Report of Earnings and Financial Statements for the Nine Months Ended December 31, 2023 (Consolidated)
<IFRS>

February 9, 2024

Listed company's name: Kawasaki Heavy Industries, Ltd.
Listed on: TSE (Prime Market), and NSE (Premier Market)
Stock code: 7012
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Scheduled dates:
Submission of quarterly securities filing: February 9, 2024
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, 2023 (April 1, 2023 – December 31, 2023)

(1) Operating nges versus the year-ago period)

	evenue		Business profit		Profit before tax		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine Months Ended December 31, 2023	1,229,069	2.7	741	(99.1)	(17,931)	-	(11,835)	-
Nine Months Ended December 31, 2022	1,196,330	15.2	80,885	181.4	72,127	191.2	53,727	314.0

	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
Nine Months Ended December 31, 2023	(13,480)	-	8,009	(87.4)	(80.48)	-
Nine Months Ended						

(2) Financial Condition

	Total assets	Total equity

Accompanying Materials – Contents

1. Qualitative Information about Financial Statements

(1) Consolidated operating results

The global economy has remained strong, mainly in personal consumption, due to favorable employment and income conditions in the United States. On the other hand, there are concerns about an economic slowdown caused by the monetary tightening. Furthermore, there are increasing uncertainties about the outlook of the global economy due to factors such as the downturn in China’s economy caused by the prolonged real estate recession and an increase in geographical risks.

In Japan, although the economy has continued to recover due to strong corporate profits and capital investment as well as personal consumption and inbound demand, there are concerns about the impact on consumer sentiment due to a hike in prices in the future.

In this business environment, the Group’s consolidated orders received during the third quarter of this consolidated fiscal year decreased as a whole, due to decreases mainly in the Rolling Stock segment and the Precision Machinery & Robot 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 lower sales in the Precision Machinery & Robot segment.

Business profit decreased year on year due to deterioration in the Aerospace Systems segment, the Powersports & Engine segment and the Precision Machinery & Robot segment, despite an increase mainly in the Energy Solution & Marine Engineering segment. Profit and loss attributable to owners of parent deteriorated year on year mainly due to deterioration in business profit.

As a result, the Group’s consolidated orders received decreased by ¥186.4 billion year on year to ¥1,290.1 billion, consolidated revenue increased by ¥32.7 billion year on year to ¥1,229.0 billion, Third-quarter consolidated operating performance is summarized by segment below.

Segment Information

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 due to the recovery of air passenger demand to nearly pre-COVID levels and the strong COVID-19 rebound demand for commercial aircraft airframes.

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 ¥20.6 billion to ¥281.2 billion compared to the same period of the previous fiscal year, when there were many large-scale projects for the domestic waste disposal facilities maintenance and operation business and orders for LPG/NH3 carriers, despite orders for naval ships equipment for Ministry of Defense in Japan.

Consolidated revenue increased by ¥21.9 billion year on year to ¥234.3 billion mainly due to the ship & offshore structure field centered on LPG/NH3 carriers, and the energy field.

Business profit came to ¥16.6 billion, increasing ¥3.7 billion year on year, because of an increase in profit mainly due to higher sales in the ship & offshore structure field, and an increase in profit due to higher sales in the energy field.

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 other factors. In the robotics field, sluggish demand for robots for semiconductor manufacturing equipment bottomed out, and the demand will recover from fiscal year 2024 while capturing new demand related to AI and green investment.

Business loss came to ¥4.3 billion, deteriorating ¥11.8 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 demand has continued to be strong in the major markets, the United States and Europe, market competition has intensified as a result of supplies increased from manufacturers after the convergence of the supply chain disruptions in the previous fiscal year. In addition, as recreational demand has decreased due to the slowdown in China's economy, the mid-to-large motorcycle market has reduced in general.

Amid such an operating environment, consolidated revenue decreased by ¥9.3 billion year on year to ¥404.4 billion mainly due to decreases in motorcycles for China and Southeast Asia and general-purpose engines, despite increases in four-wheeled vehicles for North America and motorcycles for Europe.

Business profit decreased by ¥21.7 billion year on year to ¥32.0 billion mainly due to a decrease in the revenue as well as an increase in fixed costs and the recording of recall-related expenses*, which is related to four-wheeled vehicles for the United States.

*The Company received a notice from the U.S. Consumer Product Safety Commission that a penalty will be imposed for the recall of certain models of four-wheeled vehicles for the United States.

Other Operations

Consolidated revenue of ¥60.2 billion was on par with the same period of the previous fiscal year's result.

Business profit decreased by ¥1.8 billion year on year to ¥1.5 billion.

In the Group Vision 2030, the Group will focus on three fields; “A Safe and Secure Remotely Connected Society,” “Near-Future Mobility” and “Energy and Environmental Solutions,” and is

(2) Consolidated financial condition

Assets, liabilities, and equity

1. Assets

Current assets were ¥1,710.5 billion, ¥140.2 billion increase from the previous fiscal year mainly due to increases in inventories and trade and other receivables.

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 ¥2,663.2 billion, ¥205.4 billion increase from the previous fiscal year.

2. Liabilities

Interest-bearing debt was ¥831.0 billion, ¥241.1 billion increase from the previous fiscal year.

Liabilities were ¥2,073.8 billion, ¥213.0 billion increase from the previous fiscal year mainly due to an increase in interest-bearing debt.

3. Equity

Equity was ¥589.3 billion, ¥7.5 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 "cash") during the third quarter of this consolidated fiscal year were ¥102.0 billion, an increase of ¥14.0 billion compared to the same period of the previous fiscal year. The cash flow situations and relevant factors during the third quarter of this consolidated fiscal year are stated below.

1. Cash flows from operating activities

Cash outflows from operating activities were ¥97.9 billion, an increase of ¥15.1 billion compared to the same period of the previous fiscal year. Major sources of operating cash flows included depreciation and amortization of ¥61.0 billion and an increase in refund liability of ¥53.5 billion. Major uses of operating cash flows included an increase in inventories of ¥83.1 billion and an increase in trade and other receivables of ¥58.0 billion.

2. Cash flows from investing activities

Investing activities used net cash of ¥81.1 billion, which is ¥27.8 billion more than in the same period of the previous fiscal year. This was mainly due to purchase of property, plant and equipment.

3. Cash flows from financing activities

Financing activities provided net cash of ¥146.7 billion, which is ¥4.8 billion less than in the same period of the previous fiscal year. This was mainly due to net increase in short-term borrowings.

(3) Consolidated earnings forecast

With respect to the earnings forecasts for the

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 December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	138,420	102,015
Trade and other receivables	470,398	556,217
Contract assets	159,422	134,291
Inventories	690,431	776,938
Income taxes receivable	551	6,872
Other financial assets	10,741	13,748
Other current assets	100,385	120,481
Total current assets	1,570,350	1,710,565
Non-current assets		
Property, plant and equipment	451,010	483,871
Intangible assets	66,248	68,126
Right-of-use assets	68,422	64,295
Investments accounted for using equity method	77,440	90,297
Other financial assets	70,224	78,086
Deferred tax assets	110,264	126,593
Other non-current assets	43,763	41,375
Total non-current assets	887,374	952,646
Total assets	2,457,725	2,663,212
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	452,250	476,493
Bonds, borrowings and other financial liabilities	340,176	572,045
Income taxes payable	18,071	8,712
Contract liabilities	256,247	241,544
Provisions	22,897	30,344
Refund liabilities	10,258	64,485
Other current liabilities	208,760	168,228
Total current liabilities	1,308,661	1,561,855
Non-current liabilities		
Bonds, borrowings and other financial liabilities	445,082	399,361
Retirement benefit liability	91,552	94,665
Provisions	1,942	1,170
Deferred tax liabilities	833	829
Other non-current liabilities	12,779	16,008
Total non-current liabilities	552,190	512,035
Total liabilities	1,860,852	2,073,890
Equity		
Equity attributable to owners of parent		
Share capital	104,484	104,484
Capital surplus	55,716	56,433
Retained earnings	380,255	353,118
Treasury shares	(1,107)	(1,067)
Other components of equity	36,852	55,814
Total equity attributable to owners of parent	576,201	568,783
Non-controlling interests	20,670	20,537
Total equity	596,872	589,321
Total liabilities and equity	2,457,725	2,663,212

(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 nine months ended December 31, 2023 and 2022

	Millions of yen	
	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Revenue	1,196,330	1,229,069
Cost of sales	949,501	1,038,299
Gross profit	246,828	190,770
Selling, general and administrative expenses	168,807	196,199
Share of profit of investments accounted for using equity method	3,935	6,148
Other income	2,818	3,655
Other expenses	3,890	3,633
Business profit	80,885	741
Finance income	1,363	2,107
Finance costs	10,120	20,780
Profit (loss) before tax	72,127	(17,931)
Income tax expense	18,399	(6,095)
Profit (loss)	53,727	(11,835)
Profit (loss) attributable to:		
Owners of parent	52,512	(13,480)
Non-controlling interests	1,214	1,644
Earnings per share		
Basic earnings (loss) per share	313.55	(80.48)

Condensed Quarterly Consolidated Statement of Comprehensive Income

For nine months ended December 31, 2023 and 2022

Millions of yen

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Profit (loss)	53,727	(11,835)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(1,036)	2,148
Remeasurements of defined benefit plans	528	(35)
Share of other comprehensive income of investments accounted for using equity method	0	1
Total of items that will not be reclassified to profit or loss	(507)	2,114
Items that may be reclassified to profit or loss		
Cash flow hedges	2,146	(427)
Exchange differences on translation of foreign operations	7,794	14,585
Share of other comprehensive income of investments accounted for using equity method	439	3,572
Total of items that may be reclassified to profit or loss	10,380	17,730
Total other comprehensive income	9,872	19,844
Comprehensive income	63,600	8,009
Comprehensive income attributable to:		
Owners of parent	62,078	5,658
Non-controlling interests	1,522	2,351

For three months ended December 31, 2023 and 2022

Millions of yen

	Three months ended December 31, 2022	Three months ended December 31, 2023
Profit	29,294	10,574
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(451)	(329)
Remeasurements of defined benefit plans	(152)	(11)
Share of other comprehensive income of investments accounted for using equity method	238	0
Total of items that will not be reclassified to profit or loss	(365)	(341)
Items that may be reclassified to profit or loss		
Cash flow hedges	9,352	6,116
Exchange differences on translation of foreign operations	(12,469)	(6,106)
Share of other comprehensive income of investments accounted for using equity method	(2,352)	760
Total of items that may be reclassified to profit or loss	(5,470)	770
Total other comprehensive income	(5,835)	429
Comprehensive income	23,458	11,004
Comprehensive income attributable to:		
Owners of parent	23,502	10,380
Non-controlling interests	(44)	623

For nine months ended December 31, 2023 (April 1, 2023 – December 31, 2023)

Millions of yen

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Retained earnings	Treasury shares	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2023	104,484	55,716	380,255	(1,107)	-	4,109
Profit (loss)			(13,480)			
Other comprehensive income					(32)	2,107
Comprehensive income			(13,480)		(32)	2,107
Purchase of treasury shares				(5)		
Disposal of treasury shares		0		45		
Dividends			(13,430)			
Transfer to retained earnings			(234)		32	202
Change in scope of consolidation			8			
Loss of control of subsidiaries						
Change in ownership interest of parent due to transactions with non-controlling interests		717				
Transfer to non-financial assets						
Other						
Total transactions with owners		717	(13,656)	39	32	202
Balance as of December 31, 2023	104,484	56,433	353,118	(1,067)	-	6,418

	Equity attributable to owners of parent					
	Other components of equity					
	Cash flow hedges	Exchange differences on translation of foreign operations	Total	Total equity attributable to owners of parent	Non-controlling interests	Total
Balance as of April 1, 2023	676	32,066	36,852	576,201	20,670	596,872
Profit (loss)				(13,480)	1,644	(11,835)
Other comprehensive income	1,026	16,036	19,138	19,138	706	19,844
Comprehensive income	1,026	16,036	19,138	5,658	2,351	8,009
Purchase of treasury shares				(5)		(5)
Disposal of treasury shares				45		45
Dividends				(13,430)	(581)	(14,012)
Transfer to retained earnings			234	-		-
Change in scope of consolidation		(17)	(17)	(9)		(9)
Loss of control of subsidiaries						-
Change in ownership interest of parent due to transactions with non-controlling interests				717	(1,902)	(1,185)
Transfer to non-financial assets	(393)		(393)	(393)		(393)
Other						-
Total transactions with owners	(393)	(17)	(176)	(13,076)	(2,484)	(15,560)
Balance as of December 31, 2023	1,309	48,085	55,814	568,783	20,537	589,321

(4) Condensed Quarterly Consolidated Statement of Cash Flow

	Millions of yen	
	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Cash flows from operating activities		
Profit (loss)	53,727	(11,835)
Depreciation and amortization	55,980	61,019
Impairment losses	405	568
Finance income and finance costs	3,137	7,763
Share of loss (profit) of investments accounted for using equity method	(3,935)	(6,148)
Loss (gain) on sale of fixed assets	518	502
Income tax expense	18,399	(6,095)
Increase (decrease) in retirement benefit liability	2,771	2,956
Decrease (increase) in trade and other receivables	(64,277)	(58,082)
Decrease (increase) in contract assets	(26,589)	25,099
Decrease (increase) in inventories	(106,083)	(83,160)
Increase (decrease) in trade and other payables	26,151	17,976
Decrease (increase) in advance payment	(29,416)	1,535
Increase (decrease) in contract liabilities	14,784	(19,181)
Increase (decrease) in refund liability	(749)	53,576
Decrease (increase) in other current assets	(24,778)	(25,917)
Increase (decrease) in other current liabilities	6,257	(19,208)
Other	(21,370)	(15,328)
Subtotal	(95,068)	(73,961)
Interest received	1,131	1,768

(5) Notes Concerning Condensed Quarterly Consolidated Financial Statements

Notes on the going-concern assumption

Not applicable.

Other notes

The recording of loss related to the in-service 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, ¥56,247 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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