Powering your potential

Consolidated Financial Statements
For the Years ended March 31, 2022 and 2021
Together with Independent Auditor's Report

CONTENTS

Kawasaki Heavy Industries, Ltd.

Overview

In the global economy, concerns over downside growth and acceleration of inflation are intensifying due to the impact of rise in the prices of resource and energy and supply chain disruptions caused by Russia's invasion of Ukraine. With regard to the Japanese economy, although business capital investments and production activities have continued to recover, uncertainty over the economic outlook has increased with concerns over a deterioration in consumer sentiment due to price increases resulting from simultaneous progress in the depreciation of yen, affected by widening differential between domestic and foreign interest rates, and the rising resource costs. Regarding the impact of COVID-19 pandemic, the continuous attention should be paid, while there have been the approaches particularly in the developed countries to abolish and relax COVID-19 related regulations, there are the concerns in China about the risk of an economic downturn due to the restricted activities by its Zero-COVID-19 policy.

In this business environment, the Group’s consolidated orders received in the fiscal year ended March 31, 2022, increased mainly due to increases in the Motorcycle & Engine segment and the Aerospace Systems segment. Net sales decreased in the Aerospace Systems segment, the Energy Solution & Marine Engineering segment, and the Other segments, but overall sales increased from the previous fiscal year due to higher sales in the Motorcycle & Engine segment, the Precision Machinery & Robot segment, and the 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 ¥199.7 billion year on year to ¥1,602.1 billion, consolidated net sales increased by ¥12.3 billion year on year to ¥1,500.8 billion, operating profit improved by ¥51.1 billion year on year to ¥45.8 billion, ordinary profit improved by ¥32.7 billion year on year to ¥29.9 billion, and profit attributable to owners of parent improved by ¥41.1 billion year on year to ¥21.8 billion. ROIC* was 3.5%, while ROE was 4.6%.

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

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 of March 31, 2020), etc. from the beginning of the current fiscal year. For more information, see “ Notes 4. (Changes in accounting policies) and 35. (Segment information)”. Consolidated operating performance in the fiscal year ended March 31, 2022, is summarized by segment below.

Business segment

The following sections supply additional details on the consolidated performance of each business segment. Please note that operating profit or loss includes intersegment transactions.

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. Despite signs of a recovery in demand on European, North American and Atlantic routes, the outlook remains uncertain due to delays in the recovery of demand in Asia and elsewhere and the impact of Russia's invasion of Ukraine.

Amid such an operating environment, consolidated orders received increased by ¥53.7 billion year on year to ¥383.3 billion, mainly due to an increase in component parts of airframes for Ministry of Defense in Japan and commercial aircraft, despite a decrease in component parts of jet engines for commercial aircraft resulting from the application of revenue recognition accounting standards. Consolidated net sales decreased by ¥79.5 billion year on year to ¥298.2 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 ¥9.7 billion, improving ¥21.9 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 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 decreased by ¥5.5 billion to ¥71.5 billion compared to the previous fiscal year, when large-scale orders for Shinkansen bullet trains were received, despite the orders for subway rolling stock for the domestic market.

Consolidated net sales decreased by ¥6.5 billion year on year to ¥126.6 billion, mainly due to a decrease in sales of railcars for domestic markets.

Operating profit came to ¥3.2 billion, improving ¥7.8 billion despite a decrease in sales, compared to 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 ¥26.3 billion from the previous fiscal year to ¥343.5 billion due to orders received for large-scale projects such as maintenance and operation of domestic waste disposal facilities.

Consolidated net sales decreased by ¥22.2 billion year on year to ¥297.3 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.

Operating profit came to ¥1.1 billion, decreasing ¥9.1 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 has continued to be at a high level since the fiscal year 2020 due to strong performance in the first half of the fiscal year 2021, despite the apparent slowdown in demand from the end of this fiscal year. In the construction machinery market outside China, the performance has continued to be strong throughout the year, and overall remained steady. In the robot field, although shortages of electronic components and logistics disruptions have continued, the performance of robots for semiconductor manufacturing equipment is strong due to aggressive capital investment by semiconductor manufacturers, and the 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 ¥12.4 billion year on year to ¥271.8 billion, due to an increase in various robots for semiconductor manufacturing equipment and other applications.

Consolidated net sales increased by ¥11.8 billion year on year to ¥252.6 billion, due to an increase in various robots for semiconductor manufacturing equipment and other applications and weaker yen.

Operating profit increased by ¥2.5 billion year on year to ¥16.6 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 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 ¥111.2 billion year on year to ¥447.9 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 ¥25.5 billion from the previous fiscal year to ¥37.3 billion due to an increase in sales, and a weaker yen compared to the previous fiscal year, despite rising prices of raw materials and parts.

Other Operations

Consolidated net sales decreased by ¥2.3 billion year on year to ¥78.0 billion. Operating profit increased by ¥2.4 billion year on year to ¥2.8 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.

Consolidated financial position

(1) Assets

Current assets were ¥1,297.7 billion, ¥12.3 billion increase from the previous fiscal year due to an increases in other such as accounts receivable-other. Non-current assets were ¥724.9 billion, ¥47.0 billion increase from the previous fiscal year due to an increase in investments and other assets. As a result, total assets were ¥2,022.7 billion, ¥59.4 billion increase from the previous fiscal year.

(2) Liabilities

Interest-bearing debt was ¥501.4 billion, ¥91.8 billion decrease from the previous fiscal year. Liabilities were ¥1,524.2 billion, ¥43.7 billion increase from the previous fiscal year due to increases in contract liabilities (advanced received) and other factors.

***(3)* Net assets**

Net assets were ¥498.5 billion, ¥15.7 billion increase from the previous fiscal year due to an increase in foreign currency translation adjustment.

Cash Flows

***(1)* Cash flows from operating activities**

Operating activities provided net cash of ¥144.4 billion, ¥109.8 billion increase from the previous fiscal year. Major sources of operating cash flows included depreciation of ¥60.8 billion and an increase in contract liabilities (advanced received) of ¥92.0 billion. Major uses of operating cash flows included expenditure of ¥39.0 billion due to an increase in inventories.

***(2)* Cash flows from investing activities**

Investing activities used net cash of ¥52.5 billion which is ¥15.1 billion more than in the previous fiscal year, mainly due to purchase of property, plant and equipment, as well as intangible assets.

***(3)* Cash flows from financing activities**

Financing activities used net cash of ¥102.3 billion, which is ¥125.4 billion more than in the previous fiscal year, when financing activities provided net cash of ¥23.0 billion. This was mainly due to net decrease in short-term borrowings.

Dividends

As a basic management policy, the Company aims to increase corporate value by consistently generating profit exceeding the cost of invested capital. In line with this policy, the Company believes that one priority for management is to engage in cutting-edge research and development as well as the innovative capital investment required to achieve future growth and thereby return profits to shareholders by enhancing shareholder value over the long term.

In order to maintain a good balance between enhancing shareholder value and returning profits to shareholders through dividends, the Company has set a medium- to long-term consolidated payout ratio standard of 30% corresponding to the consolidated profit attributable to the owners of the parent and in light of both the outlook for future earnings and a comprehensive examination of its financial condition, including its free cash flow, D/E ratio (debt-to-equity ratio) and other factors. The Company has a basic policy of distributing surplus retained earnings as dividends twice a year, once after the fiscal second quarter and once after the fiscal year-end. Interim dividends are authorized by the Board of Directors, while year-end dividends are authorized at the general meetings of shareholders.

Consolidated Balance Sheets

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
At March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Assets			
Current assets			
Cash and deposits (Notes 26 and 30)	¥ **114,469**	¥ 126,702	$ **935,128**
Notes and accounts receivable - trade (Note 30)	**-**	460,436	**-**
Notes and accounts receivable - trade, and contract assets（Notes 6 and 30）	**418,625**	-	**3,419,859**
Merchandise and finished goods	**78,616**	69,223	**642,235**
Work in process (Note 12)	**419,954**	452,848	**3,430,716**
Raw materials and supplies	**160,113**	136,471	**1,308,006**
Other	**109,911**	43,314	**897,892**
Allowance for doubtful accounts	**(3,908)**	(3,589)	**(31,925)**
Total current assets	**1,297,781**	1,285,407	**10,601,920**
Non-current assets			
Property, plant and equipment (Notes 7 and 11)			
Buildings and structures, net	**168,409**	172,951	**1,375,778**
Machinery, equipment and vehicles, net	**137,217**	142,951	**1,120,962**
Land	**58,383**	57,743	**476,946**
Leased assets, net (Note 31)	**10,815**	10,564	**88,351**
Construction in progress	**20,224**	16,635	**165,215**
Other, net	**49,212**	50,413	**402,026**
Total property, plant and equipment	**444,262**	451,259	**3,629,295**
Intangible assets	**23,413**	22,427	**191,267**
Investments and other assets			
Investment securities (Notes 8, 9, 11 and 30)	**14,539**	12,721	**118,773**
Retirement benefit asset (Note 13)	**200**	155	**1,634**
Deferred tax assets (Notes 3 and 25)	**86,249**	70,452	**704,591**
Other (Note 10)	**157,668**	122,254	**1,288,032**
Allowance for doubtful accounts	**(1,366)**	(1,403)	**(11,159)**
Total investments and other assets	**257,291**	204,180	**2,101,879**
Total non-current assets	**724,967**	677,868	**5,922,449**
Total assets	¥ **2,022,748**	¥ 1,963,276	**$ 16,524,369**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
Liabilities			
Current liabilities			
Notes and accounts payable - trade (Notes 11 and 30)	¥ **239,976**	¥ 247,294	$ **1,960,428**
Electronically recorded obligations - operating (Note 30)	**104,336**	107,849	**852,349**
Short-term borrowings (Notes 11 and 30)	**96,108**	141,579	**785,132**
Current portion of bonds payable (Notes 11 and 30)	**20,000**	30,000	**163,385**
Lease liabilities (Note 11)	**1,175**	1,061	**9,599**
Income taxes payable (Note 25)	**8,506**	4,753	**69,488**
Provision for sales promotion expenses	**-**	7,380	**-**
Provision for bonuses	**23,938**	18,239	**195,556**
Provision for construction warranties	**14,797**	12,550	**120,881**
Provision for loss on construction contracts (Note 12)	**9,602**	14,263	**78,441**
Advances received	**-**	153,298	**-**
Contract liabilities	**256,189**	-	**2,092,876**
Other	**212,696**	179,283	**1,737,570**
Total current liabilities	**987,328**	917,555	**8,065,746**
Non-current liabilities			
Bonds payable (Notes 11 and 30)	**180,000**	190,000	**1,470,468**
Long-term borrowings (Notes 11 and 30)	**194,297**	199,177	**1,587,264**
Lease liabilities (Note 11)	**9,899**	9,532	**80,868**
Deferred tax liabilities (Note 25)	**1,593**	1,125	**13,014**
Retirement benefit liability (Note 13)	**106,803**	115,456	**872,502**
Provision for the in-service issues of commercial aircraft jet engines (Note 14)	**3,054**	5,984	**24,949**
Other	**41,249**	41,668	**336,974**
Total non-current liabilities	**536,896**	562,944	**4,386,047**
Total liabilities	**1,524,225**	1,480,500	**12,451,801**
Net assets (Note 16):			
Shareholders' equity:			
Common stock:			
Authorized – 336,000,000 shares in 2021 and 2022			
Issued – 167,921,800 shares in 2022			
– 167,080,532 shares in 2021	**104,484**	104,484	**853,558**
Capital surplus	**55,526**	54,542	**453,607**
Retained earnings	**285,381**	306,576	**2,331,354**
Treasury stock – 449,527 shares in 2022			
– 38,282 shares in 2021	**(1,129)**	(136)	**(9,223)**
Total shareholders' equity	**444,262**	465,467	**3,629,295**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	**1,424**	1,955	**11,633**
Deferred gains or losses on hedges	**(191)**	(179)	**(1,560)**
Foreign currency translation adjustment	**23,585**	(931)	**192,672**
Remeasurements of defined benefit plans	**10,098**	(979)	**82,493**
Total accumulated other comprehensive income	**34,917**	(134)	**285,246**
Non-controlling interests	**19,342**	17,442	**158,010**
Total net assets	**498,522**	482,775	**4,072,559**
Total liabilities and net assets	¥ **2,022,748**	¥ 1,963,276	$ **16,524,369**

Consolidated Statements of Operations

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
Net sales	**¥ 1,500,879**	¥ 1,488,486	**$ 12,261,082**
Cost of sales (Note 17)	**(1,244,300)**	(1,297,324)	**(10,165,019)**
Gross profit	**256,578**	191,162	**2,096,054**
Selling, general and administrative expenses			
Salaries and allowances	**(59,872)**	(56,970)	**(489,110)**
Research and development expenses (Note 18)	**(47,098)**	(44,949)	**(384,756)**
Other	**(103,800)**	(94,548)	**(847,970)**
Total selling, general and administrative expenses	**(210,772)**	(196,468)	**(1,721,853)**
Operating profit (loss)	**45,805**	(5,305)	**374,193**
Non-operating income			
Interest income	**1,106**	677	**9,035**
Dividend income	**865**	2,161	**7,066**
Gain on sale of investment securities	**2,120**	771	**17,319**
Share of profit of entities accounted for using equity method	**-**	411	**-**
Foreign exchange gains	**569**	4,074	**4,648**
Reversal of provision for the in-service issues of commercial aircraft jet engines (Note 19)	**-**	3,306	**-**
Other	**4,680**	3,815	**38,232**
Total non-operating income	**9,342**	15,218	**76,317**
Non-operating expenses			
Interest expenses	**(3,398)**	(3,790)	**(27,759)**
Share of loss of entities accounted for using equity method	**(14,412)**	-	**(117,735)**
Loss on retirement of non-current assets	**(951)**	(2,886)	**(7,769)**
Other	**(6,451)**	(6,091)	**(52,700)**
Total non-operating expenses	**(25,213)**	(12,768)	**(205,972)**
Ordinary profit (loss)	**29,934**	(2,855)	**244,539**
Extraordinary income			
Gain on sale of non-current assets (Note 20)	**1,633**	3,236	**13,340**
Gain on sale of shares of subsidiaries and associates (Note 21)	**-**	1,581	**-**
Total extraordinary income	**1,633**	4,817	**13,340**
Extraordinary losses			
Impairment losses (Note 22)	**(715)**	(15,205)	**(5,841)**
Loss on valuation of shares of subsidiaries and associates (Note 8)	**-**	(1,444)	**-**
Total extraordinary losses	**(715)**	(16,649)	**(5,841)**
Profit (loss) before income taxes (Note 25)	**30,853**	(14,688)	**252,046**
Income taxes - current	**(15,053)**	(10,506)	**(122,972)**
Income taxes - deferred	**8,185**	7,707	**66,865**
Total income taxes	**(6,867)**	(2,798)	**(56,098)**
Profit (loss)	**23,985**	(17,486)	**195,940**
Profit attributable to non-controlling interests	**2,183**	1,846	**17,834**
Profit (loss) attributable to owners of parent	**¥ 21,801**	¥ (19,332)	**$ 178,098**

Consolidated Statements of Comprehensive Income

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
Profit (loss)	¥ **23,985**	¥ (17,486)	$ **195,940**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**(524)**	426	**(4,281)**
Deferred gains or losses on hedges	**(337)**	(284)	**(2,753)**
Foreign currency translation adjustment	**16,407**	6,727	**134,033**
Remeasurements of defined benefit plans	**11,130**	18,969	**90,924**
Share of other comprehensive income of entities accounted for using equity method	**9,218**	4,496	**75,304**
Total other comprehensive income (Note 23)	**35,895**	30,335	**293,236**
Comprehensive income	**59,880**	12,848	**489,176**
Comprehensive income attributable to:			
Owners of parent	**56,854**	10,423	**464,456**
Non-controlling interests	¥ **3,026**	¥ 2,425	**24,720**

	Yen		U.S. dollars (Note 1)
Per share amounts (Notes 24 and 28)			
Profit (loss) per share - basic	¥ **130.3**	¥ (115.7)	$ **1.06**
Cash dividends	**20.0**	-	**0.16**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

Millions of yen

	Number of shares of common stock (thousands)	Shareholders' equity					Accumulated other comprehensive income						
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2020	167,080	¥ 104,484	¥ 54,542	¥ 326,626	¥ (133)	¥ 485,520	¥ 1,636	¥ (272)	¥ (11,311)	¥ (19,946)	¥ (29,892)	¥ 15,934	¥ 471,562
Dividends of surplus		-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) attributable to owners of parent for the year		-	-	(19,332)	-	(19,332)	-	-	-	-	-	-	(19,332)
Purchase of treasury shares		-	-	-	(3)	(3)	-	-	-	-	-	-	(3)
Disposal of treasury shares		-	(0)	-	0	0	-	-	-	-	-	-	0
Transfer of loss on disposal of treasury shares		-	0	(0)	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent due to transactions with non-controlling interests		-	(0)	-	-	(0)	-	-	-	-	-	-	(0)
Other		-	-	(716)	-	(716)	-	-	-	-	-	-	(716)
Net changes in items other than shareholders' equity		-	-	-	-	-	319	92	10,379	18,966	29,758	1,507	31,265
Balance at March 31, 2021	167,080	¥ 104,484	¥ 54,542	¥ 306,576	¥ (136)	¥ 465,467	¥ 1,955	¥ (179)	¥ (931)	¥ (979)	¥ (134)	¥ 17,442	¥ 482,775
Cumulative effect of changes in accounting policies		-	-	(39,639)	-	(39,639)	-	-	-	-	-	-	(39,639)
Restated balance		104,484	54,542	266,937	(136)	425,827	1,955	(179)	(931)	(979)	(134)	17,442	443,135
Issuance of new shares	841	-	1,916	-	-	1,916	-	-	-	-	-	-	1,916
Dividends of surplus (Note 24)		-	-	(3,357)	-	(3,357)	-	-	-	-	-	-	(3,357)
Profit (loss) attributable to owners of parent for the year		-	-	21,801	-	21,801	-	-	-	-	-	-	21,801
Purchase of treasury shares		-	-	-	(994)	(994)	-	-	-	-	-	-	(994)
Disposal of treasury shares		-	2	-	1	3	-	-	-	-	-	-	3
Transfer of loss on disposal of treasury shares		-	0	(0)	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent due to transactions with non-controlling interests		-	(935)	-	-	(935)	-	-	-	-	-	-	(935)
Other		-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity		-	-	-	-	-	(530)	(11)	24,516	11,078	35,052	1,899	36,951
Balance at March 31, 2022	167,921	¥ 104,484	¥ 55,526	¥ 285,381	¥ (1,129)	¥ 444,262	¥ 1,424	¥ (191)	¥ 23,585	¥ 10,098	¥ 34,917	¥ 19,342	¥ 498,522

Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2021	$ 853,558	$ 445,568	$ 2,504,501	$ (1,111)	$ 3,802,524	$ 15,971	$ (1,462)	$ (7,606)	$ (7,998)	$ (1,095)	$ 142,488	$ 3,943,918
Cumulative effect of changes in accounting policies	-	-	(323,822)	-	(323,822)	-	-	-	-	-	-	(323,822)
Restated balance	853,558	445,568	2,180,680	(1,111)	3,478,695	15,971	(1,462)	(7,606)	(7,998)	(1,095)	142,488	3,620,088
Issuance of new shares	-	15,652	-	-	15,652	-	-	-	-	-	-	15,652
Dividends of surplus	-	-	(27,424)	-	(27,424)	-	-	-	-	-	-	(27,424)
Profit (loss) attributable to owners of parent for the year	-	-	178,098	-	178,098	-	-	-	-	-	-	178,098
Purchase of treasury shares	-	-	-	(8,120)	(8,120)	-	-	-	-	-	-	(8,120)
Disposal of treasury shares	-	16	-	8	25	-	-	-	-	-	-	25
Transfer of loss on disposal of treasury shares	-	0	(0)	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent due to transactions with non-controlling interests	-	(7,638)	-	-	(7,638)	-	-	-	-	-	-	(7,638)
Other	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity	-	-	-	-	-	(4,330)	(90)	200,278	90,499	286,349	15,513	301,863
Balance at March 31, 2022	$ 853,558	$ 453,607	$ 2,331,354	$ (9,223)	$ 3,629,295	$ 11,633	$ (1,560)	$ 192,672	$ 82,493	$ 285,246	$ 158,010	$ 4,072,559

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
Cash flows from operating activities:			
Profit (loss) before income taxes	¥ **30,853**	¥ (14,688)	$ **252,046**
Depreciation	**60,853**	61,258	**497,124**
Impairment losses	**715**	15,205	**5,841**
Loss on valuation of shares of subsidiaries and associates	**-**	1,444	**-**
Increase (decrease) in allowance for doubtful accounts	**(110)**	(343)	**(899)**
Increase (decrease) in provision for sales promotion expenses	**-**	(5,085)	**-**
Increase (decrease) in provision for bonuses	**5,566**	(3,819)	**45,470**
Increase (decrease) in provision for construction warranties	**2,083**	(1,938)	**17,017**
Increase (decrease) in provision for loss on construction contracts	**(4,838)**	2,788	**(39,523)**
Increase (decrease) in retirement benefit liability	**4,778**	11,611	**39,033**
Increase (decrease) in provision for the in-service issues of commercial aircraft jet engines	**(2,930)**	(9,705)	**(23,936)**
Interest and dividend income	**(1,972)**	(2,839)	**(16,110)**
Interest expenses	**3,398**	3,790	**27,759**
Share of loss (profit) of entities accounted for using equity method	**14,412**	(411)	**117,735**
Loss (gain) on sale of non-current assets	**(1,633)**	(3,236)	**(13,340)**
Loss (gain) on sale of shares of subsidiaries and associates	**-**	(1,581)	**-**
Decrease (increase) in trade receivables	**-**	23,267	**-**
Decrease (increase) in trade receivables and contract assets	**25,995**	-	**212,360**
Decrease (increase) in inventories	**(39,039)**	(26,374)	**(318,920)**
Increase (decrease) in trade payables	**(15,067)**	(16,784)	**(123,086)**
Decrease (increase) in advance payments to suppliers	**(31,724)**	(132)	**(259,162)**
Increase (decrease) in advances received	**-**	4,209	**-**
Increase (decrease) in contract liabilities	**92,098**	-	**752,373**
Decrease (increase) in other current assets	**(28,723)**	8,900	**(234,646)**
Increase (decrease) in other current liabilities	**43,354**	2,988	**354,170**
Other, net	**(470)**	(5,570)	**(3,840)**
Subtotal	**157,599**	42,953	**1,287,468**
Interest and dividends received	**2,629**	6,370	**21,477**
Interest paid	**(3,634)**	(3,646)	**(29,687)**
Income taxes paid	**(12,164)**	(11,076)	**(99,371)**
Net cash provided by (used in) operating activities	¥ **144,430**	¥ 34,601	$ **1,179,887**
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	**(62,399)**	(51,692)	**(509,754)**
Proceeds from sale of property, plant and equipment and intangible assets	**5,556**	13,656	**45,388**
Purchase of investment securities	**(2,114)**	(1,042)	**(17,270)**
Proceeds from sale of investment securities	**5,717**	1,407	**46,704**
Purchase of shares of subsidiaries and associates	**(11)**	(97)	**(90)**
Proceeds from sale of shares of subsidiaries and associates	**-**	1,927	**-**
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	**489**	-	**3,995**
Other, net	**224**	(1,551)	**1,830**
Net cash provided by (used in) investing activities	¥ **(52,537)**	¥ (37,392)	$ **(429,189)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	¥ **(74,242)**	¥ (28,409)	$ **(606,503)**
Proceeds from long-term borrowings	**15,500**	27,310	**126,624**
Repayments of long-term borrowings	**(17,001)**	(22,297)	**(138,886)**
Proceeds from issuance of bonds	**10,000**	60,000	**81,693**
Redemption of bonds	**(30,000)**	(20,000)	**(245,078)**
Dividends paid	**(3,384)**	(59)	**(27,645)**
Dividends paid to non-controlling interests	**(913)**	(960)	**(7,459)**
Proceeds from sale and leaseback transactions	**-**	10,014	**-**
Other, net	**(2,303)**	(2,505)	**(18,814)**
Net cash provided by (used in) financing activities	¥ **(102,345)**	¥ 23,093	$ **(836,084)**
Effect of exchange rate change on cash and cash equivalents	**(3,202)**	(682)	**(26,158)**
Net increase (decrease) in cash and cash equivalents	**(13,654)**	19,619	**(111,543)**
Cash and cash equivalents at beginning of period	**122,166**	102,546	**998,007**
Cash and cash equivalents at end of period	¥ **108,511**	¥ 122,166	$ **886,455**
Supplemental information on cash flows:			
Cash and cash equivalents:			
Cash and deposits in the balance sheets	¥ **114,469**	¥ 126,702	$ **935,128**
Time deposits with maturities over three months	**(5,957)**	(4,536)	**(48,664)**
Total (Note 26)	¥ **108,511**	¥ 122,166	$ **886,455**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries (together the "Companies") have been prepared from the financial statements filed with the Prime Minister as required by the Financial Instruments and Exchange Act in Japan and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards. Certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. In addition, certain reclassifications have been made in the 2021 consolidated financial statements to conform to the classification used in 2022. The Company and its subsidiaries adopted ASBJ Statement No. 29 "Accounting Standard for Revenue Recognition" (March 31, 2020), etc. and ASBJ Statement No. 30 "Accounting Standard for Fair Value Measurements" (July 4 2019), etc. to the consolidated financial statements for the current consolidated fiscal year, and therefore revenue recognition and the matters related to breakdown of fair value of financial instruments by levels are disclosed in the notes to the consolidated financial statements. The notes do not include information for the prior consolidated fiscal year in accordance with the traditional treatment set out in Paragraph 89-3 of the Accounting Standard for Revenue Recognition and in paragraph 7-4 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Statement No.19 of July 4, 2019).

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2022, which was ¥122.41 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange. As permitted, fractional amounts have not been adjusted.

2. Significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. The consolidated financial statements include the accounts of the Company and 101 subsidiaries (99 in the year ended March 31, 2021). The aggregate amount of total assets, net sales, profit and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2022, 20 affiliates (19 in 2021) were accounted for by the equity method. For the year ended March 31, 2022, investments in 7 affiliates (11 in 2021) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the profit and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end

For the year ended March 31, 2022, the fiscal year-end of 24 consolidated subsidiaries (24 in 2021) was December 31. These subsidiaries were consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, were adjusted for on consolidation.

Effective from the fiscal year ended March 31, 2021, 6 companies of Kawasaki Precision Machinery (Suzhou) Ltd., Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd., Kawasaki Robotics (Tianjin) Co., Ltd., Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd., Kawasaki Robotics (Kunshan) Co., Ltd. and Kawasaki Robotics Korea, Ltd., which previously had December 31 as their fiscal year-end, changed their fiscal year-end to March 31 or changed to a method of having provisional settlement on March 31, which is the consolidated fiscal year-end, in accordance with the final settlement and consolidating it. Accordingly, in the fiscal year ended March 31, 2021, the Company consolidated the financial statements of these consolidated subsidiaries for the 15-month period from January 1, 2020 to March 31, 2021, and the effect of the change in the fiscal year-end was adjusted for on the consolidated statements of profit and loss. These consolidated subsidiaries whose fiscal year-ends were changed recorded net sales of ¥13,522 million, operating profit of ¥1,976 million, ordinary profit of ¥2,447 million and Profit before income taxes of ¥2,447 million from January 1, 2021 to March 31,2021.

(d) Foreign currency translations

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates. The balance sheets of the consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except for shareholders' equity accounts, which are translated at historical rates. The income statements of the consolidated overseas subsidiaries are translated at average rates. The Company and its domestic subsidiaries report foreign currency translation adjustments in net assets.

(e) Revenue recognition

Revenue from contracts with customers is recognized based on the following five-step approach, at the amount of consideration for which the company expects to be entitled in exchange for goods or services when the control of the promised goods or services is transferred to the customer.

(i) Identify the contract with the customers
(ii) Identify the performance obligations in the contract
(iii) Determine the transaction price
(iv) Allocate the transaction price to the performance obligations in the contract
(v) Recognize revenue when or as the company satisfies a performance obligations

In relation to recognition of revenue from contracts with customers, the nature of principal performance obligations for major businesses of the Company and typical timing of the satisfaction of those performance obligations (i.e., typical timing of revenue recognition) are as follows.

(i) Sale of products, etc.
For revenues from the sale of products, etc., the Company has performance obligations to transfer products to the customer under the contract, the revenues are recognized on a delivery or acceptance date of goods when the customer gains control of the products. Revenues from the sale of products, etc., are measured by the amount deducted discounts and rebates from the consideration promised in the contract.

(ii) Construction contracts and rendering of services
Revenues from construction contracts and rendering of services are derived from the manufacturing of products based on orders from customers and maintenance of the associated products, and the Company has performance obligations to transfer goods or services to the customer under the contract. For construction contracts and rendering of services, revenue is recognized by reasonably measuring progress toward complete satisfaction of performance obligations to transfer control over goods or services over a certain period. The measurement of progress considers the nature of the goods or services promised to be transferred to the customer and is based on either the input method, based on the ratio of the estimated total costs of the entire transaction of the current cumulative cost incurred, or the output method, based on the ratio of the elapsed period to the entire contract period and the ratio of services provided up to now out of the total services planned to provide. If the Company is unable to reasonably estimate the measurement of progress but expects to recover the costs incurred, the Company recognizes revenue within the range of costs incurred.

Consideration for these performance obligations is usually received within one year from the fulfilment of the performance obligations. Significant financing components are not included in the consideration.
The Company provides a warranty that the product meets the specifications set forth in the contract, but since the product warranty does not provide a separate service, it is not distinguished as an independent performance obligation.
For transaction contracts that include changes in consideration, such as rebates and ex-post discounts, the variable price is estimated the extent that it is highly probable that a significant reversal in sales revenue will not occur when the uncertainty is resolved to determine the transaction price.

(f) Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid and low risk investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents in preparing the consolidated statements of cash flows.

(g) Allowance for doubtful receivables

An allowance for possible losses from notes and accounts receivable, loans and other receivables is provided based on past experience and the Companies' estimates of losses on collection.

(h) Assets and liabilities arising from derivative transactions

Assets and liabilities arising from derivative transactions are stated at fair value.

(i) Inventories

Inventories are stated mainly at historical cost computed using the specific identification cost method, the moving average cost method or the first-in, first-out method. The ending balance of inventories is measured at the lower of cost or market.

(j) Investment securities

The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2022 or 2021. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities other than equity securities and other items without market value are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities without market value are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by non-consolidated subsidiaries or affiliated companies or available-for-sale securities declines significantly, such securities are stated at market value, and the difference between the market value and the carrying amount is recognized as loss in the period of the decline. If the market value of equity securities issued by a non-consolidated subsidiary or affiliated company not subject to the equity method is not readily available, the securities should be written down to net asset value with a corresponding charge in the statements of income in the event the net asset value declines significantly. In these cases, the market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(k) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed mainly by the straight-line method over the estimated useful life of the asset.

(l) Intangible assets

Amortization of intangible assets, including software for the Company’s own use, is computed by the straight-line method over the estimated useful life of the asset.

An equivalent amount of goodwill is amortized by the straight-line method over the period the Company benefits from its use. If the amount is not significant, it is expensed when incurred.

(m) Provision for bonuses

Accrued bonuses for employees are provided for based on the estimated amount of payment.

(n) Provision for construction warranties

The provision for construction warranties is based on past experience or provided separately when it can be reasonably estimated.

(o) Provision for loss on construction contracts

A provision for loss on construction contracts at the fiscal year-end is made when substantial loss is anticipated for the next fiscal year and beyond and such loss can be reasonably estimated.

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

Of the costs related to the significant in-service issues of commercial aircraft jet engines that arose in the Rolls-Royce Trent 1000 engine program, in which the Company participates as a risk and revenue sharing partner, the Company has made a provision for the abnormal costs related to the in-service issues which the Company would cover as a member of this program.

(q) Retirement benefit liability

Employees who terminate their services with the Company or some consolidated domestic subsidiaries are generally entitled to lump-sum payments, the amounts of which are determined by reference to basic rates of pay at the time of termination and length of service.

The liabilities and expenses for retirement and severance benefits are determined based on amounts actuarially calculated using certain assumptions. The Company and its consolidated domestic subsidiaries provide the allowance for employees’ retirement and severance benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets, including assets in the retirement benefit trust.

Actuarial gains and losses and prior service costs are charged to income on a straight-line basis primarily over 10 years commencing with the following period and the current period, respectively. With regard to previously unrecognized actuarial gains and losses and unrecognized prior services costs, after adjusting for tax effects, the Company records any accumulated adjustment for retirement benefits as part of accumulated other comprehensive income within net assets.

In calculating retirement benefit obligations, the Company uses a benefit formula basis to attribute expected benefits to periods of service.

Employees of the Company's overseas consolidated subsidiaries are generally covered by various pension plans accounted for in accordance with generally accepted accounting principles in the respective country of domicile.

(r) Hedge accounting

The Company and its consolidated subsidiaries employ deferred hedge accounting. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.

(s) Finance leases

Lease assets under finance leases that transfer ownership of the lease assets to the lessee are amortized by the same method as that used for property, plant and equipment and intangible assets. Lease assets under finance leases that do not transfer ownership of the lease assets to the lessee are amortized by the straight-line-method over the lease term with zero residual value.

(t) Application of consolidated tax reporting

The Company and its wholly owned consolidated domestic subsidiaries file a consolidated tax return.

(u) Application of tax effect accounting for transition from the consolidated taxation system to the group tax sharing system

The Company and some of its domestic consolidated subsidiaries will transition from the consolidated taxation system to the group tax sharing system since the year ending March 31, 2023. Having regard to paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), however, the Company and its domestic consolidated subsidiaries do not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but apply provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system. "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021), which sets out accounting and disclosure of corporation and local taxes and tax effect accounting under the group tax sharing system, will be applied from the beginning of the year ending March 31, 2023.

3. Significant Accounting Estimates

Recoverability of deferred tax assets

(a) The ending balance of deferred tax assets recorded in the consolidated financial statements as of March 31, 2022 and 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
The ending balance of deferred tax assets recorded in the consolidated financial statements	¥ 86,249	¥ 70,452	$ 704,591

(b) Information on the content of significant accounting estimates for identified items

(i) Calculation method of estimates
Deferred tax assets are examined for recoverability based on the generation of taxable income and tax planning in certain future periods based on business plans.

(ii) Major assumptions used in calculating estimates
Forecasts of net sales and profits, which are the main elements of the business plan, are based on certain assumptions about future changes in economic conditions and other factors.

(iii) Effect on the consolidated financial statements for the following year
Future estimates are affected by future changes in economic conditions (such as the COVID-19 pandemic and Russia's invasion of Ukraine) and other factors. Although the Company reasonably estimates recoverability, changes in the terms of these estimates for the future could have a significant impact on the amount of deferred tax assets in the consolidated financial statements for subsequent fiscal years.

4. Changes in accounting policies

(i) Application of Accounting Standard for Revenue Recognition
The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 of March 31, 2020.) from the beginning of the fiscal year ended March 31, 2022 and recognizes revenue at the amount expected to be received in exchange for the promised goods or services when the control of the respective goods or services is transferred to the customer.

As a result of this adoption, a portion of the costs incurred in connection with the commercial aircraft jet engines program in which the Company is participating and which was previously recorded in cost of sales has been reduced from sales in consideration payable to a customer. As a result, the development contribution for the commercial aircraft jet engines program, which was previously accounted for in work in process, has been transferred to investments and other assets. In addition, for after-sales services in the commercial aircraft jet engines 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 the fulfillment of performance obligations, and variable consideration and consideration payable to a customer 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 commercial aircraft jet engines 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 consideration at the time of revenue recognition.

Regarding the application of the Accounting Standard for Revenue Recognition , in accordance with the transitional treatment prescribed in Paragraph 84, the cumulative effect of retroactive application of the new accounting policy prior to the beginning of the consolidated fiscal year is added to or subtracted from retained earnings at the beginning 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 recognized almost all amounts of revenue in accordance with the previous treatment prior to the beginning of the consolidated fiscal year by applying the method prescribed in Paragraph 86 of the Accounting Standard for Revenue Recognition. In addition, by applying the method prescribed in the proviso (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition, changes in contracts made prior to the beginning of the consolidated fiscal year are accounted for under the terms and conditions after reflecting all changes in the contracts, and the cumulative effect of such changes is recorded in the consolidated financial statements for the beginning of the consolidated fiscal year. The amount is adjusted to retained earnings at the beginning of the consolidated fiscal year.

Due to the application of the Accounting Standard for Revenue Recognition "notes and accounts receivable – trade," which was included in "current assets" in the consolidated balance sheets for the previous fiscal year, have been included in "notes and accounts receivable - trade and contract assets" from the beginning of the 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 beginning of the consolidated fiscal year, and "provision for sales promotion expenses" in "current liabilities" has 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.

As a result, compared with the figures before the application of the Accounting Standard for Revenue Recognition , net sales and cost of sales decreased respectively by ¥102,800 million ($839,801 thousand) and by ¥108,128 million ($883,327 thousand), and operating profit, ordinary profit and profit before income tax each increased by ¥5,327 million ($43,518 thousand). And, earnings per share increased by ¥22.12.

Due to the cumulative effect on net assets at the beginning of the consolidated fiscal year, the beginning balance of retained earnings decreased by ¥39,639 million ($323,822 thousand).

In accordance with the transitional treatment stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, there are no Notes on new standard in the Notes to Financial Statements.

(ii) Application of Accounting Standards for Fair Value Measurements

The Companies have applied the Accounting Standard for Fair Value Measurements (ASBJ Statement No. 30 of July 4, 2019.) from the beginning of the fiscal year ended March 31, 2022, 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 Company prospectively applies the new accounting policy set forth in the Accounting Standard for Fair Value Measurements There has been no impact on the consolidated financial statements.

In addition, the Company has decided to include notes regarding the matters related to the breakdown of the fair value of financial instruments by levels in the notes for "Financial Instruments." However, in accordance with the transitional treatment stipulated in Paragraph 7-4 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Statement No. 19 of July 4, 2019), those notes for the previous consolidated fiscal year are not stated.

5. Accounting standards issued but not yet adopted

The following guidance was issued but not yet adopted.

- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021)

(a) Overview

The treatment of the measurement and the notes of the fair value of investment trust, and the treatment of the notes of the fair value of investment in partnerships in which the amount corresponding to equity holding is recorded as a net basis on the balance sheet were stipulated.

(b) Effective date and effects of application of the standards

The Company has not evaluated the impact of the adoption of the accounting standard on the consolidated financial statements because it will voluntarily adopt the International Financial Accounting Standards (IFRS) from the next consolidated fiscal year.

6. Notes and accounts receivable - trade, and contract assets

The amount of receivables and contract assets arising from contracts with customers, among the notes and accounts receivable - trade, and contract assets, were as follow.

	2022	
	Millions of yen	Thousands of U.S. dollars
Notes receivable - trade	¥ 22,334	$ 182,452
Accounts receivable- trade	321,159	2,623,634
Contract assets	75,131	613,765

7. Accumulated depreciation of property, plant and equipment

Accumulated depreciation of property, plant and equipment as of March 31, 2022 and 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Accumulated depreciation of property, plant and equipment	¥ 941,530	¥ 891,135	$ 7,691,610

8. Securities

(a) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2022 and 2021 were as follows:

	2022			
	Millions of yen			Thousands of U.S. dollars
	Book value	Acquisition cost	Unrealized gains (losses)	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:				
Equity securities	¥ 3,418	¥ 1,250	¥ 2,167	$ 17,703
Other securities:				
Equity securities	489	632	(143)	(1,168)
Total	¥ 3,907	¥ 1,882	¥ 2,024	$ 16,535

	2021		
	Millions of yen		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 5,248	¥ 1,982	¥ 3,265
Other securities:			
Equity securities	317	390	(73)
Total	¥ 5,566	¥ 2,373	¥ 3,191

(b) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2022 and 2021 were as follows:

	2022					
	Millions of yen			Thousands of U.S. dollars		
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	¥ 5,717	¥ 2,138	¥ (17)	$ 46,704	$ 17,466	$ (139)

	2021		
	Millions of yen		
	Sales amounts	Gains	Losses
Equity securities:	¥ 1,396	¥ 776	¥ (4)

In the fiscal year ended March 31, 2021, the Company recognized the impairment losses of ¥1,444 million on investments in securities, which is on shares of subsidiaries and associates of ¥1,444 million.

Impairment losses on investment securities are recognized when there has been a significant decline in the market value. Investment securities for which the market value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and to be impaired. Investment securities for which the market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors.

9. Investments in non-consolidated subsidiaries and affiliates

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2022 and 2021 were ¥73,498 million ($600,425 thousand) and ¥80,843 million, respectively.

10.Claim for damages in overseas LNG tank construction work

The Company sustained losses (approximately ¥51 billion ($416,633 thousand)) due to breach of contract by an overseas construction subcontractor in connection with a certain overseas liquefied natural gas (LNG) tank construction project. The Company has filed a petition for arbitration on this matter with the International Chamber of Commerce (ICC). The Company plans to settle this matter through the arbitration process, and the expected amount recoverable through the arbitration process has been recorded in "Other" under "Investments and other assets."

11.Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2022 and 2021 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Short-term debt:			
Short-term borrowings, principally bank loans, bearing average interest rates of 0.79% and 0.61% as of March 31, 2022 and 2021, respectively	¥ 75,641	¥ 124,577	$ 617,932
Current portion of long-term borrowings, bearing average interest rates of 0.59% and 0.76% as of March 31, 2022 and 2021, respectively	20,467	17,001	167,200
Current portion of bonds payable, bearing average interest rates of 0.63% and 0.66% as of March 31, 2022 and 2021, respectively.	20,000	30,000	163,385
Lease obligations, current	1,175	1,061	9,599
Total short-term debt	¥ 117,283	¥ 172,640	$ 958,116
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2022 to 2032, bearing average interest rates of 0.41% and 0.44% as of March 31, 2022 and 2021, respectively.	¥ 214,764	¥ 216,179	$ 1,754,465
Notes and bonds issued by the Company:			
0.10–1.42% notes due in 2021	-	30,000	-
0.15-1.10% notes due in 2022	20,000	20,000	163,385
0.06-0.99% notes due in 2023	40,000	40,000	326,771
0.15-0.79% notes due in 2024	30,000	30,000	245,078
0.26-0.85% notes due in 2025	40,000	40,000	326,771
0.40% notes due in 2028	10,000	10,000	81,693
0.48% notes due in 2030	10,000	10,000	81,693
0.30% notes due in 2031	10,000	-	81,693
0.82% notes due in 2036	10,000	10,000	81,693
0.90% notes due in 2037	10,000	10,000	81,693
0.70-0.82% notes due in 2039	20,000	20,000	163,385
Long-term lease obligations	11,074	10,594	90,466
	425,838	446,773	3,478,784
Less portion due within one year	(41,642)	(48,063)	(340,185)
Total long-term debt	¥ 384,196	¥ 398,709	$ 3,138,600

As of March 31, 2022 and 2021, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen				Thousands of U.S. dollars	
	2022		2021		2022	
Investment securities		41		39		335
Stock of affiliated company		536		67		4,379
Other		13		13		106
Total	¥	590	¥	119	$	4,820

As of March 31, 2022 and 2021, debt secured by the above pledged assets was as follows:

	Millions of yen				Thousands of U.S. dollars	
	2022		2021		2022	
Notes and accounts payable - trade	¥	5	¥	5	$	41
Other		1		-		8
Total	¥	6	¥	5	$	49

The aggregate annual maturities of long-term debt as of March 31, 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars	
Year ending March 31				
2023	¥	41,642	$	340,185
2024		64,107		523,707
2025		59,863		489,037
2026		67,989		555,420
2027 and thereafter		192,235		1,570,419
Total	¥	425,838	$	3,478,784

12.Provision for loss on construction contracts

Inventories for construction contracts with substantial anticipated loss and the provision for loss on construction contracts were not offset. As of March 31, 2022 and 2021, the inventories for the construction contracts for which the provision for loss on construction contracts was provided were ¥7,796 million ($63,688 thousand) and ¥10,107 million, respectively. These amounts were all included in work in process.

13.Employees' retirement and severance benefits

1. Summary of retirement benefit plans adopted

The Company and its consolidated subsidiaries have severance lump-sum payment plans, defined benefit corporate pension plan, and cash balance plans (pension plans linked to market interest rates) as defined benefit plans and defined contribution pension plan as defined contribution plan. The Company has an employees' retirement benefit trust. Some consolidated subsidiaries apply a simple method including a method, in which an estimated amount required to be paid for voluntary retirement benefits at the end of the fiscal year is deemed as the retirement benefit obligations in the calculations of retirement benefit liability and retirement benefit expenses.

2. Defined benefit plans (including plans that apply a simplified method)

(1) Reconciliation of beginning-of-period and end-of-period balances of retirement benefit obligations

	Millions of yen				Thousands of U.S. dollars	
	2022		2021		2022	
Balance of retirement benefit obligations at beginning of period	¥	219,033	¥	217,954	$	1,789,339
Service cost		11,452		12,197		93,554
Interest cost		2,098		1,510		17,139
Actuarial gains and losses		(3,324)		(6,174)		(27,155)
Retirement benefits paid		(7,276)		(5,050)		(59,440)
Prior service cost		-		(3,575)		-
Other (foreign currency translation difference, etc.)		1,664		2,171		13,594
Balance of retirement benefit obligations at end of period	¥	223,648	¥	219,033	$	1,827,040

(2) Reconciliation of beginning-of-period and end-of-period balances of plan assets

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Balance of plan assets at beginning of period	¥ 103,732	¥ 88,243	$ 847,414
Expected return on plan assets	1,386	1,395	11,323
Actuarial gains and losses	11,933	13,771	97,484
Contributions paid by the employer	4,114	4,058	33,608
Retirement benefits paid	(4,306)	(3,528)	(35,177)
Other (foreign currency translation difference, etc.)	183	(207)	1,495
Balance of plan assets at end of period	¥ 117,044	¥ 103,732	$ 956,164

(3) Reconciliation between end-of-period balances of retirement benefit obligations and plan assets to liabilities and retirement benefit liability and retirement benefit asset presented on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Retirement benefit obligations on funded plan	¥ 188,640	¥ 185,834	$ 1,541,051
Plan assets	(117,044)	(103,732)	(956,164)
	71,595	82,101	584,879
Retirement benefit obligations on unfunded plan	35,008	33,199	285,990
Net amount of liabilities and assets presented on the consolidated balance sheets	106,603	115,300	870,868
Retirement benefit liability	106,803	115,456	872,502
Retirement benefit asset	(200)	(155)	(1,634)
Net amount of liabilities and assets presented on the consolidated balance sheets	¥ 106,603	¥ 115,300	$ 870,868

(4) Breakdown of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Service cost	¥ 11,452	¥ 12,197	$ 93,554
Interest cost	2,098	1,510	17,139
Expected return on plan assets	(1,386)	(1,395)	(11,323)
Amortization of actuarial gains and losses	614	4,015	5,016
Amortization of prior service costs	(20)	238	(163)
Retirement benefit expense related to defined benefit plan	¥ 12,759	¥ 16,566	$ 104,232

(5) Adjustments for retirement benefits
Adjustments for retirement benefits (before tax effects) comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Prior service cost	¥ (20)	¥ 3,813	$ (163)
Actuarial gains and losses	15,872	23,961	129,663
Total	¥ 15,852	¥ 27,775	$ 129,499

(6) Accumulated adjustments for retirement benefits
Accumulated adjustments for retirement benefits (before tax effects) comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unrecognized prior service cost	¥ 4,410	¥ 4,430	$ 36,026
Unrecognized actuarial gains and losses	10,267	(5,604)	83,874
Total	¥ 14,678	¥ (1,174)	$ 119,909

(7) Plan assets
(i) Main breakdown of plan assets
The breakdown of main asset categories as a percentage of total plan assets was as follows:

	2022	2021
Bonds	19%	21%
Equities	54%	55%
Cash and deposits	6%	5%
Others	21%	19%
Total	100%	100%

Note: As of March 31, 2022 and 2021, the employees' retirement benefit trust established as part of the retirement benefit plan is included in the plan assets and represented a 49% and 47% portion of the plan assets, respectively.

(ii) Method for setting long-term expected rate of return
To determine the expected rate of return on plan assets, the Company takes into account the current and expected allocation of plan assets and the expected present and future long-term rate of return on the diverse range of assets that makes up the plan assets.

(8) Underlying actuarial assumptions
The main underlying actuarial assumptions as of March 31, 2022 and 2021, respectively, were as follows:

	2022	2021
Discount rate	0.50-3.58%	0.42-3.01%
Long-term expected rate of return on plan assets	0.00-4.25%	0.00-5.50%
Rate of compensation increase	6.10-6.60%	6.10-6.60%

3. Defined contribution plan
As of March 31, 2022 and 2021, the required contribution by the Company and its consolidated subsidiaries to the defined contribution plan was ¥2,831 million ($23,127 thousand) and ¥2,597 million, respectively.

14. 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.

15. Contingent liabilities

Contingent liabilities as of March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
As guarantor of indebtedness of employees, non-consolidated subsidiaries, affiliates and others	¥ 26,514	¥ 24,086	$ 216,600

16. Net assets

Under the Japanese Corporate Law (“the Law”), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as capital reserve, which is included in capital surplus. Under the Law, if a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of capital reserve and legal earnings reserve must be set aside as capital reserve or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and capital reserve can be used to eliminate or reduce a deficit or capitalized by a resolution of the shareholders' meeting.

Capital reserve and legal earnings reserve may not be distributed as dividends. Under the Law, all capital reserve and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

17. Cost of sales

The ending balance of inventories was measured at the lower of cost or market. Gain on the valuation of inventories included in the cost of sales for the years ended March 31, 2022 was ¥2,766 million ($22,596 thousand). Loss on the valuation of inventories included in the cost of sales for the years ended March 31, 2021 was ¥3,379 million.

Provision for loss on construction contracts included in the cost of sales for the years ended March 31, 2022 and 2021 was ¥4,358 million ($35,602 thousand) and ¥12,209 million, respectively.

18. Research and development expenses

Research and development expenses included in selling, general and administrative expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Research and development expenses	¥ 47,098	¥ 44,949	$ 384,756

19. Reversal of the 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.

20. Gain on sale of non-current assets

Fiscal year ended March 31, 2022

Gain on sales of non-current assets for the fiscal year ended March 31, 2022 was due to the sale of the land of the Company in Yokkaichi, Japan.

Fiscal year ended March 31, 2021

Gain on sales of non-current assets for the fiscal year ended March 31, 2021 was due to the sale of dormitories and company housing of the Company and its subsidiary.

21. Gain on sale of shares of subsidiaries and associates

Gain on sale of shares of subsidiaries and associates for the fiscal year ended March 31, 2021 was due to the sale of shares of affiliates of subsidiaries.

22. Impairment losses

Year ended March 31, 2022

Impairment losses for the fiscal year ended March 31, 2022 was 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.

Year ended March 31, 2021

(a) Groups of assets for which the Company and its consolidated subsidiaries recognized impairment losses

Location	Use	Type of assets		Millions of yen Amount	Value of assets
Sakaide City, Kagawa,Japan	Business assets	Buildings and structures	¥	885	Net realizable value
		Machinery, equipment and vehicles		2,647	
		Other		544	
Hyogo Ward, Kobe City, etc., Japan	Business assets	Buildings and structures	¥	5,978	Value in use
		Machinery, equipment and vehicles		4,082	
		Other		1,068	
Total			¥	15,205	

(b) Method of grouping assets
Assets are grouped mainly by units of business, and important assets for lease and idle assets are treated as individual asset groups.

(c) Reasons for recognition of impairment losses
Due to a deterioration in business profit and loss, the Company reduced the book value of certain assets to the recoverable amount.

(d) Methods used to determine recoverable amounts
The recoverable amounts were determined by the net realizable value or value in use. Net realizable value is mainly based on real estate appraisals, and those that are difficult to sell or convert to other are stated at memorandum values. Value in use is calculated by discounting future cash flows at a discount rate of 5.5%.

23. Consolidated statement of comprehensive income

Amounts reclassified to profit (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unrealized gains (losses) on securities			
Increase (decrease) during the year	¥ 369	¥ 1,135	$ 3,014
Reclassification adjustments	(977)	(590)	(7,981)
Subtotal, before tax	(608)	544	(4,967)
Tax (expense) or benefit	83	(118)	678
Subtotal, net of tax	(524)	426	(4,281)
Deferred gains or losses on hedges			
Increase (decrease) during the year	(4,479)	58	(36,590)
Reclassification adjustments	3,999	(453)	32,669
Subtotal, before tax	(479)	(395)	(3,913)
Tax (expense) or benefit	142	110	1,160
Subtotal, net of tax	(337)	(284)	(2,753)
Foreign currency translation adjustments			
Increase (decrease) during the year	16,407	6,794	134,033
Reclassification adjustments	-	(66)	-
Subtotal, before tax	16,407	6,727	134,033
Tax (expense) or benefit	-	-	-
Subtotal, net of tax	16,407	6,727	134,033
Remeasurements of defined benefit plans			
Increase (decrease) during the year	15,258	23,521	124,647
Reclassification adjustments	594	4,254	4,853
Subtotal, before tax	15,852	27,775	129,499
Tax (expense) or benefit	(4,722)	(8,805)	(38,575)
Subtotal, net of tax	11,130	18,969	90,924
Share of other comprehensive income of entities accounted for using equity method			
Increase (decrease) during the year	9,218	4,496	75,304
Total other comprehensive income	¥ 35,895	¥ 30,335	$ 293,236

24. Dividends

(a) Dividends paid

Year ended March 31, 2022

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
November 9, 2021 Board of Directors Meeting	Common stock	¥3,357 million ($27,424 thousand)	¥20.0 ($0.16)	September 30, 2021	December 3, 2021

Note: The total amount of dividends declared by the resolution of the Board of Directors Meeting on November 9, 2021 includes dividends of ¥8 million ($65 thousand) for shares held by trusts whose beneficiaries are directors and others, which were set by the introduction of a performance-linked stock compensation plan.

Year ended March 31, 2021

Not applicable.

(b) Dividend payments for which the record date is in the subject fiscal year but the effective date is in the succeeding consolidated fiscal year

Year ended March 31, 2022

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 24, 2022 General Meeting of Shareholders	Common stock	¥3,357 million ($27,424 thousand)	¥20.0 ($0.16)	March 31, 2022	June 27, 2022

Note: The total amount of dividends declared by the resolution of the General Meeting of Shareholders on June 24, 2022 includes dividends of ¥8 million ($65 thousand) for shares held by trusts whose beneficiaries are directors and others, which were set by the introduction of a performance-linked stock compensation plan.

Year ended March 31, 2021

Not applicable.

25. Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporate tax (national tax) and enterprise and inhabitants' taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 30.5% for the years ended March 31, 2022 and 2021.

(a) The significant differences between the statutory and effective tax rates for the years ended March 31, 2022 and 2021 were as follows:

	2022	2021
Statutory tax rate	30.5%	-
Valuation reserve	(21.6)	-
Equity in income of non-consolidated subsidiaries and affiliates	14.3	-
Tax credit for research and development expenses	(1.1)	-
Elimination of unrealized profits	0.9	-
Retained earnings for foreign subsidiaries	5.0	-
Tax rate difference between subsidiaries	(5.3)	-
Other	(0.4)	-
Effective tax rate	22.3%	-

The statutory and effective tax rates are omitted because loss before income taxes was recorded for the fiscal year ended March 31, 2021.

(b) Significant components of deferred tax assets and liabilities as of March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deferred tax assets:			
Provision for bonuses	¥ 8,136	¥ 6,082	$ 66,465
Retirement benefit liability	42,299	43,543	345,552
Loss from inventory revaluation	3,561	3,326	29,091
Unrealized loss on marketable securities, investment securities and other	1,576	2,398	12,875
Loss on valuation of land	774	769	6,323
Allowance for doubtful receivables	1,202	1,136	9,819
Depreciation	13,134	13,850	107,295
Inventories – elimination of intercompany profits	1,222	206	9,983
Fixed assets – elimination of intercompany profits	462	489	3,774
Provision for construction warranties	3,841	3,220	31,378
Provision for loss on construction contracts	2,986	4,409	24,393
Provision for the in-service issues of commercial aircraft jet engines	932	1,826	7,614
The differences of revenue recognition for tax purposes	13,810	-	112,818
Net operating loss carryforwards	13,844	14,370	113,095
Other	13,733	11,704	112,189
Gross deferred tax assets	121,520	107,336	992,729
Valuation allowance for tax loss carryforwards(*ii)	(5,726)	(3,892)	(46,777)
Valuation allowance for total deductible temporary differences	(14,143)	(18,322)	(115,538)
Less valuation allowance(*i)	(19,870)	(22,214)	(162,323)
Total deferred tax assets	101,649	85,121	830,398
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	2,289	2,374	18,699
Reserve for special depreciation	640	845	5,228
Net unrealized gain on securities	821	897	6,707
Retained earnings for foreign subsidiaries	10,279	8,753	83,972
Other	2,963	2,924	24,206
Total deferred tax liabilities	16,993	15,795	138,820
Net deferred tax assets	¥ 84,655	¥ 69,326	$ 691,569

(*i) Valuation allowance decreased by ¥2,344million ($19,149 thousand). This decrease is due mainly to a decrease in the valuation allowance for total deductible temporary differences as a result of reviewing the recoverability of the company's deferred tax assets.
(*ii) Amount of tax loss carryforwards and deferred tax assets by expiration date

Year ended March 31, 2022

	2022						
	Millions of yen						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Net tax loss carried forward(*a)	¥ 1	¥ 3	¥ 2	¥ 210	¥ 17	¥ 13,609	¥ 13,844
Valuation allowance	(0)	(2)	(1)	(0)	(0)	(5,721)	(5,726)
Deferred tax assets	0	1	0	209	17	7,887	(*b)8,117

(*a) Tax loss carryforwards are calculated by multiplying the statutory tax rate.
(*b) Deferred tax assets of ¥8,117 million ($66,310 thousand) was allocated to tax loss carryforwards of ¥13,844 million ($113,095 thousand) (the amount obtained by multiplying the statutory and effective tax rate). The deferred tax assets were primarily recognized as part of tax loss carryforwards of the Company. The tax loss carryforwards that allocated the deferred tax assets were primarily due to the recording of a loss before income taxes in the year ended March 31, 2021, and by prospecting future taxable income, the Company has determined that it will be recoverable and has not recognized a valuation allowance.

Year ended March 31, 2021

	2021						
	Millions of yen						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Net tax loss carried forward(*c)	¥ 0	¥ 1	¥ 4	¥ 2	¥ 244	¥ 14,117	¥ 14,370
Valuation allowance	(0)	(0)	(1)	(1)	(0)	(3,888)	(3,892)
Deferred tax assets	0	0	2	1	244	10,228	(*d)10,478

(*c) Tax loss carryforwards are calculated by multiplying the statutory tax rate.
(*d) Deferred tax assets of ¥10,478 million was allocated to tax loss carryforwards of ¥14,370 million (the amount obtained by multiplying the statutory and effective tax rate). The deferred tax assets were primarily recognized as part of tax loss carryforwards of the Company. The tax loss carryforwards that allocated the deferred tax assets were primarily due to the recording of a loss before income taxes in the year ended March 31, 2021, and by prospecting future taxable income, the Company has determined that it will be recoverable and has not recognized a valuation allowance.

Year ended March 31, 2022

	2022						
	Thousands of U.S. dollars						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Net tax loss carried forward	$ 8	$ 25	$ 16	$ 1,716	$ 139	$ 111,176	$ 113,095
Valuation allowance	(0)	(16)	(8)	(0)	(0)	(46,736)	(46,777)
Deferred tax assets	0	8	0	1,707	139	64,431	66,310

26. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and deposits:	¥ 114,469	¥ 126,702	$ 935,128
Time deposits with maturities over three months:	(5,957)	(4,536)	(48,664)
Total	¥ 108,511	¥ 122,166	$ 886,455

27. Content of important non-cash transactions

Year ended March 31, 2022

Not applicable.

Year ended March 31, 2021

The Company and its subsidiaries have recorded assets and liabilities of ¥9,265 million for finance leases relating to the dormitories and the company housing.

28. Profit/ loss per share

Per share amounts for the years ended March 31, 2022, and 2021 were set forth in the table below.

	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars 2022
Basic earnings per share:			
Profit (loss) attributable to owners of parent	¥ 21,801	¥ (19,332)	$ 178,098
Profit (loss) allocated to common stock	21,801	(19,332)	178,098
	Number of shares in millions		
Weighted average number of shares of common stock	167	167	

(i) As the Company had no dilutive securities at March 31, 2022 or 2021, the Company has not disclosed diluted earnings per share for the years ended March 31, 2022 and 2021.
(ii) The company's shares held by trusts whose beneficiaries are directors and others recorded as treasury shares under shareholders' equity include the number of shares held in treasury to be deducted from the calculation of the average number of shares during respective periods in computing the profit per share and include the number of shares held in treasury to be deducted from the total number of shares issued as of period-end in computing the net assets per share. (At the end of this consolidated fiscal year: 409,600 shares).

29. Derivative transactions

(a) Outstanding positions and recognized gains and losses at March 31, 2022 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

	2022				
	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell					
USD	¥ 78,407	¥ -	¥ (6,855)	¥ (6,855)	$ (56,000)
EUR	12,757	-	(637)	(637)	(5,204)
Others	37,608	-	(1,423)	(1,423)	(11,625)
To purchase					
USD	19,760	-	1,637	1,637	13,373
EUR	8,889	-	447	447	3,652
Others	29,270	-	1,406	1,406	11,486
Total	¥ 186,694	¥ -	¥ (5,424)	¥ (5,424)	$ (44,310)

(Derivative transactions to which the Company applied hedge accounting)

	2022			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency related contracts:				
Foreign exchange contracts				
To sell	Accounts receivable - trade			
USD		¥ 21,706	¥ 340	¥ (1,600)
EUR		5,114	-	(253)
Others		1,072	-	(116)
To purchase	Accounts payable - trade			
USD		4,334	1,129	278
EUR		1,908	601	121
Others		8,911	1,027	567
Total		¥ 43,048	¥ 3,098	¥ (1,003)

	2022						
		Thousands of U.S. dollars					
	Subject of hedge	Contract amount		Contract amount over 1 year		Fair value	
Currency related contracts:							
Foreign exchange contracts							
To sell	Accounts receivable - trade						
USD		$	177,322	$	2,778	$	(13,071)
EUR			41,778		-		(2,067)
Others			8,757		-		(948)
To purchase	Accounts payable - trade						
USD			35,406		9,223		2,271
EUR			15,587		4,910		988
Others			72,796		8,390		4,632
Total		$	351,671	$	25,308	$	(8,194)

	2022						
		Millions of yen					
	Subject of hedge	Contract amount		Contract amount over 1 year		Fair value	
Interest related contracts:							
Fixed-rate payment/floating-rate receipt	Long-term borrowings	¥	19,500	¥	19,500	¥	(48)
		¥	19,500	¥	19,500	¥	(48)

	2022						
		Thousands of U.S. dollars					
	Subject of hedge	Contract amount		Contract amount over 1 year		Fair value	
Interest related contracts:							
Fixed-rate payment/floating-rate receipt	Long-term borrowings	$	159,301	$	159,301	$	(392)
		$	159,301	$	159,301	$	(392)

(b) Outstanding positions and recognized gains and losses at March 31, 2021 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

	2021							
	Millions of yen							
	Contract amount		Contract amount over 1 year		Fair value		Gain (loss)	
Currency related contracts:								
Foreign exchange contracts:								
To sell								
USD	¥	83,864	¥	-	¥	(3,386)	¥	(3,386)
EUR		5,762		-		(69)		(69)
Others		10,427		-		(477)		(477)
To purchase								
USD		2,082		-		35		35
EUR		164		1		13		13
Others		11,199		-		396		396
Total	¥	113,501	¥	1	¥	(3,487)	¥	(3,487)

(Derivative transactions to which the Company applied hedge accounting)

	Subject of hedge	2021 Millions of yen Contract amount		Contract amount over 1 year		Fair value
Currency-related contracts:						
Foreign exchange contracts						
To sell	Accounts receivable - trade					
USD		¥ 29,391	¥	7,802	¥	(857)
EUR		3,345		-		(47)
Others		2,964		946		(48)
To purchase	Accounts payable - trade					
USD		5,460		827		233
EUR		1,784		652		83
Others		5,399		568		211
Total		¥ 48,346	¥	10,796	¥	(424)

	Subject of hedge	2021 Millions of yen Contract amount		Contract amount over 1 year		Fair value
Interest related contracts:						
Fixed-rate payment/floating-rate receipt	Long-term borrowings	¥ 19,500	¥	19,500	¥	(161)
		¥ 19,500	¥	19,500	¥	(161)

30. Financial instruments

Information related to financial instruments as of March 31, 2022 and 2021 was as follows.

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments
The Companies meet its long-term operating capital and capital expenditure requirements through bank loans and the issuance of bonds and meets its short-term operating capital requirements through bank loans and the issuance of short-term bonds (electronic commercial paper). Temporary surplus funds are managed in the form of financial assets that have a high level of safety. The Company utilizes derivative financial instruments to hedge the risks described below and does not engage in speculative transactions as a matter of policy.

(b) Details of financial instruments and risks associated with those instruments
Notes and accounts receivable – trade are exposed to the credit risk of customers. The Company operates internationally and has significant exposure to the risk of fluctuation in foreign currency exchange rates. However, this risk is hedged using exchange contracts, etc., against the net position of foreign currency exposure. Investments in securities comprise mainly equity securities of companies with which the Company conducts business and are held to maintain relationships with these business partners. With such securities, listed stocks are exposed to market fluctuation risk.

Almost all notes and accounts payable – trade and electronically recorded obligations are due within one year. A portion of accounts payable - trade are denominated in foreign currency, specifically those related to payment for imported materials, etc., and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of accounts payable - trade denominated in foreign currency being less than the position of receivables in the same currency. Borrowings and bonds payable are used mainly to raise operating capital and carry out capital expenditure and are due in a maximum of eighteen years from March 31, 2022 (twenty years in 2021). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest rate and currency swaps) as necessary.

In sum, derivatives comprise exchange and currency option contracts used to hedge foreign currency fluctuation risk on receivables and payables in foreign currencies and interest rate swap contracts to hedge interest rate fluctuation risk on debt. With regard to hedge accounting, see Note 2(r), "Hedge accounting."

(c) Risk management system for financial instruments
(i) Management of credit risk, including customer default risk
The Company's sales management functions and those of its consolidated subsidiaries regularly evaluate the financial condition and circumstances of customers and monitor the due dates and balances by customer to identify and manage doubtful accounts.

With regard to derivative transactions, the Company enters into contracts with highly rated financial institutions to reduce counterparty risk. The amount presented in the balance sheet is the maximum credit risk at the fiscal year-end of the financial instruments that are exposed to credit risk.

(ii) Management of market risk (related to foreign currency exchange rates, interest rates, etc.)
The Company and certain of its consolidated subsidiaries hedge foreign currency fluctuation risk on receivables and payables in foreign currencies using mainly exchange contracts, which are categorized by the type of currency and the monthly due date. In principle, the net position of receivables less payables in a foreign currency is hedged mainly with forward exchange contracts. The Company and certain of its consolidated subsidiaries hedge interest rate risk on debt using interest rate swap contracts and currency swap contracts.

With regard to investments in securities, the Company reviews its holding policies through periodic analysis of market prices and the financial condition of the issuers, taking into consideration the relationships with its business partners.

With regard to derivatives, in accordance with rules for the provision of transaction authorization, the Company's finance functions and those of its consolidated subsidiaries manage transactions in accordance with an established set of fundamental policies, such as those covering limitations on transaction amounts, under the authority of the director in charge of finance. Transactions are reported to the director in charge of finance on a monthly basis. Consolidated subsidiaries manage derivatives in accordance with the same rules as those of the Company.

(iii) Management of liquidity risk (risk of the Company being unable to meet its payment obligations by their due dates)
The Company manages liquidity risk through its finance department, maintaining and updating its finance plans based on reports from each business division. Liquidity risk is managed through the diversification of financing methods, taking into consideration the financing environment and balancing long-term and short-term financing requirements, securing commitment lines, etc.

(d) Supplemental information on the fair value of financial instruments
As variables are inherent in the calculations of the fair value of financial instruments, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described in Note 29, "Derivative transactions," these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments
The book values, the fair values and the differences between these values as of March 31, 2022 were as follows:

	2022			
	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Investment securities (*ii)	¥ 4,112	¥ 4,112	¥ -	$ -
Total assets	¥ 4,112	¥ 4,112	¥ -	$ -
Long-term debt, less current portion (excluding lease obligations)	374,297	371,862	(2,434)	(19,884)
Total liabilities	¥ 374,297	¥ 371,862	¥ (2,434)	$ (19,884)
Derivative transactions (*iii)	¥ (6,476)	¥ (6,476)	¥ -	$ -

(*i) "Cash and deposits," " Notes and accounts receivable – trade," "Notes and accounts payable- trade," "Electronically recorded obligations - operating," "Short-term borrowings," and "Current portion of bonds payable" are omitted because these items are cash and settled within a short period of time and their fair values are approximately equal to the book values.

(*ii) Stocks and other items without market values are not included in "Investment securities." The book values of these financial instruments were as follows.

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Unlisted equity securities and investments in partnerships	¥ 10,426	$ 85,173
Stocks of nonconsolidated subsidiaries and affiliates	12,540	102,443
Investments in affiliates	60,958	497,982
Total	¥ 83,925	$ 685,606

(*iii) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses ( ) indicate that the net amount is a liability.

The book values, fair values and the differences between these values as of March 31, 2021 were as follows:

	2021		
	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Notes and accounts receivable - trade	¥ 460,436	¥ 460,462	¥ 25
Investment securities (*ii)	5,566	5,566	-
Total assets	¥ 466,002	¥ 466,028	¥ 25
Long-term debt, less current portion (excluding lease obligations)	389,177	389,161	(15)
Total liabilities	¥ 389,177	¥ 389,161	¥ (15)
Derivative transactions (*iii)	¥ (4,074)	¥ (4,074)	¥ -

(*i) "Cash and deposits," "Notes and accounts payable- trade," "Electronically recorded obligations - operating," "Short-term borrowings," and " Current portion of bonds payable" are omitted because these items are cash and settled within a short period of time and their fair values are approximately equal to the book values.

(*ii) Financial instruments for which the fair value is extremely difficult to determine.

	Millions of yen
	2021
Unlisted equity securities	¥ 6,961
Convertible bonds	194
Stocks of nonconsolidated subsidiaries and affiliates	11,487
Investments in affiliates	69,355
Total	¥ 87,999

Since no market values are available for these items and since it is extremely difficult to determine their fair values, the items listed in the table above are not included in "Investment Securities."

(*iii) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses ( ) indicate that the net amount is a liability.

(i) Planned redemption amounts after the balance sheet date for monetary receivables and investment securities with maturity dates as of March 31, 2022 and 2021 were as follows:

	2022			
	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	¥ 114,469	¥ -	¥ -	¥ -
Notes and accounts receivable - trade	322,208	21,285	-	-
Investment securities	-	205	-	-
Total	¥ 436,677	¥ 21,490	¥ -	¥ -

	2022			
	Thousands of U.S. dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	$ 935,128	$ -	$ -	$ -
Notes and accounts receivable - trade	2,632,203	173,883	-	-
Investment securities	-	1,675	-	-
Total	$ 3,567,331	$ 175,558	$ -	$ -

	2021			
	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	¥ 126,702	¥ -	¥ -	¥ -
Notes and accounts receivable - trade	434,034	26,402	-	-
Investment securities	-	194	-	-
Total	¥ 560,736	¥ 26,597	¥ -	¥ -

(ii) Planned repayment amounts after the balance sheet date for bonds payable and long-term borrowings.

See Note 11, "Short-term debt and long-term debt."

(3) Matters related to breakdown of fair value of financial instruments by levels

Fair values of financial instruments are categorized into the following three levels in accordance with the observability and significance of the inputs related to the measurement of the fair values.

Level 1 : Fair values measured at quoted prices (unadjusted) for identical assets or liabilities in active markets
Level 2 : Fair values measured by using directly or indirectly observable inputs other than Level 1 inputs
Level 3 : Fair values measured by using significant unobservable inputs

If multiple inputs are used that significantly affect the fair value measurement, the fair value is categorized into the lowest priority level in the fair value measurement hierarchy among the levels of those inputs.

(a) Financial instruments recorded on the consolidated balance sheets at fair value

	2022			
	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities	¥ 3,907	¥ -	¥ -	¥ 3,907
Other	-	-	205	205
Derivative transactions				
Currency related contracts	-	4,498	-	4,498
Interest related contracts	-	-	-	-
Total assets	3,907	4,498	205	8,610
Derivative transactions				
Currency related contracts	-	10,925	-	10,925
Interest related contracts	-	48	-	48
Total liabilities	¥ -	¥ 10,974	¥ -	¥ 10,974

	2022			
	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities	$ 31,917	$ -	$ -	$ 31,917
Other	-	-	1,675	1,675
Derivative transactions				
Currency related contracts	-	36,745	-	36,745
Interest related contracts	-	-	-	-
Total assets	31,917	36,745	1,675	70,337
Derivative transactions				
Currency related contracts	-	89,249	-	89,249
Interest related contracts	-	392	-	392
Total liabilities	$ -	$ 89,650	$ -	$ 89,650

(b) Financial instruments other than financial instruments recorded on the consolidated balance sheets at fair value

	2022			
	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term debt, less current portion (excluding lease obligations)	-	371,862	-	371,862
Total liabilities	¥ -	¥ 371,862	¥ -	¥ 371,862

	2022			
	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term debt, less current portion (excluding lease obligations)	-	3,037,840	-	3,037,840
Total liabilities	$ -	$ 3,037,840	$ -	$ 3,037,840

(*) Valuation techniques used in measurement of fair value and explanation of inputs pertaining to the measurement of fair value

- Investment securities
Listed stocks are evaluated using their quoted price. Since listed stocks are traded in active markets, their fair values are categorized into Level 1.

- Bonds payable
The fair value of bonds payable is stated at the market price. Since they are not traded in active markets, but quoted prices are available, their fair values are categorized into Level 2.

- Long-term debt
Since the total amount of principal and interest is discounted by using an interest rate that would be applied on equivalent new borrowing, their fair values are categorized into Level 2.

- Derivatives
Foreign exchange contracts are based on the applicable forward exchange rate on the last day of the reporting period, and since interest rate swaps are measured by discounting to the present value by expected future cash flows based on the interest rate on the last day of the reporting period and measured by using observable inputs, their fair values are categorized into Level 2.

31. Finance leases

Finance lease transactions without transfer of ownership

(i) Contents of lease assets
Property, plant and equipment
Mainly assets relating to dormitories and company housing of the Company and its subsidiaries.

(ii) Depreciation method of leased assets
See Note 2(s),"Finance leases."

32. Operating leases

The schedule of future minimum lease payments under non-cancellable operating leases as of March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Within one year	¥ 5,677	¥ 5,631	$ 46,377
Over one year	24,105	26,351	196,920
Total	¥ 29,782	¥ 31,983	$ 243,297

33. Business Combination

Transaction Under Common Control
On October 1, 2021, the Rolling Stock Business and the Motorcycle & Engine Business of the Company were transferred to Kawasaki Railcar Manufacturing Co., Ltd. and Kawasaki Motors, Ltd. based on a Company Split (simplified absorption-type company split).

(a) Overview of the Transaction

(i) Name and business of the company involved in business combination
The Rolling Stock Business and the Motorcycle & Engine Business

(ii) Date of business combination
October 1, 2021

(iii) Legal form of business combination
An absorption-type company split (simplified absorption-type split) in which the Company's wholly-owned subsidiaries, Kawasaki Railcar Manufacturing Co., Ltd. and Kawasaki Motors, Ltd. are the successor companies and the Company is the split company.

(iv) Name of the acquired company after the combination
No change

(v) Overview and purpose of the transaction
[Rolling Stock Business]
Railways, which are an environmentally-friendly means of public transportation and an integral part of our daily life, are projected to achieve stable global market growth. This trend is anticipated to be driven by urban transportation initiatives to reduce congestion and improve the environment in large cities experiencing high population concentration,

and the need to develop railway transportation in Asian countries together with their economic development. On the other hand, the impact of the COVID-19 pandemic has caused railway operations in Japan to review their investment plans in response to declining passenger numbers, while overseas, delays have been occurring in the construction of new railway lines. Based on this view of the market situation, the Rolling Stock Business became the successor company with the aim to establish a system that will take agile and flexible measures, including through close alliances and collaboration with industry partners, to respond to the demand for railway systems overall and provide solutions to railway operators.

[Motorcycle & Engine Business]
The power sports business and general-purpose engine business, including motorcycles and off-road four-wheelers, are entering into a once-in-a-century industrial revolution represented by CASE*, and collaborating with environmental regulation, electrification, and advanced safety technologies. The power sports business, a mainstay business, is the Company's only B to C business and has business characteristics that require flexible and bold decision making. In such a business environment, through the company split, the Motorcycle & Engine Business became the successor company with the aim of building a stronger brand and achieving sustainable business growth by carrying out quick and responsive management by establishing an autonomous business operation system and proposing new lifestyles through the provision of products and services that are closely related to customers.
*Acronym CASE: Connected, Autonomous/Automated, Shared, and Electric

(b) Accounting method

The Company processes transactions under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).

34. Revenue Recognition

(a) Disaggregating revenue from contracts with customers

The Company is basically composed of six core businesses: Aerospace Systems, Rolling Stock, Energy Solution & Marine Engineering, Precision Machinery & Robot, Motorcycles & Engine, and Other. To understand the revenue generated from contracts with customers, the revenue in some of the reportable segments (Aerospace Systems and Precision Machinery & Robots) described in Segment Information is reported by product type.

Revenues from transactions in the Precision Machinery & Robot Business, Motorcycle & Engine Business, and Other Business are recognized on the date of delivery or acceptance of the goods in principle due to the performance obligations being mainly satisfied at that point in time. Transactions in the Aerospace Systems Business, Rolling Stock Business and Energy Solution & Marine Engineering Business include performance obligations that are satisfied at that point in time, as well as performance obligations that are satisfied over a certain period, and revenues are recognized by reasonable progress. Many of the Company's transactions are measured by the progress by using the input method, which is mainly based on costs incurred, while the output method is used for some of the services provided in Aerospace Systems, Rolling Stock and Energy Solution & Marine Engineering (maintenance contracts, etc.).

(i) Breakdown by product type
Year ended March 31, 2022

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Motorcycle & Engine	Other	Total
Aerospace	¥ 232,025						¥ 232,025
Jet Engines	66,186						66,186
Rolling Stock		¥ 126,684					126,684
Energy & Plant & Marine Machinery			¥ 232,324				232,324
Ship & Offshore Structure			64,981				64,981
Precision Machinery				¥ 163,117			163,117
Robot				89,560			89,560
Motorcycle & Engine					¥ 447,927		447,927
Other						¥ 78,070	78,070
Revenue from contracts with customers	¥ 298,212	¥ 126,684	¥ 297,306	¥ 252,678	¥ 447,927	¥ 78,070	¥1,500,879

Year ended March 31, 2022

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Motorcycle & Engine	Other	Total
Aerospace	$ 1,895,474						$ 1,895,474
Jet Engines	540,691						540,691
Rolling Stock		$ 1,034,915					1,034,915
Energy & Plant & Marine Machinery			$ 1,897,917				1,897,917
Ship & Offshore Structure			530,847				530,847
Precision Machinery				$ 1,332,546			1,332,546
Robot				731,640			731,640
Motorcycle & Engine					$ 3,659,235		3,659,235
Other						$ 637,775	637,775
Revenue from contracts with customers	$ 2,436,174	$ 1,034,915	$ 2,428,772	$ 2,064,194	$ 3,659,235	$ 637,775	$1,2261,082

(ii) Breakdown by region
Year ended March 31, 2022

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Motorcycle & Engine	Other	Total
Japan	¥ 179,415	¥ 74,636	¥ 234,172	¥ 68,009	¥ 36,761	¥ 71,481	¥ 664,476
United States	83,756	34,396	1,786	22,735	214,961	309	357,945
Europe	30,790	-	7,809	11,342	72,910	145	122,998
Asia	5	17,651	27,803	144,156	82,597	5,371	277,586
Other areas	4,244	-	25,734	6,434	40,696	761	77,872
Revenue from contracts with customers	¥ 298,212	¥ 126,684	¥ 297,306	¥ 252,678	¥ 447,927	¥ 78,070	¥1,500,879

Year ended March 31, 2022

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Motorcycle & Engine	Other	Total
Japan	$ 1,465,689	$ 609,721	$ 1,913,014	$ 555,584	$ 300,310	$ 583,947	$ 5,428,282
United States	684,225	280,990	14,590	185,728	1,756,074	2,524	2,924,148
Europe	251,532	-	63,794	92,656	595,621	1,185	1,004,804
Asia	41	144,196	227,130	1,177,649	674,757	43,877	2,267,674
Other areas	34,670	-	210,228	52,561	332,456	6,217	636,157
Revenue from contracts with customers	$ 2,436,174	$ 1,034,915	$ 2,428,772	$ 2,064,194	$ 3,659,235	$ 637,775	$1,2261,082

(b) Information that is the basis for understanding revenue generated from contracts with customers
See Note 2(e), "Revenue recognition," for the information that is the basis for understanding revenue generated from contracts with customers.

(c) Information based on the relationship between the satisfaction of performance obligations under contracts with customers and the cash flows arising from the contracts and the amount and timing of revenue expected to be recognized after the next consolidated fiscal year from the contracts with the customers that exist at the end of this consolidated fiscal year.

(i) Balance of Contract Assets and Contract liabilities

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Revenue from contracts with customers at beginning of period	¥ 323,402	$ 2,641,957
Revenue from contracts with customers at end of period	343,493	2,806,086
Contract assets at beginning of period	106,270	868,148
Contract assets at end of period	75,131	613,765
Contract liabilities at beginning of period	159,476	1,302,802
Contract liabilities at end of period	¥ 256,189	$ 2,092,876

Receivables arising from contracts with customers are included in "Notes and accounts receivable - trade, and contract assets" in the consolidated balance sheets.

Contract assets are, under contracts with performance obligations satisfied mainly over a certain period, excluded receivables from the rights to the consideration received in exchange for the satisfaction of performance obligations measured by the progress at the end of each reporting period.

Contract assets are reclassified as receivables arising from contracts with customers when the right to the consideration becomes unconditional, which required only the passage of time.

Contract liabilities include advances received from customers, and others.

Contract liabilities increased by ¥96,713 million ($790,074 thousand) in this consolidated fiscal year. It was due mainly to transactions in the Aerospace Systems segment. There were no significant changes in the balance of contract assets.

The amount of recognized revenues included in the contract liability balance as of the beginning of the fiscal year was ¥149,791 million ($1,223,683 thousand) for this consolidated fiscal year. In addition, in this consolidated fiscal year, the amount of revenue recognized from the satisfaction of performance obligations in the prior period was not significant.

(ii) Transaction price allocated to the remaining performance obligations

The total transaction price allocated to the remaining performance obligations and the period in which revenues are expected to be recognized are as follows. There was no significant variable consideration which was not included in the transaction price among the consideration arising from contracts with customers.

2022						
Millions of yen						
Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Motorcycle & Engine	Other	Total
¥ 619,877	¥ 388,184	¥ 507,161	¥ 88,435	¥ -	¥ 27,709	¥ 1,631,366

Note: Since production in the Motorcycle & Engine segment is based mainly on estimated demand, the transaction price allocated to the remaining obligations is not stated.

2022						
Thousands of U.S. dollars						
Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Motorcycle & Engine	Other	Total
$ 5,063,941	$ 3,171,179	$ 4,143,134	$ 722,449	$ -	$ 226,362	$ 13,327,065

The remaining performance obligations of each reporting segment are estimated to be recognized as revenue in the following period from the end of this consolidated fiscal year.

・Aerospace Systems: About 90% are within 3 years, and about 10% are over 3 years
・Rolling Stock: About 90% are within 3 years, and about 10% are over 3 years
・Energy Solution & Marine Engineering: About 90% are within 5 years, and about 10% are over 5 years
・Precision Machinery & Robot: Within 1 year
・Other: Within 1 year

35. Segment information

(a) 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 six reportable segments are the Aerospace Systems segment, the Rolling Stock segment, Energy Solution & Marine Engineering segment, the Precision Machinery & Robot segment, the Motorcycle & Engine segment, and the Other segment.

From the beginning 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”, “Rolling Stock”, “Energy Solution & Marine Engineering”, “Precision Machinery & Robot”, “Motorcycle & Engine”, and “Other”. Segment information for the previous consolidated fiscal year is presented using the new classification method.

Main segment businesses are listed below.

Business segments	Major products
Aerospace Systems	Production and sale of aircraft, aircraft jet engines, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Energy Solution & Marine Engineering	Production and sale of energy-related machinery and system, marine machinery and system, industrial equipment, environmental equipment, ultralow temperature tank, hydrogen-related structures, crushers, ships and other vessels, etc.
Precision Machinery & Robot	Production and sale of industrial hydraulic products, industrial robots, etc.
Motorcycle & Engine	Production and sale of motorcycles, vehicles of off-road models (SxS, ATV), personal watercraft (“JET SKI”), general-purpose gasoline engines, etc.
Other	Commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

(b) 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 profit. Inter-segment earnings and transfers are based on market prices.
As stated in Changes in Accounting Policies, the Company has applied the Accounting Standard for Revenue Recognition, etc. from the beginning 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 ¥79,490 million ($649,375 thousand), segment loss improved ¥5,202 million ($42,497 thousand), net sales of the “Rolling stock” segment decreased by ¥55 million ($449 thousand), segment profit increased by ¥0 million ($0 thousand), net sales of the “Energy Solution & Marine Engineering” segment increased by ¥328 million ($2,680 thousand), segment profit increased by ¥66 million ($539 thousand), and net sales of “Other” decreased by ¥23,582 million ($192,648 thousand), segment profit increased by ¥58 million ($474 thousand).

(c) Sales, Profit (loss), assets, liabilities, and other items by reportable segment

Year ended March 31, 2022

	Sales			Segment profit (loss)	Segment assets	Other items			
	External sales	Intersegment sales or transfer	Total			Depreciation	Impairment losses	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
	Millions of yen								
Aerospace Systems	¥ 298,212	¥ 10,123	¥ 308,335	¥ (9,702)	¥ 746,450	¥ 23,350	¥ -	¥ -	¥ 10,755
Rolling Stock	126,684	33	126,718	3,288	213,462	1,244	-	173	1,922
Energy Solution & Marine Engineering	297,306	15,936	313,243	1,166	450,045	4,601	715	65,309	4,483
Precision Machinery & Robot	252,678	19,746	272,425	16,607	238,338	10,713	-	3	11,544
Motorcycle & Engine	447,927	845	448,773	37,338	288,876	14,447	-	815	13,565
Other	78,070	20,164	98,234	2,890	157,136	813	-	4,104	1,598
Total	¥ 1,500,879	¥ 66,850	¥ 1,567,730	¥ 51,590	¥ 2,094,310	¥ 55,171	¥ 715	¥ 70,405	¥ 43,870
Adjustments	-	(66,850)	(66,850)	(5,785)	(71,561)	5,681	-	-	9,647
Consolidated total	¥ 1,500,879	¥ -	¥ 1,500,879	¥ 45,805	¥ 2,022,748	¥ 60,853	¥ 715	¥ 70,405	¥ 53,517

Year ended March 31, 2021

	Sales			Segment profit (loss)	Segment assets	Other items			
	External sales	Intersegment sales or transfer	Total			Depreciation	Impairment losses	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
	Millions of yen								
Aerospace Systems	¥ 377,720	¥ 7,681	¥ 385,402	¥ (31,668)	¥ 757,342	¥ 23,043	¥ -	¥ -	¥ 22,113
Rolling Stock	133,248	7	133,256	(4,593)	215,688	2,551	11,129	148	2,424
Energy Solution & Marine Engineering	319,543	19,756	339,300	10,349	476,254	4,747	4,076	67,921	5,193
Precision Machinery & Robot	240,864	14,853	255,717	14,086	213,792	10,071	-	(24)	9,836
Motorcycle & Engine	336,694	730	337,424	11,758	256,997	14,904	-	1,538	12,790
Other	80,415	36,979	117,395	469	73,211	947	-	3,880	548
Total	¥ 1,488,486	¥ 80,009	¥ 1,568,496	¥ 403	¥ 1,993,286	¥ 56,267	¥ 15,205	¥ 73,464	¥ 52,907
Adjustments	-	(80,009)	(80,009)	(5,709)	(30,010)	4,991	-	-	12,772
Consolidated total	¥ 1,488,486	¥ -	¥ 1,488,486	¥ (5,305)	¥ 1,963,276	¥ 61,258	¥ 15,205	¥ 73,464	¥ 65,679

Year ended March 31, 2022

	Sales			Segment profit (loss)	Segment assets	Other items			
	External sales	Intersegment sales or transfer	Total			Depreciation	Impairment losses	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
	Thousands of U.S. dollars								
Aerospace Systems	$ 2,436,174	$ 82,697	$ 2,518,871	$ (79,258)	$ 6,097,950	$ 190,752	$ -	$ -	$ 87,860
Rolling Stock	1,034,915	270	1,035,193	26,861	1,743,828	10,163	-	1,413	15,701
Energy Solution & Marine Engineering	2,428,772	130,185	2,558,966	9,525	3,676,538	37,587	5,841	533,527	36,623
Precision Machinery & Robot	2,064,194	161,310	2,225,513	135,667	1,947,047	87,517	-	25	94,306
Motorcycle & Engine	3,659,235	6,903	3,666,147	305,024	2,359,905	118,021	-	6,658	110,816
Other	637,775	164,725	802,500	23,609	1,283,686	6,642	-	33,527	13,054
Total	$ 12,261,082	$ 546,116	$ 12,807,205	$ 421,452	$ 17,108,978	$ 450,707	$ 5,841	$ 575,157	$ 358,386
Adjustments	-	(546,116)	(546,116)	(47,259)	(584,601)	46,410	-	-	78,809
Consolidated total	$ 12,261,082	$ -	$ 12,261,082	$ 374,193	$ 16,524,369	$ 497,124	$ 5,841	$ 575,157	$ 437,195

(d) Reconciliation and main components of difference between total for reportable segments and amounts on the consolidated financial statements for the year ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Sales			
Total for reportable segments	¥ 1,567,730	¥ 1,568,496	$ 12,807,205
Intersegment transactions	(66,850)	(80,009)	(546,116)
Net sales reported on the consolidated financial statements	¥ 1,500,879	¥ 1,488,486	$ 12,261,082

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Profit			
Total for reportable segments	¥ 51,590	¥ 403	$ 421,452
Intersegment transactions	135	36	1,103
Corporate expenses (*)	(5,921)	(5,745)	(48,370)
Operating profit (loss) on the consolidated financial statements	¥ 45,805	¥ (5,305)	$ 374,193

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Assets			
Total for reportable segments	¥ 2,094,310	¥ 1,993,286	$ 17,108,978
Intersegment transactions etc.	(203,588)	(138,799)	(1,663,165)
Corporate assets shared by all segments (*)	132,027	108,788	1,078,564
Total assets on the consolidated financial statements	¥ 2,022,748	¥ 1,963,276	$ 16,524,369

(*) Corporate assets shared by all segments mainly comprise non-current assets not attributed to reportable segments.

	Millions of yen					
	2022	2021	2022	2021	2022	2021
Other items	Total for reportable segments		Adjustments(*)		Amounts reported on the consolidated financial statements	
Depreciation	¥55,171	¥56,267	¥5,681	¥4,991	¥60,853	¥61,258
Increase in property, plant and equipment and intangible assets	43,870	52,907	9,647	12,772	53,517	65,679

(*) Adjustments are mainly due to non-current assets not attributed to reportable segments.

	Thousands of U.S. dollars		
	2022		
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation	$450,707	$46,410	$497,124
Increase in property, plant and equipment and intangible assets	358,386	78,809	437,195

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2022, and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Japan	¥ 664,476	¥ 704,163	$ 5,428,282
United States	357,945	313,607	2,924,148
Europe	122,998	143,402	1,004,804
Asia	277,586	277,266	2,267,674
Other areas	77,872	50,047	636,157
Total	¥ 1,500,879	¥ 1,488,486	$ 12,261,082

Net sales are based on the customers' location and classified according to country or geographical region.

Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Japan	¥ 375,525	¥ 389,640	$ 3,067,764
North America	34,787	29,646	284,184
Europe	3,123	3,065	25,513
Asia	29,482	28,553	240,846
Other areas	1,342	354	10,963
Total	¥ 444,262	¥ 451,259	$ 3,629,295

(ii) Information by major customers

Year ended March 31, 2022

Customers	Net sales	Related segments
Ministry of Defense	¥227,696 million ($1,860,109 thousand)	Aerospace Systems, Energy Solution & Marine Engineering, etc.

Year ended March 31, 2021

Customers	Net sales	Related segments
Ministry of Defense	¥260,960 million	Aerospace Systems, Energy System & Plant Engineering, Ship & Offshore Structure,etc.

36. Related party transactions

(a) Related party transactions for the years ended March 31, 2022 and 2021 were as follows:

	Year ended March 31, 2022
	Non-consolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($82 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥49,547 million ($404,763 thousand)
Account	Accounts receivable - trade
Ending balance	¥33,742 million ($275,647 thousand)

	Year ended March 31, 2021
	Non-consolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥58,508 million
Account	Accounts receivable - trade
Ending balance	¥36,382 million
Account	Advances received
Ending balance	¥48,521 million

(b) A summary of the total financial information of affiliates, which was the basis for calculating the equity in income of the non-consolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2022 and 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Current assets	¥ 231,164	¥ 198,335	$ 1,888,440
Non-current assets	160,029	146,338	1,307,320
Current liabilities	198,027	153,614	1,617,735
Non-current liabilities	54,289	31,822	443,501
Net assets	138,877	159,236	1,134,523
Net sales	244,436	243,186	1,996,863
Profit before income taxes	28,444	4,489	232,367
Profit	27,679	1,878	226,117

37. Subsequent events

(Issuance of Corporate Bonds)
At the Management Committee meeting held on June 6, 2022, it was resolved to issue straight bonds (green bonds) as follows:

1. The 59th unsecured straight bond

Issue date	From July 1, 2022 to September 30, 2022
Total amount of issue	¥10 billion ($81,693 thousand)
Issue price	¥100 ($0.82) per face value of ¥100 ($0.82)
Interest rate	1.0% or less per annum
Maturity date	10 years
Type	Unsecured
Use of funds	Research and development funds, equipment funds, investment and loan funds, bond redemption and loan repayment funds
Method of offering	Public offering

38. Other matters

(a) Quarterly financial information

	Millions of yen			
Year ended March 31, 2022	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	¥ 355,631	¥ 681,082	¥ 1,038,731	¥ 1,500,879
Profit before income taxes	14,683	12,496	22,642	30,853
Profit attributable to owners of parent	9,869	4,513	7,296	21,801

	Yen			
Profit per share – basic	¥ 59.08	¥ 26.98	¥ 43.60	¥ 130.26

	Thousands of U.S. dollars			
Year ended March 31, 2022	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$ 2,905,245	$ 5,563,941	$ 8,485,671	$ 12,261,082
Profit before income taxes	119,949	102,083	184,969	252,046
Profit attributable to owners of parent	80,622	36,868	59,603	178,098

	U.S. dollars			
Profit per share – basic	$ 0.483	$ 0.220	$ 0.356	$ 1.064

(b) Material lawsuits, etc.

<Receipt of customs duty reassessment notification in the Kingdom of Thailand>
KAWASAKI MOTORS ENTERPRISE (THAILAND) CO., LTD. (hereinafter, "KMT"), a consolidated subsidiary of the Company in the Kingdom of Thailand, received a reassessment notification of customs duties for 4,029 million baht (equivalent to approximately ¥14,000 million ($114,370 thousand) when converted at a rate of 0.29 yen to 1 baht) from the Revenue Department of Thailand. KMT had until that time filed its customs duties in accordance with guidance from the Revenue Department. Since the content of the notification of reassessment lacked a legitimate basis and was extremely unreasonable, KMT could not accept it and submitted an appeal of the reassessment to the Commission of Appeal, the appeals body for tax assessments received from the Revenue Department of Thailand. Based on the opinion of attorneys consulted regarding this matter, the Company maintains that there is a strong possibility KMT's assertion will be upheld.

<Claim for damages in overseas LNG tank construction work>
In connection with a certain liquefied natural gas (LNG) tank construction project carried out by the Company overseas, the Company filed a petition for arbitration with The International Chamber of Commerce (ICC) concerning losses sustained by the Company due to the breach of contract by an overseas construction subcontractor. During the arbitration proceedings, the counterparty claimed damages from the Company, but the Company believes that these claims lack legitimate grounds and are thus unjustified. The Company will continue to assert the legitimacy of its claims through the arbitration process.

<The derailment incident of 7000 series railcars of the Washington Subway Rolling Stock>
In America, a derailment incident occurred on a 7000 series railcar supplied by the consolidated subsidiary, Kawasaki Rail Car, Inc. and maintained and operated by the Washington Metropolitan Area Transit Authority (WMATA) in October 2021. The National Transportation Safety Board (NTSB) is currently investigating into the cause, and the Companies are cooperating in the investigation on the site as requested from WMATA and NTSB. The cause of the derailment incident has not been identified at this time. As a manufacturer, the Companies will continue to cooperate in the investigation toward prompt resolution of this incident.

Independent auditor's report

To the Board of Directors of Kawasaki Heavy Industries, Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2022 and 2021, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of management's judgment on the recoverability of deferred tax assets of Kawasaki Heavy Industries, Ltd.	
The key audit matter	**How the matter was addressed in our audit**
In the consolidated balance sheet of Kawasaki Heavy Industries, Ltd. (hereinafter, the "Company") and its consolidated subsidiaries as of March 31, 2022, deferred tax assets of ¥86,249 million were recognized. As described in Note 25. "Income taxes" to the consolidated financial statements, the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to ¥101,649 million. Of this amount, the gross deferred tax assets held by the Company that files a consolidated tax return with its wholly owned domestic subsidiaries amounted to ¥83,827 million, representing approximately 4.1% of total assets in the consolidated financial statements. Deferred tax assets are recognized to the extent that tax loss carryforwards and deductible temporary differences are expected to reduce future taxable income. When significant tax loss carryforwards exist, a more deliberate consideration is required to assess the recoverability of deferred tax assets. The future taxable income to be generated by the Company, which was used to determine the recoverability of its deferred tax assets, was primarily estimated based on the business plan prepared by management. This business plan involved uncertainty due to the reasons set forth below, and had a significant effect on the assessment of the recoverability of deferred tax assets. ▪ Forecasts of revenue and profit, which are the key elements of the business plan, may be affected by changes in economic conditions in the future, and other factors. ▪ Estimates related to the effect of COVID-19 incorporated into the business plan, including the forecasts of global passenger travel demands, involved significant management judgment. We, therefore, determined that our assessment of the appropriateness of management's judgement on the recoverability of deferred tax assets of the Company was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to assess whether management's judgment on the recoverability of deferred tax assets of the Company was appropriate included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the judgment on the recoverability of deferred tax assets. In this assessment, we focused our testing on internal controls over the preparation of the business plan used to estimate the Company's future taxable income. **(2) Assessment of the reasonableness of the estimated future taxable income** In order to assess the reasonableness of key assumptions adopted in preparing the business plan that served as the basis for estimating future taxable income, we: ▪ evaluated the process of preparing the business plan that served as the basis for estimating future taxable income by inquiring of management and each company president and inspecting the minutes of Management Committee of the Company; ▪ assessed the consistency of the estimated future taxable income used to determine the recoverability of deferred tax assets with the business plan approved by Management Committee of the Company; ▪ assessed the appropriateness of key assumptions, which formed the basis for the sales forecasts used for the estimates incorporated into the business plan of Aerospace Systems Company, by comparing them with information provided by major customers and the market forecast reports published by the International Air Transport Association; and ▪ evaluated the appropriateness of the scheduling of deductible temporary differences and tax-return adjustments included in the calculation of future taxable income by comparing them with the taxable income calculation for the current fiscal year.

Management's assessment of the amount recoverable related to a loss sustained due to a breach of contract by an overseas construction subcontractor that failed to fulfill the contract on a certain overseas LNG tank construction work (Energy Solution & Marine Engineering Company)	
The key audit matter	**How the matter was addressed in our audit**
As described in Note 10. "Claim for damages in overseas LNG tank construction work," Kawasaki Heavy Industries, Ltd. (hereinafter, the "Company") sustained a loss of approximately ¥51billion due to a breach of contract by an overseas construction subcontractor that failed to fulfill the contract on a certain overseas LNG tank construction work. In connection with this issue, the Company filed a petition for arbitration with the International Chamber of Commerce ("ICC"). The Company plans to settle this dispute through the arbitration process, and recognized an asset for the expected amount recoverable as a result of the arbitration within Other under Investments and other assets in the consolidated balance sheet. The amount recoverable through the arbitration was assessed considering the progress of the arbitration proceedings at the ICC and the prospect for an award of the arbitral tribunal, as well as the business environment and the financial conditions of the overseas construction subcontractor. These estimates included significant management judgment, such as an award of the arbitral tribunal related to the subject and amount of damages the Company alleged, caused by the breach of contract by the overseas construction subcontractor, as well as the ability of the overseas construction subcontractor to make payment for any monetary award to be determined by the arbitral tribunal, which involved uncertainty. We, therefore, determined that our assessment of the appropriateness of management's assessment of the amount recoverable related to a loss sustained due to a breach of contract by an overseas construction subcontractor that failed to fulfill the contract on a certain overseas LNG tank construction project was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to assess the appropriateness of management's assumptions used for assessing the amount recoverable through the arbitration included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to management's assessment of the amount recoverable through the arbitration. In the assessment, we focused on internal controls in which the personnel responsible for the accounting division assess the estimates of the recoverability of each item of damages alleged, giving consideration to the opinion of the Company's legal counsel. **(2) Assessment of the reasonableness of the estimated amount recoverable through the arbitration** ▪ We inspected the minutes of Management Committee of the Company related to the result of management's assessment of the amount recoverable. In addition, we inquired of several personnel, such as management (including the president of Energy Solution & Marine Engineering Company) and those responsible for the administration division and the accounting division, and then assessed the reasonableness of their respective responses. ▪ We circularized, through a written legal confirmation, directly with the legal counsel engaged by the Company to assess the amount recoverable, and assessed the consistency of the opinion of the legal counsel with the result of management's assessment of the amount recoverable. ▪ We inspected the annual reports issued by the overseas construction subcontractor and the monthly research reports on the financial conditions, order booking status and other information of the overseas construction subcontractor submitted by the Company's legal counsel, and evaluated the consistency of the information with the result of management's assessment of the overseas construction subcontractor's ability to make payment.

Other Information

The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee , we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

松山和弘

Matsuyama Kazuhiro

Designated Engagement Partner

Certified Public Accountant

堀内計尚

Horiuchi Kazuhisa

Designated Engagement Partner

Certified Public Accountant

勢志恭一

Seishi Kyoichi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Kobe Office, Japan

June 24, 2022