



Kawasaki Report / 2020

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

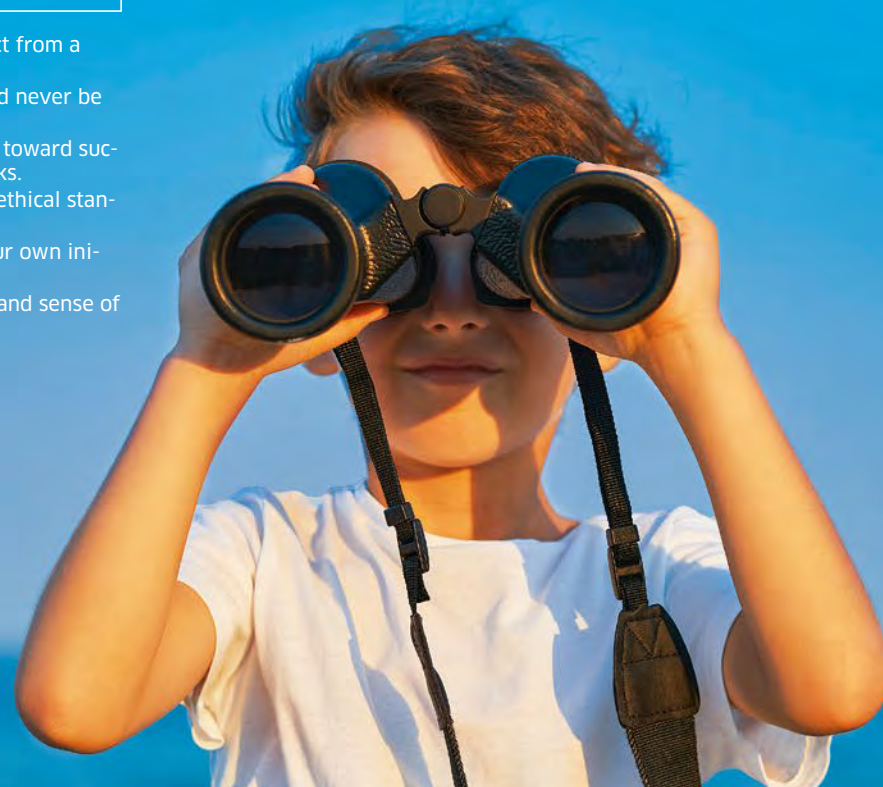
- We respond to our customers' requirements
- We constantly achieve new heights in technology
- We pursue originality and innovation

The Kawasaki Group Management Principles

- 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.
- 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.
- 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.
- 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.



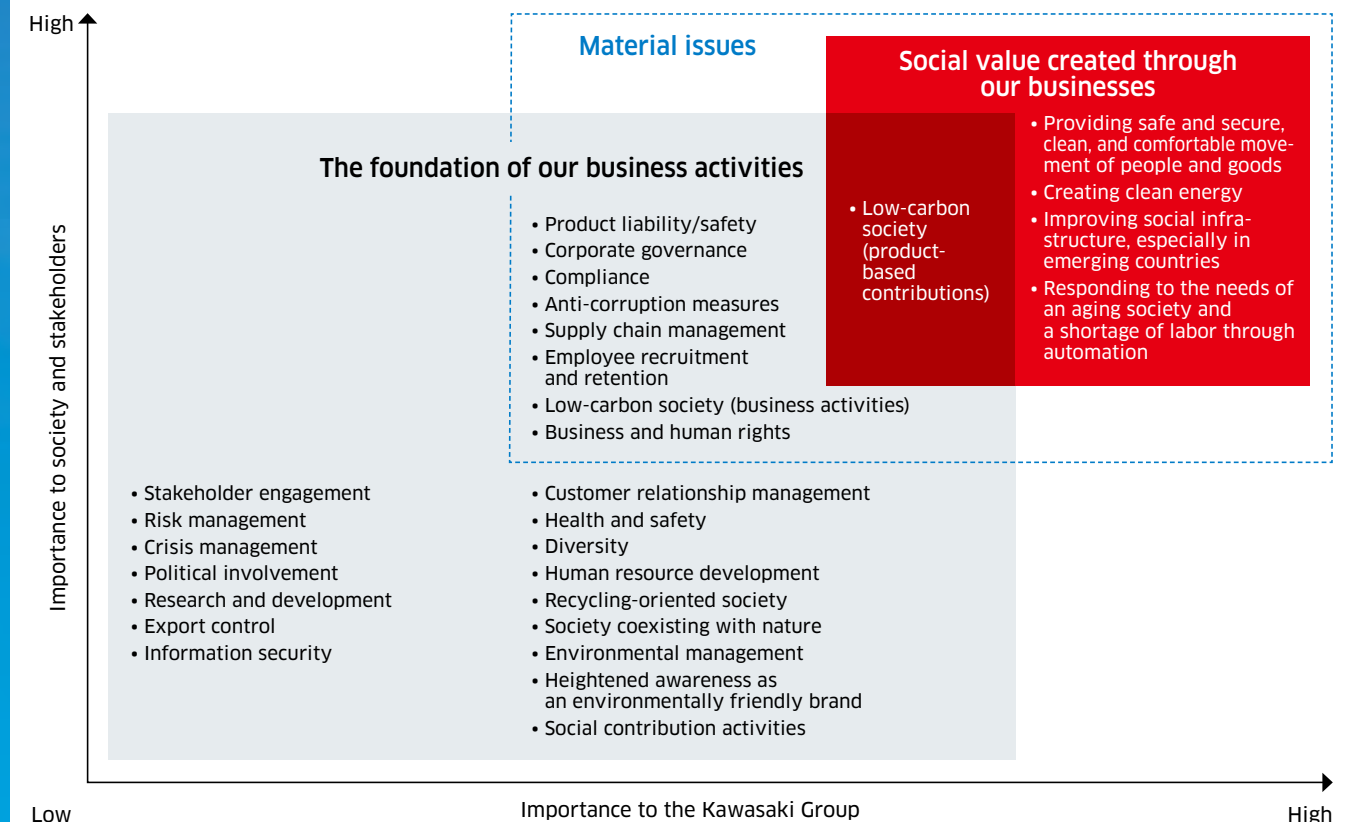
Material Issues

Identifying Material Issues

In light of increasingly diverse stakeholder expectations and demands and changes in the business environment, Kawasaki has reexamined and categorized the impacts that its corporate activities have on society in order to identify material issues.

We are handling the material issues identified based on a management approach defined under the GRI¹ standards and have established KPIs that we use to regularly monitor progress.

Materiality Matrix of Items Identified



¹GRI standards: Global Reporting Initiative Sustainability Reporting Standards

Process for Identifying Materiality



¹ DJSI, FTSE, MSCI: please refer to page 61

² SASB: Sustainability Accounting Standards Board

³ MTBP 2016: Kawasaki's Medium-Term Business Plan 2016



For more information about Kawasaki's process of identifying material issues, please refer to Kawasaki's website.
<https://global.kawasaki.com/en/corp/sustainability/materiality.html>

Kawasaki Report 2020



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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. Kawasaki's medium-term business plan, MTBP 2019, is available in the "Investors" section of Kawasaki's website. 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/> CSR and Environmental information: <https://global.kawasaki.com/en/corp/sustainability/>

Period

This report covers fiscal 2019 (April 1, 2019 to March 31, 2020), but some fiscal 2020 content is also included.

Scope

The report covers Kawasaki Heavy Industries, Ltd., its 97 consolidated subsidiaries (41 in Japan and 56 overseas) and 17 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 International Integrated Reporting Council (IIRC), 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.

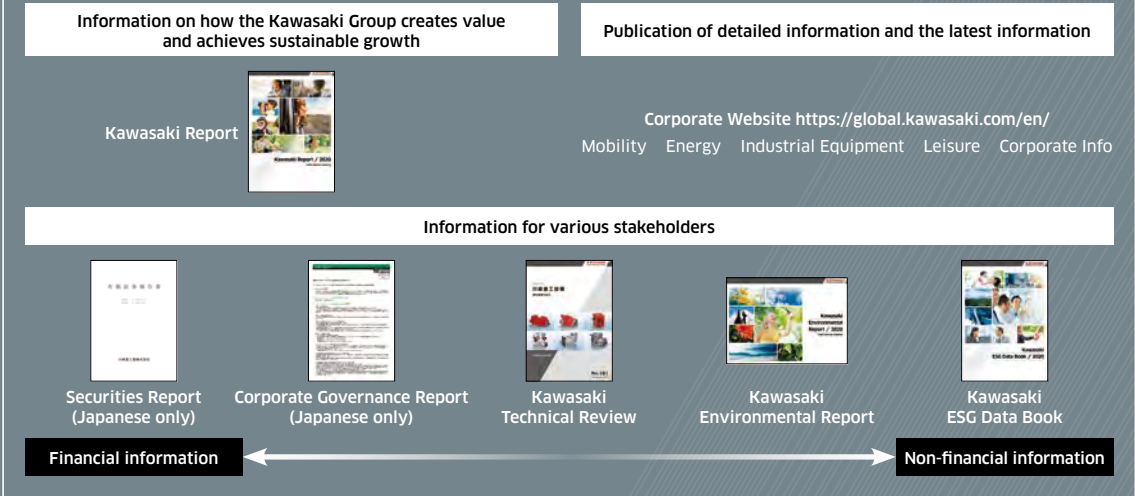
Frequency of Publication

Annually, in principle
Previous edition—October 2019
Next edition—September 2021

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



A New “Hydrogen Road,” Connecting Hydrogen Production and Consumption Sites

Interest in hydrogen energy as a game-changing tool for realizing a decarbonized society is on the rise around the world. Hydrogen can be stored for long periods and transported great distances, and it emits no CO₂ when used. Furthermore, hydrogen can be produced from a variety of resources. Hydrogen is therefore a highly promising source of clean energy, capable of helping counter global warming and resource depletion—two major environmental problems—if used as fuel for vehicles or power generation. Kawasaki is advancing the development of technologies for the entire hydrogen supply chain, encompassing production, transportation, storage, and utilization, aiming to quickly realize a hydrogen-powered society.

Kawasaki Hydrogen Road

Working toward
a Sustainable,
Decarbonized Society

The Long-Awaited Demonstration of a Hydrogen Supply Chain Spanning Japan and Australia¹

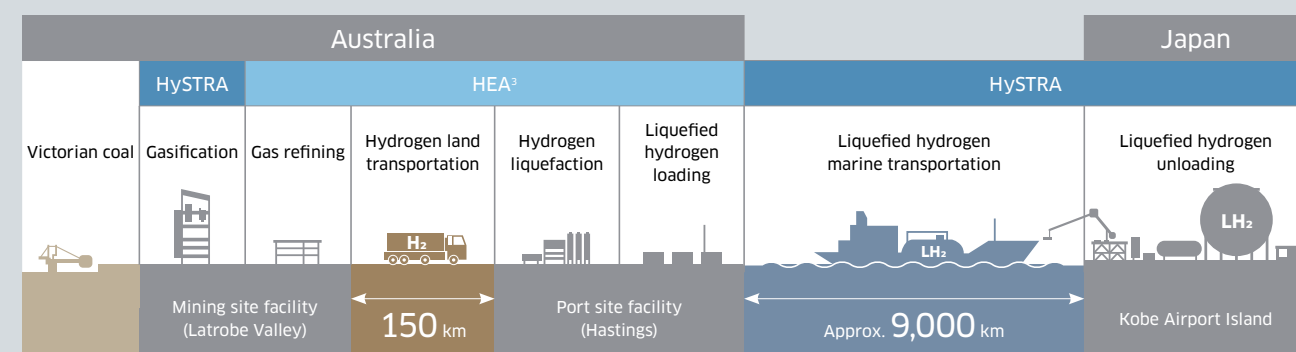
Kawasaki aims to build a large-scale international hydrogen supply chain in which Victorian coal—an underutilized resource—from Latrobe Valley in Victoria, Australia, is used to produce hydrogen that is then liquefied and transported by sea to Japan using a specialized liquefied hydrogen carrier. Aiming to commercialize a hydrogen supply chain around 2030, Kawasaki has been working in collaboration with partner companies and with the support of the Japanese and Australian governments to demonstrate a hydrogen supply chain connecting Australia and Japan. With the construction and manufacturing of the facilities and equipment necessary for the demonstration finally sufficiently advanced, 2020 marked the long-awaited start of demonstration operations.

In July 2020, commissioning began at the hydrogen liquefaction and loading facilities built at the Port of Hastings in Victoria.

The SUISEI FRONTIER, the world's first liquefied hydrogen carrier, launched in December 2019, completed its sea trial, the final phase of testing, on open water, in October 2020. The carrier is now undergoing final equipment adjustments and other preparations for delivery to HySTRA,² the organization implementing the demonstration. It will then be used in demonstrations of ship-to-shore transfer of liquefied hydrogen at KOBE LH2 TERMINAL, a liquefied hydrogen receiving terminal on Kobe Airport Island.

Furthermore, a round trip between Kobe and the Port of Hastings carrying liquefied hydrogen is planned for 2021.

1. The Demonstration Project for Establishment of Mass Hydrogen Marine Transportation Supply Chain Derived from Unused Brown Coal subsidized by the New Energy and Industrial Technology Development Organization (NEDO)
2. HySTRA: The CO₂-free Hydrogen Energy Supply-chain Technology Research Association
3. HEA: Hydrogen Engineering Australia (wholly owned subsidiary of Kawasaki)



KOBE LH2 TERMINAL

KOBE LH2 TERMINAL, boasting Japan's largest liquefied hydrogen storage tank. To be used in the demonstration of the loading and unloading of liquefied hydrogen between land and ship, a world first.

カワる、サキへ。
Kawasaki

The liquefied hydrogen carrier, developed based on LNG carrier technology and onshore liquefied hydrogen transportation and storage technologies, will keep liquefied hydrogen at -253°C, carrying it approximately 9,000 km from Australia to Japan.

Liquefied hydrogen carrier SUISEI FRONTIER nears completion

Start of commissioning at hydrogen liquefaction and loading facilities at the Port of Hastings in Australia

Here, hydrogen will be liquefied and loaded onto the liquefied hydrogen carrier. At -253°C, the liquefied hydrogen's bulk is just one eight-hundredth its volume as a gas, dramatically improving carrying efficiency.

2019

Building a hydrogen supply chain

2020

Start of
demonstration

2021

Commercializing
a hydrogen
supply chain

2030

Working toward a
Sustainable,
Decarbonized Society

Roadmap for Creating Clean Energy

As it aims to contribute to the development of a hydrogen-powered society, Kawasaki is pursuing its goal of becoming a supplier of comprehensive system packages associated with liquefied hydrogen infrastructure by 2030 via the provision of hydrogen liquefaction and loading and unloading facilities, liquefied hydrogen carriers and hydrogen-fueled gas turbines. To achieve this goal, we are working with partner companies to develop key hydrogen supply chain technologies. These technologies include those associated the production of hydrogen from renewable energy and from Victorian coal in Australia, with the aim of making profitable use of this underutilized resource, as well as hydrogen

liquefaction technologies. With regard to the transportation of hydrogen, our large-capacity carrier ships are expected to play an essential role along with our loading and unloading facilities. Furthermore, we will support the storage of liquefied hydrogen as well as hydrogen utilization via power generation employing gas turbines optimized for this fuel.

Applying CO₂ capture and storage (CCS) technologies at the production stage when obtaining hydrogen from fossil fuels enables the use of hydrogen as a source of clean energy by controlling CO₂ emissions all the way from production to utilization. Once established, the hydrogen supply chain that Kawasaki is building will be

able to stably supply large quantities of clean energy while considerably reducing CO₂ emissions. We have steadily advanced the construction of facilities for the demonstration of this supply chain and begun research and development aimed at scaling up these facilities for commercial use. We are making steady progress, including the commencement of demonstration testing, toward greater efficiency and convenience in heat and electricity supply via pure hydrogen combustion.



Goal for fiscal 2021

- Complete the demonstration of a hydrogen supply chain spanning Japan and Australia

Fiscal 2019 achievements

- Launched a small liquefied hydrogen carrier, built a liquefied hydrogen receiving terminal in Kobe, and built liquefaction and loading facilities in Australia, aiming to implement supply chain demonstration
- Began demonstration testing aimed at increasing the efficiency and convenience of heat and power supply from the mixed combustion of natural gas and the combustion of pure hydrogen in an urban area of Kobe

Making the Hydrogen Road Possible with
Kawasaki Technology

Production

Transportation

Storage

Utilization

Production

Large-scale hydrogen-fueled power generation requires a large quantity of hydrogen. Kawasaki is the first in Japan to develop an industrial hydrogen liquefaction system that employs only domestic technologies. In addition to producing hydrogen from Victorian coal, an underutilized resource, we have made it possible to easily handle a large volume of hydrogen by using cryogenic (-253°C) liquefaction to reduce its bulk to one eight-hundredth its volume as a gas.

Sales of a Hydrogen Liquefier, a First Among Japanese Manufacturers

In June 2020, Kawasaki was the first Japanese manufacturer to commence sales of a hydrogen liquefier. Boasting industry-leading liquefaction efficiency, the hydrogen liquefier has demonstrated its performance and reliability through continuous operation for over 3,000 hours and various functional tests.

This hydrogen liquefier can produce five tons of liquefied hydrogen per day (enough to fuel more than 1,000 fuel cell vehicles) and is capable of producing 99.999% pure liquefied hydrogen. Going forward, as the use of hydrogen spreads, Kawasaki plans to expand its lineup of hydrogen liquefiers.



Transportation

Based on LNG carrier technology and onshore liquefied hydrogen transportation and storage technologies, Kawasaki is advancing the development of liquefied hydrogen carriers, which will keep liquefied hydrogen at -253°C to carry it safely and efficiently to Japan.¹

Launch of the World's First Hydrogen Carrier

In December 2019, Kawasaki launched the world's first liquefied hydrogen carrier, the *SUISEI FRONTIER*. Having completed its sea trial in October 2020, the carrier is now undergoing final equipment adjustments and other preparations for delivery. It is scheduled to take a round trip between Japan and Australia carrying liquefied hydrogen in 2021. Working toward commercialization, we have begun the development of large liquefied hydrogen carriers that can carry even larger volumes of liquefied hydrogen.



Storage

The development of storage tanks and transportation containers for liquefied hydrogen is essential to promoting the utilization of hydrogen in Japan. Kawasaki boasts a long track record in the handling of liquefied hydrogen used as rocket fuel. At Kobe Airport Island, we have now completed the construction of the largest liquefied hydrogen storage tank in Japan, which will boast vacuum insulated walls and a capacity of 2,500 m³.¹

Liquefied Hydrogen Storage Tank for Marine Transport Installed on Liquefied Hydrogen Carrier

In March 2020, we installed a liquefied hydrogen storage tank for marine transport on the liquefied hydrogen carrier *SUISEI FRONTIER*. Kawasaki leveraged its expertise in cryogenic equipment manufacturing, accumulated through the building of onshore liquefied hydrogen storage tanks and LNG storage tanks, to achieve ultra-high thermal insulation performance. This tank will enable the safe marine transport of large volumes of liquefied hydrogen over long distances.



Utilization

One effective use of hydrogen energy is electricity generation via hydrogen gas turbines. With the aim of commercializing power generation gas turbines that reduce environmental burden, we developed a unique combustion method employing a mix of 40% natural gas and 60% hydrogen. Furthermore, we developed technology that allows the fuel mix to be freely adjusted—from 100% natural gas to 100% hydrogen—without interrupting the power supply. We completed the demonstration of this technology on Kobe City's Port Island.²

Successful Technology Verification of Dry Low-NOx Hydrogen Combustion-Powered Gas Turbine

Kawasaki began demonstration testing of a dry low-NOx(nitrogen oxide) hydrogen combustion-powered gas turbine with its partners in May 2020, achieving the world's first successful verification of the technology.³ The turbine's combustor, developed by Kawasaki, uses micro-mix combustion technology. The dry combustion method improves electrical efficiency over traditional methods and reduces NOx emissions. Kawasaki will continue verification operations until the end of fiscal 2020, stably generating power from dry hydrogen combustion while verifying performance, including electrical efficiency and the reduction in environmental burden.



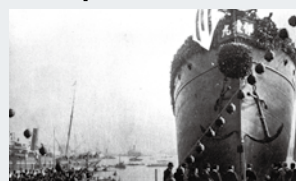
1. The Demonstration Project for Establishment of Mass Hydrogen Marine Transportation Supply Chain Derived from Unused Brown Coal subsidized by NEDO
2. The Smart Community Technology Development Project Utilizing Hydrogen Cogeneration Systems subsidized by NEDO: The project succeeded in the world's first cogeneration via 100% hydrogen combustion in an urban area in April 2018
3. The Development and Demonstration Project for Low-NOx Hydrogen-fueled Gas Turbine Combustion Technology subsidized by NEDO

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

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.

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

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

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.

Contribution to energy transportation



1981 Delivered the first LNG carrier built in Japan

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

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.

Production automation and streamlining



2003 Launched NX series clean robots with horizontal articulated arms

Acceleration of transportation



2004 Shipped first train for Taiwan High Speed Rail

Increased energy efficiency

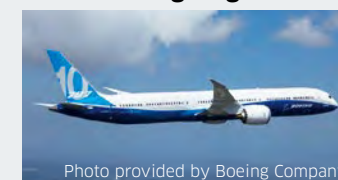


2007 The Kawasaki Green Gas Engine achieved the world's highest electrical efficiency



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



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

Increased fuel economy and significantly decreased noise and emissions of CO₂ and NO_x



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

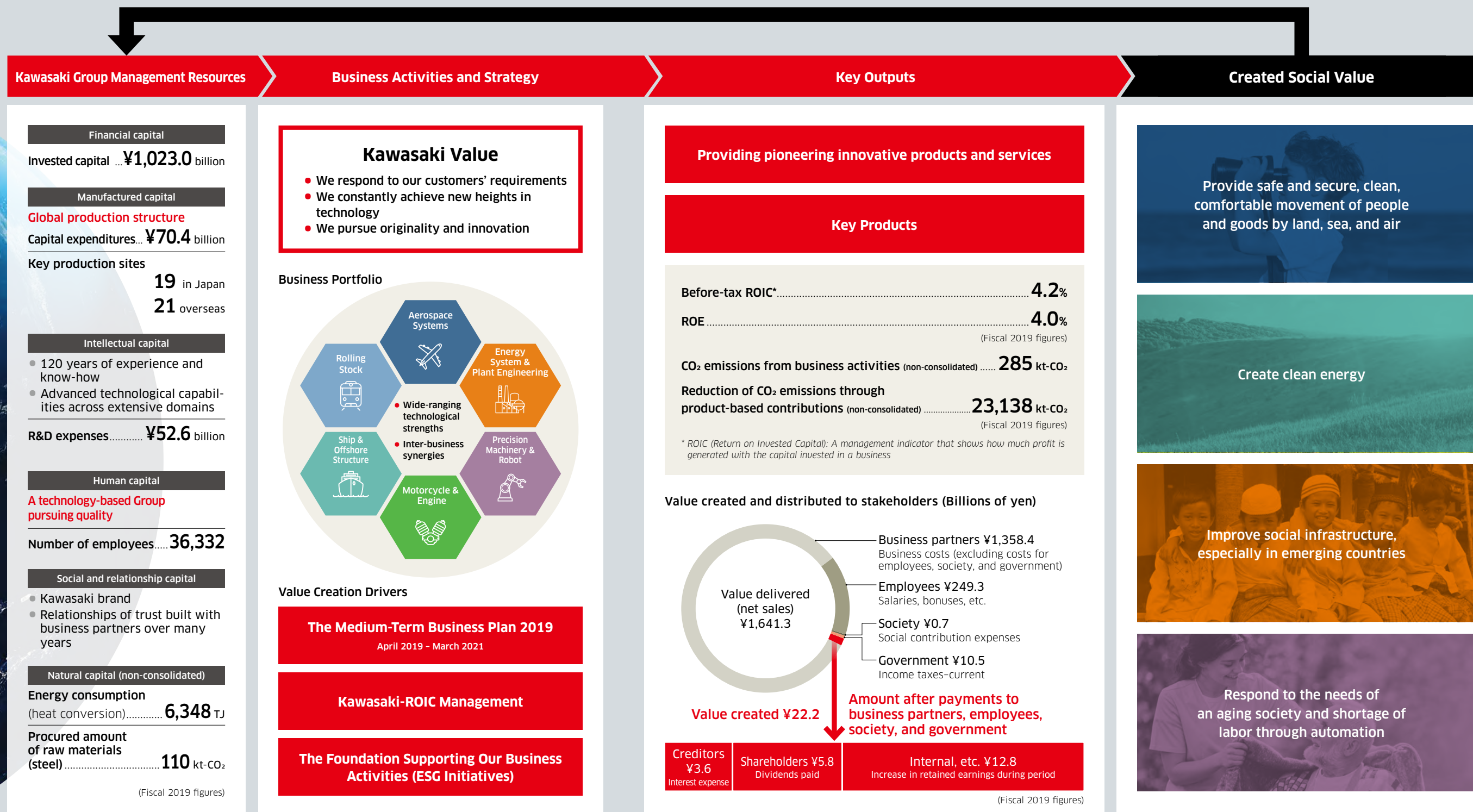
Helping extend the range of fuel cell vehicles

2018 Developed a high-pressure hydrogen regulator for Daimler AG



“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.



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

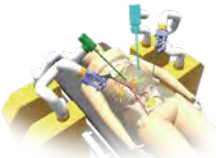
- Impact via capital expenditure
- Impact of the COVID-19 pandemic

Social Value Created through Our Businesses

In fiscal 2017, in the process of identifying material issues* the Kawasaki Group designated four ways of creating social value through its businesses as its greatest priorities over the long term. These are providing safe and secure, clean, comfortable movement of people and goods by land, sea, and air; creating clean energy; improving social infrastructure, especially in emerging countries; and responding to the needs of an aging society and

shortage of labor through automation. At the same time, management identified Sustainable Development Goals (SDGs) that the Group should contribute to and set non-financial targets to reach by 2030. Kawasaki will regularly disclose its progress toward these targets while working to maximize social value, achieve sustainable growth, and contribute to the realization of the SDGs.

* For more information about material issues, please refer to page 1.

Created Social Value	Relevant SDGs		Division	Vision for 2030		2030 Target/KPI	Initiatives
	Shared	Individual					
Providing safe and secure, clean, comfortable movement of people and goods by land, sea, and air			Ship & Offshore Structure Company	Contribute to a significant decrease in emissions of nitrogen oxide (NOx) and sulfur oxide (SOx) from ships by promoting the increased use of LNG-fueled ships. Develop and build large hydrogen-fueled liquefied hydrogen carriers to help realize a CO ₂ -emission free society.		- LNG-fueled ships/large hydrogen-fueled liquefied hydrogen carriers built annually: 1 - Orders received for LNG fuel gas supply systems annually: Multiple	 p. 37
		3 GOOD HEALTH AND WELL-BEING 7 AFFORDABLE AND CLEAN ENERGY	Rolling Stock Company	Help to build better global transportation infrastructure by manufacturing rolling stock that is safe and comfortable to ride in, highly reliable, highly cost efficient over its life cycle and energy saving to minimize the burden on the environment.		- Rolling stock units delivered: 1,000 - Improve efficiency and reduce need for specialized skills in maintenance, maintain and improve safe, reliable transport, and contribute to the enhancement of services and added value provided by railway operators	 p. 39
		11 SUSTAINABLE CITIES AND COMMUNITIES	Aerospace Systems Company	Provide air transportation systems combining excellent environmental performance with high safety and reliability.		Provide environmentally friendly aircraft, helicopters, and engines to the market and expand the scope of participation in the development of these products	 ©Rolls-Royce plc Photo provided by Boeing Company p. 33
			Motorcycle & Engine Company	Develop, manufacture, and deliver environmentally friendly motorcycles as well as models with “fun-to-ride” appeal and advanced rider-support features.		Provide motorcycles with advanced rider-support features, such as Cooperative Intelligent Transport Systems (C-ITS), as well as motorcycles powered by clean energy, including electric motorcycles and hybrid motorcycles	 p. 41
Creating clean energy	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION	7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH	Corporate Technology Division	Provide equipment, such as hydrogen liquefaction and loading and unloading facilities, liquefied hydrogen carriers, and hydrogen-fuel gas turbines and contribute to the development of a hydrogen-powered society as a supplier of liquefied hydrogen transportation infrastructure systems and packages.		- CO₂ reduction through use of hydrogen energy: 3 million tons - Hydrogen transport volume: 225,000 tons per year	 pp. 4-7
Improving social infrastructure, especially in emerging countries			Energy System & Plant Engineering Company	A distinctive equipment, system, and plant manufacturer that uses technologies and boasts quality underpinned by sophisticated product development expertise, manufacturing technology, and engineering know-how to globally provide products and services that help realize a CO ₂ -emission free, low environmental burden society and earn high customer satisfaction, mainly in the areas of energy and the environment.		- Expand share of distributed power generation market with the industry's most efficient, environmentally friendly devices - Constantly provide highly efficient, energy-saving, clean energy power generation facilities and devices, infrastructure-related facilities, and environment-related facilities	 p. 35
		7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES	Precision Machinery Business Division	Make Kawasaki hydraulic machinery and systems the global standard and achieve stable production and supply. Support the development of next-generation construction machinery that is human- and environment-friendly to contribute to the improvement of infrastructure, mainly in emerging countries. Promote the development and sale of energy-saving products, hydrogen-oriented products, and renewable energy-oriented products to contribute to the reduction of environmental burden. Combine new technologies, such as ICT, IoT, and AI, with Kawasaki's robot technology and hydraulic control technology to create new value.		Hydraulic machinery production and delivery volume: 1.4 million units	 p. 44
Responding to the needs of an aging society and shortage of labor through automation		3 GOOD HEALTH AND WELL-BEING 8 DECENT WORK AND ECONOMIC GROWTH	Robot Business Division	Improve access to high-quality medical care through the development of medical robots in developed countries facing demographic graying and use robot technology to support medical supplies production, nursing and medical care, and the development of therapies and treatments that reduce the physical burden on patients. Develop such products as <i>Successor</i> (a skill transmission system), and humanoid and other robots, making them intelligent enough to help address labor shortages, mainly in developed countries.		Robots delivered: 100,000	 p. 44



Yasuhiko Hashimoto

Representative Director,
President and
Chief Executive Officer

Career Summary

1981 Joined Kawasaki Heavy Industries, Ltd.

In charge of industrial robot development, establishing the business of industrial robots for semiconductor manufacturing and establishing the medical robot development company Mediaroid Corporation, among other duties and projects

2018 Director, Managing Executive Officer, President, Precision Machinery & Robot Company

June 2020 Appointed Representative Director, President and Chief Executive Officer

We are ambitiously working to solve social issues, focusing always on markets and speed.

My Appointment as President

The world today faces many daunting problems, from climate change to poverty and the unequal distribution of wealth to U.S.–China trade friction. The COVID-19 pandemic has come on top of all these issues, growing from the end of 2019 and greatly affecting lives and economies around the world.

Amid these challenging circumstances, I took over as President of Kawasaki Heavy Industries in June 2020.

My predecessor, President Kanehana, worked to improve the financial discipline of Kawasaki's internal companies and strengthen its head office functions under the banner of "Changing Forward." He also focused on combining the technologies and expertise accumulated within the internal companies to generate new synergies.

During his tenure, Kawasaki created an internal SNS as a means of giving voice to diverse employee opinions, creating an environment that facilitates lively expression and discussion. As Kawasaki's new president, I see it as my duty to carry on these innovations while establishing a vision, putting it into action, and increasing the potential of the entire Company.

Looking back on my own career, when beginning work on a new business, there has often been a major natural disaster, terrorist attack, or financial crisis, and each time I have had to overcome the resulting difficult circumstances. In the face of the current COVID-19 pandemic, too, I feel that perhaps the mission bestowed upon me is to lead in a time of adversity.

Speed Produces Value

The impact on Kawasaki of the COVID-19 pandemic has been tremendous. Business environments that we spent years building up have transformed before our eyes. We must now ask ourselves how to prevail in the situation that we find ourselves in. I believe that the answer lies in a principle that I have long made my motto: Speed produces value and profit.

My faith in this principle derives from my own

business experience. I have been involved in the industrial robot business ever since joining Kawasaki. This business struggled for many years, and even the business of industrial robots for semiconductor manufacturing, which we launched in 1995, faced an uphill battle at first. A latecomer to the field, we knew that to get the business on a growth track, we had to provide better value to customers than our competitors. The

key to doing so was to provide the products customers needed as quickly as possible—in a word, speed.

Of course, focusing on speed meant revising our internal mechanisms and changing our team's mindset. In a rapidly changing business area like semiconductors, only manufacturers that swiftly respond to constantly evolving customer needs survive. If a customer came to us asking for a new product in six months, we did whatever we could to deliver it in six months, even if development would have normally taken a year.

I often liken this to a restaurant kitchen. No matter how high quality the ingredients, or how skillfully the food is prepared, the hungry customers who want to eat right now will leave, unsatisfied, if it takes hours to arrive.

For a customer, the difference between getting a product in six months and getting it in a year is enormous. By managing our organization and increasing speed to be able to meet customers' preferred delivery schedules, we made our team strong.

Innovation via Market-Oriented Thinking

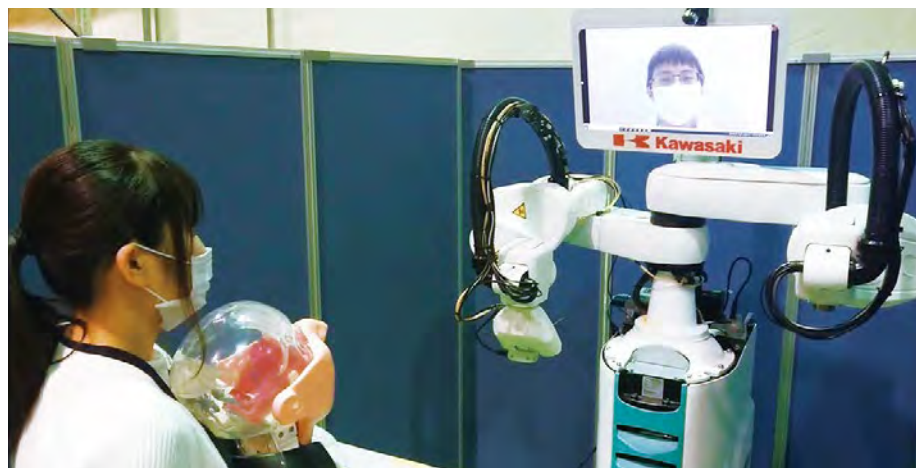
What we learned from this experience was the importance of speed and, more broadly, of market-based thinking.

Speed in this sense does not mean waiting for customer requests and then frantically scrambling to meet them on time. Rather, reading market movements and preparing in advance are crucial. To that end, we must look not inward but outward, becoming finely attuned to changes in the market and the wider world as we aim to provide the things that customers and society need in a suitable form.

Shifting our perspectives to see things from the customer's standpoint will, without fail, change the work we do. If everyone adopts this kind of thinking and focus on quick response, over time the Company as a whole will surely change.

In markets, those that can handle change survive. I believe that fostering a focus on speed and resilience to change throughout the Company is my first job as President.

One example of a focus on speed and market-oriented thinking is the automated PCR viral testing robot we are currently developing. This robot, under development by Medicaroid Corporation, our joint venture with Sysmex Corporation, will automatically perform PCR viral testing, eliminating the risk of infection for medical professionals while greatly reducing testing time. We began development in March 2020 and plan to introduce these robots for use soon. Given the urgent need to reduce the burden on health-care professionals and expand testing infrastructure to help curb the pandemic, we are putting the full strength of the Company into advancing the project in order to achieve results as quickly as possible.



Remote-controlled automated PCR viral testing robot system



Creating Synergies beyond the Bounds of the Internal Companies

The Kawasaki Group operates across a wide range of fields spanning land, sea, and air, and some may wonder if speed-focused management is a poor fit for some of our businesses. It is true that in some fields, such as the aircraft industry, we have conventionally operated on a decades-long timescale. Even in fields like these, however, when the business environment suddenly changes, as with the COVID-19 pandemic, we are forced to slam on the brakes and turn sharply in response. Given the rapidly changing external environment, we have to change the ways that all our businesses function.

In addition to business development that emphasizes speed, combining the technologies of our internal companies to realize synergies and create new value will be key going forward. In that sense, I think that the very robotics technologies I've been involved with will be a bridge connecting our businesses.

Our automated PCR viral testing robots are an achievement realized by bringing together knowledge,

expertise, and technologies from multiple internal companies. Products created in this way will be able to target customers outside the internal companies' existing customer bases. By combining the technologies of the internal companies to meet market needs, we can thus cultivate new customers.

We are also accelerating the demonstration of the hydrogen supply chain. The Kawasaki Group is a world leader in many technologies, including such hydrogen technologies as those related to production and liquefaction plants, liquefied hydrogen carrier construction, liquefied hydrogen storage, and power generation. By combining these to realize synergy, we will make the safe, affordable, stable, and high-volume use of hydrogen a reality, thereby contributing to the creation of a sustainable society. Going forward, as the use of hydrogen fuel spreads and hydrogen-powered transportation, such as fuel cell vehicles, becomes the norm, we expect to see synergies with all of our business areas.

Reading and Nimble Responding to Changes in Society

The COVID-19 pandemic has made the possibilities and limitations of working remotely a topic of increased interest, which I believe presents a major opportunity for our remote-controlled robots. While white-collar workers have been able to transition to a remote work environment relatively easily, the shift to remote work has lagged for those employed in factories and field operations. Kawasaki is proposing ways of doing these kinds of work remotely, which, until now, was thought to be unfeasible.

Successor, our skills transmission system launched in November 2017, allows humans and robots to collaborate via remote control. Using AI, the system can learn

the skills of expert engineers, which it can then convey to other operators via automated technology, realizing a new role for robots.

By enabling robots to learn the fine movements and techniques of expert engineers, this system enables the use of robotics where it was previously impossible or impractical, such as workplaces where the position or layout of tasks is variable, or for small-lot products.

The remote execution of front-line operations can help keep workers out of harsh work environments that are hot or dusty. Using robotics for operations that were previously difficult to automate can also facilitate the handling of heavy objects, allowing older workers,

who may have concerns about their physical strength, to continue utilizing their wealth of skills. Furthermore, by enabling, for example, women who have recently given birth to work remotely in the time they have free, we can help parents continue their careers while raising small children. The creation of remote factories has the potential to improve efficiency by several times, helping solve the problems of labor shortages and skills transmission that the manufacturing industry now faces.

Applying these remote control technologies to the plant business could enable remote plant maintenance, eliminating the need for engineers to travel to distant locations or expose themselves to dangerous conditions.

The Kawasaki Group's technologies can also help with emergency preparedness, providing greater safety and security to people living in places like Japan, which is frequently affected by typhoons and earthquakes.

Our floating power plants—vessels that anchor off-shore and use natural gas to generate electricity for onshore areas—were developed as a new power source for emerging countries with still-developing power

infrastructure. These vessels could, however, also be sent to waters near areas affected by natural disasters to supply emergency power. Medical robots, too, are expected to contribute to remote medicine, including remote surgery. These technologies can help not only provide healthcare in medical deserts, but, if used on emergency medical vessels, provide rapid medical support to disaster-stricken areas. The Kawasaki Group also boasts technologies with great potential for securing mobility in times of disaster, such as ambulance helicopters and off-road utility vehicles that can traverse uneven terrain.

The key to tapping the Group's potential is maintaining a mindset that is highly responsive to changes in society. Starting from there, if we shift our perspective to focus first on the wants and needs of markets and customers, there is no limit to the ways we can utilize the Group's diverse technologies.

Of course, the selective focusing of resources will still be necessary. Going forward, however, alignment with the needs of customers and markets will be the standard by which we make those decisions.

Enhancing Internal Communication

The Kawasaki Group's employees are, above all, sincere. We take pride in putting customer satisfaction first and ever striving toward it. However, this sincerity sometimes results in a tendency to take too much time to deliver and to overengineer. Going forward, we must shift our mindsets to focus on further honing basic technologies while ambitiously working toward new technologies and seeing the value in speed.

To that end, I plan to proactively engage in dialogue with employees. I want to understand the pride they

take in manufacturing and promote the active exchange of opinions that will help produce profit. I'm sure that knowing that they can widen their scope beyond the bounds of their internal companies to conceive future businesses will stoke their ambition.

Demonstrating change from the top can have an especially great impact. Through ongoing communication with employees, I will seek to understand the difficulties they face and show them how they can change to forge a clear path forward.



Trustworthy Solutions for the Future

As I have explained, going forward, the Kawasaki Group will take action to provide solutions faster. This is an important promise to our customers, our employees, and all our stakeholders. In line with this promise, we have established "Trustworthy Solutions for the Future" as our vision for 2030 (Group Vision 2030).

This vision expresses our commitment to making

available in a timely manner innovative solutions that accommodate an ever-changing society in order to create a hopeful future and surpassing organizational boundaries and taking up challenges to expand the horizons of our potential for further growth.

To achieve this vision, we are advancing innovation in our organizations, governance, and businesses.

Corporate Governance and Engagement

In accordance with Japan's Corporate Governance Code, the Kawasaki Group works to build and continuously reinforce systems of corporate governance appropriate for a group operating global businesses. In fiscal 2020, to reinforce the Board of Directors' oversight function, following approval by the General Meeting of Shareholders, Kawasaki transitioned to a company with an Audit & Supervisory Committee. Our Board of Directors now comprises 13 Directors (of whom, five are Directors serving as Audit & Supervisory Committee Members), and the chairman serves as its presiding officer, per resolution of the Board. We have appointed six Outside Directors (of whom, three are Directors serving as Audit & Supervisory Committee Members) who are independent from business execution, and eliminated overlap between the Directors and the officers

responsible for specific businesses (the internal company presidents) to further separate management oversight and business execution and thereby reinforce the oversight function of the Board of Directors. The Audit & Supervisory Committee comprises five members, of whom three (more than half) are Outside Directors.

We also proactively communicate with capital markets and carry out constructive, purposeful dialogue—engagement—with shareholders and other stakeholders in order to build enterprise value together.

Furthermore, to maintain society's confidence, we are advancing ESG initiatives. In particular, 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 and is reinforcing related initiatives accordingly.

Aiming to Offer Solutions Based on Comprehensive Strength

The battle against COVID-19 is expected to go on for some time. The resulting changes to the market environment are significant, and circumstances remain challenging. However, the Kawasaki Group has a corporate culture developed over more than 120 years and a workforce with cutting-edge skills and powerful imaginations. By uniting the mindsets of every one of our employees, we will change our organizations, making them faster and more responsive. In this way, I have no doubt that we will safely ride out this storm.

To this end, it will be crucial to push further with making digital transformation (DX) and remote work the standard and to firmly establish a corporate culture of producing results in less time. Developing a culture that embraces diverse values by making it easier for employees to work while raising small children or

nursing family members and proactively hiring non-Japanese nationals will also be an indispensable part of corporate management going forward.

The Kawasaki Group will inevitably face difficulties if it is to continue to create new value and increase its enterprise value. To ensure that every employee has an appropriate sense of urgency as we work to overcome the present challenging situation, I intend to take the lead and demonstrate the kind of change we need.

To realize the Group Mission, "Kawasaki, working as one for the good of the planet," I will work to pass on to the next generation the philosophy of "contributing to the nation—to society—through expertise" espoused by Kawasaki founder Shozo Kawasaki while striving to increase enterprise value, ready to write a new page in the Kawasaki Group's history.

To help in the fight against the COVID-19 pandemic, the Kawasaki Group is advancing a number of product- and service-based initiatives, such as the development of automated PCR viral testing robots. At the same time, in consideration of employee health and safety, we are taking steps to promote new ways of working, such as expanding remote working and setting up "support offices."



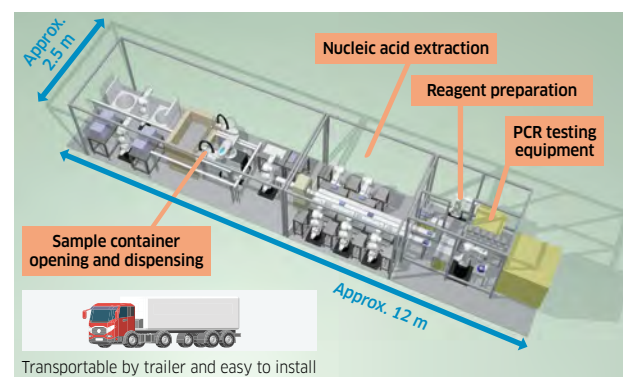
Developing an Automated PCR Viral Testing Robot System

Medicaroid Corporation, a joint venture of Kawasaki and Sysmex Corporation, a major clinical testing equipment and reagent maker, is contributing to society by leveraging its unique strengths—expertise in both robotics and medicine—to develop and test an automated PCR viral testing robot system and other products in preparation for additional waves of COVID-19 infection.

This automated PCR viral testing robot system consists of a robotic PCR test sample collection system and an automated PCR sample analysis system. The system helps prevent the secondary infection of doctors by enabling them to collect PCR test samples using a remote-controlled robot. This system leverages the technology of Kawasaki's *Successor* remote-operated human-robot collaborative system unveiled in 2017. Furthermore, automating the analysis of PCR test samples will enable the continuous 24-hour operation of testing centers. These systems will thus reduce the infection risk for and burden on medical professionals while preventing human error issues and alleviating medical professional shortages, thus significantly enhancing the PCR testing infrastructure.

The system can be compactly arranged to fit in mobile cargo container, making it easy to install and helping to save space. By enabling rapid testing via PCR test results to confirm that individuals are virus-free before they board airplanes or enter event venues, we aim to help restore the movement of people, greatly contributing to the normal functioning of society.

Furthermore, we are developing support systems using mobile robots for use in coordination with this system. These systems will enable remote preparation for medical examinations, such as asking patients basic questions, taking their temperature, and listening to their heartbeat, and share information, such as dietary or drug dosage records, helping alleviate nursing staff shortages.



Automated PCR viral testing robot system

Automatic Body Temperature Checking System at Kawasaki Good Times World and Kawasaki Robostage

Kawasaki installed an automatic body temperature checking system using its *duAro2*, a dual-arm SCARA robot capable of safely working together with humans, at the Kobe Maritime Museum/Kawasaki Good Times World (Kobe) and the Kawasaki Robostage robot showroom (Odaiba, Tokyo).

The automatic body temperature checking system uses a dual-arm robot equipped with a non-contact temperature sensor in its right hand. As each visitor enters, they position their forehead near the temperature sensor, then hold their hand in front of an operation-start sensor to have their body temperature checked. If the visitor's temperature is below a predetermined limit, the robot lifts the barrier held in its left hand, allowing the visitor to enter. If the visitor's temperature exceeds the limit, a staff member is called to the entrance. The entire process is thus carried out using only contactless sensors, meaning there is no physical contact between employees and visitors, helping to prevent the spread of COVID-19.

The *duAro2* is part of the *duAro* series, designed to safely collaborate with and work alongside humans. These highly

practical robots can learn through simple direct teaching* and are therefore used in a wide variety of situations and tasks. For safety, *duAro* robots' arms are covered in a soft material, and if a robot does come into contact with a person during operation, the robot detects the collision and halts its movement.

* Direct teaching: A method of inputting movement instructions in which the operator directly moves the robot's arms and the robot memorizes these movements.



PCR Testing Sample Collections Booths

The Energy System & Plant Engineering Company has begun producing PCR testing sample collection booths.

These sample collection booths are intended to prevent the infection of medical professionals via droplets transmitted from patients undergoing testing. The patient area is equipped with a UV sterilizing lamp to prevent patient-to-patient transmission, as well.

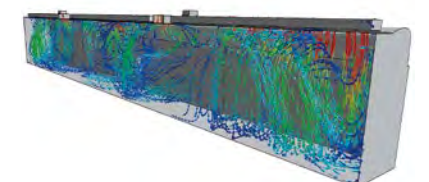
We have already delivered finished units to the Kobe Medical Association and Kawasaki Hospital, and three additional booths, with an upgraded design and additional functionality, are currently being built at Harima Works.



Measures to Improve Ventilation in Rolling Stock

Train cars are ventilated using onboard air conditioning systems, by opening doors at stops, and by opening windows. Leveraging its extensive rolling stock design and production experience and air conditioning simulation technology, the Rolling Stock Company is advancing research into effective ventilation measures.

In response to requests from railway operators, we are looking into ways to improve ventilation by, for example, modifying window designs. Combining such improvements with simulations will enable Kawasaki to offer unique package solutions.



Air conditioning simulation

Social Contribution

The Energy System & Plant Engineering Company produced approximately 6,500 medical-use face shields and 15,900 medical gowns at Kobe Works and Harima Works in April and May 2020. These were donated to medical institutions to help prevent the spread of COVID-19.

In addition, Kawasaki Group company Kawaju Support Co., Ltd. lent and set up outpatient reception tents for Kawasaki Hospital in Kobe City free of charge in April 2020.



Work Environments

Approaching the need to prevent the spread of COVID-19 as an opportunity to revise work styles, Kawasaki is advancing new measures. In addition to expanding the range of employees eligible to work from home, we set up multiple "support offices" in the common spaces of Company dormitories and housing to provide alternative, socially distanced workspaces for employees who find it difficult to concentrate on work at home. We have also implemented such measures as adopting flexible work systems, such as staggered work hours and non-overlapping shifts, implementing hiring and training activities online, and reinforcing our network environments.



A "support office"

The Kawasaki Group's Basic R&D Policy

The business segments and Corporate Technology Division work in close coordination, bringing together all available technologies and pursuing technological synergies to develop competitive new products and businesses in order to sustainably increase the enterprise value of the Kawasaki Group.

To increase profitability, we seek not only to increase the competitiveness of our products, but to create de facto standards through early market development in such areas as the hydrogen supply chain and to strengthen our service businesses, such as remote monitoring using Kawasaki products.

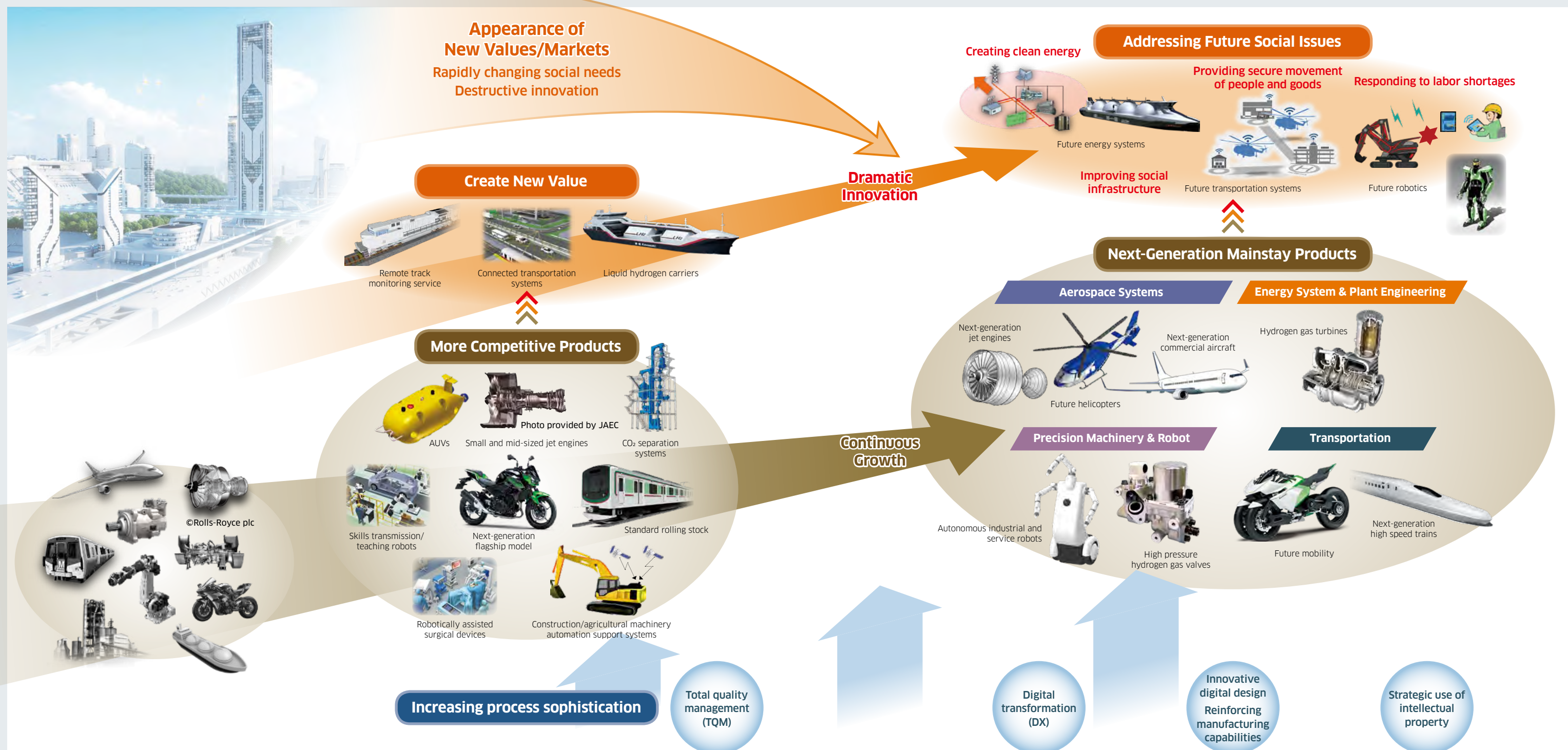
Furthermore, we are working to increase the sophistication of the various operational processes that are the foundation of our businesses. Specifically, we are reinforcing total quality management (TQM), using digital transformation (DX) to advance process visualization and improve productivity, strengthening our manufacturing capabilities using innovative new production technologies, reinforcing design capabilities leveraging the latest digital design technologies, and advancing intellectual property activities in coordination with business strategy.

Solving the Social Issues of the Future

In line with the philosophy of founder Shozo Kawasaki, "contributing to the nation—to society—through expertise," the Kawasaki Group has built on a foundation of innovative technologies to develop new products for more than 120 years. In doing so, we have provided solutions to a wide range of social problems—for example, creating industrial robots that help reduce workers' exposure to dangerous and unpleasant work conditions.

To provide innovative and timely solutions that satisfy constantly changing global markets and social needs, we are focusing on the business opportunities these changes create as we ambitiously work to rapidly create new value by, for example, making transportation equipment and industrial machinery more automated and autonomous to alleviate labor shortages.

The business segments and Corporate Technology Division thus work in close coordination to realize dramatic innovation while focusing on bringing together the Group's accumulated wealth of trusted technologies and expertise to develop new products and businesses that will serve as solutions to future social issues. In doing so, we are creating four types of social value: providing safe and secure, clean, comfortable movement of people and goods by land, sea, and air; creating clean energy; improving social infrastructure, especially in emerging countries; and responding to the needs of an aging society and shortage of labor through automation.



To address the problem of climate change, now so urgent as to be called the climate crisis, Kawasaki is focusing greater efforts than ever on reducing CO₂ emissions through product-based contributions and reducing CO₂ emissions from business activities to realize a low-carbon society. Making product-based contributions refers to providing products that emit little CO₂ during use, such as Kawasaki-brand Green Products.¹ We have achieved a certain emissions reduction effect through such contributions. In terms of CO₂ emissions from business activities, we are advancing Company-wide efforts to save energy, as part of which we are working to improve the efficiency of our onsite power generation facilities.

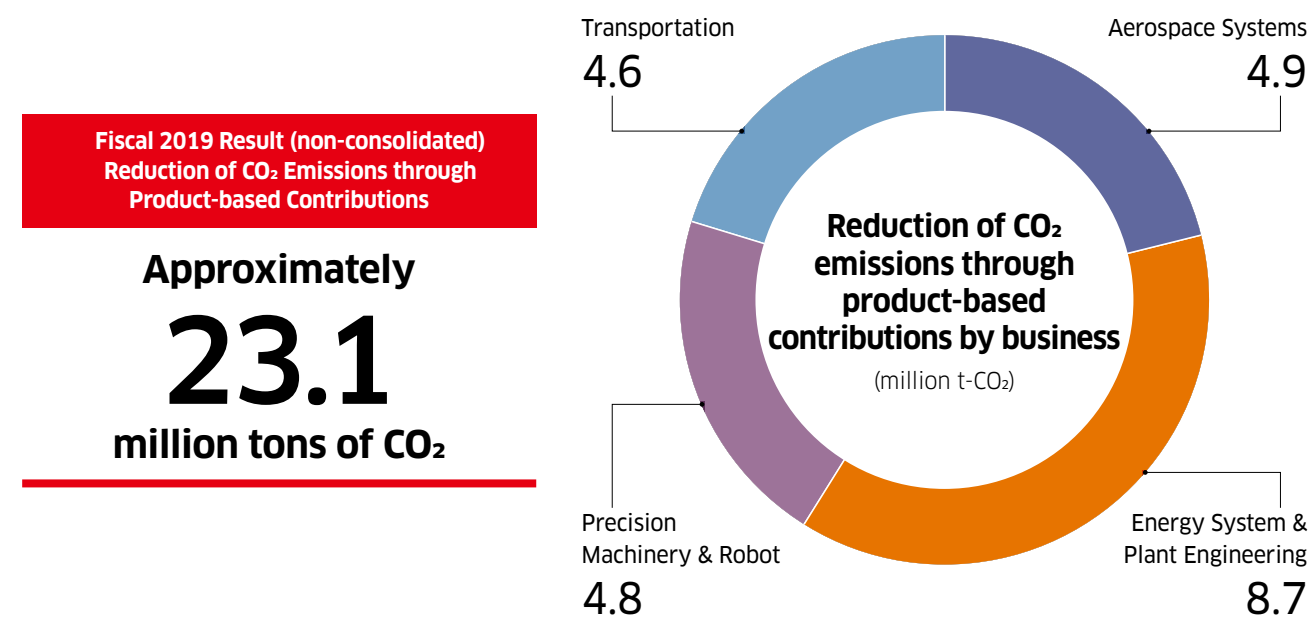
Reducing CO₂ Emissions through Product-Based Contributions

Approximately 90% of the CO₂ emitted during the life cycles of our products is released during the period of their use after they are sold. Therefore, Kawasaki seeks to realize a low-carbon society by providing products that produce only low CO₂ emissions during their use.

To reduce products' post-sale CO₂ emissions, in addition to increasing product energy efficiency, we are advancing electrification and modal shifts when replacing existing products in our product lineup and expanding our lineup of products that utilize exhaust heat, waste, and renewable energy. Key products that help reduce CO₂ emissions are shown on page 25. In fiscal 2017, we revised our rules for

calculating CO₂ emissions reductions through product-based contributions in order to better quantify the contributions of such products to the mitigation of global warming.

Calculations based on these rules showed that the CO₂ emissions reduction through products we sold in fiscal 2019 was about 23.1 million tons. Large contributions were made mainly by the M7A Series gas turbines for power generation, Kawasaki-brand Green Products boasting excellent reliability, economy, and environmental friendliness, and the M7V Series motors for HSTs,² which boast world-leading output control.



Calculation Rules

- **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., were selected for assessment.
- **Period of assessment:** Until fiscal 2016, we used a one-year period of assessment. However, in line with the revision of the calculation rules, since fiscal 2017, we have adopted a flow-based approach³ in which the period of assessment is the estimated useful life of products sold in the fiscal year, because the estimated useful lives of our products are long. This allows us to better calculate the difference in CO₂ emissions between our products and industry standard class products over the entire period of use.

1. The details of Kawasaki-brand Green Products are disclosed on Kawasaki's website:

http://global.kawasaki.com/en/corp/sustainability/green_products/index.html#2019item

We launched the Kawasaki-brand Green Products in-house registration program in 2013 for products that meet standards established by the Company related to energy efficiency and other factors. The number of registered products has continued increasing every year, reaching 61 in 2020.

2. HST: Hydrostatic transmission: A non-stage transmission comprising a hydraulic pump and hydraulic motors.

3. Please refer to the "Guideline for Quantifying Greenhouse Gas Emission Reduction Contribution" (Ministry of Economy, Trade and Industry, March 2018).

Particularly Notable Products That Contribute to Reducing CO₂ Emissions During Use

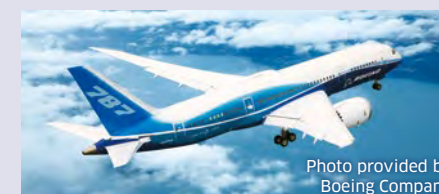
Aerospace Systems



BK117 D-2 helicopter



Trent series jet engines (components)



Boeing 787 (components)

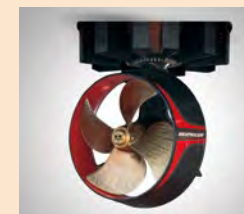
Energy System & Plant Engineering



Industrial-use gas turbines (M7A Series, etc.)



CK Mill crushing machine plant



E-series Rexpeller

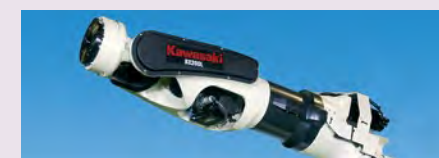
Precision Machinery & Robot



HST Motor M7V Series



High-pressure hydrogen regulators for fuel cell vehicles



Spot Welding Robot (BX200L)

Transportation



SOPass ship operation and performance analysis support system



efACE Standard Railcar



Ninja 400/Ninja 250

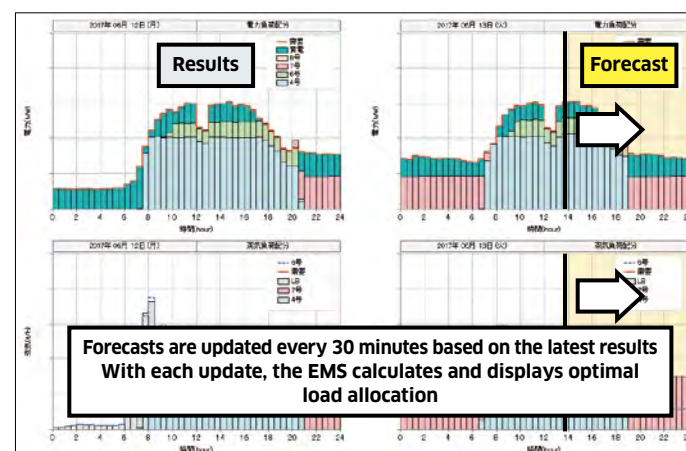
Reduction of CO₂ Emissions from Business Activities

To reduce CO₂ emissions from business activities, Kawasaki is implementing energy-saving initiatives based on energy-saving promotion structures for the Company as a whole and at each works.

One of the key strategies of the 10th Environmental Management Activities Plan is the proactive use of onsite power generation facilities that employ Kawasaki-brand Green Product gas turbines and gas engines as part of energy-saving efforts. Energy use accounts for much of the CO₂ emitted by our business activities. Therefore, optimizing the use of electricity and steam from onsite power generation can help to greatly reduce our CO₂ emissions. We are currently advancing efficiency improvements to existing onsite power generation facilities at the Akashi Works and

other sites while examining opportunities for facility replacements or new installations.

The Akashi Works uses combined-cycle generation (24,700 kW), cogeneration (8,100 kW) and mono-generation (1,800 kW) with gas turbines to supply electricity and steam within the works, using an energy management system (EMS) to optimize operations and thereby reduce CO₂ emissions. Based on the EMS's demand predictions, we have created optimized operational plans for each facility, reducing primary energy consumption by 4% (equivalent to approximately 3,000 t-CO₂ annually). The EMS updates its demand forecasts every 30 minutes, enabling optimized control of the start and stopping of facility operations.



Real-time forecast display (showing load allocation for each facility)

TCFD

In September 2019, Kawasaki officially endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).*

In addition to advancing concrete initiatives aimed at the realization of a low-carbon society, such as efforts to reduce CO₂ emissions from business activities and reduce CO₂ emissions through product-based contributions, we will enhance disclosure to stakeholders, including that of risks and opportunities related to climate change, as specified in the TCFD recommendations.

* TCFD

The TCFD was established by the Financial Stability Board, an international body in which the central banks and financial regulatory agencies of many major countries take part. For institutional investors and financial institutions that practice ESG investment and finance, it is important that companies recognize risks and opportunities related to climate change and incorporate them into their management strategy. In light of the significance of such considerations, the TCFD has developed recommendations for the voluntary corporate disclosure of risks and opportunities related to climate change.



Special Feature Quality Control

The Kawasaki Group believes that the thorough implementation of total quality management (TQM) not only strengthens its quality control system but helps create flexible and robust organizations and processes that enable it to adapt to the continually changing business environment and continue to grow. We strive to resolve such Company-wide issues, mainly through the TQM Department established in fiscal 2019.

TQM Initiatives

The serious incident related to the bogie frame of an N700 series Shinkansen railcar in 2017 made Kawasaki deeply reflect and reexamine its quality control system not only for the Rolling Stock division, but for the entire Company.

As a result, we decided to construct the Company-wide TQM-based quality control system to improve our quality control system's robustness. Full-scale activities toward this end began in fiscal 2019.

We established the TQM Department at the Head Office, which oversees activities being spearheaded by Vice President Namiki. In addition, we have set up the Company-wide Quality Conference, where TQM promoters of each business segment meet. The conference enables close information exchange and helps ensure TQM policy compliance to expedite activities and improve their efficiency.

Progress of Initiatives

The TQM framework is shown in the diagram below. TQM is not merely a quality control tool. It is a work-style reform model that considers and improves all operational processes, thereby comprehensively improving quality, cost, and lead time.

To promote better understanding of TQM, we held TQM seminars for the President and other top management and now provide TQM training for all employees. Due to the COVID-19 pandemic, recent TQM training has been conducted online. All employees will receive such TQM training by the end of fiscal 2020.

Moreover, we are reconstructing the Company-wide quality control training system with programs customized for specific positions and plan to start training under a new curriculum in fiscal 2020.

All business segments play a lead role in the TQM-based reform of their operational processes. The Head Office monitors their progress and the issues they face, providing support as needed.

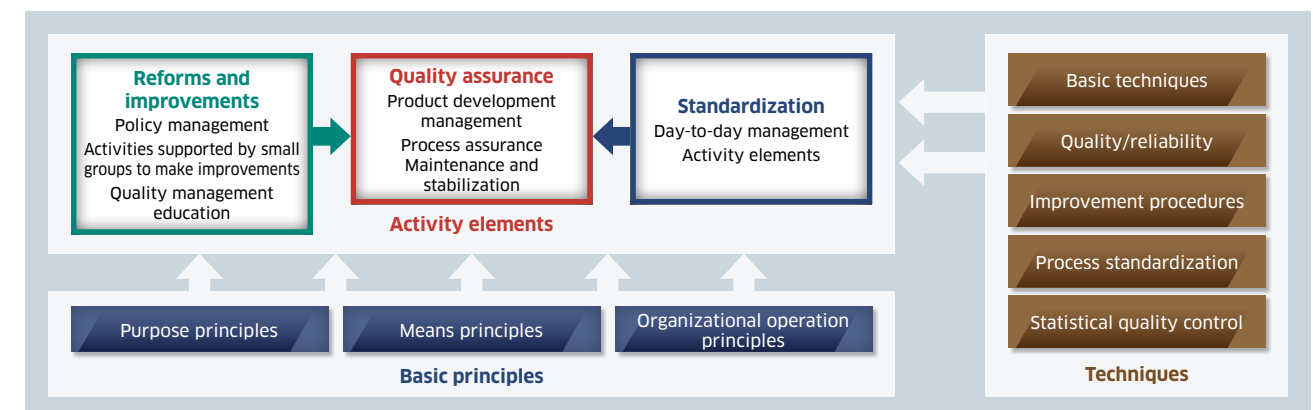
To this end, TQM Department representatives visit

each business segment to evaluate TQM-based reform in detail against objective indicators. Based on the results of these evaluations, the TQM Department closely discusses measures with the business segments. These discussions are reflected in its future TQM-based reform.

More than a year has now passed since the launch of these activities, and understanding of TQM has steadily deepened within each business segment.

Concrete and result-producing measures related to each element of TQM have been advancing. These include new product development management allowing for the clear definition of process flow using a quality assurance system chart; policy management to ensure the proper implementation of top management policies by staff in each position; and standardization and daily management aimed at facilitating the monitoring of practical operations and identifying and improving problems. Going forward, we will strive to accelerate these advances and further strengthen the Company-wide quality control system.

TQM Framework





Through management focused on Kawasaki-ROIC and total optimization, we will enhance our financial stability and sustainably create enterprise value

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

Financial Management during the COVID-19 Pandemic

The COVID-19 pandemic represents an unprecedented crisis for the global economy. The Kawasaki Group's businesses have been impacted in many ways, from lost sales opportunities to delays in business negotiations and supply chain disruptions. The Aerospace Systems business, in particular, has been hit hard, reflecting the rapid decrease in passenger demand, and Kawasaki expects to record an operating loss for fiscal 2020.

Our highest priority in responding to the current emergency situation is securing liquidity on hand. To this end, we increased our limit on cash on hand at the end of fiscal 2019, issued bonds, and expanded

our commitment lines. By doing so, I believe we have secured adequate liquidity on hand, which is indispensable to business continuity.

However, these measures have also increased our interest-bearing debt, so we are working to rein in cash outflows and improve cash management. Specifically, we are being more careful when selecting projects that require the investment of management resources, avoiding holding excess inventory, reducing fixed costs, and reducing total assets. As we take these steps, we are aiming to improve the D/E ratio to the 70% to 80% range, which we believe is an appropriate level in light of the Group's business risks.

Enhancing Kawasaki-ROIC Management

The Kawasaki Group operates a diverse range of businesses with distinct business cycles, including the Aerospace Systems, Energy System & Plant Engineering, Precision Machinery & Robot, Ship & Offshore Structure, Rolling Stock, and Motorcycle & Engine businesses. The distribution of cash sources that this diversity of businesses creates has a particularly beneficial stabilizing effect in the current emergency situation.

However, operating diverse businesses also makes management more complex, and maintaining discipline across all our business units (BUs) can be difficult. In light of this, in fiscal 2000 we adopted Kawasaki-ROIC Management, in which we use BU-level

ROIC to evaluate management performance, allocate resources, and decide compensation. Of course, simply adopting ROIC-focused management is not, in itself, sufficient to increase competitiveness. The important thing is to carefully examine the issues that arise in the course of such management and implement improvements accordingly on a continuous basis. The Kawasaki Group is implementing several ongoing initiatives to enhance the effectiveness of Kawasaki-ROIC Management.

One of these is "balancing autonomous business management and Company-wide corporate governance," which is the basic policy of the Medium-Term Business Plan 2019 (fiscal 2019–2021). In April 2020,

we consolidated the 28 BUs into 14 business divisions and appointed divisional heads charged with overseeing their business execution. For ROIC-focused management to function effectively, each of these divisional heads must advance management with strong leadership and commitment. In particular, they must implement management with a sense of ownership. We will ensure that they are capable of doing so by delegating authority so that they can take necessary risks within the limits imposed by their divisional equity and financial base in order to quickly and precisely achieve results and by encouraging further selective concentration of resources within their respective business divisions. To reinforce the oversight of management within the business divisions from a Company-wide perspective, in June 2020

Kawasaki transitioned to a company with an Audit & Supervisory Committee. The separation of business execution from management oversight will help us further advance the selective concentration of management resources.

Furthermore, in preparation for these changes, we implemented structural reforms in April 2019, establishing the Corporate Control Department, Finance Department, and Accounting Department under the Finance and Control Division. We also reinforced coordination between the administrative departments of the internal companies and the Corporate Planning Division of the Head Office, creating an organizational structure that is better able to enforce financial discipline.

Cash Flows Created through Total Optimization

The organizational reforms aimed at separating business execution from management oversight and reinforcing financial discipline play an important role in ensuring that ROIC-focused management contributes to enterprise value. However, for the Kawasaki Group, with its many businesses and their diverse business cycles, to create even greater enterprise value, those businesses must quickly and comprehensively combine their resources to produce innovation and solutions to social issues and advance business creation in ways that specialized businesses cannot do alone.

Currently, one priority initiative of the Kawasaki Group is leveraging Group technologies, products, and services to create solutions to the challenges faced by society due to the COVID-19 pandemic. For example, considering the ways the pandemic is changing the world we live in, we are working to expand the use of remotely operated robots to enable remote work in both offices and production sites, and, leveraging

those robotics technologies, developing an automatic PCR viral testing robot system that can be used at airports and other facilities. By bringing together the diverse technical backgrounds within the Kawasaki Group and working with other companies and organizations, we aim to deliver these solutions to society faster than ever before. Such initiatives not only have a positive effect in terms of solving social issues, but are expected to improve the Group's medium- and long-term cash flows.

To bring out the value of the Group that is present in its diverse businesses, we are advancing the sharing of business strategy based on Kawasaki's analysis of mega-trends between the head office divisions and internal companies, promoting management visualization that leverages digital transformation (DX) technologies and bolstering all our initiatives through total optimization.

Realizing both Shareholder Returns and Corporate Growth

The Kawasaki Group positions increasing enterprise value—that is, the stable creation of profit in excess of capital cost into the future—as its fundamental management policy. Furthermore, continuously investing in the cutting-edge R&D and innovative capital expenditure necessary for future growth and thereby returning profits to shareholders by enhancing shareholder value over the long term is one of our material management issues.

We seek to maintain a good balance between enhancing shareholder value and returning profits to shareholders through dividends. Based on a comprehensive examination of both the outlook for future earnings and the Company's financial condition, including free cash flow and D/E ratio, and with an

eye to maintaining stable dividends, we have set a medium-to-long-term consolidated payout ratio standard of 30% (calculated against profit attributable to the owners of the parent).

The Kawasaki Group has been greatly impacted by the stagnation of the global economy caused by the COVID-19 pandemic. As such, giving priority to securing liquidity on hand, we decided not to pay a year-end dividend for fiscal 2019. By further accelerating initiatives to reinforce the financial base, enhance ROIC-focused management, and promote total optimization, we will strive to achieve recovery as quickly as possible while working toward enterprise value creation over the medium and long terms.



We aim to create vibrant organizations that continuously enhance the abilities of all employees, foster cooperation, and produce results

Kouzou Tomiyama
Executive Officer
General Manager, Human Resources Division

Leveraging Our Most Important Asset—People

The Kawasaki Group operates businesses across a uniquely wide range of fields, from movement by land, sea, and air to technologies for use in space and the deep sea. The foundations underpinning these diverse businesses are none other than our human resources. We regard our employees—the source of the added value the Group provides—as our most

important asset for achieving the Group Mission. Securing, training, and effectively utilizing human resources so that they can develop and exercise their potential to the fullest is indispensable to solving management issues and realizing our future vision. This overarching conviction is positioned as our human resource strategy.

A Human Resource Strategy That Boosts Speed and Innovation

Backed by strong relationships of trust with customers, Kawasaki's businesses are capable of providing a stable flow of products and services over the long term. To support these businesses, we have built and operated human resource systems designed to fit their needs. Right now, such technologies as AI and IoT are evolving rapidly, and sources of profit are rapidly shifting as markets continually change. The COVID-19 pandemic has only accelerated these trends. In this new environment, we must quickly understand customer needs, which are changing faster than ever, and integrate knowledge and ideas from within and outside the Company to quickly provide the solutions that society

needs. To this end, our human resource strategy must function in close coordination with our management strategy to continually produce the human resources who will support the Company through these changes.

Specifically, current tasks under our human resource strategy include motivating every employee to continually expand their own role; reinforcing the communication needed to exercise and grow diverse abilities; recognizing the value of and rewarding ambitious, forward-looking efforts; and systematically developing human resources capable of leading in times of change.

Group Vision 2030 and Human Resource Strategy

Looking to the future beyond “Changing Forward,” the Kawasaki Group has established “Trustworthy Solutions for the Future” (Group Vision 2030) as its vision for 2030. This vision encompasses our goal of realizing a Kawasaki that is capable of quickly responding to change to deliver new added value and highly attuned to developments in the wider world from the perspectives of markets, social issues, and customers, as well as our desire to realize ideal ways of working for ourselves.

In terms of our people and organizations, our vision is to

realize people and organizations that quickly respond to environmental changes and continually proactively change and take on new challenges as well as organizations that utilize effective work styles to maximize results. We are working to foster the exchange of people and insight across internal companies and a culture of quickly acting and taking on challenges.

One example of such efforts is the project focused on developing a PCR viral testing robot system that we are currently advancing toward commercialization. Employees

with wide-ranging insights, from the Robot Business Division as well as other internal companies, are taking part in the this project, exercising the full extent of their expertise and experience to help meet the needs of society by helping to keep the economy functioning during a pandemic. We are seeing signs of change throughout the Company as, through efforts like this, employees work together at the project level, experiencing the possibility of innovation at a faster pace, and then take that experience back and apply it in their own divisions.

To thus horizontally combine the cutting-edge technologies and expertise of each division and realize synergy, we need an organization that will encourage regular, active personnel exchanges between the internal companies on an

ongoing basis. In August 2020, we established the Project Promotion Office, under the direct control of the President, to fulfill this role by promoting Company-wide, cross-division projects. The goal of our human resource strategy, which the new office advances, is to create environments that facilitate the open exchange of human resources across organizational boundaries, encourage proactive, ambitious efforts on the part of employees, and quickly achieve results from such efforts. By recognizing the value of proactive, ambitious efforts to take on new challenges, even if they end in failure, we make it easier for employees to achieve better results the next time. Our human resources divisions help motivate employees to this end through appropriate systems and evaluations.

The Virtuous Cycle of K-Win Activities and Human Resource Strategy

Such initiatives will, obviously, require changes in employee mindsets. In 2016, we launched K-Win Activities (short for Kawasaki Workstyle Innovation Activities), focused on realizing better workstyles, with the aims of keeping employees highly motivated and enhancing the competitiveness of the Group as a whole. Through these activities, we have advanced initiatives aimed at promoting work-life balance, increasing the productivity of administrative and technical personnel, and reducing long working hours.

Since fiscal 2018, we have expanded K-Win activities from a focus on workstyle reforms to include initiatives to transform our corporate culture and operations, and we are now further expanding them to encompass activities related to fostering a corporate culture aimed at achieving the Group Vision and developing and transforming individuals'

mindsets. K-Win activities begin with employees asking themselves what they can do to share a mindset of boldly taking on change throughout the Company. Key individuals from each division gather ideas that then lead to new, concrete initiatives. Even when these ideas yield little progress, they provide valuable experience, showing employees that they themselves have the power to change mindsets and environments. As a result, employees throughout the Company have begun to more proactively offer suggestions, which I feel is a sign of growing momentum toward transformation. The continuation of the K-Win activities will, I think, have a positive impact on the uptake of the various human resource measures being implemented under our human resource strategy.

Further Promoting Diversity

Promoting diversity requires making maximum use of the unique abilities of each employee. The key here is to ensure that every employee recognizes that organizations with diversity are best at adapting and surviving. Mutual recognition and respect among diverse individuals with differing ideas and values will lead to greater professional fulfillment and motivation, creating a virtuous cycle.

Going forward, we will continue to promote diversity and inclusion, including efforts to increase the proportions of

women and non-Japanese nationals among our employees, promoting the productive work of the elderly and persons with disabilities, and supporting LGBT employees. By doing so, we will work to build workplaces where diverse human resources can express their individuality and exercise their abilities. Making the Kawasaki Group an appealing place to work that is rich in diversity will surely help attract outstanding people who will want to work there in the future.

Developing People and Organizations that Grow Toward the Realization of the Group Vision

Having defined Group Vision 2030, the Kawasaki Group now has the opportunity to transform into a better version of itself. Responding to the COVID-19 pandemic has provided an impetus to examine many issues that we would have had to address eventually. For example, the increased use of remote working has helped clarify the need for frameworks to support new approaches to work that do not necessarily assume that employees will all be working at the same place or time.

The Kawasaki Group's many technological innovations,

revolutionary products, and achievements in developing new markets have all been made possible by its people. Going forward, to realize effective, productive work styles while keeping people at the center, we will revise internal regulations and systems, create work systems for the new normal conditions with COVID-19, and use one-on-one meetings to enhance communication and build relationships of trust between supervisors and their subordinates. Through these and other measures, we will promote the continued growth of individuals and the Kawasaki Group.

Aerospace Systems

Main Products

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

Hiroyoshi Shimokawa

President,
Aerospace Systems Company



Vision

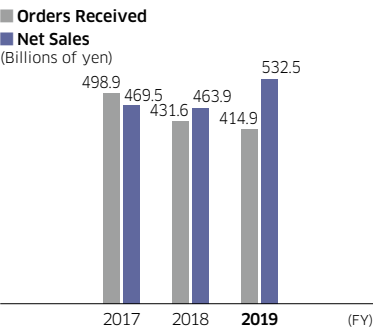
A leading company that consistently creates new value for the world through excellent aerospace technologies and *monozukuri* manufacturing quality

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

Core Competence	
Aircraft	- 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)
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

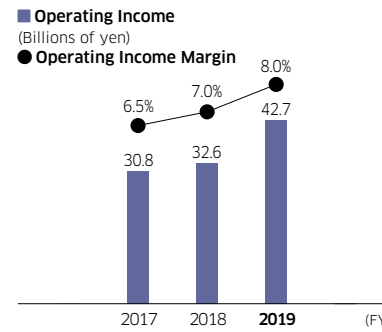
Business Direction	
Defense Aircraft	- Steady progress on existing development projects and production contracts - Expand orders for new projects
Commercial Aircraft	- Improve productivity and efficiency in response to decreased aircraft demand - Consider participation in next-generation aircraft projects
Jet Engines	- Secure inclusion in new engine projects by improving development capabilities - Provide additional development and production for projects in which we are already participating - Consider entering the maintenance, repair, and overhaul (MRO) business

■ Orders Received
■ Net Sales
(Billions of yen)



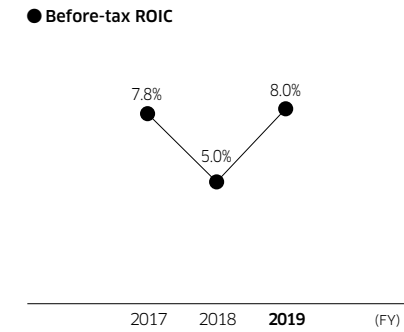
(FY)	Orders Received	Net Sales
2017	498.9	463.9
2018	469.5	414.9
2019	431.6	532.5

■ Operating Income
(Billions of yen)
● Operating Income Margin



(FY)	Operating Income	Operating Income Margin
2017	30.8	6.5%
2018	32.6	7.0%
2019	42.7	8.0%

● Before-tax ROIC



(FY)	Before-tax ROIC
2017	7.8%
2018	5.0%
2019	8.0%

* The results for fiscal 2017 shown above have been restated to reflect company reorganization in April 2018.

Operating Environment and Strategies

Global air passenger and air freight volume were expected to expand over the medium to long term, reflecting economic growth in emerging countries, but in fiscal 2020, the COVID-19 pandemic caused passenger demand to fall sharply, and recovery in the commercial aircraft and jet engine markets is expected to take several years. In this business environment, we will work toward further improvement in productivity and efficiency while aiming for quick recovery in business performance by implementing a variety of new initiatives (such as pursuing automatic PCR viral testing systems) not bound by our conventional businesses.

In the defense aircraft sector, we will move steadily toward mass production of the P-1 patrol aircraft and C-2 transport aircraft while seeking to capture orders for modernized and derivative types of aircraft. We will also export defense equipment in line with government policy.

In the commercial aircraft sector, we will work to improve productivity and efficiency in response to decreased aircraft demand while advancing considerations of participation in next-generation aircraft programs.

In the jet engine division, we will work to further stabilize quality, reduce costs, and reinforce supply chains for projects in which we already participate while adopting IoT and other advanced technologies to improve productivity.

We will further reinforce our technological strengths in compressors, combustors, and gears—strategic components for Kawasaki—and use these strengths as a foundation for participating in new projects. In addition, we aim to gradually secure engine maintenance capabilities with a view to entering the MRO business.

Initiatives to Create Social Value

The Aerospace Systems Company has designated as its vision for 2030 providing air transportation systems combining excellent environmental performance with excellent safety and reliability. To achieve this vision, we are participating in the development of Boeing 787 and 777X aircraft as well as jet engines, such as the Trent series and PW1100G-JM, to contribute to the steady supply of low fuel consumption aircraft and low fuel consumption engines. We will also focus on the production and sale of the BK117 low-noise helicopter, which is expected to be used in firefighting, disaster response, and ambulance services. Furthermore, we aim to participate in the joint international development of new, environmentally conscious aircraft and engines and thereby contribute to environmental improvement.

Goals for fiscal 2021	- Provide environmentally conscious aircraft, helicopters, and engines and participate in new programs - Produce components for Boeing 787 - Sales of BK117 units: Produce finished units and components - Produce components for Trent 1000, Trent XWB and PW1100G-JM low fuel consumption engines
Fiscal 2019 Results	- Components for Boeing 787: 167 units sold - Sales of BK117 units: One finished unit and 83 components - Produce components for the Trent 1000, Trent XWB, and PW1100G-JM low fuel consumption engines

BK117 D-2 helicopter

Trent XWB
©Rolls-Royce plc

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Energy System & Plant Engineering

Main Products

Energy

- Gas turbine cogeneration systems
- Gas and diesel engines for power generation
- Steam turbines
- Aerodynamic machinery
- Boiler plants
- Combined cycle power plants

Plant

- Industrial plants (cement, fertilizer, and others)
- LNG 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

Tatsuya Watanabe

President,
Energy System & Plant Engineering Company



Vision

A distinctive equipment, system, and plant manufacturer that uses technologies and boasts quality underpinned by sophisticated product development expertise and engineering know-how to globally provide products and services that help protect the environment and earn high customer satisfaction, mainly in the areas of energy and the environment.

Opportunities

- Growing demand for energy and infrastructure in emerging and resource-rich countries
- Growing demand for distributed gas-fueled power generation facilities prompted by lower LNG fuel prices
- Tightening environmental regulations
- Demand for CO₂-free power generation facilities for new installations and facility replacement

Risks

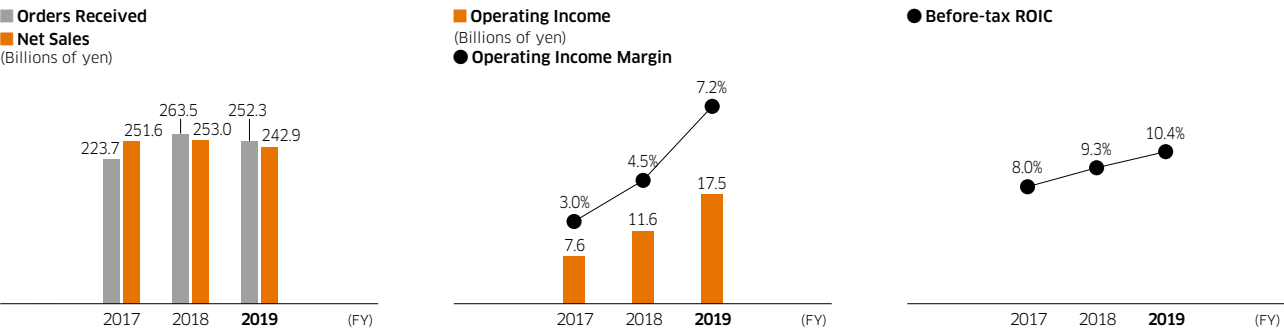
- Delayed projects due to a viral pandemic or prolonged slump in price of oil
- Weakening investment incentive paralleling economic slowdowns in emerging countries and resource-rich countries
- Prolonged slump in the shipping market

Core Competence

- Ability to provide solutions leveraging synergy from combining Kawasaki-brand products, such as the combined cycle power plant (CCPP) standard package, which combines a gas turbine, steam turbine, and waste heat recovery boiler, as well as gas engine/gas turbine hybrid projects
- Environment-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

Business Direction

- Create new technologies, products, and added value that contributes to reducing environmental burden
- Reinforce project responsiveness by effectively utilizing and sharing resources
- Advance overseas business development through initiatives closely tailored to local communities and customers and build a foundation for future earnings growth



* The results for fiscal 2017 shown above have been restated to reflect company reorganization in April 2018.

Operating Environment and Strategies

In the energy sector, demand for gas-fired power generation is expanding, and distributed power generation needs are also increasing, especially in Asia. In the plant sector, we anticipate stable domestic and overseas demand, reflecting infrastructure development and heightened interest in environmental protection, especially in emerging countries, including those in Southeast Asia. Furthermore, in the marine propulsion sector, demand is expected to grow in areas related to improving environmental performance, including reducing greenhouse gas emissions, as well as improving safety, reducing the need for specialized skills, and increasing the efficiency of ship operations. However, some customers are revising or delaying their capital expenditure decisions due to the COVID-19 pandemic, price competition remains intense, and reinforcing cost competitiveness will be a task going forward.

In this operating environment, we aim to secure orders by providing unique, high-value-added products and strengthening our sales systems and maintenance and after-sales services. When bidding for orders, we will be more selective, emphasizing profitability over scale. We will also reinforce quality assurance and risk management systems to reduce costs from defective products and improve profitability.

Furthermore, aiming to expand sales of the CCPP standard package, which combines a Kawasaki gas turbine, steam turbine, and waste heat recovery boiler, we will reinforce our overseas sales systems. We are also advancing investment in hydrogen-related projects and product development aimed at future business growth and the realization of a carbon-free society. To this end, we plan to begin operations of a pilot hydrogen supply chain by the end of 2020.

Initiatives to Create Social Value

The Energy System & Plant Engineering Company has designated as its vision for 2030 being a distinctive equipment, system, and plant manufacturer that uses technologies and boasts quality underpinned by sophisticated product development expertise, manufacturing technology, and engineering know-how to globally provide products and services that help realize CO₂-free energy and reduce environmental burden while earning high customer satisfaction, mainly in the areas of energy and the environment.

To achieve this vision, we aim to advance both economic growth and environmental protection by providing energy-saving, highly resource-efficient equipment, such as gas turbines that realize the world's highest level of efficiency and environmental performance, gas engines that realize the world's highest level of performance, and other power generation facilities. Specifically, we are working to combine core products and incorporate in-house know-how, reinforce our ability to handle overseas projects, and create new solutions while concentrating management resources on the hydrogen business and advancing the development of products that contribute to decarbonization. We will contribute to infrastructure improvement by providing such products as tunnel boring machines and cryogenic storage facilities while also contributing to environmental protection in urban areas through deliveries of energy-saving waste incinerators, water treatment facilities, desulfurization/denitrification devices, and other systems.



Goals for fiscal 2021	- Expand supply of Kawasaki's power plants, which boast world-class generating efficiency and power-saving performance, in Southeast Asia, where electricity demand is growing rapidly, to meet needs for economic development and greater environmental friendliness in emerging countries - Develop products with greater environmental burden alleviating effects and respond to environmental regulations - Advance development of hydrogen gas turbines that contribute to CO₂ emissions reduction
Fiscal 2019 Results	- Deliveries of power generation facilities to overseas customers: 14 units - Deliveries of gas-to-gasoline (GTG) plants: 1 unit



Ship & Offshore Structure

Main Products

- LPG carriers
- LNG carriers
- Bulk carriers
- Jetfoils
- Submarines

Ichiro Kono

President,
Ship & Offshore Structure Company



Vision

A shipbuilding and offshore structure engineering group pursuing innovation in cutting-edge fields with a focus on hydrogen technologies and low-temperature, high-pressure gas technology, submarine technology, and overseas projects.

Opportunities

- Increasing demand for vessels with low environmental burden due to tightened environmental regulations
- Recovery in carrier demand owing to growing demand for LNG and LPG
- Greater automation using IoT and AI
- Expanding operations to meet needs for an increasing fleet of submarines

Risks

- Increasingly fierce competition with China and South Korea
- Prolonged slump in shipping market
- Stalling of business talks due to the COVID-19 pandemic or prolonged slump in fuel prices

Core Competence

- Low-temperature and high-pressure gas-related technologies accumulated through the development and construction of LNG and LPG carriers
- Quality and cost competitiveness of the overall Group, including Chinese joint ventures (NACKS, DACKS*)
- Energy-saving, environmental burden-reducing technologies, and ability to develop new ship designs
- Sophisticated technology specific to submarines

* NACKS, DACKS: Shipbuilding joint ventures established in Nantong, Jiangsu Province and Dalian, Liaoning Province, with China COSCO Shipping Corporation Limited (China COSCO)

Business Direction

- Integrated operation of the Sakaide Works, NACKS and DACKS
- Accelerate new product development and commercialization
- Steadily advance liquefied hydrogen carrier development

Operating Environment and Strategies

For two years—fiscal 2015 and fiscal 2016—this business segment booked sizable losses, prompting structural reforms led by the president. While the submarine business has been steady, the merchant ship business has faced a harsh operating environment reflecting excess construction capacity worldwide as well as a confluence of aggressive price competition by large shipyards in China and South Korea and stalled business negotiations due to uncertainty about the global economic outlook caused by the COVID-19 pandemic.

However, as environmental regulations continue to tighten going forward, demand for gas-related vessels, an area of strength for Kawasaki, is expected to increase. Kawasaki will continue to focus on gas-related vessel building, reinforcing its engineering capabilities and advancing business operations centered on integrated operations with its joint ventures in China to improve profitability. In addition, we will pursue the development and sales expansion of our ship operation and performance analysis support system (SOPass), which combines ship-related knowledge accumulated by Kawasaki with big data technology, as well as our fuel gas supply systems (FGSSs), which leverage our gas-related technologies. Furthermore, we will accelerate the development of large commercial liquefied hydrogen carriers.

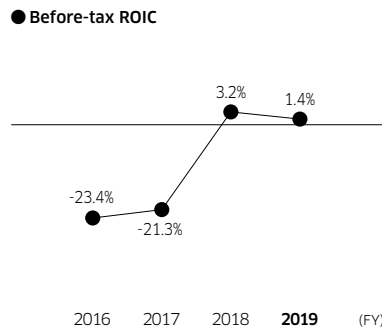
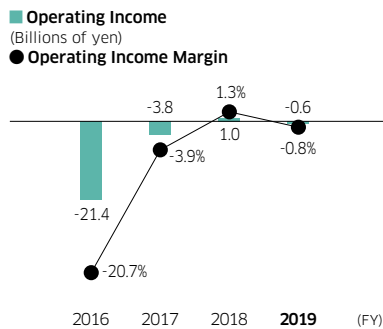
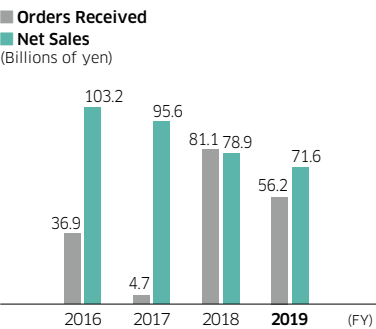
In the submarine business, we will reinforce our R&D framework, aiming to secure orders for next-generation submarines. At the same time, we will apply our accumulated wealth of submarine-related technologies to the development of such products as autonomous under water vehicles (AUVs).

Initiatives to Create Social Value

The Ship & Offshore Structure Company is contributing to environmental conservation by promoting the spread of LNG-fueled ships and developing and building large hydrogen-fueled liquefied hydrogen carriers. Compared with heavy oil, the use of LNG enables substantial reductions in emissions of atmospheric pollutants, such as nitrogen oxide (NOx) and sulfur oxide (SOx). By developing and building a variety of LNG-fueled vessels, we are helping to meet NOx and SOx emissions regulations for ships to prevent air pollution over the sea. Furthermore, we are providing our LNG-fueled propulsion systems for ships constructed by other shipbuilders, and working to commercialize FGSSs to promote the operation of environmentally friendly LNG-fueled vessels around the world. We are also developing high-capacity liquefied hydrogen carriers. As hydrogen emits no CO₂ when used as fuel, it is the ultimate in clean energy. By commercializing the world's first ships that can economically carry large volumes of hydrogen, Kawasaki will promote the spread of hydrogen energy and contribute to the realization of a CO₂ emission-free society. In addition, we are developing hydrogen-fueled ship propulsion systems.



Goals for fiscal 2021	• Complete construction of a small liquefied hydrogen carrier (pilot ship) • Complete the development and commercialization of FGSSs • Receive multiple orders for LNG-fueled ships • Receive orders for FGSSs
Fiscal 2019 Results	• December 2019: Developed LNG dual-fuel system for medium-sized tankers, and for a tanker built by another company using this system received approval in principle (AiP) • December 2019: Launched a small liquefied hydrogen carrier • March 2020: Installed a liquefied hydrogen storage tank for marine transport on the small liquefied hydrogen carrier



Liquefied hydrogen carrier



Jetfoil

Rolling Stock

Main Products

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

Kazutoshi Honkawa

President,
Rolling Stock Company



Vision

The world’s most trusted rolling stock system supplier, moving and inspiring customers worldwide based on strong teamwork and the highest level of technology and quality.

Opportunities

- Firm replacement demand in the domestic market
- Demand for urban transportation development in emerging countries in Asia
- Stable demand for subway and commuter train systems in the North American market
- Expanding recurring demand, including that for components, maintenance, and repair and rebuild work across markets

Risks

- Intensifying price competition due to the entry of competing manufacturers into the North American market
- Country risk in new markets for Kawasaki
- Revisions to investment plans by railway companies due to the COVID-19 pandemic

Core Competence

- High-tech expertise built on comprehensive heavy industry strengths
- Ability to fulfill contracts cultivated from extensive domestic and overseas track record
- Partnership capabilities with other companies in execution of overseas projects

Business Direction

- Rebuild the quality control system, pursue orders with a thorough focus on profitability, and maintain and improve non-price competitiveness, leveraging outstanding technical expertise
- Steadily fulfill large orders already received in the North American market and work to secure orders in emerging Asian countries
- Aggressively develop highly profitable recurring revenue businesses that leverage our extensive track record of orders delivered and expand revenue across the rolling stock life cycle by reinforcing our core competence

Operating Environment and Strategies

Due to the COVID-19 pandemic, the number of rail passengers in Japan has declined, and railway companies are revising their investment plans. Meanwhile, delays are emerging in the construction of new rail lines overseas. Nevertheless, railway systems are an environmentally friendly mode of public transportation and necessary to daily life, and stable demand growth is expected over the long term due to urban transportation development to address congestion and environmental issues in major cities. These issues arise from continued urbanization around the world as well as rising demand for railway infrastructure accompanying economic development in Asian countries.

In this operating environment, the Rolling Stock business is working to improve profitability through enhanced competitiveness in areas other than price and business model reform while reinforcing product management and enhancing quality control. Furthermore, based on a policy of putting quality before quantity, we will focus on projects in which we can demonstrate Kawasaki’s superiority while expanding recurring revenue businesses in and outside Japan, aiming to increase profitability, which has been an issue.

In the North American market, we will steadily fulfill existing orders from such customers as the MTA New York City Transit. We will also work to build a stable revenue base by commercializing track monitoring using IoT and focusing on such businesses as components, repair and rebuild, and maintenance.

The Asian market is expected to see ongoing growth.

In this market, we will seek business expansion through such means as securing orders for projects financed by ODA loans in emerging countries in line with the Japanese government’s policies of promoting exports of railway infrastructure.

Initiatives to Create Social Value

The Rolling Stock Company has designated as its vision for 2030 helping to build better global transportation infrastructure by manufacturing rolling stock that is safe and comfortable to ride in, highly reliable, highly cost efficient over its life cycle, and energy saving to minimize the burden on the environment. To this end, we will promote participation in high-speed train projects at home and abroad and continue to provide rolling stock to customers in Japan, North America, and Asia while seeking to participate in projects to build new rolling stock infrastructure in emerging Asian countries. At the same time, we will develop a diverse lineup of more environmentally friendly products, including locomotives, electric train cars, and diesel railcars. In addition, to better meet customer needs, we will further develop monitoring technologies that combine sensing, image analysis, and IoT technologies; work to maintain and improve safety and dependability; improve train maintenance efficiency; and contribute to the realization of train systems boasting excellent cost efficiency over their entire life cycle.

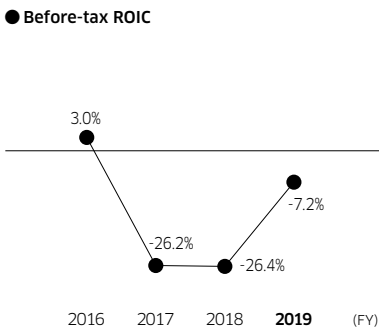
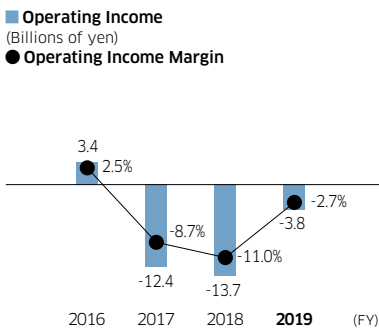
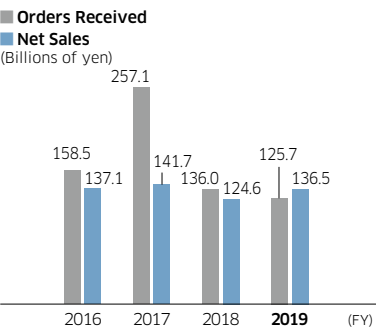


Goals for fiscal 2021

- Execute large projects in North America (R211 cars for the New York City Subways) as planned
- Execute projects financed by ODA loans in Asia (Dhaka Metro MRT Line-6 in Bangladesh) as planned
- Expand stock businesses to improve customer maintenance efficiency and maintain safe, dependable transportation
- Launch sales of components that leverage sensing and image analysis technologies and roll out component and service businesses aimed at improving maintenance efficiency

Fiscal 2019 Results

- Rolling stock units delivered: 528
- Conducted tests with railway companies aimed at launching sales of components that leverage sensing and image analysis technologies
- Developed products and services aimed at expanding into peripheral rolling stock businesses, including maintenance



Series 5000 for Odakyu Electric Railway Co., Ltd



Series E261 for East Japan Railway Company (JR East)
(photo provided by East Japan Railway Company)

Motorcycle & Engine

Main Products

- Motorcycles
- Off-road utility vehicles (SxSs ATVs)
- Personal watercraft (PWC)
- General-purpose gasoline engines

Yuji Horiuchi

President,
Motorcycle & Engine Company



Vision

Guided by the “Kawasaki, working as one” philosophy, continue to grow as a manufacturer with primary focus on high-value-added domains in the power sports and general-purpose engine markets.

Opportunities

- Motorcycles**
- Stable demand in developed countries and progress in the development of IoT applications, advanced safety features and other technologies
 - Medium- to long-term market expansion in emerging countries
- Utility vehicles**
- Expanding market in North America
- General-purpose gasoline engines**
- Firm growth, reflecting U.S. housing market expansion

Risks

- Motorcycles**
- Intensifying price competition in emerging markets
 - Tightening environmental regulations
- Utility vehicles**
- Intensifying price competition
 - Rising materials prices and tariffs due to escalating U.S.-China trade friction
- Shared**
- Slump in consumption or economic recession due to a viral pandemic

Core Competence

- Strong, clearly differentiated brands, such as *Ninja*, *Z*, *MULE*, and *TERYX*
- World-leading product development expertise
- Technological capabilities to develop and produce high-performance, high-quality products
- Global production, sales, and service structure

Business Direction

- Increase product competitiveness by introducing new models and expanding the model lineup
- Improve profit margins by raising sales prices and cutting costs and control fixed costs associated with development, production, and sales
- Promote inventory adjustment and other measures to increase free cash flows
- Proactively pursue collaboration and business tie-ups with other companies

Operating Environment and Strategies

Due to the COVID-19 pandemic, the outlook in our mainstay markets in Europe, the United States and Southeast Asia is unclear. Furthermore, conditions are growing more challenging, as raw materials costs and tariffs increase, reflecting U.S.-China trade tensions, and new manufacturers based in emerging countries enter markets. As such, Kawasaki needs to improve its productivity.

In this environment, we will anticipate the needs of customers and draw on world-class product development expertise and our strong, highly differentiated brands, such as *Ninja*, *Z*, *MULE*, and *TERYX* to quickly bring attractive, highly competitive models to market. At the same time, we will work to establish Kawasaki as a high-end brand through such means as customer relationship management. Furthermore, we will implement initiatives aimed at establishing and strengthening systems to control and streamline our global management resources from the perspective of overall optimization. By implementing this and other strategies, we will strengthen our financial platform (increase the operating income margin and free cash flow).

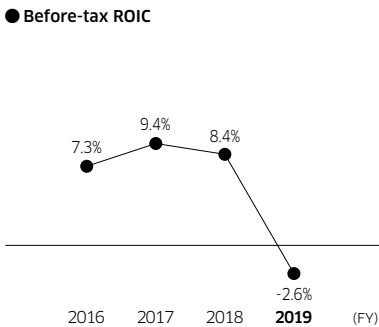
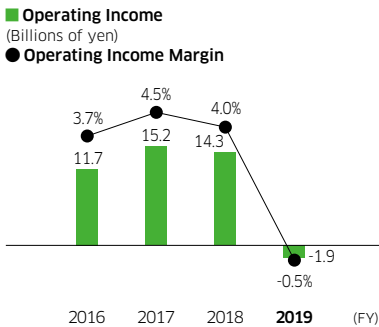
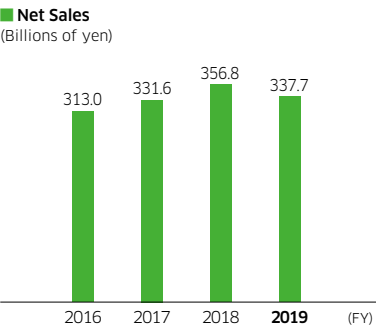
Initiatives to Create Social Value

The Motorcycle & Engine Company has designated as its vision for 2030 developing, manufacturing and delivering environmentally friendly motorcycles, as well as models with “fun-to-ride” appeal and advanced rider-support features. To realize this vision, in line with the philosophy that drives product development at Kawasaki, the concepts of “Fun to Ride,” “Ease of Riding,” and “Better Environmental Performance,” we are working to improve motorcycle performance, enhance rider-support features, and respond to tougher exhaust gas, noise, and other environmental regulations. Kawasaki aims to put motorcycles with C-ITS* functions and other advanced rider support functions on the market as soon as possible. In electric motorcycles, hybrid motorcycles, and other motorcycles powered by clean energy, we are building and evaluating the performance of prototypes with an eye to future business development.

* C-ITS: Cooperative Intelligent Transport Systems



Goals for fiscal 2021	- Realize comfortable and convenient transportation by launching connected motorcycles with data transmission functions and help users ride with confidence by adopting rider support functions - Clear the EU's strict emissions regulations and other environmental regulations around the world - Every fiscal year, achieve at least a 1.5% average increase in WMTC* fuel economy on new models over the previous models * WMTC: Worldwide-harmonized Motorcycle Test Cycle
Fiscal 2019 Results	- Implemented smartphone connectivity for the <i>Ninja 1000SX</i>, <i>Z900</i>, <i>Ninja 650</i>, and <i>Z650</i> in 2020, expanding the lineup of models with this feature to seven. “RIDELOGY THE APP,” an official smartphone application, enables users to set their riding mode and confirm the status of their motorcycle using their smartphone, thereby improving riding comfort and convenience. - Achieved an average increase in WMTC fuel economy of 1.4% across the seven models that began production in fiscal 2019 (the <i>Z H2</i>, <i>Ninja 1000SX</i>, <i>Z900</i>, <i>W800</i>, <i>Ninja 650</i>, <i>Z650</i>, and <i>KLX230</i>) - Launched the <i>Z H2</i> with a supercharged engine for large motorcycles achieving high power and high fuel economy



TERYX KRX 1000



Z H2

Precision Machinery & Robot

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

Hidehiko Shimamura

President,
Precision Machinery & Robot Company



Vision

The world's top brand in motion control, creating and providing total solutions for providers of medical and healthcare services as well as for industry, including automobiles, construction machinery, and electronic equipment, with a focus on hydraulic components and robots boasting a level of performance and quality far surpassing that of any rival.

Opportunities

- Hydraulic machinery**
- Expanding demand due to world-wide infrastructure building, mainly in emerging countries
- Robots**
- Increasing fields of application through the realization of humans and robots collaborating 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

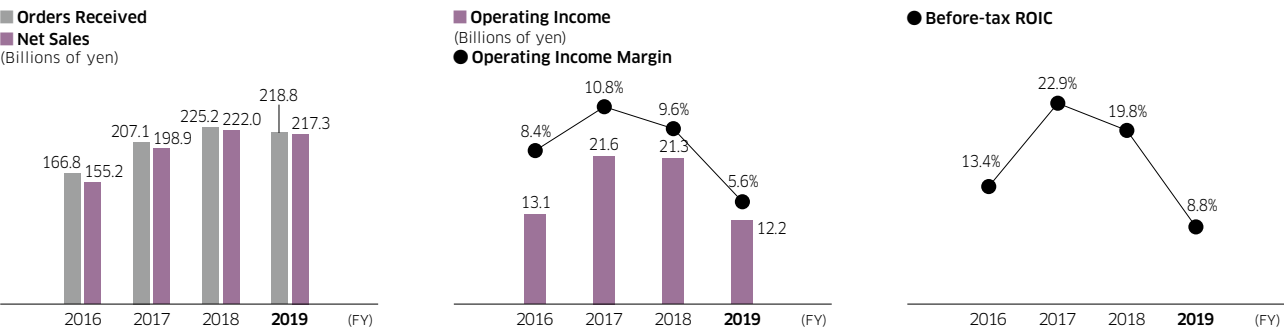
- Hydraulic machinery**
- Shift to in-house production of hydraulic machinery by construction machinery manufacturers and market entry of manufacturers from emerging countries
 - Rapid cooling of the Chinese construction equipment market
 - Delayed recovery in the marine hydraulic equipment market due to sluggish conditions in the shipbuilding industry and intensifying price competition
- Robots**
- Increasingly fierce price competition with rival companies
 - Impact of U.S.-China trade friction on the semiconductor market
- Shared**
- Weakening investment appetite due to viral pandemic

Core Competence

- 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 matched to diverse customer requirements
 - Global service structure
- Shared**
- New product development capabilities in the field of motion control based on the integration of hydraulic technologies and robotics

Business Direction

- Hydraulic machinery**
- Maintain and expand high share of excavator market, pursue sales expansion in construction and agricultural machinery sectors, and advance product and market development with an awareness of mega-trends
- Robots**
- Existing customer sectors: Increase market share by expanding the scope of applications for the automotive industry, line building operations, and sales in the human-robot collaborative product field
 - New customer sectors: Integrate robotics with IoT/AI technologies to establish new businesses, develop products based on synergies with hydraulic technologies, expand sales of robotically assisted surgical devices, and launch and expand sales of automated PCR viral testing systems



Operating Environment and Strategies

Sales of hydraulic machinery for the construction equipment market are expected to steadily grow over the medium and long terms in line with growing infrastructure development, mainly in emerging countries, even though the COVID-19 pandemic has caused short-term market deterioration, mainly in developed countries.

Kawasaki is the leader of the global market for excavator-use hydraulic machinery. Going forward, we will maintain and expand our market share by leveraging world-class, leading-edge technology, the ability to turn such technology into systems, our brand strength, and responsiveness to customer needs. We will also actively explore promising new businesses, such as construction and agricultural machinery other than excavators, for which our market share overseas is relatively low, to realize further growth and improve stability in segment performance.

In the industrial robot business, although the COVID-19 pandemic has caused a decline in customers' appetite for capital investment, going forward, we expect demand to increase for robots that can be used to help prevent infection. Furthermore, over the medium and long terms, we expect demand in existing customer sectors to continue expanding to offset labor shortages and achieve higher quality. We also predict that robots will be used in a wider range of applications, including

in collaboration with humans in work operations as well as in medical treatment and nursing care.

In existing customer sectors, we will expand applications for automakers, create products for EV and HV manufacturing, expand line building operations, and expand sales of *duAro*, a robot designed to collaborate with humans in work operations. In addition, we will expand sales and market share by providing solutions that draw on the Group's experience accumulated through robot development for a wide range of applications within the Kawasaki Group and by enhancing the sales and service structure. In new customer sectors, we aim to establish new business fields by integrating robotics with IoT/AI, as with *Successor*,* expand sales of the robotically assisted surgical devices of Medicaroid, a joint venture with Sysmex Corporation, and commercialize automated PCR viral testing systems.

We will continue to pursue synergy by integrating hydraulic machinery and robot production and developing new products combining the technologies of each. By doing so, we will reinforce the businesses of the Precision Machinery & Robot Company as a whole.

* *Successor*: A technology system in which expert engineers use remote controls with kinesthetic feedback to safely operate robots and perform tasks. The robots memorize these movements, which they can then convey to the next generation of operators. Using AI to learn from recorded inputs, the system can also generate automated operational programs.



BX series spot welding robots for automobile body assembly lines



Hydraulic pump for construction machinery



hinotori™ Surgical Robot System



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

Initiatives to Create Social Value

Precision Machinery Business Division

The Precision Machinery Business Division has designated the following as its vision for 2030.

- Make Kawasaki hydraulic machinery and systems the global standard by expanding sales to customers around the world and achieve stable production and supply
- Support the development of next-generation of human- and environment-friendly construction machinery through Kawasaki products to contribute to the improvement of infrastructure, mainly in emerging countries
- Promote the development and sale of energy-saving products, hydrogen-oriented products and renewable energy-oriented products to contribute to the reduction of environmental burden
- Combine new technologies, such as ICT, IoT, and AI, with Kawasaki's robot technology and hydraulic control technology to create new value

To achieve this vision, we are working to establish systems for stable production and supply and advancing R&D into hydraulics systems aimed at creating ICT-linked, automated, and unmanned next-generation construction machinery for customers while advancing product development and sales in the pursuit of full-scale entry into agricultural machinery and industrial vehicle sectors. In addition, we are now mass-producing a high-pressure hydrogen regulator and advancing development toward secondary mass-production. Sales of Eco-Servo, an energy-saving, low-noise hydraulic hybrid system, have been strong, and we advancing the development of a compact electro-hydraulic actuator for humanoid robots, as well.



Goals for fiscal 2021	• Establish production sites and stable supply systems that are globally optimized in terms of cost, quality, and delivery time; advance development of technologies that will set our products apart in the future; and further expand sales in the hydraulic excavator, agricultural, industrial, and marine machinery fields in order to make Kawasaki products the global standard by supplying our hydraulic machinery and systems to customers around the world. • Establish firm foundations in new businesses, such as high-pressure hydrogen regulators for automobiles and fields based on synergies with the robot business • Hydraulic machinery production and delivery volume: 750,000 units
Fiscal 2019 Results	• Hydraulic machinery production and delivery volume: 700,000 units

Robot Business Division

The Robot Business Division has designated as its vision for 2030 improving access to high-quality medical care through the development of medical robots in developed countries facing demographic graying as well as using robot technology to support medical supplies production, nursing and medical care, and the development of therapies and treatments that reduce the physical burden on patients while developing and improving the intelligence of *Successor*, humanoid robots and other robots to help address labor shortages, mainly in developed countries. To achieve this vision, we have positioned medical robots as a business that will support aging societies and established

Medicaroid Corporation—a joint venture with Sysmex Corporation—through which we are working to create new business around robotically assisted surgical devices and applied robots using industrial robot technology. With regard to *Successor*, we have begun sales to specified customers and are developing a new market. We continue to advance the development of humanoid robots, aiming for commercialization.



Goals for fiscal 2021	• Increase our market share with existing automotive sector customers, reinforce proposition capabilities for line building solutions, expand sales channels for general production equipment in China, expand sales of robots for use in collaborative work with humans, and introduce robotically assisted surgical devices in the medical field • Promote the integration of IoT, AI, and robotics technologies and the development of products based on synergies with hydraulics technologies • Robots delivered: 40,000
Fiscal 2019 Results	• Robots delivered: 20,000



Increasing the Effectiveness of Governance and Solving Social Issues through Technological Synergies

Yoshinori Kanehana
Representative Director,
Chairman of the Board

Jenifer Rogers
Outside Director

Atsuko Ishii
Outside Director,
Audit & Supervisory
Committee Member

Yoshiaki Tamura
Outside Director

Transition to a New System of Corporate Governance

Please tell us about the factors that led to the decision to transition to a company with an Audit & Supervisory Committee.

Kanehana Every year since fiscal 2015, we have evaluated the effectiveness of the Board of Directors and discussed the ways the Board and the Management Committee function. In the course of doing so, a frequent comment was that the roles of these two bodies were unclear. To secure adequate time for the Board of Directors to fulfil its true purpose of discussing such topics as how the Company should be run and what it should aspire to, we needed to delegate some of the

Board's decision making to executives. With this in mind, we considered what form of governance would best suit Kawasaki and came to the conclusion that it was a company with an audit & supervisory committee. The transition was intended to clarify the respective roles of the Management Committee and Board of Directors, allowing the latter to engage in more in-depth discussion of the Company's direction while reinforcing its oversight of executives.

What do you see as the role of the Board of Directors? Has the effectiveness of the Board changed in the last two years?



Rogers I think that the role of the Board of Directors is to exercise oversight and take a comprehensive view of the Company as a whole. Directors are chosen by shareholders, so we have to provide oversight from various stakeholder perspectives and engage in discussions at a higher level. In particular, markets are highly critical of manufacturers these days. Kawasaki has been confronted by fierce competition around the world and has struggled in terms of profit for some time. Backed by its more than 120-year history, Kawasaki now stands at a turning point that will determine what it can achieve going forward. I can tell that everyone at Kawasaki is serious about its governance systems and wants to improve them. The Board of Directors now has open discussions, and many other positive changes have steadily been implemented. We have also made progress regarding certain organizational improvements, for example, reinforcing the

oversight functions of internal committees and the Board of Directors as a result of comments from the shareholder’s perspective on such matters as cash flows, corporate performance, and foreign exchange risk. I think that such improvements will continue and enable us to better perform our oversight duties from stakeholder perspectives. **Ishii** I’m now in my fourth year as an outside officer of Kawasaki, and I think that the activities of the Board of Directors are moving in a positive direction, as Ms. Rogers said. When I first took office, it was most often the outside officers who asked questions, which the executives would answer. Now, the other Directors also actively speak up, and we all actively engage in discussion. This is one area in which there is a clear difference from four years ago. As Chairman Kanehana said, we evaluate the effectiveness of the Board of the Directors every year, and the Board has diligently taken action to address the issues thus identified. These slow but steady initiatives have begun to yield fruit. Since changing to the company with an Audit & Supervisory Committee structure, the Board has already met several times. Topics like business continuity have been brought up, and I feel that our discussions have been substantive. **Tamura** When I first took office, Kawasaki’s internal company system struck me as rigid. I think that Chairman Kanehana’s efforts to encourage the Board to take a more managerial view that goes beyond individual internal companies in order to strengthen the Company as a whole has changed the tone of Board of Directors meetings.

Appointment of President Hashimoto

What did the Nomination Advisory Committee discuss with regard to the appointment of the new President?

Tamura Since last year, we had been discussing the issue from many angles, such as what kind of person we should choose as president and how to develop candidates. We also asked then-president Kanehana what challenges he thought the next president would face and what expectations he had, deepening our understanding within the committee. As a result, we came to the unanimous conclusion that Mr. Hashimoto was the right choice for the next president. **Kanehana** Kawasaki’s former presidents, including myself, came up through businesses in which products are made to order. Kawasaki has both made-to-order and mass-production businesses, and there is an

order-of-magnitude difference in the time scales of the two. The new president of Kawasaki had to be someone with a tremendous sense of speed and ability to get things done, so I thought perhaps it should be someone from a mass-production business. Given these considerations, I thought that Mr. Hashimoto would be a good fit, especially in this time of instability in the wider world, and discussed the matter with the Nomination Advisory Committee. **Tamura** Society is changing extremely rapidly, and it is vital that Kawasaki make its next moves quickly. I felt that Mr. Hashimoto possessed a great ability to take action. He is a person with lots of ideas, and many of us looked favorably on his ability to put those ideas into action.

What roles do each of you play as Outside Directors in light of your respective areas of expertise?

Tamura I have experience in manufacturing, was involved in launching an LCD flat panel display business, including technological development, and have served as a chief technical officer (CTO). Kawasaki has a long history of using technology to provide solutions and significantly changing the ways people live. For Kawasaki, differentiating its technologies is key, so I think that my experience in the display industry, which is fast-moving, with new technologies constantly being established, may be useful. I hope to help Kawasaki work out how to use technology to meet the demands of society and speedily develop such technology into business. **Rogers** I am an attorney, and I have work experience spanning six countries, so I think I bring a global perspective. I have also worked at financial institutions and a global technology services company. Based on that background, I am constantly thinking about how I can have an impact on Kawasaki and the perspective from which I should speak, taking into account various stakeholder perspectives. As an American, and based on my many years working at companies outside of Japan, I am able to provide a view that is different from that of the internal Directors regarding things like how to quickly reach decisions or what shareholders and investors will think of financial results and other numbers. Outside Directors have a responsibility to take a neutral position and consider a wide range of stakeholders when making decisions. I always keep this in mind at Board meetings. **Ishii** My background is in government, and I think that the importance of accountability is the same for companies as it is for government.

When considering matters up for decision at the Board of Directors, I constantly consider whether I could explain in my own words why a decision is justified and rational, and ask questions accordingly. Also, I think that Outside Directors should proactively say and ask things that might be awkward for the internal Directors to bring up. Even if the internal Directors don’t ask a question, shareholders or investors might, so making sure such questions are answered before making a decision is important in terms of risk management. At the Ministry of Health, Labour and Welfare, I worked in areas related to personnel and labor. I feel that problems related to human resources are a major element of difficulties faced by companies. Building organizations capable of sustaining high levels of motivation and revising personnel management and workstyles are consistently major topics, and I think that I can assist in these areas with my network and insight.



The Roles of Audit & Supervisory Committee Members

What do you see as your roles as Audit & Supervisory Committee Members?

Ishii I served as an Audit & Supervisory Board Member for three years before my current appointment as an Audit & Supervisory Committee Member. The basic role of an Audit & Supervisory Committee Member is, like that of an Audit & Supervisory Board Member, to provide oversight and supervision. The former, however, also has voting rights as a Director and thus a broader and higher level of responsibility. The work of an Audit & Supervisory Board Member centers on auditing of compliance and legality. However, Audit & Supervisory Committee Members must also make decisions about the justifications for and rationality of decisions made by the Board of Directors. As such, I think that we must increase the quality of our

auditing and shift our mindsets to approach auditing from a more future-oriented perspective that examines whether decisions are being made in the best way possible. We also now have the authority to make statements of opinion, which I hope to exercise while coordinating and advancing dialogue with related bodies, such as the internal auditing divisions, Nomination Advisory Committee, and Compensation Advisory Committee. Kawasaki has two full-time Audit & Supervisory Committee Members. I was concerned that, if left just to the functioning of the internal control system, the quality of auditing would fall, so I am glad that we have full-time members to provide additional support.

How will the Board of Directors help Kawasaki shift toward realizing additional value from the combination of its diverse businesses to merit a conglomerate premium?



Tamura It's certainly a challenge. I think that focusing on lining up synergies, rather than on individual businesses, is crucial. Many of Kawasaki's more high-tech, software-based technologies, such as those related to control, robot remote control, medical robots, and ship operation and performance analysis support systems, will play key roles. Efficiency is a key point. In that vein, I think that we will see a shift in after-sales service from providing maintenance at predetermined intervals to constant, ongoing monitoring that enables targeted maintenance only where and when it is required. Kawasaki will need to create mechanisms for streamlining production, sales, and after-sales service to deliver only what is needed, when it is needed, in the amount it is needed. Thinking about what, concretely, the Group's manufacturing should look like and the role it should play in the world as it does this will, I think, lead to the realization of the type of Group synergies that result in a conglomerate premium.

Rogers The shipbuilding and industrial robot businesses have formed joint ventures in China. By leveraging Kawasaki's expertise and teaming up with outstanding

partners, these businesses are reducing costs and producing excellent products. Kawasaki has also been manufacturing in Nebraska, in the United States, for around 40 years. I think that the way Kawasaki has been able to reduce foreign exchange risk by selling U.S.-made products in the United States shows that the Group has collective strength as a conglomerate at the international level.

This strength or synergy comes from the internal exchange of expertise and information. By going beyond simply selling products to become a solution provider leveraging its global strength as a conglomerate, Kawasaki can address a full range of customer issues. After selling a product, the Company can sell maintenance services and spare parts on the aftermarket. If Kawasaki can leverage its collective strength as a conglomerate to provide total-package products and services that customers trust, I think it will be able to fully realize synergies and additional value from the diversity of its businesses.

Ishii As Kawasaki increasingly combines its own technologies with those from outside the Group, the importance of focusing on solving social issues will grow. Today, regard for companies that create useful value for society and that engage in ESG management and efforts to contribute to the SDGs is growing. I think new business creation that starts with the goal of solving social issues will produce considerable value as a conglomerate, and I think that Kawasaki is capable of doing just that.

Kawasaki is working to reinforce the Group-wide governance system as its businesses grow increasingly global. I think that, as part of doing so, putting greater effort into developing local employees overseas, for example, with a view to appointing a non-Japanese national as an executive officer, will be important.

The way business is done is expected to change in wake of the COVID-19 pandemic. As a manufacturer, what should Kawasaki keep, and what should it change?

Kanehana From the moment of my appointment as president, I emphasized the importance of founder Shozo Kawasaki's philosophy of "contributing to the nation—to society—through expertise." Valuing expertise and technology and using them for the sake of society was a driving principle for Kawasaki's founder, and this spirit is alive and well in Kawasaki today.

Kawasaki boasts many excellent technologies. I think the key issues going forward will be finding ways to combine technologies to realize synergy and figuring

out how to use them to contribute to the world. Building a CO₂-free hydrogen supply chain is an example of such efforts, in which we are using outstanding technologies from across the Group to take on the tremendous challenge of decarbonization. The Board of Directors must thoroughly discuss the direction the Company is going to determine how to use our technologies to contribute to the world—especially since doing so will require the further removal of barriers between internal companies to realize synergies—and then

communicate its decisions to executives and provide oversight of their implementation.

Tamura I think that one of Kawasaki's major strengths is its tradition of changing the world through technology. The Company must make this tradition central and continue this focus going forward. Furthermore, given the global nature of today's markets, I think that fostering mindsets oriented toward corporate reform throughout the Group will be crucial to using technology to solve the issues various regions are facing.

Due to the COVID-19 pandemic, the use of telecommunications within the Group has expanded, rapidly shrinking geographic divides. Increasingly fast data

transmission with the arrival of 5G and even 6G will make distance less and less of an impediment. As we become able to manage plants without being in them, or to converse with colleagues without being physically together, we must think about the ways the Company and the wider world will change going forward. Does Kawasaki have the tools it needs to promote diversity and incorporate the wide-ranging viewpoints needed to succeed in global markets? While valuing and protecting its heritage, Kawasaki must entrust its future to a new generation that is equipped for new business environments. I think that this will help realize Group synergies and build a new Kawasaki.

Transforming the Company Organization and Culture ("Changing Forward")

One of Kawasaki's taglines is "Changing Forward." How is the Board of Directors involved in creating a corporate culture that boldly embraces change?

Kanehana I worked to transform our corporate culture throughout my tenure as president and, recently, have felt that the atmosphere within Kawasaki really begin to change. Through one-on-one meetings with top management and management retreats, the walls between internal companies have gotten lower, and the framework for cooperation among members of the Management Committee has gotten stronger. We also introduced SKIP, an internal SNS that approximately 4,500 employees use to exchange views on their daily work. Employee opinions expressed on SKIP are communicated to the relevant divisions and used to provide feedback to employees. Through SKIP, employees are able to see that management is thinking of them, which I think has changed their mindsets.

By continuing such activities, I think Kawasaki will continue changing, becoming even better. I hope that the Directors will receive reports on such changes from executives and, in turn, provide their opinions and guidance.

Rogers In terms of diversity, I think that awareness within Kawasaki related to the professional participation of women has really improved. However, I wonder

if more focus on other types of diversity, such as by promoting younger employees, might lead to more creative innovation. Mixing together different elements, such as by implementing projects in teams that comprise one person from each internal division, could foster information exchange from various angles and be good for the Company. As Kawasaki's first female non-Japanese Director, I hope to see further efforts to promote diversity going forward.



Message to Stakeholders

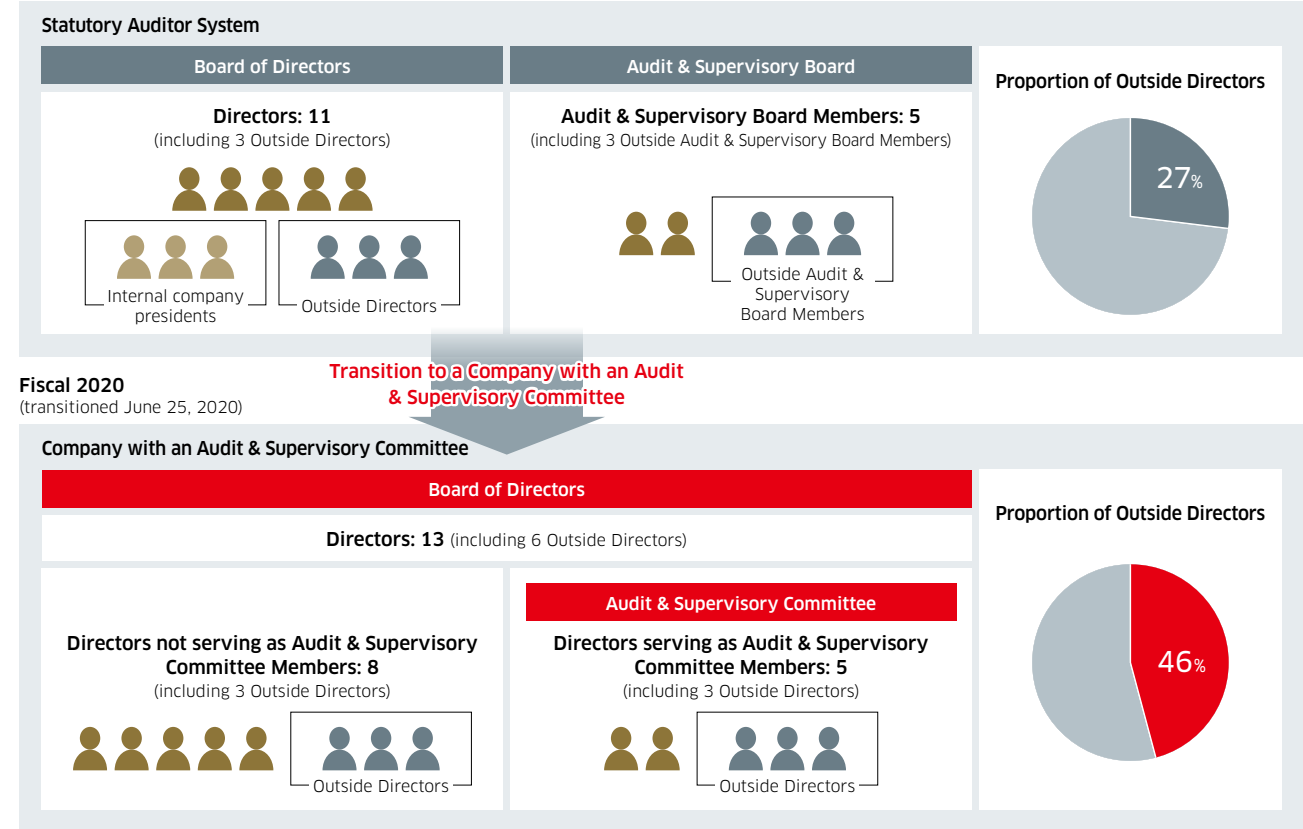
Lastly, Chairman Kanehana, do you have any message to stakeholders?

Kanehana Our goal is to maintain the uniqueness of each internal company while realizing synergies that transcend the barriers between them to increase Kawasaki's enterprise value. To achieve this goal, we will build a framework in which the Board of Directors discusses matters pertaining to the business portfolio and other overarching business policy and

the executives systematically put the Board's conclusions into action. We ask for our stakeholders' continued support as we continue to advance corporate culture transformation and strive to solve social issues with technology.

With this transition, a great deal of authority over business execution decisions has been delegated to the executive Directors and executive officers, who are appointed by the Board of Directors, thereby realizing more agile decision making. In addition, the composition of the Board of Directors has been revised, increasing the proportion of Outside Directors. Through these and other measures, Kawasaki secures management transparency while enabling nimble, efficient management.

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 (excluding Directors serving as Audit & Supervisory Committee Members) from 11 to 8 - Eliminated overlap between Directors and officers responsible for specific businesses



Board of Directors

Furthermore, the Nomination Advisory Committee and

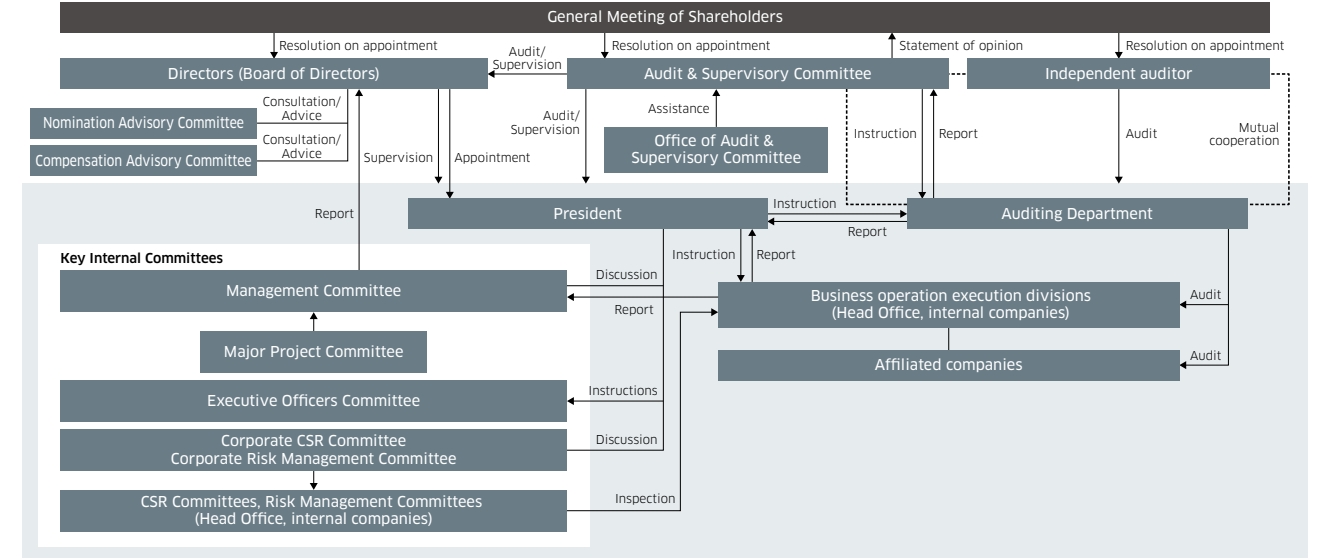
The Audit & Supervisory Committee comprises five Directors, including three Outside Directors. To secure effective oversight, the two Internal Directors have been appointed as full-time Audit & Supervisory Committee Members. Furthermore,

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.

to ensure the reliability of financial reporting, the Company appoints Audit & Supervisory Committee Members who have considerable knowledge of finance and accounting.

Furthermore, the Company maintains an Executive Officers Committee, comprising all executive officers. This committee issues business execution policy based on management policy and plans determined mainly by the Board of Directors and Management Committee. It also discusses management issues, striving to build unified consensus in Group management.

Corporate CSR Committee	Discusses and decides on basic policy and important matters related to CSR and compliance for the Group as a whole and monitors implementation
Corporate Risk Management Committee	Discusses and identifies important issues pertaining to risk management for the Group as a whole and monitors implementation
Major Project Committee	Assesses risk and considers appropriate responses before the acceptance of major projects



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 at meetings of Kawasaki’s Board of Directors and reach appropriate management decisions. As part of these efforts, since fiscal 2015, the Board of Directors annually evaluates and analyzes its effectiveness.

Evaluation Method

- The fiscal 2019 effectiveness evaluation was, as in previous years, carried out as follows.
- (1) A survey of all Directors and Audit & Supervisory Board Members, based on advice from outside experts, was made*
 - (2) The survey results were aggregated and analyzed by outside experts
 - (3) The aggregated information and analysis results were discussed at a Board of Directors meeting

* A survey comprising questions mainly about the overall operation of the Board of Directors and its discussions, designed with regard to the Company’s particular characteristics

Evaluation Results and Response

The Board of Directors’ discussion found that the Board’s effectiveness was appropriately ensured, based on such factors as its resolutions having been reached after active discussion among both the internal and outside members.

Issues raised included clarifying the division of roles between the Board of Directors and Management Committee and quickly reporting information about risks to the Board of Directors. However, the June 2020 transition to a company with an audit & supervisory committee has helped to make progress with regard to refining the topics that the Board of Directors should discuss and, in turn, advancing delegation from the Board to executives, as well as improving the system of reporting to the Board. By steadily implementing initiatives in these areas going forward, we will work to further reinforce the oversight function of the Board of Directors.

Furthermore, the Directors shared information about other tasks the Board needs to undertake, such as further enhancing succession planning, determining Director compensation, and reinforcing coordination with the committees run by executives. The Board will continue to engage in discussion and considerations from various viewpoints, working to increase its effectiveness.

Initiatives to Address Issues Identified in Previous Years

The main initiatives we have implemented to address issues identified by previous evaluations of a Board of Directors’ effectiveness are as follows.

- Aiming to further enhance discussions of management strategy and other matters at the Board of Directors, accelerate management decision making, and reinforce the oversight function of the Board of Directors, Kawasaki transitioned to a company with an audit & supervisory committee in June 2020, thereby enabling significant delegation of authority from the Board of Directors to executives. In addition, we revised the composition of the Board of Directors to avoid having directors serve concurrently as officers responsible for specific businesses (the internal company presidents) and thereby better separate management oversight and business execution while increasing the proportion of Outside Directors. By doing so, we clarified that oversight is the primary role of the Board of Directors.
- We set up a system in which items that could significantly affect management plans or management performance are reported to the Board of Directors following their discussion at monthly meetings of the Management Committee to ensure that the Board maintains a broad-ranging and up-to-date grasp of risks and signs of change in the business environment. Through such efforts, we continue working to reinforce the Board of Directors’ monitoring functions.

Corporate Officer Compensation

Kawasaki’s Approach to Corporate Officer Compensation

The compensation system for Kawasaki Directors is designed to promote sustained improvement in corporate performance and enterprise value, align the interests of Directors with those of shareholders, secure outstanding human resources, and ensure a level of compensation commensurate with the duties of the individual officer.

Compensation for Directors (Excluding Directors Serving as Audit & Supervisory Committee Members)

Compensation for Directors (excluding Outside Directors and Directors serving as Audit & Supervisory Committee Members) consists of basic compensation, performance-based compensation and stock purchase funds.

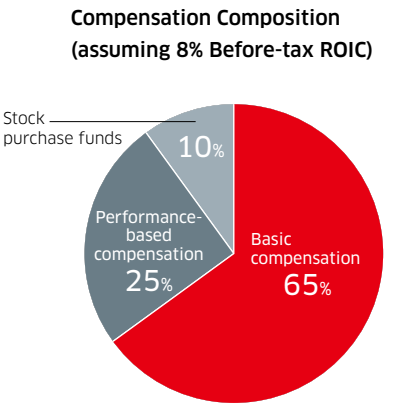
Compensation for Outside Directors (excluding Directors serving as Audit & Supervisory Committee Members) is set at a fixed level not tied to corporate performance, to ensure professional independence.

Compensation for Directors (excluding Directors serving as Audit & Supervisory Committee Members) is set within the

maximum total compensation for Directors (¥800 million per year), as resolved at the 197th Ordinary General Meeting of Shareholders (held on June 25, 2020). After receiving the results of deliberations by the Compensation Advisory Committee, the Representative Director, President and Chief Executive Officer, as delegated by the Board of Directors, decides Director compensation in line with the Company’s internal rules. A majority of the members and the presiding officer of the Compensation Advisory Committee are Outside Directors.

Composition of Director Compensation (Excluding Outside Directors)

Basic compensation	Based on position and responsibilities.
Performance-based compensation	Linked mainly to net income attributable to owners of the parent (“net income”), consolidated ROIC and the ROIC of internal companies.
Stock purchase funds	Each month, a fixed monthly amount is paid to the Directors for contribution to a stock ownership plan for the purpose of aligning Directors’ interests with those of shareholders and incentivizing Directors to enhance medium- to long-term enterprise value. This entire amount is contributed to the officers’ stock ownership plan in order to purchase shares of the Company on a continuous basis.



Performance-Based Compensation Indicators

Indicator	Reason for Selection
Net income	Net income, which funds dividends, was selected as an indicator to incentivize Directors to increase shareholder value.
Consolidated ROIC	Consolidated ROIC was selected as an indicator because Kawasaki has made ROIC management a part of its basic management policy and aims to achieve ROIC of 8% or above.
Internal Company ROIC	Internal company ROIC was selected as an indicator because Kawasaki aims to achieve ROIC of 8% or above at each internal company.

Compensation of Directors Serving as Audit & Supervisory Committee Members

The compensation of Audit & Supervisory Committee Members is set at a fixed level notified to corporate performance to ensure professional independence. This compensation is determined by the Audit & Supervisory Committee. The total maximum compensation for Audit & Supervisory Committee Members is ¥120 million per year (as resolved at the 197th Ordinary General Meeting of Shareholders held on June 25, 2020).

Activities of the Board of Directors and Compensation Advisory Committee

Policy and systems related to the compensation of Directors (excluding Directors serving as Audit & Supervisory Committee Members) are decided by resolution of the Board of Directors based on the deliberations of the Compensation Advisory Committee. A majority of the members and the presiding officer of the Compensation Advisory Committee are Outside Directors. The Compensation Advisory Committee met six times in fiscal 2019. In addition to the matters described above, the committee discussed the form of the corporate officer compensation system going forward.

Note: For more information about the members of the Compensation Advisory Committee and their meeting attendance, please refer to pages 54–56.

Corporate Officer Compensation

The following table provides a breakdown of fiscal 2019 corporate officer compensation.

Type of officer	Total compensation (millions of yen)	Total compensation by compensation type (millions of yen)			Number of individuals receiving compensation
		Basic compensation	Performance-based compensation	Stock purchase fund	
Directors (excluding Outside Directors)	530	385	85	58	10
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	70	70	–	–	2
Outside Directors and Outside Audit & Supervisory Board Members	76	76	–	–	7

Notes: 1. On June 25 2020, Kawasaki transitioned from a company with an Audit & Supervisory Board to a company with an Audit & Supervisory Committee.
2. The above numbers of officers include the Directors (two) and Audit & Supervisory Board Members (one Outside Director) who retired as of conclusion of the General Meeting of Shareholders held in June 2019.
3. Performance-based compensation paid in fiscal 2019 is based on fiscal 2018 performance.

Directors

Name Position Age	Years of Service Kawasaki Shares Held	Reasons for Appointment	Board of Directors Meetings Attended*	Nomination Advisory Committee		Compensation Advisory Committee	
				Member- ship	Meetings Attended*	Member- ship	Meetings Attended*
 Yoshinori Kanehana Representative Director Chairman of the Board 66 years old	8 years 22,700 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.	17/17	—	11/11	—	6/6
 Yasuhiko Hashimoto Representative Director 63 years old	2 years 8,000 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.	17/17	✓	—	✓	—
 Sukeyuki Namiki Representative Director 65 years old	2 years 9,400 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. 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, and the Rolling Stock Company, contributing significantly to the Company's business growth and the enhancement of its enterprise value.	17/17	—	—	—	—
 Katsuya Yamamoto Representative Director 62 years old	3 years 8,200 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.	17/17	✓	—	✓	—

Name Position Age	Years of Service Kawasaki Shares Held	Reasons for Appointment	Board of Directors Meetings Attended*	Nomination Advisory Committee		Compensation Advisory Committee	
				Member- ship	Meetings Attended*	Member- ship	Meetings Attended*
 Hiroshi Nakatani Director 59 years old	Newly appointed 3,000 shares	Mr. Nakatani worked in technical development and planning for many years. He was appointed Executive Officer in 2016 and Managing Executive Officer 2019. Presently, as 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 the Ship & Offshore Structure Company, contributing significantly to the Company's business growth and the enhancement of its enterprise value.	—	—	—	—	—
 Yoshiaki Tamura Outside Director 65 years old	2 years 900 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.	17/17	✓ (Presiding officer)	11/11	✓ (Presiding officer)	6/6
 Jenifer Rogers Outside Director 57 years old	2 years 1,100 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.	16/17	—	—	—	—
 Hideo Tsujimura Outside Director 66 years old	Newly appointed —	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.	—	✓	—	✓	—

* Figures for fiscal 2019.

Directors (Audit & Supervisory Committee Members)

Name Position Age	Years of Service¹ Kawasaki Shares Held	Reasons for Appointment	Board of Directors Meetings Attended²	Nomination Advisory Committee		Compensation Advisory Committee	
			Audit & Supervisory Board Meetings Attended²	Member-ship	Meetings Attended²	Member-ship	Meetings Attended²
 Katsuyoshi Fukuma Director Audit & Supervisory Committee Member 62 years old	4 years 1,100 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.	17/17	—	—	—	—
			17/17				
 Akio Nekoshima Director Audit & Supervisory Committee Member 61 years old	2 years 5,100 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.	17/17	—	—	—	—
			17/17				
 Satoru Kohdera Outside Director Audit & Supervisory Committee Member 61 years old	3 years 1,200 shares	Mr. Kohdera has served as President of the Hyogo-ken 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.	17/17	—	—	—	—
			17/17				
 Atsuko Ishii Outside Director Audit & Supervisory Committee Member 62 years old	3 years 300 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.	17/17	—	—	—	—
			17/17				
 Ryoichi Saito Outside Director Audit & Supervisory Committee Member 70 years old	1 year 200 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	✓	8/8	✓	4/4
			13/13				

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 2019.

Executive Officers (As of September 1, 2020)

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 Rolling Stock Company
Katsuya Yamamoto Assistant to the President, in charge of Finance & Accounting, Human Resources, Sustainable Development, Investor Relations and Corporate Communication

Managing Executive Officers

Tatsuya Watanabe President, Energy System & Plant Engineering Company
Kazutoshi Honkawa President, Rolling Stock Company
Hiroyoshi Shimokawa President, Aerospace Systems Company
Hiroshi Nakatani In charge of Corporate Planning, Digital Transformation, and the Ship & Offshore Structure Company, and General Manager, Corporate Technology Division
Yuji Horiuchi President, Motorcycle & Engine Company
Ichiro Kono President, Ship & Offshore Structure Company
Hidehiko Shimamura President, Precision Machinery & Robot Company, in charge of promoting automation

Executive Officers

Eiichi Harada Deputy General Manager, Corporate Technology Division
Akira Matsufuji Vice President, Rolling Stock Company, and General Manager, North America Business Division
Mitsumasa Sato General Manager, Aerospace Business Division, Aerospace Systems Company
Makoto Shiota General Manager, Marketing Division
Keigo Imamura Vice President, Ship & Offshore Structure Company, and General Manager, Corporate Planning Division
Nobuhisa Kato General Manager, Finance & Control Division
Kouzou Tomiyama General Manager, Human Resources Division
Hiroshi Ito Deputy General Manager, Marketing Division, and Senior Manager, Market Research Department
Yu Koshiyama General Manager, Aero Engine Business Division, Aerospace Systems Company
Hiroshi Murao In charge of Sales Management, staff officer to Rolling Stock Company, and General Manager, Domestic & Asia Business Division
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
Naoki Murakami General Manager, Energy Solution Business Division, Energy System & Plant Engineering Company
Motohisa Amako General Manager, Plant Engineering Business Division, Energy System & Plant Engineering Company
Yasushi Kawakami Vice President, Motorcycle & Engine Company, and General Manager, Corporate Planning Division
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 System & Plant Engineering Company, and General Manager, Procurement Division
Naoshi Kato General Manager, Manufacturing Division, Motorcycle & Engine Company
Atsuko Kakihara General Manager, Sustainable Development Division
Kenji Sanada Deputy General Manager, Plant Engineering Business Division, Energy System & Plant Engineering Company, and Group Manager, Industrial Plant Engineering Group
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 General Manager, Engineering Division, Ship & Offshore Structure Company

Fellows

Shinji Koga In charge of Production Improvement, Corporate Technology Division
Toru Nohisa In charge of Aircraft Engineering, Aerospace Systems Company
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 Company
Akihito Sakai In charge of Composite Materials, Aerospace Systems Company

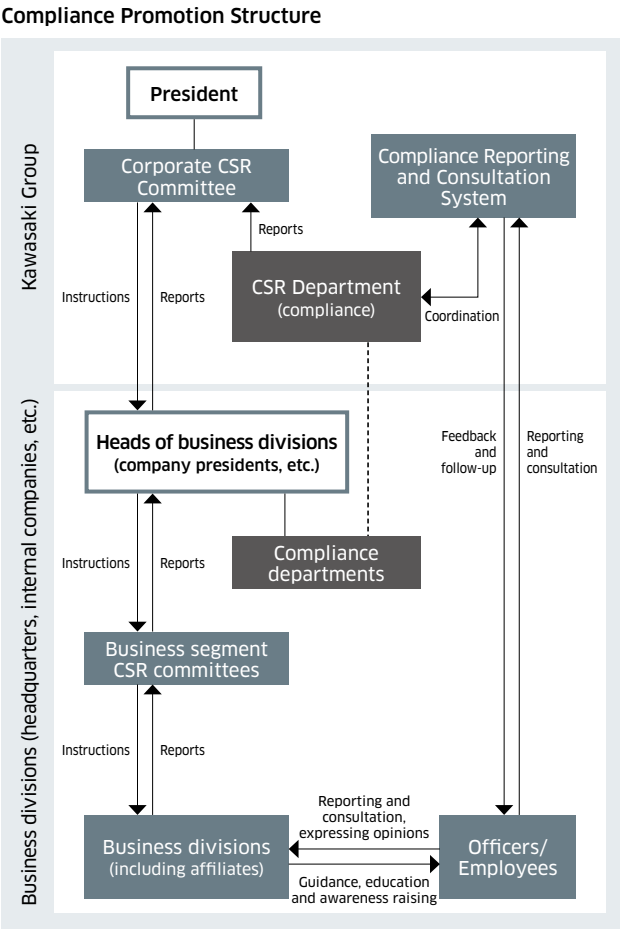
Basic Stance on Compliance

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 2019). 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, at the head office and internal companies, business segment CSR committee meetings are held at least twice a year to promote compliance throughout the Group.



Compliance Reporting and Consultation System (Whistle-blower System)

We have established the Compliance Reporting and Consultation System, with an outside lawyer acting as the contact, so that 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. Furthermore, in October 2019, the system began to accept anonymous reports in addition to reports filed under the complainants’ names. By allowing anonymous reporting, we are 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 47 reports or consultations made through the Compliance Reporting and Consultation System in fiscal 2019.

Number of Reports or Consultations (in fiscal 2019)	
Contents of report or consultation	Cases
Abuse of authority	12
Labor issues	14
Disadvantageous treatment of hotline users	2
Sexual harassment	1
Multi-category	5
Others (Unethical behavior, inquiries about legal interpretation, etc.)	13
Total	47

Note: 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* 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-blower system. The guidebook uses illustrations to present easy-to-understand examples of important compliance-related matters. It is divided into 20 sub-sections within six sections: “Securing the Trust of Customers and Business Partners,” “Matters to Be Observed as a Corporate Citizen,” “Data Protection,” “Handling Financial Transactions,” “The Workplace,” and “Responsibilities of Managers.” The guidebook also contains an index of the corresponding sections of the Kawasaki Group Code of Conduct and serves as a text for increasing compliance awareness.

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.

Employee Awareness Surveys

The Kawasaki Group implements periodic employee awareness surveys to monitor internal compliance violation risks. Recent surveys aimed at measuring compliance awareness among employees were implemented in 2008, 2011, 2014, and 2018. Survey results 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 Regulation.

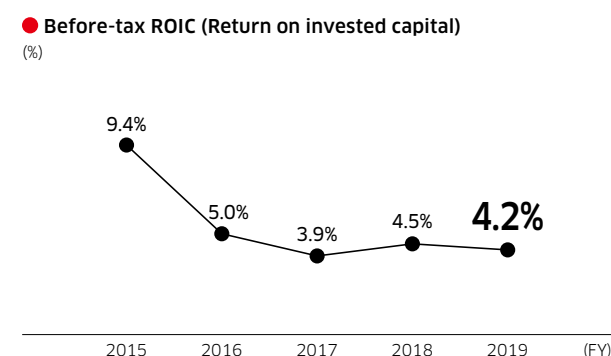
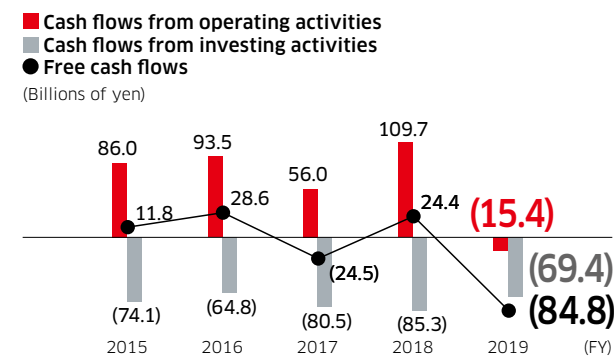
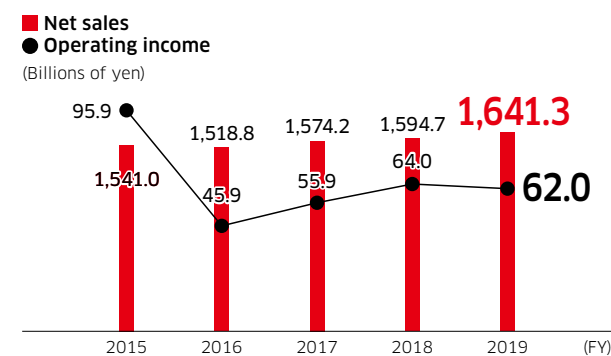
In addition, to achieve sustained improvements in profitability and enterprise value, the Kawasaki Group Mission Statement identifies risk management as a guiding theme of the Kawasaki Group Management Principles.

Responding to Major Risks

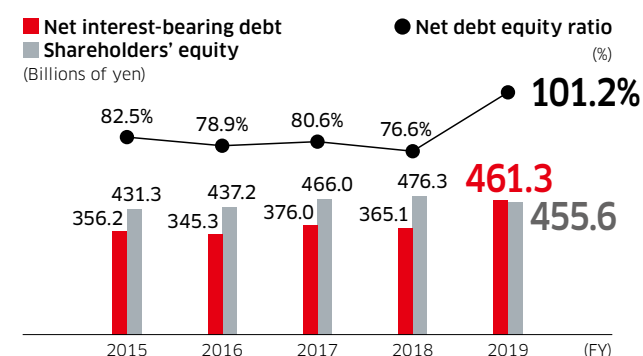
To undertake integrated risk management on a Group-wide basis, each year, divisions responsible for operations re-check for the presence of risks, identify major risks that have the potential to significantly impact operations (Group-level risks), and monitor responses to these risks. Furthermore, they specify a few risk items from among those identified as requiring Group-wide response measures and specifically confirm the status of response to these at the Group-wide level.

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 the project begins.

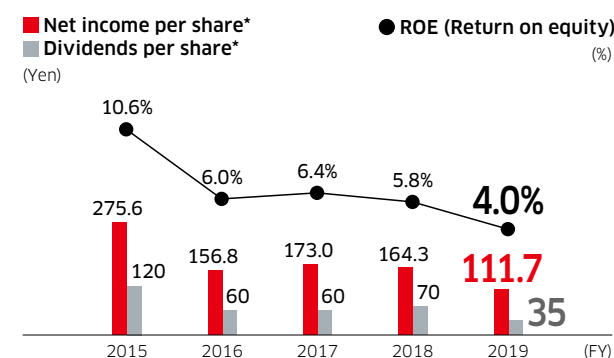
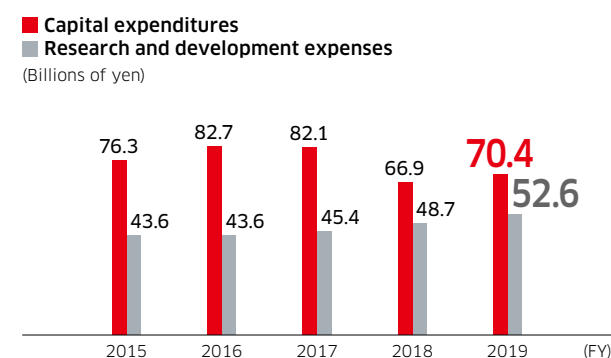
Performance Highlights



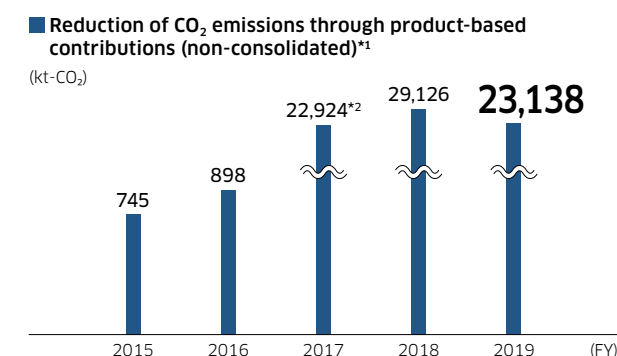
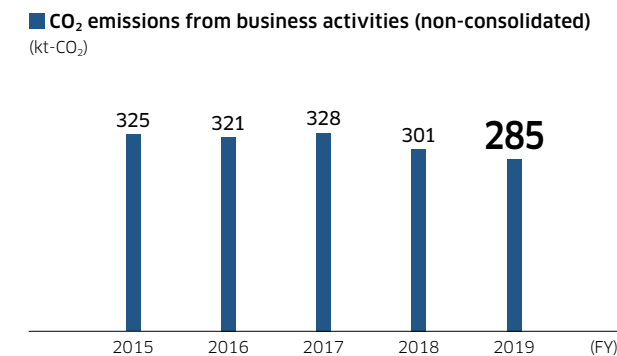
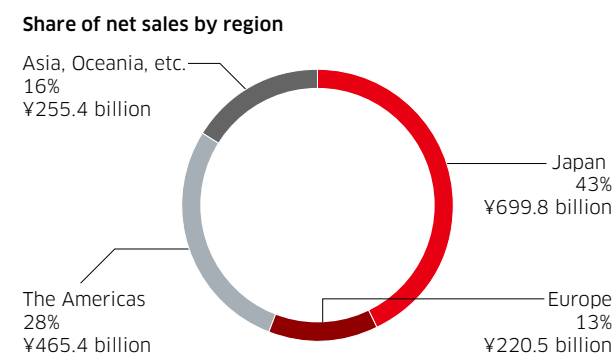
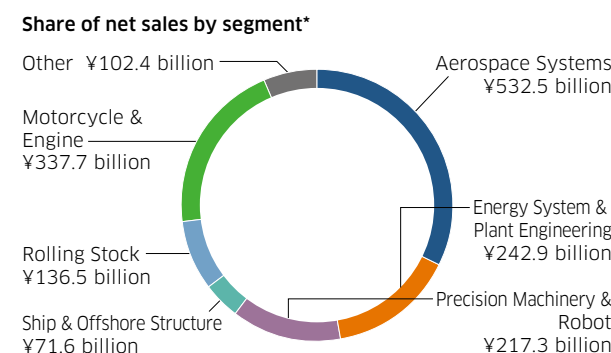
Before-tax ROIC = EBIT (Income before income taxes + interest expense) / Invested capital (Interest-bearing debt + Shareholders' equity)



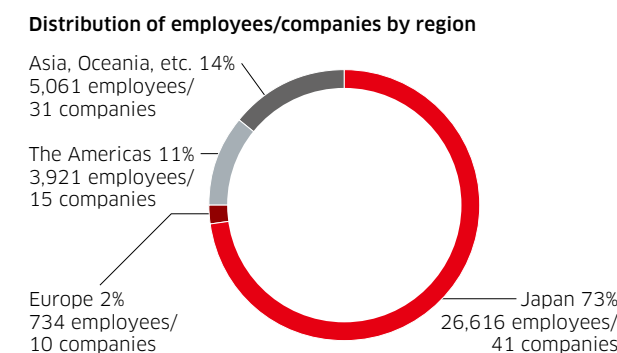
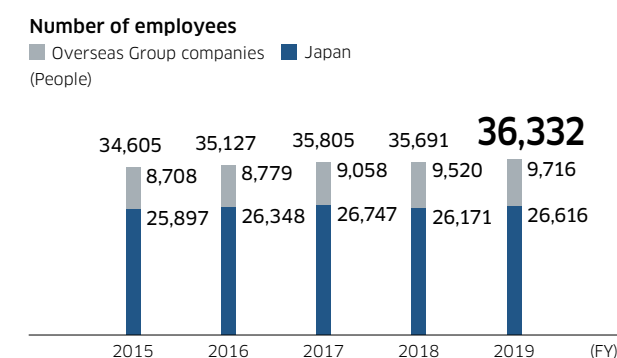
Net debt equity ratio = Net interest-bearing debt (Interest-bearing debt - Cash on hand and in banks) / Shareholders' equity



Return on equity = Profit attributable to owners of the 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



*1 Estimates based on actual delivery record
*2 The calculation rule has been revised for fiscal 2017. For details, please see page 24.



ESG-Related External Evaluations

The Dow Jones Sustainability Index is a leading Sustainability Investing (SI) 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.



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).



MSCI ESG Leaders Indexes include companies with high ESG ratings relative to their sector peers.



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).



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



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

		(Billions of yen)																					
	(FY)	2009		2010		2011		2012		2013		2014		2015		2016		2017		2018		2019	
Operating results	Net sales	¥1,173.4		¥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	
	Aerospace Systems¹	–		–		–		–		–		–		–		–		469.5		463.9		532.5	
	Energy System & Plant Engineering¹	–		–		–		–		–		–		–		–		251.6		253.0		242.9	
	Aerospace¹	188.8		196.8		206.5		239.1		280.7		325.0		351.8		329.9		–		–		–	
	Gas Turbine & Machinery¹	191.3		202.6		194.6		207.0		189.2		218.7		236.4		241.9		–		–		–	
	Plant & Infrastructure¹	107.5		89.0		122.8		115.8		103.8		121.1		135.6		160.8		–		–		–	
	Precision Machinery & Robot²	82.7		140.3		175.0		130.4		123.2		135.7		133.1		155.2		198.9		222.0		217.3	
	Ship & Offshore Structure	151.8		118.4		113.5		90.3		80.8		90.3		94.8		103.2		95.6		78.9		71.6	
	Rolling Stock	150.0		131.1		132.6		129.9		147.9		121.5		146.6		137.1		141.7		124.6		136.5	
	Motorcycle & Engine²	203.0		234.4		235.2		251.8		322.2		329.2		333.5		313.0		331.6		356.8		337.7	
	Other	97.8		114.0		123.2		124.2		137.2		144.2		108.8		77.4		85.0		95.1		102.4	
	Operating income [operating income margin]	(1.3)	[–]	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%]
	Aerospace Systems¹	–		–		–		–		–		–		–		–		30.8	[6.5%]	32.6	[7.0%]	42.7	[8.0%]
	Energy System & Plant Engineering¹	–		–		–		–		–		–		–		–		7.6	[3.0%]	11.6	[4.5%]	17.5	[7.2%]
	Aerospace¹	3.7	[1.9%]	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 & Machinery¹	8.9	[4.6%]	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 & Infrastructure¹	7.9	[7.3%]	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 & Robot²	3.4	[4.1%]	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%]	
Ship & Offshore Structure	1.5	[1.0%]	(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)	[–]	
Rolling Stock	8.7	[5.8%]	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)	[–]	
Motorcycle & Engine²	(27.0)	[–]	(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)	[–]	
Other	(1.0)	[–]	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%]	
Recurring profit	14.2		49.1		63.6		39.3		60.6		84.2		93.2		36.6		43.2		37.8		40.4		
EBIT³	1.5		43.2		52.9		50.3		65.3		88.0		78.4		41.7		35.7		41.2		42.9		
Income before income taxes	(3.8)		38.5		48.7		46.1		61.3		84.2		74.8		38.8		32.9		37.8		39.3		
Profit attributable to owners of the parent	(10.8)		25.9		23.3		30.8		38.6		51.6		46.0		26.2		28.9		27.4		18.6		

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 = Income before income taxes + interest expense
4. Invested capital = Interest-bearing debt + shareholders' equity

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

During the fiscal year ended March 31, 2020, in the global economy, the outcome of both the trade talks between the U.S. and China and the negotiations on the new trade agreement between the U.K. and the EU remained uncertain. In addition, with the worldwide spread of coronavirus since the end of 2019, the impact of legally-binding measures in many countries has meant that demand for the transportation of people and goods has declined. Moreover, corporate activities have significantly stagnated on a global level due to factors such as disruptions to supply chains, and there are strong concerns that this will adversely affect the real economy going forward.

Amid such an operating environment, the Group's orders received in the fiscal year ended March 31, 2020, decreased from the previous fiscal year, mainly in the Aerospace Systems segment and the Ship & Offshore Structure segment. Net sales increased overall, due to increases in the Aerospace Systems and the Rolling Stock segment and other segments, despite a decline in the Motorcycle & Engine segment, the Energy System & Plant Engineering and other segments. Operating income decreased due to decreases in the Precision Machinery & Robot and the Motorcycle & Engine segment and other factors, despite the improvement in the Aerospace Systems and the Rolling Stock segment. Recurring profit increased due to a decline in the payments for the in-service issues of commercial aircraft jet engines and other factors despite the decrease in operating income. Despite an increase in recurring profit, net income attributable to owners of parent decreased due to the partial reversal of deferred tax assets in light of the impact of the coronavirus outbreak and other factors.

As a result, the Group's consolidated orders received decreased ¥75.2 billion from the same period in the previous fiscal year to ¥1,513.5 billion, consolidated net sales increased ¥46.5 billion year on year to ¥1,641.3 billion, operating income decreased ¥1.9 billion year on year to ¥62.0 billion, recurring profit increased ¥2.5 billion year on year to ¥40.4 billion, and net income attributable to owners of parent decreased ¥8.7 billion year on year to ¥18.6 billion. ROIC* was 4.2%, while ROE was 4.0%.

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

Business segment

The following sections supply additional details on the consolidated performance of each business segment. Please note that operating income 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. Although demand for commercial aircraft airframes and jet engines was increasing in conjunction with the rise in the number of air passengers, demand for both aircraft airframes and jet engines is expected to decline due to the impact of the coronavirus outbreak.

Amid such an operating environment, consolidated orders received decreased ¥16.6 billion year on year to ¥414.9 billion due to decreases in component parts of airframes for Ministry of Defense and commercial aircraft, despite an increase in component parts of commercial aircraft jet engines.

Consolidated net sales increased ¥68.5 billion year on year to ¥532.5 billion due to increases in component parts of airframes for Ministry of Defense and commercial aircraft and component parts of commercial aircraft jet engines. Operating income increased ¥10.1 billion year on year to ¥42.7 billion due to an increase 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, uncertainty about the future is increasing, as customers' short-term capital investment decisions may be reviewed due to the impacts of sluggish economic activity and the destabilization of resource prices resulting from the coronavirus outbreak.

Amid such an operating environment, consolidated orders received decreased ¥11.1 billion year on year to ¥252.3 billion. Although new orders were relatively strong,

including an order for refurbishments of domestic waste disposal facilities, the year-on-year results reflect the non-recurrence of orders received for large projects in the previous fiscal year, including orders for a combined cycle power plant and an LNG tank for the Japanese market.

Consolidated net sales decreased ¥10.0 billion year on year to ¥242.9 billion due to a decline in sales of the energy system business and other factors, despite an increase in construction work volume on chemical plants for overseas customers. Operating income increased ¥5.9 billion year on year to ¥17.5 billion due to the improvement in profitability of a chemical plant for an overseas customer and the energy system business and the other factors, despite a drop in sales.

Precision Machinery & Robot

Regarding the business environment surrounding the Precision Machinery & Robot segment, in the construction machinery market, domestic customers reduced production due to the impact of Typhoon Hagibis in 2019, and sales in the South Korean market as well as emerging markets such as India and Indonesia were sluggish, but on the whole demand remained firm. There is uncertainty regarding the future impact of the coronavirus outbreak, but the construction machinery market in China is quickly recovering, and the Company will closely monitor future trends. In China, the robot market is recovering from the temporary deterioration of conditions resulting from the U.S.-China trade friction. In addition, although the impact of the coronavirus outbreak is uncertain, demand for robots for the semiconductor market has begun to recover due to the resumption of investment by major semiconductor manufacturers in Taiwan and South Korea, and demand is expected to steadily expand over the medium to long term.

Amid such an operating environment, consolidated orders received decreased ¥6.3 billion year on year to ¥218.8 billion due to decreases in hydraulic components for construction machinery market despite an increase in various robots.

Consolidated net sales decreased ¥4.7 billion year on year to ¥217.3 billion due to decreases in hydraulic components for construction machinery market. Operating income decreased ¥9.1 billion year on year

to ¥12.2 billion as a result of factors including a decrease in the number of robots produced in China, increases in the R&D costs of hydraulic components, and a drop in sales.

Ship & Offshore Structure

While demand for gas-fueled vessels is being driven higher by tighter environmental regulations and LNG development projects are beginning to take shape, the Ship & Offshore Structure segment's operating environment remains adverse due to the prolonged slump in the marine transport market, the continuation of the South Korean government's policies supporting its shipbuilding industry, and other issues. As for the direct impact of the coronavirus outbreak, although there have been no requests to push back delivery dates or cancel orders for ships at this stage, there is concern that contract closing dates may be pushed back due to delays in business negotiations.

Amid such an operating environment, we received new orders for LPG carriers, but consolidated orders received totaled only ¥56.2 billion, ¥24.9 billion less than a year earlier when we received orders for submarines for Ministry of Defense.

Consolidated net sales decreased ¥7.2 billion year on year to ¥71.6 billion due to decreases in the volume of construction of LNG carriers and LPG carriers. The segment posted an operating loss of ¥0.6 billion, a ¥1.7 billion deterioration from operating income a year earlier. The main factors dragging down earnings were lower revenue from newly built ships and the posting of losses from operations.

Rolling Stock

Regarding the business environment surrounding the Rolling Stock segment, there continues to be stable demand in Japan for the replacement of aging railcars in the medium and long term. Overseas, demand for new and replacement railcars is expected to increase in the U.S., including in the core New York area market. Meanwhile, in Asia, we are planning projects for emerging markets in tandem with the Japanese government's efforts to promote infrastructure related exports. On the other hand, plans for deliveries and orders for domestic and overseas rolling stock projects are expected to be reviewed due to the impact of the coronavirus outbreak.

Amid such an operating environment, consolidated orders received decreased by ¥10.3 billion to ¥125.7 billion from the previous fiscal year when we received orders for railcars in U.S., despite orders for railcars for the Shinkansen and subway in Japan.

Consolidated net sales increased ¥11.8 billion year on year to ¥136.5 billion due to an increase in sales of railcars for Japan and U.S., despite a decrease in components for overseas customers. Consolidated operating loss improved ¥9.9 billion to an operating loss of ¥3.8 billion due to an increase in sales, a decrease in temporary expenses in the U.S. projects which were incurred in the previous fiscal year and other factors, despite some projects being delayed to the following fiscal year and being subject to cost fluctuations due to the impact of the coronavirus outbreak.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, until the beginning of March 2020, while the modest growth in motorcycle markets mainly in Europe was continuing, some emerging markets were weak. For utility vehicles and personal watercraft, the market grew stably, mainly in the North American market, but in the general-purpose engines market, market growth temporarily slowed down due to inclement weather and the U.S.-China trade friction. After the coronavirus began to spread rapidly in major markets around the world from mid-March 2020, starting with Europe and North America, the market declined significantly due to lockdowns, temporary distributor closures and so on.

Amid such an operating environment, consolidated net sales decreased ¥19.0 billion year on year to ¥337.7 billion due to the coronavirus outbreak and the appreciation of the yen, primarily against the euro and the other currencies, compared to the same period of the previous year. Operating income deteriorated, for a cumulative downturn of ¥16.3 billion year on year to an operating loss of ¥1.9 billion. This was due to the drop in sales and an increase in manufacturing costs due to the appreciation of the Thai baht against the yen and a recall of off-road four wheelers.

Other Operations

Consolidated net sales increased ¥7.2 billion year on year to ¥102.4 billion. Operating income decreased ¥1.2 billion year on year to ¥1.2 billion.

Consolidated financial position

(1) Assets

Current assets were ¥1,258.7 billion, a ¥122.4 billion increase from the previous fiscal year, due to an increase in trade receivables. Fixed assets were ¥699.0 billion, a ¥3.4 billion decrease from the previous fiscal year, due to a decrease in construction in progress. As a result, total assets were ¥1,957.8 billion, a ¥118.9 billion increase from the previous fiscal year.

(2) Liabilities

Interest bearing liabilities were ¥567.4 billion, a ¥128.0 billion increase from the previous fiscal year. Liabilities were ¥1,486.2 billion, a ¥139.6 billion increase from the previous fiscal year, due to the increase in interest bearing liabilities and other factors.

(3) Net assets

Total net assets were ¥471.5 billion, a ¥20.6 billion decrease from the previous fiscal year, due to the payment of dividends and a decrease in premeasurements of defined benefit plans.

Cash Flows

(1) Cash flows from operating activities

Operating activities used net cash of ¥15.4 billion, a ¥125.2 billion change from the previous fiscal year when operating activities provided net cash of a ¥109.7 billion. Major sources of operating cash flow included profit before income taxes of ¥39.3 billion and depreciation of ¥61.2 billion. Major uses of operating cash flow included expenditure of ¥48.0 billion due to an increase in inventory assets and ¥46.7 billion due to an increase in trade receivables.

(2) Cash flows from investing activities

Investing activities used net cash of ¥69.4 billion, which is ¥15.9 billion less than in the previous fiscal year, due mainly to the purchase of property, plant and equipment, as well as intangible assets.

(3) Cash flows from financing activities

Financing activities provided net cash of ¥115.8 billion, a shift of ¥135.5 billion from the previous fiscal year when financing activities used net cash of ¥19.7 billion. This was mainly due to an increase in short-term debt.

Given these changes in cash flows, cash and cash equivalents at end of year settled at ¥102.5 billion, up ¥34.2 billion from the beginning of the year.

Management of Liquidity Risk

To manage liquidity risk comprehensively, the Finance Department formulates and renews financial plans in a timely fashion based on reports from each business segment. In addition, measures are taken to diversify sources of financing, to adjust the balance of long- and short-term financing with consideration for financial conditions, to secure commitment lines, etc.

Key Performance Indicators

As key performance indicators, the Company has adopted Earnings (Operating income, Recurring profit, Profit attributable to owners of parent) and Return on Invested Capital [ROIC = EBIT (Income before income taxes + Interest expense) / Invested Capital (Interest-bearing debt + Shareholders' equity)] as indicators for measuring capital efficiency.

In order to quickly clear the ROIC hurdle rate (minimum required level is 8%) in the consolidated group as a whole, the Company will thoroughly manage profit margins in each business segment and aim to improve the enterprise value of the entire group.

With the improvement of these management indicators, the Company also seeks to improve its Return on Equity (ROE = Profit attributable to owners of parent / Shareholders' equity).

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 innovative capital investment required to the 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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets			
Current assets			
Cash and deposits (Note 26)	¥ 106,108	¥ 74,311	\$ 974,989
Notes and accounts receivable–trade	473,204	427,665	4,348,103
Merchandise and finished goods	75,042	68,176	689,534
Work in process (Notes 6, 11 and 13)	426,256	405,087	3,916,714
Raw materials and supplies	130,359	119,558	1,197,822
Other	51,176	45,333	470,238
Allowance for doubtful accounts	(3,367)	(3,792)	(30,938)
Total current assets	1,258,781	1,136,340	11,566,489
Non-current assets			
Property, plant and equipment (Note 7 and 12)			
Buildings and structures, net	193,931	194,939	1,781,963
Machinery, equipment and vehicles, net	151,196	148,620	1,389,286
Land	62,183	62,705	571,377
Leased assets, net	2,694	2,148	24,754
Construction in progress	15,959	18,227	146,642
Other, net	56,604	59,028	520,114
Total property, plant and equipment	482,570	485,669	4,434,163
Intangible assets	21,358	16,797	196,251
Investments and other assets			
Investment securities (Notes 8, 9 and 12)	12,035	14,501	110,585
Retirement benefit asset (Note 14)	135	93	1,240
Deferred tax assets (Note 25)	70,598	70,179	648,700
Other (Notes 10)	114,203	116,696	1,049,371
Allowance for doubtful accounts	(1,838)	(1,422)	(16,889)
Total investments and other assets	195,134	200,048	1,793,017
Total non-current assets	699,063	702,514	6,423,440
Total assets	¥1,957,845	¥1,838,855	\$17,989,938

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

Liabilities and Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Current liabilities			
Notes and accounts payable–trade (Note 12)	¥ 261,159	¥ 247,191	\$ 2,399,697
Electronically recorded obligations–operating	110,526	123,083	1,015,584
Short-term loans payable (Note 12)	166,188	100,023	1,527,042
Current portion of bonds (Note 12)	20,000	10,000	183,773
Lease obligations (Note 12)	1,542	319	14,169
Income taxes payable (Note 25)	6,116	10,390	56,198
Provision for sales promotion expenses	12,174	4,991	111,863
Provision for bonuses	22,032	21,168	202,444
Provision for construction warranties	14,454	13,096	132,813
Provision for loss on construction contracts (Note 13)	11,464	27,609	105,339
Advances received	148,610	181,419	1,365,524
Other	173,456	124,986	1,593,825
Total current liabilities	947,726	864,280	8,708,316
Non-current liabilities			
Bonds payable (Note 12)	160,000	140,000	1,470,183
Long-term loans payable (Note 12)	188,859	187,568	1,735,358
Lease obligations (Note 12)	873	1,513	8,022
Deferred tax liabilities (Note 25)	796	593	7,314
Retirement benefit liability (Note 14)	129,846	97,602	1,193,109
Provision for the in-service issues of commercial aircraft jet engines (Note 15)	15,689	11,468	144,161
Other	42,491	43,566	390,435
Total non-current liabilities	538,556	482,313	4,948,599
Total liabilities	1,486,283	1,346,593	13,656,924
Net assets (Note 17):			
Shareholders' equity:			
Common stock:			
Authorized–336,000,000 shares			
Issued–167,080,532 shares in 2020			
–167,080,532 shares in 2019	104,484	104,484	960,066
Capital surplus	54,542	54,542	501,167
Retained earnings	326,626	324,606	3,001,250
Treasury stock–36,587 shares in 2020			
–35,196 shares in 2019	(133)	(130)	(1,222)
Total shareholders' equity	485,520	483,502	4,461,270
Accumulated other comprehensive income			
Net unrealized gains (losses) on securities	1,636	2,682	15,033
Deferred gains (losses) on hedges	(272)	(227)	(2,499)
Foreign currency translation adjustments	(11,311)	(4,556)	(103,933)
Remeasurements of defined benefit plans	(19,946)	(5,014)	(183,277)
Total accumulated other comprehensive income	(29,892)	(7,115)	(274,667)
Non-controlling interests	15,934	15,874	146,412
Total net assets	471,562	492,261	4,333,015
Total liabilities and net assets	¥1,957,845	¥1,838,855	\$17,989,938

Consolidated Statements of Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net sales	¥1,641,335	¥1,594,743	\$15,081,641
Cost of sales (Note 18)	(1,370,809)	(1,326,668)	(12,595,874)
Gross profit	270,526	268,075	2,485,767
Selling, general and administrative expenses			
Salaries and allowances	(56,651)	(54,952)	(520,546)
Research and development expenses (Note 19)	(52,608)	(48,734)	(483,396)
Other	(99,203)	(100,364)	(911,541)
Total selling, general and administrative expenses	(208,463)	(204,052)	(1,915,492)
Operating profit	62,063	64,023	570,275
Non-operating income			
Interest income	695	909	6,386
Dividend income	288	294	2,646
Share of profit of entities accounted for using equity method	1,255	1,574	11,532
Penalty income	2,784	13	25,581
Insurance claim income	1,191	388	10,944
Other	3,469	3,516	31,875
Total non-operating income	9,686	6,696	89,001
Non-operating expenses			
Interest expenses	(3,615)	(3,427)	(33,217)
Foreign exchange losses	(8,479)	(4,721)	(77,911)
Payments for the in-service issues of commercial aircraft jet engines (Note 20)	(11,500)	(14,851)	(105,669)
Other	(7,725)	(9,857)	(70,982)
Total non-operating expenses	(31,319)	(32,858)	(287,779)
Ordinary profit	40,429	37,861	371,488
Extraordinary income			
Gain on sales of property, plant and equipment (Note 21)	1,277	–	11,734
Total extraordinary income	1,277	–	11,734
Extraordinary losses			
Loss on withdrawal from business (Note 22)	(2,383)	–	(21,897)
Total extraordinary losses	(2,383)	–	(21,897)
Profit before income taxes (Note 25)	39,323	37,861	361,325
Income taxes—current	(10,546)	(16,704)	(96,903)
Income taxes—deferred	(8,500)	8,681	(78,103)
Total income taxes	(19,046)	(8,022)	(175,007)
Profit	20,276	29,838	186,309
Profit attributable to non-controlling interests	1,614	2,385	14,830
Profit attributable to owners of parent	¥ 18,662	¥ 27,453	\$ 171,478

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Profit	¥20,276	¥29,838	\$186,309
Other comprehensive income (loss):			
Net unrealized gains (losses) on securities	(1,065)	(864)	(9,786)
Deferred gains (losses) on hedges	(21)	(675)	(193)
Foreign currency translation adjustments	(5,284)	(796)	(48,553)
Remeasurements of defined benefit plans	(15,017)	549	(137,986)
Share of other comprehensive income of entities accounted for using equity method	(1,936)	(4,867)	(17,789)
Total other comprehensive income (loss) (Note 23)	(23,326)	(6,654)	(214,334)
Comprehensive income	(3,049)	23,183	(28,016)
Comprehensive income attributable to:			
Owners of parent	(4,116)	21,220	(37,820)
Non-controlling interests	¥ 1,066	¥ 1,962	\$ 9,795
	Yen		U.S. dollars (Note 1)
	2020	2019	2020
Per share amounts (Notes 24 and 27)			
Net income per share—basic	¥ 111.7	¥ 164.3	\$ 1.03
Cash dividends	70.0	65.0	0.64

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, 2020 and 2019

	Number of shares of common stock (thousands)	Millions of yen											
		Shareholders' equity					Accumulated other comprehensive income						
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2018	167,080	¥104,484	¥54,573	¥308,010	¥(124)	¥466,944	¥3,526	¥403	¥ 719	¥ (5,532)	¥ (883)	¥15,324	¥481,386
Profit attributable to owners of parent for the year	—	—	—	27,453	—	27,453	—	—	—	—	—	—	27,453
Treasury stock purchased, net	—	—	—	—	(7)	(7)	—	—	—	—	—	—	(7)
Cash dividends	—	—	—	(10,858)	—	(10,858)	—	—	—	—	—	—	(10,858)
Loss on sales of treasury stock	—	—	(0)	—	1	1	—	—	—	—	—	—	1
Transfer of loss on sales of treasury stock	—	—	0	(0)	—	—	—	—	—	—	—	—	—
Capital increase of consolidated subsidiaries	—	—	(30)	—	—	(30)	—	—	—	—	—	—	(30)
Other	—	—	—	—	—	—	(843)	(630)	(5,275)	517	(6,232)	549	(5,683)
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
Profit attributable to owners of parent for the year		—	—	18,662	—	18,662	—	—	—	—	—	—	18,662
Treasury stock purchased, net		—	—	—	(3)	(3)	—	—	—	—	—	—	(3)
Cash dividends		—	—	(11,693)	—	(11,693)	—	—	—	—	—	—	(11,693)
Loss on sales of treasury stock		—	(0)	—	0	0	—	—	—	—	—	—	0
Transfer of loss on sales of treasury stock		—	0	(0)	—	—	—	—	—	—	—	—	—
Capital increase of consolidated subsidiaries		—	—	—	—	—	—	—	—	—	—	—	—
Other		—	—	—	—	—	(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

	Thousands of U.S. dollars											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2019	\$960,066	\$501,167	\$2,982,689	\$(1,195)	\$4,442,727	\$24,644	\$(2,086)	\$(41,863)	\$(46,072)	\$(65,377)	\$145,861	\$4,523,211
Cumulative effect of changes in accounting policies	—	—	(45,465)	—	(45,465)	—	—	—	—	—	—	(45,465)
Restated balance	960,066	501,167	2,937,214	(1,195)	4,397,262	24,644	(2,086)	(41,863)	(46,072)	(65,377)	145,861	4,477,736
Profit attributable to owners of parent for the year	—	—	171,478	—	171,478	—	—	—	—	—	—	171,478
Treasury stock purchased, net	—	—	—	(28)	(28)	—	—	—	—	—	—	(28)
Cash dividends	—	—	(107,443)	—	(107,443)	—	—	—	—	—	—	(107,443)
Loss on sales of treasury stock	—	(0)	—	0	0	—	—	—	—	—	—	0
Transfer of loss on sales of treasury stock	—	0	(0)	—	—	—	—	—	—	—	—	—
Capital increase of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	(9,611)	(404)	(62,060)	(137,196)	(209,281)	551	(208,729)
Balance at March 31, 2020	\$960,066	\$501,167	\$3,001,250	\$(1,222)	\$4,461,270	\$15,033	\$(2,499)	\$(103,933)	\$(183,277)	\$(274,667)	\$146,412	\$4,333,015

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Profit before income taxes	¥39,323	¥ 37,861	\$361,325
Depreciation	61,283	59,022	563,108
Increase (decrease) in allowance for doubtful accounts	238	(667)	2,187
Increase (decrease) in provision for sales promotion expenses	707	14	6,496
Increase (decrease) in provision for bonuses	889	1,245	8,169
Increase (decrease) in provision for construction warranties	1,412	100	12,974
Increase (decrease) in provision for loss on construction contracts	(16,133)	9,336	(148,240)
Increase (decrease) in retirement benefit liability	10,574	11,982	97,161
Increase (decrease) in provision for the in-service issues of commercial aircraft jet engines	4,221	11,468	38,785
Interest and dividend income	(983)	(1,203)	(9,032)
Interest expenses	3,615	3,427	33,217
Share of loss (profit) of entities accounted for using equity method	(1,255)	(1,574)	(11,532)
Loss (gain) on sales of property, plant and equipment	(1,277)	–	(11,734)
Loss on withdrawal from business	2,383	–	21,897
Decrease (increase) in notes and accounts receivable–trade	(46,753)	58,985	(429,597)
Decrease (increase) in inventories	(48,068)	(65,383)	(441,680)
Increase (decrease) in notes and accounts payable–trade	2,401	6,829	22,062
Decrease (increase) in advance payments	3,326	1,202	30,561
Increase (decrease) in advances received	(31,827)	(14,013)	(292,447)
Decrease (increase) in other current assets	(8,986)	(1,557)	(82,569)
Increase (decrease) in other current liabilities	18,303	2,284	168,180
Other, net	6,004	1,192	55,169
Subtotal	(600)	120,553	(5,513)
Interest and dividend income received	2,500	3,859	22,972
Interest expenses paid	(3,630)	(3,439)	(33,355)
Income taxes paid	(13,731)	(11,211)	(126,169)
Net cash provided by (used in) operating activities	¥(15,461)	¥109,762	\$(142,066)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	¥ (71,947)	¥(82,836)	\$ (661,095)
Proceeds from sales of property, plant and equipment and intangible assets	6,087	605	55,931
Purchase of investment securities	(935)	(1,025)	(8,591)
Proceeds from sales of investment securities	1,232	989	11,320
Purchase of shares of subsidiaries and associates	(5,400)	(3,818)	(49,619)
Other, net	1,562	741	14,353
Net cash provided by (used in) investing activities	¥ (69,401)	¥(85,344)	\$ (637,701)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	¥103,758	¥(10,866)	\$ 953,395
Proceeds from long-term loans payable	24,348	34,772	223,725
Repayments of long-term loans payable	(28,938)	(30,709)	(265,901)
Proceeds from issuance of bonds	40,000	20,000	367,546
Redemption of bonds	(10,000)	(20,000)	(91,886)
Cash dividends paid	(11,710)	(10,868)	(107,599)
Dividends paid to non-controlling interests	(989)	(1,950)	(9,088)
Other, net	(664)	(149)	(6,101)
Net cash provided by (used in) financing activities	¥115,803	¥(19,771)	\$1,064,072
Effect of exchange rate change on cash and cash equivalents	3,293	(696)	30,258
Net increase (decrease) in cash and cash equivalents	34,234	3,949	314,564
Cash and cash equivalents at beginning of period	68,311	64,362	627,685
Cash and cash equivalents at end of period	¥102,546	¥68,311	\$ 942,259
Supplemental information on cash flows:			
Cash and cash equivalents:			
Cash and deposits in the balance sheets	¥106,108	¥74,311	\$ 974,989
Time deposits with maturities over three months	(3,562)	(6,000)	(32,730)
Total (Note 26)	¥102,546	¥68,311	\$ 942,259

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

1.

Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the “Company”) and its consolidated subsidiaries (together the “Companies”) have been prepared from the financial statements filed with the Prime Minister as required by the Financial Instruments and Exchange Act in Japan and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards. Certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classification used in 2020.

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, 2020, which was ¥108.83 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 96 subsidiaries (94 in the year ended March 31, 2019). 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, 2020, 17 affiliates (17 in 2019) were accounted for by the equity method. For the year ended March 31, 2020, investments in 11 affiliates (10 in 2019) 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, 2020, the fiscal year-end of 30 consolidated subsidiaries (30 in 2019) 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.

(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, 2020 or 2019. 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 losses on construction contracts

A provision for losses on construction contracts at the fiscal year-end is made when substantial losses are anticipated for the next fiscal year and beyond and such losses 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.

Changes in accounting policies

Consolidated subsidiaries applying U.S. accounting standards began applying Topic 606, "Revenue from Contracts with Customers," from the fiscal year under review.

With the application of this standard, when contracted goods or services are transferred to the customer, revenue is recognized at an amount expected to be received in exchange for the goods or services. In applying this standard, the Company adopted the method, as is permitted as a transitional measure, of recognizing the cumulative effect of a retroactive adjustment at the date of initial application and accordingly reducing retained earnings at the beginning of the fiscal year under review.

As a result, retained earnings at the beginning of the fiscal year under review decreased by ¥4,948 million (\$45,465 thousand). In addition, income before income taxes increased ¥3,442 million (\$31,627 thousand), while earnings per share increased ¥15.22 (\$13.99) compared to the figures that would have been reported if the prior accounting standard had been applied. The impact on net assets per share is negligible.

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 Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020)

(a) Overview

The purpose is to provide an overview of the accounting principles and procedures adopted when the stipulations of the relevant accounting standards etc., are not clear.

(b) Effective date

Scheduled to be applied from the end of the fiscal year ending March 31, 2021.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020)

(a) Overview

To disclose information that contributes to the understanding of financial statement users regarding the details of those items in the financial statements for the fiscal year under review that are amounts based on accounting estimates and that could potentially have a significant impact on the financial statements of the next fiscal year and beyond.

(b) Effective date

Scheduled to be applied from the end of the fiscal year ending March 31, 2021.

- “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 31, 2020)

(a) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) initiated a joint project to develop a comprehensive accounting standard for revenue recognition. In May 2014, the Boards published “Revenue from Contracts with Customers” (IFRS 15 for the IASB; Topic 606 for the FASB). IFRS 15 is effective for fiscal years beginning on or after January 1, 2018, and Topic 606 is effective for fiscal years beginning after December 15, 2017. In response to these developments, the ASBJ developed a comprehensive accounting standard related to revenue recognition and published this standard together with its implementation guidance.

(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 “Fair Value Measurement Accounting Standard, 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, 2022.

(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.

Additional information

(a) Recognition of revenue on component parts for commercial aircraft jet engines

In the Aerospace Systems segment, we book sales of component parts for commercial aircraft jet engines when our main partners sell jet engines etc., to airlines etc. However, in the past, due to the timing of our obtaining information about sales from our main partner, sales were recorded in the month following a sale by our main partner. From the consolidated fiscal year under review, we became able to quickly obtain sales information from our main partner, so sales for 13 months' worth of net sales were temporarily posted in the consolidated fiscal year under review. As a result, net sales in the consolidated fiscal year under review increased by ¥9,656 million (\$88,726 thousand).

(b) Certain assumptions on accounting estimates associated with the coronavirus outbreak

The Company has postponed the announcement of its forecast for consolidated earnings for the fiscal year ending March 31, 2021, since it is difficult to reasonably estimate performance forecast due to the coronavirus outbreak. On the other hand, in the fiscal year ended March 31, 2020, the Company has divided China (which experienced an outbreak first) from all other countries, and has made accounting estimates, such as that for determining the recoverability of deferred tax assets and determining loss on impairment of fixed assets under the following assumptions.

(i) China

The spread of the coronavirus peaked in the fourth quarter of FY2019, subsequently settled down, and economic activity will head towards normalization from the second quarter of FY2020.

(ii) *Countries other than China*

The spread of the coronavirus will peak in the first quarter of FY2020, subsequently settle down, and economic activity will head towards normalization from the third quarter of FY2020.

6.

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 and 2019 amounted to ¥4,479 million (\$41,156 thousand) and ¥4,926 million, respectively.

7.

Accumulated depreciation of property, plant and equipment

Accumulated depreciation of property, plant and equipment as of March 31, 2020 and 2019 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Accumulated depreciation of property, plant and equipment	¥872,337	¥838,423	\$8,015,593

8.

Securities

(a) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2020 and 2019 were as follows:

	2020			Thousands of U.S. dollars
	Millions of yen			Unrealized gains (losses)
	Book value	Acquisition cost	Unrealized gains (losses)	
Securities with book values exceeding acquisition costs:				
Equity securities	¥4,898	¥1,975	¥2,922	\$26,849
Other securities:				
Equity securities	840	1,145	(304)	(2,793)
Total	¥5,738	¥3,120	¥2,617	\$24,047
	2019			Thousands of U.S. dollars
	Millions of yen			Unrealized gains (losses)
	Book value	Acquisition cost	Unrealized gains (losses)	
Securities with book values exceeding acquisition costs:				
Equity securities	¥8,008	¥3,488	¥4,519	
Other securities:				
Equity securities	131	141	(9)	
Total	¥8,140	¥3,629	¥4,510	

(b) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2020 and 2019 were as follows:

	2020			Thousands of U.S. dollars		
	Millions of yen					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	¥1,075	¥552	¥(14)	\$9,878	\$5,072	\$(129)
	2019					
	Millions of yen					
	Sales amounts	Gains	Losses			
Equity securities:	¥965	¥862	¥-			

(c) Investment securities subject to impairment

Although impairment loss on other securities was recorded for the years ended March 31, 2020 and 2019, disclosure was omitted as the amounts were immaterial.

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

9.

Investments in non-consolidated subsidiaries and affiliates

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2020 and 2019 were ¥79,495 million (\$730,451 thousand) and ¥76,214 million, respectively.

10.

Claim for damages in overseas LNG tank construction work

Year ended March 31, 2020

The Company sustained losses (approximately ¥51 billion (\$468,621 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 "Others" under "Investments and other assets."

Year ended March 31, 2019

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) during the fiscal year under review concerning losses sustained by the Company due to breach of contract by an overseas construction subcontractor. The Company plans to recover the amount of loss (approximately ¥51 billion) in connection with this matter through future arbitration and has recorded a portion of the expected amount in "Others" under "Investments and other assets."

11.

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

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 (\$183,773 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.

12.

Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2020 and 2019 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Short-term debt:			
Short-term loans payable, principally bank loans, bearing average interest rates of 0.68% and 1.58% as of March 31, 2020 and 2019, respectively	¥143,741	¥ 71,698	\$1,320,785
Current portion of long-term loans payable, bearing average interest rates of 0.68% and 0.50% as of March 31, 2020 and 2019, respectively	22,446	28,324	206,248
Current portion of bonds, bearing average interest rates of 0.66% and 0.68% as of March 31, 2020 and 2019, respectively.	20,000	10,000	183,773
Lease obligations, current	1,542	319	14,169
Total short-term debt	¥187,730	¥110,342	\$1,724,984
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2020 to 2029, bearing average interest rates of 0.45% and 0.48% as of March 31, 2020 and 2019, respectively.	¥211,306	¥215,892	\$1,941,615
Notes and bonds issued by the Company:			
0.68% notes due in 2019	—	10,000	—
0.32-0.99% notes due in 2020	20,000	20,000	183,773
0.10-1.42% notes due in 2021	30,000	30,000	275,659
0.15-1.10% notes due in 2022	20,000	20,000	183,773
0.18-0.99% notes due in 2023	20,000	20,000	183,773
0.15-0.79% notes due in 2024	30,000	10,000	275,659
0.85% notes due in 2025	10,000	10,000	91,886
0.40% notes due in 2028	10,000	10,000	91,886
0.82% notes due in 2036	10,000	10,000	91,886
0.90% notes due in 2037	10,000	10,000	91,886
0.70-0.82% notes due in 2039	20,000	—	183,773
Long-term lease obligations	2,416	1,832	22,200
	393,722	367,724	3,617,771
Less portion due within one year	(43,989)	(38,643)	(404,199)
Total long-term debt	¥349,733	¥329,081	\$3,213,572

As of March 31, 2020 and 2019, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings and structures	¥ 82	¥ 61	\$ 753
Investment securities	47	17	432
Other	80	80	735
Total	¥209	¥158	\$1,920

As of March 31, 2020 and 2019, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Notes and accounts payable—trade	¥ 3	¥ 3	\$ 28
Short-term loans payable and long-term loans payable	10	18	92
Total	¥14	¥21	\$129

The aggregate annual maturities of long-term debt as of March 31, 2020 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2021	¥ 43,989	\$ 404,199
2022	47,289	434,522
2023	40,336	370,633
2024	43,085	395,893
2025 and thereafter	219,022	2,012,515
Total	¥393,722	\$3,617,771

13.

Provision for losses on construction contracts

Inventories for construction contracts with substantial anticipated losses and the provision for losses on construction contracts were not offset. As of March 31, 2020 and 2019, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥9,313 million (\$85,574 thousand) and ¥20,881 million, respectively. These amounts were all included in work in process.

14.

Employees' retirement and severance benefits

1. The Company and its consolidated subsidiaries have a system of retirement and severance lump-sum payments for employees. The Company and certain consolidated subsidiaries also have a defined contribution pension plan and a cash balance plan (pension plan linked to market interest rates). A portion of the existing retirement and severance benefits are funded. The Company and certain consolidated subsidiaries have a retirement pension plan. The Company has an employees' retirement benefit trust.

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 obligation

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance of retirement benefit obligations at beginning of period	¥201,484	¥194,948	\$1,851,365
Service cost	12,034	11,526	110,576
Interest cost	1,815	1,848	16,677
Actuarial gains and losses	8,449	3,168	77,635
Retirement benefits paid	(5,060)	(9,564)	(46,495)
Prior service cost	(1,907)	81	(17,523)
Other (foreign currency translation difference, etc.)	1,137	(524)	10,447
Balance of retirement benefit obligations at end of period	¥217,954	¥201,484	\$2,002,701

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance of plan assets at beginning of period	¥103,976	¥108,200	\$955,398
Expected return on plan assets	1,239	1,252	11,385
Actuarial gains and losses	(15,412)	(1,589)	(141,615)
Contributions paid by the employer	3,879	3,918	35,643
Retirement benefits paid	(4,482)	(6,869)	(41,183)
Other (foreign currency translation difference, etc.)	(957)	(937)	(8,794)
Balance of plan assets at end of period	¥ 88,243	¥103,976	\$810,833

(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
	2020	2019	2020
Retirement benefit obligations on funded plan	¥192,953	¥174,251	\$1,772,976
Plan assets	(88,243)	(103,976)	(810,833)
	104,710	70,275	962,143
Retirement benefit obligations on unfunded plan	25,000	27,232	229,716
Net amount of liabilities and assets presented on the consolidated balance sheets	129,710	97,508	1,191,859
	129,846	97,602	1,193,109
Liability for retirement benefits	129,846	97,602	1,193,109
Asset for retirement benefits	(135)	(93)	(1,240)
Net amount of liabilities and assets presented on the consolidated balance sheets	¥129,710	¥ 97,508	\$1,191,859

(4) Breakdown of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥12,034	¥11,526	\$110,576
Interest cost	1,815	1,848	16,677
Expected return on plan assets	(1,239)	(1,252)	(11,385)
Amortization of actuarial gains and losses	275	4,624	2,527
Amortization of prior service costs	191	464	1,755
Retirement benefit expense related to defined benefit plan	¥13,077	¥17,210	\$120,160

(5) Adjustments for retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Prior service cost	¥ 2,099	¥382	\$ 19,287
Actuarial gains and losses	(23,586)	(133)	(216,723)
Total	¥(21,487)	¥249	\$(197,436)

(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
	2020	2019	2020
Unrecognized prior service cost	¥ 616	¥(1,482)	\$ 5,660
Unrecognized actuarial gains and losses	(29,566)	(5,979)	(271,671)
Total	¥(28,949)	¥(7,462)	\$(266,002)

(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:

	2020	2019
Bonds	24%	20%
Equities	55%	66%
Cash and deposits	3%	1%
Others	18%	13%
Total	100%	100%

Note: As of March 31, 2020 and 2019, the employees' retirement benefit trust established as part of the retirement benefit plan is included in the plan assets and represented a 46% and 57% 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, 2020 and 2019, respectively, were as follows:

	2020	2019
Discount rate	0.31-3.02%	0.33-3.76%
Long-term expected rate of return on plan assets	0.00-5.50%	0.00-5.75%
Rate of compensation increase	6.10-6.50%	6.50-7.20%

3. Defined contribution plan

As of March 31, 2020 and 2019, the required contribution by the Company and its consolidated subsidiaries to the defined contribution plan was ¥2,034 million (\$18,690 thousand) and ¥2,372 million, respectively.

15.

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 and has made further substantial progress on the implementation of long-term solutions and mitigation of the near-term impact on customers. The Company made a provision for the abnormal cost related to in-service issues which the Company would cover as a member of this program.

16.

Contingent liabilities

Contingent liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
As guarantor of indebtedness of employees, non-consolidated subsidiaries, affiliates and others	¥22,515	¥24,384	\$206,882

17.

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.

18.

Cost of sales

The ending balance of inventories was measured at the lower of cost or market. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2020 was ¥1,941 million (\$17,385 thousand). Gain on the valuation of inventories included in the cost of sales for the years ended March 31, 2019 was ¥1,645 million.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2020 and 2019 was ¥8,563 million (\$78,682 thousand) and ¥14,451 million, respectively.

19.

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
	2020	2019	2020
Research and development expenses	¥52,608	¥48,734	\$483,396

20.

The payments 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 and has made further substantial progress on the implementation of long-term solutions and mitigation of the near-term impact on customers. The Company made a provision for the abnormal 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.

21.

Gain on sales of property, plant and equipment

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.

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.

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
	2020	2019	2020
Unrealized gains (losses) on securities			
Increase (decrease) during the year	¥ (887)	¥ (448)	\$ (8,150)
Reclassification adjustments	(546)	(768)	(5,017)
Subtotal, before tax	(1,433)	(1,217)	(13,167)
Tax (expense) or benefit	368	352	3,381
Subtotal, net of tax	(1,065)	(864)	(9,786)
Deferred gains (losses) on hedges			
Increase (decrease) during the year	(2,594)	(3,240)	(23,835)
Reclassification adjustments	2,556	2,258	23,486
Subtotal, before tax	(38)	(982)	(349)
Tax (expense) or benefit	16	306	147
Subtotal, net of tax	(21)	(675)	(193)
Foreign currency translation adjustments			
Increase (decrease) during the year	(5,284)	(796)	(48,553)
Reclassification adjustments	–	–	–
Subtotal, before tax	(5,284)	(796)	(48,553)
Tax (expense) or benefit	–	–	–
Subtotal, net of tax	(5,284)	(796)	(48,553)
Remeasurements of defined benefit plan			
Increase (decrease) during the year	(21,954)	(4,839)	(201,727)
Reclassification adjustments	467	5,088	4,291
Subtotal, before tax	(21,487)	249	(197,436)
Tax (expense) or benefit	6,469	299	59,441
Subtotal, net of tax	(15,017)	549	(137,986)
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	(1,936)	(4,867)	(17,789)
Total other comprehensive income	¥(23,326)	¥(6,654)	\$(214,334)

24.

Dividends

(a) Dividends paid

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 (\$53,717 thousand)	¥35.0 (\$0.32)	March 31, 2019	June 27, 2019
October 31, 2019 Board of Directors Meeting	Common stock	¥5,846 million (\$53,717 thousand)	¥35.0 (\$0.32)	September 30, 2019	December 2, 2019

Year ended March 31, 2019

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 27, 2018 General Meeting of Shareholders	Common stock	¥5,011 million	¥30.0	March 31, 2018	June 28, 2018
October 30, 2018 Board of Directors Meeting	Common stock	¥5,846 million	¥35.0	September 30, 2018	December 3, 2018

(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, 2020

Not applicable.

Year ended March 31, 2019

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2019 General Meeting of Shareholders	Common stock	Retained earnings	¥5,846 million	¥35.0	March 31, 2019	June 27, 2019

25.

Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporate tax (national tax) and enterprise and inhabitants' taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 30.5% for the years ended March 31, 2020 and 2019.		
(a) The significant differences between the statutory and effective tax rates for the years ended March 31, 2020 and 2019 were as follows:		
	2020	2019
Statutory tax rate	30.5%	30.5%
Valuation reserve	19.7	(0.9)
Equity in income of non-consolidated subsidiaries and affiliates	(1.0)	(1.7)
Tax credit for research and development expenses	(1.9)	(4.7)
Elimination of unrealized profits	0.3	(1.1)
Retained earnings for foreign subsidiaries	0.2	1.0
Other	0.7	(1.9)
Effective tax rate	48.4%	21.2%

(b) Significant components of deferred tax assets and liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Provision for bonuses	¥ 7,603	¥ 7,337	\$ 69,861
Retirement benefit liability	48,812	38,905	448,516
Loss from inventory revaluation	3,056	2,980	28,080
Unrealized loss on marketable securities, investment securities and other	1,198	1,483	11,008
Loss on valuation of land	803	829	7,378
Allowance for doubtful receivables	1,177	1,167	10,815
Depreciation	8,591	8,210	78,940
Inventories—elimination of intercompany profits	1,294	1,791	11,890
Fixed assets—elimination of intercompany profits	548	563	5,035
Provision for construction warranties	3,846	3,379	35,340
Provision for losses on construction contracts	3,534	8,549	32,473
Provision for the in-service issues of commercial aircraft jet engines	4,789	3,501	44,004
Net operating loss carryforwards	3,212	763	29,514
Other	16,193	15,631	148,792
Gross deferred tax assets	104,663	95,095	961,711
Less valuation allowance(*)	(15,894)	(6,845)	(146,044)
Total deferred tax assets	88,768	88,250	815,657
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	4,502	4,286	41,367
Reserve for special depreciation	1,082	1,465	9,942
Net unrealized gain on securities	777	1,150	7,140
Retained earnings for foreign subsidiaries	7,497	7,426	68,887
Other	5,107	4,334	46,926
Total deferred tax liabilities	18,966	18,664	174,272
Net deferred tax assets	¥ 69,801	¥69,585	\$641,376

(*) Valuation allowance increased by ¥9,049 million (\$83,148 thousand). This increase is due mainly to the additional recognition of valuation allowance related to deductible temporary differences, which are scheduled to be resolved in the next fiscal year and beyond, in line with an expected decrease in the Company's future taxable income.

26.

Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and deposits:			
Time deposits with maturities over three months:	¥106,108	¥74,311	\$974,989
	(3,562)	(6,000)	(32,730)
Total	¥102,546	¥68,311	\$942,259

27.

Profit per share

Per share amounts for the years ended March 31, 2020, and 2019 are set forth in the table below.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Basic profit per share:			
Profit	¥18,662	¥27,453	\$171,478
Profit allocated to common stock	¥18,662	¥27,453	\$171,478

	Number of shares in millions	
	2020	2019
Weighted average number of shares of common stock	167	167

Note: As the Company had no dilutive securities at March 31, 2020 or 2019, the Company has not disclosed diluted profit per share for the years ended March 31, 2020 and 2019.

28.

Derivative transactions

(a) 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				Thousands of U.S. dollars
	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)	\$(2,858)
EUR	11,566	–	45	45	413
Others	7,609	28	259	259	2,380
To purchase					
USD	973	–	1	1	9
EUR	230	–	(13)	(13)	(119)
Others	1,903	6	(61)	(61)	(561)
Total	¥96,634	¥34	¥ (81)	¥ (81)	\$ (744)

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			
		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		\$160,719	\$ 8,316	\$(2,049)
EUR		27,189	–	119
Others		3,078	312	(0)
To purchase	Accounts payable–trade			
USD		47,634	17,844	2,196
EUR		22,962	2,325	(349)
Others		44,547	2,830	(110)
Total		\$306,147	\$31,646	\$ (193)

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 payable	¥17,500	¥17,500	¥(134)
		¥17,500	¥17,500	¥(134)

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

	2020			
	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 payable	\$160,801	\$160,801	\$(1,231)
		\$160,801	\$160,801	\$(1,231)

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

(b) Outstanding positions and recognized gains and losses at March 31, 2019 were as follows:

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

	2019			
	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell				
USD	¥46,271	¥ –	¥(1,143)	¥(1,143)
EUR	1,137	–	19	19
Others	10,917	–	(194)	(194)
To purchase				
USD	14,860	–	11	11
EUR	68	–	(1)	(1)
Others	1,544	28	5	5
Total	¥74,799	¥28	¥(1,303)	¥(1,303)

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

(Derivative transactions to which the Company applied hedge accounting)

	2019			
	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Currency-related contracts:				
Foreign exchange contracts				
To sell	Accounts receivable–trade			
USD		¥22,694	¥3,354	¥(333)
EUR		10,761	–	133
Others		906	102	(33)
To purchase	Accounts payable–trade			
USD		8,231	3,027	221
EUR		2,841	220	(133)
Others		3,364	589	16
Total		¥48,799	¥7,294	¥(129)

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

	2019			
	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Fixed-rate payment/floating-rate receipt	Long-term loans payable	¥7,500	¥7,500	¥(79)
		¥7,500	¥7,500	¥(79)

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

Financial instruments

Information related to financial instruments as of March 31, 2020 and 2019 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. Loans payable 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, 2020 (eighteen years in 2019). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest rate and currency swaps) as necessary.

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

(c) Risk management system for financial instruments

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

The Company’s sales management functions and those of its consolidated subsidiaries regularly evaluate the financial 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 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 25, “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, 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			Thousands of
	Millions of yen		Unrealized gains (losses)	U.S. dollars
	Book value	Fair value		
Cash and deposits	¥106,108	¥106,108	¥ –	\$ –
Notes and accounts receivable–trade	473,204	473,133	(71)	(652)
Investment securities	5,738	5,738	–	–
Total assets	¥585,052	¥584,981	¥ (71)	\$ (652)
Notes and accounts payable–trade	261,159	261,159	–	–
Electronically recorded obligations–operating	110,526	110,526	–	–
Short-term debt and current portion of long-term debt (excluding lease obligations)	186,188	186,188	–	–
Long-term debt, less current portion (excluding lease obligations)	348,859	348,662	(197)	(1,810)
Total liabilities	¥906,733	¥906,536	¥(197)	\$(1,810)
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.

The book values, fair values and the differences between these values as of March 31, 2019 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	2019		
	Millions of yen		Unrealized gains (losses)
	Book value	Fair value	
Cash and deposits	¥ 74,311	¥ 74,311	¥ –
Notes and accounts receivable–trade	427,665	427,641	(23)
Investment securities	8,140	8,140	–
Total assets	¥510,117	¥510,094	¥ (23)
Notes and accounts payable–trade	247,191	247,191	–
Electronically recorded obligations–operating	123,083	123,083	–
Short-term debt and current portion of long-term debt (excluding lease obligations)	110,023	110,023	–
Long-term debt, less current portion (excluding lease obligations)	327,568	329,337	1,768
Total liabilities	¥807,867	¥809,636	¥1,768
Derivative transactions (*)	¥ (1,511)	¥ (1,511)	¥ –

(*) 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 loans payable and current portion of long-term loans 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 loans payable 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 28, “Derivative transactions.”

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

	Millions of yen		Thousands of
	2020	2019	2020
Unlisted equity securities and investments in partnerships	¥ 6,117	¥ 6,361	\$ 56,207
Convertible bonds	179	–	1,645
Stocks of non-consolidated subsidiaries and affiliates	14,520	10,639	133,419
Investments in affiliates	64,974	65,574	597,023
Total	¥85,791	¥82,575	\$788,303

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, 2020 and 2019 were as follows:

	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	¥–	¥–

	2020			
	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	\$ 974,989	\$ –	\$–	\$–
Notes and accounts receivable–trade	4,032,886	315,216	–	–
Convertible bonds	–	1,645	–	–
Total	\$5,007,884	\$316,861	\$–	\$–

	2019			
	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	¥ 74,311	¥ –	¥–	¥–
Notes and accounts receivable–trade	408,527	19,137	–	–
Total	¥482,839	¥19,137	¥–	¥–

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

See Note 12, “Short-term debt and long-term debt.”

30.

Finance leases

Finance leases commenced prior to April 1, 2008 which do not transfer ownership of the leased assets to the lessee are accounted for as operating leases. Information regarding such leases, as required to be disclosed in Japan, is as follows:

<Lessee>

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Property, plant and equipment	¥1,579	¥2,340	\$14,509
Accumulated depreciation	(1,239)	(1,853)	(11,385)
	¥ 339	¥ 487	\$ 3,115
Intangible assets	—	—	—
Accumulated amortization	—	—	—
	¥ —	¥ —	\$ —

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current portion	¥145	¥162	\$1,332
Non-current portion	237	383	2,178
Total	¥383	¥546	\$3,519

Lease payments, “as if capitalized” depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2020, and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Lease payments	¥175	¥361	\$1,608
Depreciation and amortization	148	311	1,360
Interest	12	19	110

31.

Operating leases

The schedule of future minimum lease payments under non-cancellable operating leases as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Within one year	¥ 3,853	¥ 3,609	\$ 35,404
Over one year	17,170	14,817	157,769
Total	¥21,023	¥18,426	\$193,173

32.

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 review 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 whether they conduct business in Japan or 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.

The main businesses in the Company’s reportable segments are set forth in the table below.

Business segment	Major products
Aerospace Systems	Production and sale of aircraft, jet engines, etc.
Energy System & Plant Engineering	Production and sale of general purpose gas turbine generators, prime movers, industrial equipment, boilers, environmental equipment, steel 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, 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) Calculation methods for sales, profit (loss), assets, liabilities and other items by reportable segment

Accounting methods applied for the calculation of sales, profit (loss), assets, liabilities and other items by business segment largely correspond to the information presented under Note 2, “Significant accounting policies.” Segment profit is based on operating profit. Intersegment sales and transfers are based on market prices.

As stated in Note 3 “Changes in accounting policies,” consolidated subsidiaries applying U.S. accounting standards began applying Topic 606, “Revenue from Contracts with Customers,” from the fiscal year under review. In conjunction with this, the method for calculating segment profit and loss was similarly changed. With these changes, the segment profit for the Motorcycle & Engine segment for the fiscal year under review increased by ¥3,442 million (\$31,627 thousand) over the amount that would have been reported if the previous accounting standard had been applied.

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

	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	Investment in equity method affiliates	Increase in property, plant and equipment and intangible assets	
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	

	Year ended March 31, 2019								
	Millions of yen								
	Sales			Other items					
	External sales	Intersegment sales and transfers	Total	Segment profit (loss)	Segment assets	Depreciation/amortization	Investment in equity method affiliates	Increase in property, plant and equipment and intangible assets	
Aerospace Systems	¥ 463,958	¥12,089	¥ 476,048	¥32,611	¥ 649,260	¥21,299	¥ –	¥24,022	
Energy System & Plant Engineering	253,041	19,899	272,940	11,634	301,798	3,412	18,552	2,237	
Precision Machinery & Robot	222,095	17,151	239,247	21,352	205,199	8,220	634	11,636	
Ship & Offshore Structure	78,974	4,549	83,523	1,090	121,918	1,559	45,955	2,360	
Rolling Stock	124,689	27	124,716	(13,797)	211,102	2,615	133	3,358	
Motorcycle & Engine	356,847	718	357,566	14,366	283,770	15,317	1,549	18,505	
Other	95,136	41,136	136,273	2,501	93,601	1,527	3,509	861	
Total	¥1,594,743	¥95,572	¥1,690,316	¥69,760	¥1,866,652	¥53,953	¥70,334	¥62,982	
Adjustments	–	(95,572)	(95,572)	(5,737)	(27,797)	5,069	–	3,918	
Consolidated total	¥1,594,743	¥ –	¥1,594,743	¥64,023	¥1,838,855	¥59,022	¥70,334	¥66,900	

	Year ended March 31, 2020								
	Thousands of U.S. dollars								
	Sales			Other items					
	External sales	Intersegment sales and transfers	Total	Segment profit (loss)	Segment assets	Depreciation/amortization	Investment in equity method affiliates	Increase in property, plant and equipment and intangible assets	
Aerospace Systems	\$ 4,893,403	\$ 59,515	\$ 4,952,927	\$393,063	\$ 6,845,980	\$207,103	\$ –	\$230,828	
Energy System & Plant Engineering	2,232,583	283,663	2,516,246	161,408	2,892,153	30,892	171,102	28,007	
Precision Machinery & Robot	1,997,492	142,690	2,140,191	112,203	1,870,119	85,261	15,961	118,028	
Ship & Offshore Structure	658,642	83,148	741,799	(5,853)	1,154,479	14,932	412,846	12,451	
Rolling Stock	1,254,737	165	1,254,902	(35,091)	1,945,778	23,275	1,240	25,177	
Motorcycle & Engine	3,103,528	7,094	3,110,622	(17,899)	2,592,897	146,678	14,711	196,205	
Other	941,239	357,686	1,298,925	11,348	865,331	14,353	33,833	6,846	
Total	\$15,081,641	\$933,998	\$16,015,648	\$619,186	\$18,166,765	\$522,521	\$649,711	\$617,569	
Adjustments	–	(933,998)	(933,998)	(48,902)	(176,817)	40,586	–	30,176	
Consolidated total	\$15,081,641	\$ –	\$15,081,641	\$570,275	\$17,989,938	\$563,108	\$649,711	\$647,753	

(d) Reconciliation and the main components of differences between the total for reportable segments and amounts on the consolidated financial statement for the years ended March 31, 2020, and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net sales			
Total for reportable segments	¥1,742,983	¥1,690,316	\$16,015,648
Intersegment transactions	(101,647)	(95,572)	(933,998)
Net sales on the consolidated financial statements	¥1,641,335	¥1,594,743	\$15,081,641

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Profit			
Total for reportable segments	¥67,386	¥69,760	\$619,186
Intersegment transactions	209	(181)	1,920
Corporate expenses (*)	(5,532)	(5,555)	(50,832)
Operating profit (loss) on the consolidated financial statements	¥62,063	¥64,023	\$570,275

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets			
Total for reportable segments	¥1,977,089	¥1,866,652	\$18,166,765
Intersegment transactions	(107,921)	(102,520)	(991,648)
Corporate assets shared by all segments (*)	88,678	74,723	814,830
Total assets on the consolidated financial statements	¥1,957,845	¥1,838,855	\$17,989,938

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

	Millions of yen					
	2020	2019	2020	2019	2020	2019
Other items	Total for reportable segments		Adjustments (*)		Amounts reported on the consolidated financial statements	
Depreciation/amortization	¥56,866	¥53,953	¥4,417	¥5,069	¥61,283	¥59,022
Increase in property, plant and equipment and intangible assets	67,210	62,982	3,284	3,918	70,495	66,900

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

	Thousands of U.S. dollars		
	2020		
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	\$522,521	\$40,586	\$563,108
Increase in property, plant and equipment and intangible assets	617,569	30,176	647,753

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2020, and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Japan	¥ 699,879	¥ 673,963	\$ 6,430,938
United States	413,095	393,066	3,795,782
Europe	220,574	187,764	2,026,776
Asia	236,687	260,230	2,174,832
Other areas	71,098	79,718	653,294
Total	¥1,641,335	¥1,594,743	\$15,081,641

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
	2020	2019	2020
Japan	¥421,567	¥422,286	\$3,873,629
North America	29,134	30,806	267,702
Europe	3,259	3,219	29,946
Asia	28,116	28,775	258,348
Other areas	493	582	4,530
Total	¥482,570	¥485,669	\$4,434,163

(ii) Information by major clients

Year ended March 31, 2020		
Clients	Net sales	Related segments
Ministry of Defense	¥256,839 million (\$2,360,002 thousand)	Aerospace Systems, Energy System & Plant Engineering, Ship & Offshore Structure, etc.
Year ended March 31, 2019		
Clients	Net sales	Related segments
Ministry of Defense	¥216,989 million	Aerospace Systems, Energy System & Plant Engineering, Ship & Offshore Structure, etc.

33.

Related party transactions

(a) Related party transactions for the years ended March 31, 2020 and 2019 were as follows:

	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 (\$92 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	¥118,869 million (\$1,092,245 thousand)
Account	Accounts receivable–trade
Ending balance	¥56,654 million (\$520,573 thousand)
Account	Advances received
Ending balance	¥52,346 million (\$480,989 thousand)

	Year ended March 31, 2019
	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	¥115,035 million
Account	Accounts receivable–trade
Ending balance	¥15,003 million
Account	Advances received
Ending balance	¥61,246 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, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current assets	¥161,524	¥167,183	\$1,484,186
Non-current assets	141,628	149,961	1,301,369
Current liabilities	108,542	122,176	997,354
Non-current liabilities	37,795	37,275	347,285
Net assets	156,813	157,693	1,440,899
Net sales	217,702	197,268	2,000,386
Profit before income taxes	7,133	7,616	65,543
Profit	4,708	5,293	43,260

34.

Subsequent events

(Issuance of Corporate Bonds)
The Company issued straight bonds pursuant to a resolution at the Company’s Board of Directors’ meeting held on May 21, 2020. The contents are as follows:

1. The 55th unsecured straight bond

Issue date	June 11, 2020
Total amount of issue	¥20 billion (\$183,773 thousand)
Issue price	¥100 (\$0.92) per face value of ¥100 (\$0.92)
Interest rate	0.06% per annum
Maturity date	June 9, 2023
Type	Unsecured
Usage of funds	Redemption of bonds and repayment of borrowings
Method of offering	Public offering

2. The 56th unsecured straight bond

Issue date	June 11, 2020
Total amount of issue	¥30 billion (\$275,659 thousand)
Issue price	¥100 (\$0.92) per face value of ¥100 (\$0.92)
Interest rate	0.26% per annum
Maturity date	June 11, 2025
Type	Unsecured
Usage of funds	Redemption of bonds and repayment of borrowings
Method of offering	Public offering

3. The 57th unsecured straight bond

Issue date	June 11, 2020
Total amount of issue	¥10 billion (\$91,886 thousand)
Issue price	¥100 (\$0.92) per face value of ¥100 (\$0.92)
Interest rate	0.48% per annum
Maturity date	June 11, 2030
Type	Unsecured
Usage of funds	Redemption of bonds and repayment of borrowings
Method of offering	Public offering

35.

Other matters

(a) Quarterly financial information

Year ended March 31, 2020	Millions of yen			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	¥350,778	¥736,565	¥1,135,444	¥1,641,335
Profit (loss) before income taxes	(4,391)	2,107	14,273	39,323
Profit (loss) attributable to owners of parent	(8,249)	(3,733)	4,762	18,662
Yen				
Profit (loss) per share—basic	¥(49.38)	¥(22.34)	¥28.50	¥111.72

Year ended March 31, 2020	Thousands of U.S. dollars			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	\$3,223,174	\$6,768,033	\$10,433,189	\$15,081,641
Profit (loss) before income taxes	(40,347)	19,360	131,149	361,325
Profit (loss) attributable to owners of parent	(75,797)	(34,301)	43,756	171,478
U.S. dollars				
Profit (loss) per share—basic	\$(0.45)	\$(0.21)	\$0.26	\$1.03

(b) Material lawsuits, etc.

<Snow disaster at NIPPI Corporation>

Due to the heavy snowfall on February 15, 2014, an aircraft hangar’s roof at a consolidated subsidiary’s NIPPI Corporation’s Atsugi Plant collapsed, causing damage to aircraft of the Japan Maritime Self-Defense Force under regular maintenance in the hangar. The Company and NIPPI Corporation entered into discussions with the Japan Ministry of Defense regarding how this matter should be handled. However, in July 2017, the Ministry of Defense, based on the contention that it had suffered losses totaling ¥1,900 million (\$17,458 thousand), executed an offset for the same amount in relation to a payment claim held by the Company vis-à-vis the Ministry of Defense (central government). The Company did not accept the Ministry of Defense’s contention or its execution of the offset and, consequently, demanded payment from the Ministry of Defense of the ¥1,900 million that had been subject to the offset. However, the Ministry of Defense did not comply with the Company’s demand, leading the Company to institute legal proceedings in October 2017 at the Tokyo District Court seeking payment of the amount in question. A settlement was reached on this matter with the Ministry of Defense in December 2019, in which the Ministry of Defense settled the outstanding ¥1,900 million payment to the Company. This has had no effect on the Company’s income or loss.

<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 (\$128,641 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, 2020 and 2019, 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, 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, 2020 and 2019, and its consolidated financial performance and 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.

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

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

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

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties including 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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Tanaka Motohiro

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, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Corporate Profile/Stock Information (As of March 31, 2020)

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 (as of June 25, 2020)
Paid-in Capital	¥104,484 million
Net Sales	• Consolidated: ¥1,641,335 million (fiscal 2019) • Non-consolidated: ¥1,250,354 million (fiscal 2019)
Number of Employees	• Consolidated: 36,332 • Non-consolidated: 17,218

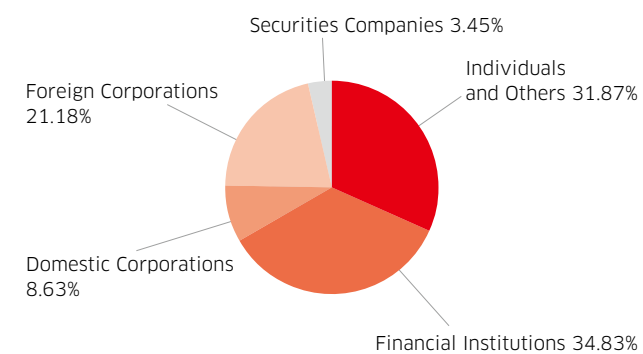
Stock Information

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	112,648 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

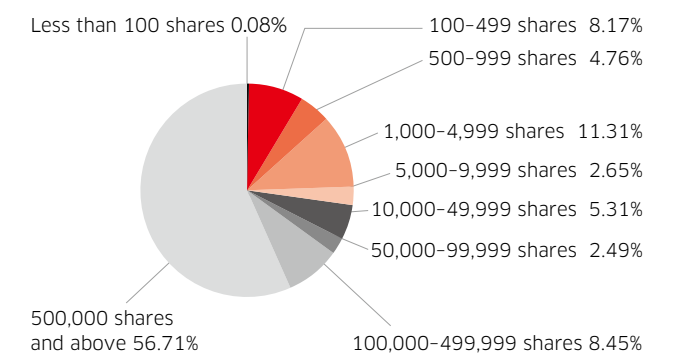
Major Shareholders

Shareholder	Number of Shares Owned	Percentage
The Master Trust Bank of Japan, Ltd. (Trust Account)	11,525,700	6.89%
Japan Trustee Services Bank, Ltd. (Trust Account)	7,569,100	4.53%
Nippon Life Insurance Company	5,751,661	3.44%
Mizuho Bank, Ltd.	4,176,412	2.50%
Kawasaki Heavy Industries, Ltd. Kyoeikai	3,916,919	2.34%
Kawasaki Heavy Industries Employee Stock Ownership Association	3,790,021	2.26%
BNYMSANV AS AGENT / CLIENTS LUX UCITS NON TREATY 1	3,576,900	2.14%
JFE Steel Corporation	3,539,040	2.11%
Japan Trustee Services Bank, Ltd. (Trust Account 7)	3,270,800	1.95%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,168,700	1.89%

Shareholdings by Type of Shareholder



Shareholders by Shareholding Volume



Major Subsidiaries and Associates (As of March 31, 2020)

Aerospace Systems

NIPPI Corporation
Nippi Skill Corporation
Kawaju Gifu Engineering Co., Ltd.
Kawaju Gifu Service Co., Ltd.
KGM Co., Ltd.
Kawaju Akashi Engineering Co., Ltd.

Energy System & Plant Engineering

Kawasaki Thermal Engineering Co., Ltd.
Kawasaki Machine Systems, Ltd.
Kawasaki Prime Mover Engineering Co., Ltd.
Kawasaki Naval Engine Service, 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.
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.
KHI Design & Technical Service, Inc.
Kawasaki Heavy Industries Machinery Trading (Shanghai) 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.

Precision Machinery & Robot

Kawasaki Robot Service, Ltd.
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.
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

Ship & Offshore Structure

Kawaju Support Co., Ltd.
Kawasaki Marine Engineering Co., Ltd.
KHI JPS Co., Ltd.
Kawasaki Subsea (UK) Limited
* MES-KHI YURA DOCK CO., LTD.
* Nantong COSCO KHI Ship Engineering Co., Ltd.
* Dalian COSCO KHI Ship Engineering Co., Ltd.

Rolling Stock

Alna Yusoki-Yohin Co., Ltd.
Kawasaki Rolling Stock Component Co., Ltd.
Kawasaki Rolling Stock Technology Co., Ltd.
Kansai Engineering Co., Ltd.
Sapporo Kawasaki Rolling Stock Engineering Co., Ltd.
NICHIGO CORPORATION
Kawasaki Rail Car, Inc.
* Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.

Motorcycle & Engine

Kawasaki Motors Corporation Japan
K-Tec Corporation
Technica Corp.
Autopolis
Union Precision Die 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 Motores de Mexico S.A. de C.V.
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 Motors (Shanghai), Ltd.
Kawasaki Motors Vietnam Co., Ltd.
* Changzhou Kawasaki and Kwang Yang Engine Co., Ltd.

Others

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 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

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Kawasaki Heavy Industries, Ltd.



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