

Report of Earnings and Financial Statements for the
Six Months Ended September 30, 2023 (Consolidated)
<IFRS>

November 8, 2023

Listed company's name: **Kawasaki Heavy Industries, Ltd.**

Listed on: TSE (Prime Market), and NSE (Premier Market)

Stock code: 7012

URL: <https://global.kawasaki.com/>

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Scheduled dates:

Submission of quarterly securities filing: November 8, 2023

Commencement of dividend payments: December 4, 2023

Supplementary materials to quarterly earnings: Available

(Changes versus the year-ago period)

Profit before tax Profit

	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six Months Ended September 30, 2023	769,341	1.3	(32,846)	-	(34,471)	-	(22,410)	-
Six Months Ended September 30, 2022	759,745	11.6	30,830	74.8	35,946	143.3	24,433	196.5

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	yen	yen
Six Months Ended September 30, 2023	(23,346)	-	(2,994)	-	(139.39)	-
Six Months Ended September 30, 2022	23,763	229.1	40,142	223.0	141.89	-

(2) Financial Condition

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
	Millions of yen	Millions of yen	Millions of yen	%
As of September 30, 2023	2,556,478	581,742	561,828	22.0
As of March 31, 2023	2,457,725	596,872	576,201	23.4

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, 2023	-	30.00	-	60.00	90.00
Year ending March 31, 2024	-	20.00			
Year ending March 31, 2024 (forecast)			-	20.00	40.00

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

In the Company's articles of incorporation, the dates of record are set as the last day of the fiscal second quarter and the last day of the fiscal year.

3. Forecast of Consolidated Earnings for the Fiscal Year Ending March 31, 2024
(April 1, 2023 – March 31, 2024)

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

	Revenue		Business profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Full year	1,840,000	6.6	40,000	(51.4)	21,000	(70.1)	12,000	(77.4)	71.64

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

Notes

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1. Qualitative Information about Financial Statements

(1) Consolidated operating results

The global economy has remained strong, mainly in personal consumption, supported by rising wages and solid employment environments in developed countries. On the other hand, there are increasing uncertainties about the outlook of the global economy due to factors such as concerns about an economic slowdown caused by the monetary tightening in the United States, the prolonged downturn in China's economy and an increase in geographical risks.

In Japan, although the real GDP has continued to recover, exceeding the level before the spread of COVID-19 due to strong employment conditions as well as increased capital investment and inbound demand, we need to keep a close watch on a hike in prices due to rising energy prices and the prolonged weaker yen.

In this business environment, the Group's consolidated orders received during the second quarter of this consolidated fiscal year decreased as a whole, mainly due to decreases in the Precision Machinery & Robot segment and the Energy Solution & Marine Engineering segment, despite an increase mainly in the Aerospace Systems segment. Revenue increased from the same period of the previous fiscal year as a whole, due to higher sales in the Rolling Stock segment and the Energy Solution & Marine Engineering segment, despite

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

Segment Information

Segment revenue, business profit (loss), and orders received (billions of yen)

	Six months ended September 30						Orders received		
	2022(A)		2023(B)		Change (B – A)		Six months ended September 30		
	Revenue	Business profit (loss)	Revenue	Business profit (loss)	Revenue	Business profit (loss)	2022 (A)	2023 (B)	Change (B – A)
Aerospace Systems	145.0	(3.0)	129.2	(52.7)	(15.8)	(49.7)	125.6	193.2	67.5
Rolling Stock	58.5	(0.0)	84.1	0.3	25.5	0.3	39.3	30.1	(9.2)
Energy Solution & Marine Engineering	134.5	3.1	147.8	8.5	13.3	5.4	238.4	218.4	(20.0)
Precision Machinery & Robot	117.6	5.5	103.0	(4.6)	(14.6)	(10.1)	139.5	103.0	(36.4)
Powersports & Engine	265.1	28.0	267.1	23.1	1.9	(4.9)	265.1	267.1	1.9
Other	38.8	1.8	37.9	0.5	(0.8)	(1.3)	58.4	48.8	(9.6)
Adjustments	-	(4.6)	-	(8.0)	-	(3.4)	-	-	-
Total	759.7	30.8	769.3	(32.8)	9.5	(63.6)	866.6	860.8	(5.8)

Notes: 1. Revenue includes only sales to external customers.

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

Aerospace Systems

Regarding the business environment surrounding the Aerospace Systems segment, demand from Ministry of Defense in Japan is expected to increase going forward under the Ministry of Defense's policy of drastic strengthening of defense capabilities. With respect to commercial aircraft, demand for both commercial aircraft airframes and jet engines is increasing with the recovery of air passenger demand to nearly pre-COVID levels and the strong COVID-19 rebound demand for commercial aircraft airframes.

Amid such an operating environment, consolidated orders received increased by ¥67.5 billion year on year to ¥193.2 billion mainly due to increases in orders received from Ministry of Defense in Japan and component parts of airframes for commercial aircraft.

Consolidated revenue decreased by ¥15.7 billion year on year to ¥129.2 billion mainly due to the lump-sum recognition of losses related to the in-service issues of jet engines for commercial aircraft, despite increases in sales for Ministry of Defense in Japan and component parts of airframes and jet engines for commercial aircraft.

Business loss came to ¥52.7 billion, deteriorating ¥49.7 billion year on year, mainly due to the lump-sum recognition of losses related to the in-service issues of jet engines for commercial aircraft, despite increases due to increases in sales for Ministry of Defense in Japan and component parts of airframes and jet engines for commercial aircraft.

Rolling Stock

Regarding the business environment surrounding the Rolling Stock segment, the number of railway users has recovered due to the convergence of the infection by COVID-19 pandemic, and investments

Energy Solution & Marine Engineering

The business environment surrounding the Energy Solution & Marine Engineering segment has been strongly influenced by the worldwide trend toward achieving carbon neutrality. As a result, contacts and requests for cooperation are increasing regarding decarbonization solutions, including hydrogen products of the Company's strength. Also, 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 in Japan. On the other hand, besides the uncertainty about the current situation, such as the stability of fuel gas supply required for the operation of power generation facilities, it is necessary to pay attention to the impact on orders and revenues due to the recent persistently high prices of raw material, equipment, and fuel.

Amid such an operating environment, consolidated orders received decreased by ¥20.0 billion to ¥218.4 billion compared to the same period of the previous fiscal year, when there were many large-scale orders for the domestic waste disposal facilities maintenance and operation business and LPG/NH3 carriers, despite orders for naval ships equipment for Ministry of Defense in Japan.

Consolidated revenue increased by ¥13.3 billion year on year to ¥147.8 billion mainly due to energy business and shipping business centered on LPG/NH3 carriers.

Business profit came to ¥8.5 billion, increasing ¥5.4 billion year on year, mainly due to higher sales of LPG/NH3 carriers and an increase in share profit of investments accounted for using equity method.

Precision Machinery & Robot

Regarding the business environment surrounding the Precision Machinery & Robot segment, in the precision machinery field, while the performance has continued to be strong in the construction machinery market outside China, demand in the Chinese construction machinery market was sluggish due to the impact of the prolonged real estate recession and others. In the robotics field, demand for robots for semiconductor manufacturing equipment is continuously slowed down due to the impact of the decline in the semiconductor market, semiconductor memory, and economic frictions between the United States and China. The timing of its recovery is difficult to predict, but it is expected to recover from fiscal year 2024 while factoring in new demand related to AI and green investment. Also, there is a strong sense of uncertainty due to the impact of monetary tightening on inflation, particularly in Europe and the United States, and the general industrial robots are currently experiencing a slowdown in growth, but demand for automation is potentially increasing due to a rise in labor costs.

Amid such an operating environment, consolidated orders received decreased by ¥36.4 billion year on year to ¥103.0 billion mainly due to decreases in hydraulic equipment for the Chinese construction machinery market and robots for semiconductor manufacturing equipment.

Consolidated revenue decreased by ¥14.6 billion year on year to ¥103.0 billion mainly due to

decreases in hydraulic equipment for the Chinese construction machinery market and robots for semiconductor manufacturing equipment.

Business loss came to ¥4.6 billion, deteriorating ¥10.1 billion year on year, mainly due to the impact of lower capacity utilization as well as a decrease in the revenue.

Powersports & Engine

Regarding the business environment surrounding the Powersports & Engine segment, although the impact on the marketplace from the spread of infection by the COVID-19 pandemic has settled down, demand continues to be strong in the major markets, the United States and Europe. In addition,

(2) Consolidated financial condition

Assets, liabilities, and equity

1. Assets

Current assets were ¥1,603.8 billion, ¥33.4 billion increase from the previous fiscal year mainly due to an increase in inventories.

Non-current assets were ¥952.6 billion, ¥65.2 billion increase from the previous fiscal year mainly due to an increase in property, plant and equipment.

As a result, total assets were ¥2,556.4 billion, ¥98.7 billion increase from the previous fiscal year.

2. Liabilities

Interest-bearing debt was ¥706.0 billion, ¥116.2 billion increase from the previous fiscal year.

Liabilities were ¥1,974.7 billion, ¥113.8 billion increase from the previous fiscal year mainly due to an increase in interest-bearing debt.

3. Equity

Equity was ¥581.7 billion, ¥15.1 billion decrease from the previous fiscal year mainly due to the recording of loss attributable to owners of parent.

Cash flows

Cash and cash equivalents (Hereinafter referred to as “net cash”) during the second quarter of this consolidated fiscal year were ¥85.4 billion, an increase of ¥2.3 billion compared to the same period of the previous fiscal year. The cash flow situations and relevant factors during the second quarter of this consolidated fiscal year are stated below.

1. Cash flows from operating activities

Cash outflows from operating activities were ¥15.4 billion, an increase of ¥54.5 billion compared to the same period of the previous fiscal year. Major sources of operating cash flows included an increase in refund liability of ¥55.5 billion and depreciation and amortization of ¥43.5 billion. Major

(3) Consolidated earnings forecast

With respect to the earnings forecasts for the fiscal year ending March 31, 2024, despite a weaker yen on foreign exchange rates and growing profitability in the Energy Solution & Marine Engineering segment, the Company is forecasting revenue of ¥1,840.0 billion, which is ¥60.0 billion decrease from the previous forecast (August), and business profit of ¥40.0 billion, which is ¥38.0 billion decrease from the previous forecast, due to the lump-sum recognition of loss related to the in-service issues of PW1100G-JM in the Aerospace Systems segment in this fiscal year and a reduction in the sales forecast in the Precision Machinery & Robot segment.

Along with the revision of business profit mentioned above, the Company is forecasting profit before tax of ¥21.0 billion, profit attributable to owners of parent of ¥12.0 billion, after-tax ROIC of 1.5%, and ROE of 2.1%.

The forecast of consolidated orders received is expected to be ¥1,910.0 billion, which is ¥10.0 billion increase from the previous forecast mainly due to an increase in orders received from Ministry of

2. Condensed Quarterly Consolidated Financial Statements and Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

	Millions of yen	
	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and cash equivalents	138,420	85,414
Trade and other receivables	470,398	510,036
Contract assets	159,422	129,071
Inventories	690,431	753,347
Income taxes receivable	551	999
Other financial assets	10,741	10,706
Other current assets	100,385	114,239
Total current assets	<u>1,570,350</u>	<u>1,603,815</u>
Non-current assets		
Property, plant and equipment	451,010	472,223

(2) Condensed Quarterly Consolidated Statement of Profit and Loss and
Condensed Quarterly Consolidated Statement of Comprehensive Income

Condensed Quarterly Consolidated Statement of Profit and Loss
For six months ended September 30, 2023 and 2022

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2023
Revenue	759,745	769,341
Cost of sales	619,656	680,925
Gross profit	140,089	88,415
Selling, general and administrative expenses	109,854	128,239
Share of profit of investments accounted for using equity method	1,002	6,540
Other income	2,438	2,695
Other expenses	2,846	2,259

(3) Condensed Quarterly Consolidated

For six months ended September 30, 2020 (April 1, 2023 – September 30, 2023)

Millions of yen

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2023	104,484	55,715	380,255	(1,107)	-	4,109
Profit (loss)			(23,346)			
Other comprehensive income					(14)	2,430
Comprehensive income (loss)			(23,346)		(14)	2,430
Purchase of treasury shares				(3)		
Disposal of treasury shares		0		45		
Dividends			(10,072)			
Transfer to retained earnings			(20)		14	5
Change in scope of consolidation			(1)			
Loss of control of subsidiaries						
Change in ownership interest of parent due to transactions with non-controlling interests		717				
Transfer to non-financial assets						

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity			Total equity attributable to owners of parent		
	Cash flow hedges	Exchange differences on translation of foreign operations	Total			
Balance as of April 1, 2023	676	32,066	36,852	576,201	20,670	596,872
Profit (loss)				(23,346)	935	(22,410)
Other comprehensive income	(6,669)	22,877	18,624	18,624	791	19,415
Comprehensive income (loss)	(6,669)	22,877	18,624	(4,722)	1,727	(2,994)
Purchase of treasury shares				(3)		(3)
Disposal of treasury shares				45		45
Dividends				(10,072)	(581)	(10,654)
Transfer to retained earnings			20			
Change in scope of consolidation				(1)		(1)
Loss of control of subsidiaries						
Change in ownership interest of parent due to transactions with non-controlling interests				717	(1,901)	(1,184)
Transfer to non-financial assets	(336)		(336)	(336)		(336)
Other						-
Total transactions with owners	(336)		(316)	(9,651)	(2,483)	(12,135)
Balance as of September 30, 2023	(6,328)	54,943	55,160	561,828	19,914	581,742

(5) Notes Concerning Condensed Quarterly Consolidated Financial Statements

Notes on the going-concern assumption

Not applicable.

Segment information

For six months ended September 30, 2021 (April 1, 2021 – September 30, 2021)

Millions of yen									
	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total	Eliminations and corporate *2	Consolidated total
Revenue from external customers	145,000	58,563	134,507	117,644	265,190	38,838	759,745	-	759,745
Intersegment revenue and transfers *1	4,917	7	7,357	8,742	420	10,687	32,133	(32,133)	-
Total revenue	149,917	58,570	141,865	126,387	265,610	49,526	791,878	(32,133)	759,745
Business profit (loss) *3	(3,010)	(49)	3,103	5,511	28,079	1,867	35,502	(4,671)	30,830
Finance income									8,613
Finance costs									(3,497)
Profit (loss) before tax									35,946

Notes: 1. Intersegment revenue and transfers made with reference to prevailing market prices.

2. Eliminations and corporate of negative ¥4,671 million include negative ¥243 million for intersegment transactions and negative ¥4,428 million for general administrative expenses not attributed reportable segments.

3. Business profit (loss) is calculated by deducting obstacles, selling, general and administrative expenses, share of profit and loss of investments accounted for using equity method, other income, and other expenses from revenue.

For six months ended September 30, 2022 (April 1, 2022 – September 30, 2022)

Millions of yen									
	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total	Eliminations and corporate *2	Consolidated total
Revenue from external customers	129,204	84,162	147,826	103,024	267,169	37,954	769,341	-	769,341
Intersegment revenue and transfers *1	5,089	13	10,304	7,453	556	10,528	33,945	(33,945)	-
Total revenue	134,293	84,175	158,130	110,477	267,726	48,482	803,286	(33,945)	769,341
Business profit (loss) *3	(52,728)	335	8,556	(4,620)	23,144	541	(24,770)	(8,075)	(32,846)
Finance income									4,624
Finance costs									(6,249)
Profit (loss) before tax									(34,471)

Notes: 1. Intersegment revenue and transfers made with reference to prevailing market prices.

2. Eliminations and corporate of negative ¥8,075 million include negative ¥393 million for intersegment transactions and negative ¥7,682 million for general administrative expenses not attributed reportable segments.

3. Business profit (loss) is calculated by deducting obstacles, selling, general and administrative expenses, share of profit and loss of investments accounted for using equity method, other income, and other expenses from revenue.

Other notes

The recording of loss related to the inservice issues of PW1100G-JM Engine

The PW1100G-JM Engine program (Hereinafter referred to as the program), in which the Company participates through International Aero Engines, LLC (Hereinafter referred to as IAE), a multinational collaboration on civil aero engine has been impacted by the challenge of managing significant in-service issues, so the Company is currently working hard with IAE to remedy this situation. As a member of this program, the Company would cover a portion of the loss associated with in-service issues. Therefore, ¥57,992 million has been recorded on “Refund liabilities” in the condensed quarterly consolidated statement of financial position and deducted from “Revenue” in the condensed quarterly consolidated statement of profit and loss as a partial burden of the loss related to Airworthiness Directives which mandated additional inspections.

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3. Supplementary information

(1) Supplementary information on consolidated earnings forecasts for the fiscal year ending March 31, 2024

(i) Revenue and business profit (loss)

	Forecast for the year ending March 31, 2024 (fiscal 2023)			Billions of yen
	Revised forecast (A)	Forecast issued August 8, 2023 (B)	Change (A – B)	Year ended March 31, 2023 (fiscal 2022) (Actual)
Reportable segment				