Kawasaki
Powering your potential

Kawasaki Report / 2021

“Changing Forward.”

Roadmap to the Future

The Kawasaki Group is taking a new step forward under Group Vision 2030: Trustworthy Solutions for the Future.
We have designated three focal fields in which we will create new value: “A Safe and Secure Remotely Connected Society,” “Near-Future Mobility,” and “Energy and Environmental Solutions.” To make this possible, we will also transform our organizations and corporate culture. Like our tagline, “Changing Forward.” we are pushing forward and changing in order to do so. The Kawasaki Group, which marked the 125th anniversary of its incorporation in 2021, is committed to this ongoing transformation.

Contents

Editorial Policy

Since fiscal 2013, the Kawasaki Group has published the *Kawasaki Report* as an integrated report.
The report serves as a tool for communication with stakeholders and includes information about the Group’s efforts to create value for society and boost enterprise value; management policies; business environment and strategy, and environmental, social, and governance (ESG)-related content.
More information on many of the topics touched upon in this report can also be found on our website.
IR information: https://global.kawasaki.com/en/corp/ir/
Sustainability information: https://global.kawasaki.com/en/corp/sustainability/

Period

This report covers fiscal 2020 (April 1, 2020 to March 31, 2021), but some fiscal 2021 content is also included.

Scope

The report covers Kawasaki Heavy Industries, Ltd., its 99 consolidated subsidiaries (43 in Japan and 56 overseas) and 19 equity-method associates. Some data, however, refer to the parent company alone.

Guidelines

In preparing the report, the editorial office referred to the Sustainability Reporting Standards issued by the Global Reporting Initiative (GRI), the International Integrated Reporting Framework issued by the Value Reporting Foundation (VRF), the Environmental Reporting Guidelines (2018 Edition) issued by the Ministry of the Environment, and the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation issued by the Ministry of Economy, Trade and Industry.

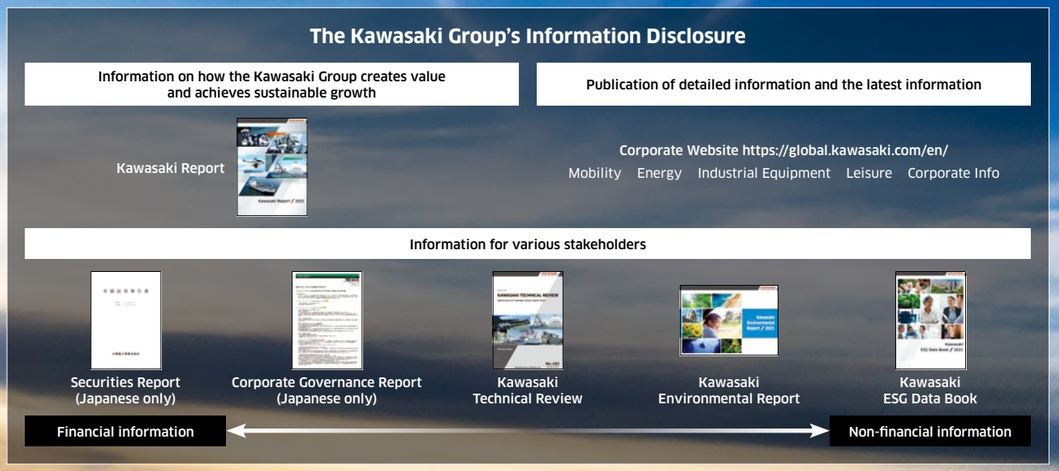
Frequency of Publication

Annually, in principle
Previous edition–October 2020
Next edition–September 2022

Contact Us

Please make inquiries through the inquiry form on our website
https://global.kawasaki.com/en/corp/profile/contact/

The Kawasaki Group’s Information Disclosure



Kawasaki Group Mission Statement

Kawasaki formulated the Kawasaki Group Mission Statement as a compass directing the activities of the Kawasaki Group. The statement incorporates the Group's social mission and, to increase the Kawasaki brand value, shared values, the underlying principles of management activities, and guidelines for the daily conduct of each and every member of the organization.

Group Mission

Kawasaki, working as one for the good of the planet

- We are the Kawasaki Group, a global technology leader with diverse integrated strengths.
- We create new value—for a better environment and a brighter future for generations to come.

Kawasaki Value

- We respond to our customers' requirements
- We constantly achieve new heights in technology
- We pursue originality and innovation

The Kawasaki Group Management Principles

1 **Trust** As an integrated technology leader, the Kawasaki Group is committed to providing high-performance products and services of superior safety and quality. By doing so, we will win the trust of our customers and the community.

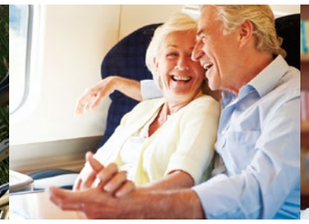
2 **Harmonious coexistence** The importance of corporate social responsibility (CSR) permeates all aspects of our business. This stance reflects the Kawasaki Group's corporate ideal of harmonious coexistence with the environment, society as a whole, local communities and individuals.

3 **People** The Kawasaki Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era.

4 **Strategy** Enhance corporate value based on the guiding principles of "selective focusing of resources," "emphasis on quality over quantity," and "risk management."

The Kawasaki Group Action Guidelines

1. Always look at the bigger picture. Think and act from a long-term, global perspective.
2. Meet difficult challenges head-on. Aim high and never be afraid to try something new.
3. Be driven by your aspirations and goals. Work toward success by always dedicating yourself to your tasks.
4. Earn the trust of the community through high ethical standards and the example you set for others.
5. Keep striving for self-improvement. Act on your own initiative as a confident professional.
6. Be a part of Team Kawasaki. Share your pride and sense of fulfillment in a job well done.

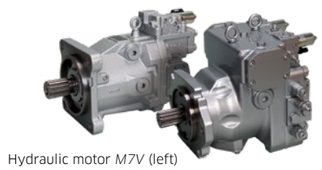
Our Businesses (Fiscal 2020)

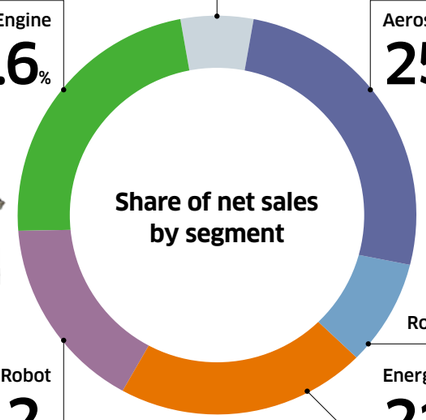

TERYX KRX 1000 TRAIL EDITION


Ninja ZX-10R


Trent XWB
©Rolls-Royce plc


C-2 transport aircraft


Hydraulic motor *M7V* (left)
Hydraulic pump *K8V* (right)



Other **5.4%**

Motorcycle & Engine **22.6%**

Aerospace Systems **25.4%**


Dhaka MRT Line-6 cars for Dhaka Mass Transit Company Limited in Bangladesh

Rolling Stock **8.9%**

Precision Machinery & Robot **16.2%**

Energy Solution & Marine Engineering* **21.5%**

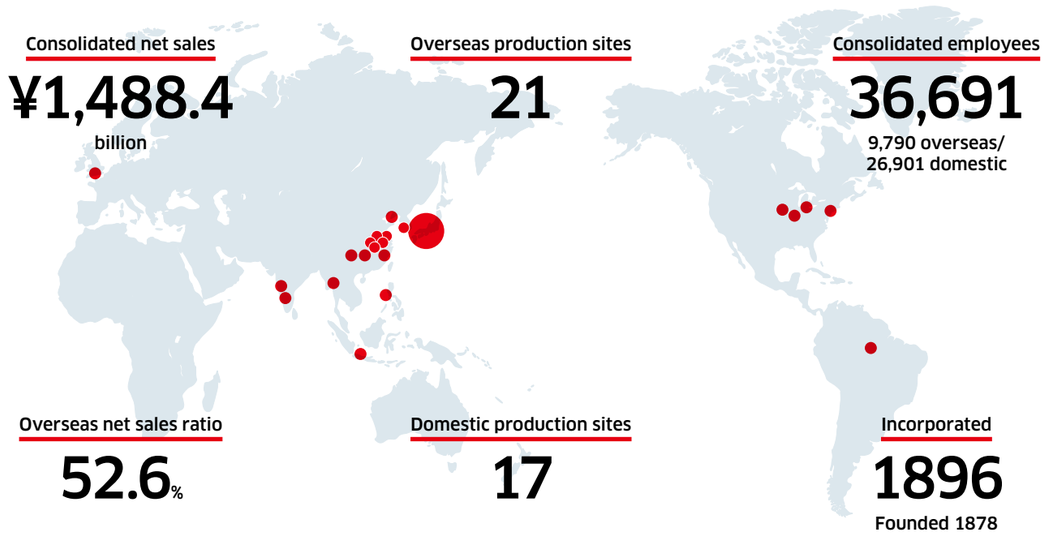
*See note p.42


Hydraulic pump for construction machinery


BX series spot welding robots for automobile body assembly lines


100 MW-class combined cycle power plant developed by Kawasaki


Liquefied hydrogen carrier



Growing in Step with Society: The Kawasaki Group's History

For more than 120 years since its foundation, the Kawasaki Group has constantly been on the cutting edge of technology, creating numerous national and global firsts. Carrying this legacy forward into the future, we aim to employ Kawasaki's diverse products and advanced, comprehensive technological capabilities to solve social and environmental issues and enrich lives.

1878-1913

The industrial revolution touches off Japan's modernization

In the tumultuous years after Japan's Meiji Restoration, Kawasaki was founded as a foray into modern shipbuilding with the aim of building dependable Western-style ships in Japan. With an eye to the future of railways, the Company next expanded into rolling stock manufacturing. In these ways, Kawasaki helped propel Japan's modernization.

Modernization of shipbuilding in Japan

1897 Launched the cargo-passenger ship *Iyomaru* (Kawasaki Dockyard's first vessel)

Contribution to the development of Japan's railway network and increasing rail traffic

1911 Completed the first Japan-made steam locomotive

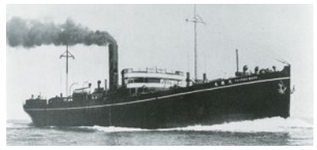
1914-1945

World Wars I and II

Great Kanto Earthquake (Japan)

Kawasaki continued to ambitiously enter new fields, expanding into shipping and the manufacture of aircraft and steel structures. As Japan modernized, the Company met growing demand for ships and contributed to the development of infrastructure.

Response to growing demand for ships



1916 Began advance production of ships

Contribution to air transportation

1922 Completed Kawasaki's first airplane

Contribution to infrastructure recovery after the Great Kanto Earthquake

1926 Built the Eitaibashi Bridge and other bridges

Acceleration of transportation

1964 Delivered Series 0 Shinkansen electric trains

Production automation and streamlining

1969 Created the *Kawasaki-Unimate 2000*, the first Japan-made industrial robot

1946-1980

Cold War, motorization, and oil shocks

Period of rapid economic growth (Japan)

Kawasaki diversified its businesses, developing into a comprehensive heavy industries enterprise. The Company created many first-in-Japan products and supported Japan's rapid economic growth. It also advanced the export of industrial plants, moving early on to begin producing motorcycles overseas. Kawasaki's fields of business expanded globally.

Establishment of the Kawasaki brand

1972 Launched the *Z1*

Contribution to small-scale power generation

1976 Developed the *Kawasaki GPS200*, the first Japan-made gas turbine generator

Acceleration of disaster and emergency response

1979 First flight of the *BK117* helicopter

Contribution to energy transportation

1981 Delivered the first LNG carrier built in Japan

1981-2000

Development of IT, growth of emerging nations

Growth and burst of the bubble economy (Japan)

Responding to society's demand for high-quality, high-performance, environmentally friendly products, Kawasaki created and provided a diverse range of products. As production its sites expanded globally, the Kawasaki brand grew, and the Company helped develop infrastructure around the world.

Creation of the *Ninja* brand

1984 Launched the *GPz900R*

Contribution to increasing efficiency of construction machinery

1987 Began mass production of *K3V* series swash plate axial piston pumps

Enhanced transportation convenience

1991 Successful excavation of the Channel Tunnel, linking France and the United Kingdom

Contribution to municipal waste processing

1997 Completed municipal waste incineration facilities for the Shin-Nanyo Plant in Nagoya City

Automated, more efficient production

1997 Launched sales of the *TS520* clean robot for semiconductor and LCD manufacturing equipment

2001-

Emergence of sustainable development

Development of IoT

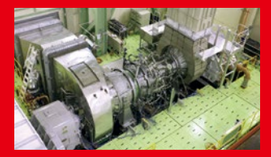
As sustainable development becomes a greater priority globally, Kawasaki is improving energy efficiency with cutting-edge technologies and promoting infrastructure development in emerging nations. Kawasaki continues to advance technological development focused on realizing better living and the future of the planet.

Acceleration of transportation

2004 Shipped first train for Taiwan High Speed Rail

Increased energy efficiency

2007 The Kawasaki Green Gas Engine achieved the world's highest electrical efficiency



2012 Launched sales of high-efficiency *L30A* gas turbines, made using only domestic technologies

Enhancement of economy, comfort, and environmental performance with cutting-edge technologies

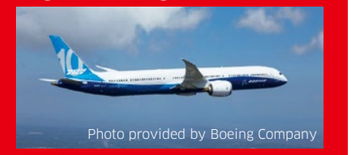
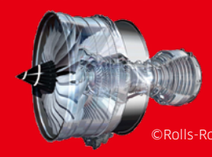


Photo provided by Boeing Company

2004 Took part in the development and production of the Boeing 787 Dreamliner

Increased fuel economy and significantly decreased noise and emissions of CO_2 and NOx



©Rolls-Royce plc

2009 Took part in the development and production of the *Trent XWB* for Rolls-Royce commercial jet engines

Response to fertilizer demand by increasing the added value of natural gas resources

2014 Completed the largest ammonia and urea fertilizer plant in Turkmenistan

Helping extend the range of fuel cell vehicles

2018 Developed a high-pressure hydrogen regulator for Daimler AG

Our Approach to Sustainable Value Creation

Group Mission

“Kawasaki, working as one for the good of the planet”

The Kawasaki Group consistently creates new value by drawing on diverse, sophisticated technological capabilities to contribute to solutions to social issues around the world.

Global Social Issues → **Kawasaki Group Management Resources** → **Business Activities and Strategy** → **Key Outputs** → **Created Social Value**

Global Social Issues

- Global warming
- Decarbonization
- Energy problems
- Responding to changes in the movement of people and freight
- Pandemic countermeasures
- Shortage of and increasing burden on doctors
- Increase in diverse work styles, including remote work

Kawasaki Group Management Resources

(Fiscal 2020 figures)

Financial capital

- Invested capital ..... ¥1,058.6 billion

Manufactured capital

- Capital expenditures ..... ¥55.6 billion
- Key production sites
  - 17 in Japan
  - 21 overseas

Intellectual capital

- 120 years of experience and know-how
- Advanced technological capabilities across extensive domains
- R&D expenses ..... ¥44.9 billion

Human capital

- A technology-based Group pursuing quality
- Number of employees 36,691

Social and relationship capital

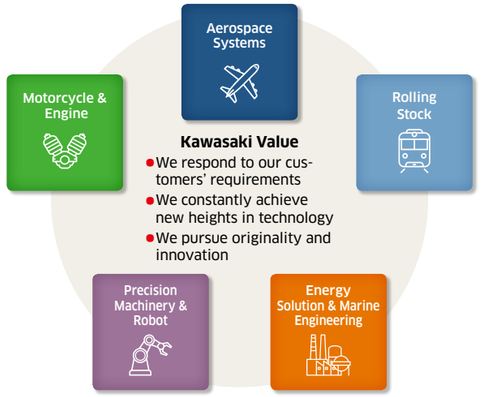
- Kawasaki brand
- Relationships of trust built with business partners over many years

Natural capital (non-consolidated)

- Energy consumption (heat conversion) ..... 5,893 TJ
- Procured amount of raw materials (steel) ..... 110 kt-CO₂

Business Activities and Strategy

Business Portfolio



Value Creation Drivers

Group Vision 2030

- Pursue growth ⇒ Development investment
- Pursue stability/synergy ⇒ Realizing a conglomerate premium
- Contributing to the achievement of the Sustainable Development Goals through our solutions to social issues
- Financial targets: Average annual net sales growth rate: 5%; Operating profit margin: 5–8%; Before-tax ROIC: 3% or more higher than WACC
- Measures:
  - Revise business models and develop new businesses
  - Promote DX
  - Strengthen cybersecurity
  - Overhaul the personnel system
  - Advance open innovation

The Foundation of Our Business Activities (ESG Initiatives)

- Corporate governance
- Product liability/safety
- Compliance
- Anti-corruption measures
- Supply chain management
- Employee recruitment and retention
- Business and human rights
- Energy and environmental solutions (value chain)

Key Outputs

Main Products

- **Aerospace Systems:** Airplanes, jet engines

- **Rolling Stock:** Rail cars, snow removal machinery

- **Energy Solution & Marine Engineering:** Energy-related equipment and systems, marine propulsion machinery and systems, industrial machinery, environmental equipment, cryogenic storage equipment, hydrogen-related facilities, crushing machines, ships

- **Precision Machinery & Robot:** Hydraulic machinery, industrial robots

- **Motorcycle & Engine:** Motorcycles, off-road four-wheelers (SxS, ATVs), personal watercraft (*JET SKIs*), general purpose gasoline engines

(Fiscal 2020 figures)

Financial capital

- Cash flows from operating activities ..... ¥34.6 billion
- Operating profit margin ..... -0.3%
- Before-tax ROIC* ..... -1.0%

* *Before-tax ROIC = EBIT (profit before income taxes + interest expense) / Invested capital (Interest-bearing debt + Shareholders' equity)*

Manufactured capital

Key Leading Market Share Products

- Semiconductor manufacturing robot global market share[1] ..... No. 1
- Stand-by gas turbine generator domestic market share[2] ..... No. 1
- 251 cc and over motorcycle domestic market share[3] ..... No. 1

1. Kawasaki survey based on data from SEMI and Fuji Keizai
2. Kawasaki survey
3. Based on domestic registration data

Intellectual capital and human capital

- Included in Clarivate's “Top 100 Global Innovators” for six consecutive year.

* *A selection of the world's top 100 innovative companies and institutions based on an analysis of intellectual property and patents using data about patent holdings.*

Social and relationship capital

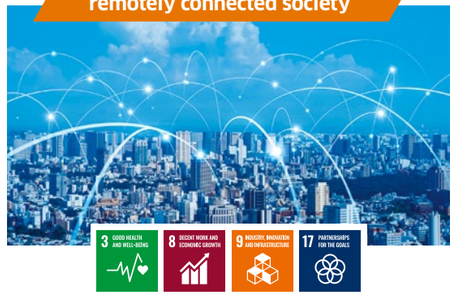
- Advancing hydrogen projects in coordination with other companies
- IR meetings with institutional investors ..... 281 times

Natural capital (non-consolidated)

- CO_2 emissions from business activities ..... 249 kt-CO_2
- Reduction of CO_2 emissions through product-based contributions ..... 24,047 kt-CO_2
- Kawasaki-brand Green Products
  - Number of registered products 61
  - Net sales ..... ¥255.6 billion

Created Social Value

A safe and secure remotely connected society



Near-future mobility

Energy and environmental solutions

External Environment and Risks

Changes in Industrial Structures
- Technological innovation
- The evolution of AI and IoT

Climate Change
- Global warming
- Major natural disasters

Currency Fluctuations
- Impact on revenue due to the Group's large proportion of overseas sales

Economic Trends
- Impact via capital expenditure
- Impact of the COVID-19 pandemic
- U.S.-China trade friction

Implementing Group Vision 2030

Since November 2020, the Kawasaki Group has been implementing Group Vision 2030, a vision for Group's future. In keeping with our tagline, "Changing Forward." this vision is forward-looking, laying out what we want the Kawasaki Group to look like in 2030.

For more details, please visit our website.

Group Vision 2030
https://global.kawasaki.com/en/corp/profile/gv2030.html

Group Vision 2030•Business Direction Briefing (November 2, 2020)
https://global.kawasaki.com/en/corp/ir/library/other_presen_201102.html

Group Vision 2030•Progress Report Meeting (June 1, 2021)
https://global.kawasaki.com/en/corp/ir/library/other_presen_210601.html

カワる、
サキへ。
Changing forward

Group Vision 2030

Trustworthy Solutions for the Future

The Kawasaki Group will make available in a timely manner innovative solutions that accommodate an ever-changing society in order to create a hopeful future.
At the same time, the Group will surpass organizational boundaries and take on challenges to expand the horizons of its potential for further growth.

Frontier

Pioneering the technology frontier with our challenger DNA

Since our founding, we have always been **challengers**. Throughout a history studded with national and global firsts in many sectors, including shipbuilding, rolling stock, and aerospace, we have leveraged our cutting-edge technologies and fostered a DNA characterized by a spirit of pioneering the frontier that draws on our unique perspective.
We will continue to respond to the **frontier of this new era's social challenges**, based on that **unique perspective**, in order to create a hopeful future.

New Values

Providing innovative solutions to the problems facing the world

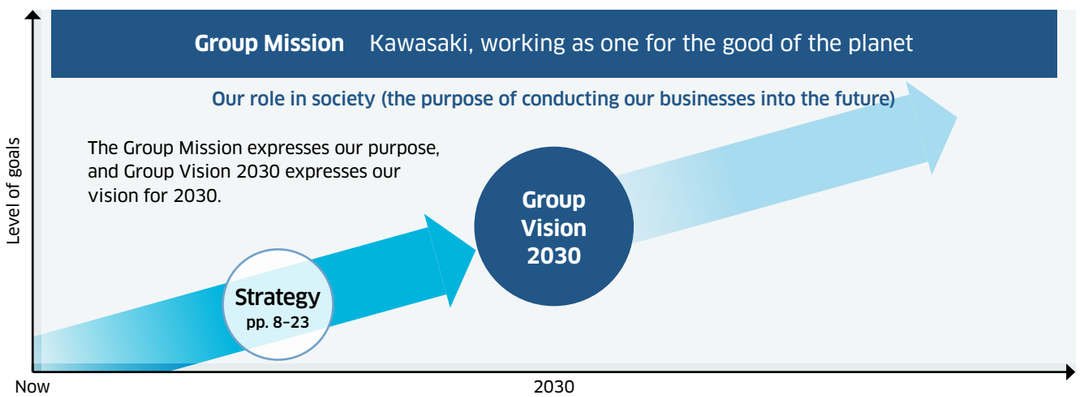
The world is now facing an array of problems, including environmental deterioration, energy challenges, expanding populations, graying societies, natural disasters, and pandemics.
We are committed to providing new and meaningful value to a wide range of customers and society by **concentrating the trusted technologies** and knowledge that we have built in order to provide innovative solutions and to **speedily accommodate** social change.

Cross Over

Becoming a creative challenger that continues to grow by breaking barriers

To provide innovative solutions focused on social challenges, we will continue to be an open-minded, **free-thinking**, and creative team that **goes beyond the boundaries** of internal and external organizations and of product/service categories, leveraging our **rich diversity**.
Moreover, we will keep growing as an organization and as individuals by expanding our potential, boldly **taking on challenges** in unfamiliar domains and learning from the experience.

The Group Mission and Group Vision 2030



Management Policy

We will pursue ongoing growth by investing in growth businesses while transforming to meet evolving needs.

Pursue Growth	Profits	Stability/Synergy
Development investment in growth fields and new businesses	Operating profit margin: 5%–8% Before-tax ROIC: 3% or more higher than WACC	Realizing a conglomerate premium* **An enterprise value-increasing effect from synergy between businesses*

Contributing to the achievement of the Sustainable Development Goals through our solutions to social issues

Growth Scenario Leading to 2030

Looking to ahead to the social issues of the coming decade, we have established a growth scenario around three focal fields. By reinforcing Kawasaki's current mainstay businesses and realizing inter-business synergy, we are developing new businesses that will grow into future pillars.

Social Issues: Remotely connected society | Decreasing birthrates and aging populations | Pandemics/disasters | Global environment | Energy

Solutions Offered by the Kawasaki Group

Three Focal Fields

A safe and secure remotely connected society | **Near-future mobility** | **Energy and environmental solutions**

	Solutions in the medical and healthcare field	Solutions that enable new ways of working and living	Disaster response solutions	Solutions that support the movement of people and freight	Environmental burden reduction and decarbonization solutions
Current mainstay businesses	●Surgical robot systems ●PCR testing business	●Industrial robots ●Successor robot system / developing and increasing the intelligence of humanoid robots	●Off-road four-wheelers and motorcycles ●Standby gas turbines generators ●Medical service helicopters	●Rolling stock ●Ships ●Airplanes ●Motorcycles ●Off-road four-wheelers	**Low environmental burden solutions** ●Rolling stock ●Motorcycles ●Airplanes ●CCPPs*/Industrial plants ●Hydraulic machinery *Combined cycle power plants
New businesses in the runup to 2030	●*hinotori*™ surgical robot system ●Infectious disease testing business	●Platform business that connects people who want to work with businesses seeking labor	●Hospital ships	●Mobility for smart cities ●Logistics solutions	**Decarbonization solutions** ●Hydrogen supply chain ●Shift to hydrogen fuel ●Shift to electric ●Carbon recycling

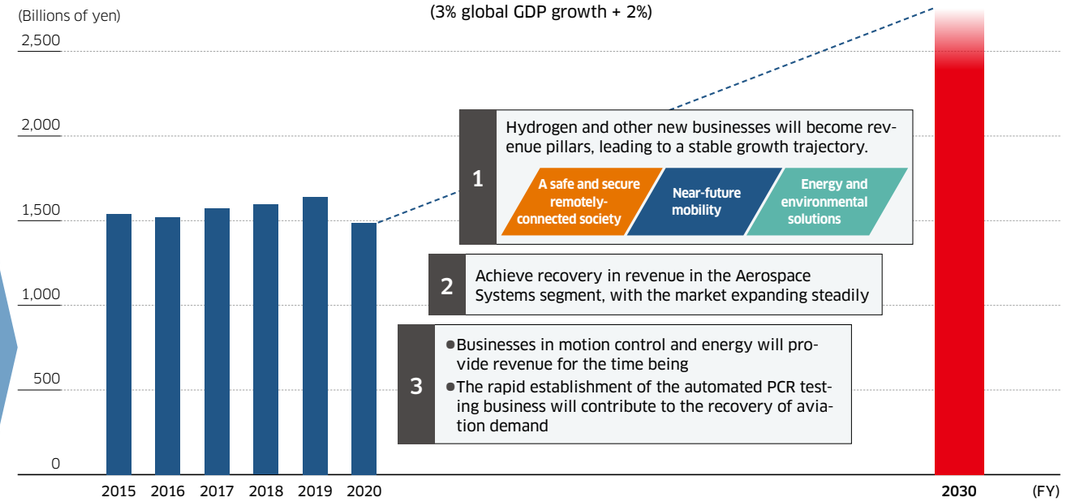
Reducing environmental burden in the value chain

New businesses aiming to generate net sales of ¥600 billion

Envisioned Growth

Aiming for average annual net sales growth of 5%

(3% global GDP growth + 2%)



Business shift from manufacturing to selling IP and services

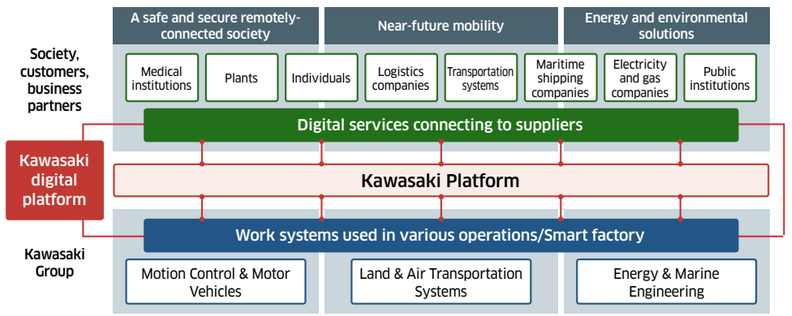
Key Mechanisms Supporting the Growth Scenario

To help achieve the growth scenario of Group Vision 2030, we have adopted a new personnel system that allows employees to proactively contribute regardless of age under the concept of taking on new challenges and commitment. Furthermore, by advancing digital transformation (DX), we seek to create new businesses, enhance efficiency and value added in operational processes, and speed up decision making.

Digital Transformation

●Utilize digital technologies and create next-generation businesses to achieve ongoing business growth

●Advance the use of remote control technologies, including robotics
Enable a new form of remote work using robots to perform on-site operations in order to realize highly productive work styles based on close cooperation between the Group, customers, and suppliers



Security and remote work | **Making management data accessible, improving operational process efficiency, building the cloud environment** | **Enhancing value chain management sophistication** | **Creating new value by promoting businesses selling IP and services**

Human Resources and Organizational Systems

●Shifted to a personnel system that gives greater weight to ability, role, and results and enables the more flexible utilization of human resources beyond the bounds of the internal companies

●Established the Presidential Project Management Division

Overview of the Personnel System Overhaul and Its Progress

The first step in transforming mindsets and corporate culture for sustained corporate growth: eliminating age-based seniority elements

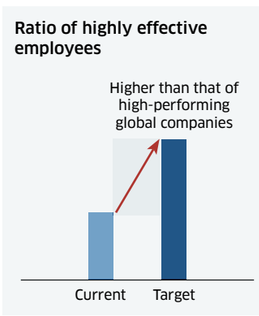
●Corporate officer compensation will be dependent largely on contribution to the Company's goals

●We continue to implement measures in such areas as corporate culture transformation, DX, and enabling employees to realize their career goals

●We are enabling talented younger employees to take on important roles and positions

●We have created a system that allows veteran employees who still want to embrace challenges to do so, regardless of age

Ratio of highly effective employees



Increase the ratio of highly effective employees who are highly motivated and provide an environment that allows them to embrace challenges

Transitioning to a Business Structure for Creating Solutions

We will operate businesses within the three groups of Land & Air Transportation Systems, Motion Control & Motor Vehicles, and Energy & Marine Engineering and increase the effectiveness of coordination between businesses.

Land & Air Transportation Systems

Airplane and rolling stock businesses leveraging dependable quality and cost competitiveness

- Aerospace Systems Company
- Kawasaki Railcar Manufacturing Co., Ltd.
  New company established in October 2021

Motion Control & Motor Vehicles

Extending management resources to mass-production businesses and strengthening synergies in core component businesses

- Precision Machinery & Robot Company
- Kawasaki Motors, Ltd.
  New company established in October 2021

A safe and secure remotely connected society

Near-future mobility

Energy and environmental solutions

Energy & Marine Engineering

Businesses in energy, mainly hydrogen, as well as marine engineering

- Energy Solution & Marine Engineering Company

Kawasaki Motors, Ltd.

- Launched as a new company on October 1, 2021
- Will be the driver of the Kawasaki brand as the Group's only B to C business
- Has commanded the top domestic market share for 251 cc and above motorcycles for three consecutive years
- Creating stores based on the concept of enjoyment involving all five senses and offering high-quality lifestyles

We have opened 77 Kawasaki Plaza stores nationwide since 2017 (as of April 2021)
Sales of large motorcycles[1] is up 80%, and the portion of customers in their 20s is up 60%[2]
1. Domestic sales of 401 cc or higher units, compared with before the start of Plaza network sales (compared with fiscal 2016)
2. Age group breakdown of new customers in the domestic market (compared with fiscal 2017)

Kawasaki Railcar Manufacturing Co., Ltd.

- Launched as a new company on October 1, 2021
- Established a Domestic and Asian Division and a North American Division
- Large-scale R211 subway car project, with a total value of approximately ¥400 billion,* is now under way

* Total order value if all options are exercised

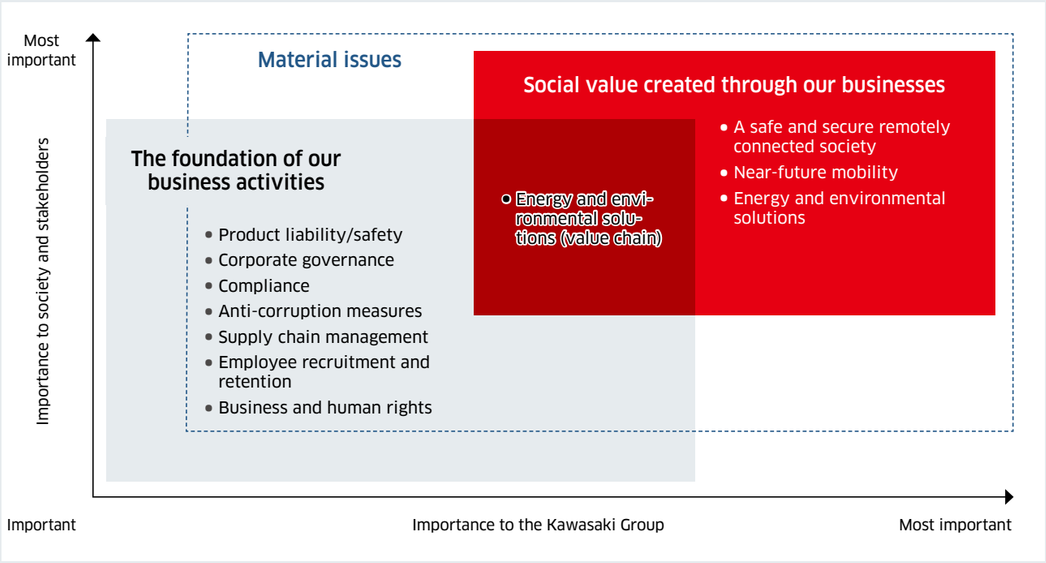
- Further improving productivity at North American locations and maximizing revenue from large-scale projects

R211 subway cars for the New York City Transit Authority (Lincoln Plant in Nebraska, United States)

Revision of Material Issues in Line with the Formulation of Group Vision 2030

The Kawasaki Group identifies material issues based on such factors as the relationships between social issues and Group business activities and their impact on stakeholders. In June 2021, the Sustainability Committee, chaired by the president, revised our material issues, changing the material issues under "social value created through our businesses" to the three focal fields of Group Vision 2030. Going forward, we will continue to periodically revise our material issues in light of changes in the business environment and society's expectations.

Materiality Matrix of Items Identified



Process for Identifying Materiality

2018

STEP 1 — Step 1: Identify and narrow down sustainability issues

We analyzed criteria evaluated by ESG ratings institutions and international sustainability reporting guidelines to identify and then narrow down material issues.

STEP 2 — Step 2: Evaluate importance of issues and assign priorities

We analyzed the importance of the individual criteria evaluated by ESG ratings institutions to create a provisional order of importance to society and stakeholders. We also held internal workshops to establish a provisional order of importance to the Company. Furthermore, we grouped responses to social issues that were identified under Medium-Term Business Plan 2016 into the category of "social value created through our businesses," which we made our top priority.

STEP 3 — Step 3: Interview outside experts and decide the material issues

We interviewed outside experts and, based on their comments, revised the importance to society and stakeholders we had assigned to the issues. We also defined the issues in the social value created through our businesses category as top priorities to address over the long-term and the other issues as the foundation of our business activities.

STEP 4 — Step 4: Formulate the plan and conduct a review

Aiming to comply with the management approach defined under the GRI standards, we designated responsible divisions and officers, policies, and specific numerical targets related to the material issues identified and implemented activities aimed at achieving said targets.

2021

STEP 1 — Step 1: Revision in line with the formulation of Group Vision 2030

Upon discussion by the Sustainability Committee, the content of the "social value created through our businesses" category was changed to the three focal fields under Group Vision 2030. We are now advancing revisions to the "foundation of our business activities" category.

Value Creation Story in the Three Focal Fields

Focal field and social issues to address	Goal	Main actions	Social outcomes (results)	Targets/Key Performance Indicators (KPIs)	Specific measures
A safe and secure remotely connected society **Social issues to address** ● Declining working population in developed countries ● Increase in diverse work styles, including remote work ● Shortage of doctors, increasing burden, healthcare disparities ● Decrease in movement of people ● Pandemic countermeasures	**New value creation using remote technology** Create a society that is rich, safe, and secure for all with remote technology	● **Healthcare** • Infectious disease testing business • Surgery support business • Nursing care business ● **Business in automated, autonomous, and remote technology support for manufacturing and service industries**	● **Infectious disease testing** to prevent the spread of disease and speed up recovery in the movement of people, including air travel demand ● **Reduce the burden on healthcare and nursing care workers** ● Advanced treatment using **surgical support robot systems** ● **Correct regional disparities** ● **Improve productivity and alleviate labor shortages**	**Targets for 2030** ● **Eliminate 5% of Japan's approximately 2,000,000-person shortage in healthcare and welfare workers (market estimated at over ¥1 trillion)** ● **Eliminate 5% of Japan's approximately 4,000,000-person shortage in manufacturing and service industry workers (market estimated at over ¥2 trillion)** **KPIs** (a) Remote platform active users (b) Sales of robotic assisted surgery systems	● **Infectious disease testing system** Joint PCR testing research with universities, PCR testing service at airports for departing passengers on international flights, expanding domestic use from monitoring to screening (social implementation) ● Demonstration of telesurgery performed at a distance of 30 km using **robotic assisted surgery systems** (animal testing), world's first **telesurgery demonstration** using commercial 5G networks ● Adoption of nursing care robots in hospitals ● Market introduction of personal care products that use remotely connected technologies ● Development and implementation of robots for warehouses and stores ● Practical application of humanoid robots ● On-site work using remotely controlled robots at plants (proof of concept demonstration begun in fiscal 2021)
		● **Offer new ways of working and living to realize a remotely-connected society** **Provide a platform** to match workers with businesses seeking labor using remote robots (joint venture business with Sony Group)	● **Work style reforms** • Time flexibility • Eliminate strenuous, dirty, and dangerous work • Remote work that includes on-site operations ● **Secure labor** ● **Provide opportunities for all people to participate in society**		
		● **Provide transportation, power generation, and other equipment at times of disasters**	● Support for evacuees (improve quality of life) ● **Save more lives**		● Deliver medical service helicopters ● Deliver standby generator sets
Near-future mobility **Social issues to address** ● Responding to changes in the movement of people and freight (e-commerce development, urban traffic congestion, spread of the sharing economy, growing demand for personal mobility)	**Transforming the movement of people and freight** Create a society where people and freight move safely, quickly, and efficiently using new forms of mobility	● Offer **new equipment and systems,** such as delivery robots and unmanned transport helicopters ● Offer **automated, autonomous, and remote** solutions for the logistics industry ● Reduce environmental burden and utilize advanced safety technology in transportation equipment	● Handle increasing logistics volumes and alleviate labor shortages ● Provide safe working conditions ● **Realize seamless urban transportation** Increase the speed and efficiency of the movement of people and freight ● **Alleviate traffic congestion and logistics delays** ● **Disaster-resilient community building** Rapid transportation of emergency supplies, etc.	**Targets for 2030** ● **Eliminate 20% of Japan's approximately 200,000-person shortage in logistics workers** ● **Commercialize new mobility** • Delivery robots • VTOL drones (vertical take-off and landing aircraft) • Autonomous four-wheelers • Supply chain optimization services, etc. ● Autonomous marine transport (*Marine Collaboration Project*) ● **Take part in super city projects** **KPIs** (a) Sales of VTOL drones (b) Sales of delivery robots	● **Logistics chain optimization** **Phase 1** • Autonomous transportation and loading equipment (autonomy that extends to the last mile) **Phase 2** • Supply chains (create seamless connections: improve efficiency, including for reloading systems) • Overseas expansion by 2030 ● **New mobility** • Commercialize delivery robots and autonomous four-wheelers by 2025 • Full-scale operation of VTOL and integrated transport service business by 2030 ● **Realize super cities** • Coordinate with municipalities to take part in super city projects (total optimization of urban transportation, including the movement of people) • Build overarching management systems for the movement of people and freight (local MaaS). Organically link these with other Group businesses. • Build cooperative relationships with logistics companies and software companies
Energy and environmental solutions **Social issues to address** ● Global warming ● Decarbonization ● Energy problems	**Working toward the stable generation of clean energy** Quickly achieve a stably powered, carbon-neutral society at low cost	● Build a hydrogen supply chain High-volume, stable supply of hydrogen ● Expand the use of hydrogen Power generation systems, transportation equipment, etc.	● **Reduce the price of hydrogen energy** ● **Help address climate change by reducing CO_2 emissions** ● **Provide clean travel and transportation by land, sea, and air**	**Targets for 2030** ● **Hydrogen supply from Kawasaki solutions: 225,000 t/year (when commercialized)** ● **CO_2 reduction from Kawasaki's hydrogen energy solutions: 1.6 million t/year (theoretical value)** **KPIs** (a) Hydrogen supplied by Kawasaki solutions (b) CO_2 reductions from Kawasaki's hydrogen energy solutions	● **Form a hydrogen consortium** ● Technological development Establish technologies for larger scale, leveraging NEDO-subsidized projects and partnerships ● **Increase transport volume** (Two or more carriers in 2030; 80 or more carriers in 2050) ● Develop hydrogen-fueled rolling
		● Electrify products Transportation equipment and systems as well as components for construction machinery	● Help address climate change by reducing CO_2 emissions		● Mass production of hybrid and electric motorcycles and off-road four-wheelers ● Deliver hybrid and electric marine propulsions systems
		● Carbon recycling Capture and use CO_2 in fields that cannot eliminate fossil fuels			● Pilot-scale energy-saving CO_2 separation and capture system Begin pilot-scale demonstration testing (Kansai Electric Power Company)
		● Reduce environmental burden throughout the value chain			

Note: For greater detail on this topic please refer to pp. 22–23.

Three Focal Fields

1

A Safe and Secure Remotely Connected Society

New value creation using remote technology

Create a society that is affluent, safe, and secure for all with remote technology

Kawasaki's Solutions to Social Issues

- In industrial robots, we will use automation and remote technologies to offer solutions to labor issues ranging from worker shortages in developed countries to difficult and dangerous worksites.
- In the healthcare field, we will alleviate patient burden, the increasing burden on doctors, and regional healthcare disparities (commercialization of robotic assisted surgery systems).
- Reflecting work and lifestyle diversification, we will facilitate remote work environments that enable participation in society regardless of distance, lifestyle constraints, or health limitations as well as the use of overseas workers and skilled workers.
- We will use sophisticated and diverse transportation and energy equipment to prevent and alleviate damage from increasingly severe natural disasters and help ensure economic continuity and stability in daily life.

Medical and Healthcare Field

Automated PCR Testing System

Amid the ongoing pandemic, restoring the movement of people and normal functioning of society will require the expansion of infectious disease testing. Kawasaki has overcome the previous barriers to such expansion using robots and offers automated PCR testing services that realize rapid, continuous, high-volume, high-accuracy processing.

Easy reservation and reception using a smartphone or other device

Rapid, high-accuracy test

Expansion of PCR testing allows the reopening of domestic and overseas travel

Realizing safety and peace of mind

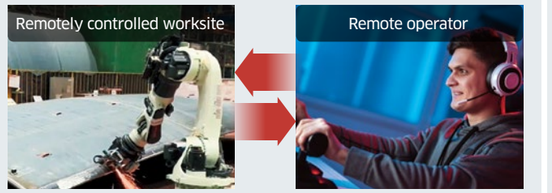
hinotori™ Surgical Robot System

In 1968, Kawasaki was the first company in Japan to develop and manufacture robots, and it has remained at the forefront of Japan's robotics industry ever since. In 2013, we established Medicaroid Corporation, specializing in medical robots, as a joint venture with Sysmex Corporation. Medicaroid Corporation then developed the *hinotori*™ surgical robot system, the first medical robot produced in Japan. Following approval by the Ministry of Health, Labour and Welfare in August 2020, the system entered clinical use and has been well received. Going forward, we will expand the types of surgery it can be used for and roll out the product overseas as we establish technologies in such areas as telesurgery.

ANSWERS
Technology supporting patients and doctors. The robotic assisted surgery revolution. (Japanese only)
https://answers.khi.co.jp/ja/connected-society/20210131j-01/

Offering New Ways of Working and Living

Remote work remains an option for only a relatively small number of people. Kawasaki has partnered with Sony Group Corporation to establish a joint venture with the aim of creating a remote robot platform business. The joint venture will seek to help solve a number of social issues, from enabling remote work in the service, manufacturing, and logistics industries, to eliminating the need to engage in hazardous and highly strenuous labor, to enabling the participation of those who would like to work but cannot physically go to worksites.

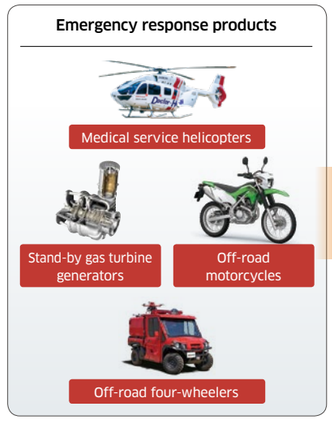


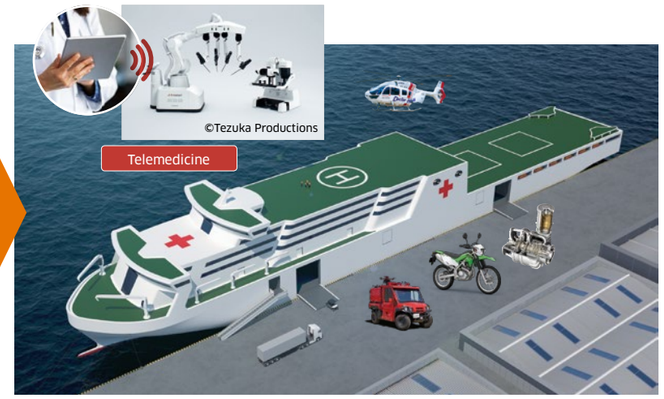
- Reducing the burden of hazardous and highly strenuous work
- Creating opportunities to participate in society for the many people who cannot go to worksites

Providing a platform to connect people who are willing to work with businesses that are looking for labor

Disaster Response

The Kawasaki Group offers a wide array of disaster-response products, including medical service helicopters, stand-by gas turbine generators, and off-road motorcycles and four-wheelers. Furthermore, we are considering the possibilities of hospital ships that bring together our wealth of technologies, such as transportation equipment, standby generator sets, and telemedicine via robots, to contribute to relief and services for remote and islands areas hit by disasters.





Hospital ships equipped with disaster response products and that enable telemedicine using robots

Three Focal Fields

2

Near-Future Mobility

Transforming the movement of people and freight

Create a society where people and freight move safely, quickly, and efficiently using new forms of mobility

Kawasaki's Solutions to Social Issues

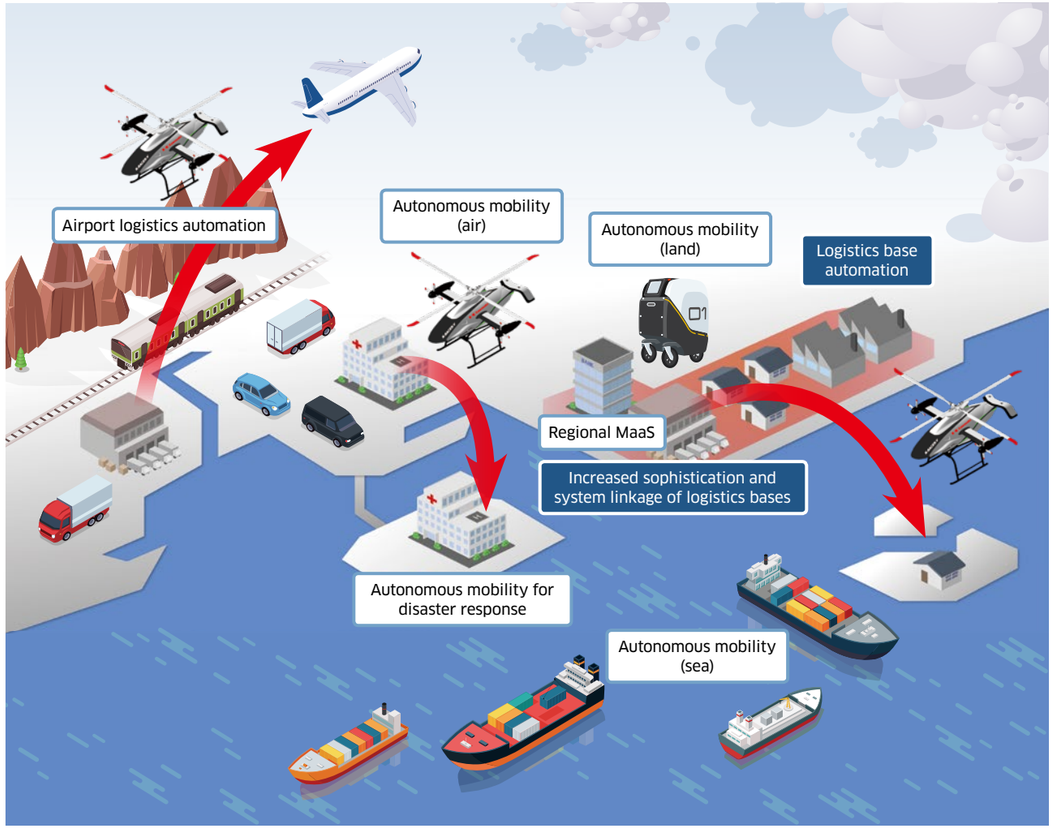
- We will provide new solutions based on Kawasaki's wealth of technologies necessary to the transportation chain, including those related to airplanes, helicopters, ships, rolling stock, and motorcycles. These solutions will address the changing face of mobility, including growth in e-commerce, sharing services, and demand for personal mobility.
- Addressing the increasingly severe issues related to labor shortages and worsening working conditions caused by growing logistics volumes, we will offer new systems that combine transportation equipment with robotics and remote technologies.
- We will offer solutions leveraging transportation systems that combine land and air transport to address such issues as time lost in transport due to higher traffic congestion because of economic development and disruptions caused by increasingly serious natural disasters.

Social Implementation

Working toward the Social Implementation of Near-Future Mobility

- Building strategic partnerships in logistics from fiscal 2022 with the aim of achieving social implementation in regional cities, commercial facilities, hospitals, etc.
- Participating in moves towards deregulation and institutional development with regard to remote and autonomous mobility.

Super City Using Near-Future Mobility



Logistics Solutions

VTOL Drones

The Kawasaki Group is a leading manufacturer in the Japanese aerospace industry, with an extensive track record in the manufacture of helicopters for the defense and commercial sectors as well as wide-ranging knowledge about such topics as air traffic control. Drawing on this technological prowess and expertise, we are developing VTOL* high-speed delivery helicopter drones with the aim of revolutionizing the last mile problem in logistics. We plan to carry out test flights within 2021.

*VTOL: Vertical take-off and landing aircraft

Kawasaki Group Channel on YouTube
Kawasaki Heavy Industries: Revolutionizing Air Transportation with VTOL Drones
https://www.youtube.com/watch?app=desktop&v=Dgs79EmjoJY

Delivery Robots

We aim to revolutionize the last mile in transportation using delivery robots that combine our robotics technologies with the driving technologies of our off-road four-wheelers.

Drives fast where safe	Supports comfortable living	Automatically recognizes and avoids obstacles	Enables communication
			

Three Focal Fields

3

Energy and Environmental Solutions

Working toward the stable generation of clean energy

Quickly achieve a stably powered, carbon-neutral society at low cost

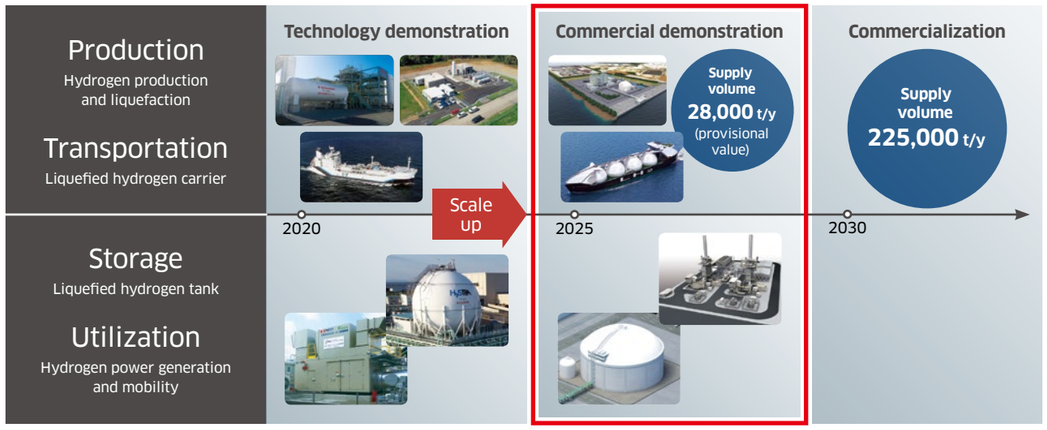
Kawasaki's Solutions to Social Issues

- We will provide decarbonization and electrification solutions that leverage our wide-ranging technologies and energy and transportation systems to address global warming.
- Building on our track record (e.g., liquefied hydrogen tanks and liquefied hydrogen containers at the JAXA Tanegashima Space Center) and pioneering technological development of a CO_2-free hydrogen supply chain (production, transportation, storage, and utilization), we will coordinate with rapidly advancing hydrogen projects around the world to improve costs and transportation volumes, helping realize a carbon-neutral society.
- With the global advance of transportation electrification and electricity supply infrastructure development, we will lead the shift to electric and hybrid technologies in motorcycles and other transportation equipment and systems, helping realize a carbon-neutral society.

Developing a Hydrogen Supply Chain

Steps Toward Expanding Hydrogen Use and Transport Volumes

Hydrogen-related businesses are increasingly being looked at as powerful potential tools in eliminating carbon emissions. The Kawasaki Group has been advancing R&D in this area for a decade, working to produce hydrogen cheaply and develop a hydrogen supply chain. Scaling up our current technology demonstrations, we expect to realize a commercial demonstration supply of approximately 28,000 tons per year in 2025 and a commercial supply of approximately 225,000 tons per year by 2030.



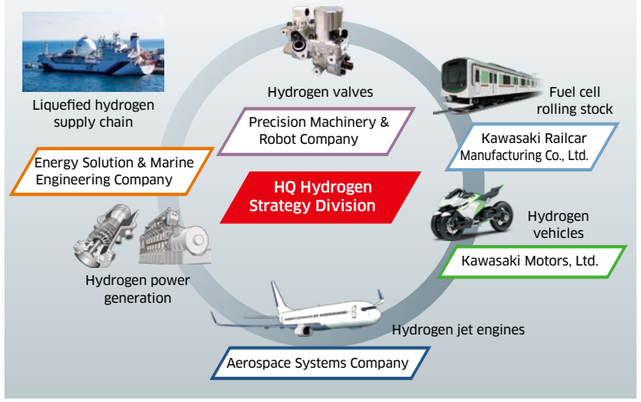
Expansion in Hydrogen Use

Several projects related to the use of hydrogen are currently in progress at Kawasaki.

- Development of hydrogen gas engines in the marine sector
- Participation in the development of hydrogen-powered aircraft
- Leading the development of liquefied hydrogen fuel tanks, hydrogen fuel supply systems and other core technologies

In light of the expected expansion in the use of hydrogen across industrial fields, we have established the Hydrogen Strategy Division within the Head Office to coordinate our hydrogen-related businesses and advance a wide range of initiatives leveraging Group technologies.

Further Development of Hydrogen-Related Products and Businesses



ANSWERS
Realizing a Carbon-Neutral Society: The Global Acceleration of Hydrogen Energy Development (Japanese only)
https://answers.khi.co.jp/ja/energy-environment/20210731-j02/

Carbon Recycling

Kawasaki promotes the separation, capture, utilization, and storage of CO_2 emitted by power stations and manufacturing plants. We are building a pilot-scale test facility at Kansai Electric Power's Maizuru Power Station, where we will begin demonstration testing of CO_2 capture in fiscal 2022.

Electrification

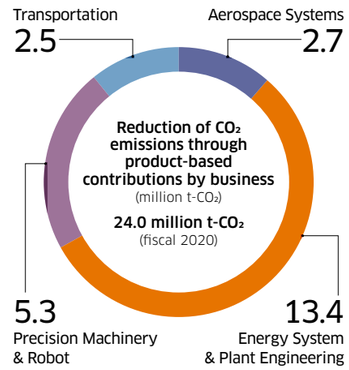
In light of the changing social environment, Kawasaki will accelerate the shift to electric and hybrid technologies in its transportation equipment and systems while reinforcing coordination within the industry.

Reducing CO_2 Emissions through Product-Based Contributions

More than 90% of the CO_2 emitted during the life cycles of our products is released during post-sale product use. To promote the reduction of CO_2 emissions during product use, since 2014 we have operated the Kawasaki-brand Green Products system, an ISO 14021-compliant internal system for certifying environmentally friendly products. Products that meet our proprietary standards related to boosting the environmental performance of the products themselves and reducing the environmental impact caused by associated manufacturing processes are registered under the system.

As of the end of fiscal 2020, the number of registered Kawasaki-brand Green Products stood at 61. We have also established rules for calculating CO_2 emissions reductions through product-based contributions in order to quantify the contributions of such products to the mitigation of global warming.* Calculations based on these rules showed that Kawasaki products sold in fiscal 2020 (mainly Kawasaki-brand Green Products) reduced CO_2 emissions by about 24.0 million tons.

*For details about calculation rules, please refer to p. 67.



Group Vision 2030

Promoting Environmental Management

Kawasaki established the Kawasaki Global Environmental Vision 2050 in 2017. To achieve this vision, we advance concrete initiatives according to environmental management activities plans formulated every three years. An overview of the 10th plan (fiscal 2019–2021) and progress in fiscal 2020 is shown below.

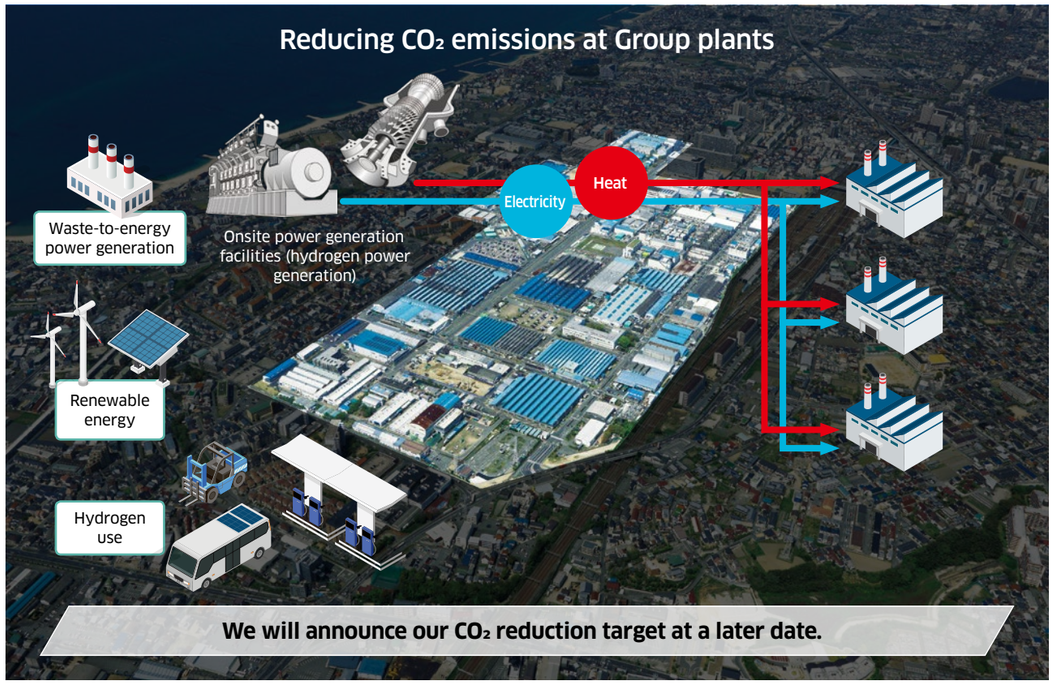
	Kawasaki Global Environmental Vision 2050	10th Environmental Management Activities Plan	
		(FY2019–FY2021 plan)	Progress (FY2020)
CO_2 FREE	●Aim for zero CO_2 emissions in business activities ●Provide products and services that greatly curb CO_2 emissions	Reduce CO_2 emissions per unit of net sales by 20% from the fiscal 2013 level (FY2021 target) Target CO_2 emissions per unit of net sales: 233 t-CO_2/billion yen (FY2019–FY2021 average)	226t-CO_2/billion yen ●Promoted the use of renewable energy (installed solar power generation facilities produced by Kyocera and Century Tokyo Leasing at the Seishin Works)
Waste FREE	●Aim for zero waste emissions in business activities ●Thoroughly enforce conservation and the recycling of water resources	Maintain ratio of direct-to-landfill waste to total waste generation at less than 1% (non-consolidated)	●Landfill disposal rate of 0.4% ●Confirmed water resource risks
Harm FREE	●Aim for zero harmful chemical substance emissions in business activities ●Develop business with respect for biodiversity	Reduce environmental risk while operating factories with respect for biodiversity	●Maintained proper management of harmful chemical substances ●Properly manage green spaces at plants, etc.

**For details about environmental management, please refer to the Kawasaki Environmental Report 2021.*

The Kawasaki Group's Initiatives to Achieve Carbon Neutrality

The Kawasaki Group is studying measures to reduce CO_2 emissions from its business processes. We plan to announce our CO_2 emission reductions target for 2030 at a later date.

Zero-Emission Plant



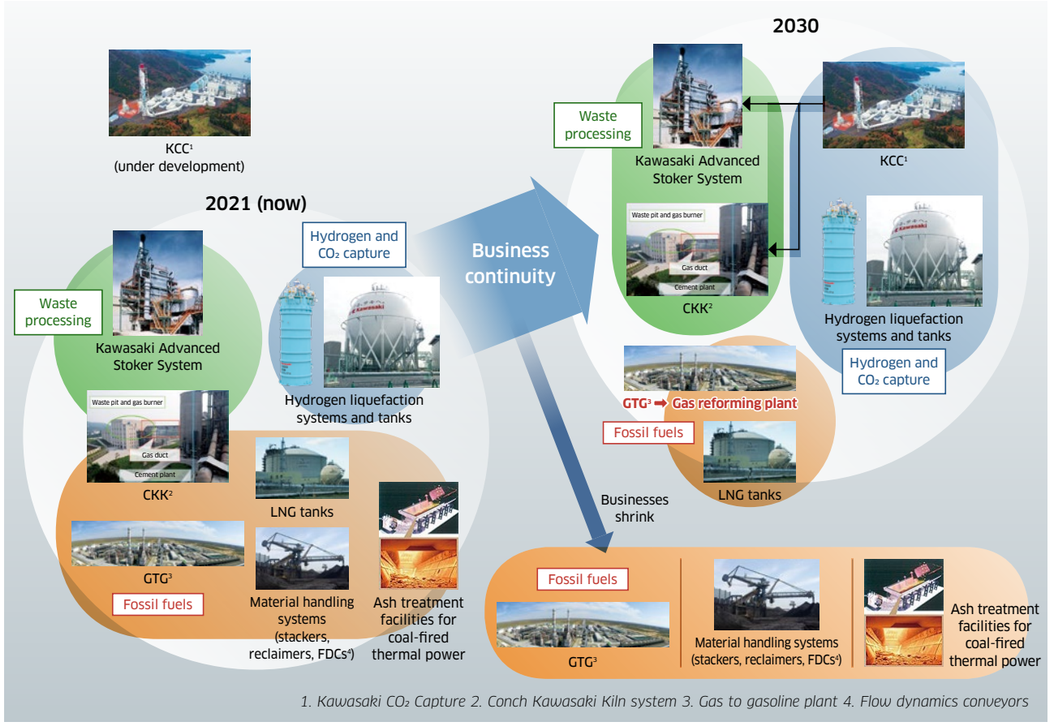
Disclosure in Line with the Recommendations of the Task Force on Climate-related Financial Disclosures

Strategy

Based on the 2°C scenario and 4°C scenario of the Intergovernmental Panel on Climate Change and related scenarios (from the International Energy Agency and elsewhere), Kawasaki has conducted scenario analyses of its industrial plant business, with a target year of 2030. Going forward, looking at the entirety of the Group's businesses, we will advance further analyses of businesses likely to be highly impacted by climate change and study the financial impact on them in quantitative terms.

	2°C scenario	4°C scenario
Waste processing	●Waste incineration and waste-to-energy power demand will not decrease ●Future regulatory tightening could limit CO_2 emissions from waste incineration	●Waste incineration and waste-to-energy power demand will not decrease
Fossil fuels	●Coal and gasoline demand will fall, but liquefied natural gas (LNG) will be a main power source in 2030 (after 2030, LNG demand may also fall)	●Fossil fuel demand will remain at current levels
Hydrogen and CO_2 capture	●Steps toward the widespread adoption of hydrogen will advance and its production cost will decrease (focus on hydrogen carriers using methods of transportation and storage other than liquefaction, such as using organic hydrides or ammonia) ●Demand for CO_2 capture (such as Kawasaki CO_2 Capture, "KCC") for power generation and other industries will grow	●Hydrogen and CO_2 capture will not be widely adopted
Kawasaki's response	We determined that Kawasaki's businesses will be resilient, based on the countermeasures shown in the diagram below.	While it will take more time to recoup investment in hydrogen and CO_2 capture, Kawasaki will be able to maintain business continuity based on its current technology portfolio.

Vision of the Future (2°C Scenario) and Countermeasures



1. Kawasaki CO_2 Capture 2. Conch Kawasaki Kiln system 3. Gas to gasoline plant 4. Flow dynamics conveyors

Countermeasures

Waste processing
- Shift away from fossil fuels (heavy oil) as auxiliary fuels for incineration
- Promote the development of carbon capture and storage (CSS) and carbon capture, utilization and storage (CCUS)
- Improve the efficiency of heat recovery

Fossil fuels
- GTG: Reforming natural gas into methanol, xylene, and hydrogen

Hydrogen and CO_2 capture
- Respond to the growing use of hydrogen and demand for CO_2 capture (accelerate manufacturing and research)

Note: For details on disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures, please refer to the Kawasaki Environmental Report 2021.

Advancing Group Vision 2030 and working to quickly create new value to solve social issues.

Yasuhiko Hashimoto
Representative Director, President and Chief Executive Officer

My First Year as President

When I took office as president last year, we were already in the middle of the COVID-19 pandemic, and the Aerospace Systems segment, one of our mainstay business areas, was facing a rapid decline in performance. However, over the course of my career, I have been appointed to lead at many times of dramatic social and economic change, and I approached this, too, as a new and exciting opportunity to blaze the trail forward to the future.

My first job as president was to believe in our future. I felt the importance of this strongly when I made the rounds to greet our customers and business partners after taking office. It was evident to me that many of our customers see Kawasaki as a company with integrity.

In November 2020, the Kawasaki Group established Group Vision 2030. The vision contains the message "Trustworthy Solutions for the Future." Indeed, we determined our vision for a bigger, brighter future based on our culture of valuing trustworthiness.

I have seen the dedication of our employees as they put customer value first. At the same time, I have also once again felt that, as we tend to focus so much on customers' immediate needs, we are not as strong as we should be in terms of offering suggestions that go one step further—to solve issues or offer value the customer has not even thought of yet. Looking at Kawasaki from an engineer's perspective, there is value in all our technologies, and these are important assets for the Company. If we can be more strategic when converting these diverse technologies into customer value, I am confident that Kawasaki will continue to grow going forward.

It has also been a year since the transition to a company with an Audit & Supervisory Committee, and the Board of Directors now discusses important matters even more actively. In fiscal 2020, I met individually with our executive officers and officer candidates, about 150 people in total, recording each meeting and making the videos available to the Audit & Supervisory Committee, Nomination Advisory Committee, and Compensation Advisory Committee. I hope to further enhance the transparency of the processes used to fill important positions so that we can more objectively evaluate candidates.

Generating Synergies in Three Focal Fields to Become a Market Leader

Kawasaki has long prioritized technological synergy. The three focal fields of business under Group Vision 2030, "a safe and secure remotely connected society," "near-future mobility," and "energy and environmental solutions," comprise a new framework for realizing such synergy.

Under "a safe and secure remotely connected society," we will leverage our technologies to realize better living using remote technologies, eliminate accessibility gaps between those who are skilled at using remote technologies and those who are not, and better protect lives and property from natural disasters. For example, our automated PCR testing business uses robotics to help alleviate personnel shortages and eliminate the risk of contagion for persons administering tests. Having now seen the havoc that a tiny virus can wreak upon society, and given that the next pandemic could strike at any time, we expect to see ongoing demand in this area going forward, even after COVID-19. We are also offering solutions to allow PCR testing equipment to snap into action when needed at airports or other facilities without disrupting the flow of people.

In addition, the field of medicine faces certain issues that can only be resolved with remote technologies. Medicaroid Corporation, our joint venture with Sysmex Corporation, developed *hinotori*, the first robotic assisted surgery system produced in Japan, which I believe will be remembered as having opened the door to remote medicine. Also, our new joint venture with Sony Group Corporation, announced in May 2021, will create a platform to connect people who want to work with businesses seeking labor by enabling the remote operation of robots. By doing so, it will help eliminate dangerous and highly strenuous work. At the same time, it will offer new ways of working, enabling more people to take part in society on their own terms, including people who would like to work but cannot physically go to worksites.

Realizing a safe and secure society will require dealing with natural disasters. To this end, we will bring together the Group's diverse range of technologies to develop hospital ships and floating power plants. In addition to medical service helicopters, off-road four-wheelers, and stand-by generator sets, we aim to offer new solutions for use in disasters that integrate our unique concept of telemedicine using robots for remote medicine in order to protect lives and property.

Spurred by the COVID-19 pandemic, some of the movement of people for business purposes (such as commuting and business travel) is expected to be replaced permanently by remote operations, but the shift to "new normal" lifestyles is also increasing demand for logistics, such as deliveries to individuals. Under "near-future mobility," we aim to combine our mobility technologies in such areas as airplanes, robots, motorcycles, and off-road four-wheelers to develop new forms of mobility, like remotely controlled, unmanned helicopters and self-driving delivery robots. By doing so, we will, for example, offer new solutions to the last-mile problem in logistics. Few companies in the world other than Kawasaki have the technologies spanning multiple fields necessary to provide these new mobility solutions. "Near-future mobility" is thus a prime example of how we can create new value through synergies between Group technologies.

The hydrogen business (in the energy and environmental solutions field) is an excellent example of an initiative that spans the borders between the internal companies. We anticipate the growing presence of hydrogen in a wide range of fields, including the creation of a hydrogen supply chain. As such, we established the Hydrogen Strategy Division within the Head Office to coordinate hydrogen-related businesses. Hydrogen businesses will be crucial if Japan is to reach its goal of realizing a carbon-neutral society in 2050, and this is an unparalleled area in which Kawasaki is concentrating strengths from across the Group.

The three focal fields under Group Vision 2030 are all new areas, the very frontier. We have taken the lead in developing hydrogen, in particular, for a decade already, based on our belief that it will be powerful tool for eliminating carbon emissions. I think that this will be a major advantage for Kawasaki. We are, in fact, receiving inquiries about our hydrogen business from around the world. We will now work to set global standards based on the components and operational know-how of our liquefied hydrogen carrier, *SUISO FRONTIER*, and other efforts thus far. Similarly, we will make our technologies for medical robots the global standard. Through such efforts, and while working with a wide range of other players, we will remain a market leader far into the future.

Growth Scenario Leading to 2030

Under Group Vision 2030, we will make strong investments in growth businesses as we pursue ongoing growth. As a result of these efforts, we aim for an operating profit margin of 5% to 8% and pre-tax ROIC that is 3% or more higher than WACC.

In the ship & offshore structure and rolling stock businesses, which have faced challenging circumstances since several years before the COVID-19 pandemic, we are implementing business structure reforms in order to promote growth going forward. By merging the Ship & Offshore Structure Company and Energy System & Plant Engineering Company, we are reinforcing the system engineering business, leveraging synergies with hydrogen-related businesses and the marine propulsion business, with the aim of greatly increasing profitability and boosting sales.

In the rolling stock business, the *R211* subway car project for the New York City Transit Authority, for which we have a large order backlog, has begun. Through a corporate split, we will transition to a framework that allows this business to nimbly and flexibly work with industry companies, thereby bolstering our ability to propose solutions and meet railway demand around the world. Furthermore, the motorcycle business is seeing strong growth in off-road motorcycles and four-wheelers for developed countries. The spin-off of this business will allow us to devolve greater authority and thus more quickly respond to market needs and dealer requests, and we aim for dramatic growth through aggressive investment. The motorcycle business enjoys great brand recognition around the world and, as our only B-to-C business, will continue to be the vanguard of the Kawasaki brand.

As part of Group Vision 2030, we have laid out the following growth scenario leading to 2030.

1) Our mass-production businesses, such as precision machinery, robots, motorcycles, and energy products, will provide revenue for the time being, while the establishment of the automated PCR viral testing business will help speed the recovery of aviation demand.

2) Once the Aerospace Systems business recovers, the steady expansion of the aerospace market will generate revenue and cash.

3) Further down the line, new businesses, such as hydrogen and medical robots, will become revenue pillars, leading to a stable growth trajectory.

For the period leading to 2030, we have already laid out an overall roadmap delineating areas in which we expect to generate profit and areas that will need support at each stage. In this way, as we advance under Group Vision 2030, we will reinforce profitability and earn social recognition for Kawasaki's contribution to the realization of a sustainable world.

Initiatives to Achieve Carbon Neutrality

Given that hydrogen is a key Group business, we recognize contributing to the achievement of a carbon-neutral society as a major responsibility of the Group. We must not only promote the elimination of carbon emissions on the part of customers and society through our hydrogen and other businesses, but accelerate initiatives to eliminate emissions in our product manufacturing processes and throughout the value chain. In the Kawasaki Global Environmental Vision 2050, established in 2017, we announced our target of carbon neutrality by 2050, but we hope to reach this target far earlier. Until now, we have worked to reduce CO_2 emissions, save energy, and reduce waste at the individual plant level. To achieve carbon neutrality, however, we must work strategically at the Company-wide level. We are currently studying ways that we might realize plants that emit no CO_2. I look forward to sharing the details soon.

Personnel System Reforms, Including the Elimination of Seniority-Based Elements

The future-oriented path we have laid out for solving issues, including dealing with the low birth rate and aging population, our ideas for a remotely connected society, and energy and environmental solutions, was well received at the Group Vision 2030 progress report meeting we held in June 2021. Our three focal fields of business are all areas in which we aim to solve social issues. To achieve this, employees will need broad perspectives and an ambitious spirit. This is precisely the objective of our new personnel system, which eliminates seniority-based elements and uses a job-based pay system. We are creating ways to give opportunities to employees who are motivated and capable, even if they are young, and to allow older employees who are still up to taking on new challenges to continue to do so.

Under the new personnel system, we aim to increase the portion of highly effective employees by giving due recognition and reward to those who are highly capable and produce results. This requires motivation on the part of employees as well as effort on the part of the Company to provide an environment that will allow them to excel. The world's top companies are said to be more than 55% highly effective employees. Kawasaki will therefore build mechanisms to provide the conditions that allow highly motivated employees to thrive, aiming to raise our proportion of highly effective employees to over 50%.

Suggestions and contributions toward the growth of Kawasaki as a whole, not just specific internal companies, will be incorporated into the evaluations of executive officers and above. Outstanding suggestions and ambitious targets will be viewed favorably, and even more favorably if they lead to results. The role of division heads will be to keep an eye on social needs, commit to addressing even difficult issues, and encouraging personnel to take on ambitious challenges. By getting as many people as possible to take on more ambitious targets, we seek to bolster the vitality of the Company as a whole.

The new personnel system is a framework for accurately evaluating those who are trying hard, even when they are not successful, and recognizing those who are working with passion. We have instituted more systematic methods to ensure that supervisors carefully observe their subordinates' work. Employees will be evaluated on the results they achieve, but their effort will also be a significant factor.

The personnel system reforms are also aimed at uniting all our employees in the effort to realize Group Vision 2030. The new system places greater weight on abilities, roles, and achievements and enables the more flexible utilization of human resources beyond the bounds of the internal companies. At the same time, we have established the Presidential Project Management Division and will work to quickly achieve results from Company-wide projects, such as the automated PCR viral testing service business and efforts in near-future mobility.

Encouraging a Greater Emphasis on Speed

Since before I took office as president, I have been saying that speed produces value, and I think more employees have come to understand the importance of this principle. I am sure that the experience of the COVID-19 pandemic, though still ongoing, has only reinforced this awareness.

As I see it, there are two types of speed. The first type is about reacting quickly. For example, quickly deciding what we could rapidly do in response to the halt in the movement of people due to COVID-19. This led to the automated PCR viral testing business.

The second type of speed is about quickly grasping global trends and future trajectories to stay a step ahead. The hydrogen business is a prime example of this. Our ability to quickly respond now that the world is waking up to hydrogen is thanks to our having foreseen the importance of hydrogen more than a decade ago and all the work we have done on related technologies since.

Accomplishing tasks quickly depends on training—even preparing a single document involves knowing the most efficient methods and the right procedures. The key to survival in a business environment of dizzying change is speed, and speed is a skill and a habit that can be built up and honed.

Promoting Dialogue, Disclosure, and Sustainability Management

After taking office as president, I gained an increased awareness of how unforgiving analysts are in their opinions about Kawasaki. I asked myself how we could help them understand us better, and came to the conclusion that dialogue and disclosure are, as always, key. Our work to enhance our quarterly financial results materials in the current fiscal year is part of efforts in this area. We are enhancing disclosure not only of financial information, but also ESG-related data. Through dialogue and disclosure, we aim to further invigorate communication with stakeholders and build stronger relationships of trust.

In formulating Group Vision 2030, we analyzed global social issues, considered the strengths and competitive advantages of our business portfolio, envisioned what we think the Company should look like in 2030, and then worked out a growth scenario to get there. Based on the vision, we recently reviewed our designated material issues and positioned our three focal fields of business as top priorities for the Group to address over the long term. By promoting efforts in these three fields, we will also contribute to the achievement of the Sustainable Development Goals (SDGs). We have defined our vision for the Group in 2030 using quantitative targets as much as possible, and we will regularly report progress against these targets going forward.

In addition, we are reinforcing ESG initiatives, which we position as part of the foundation supporting the achievement of Group Vision 2030. As a signatory company to the United Nations Global Compact, Kawasaki supports the Compact's 10 principles in the four areas of human rights, labor, environment, and anti-corruption. By practicing them in our business activities, we will promote sustainability for society, the environment, and Kawasaki.

Reaping the Fruits of Diverse New Initiatives in the Coming Year

Over the past year, although we have faced crises, we have also begun many new initiatives. We implemented the new personnel system, laid out a new strategy, and reorganized our businesses. Amid a severe drop in performance due to the COVID-19 pandemic, the entire Company worked steadfastly to secure a profit. Unfortunately, these efforts ultimately fell short, and we recorded a net loss for fiscal 2020. I take my responsibility for this as the head of management very seriously. However, we returned to profitability in the first quarter of fiscal 2021, with operating profit nearly the highest it has been in a decade. By advancing Group Vision 2030, I am confident that we will accomplish our plan for the fiscal year and continue to grow our businesses around the world.

As evoked by the philosophy espoused by Kawasaki founder Shozo Kawasaki of "contributing to the nation—to society—through expertise," solving social issues through business is in Kawasaki's very DNA. Staying true to this heritage, we will strive to increase our enterprise value and fulfill the roles required of us going forward so that we can provide "Trustworthy Solutions for the Future."

In this section, the representative director and vice president in charge of finance & accounting and human resources goes into detail about Kawasaki's

- **Financial strategy**
- **Human resource strategy**

Katsuya Yamamoto

Representative Director,
Vice President and Senior Executive Officer, Assistant to the President, in charge of Finance & Accounting, Human Resources, Sustainable Development, Investor Relations and Corporate Communication, and General Manager, Human Resources Division

Financial Strategy

Overcoming the COVID-19 Slump, Reinforcing Our Financial Position, and Implementing Business Reforms to Accomplish Group Vision 2030.

Financial Management Amid the COVID-19 Pandemic

The global economic stagnation caused by the COVID-19 pandemic has greatly affected Kawasaki's business. Nowhere was this more evident than in the Aerospace Systems segment, which, having accounted for almost 70% of Group operating profit until the previous fiscal year, saw sharp declines in revenue and profit due to stagnant air travel demand. We were forced to react as the presumptions underlying our business plans suddenly fell out from under us, and we implemented measures that included the issuance of ¥60 billion in straight bonds, our largest issuance ever, as well as commercial paper to ensure that we would have adequate liquidity on hand.

In August 2020, we forecast that the operating loss for the fiscal year could be as large as ¥30 billion. However, sales of off-road motorcycles and four-wheelers grew in the North American market, and sales of excavator hydraulic machinery, mainly for the Chinese market, were quick to recover. In addition, sales of robots for semiconductor manufacturing equipment were strong, reflecting a rise in semiconductor demand that was due in part to the expansion of remote work. The final result of these factors and the enormous impact of COVID-19 was that we recorded an operating loss of ¥5.3 billion for fiscal 2020.

Reinforcing Our Financial Position and Project Management

Due to COVID-19, demand for air travel rapidly declined, leading to a pileup in aerospace systems inventory, which, among other factors, caused the net D/E ratio to worsen in turn to 100% as of the end of the fiscal year. In the current fiscal year, with inventories decreasing due to adjustments in airplane production rates and business results recovering, we expect the D/E ratio to improve. By implementing a program of financial management improvement* aimed at controlling working capital, we hope to quickly return the D/E ratio to the 70% to 80% range, which we believe is an appropriate level.

The cash conversion cycle (CCC) also worsened to over 150 days in fiscal 2020 due to a range of factors, including weak performance in the airplane business, the suspension of operations at rolling stock production plants in the United States due to COVID-19, reduced production capacity due to social distancing, and delays in railway operators accepting rolling stock.

Operations have now returned to normal, so, considering the expected improvement in results, we aim to quickly return the CCC to around 100 days via the aforementioned program of financial management improvement.

Over the past three years, we have fallen short of our plans for profit and loss due to losses on big projects. However, since being put in charge of Company-wide finance and accounting, I have been working urgently to reinforce Company-wide profit and loss management. For important projects with a significant impact on management, we are reinforcing pre-contract risk checking and implementing a risk control approach that keeps the total risk of losses within a level commensurate with the relevant organization's financial strength. Through such measures, we are reinforcing project risk management and enhancing the precision of profit and loss planning.

** Activities to improve operations, including liquidating receivables, using supply chain financing, encouraging collection from customers, controlling inventory, and correcting payment conditions for suppliers*

Business Reforms under Group Vision 2030

Under Group Vision 2030, we are aiming to at achieve total optimization across the Group by implementing Company-wide reforms that transcend the barriers separating internal companies. First, to quickly create new businesses that span the bounds of the internal companies, we have set up a variety of businesses under the Presidential Project Management Division, including automated PCR testing and near-future mobility. Furthermore, we have integrated the Ship & Offshore Structure Company and the Energy System & Plant Engineering Company to form the Energy Solution & Marine Engineering Company, thereby creating a framework for advancing business centered on hydrogen-related businesses and the core component engineering business. We have decided to redirect the capacities of the merchant ship business within the new internal company, mainly toward the liquefied hydrogen carrier business and core component businesses, such as system engineering and marine propulsion. The construction of general vessels will now be carried out instead via collaboration with a Chinese joint venture and other companies.

In the rolling stock business, which has recorded operating losses for four consecutive years, we formed a Company-wide North American task force to reinforce the profitability of North American production sites from a Company-wide perspective. By leveraging insights into quality control from the Aerospace Systems segment and expertise about production efficiency from the motorcycle business, we aim to ensure that the rolling stock business returns to profitability in fiscal 2021.

The rolling stock business and the motorcycle business were each spun off into new, separate companies in October, affording them a high degree of management autonomy. This will allow the rolling stock business to nimbly and flexibly work with companies throughout the industry and the motorcycle business to leverage its characteristics as a B-to-C business to speed up decision making.

Investment in Growth and Sustainable Capital Procurement

Capital expenditures have been rising in recent years, reflecting ongoing upfront investment in growth fields. However, the pace of such investment in the hydrogen business and other areas has subsided somewhat, and, going forward, we plan to keep capital expenditures within the range of depreciation and amortization, in principle. At the same time, we will set aside a separate investment budget for future businesses, such as those related to digital transformation (DX), near-future mobility, and automated PCR testing robots.

In the hydrogen business, support from the Ministry of Economy, Trade and Industry's Green Innovation Fund has begun, and hundreds of billions of yen will be invested. Using this capital and leveraging the advantage of having started investing in this area well ahead of the competition, we will grow the hydrogen business.

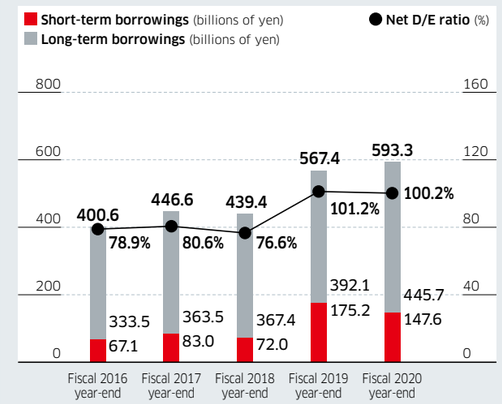
In terms of R&D, we intend to concentrate investment in products and technologies for which we see future potential after the COVID-19 pandemic, mainly in the focal fields under Group Vision 2030. We plan to maintain R&D spending at around ¥50 billion, for a ratio of R&D spending to net sales of around 3% to 3.5%, for the time being.

Looking at capital procurement, in July 2021, Kawasaki issued its first-ever sustainability bond to fund projects related to the popularization of the automated robotic PCR testing system and the establishment of a hydrogen supply chain. Going forward, we will continue to expand our businesses that contribute to social and environmental sustainability, procuring capital mainly through sustainability bonds and loans.

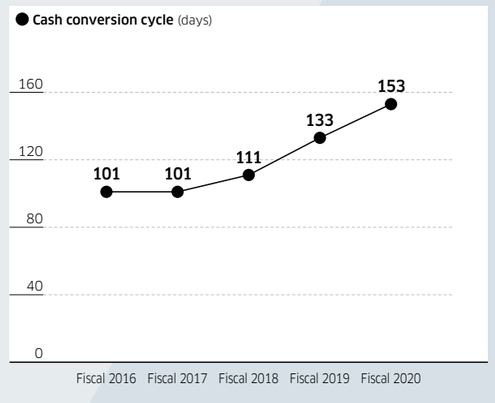
To Our Shareholders and Investors

In our plans for the current fiscal year, we aim to achieve, at minimum, net sales of ¥1,500 billion, operating profit of ¥30 billion, and recurring profit of ¥20 billion. Revenue from the automated PCR testing business, which is currently developing

Net D/E Ratio and Interest-bearing Debt



Cash Conversion Cycle



rapidly, has not been factored into the annual revenue plan, so the growth of this business will further boost results. In terms of shareholder returns, based on a comprehensive consideration of results forecasts and our financial standing (including free cash flow and the D/E ratio), and seeking to ensure stable dividends, we plan for a consolidated payout ratio (calculated against profit attributable to owners of the parent) of approximately 30% over the medium to long term. We thus aim to increase dividends by enhancing profit.

Our current stock price reflects high expectations regarding the future of our businesses, including the hydrogen business. To continue to meet these expectations we will promote DX, proactively allocate management resources to growth fields, and reinforce business reforms and profit-loss management, aiming to reach a market capitalization of ¥1 trillion.

Human Resource Strategy

The New Personnel System Is Built around Fostering a Culture of Taking on New Challenges and Commitment.

Achieving Group Vision 2030

Group Vision 2030 expresses our intention to address social issues with innovative solutions and transcend existing boundaries to act quickly and take on new challenges. For the Kawasaki Group to solve social issues and achieve its vision, a human resource strategy aimed at developing and reinforcing human resources is especially important.

To achieve the vision, we are emphasizing the firm establishment among employees of market-oriented thinking, the idea that speed produces value, awareness that extends beyond organizational bounds, and a culture of valuing ambitious initiative.

Until now, our human resource allocation was oriented mainly around the internal companies and tended to result in outstanding personnel remaining within those companies. The limited exchange of human resources across company lines resulted in conditions that were not conducive to synergy. This may have even been demotivating for employees hoping to realize bold new ideas that span the bounds of internal companies. Unless the Company prioritizes the creation of environments in which employees can engage in work based on their aspirations and grow as individuals, achieving Group Vision 2030 will be very difficult. Based on that understanding, in fiscal 2021, we have launched a new personnel system, aiming to create a framework for the optimal utilization of our human resources.

Boosting Employee Motivation to Grow through the Use of a Job-centered System

A key feature of the new personnel system is the introduction of a job-based pay system.

Under the job-based pay system, employee pay and compensation is decided based on standards related to their job, including the duties they perform and results they achieve.

To maximize the results of this system, each job must be defined in detail—i.e., in terms of the objectives and responsibilities associated with specific tasks, how they are performed, where the delineations separating them lie, and the skills and qualifications necessary for their fulfillment. We began this task by first evaluating the breadth of the role associated with every single post within the Company and reassigned ranks to employees accordingly. By thus clarifying the role entailed in each post, we are continuing to raise employee awareness.

The achievements of employees will be evaluated objectively, based on whether they have fulfilled the prescribed requirements of their job. Furthermore, we have incorporated a mechanism for increasing the compensation of employees who set and achieve more ambitious targets. This will encourage all employees to take on new approaches and ideas and exercise their abilities to the fullest. We expect the implementation of these systems to not only directly bolster productivity internally, but facilitate external hiring by clearly defining available posts, thereby reinforcing the Company's competitiveness.

In addition, the new system enables the more active transfer and mingling of personnel between internal companies. More active exchange among the human resources of the internal companies will stimulate the growth of individuals. By thus nurturing inter-organizational synergies, we seek to achieve the ongoing enhancement of our enterprise value.

Personnel Allocation Focused on Abilities and the Development of Next-Generation Leader Candidates

Another feature of the new personnel system is the elimination of age-based seniority elements. We seek to allocate human resources with a focus on individual abilities, quickly promoting outstanding young employees to encourage their development while also enabling veteran employees to continue to actively contribute, regardless of age.

In addition, I think it is important to create the conditions necessary to ensure that anyone motivated to do so can take part in ambitious initiatives, like the rapid commercialization of our automated PCR testing business. To that end, we will set up a variety of promotion and hiring frameworks.

Among these frameworks are the Kawasaki executive coaching programs, which provide training aimed at developing management candidates. In the past, this training was offered principally to older employees at the senior manager level who had been recommended from within the internal companies. Now, however, we have changed the age of eligibility to include employees in their 30s and begun accepting employees based not only on recommendations but also applications from employees themselves. In the first year, we have received even more applications than expected, reinforcing our awareness that we have a great deal of ambitious employees.

Formulating section-level leadership plans has also been an issue. Going forward, we will develop the next generation of leader candidates through the enhancement of our training systems to select successors for key posts from a more Company-wide perspective that includes the promotion of younger employees.

Fostering a Corporate Culture that Embodies "Changing Forward."

I think that we need to strengthen the human resource strategy of the entire Group, including overseas subsidiaries. However, even as we aim for global human resource management, there are variations in the makeup of individual businesses in terms of country, work performed, and the people who work in them. Introducing a globally unified system all at once is thus difficult, so we are beginning initiatives in this area in the United States, in light of the significant impact that our businesses there have on the Group as a whole.

We recently formed a North America Project Management Task Force to reinforce the rolling stock business. This task force includes human resource divisions. We plan to begin with carrying out employee engagement surveys and reexamining the personnel systems of our U.S. subsidiaries and will formulate necessary measures accordingly.

We also need to reinforce our human resource data platform using DX technologies. We will make human resource data—like the current assignments, skills, experience, and evaluation results of individuals—more easily accessible in order to more effectively use human resources Group-wide.

Our efforts to enhance the personnel system will not end with the adoption of the new system. The ongoing enhancement of the system's operational level will require time to be spent on setting and evaluating targets and assiduously planning, executing, checking, and improving measures taken.

In an unusual move for Kawasaki, since April 2021, I have been in charge of not only overseeing overall human resource operations as vice president, but also leading the Human Resources Division as its general manager. It will take some time for the new personnel system to change the mindsets of all employees. My mission is to drive the uptake of the new system as quickly as possible and thereby accelerate the achievement of Group Vision 2030.

By firmly establishing this new system built around the ideas of taking on new challenges and commitment, we will foster a corporate culture in which every Group employee embodies our slogan, "Changing Forward." and takes an active role in achieving our management targets.

Key Features of the New Personnel Management System

To achieve Group Vision 2030, we aim to realize a personnel system in which diverse human resources can utilize their abilities to the fullest and produce high added-value results.

Feature 1: Compensation based on ability, job, and results

- Abolished seniority-based elements, shifting to a system of compensation based on ability, job, and results
- Introduced an ability-based qualification system in which employees are evaluated and compensated based on ability, job, and results; compensation comprising wages, regular bonuses and retirement bonuses; and an employee review system

Feature 2: Prompting employees to strive and grow

- Reorganized the ability-based qualification system and took other steps to enable employees to get involved in various types of work and support them in acquiring a broad range of experience
- Adopted an approach that prompts the desire to take on challenges, with those who take on harder tasks evaluated favorably, and that encourages the growth in character and skills that comes from the process and accomplishment of solving problems

We are accelerating innovation to provide solutions to social issues, like the low birth rate, aging population, and shrinking labor supply, while reforming our business foundations to support stable growth.

Hiroshi Nakatani

Director
Managing Executive Officer,
In charge of Corporate Planning, Digital Transformation, Cyber Security
General Manager, Corporate Technology Division

Looking to the Future to Achieve Dramatic Innovation

Kawasaki simultaneously advances product innovation, which accelerates the resolution of social issues, and process innovation, which improves the profitability of existing businesses. Furthermore, with an eye to the future we are reinforcing our technological base by engaging in the development of innovative, cross-field basic technologies as well as the human resource development of engineers and technicians.

In terms of product innovation, we aim to create new solutions in the three fields of focus designated under Group Vision 2030 and to transform our business models.

To realize "a safe and secure remotely connected society," we will further hone remote operation technologies, building on a core comprising the robotics technologies the Group has developed over the years, to realize a society that is safe and inclusive for all. To ensure the safety and security of remote operations, we are taking an open innovation approach to quickly solve such technical issues as response lags and signal interruptions. We aim to expand the use of robots into fields that until now have been dependent on in-person human labor, such as medicine, logistics, construction, and manufacturing.

Regarding "near-future mobility," we envision smart cities in which means of mobility are interconnected. Various forms of autonomous mobility, such as transport robots, drones, ships, and off-road utility vehicles, will coordinate with one another, seamlessly connecting with individual needs and data from the surrounding area, making it possible to meet diverse logistics needs. This can provide an answer to the last mile problem, which is expanding alongside demographic graying and population decline, and the Kawasaki Group is advancing technological development in this area through the various forms of mobility technology it boasts.

Contributing to Carbon Neutrality by 2050

Under "energy and environmental solutions," we are taking on the major issue of realizing a carbon-neutral society. The Japanese government's declaration of its intention to reach net zero CO_2 emissions by 2050 has triggered a major acceleration in the shift to a hydrogen-powered society.

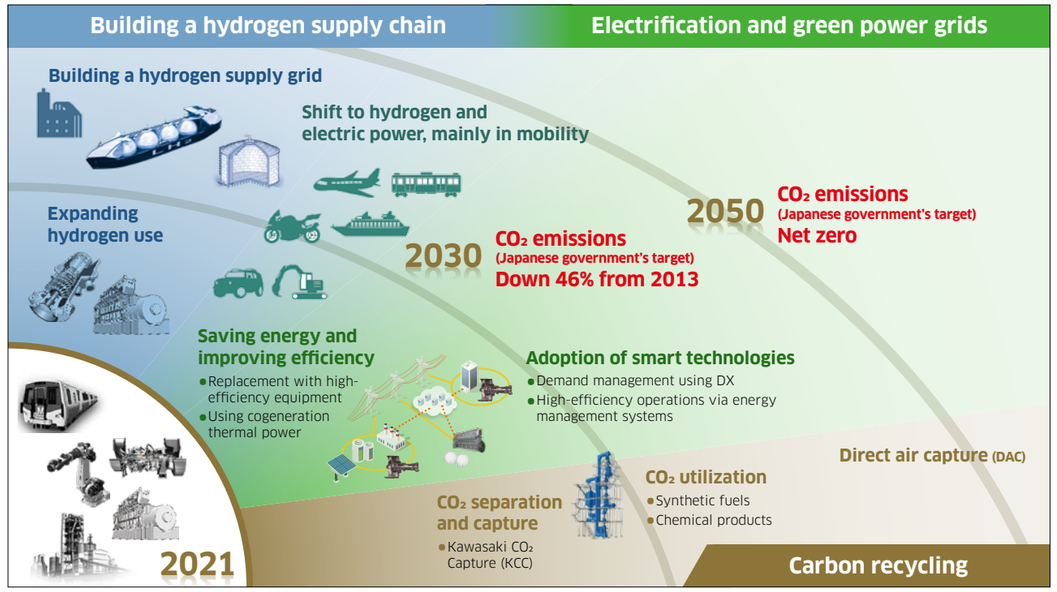
Specifically, expected hydrogen consumption in 2030 has grown tenfold from previous estimates to 3,000,000 tons. There are currently many technological hurdles that will have to be overcome to meet this much demand. These include increasing the size of the tank systems on liquefied hydrogen carriers as well as at liquefied hydrogen bases and developing high-efficiency, large-scale liquefaction systems. However, Kawasaki has the advantage of more than decade of technological development aimed at building a liquefied hydrogen supply chain, and we will continue to lead the way toward a carbon neutral society.

To achieve a hydrogen-powered society, stimulating demand among potential large-scale users of hydrogen will also be important. We are already working on the development of high-efficiency hydrogen gas turbines and hydrogen gas engines. In addition, we are advancing development aimed at securing our position as a leader in the field of hydrogen-fueled airplanes, looking at the development of new aircraft and engines as well as airport infrastructure for rapid refueling.

In carbon recycling, we have begun demonstration testing of the Kawasaki CO_2 Capture (KCC), an energy-saving system for separating and capturing CO_2. Building on this technology going forward, we envision direct air capture (DAC) for capturing CO_2 directly from the atmosphere. Low-cost hydrogen supply is key to these efforts as well, and we are nurturing nascent technologies that we hope will allow us to realize business models based on new material chains that are not reliant on fossil fuels.

Achieving net zero CO_2 emissions will also require the balanced use of renewable energy. To prevent the danger of large-scale blackouts, sophisticated energy management systems (EMSs) that control power supply in response to demand will be crucial. We are examining the possibility of building on the EMS-related technologies we have developed to optimize the operations of our customers' power stations and plants to create systems that provide stable regional power supplies.

Technological Development Aimed at Carbon Neutrality



We also see the shift to electric-powered mobility as essential and are working to rapidly develop technologies for electrification, including that of airplanes, ships, hydraulic systems, and motorcycles.

From Selling Products to Selling IP and Services: Creating Businesses in Licensing and System Operation

The other major area of development is process innovation.

We have begun efforts in this area with the reinforcement of total quality management (TQM) aimed at enhancing the efficiency of existing business processes. At the same time, we are advancing digital transformation (DX) in our value chains and operational management to strengthen and streamline our business foundations.

In terms of DX, beginning in fiscal 2021, we are focusing on building the foundations of work style and professional fulfilment reforms, a management data platform, and next-generation cybersecurity. Furthermore, we have been quick to begin building digital innovation platforms with the intention of transforming the Group's business models by shifting from selling physical products to selling IP and services. For example, in the hydrogen business, in order to respond to future demand growth, we plan to advance into such fields as licensing, the supply of core components, the provision of services, and the operation of hydrogen systems.

We are implementing an initiative to enhance development and design processes, dubbed Kawasaki Design Process Transformation (K-DPX), with the ultimate aim of unifying and standardizing design processes Company-wide. Furthermore, we are employing digital technologies to reinforce coordination between engineering chains and supply chains and more actively utilize existing expertise. Unifying and standardizing design processes will facilitate the flow of people between internal companies and is also important in terms of reducing procurement and quality control costs at the Group-wide level.

Developing Human Resources and Technologies to Be Ready for Future Risks

Even the most cutting-edge technologies will eventually become obsolete. The sustainable management of a business therefore requires the strategic turnover and activation of human resources and technologies. Foreseeing the issues that society will face in 10 or 20 years is not easy, and I think that imagining and preparing for a variety of possibilities is the only way to ensure our ability to rapidly respond to emerging needs. In fact, I would say that preparing for risks and developing the technologies and people to avoid them is the core impetus for everything that the Corporate Technology Division does.

For example, the rapid uptake of electric technologies could disrupt the stable procurement of motors. The development of motors that use no rare-earth magnets is a way of preparing for and avoiding this business continuity risk. Holding seminars on applying AI and programs for nurturing young engineers to develop personnel with the technical skills to create new solution businesses is also among the measures we need to take to be ready for the future.

Striving to ensure we can meet the needs of society no matter how times change, we will continue to advance product innovation and process innovation while further honing our basic technologies and creating new value using digital technologies. By doing so, we will ensure that Kawasaki will continue "Changing Forward."

Promoting the uptake of TQM while contributing to DX. Aiming for Company-wide quality and efficiency enhancement, with a focus on standardization.

Sukeyuki Namiki

Representative Director,
Vice President and Senior Executive Officer
Assistant to the President, in charge of Technology, Production, Procurement, TQM, General Administration, and the North America Project Management Task Force

Initiatives to Spread TQM Launched in Fiscal 2019

The serious incident involving a series N700 Shinkansen railcar bogie frame in 2017 prompted us to deeply reflect and reexamine our quality control system. As a result, we decided to set up a robust quality control system based on Total Quality Management (TQM) at the Company-wide level.

Approaching the three years from fiscal 2019 to fiscal 2021 as a period for spreading TQM internally, we established the TQM Department within the Corporate Technology Division, bringing together the employees responsible for TQM at the internal companies to advance activities. In addition, we set up the Company-wide Quality Committee, where TQM promoters from each business segment meet once a quarter. The committee facilitates information exchange and helps ensure TQM policy compliance, thereby expediting activities and improving their efficiency.

The TQM Department implements Company-wide education to foster awareness and understanding of TQM, evaluates the level of TQM at individual divisions, and encourages them to raise said level. These efforts are based on initiatives in policy management, day-to-day management, and quality management education.

Policy management entails not only top-down communication of policy, but also bottom-up communication and horizontal coordination, expanding discussions beyond organizational boundaries.

Day-to-day management is aimed at standardizing operations and is closely linked with digital transformation (DX). Standardization is a necessary prerequisite for transforming the Company using digital technologies. In that sense, TQM has a major role to play in advancing DX.

In terms of quality management education, we have been holding ongoing TQM seminars for management and all employees and completed the creation of our own level-specific curriculum. Through such efforts, we are further bolstering motivation to advance TQM among everyone from new recruits to top management.

Promoting Awareness Using Surveys Based on TQM Techniques

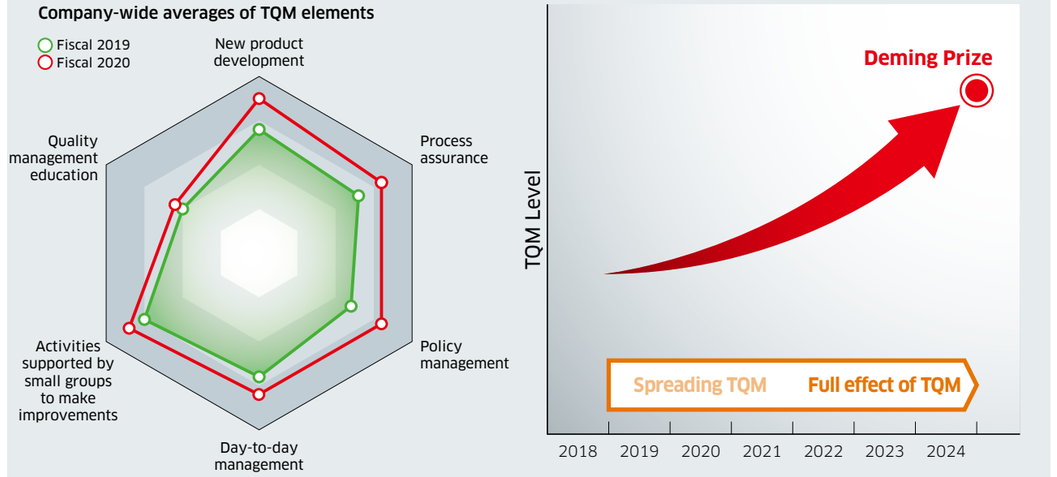
To introduce and advance TQM, we must first understand the state of current activities and identify areas that require improvement. To this end, since 2019, we have been implementing surveys of the level of quality control using TQM techniques.

The survey examines around 30 items (though the exact content varies by year), getting into the details of front-line operations to evaluate the level of TQM adoption. When we began these initiatives, major divisions were, on average, at the mechanism-building level. In fiscal 2020, however, the average had advanced to nearly the operating level, affirming that our TQM activities are beginning to take hold across a wide range of sections.

For these evaluations, TQM Department staff meet with staff from the internal companies, score initiatives, and review the results with said staff. Even more than this, however, we prioritize visiting workplaces to engage in dialogue with internal company staff. We believe that this helps to deepen mutual understanding and makes the evaluations themselves a valuable part of the process of advancing the uptake of TQM.

Until now, each internal company had its own approaches to manufacturing and operating processes honed and improved over the course of their unique history. While this is in one sense a strength, it has also made assessing these companies using the same parameters difficult, as each was using different yardsticks and a different vocabulary. The TQM level survey was the first time that the Kawasaki Group quantitatively assessed all the internal companies and divisions using common indicators. Through this survey, we seek to share the strengths of each company while improving weak areas.

TQM Activities



The three years ending with the current fiscal year have been a period of foundation building. The three years beginning fiscal 2022 will be a period for realizing the full effect of TQM. We are advancing efforts to promote the uptake of TQM with the goal of quickly reaching the concrete result level. We aim to see the emergence of divisions that can contend for the Deming Prize* in a few years' time.

**Deming Prize: An award bestowed by the Union of Japanese Scientists and Engineers to organizations successfully implementing TQM.*

Enhancing Operational Quality and Efficiency Based on KPS and TQM

The foundation of the TQM approach is standardization. This is highly compatible with the Kawasaki Production System (KPS), which we apply in our manufacturing divisions. KPS is a unique Kawasaki-developed production management method that makes it easier to confirm operational conformity with standards. First adopted at the motorcycle division, KPS has been honed and further developed across the internal companies.

KPS standardizes operational procedures and mandates that each procedure is observed and the outcomes of each process recorded. This ensures that any abnormality is swiftly addressed and any non-conforming process corrected. When an abnormality is detected, we pause operations to determine the cause so that we can then implement improvements. The continuous implementation of this cycle is an aspect that TQM and KPS have in common. On the front lines of manufacturing, we implement quality control mainly through KPS, while for Company-wide operations and services, including those of back-office divisions, we apply the TQM approach to enhance quality and efficiency. Based on TQM and KPS, we thus seek to advance the adoption of better quality management and comprehensively improve all operational processes. We believe that these activities will help us break away from overreliance on manufacturing front lines, which was one of the major causes identified by our investigation and analysis of the serious incident mentioned earlier.

People Are the Core of TQM—More Creative Work through Standardization

With the advance of standardization through TQM, we will be able to ensure a certain level of quality regardless of who carries out a specific task. This may seem at first glance like it leaves no room for the value of experience or individuality. Quality improvement, however, is not implemented by techniques, but by people. Only people can discover problems, work to implement improvements, and constantly enhance quality. One of the tenets of TQM is respect for the contributions of workers as human beings. As this indicates, rather than forcing greater burdens on employees for the sake of quality, we seek to find more efficient ways of working so that they can redirect some of their capacity toward more creative tasks, thereby simultaneously increasing profitability and generating new professional fulfillment. I wish to emphasize that these are, in this way, very human-centric initiatives.

Under Group Vision 2030, we are targeting innovation that goes beyond the bounds of the internal companies. To that end, employees must be able to work together smoothly. This is another area where TQM, by advancing standardization, can be effective. In addition, by establishing a common awareness and understanding of manufacturing processes, we will be able to more nimbly move human resources to where they are needed. Improvements like this are the goal of TQM, and I am confident that TQM will contribute greatly to the realization of new solutions to social problems, as targeted in Group Vision 2030.

Aerospace Systems

Reaching greater heights in the domains of aviation and space through the integration of cutting-edge technologies

Hiroyoshi Shimokawa

President,
Aerospace Systems Company

Our Business

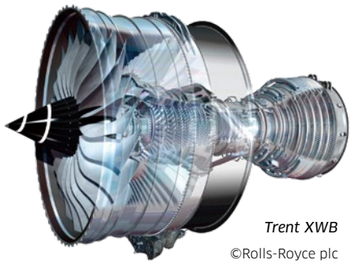
Since the launch of our aircraft manufacturing business in 1918, we have developed a broad product portfolio as one of Japan's leading manufacturers of aircraft and aircraft engines.

In addition to developing and manufacturing aircraft for the Ministry of Defense, including the P-1 maritime patrol aircraft and the C-2 transport aircraft, the Aerospace Systems segment has participated in international development and production projects for commercial aircraft, including the Boeing 787. We also do business in helicopters, including the best-selling BK117 model, as well as such space products as payload fairings for the H-IIA and H-IIB launch vehicles.

Our jet engine business started in 1954 with the overhauling of turbo jet engines. Since then, we have continued to develop our technological capabilities through, for example, the domestic production of helicopter engines and participation in the international collaborative development of commercial aircraft jet engines. By doing so, we are helping to increase energy efficiency and reduce environmental burden.

Main Products	• Aircraft for the Japan Ministry of Defense • Parts for commercial aircraft • Commercial helicopters • Missiles/Space equipment • Jet engines • Aerospace gearboxes

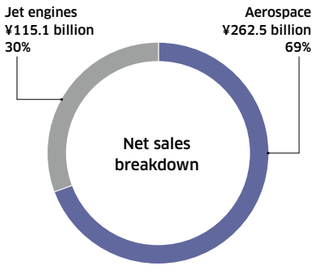
C-2 transport aircraft

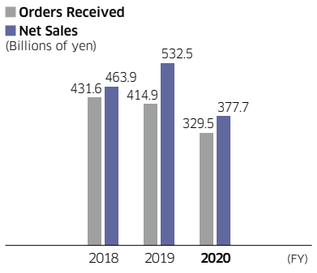


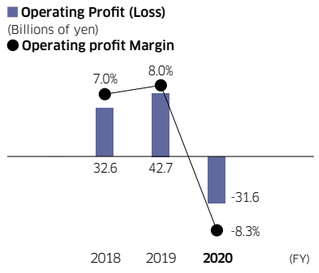
Trent XWB

©Rolls-Royce plc

Performance Highlights







Orders received	↘	Decreased due to declines in orders from Boeing and for jet engines for commercial aircraft, reflecting the impact of the COVID-19 pandemic, despite an increase in orders from the Ministry of Defense
Net sales	↘	Decreased due to a fall in sales to the Ministry of Defense as well as declines in sales to Boeing and of jet engines for commercial aircraft, reflecting the impact of the COVID-19 pandemic
Operating profit	↘	Deteriorated significantly due to the decrease in sales

SWOT Analysis by Business

Core Competence (Strengths)		Challenges (Weaknesses)
Aerospace	• Technological capabilities as a manufacturer of finished aircraft acquired through the defense aircraft business (system integration capabilities) • Technological capabilities based on international joint development with Boeing, and sophisticated, large-scale production facilities • High quality and productivity through the Kawasaki Production System (KPS)	• High degree of reliance on specific customers (high-volatility revenue structure) • Businesses that require large volumes of invested capital
Jet Engines	• Sophisticated technological capabilities built through international joint development projects and developing engines for defense aircraft • High quality and productivity through leading-edge production technology	

Opportunities		Risks (Threats)
Defense Aircraft	• Sustained domestic defense equipment development and production • Prospects of defense equipment exports	**Defense Aircraft** • Reduced equipment prices due to defense budget streamlining
Commercial Aircraft	• Medium- to long-term growth in air passenger and air freight volume in line with economic growth in emerging countries	**Commercial Aircraft** • Decrease or slow recovery in passenger demand due to the COVID-19 pandemic • Fiercely competitive environment, reflecting competition for market share between Boeing and Airbus • Rise of manufacturers in emerging countries
Jet Engines	• Increase in demand as a result of long-term growth in the commercial aircraft market	**Jet Engines** • Decrease or slow recovery in passenger demand due to the COVID-19 pandemic • Development risks related to introducing cutting-edge technologies
Shared	• Decarbonization of the aircraft industry	

Based on our SWOT analysis, we will implement a variety of measures with the aim of sustained growth

Key Measures

Initiatives to Achieve Group Vision 2030

A safe and secure remotely-connected society	• Expanding the PCR testing business (network use with customers involved in international travel, mainly airlines)
Near-future mobility	• Developing VTOL* to link logistics bases and cover the last mile • Realizing urban transportation that seamlessly connects people and freight ** Vertical take-off and landing aircraft*
Energy and environmental solutions	• Studying CO_2-powered (hydrogen-fueled) air transportation systems

Other Concrete Initiatives

Securing stable revenue in core business	• Reducing costs for existing orders for aircraft from Boeing and for jet engines for commercial aircraft to secure profit • Steadily executing existing orders for the development and mass production of defense aircraft
Revising technology strategy in accordance with market changes	• Rebuilding R&D in line with the future vision • Launching environmental technology development aimed at achieving a carbon-neutral society
Strengthening the financial base	• Reviewing the fixed cost structure • Reducing inventories through production innovation

Rolling Stock

A railway systems manufacturer that meets customer needs by delivering the highest standard of technology

Hiroshi Murao

Representative Director, President and Executive Officer,
Kawasaki Railcar Manufacturing Co., Ltd.

Our Business

Since commencing the manufacture of rolling stock in 1906, we have consistently applied leading-edge technology to help develop and modernize rolling stock as a leading Japanese manufacturer.

Kawasaki grew its business from manufacturing wooden commuter trains for Nankai Railway and expanded it to various rolling stock and railway systems, such as electric trains, freight cars, electric locomotives, and diesel locomotives. We now supply rolling stock to locations around the world from two plants in the United States and our specialized rolling stock plant Hyogo Works in Japan, which retains a wealth of technological knowledge accumulated over our 115-year history and a record of high productivity.

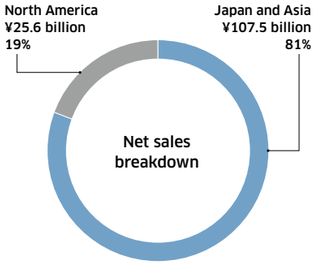
Kawasaki will continue to deliver the highest standard of technology to meet diverse customer needs and thereby contribute to society.

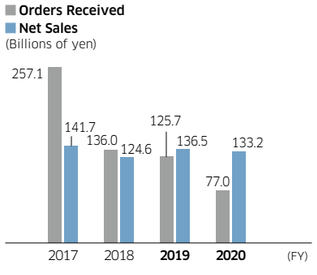
Main Products	• Electric train cars, including Shinkansen (bullet trains) • Electric and diesel locomotives • Passenger coaches • Bogies

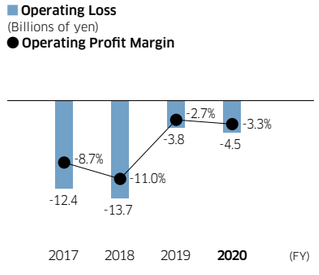
Dhaka MRT Line-6 cars for Dhaka Mass Transit Company Limited in Bangladesh

YC1 Series (hybrid) car for Kyushu Railway Company

Performance Highlights







Orders received	↘	Decreased, reflecting the absence of major domestic orders recorded in the previous fiscal year
Net sales	↘	Decreased due to a decrease in sales of rolling stock in the United States
Operating profit	↘	Deteriorated due to the fall in sales as well as a decrease in profitability in overseas projects that reflected the impact of COVID-19

SWOT Analysis by Business

Core Competence (Strengths)	Challenges (Weaknesses)
• High-tech expertise built on comprehensive heavy industry strengths leveraging synergies with other business areas • Ability to fulfill contracts cultivated from extensive domestic and overseas track record • Partnership capabilities with other companies in execution of overseas projects (Kawasaki Initiative)	• Small business scale in comparison with major overseas competitors • Business model centered on supplying rolling stock (meeting railway system needs through external partnerships)
Opportunities	**Risks (Threats)**
• Firm replacement demand in the domestic market • Demand for urban transportation development in emerging countries in Asia • Demand for subway and commuter train systems in the North American market • Expanding recurring demand across markets, including that for components, maintenance, and repair and rebuild work	• Intensifying competition due to the North American market entry of competing manufacturers • Country risk in new markets for Kawasaki • Revisions to investment plans by railway companies due to the COVID-19 pandemic

Based on our SWOT analysis, we will implement a variety of measures with the aim of sustained growth

Key Measures

Initiatives to Achieve Group Vision 2030

A safe and secure remotely-connected society	• Promoting monitoring businesses aimed at automation and labor saving in track inspection and other operations
Near-future mobility	• Realizing urban transportation that seamlessly connects people and freight
Energy and environmental solutions	• Shifting to hydrogen fuel • Electrification

Other Concrete Initiatives

Adherence to delivery schedules for overseas projects	• Dispatching human resources from head office divisions and the internal companies to streamline process and improve productivity and quality at U.S. works through the newly established North America Project Management Task Force
Achieving quality levels trusted by customers	• Reducing spoilage and repair costs • Continuing use of the Kawasaki Production System (KPS) and its application at U.S. works
Expansion of component and after-sales service sales and of maintenance businesses	• Launch of remote track monitoring system for U.S. railways in the first quarter of fiscal 2021

Energy Solution & Marine Engineering

Responding to diverse needs with superior manufacturing and engineering expertise

Tatsuya Watanabe

President,
Energy Solution & Marine Engineering Company

Our Business

The Energy Solution & Marine Engineering Company carries out processes from development and design to manufacturing in four sectors: energy, plant, marine machinery, and ship & offshore structure. Firmly grounded in the Kawasaki Group's technological prowess, we provide products upholding the highest standards of engineering and manufacturing to accommodate customer needs and contribute to the enhancement of quality of life for people around the world.

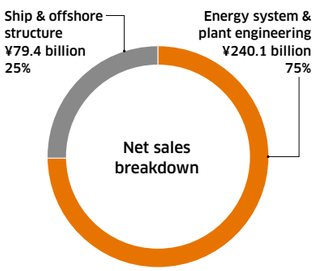
Main Products	**Energy** • Gas turbine cogeneration systems • Gas and diesel engines for power generation • Steam turbines • Aerodynamic machinery • Boiler plants • Combined cycle power plants (CCPPs)
	Plant • Industrial plants (cement, fertilizer, and others) • LNG tanks • Liquefied hydrogen tanks • Municipal waste incineration plants • Material handling systems • Tunnel boring machines • Crushing machines
	Marine machinery • Marine gas turbines/reduction gear • Marine reciprocating engines • Marine propulsion systems
	Ship & offshore structure • Gas carriers • Liquefied hydrogen carriers • Jetfoils • Submarines

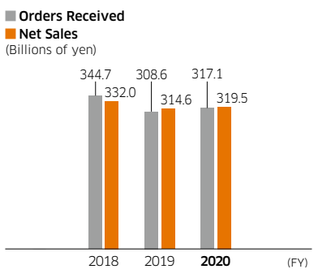
100 MW-class combined cycle power plant developed by Kawasaki

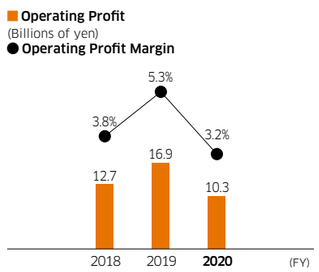
Municipal waste incineration plant

Liquefied hydrogen carrier

Performance Highlights







Orders received	↗	Increased due in part to orders received for a submarine for the Ministry of Defense
Net sales	↗	Increased mainly due to increased construction of municipal waste incineration plants in Japan and domestic combined cycle power plant (CCPP) sales as well as an increase in submarine construction for the Ministry of Defense
Operating profit	↘	Decreased due in part to operation losses caused by the COVID-19 pandemic, despite the increase in sales

Note: On April 1, 2021, the Energy System & Plant Engineering Company and Ship & Offshore Structure Company merged to form the Energy Solution & Marine Engineering Company. Accordingly, performance for previous fiscal years has been restated according to the reportable segments after said reorganization.

SWOT Analysis by Business

Core Competence (Strengths)	Challenges (Weaknesses)
• Ability to provide solutions leveraging synergy from combining Kawasaki-brand products, such as the CCPP standard package, which combines a gas turbine, steam turbine, and waste heat recovery boiler, as well as gas engine/gas turbine hybrid projects • Environmentally friendly technologies and development capabilities in core products and systems as well as comprehensive engineering capabilities developed through wide-ranging projects • Locally rooted sales system leveraging overseas sites • Energy-saving, environmental burden-reducing technologies, and ability to develop new ship designs	• Energy: Recognition in overseas markets • Ship & offshore structure: Cost competitiveness in commercial vessel building

Opportunities	Risks (Threats)
• Growing demand for energy and infrastructure in emerging and resource-rich countries • Growing demand for distributed gas-fueled power generation plants prompted by the growing need for low-carbon solutions • Tightening environmental regulations • Demand for CO_2-free power generation facilities for new installations and facility replacement • Accelerating movement toward carbon neutrality	• Delayed projects due to a viral pandemic or prolonged slump in price of oil • Weakening investment appetite paralleling economic slowdowns in emerging countries and resource-rich countries • Changing energy policy in countries around the world (taxonomy policy, subsidy system changes, etc.) • Rising global steel prices

Based on our SWOT analysis, we will implement a variety of measures with the aim of sustained growth

Key Measures

Initiatives to Achieve Group Vision 2030

A safe and secure remotely-connected society	• Promoting the uptake of the Successor-G remotely-operated robotic system that enables diverse work styles • Providing solutions for disaster response, such as stand-by gas turbines • Promoting the automation of waste incinerator operation • Developing AUVs* (SPICE) **Autonomous underwater vehicles*
Near-future mobility	• Promoting the uptake of hybrid propulsion systems for environmentally friendly vessels • Demonstration testing of ship maneuvering management systems that include autonomous operations
Energy and environmental solutions	• Quickly establishing a hydrogen supply chain (production, transportation, storage, utilization) • Accelerating initiatives aimed at the realization of a hydrogen-powered society by working with stakeholders • Installing gas turbines and gas engines for supply-demand balancing and distributed power generation to support the use of renewable energy • Undertaking development aimed at the practical application of carbon recycling technology

Other Concrete Initiatives

Reinforce sales activities to pursure recovery in orders received	• Aiming to steadily capture projects that have been temporarily suspended due to COVID-19 as well as new projects being implemented in anticipation of post-pandemic conditions
Establishing a leading position in the decarbonization field	• Accelerating commercialization efforts in cooperation with the Hydrogen Strategy Division • Establishing the Hydrogen Business Solutions Office to organically bring together hydrogen-related technologies, expertise, and human resources • Group company Kawasaki Green Energy, Ltd. began operations on April 1, 2021, mainly selling CO_2-free energy, such as that generated by waste incineration plants built by Kawasaki. This company is supporting initiatives to spread the use of hydrogen energy, including the potential future use of electricity generated from hydrogen fuel.

Precision Machinery & Robot

Building a bright future through integrated solutions that use hydraulic systems and robots

Hidehiko Shimamura

President,
Precision Machinery & Robot Company

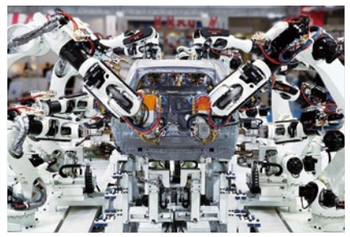
Our Business

Hydraulic machinery With unmatched scale and production facilities within the hydraulics industry, Kawasaki primarily supplies customers around the world with hydraulic machinery, such as swing motors and pumps for hydraulic excavators, which boast the top share in the global market, and a wide range of valves, including main control valves. We also offer various systems and hydraulic equipment for industrial machinery, including for forging and iron manufacture, as well as marine hydraulic equipment, such as hydraulic steering gears and deck machinery, all employing our advanced hydraulic and motion control technologies.

Robots Since 1969, Kawasaki has contributed as a pioneer in industrial robotics to the development of industry around the world by delivering spot welding, arc welding, assembling and handling, painting, palletizing, and many other kinds of robots for the automotive, electrical and electronics, and other industries. We will leverage our accumulated track record and system engineering technologies to pioneer new fields, such as collaborative robots and medical robots, to help create a harmonious society of humans and robots.

Main Products	• Hydraulic components for construction machinery • Hydraulic components for agricultural machinery • Hydraulic components and systems for industrial machinery • Hydraulic steering gears for marine products • Hydraulic deck machinery for marine products • Industrial robots • Medical and pharmaceutical robots

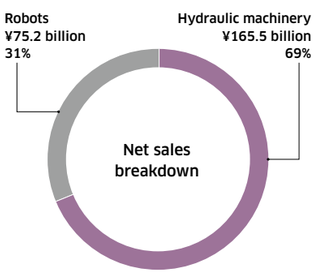
Hydraulic pump for construction machinery

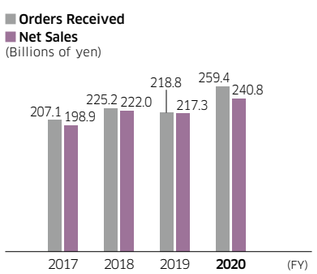


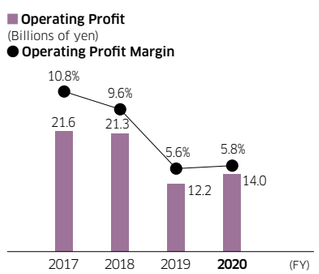
BX series spot welding robots for automobile body assembly lines

hinotori™ Surgical Robot System

Performance Highlights







Orders received	↗	Increased thanks to the booming market hydraulic equipment for construction machinery and robots for semiconductor manufacturing and automobile body assembly
Net sales	↗	Increased in accordance with orders received.
Operating profit	↗	Increased in line with the expansion of sales.

SWOT Analysis by Business

Core Competence (Strengths)	
Hydraulic Machinery	• Accumulated world-class, leading-edge technology, systemization capabilities, and brand power in the area of excavator hydraulic machinery • Ability to respond to customer requests
Robots	• Ability to develop applications and make system proposals closely matched to specific customer needs • Diverse production sites within the Group as a comprehensive heavy industries enterprise • Ability to create new technologies and new fields in such areas as medicine and remote control technology
Shared	• New product development capabilities in the field of motion control based on the integration of hydraulic technologies and robotics

Challenges (Weaknesses)	
Hydraulic Machinery	• Need to expand sales in such fields as agricultural machinery and forestry machinery • Need to reinforce the after-sales service structure
Robots	• Need to expand business to realize merits of scale

Opportunities	
Hydraulic Machinery	• Expanding demand due to worldwide infrastructure building, mainly in emerging countries
Robots	• Increasing fields of application through the realization of collaboration between humans in work operations • Rising demand aimed at preventing infection, eliminating labor shortages, and improving quality • Progress in use of robots beyond industrial applications (such as medical treatment and nursing care)

Risks (Threats)	
Hydraulic Machinery	• Emergence of competing manufacturers and intensifying competition in the Chinese construction equipment market • Delayed recovery and intensifying competition in the marine hydraulic machinery market
Robots	• Increasingly fierce competition with rival companies • Impact of U.S.-China trade friction on the semiconductor market
Shared	• Weakening investment appetite due to viral pandemic

Based on our SWOT analysis, we will implement a variety of measures with the aim of sustained growth

Key Measures

Initiatives to Achieve Group Vision 2030

A safe and secure remotely-connected society	• Developing healthcare-related businesses, such as the *hinotori*™ surgical robot system and fully automated PCR testing robot system • Building the remote robot platform business connecting people who want to work with businesses seeking labor
Near-future mobility	• Creating delivery robots to link logistics bases and cover the last mile
Energy and environmental solutions	• Developing hydrogen fuel-related products • Increasing the efficiency of hydraulic machinery and systems

Other Concrete Initiatives

Developing electrification and automation technologies for construction machinery	• Developing and supplying the latest hydraulic machinery and systems for electrification and automation to support customers' development of future-oriented construction machinery
Promotion of open innovation	• Developing markets and complementing strengths through collaboration with other companies in the same and other industries so as to reinforce competitiveness and promote differentiation • Accelerating the development and launch of new products through collaboration with start-ups • Strengthening elemental technologies and accelerating new product development through collaboration with academia and government

Motorcycle & Engine

Let the good times roll
Kawasaki delivers the ultimate in excitement

Hiroshi Ito

Representative Director, President and Chief Executive Officer,
Kawasaki Motors, Ltd.

Our Business

Leveraging the sophisticated development technologies and production know-how honed in the air craft engine business, Kawasaki began producing motorcycle engines in 1953. Since then, we have developed and introduced technologies that were ahead of their time in the fields of power sports (motorcycles, off-road four-wheelers, and personal watercraft (PWC)) and general-purpose engines. By doing so, we have created numerous innovative products that have left their mark in history, such as the *H1* (500SS Mach-III), *Z1* (900 Super Four), *Ninja* (GPz900R), *Ninja H2*, *Jet Ski*, and *MULE*.

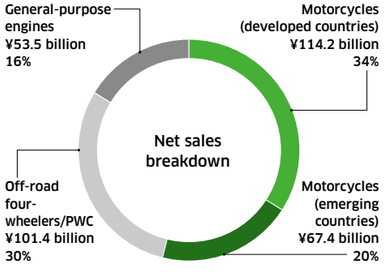
Keeping "Let the good times roll" as our company mission, we will continue to boldly take on any possibility we can to promote the happiness and joy of all those whose lives Kawasaki touches.

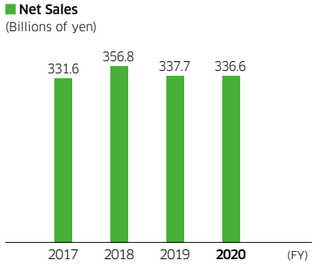
Main Products	• Motorcycles • Off-road four-wheelers (side by sides, all-terrain vehicles (ATVs)) • Personal watercraft (PWC) • General-purpose gasoline engines

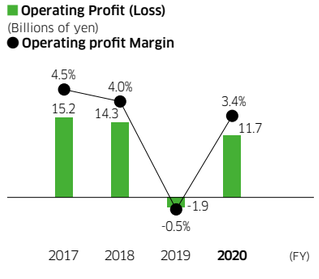
TERYX KRX 1000 TRAIL EDITION

Ninja ZX-10R

Performance Highlights







Net sales	→	Remained at the same level due to a decrease in sales of motorcycles in Southeast Asia, the year-on-year appreciation of the yen and other factors, despite increased sales of four-wheelers and other off-road models in North America
Operating profit	↗	Increased due in part to reductions in fixed costs and sales promotion costs

SWOT Analysis by Business

Core Competence (Strengths)	Challenges (Weaknesses)
• Sales and marketing capabilities that realize unique, premium brands • Development, production, procurement, and quality assurance capabilities that create products embodying both heritage and innovation • Global production, sales, and service structure • Advanced technology expertise built on comprehensive heavy industry strengths leveraging synergies with other companies in the Kawasaki Group	• Securing production capacity to respond to rapidly rising demand • Building agile organizational structures that can respond to rapid change

Opportunities		Risks (Threats)	
Motorcycles	• Stable demand in developed countries • Medium- to long-term market expansion in emerging countries	**Motorcycles**	• Expansion into the leisure sector by brands from emerging markets, such as China and India • Intensifying price competition in emerging markets
Off-road four-wheelers/PWC	• Market expansion in North America reflecting growing demand for outdoor leisure	**Off-road four-wheelers/PWC**	• Intensifying price competition in the North American market • Rising materials prices and tariffs due to escalating U.S.-China trade war
General-purpose engines	• Firm growth, reflecting U.S. housing market expansion	**General-purpose engines**	• Rising materials prices
Shared	• Collaborations and alliances with other companies • Shift toward electrification	**Shared**	• Tightening environmental regulations • Slump in consumption or economic recession due to a viral pandemic • Supply chain disruptions due to external factors, such as natural disasters

Based on our SWOT analysis, we will implement a variety of measures with the aim of sustained growth

Key Measures

Initiatives to Achieve Group Vision 2030

A safe and secure remotely-connected society	• Providing advanced rider and driver support • Providing disaster response solutions
Near-future mobility	• Realizing urban transportation that seamlessly connects people and freight • Creating delivery robots to link logistics bases and that cover the last mile
Energy and environmental solutions	• Making use of hydrogen fuel • Shifting to battery electric vehicles/hybrid electric vehicles

Other Concrete Initiatives

Product supply to meet market demand as much as possible	• Bringing all hands on deck to meet production plans • Ensuring that if supply shortages like that in semiconductors or logistics disruptions impair production, production and sales plans can quickly adapt to the components available
Expansion of the off-road four-wheeler business and electrification	• Focusing on development investment to increase off-road four-wheeler production and reduce carbon emissions • Invest in plants in the United States and Mexico to establish new production facilities • Accelerating development aimed at the mass production of battery electric and hybrid electric models
Strict control of fixed costs to slim down management	• Maintaining the level of fixed cost ratio (reduced in fiscal 2020) while considering additional reductions • Reinforcing R&D

Realizing Highly Effective Governance and Swifter Management

Yoshinori Kanehana
Chairman of the Board

Hideo Tsujimura
Outside Director

Satoru Kohdera
Outside Director
(Audit & Supervisory Committee Member)

Ryoichi Saito
Outside Director
(Audit & Supervisory Committee Member)

Looking Back on Fiscal 2020

What has changed in the year since President Hashimoto took office?

Kanehana When President Hashimoto took office, the principal expectation I had was for change. With the world changing in dizzying ways due to the COVID-19 pandemic, speed is of the essence. Until now, most of Kawasaki's former presidents have come up through businesses in which products are made to order and the time from planning to execution is measured in years. President Hashimoto, however, came up through the industrial robot business—a mass-production business—so, above all, I expected that he would approach the job with a greater sense of speed. In the year since he took office, he has fully lived up to this expectation. It is evident that decisions and the rollout of new measures, such as the launches of the Presidential Project Management Division and the PCR testing business, have gotten faster.

The Effectiveness of the Board of Directors

Please tell us about the functioning of the Board of Directors and challenges in this area since the transition to a company with an Audit & Supervisory Committee.

Kanehana One of the main objectives of changing our structure was to shift the role of the Board of Directors from management to oversight. This past year has been one of trial and error as we advanced efforts in this area. Upon the change in structure, we also changed the composition of the Board of Directors, increasing the proportion of Outside Directors. Discussions at Board of Directors meetings are very active, so much so that they often do not finish on time. Going forward, I hope to further improve the selection of agenda items and the efficiency of Board proceedings to ensure that we have the time needed for in-depth discussions of major management policy, such as sustainability issues, human resource strategy, and corporate transformation.

Tsujimura In the year since I took office as Outside Director, I've been surprised by how actively the Directors ask questions and offer opinions in Board of Directors meetings. I have also appreciated the quality and breadth of the prior explanations of Board agenda items provided to Outside Directors.

Kohdera I've worked with many companies as an attorney, but when I came to Kawasaki as an Audit & Supervisory Board Member four years ago, I was struck by the open atmosphere of Kawasaki's Board of Directors meetings, which makes it easy for participants to voice their opinions. Not only that, the opinions of outside officers are taken seriously, and when they offer better alternatives, the Board responds flexibly. With the shift to a company with an Audit & Supervisory Committee, the legal framework is different, as is my own mindset as a director. The company with an Audit & Supervisory Committee structure is, legally speaking, intended to strengthen management's oversight functions, so I feel that, as a director, it is important for me to be more incisive and probing in my Board participation than before.

Saito At the same time as the transition to a company with an Audit & Supervisory Committee, on the executive side, the internal company presidents were taken off the Board of Directors, bringing the number of internal Directors very close to the number of Outside Directors. I have been an Outside Director for only two years, but I think that Kawasaki's internal and Outside Directors work together effectively as a team. Although their positions differ, focusing respectively on execution and oversight, I think that we are all aligned in our sense of urgency regarding corporate performance and the makeup of the Company as well as in our determination to solve problems. Previously, Kawasaki's internal companies each had an air of being their own, individual entity. Now, while keeping the strengths that make each of them unique, they are more united, as one Kawasaki. There are still hurdles to overcome, but Kawasaki has clearly defined its path forward, so the key will be to continue effectively moving in that direction.

The Board and Directors and the Roles of Its Members

Given your respective areas of expertise, what do you see as your roles as Outside Directors?

Tsujimura I have a lot of experience in B to C business product and technological development and have been involved in launching health food businesses, so (although they may be in different industries) I hope to help Kawasaki with establishing new businesses. I think I can support Kawasaki by applying the market-oriented thinking I've developed in B to C businesses and with strengthening branding. In addition, for a company like Kawasaki, whose growth is based on technology, intellectual property is extremely important, and I strive to contribute to efforts to reinforce this area.

Kohdera My area of expertise is law, so I view Kawasaki through that lens.

I am always saying that Kawasaki should further strengthen the strategic elements of its legal operations. As a manufacturer, if Kawasaki's legal strategy is weak, the Company risks being caught up in unnecessary disputes. Kawasaki has taken this point into consideration and is now advancing uniform Company-wide measures, so I hope I can help with such efforts to create systems that function even better.

Saito The role of an Outside Director is to leverage one's own expertise and to support the decisions of top management by considering how, based on such expertise, the company can achieve total optimization. I have a great deal of experience in management in and outside Japan, including as a CFO, so I try to provide a perspective that differs from that within Kawasaki in areas related to that experience.

Kawasaki's Businesses

Tell us your thoughts on Group Vision 2030.

Tsujimura A key part of Group Vision 2030 is the idea of building new teams that combine the distinct strengths of the internal companies. I think this is an excellent vision for the Group and provides inspiration for the future even amid the downturn in performance caused by the COVID-19 pandemic. Achieving it will require the internal companies to change their mentalities. To that end, Kawasaki has launched projects under the direct control of the president. These have had a tremendous impact. Our role as members of top management is to guide new businesses toward success, however small their beginnings. Also, I think it will be important for new business ideas to come not only from President Hashimoto, but also from the people at the front lines of existing businesses.

Kohdera As Mr. Tsujimura said, I think that what Kawasaki needs now is cross-divisional development in technological and other areas that transcends the boundaries of the internal companies. The ideas in Group Vision 2030 are very good, but 2030 will be here before we know it. It will be crucial to make sure that Kawasaki does not content itself with simply having drawn up the vision, but rather takes action, with an emphasis on speed, to make it a reality.

Kanehana In terms of ideas from the front lines, we are implementing a project called the Business Idea Challenge. The spark for this arose from ideas that junior employees were posting in various communities within SKIP, our internal SNS. The project collects such ideas to launch new businesses within the Company. It has received well over a hundred submissions, from which we recently selected three outstanding ideas. The top pick was for *noslisu* electric three-wheelers, as featured in Group Vision 2030. We hope to expand such activities, growing them from initiatives within the infrastructure of existing businesses to freestanding businesses of their own.

Saito Kawasaki both encourages bottom-up initiatives like this and selects businesses in a top-down manner. The important thing is to foster the kind of ambitious spirit needed to propose and try out ideas without fear of failure. In addition, the people working in cross-business projects under the direct control of the president are now discovering various initiatives at other internal companies—discoveries that I think will create tremendous future opportunities for Kawasaki. I think we can expect great things from this.

Do you think that Kawasaki's DX will provide a competitive advantage?

Kanehana Digital transformation (DX) involves a number of stages, and we are still in the first as we digitize our operations. We have huge volumes of internal data. For example, gas turbines for electric power generation are run using dozens of sensors, all of which generate data that we manage in a centralized manner. Right now, however, this data is used only to respond to technical problems. With better utilization, we could potentially take such businesses further. For example, we could purchase electricity generated by such equipment when customers aren't using it for sale back to the market. In such ways, we are accelerating initiatives aimed at creating new business models that leverage digital technologies.

Tsujimura DX must be implemented with the utmost urgency because it can contribute to profit by enhancing operational efficiency. Eventually, the use of big data through IT and AI will lead to the creation of new businesses. Kawasaki uses excellent digital technologies in motorcycle development. Proactively providing such technologies to other businesses and mutually leveraging data will, I think, generate new businesses. The fact that Kawasaki handles such a tremendous amount of data means that it already has a tremendous amount of raw material to work with, so I have great expectations for DX.

Kohdera The integration of the internal companies and other internal units is very important, but I think that, whether for Group Vision 2030 or DX, Kawasaki can achieve its goals faster by working more with outside partners. Competing in global markets means that Kawasaki is up against not only the rest of Japan, but the world. Given that, I think that to reach its major goals going forward, Kawasaki should advance collaboration, such as cooperation between Japanese companies. Kawasaki does relatively little M&A, so this will require a proactive and deliberate approach.

Saito Kawasaki's internal companies have each built their own information platforms, and integrating these has been very challenging. Although certain difficulties may be inevitable due to Kawasaki's conglomerate nature, right now, standardizing the base upon which such systems are built is crucial. Standardization is the foundation of DX, and processes that are unstandardized cannot be digitized. At the same time, we must think about ways to use AI in grander initiatives. Until now, Kawasaki has been a bit behind in DX, but if the Company can effectively implement initiatives in AI and related areas, it could quickly turn the tables. I think that Kawasaki's aggressive investment to take advantage of this opportunity is highly laudable. Furthermore, I hope to see Kawasaki steadily build global networks.

Has the vision for Kawasaki's future changed in light of the TCFD recommendations or the Japanese government's commitment to achieving carbon neutrality in 2050?

Kanehana Addressing climate change involves both offensive and defensive strategies. The offensive side includes selling products aimed at achieving low or zero carbon emissions, such as those using hydrogen. Defense entails reducing CO_2 emissions throughout the value chain; we are already approaching a time when it will be difficult to sell products if such efforts are neglected. Developing both defensive and offensive measures will be an extremely important topic for us to discuss within the Board of Directors.

Saito Kawasaki has always manufactured and sold products that emit CO_2. In terms of offering products that help reduce CO_2 emissions, I think that the development of hydrogen-powered turbines and reciprocating engines is very promising. I doubt that, going forward, electric motors will be adopted for all forms of propulsion, so hydrogen fuel will be essential. What's more, I think that only Kawasaki can develop the airplanes, ships, plants, and other products that will use new hydrogen technologies. It will be important to take the lead in manufacturing in the hydrogen-powered market in order to win out over global competition, and for this, Kawasaki will need to move fast.

Kohdera With TCFD, the carbon neutral target, and other systems as well, international frameworks have first developed overseas, and Japanese companies have then had to adjust to them in order to do business. I think that Japanese companies need to take part in the formulation of such systems, with a more proactive mindset of creating systems and standards and driving change around the world themselves. Kawasaki is just one company, so there are areas in which there is no alternative to a more passive approach, working within bounds set by others. However, looking around the world, I think there is a clear patterns of companies that have been highly effective in creating systems and de-facto standards, resulting in great profits.

Tsujimura Kawasaki is at the leading edge in hydrogen and has a tremendous advantage, so I think that, no matter what, Kawasaki needs to be creating the international standards. For this, Kawasaki may also need to further strengthen cooperation with government agencies. As Japan and the world work toward carbon neutrality, companies with outstanding technologies will gain a greater edge. This will take time, but I think Kawasaki must continue to patiently invest in such areas.

Transforming Mindsets

Kawasaki has adopted a new personnel system. Please tell us about its uptake internally and any changes in mindsets or behavior you have seen in employees.

Kanehana Transforming employee mindsets requires ongoing work. Shortly after I became president, we launched K-Win Activities to promote innovation in our organizational structures, mindsets, and work processes, and President Hashimoto has carried on this charge. Changing mindsets requires the combination of K-Win Activities, the Business Idea Challenge, projects under the direct control of the president, changes to the personnel system, and businesses that go beyond the bounds of existing systems, activities, and organizations. I think that such efforts are gradually beginning to yield results, and I will be interested to see how the results of our annual employee engagement survey change going forward.

Tsujimura It was reported in the press that Kawasaki abolished the traditional seniority-based system and shifted to a merit-based system, but I think Kawasaki should take care to ensure that its personnel system is correctly understood. The objectives of the new system are to quantitatively understand employee performance and recognize such performance fairly. We also sought to build mechanisms to help employees sustain a spirit of ambition over the long term. I think that Kawasaki must begin by carefully communicating these purposes of the system to employees. The employee engagement survey is also important. If the survey results are unfavorable, Kawasaki must assiduously identify the root of the problem and patiently implement improvements, just as with quality control issues. If the new personnel system is operated poorly in the first year or two, I think employee demotivation could become a serious risk. I hope to provide oversight to help ensure that such problems do not arise, because the foundation of a company is its people.

Kohdera My first impression of the new personnel system was that it was extremely well designed, but also very complex. The new system will be good for employees who, until now, were not being adequately recognized for their hard work and motivation, but I think that the portion of employees who struggle to adapt to the new system will probably be greater. Keeping an eye on and addressing such dark spots will be important.

Saito Under the new personnel system, Kawasaki has created a new indicator, the designation of highly effective employee, based on the engagement survey. Increasing the number of highly effective employees is important, but if it leads to a kind of stereotyping of employees as either highly effective or not, I think it will have a negative effect. If the survey finds few highly effective employees, that reflects a shortcoming on the part of the Company and management, something for human resources divisions to solve, rather than a fault in employees. The mechanisms of the new system can be a double-edged sword, so Kawasaki's human resources divisions and management will need to work hard to enhance their knowledge and abilities as needed. Setting the course for the system over the next two years or so will be extremely important.

Kanehana We decided to have Vice-President Yamamoto serve as general manager of the Human Resources Division for that reason. President Hashimoto and Vice President Yamamoto are very dedicated to personnel system reforms. Because the system is new, there may be issues and difficulties at first, but I am sure they will be able to find top-down fixes as they proceed. For my part, I will work to ensure that the Board of Directors provides effective oversight of their progress.

Lastly, Chairman Kanehana, do you have any message to stakeholders?

Kanehana This year, the Kawasaki Group marked the 125th anniversary of its incorporation. Kawasaki has always practiced the philosophy of founder Shozo Kawasaki, "contributing to the nation—to society—through expertise," constantly working to solve social issues through technology. While valuing and protecting its heritage, Kawasaki aims to embody "Changing Forward." transforming its business models and employee mindsets. We ask for our stakeholders' continued support as we work to quickly advance new initiatives while strengthening governance.

Roundtable Discussion

Corporate Governance

Basic Stance on Corporate Governance

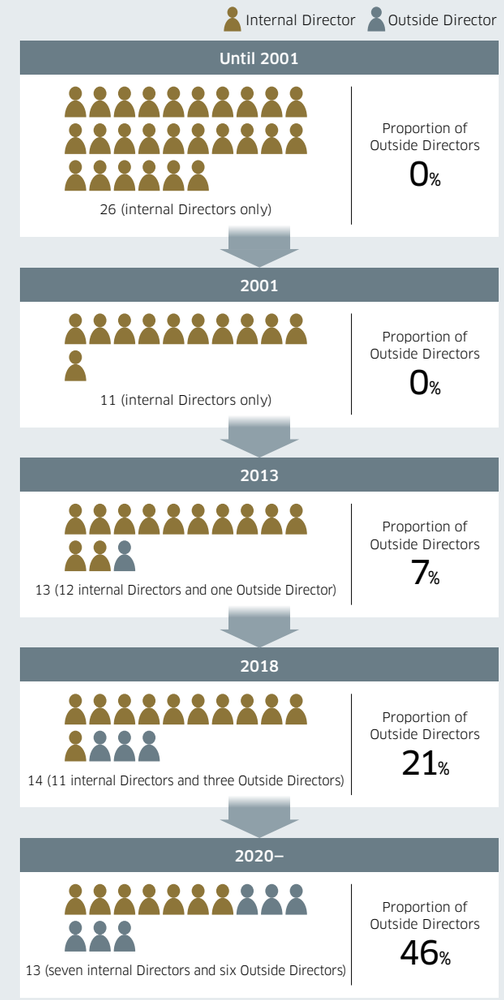
The Kawasaki Group's basic stance on corporate governance is to raise enterprise value through effective and sound management while forming solid relationships with all stakeholders, including shareholders, customers, employees, and communities, through highly transparent management practices. The Kawasaki Group is striving to further strengthen and enhance corporate governance systems as appropriate for its businesses and scale.

Initiatives to Strengthen Corporate Governance

Background of Improvement Measures

Year	Initiative
2001	• Adopted the executive officer system • Reduced the number of Directors from 26 to 11
2002	• Increased the number of Outside Audit & Supervisory Board Members to two • Adopted a performance-based compensation system
2005	• Abolished the retirement benefit system for Directors
2013	• Appointed an Outside Director
2015	• Increased the number of Outside Directors to two • Took steps in response to the introduction of Japan's Corporate Governance Code • Established the Nomination Advisory Committee and Compensation Advisory Committee • Began evaluations of the effectiveness of the Board of Directors
2016	• Added stock purchase funds to Director's compensation
2017	• Increased the number of Outside Audit & Supervisory Board Members to three • Revised matters requiring resolution by the Board of Directors (expanding the scope of delegation to executives)
2018	• Increased the number of Outside Directors to three • Revised the Director and executive officer system
2019	• Reduced the number of Directors from 12 to 11
2020	• Transitioned to a company with an audit & supervisory committee • Reduced the number of Directors not serving as Audit & Supervisory Committee Members from 11 to 8 • Eliminated overlap between Directors and officers responsible for specific businesses
2021	• Revised the Director compensation system (adopted a performance-based stock compensation plan)

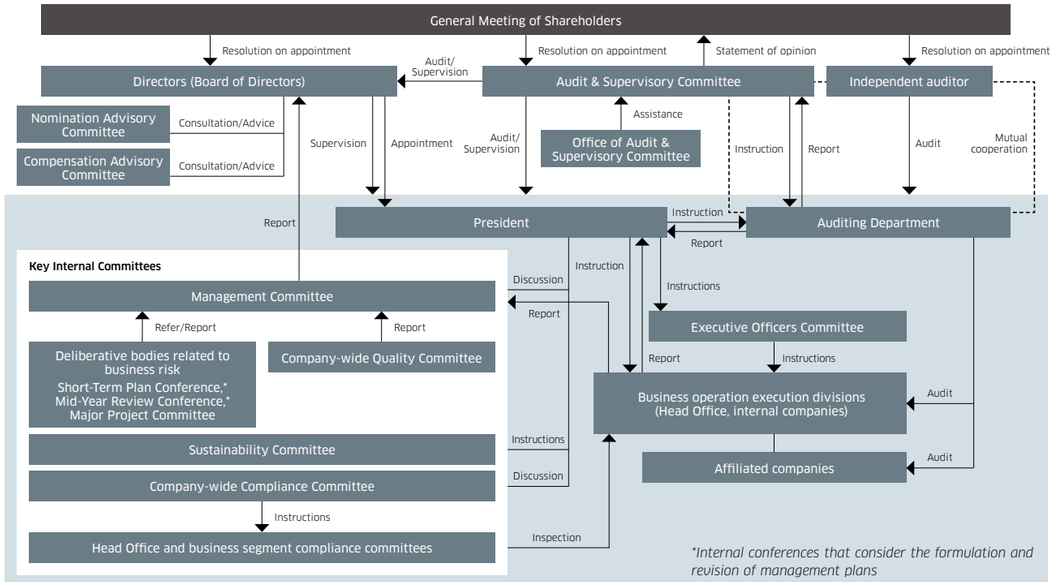
Changes in the Number of Directors and the Proportion of Outside Directors



Corporate Governance System

Kawasaki is a company with an Audit & Supervisory Committee and has voluntarily established a Nomination Advisory Committee and a Compensation Advisory Committee as advisory bodies to the Board of Directors as a well as a Management Committee, an Executive Officers Committee, and other governance bodies.

The Kawasaki Group's Governance Structure (As of June 25, 2021)

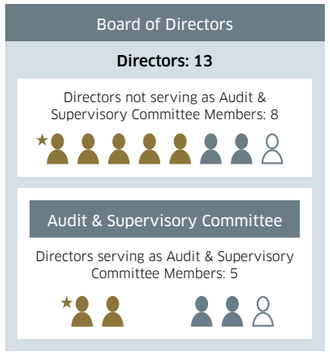


Kawasaki's main deliberative bodies are as follows.

Internal (male) Outside (male) Outside (female) ★★ Presiding officer

Board of Directors

The Board of Directors comprises 13 Directors (of whom, five serve as Audit & 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 & Supervisory Committee Members) and independent of business execution. By avoiding having Directors serve concurrently as officers responsible for specific businesses (the internal company presidents), the Company seeks to enhance the separation of management oversight and business execution and thereby further reinforce the Board of Director's oversight functions.



Audit & Supervisory Committee

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

Nomination Advisory Committee

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. A majority of the committee members are Outside Directors, as is the presiding officer. The Nomination Advisory Committee discusses such matters as policies and standards pertaining to the appointment of Directors and other officers as well as the appropriateness of candidates for such positions and provides reports and advice to the Board of Directors.

Compensation Advisory Committee

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. A majority of the committee members are Outside Directors, as is the presiding officer. The Compensation Advisory Committee discusses such matters as Director compensation policy and systems and the appropriateness of individual Directors' compensation and provides reports and advice to the Board of Directors.

Business Execution Framework

Kawasaki has adopted an executive officer system in order to facilitate response to rapid changes in the business environment. To accelerate decision making, 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.

• Management Committee

Kawasaki maintains a Management Committee, comprising mainly executive Directors and internal company presidents, as an advisory body to the president. The Management Committee discusses matters that are important to business execution.

For the sake of auditing business execution, Directors who serve as full-time Audit & Supervisory Committee Members also attend the committee's meetings.

• Executive Officers Committee

Kawasaki maintains an Executive Officers Committee, comprising all of the executive officers, with the President as the presiding officer, to build unified consensus in Group management and smoothly advance business execution. This committee issues business execution policy based on management policy and plans determined mainly by the Board of Directors and Management Committee as well as decisions made by the Management Committee. It also discusses management issues.

For the sake of auditing business execution, Directors who serve as full-time Audit & Supervisory Committee Members also attend the committee's meetings.

• Major Project Committee

To manage risk before bidding on and making investment decisions regarding major projects that could significantly impact operations and performance, Kawasaki maintains a Major Project Committee, attended by representatives from related Head Office divisions and divisions related to specific projects, with the general manager of the Corporate Planning Division serving as presiding officer. The Major Project Committee evaluates and considers ways of addressing the risks of such projects.

• Company-wide Quality Committee

To reinforce quality control at the internal companies, Kawasaki maintains a Company-wide Quality Committee, comprising representatives from the Corporate Planning Division, Corporate Technology Division, and the related divisions of the internal companies and other related companies, with the vice president in charge of technology serving as the presiding officer. The Company-wide Quality Committee discusses Company-wide quality control policy, ensures its application, and shares information.

• Sustainability Committee

To promote the sustainability of society, the environment, and the Kawasaki Group, Kawasaki maintains a Sustainability Committee, comprising the Directors (excluding the Audit & Supervisory Committee Members and Outside Directors), the internal company presidents, the executive officer in charge of sustainability, the general managers of the Head Office divisions, and others, with the President serving as presiding officer. The Sustainability Committee discusses and decides measures to promote sustainability and monitors the achievement of targets and compliance with such policy.

For the sake of auditing business execution and to reflect a broad range of external insights and opinions in the committee's decisions, Directors who serve as Audit & Supervisory Committee Members as well as the remaining Outside Directors also attend the committee's meetings.

• Company-wide Compliance Committee

To ensure rigorous compliance throughout the Kawasaki Group, Kawasaki maintains a Company-wide Compliance Committee, comprising the Directors (excluding the Audit & Supervisory Committee Members and Outside Directors), the internal company presidents, the executive officer in charge of compliance, the general managers of the Head Office divisions, and others, with the President serving as presiding officer. The Company-wide Compliance Committee discusses and decides measures to ensure thorough compliance and monitors the achievement of targets and compliance with such policy.

For the sake of auditing business execution and to reflect a broad range of external insights and opinions in the committee's decisions, Directors who serve as Audit & Supervisory Committee Members as well as the remaining Outside Directors also attend the committee's meetings.

Evaluation of the Board of Directors' Effectiveness

The Board of Directors strives to ensure that its members, including independent Outside Directors, engage in free, vigorous discussion based on their insights and experience and reach appropriate management decisions. As part of these efforts, since fiscal 2015, the Board of Directors annually evaluates and analyzes the effectiveness of its operations.

Evaluation Process

Board of Directors		All Directors	External specialists	Board of Directors	
①	②	③	④	⑤	⑥
Confirm the status of initiatives to address issues identified via the previous evaluation.	Determine evaluation methods to be used, key items to be surveyed and other matters pertaining to the upcoming evaluation.	Conduct surveys. An anonymous survey of all Directors and Audit & Supervisory Committee Members is carried out based on advice from and with the cooperation of outside experts.	Aggregate and analyze survey results.	Discuss findings from analysis.	Determine issues to be addressed and policies for countermeasures based on findings from analysis and results of the Board of Directors' discussion.

Process of Fiscal 2020 Effectiveness Evaluation and Evaluation Results

The Board of Directors determines items to be surveyed.	A survey of all Directors is conducted.	Outside experts aggregate and analyze the survey results.
①②	③	④

Items surveyed

- Roles and responsibilities of the Board of Directors
- Composition of the Board of Directors
- Roles and qualities of the Directors
- Operation of the Board of Directors

Survey methods

Respondents gave their ratings based on a four-grade rating system and were invited to freely comment on each item. To ensure consistency, the majority of questions were similar to those asked in preceding evaluations. At the same time, surveyed items were partially updated in light of governance issues the Company is confronting and changes in the external environment.

Evaluation results

The analysis of survey results found that the Board of Directors' operations were evaluated highly overall. Specifically, a significant improvement was confirmed as a result of implementing various initiatives undertaken in conjunction with the transition to the new organizational form to address the following issues identified in the previous year.

- Clarifying the division of roles between the Board of Directors and Management Committee
- Revising the Director compensation system (enhancement of medium- to long-term incentives)
- Enhancing the content of explanations offered to the Board of Directors with regard to risks
- Quickly reporting information about risks to the Board of Directors

(For details, please refer to "Initiatives to Address Issues Identified in the Course of Preceding Evaluations" on p. 57.)

Discussion by the Board of Directors

⑤⑥

Conclusions reached by the Board of Directors

While room for improvement remains, the Board of Directors is currently implementing measures to address relevant issues, and its operations are deemed to be effective.

Initiatives to further improve effectiveness

- Enhancing the content of the Board of Directors' discussion regarding medium- to long-term management policies
- Clarifying requirements for Director candidates
- Upgrading leadership succession plans
- Strengthening supervision over the development of internal control systems and risk management structures

For details of initiatives, please refer to "Initiatives to Further Improve Effectiveness" on p. 57.

Initiatives to Address Issues Identified in the Course of Preceding Evaluations

Issues identified in the course of preceding evaluations	Initiatives
Clarifying the division of roles between the Board of Directors and Management Committee	Along with overlaps between agenda items discussed by the Board of Directors and the Management Committee, the delegation of authority from the former to the latter has been considered an issue that must be addressed. In response, the Board of Directors delegated its authority over decisions on specific projects and other matters to executive bodies, including the Management Committee, in conjunction with the June 2020 transition to a company with an Audit & Supervisory Committee. In this way, the Board of Directors strove to resolve the aforementioned overlaps. At the same time, it was decided that matters deemed particularly important must be discussed by the Board of Directors, which is charged with supervising the execution of business, after sufficient deliberation by the Management Committee. As such, efforts are under way to strengthen the Company's governance structure.
Revising the Director compensation system (enhancement of medium- to long-term incentives)	To realize Group Vision 2030, "Trustworthy Solutions for the Future," established in November 2020, the compensation system for Directors (excluding Audit & Supervisory Committee Members and Outside Directors) was revised in accordance with basic policies described on page 58.
Enhancing the content of explanations offered to the Board of Directors with regard to risks	Descriptions of risk analysis in handout materials used at Board of Directors meetings have been considered insufficient. To resolve this issue, a new process was instituted, mandating that projects to be discussed by the Board of Directors must undergo sufficient verification in terms of risk identification and risk countermeasures. Following this verification, these projects must be deliberated by the Management Committee before being addressed by the Board of Directors which, in turn, receives briefings on risk verification results, examines conclusions reached by the Management Committee, and gives final approval.
Quickly reporting information about risks to the Board of Directors	With the objective of ensuring the early detection of signs of changes in the business environment, a framework has been developed to ensure that, among factors that could exert a profound impact on the Company's management plans and operating results, matters deemed particularly important are swiftly reported to the Board of Directors. By doing so, the Company is endeavoring to strengthen monitoring functions provided by the Board of Directors.

Initiatives to Further Improve Effectiveness

Issues identified via the latest evaluation	Initiatives
Enhancing the content of the Board of Directors' discussion regarding medium- to long-term management policies	The Board of Directors engages in the periodic discussion of important management policies and strategies (e.g. sustainability management policies, human resource strategies, corporate transformation) in light of the recent revision of the Corporate Governance Code.
Clarifying requirements for Director candidates	The Board of Directors and the Nomination Advisory Committee strive to identify skills and other requirements for Director candidates in light of the Company's medium- to long-term management policies and strategies. Through the preparation of a skills matrix, the Board of Directors also endeavors to ensure that its members, collectively, possess all the necessary skills.
Upgrading leadership succession plans	The Board of Directors and the Nomination Advisory Committee deliberate on requirements for future leadership successors, such as desirable traits of those in key positions, including the CEO and internal company presidents, thereby pushing ahead with the preparation of successor training plans.
Strengthening supervision over the development of internal control systems and risk management structures	The Board of Directors receives periodic reporting on the status of the development and operation of risk management structures in addition to monitoring the results of evaluations regarding the development and operation of internal control systems as part of its efforts to strengthen its supervisory functions.

Director Compensation

To realize Group Vision 2030, "Trustworthy Solutions for the Future," established in November 2020, the Company has revised its basic policies for Director compensation as well as its composition, determination process, and other relevant matters. Details are as follows.

Basic Policy

Placing stronger emphasis on contribution to the Company's goals, the revised compensation system is designed to reward each recipient based on their responsibilities and accomplishments. To this end, it not only provides short-term incentives but also rewards Directors for their contributions to medium- to long-term improvement in corporate value. In this way, we aim to promote the sharing of value between Directors and stakeholders, including shareholders.

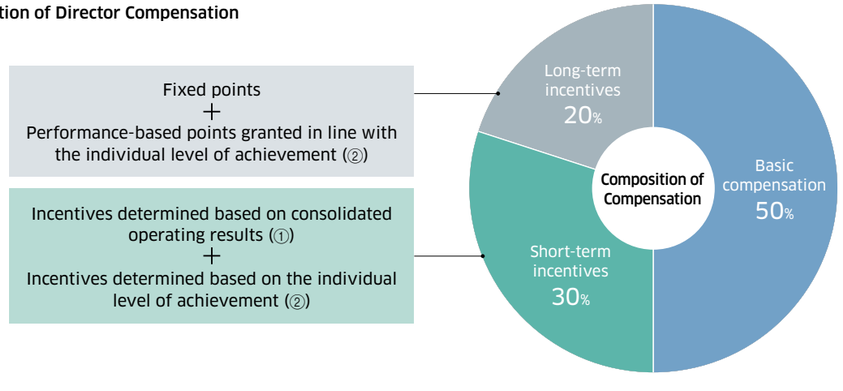
Compensation for Directors (Excluding Audit & Supervisory Committee Members and Outside Directors)

Compensation for Directors consists of basic compensation, short-term incentives, and long-term incentives. Basic compensation and short-term incentives are paid in cash. Long-term incentives are paid in the form of performance-based stock compensation to promote the sharing of benefits and risks between the Directors and shareholders in addition to more strongly incentivizing medium- to long-term contribution to corporate value.

These three components of director compensation account for approximately 50%, 30%, and 20%, respectively, of the total, assuming that the Group's consolidated operating results in the preceding fiscal year reached target levels and that each Director's individual performance targets for said fiscal year are fully met.

	Payment method	Details
Basic compensation (fixed compensation)	Cash	Each Director's pay grade is determined based on the missions assigned to them.
Short-term incentives (performance-based compensation)	Cash	Performance-based compensation is determined in line with single-year operating results and other indicators. Specifically, the amount of this compensation is determined based on consolidated operating results and the level of achievement of each Director's individual performance targets. Profit attributable to owners of parent is used as the indicator for assessing consolidated operating results, with the aim of providing incentives for the steady accomplishment of single-year operating results targets and promoting the sharing of value with shareholders. The payment ratio applied to this performance-based compensation is determined based on the profit attributable to owners of parent for the year, as presented on the next page (see ①). Details of the process for determining the level of achievement are presented in ② on the same page.
Long-term incentives (fixed portion and performance-based portion)	Stock	Long-term incentives utilize a stock benefit trust and are determined based on fixed points granted to Directors in line with their periods of service as well as performance-based points granted for their accomplishments vis-à-vis individual performance targets. In principle, these incentives are paid to the recipients in the form of both Company shares and cash (the latter being in an amount equivalent to the value of a portion of said shares after conversion) at the time of their retirement as Director. The proportions of fixed points and performance-based points are designed to account for 50% each when the recipient's level of achievement is at a standard level. Details of the process for determining the level of achievement are presented in ② on the next page.

Composition of Director Compensation



① Payment Ratio Based on Profit Attributable to Owners of Parent

Profit Attributable to Owners of Parent	Payment ratio (%)
0 or less	–
0 to less than ¥25 billion	0% to 45%
¥25 billion to less than ¥45 billion	50% to 95%
¥45 billion to less than ¥70 billion	100% to 195%
¥70 billion or more	200%

② Process for Determining Level of Achievement of Individual Performance Targets

Setting of Targets

Each Director sets their own targets in terms of addressing short-, medium- and long-term issues, including those associated with business units and operations under their supervision and Company-wide issues. These include targets pertaining to important financial indicators as well as targets associated with initiatives aimed at realizing the United Nations Sustainable Development Goals (SDGs), efforts to improve employee engagement, and other aspects of non-financial performance.

- Targets for short-term issues: Targets to be achieved by the end of the fiscal year
- Targets for medium- to long-term issues: Targets to be achieved in light of the Group Vision 2030

Methods for Determining the Level of Target Achievement

- President: After a face-to-face interview with Outside Directors who serve as members of the Compensation Advisory Committee, the level of achievement is determined via discussion among these Outside Directors.
- Vice President: After a face-to-face interview with Outside Directors who serve as members of the Compensation Advisory Committee, the level of achievement is determined via discussion among these Outside Directors and the president.
- Other Directors: After a face-to-face interview with the president and vice president, who together formulate a draft performance evaluation, the level of achievement is determined by the resolution of the Board of Directors based on the deliberations of the Compensation Advisory Committee.

Compensation of Outside Directors and Directors Serving as Audit & Supervisory Committee Members

To ensure their professional independence, compensation for these individuals consists only of fixed compensation and is not linked with performance.

Methods for Determining Compensation

The total maximum amount of compensation for Directors (excluding Audit & Compensation Committee Members) is set by a resolution passed at the General Meeting of Shareholders. Within this limit, the amount of compensation is determined by the resolution of the Board of Directors based on the deliberations of the Compensation Advisory Committee. The presiding officer and a majority of the members of the Compensation Advisory Committee are Outside Directors.

The Board of Directors may also resolve to entrust the president with the responsibility of determining the amount of compensation for each director. In such cases, however, the president is required to honor the conclusions reached via the deliberations of the Compensation Advisory Committee and comply with policies regarding the determination of the amounts of director compensation and methods for calculating such compensation.

To ensure their professional independence, compensation for Audit & Supervisory Committee Members consists only of fixed compensation and is not linked with performance. Compensation for these individuals is determined by deliberations among Directors who serve as Audit & Supervisory Committee Members.

Fiscal 2020 Compensation

Type of officer	Total compensation (millions of yen)	Total compensation by type (millions of yen)			Number of recipients
		Basic compensation	Performance-based compensation	Stock purchase fund	
Directors (excluding Audit & Supervisory Committee Members and Outside Directors)	355	288	23	43	9
Audit & Supervisory Committee Members (excluding Outside Directors)	51	51	–	–	2
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	16	16	–	–	2
Outside Officers	79	79	–	–	7

Notes: 1. The Company transitioned to a company with an Audit & Supervisory Committee upon a resolution passed at the 197th Ordinary General Meeting of Shareholders held on June 25, 2020 regarding the amendment of its Articles of Incorporation.
2. Fiscal 2020 compensation was determined based on the former compensation system.
3. The total maximum amount of annual compensation for Directors (excluding Audit & Supervisory Committee Members) is set at ¥800 million based on a resolution passed at the 197th Ordinary General Meeting of Shareholders held on June 25, 2020.
4. The total maximum amount of performance-based stock compensation is set at ¥325 million per year, with the annual number of Company shares to be allocated to the recipients being limited to 50,000 shares. At the 198th Ordinary General Meeting of Shareholders held on June 25, 2021, these frameworks were approved separately from the total maximum amount of annual compensation for Directors (excluding Audit & Supervisory Committee Members).
5. The total maximum amount of annual compensation for Audit & Supervisory Committee Members is set at ¥120 million based on a resolution passed at the 197th Ordinary General Meeting of Shareholders held on June 25, 2020.

Corporate Officers (As of June 25, 2021)

Directors

Name Position Age	Years of Service Kawasaki Shares Held	Reasons for Appointment	Board of Directors Meetings Attended[1]	Nomination Advisory Committee		Compensation Advisory Committee	
				Member-ship	Meetings Attended[1]	Member-ship	Meetings Attended[1]
 **Yoshinori Kanehana** Chairman of the Board 67 years old	9 years 28,400 shares	Mr. Kanehana worked in technology and development in the Company's rolling stock and overseas businesses for many years. He assumed the office of Senior Vice President in 2012, Senior Executive Vice President in April 2016, President in June 2016, and Chairman of the Board in 2020. Presently, as Chairman of the Board, he demonstrates outstanding leadership, contributing significantly to the Company's business growth and the enhancement of its enterprise value.	14/14	–	–	–	–
 **Yasuhiko Hashimoto** Representative Director 64 years old	3 years 13,700 shares	Mr. Hashimoto worked in technology and development in the Company's industrial robots business unit for many years. He was appointed Director and Managing Executive Officer in 2018 and Director, Vice President, and Senior Executive Officer in April 2020. He has served as President and Chief Executive Officer since June 2020. In this role, he demonstrates outstanding leadership, contributing significantly to the Company's business growth and the enhancement of its enterprise value.	14/14	✓	9/9[2]	✓	9/9[2]
 **Sukeyuki Namiki** Representative Director 66 years old	3 years 13,200 shares	Mr. Namiki worked in technology and development in the Company's aerospace business for many years. He was appointed Director and Managing Executive Officer in 2018 and Director, Vice President, and Senior Executive Officer in 2019. Presently, as Director, Vice President, and Senior Executive Officer, he is in charge of Company-wide Technology, Production, and Procurement, as well as Company-wide TQM, General Administration, contributing significantly to the Company's business growth and the enhancement of its enterprise value. *Note: The areas Mr. Namiki is in charge listed above are as of October 1, 2021.*	14/14	–	–	–	–
 **Katsuya Yamamoto** Representative Director 63 years old	4 years 12,000 shares	Mr. Yamamoto worked in planning and finance and accounting in the Company's plant and infrastructure business as well as its precision machinery business for many years. He was appointed Senior Vice President in 2017 and Director, Vice President, and Senior Executive Officer in 2020. Presently, as Director, Vice President, and Senior Executive Officer, he is in charge of Company-wide Finance & Accounting and Human Resources in addition to Sustainable Development, Investor Relations, and Corporate Communication, contributing significantly to the Company's business growth and the enhancement of its enterprise value.	14/14	✓	9/9[2]	✓	9/9[2]
 **Hiroshi Nakatani** Director 60 years old	1 year 6,200 shares	Mr. Nakatani worked in technical development and planning for many years. He was appointed Director and Managing Executive Officer in 2020. Presently, as Director, Managing Executive Officer, and General Manager of the Corporate Technology Division, he demonstrates outstanding leadership, and is in charge of overall Corporate Planning, Digital Transformation, and Cyber Security, contributing significantly to the Company's business growth and the enhancement of its enterprise value.	11/11[2]	–	–	–	–
 **Yoshiaki Tamura** Outside Director 66 years old	3 years 1,600 shares	Mr. Tamura has served as Representative Director and Executive Vice President of Asahi Glass Co., Ltd. (now AGC Inc.), Deputy Leader of Overall Business Management, General Manager of Technology General Division, Deputy Leader of AGC Group Improvement Activities, and Executive Vice President, President of Glass Company, and in other important positions. He provides helpful opinions and advice on important management decisions based on his abundant management experience and deep insight into manufacturing from a standpoint independent from the Company's business execution.	14/14	✓ (Presiding officer)	12/12	✓ (Presiding officer)	12/12
 **Jenifer Rogers** Outside Director 58 years old	3 years 1,900 shares	Ms. Rogers has served as an in-house lawyer and counsel at a technology services company and financial institutions in Japan and overseas for many years. She provides helpful opinions and advice on important management decisions based on her extensive international experience and deep insights into legal affairs, compliance, and risk management from a standpoint independent from the Company's business execution.	14/14	–	–	–	–
 **Hideo Tsujimura** Outside Director 67 years old	1 year 200 shares	Mr. Tsujimura has served as Senior Managing Director, in charge of Intellectual Property Department and R&D Division of Suntory Holdings Limited, Representative Director, President & Chief Executive Officer of Suntory Business Expert Limited, Director, Executive Vice President, Chief Operating Officer, MONOZUKURI Division, and Senior General Manager, Research & Development Department of Suntory Beverage & Food Limited, and in other important positions. He provides helpful opinions and advice on important management decisions based on his abundant management experience and deep insight into product development and intellectual property from a standpoint independent from the Company's business execution.	11/11[2]	✓	9/9[2]	✓	9/9[2]

1. Figures for fiscal 2020.
2. Attendance at meetings held after these individuals assumed office on June 25, 2020.

Directors (Audit & Supervisory Committee Members)

Name Position Age	Years of Service[1] Kawasaki Shares Held	Reasons for Appointment	Board of Directors Meetings Attended[2]		Nomination Advisory Committee		Compensation Advisory Committee	
			Audit & Supervisory Committee Meetings Attended[2]	Audit & Supervisory Board Meetings Attended[2]	Member-ship	Meetings Attended[2]	Member-ship	Meetings Attended[2]
 **Katsuyoshi Fukuma** Director Audit & Supervisory Committee Member 63 years old	5 years 1,200 shares	Mr. Fukuma worked in the Company's planning administration and finance and accounting operations for many years. He was appointed an Audit & Supervisory Board Member in 2016. Presently, as a full-time Audit & Supervisory Committee Member, he contributes significantly to ensuring the soundness of the Company's management and enhancing its enterprise value.	14/14	13/13	–	–	–	–
				5/5				
 **Akio Nekoshima** Director Audit & Supervisory Committee Member 62 years old	3 years 6,400 shares	Mr. Nekoshima gained wide-ranging experience working for Mizuho Bank, Ltd., including in international operations. Beginning in 2012, he worked for the Company in finance and accounting as well as marketing and overseas-related operations. He was appointed an executive officer in 2014 and an Audit & Supervisory Board Member in 2018. Presently, as a full-time Audit & Supervisory Committee Member, he contributes significantly to ensuring the soundness of the Company's management and enhancing its enterprise value.	14/14	13/13	–	–	–	–
				5/5				
 **Satoru Kohdera** Outside Director Audit & Supervisory Committee Member 62 years old	4 years 1,700 shares	Mr. Kohdera has served as President of the Hyogoken Bar Association, Vice President of the Japan Federation of Bar Associations, and in other important positions, and possesses abundant experience as an attorney and deep insight into legal affairs. He was appointed an Audit & Supervisory Board Member of the Company in 2017. Presently, as an Audit & Supervisory Board Committee Member, he contributes significantly to ensuring the soundness of the Company's management and enhancing its enterprise value.	14/14	13/13	–	–	–	–
				5/5				
 **Atsuko Ishii** Outside Director Audit & Supervisory Committee Member 63 years old	4 years 500 shares	Ms. Ishii has served in important positions at the Ministry of Health, Labour and Welfare, including as Director-General of the Osaka Labour Bureau, Deputy Director-General, Director-General of the Equal Employment, Child and Family Policy Bureau, Director-General for General Policy and Evaluation, and Director-General of Social Welfare and War Victims' Relief Bureau, and possesses abundant experience in and deep insight into Japan's labor administration. She was appointed an Audit & Supervisory Board Member of the Company in 2017. Presently, as an Audit & Supervisory Committee Member, she contributes significantly to ensuring the soundness of the Company's management and enhancing its enterprise value.	14/14	13/13	–	–	–	–
				5/5				
 **Ryoichi Saito** Outside Director Audit & Supervisory Committee Member 71 years old	2 years 500 shares	Mr. Saito has served in important positions at NSK Ltd., including Senior Vice President, Head of Corporate Planning Division HQ, Director, Representative, Executive Vice President, Head of Corporate Strategy Division HQ, and Crisis Management Committee Chairperson, and possesses abundant management experience and deep insights into business planning, finance and accounting, and risk management. He was appointed an Audit & Supervisory Board Member of the Company in 2019. Presently, as an Audit & Supervisory Board Committee Member, he contributes significantly to ensuring the soundness of the Company's management and enhancing its enterprise value.	14/14	13/13	✓	12/12	✓	12/12
				5/5				

1. Years of service include years of service as Audit & Supervisory Board Members when Kawasaki was a company with an Audit & Supervisory Board.
2. Figures for fiscal 2020. Note that, during fiscal 2020, the Audit & Supervisory Board met five times before June 25, 2020, when Kawasaki transitioned to a company with an Audit & Supervisory Committee, and the Audit & Supervisory Committee met 13 times after that date.

Executive Officers (As of August 1, 2021)

President and Chief Executive Officer

Yasuhiko Hashimoto	Chief Executive Officer

Vice Presidents and Senior Executive Officers

Sukeyuki Namiki	Assistant to the President, in charge of Technology, Production, Procurement, TQM, General Administration, and the North America Project Management Task Force
Katsuya Yamamoto	Assistant to the President, in charge of Finance & Accounting, Human Resources, Sustainable Development, Investor Relations and Corporate Communication, and General Manager, Human Resources Division

Senior Managing Executive Officers

Tatsuya Watanabe	President, Energy Solution & Marine Engineering Company
Hiroyoshi Shimokawa	President, Aerospace Systems Company, and General Manager, Aero Engine Business Division, in charge of Kawasaki Railcar Manufacturing Co., Ltd.
Hidehiko Shimamura	President, Precision Machinery & Robot Company, in charge of promoting automation, and Kawasaki Motors, Ltd.

Managing Executive Officers

Hiroshi Nakatani	In charge of Corporate Planning, Digital Transformation, and Cyber Security, and General Manager, Corporate Technology Division
Ichiro Kono	Vice President, Energy Solution & Marine Engineering Company, and General Manager, Ship & Offshore Structure Business Division
Mitsumasa Sato	Vice President, Aerospace Systems Company, and General Manager, Aerospace Business Division, in charge of Company-wide project promotion
Eiichi Harada	General Manager, Hydrogen Strategy Division
Hiroshi Murao	President and Chief Executive Officer, Kawasaki Railcar Manufacturing Co., Ltd.
Hiroshi Ito	President and Chief Executive Officer, Kawasaki Motors, Ltd.

Executive Officers

Yuji Horiuchi	In charge of TQM, Corporate Technology Division
Makoto Shiota	General Manager, Marketing Division
Keigo Imamura	General Manager, Planning & Control Division, Energy Solution & Marine Engineering Company
Nobuhisa Kato	General Manager, Finance & Control Division
Yu Koshiyama	Deputy General Manager, Aero Engine Business Division, Aerospace Systems Company
Osamu Kobayashi	Deputy General Manager, Aerospace Business Division, Aerospace Systems Company
Akiyoshi Saiki	Deputy General Manager, Corporate Technology Division, and General Manager, System Technology Development Center, on assignment at Medicaroid Corporation
Naoki Murakami	General Manager, Energy Solution Business Division, Energy Solution & Marine Engineering Company
Motohisa Amako	Senior Manager, Hydrogen Business Solutions Office, Energy Solution & Marine Engineering Company
Yoshinari Tobinaga	Staff officer to Aerospace Systems Company (on assignment at NIPPI Corporation)
Noboru Takagi	General Manager, Robot Business Division, Precision Machinery & Robot Company
Kouji Ogata	General Manager, Precision Machinery Business Division, Precision Machinery & Robot Company
Yoshinori Kai	General Manager, Marine Machinery Business Division, Energy Solution & Marine Engineering Company
Atsuko Kakihara	General Manager, Sustainable Development Division
Kenji Sanada	General Manager, Plant Engineering Business Division, Energy Solution & Marine Engineering Company
Takeshi Kaneko	General Manager, Corporate Planning Division
Katsunori Hosokawa	General Manager, General Administration Division
Etsuro Mishima	Deputy General Manager, Aero Engine Business Division, Aerospace Systems Company, and Group Manager, Commercial Engine Project Group
Tatsuya Motoi	Deputy General Manager, Ship & Offshore Structure Business Division, Energy Solution & Marine Engineering Company (in charge of commercial vessels), and Group Manager, Engineering Group
Masatoshi Ishida	General Manager, Presidential Project Management Division, Group Manager, PCR Supervisory Department, Group Manager, Advanced Smart Mobility Supervisory Department, and Senior Manager, Global Marketing & Sales Department
Masataka Sudo	Group Manager, Commercial Aircraft Project Group, Aerospace Business Division, Aerospace Systems Company
Motohiko Nishimura	Deputy General Manager, Hydrogen Strategy Division, and staff officer to the Corporate Technology Division, on assignment at the CO_2-free Hydrogen Energy Supply-chain Technology Research Association

Fellows

Tsutomu Fujigaki	In charge of Helicopter Projects, Aerospace Systems Company
Tatsuhiko Goi	In charge of Gear System Technology, Aerospace Systems Company
Tetsuji Yuasa	In charge of Submarine & AUV Technology, Ship & Offshore Structure Business Division, Energy Solution & Marine Engineering Company
Akihito Sakai	In charge of Composite Materials, Aerospace Systems Company
Yasuhiro Kinoshita	In charge of hydrogen aircraft technology, Aerospace Systems Company

Basic Stance on Compliance

The Kawasaki Group Management Principles, part of the Kawasaki Group Mission Statement, extol the corporate virtue of "recognizing social responsibility and coexisting harmoniously with the environment, society as a whole, local communities, and individuals," and in the Kawasaki Group Action Guidelines, we ask each and every member of the Group to "earn the trust of the community through high ethical standards and the example you set for others."

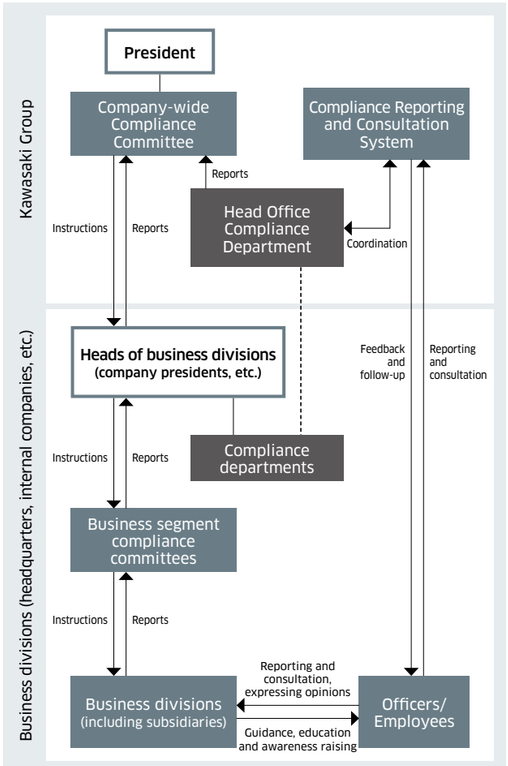
We have established the Kawasaki Group Code of Conduct and set ethical standards to be the basis of decisions. At the same time, the Regulations Concerning the Kawasaki Group Code of Conduct, a set of internal rules, requires executives and employees to comply with the Code of Conduct.

Compliance Promotion Structure

The Corporate CSR Committee comprises all Directors and Audit & Supervisory Committee Members and is chaired by the Kawasaki president. The committee meets at least twice a year (three meetings in fiscal 2020). Its functions are to discuss and determine measures to ensure that the Kawasaki Group fulfills its corporate social responsibilities and maintains thorough compliance, and to monitor the achievement levels and status of compliance efforts. To ensure that the objectives of the Corporate CSR Committee extend to all corporate structures throughout the Group, business segment CSR committee meetings are held at least twice a year at the head office and internal companies.

In fiscal 2021, the committee was renamed the Company-wide Compliance Committee and the committee structure revised to place greater weight on discussing Company-wide compliance issues and measures going forward.

Compliance Promotion Structure



Compliance Reporting and Consultation System (Whistle-blowing System)

We have established the Compliance Reporting and Consultation System, with an outside lawyer acting as the contact, so that executives and employees (including contract employees, temporary staff, and retired employees) of the Company and domestic consolidated subsidiaries can report or seek consultation regarding suspected violations of compliance practices relating to their operations.

Under the Compliance Reporting and Consultation System, employees report to or consult with an outside lawyer directly. The lawyer then investigates to determine whether or not there is in fact a compliance problem and, if a problem is found, advises the Company on how to remedy it. Furthermore, the lawyer reports the results of this process back to the employee who used the system.

During the investigation, the employee's name is not disclosed to the Company without his or her permission. The system accepts both anonymous reports and reports filed under the complainants' names, enabling us to able to gather information on and address a wider range of compliance issues.

The Group works to ensure that employees know how to use this system by providing information on it via such means as the Company intranet, Kawasaki Group Code of Conduct pamphlets, Compliance Guidebook, and Group newsletters.

There were 39 reports or consultations made through the Compliance Reporting and Consultation System in fiscal 2020.

In fiscal 2020, we launched a global whistle-blowing system for some overseas affiliates. We will increase the range of companies covered by the system in fiscal 2021 and beyond, operating it as key part of the Group's compliance promotion efforts at the global level.

Number of Reports or Consultations

	2016	2017	2018	2019	2020
Contents of report consultation*	20	27	29	47	39
Abuse of authority	5	7	13	12	15
Labor issues	4	10	5	14	14
Financial fraud	2	1	4	0	1
Sexual harassment	2	3	1	1	1
Threats and harassment	0	1	3	0	0
Bribery and corruption	0	0	0	0	0
Others	7	5	3	20	8

** The numbers of cases listed above refer to reports and consultations received, not those identified as actual compliance violations*

Compliance Promotion Initiatives

Kawasaki Group Code of Conduct

In July 2017, we established the Kawasaki Group Code of Conduct as a set of ethical standards to guide the decision making of Kawasaki Group executives and employees. This code is a set of common conduct guidelines that all members of the Group must abide by, regardless of the situation or where in the world they are.

The Kawasaki Group Code of Conduct contains 12 sections under the theme "Acting Correctly" and 10 sections under the theme "Working with Stakeholders."

Compliance Guidebook

The *Compliance Guidebook* provides knowledge that is necessary and useful for ensuring thorough compliance within the Company in an easy-to-understand way. The guidebook is distributed to all executives, employees, and temporary staff at all Group companies in Japan.

The *Compliance Guidebook* is structured to correspond with the items in the Kawasaki Group Code of Conduct and serves as a guide for the Code of Conduct's practical application. It outlines the Group's compliance system and activities as well as the Compliance Reporting and Consultation System, which serves as the Group's internal whistle-blowing system. The guidebook uses illustrations to provide accessible explanations of relevant laws and regulations, important compliance-related matters, and case studies. It is divided into 19 sections under two overarching themes, which are the same as those in the Group Code of Conduct: "Acceptable Business Conduct" and "Dealing with Stakeholders."

The *Compliance Guidebook* is used in internal compliance training and educational activities. Since the first edition was issued in 2003, its content has been constantly updated in light of evolving compliance requirements around the world, and it was completely overhauled in 2021.

Employee Awareness Surveys

The Kawasaki Group previously implemented periodic employee awareness surveys to monitor internal compliance violation risks. Since 2020, compliance awareness is measured using compliance-related questions that have been added to the employee engagement surveys carried out by the Human Resources Division. Kawasaki studies the survey results and implements any necessary compliance measures based on its findings. In addition, changes and trends in employee awareness are analyzed and reflected in subsequent initiatives.

Basic Stance on Risk Management

In accordance with the Companies Act, the Kawasaki Board of Directors has adopted a basic policy for internal control systems. This policy stipulates that we identify, classify, analyze, and assess risks and then implement risk management (avoidance, reduction, etc.) in line with the Risk Management Regulations.

In addition, to achieve sustained improvements in profitability and enterprise value, the Kawasaki Group Mission Statement identifies risk management as a guiding theme of the Kawasaki Group Management Principles.

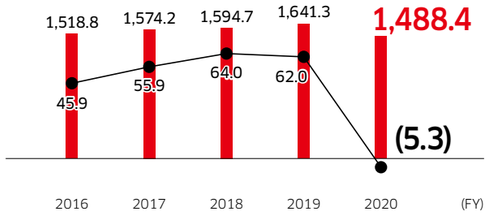
Risk Monitoring System

In order to appropriately handle diverse risks, Kawasaki designates the internal committees and divisions responsible for specific risk types, requiring them to establish and operate management methods and systems. In addition, we have established a system for the centralized monitoring of the effectiveness and workability of such management systems to avoid and minimize risks and losses caused by the materialization of risks.

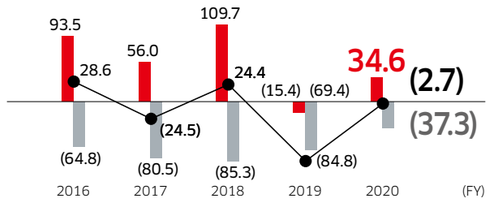
With regard to individual risks associated with business execution, in accordance with such company regulations as the Major Project Risk Management Regulations, the relevant divisions must assess and analyze such risks in advance and fully consider appropriate responses. In particular, the Company practices even more thorough risk management for major projects with significant impact on operations, including that at the time of bidding and concluding agreements for such projects as well as regular follow-up by the Head Office and internal companies as needed after such projects begin.

Performance Highlights

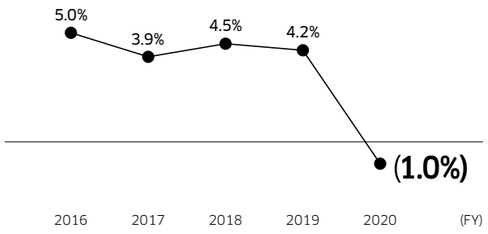
■ Net sales
● Operating profit (loss)
(Billions of yen)



■ Cash flows from operating activities
■ Cash flows from investing activities
● Free cash flows
(Billions of yen)

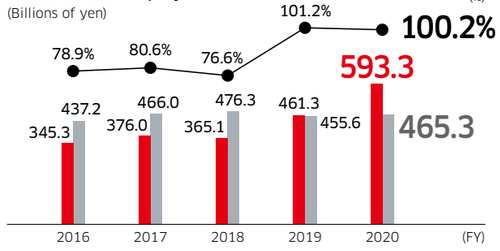


● Before-tax ROIC (Return on invested capital)
(%)



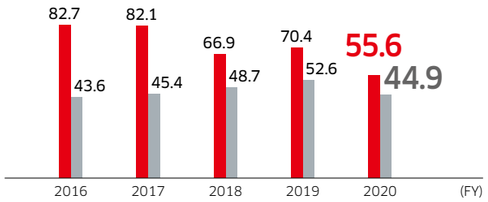
Before-tax ROIC = EBIT (Profit before income taxes + interest expense) / Invested capital (Interest-bearing debt + Shareholders' equity)

■ Net interest-bearing debt
■ Shareholders' equity
● Net debt equity ratio
(Billions of yen)
(%)

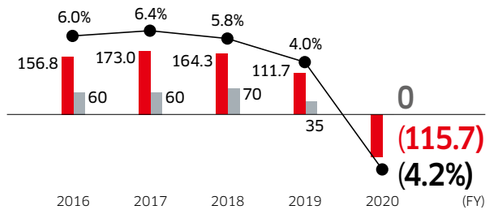


Net debt equity ratio = Net interest-bearing debt (Interest-bearing debt – Cash on hand and in banks) / Shareholders' equity

■ Capital expenditures
■ Research and development expenses
(Billions of yen)

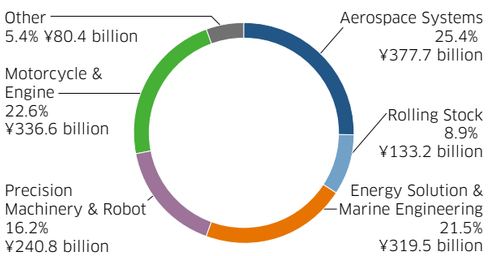


■ Net income (loss) per share*
■ Dividends per share*
● ROE (Return on equity)
(Yen)
(%)

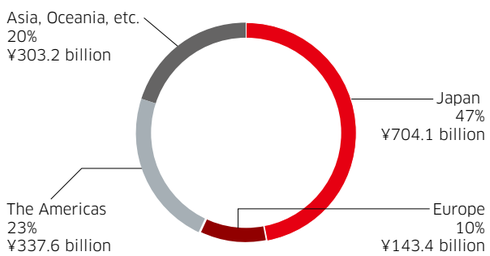


Return on equity = Profit attributable to owners of parent / Shareholders' equity
** Effective October 1, 2017, a 1-for-10 share consolidation was implemented for ordinary shares. Figures above are calculated assuming the share consolidation was conducted on April 1, 2015*

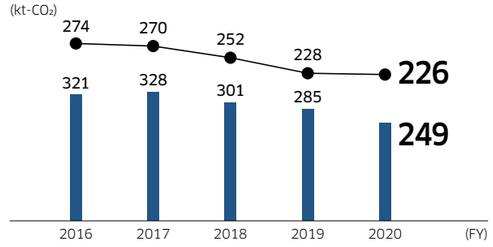
Share of net sales by segment* (FY2020)



Share of net sales by region (FY2020)

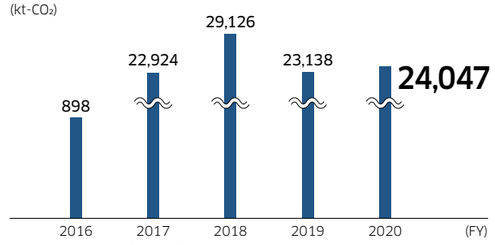


CO_2 emissions from business activities (non-consolidated)
■ CO_2 emissions (kt-CO_2) ● CO_2 per unit of net sales(t-CO_2/billion yen)
(kt-CO_2)



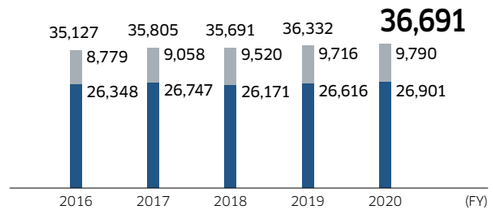
1. Per unit of net sales figures are obtained by diviiding CO_2 emissions by net sales.
2. The fuel and heat CO_2 emission factors used are values published by the Agency for Natural Resources and Energy.
3. The electricity CO_2 emission factors used are values published by Japan's Ministry of the Environment for each power provider in each fiscal year.

Reduction of CO_2 emissions through product-based contributions (non-consolidated)*1
(kt-CO_2)

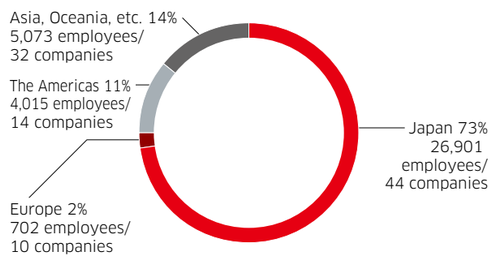


1. Products to be assessed: Kawasaki-brand Green Products, products that use waste, waste heat, and renewable energy, as well as cogeneration systems and rolling stock pertaining to modal shifts, etc.
2. Estimated based on product deliveries. Calculation rules were revised in fiscal 2017, and a flow-based approach (based on the Ministry of Economy, Trade and Industry's Guideline for Quantifying Greenhouse Gas Emission Reduction Contribution) in which the period of assessment is the estimated useful life of products sold in the fiscal year was adopted. This allows us to calculate the difference in CO_2 emissions between our products and industry standard class products.

Number of employees
■ Overseas Group companies ■ Japan
(People)



Distribution of employees/companies by region (FY2020)



ESG-Related External Evaluations

The Dow Jones Sustainability Index is a leading socially responsible investment (SRI) index that assesses and selects leading sustainability-driven companies in terms of economic, environmental, and social criteria.

Member of
Dow Jones Sustainability Indices
Powered by the S&P Global CSA

Created by the global index provider FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company), the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong environmental, social, and governance (ESG) practices. The FTSE-4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

FTSE4Good

The FTSE Blossom Japan Index is designed to measure the performance of Japanese companies that demonstrate strong environmental, social and governance (ESG) practices. The index is constructed so that industry weights align with the Japanese equity market and uses the globally established FTSE4Good Index Inclusion Rules, which are drawn from existing international standards, including the United Nations Sustainable Development Goals (SDGs).

FTSE Blossom Japan

The MSCI Japan ESG Select Leaders Index features companies with high ESG performance selected from its parent index (MSCI Japan IMI Top 700 Index: Top 700 securities based on market capitalization). The index selects companies with the target of covering 50% of the market capitalization within each GICS® sector of the parent index.

2021 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

The MSCI Japan Empowering Women Index (WIN) features companies with excellent gender diversity selected from each GICS® sector of its parent index (MSCI Japan IMI Top 700 Index: Top 700 securities based on market capitalization).

2021 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

The S&P/JPX Carbon Efficient Index uses as its parent index the Tokyo Stock Price Index (TOPIX), a leading stock index used to represent the movement of the Japanese market and weights companies based on their environmental information disclosure and carbon efficiency (carbon emissions per unit of net sales).

S&P/JPX Carbon Efficient Index

Eruboshi (2nd level) certification by Ministry of Health, Labor and Welfare

Kurumin (2 stars) certification by Ministry of Health, Labor and Welfare

Eleven-year Summary

(Billions of yen)

	(FY)	2010		2011		2012		2013		2014		2015		2016		2017		2018		2019		**2020**	
Operating results	**Net sales**	¥1,226.9		¥1,303.7		¥1,288.8		¥1,385.4		¥1,486.1		¥1,541.0		¥1,518.8		¥1,574.2		¥1,594.7		¥1,641.3		**¥1,488.4**	
	Aerospace Systems[1]	–		–		–		–		–		–		–		469.5		463.9		532.5		**377.7**	
	Energy System & Plant Engineering[1]	–		–		–		–		–		–		–		251.6		253.0		242.9		**240.1**	
	Aerospace[1]	196.8		206.5		239.1		280.7		325.0		351.8		329.9		–		–		–		**–**	
	Gas Turbine & Machinery[1]	202.6		194.6		207.0		189.2		218.7		236.4		241.9		–		–		–		**–**	
	Plant & Infrastructure[1]	89.0		122.8		115.8		103.8		121.1		135.6		160.8		–		–		–		**–**	
	Precision Machinery & Robot[2]	140.3		175.0		130.4		123.2		135.7		133.1		155.2		198.9		222.0		217.3		**240.8**	
	Ship & Offshore Structure	118.4		113.5		90.3		80.8		90.3		94.8		103.2		95.6		78.9		71.6		**79.4**	
	Rolling Stock	131.1		132.6		129.9		147.9		121.5		146.6		137.1		141.7		124.6		136.5		**133.2**	
	Motorcycle & Engine[2]	234.4		235.2		251.8		322.2		329.2		333.5		313.0		331.6		356.8		337.7		**336.6**	
	Other	114.0		123.2		124.2		137.2		144.2		108.8		77.4		85.0		95.1		102.4		**80.4**	
	Operating Profit [operating Profit margin]	42.6	[3.4%]	57.4	[4.4%]	42.0	[3.2%]	72.3	[5.2%]	87.2	[5.8%]	95.9	[6.2%]	45.9	[3.0%]	55.9	[3.5%]	64.0	[4.0%]	62.0	[3.7%]	**(5.3)**	**[–]**
	Aerospace Systems[1]	–		–		–		–		–		–		–		30.8	[6.5%]	32.6	[7.0%]	42.7	[8.0%]	**(31.6)**	**[–]**
	Energy System & Plant Engineering[1]	–		–		–		–		–		–		–		7.6	[3.0%]	11.6	[4.5%]	17.5	[7.2%]	**13.4**	**[5.5%]**
	Aerospace[1]	3.0	[1.5%]	7.8	[3.7%]	14.8	[6.1%]	26.2	[9.3%]	36.3	[11.1%]	45.6	[12.9%]	25.0	[7.5%]	–		–		–		**–**	
	Gas Turbine & Machinery[1]	9.5	[4.7%]	7.7	[3.9%]	7.0	[3.3%]	10.4	[5.5%]	11.2	[5.1%]	16.9	[7.1%]	15.2	[6.3%]	–		–		–		**–**	
	Plant & Infrastructure[1]	8.2	[9.3%]	14.1	[11.4%]	9.7	[8.4%]	6.3	[6.0%]	6.5	[5.4%]	8.5	[6.2%]	2.6	[1.6%]	–		–		–		**–**	
	Precision Machinery & Robot[2]	22.3	[15.9%]	26.6	[15.2%]	8.4	[6.4%]	10.4	[8.4%]	10.9	[8.0%]	8.5	[6.4%]	13.1	[8.4%]	21.6	[10.8%]	21.3	[9.6%]	12.2	[5.6%]	**14.0**	**[5.8%]**
	Ship & Offshore Structure	(1.0)	[–]	3.9	[3.4%]	4.1	[4.6%]	(2.0)	[–]	2.6	[2.9%]	(7.9)	[–]	(21.4)	[–]	(3.8)	[–]	1.0	[1.3%]	(0.6)	[–]	**(3.0)**	**[–]**
	Rolling Stock	8.1	[6.2%]	5.1	[3.8%]	2.2	[1.7%]	7.5	[5.1%]	6.0	[4.9%]	9.2	[6.3%]	3.4	[2.5%]	(12.4)	[–]	(13.7)	[–]	(3.8)	[–]	**(4.5)**	**[–]**
	Motorcycle & Engine[2]	(4.9)	[–]	(2.9)	[–]	2.3	[0.9%]	16.1	[4.9%]	14.9	[4.5%]	15.7	[4.7%]	11.7	[3.7%]	15.2	[4.5%]	14.3	[4.0%]	(1.9)	[–]	**11.7**	**[3.4%]**
	Other	2.5	[2.2%]	3.8	[3.1%]	1.2	[1.0%]	4.4	[3.2%]	3.9	[2.7%]	2.8	[2.6%]	3.1	[4.0%]	2.9	[3.4%]	2.5	[2.6%]	1.2	[1.2%]	**0.4**	**[0.5%]**
	Recurring profit	49.1		63.6		39.3		60.6		84.2		93.2		36.6		43.2		37.8		40.4		**(2.8)**	
	EBIT[3]	43.2		52.9		50.3		65.3		88.0		78.4		41.7		35.7		41.2		42.9		**(11.1)**	
	Profit before income taxes	38.5		48.7		46.1		61.3		84.2		74.8		38.8		32.9		37.8		39.3		**(14.6)**	
	Profit (loss) attributable to owners of parent	25.9		23.3		30.8		38.6		51.6		46.0		26.2		28.9		27.4		18.6		**(19.3)**	
	Research and development expenses	37.0		39.9		41.7		40.3		41.6		43.6		43.6		45.4		48.7		52.6		**44.9**	
	Capital expenditures	55.3		63.9		78.6		87.7		80.0		76.3		82.7		82.1		66.9		70.4		**55.6**	
	Depreciation and amortization	50.2		48.9		48.3		37.8		44.5		49.0		51.5		56.1		59.0		61.2		**61.2**	
Financial position (at year-end)	Total assets	1,354.2		1,362.1		1,466.2		1,554.4		1,662.2		1,620.4		1,687.3		1,785.0		1,838.8		1,957.8		**1,963.2**	
	Interest-bearing debt	429.1		407.1		484.6		444.6		414.3		398.4		400.6		446.6		439.4		567.4		**593.3**	
	Net assets	297.4		315.9		349.8		376.6		447.9		445.6		451.3		481.3		492.2		471.5		**482.7**	
	Invested capital[4]	718.2		713.2		822.8		807.6		846.3		829.7		837.9		912.7		915.8		1,023.0		**1,058.6**	
Cash flows	Cash flows from operating activities	81.9		84.7		28.1		151.7		127.6		86.0		93.5		56.0		109.7		(15.4)		**34.6**	
	Cash flows from investing activities	(52.9)		(65.9)		(81.1)		(77.5)		(67.3)		(74.1)		(64.8)		(80.5)		(85.3)		(69.4)		**(37.3)**	
	Free cash flows	28.9		18.7		(53.0)		74.1		60.2		11.8		28.6		(24.5)		24.4		(84.8)		**(2.7)**	
	Cash flows from financing activities	(18.8)		(26.8)		57.6		(62.5)		(57.1)		(23.4)		(15.8)		37.7		(19.7)		115.8		**23.0**	
Key performance indicators	Before-tax ROIC (Return on invested capital)[5]	6.0%		7.4%		6.1%		8.1%		10.4%		9.4%		5.0%		3.9%		4.5%		4.2%		**(1.0%)**	
	Return on equity (ROE)	9.1%		7.8%		9.5%		11.0%		12.9%		10.6%		6.0%		6.4%		5.8%		4.0%		**(4.2%)**	
	Net D/E ratio	132.1%		121.8%		131.9%		109.3%		83.9%		82.5%		78.9%		80.6%		76.6%		101.2%		**100.2%**	
	Net income (loss) per share[6]	¥155.5		¥139.5		¥184.6		¥230.9		¥308.9		¥275.6		¥156.8		¥173.0		¥164.3		¥111.7		**(¥115.7)**	
	Net assets per share[6]	¥1,730.3		¥1,830.6		¥2,023.2		¥2,171.6		¥2,585.8		¥2,582.1		¥2,617.3		¥2,789.9		¥2,851.8		¥2,727.5		**¥2,785.7**	
	Dividends per share[6]	¥30.0		¥50.0		¥50.0		¥60.0		¥100.0		¥120.0		¥60.0		¥60.0		¥70.0		¥35.0		**–**	
	Dividend payout ratio	19.3%		35.8%		27.0%		25.9%		32.3%		43.5%		38.2%		34.6%		42.5%		31.3%		**–**	
	Number of employees (at year end)	32,706		33,267		34,010		34,620		35,471		34,605		35,127		35,805		35,691		36,332		**36,691**	

1. In fiscal 2018, the reportable segments were reorganized: the Aerospace segment and the jet engine business of the Gas Turbine & Machinery segment became the Aerospace Systems segment and the Plant & Infrastructure segment and the energy and marine-related businesses of the Gas Turbine & Machinery segment became the Energy System & Plant Engineering segment. Figures for fiscal 2017 onward are presented according to the reorganized segments.
2. In fiscal 2018, the Precision Machinery segment was renamed the Precision Machinery & Robot segment.
3. EBIT = Profit before income taxes + interest expense
4. Invested capital = Interest-bearing debt + shareholders' equity
5. Before-tax ROIC = EBIT / Invested capital at year-end
6. Effective October 1, 2017, a 1-for-10 share consolidation was implemented for ordinary shares. Figures for fiscal 2016 and before are calculated based on the assumption that the share consolidation had already been implemented.

Overview

With the spread of variants of the virus that causes COVID-19 around the world, the outlook for an end to the pandemic remains uncertain. However, due to the progress of vaccination mainly in developed countries, there has been a decrease in the number of new infections in some areas, and there are also signs of a recovery in demand for short-distance flights and an increase in demand for air freight in the United States and Japan. In addition, there are promising signs that the global economy will recover in the future, supported by various countries' fiscal and monetary policies of and efforts to realize a decarbonized society. As U.S.-China relations remain unimproved, it is necessary to continue to pay close attention to the downside risks of the global economy.

Amid such an operating environment, the Group's orders received in the fiscal year ended March 31, 2021, decreased versus the previous fiscal year, in the Aerospace Systems segment and the Rolling Stock segment despite increases in the Ship & Offshore Structure and the Precision Machinery & Robot segment. Net sales decreased versus the previous fiscal year overall, due to decreases in the Aerospace Systems segment and other segments despite increases in the Precision Machinery & Robot segment and Ship & Offshore Structure segment. Operating profit declined, due to deterioration in profitability in the Aerospace Systems segment and other factors, despite the improvement in the Motorcycle & Engine segment. Recurring profit declined due to a decline in operating profit despite foreign exchange gains and reversal of the provision for the in-service issues of commercial aircraft. A loss attributable to owners of parent was recorded due to impairment losses recorded under extraordinary loss as well as a recurring loss despite decrease in tax expense due to recognition of deferred tax assets.

As a result, the Group's consolidated orders received decreased ¥111.0 billion versus the same period of the previous fiscal year to ¥1,402.4 billion, consolidated net sales decreased ¥152.8 billion year on year to ¥1,488.4 billion, operating loss came to ¥5.3 billion, deteriorating ¥67.3 billion year on year, recurring loss totaled ¥2.8 billion, deteriorating ¥43.2 billion year on year, and loss attributable to owners of parent came to ¥19.3 billion, deteriorating ¥37.9 billion year on year. ROIC* was negative 1.0%, while ROE was negative 4.2%.

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

The Company has changed the fiscal year-end of its six consolidated subsidiaries from December 31 to March 31 or to a provisional fiscal year-end method. As a result, for the fiscal year ended March 31, 2021, the accounting period of 6 consolidated subsidiaries was 15 months (January 1, 2020 to March 31, 2021).

Business segment

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

Aerospace Systems

Regarding the business environment surrounding the Aerospace Systems segment, there is a certain level of demand from the Ministry of Defense in Japan amid the tight defense budget. With respect to commercial aircraft, global passenger demand has been sluggish due to the COVID-19 pandemic and demand for commercial aircraft airframes and jet engines has declined.

Amid such an operating environment, consolidated orders received decreased ¥85.4 billion year on year to ¥329.5 billion due to decreases in orders for component parts of airframes and jet engines for commercial aircraft, despite an increase in orders received from the Ministry of Defense in Japan.

Consolidated net sales decreased ¥154.8 billion year on year to ¥377.7 billion due to decreases in sales of component parts of airframes for Ministry of Defense in Japan and commercial aircraft and of component parts of commercial aircraft jet engines.

Operating loss came to ¥31.6 billion, deteriorating ¥74.4 billion year on year, mainly due to the decrease in sales.

Energy System & Plant Engineering

Regarding the business environment surrounding the Energy System & Plant Engineering segment, in Japan, there is ongoing demand for replacing aging facilities for refuse incineration plants, while over the medium to long term, demand for distributed power sources in Japan and overseas, and for energy infrastructure development in emerging markets, remains firmly rooted. On the other hand, although there are signs of economic recovery in the Chinese market, where the virus has been successfully contained at a relatively early stage, and in some developed countries where the infection is showing signs of abating, there are concerns about the impact on some sales and after-sales service activities because restrictions on the movement of people remain significant.

Amid such an operating environment, consolidated orders received amounted to ¥219.0 billion, a decrease of ¥33.3 billion compared to the same period of the previous year, when the Company received orders for major construction of domestic waste disposal facilities.

Consolidated net sales decreased by ¥2.8 billion to ¥240.1 billion compared to the same period of the previous year, when the Company recorded sales to overseas chemical plants, despite an increase in the volume of work on domestic waste disposal facilities and higher sales of Gas Turbine Combined Cycle (GTCC) power plants in Japan.

Operating profit decreased ¥4.1 billion year on year to ¥13.4 billion due to the decrease in revenue, as well as losses on operations resulting from the effect of COVID-19 pandemic.

Precision Machinery & Robot

Regarding the business environment surrounding the Precision Machinery & Robot segment, in the precision machinery field, the Chinese construction machinery market recovered quickly from the impact of the spread of the COVID-19 pandemic and saw record-high sales of hydraulic excavators. While construction machinery markets outside China had stagnated, with demand declining significantly due to the impact of the pandemic, lately there have been very clear signs of a recovery in demand. In the robot field, while some general-purpose robots projects have been postponed due to the impact of the COVID-19 pandemic, sales of general industrial robots have been solid in the Chinese market where the recovery in sales of such robots was rapid. With respect to robots for the semiconductor market, performance is strong due to increased capital investment by manufacturers of semiconductor manufacturing equipment, and demand is expected to steadily expand over the medium to long term as well.

Amid such an operating environment, consolidated orders received increased ¥40.5 billion year on year to ¥259.4 billion, due to increases in hydraulic components for the construction machinery market and robots for the semiconductor and vehicle body assembly markets.

Consolidated net sales increased by ¥23.4 billion year on year to ¥240.8 billion due to increases in sales of hydraulic components for the construction machinery market and robots for the semiconductor and vehicle body assembly markets.

Operating profit increased ¥1.8 billion year on year to ¥14.0 billion due to the increase in revenue.

Ship & Offshore Structure

Regarding the business environment surrounding the Ship & Offshore Structure segment, despite the emergence of demand for gas-fueled vessels in conjunction with tighter environmental regulations, the situation remains challenging due to the limited number of business talks on new projects due to the continued uncertainty of the global economy.

Amid such an operating environment, consolidated orders received increased by ¥41.8 billion to ¥98.1 billion from the previous fiscal year due to orders for a submarine for Ministry of Defense in Japan.

Consolidated net sales increased ¥7.7 billion year on year to ¥79.4 billion, mainly due to an increase in the volume of work of submarines for Ministry of Defense in Japan.

Operating loss worsened by ¥2.4 billion year on year to ¥3.0 billion mainly due to the posting of losses from operations, despite the increase in revenue.

Rolling Stock

Regarding the business environment surrounding the Rolling Stock segment, the effect of the COVID-19 pandemic has led to a review of railway-related investment plans in Japan, and delays in work processes as well as postponement and cancellation of biddings overseas. In the medium and long terms, however, relatively stable growth is expected around the world due to the development of urban transportation as an environmental protection measure and to ease congestion in large cities caused by increasing population concentration, as well as

demand for railway infrastructure following economic development in Asian countries.

Amid such an operating environment, consolidated orders received amounted to ¥77.0 billion, a decline of ¥48.7 billion compared with the previous fiscal year, when the Company received orders for large-scale projects in Japan.

Consolidated net sales decreased ¥3.3 billion year on year to ¥133.2 billion, due to a decrease in sales of rolling stock in the United States.

Operating loss worsened by ¥0.7 billion year on year to ¥4.5 billion, mainly due to a deterioration in the profitability of overseas projects caused by the impact of the COVID-19 pandemic in addition to the decrease in revenue.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, the COVID-19 impacted the main markets. In the United States, a major market, demand for off-road models such as four-wheeled vehicles increased compared with the previous year, and in the European market, although there was a temporary negative impact from the lockdown in various countries in the early spring, the level has recovered to the level of the previous year. Meanwhile, Southeast Asian markets continued to stagnate.

Amid such an operating environment, consolidated net sales decreased ¥1.0 billion year on year to ¥336.6 billion, due to decreased sales of motorcycles in Southeast Asian markets and the appreciation of the yen against the U.S. dollar, despite increased sales of off-road models such as four-wheeled vehicles in the North American market.

Operating profit came to ¥11.7 billion, improving ¥13.7 billion year on year, due to reductions in fixed costs and promotion expenses.

Other Operations

Consolidated net sales decreased ¥22.0 billion year on year to ¥80.4 billion.

Operating profit decreased ¥0.7 billion year on year to ¥0.4 billion.

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

Consolidated financial position

(1) Assets

Current assets were ¥1,285.4 billion, a ¥26.6 billion increase from the previous fiscal year mainly due to an increase in inventories. Fixed assets were ¥677.8 billion, a ¥21.1 billion decrease from the previous fiscal year mainly due to depreciation of property, plant and equipment. As a result, total assets were ¥1,963.2 billion, ¥5.4 billion increase from the previous fiscal year.

(2) Liabilities

Interest-bearing debt was ¥593.3 billion, a ¥25.8 billion increase from the previous fiscal year. Total liabilities were ¥1,480.5 billion, a ¥5.7 billion decrease from the previous fiscal year mainly due to a decrease in notes and accounts payable-trade.

(3) Net assets

Total net assets were ¥482.7 billion, an ¥11.2 billion increase from the previous fiscal year mainly due to an increase in remeasurements of defined benefit plans.

Cash Flows

(1) Cash flows from operating activities

Operating activities provided net cash of ¥34.6 billion, a ¥50.0 billion turnaround from the previous fiscal year, when operating activities used net cash of ¥15.4 billion. Major sources of operating cash flows included a decrease in trade receivables of ¥23.2 billion and depreciation and amortization of ¥61.2 billion. Major uses of operating cash flows included the expenditure of ¥26.3 billion due to an increase in inventories assets, ¥16.7 billion due to a decrease in trade payables.

(2) Cash flows from investing activities

Investing activities used net cash of ¥37.3 billion which is ¥32.0 billion less than in the previous fiscal year, and mainly reflected the purchase of property, plant and equipment, as well as intangible assets.

(3) Cash flows from financing activities

Financing activities provided net cash of ¥23.0 billion, which is ¥92.7 billion less than in the previous fiscal year. This was mainly due to proceeds from issuance of bonds.

Dividends

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

In order to maintain a good balance between enhancing shareholder value and returning profits to shareholders through dividends, the Company has set a medium- to long-term consolidated payout ratio standard of 30% corresponding to the consolidated profit attributable to the owners of the parent and in light of both the outlook for future earnings and a comprehensive examination of its financial condition, including its free cash flow, D/E ratio (debt-to-equity ratio) and other factors.

The Company has a basic policy of distributing surplus retained earnings as dividends twice a year, once after the fiscal second quarter and once after the fiscal year-end. Interim dividends are authorized by the Board of Directors, while year-end dividends are authorized at the general meetings of shareholders.

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	**2021**
Assets			
Current assets			
Cash and deposits (Note 27)	**¥ 126,702**	¥ 106,108	**$ 1,144,346**
Notes and accounts receivable–trade (Note 10)	**460,436**	473,204	**4,158,562**
Merchandise and finished goods	**69,223**	75,042	**625,208**
Work in process (Notes 5, 10 and 12)	**452,848**	426,256	**4,090,029**
Raw materials and supplies	**136,471**	130,359	**1,232,578**
Other	**43,314**	51,176	**391,203**
Allowance for doubtful accounts	**(3,589)**	(3,367)	**(32,415)**
Total current assets	**1,285,407**	1,258,781	**11,609,529**
Non-current assets			
Property, plant and equipment (Notes 6 and 11)			
Buildings and structures, net	**172,951**	193,931	**1,562,057**
Machinery, equipment and vehicles, net	**142,951**	151,196	**1,291,104**
Land	**57,743**	62,183	**521,523**
Leased assets, net	**10,564**	2,694	**95,412**
Construction in progress	**16,635**	15,959	**150,244**
Other, net	**50,413**	56,604	**455,320**
Total property, plant and equipment	**451,259**	482,570	**4,075,677**
Intangible assets	**22,427**	21,358	**202,556**
Investments and other assets			
Investment securities (Notes 7, 8 and 11)	**12,721**	12,035	**114,893**
Retirement benefit asset (Note 13)	**155**	135	**1,400**
Deferred tax assets (Notes 3 and 26)	**70,452**	70,598	**636,308**
Other (Note 9)	**122,254**	114,203	**1,104,173**
Allowance for doubtful accounts	**(1,403)**	(1,838)	**(12,672)**
Total investments and other assets	**204,180**	195,134	**1,844,111**
Total non-current assets	**677,868**	699,063	**6,122,363**
Total assets	**¥1,963,276**	¥1,957,845	**$17,731,900**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	**2021**
Liabilities			
Current liabilities			
Notes and accounts payable–trade (Note 11)	**¥ 247,294**	¥ 261,159	**$ 2,233,508**
Electronically recorded obligations–operating	**107,849**	110,526	**974,070**
Short-term borrowings (Note 11)	**141,579**	166,188	**1,278,712**
Current portion of bonds payable (Note 11)	**30,000**	20,000	**270,954**
Lease obligations (Note 11)	**1,061**	1,542	**9,583**
Income taxes payable (Note 26)	**4,753**	6,116	**42,928**
Provision for sales promotion expenses	**7,380**	12,174	**66,655**
Provision for bonuses	**18,239**	22,032	**164,731**
Provision for construction warranties	**12,550**	14,454	**113,349**
Provision for loss on construction contracts (Note 12)	**14,263**	11,464	**128,820**
Advances received	**153,298**	148,610	**1,384,556**
Other	**179,283**	173,456	**1,619,247**
Total current liabilities	**917,555**	947,726	**8,287,166**
Non-current liabilities			
Bonds payable (Note 11)	**190,000**	160,000	**1,716,040**
Long-term borrowings (Note 11)	**199,177**	188,859	**1,798,925**
Lease obligations (Note 11)	**9,532**	873	**86,091**
Deferred tax liabilities (Note 26)	**1,125**	796	**10,161**
Retirement benefit liability (Note 13)	**115,456**	129,846	**1,042,775**
Provision for the in-service issues of commercial aircraft jet engines (Note 14)	**5,984**	15,689	**54,046**
Other	**41,668**	42,491	**376,337**
Total non-current liabilities	**562,944**	538,556	**5,084,393**
Total liabilities	**1,480,500**	1,486,283	**13,371,568**
Net assets (Note 16):			
Shareholders' equity:			
Common stock:			
Authorized–336,000,000 shares			
Issued–167,080,532 shares in 2021			
–167,080,532 shares in 2020	**104,484**	104,484	**943,678**
Capital surplus	**54,542**	54,542	**492,612**
Retained earnings	**306,576**	326,626	**2,768,931**
Treasury stock–38,282 shares in 2021			
–36,587 shares in 2020	**(136)**	(133)	**(1,228)**
Total shareholders' equity	**465,467**	485,520	**4,204,001**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	**1,955**	1,636	**17,657**
Deferred gains or losses on hedges	**(179)**	(272)	**(1,617)**
Foreign currency translation adjustments	**(931)**	(11,311)	**(8,409)**
Remeasurements of defined benefit plans	**(979)**	(19,946)	**(8,842)**
Total accumulated other comprehensive income	**(134)**	(29,892)	**(1,210)**
Non-controlling interests	**17,442**	15,934	**157,533**
Total net assets	**482,775**	471,562	**4,360,323**
Total liabilities and net assets	**¥1,963,276**	¥1,957,845	**$17,731,900**

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

Consolidated Statements of Operations

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	**2021**
Net sales	**¥1,488,486**	¥1,641,335	**$13,443,696**
Cost of sales (Note 17)	**(1,297,324)**	(1,370,809)	**(11,717,160)**
Gross profit	**191,162**	270,526	**1,726,535**
Selling, general and administrative expenses			
Salaries and allowances	**(56,970)**	(56,651)	**(514,541)**
Research and development expenses (Note 18)	**(44,949)**	(52,608)	**(405,970)**
Other	**(94,548)**	(99,203)	**(853,938)**
Total selling, general and administrative expenses	**(196,468)**	(208,463)	**(1,774,458)**
Operating profit (loss)	**(5,305)**	62,063	**(47,914)**
Non-operating income			
Interest income	**677**	695	**6,115**
Dividend income	**2,161**	288	**19,518**
Share of profit of entities accounted for using equity method	**411**	1,255	**3,712**
Foreign exchange gains	**4,074**	–	**36,796**
Reversal of provision for the in-service issues of commercial aircraft jet engines (Note 19)	**3,306**	–	**29,859**
Other	**4,587**	7,446	**41,429**
Total non-operating income	**15,218**	9,686	**137,446**
Non-operating expenses			
Interest expenses	**(3,790)**	(3,615)	**(34,230)**
Foreign exchange losses	**–**	(8,479)	**–**
Loss on retirement of non-current assets	**(2,886)**	(1,699)	**(26,066)**
Payments for the in-service issues of commercial aircraft jet engines (Note 19)	**–**	(11,500)	**–**
Other	**(6,091)**	(6,025)	**(55,013)**
Total non-operating expenses	**(12,768)**	(31,319)	**(115,318)**
Ordinary profit (loss)	**(2,855)**	40,429	**(25,786)**
Extraordinary income			
Gain on sale of non-current assets (Note 20)	**3,236**	1,277	**29,227**
Gain on sale of shares of subsidiaries and associates (Note 21)	**1,581**	–	**14,279**
Total extraordinary income	**4,817**	1,277	**43,506**
Extraordinary losses			
Loss on withdrawal from business (Note 22)	**–**	(2,383)	**–**
Impairment losses (Note 23)	**(15,205)**	–	**(137,328)**
Loss on valuation of shares of subsidiaries and associates (Note 7)	**(1,444)**	–	**(13,042)**
Total extraordinary losses	**(16,649)**	(2,383)	**(150,370)**
Profit (loss) before income taxes (Note 26)	**(14,688)**	39,323	**(132,659)**
Income taxes–current	**(10,506)**	(10,546)	**(94,888)**
Income taxes–deferred	**7,707**	(8,500)	**69,608**
Total income taxes	**(2,798)**	(19,046)	**(25,271)**
Profit (loss)	**(17,486)**	20,276	**(157,930)**
Profit attributable to non-controlling interests	**1,846**	1,614	**16,673**
Profit (loss) attributable to owners of parent	**¥ (19,332)**	¥ 18,662	**$ (174,603)**

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

Consolidated Statements of Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	**2021**
Profit (loss)	**¥(17,486)**	¥20,276	**$(157,930)**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**426**	(1,065)	**3,848**
Deferred gains or loss on hedges	**(284)**	(21)	**(2,565)**
Foreign currency translation adjustment	**6,727**	(5,284)	**60,757**
Remeasurements of defined benefit plans	**18,969**	(15,017)	**171,324**
Share of other comprehensive income of entities accounted for using equity method	**4,496**	(1,936)	**40,607**
Total other comprehensive income (Note 24)	**30,335**	(23,326)	**273,979**
Comprehensive income	**12,848**	(3,049)	**116,040**
Comprehensive income attributable to:			
Owners of parent	**10,423**	(4,116)	**94,138**
Non-controlling interests	**¥ 2,425**	¥ 1,066	**$ 21,902**

	Yen		U.S. dollars (Note 1)
	2021	2020	**2021**
Per share amounts (Notes 25 and 29)			
Net income (loss) per share–basic	**¥ (115.7)**	¥ 111.7	**$ (1.05)**
Cash dividends	**–**	70.0	**–**

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

Consolidated Statements of Changes in Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2021 and 2020

Millions of yen

	Number of shares of common stock (thousands)	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at March 31, 2019	167,080	¥104,484	¥54,542	¥324,606	¥(130)	¥483,502	¥2,682	¥(227)	¥ (4,556)	¥ (5,014)	¥ (7,115)	¥15,874	¥492,261
Cumulative effect of changes in accounting policies		–	–	(4,948)	–	(4,948)	–	–	–	–	–	–	(4,948)
Restated balance		104,484	54,542	319,657	(130)	478,554	2,682	(227)	(4,556)	(5,014)	(7,115)	15,874	487,312
Dividends of surplus		–	–	(11,693)	–	(11,693)	–	–	–	–	–	–	(11,693)
Profit (loss) attributable to owners of parent for the year		–	–	18,662	–	18,662	–	–	–	–	–	–	18,662
Purchase of treasury shares		–	–	–	(3)	(3)	–	–	–	–	–	–	(3)
Disposal of treasury shares		–	(0)	–	0	0	–	–	–	–	–	–	0
Transfer of loss on disposal of treasury shares		–	0	(0)	–	–	–	–	–	–	–	–	–
Change in ownership interest of parent due to transactions with non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–
Other		–	–	–	–	–	–	–	–	–	–	–	–
Net changes in items other than shareholders' equity		–	–	–	–	–	(1,046)	(44)	(6,754)	(14,931)	(22,776)	60	(22,716)
Balance at March 31, 2020	167,080	¥104,484	¥54,542	¥326,626	¥(133)	¥485,520	¥1,636	¥(272)	¥(11,311)	¥(19,946)	¥(29,892)	¥15,934	¥471,562
Dividends of surplus		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit (loss) attributable to owners of parent for the year		**–**	**–**	**(19,332)**	**–**	**(19,332)**	**–**	**–**	**–**	**–**	**–**	**–**	**(19,332)**
Purchase of treasury shares		**–**	**–**	**–**	**(3)**	**(3)**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**
Disposal of treasury shares		**–**	**(0)**	**–**	**0**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**0**
Transfer of loss on disposal of treasury shares		**–**	**0**	**(0)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Change in ownership interest of parent due to transactions with non-controlling interests		**–**	**(0)**	**–**	**–**	**(0)**	**–**	**–**	**–**	**–**	**–**	**–**	**(0)**
Other		**–**	**–**	**(716)**	**–**	**(716)**	**–**	**–**	**–**	**–**	**–**	**–**	**(716)**
Net changes in items other than shareholders' equity		**–**	**–**	**–**	**–**	**–**	**319**	**92**	**10,379**	**18,966**	**29,758**	**1,507**	**31,265**
Balance at March 31, 2021	**167,080**	**¥104,484**	**¥54,542**	**¥306,576**	**¥(136)**	**¥465,467**	**¥1,955**	**¥(179)**	**¥ (931)**	**¥ (979)**	**¥ (134)**	**¥17,442**	**¥482,775**

Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at March 31, 2020	$943,678	$492,612	$2,950,018	$(1,201)	$4,385,116	$14,776	$(2,457)	$(102,159)	$(180,148)	$(269,978)	$143,913	$4,259,050
Dividends of surplus	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit (loss) attributable to owners of parent for the year	**–**	**–**	**(174,603)**	**–**	**(174,603)**	**–**	**–**	**–**	**–**	**–**	**–**	**(174,603)**
Purchase of treasury shares	**–**	**–**	**–**	**(27)**	**(27)**	**–**	**–**	**–**	**–**	**–**	**–**	**(27)**
Disposal of treasury shares	**–**	**(0)**	**–**	**0**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**0**
Transfer of loss on disposal of treasury shares	**–**	**0**	**(0)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Change in ownership interest of parent due to transactions with non-controlling interests	**–**	**(0)**	**–**	**–**	**(0)**	**–**	**–**	**–**	**–**	**–**	**–**	**(0)**
Other	**–**	**–**	**(6,467)**	**0**	**(6,467)**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,467)**
Net changes in items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**	**2,881**	**831**	**93,741**	**171,297**	**268,768**	**13,611**	**282,379**
Balance at March 31, 2021	**$943,678**	**$492,612**	**$2,768,931**	**$(1,228)**	**$4,204,001**	**$17,657**	**$(1,617)**	**$ (8,409)**	**$ (8,842)**	**$ (1,210)**	**$157,533**	**$4,360,323**

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

Consolidated Statements of Cash Flows

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	**2021**
Cash flows from operating activities:			
Profit (loss) before income taxes	**¥ (14,688)**	¥ 39,323	**$ (132,659)**
Depreciation	**61,258**	61,283	**553,270**
Impairment losses	**15,205**	–	**137,328**
Loss on valuation of shares of subsidiaries and associates	**1,444**	–	**13,042**
Increase (decrease) in allowance for doubtful accounts	**(343)**	238	**(3,098)**
Increase (decrease) in provision for sales promotion expenses	**(5,085)**	707	**(45,927)**
Increase (decrease) in provision for bonuses	**(3,819)**	889	**(34,492)**
Increase (decrease) in provision for construction warranties	**(1,938)**	1,412	**(17,504)**
Increase (decrease) in provision for loss on construction contracts	**2,788**	(16,133)	**25,181**
Increase (decrease) in retirement benefit liability	**11,611**	10,574	**104,868**
Increase (decrease) in provision for the in-service issues of commercial aircraft jet engines	**(9,705)**	4,221	**(87,654)**
Interest and dividend income	**(2,839)**	(983)	**(25,641)**
Interest expenses	**3,790**	3,615	**34,230**
Share of loss (profit) of entities accounted for using equity method	**(411)**	(1,255)	**(3,712)**
Loss (gain) on sale of non-current assets	**(3,236)**	(1,277)	**(29,227)**
Loss on withdrawal from business	**–**	2,383	**–**
Loss (gain) on sale of shares of subsidiaries and associates	**(1,581)**	–	**(14,279)**
Decrease (increase) in trade receivables	**23,267**	(46,753)	**210,143**
Decrease (increase) in inventories	**(26,374)**	(48,068)	**(238,204)**
Increase (decrease) in trade payables	**(16,784)**	2,401	**(151,590)**
Decrease (increase) in advance payments to suppliers	**(132)**	3,326	**(1,192)**
Increase (decrease) in advances received	**4,209**	(31,827)	**38,015**
Decrease (increase) in other current assets	**8,900**	(8,986)	**80,383**
Increase (decrease) in other current liabilities	**2,988**	18,303	**26,987**
Other, net	**(5,570)**	6,004	**(50,307)**
Subtotal	**42,953**	(600)	**387,943**
Interest and dividends received	**6,370**	2,500	**57,533**
Interest paid	**(3,646)**	(3,630)	**(32,930)**
Income taxes paid	**(11,076)**	(13,731)	**(100,036)**
Net cash provided by (used in) operating activities	**¥ 34,601**	¥ (15,461)	**$ 312,509**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	**2021**
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	**¥ (51,692)**	¥ (71,947)	**$ (466,871)**
Proceeds from sale of property, plant and equipment and intangible assets	**13,656**	6,087	**123,338**
Purchase of investment securities	**(1,042)**	(935)	**(9,411)**
Proceeds from sale of investment securities	**1,407**	1,232	**12,708**
Purchase of shares of subsidiaries and associates	**(97)**	(5,400)	**(876)**
Proceeds from sales of shares of subsidiaries and associates	**1,927**	–	**17,404**
Other, net	**(1,551)**	1,562	**(14,008)**
Net cash provided by (used in) investing activities	**¥ (37,392)**	¥ (69,401)	**$ (337,717)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	**¥ (28,409)**	¥103,758	**$ (256,584)**
Proceeds from long-term borrowings	**27,310**	24,348	**246,658**
Repayments of long-term borrowings	**(22,297)**	(28,938)	**(201,382)**
Proceeds from issuance of bonds	**60,000**	40,000	**541,908**
Redemption of bonds	**(20,000)**	(10,000)	**(180,636)**
Dividends paid	**(59)**	(11,710)	**(533)**
Dividends paid to non-controlling interests	**(960)**	(989)	**(8,671)**
Proceeds from sale and leaseback transactions	**10,014**	–	**90,444**
Other, net	**(2,505)**	(664)	**(22,625)**
Net cash provided by (used in) financing activities	**¥ 23,093**	¥115,803	**$ 208,571**
Effect of exchange rate change on cash and cash equivalents	**(682)**	3,293	**(6,160)**
Net increase (decrease) in cash and cash equivalents	**19,619**	34,234	**177,195**
Cash and cash equivalents at beginning of period	**102,546**	68,311	**926,174**
Cash and cash equivalents at end of period	**¥122,166**	¥102,546	**$1,103,378**
Supplemental information on cash flows:			
Cash and cash equivalents:			
Cash and deposits in the balance sheets	**¥126,702**	¥106,108	**$1,144,346**
Time deposits with maturities over three months	**(4,536)**	(3,562)	**(40,968)**
Total (Note 27)	**¥122,166**	¥102,546	**$1,103,378**

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

Notes to the Consolidated Financial Statements

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries (together the "Companies") have been prepared from the financial statements filed with the Prime Minister as required by the Financial Instruments and Exchange Act in Japan and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards. Certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classification used in 2021. The Company and its subsidiaries adopted ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates" (March 31, 2020) to the consolidated financial statements for the current consolidated fiscal year, and therefore significant accounting estimates are disclosed in the note to the consolidated financial-statements. The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2021, which was ¥110.72 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange. As permitted, fractional amounts have not been adjusted.

2. Significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. The consolidated financial statements include the accounts of the Company and 99 subsidiaries (96 in the year ended March 31, 2020). The aggregate amount of total assets, net sales, profit and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2021, 19 affiliates (17 in 2020) were accounted for by the equity method. For the year ended March 31, 2021, investments in 11 affiliates (11 in 2020) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the profit and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end

For the year ended March 31, 2021, the fiscal year-end of 24 consolidated subsidiaries (30 in 2020) was December 31. These subsidiaries were consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, were adjusted for on consolidation.

Effective from the fiscal year ended March 31, 2021, 6 companies of Kawasaki Precision Machinery (Suzhou) Ltd., Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd., Kawasaki Robotics (Tianjin) Co., Ltd., Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd., Kawasaki Robotics (Kunshan) Co., Ltd. and Kawasaki Robotics Korea, Ltd., which previously had December 31 as their fiscal year-end, changed their fiscal year-end to March 31 or changed to a method of having provisional settlement on March 31, which is the consolidated fiscal year-end, in accordance with the final settlement and consolidating it. Accordingly, in the fiscal year ended March 31, 2021, the Company consolidated the financial statements of these consolidated subsidiaries for the 15-month period from January 1, 2020 to March 31, 2021, and the effect of the change in the fiscal year-end was adjusted for on the consolidated statements of profit and loss. These consolidated subsidiaries whose fiscal year-ends were changed recorded net sales of ¥13,522 million ($122,128 thousand), operating profit of ¥1,976 million ($17,847 thousand), ordinary profit of ¥2,447 million ($22,101 thousand) and Profit before income taxes of ¥2,447 million ($22,101 thousand) from January 1, 2021 to March 31, 2021.

(d) Foreign currency translations

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

(e) Revenue recognition

<Sales of products and construction contracts>

The percentage-of-completion method is applied to construction contracts if the outcome of the construction activity is deemed certain during the period of the activity. Otherwise, the completed contract method is applied.

(f) Cash and cash equivalents

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

(g) Allowance for doubtful receivables

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

(h) Assets and liabilities arising from derivative transactions

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

(i) Inventories

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

(j) Investment securities

The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2021 or 2020. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

(k) Property, plant and equipment

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

(l) Intangible assets

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

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

(m) Provision for bonuses

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

(n) Provision for construction warranties

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

(o) Provision for loss on construction contracts

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

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

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

(q) Provision for sales promotion expenses

With regard to dealer inventories at the fiscal year-end, a provision is made for sales rebates etc., expected to be paid in the next fiscal year and beyond based on past experience or on separate estimates when this can be reasonably estimated.

(r) Retirement benefit liability

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

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

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

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

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

(s) Hedge accounting

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

(t) Finance leases

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

(u) Accounting for consumption taxes

National and local consumption taxes are accounted for based on the net amount.

(v) Application of consolidated tax reporting

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

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

With respect to the transition to the group tax sharing system established under the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020) and the revision of the nonconsolidated taxation system in conjunction with the transition to the group tax sharing system, due to the treatment prescribed in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39, March 31, 2020), the Company and some of its consolidated subsidiaries have not adopted the provisions of Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018), and the amount of deferred tax assets and deferred tax liabilities are based on the provisions of pre-amended tax legislation.

3. Significant accounting estimates

Recoverability of deferred tax assets

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

Deferred tax assets ¥70,452 million ($636,308 thousand)

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

(i) Calculation method of estimates

Deferred tax assets are examined for recoverability based on the generation of taxable income and tax planning in certain future periods based on business plans.

(ii) Major assumptions used in calculating estimates

Forecasts of net sales and profits, which are the main elements of the business plan, are based on certain assumptions about future changes in economic conditions and other factors. In addition, the COVID-19 pandemic has had a widespread impact on the business plan for year ended March 31, 2021. Accordingly, the accounting estimates are made on the following assumptions for each business.

- In the Aerospace Systems business, passenger demand has been stagnant globally. Although the demand will gradually recover due to the deregulation of travel regulations, it will take a considerable period of time for a full recovery.
- In other businesses, sales of hydraulic equipment for the Chinese construction machinery market in the precision machinery and robots business, robots for semiconductors, and motorcycles and engines business in developed countries have already recovered to the level before the spread of the COVID-19 pandemic. However while stable demand is expected in the future, it will take time for the recovery in demand of other products.

(iii) Effect on the consolidated financial statements for the following year

Future estimates are affected by future changes in economic conditions, the conditions related to the COVID-19 pandemic and other factors. Although the Company reasonably estimates recoverability, changes in the terms of these estimates for the future could have a significant impact on the amount of deferred tax assets in the consolidated financial statements for subsequent fiscal years.

4.

Accounting standards issued but not yet adopted

The following guidance was issued but not yet adopted.

1. The Company and its affiliated companies

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021)

(a) Overview

This is the comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five-step approach outlined in the accounting standard.

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

(b) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(c) Effects of application of the standards

The Company and its consolidated subsidiaries are currently in the process of determining the effect of "Accounting Standard for Revenue Recognition"on the consolidated financial statements.

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(a) Overview

The "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter "Fair Value Measurement Accounting Standard, etc.") were developed to improve comparability with international accounting standards, and implementation guidance and related standards for fair value measurement have been established under them. The "Fair Value Measurement Accounting Standard, etc." apply to the fair value of the following items:

- Financial instruments specified in the "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes as prescribed in "Accounting Standard for Measurement of Inventories"

Moreover, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised and now stipulates the inclusion of explanatory notes providing breakdowns, etc., for each level of fair value of financial instruments.

(b) Effective Date

Scheduled to be applied from the beginning of the fiscal year ending March 31, 2022

(c) Effects of application of the standards

The Company is currently in the process of determining the effects of the application of "Accounting Standard for Fair Value Measurement", etc." on the consolidated financial statements.

2. Subsidiaries and affiliated companies in the United States

- Topic 842 "Leases"

(a) Overview

These accounting standards require a lessee to recognize assets and liabilities generally for all leases on the balance sheet, whereas no significant changes were made in the accounting for a lessor.

(b) Effective date

Scheduled to be applied from the beginning of the fiscal year ending March 31, 2023.

(c) Effects of application of the standards

The Company is currently in the process of determining the effects of the application of Topic 842 "Leases" on the consolidated financial statements.

5.

Work in process

A trust was established for the Company's accounts receivable - trade generated in selling certain work in process using a self-settled trust. The Company has a beneficiary interest in the accounts receivable – trade as trust assets. The work in process related to the trust assets as of March 31, 2020 amounted to ¥4,479 million.

6.

Accumulated depreciation of property, plant and equipment

Accumulated depreciation of property, plant and equipment as of March 31, 2021 and 2020 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Accumulated depreciation of property, plant and equipment	**¥891,135**	¥872,337	**$8,048,546**

7.

Securities

(a) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2021 and 2020 were as follows:

	2021			
	Millions of yen			Thousands of U.S. dollars
	Book value	Acquisition cost	Unrealized gains (losses)	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:				
Equity securities	**¥5,248**	**¥1,982**	**¥3,265**	**$29,489**
Other securities:				
Equity securities	**317**	**390**	**(73)**	**(659)**
Total	**¥5,566**	**¥2,373**	**¥3,191**	**$28,820**

	2020		
	Millions of yen		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥4,898	¥1,975	¥2,922
Other securities:			
Equity securities	840	1,145	(304)
Total	¥5,738	¥3,120	¥2,617

(b) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2021 and 2020 were as follows:

	2021					
	Millions of yen			Thousands of U.S. dollars		
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	**¥1,396**	**¥776**	**¥(4)**	**$12,608**	**$7,009**	**$(36)**

	2020		
	Millions of yen		
	Sales amounts	Gains	Losses
Equity securities:	¥1,075	¥552	¥(14)

(c) Investment securities subject to impairment

In the fiscal year ended March 31, 2021, the Company recognized the impairment losses of ¥1,444 million ($13,042 thousand) on investments in securities, which is on shares of subsidiaries and associates of ¥1,444 million ($13,042 thousand).

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

8.

Investments in non-consolidated subsidiaries and affiliates

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2021 and 2020 were ¥80,843 million ($730,157 thousand) and ¥79,495 million, respectively.

9.

Claim for damages in overseas LNG tank construction work

The Company sustained losses (approximately ¥51 billion ($460,621 thousand)) due to breach of contract by an overseas construction subcontractor in connection with a certain overseas liquefied natural gas (LNG) tank construction project. The Company has filed a petition for arbitration on this matter with the International Chamber of Commerce (ICC). The Company plans to settle this matter through the arbitration process, and the expected amount recoverable through the arbitration process has been recorded in "Other" under "Investments and other assets."

10.

Uncollected amount relating to gas-fired power generation facility project in Japan

Year ended March 31, 2021

With regard to the gas-fired power generation facility in Japan constructed by the Company but not yet delivered, the client has informed the Company that they are unable to honor their payment as a result of credit insecurity. On the consolidated balance sheet, assets related to this project are recorded in both trade receivables and work in process. The outstanding unpaid amount due to the Company is approximately ¥20 billion ($180,636 thousand), and negotiations aimed at collecting the unpaid amount are under way, including negotiations on a possible sale of the facility to a third party.

Year ended March 31, 2020

In the fiscal year ended March 31, 2020 and with regard to the gas-fired power generation facility in Japan constructed by the Company but not yet delivered, the client has informed the Company that they are unable to honor their payment as a result of credit insecurity. On the consolidated balance sheet, assets related to this project are recorded in both trade receivables and work in process. The outstanding unpaid amount due to the Company is approximately ¥20 billion, and negotiations aimed at collecting the unpaid amount are under way, including negotiations on a possible sale of the facility to a third party.

11.

Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2021 and 2020 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Short-term debt:			
Short-term borrowings, principally bank loans, bearing average interest rates of 0.61% and 0.68% as of March 31, 2021 and 2020, respectively	**¥124,577**	¥143,741	**$1,125,154**
Current portion of long-term borrowings, bearing average interest rates of 0.76% and 0.68% as of March 31, 2021 and 2020, respectively	**17,001**	22,446	**153,549**
Current portion of bonds payable, bearing average interest rates of 0.66% and 0.66% as of March 31, 2021 and 2020, respectively.	**30,000**	20,000	**270,954**
Lease obligations, current	**1,061**	1,542	**9,583**
Total short-term debt	**¥172,640**	¥187,730	**$1,559,249**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2021 to 2030, bearing average interest rates of 0.44% and 0.45% as of March 31, 2021 and 2020, respectively.	**¥216,179**	¥211,306	**$1,952,484**
Notes and bonds issued by the Company:			
0.32–0.99% notes due in 2020	**–**	20,000	**–**
0.10–1.42% notes due in 2021	**30,000**	30,000	**270,954**
0.15-1.10% notes due in 2022	**20,000**	20,000	**180,636**
0.06-0.99% notes due in 2023	**40,000**	20,000	**361,272**
0.15-0.79% notes due in 2024	**30,000**	30,000	**270,954**
0.26-0.85% notes due in 2025	**40,000**	10,000	**361,272**
0.40% notes due in 2028	**10,000**	10,000	**90,318**
0.48% notes due in 2030	**10,000**	–	**90,318**
0.82% notes due in 2036	**10,000**	10,000	**90,318**
0.90% notes due in 2037	**10,000**	10,000	**90,318**
0.70-0.82% notes due in 2039	**20,000**	20,000	**180,636**
Long-term lease obligations	**10,594**	2,416	**95,683**
	446,773	393,722	**4,035,161**
Less portion due within one year	**(48,063)**	(43,989)	**(434,095)**
Total long-term debt	**¥398,709**	¥349,733	**$3,601,057**

As of March 31, 2021 and 2020, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Buildings and structures	**¥ –**	¥ 82	**$ –**
Investment securities	**39**	47	**352**
Other	**80**	80	**723**
Total	**¥119**	¥209	**$1,075**

As of March 31, 2021 and 2020, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Notes and accounts payable–trade	**¥ 5**	¥ 3	**$45**
Short-term borrowings and long-term borrowings	**–**	10	**–**
Total	**¥ 5**	¥14	**$45**

The aggregate annual maturities of long-term debt as of March 31, 2021 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2022	**¥ 48,063**	**$ 434,095**
2023	**41,486**	**374,693**
2024	**63,848**	**576,662**
2025	**59,773**	**539,857**
2026 and thereafter	**233,600**	**2,109,827**
Total	**¥446,773**	**$4,035,161**

12.

Provision for losses on construction contracts

Inventories for construction contracts with substantial anticipated loss and the provision for loss on construction contracts were not offset. As of March 31, 2021 and 2020, the inventories for the construction contracts for which the provision for loss on construction contracts was provided were ¥10,107 million ($91,284 thousand) and ¥9,313 million, respectively. These amounts were all included in work in process.

13.

Employees' retirement and severance benefits

1. Summary of retirement benefit plans adopted

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Balance of retirement benefit obligations at beginning of period	**¥217,954**	¥201,484	**$1,968,515**
Service cost	**12,197**	12,034	**110,161**
Interest cost	**1,510**	1,815	**13,638**
Actuarial gains and losses	**(6,174)**	8,449	**(55,762)**
Retirement benefits paid	**(5,050)**	(5,060)	**(45,611)**
Prior service cost	**(3,575)**	(1,907)	**(32,289)**
Other (foreign currency translation difference, etc.)	**2,171**	1,137	**19,608**
Balance of retirement benefit obligations at end of period	**¥219,033**	¥217,954	**$1,978,260**

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Balance of plan assets at beginning of period	**¥ 88,243**	¥103,976	**$796,992**
Expected return on plan assets	**1,395**	1,239	**12,599**
Actuarial gains and losses	**13,771**	(15,412)	**124,377**
Contributions paid by the employer	**4,058**	3,879	**36,651**
Retirement benefits paid	**(3,528)**	(4,482)	**(31,864)**
Other (foreign currency translation difference, etc.)	**(207)**	(957)	**(1,870)**
Balance of plan assets at end of period	**¥103,732**	¥ 88,243	**$936,886**

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Retirement benefit obligations on funded plan	**¥185,834**	¥192,953	**$1,678,414**
Plan assets	**(103,732)**	(88,243)	**(936,886)**
	82,101	104,710	**741,519**
Retirement benefit obligations on unfunded plan	**33,199**	25,000	**299,846**
Net amount of liabilities and assets presented on the consolidated balance sheets	**115,300**	129,710	**1,041,366**
Retirement benefit liability	**115,456**	129,846	**1,042,775**
Retirement benefit asset	**(155)**	(135)	**(1,400)**
Net amount of liabilities and assets presented on the consolidated balance sheets	**¥115,300**	¥129,710	**$1,041,366**

(4) Breakdown of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Service cost	**¥12,197**	¥12,034	**$110,161**
Interest cost	**1,510**	1,815	**13,638**
Expected return on plan assets	**(1,395)**	(1,239)	**(12,599)**
Amortization of actuarial gains and losses	**4,015**	275	**36,263**
Amortization of prior service costs	**238**	191	**2,150**
Retirement benefit expense related to defined benefit plan	**¥16,566**	¥13,077	**$149,621**

(5) Adjustments for retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Prior service cost	**¥ 3,813**	¥ 2,099	**$ 34,438**
Actuarial gains and losses	**23,961**	(23,586)	**216,411**
Total	**¥27,775**	¥(21,487)	**$250,858**

(6) Accumulated adjustments for retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Unrecognized prior service cost	**¥ 4,430**	¥ 616	**$ 40,011**
Unrecognized actuarial gains and losses	**(5,604)**	(29,566)	**(50,614)**
Total	**¥(1,174)**	¥(28,949)	**$(10,603)**

(7) Plan assets

(i) Main breakdown of plan assets

The breakdown of main asset categories as a percentage of total plan assets is as follows:

	2021	2020
Bonds	**21%**	24%
Equities	**55%**	55%
Cash and deposits	**5%**	3%
Others	**19%**	18%
Total	**100%**	100%

Note: As of March 31, 2021 and 2020, the employees' retirement benefit trust established as part of the retirement benefit plan is included in the plan assets and represented a 47% and 46% portion of the plan assets, respectively.

(ii) Method for setting long-term expected rate of return

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

(8) Underlying actuarial assumptions

The main underlying actuarial assumptions as of March 31, 2021 and 2020, respectively, were as follows:

	2021	2020
Discount rate	**0.42-3.01%**	0.31–3.02%
Long-term expected rate of return on plan assets	**0.00-5.50%**	0.00–5.50%
Rate of compensation increase	**6.10-6.60%**	6.10–6.50%

3. Defined contribution plan

As of March 31, 2021 and 2020, the required contribution by the Company and its consolidated subsidiaries to the defined contribution plan was ¥2,597 million ($23,456 thousand) and ¥2,034 million, respectively.

14.

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

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

15.

Contingent liabilities

Contingent liabilities as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
As guarantor of indebtedness of employees, non-consolidated subsidiaries, affiliates and others	**¥24,086**	¥22,515	**$217,540**

16.

Net assets

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

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

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

17.

Cost of sales

The ending balance of inventories was measured at the lower of cost or market. Loss on the valuation of inventories included in the cost of sales for the year ended March 31, 2021 was ¥3,379 million ($30,518 thousand). Gain on the valuation of inventories included in the cost of sales for the years ended March 31, 2020 was ¥1,941 million.

Provision for loss on construction contracts included in the cost of sales for the years ended March 31, 2021 and 2020 was ¥12,209 million ($110,269 thousand) and ¥8,563 million, respectively.

18.

Research and development expenses

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Research and development expenses	**¥44,949**	¥52,608	**$405,970**

19.

Payments/Reversal of the provision for the in-service issues of commercial aircraft jet engines

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

20.

Gain on sale of non-current assets

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

Fiscal year ended March 31, 2020
Gain on sales of non-current assets for the fiscal year ended March 31, 2020 was due to the sale of former dormitory/ company housing sites.

21.

Gain on sale of shares of subsidiaries and associates

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

22.

Loss on withdrawal from business

Loss on withdrawal from business for the fiscal year ended March 31, 2020 was due to the withdrawal from certain businesses by the Energy System & Plant Engineering Company.

23.

Impairment losses

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

Year ended March 31, 2021

Location	Use	Type of assets	Millions of yen Amount	Thousands of U.S. dollars	Value of assets
Sakaide City, Kagawa,Japan	Business assets	Buildings and structures	**¥ 885**	**$ 7,993**	Net realizable value
		Machinery, equipment and vehicles	**2,647**	**23,907**	
		Other	**544**	**4,913**	
Hyogo Ward, Kobe City,etc	Business assets	Buildings and structures	**¥ 5,978**	**$ 53,992**	Value in use
		Machinery, equipment and vehicles	**4,082**	**36,868**	
		Other	**1,068**	**9,646**	
Total			**¥15,205**	**$137,328**	

Year ended March 31, 2020
Not applicable.

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

(c) Reasons for recognition of impairment losses

Due to a deterioration in business profit and loss, the Company reduced the book value of certain assets to the recoverable amount.

(d) Methods used to determine recoverable amounts

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

24. Consolidated statement of comprehensive income

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Unrealized gains (losses) on securities			
Increase (decrease) during the year	**¥ 1,135**	¥ (887)	**$10,251**
Reclassification adjustments	**(590)**	(546)	**(5,329)**
Subtotal, before tax	**544**	(1,433)	**4,913**
Tax (expense) or benefit	**(118)**	368	**(1,066)**
Subtotal, net of tax	**426**	(1,065)	**3,848**
Deferred gains or losses on hedges			
Increase (decrease) during the year	**58**	(2,594)	**524**
Reclassification adjustments	**(453)**	2,556	**(4,091)**
Subtotal, before tax	**(395)**	(38)	**(3,568)**
Tax (expense) or benefit	**110**	16	**993**
Subtotal, net of tax	**(284)**	(21)	**(2,565)**
Foreign currency translation adjustments			
Increase (decrease) during the year	**6,794**	(5,284)	**61,362**
Reclassification adjustments	**(66)**	–	**(596)**
Subtotal, before tax	**6,727**	(5,284)	**60,757**
Tax (expense) or benefit	**–**	–	**–**
Subtotal, net of tax	**6,727**	(5,284)	**60,757**
Remeasurements of defined benefit plans			
Increase (decrease) during the year	**23,521**	(21,954)	**212,437**
Reclassification adjustments	**4,254**	467	**38,421**
Subtotal, before tax	**27,775**	(21,487)	**250,858**
Tax (expense) or benefit	**(8,805)**	6,469	**(79,525)**
Subtotal, net of tax	**18,969**	(15,017)	**171,324**
Share of other comprehensive income of entities accounted for using equity method			
Increase (decrease) during the year	**4,496**	(1,936)	**40,607**
Total other comprehensive income	**¥30,335**	¥(23,326)	**$273,979**

25. Dividends

(a) Dividends paid

Year ended March 31, 2021

Not applicable.

Year ended March 31, 2020

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2019 General Meeting of Shareholders	Common stock	¥5,846 million	¥35.0	March 31, 2019	June 27, 2019
October 31, 2019 Board of Directors Meeting	Common stock	¥5,846 million	¥35.0	September 30, 2019	December 2, 2019

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

Year ended March 31, 2021

Not applicable.

Year ended March 31, 2020

Not applicable.

26. Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporate tax (national tax) and enterprise and inhabitants' taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 30.5% for the years ended March 31, 2021 and 2020.

(a) The significant differences between the statutory and effective tax rates for the years ended March 31, 2021 and 2020 were as follows:

	2021	2020
Statutory tax rate	**–**	30.5%
Valuation reserve	**–**	19.7
Equity in income of non-consolidated subsidiaries and affiliates	**–**	(1.0)
Tax credit for research and development expenses	**–**	(1.9)
Elimination of unrealized profits	**–**	0.3
Retained earnings for foreign subsidiaries	**–**	0.2
Other	**–**	0.7
Effective tax rate	**–**	48.4%

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

(b) Significant components of deferred tax assets and liabilities as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Deferred tax assets:			
Provision for bonuses	**¥ 6,082**	¥ 7,603	**$ 54,931**
Retirement benefit liability	**43,543**	48,812	**393,271**
Loss from inventory revaluation	**3,326**	3,056	**30,040**
Unrealized loss on marketable securities, investment securities and other	**2,398**	1,198	**21,658**
Loss on valuation of land	**769**	803	**6,945**
Allowance for doubtful receivables	**1,136**	1,177	**10,260**
Depreciation	**13,850**	8,591	**125,090**
Inventories–elimination of intercompany profits	**206**	1,294	**1,861**
Fixed assets–elimination of intercompany profits	**489**	548	**4,417**
Provision for construction warranties	**3,220**	3,846	**29,082**
Provision for losses on construction contracts	**4,409**	3,534	**39,821**
Provision for the in-service issues of commercial aircraft jet engines	**1,826**	4,789	**16,492**
Net operating loss carryforwards	**14,370**	3,212	**129,787**
Other	**11,704**	16,193	**105,708**
Gross deferred tax assets	**107,336**	104,663	**969,436**
Valuation allowance for tax loss carryforwards (*ii)	**(3,892)**	(2,672)	**(35,152)**
Valuation allowance for total deductible temporary differences	**(18,322)**	(13,221)	**(165,480)**
Less valuation allowance (*i)	**(22,214)**	(15,894)	**(200,632)**
Total deferred tax assets	**85,121**	88,768	**768,795**
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	**2,374**	4,502	**21,441**
Reserve for special depreciation	**845**	1,082	**7,632**
Net unrealized gain on securities	**897**	777	**8,102**
Retained earnings for foreign subsidiaries	**8,753**	7,497	**79,055**
Other	**2,924**	5,107	**26,409**
Total deferred tax liabilities	**15,795**	18,966	**142,657**
Net deferred tax assets	**¥ 69,326**	¥ 69,801	**$626,138**

*(*i) Valuation allowance increased by ¥6,320million ($57,081 thousand). This increase is due mainly to the additional recognition of valuation allowance for depreciation in the Company.*
*(*ii) Amount of tax loss carryforwards and deferred tax assets by expiration date*

Year ended March 31, 2021

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

*(*a) Tax loss carryforwards are calculated by multiplying the statutory tax rate.*
*(*b) Deferred tax assets of ¥10,478 million ($94,635 thousand) was allocated to tax loss carryforwards of ¥14,370 million ($129,787 thousand) (the amount obtained by multiplying the statutory and effective tax rate). The deferred tax assets were primarily recognized as part of tax loss carryforwards of the Company. The tax loss carryforwards that allocated the deferred tax assets were primarily due to the recording of a net loss before income taxes in the year ended March 31, 2021, and by prospecting future taxable income, the Company has determined that it will be recoverable and has not recognized a valuation allowance.*

Year ended March 31, 2020

	2020						
	Millions of yen						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Net tax loss carried forward (*c)	¥93	¥3	¥21	¥26	¥8	¥3,059	¥3,212
Valuation allowance	(93)	(2)	(8)	(22)	(4)	(2,540)	(2,672)
Deferred tax assets	0	0	12	3	3	519	539

*(*c) Tax loss carryforwards are calculated by multiplying the statutory tax rate.*

Year ended March 31, 2021

	2021						
	Thousands of U.S. dollars						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Net tax loss carried forward	**$0**	**$9**	**$36**	**$18**	**$2,204**	**$127,502**	**$129,787**
Valuation allowance	**(0)**	**(0)**	**(9)**	**(9)**	**(0)**	**(35,116)**	**(35,152)**
Deferred tax assets	**0**	**0**	**18**	**9**	**2,204**	**92,377**	**94,635**

27. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Cash and deposits:	**¥126,702**	¥106,108	**$1,144,346**
Time deposits with maturities over three months:	**(4,536)**	(3,562)	**(40,968)**
Total	**¥122,166**	¥102,546	**$1,103,378**

28. Content of important non-cash transactions

Year ended March 31, 2021
The Company and its subsidiaries have recorded assets and liabilities of ¥9,265 million ($83,680 thousand) for finance leases relating to the dormitories and the company housing.

Year ended March 31, 2020
Not applicable.

29 Profit/loss per share

Per share amounts for the years ended March 31, 2021, and 2020 are set forth in the table below.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Basic earnings per share:			
Profit (loss) attributable to owners of parent	**¥(19,332)**	¥18,662	**$(174,603)**
Profit (loss) allocated to common stock	**(19,332)**	¥18,662	**(174,603)**

	Number of shares in millions	
	2021	2020
Weighted average number of shares of common stock	**167**	167

Note: As the Company had no dilutive securities at March 31, 2021 or 2020, the Company has not disclosed diluted earnings per share for the years ended March 31, 2021 and 2020.

30.

Derivative transactions

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

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

	2021				
	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell					
USD	**¥ 83,864**	**¥–**	**¥(3,386)**	**¥(3,386)**	**¥(30,582)**
EUR	**5,762**	**–**	**(69)**	**(69)**	**(623)**
Others	**10,427**	**–**	**(477)**	**(477)**	**(4,308)**
To purchase					
USD	**2,082**	**–**	**35**	**35**	**316**
EUR	**164**	**1**	**13**	**13**	**117**
Others	**11,199**	**–**	**396**	**396**	**3,577**
Total	**¥113,501**	**¥1**	**¥(3,487)**	**¥(3,487)**	**¥(31,494)**

Fair value is based on prices provided by financial institutions, etc.

(Derivative transactions to which the Company applied hedge accounting)

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

Fair value is based on prices provided by financial institutions, etc.

		2021		
		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency related contracts:				
Foreign exchange contracts				
To sell	Accounts receivable–trade			
USD		**$265,453**	**$70,466**	**$(7,740)**
EUR		**30,211**	**–**	**(424)**
Others		**26,770**	**8,544**	**(434)**
To purchase	Accounts payable–trade			
USD		**49,314**	**7,469**	**2,104**
EUR		**16,113**	**5,889**	**750**
Others		**48,763**	**5,130**	**1,906**
Total		**$436,651**	**$97,507**	**$(3,829)**

Fair value is based on prices provided by financial institutions, etc.

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

Fair value is based on prices provided by financial institutions, etc.

		2021		
		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Fixed-rate payment/floating-rate receipt	Long-term loans borrowings	**$176,120**	**$176,120**	**$(1,454)**
		$176,120	**$176,120**	**$(1,454)**

Fair value is based on prices provided by financial institutions, etc.

(b) Outstanding positions and recognized gains and losses at March 31, 2020 were as follows:

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

	2020			
	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell				
USD	¥74,350	¥ –	¥(311)	¥(311)
EUR	11,566	–	45	45
Others	7,609	28	259	259
To purchase				
USD	973	–	1	1
EUR	230	–	(13)	(13)
Others	1,903	6	(61)	(61)
Total	¥96,634	¥34	¥ (81)	¥ (81)

Fair value is based on prices provided by financial institutions, etc.

(Derivative transactions to which the Company applied hedge accounting)

		2020		
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency related contracts:				
Foreign exchange contracts				
To sell	Accounts receivable–trade			
USD		¥17,491	¥ 905	¥(223)
EUR		2,959	–	13
Others		335	34	(0)
To purchase	Accounts payable–trade			
USD		5,184	1,942	239
EUR		2,499	253	(38)
Others		4,848	308	(12)
Total		¥33,318	¥3,444	¥ (21)

Fair value is based on prices provided by financial institutions, etc.

		2020		
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Fixed-rate payment/floating-rate receipt	Long-term loans borrowings	¥17,500	¥17,500	¥(134)
		¥17,500	¥17,500	¥(134)

Fair value is based on prices provided by financial institutions, etc.

31. Financial instruments

Information related to financial instruments as of March 31, 2021 and 2020 was as follows.

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments

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

(b) Details of financial instruments and risks associated with those instruments

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

Almost all notes and accounts payable – trade and electronically recorded obligations are due within one year. A portion of accounts payable - trade are denominated in foreign currency—specifically those related to payment for imported materials, etc., and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of accounts payable - trade denominated in foreign currency being less than the position of receivables in the same currency. Borrowings and bonds payable are used mainly to raise operating capital and carry out capital expenditure and are due in a maximum of twenty years from March 31, 2021 (twenty years in 2020). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest rate and currency swaps) as necessary.

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

(c) Risk management system for financial instruments

(i) Management of credit risk, including customer default risk

The Company’s sales management functions and those of its consolidated subsidiaries regularly evaluate the financial circumstances of customers and monitor the due dates and balances by customer to identify and limit doubtful accounts.

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

(ii) Management of market risk (related to foreign currency exchange rates, interest rates, etc.)

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

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

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

(iii) Management of liquidity risk (risk of the Company being unable to meet its payment obligations by their due dates)

The Company manages liquidity risk through its finance department, maintaining and updating its finance plans based on reports from each business division. Liquidity risk is managed through the diversification of financing methods, taking into consideration the financing environment and balancing long- and short-term financing requirements, securing commitment lines, etc.

(d) Supplemental information on the fair value of financial instruments

The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described in Note 30, “Derivative transactions,” these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments

The book values, the fair values and the differences between these values as of March 31, 2021 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	2021			
	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash and deposits	**¥126,702**	**¥126,702**	**¥ –**	**$ –**
Notes and accounts receivable—trade	**460,436**	**460,462**	**25**	**226**
Investment securities	**5,566**	**5,566**	**–**	**–**
Total assets	**¥592,705**	**¥592,731**	**¥ 25**	**$226**
Notes and accounts payable—trade	**247,294**	**247,294**	**–**	**–**
Electronically recorded obligations—operating	**107,849**	**107,849**	**–**	**–**
Short-term borrowings and current portion of bonds payable (excluding lease obligations)	**171,579**	**171,579**	**–**	**–**
Long-term debt, less current portion (excluding lease obligations)	**389,177**	**389,161**	**(15)**	**(135)**
Total liabilities	**¥915,900**	**¥915,884**	**¥(15)**	**$(135)**
Derivative transactions (*)	**¥ (4,074)**	**¥ (4,074)**	**¥ –**	**$ –**

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

The book values, fair values and the differences between these values as of March 31, 2020 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	2020		
	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Cash and deposits	¥106,108	¥106,108	¥ –
Notes and accounts receivable–trade	473,204	473,133	(71)
Investment securities	5,738	5,738	–
Total assets	¥585,052	¥584,981	¥ (71)
Notes and accounts payable–trade	261,159	261,159	–
Electronically recorded obligations–operating	110,526	110,526	–
Short-term borrowings and current portion of bonds payable (excluding lease obligations)	186,188	186,188	–
Long-term debt, less current portion (excluding lease obligations)	348,859	348,662	(197)
Total liabilities	¥906,733	¥906,536	¥(197)
Derivative transactions (*)	¥ (237)	¥ (237)	¥ –

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

(i) Methods used to calculate the fair value of financial instruments and details of securities and derivative instruments

<Assets>

- Cash and deposits
  The book values are used as the fair values since the settlement periods of these items are short and their fair values are substantially the same as their book values.
- Notes and accounts receivable - trade
  The fair value of notes and accounts payable – trade is stated at present value computed by applying a discount rate reflecting the settlement period and the credit risk.
- Investment securities
  Equity securities are stated at the fair value, and bonds are stated at market price. See Note 2(j), “Investment securities,” for the detailed information by classification.

<Liabilities>

- Notes and accounts payable - trade, electronically recorded obligations - operating, short-term borrowings and current portion of bonds payable
  Since the settlement periods of these items are short and their fair values are substantially the same as their book values, the relevant book values are used.

- Long-term debt, less current portion
  The fair value of bonds payable is stated at the market price. The fair value of long-term borrowings is calculated by applying a discount rate to the total principal and interest. That discount rate is based on the interest rates of similar new loans.

<Derivatives>

See Note 30, “Derivative transactions.”

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Unlisted equity securities and investments in partnerships	**¥ 6,961**	¥ 6,117	**$ 62,870**
Convertible bonds	**194**	179	**1,752**
Stocks of non-consolidated subsidiaries and affiliates	**11,487**	14,520	**103,748**
Investments in affiliates	**69,355**	64,974	**626,400**
Total	**¥87,999**	¥85,791	**$794,789**

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

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investment securities with maturity dates as of March 31, 2021 and 2020 were as follows:

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

	2021			
	Thousands of U.S. dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	**$1,144,346**	**$ –**	**$–**	**$–**
Notes and accounts receivable–trade	**3,920,105**	**238,457**	**–**	**–**
Convertible bonds	**–**	**1,752**	**–**	**–**
Total	**$5,064,451**	**$240,219**	**$–**	**$–**

	2020			
	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	¥106,108	¥ –	¥–	¥–
Notes and accounts receivable–trade	438,899	34,305	–	–
Convertible bonds	–	179	–	–
Total	¥545,008	¥34,484	¥–	¥–

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

See Note 11, “Short-term debt and long-term debt.”

32.

Finance leases

Finance lease transactions without transfer of ownership

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

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

33.

Operating leases

The schedule of future minimum lease payments under non-cancellable operating leases as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Within one year	**¥ 5,631**	¥ 3,853	**$ 50,858**
Over one year	**26,351**	17,170	**237,997**
Total	**¥31,983**	¥21,023	**$288,864**

34.

Segment information

(a) Overview of reportable segments

The Company's reportable segments are components of the Company about which separate financial information is available. These segments are subject to periodic reviews by the Company's board of directors to decide how to allocate resources and assess performance. The Company's operations are divided into internal companies based on product categories. Certain authority is delegated to each of the internal companies, based on which they conduct businesses in Japan and overseas. The Company's operations are therefore segmented based on each internal company's product categories. The Company's seven reportable segments are the Aerospace Systems segment, the Energy System & Plant Engineering segment, the Precision Machinery & Robot segment, the Ship & Offshore Structure segment, the Rolling Stock segment, the Motorcycle & Engine segment, and the Other segment.

Main segment businesses are listed below.

Business segment	Major products
Aerospace Systems	Production and sale of aircraft, jet engines, etc.
Energy System & Plant Engineering	Production and sale of energy-related machinery and system, marine machinery and system, industrial equipment, environmental equipment, ultralow temperature tank, hydrogen-related structures, crushers, etc.
Precision Machinery & Robot	Production and sale of industrial hydraulic products, industrial robots, etc.
Ship & Offshore Structure	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Motorcycle & Engine	Production and sale of motorcycles, all-terrain vehicles (ATV), utility vehicles, personal watercraft ("JET SKI"), general-purpose gasoline engines, etc.
Other	Commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

(b) Method for calculating sales, profit/loss, assets, liabilities, and other items for reportable segments

The accounting methods applied to the reported business segments generally follow the accounting policies used to prepare the consolidated financial statements. The income of reporting segments is based on operating profit. Inter-segment earnings and transfers are based on market prices.

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

Year ended March 31, 2021

Millions of yen

	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment profit (loss)	Segment assets	Depreciation/ amortization	Impairment losses	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Aerospace Systems	**¥ 377,720**	**¥ 7,681**	**¥ 385,402**	**¥(31,668)**	**¥ 757,342**	**¥23,043**	**¥ –**	**¥ –**	**¥22,113**
Energy System & Plant Engineering	**240,117**	**20,252**	**260,370**	**13,408**	**342,500**	**3,340**	**–**	**18,080**	**4,162**
Precision Machinery & Robot	**240,864**	**14,853**	**255,717**	**14,086**	**213,792**	**10,071**	**–**	**(24)**	**9,836**
Ship & Offshore Structure	**79,425**	**3,764**	**83,189**	**(3,059)**	**133,932**	**1,407**	**4,076**	**49,841**	**1,030**
Rolling Stock	**133,248**	**7**	**133,256**	**(4,593)**	**215,688**	**2,551**	**11,129**	**148**	**2,424**
Motorcycle & Engine	**336,694**	**730**	**337,424**	**11,758**	**256,997**	**14,904**	**–**	**1,538**	**12,790**
Other	**80,415**	**36,979**	**117,395**	**469**	**73,211**	**947**	**–**	**3,880**	**548**
Total	**¥1,488,486**	**¥84,270**	**¥1,572,757**	**¥ 403**	**¥1,993,465**	**¥56,267**	**¥15,205**	**¥73,464**	**¥52,907**
Adjustments	**–**	**(84,270)**	**(84,270)**	**(5,709)**	**(30,189)**	**4,991**	**–**	**–**	**12,772**
Consolidated total	**¥1,488,486**	**¥ –**	**¥1,488,486**	**¥ (5,305)**	**¥1,963,276**	**¥61,258**	**¥15,205**	**¥73,464**	**¥65,679**

Year ended March 31, 2020

Millions of yen

	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment profit (loss)	Segment assets	Depreciation/ amortization	Impairment losses	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Aerospace Systems	¥ 532,549	¥ 6,477	¥ 539,027	¥42,777	¥ 745,048	¥22,539	¥–	¥ –	¥25,121
Energy System & Plant Engineering	242,972	30,871	273,843	17,566	314,753	3,362	–	18,621	3,048
Precision Machinery & Robot	217,387	15,529	232,917	12,211	203,525	9,279	–	1,737	12,845
Ship & Offshore Structure	71,680	9,049	80,730	(637)	125,642	1,625	–	44,930	1,355
Rolling Stock	136,553	18	136,571	(3,819)	211,759	2,533	–	135	2,740
Motorcycle & Engine	337,757	772	338,529	(1,948)	282,185	15,963	–	1,601	21,353
Other	102,435	38,927	141,362	1,235	94,174	1,562	–	3,682	745
Total	¥1,641,335	¥101,647	¥1,742,983	¥67,386	¥1,977,089	¥56,866	¥–	¥70,708	¥67,210
Adjustments	–	(101,647)	(101,647)	(5,322)	(19,243)	4,417	–	–	3,284
Consolidated total	¥1,641,335	¥ –	¥1,641,335	¥62,063	¥1,957,845	¥61,283	¥–	¥70,708	¥70,495

Note: Starting from the fiscal year ending March 2022, the Company has integrated its previous reportable segments of the Energy System & Plant Engineering and the Ship & Offshore Structure into the Energy Solutions & Marine. As a result, the reportable segments have been changed to the following six segments, the Aerospace Systems, the Rolling Stock, the Energy Solutions & Marine, the Precision Machinery & Robot, the Motorcycle & Engine and the Other.

Year ended March 31, 2021

	Thousands of U.S. dollars								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment profit (loss)	Segment assets	Depreciation/ amortization	Impairment losses	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Aerospace Systems	**$ 3,411,488**	**$ 69,373**	**$ 3,480,871**	**$(286,019)**	**$6,840,155**	**$208,120**	**$ –**	**$ –**	**$199,720**
Energy System & Plant Engineering	**2,168,687**	**182,912**	**2,351,608**	**121,098**	**3,093,389**	**30,166**	**–**	**163,295**	**37,590**
Precision Machinery & Robot	**2,175,434**	**134,149**	**2,309,583**	**127,222**	**1,930,925**	**90,959**	**–**	**(217)**	**88,837**
Ship & Offshore Structure	**717,350**	**33,996**	**751,346**	**(27,628)**	**1,209,646**	**12,708**	**36,814**	**450,154**	**9,303**
Rolling Stock	**1,203,468**	**63**	**1,203,540**	**(41,483)**	**1,948,049**	**23,040**	**100,515**	**1,337**	**21,893**
Motorcycle & Engine	**3,040,950**	**6,593**	**3,047,543**	**106,196**	**2,321,143**	**134,610**	**–**	**13,891**	**115,517**
Other	**726,292**	**333,987**	**1,060,287**	**4,236**	**661,227**	**8,553**	**–**	**35,043**	**4,949**
Total	**$13,443,696**	**$761,109**	**$14,204,814**	**$3,640**	**$18,004,561**	**$508,192**	**$137,328**	**$663,512**	**$477,845**
Adjustments	**–**	**(761,109)**	**(761,109)**	**(51,563)**	**(272,661)**	**45,078**	**–**	**–**	**115,354**
Consolidated total	**$13,443,696**	**$ –**	**$13,443,696**	**$(47,914)**	**$17,731,900**	**$553,270**	**$137,328**	**$663,512**	**$593,199**

(d) Reconciliation and main components of difference between total for reportable segments and amounts on the consolidated financial statements for the year ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Sales			
Total for reportable segments	**¥1,572,757**	¥1,742,983	**$14,204,814**
Intersegment transactions	**(84,270)**	(101,647)	**(761,109)**
Net sales reported on the consolidated financial statements	**¥1,488,486**	¥1,641,335	**$13,443,696**

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Profit			
Total for reportable segments	**¥ 403**	¥67,386	**$ 3,640**
Intersegment transactions	**36**	209	**325**
Corporate expenses (*)	**(5,745)**	(5,532)	**(51,888)**
Operating profit (loss) on the consolidated financial statements	**¥(5,305)**	¥62,063	**$(47,914)**

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Assets			
Total for reportable segments	**¥1,993,465**	¥1,977,089	**$18,004,561**
Intersegment transactions	**(138,978)**	(107,921)	**(1,255,220)**
Corporate assets shared by all segments (*)	**108,788**	88,678	**982,551**
Total assets on the consolidated financial statements	**¥1,963,276**	¥1,957,845	**$17,731,900**

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

	Millions of yen					
	2021	2020	**2021**	2020	**2021**	2020
Other items	Total for reportable segments		Adjustments (*)		Amounts reported on the consolidated financial statements	
Depreciation/amortization	**¥56,267**	¥56,866	**¥ 4,991**	¥4,417	**¥61,258**	¥61,283
Increase in property, plant and equipment and intangible assets	**52,907**	67,210	**12,772**	3,284	**65,679**	70,495

(*) Adjustment is due mainly to fixed assets not attributed to reportable segments.

	Thousands of U.S. dollars		
	2021		
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	**$508,192**	**$ 45,078**	**$553,270**
Increase in property, plant and equipment and intangible assets	**477,845**	**115,354**	**593,199**

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2021, and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Japan	**¥ 704,163**	¥ 699,879	**$ 6,359,854**
United States	**313,607**	413,095	**2,832,433**
Europe	**143,402**	220,574	**1,295,177**
Asia	**277,266**	236,687	**2,504,209**
Other areas	**50,047**	71,098	**452,014**
Total	**¥1,488,486**	¥1,641,335	**$13,443,696**

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

Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Japan	**¥389,640**	¥421,567	**$3,519,147**
North America	**29,646**	29,134	**267,757**
Europe	**3,065**	3,259	**27,682**
Asia	**28,553**	28,116	**257,885**
Other areas	**354**	493	**3,197**
Total	**¥451,259**	¥482,570	**$4,075,677**

(ii) Information by major clients

Year ended March 31, 2021

Clients	Net sales	Related segments
Ministry of Defense	¥260,960 million ($2,356,936 thousand)	Aerospace Systems, Energy System & Plant Engineering, Ship & Offshore Structure, etc.

Year ended March 31, 2020

Clients	Net sales	Related segments
Ministry of Defense	¥256,839 million	Aerospace Systems, Energy System & Plant Engineering, Ship & Offshore Structure, etc.

35. Related party transactions

(a) Related party transactions for the years ended March 31, 2021 and 2020 were as follows:

	Year ended March 31, 2021
	Non-consolidated subsidiaries and affiliates of the Company
Type	**Affiliate of the Company**
Name	**Commercial Airplane Co., Ltd.**
Location	**Chiyoda-ku, Tokyo**
Capital or investment	**¥10 million ($90 thousand)**
Business or position	**Sales of transportation machinery**
Rate of ownership (%)	**Directly 40%**
Description of relationship	**Sales of Company products and board members**
Details of transactions	**Sales of Company products**
Amount of transactions	**¥58,508 million ($528,432 thousand)**
Account	**Accounts receivable–trade**
Ending balance	**¥36,382 million ($328,595 thousand)**
Account	**Advances received**
Ending balance	**¥48,521 million ($438,232 thousand)**

	Year ended March 31, 2020
	Non-consolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥118,869 million
Account	Accounts receivable–trade
Ending balance	¥56,654 million
Account	Advances received
Ending balance	¥52,346 million

(b) A summary of the total financial information of affiliates, which was the basis for calculating the equity in income of the non-consolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Current assets	**¥198,335**	¥161,524	**$1,791,320**
Non-current assets	**146,338**	141,628	**1,321,694**
Current liabilities	**153,614**	108,542	**1,387,410**
Non-current liabilities	**31,822**	37,795	**287,410**
Net assets	**159,236**	156,813	**1,438,186**
Net sales	**243,186**	217,702	**2,196,405**
Profit before income taxes	**4,489**	7,133	**40,544**
Profit	**1,878**	4,708	**16,962**

36. Subsequent events

(Issuance of Corporate Bonds)

At the Management Committee held on June 15, 2021, it was resolved to issue the following straight bonds (sustainability bonds) as follows:

1. The 58th unsecured straight bond

Issue date	From July 1, 2021 to September 30, 2021
Total amount of issue	¥10 billion ($90,318 thousand)
Issue price	¥100 ($0.90) per face value of ¥100 ($0.90)
Interest rate	0.8% or less per annum
Maturity date	10 years
Type	Unsecured
Usage of funds	Research and development funds, equipment funds, investment and loan funds, and bond redemption and loan repayment funds
Method of offering	Public offering

37. Other matters

(a) Quarterly financial information

	Millions of yen			
Year ended March 31, 2021	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	**¥300,602**	**¥657,325**	**¥1,032,484**	**¥1,488,486**
Profit (loss) before income taxes	**(14,114)**	**(17,385)**	**811**	**(14,688)**
Net loss attributable to owners of parent	**(11,771)**	**(27,267)**	**(13,969)**	**(19,332)**
	Yen			
Loss per share–basic	**¥ (70.47)**	**¥ (163.23)**	**¥ (83.62)**	**¥ (115.73)**

	Thousands of U.S. dollars			
Year ended March 31, 2021	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	**$2,714,975**	**$5,936,823**	**$9,325,181**	**$13,443,696**
Profit (loss) before income taxes	**(127,475)**	**(157,018)**	**7,325**	**(132,659)**
Net loss attributable to owners of parent	**(106,313)**	**(246,270)**	**(126,165)**	**(174,603)**
	U.S. dollars			
Loss per share–basic	**$ (0.636)**	**$ (1.474)**	**$ (0.755)**	**$ (1.045)**

(b) Material lawsuits, etc.

<Receipt of customs duty reassessment notification in the Kingdom of Thailand>

KAWASAKI MOTORS ENTERPRISE (THAILAND) CO., LTD. (hereinafter, "KMT"), a consolidated subsidiary of the Company in the Kingdom of Thailand, received a reassessment notification of customs duties for 4,029 million baht (equivalent to approximately ¥14,000 million ($126,445 thousand) when converted at a rate of 0.29 yen to 1 baht) from the Revenue Department of Thailand. KMT had until that time filed its customs duties in accordance with guidance from the Revenue Department. Since the content of the notification of reassessment lacked a legitimate basis and was extremely unreasonable, KMT could not accept it and submitted an appeal of the reassessment to the Commission of Appeal, the appeals body for tax assessments received from the Revenue Department of Thailand. Based on the opinion of attorneys consulted regarding this matter, the Company maintains that there is a strong possibility KMT's assertion will be upheld.

<Claim for damages in overseas LNG tank construction work>

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

Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Appropriateness of management's judgment on the recoverability of deferred tax assets of Kawasaki Heavy Industries, Ltd.

The key audit matter	How the matter was addressed in our audit
In the consolidated balance sheet of Kawasaki Heavy Industries, Ltd. (hereinafter, the "Company") and its consolidated subsidiaries as of March 31, 2021, deferred tax assets of ¥70,452 million were recognized. As described in Note 26. "Income taxes" to the consolidated financial statements, the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to ¥85,121 million. Of this amount, the gross deferred tax assets held by the Company that files a consolidated tax return with its wholly owned domestic subsidiaries amounted to ¥67,306 million, representing approximately 3.4% of total assets in the consolidated financial statements. Deferred tax assets are recognized to the extent that tax loss carryforwards and deductible temporary differences are expected to reduce future taxable income. When significant tax loss carryforwards exist, a more deliberate consideration is required to assess the recoverability of deferred tax assets. The future taxable income to be generated by the Company, which was used to determine the recoverability of its deferred tax assets, was primarily estimated based on the business plan prepared by management. This business plan involved uncertainty due to the reasons set forth below, and had a significant effect on the assessment of the recoverability of deferred tax assets. ▪ Forecasts of revenue and profit, which are the key elements of the business plan, may be affected by changes in economic conditions in the future, and other factors. ▪ Estimates related to the effect of COVID-19 incorporated into the business plan, including the forecasts of global passenger travel demands, involved significant management judgment. We, therefore, determined that our assessment of the appropriateness of management's judgement on the recoverability of deferred tax assets of the Company was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to assess whether management's judgment on the recoverability of deferred tax assets of the Company was appropriate included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the judgment on the recoverability of deferred tax assets. In this assessment, we focused our testing on internal controls over the preparation of the business plan used to estimate the Company's future taxable income. **(2) Assessment of the reasonableness of the estimated future taxable income** In order to assess the reasonableness of key assumptions adopted in preparing the business plan, that served as the basis for estimating future taxable income, we: ▪ evaluated the process of preparing the business plan that served as the basis for estimating future taxable income by inquiring of management and each company president and inspecting the minutes of Management Committee of the Company; ▪ assessed the consistency of the estimated future taxable income used to determine the recoverability of deferred tax assets with the business plan approved by Management Committee of the Company; ▪ assessed the reasonableness of key assumptions, which formed the basis for the sales forecasts used for the estimates incorporated into the business plan of Aerospace Systems Company, by comparing them with information provided by major customers and the market forecast reports published by the International Air Transport Association; and evaluated the reasonableness of the scheduling of deductible temporary differences and tax-return adjustments included in the calculation of future taxable income by comparing them with the taxable income calculation for the current fiscal year.

Management's assessment of the amount recoverable related to a loss sustained due to a breach of contract by an overseas construction subcontractor that failed to fulfill the contract on a certain overseas LNG tank construction work (Energy System & Plant Engineering Company)

The key audit matter	How the matter was addressed in our audit
As described in Note 9. "Claim for damages in overseas LNG tank construction work," Kawasaki Heavy Industries, Ltd. (hereinafter, the "Company") sustained a loss of approximately ¥51billion due to a breach of contract by an overseas construction subcontractor that failed to fulfill the contract on a certain overseas LNG tank construction work. In connection with this issue, the Company filed a petition for arbitration with the International Chamber of Commerce ("ICC"). The Company plans to settle this dispute through the arbitration process, and recognized an asset for the expected amount recoverable as a result of the arbitration within Other under Investments and other assets in the consolidated balance sheet. The amount recoverable through the arbitration was assessed considering the progress of the arbitration proceedings at the ICC and the prospect for an award of the arbitral tribunal, as well as the business environment and the financial conditions of the overseas construction subcontractor. These estimates included subjective assumptions requiring significant management judgment, such as an award of the arbitral tribunal related to the subject and amount of damages, the Company alleged, caused by the breach of contract by the overseas construction subcontractor, as well as the ability of the overseas construction subcontractor to make payment for any monetary award to be determined by the arbitral tribunal, which involved uncertainty. We, therefore, determined that our assessment of the appropriateness of management's assessment of the amount recoverable related to a loss sustained due to a breach of contract by an overseas construction subcontractor that failed to fulfill the contract on a certain overseas LNG tank construction project was one of the most significant matters in our audit of the	The primary procedures we performed to assess the reasonableness of management's assumptions used for assessing the amount recoverable through the arbitration included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to management's assessment of the amount recoverable through the arbitration. In the assessment, we focused on internal controls in which the personnel responsible for the accounting division assess the estimates of the recoverability of each item of damages alleged, giving consideration to the opinion of the Company's legal counsel. **(2) Assessment of the reasonableness of the estimated amount recoverable through the arbitration** ▪ We inspected the minutes of Management Committee of the Company related to the result of management's assessment of the amount recoverable. In addition, we inquired of several personnel, such as management (including the president of Energy System & Plant Engineering Company) and those responsible for the administration division and the accounting division, and then assessed the reasonableness of their respective responses. ▪ We circularized, through a written legal confirmation, directly with the legal counsel engaged by the Company to assess the amount recoverable, and assessed the consistency of the opinion of the legal counsel with the result of management's assessment of the amount recoverable. We inspected the annual reports issued by the overseas construction subcontractor and the monthly research reports on the financial conditions, order booking status and other information of the overseas construction subcontractor submitted by the Company's legal counsel, and evaluated the consistency of the information with the result of management's assessment of the overseas construction subcontractor's ability to make payment.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

Matsuyama Kazuhiro

Designated Engagement Partner

Certified Public Accountant

Narumoto Koji

Designated Engagement Partner

Certified Public Accountant

Seishi Kyoichi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Kobe Office, Japan

June 25, 2021

Corporate Profile/Stock Information (As of March 31, 2021)

Corporate Profile

Trade Name	Kawasaki Heavy Industries, Ltd.	
Head Offices	Tokyo Head Office:	14-5, Kaigan 1-chome, Minato-ku, Tokyo 105-8315, Japan
	Kobe Head Office:	Kobe Crystal Tower, 1-3, Higashikawasaki-cho 1-chome, Chuo-ku, Kobe, Hyogo 650-8680, Japan
Incorporated	October 15, 1896	
President	Yasuhiko Hashimoto	
Paid-in Capital	¥104,484 million	
Net Sales	• Consolidated:	¥1,488,486 million (fiscal 2020)
	• Non-consolidated:	¥1,098,661 million (fiscal 2020)
Number of Employees	• Consolidated:	36,691
	• Non-consolidated:	17,397

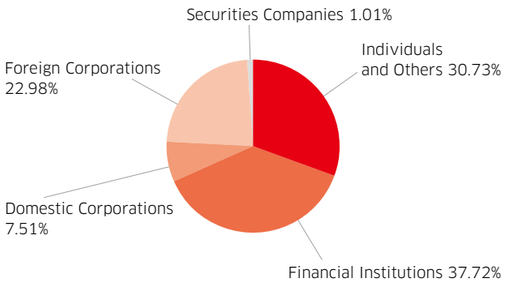
Stock Information

Securities Code	7012
Stock Listings	Tokyo and Nagoya Stock Exchanges
Share Unit Number	100 shares
Total Number of Shares Authorized	336,000,000 shares
Total Number of Shares Issued	167,080,532 shares
Number of Shareholders	109,080 persons
Fiscal Year	From April 1 to March 31
Year-end Dividend Record Date	March 31
Interim Dividend Record Date	September 30
Annual General Meeting of Shareholders	June

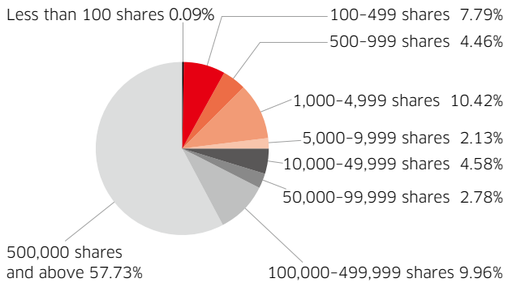
Major Shareholders

Shareholder	Number of Shares Owned	Percentage
Custody Bank of Japan, Ltd. (trust account)	14,173,900	8.48%
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,021,500	8.39%
Nippon Life Insurance Company	5,751,661	3.44%
Kawasaki Heavy Industries Employee Stock Ownership Association	4,501,521	2.69%
Mizuho Bank, Ltd.	4,176,412	2.50%
Kawasaki Heavy Industries, Ltd. Kyoueikai	4,061,619	2.43%
Custody Bank of Japan, Ltd. (trust account 7)	2,992,300	1.79%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,783,858	1.66%
Custody Bank of Japan, Ltd. (trust account 5)	2,385,700	1.42%
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	2,207,100	1.32%

Shareholdings by Type of Shareholder



Shareholders by Shareholding Volume



Major Subsidiaries and Associates (As of March 31, 2020)

Aerospace Systems

Aerospace
- NIPPI Corporation
- Nippi Skill Corporation
- Kawaju Gifu Engineering Co., Ltd.
- Kawaju Gifu Service Co., Ltd.
- KGM Co., Ltd.

Jet Engines
- Kawaju Akashi Engineering Co., Ltd.

Rolling Stock
- Kawasaki Railcar Manufacturing Co., Ltd.
- Alna Yusoki-Yohin Co., Ltd.
- Kawasaki Rolling Stock Component Co., Ltd.
- Kawasaki Rolling Stock Technology Co., Ltd.
- Sapporo Kawasaki Rolling Stock Engineering Co., Ltd.
- NICHIJO CORPORATION
- Kawasaki Rail Car, Inc.
- * Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.

Energy Solution & Marine Engineering

Plant
- Kawasaki Green Energy, Ltd.
- EarthTechnica Co., Ltd.
- Kawasaki Engineering Co., Ltd.
- KEE Environmental Construction Co., Ltd.
- Kawasaki Environmental Plant Engineering Co., Ltd.
- Kawaju Facilitech Co., Ltd.
- EarthTechnica M&S Co., Ltd.
- KHI Design & Technical Service, Inc.
- Kawasaki Heavy Industries Machinery Trading (Shanghai) Co., Ltd.
- * KH FACILITECH Co. Ltd.
- * JP Steel Plantech Co.
- * Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd.
- * Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd.
- * Anhui Conch Kawasaki Engineering Co., Ltd.
- * Shanghai Conch Kawasaki Engineering Co., Ltd.

Energy/Marine machinery
- Kawasaki Thermal Engineering Co., Ltd.
- Kawasaki Machine Systems, Ltd.
- Kawasaki Prime Mover Engineering Co., Ltd.
- Kawasaki Naval Engine Service, Ltd.
- KMS Engineering Co., Ltd.
- Kawasaki Gas Turbine Europe GmbH
- Kawasaki Gas Turbine Asia Sdn. Bhd.
- Kawasaki Gas Turbine Service RUS LLC
- Kawasaki Machinery do Brasil Máquinas e Equipamentos Ltda.
- Kawasaki Heavy Industries (Europe) B.V.
- Kawasaki Heavy Industries (H.K.) Ltd.
- Wuhan Kawasaki Marine Machinery Co., Ltd.
- Kawasaki Energy System Solutions (Shandong), Ltd.

Ship & Offshore Structure
- Kawaju Support Co., Ltd.
- Kawasaki Marine Engineering Co., Ltd.
- KHI JPS Co., Ltd.
- Kawasaki Subsea (UK) Limited
- * Nantong COSCO KHI Ship Engineering Co., Ltd.
- * Dalian COSCO KHI Ship Engineering Co., Ltd.

Precision Machinery & Robot

Precision Machinery
- Kawasaki Hydromechanics Corporation
- Kawasaki Precision Machinery (U.S.A.), Inc.
- Kawasaki Precision Machinery (UK) Ltd.
- Wipro Kawasaki Precision Machinery Private Limited
- Flutek, Ltd.
- Kawasaki Precision Machinery (Suzhou) Ltd.
- Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.
- Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.

Robot
- Kawasaki Robot Service, Ltd.
- Kawasaki Robotics (U.S.A.) Inc.
- Kawasaki Robotics (UK) Ltd.
- Kawasaki Robotics GmbH
- Kawasaki Robotics Korea, Ltd.
- Kawasaki Robotics (Tianjin) Co., Ltd.
- Kawasaki Robotics (Kunshan) Co., Ltd.
- Kawasaki (Chongqing) Robotics Engineering Co., Ltd.
- * Medicaroid Corporation
- * Medicaroid Europe GmbH
- * Medicaroid, Inc.

Motorcycle & Engine
- Kawasaki Motors, Ltd.
- Kawasaki Motors Corporation Japan
- K-Tec Corporation
- Technica Corp.
- Autopolis
- Union Precision Die Co., Ltd.
- Shin Nippon Wheel Industries Co., Ltd.
- Kawasaki Motors Vietnam Co., Ltd.
- ○ Kawasaki Motors Manufacturing Corp., U.S.A.
- Kawasaki Motors Corp., U.S.A.
- Canadian Kawasaki Motors Inc.
- Kawasaki Motores do Brasil Ltda.
- Kawasaki Motors Europe N.V.
- Kawasaki Motors Pty. Ltd.
- India Kawasaki Motors Pvt. Ltd.
- PT. Kawasaki Motor Indonesia
- Kawasaki Motors (Phils.) Corporation
- ★ Kawasaki Motors Enterprise (Thailand) Co., Ltd.
- Kawasaki Motores de Mexico S.A. de C.V.
- Kawasaki Motors (Shanghai), Ltd.
- * Changzhou Kawasaki and Kwang Yang Engine Co., Ltd.
- * Bimota S.p.A.

Others
- Japan Suiso Energy, Ltd.
- Kawasaki Trading Co., Ltd.
- Kawaju Service Co., Ltd.
- Kawasaki Technology Co., Ltd.
- Kawasaki Heartfelt Service Co., Ltd.
- K Career Partners Corp.
- Benic Solution Corporation
- Kawasaki Life Corporation
- Nippi Kosan Co., Ltd
- Kawasaki Heavy Industries (U.S.A.) Inc.
- Kawasaki do Brasil Industria e Comercio Ltda.
- Kawasaki Heavy Industries (U.K.) Ltd.
- ▲ Kawasaki Heavy Industries Middle East FZE
- ★ Kawasaki Heavy Industries (India) Private Limited
- ◆ Kawasaki Heavy Industries (Singapore) Pte. Ltd.
- Kawasaki Heavy Industries (Thailand) Co., Ltd.
- Kawasaki Heavy Industries Management (Shanghai) Ltd.
- Kawasaki Trading (Shanghai) Co., Ltd.
- KHI (Dalian) Computer Technology Co., Ltd.
- Hydrogen Engineering Australia Pty Ltd.
- Kawasaki Heavy Industries Russia LLC
- Kawasaki Trading (Thailand) Co., Ltd.

* Equity-method associates
○ Includes operations belonging to the Rolling Stock and Aerospace Systems segments
★ Includes operations belonging to the Precision Machinery & Robot segment
◆ Includes operations belonging to the Rolling Stock and Precision Machinery & Robot segments
▲ Includes operations belonging to the Motorcycle & Engine segment

Disclaimer Figures in this report appearing in forecasts of future business performance or similar contexts represent forecasts made by the Company based on information accessible at the time, and are subject to risk and uncertainty. Readers are therefore advised against making investment decisions reliant exclusively on these forecasts of business performance. Readers should be aware that actual business performance may differ significantly from these forecasts due to a wide range of significant factors arising from changes in the external and internal environment. Significant factors that affect actual business performance include economic conditions in the Company's business sector, the yen exchange rate against the U.S. dollar and other currencies, and developments in taxation and other systems. This report not only describes actual past and present conditions of the Kawasaki Group but also includes forward- looking statements based on plans, forecasts, business plans and management policy as of the publication date. These represent suppositions and judgments based on information available at the time.
Due to changes in circumstances, the results and features of future business operations may differ from the content of such statements.

Kawasaki Heavy Industries, Ltd.

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