quarter and the last day of the fiscal year.

3. Forecast of Consolidated Earnings for the Fiscal Year Ending March 31, 2022 (April 1, 2021 – March 31, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Full year	1,550,000	4.1	46,000	—	22,000	—	15,000	—	89.64

Note: Revisions to the most recently announced earnings forecast: Yes
The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of March 31, 2020) from this consolidated fiscal year, and the figures for the above forecast of consolidated earnings are after the application of the accounting standard.

Notes

1) Changes affecting the status of material subsidiaries (scope of consolidation): None

2) Accounting procedures specific to preparation of quarterly consolidated financial statements: Yes
*For further details, see "2.Consolidated Financial Statements (3)Notes on financial statements (Accounting procedures specific to preparation of quarterly consolidated 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
*For further details, see "2.Consolidated Financial Statements (3)Notes on financial statements (Changes in accounting policies)" on page 16 in the Accompanying Materials.

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

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

December 31, 2021:	167,921,800 shares
March 31, 2021:	167,080,532 shares

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

December 31, 2021:	449,543 shares
March 31, 2021:	38,282 shares

(3) Average number of shares during respective periods

December 31, 2021:	167,325,170 shares
December 31, 2020:	167,043,437 shares

***The quarterly report of earnings and financial statements is exempted from quarterly review procedures based on the Financial Instruments and Exchange act.**

***Appropriate Use of Financial Forecasts and Other Important Matters**

Forward-Looking Statements

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of their preparation, and do not mean that the Company promises to achieve these figures. Actual results may differ from those expressed or implied by forward-looking statements due to a range of factors. For assumptions underlying earnings forecasts and other information regarding the use of such forecasts, refer to "1. Qualitative Information and Financial Statements (3) Consolidated earnings outlook" on page 11 in the Accompanying Materials.

How to Obtain Supplementary Briefing Material on Quarterly Financial Results and Details of the Quarterly Financial Results Briefing

The Company plans to conduct a briefing for institutional investors, analysts and the press by conference call on Wednesday February 2, 2022, and to post the briefing material on quarterly financial results to be used for the briefing on TDnet and the Company's website simultaneously with the announcement of financial results.

Accompanying Materials – Contents

1. Qualitative Information about Financial Statements

(1) Consolidated operating results

Despite concerns about the impact of the spread of the infection by Omicron variant of COVID-19 strain around the world, governments are shifting their focus to resuming economic activities due to the progress in COVID-19 vaccinations and prescribing of therapeutic drugs mainly in developed countries, and the fact that infections are relatively mild in many cases.

On the other hand, the outlook for the real economy in the future is uncertain because there are concerns about the stagnation of personal consumption which has been recovering, when the movement of monetary tightening in each country becomes stronger due to the effects of rising prices such as soaring natural resource prices. Furthermore, the global economic outlook needs to keep a close watch due to the shortage of parts and raw materials such as semiconductors, the disruption of the supply network, conflict between the United States, Europe and Russia over the situation in Ukraine, and economic security issues associated with conflict between the United States and China have emerged.

In this business environment, the Group's consolidated orders received during the third quarter of this consolidated fiscal year increased mainly due to increases in the Motorcycle & Engine segment, the Energy Solution & Marine Engineering segment, despite a decrease in the Aerospace Systems segment. Net sales decreased in the Aerospace Systems segment, the Energy Solution & Marine Engineering segment, and other segments, but overall sales increased from the same period of the previous fiscal year due to higher sales in the Motorcycle & Engine segment, the Precision Machinery & Robot segment, and other segment. Operating profit improved significantly year on year due to increases in the Motorcycle & Engine segment and the Aerospace Systems segment. Ordinary profit improved significantly due to an improvement in operating profit despite deterioration in share of gains and losses of entities accounted for using equity method, and foreign exchange gains and losses. Profit attributable to owners of parent improved significantly, mainly due to an improvement in ordinary profit.

As a result, the Group's consolidated orders received increased by ¥112.3 billion year on year to ¥1,026.4 billion, consolidated net sales increased by ¥6.2 billion year on year to ¥1,038.7 billion, operating profit improved by ¥42.7 billion year on year to ¥39.0 billion, ordinary profit improved by ¥21.3 billion year on year to ¥21.3 billion, and profit attributable to owners of parent improved by ¥21.2 billion year on year to ¥7.2 billion.

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

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

Segment Information

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

	Nine months ended December 31						Orders received		
	2020(A)		2021(B)		Change (B – A)		Nine months ended December 31		
	Net sales	Operating profit	Net sales	Operating profit	Net Sales	Operating profit	2020 (A)	2021 (B)	Change (B – A)
Aerospace Systems	277.9	(19.2)	204.9	(11.3)	(73.0)	7.8	224.7	160.8	(63.8)
Rolling Stock	101.5	(1.3)	89.1	2.5	(12.3)	3.9	49.2	42.2	(7.0)
Energy Solution & Marine Engineering	215.6	5.6	201.7	3.1	(13.8)	(2.5)	187.3	253.2	65.8
Precision Machinery & Robot	154.2	8.1	179.5	13.4	25.2	5.3	170.2	197.4	27.1
Motorcycle & Engine	225.5	1.8	309.5	29.6	84.0	27.8	225.5	309.5	84.0
Other	57.5	0.5	53.7	3.5	(3.7)	3.0	56.9	63.0	6.1
Adjustments	—	0.7	—	(2.0)	—	(2.7)	—	—	—
Total	1,032.4	(3.7)	1,038.7	39.0	6.2	42.7	914.0	1,026.4	112.3

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

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

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

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

Aerospace Systems

Regarding the business environment surrounding the Aerospace Systems segment, demand for Ministry of Defense in Japan is generally stable despite the tight defense budget. With respect to commercial aircraft, global passenger demand has been sluggish due to the COVID-19 pandemic, and demand for commercial aircraft airframes and jet engines has declined. Although demand for short-haul flights is currently recovering in North America, Europe and other regions, the outlook remains uncertain due to concerns about the impact of the spread of the infection by Omicron variant of COVID-19.

Amid such an operating environment, consolidated orders received decreased by ¥63.8 billion year on year to ¥160.8 billion, mainly due to a decrease in component parts of commercial aircraft jet engines resulting from the impact of the application of revenue recognition accounting standards, despite an increase in component parts of airframes for commercial aircraft.

Consolidated net sales decreased by ¥73.0 billion year on year to ¥204.9 billion, mainly due to a decrease in component parts of jet engines for commercial aircraft resulting from the application of revenue recognition accounting standards, as well as a decrease in component parts of airframes for Ministry of Defense in Japan and commercial aircraft.

Operating loss came to ¥11.3 billion, improving ¥7.8 billion year on year, due to an improvement in profitability of component parts of airframes and jet engines for commercial aircraft, despite a decrease in sales.

Rolling Stock

Regarding the business environment surrounding the Rolling Stock segment, the effect of the COVID-19 has led to a review railway-related investment plans in Japan, and delays in work processes as well as postponement and cancellation of biddings overseas. In addition, although the impact on the current situation is limited, we need to keep a close watch on shortages of electronic components, logistics disruptions, and rising raw materials prices. In the medium and long term, however, relatively stable growth is expected around the world due to development of urban transportation as an environmental protection measure and to ease congestion in large cities caused by increasing population concentration, as well as demand for railway infrastructure following economic development in Asian countries.

Amid such an operating environment, consolidated orders received amounted to ¥42.2 billion, a decline of ¥7.0 billion compared to the same period of the previous fiscal year, when the Company received orders for Shinkansen bullet trains.

Consolidated net sales decreased by ¥12.3 billion year on year to ¥89.1 billion, mainly due to a decrease in sales of railcars for overseas and domestic markets.

Operating profit came to ¥2.5 billion, improving ¥3.9 billion despite a decrease in sales, compared to the same period of the previous fiscal year when the profitability of overseas projects deteriorated due to the impact of the COVID-19 pandemic.

Energy Solution & Marine Engineering

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

Amid such an operating environment, consolidated orders received increased by ¥65.8 billion from the same period of the previous fiscal year to ¥253.2 billion due to orders received for large-scale projects such as maintenance and operation of domestic waste disposal facilities, and an increase in orders received for LPG carries.

Consolidated net sales decreased by ¥13.8 billion year on year to ¥201.7 billion, mainly due to a decrease in the volume of work of submarines for Ministry of Defense in Japan and a decrease in sales of Gas Turbine Combined Cycle (GTCC) power plants, despite an increase in the volume of work on LPG carries.

Operating profit came to ¥3.1 billion, deteriorating ¥2.5 billion year on year, due to a decrease in sales.

Precision Machinery & Robot

Regarding the business environment surrounding the Precision Machinery & Robot segment, in the precision machinery field, demand in the Chinese construction machinery market remained to be at a high level this fiscal year despite concerns about a slowdown in demand, and demand in the construction machinery market outside China has continued to recover since the second half of the previous fiscal year and remained strong. In the robot field, although shortages of electronic components and logistics disruptions have continued, performance of robots for the semiconductor market is strong due to aggressive capital investment by semiconductor manufacturing equipment manufacturers, and general-purpose robots continue to be in strong demand due to investment in automation of production facilities and other factors.

Amid such an operating environment, consolidated orders received increased by ¥27.1 billion year on year to ¥197.4 billion, due to an increase in hydraulic equipment for the construction equipment market and various robots for semiconductors and other applications.

Consolidated net sales increased by ¥25.2 billion year on year to ¥179.5 billion, due to an increase in hydraulic equipment for the construction equipment market and various robots for semiconductors.

Operating profit increased by ¥5.3 billion year on year to ¥13.4 billion mainly due to sales increase.

Motorcycle & Engine

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

Amid such an operating environment, consolidated net sales increased by ¥84.0 billion year on year to ¥309.5 billion due to an increase in motorcycles for Europe and Southeast Asia, as well as an increase in motorcycles for North America and an increase in general-purpose engines.

Operating profit increased by ¥27.8 billion from the same period of the previous fiscal year to ¥29.6 billion due to an increase in sales, and a weaker yen compared to the same period of the previous fiscal year, along with other factors.

Other Operations

Consolidated net sales decreased by ¥3.7 billion year on year to ¥53.7 billion.

Operating profit increased by ¥3.0 billion year on year to ¥3.5 billion.

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

(2) Consolidated financial condition

(i) Assets

Current assets were ¥1,334.3 billion, ¥48.9 billion increase from the previous fiscal year due to an increase in inventories.

Non-current assets were ¥711.2 billion, ¥33.4 billion increase from the previous fiscal year due to an increase in investments and other assets.

As a result, total assets were ¥2,045.6 billion, ¥82.4 billion increase from the previous fiscal year.

(ii) Liabilities

Interest-bearing debt was ¥730.8 billion, ¥137.5 billion increase from the previous fiscal year.

Liabilities were ¥1,588.1 billion, ¥107.6 billion increase from the previous fiscal year due to increases in interest-bearing debt and other factors.

(iii) Net assets

Net assets were ¥457.5 billion, ¥25.2 billion decrease from the previous fiscal year due to decreases in retained earnings at the beginning of this fiscal year because of the application of Accounting Standard for Revenue Recognition and other factors.

(3) Consolidated earnings outlook

With respect to the earnings forecasts for the fiscal year ending March 31, 2022, the Company has left its forecast for consolidated net sales unchanged from the previously announced forecast (November 9).

The outlook of consolidated operating profit is expected to be ¥46.0 billion, ¥6.0 billion increase from the previous outlook. The main change from the previous outlook is the improvement in the Motorcycle & Engine segment due to the reduction of component procurement risks and cost reductions, despite rising raw material prices and other factors in the Ship & Offshore business in the Energy Solution & Marine Engineering segment and a decrease in profits in the Precision Machinery & Robot segment due to a decrease in sales of hydraulic equipment for the Chinese construction machinery market and rising raw material prices.

In addition, consolidated ordinary profit and profit attributable to owners of parent remain unchanged from the previous outlook, due to the deterioration in the performance of the Chinese equity-method affiliate in the Ship & Offshore business because of the rise in steel prices and other factors, despite an improvement in consolidated operating profit. ROIC and ROE are expected to be 2.8% and 3.3%, respectively.

The outlook of consolidated orders received is expected to be ¥1,530.0 billion, ¥70.0 billion increase from the previous outlook, due to expected increase in the Aerospace Systems segment and other segments.

In this outlook, exchange rates are assumed to be ¥114 to the U.S. dollar and ¥130 to the euro.

Note regarding consolidated earnings outlook

The above earnings outlook is based on information available at the time of preparation, and includes risks and uncertainties. We therefore discourage making investment decisions depending solely on this outlook. Please note that actual earnings may differ materially from this outlook, due to a variety of important factors stemming from changes the external environment and/or the Company's internal environment. Important factors that impact actual operating performance include, but are not limited to, the economic situation surrounding the Company's scope of business, foreign exchange rates, in particular the yen/dollar exchange rate, tax codes and other regulatory system-related issues.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

	Millions of yen	
	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	126,702	75,250
Notes and accounts receivable - trade	460,436	—
Notes and accounts receivable - trade, and contract assets	—	447,438
Merchandise and finished goods	69,223	90,703
Work in process	452,848	454,071
Raw materials and supplies	136,471	151,917
Other	43,314	118,694
Allowance for doubtful accounts	(3,589)	(3,680)
Total current assets	1,285,407	1,334,395
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	172,951	168,935
Other	278,308	273,125
Total property, plant and equipment	451,259	442,060
Intangible assets	22,427	22,095
Investments and other assets		
Other	205,584	248,444
Allowance for doubtful accounts	(1,403)	(1,306)
Total investments and other assets	204,180	247,137
Total non-current assets	677,868	711,293
Total assets	1,963,276	2,045,689
Liabilities		
Current liabilities		
Notes and accounts payable - trade	247,294	206,830
Electronically recorded obligations - operating	107,849	109,694
Short-term borrowings	141,579	178,077
Income taxes payable	4,753	9,016
Provision for sales promotion expenses	7,380	—
Provision for bonuses	18,239	9,563
Provision for construction warranties	12,550	12,091
Provision for loss on construction contracts	14,263	10,443
Advances received	153,298	—
Contract liabilities	—	178,724
Other	210,345	327,214
Total current liabilities	917,555	1,041,656
Non-current liabilities		
Bonds payable	190,000	180,000
Long-term borrowings	199,177	191,749
Retirement benefit liability	115,456	119,472
Provision for the in-service issues of commercial aircraft jet engines	(*1) 5,984	(*1) 3,132
Other	52,326	52,160
Total non-current liabilities	562,944	546,514
Total liabilities	1,480,500	1,588,170

Net assets		
Shareholders' equity		
Share capital	104,484	104,484
Capital surplus	54,542	55,527
Retained earnings	306,576	270,876
Treasury shares	(136)	(1,127)
Total shareholders' equity	465,467	429,760
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,955	1,495
Deferred gains or losses on hedges	(179)	(792)
Foreign currency translation adjustment	(931)	8,984
Remeasurements of defined benefit plans	(979)	(776)
Total accumulated other comprehensive income	(134)	8,911
Non-controlling interests	17,442	18,846
Total net assets	482,775	457,518
Total liabilities and net assets	1,963,276	2,045,689

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	1,032,484	1,038,731
Cost of sales	899,606	851,679
Gross profit	132,877	187,052
Selling, general and administrative expenses		
Salaries and allowances	40,709	42,245
Research and development expenses	29,751	31,768
Other	66,152	74,017
Total selling, general and administrative expenses	136,612	148,031
Operating profit (loss)	(3,735)	39,020
Non-operating income		
Interest income	396	665
Dividend income	797	302
Share of profit of entities accounted for using equity method	1,454	—
Foreign exchange gains	1,936	—
Reversal of provision for the in-service issues of commercial aircraft jet engines	(*1) 3,005	(*1) 70
Other	3,096	4,628
Total non-operating income	10,687	5,666
Non-operating expenses		
Interest expenses	2,918	2,553
Share of loss of entities accounted for using equity method	—	15,181
Foreign exchange losses	—	990
Other	4,090	4,658
Total non-operating expenses	7,008	23,383
Ordinary profit (loss)	(56)	21,304
Extraordinary income		
Gain on sale of non-current assets	(*2) 3,236	(*2) 1,633
Gain on sale of shares of subsidiaries and associates	(*3) 1,581	—
Total extraordinary income	4,817	1,633
Extraordinary losses		
Impairment losses	(*4) 3,948	(*4) 295
Total extraordinary losses	3,948	295
Profit before income taxes	811	22,642
Income taxes	13,580	13,590
Profit (loss)	(12,768)	9,051
Profit attributable to non-controlling interests	1,200	1,754
Profit (loss) attributable to owners of parent	(13,969)	7,296

Consolidated statements of comprehensive income

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Profit (loss)	(12,768)	9,051
Other comprehensive income		
Net unrealized gains (losses) on securities	(167)	(437)
Deferred gains (losses) on hedges	643	(429)
Foreign currency translation adjustment	(2,037)	5,382
Remeasurement of defined benefit plans	1,199	191
Share of other comprehensive income(loss) of associates accounted for using equity method	(541)	4,578
Total other comprehensive income(loss)	(904)	9,285
Comprehensive Income(loss) attributable to:	(13,672)	18,336
Owners of parent	(14,826)	16,342
Non-controlling interests	1,153	1,994

(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 profit for the fiscal year which includes the third quarter under review, and multiplying quarterly pretax profit by said estimated effective tax rate. If unable to use the estimated effective tax rate, the Company calculates tax expense by multiplying the statutory effective tax rate by quarterly pretax profit adjusted to reflect material differences other than temporary differences.

Income taxes are reported inclusive of income tax adjustments.

Changes in accounting policies

(Application of Accounting Standards for Revenue Recognition)

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

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

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

As a result, net sales and cost of sales decreased by ¥82,963 million and ¥80,218 million, and operating profit, ordinary profit and profit before income taxes decreased by ¥2,745 million, respectively. The balance of retained earnings at the beginning of this fiscal year decreased by ¥39,639 million.

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

(Application of Accounting Standards for Fair Value Measurements)

The Company has applied the “Accounting Standard for Fair Value Measurements” (ASBJ Statement No. 30 of July 4, 2019. Hereinafter referred to as “Accounting Standard for Fair Value Measurements”.), etc. from the beginning of the first quarter of this consolidated fiscal year, and in accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurements and Paragraph 44-2 of the“ Accounting Standard for Financial

Instruments ” (ASBJ Statement No. 10 of July 4, 2019), the new accounting policy set forth in the Accounting Standard for Fair Value Measurements, etc. will be applied in the future. There is no impact on the quarterly consolidated financial statements.

Related to consolidated balance sheets

(*1) Provision for the in-service issues of commercial aircraft jet engines

The Company participates as a risk and revenue sharing partner on the Rolls-Royce Trent 1000 engine program, which has been impacted by the challenge of managing significant in-service issues. Rolls-Royce continues to work hard to remedy this situation and has made further substantial progress on the implementation of long-term solutions and mitigation of the near-term impact on customers. The Company has made a provision of the abnormal cost related to in-service issues which the Company would cover as a member of this program.

Related to consolidated statements of income

(*1) Reversal of provision for the in-service issues of commercial aircraft jet engines

The Company participates as a risk and revenue sharing partner on the Rolls-Royce Trent 1000 engine program, which has been impacted by the challenge of managing significant in-service issues. Rolls-Royce continues to work hard to remedy this situation. The Company has made a provision of the cost related to in-service issues which the Company would cover as a member of this program. The reversal of the provision was included within the non-operating income.

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

Nine Months ended December 31, 2020

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

Nine Months ended December 31, 2021

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

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

Proceeds from the sale of shares of associates of subsidiaries.

(*4) Impairment losses

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

Segment information

1. Nine months ended December 31, 2020 (April 1, 2020 – December 31, 2020)

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

Millions of yen

	External sales	Intersegment sales	Total sales	Operating profit (loss)
Aerospace Systems	277,994	4,351	282,346	(19,257)
Rolling stock	101,513	5	101,519	(1,341)
Energy Solution & Marine Engineering	215,668	15,802	231,471	5,643
Precision Machinery & Robot	154,244	9,576	163,820	8,128
Motorcycle & Engine	225,511	483	225,995	1,884
Other	57,550	26,939	84,490	500
Reportable segment total	1,032,484	57,160	1,089,644	(4,443)
Adjustments*1	—	(57,160)	(57,160)	707
Consolidated total	1,032,484	—	1,032,484	(3,735)

Notes: 1. Breakdown of adjustments:

Millions of yen

Profit	Amount
Intersegment transactions	(5)
Corporate expenses*	712
Total	707

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

2. Segment profit (loss) adjustments are based on operating loss reported on the consolidated statements of income for the corresponding period.

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

In “Energy Solution & Marine Engineering” segment, an impairment loss on non-current assets was recorded. The amount of the impairment loss in the third quarter of this consolidated fiscal year was ¥3,948 million.

2. Nine months ended December 31, 2021 (April 1, 2021 – December 31, 2021)

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

Millions of yen

	External sales	Intersegment sales	Total sales	Operating profit (loss)
Aerospace Systems	204,907	5,331	210,239	(11,387)
Rolling stock	89,152	5	89,157	2,563
Energy Solution & Marine Engineering	201,779	10,398	212,178	3,126
Precision Machinery & Robot	179,531	12,401	191,933	13,456
Motorcycle & Engine	309,590	551	310,141	29,698
Other	53,769	14,099	67,869	3,580
Reportable segment total	1,038,731	42,788	1,081,519	41,037
Adjustments*1	—	(42,788)	(42,788)	(2,016)
Consolidated total	1,038,731	—	1,038,731	39,020

Notes: 1. Breakdown of adjustments:

Millions of yen

Profit	Amount
Intersegment transactions	140
Corporate expenses*	(2,157)
Total	(2,016)

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

2. Segment profit (loss) adjustments are based on operating profit reported on the consolidated statements of income for the corresponding period.

(2) Changes in reportable segment

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

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

As stated in *Changes in Accounting Policies*, the Company has applied revenue recognition accounting standards, etc. from the beginning of the first quarter of this consolidated fiscal year and has changed the accounting method for revenue recognition. As a result of this change, compared with the previous method, net sales of the “Aerospace Systems” segment decreased by ¥67,880 million, segment loss deteriorated ¥2,809 million, net sales of the “Rolling stock” segment decreased by ¥50 million, segment profit decreased by ¥0 million, and net sales of “Other” decreased by ¥15,032 million, segment profit increased by ¥64 million.

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

In “Energy Solution & Marine Engineering” segment, an impairment loss on non-current assets was recorded. The amount of the impairment loss in the third quarter of this consolidated fiscal year was ¥295 million.

3. Supplementary information

(1) Consolidated cash flow statements (condensed)

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Cash flow from operating activities	(139,750)	(138,956)
Cash flow from investing activities	(22,400)	(43,548)
Cash flow from financing activities	192,645	130,176
Cash and cash equivalents at end of period	133,085	68,658

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

(i) Net sales and operating profit (loss)

Billions of yen

Reportable segment	Outlook for the year ending March 31, 2022 (fiscal 2021)						Year ended March 31, 2021 (Fiscal 2020) (Actual)	
	Revised forecast (A)		Forecast issued November 9, 2021 (B)		Change (A – B)			
	Net sales	Operating profit (loss)	Net sales	Operating profit (loss)	Net sales	Operating profit (loss)	Net sales	Operating profit (loss)
Aerospace Systems	320.0	(10.5)	320.0	(10.5)	—	—	377.7	(31.6)
Rolling Stock	150.0	3.0	150.0	3.0	—	—	133.2	(4.5)
Energy Solution & Marine Engineering	315.0	(1.0)	320.0	2.5	(5.0)	(3.5)	319.5	10.3
Precision Machinery & Robot	255.0	16.0	260.0	19.0	(5.0)	(3.0)	240.8	14.0
Motorcycle & Engine	440.0	40.0	440.0	31.0	—	9.0	336.6	11.7
Other	70.0	2.5	60.0	2.0	10.0	0.5	80.4	0.4
Adjustments		(4.0)		(7.0)		3.0	—	(5.7)
Total	1,550.0	46.0	1,550.0	40.0	—	6.0	1,488.4	(5.3)

(ii) Orders received

Billions of yen

Reportable segment	Outlook for the year ending March 31, 2022 (fiscal 2021)			Year ended March 31, 2021 (Fiscal 2020) (Actual)
	Revised forecast (A)	Forecast issued November 9, 2021 (B)	Change (A – B)	
Aerospace Systems	370.0	310.0	60.0	329.5
Rolling Stock	50.0	50.0	—	77.0
Energy Solution & Marine Engineering	330.0	330.0	—	317.1
Precision Machinery & Robot	260.0	260.0	—	259.4
Motorcycle & Engine	440.0	440.0	—	336.6
Other	80.0	70.0	10.0	82.5
Total	1,530.0	1,460.0	70.0	1,402.4

Note: 1. Assumed exchange rate for the fiscal year ending March 2022: ¥114/USD, ¥130/EUR

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

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

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