

The 200th Ordinary General Meeting of
Shareholders

Items Excluded in Accordance With Laws and
Regulations and the Company's Articles of
Incorporation from Paper-Based Documents
Delivered in Response to a Request for
Delivery of Documents Stating Items for
Which Measures for Providing Information in
Electronic Format Are to Be Taken

Kawasaki Heavy Industries, Ltd.

Company Share Options

1. Share Options Held by Company Officers at the End of the Fiscal Year under Review

Not applicable.

2. Share Options Delivered to Employees, Etc. during the Fiscal Year under Review

Not applicable.

3. Other Important Issues concerning Share Options, Etc.

Not applicable.

Accounting Auditor

(1) Accounting Auditor's Name

KPMG AZSA LLC

(2) Accounting Auditors' Remuneration, Etc., for the Fiscal Year under Review

1) Remuneration, etc. as an Accounting Auditor for the fiscal year under review
¥298 million

2) Cash and other profits payable by the company or its subsidiaries to the accounting auditors
¥612 million

(Notes) 1. The Audit and Supervisory Committee verifies the reasonableness of audit plans, audit performance and progress, and estimate and calculation of remuneration regarding its Accounting Auditor in accordance with the "Practical Guidelines for Cooperation with Accounting Auditors" issued by Japan Audit & Supervisory Board Members Association. Following such verification, the Audit and Supervisory Committee determines whether it agrees to the amount of remuneration and other related costs payable to the Accounting Auditor.

2. Under the audit agreement between the Company and its Accounting Auditor, remuneration, etc., for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not separated, and they cannot be separated in a practical way. Consequently, the above amounts reflect total remuneration.

3. Of the Company's major subsidiaries, some overseas subsidiaries have been audited by certified public accountants or audit corporations (including those who possess equivalent qualifications in foreign countries) other than the Company's Accounting Auditor.

(3) Details of Non-audit Services

Accounting consulting services, etc. such as advisory fees for accounting-related work, etc.

(4) Policy Regarding Determination of Dismissal or Non-reappointment of Accounting Auditors

When it is recognized that the Accounting Auditor has engaged in an activity falling under any of causes for dismissal set forth in Article 340, Paragraph 1 of the Companies Act, the Audit and Supervisory Committee shall dismiss the Accounting Auditor with the approval of all the Audit and Supervisory Committee Members.

Besides, when the Audit and Supervisory Committee assesses independence in accordance with laws and regulations etc., auditing system, status of executing duties, and others in a comprehensive manner, and judges that there is a need for change, it shall determine the contents of the proposal concerning dismissal and non-reappointment of the Accounting Auditor to submit to the General Meeting of Shareholders.

System to ensure that Directors' execution of duties complies with laws and regulations and the Articles of Incorporation, other systems to ensure proper execution of business and overview of operation status of such systems

At the Board of Directors Meeting, the Company makes a resolution regarding the basic policies on the establishment of internal control systems pursuant to the Companies Act, confirms the status of established internal control systems and its operation at the end of every fiscal period, and reports it to the Board of Directors Meeting. The details of resolutions regarding the basic policies as of the end of the fiscal year under review and an overview of the operation status of internal control systems for the fiscal year under review are as follows.

I. Basic policy for developing internal control systems

In an effort to embody KHI's management philosophy, which is indicated in the Group Mission (missions and roles which must be carried out) "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki), "Kawasaki Value," "The Kawasaki Group Management Principles" and "The Kawasaki Group Action Guidelines," the KHI Group develops and maintains internal control systems to ensure formation of proper organizational structures, development of company rules and regulations, dissemination of information and proper execution of operations. KHI strives to improve its internal controls by constantly reviewing them, and in doing so improves the efficiency and lawfulness of company systems which contribute to the Group's sound and sustained growth.

More specifically, a resolution was made at the Board of Directors Meeting with respect to the Company's efforts to establish the following internal control systems and to streamline, maintain, and improve them based on this basic policy.

1. Necessary systems to ensure proper execution of business of the Company

(1) Systems to ensure that execution of duties by the Company's Directors and employees are compliant with laws and regulations and the Articles of Incorporation

- 1) We establish ethical standards to serve as the basis for decisions when Directors and Executive Officers and employees take an action as the "The Kawasaki Group Code of Conduct" (hereinafter, the "Code of Conduct") and ensure that they are thoroughly familiar with the Code of Conduct.
- 2) In order to achieve objectives such as effective and efficient business operations, reliable financial reporting, compliance with laws and regulations and safeguarding of assets, and secure the appropriateness of business operations, we establish a system to promote internal control, with President as the chief internal control officer and the presidents of each company, President of Kawasaki Railcar Manufacturing Co., Ltd. (hereinafter, Kawasaki Railcar), and President of Kawasaki Motors Co., Ltd. (hereinafter, Kawasaki Motors) as the managers in charge of internal control, and manage the internal control systems in a unified way based on the roles and responsibilities given to Directors, Executive Officers and employees, respectively.
- 3) We establish the Corporate Compliance Committee, and deliberate and make decisions on policies and measures to thoroughly ensure compliance with the Code of Conduct, laws and regulations and the KHI Group's regulations, and also monitor the compliance status thereof. In addition, we establish a department which promotes compliance at the Head Office, each company, Kawasaki Railcar and Kawasaki Motors, and continue to implement education

and training activities on compliance with the Code of Conduct, laws and regulations and the KHI Group's regulations to constantly improve understanding and awareness of compliance.

- 4) We work to strengthen compliance systems by establishing and enhancing the whistle-blowing system to report information regarding compliance breaches.
- 5) Executive Officers who are delegated to execute business operations within an appropriate scope are appointed at Board of Directors meetings. Meanwhile by appointing outside directors, independent officers stipulated in the Regulations of the Tokyo Stock Exchange, who are not likely to have any conflicts of interest with any general shareholder, the Company enhances the supervisory and monitoring functions of the Board of Directors for overall management, ensures the objectivity and neutrality of the management monitoring function by the Audit and Supervisory Committee, and enhances the monitoring function.
- 6) The Internal Audit Department carries out KHI's business audits and evaluation/assessment of internal controls over financial reporting to ensure the proper execution of duties and the reliability of financial reporting.

(2) Systems for storage and management of information related to execution of duties by the Company's Directors+

- 1) Information pertaining to execution of duties by Directors (meeting minutes, decision making records and appurtenant materials, account books, account slips and other information) shall be appropriately stored and managed in accordance with applicable internal regulations. The information shall be made accessible at any time to Directors, Executive Officers and employees nominated thereby.
- 2) Confidential information and personal information shall be appropriately stored and managed in accordance with internal regulations and enforcement thereof shall be ensured through such measures as business audits.

(3) Regulations for management of risk of loss of the Company and other systems

- 1) To address diverse risks appropriately, we manage risks individually and in an integrated manner by establishing an internal committee in charge and a department in charge according to the type of risk, and putting in place and operating a management approach, management system, etc. as well as building a system to monitor effectiveness and efficiency of each management system in a centralized manner. In addition, we establish a system to report important matters to the Board of Directors.
- 2) As a measure to be taken when a risk becomes evident, we set forth codes of conduct in the event of emergencies, and also appoint persons in charge of crisis management at each place of business to establish the system, which is designed to minimize losses.
- 3) When a material risk becomes evident, reports are immediately given to President, who is the chief executive of risk management, in accordance with the reporting route specified in advance.
- 4) In particular, in anticipation of the occurrence of disasters, including largescale earthquakes and pandemic diseases, we predetermine important operations to which priority should be given to ensure the continuation or recovery of the operations in order to minimize the impact on KHI's business. We also formulate a business continuity plan to shorten the length of time until recovery.

(4) Systems to ensure efficient execution of duties by the Company's Directors

- 1) Based on the role and objectives of the corporate group consisting of the Company and its subsidiaries (hereinafter, the "KHI Group") as articulated in the Kawasaki Group Mission Statement, we share final goals for the future by setting forth a long-term vision for the whole group.
- 2) To attain the goals set forth in the long-term vision, business operation execution divisions incorporate the goals into specific business plans based on management policy determined by the Board of Directors, and each organization, Executive Officer and employee set their own objective and implement it to achieve the plans. In addition, the Board of Directors regularly receives reports regarding the progress of the business plans and supervises the status of business execution.
- 3) We appoint Executive Officers based on a resolution passed at the Board of Directors, and clarify the business execution system by determining the division of duties of each organization in accordance with internal regulations. In addition, we improve the efficiency of the execution of duties by the Directors by stipulating the authority for decision-making in internal regulations and delegating authority to the Executive Officers to an appropriate extent.
- 4) Upon exercise of authority delegated to President in internal regulations, we ensure appropriateness and efficiency of executing business operations by making discussions at the Management Committee, which acts as an advisory organ for President, due to its significance and others. Furthermore, we have established the Executive Officers Committee as a place for ensuring familiarity and exchange of opinions, etc. of management policies and plans for Executive Officers to build a common understanding in business management of the KHI Group.
- 5) Each company, Kawasaki Railcar and Kawasaki Motors make decisions on their own under delegated authority and responsibility based on the in-house company system, and executes flexible business operations to adapt to changes in the environment. In addition, each company, Kawasaki Railcar and Kawasaki Motors have established company management meetings, etc. that are chaired by the Presidents of the Company, Kawasaki Railcar, and Kawasaki Motors, who will be ultimately responsible for business execution.

2. Necessary systems to ensure proper execution of business of KHI Group

We ensure proper execution of business of the KHI Group through efforts to establish the following systems according to business contents, size, region and significance of each subsidiary.

(1) Systems to ensure that execution of duties by Directors and employees of KHI Group is compliant with laws and regulations the Articles of Incorporation

- 1) The Company governs internal controls of Group Companies from the perspective of the parent company and establishes a system to ensure the appropriateness of business operations. It does so by achieving objectives regarding matters such as the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with laws and regulations and safeguarding of assets as a whole group.
- 2) The Corporate Compliance Committee deliberates and makes decisions on policies and measures on the Code of Conduct and compliance for the entire KHI Group. In addition, concerned departments of the Head Office that manage subsidiaries, each company, Kawasaki Railcar and Kawasaki Motors work in collaboration to monitor the operation status in subsidiaries.

- 3) The Company implements controls as shareholders of Group Companies through the execution of voting rights at the General Meeting of Shareholders, and also carries out management supervision and monitoring over the operation thereof by dispatching part-time Directors or part-time Audit & Supervisory Board Members who are not engaged in the execution of business operations of Group Companies, or both (hereinafter, "Part-Time Officer"), to Group Companies, on an as-needed basis. In addition, the Company will establish rules related to the management of subsidiaries such as rules for approving decisions, and establish a system for properly handling Group management.
- 4) The Internal Audit Department ensures the appropriateness of operations and reliability of financial reports through business audits and assessment of internal controls over financial reporting at Group Companies.

(2) Systems with regard to reporting to the Company on execution of duties by directors of Group Companies

- 1) The Company receives reports regarding the status of execution of duties by directors of Group Companies through a Part-Time Officer who is dispatched thereto.
- 2) Group Companies regularly report on the status of business operation as a management report and have discussions in advance with the relevant department of the Company with regard to important matters subject to decision-making on corporate management in accordance with applicable internal regulations.

(3) Regulations for management of risk of loss of Group Companies and other systems

- 1) The Company promotes group-wide risk management, striving to prevent or minimize risk or losses caused by such risk.
- 2) As a measure to be taken when a risk becomes evident at Group Companies, the Company instructs Group Companies to formulate crisis handling measures and policies to establish the crisis management system.
- 3) When a material risk becomes evident, reports are immediately given to the Company, in accordance with the reporting route specified in advance.

(4) Systems to ensure efficient execution of duties by directors of Group Companies

- 1) With respect to the management at each Company of the KHI Group, while respecting the autonomy thereof, the Company establishes a system in which execution of duties is ensured in a fair and efficient manner by sharing the basic philosophy and vision indicated in the "Kawasaki Group Mission Statement," long-term vision, business plan, and so forth, and clarifying group-wide final goals.
- 2) The Company instructs Group Companies to develop Approval Standards to ensure efficient execution of business.

3. Necessary matters for the Company's Audit and Supervisory Committee to execute duties

(1) Policies regarding employees who assist in the Company's Audit and Supervisory Committee's duties

We allocate the required employee according to the Audit and Supervisory Committee's requests.

(2) Policies regarding independence of employees who assist in the duties of the Company's Audit and Supervisory Committee Members from the

Company's Directors (excluding Directors serving as the Audit and Supervisory Committee Members, hereinafter, the "Audit and Supervisory Committee Member") and matters regarding ensuring efficiency in directions given to employees who assist in the duties of the Company's Audit and Supervisory Committee.

The employee who assists in the duties of the Audit and Supervisory Committee shall follow the Audit and Supervisory Committee's directions and orders. For personnel transfer, personnel performance evaluation and disciplinary punishment, prior consent of the Audit and Supervisory Committee is required.

(3) Systems for the Company's Directors (excluding the Audit and Supervisory Committee Members) and employees to report to the Company's Audit and Supervisory Committee and systems for Directors, Audit & Supervisory Board Members and employees of Group Companies and those who receive reports from the said Directors, Audit & Supervisory Board Members and employees of Group Companies to give reports to the Company's Audit and Supervisory Committee.

- 1) The Company's Audit and Supervisory Committee Members attend meetings of the Board of Directors, the Management Committee, the Executive Officers Committee, the Sustainability Committee and companywide meetings, such as the Corporate Compliance Committee. At these meetings, the Company's Directors (excluding the Audit and Supervisory Committee Members), Executive Officers and employees shall provide the Company's Audit and Supervisory Committee with reports concerning important matters about group management and business operations, including matters regarding compliance, risk management and internal controls, and the status of execution of duties.
- 2) The Company's Directors, Executive Officers and employees shall immediately report to the Company's Audit and Supervisory Committee when discovering that there is a risk of the KHI Group suffering significant damage.
- 3) Directors, Audit & Supervisory Board Members and employees of Group Companies shall immediately report to the relevant department of the Company when discovering that there is a risk of the KHI Group suffering significant damage. Upon receiving reports, the said department shall report the details to the Company's Audit and Supervisory Committee.
- 4) The Company's Executive Officers and employees shall, in accordance with applicable internal regulations, report to the Company's Audit and Supervisory Committee regarding the execution of business operations of the KHI Group by circulation of internal memos.
- 5) The Company's Auditing Department and Accounting Auditors from time to time report to, and exchange information with the Company's Audit and Supervisory Committee regarding the status of audits on the KHI Group.

(4) System to ensure that those who give reports described in the preceding Item (3) will not be treated disadvantageously for reason of having made such report

The Company stipulates a provision regarding the prohibition of unfair and unfavorable treatment of those who give reports described in the preceding Item (3). The Company also instructs Group Companies to stipulate a provision of the same contents in their company regulations.

(5) Policies on prepaid expenses for the execution of the duties of the Company's Audit and Supervisory Committee Members (limited to the execution of the duties of the Company's Audit and Supervisory Committee), or expenses for procedures for repayment and the execution of other relevant duties, or on debt processing

When Audit and Supervisory Committee Members request the Company to make prepayment on execution of duties (limited to the execution of the duties of the Company's Audit and Supervisory Committee) pursuant to the Companies Act, the Company shall promptly proceed with payment of appropriate expenses and debt settlement, except where the expense or debt whose payment is requested is deemed unnecessary to execute their duties.

(6) Other systems to ensure the effective conduct of audits by the Company's Audit and Supervisory Committee

- 1) Directors (excluding the Audit and Supervisory Committee Members) and Audit and Supervisory Committee Members regularly exchange information and opinions to ensure mutual understanding, and Audit and Supervisory Committee Members also attend important meetings such as Board of Directors meeting and Management Committee meeting, and directly express their opinion regarding execution of duties by Directors (excluding the Audit and Supervisory Committee Members) and Executive Officers.
- 2) The Company's Directors and Group Companies' Directors promote collaboration between the Company's Audit and Supervisory Committee, the Company's Internal Audit Department and Group Companies' Audit & Supervisory Board Members, and cooperate to establish systems which enable greater effectiveness in the conduct of audits.
- 3) The Company and Group Companies obtain the consent of the Audit and Supervisory Committee or the Audit & Supervisory Board Members or approval of the Audit and Supervisory Committee or the Audit & Supervisory Board of the relevant company with regard to proposals for the election of the Audit and Supervisory Committee Members or Audit & Supervisory Board Members and their remuneration, and so forth, of the relevant company, in accordance with laws and regulations and the Articles of Incorporation.
- 4) Of Audit and Supervisory Committee Members appointed by the Company, one or more shall have substantial knowledge about finance and accounting.

4. System regarding expulsion of anti-social forces

Our Group resolutely rejects any unreasonable demands from anti-social forces, and specifies in the "Code of Conduct" that it shall not have any relations with anti-social forces and shall ensure that all Directors, Executive Officers and employees are thoroughly aware of the matters contained in it.

Furthermore, with respect to internal systems, we have established a department in the headquarters which is responsible for overseeing handling of expulsion of anti-social forces, established close cooperation with external specialized organizations such as the police force, and in collaboration with the concerned departments, we systematically handle unreasonable requests from anti-social forces.

II. Overview of the operation status of internal control systems

1. Efforts on internal control systems in general

- 1) We have specified the Code of Conduct as ethical standards to serve as the basis for decisions when the KHI Group's Officers and employees take an action, and ensure thorough dissemination of the Code of Conduct by implementing initiatives such as distributing the booklet to employees, posting the Code of Conduct on the intranet and providing various training programs.
- 2) The Internal Audit Department carries out evaluation/assessment of internal controls over business audits and financial reporting for the KHI Group to ensure effectiveness and efficiency of business operations and reliability of financial reporting. We conduct the audits for overseas subsidiaries for the fiscal year under review remotely due to overseas travel restrictions, etc. related to COVID-19.

2. Efforts on compliance

- 1) We establish the Corporate Compliance Committee, which is responsible for deliberating and making decisions on policies and measures to promote compliance at a group-wide level and monitoring the compliance status thereof. The said committee also plays the leading role in the establishment of related internal regulations, preparation and distribution of the Compliance Guidebook, provision of various training programs, and operation of the whistle-blowing system. In addition, we establish the Compliance Committee, which performs compliance activities for each business division, and implement appropriate measures for each business environment.
- 2) We specify that we shall have no relations with anti-social forces in The Kawasaki Group Code of Conduct, and ensure that all employees shall be aware of the matters by distributing the Compliance Guidebook containing specific examples of prohibited acts, and promoting awareness in the workplace.

3. Efforts on risk management

- 1) We build a risk management system on a companywide level based on the Risk Management Regulations. We also prepare a manual to explain the procedures of specific risk management practices and exhaustively grasp the assumed risks on a scale common to the Group to prevent and minimize risk or losses caused by such risk. Furthermore, we are carrying out risk monitoring in order to visualize risk measures of the Company, identify risk measures on which the Company should focus, and risk monitoring is performed for swiftly reporting and deliberating on risks over which concerns about materialization have been raised.
- 2) When a risk becomes evident, we establish the system, which is designed to minimize losses, by setting forth codes of conduct in the event of emergencies in advance and appointing persons in charge of crisis management at each place of business. Also, reports are immediately given to President, who is the chief executive of risk management, in accordance with the reporting route specified in advance.
- 3) In anticipation of the occurrence of large-scale disasters and pandemic diseases, we proactively formulate a business continuity plan for each business division, and conduct annual assessment and review thereof. We also establish and build a system to minimize losses in case we suffer damage in disasters. During the fiscal period under review, we reviewed estimates of damage by disasters in major areas in Japan, performed disaster prevention drills and BCP drills, and conducted safety confirmation drills for all the employees. In response to the spread of COVID-19 infection, we are taking appropriate

infection prevention measures based on the action guidelines and business continuity plans in the event of emergencies.

4. Efforts to ensure efficient execution of duties of Directors

- 1) We execute management policies and business plans resolved at the Audit & Supervisory Board by following the Systems for Execution of Business Operations with President as the head of the systems and regularly report such progress to the Audit & Supervisory Board. During the fiscal period under review, to attain the goals set forth in the Group Vision 2030, all the Executive Officers expressed their commitments as well as determined the ideal way to be in each business area and the short-term business plan. We are striving to attain and achieve such goals.
- 2) We enhance efficiency of execution of duties in Directors' and each business and function area by delegating a part of the authority to make a decision about execution of significant duties from the Audit & Supervisory Board to President and his/her subordinates, and by specifying division of roles and approval authority in the internal regulations and operating them appropriately. We also give various types of guidance to Group Companies to enhance efficiency of execution of duties.

5. Efforts on management of Group Companies

- 1) We exert group-wide efforts to work on compliance and risk management. We will establish and operate the systems according to business contents, size, region and significance of each Group Company.
- 2) We carry out management supervision and monitoring over the operation of Group Companies by dispatching Part-Time Officers to Group Companies to attend Board of Directors meetings thereof. We regularly receive reports on the status of business operation from Group Companies and the responsible department of the Company and the relevant Group Companies have discussions in advance with regard to important matters subject to decision making on corporate management of the Group Companies in accordance with applicable internal regulations.

6. Efforts on ensuring appropriateness of audits performed by the Company's Audit and Supervisory Committee

- 1) We set up Office of Audit & Supervisory Committee and assign two employees who are dedicated to assist in the duties of Audit and Supervisory Committee. For personnel transfer, personnel performance evaluation and disciplinary punishment of these employees, we obtain prior consent of the Audit and Supervisory Committee.
Ensuring the independence of the Internal Audit Department, for personnel transfer, personnel performance evaluation and disciplinary punishment of the head of the department, we obtain prior consent of the Audit and Supervisory Committee.
- 2) Audit and Supervisory Committee Members attend the Company's important meetings. Directors (excluding the Audit and Supervisory Committee Members), Executive Officers and employees provide the Company's Audit and Supervisory Committee with reports concerning important matters about corporate management and business operations as well as the status of execution of duties through the said meetings, and report to the Company's Audit and Supervisory Committee regarding the execution of business operations by circulation of internal memos.
- 3) We establish regulations that prohibit unfair and unfavorable treatment of those who cooperate with Audit and Supervisory Committee to perform audits and give reports to Audit and Supervisory Committee pursuant to the "Basic Policy

for the Establishment of Internal Control System.” In addition, Group Companies are also establishing structures and systems according to region, size, function and others of each Group Company, including development of regulations.

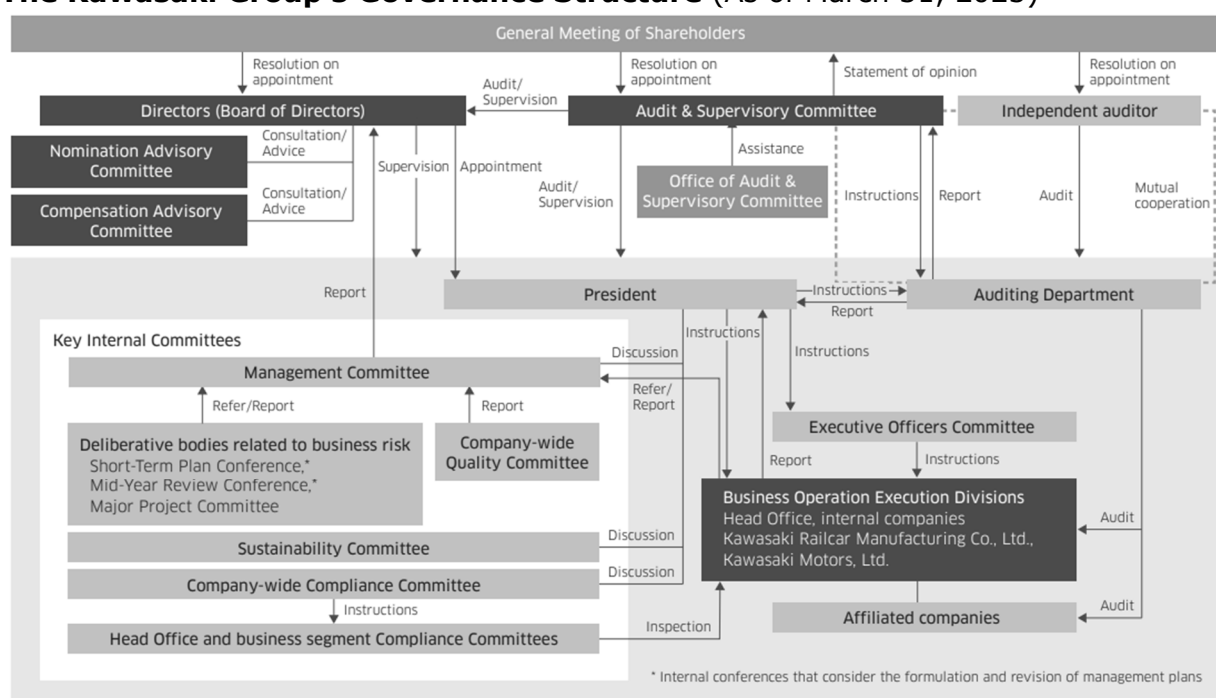
- 4) The Auditing Department and Accounting Auditor regularly hold liaison meetings or discussions with Audit and Supervisory Committee to exchange information and opinions with him/her so as to ensure close communication.
- 5) We establish regulations regarding requests for prepaid expenses incurred for the execution of the duties of Audit and Supervisory Committee Members, and so forth.

Reference

[Corporate Governance Structure]

The Company is a company with an Audit & Supervisory Committee, and has established the Nomination Advisory Committee and the Compensation Advisory Committee as voluntary advisory bodies to the Board of Directors, and the Management Committee and the Executive Officers Committee as business execution bodies.

The Kawasaki Group’s Governance Structure (As of March 31, 2023)



Business Execution Framework

The Company has adopted an executive officer system in order to facilitate response to rapid changes in the business environment. A great deal of authority over business execution decisions is delegated to the executive Directors and executive officers, who are appointed by the Board of Directors, thereby realizing more agile decision making.

The Company’s main deliberative bodies and their contents are as follows.

Meetings of the Board of Directors 16 times/year

The Board of Directors comprises 12 Directors (of whom, five serve as Audit and Supervisory Committee Members), with the chairman serving as the presiding officer by resolution of the Board. Six Directors are Outside Directors (of whom, three serve as Audit and Supervisory Committee Members) and independent of business execution. By avoiding having Directors serve concurrently as officers responsible for specific

businesses (internal company presidents, etc.), the Company seeks to enhance the separation of management oversight and business execution and thereby further reinforce the Board of Director's oversight functions.

Meetings of the Audit and Supervisory Committee 14 times/year

The Audit and Supervisory Committee comprises five Directors, including three Outside Directors. To secure effective oversight, the two Internal Directors have been appointed as full-time Audit and Supervisory Committee Members. Furthermore, to ensure the reliability of financial reporting, the Company appoints Audit and Supervisory Committee Members who have considerable knowledge of finance and accounting.

Nomination Advisory Committee 12 times/year

The Nomination Advisory Committee, has been established as an advisory body to the Board of Directors in an effort to reinforce the transparency and objectivity of its deliberations. The majority of the members of the committee consist of Outside Directors, as are the presiding chairman of each. The Nomination Advisory Committee deliberates on policies and standards for the appointment and dismissal of officers, as well as the appropriateness of proposed officer appointments and dismissals, and reports to or advises the Board of Directors.

Compensation Advisory Committee 7 times/year

The Compensation Advisory Committee has been established as an advisory body to the Board of Directors in an effort to reinforce the transparency and objectivity of its deliberations. The majority of the members of the committee consist of Outside Directors, as are the presiding chairman of each. The Compensation Advisory Committee deliberates on policies and systems related to remuneration of officers and the appropriateness of individual remuneration, and reports to or advises the Board of Directors.

- Management Committee

The Company maintains the Management Committee, comprising mainly of executive Directors and internal company presidents, as an advisory body to the President for overall group management. The Management Committee discusses important matters relating with the execution of business operations. From the perspective of auditing execution of operations, Directors serving as full-time Audit and Supervisory Committee Members also attend a meeting of the committee.

- Sustainability Committee

The Sustainability Committee has been established for the purpose of promoting social, environmental, and the Group sustainability. The committee is chaired by the President and consists of Directors (excluding Audit and Supervisory Committee Members and Outside Directors), internal company presidents, officers in charge of sustainability, and general managers of the Head Office. The Sustainability Committee deliberates and decides on various measures to promote sustainability and monitors the status of achievement and compliance. From the perspective of auditing execution of operations, Directors serving as Audit and Supervisory Committee Members and from the perspective of reflecting a broad range of outside knowledge and opinions in the committee's decision-making, Outside Directors also attend a meeting of the committee.

Consolidated Statement of Changes in Equity

(From April 1, 2022 to March 31, 2023)

(Unit: Millions of yen)

	Equity attributable to owners of parent			
	Share capital	Capital surplus	Retained earnings	Treasury shares
Balance as of April 1, 2022	104,484	55,525	320,671	(1,129)
Profit			53,029	
Other comprehensive income				
Total comprehensive income	-	-	53,029	-
Issuance of new shares				
Purchase of treasury shares				(4)
Disposal of treasury shares		(0)		26
Transfer of loss on disposal of treasury shares		0	(0)	
Dividends			(8,394)	
Transfer to retained earnings			14,191	
Change in scope of consolidation				
Loss of control of subsidiaries				
Change in ownership interest of parent due to transactions with non-controlling interests		190		
Transfer to non-financial assets				
Other			756	
Total transactions with owners	-	190	6,554	22
Balance as of March 31, 2023	104,484	55,716	380,255	(1,107)

	Equity attributable to owners of parent						Non-controlling interests	Total capital
	Other components of equity					Total		
	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Cash flow hedges	Exchange differences on translation of foreign operations	Total			
Balance as of April 1, 2022	-	4,435	(284)	21,780	25,931	505,484	19,407	524,891
Profit					-	53,029	2,261	55,290
Other comprehensive income	14,235	(370)	1,603	10,286	25,755	25,755	787	26,542
Total comprehensive income	14,235	(370)	1,603	10,286	25,755	78,785	3,048	81,833
Issuance of new shares					-	-		-
Purchase of treasury shares					-	(4)		(4)
Disposal of treasury shares					-	26		26
Transfer of loss on disposal of treasury shares					-	-		-
Dividends					-	(8,394)	(964)	(9,358)
Transfer to retained earnings	(14,235)	43			(14,191)	-		-
Change in scope of consolidation						-	366	366
Loss of control of subsidiaries					-	-	(2,079)	(2,079)
Change in ownership interest of parent due to transactions with non-controlling interests						190	891	1,082
Transfer to non-financial assets			(643)		(643)	(643)		(643)
Other					-	756	-	756
Total transactions with owners	(14,235)	43	(643)	-	(14,834)	(8,067)	(1,785)	(9,852)
Balance as of March 31, 2023	-	4,109	676	32,066	36,852	576,201	20,670	596,872

Notes to the Consolidated Financial Statements

*The amounts presented are rounded down to the nearest unit.

(Notes to the basis for preparation of consolidated financial statements)

1. Preparation standards for consolidated financial statements

The consolidated financial statements of the Company and its consolidated subsidiaries (hereinafter, the "Group") have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") pursuant to Article 120, Paragraph 1 of the Regulations on Corporate Accounting. Moreover, some disclosure items required in the IFRS have been omitted in accordance with the regulation in the second half of the same paragraph.

2. Scope of consolidation

Number of consolidated subsidiaries and names of principal consolidated subsidiaries	104 in total
(Domestic) Kawasaki Motors, Ltd., Kawasaki Railcar Manufacturing Co., Ltd., Kawasaki Trading Co., Ltd., Kawasaki Machine Systems, Ltd., Kawasaki Motors Corporation Japan, NIPPI Corporation,	
(Overseas) Kawasaki Motors Corp., U.S.A., Kawasaki Motors Manufacturing Corp., U.S.A., Kawasaki Motors Enterprise (Thailand) Co., Ltd., Kawasaki Motors Europe N.V., Kawasaki Rail Car, Inc., Kawasaki Robotics (USA), Inc., Kawasaki Motors (Phils.) Corporation, PT. Kawasaki Motor Indonesia, Flutek, Ltd.	

Four subsidiaries have been included in the scope of consolidation due to the establishment of one of those companies, additional share acquisition of another two companies, and the new acquisition of shares of the other company to make it a consolidated subsidiary.

One consolidated subsidiary has been excluded from the scope of consolidation as a result of a decrease in the investment ratio. It is included in the application scope of the equity method.

3. Application of the equity method

Number of affiliates which are subject to application of the equity method	20 in total
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Name of principal company	Nantong COSCO KHI Ship Engineering Co., Ltd.
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Regarding the two affiliates which are subject to application of the equity method, one company is included in the scope of the equity method for the current fiscal year due to establishment, and the other is included due to a change in the investment ratio.

Two affiliates which are no longer subject to application of the equity method are excluded from the scope of application of the equity method to additional share acquisition to make them consolidated subsidiaries.

4. Accounting policies

(1) Financial instruments

1) Non-derivative financial assets

Financial assets are classified as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss.

Financial assets are recognized when the Group becomes a party to the contract. Financial assets purchased or sold in a regular way are recognized on the transaction date.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the contractual rights to receive cash flows from the financial asset are transferred and substantially all the risks and rewards of ownership of the financial asset are transferred.

(i) Financial assets measured at amortized cost

Financial assets that meet all the following requirements are classified as financial assets measured at amortized cost.

- (a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are measured at fair value plus transaction costs directly attributable to their acquisition upon initial recognition. However, trade receivables that do not contain a significant financing component are initially measured at the transaction price.

Furthermore, after initial recognition, these assets are measured at amortized cost using the effective interest method.

(ii) Financial assets measured at fair value through other comprehensive income

Financial assets other than financial assets measured at amortized cost are classified as financial assets measured at fair value.

Of financial assets measured at fair value, for investments in equity instruments not held for trading, it is allowed to make an irrevocable election to present subsequent changes in fair value in other comprehensive income. The Group makes this designation for each financial instrument.

Financial assets measured at fair value through other comprehensive income are measured at fair value plus transaction costs directly attributable to their acquisition upon initial recognition. Furthermore, after initial recognition, these assets are measured at fair value, and any subsequent changes in the fair value are recognized as other comprehensive income. As for changes in fair value recognized as other comprehensive income, the accumulated amount is reclassified to retained earnings when the asset is derecognized, and is not reclassified to profit or loss. Dividends are recognized as profit or loss.

(iii) Financial assets measured at fair value through profit or loss

Any other financial assets not included in the classifications above are classified as financial assets measured at fair value through profit or loss.

Financial assets measured at fair value through profit or loss are measured at fair value upon initial recognition, and expenses directly attributable to their acquisition are recognized as profit or loss when incurred. Furthermore, after initial recognition, these assets are measured at fair value, and any subsequent changes in the fair value are recognized as profit or loss.

2) Impairment of financial assets

A provision for expected credit losses is recognized for financial assets measured at amortized cost, contract assets and lease receivables.

On the reporting date, if credit risk for a financial instrument has significantly increased since initial recognition, the provision for the financial instrument is measured at an amount equal to expected credit losses arising from all default events that may occur over the life of the financial instrument (lifetime expected credit losses).

On the reporting date, if credit risk for a financial instrument has not significantly increased since initial recognition, the provision for the financial instrument is measured at an amount equal to expected credit losses arising from default events that may occur within 12 months from the reporting date (12-month expected credit losses).

However, for trade receivables, contract assets and lease receivables, the provision is always measured at an amount equal to lifetime expected credit losses.

3) Non-derivative financial liabilities

Non-derivative financial liabilities are classified as financial liabilities measured at amortized cost.

Financial liabilities measured at amortized cost are measured at fair value less transaction costs directly attributable to their acquisition upon initial recognition. Furthermore, after initial recognition, these liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are recognized when the Group becomes a party to the contract.

A financial liability is derecognized when, and only when, the financial liability is extinguished, that is, obligations specified in the contract are extinguished as a result of the fulfillment, discharged, cancelled or forfeited.

4) Derivative transactions and hedge accounting

The Group is exposed to market risks, such as fluctuations in foreign exchange rates and interest rate, in the ordinary course of operating activities. To manage these risks, in principle, the Group identifies the net amount of risks, and works to mitigate market risks by making use of transactions that have the effect of offsetting the risks, including conclusion of derivative transactions in accordance with company rules as necessary. At the time of initial designation of a hedge, the Group formally documents the relationship between the hedging instrument and the hedged item including the risk management objective, strategy for implementation of the hedge transaction and method for assessing effectiveness of the hedge relationship.

The Group continuously assesses whether or not it can be expected that the hedging instrument has a high level of effect of offsetting changes in fair value and cash flows of the relevant hedged item during the hedged period.

Derivatives are initially recognized at fair value. Furthermore, after initial recognition, derivatives are measured at fair value, and any subsequent changes in the fair value are accounted for as follows.

(i) Fair value hedges

Changes in fair value of derivatives that are hedging instruments are recognized as profit or loss. In addition, changes in fair value of the hedged item corresponding to the hedged risk are recognized as profit or loss, with the book value of the hedged item being adjusted.

(ii) Cash flow hedges

Of changes in fair value of derivatives that are hedging instruments, the portion judged to be an effective hedge is recognized as other

comprehensive income, and the cumulative amount is included in other components of equity. In addition, the ineffective portion of hedging effect is recognized as profit or loss. The amount accumulated in other components of equity is reclassified from other components of equity to profit or loss in the fiscal period when the transaction that is the hedged item affects profit or loss. However, if a hedge of a forecast transaction subsequently results in recognition of a non-financial asset or non-financial liability, the amount accumulated in other components of equity is accounted for as adjustment to the initial book value of the non-financial asset or non-financial liability.

In the case where a hedging instrument expires or is sold, terminated or exercised, if the hedge does not meet requirements for hedge accounting, the hedge accounting is prospectively terminated. When a forecast transaction is no longer expected to occur, the amount accumulated in other components of equity is immediately reclassified from other components of equity to profit or loss.

(iii) Derivatives not designated as hedges

Changes in fair value of derivatives are recognized as profit or loss.

(2) Inventories

Inventories are measured at the lower of acquisition cost and net realizable value.

Acquisition cost of inventories is principally calculated based on the specific identification method, the first-in first-out method and the moving-average method, and includes expenses for acquisition of inventories, production cost and processing cost, and other expenses required to bring the inventory to its current location and current condition.

Net realizable value is determined at the estimated selling price in the ordinary course of business, less estimated costs required up to the completion of the conversion and estimated selling expenses.

(3) Property, plant and equipment

1) Recognition and measurement

Property, plant and equipment are presented at acquisition cost less accumulated depreciation and impairment, using the cost model.

Acquisition cost includes expenses directly related to acquisition of assets, borrowing costs that meet requirements for capitalization, and dismantlement, removal and restoration costs.

Gains or losses on property, plant and equipment are determined as the difference between the amount received from the disposal and their book value, and recognized in profit or loss.

2) Depreciation

Property, plant and equipment are depreciated from the day on which the asset becomes available for use.

Depreciation is determined based on the depreciable amount. The depreciable amount is calculated as the acquisition cost of an asset less its residual value.

Except for assets that are not depreciated, such as land, property, plant and equipment are mainly depreciated using the straight-line method over the estimated useful lives.

Major estimated useful lives are as follows.

- Buildings and structures 3 to 50 years
- Machinery, equipment and vehicles 2 to 20 years

The depreciation method, useful lives and residual value are reviewed on each balance sheet date, and revised as necessary.

(4) Intangible assets

1) Recognition and measurement

(i) Capitalized development costs

Development activities include plans or designs to generate new or significantly improved products or processes. Capitalized development costs are capitalized only when all the following requirements are met.

- Technical feasibility
- Intention to complete and use/sell the product or process
- Ability to use/sell the product or process
- Future economic benefits
- Availability of appropriate resources
- Reliable measurement

Since the possibility that future economic benefits will flow into the Group cannot be demonstrated, expenditures related to the research aspect are not capitalized and are recognized as expenses when incurred.

Capitalized costs include material costs, direct labor costs, and indirect costs directly related to preparation for intended use of assets. Other capitalized development costs are recognized as expenses when incurred.

Capitalized development costs are presented at acquisition cost less accumulated amortization and impairment, using the cost model.

(ii) Software and other intangible assets

Software and other intangible assets acquired by the Group that have a finite useful life are recorded at acquisition cost less accumulated amortization and impairment, using the cost model. In addition, those with an indefinite useful life are recorded at acquisition cost less accumulated impairment.

(iii) Goodwill

Goodwill arising from acquisition of subsidiaries is recorded in intangible assets. If the total of transferred consideration and the amount of non-controlling interests of the acquiree is higher than the net fair value of identifiable assets acquired and liabilities assumed on the acquisition date, goodwill is measured as the excess amount. If the difference is a negative amount, it is immediately recognized as net profit.

Goodwill is measured at acquisition cost less accumulated impairment, using the cost model. As for companies which are subject to application of the equity method, the book value of goodwill is included in the book value of investments.

2) Amortization

Intangible assets with a finite useful life other than goodwill are amortized over the estimated useful life from the day when the asset becomes available for use. The amortization method is the unit-of-production method according to the production volume of product models developed for capitalized development costs, and the straight-line method for other intangible assets.

Major estimated useful lives are as follows.

- Software 5 years
- Capitalized development costs 2 to 10 years

The amortization method, useful lives and residual value are reviewed on each balance sheet date, and revised as necessary.

(5) Leased assets

1) Leases as lessee

The Company recognizes right-of-use assets and lease liabilities on the commencement date of the lease.

Right-of-use assets are measured using the cost model and presented at acquisition cost on the lease commencement date less accumulated depreciation and impairment. This acquisition cost is measured at the initial measured amount of lease liabilities, adjusted for lease payments made on or before the commencement date, including initial direct cost, and dismantlement, removal and restoration costs required based on the lease contract, and less lease incentives that were already received. After initial recognition, right-of-use assets are depreciated using the straight-line method from the commencement date up to the end of the useful life of the right-of-use asset or the end of the lease term, whichever is earlier.

Lease liabilities are initially measured at the present value calculated by discounting lease payments that have not been made as of the commencement date using the interest rate implicit in the lease. If the interest rate implicit in the lease is not readily determined, the Group's incremental borrowing rate is used.

Lease liabilities are measured at amortized cost using the effective interest method. Lease liabilities are remeasured, if each lease contract contains an option to purchase the underlying asset or an option to extend or terminate the lease and there is a change in possibilities to exercise such options.

For short-term leases with a lease term of 12 months or less and leases of low-value assets, the Group has elected not to recognize right-of-use assets and lease liabilities, and recognizes lease payments related to these leases as expenses over the lease term using the straight-line method.

In the consolidated statement of financial position, the Group classifies right-of-use assets as other assets and includes lease liabilities in "Bonds, borrowings and other financial liabilities."

2) Leases as lessor

Leases in which substantially all the risks and rewards of ownership of the underlying asset are transferred to the lessee under the contract are classified as finance leases. Leases other than finance leases are classified as operating leases.

In finance lease transactions, net investment in the lease is recognized as lease receivables (included in "Trade and other receivables.") Unearned finance income is allocated to the net investment at a constant rate over the lease term, and recognized as revenue in the period to which it is attributed.

In operating lease transactions, lease payments receivable are recognized as revenue over the lease term using the straight-line method.

(6) Impairment of non-financial assets

Book values of property, plant and equipment and intangible assets, etc. of the Group are assessed for any indication of impairment at each balance sheet date. If any such indication exists, the Group performs an impairment test by estimating the recoverable amount of the asset. Goodwill and intangible assets with an indefinite useful life or intangible assets that are not yet available for use are tested for impairment once a year periodically, and whenever there is any indication of impairment.

The recoverable amount of an asset or a cash-generating unit is the higher of value in use or fair value less costs of disposal. In calculation of value in use, estimated future cash flows are discounted to the present value using the pretax

discount rate that reflects time value of money and risks inherent to the asset. A cash-generating unit is the smallest unit of an asset group identified as generating cash inflows that are generally independent of cash inflows from other assets or asset groups.

An impairment loss is recognized when the book value of an asset or cash-generating unit exceeds the recoverable amount. Impairment losses are recognized as profit or loss. Impairment losses recognized in relation to a cash-generating unit are allocated first to reduce the book value of goodwill allocated to the cash-generating unit and then the book value of other assets in the cash-generating unit are reduced pro rata.

Impairment losses relating to goodwill are not reversed. As for assets other than goodwill, previously recognized impairment losses are assessed at each balance sheet date for any indication of reversal of impairment losses that were recorded in past fiscal years. If any such an indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the book value of the asset or cash-generating unit, impairment losses are reversed up to the lower of the determined recoverable amount, or the book value less depreciation that would have been applied if no impairment losses had been recognized in past fiscal years.

(7) Provisions

Provisions are recognized when the Group has legal or constructive obligations of which the amount can be reliably estimated, as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligations.

If the impact of monetary time value is significant, the provision is measured at the present value of expenditures expected to be required to settle the obligations.

(8) Employee benefits

1) Long-term employee benefits

(i) Post-employment benefits

(a) Defined contribution plan

The Company and its certain subsidiaries have adopted defined contribution plans. Defined contribution pension plans are a post-employment benefit plan in which the employer makes a certain amount of contributions to the other independent entity and does not assume legal or constructive obligations for payment more than the contributed amount. Contribution obligations for defined contribution pension plans are recognized as employee benefit expenses in profit or loss in the period when employees provide relevant services.

(b) Defined benefit plan

Defined benefit plans are recognized as liabilities or assets at the present value of defined benefit obligations less fair value of plan assets.

Present value of defined benefit obligations and service costs are calculated for each plan, using the projected unit credit method.

The discount rate is determined by reference to a currency used to pay defined benefit obligations, and market yields of high-quality corporate bonds on the date of the balance sheet corresponding to the estimated payment due date.

Remeasurements arising from defined benefit plans consist of actuarial differences, revenue related to plan assets (excluding interest) and effects of asset ceiling, and these items are immediately recorded in other comprehensive income and promptly reclassified to retained earnings.

When a plan is revised, the variable portion of benefits related to past services rendered by employees is immediately recognized as profit or loss.

(ii) Other long-term employee benefits

As long-term employee obligations other than post-employment benefit plans, the Company has a plan in which leave or allowance is granted to an employee at the time when he or she achieves long-term service. These long-term employee benefits are calculated by discounting the estimated amount of future benefits obtained in exchange for services provided by employees in past fiscal years and the current fiscal year to the present value.

2) Short-term employee benefits

Short-term employee benefits are recorded as expenses, without discounting, at the time when relevant services are provided.

Bonuses are recognized as liabilities at an estimated amount paid under these plans, when the Group has present legal and constructive obligations to pay as a result of labor provided by employees in the past, and their amount can be reliably estimated.

(9) Revenue

The Group recognizes revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration that it expects to receive in exchange for those goods or services, based on the following five-step approach.

- Step 1: Identify a contract with a customer
- Step 2: Identify performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue at the time of satisfying the performance obligations (or as the performance obligations are satisfied)

The content of principal performance obligations in principal businesses regarding revenue from contracts with customers and the normal timing when those performance obligations are satisfied (normal timing when revenue is recognized) are described below.

1) Sale of products, etc.

As for revenue from sale of products, etc., the Group has performance obligations to deliver products, etc. based on the contract with the customer, and recognizes revenue at the goods delivery date or receiving inspection date, since the Group judges that control over products, etc. is transferred to the customer at the time of goods delivery or receiving inspection. Revenue from sale of products, etc. is measured in an amount calculated by deducting rebates and discounts from consideration promised in the contract.

2) Construction contracts and provision of services

Revenue from construction contracts and provision of services is derived from the manufacture of products, and the maintenance, etc. of products that is involved with this. The performance obligations are held to provide the goods or services based on the contract with the customer. For construction contracts and provision of services, since control over goods or services is transferred over a period of time, revenue is recognized by measuring progress reasonably

towards complete satisfaction of performance obligations. Measurement of progress takes into account the nature of goods or services promised to be transferred to the customer. In cases where incurred costs are proportional to the progress in satisfying performance obligations, such as construction contracts in the Aerospace Systems segment, the Energy Solution & Marine Engineering segment, etc., the progress is measured using the input method based on the proportion of cumulative incurred cost to estimated total costs of the entire transaction at the present time, etc. In cases of contracts where a fixed amount is charged for services that are provided over a certain period of time, such as maintenance contracts, etc. in the Energy Solution & Marine Engineering segment, and contracts where the Group has the right to receive the amount of consideration directly corresponding to value of the portion of completed performance to the customer from customers, such as maintenance contracts for commercial aircraft jet engines in the Aerospace Systems segment and manufacture of rolling stock in the Rolling Stock segment, the progress is measured using the output method based on the proportion of the period that elapsed to the entire contract period or the proportion of obligations that were performed up to the present time to the entire performance obligations. If progress cannot be reasonably estimated but incurred cost is expected to be recovered, revenue is recognized to the extent of incurred cost.

Consideration for these performance obligations is usually received within one year from the time of satisfying performance obligations. Consideration does not include any significant financial components.

Although the Group provide product warranties meeting specifications set forth in the contract, these product warranties do not provide any separate service. Therefore, the product warranties are not distinguished as an independent performance obligation.

For transaction contracts including changes in consideration such as rebates and subsequent discounts, the transaction price is determined by estimating the variable price to the extent that it is highly probable that a significant reversal of revenue will not occur when the uncertainty is resolved.

In addition, of costs for fulfilling contracts with customers, the estimated recoverable costs are capitalized. These assets are amortized according to the transfer pattern for related services to customers.

(10) Foreign currency translation

1) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each company upon initial recognition at the exchange rate on the transaction date or its approximate rate.

Monetary assets and liabilities denominated in foreign currencies at the date of the balance sheet are translated into the functional currency at the exchange rate on the date of the balance sheet. Of non-monetary items denominated in foreign currencies, those measured at acquisition cost are translated into the functional currency at the exchange rate on the transaction date or its approximate rate, and those measured at fair value are translated into the functional currency at the exchange rate on the date of measuring the fair value.

Any exchange differences arising from translation and settlement are recognized as profit or loss. However, if gains or losses on non-monetary items are recognized in other comprehensive income, the exchange differences are also recognized in other comprehensive income.

2) Foreign operations

Assets and liabilities of foreign operations, which include goodwill and fair value adjustments arising from their acquisition, are translated into Japanese yen at the exchange rate on the date of the balance sheet. Revenue and

expenses of foreign operations are translated into Japanese yen using the average exchange rate during the period, unless there is a significant change in the exchange rate.

Foreign exchange translation differences are recognized in other comprehensive income. These differences have been recognized in exchange differences on translation of foreign operations since April 1, 2021, which is the date of the Group's transition to IFRS.

If part or all of a foreign operation is disposed of and control or significant influence over it is lost, cumulative translation differences recognized in other components of equity are reclassified to profit or loss.

(11) Other significant matters for preparing the consolidated financial statements

Application of group tax sharing system

The group tax sharing system is applied.

(Notes to Accounting Estimates)

Recoverability of deferred tax assets

(1) The amount recorded in the consolidated financial statements

Deferred tax assets ¥110,264 million

(2) Information contributing to understanding of the accounting estimates

1) Methods to calculate the estimates

The recoverability of deferred tax assets is determined based on business plans, taking into account taxable income for a certain future period and tax planning.

2) Assumptions used to calculate the estimates

Estimation on revenue and income, a key element for business plans, is performed with some assumptions on factors including future economic conditions.

3) Impact on the consolidated financial statements for the next fiscal year

Future accounting estimates can be affected by changes in future economic conditions including the status of recovery from the impact of COVID-19, and other factors. Although the Group provides reasonable estimates on the recoverability, future changes in those conditions on the estimates can have a material impact on the amount of deferred tax assets in the consolidated financial statements in future periods.

(Notes to Consolidated Statement of Financial Position)

1. Assets pledged as collateral and liabilities relating to collateral
 - (1) Assets pledged as collateral

Investment securities	¥44 million
Shares of subsidiaries and associates	¥536 million
Other	¥13 million
Total	¥593 million
 - (2) Liabilities relating to collateral

Other	¥6 million
Total	¥6 million
2. Allowance for doubtful accounts deducted directly from assets

Trade and other receivables	¥5,352 million
Contract assets	¥2 million
Other non-current assets	¥1,431 million
3. Accumulated depreciation of property, plant and equipment ¥1,013,765 million
The above accumulated depreciation includes accumulated impairment.
4. Guarantee obligations for bank loans of subsidiaries and associates, etc. and employees ¥20,674 million
5. In some overseas construction works for LNG tanks, the Company suffered damage (about ¥51.0 billion) due to a breach of contract because of non-fulfillment of contract by an overseas subcontractor. In this case, a petition for arbitration has been filed with the ICC (The International Chamber of Commerce). We plan to resolve this case through arbitration in the future, and financial assets based on the contractual rights have been recorded in "Other financial assets" under "Non-current assets."

(Notes to Consolidated Statement of Profit or Loss)

1. Impairment losses

Reportable segments	Location	Use	Type	Amount (Millions of yen)
Others	Chuo-ku, Kobe, Hyogo Prefecture Narita, Chiba Prefecture	Assets for business use	Tool fixtures and equipment, etc.	2,402
Aerospace Systems	Akashi, Hyogo	Assets for business use	Other non-current assets	1,593
			Intangible assets	56
Energy Solution & Marine Engineering	Sakaide, Kagawa	Assets for business use	Buildings, etc.	554

The Group organizes business units into cash-generating units, which are the smallest units that tend to generate independent cash inflows.

During the fiscal year under review, it was possible to reduce the automatic PCR testing robot system used for PCR testing business to the recoverable amount due to a steep drop in demand for PCR testing as a result of change of the position of COVID-19 under the Infectious Diseases Act, etc., and it is not expected to be used again in the future. Also, in the Aerospace Systems segment, some commercial aircraft jet engine programs that the Company participates in have been written down to recoverable amounts due to the prolonged situation in Ukraine. In the Energy Solution & Marine Engineering segment, impairment losses incurred associated with the fact that profitability of the assets related to the Sakaide Works is deteriorated based on the assumption of current market conditions. Moreover, the recoverable amount for assets of the Others segment is determined based on the fair value less costs of disposal, and the recoverable amount for assets of the Aerospace Systems segment and the Energy Solution & Marine Engineering segment are calculated based on the

value in use, and the value is mainly zero.

Impairment losses are included in "cost of sales" of the consolidated statement of profit or loss.

(Notes to Consolidated Statement of Changes in Equity)

1. Class and total number of shares issued as of the end of the fiscal year under review
Ordinary share 167,921,800 shares

2. Dividends

(1) Dividends paid

Resolution	Total dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
June 24, 2022 Ordinary General Meeting of Shareholders	3,357	20.0	March 31, 2022	June 27, 2022
November 10, 2022 Meetings of the Board of Directors	5,036	30.0	September 30, 2022	December 5, 2022

(Notes) 1. The total dividends in accordance with the resolution to be passed at the Ordinary General Meeting of Shareholders on June 24, 2022 includes ¥8 million of dividends on shares held by the trust with Directors, etc. as beneficiaries, which was created due to the adoption of a performance-linked stock compensation plan.

2. The total dividends in accordance with the resolution passed at the Board of Directors meeting on November 10, 2022 includes ¥11 million of dividends on shares held by the trust with Directors, etc. as beneficiaries, which was created due to the adoption of a performance-linked stock compensation plan.

(2) Of the dividends whose record date belongs to the fiscal year under review, those whose effective date will fall in the next fiscal year.

Scheduled date of resolution	Total dividend (millions of yen)	Dividend per share (yen)	Record date	Effective date
June 28, 2023 Ordinary General Meeting of Shareholders	10,072	60	March 31, 2023	June 29, 2023

(Note) The total dividends in accordance with the resolution to be passed at the Ordinary General Meeting of Shareholders on June 28, 2023 includes ¥23 million of dividends on shares held by the trust with Directors, etc. as beneficiaries, which was created due to the adoption of a performance-linked stock compensation plan.

(Notes to Financial Instruments)

1. Matters regarding financial instruments

(1) Credit Risk Management

Trade and other receivables of the Group along with contract assets and other financial assets are exposed to customer credit risk. To deal with these credit risks, in the Group, sales administration departments in each segment regularly monitor the status of major business partners, manage due dates and balances of each business partner, and work to quickly identify and mitigate collection concerns related to deteriorating financial conditions. To reduce the credit risk of counterparties when derivative transactions are used, the Company only conducts transactions with highly rated financial institutions. Therefore, we believe that credit risks associated with such transactions have been limited. There is no serious credit risk exposure in connection with any particular counterparty, and there is no excessive concentration of credit risk that requires special management.

(2) Liquidity Risk Management

Liquidity risk refers to risk where the Group could face difficulties meeting its obligations in connection with financial liabilities that are settled in cash or other

financial assets. The Group is exposed to the liquidity risk of not being able to make a payment by the due date when fulfilling repayment obligations for financial liabilities that have become due. Therefore, the Group manages liquidity risk by ensuring that each Group company prepares and updates financial plans in a timely manner and ensures there are sufficient funds for repaying financial liabilities. In addition to using a cash management system to facilitate financing among Group companies, the Company also maintains the ability to have flexible funding by diversification of financing methods, adjusting the balance between short and long terms according to the financing environment, and ensuring commitment lines.

(3) Exchange Risk Management

Since the Group engages in business throughout the world, it is exposed to exchange rate risk in connection with foreign currency-denominated receivables and payables. The Company and some of its consolidated subsidiaries mainly use forward exchange contracts to hedge foreign currency-denominated trade receivables and payables against foreign exchange fluctuation risks that have been identified according to currency and month. Also, depending on the exchange rate, forward exchange contracts are principally made for the net position of foreign currency-denominated trade receivables and foreign currency-denominated trade payables that are expected from forecast transactions related to exports.

(4) Interest Rate Risk Management

The Group is exposed to interest rate fluctuation risks as a result of borrowing with variable interest rates. The Company and certain consolidated subsidiaries use interest rate swap transactions with fixed interest payments as a hedge against interest rate fluctuation risk for certain long-term borrowings.

2. Matters concerning fair values of financial instruments

The following table shows an analysis of financial instruments measured at fair value according to the valuation method. Each level is defined according to the following.

- Level 1: Fair value determined based on a (unadjusted) quoted price in an active market for an identical asset or liability
- Level 2: Fair value determined using directly or indirectly observable inputs other than Level 1 inputs
- Level 3: Fair value determined using significant unobservable inputs

If multiple inputs that have a significant effect on determination of fair value are used, the fair value is classified to the lowest priority level in determination of fair value from among the levels those inputs belong.

(Unit: Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through other comprehensive income				
Stocks / Investments in capital	4,665	–	22,287	26,953
Financial assets measured at fair value through profit or loss				
Derivative assets	–	3,778	–	3,778
Other	–	–	240	240
Total assets	4,665	3,778	22,527	30,971
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives liabilities	–	4,619	–	4,619
Total liabilities	–	4,619	–	4,619

The following shows the method for calculating the fair value of financial instruments.

(Stocks / Investments in capital)

For stocks with active markets, fair value is calculated based on market prices. For stocks without active markets, in principle, fair value is calculated using valuation techniques based on the market prices of similar companies.

(Derivatives)

Forward exchange contracts are calculated based on the forward exchange rate at the end of the reporting period. Interest rate swaps are calculated by discounting future cash flows to the present value based on the interest rate at the end of the reporting period.

3. Financial instruments not measured at fair value

The following are fair values and book values of financial assets and financial liabilities not measured at fair value.

(Unit: Millions of yen)

	Book value	Fair value
Long-term borrowings	211,080	209,170
Bonds payable	188,941	185,332
Total financial liabilities	400,021	394,502

(Note) The fair values of financial assets and financial liabilities other than those above that are measured at amortized cost are approximated to their book values. In the fair value hierarchy above for financial liabilities measured at amortized cost, borrowings are classified into Level 3 and corporate bonds are classified into Level 2.

(Notes to Revenue Recognition)

1. Breakdown of revenue

The Group's businesses are basically comprised of six businesses: "Aerospace Systems," "Rolling Stock," "Energy Solution & Marine Engineering," "Precision Machinery & Robot," "Power-sports & Engine" and "Others." In order to understand revenue from contracts with customers based on that, revenue is disaggregated in a way which further classifies some portion ("Aerospace Systems," "Energy Solution & Marine Engineering," and "Precision Machinery & Robot") based on types of products. The following shows a breakdown of products by type and by region, and the relationship with the reportable segment.

(1) Breakdown by product type

(Unit: Millions of yen)

	Reportable segments						Total
	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Power-sports & Engine	Others	
Aerospace	249,356	-	-	-	-	-	249,356
Aero engine	99,524	-	-	-	-	-	99,524
Rolling Stock	-	131,935	-	-	-	-	131,935
Energy, Plants, Marine Machinery Systems	-	-	234,457	-	-	-	234,457
Ship & Offshore Structure	-	-	80,095	-	-	-	80,095
Precision Machinery	-	-	-	153,027	-	-	153,027
Robot	-	-	-	99,670	-	-	99,670
Powersports & Engine	-	-	-	-	591,151	-	591,151
Others	-	-	-	-	-	86,392	86,392
Revenue from contracts with customers	348,880	131,935	314,552	252,697	591,151	86,392	1,725,609

(2) Breakdown by region

(Unit: Millions of yen)

	Reportable segments						Total
	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Power-sports & Engine	Others	
Japan	184,475	77,698	238,632	70,754	35,017	76,414	682,993
U.S.	112,075	37,105	1,424	25,242	323,268	299	499,416
Europe	46,128	-	13,594	14,941	80,140	129	154,934
Asia	891	17,131	20,789	133,673	94,929	8,156	275,571
Other	5,309	-	40,112	8,085	57,794	1,391	112,693
Revenue from contracts with customers	348,880	131,935	314,552	252,697	591,151	86,392	1,725,609

The following shows the main method of recording revenue in each Group segment.

- "Aerospace Systems" "Rolling Stock" "Energy Solutions & Marine"

In these segments, in addition to the sale of parts for commercial aircraft and commercial aircraft jet engines, the Company also handles manufacturing of rolling stock and the execution of construction contracts for the construction of various plants, and provides services such as maintenance contracts. As for sale of products, revenue is generally recognized on the delivery date or receiving inspection date of the goods since performance obligations are mainly satisfied at such point in time. Since execution of construction contracts and provision of services are performance obligations which are satisfied over a period of time,

revenue is recognized by measuring progress in a reasonable manner. Progress is mainly measured using the input method based on incurred costs. However, services such as maintenance contracts and some construction contracts such as manufacture of rolling stock are measured via the output method.

For "Aerospace Systems," the relevant amount for some incurred costs for commercial aircraft jet engine programs participated in by the Company is estimated as consideration paid to customers and is deducted from revenue. In addition, as for the type of discount that the Company bears in proportion to its participation in commercial aircraft jet engine programs, the discount amount is estimated as variable consideration and deducted from revenue at the time the revenue is recognized.

- "Precision Machinery & Robot," "Powersports & Engine," "Others"

Sale of products such as hydraulic equipment for the construction machinery market, various robots, motorcycles and automobiles in these segments are mainly performance obligations which are satisfied at a point in time. Therefore, revenue is generally recognized on the delivery date or receiving inspection date for the goods.

2. Contract balance

- (1) Receivables, contract assets and contract liabilities arising from contracts with customers

The following is a breakdown of receivables, contract assets and contract liabilities arising from contracts with customers.

(Unit: Millions of yen)

	Balance as of April 1, 2022	Balance as of March 31, 2023
Receivables arising from contracts with customers	369,949	427,922
Contract assets	109,132	159,422
Contract liabilities	256,189	256,247

Receivables arising from contracts with customers are included in "Trade and other receivables" in the consolidated statement of financial position.

Contract assets are rights to consideration received in exchange for the portion of an already satisfied performance obligation that is measured based on the progress as at the end of the reporting period, excluding receivables, mainly in contracts where performance obligations are satisfied over a certain period of time. Contract assets are transferred to receivables from contracts with customers when the rights to consideration become unconditional and only passage of time is required. Changes to contract assets are primarily the result of revenue recognition (increase in contract assets) and transfer to trade receivables (decrease in contract assets).

Contract liabilities are recognized primarily at the time consideration is received as an advance payment before the goods or services promised to a customer are transferred to the customer. Later, when the Group satisfies the performance obligation, it is no longer recognized as a contract liability and is recognized as revenue. Changes in contract liabilities are mainly due to the receipt of advance payments (increase in contract liabilities) and recognition of revenue (decrease in contract liabilities).

- (2) Any recognized revenue that was included in the contract liability balance at the beginning of the period and revenue recognized from a performance obligation that was satisfied in a previous period

Of recognized revenue, the amount included in the balance of contract liabilities at the beginning of the period was ¥179,729 million in the fiscal year under review.

In the fiscal year under review, the amount of revenue recognized from performance obligations that were satisfied in past periods was not significant.

3. Transaction prices allocated to remaining performance obligations

The total amount of transaction prices allocated to remaining performance obligations and timing in which revenue is expected to be recognized are as follows. There are no amounts, etc. of significant variable consideration from contracts with customers that were not included in the transaction price.

(Unit: Millions of yen)

	Reportable segments						Total
	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Power-sports & Engine	Others	
Remaining performance obligations	670,686	570,523	629,052	97,880	-	27,796	1,995,937

(Note) Transaction prices allocated to remaining performance obligations have not been presented for the Powersports & Engine segment since these are mainly stock production.

Remaining performance obligations for each reportable segment are expected to be recognized as revenue in the period shown below starting from the end of the current fiscal year.

- Aerospace Systems: Approx. 90% within 2 years, approx. 10% beyond 2 years
- Rolling Stock: Approx. 90% within 1 year, approx. 10% beyond 1 year
- Energy Solutions & Marine: Approx. 90% within 5 years, approx. 10% beyond 5 years
- Precision Machinery & Robots: Within 1 year
- Others: Within 1 year

4. Assets recognized from contract costs

(Unit: Millions of yen)

	Balance as of March 31, 2023
Assets recognized from costs incurred while fulfilling a contract	14,120

Contract fulfillment costs that are capitalized by the Group represent the estimated recoverable costs for fulfilling contracts with customers related to the commercial aircraft jet engine segment. Such assets are recorded as "Inventories" in the consolidated statement of financial position and are amortized according to the transfer pattern for related services to customers. Amortization expenses related to capitalized contract fulfillment costs for the fiscal year under review are ¥2,208 million.

(Notes to Per Share Information)

1. Equity per share attributable to owners of parent ¥3,440.39
2. Basic profit per share ¥316.63

(Notes to Subsequent Events)

Not applicable.

Non-consolidated Statement of Changes in Net Assets

(From April 1, 2022 to March 31, 2023)

(Unit: Millions of yen)

	Shareholders' equity							Treasury shares	Total shareholders' equity
	Share capital	Capital surplus		Retained earnings					
		Legal capital surplus	Other capital surplus	Reserve for special depreciation	Reserve for tax purpose reduction entry of non-current assets	Retained earnings brought forward			
Balance at the beginning of the period	104,484	54,126	–	866	4,957	103,205	(1,129)	266,511	
Changes of items during the period									
Issuance of new shares								–	
Cash dividends						(8,394)		(8,394)	
Profit						11,998		11,998	
Purchase of treasury shares							(4)	(4)	
Disposal of treasury shares			(0)				26	26	
Transfer of loss on disposal of treasury shares			0			(0)		–	
Reversal of reserve for special depreciation				(323)		323		–	
Reversal of reserve for tax purpose reduction entry of non-current assets					(192)	192		–	
Net changes of items other than shareholders' equity									
Total changes of items during the period	–	–	–	(323)	(192)	4,119	22	3,626	
Balance at the end of the period	104,484	54,126	–	543	4,765	107,324	(1,107)	270,137	

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at the beginning of the period	785	(426)	359	266,870
Changes of items during the period				
Issuance of new shares				–
Cash dividends				(8,394)
Profit				11,998
Purchase of treasury shares				(4)
Disposal of treasury shares				26
Transfer of loss on disposal of treasury shares				–
Reversal of reserve for special depreciation				–
Reversal of reserve for tax purpose reduction entry of non-current assets				–
Net changes of items other than shareholders' equity	679	846	1,526	1,526
Total changes of items during the period	679	846	1,526	5,152
Balance at the end of the period	1,465	420	1,885	272,022

Notes to the Non-consolidated Financial Statements

*The amounts presented are rounded down to the nearest unit.

(Significant Accounting Policies)

1. Standards and methods for evaluation of assets

(1) Standards and methods for evaluation of securities

1) Shares of subsidiaries and associates

Cost using the moving-average method is applied.

2) Available-for-sale securities

Securities other than shares, etc. with no market price

Market value method (with all valuation differences charged to net assets and the cost of sale computed by the moving-average method) is applied.

Shares, etc. with no market price

Cost using the moving-average method is applied.

(2) Standards and methods for evaluation of inventories

Stated at cost using the specific identification method and the moving-average method (balance sheet amounts are determined based on the method of lowering the book value in accordance with the deterioration of profitability).

(3) Standards and methods for evaluation of derivatives

Stated at market value.

2. Method of depreciation of non-current assets

(1) Property, plant and equipment (excluding leased assets)

The straight-line method is applied.

(2) Intangible assets (excluding leased assets)

The straight-line method is applied.

Software for internal use is amortized by the straight-line method over the internally estimated useful lives (within 5 years).

(3) Leased assets

The leased assets involved in finance lease transactions that involve transfer of ownership

The same method as that applied to property, plant and equipment is applied.

Finance lease transactions not involving the transfer of ownership

The straight-line method is used with the useful life equal to the lease term and zero residual value.

3. Standards of accounting for provisions

(1) Allowance for doubtful accounts

In order to provide for losses due to doubtful accounts from bad debt including trade receivables and loan receivables, allowance for doubtful receivables is provided based on the historical default rate of normal receivables and with reference to the collectability of receivables from companies in financial difficulty.

(2) Provision for bonuses

To prepare for the bonus payments to employees, provision for bonuses is provided in the amount based on the estimated amount of bonus payment.

(3) Provision for construction warranties

A provision is recorded for expenditures for warranties concerning construction contracts based on past experience or on estimations of individual cases.

(4) Provision for loss on construction contracts

A provision for an estimated amount of losses is recorded for the next fiscal year and thereafter concerning construction works which are anticipated to incur significant losses and which allow reasonable estimation of the loss incurred at the end of the fiscal year under review among those construction works that have not been delivered as of the end of the fiscal year under review.

(5) Provision for retirement benefits

Employees' retirement and severance benefits is recorded based on the estimated amount of retirement benefit obligations and plan assets as of the end

of the fiscal year under review (including the retirement benefit trust) in order to cover employee retirement benefits.

1) Allocation of expected retirement benefit payments

In calculation of retirement benefit obligations, the benefit formula basis is used to allocate expected retirement benefit payments to the period as of the end of the fiscal year under review.

2) Method of accounting treatment for actuarial differences and prior service cost

The prior service cost is amortized using the straight-line method over certain years (10 years) within the average remaining service period of the employees when the costs incurred in each year.

Actuarial differences are amortized from the fiscal year following the fiscal year in which the differences are recognized using the straight-line method over the average remaining years of service of the employees (10 years).

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

A provision for the amount expected to be covered by the Company with regard to costs associated with significant in-service issues arising in the Rolls-Royce Trent 1000 engine program for Boeing 787, in which the Company has participated as a risk and revenue sharing partner (RRSP).

4. Standards for recognition of significant revenue and expenses

The Company recognizes revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration that it expects to receive in exchange for those goods or services, based on the following five-step approach.

Step 1: Identify a contract with a customer

Step 2: Identify performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue at the time of satisfying the performance obligations (or as the performance obligations are satisfied)

The content of principal performance obligations in principal businesses regarding revenue from contracts with customers and the normal timing when those performance obligations are satisfied (normal timing when revenue is recognized) are described below.

1) Sale of products, etc.

As for revenue from sale of products, etc., the Company has performance obligations to deliver products, etc. based on the contract with the customer, and recognizes revenue at the goods delivery date or receiving inspection date, since the Company judges that control over products, etc. is transferred to the customer at the time of goods delivery or receiving inspection. Revenue from sale of products, etc. is measured in an amount calculated by deducting rebates and discounts from consideration promised in the contract.

2) Construction contracts and provision of services

Revenue from construction contracts and provision of services is derived from the manufacture of products, and the maintenance, etc. of products that is involved with this. The performance obligations are held to provide the goods or services based on the contract with the customer. For construction contracts and provision of services, since control over goods or services is transferred over a period of time, revenue is recognized by measuring progress reasonably towards complete satisfaction of performance obligations. Measurement of progress takes into account the nature of goods or services promised to be transferred to the customer. In cases where incurred costs are proportional to the progress in satisfying performance obligations, such as construction contracts in the Aerospace Systems segment, the Energy Solution & Marine

Engineering segment, etc., the progress is measured using the input method based on the proportion of cumulative incurred cost to estimated total costs of the entire transaction at the present time, etc. In cases of contracts where a fixed amount is charged for services that are provided over a certain period of time, such as maintenance contracts, etc. in the Energy Solution & Marine Engineering segment, and contracts where the Company has the right to receive the amount of consideration directly corresponding to value of the portion of completed performance to the customer from customers, such as maintenance contracts for commercial aircraft jet engines in the Aerospace Systems segment, the progress is measured using the output method based on the proportion of the period that elapsed to the entire contract period or the proportion of obligations that were performed up to the present time to the entire performance obligations. If progress cannot be reasonably estimated but incurred cost is expected to be recovered, revenue is recognized to the extent of incurred cost.

Consideration for these performance obligations is usually received within one year from the time of satisfying performance obligations. Consideration does not include any significant financial components.

Although the Company provide product warranties meeting specifications set forth in the contract, these product warranties do not provide any separate service. Therefore, the product warranties are not distinguished as an independent performance obligation.

For transaction contracts including changes in consideration such as rebates and subsequent discounts, the transaction price is determined by estimating the variable price to the extent that it is highly probable that a significant reversal of revenue will not occur when the uncertainty is resolved.

In addition, of costs for fulfilling contracts with customers, the estimated recoverable costs are capitalized. These assets are amortized according to the transfer pattern for related services to customers.

5. Other important matters forming the basis for preparing the non-consolidated financial statements

(1) Accounting treatment for hedges

1) Method of hedge accounting

Deferred hedge accounting is applied.

2) Hedging instruments and hedged items

Hedging instrument	Hedged items
Forward exchange contracts, currency options	Receivables and payables (including forecast transactions) denominated in foreign currencies
Interest rate swaps, currency swaps	Borrowings

3) Hedging policy

Hedging is conducted as a measure against the risk of foreign currency variation and interest rate variation based on company rules.

4) Method of assessing hedging effectiveness

Hedging effectiveness is evaluated based on fluctuation amounts of hedged items and hedging instruments by comparing the cumulative changes of market fluctuations between the hedged item with the hedging instrument during the period between the start of the transaction to the point at which effectiveness is assessed.

(2) Standards for the translation of assets or liabilities denominated in foreign currencies

Receivables and payables denominated in foreign currencies are translated into yen at the foreign exchange spot rate on the date of the balance sheet, and differences arising from the translation are calculated as gains or losses.

- (3) Accounting treatment for retirement benefits
Accounting treatment for unrecognized actuarial gains or losses and unrecognized past service cost for retirement benefits are different from accounting treatment for them in the consolidated financial statements.
- (4) Application of group tax sharing system
The group tax sharing system is applied.

(Notes to Accounting Estimates)

1. Recoverability of deferred tax assets
 - (1) The amount recorded in the non-consolidated financial statements
Deferred tax assets ¥91,201 million
 - (2) Information contributing to understanding of the accounting estimates
Notes are omitted as the same information is provided in the "consolidated financial statements (Notes to Accounting Estimates)."
2. Valuation of shares of subsidiaries and associates
 - (1) The amount recorded in the non-consolidated financial statements
Shares of subsidiaries and associates ¥94,045 million (of which, ¥12,955 million in investment in Mediaroid Corporation)
 - (2) Information contributing to understanding of the accounting estimates
 - 1) Methods to calculate the estimates
The shares of subsidiaries and associates are evaluated by stating at cost determined by the moving-average method, and if the actual price of the shares is remarkably lower compared with the acquisition price, the Company obtains business plans and considers the recoverability.
 - 2) Assumptions used to calculate the estimates and impact on the non-consolidated financial statements for the next fiscal year
The Company is considering the recoverability of shares of Mediaroid Corporation based on a business plan prepared by Mediaroid Corporation. There are uncertainties in that business plan concerning the estimates for future market growth, sales volume, prices, related costs, etc. If it becomes difficult to achieve the business plan due to changes in the various underlying assumptions to the estimates regarding the future, there may be a significant monetary impact on shares of subsidiaries and associates

(Notes to Non-consolidated Balance Sheet)

- | | |
|---|------------------|
| 1. Accumulated depreciation of property, plant and equipment | ¥581,113 million |
| 2. Monetary receivables from and payables to subsidiaries and associates | |
| Short-term monetary assets | ¥153,437 million |
| Long-term monetary assets | ¥409 million |
| Short-term monetary liabilities | ¥91,061 million |
| 3. Guarantee obligations for bank loans of subsidiaries and associates, etc. and employees | ¥39,327 million |
| 4. In some overseas construction works for LNG tanks, the Company suffered damage (about ¥51.0 billion) due to a breach of contract because of non-fulfillment of contract by an overseas subcontractor. In this case, a petition for arbitration has been filed with the ICC (The International Chamber of Commerce). We plan to resolve this case through arbitration in the future, and financial assets based on the contractual rights have been recorded in "Other" under "Investments and other assets." | |

(Notes to Non-consolidated Statement of Profit and Loss)

1. Transactions with subsidiaries and associates

Transaction from operating transactions	
Net sales	¥192,808 million
Purchases	¥92,721 million
Other	¥8,014 million
Transaction from non-operating transactions	¥15,998 million

2. Impairment losses

(1) Overview of the asset group for which impairment losses are recognized

Location	Use	Type	Amount (Millions of yen)
Chuo-ku, Kobe, Hyogo Prefecture Narita, Chiba Prefecture	Idle assets	Tool fixtures and equipment	2,402
Akashi, Hyogo	Assets for business use	Investment of other assets, other	1,593
Sakaide, Kagawa	Assets for business use	Buildings, etc.	517

(2) Method of asset grouping

Assets are mainly grouped by segment, and assets for rent and idle assets are treated as separate asset groups.

(3) Background to recognition of impairment losses

For some assets, the carrying amount has been reduced to the recoverable amount such as due to deterioration in business income.

(4) Calculation method of recoverable amount

Recoverable amounts are mainly calculated based on the value in use, and values are set to zero.

(Notes to Non-consolidated Statement of Changes in Net Assets)

Type of treasury shares and number of shares at the end of the fiscal year under review

Ordinary share	440,255 shares
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(Note) Treasury shares as at the end of the fiscal year under review include 398,600 shares held by the trust with Directors, etc. as beneficiaries, which was created due to the adoption of a performance-linked stock compensation plan.

(Notes to Tax Effect Accounting)

1. Main contributing factor to deferred tax assets and deferred tax liabilities

Among other factors, the main contributing factor to deferred tax assets is the disallowance of various provisions such as provision for retirement benefits, and the main contributing factor to the deferred tax liabilities incurred is reserve for tax purpose reduction entry of non-current assets.

2. Accounting for corporate and local income taxes or tax effect accounting related to these taxes

The group tax sharing system is applied from the current fiscal year. In addition, the Company accounts for and discloses corporate and local income taxes or related tax effect accounting in accordance with the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021).

(Notes to Transactions with Interested Parties)

Subsidiaries and affiliates, etc.

(Unit: Millions of yen)

Type	Name of company	Ownership interest of voting rights	Relationship with related party	Transactions	Transaction amount	Account item	Year-end balance
Subsidiary	Kawasaki Railcar Manufacturing Co., Ltd.	(Holding) Directly 100%	Company sharing business function	Collection of funds (Note 2)	6,572	Short-term loans receivable	23,578
Subsidiary	Kawasaki Motors, Ltd.	(Holding) Directly 100%	Company sharing business function	Borrowing of funds (Note 1) (Note 2)	12,391	Short-term borrowings	12,391
				Debt payment agent services (Note 2)	1,569	Current assets Other (accounts receivable)	13,542
				Collection of funds in association with the group tax sharing system	7,098	Current assets Other (accounts receivable)	7,098

- (Notes) 1. For the borrowing of funds, the interest rate is reasonably determined based on market interest rates.
2. The transaction amount shows the amount of net increase or decrease in the balance.

(Notes to Per Share Information)

1. Net assets per share ¥1,624.19
2. Profit per share ¥71.63

(Notes to Revenue Recognition)

Information that provides the basis for understanding revenue from contracts with customers is described in "Notes to the Consolidated Financial Statements, 4. Accounting policies, (9) Revenue."