The Items Published on the Internet Website Concerning the Notice of the 198th Ordinary General Meeting of Shareholders

Kawasaki Heavy Industries, Ltd.

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

At the Board of Directors Meeting, the Company makes a resolution regarding the basic policies on the establishment of internal control systems pursuant to the Companies Act, confirms the status of established internal control systems and its operation at the end of every fiscal period, and reports it to the Board of Directors Meeting. The details of resolutions regarding the basic policies as of the end of the fiscal year under review and an overview of the operation status of internal control systems for the fiscal year under review are as follows. Based on the resolution passed at the 197th Ordinary General Meeting of Shareholders held on June 25, 2020, the Company transited to a Company with Audit and Supervisory Committee on the same day. Therefore, the following describes systems and overview after the transition.

I. Basic policy for developing internal control systems

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

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

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

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

(i) We thoroughly ensure compliance with laws and regulations and the Articles of Incorporation and other KHI Group's regulations and policies by establishing ethical standards to serve as the basis for decisions in taking an action as the "The Kawasaki Group Code of Conduct" (hereinafter, the "Code of Conduct") and ensuring that Directors and Executive Officers and employees are thoroughly familiar with the Code of Conduct.

(ii) In order to achieve objectives such as effective and efficient business operations, reliable financial reporting, compliance with laws and regulations and safeguarding of assets, and secure the appropriateness of business operations, we establish a system to promote internal control, with President as the chief internal control officer and General Managers of each division as the managers in charge of internal control, and manage the internal control systems in a unified way based on the roles and responsibilities given to Directors, Executive Officers and employees, respectively.

(iii) We deliberate and make decisions on policies and measures, under the governance of President, for the Corporate CSR Committee and the CSR Committee (consisting of Directors and other employees) to comply with the "Code of Conduct" and to take thoroughgoing compliance initiatives. We continue to improve understanding and awareness of compliance through ongoing education and training activities for various types of legal compliance and also monitor operational status.

(iv) We work to strengthen compliance systems by establishing and enhancing the whistle-blowing system to report information regarding compliance breaches.

(v) Executive Officers who are delegated to execute business operations within an appropriate scope are appointed at Board of Directors meetings. Meanwhile by appointing outside directors, independent officers stipulated in the Regulations of the Tokyo Stock Exchange, who are not likely to have any conflicts of interest with any general shareholder, the Company enhances the supervisory and monitoring functions of the Board of Directors for overall management, ensures the objectivity and neutrality of the management monitoring function by the Audit and Supervisory Committee, and enhances the monitoring function.

(vi) The Internal Audit Department carries out KHI's business audits and evaluation/assessment of internal controls over financial reporting to ensure the proper execution of duties and the reliability of financial reporting.

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

(i) Information pertaining to execution of duties by Directors (meeting minutes, decision making records and appurtenant materials, account books, account slips and other information) shall be appropriately stored and managed in accordance with applicable internal regulations. The information shall be made accessible at any time to Directors, Executive Officers and employees nominated thereby.

(ii) Confidential information and personal information shall be appropriately stored and managed in accordance with internal regulations and enforcement thereof shall be ensured through such measures as business audits.

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

(i) With President as the chief executive of risk management, Executive Officer in charge of risk management as chief risk officer and General Managers of each division as risk managers, we establish a risk management system to comprehensively identify the potential risks and prevent or minimize risks or losses caused by such risks.

(ii) With respect to risks pertaining to management strategies, risk analysis and consideration of countermeasures shall be conducted in advance by the concerned divisions in accordance with applicable internal regulations. Then, deliberations and decision making regarding those risks shall be carried out at Board of Directors meetings. In particular, we implement risk management individually for major projects that have a significant impact on business operations.

(iii) As a measure to be taken when a risk becomes evident, we set forth codes of conduct in the event of emergencies, and also appoint persons in charge of crisis management at each place of business to establish the system, which is designed to minimize losses.

(iv) When a material risk becomes evident, reports are immediately given to President, who is the chief executive of risk management, in accordance with the reporting route specified in advance.

(v) In particular, in anticipation of the occurrence of disasters, including largescale earthquakes and pandemic diseases, we predetermine important operations to which priority should be given to ensure the continuation or recovery of the operations in order to minimize the impact on KHI's business. We also formulate a business continuity plan to shorten the length of time until recovery.

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

(i) Based on the role and objectives of the corporate group consisting of the Company and its subsidiaries (hereinafter, the "KHI Group") as articulated in the Kawasaki Group Mission Statement, we share final goals for the future by setting forth a long-term vision for the whole group and each business division.

(ii) To attain the goals set forth in the long-term vision, we have formulated specific action plans, including the Medium-Term Business Plan and Short-Term Business Plan, and have determined goals for each organization, Director, Executive Officer and employee. Furthermore, by conducting regular reviews of these respective plans and goals, we aim to secure a system that enables more appropriate and efficient execution of business operations.

(iii) We have stipulated matters such as division of roles and approval authority in internal regulations. We have also appointed Executive Officers based on a resolution passed at Board of Directors meetings to clarify the Systems for Execution of Business Operations. As a result of establishing these systems, we aim to efficiently execute business operations in each business and function area.

(iv) Upon exercise of authority delegated to President in internal regulations, we ensure appropriateness and efficiency of executing business operations by making discussions at the Management Committee, which acts as an advisory organ for President, due to its significance and others. Furthermore, we have established the Executive Officers Committee as a place for ensuring familiarity and exchange of opinions, etc. of management policies and plans for Executive Officers to build a common understanding in business management of the KHI Group.

(v) According to the in-house company system, each business division makes decisions on its own under delegated authority and responsibility, and executes flexible business operations to adapt to changes in the environment. We have also established the Company Management Committee in each Company, and it is led by the Company President who assumes the ultimate responsibility for execution of duties of company's business operations.

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

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

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

(i) The Company governs internal controls of Group Companies from the perspective of the parent company and establishes a system to ensure the appropriateness of business operations. It does so by achieving objectives regarding matters such as the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with laws and regulations and safeguarding of assets as a whole group.

(ii) The Company establishes a system to have the Corporate CSR Committee deliberate strategies and policies and measures concerning the "Code of Conduct" and compliance as the entire KHI Group, and check operational status.

(iii) The Company implements controls as shareholders of Group Companies through the execution of voting rights at the General Meeting of Shareholders, and also carries out management supervision and monitoring over the operation thereof by dispatching part-time Directors or part-time Audit & Supervisory Board Members who are not engaged in the execution of business operations of Group Companies, or both (hereinafter, "Part-Time Officer"), to Group Companies, on an as-needed basis. In addition, we secure appropriate Group business management systems by establishing a department which presides over subsidiaries' operation.

(iv) The Internal Audit Department ensures the appropriateness of operations and reliability of financial reports through business audits and assessment of internal controls over financial reporting at Group Companies.

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

(i) The Company receives reports regarding the status of execution of duties by directors of Group Companies through a Part-Time Officer who is dispatched thereto.

(ii) Group Companies regularly report on the status of business operation as a management report and have discussions in advance with the relevant department of the Company with regard to important matters subject to decision-making on corporate management in accordance with applicable internal regulations.

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

(i) The Company promotes group-wide risk management, striving to prevent or minimize risk or losses caused by such risk.

(ii) As a measure to be taken when a risk becomes evident at Group Companies, the Company instructs Group Companies to formulate crisis handling measures and policies to establish the crisis management system.

(iii) When a material risk becomes evident, reports are immediately given to the Company, in accordance with the reporting route specified in advance.

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

(i) With respect to the management at each Company of the KHI Group, while respecting the autonomy thereof, the Company establishes a system in which execution of duties is ensured in a fair and efficient manner by sharing the basic philosophy and vision indicated in the "Kawasaki Group Mission Statement," long-term vision, the Medium-Term Business Plan, and so forth, and clarifying group-wide final goals.

(ii) The Company instructs Group Companies to develop Approval Standards to ensure efficient execution of business.

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

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

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

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

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

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

(i) The Company's Audit and Supervisory Committee Members attend Board of Directors meetings, the Management Committees, Executive Officers Committees and companywide meetings, including the Corporate CSR Committee and the Corporate Risk Management Committee. At these meetings, the Company's Directors (excluding the Audit and Supervisory Committee Members), Executive Officers and employees shall provide the Company's Audit and Supervisory Committee with reports concerning important matters about group management and business operations, including matters regarding compliance, risk management and internal controls, and the status of execution of duties.

(ii) The Company's Directors, Executive Officers and employees shall immediately report to the Company's Audit and Supervisory Committee when discovering that there is a risk of the KHI Group suffering significant damage.

(iii) Directors, Audit & Supervisory Board Members and employees of Group Companies shall immediately report to the relevant department of the Company when discovering that there is a risk of the KHI Group suffering significant damage. Upon receiving reports, the said department shall report the details to the Company's Audit and Supervisory Committee.

(iv) The Company's Executive Officers and employees shall, in accordance with applicable internal regulations, report to the Company's Audit and Supervisory Committee regarding the execution of business operations of the KHI Group by circulation of internal memos.

(v) The Company's Auditing Department and Accounting Auditors from time to time report to, and exchange information with the Company's Audit and Supervisory Committee regarding the status of audits on the KHI Group.

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

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

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

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

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

(i) Directors (excluding the Audit and Supervisory Committee Members) and Audit and Supervisory Committee Members regularly hold meetings to ensure mutual understanding, and Audit and Supervisory Committee Members also attend important meetings such as Board of Directors meeting and Management Committee meeting, and directly express their opinion regarding execution of duties by Directors (excluding the Audit and Supervisory Committee Members) and Executive Officers.

(ii) The Company's Directors and Group Companies' Directors promote collaboration between the Company's Audit and Supervisory Committee, the Company's Internal Audit Department and Group Companies' Audit & Supervisory Board Members, and cooperate to establish systems which enable greater effectiveness in the conduct of audits.

(iii) The Company and Group Companies obtain the consent of the Audit and Supervisory Committee or the Audit & Supervisory Board Members or approval of the Audit and Supervisory Committee or the Audit & Supervisory Board of the relevant company with regard to proposals for the election of the Audit and Supervisory Committee Members or Audit & Supervisory Board Members and their remuneration, and so forth, of the relevant company, in accordance with laws and regulations and the Articles of Incorporation.

(iv) Of Audit and Supervisory Committee Members appointed by the Company, one or more shall have substantial knowledge about finance and accounting.

4. System regarding expulsion of anti-social forces

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

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

II. Overview of the operation status of internal control systems

1. Efforts on internal control systems in general

(i) We have specified the "Code of Conduct" as ethical standards to serve as the basis for decisions when the KHI Group's Officers and employees take an action, and ensure thorough dissemination of the Code of Conduct by implementing initiatives such as distributing the booklet to employees, posting the Code of Conduct on the intranet and providing various training programs.

(ii) The Internal Audit Department carries out evaluation/assessment of internal controls over business audits and financial reporting for the KHI Group to ensure effectiveness and efficiency of business operations and reliability of financial reporting. We have postponed the audits for overseas subsidiaries for the fiscal year under review to the next fiscal year, and are considering to conduct them remotely due to overseas travel restrictions related to COVID-19 infection.

2. Efforts on compliance

(i) We establish the Corporate CSR Committee, which is responsible for deliberating and making decisions on policies and measures to promote compliance at a group-wide level and monitoring the compliance status thereof. The said committee also plays the leading role in the establishment of related internal regulations, preparation and distribution of the "Compliance Guidebook" (hereinafter, the "Guidebook"), provision of various training programs, and operation of the whistle-blowing system. In addition, we establish the CSR Committee, which performs compliance activities for each business division, and implement appropriate measures for each business environment.

(ii) We specify that we shall have no relations with anti-social forces in the Code of Conduct, and ensure that all employees shall be aware of the matters by distributing the Guidebook containing specific examples of prohibited acts, and promoting awareness in the workplace.

3. Efforts on risk management

(i) We build a risk management system on a companywide level based on the Risk Management Regulations. We also prepare a manual to explain the procedures of specific risk management practices and exhaustively grasp the assumed risks on a scale common to the Group to prevent and minimize risk or losses caused by such risk. In addition, we hold Risk Management Committee meetings on an as-needed basis at both the companywide level and divisional level to report and deliberate on determination of material risks, designation of risks to be addressed, results of risk monitoring and other important matters.

(ii) For major projects that have a significant impact on business operations, we strengthen a function to check risks in advance as we recognize risk detection and appropriate risk assessment before signing as well as implementation of appropriate measures to avoid risks as important issues. We have learned lessons from the previous projects that caused large losses, and therefore added them to the internal regulations as the disciplinary rules. We are implementing a risk control approach that limits the total amount of risk of losses to the amount which reflects an organization's financial strength. Furthermore, we bring stronger risk management by building and maintaining a system which monitors progress of projects from the execution of contracts until completion of projects and signs and risks showing changes in operating environments.

(iii) In anticipation of the occurrence of large-scale disasters and pandemic diseases, we proactively formulate a business continuity plan for each business division, and conduct annual assessment and review thereof. We also establish and build

a system to minimize losses in case we suffer damage in disasters.
During the fiscal period under review, we reviewed estimates of damage by disasters in major areas in Japan, performed disaster prevention drills and BCP drills, and conducted safety confirmation drills for all the employees. In response to the spread of COVID-19 infection, we are taking appropriate infection prevention measures based on the action guidelines and business continuity plans in the event of emergencies.

4. Efforts to ensure efficient execution of duties of Directors

(i) We execute management policies and business plans resolved at the Audit & Supervisory Board by following the Systems for Execution of Business Operations with President as the head of the systems and regularly report such progress to the Audit & Supervisory Board. During the fiscal period under review, we newly formulated Group Vision 2030. To attain the goals set forth in the vision, all the Executive Officers expressed their commitments as well as determined the ideal way to be in each business area and the short-term business plan. We are striving to attain and achieve such goals.

(ii) We enhance efficiency of execution of duties in Directors' and each business and function area by delegating a part of the authority to make a decision about execution of significant duties from the Audit & Supervisory Board to President and his/her subordinates, and by specifying division of roles and approval authority in the internal regulations and operating them appropriately. We also give various types of guidance to Group Companies to enhance efficiency of execution of duties.

5. Efforts on management of Group Companies

(i) We exert group-wide efforts to work on compliance and risk management. We will establish and operate the systems according to business contents, size, region and significance of each Group Company.

(ii) We carry out management supervision and monitoring over the operation of Group Companies by dispatching Part-Time Officers to Group Companies to attend Board of Directors meetings thereof. We regularly receive reports on the status of business operation from Group Companies and the responsible department of the Company and the relevant Group Companies have discussions in advance with regard to important matters subject to decision making on corporate management of the Group Companies in accordance with applicable internal regulations.

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

(i) We set up Office of Audit & Supervisory Committee and assign two employees who are dedicated to assist in the duties of Audit and Supervisory Committee. For personnel transfer, personnel performance evaluation and disciplinary punishment of these employees, we obtain prior consent of the Audit and Supervisory Committee. Ensuring the independence of the Internal Audit Department, for personnel transfer, personnel performance evaluation and disciplinary punishment of the head of the department, we obtain prior consent of the Audit and Supervisory Committee.

(ii) Audit and Supervisory Committee Members attend the Company's important meetings. Directors (excluding the Audit and Supervisory Committee Members), Executive Officers and employees provide the Company's Audit and Supervisory Committee with reports concerning important matters about corporate management and business operations as well as the status of execution of duties through the said meetings, and report to the Company's Audit and Supervisory Committee regarding the execution of business operations by circulation of internal memos.

(iii) We establish regulations that prohibit unfair and unfavorable treatment of those who cooperate with Audit and Supervisory Committee to perform audits and give reports to Audit and Supervisory Committee pursuant to the "Basic Policy for the Establishment of Internal Control System." In addition, Group Companies are also proceeding with establishment of structures and systems according to region, size, function and others of each Group Company, including development of regulations.

(iv) The Auditing Department and Accounting Auditor regularly hold liaison meetings or discussions with Audit and Supervisory Committee to exchange information and opinions with him/her so as to ensure close communication.

(v) We establish regulations regarding requests for prepaid expenses incurred for the execution of the duties of Audit and Supervisory Committee Members, and so forth.

Consolidated Statement of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Unit: Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	104,484	54,542	326,626	(133)	485,520
Changes of items during the period					
Cash dividends					–
Net loss attributable to owners of the parent			(19,332)		(19,332)
Treasury stock purchased				(3)	(3)
Treasury stock disposed		(0)		0	0
Transfer of loss on disposal of treasury stock		0	(0)		–
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Other			(716)		(716)
Net changes of items other than shareholders' equity					
Total changes of items during the period	–	(0)	(20,049)	(3)	(20,052)
Balance at the end of the period	104,484	54,542	306,576	(136)	465,467

	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the period	1,636	(272)	(11,311)	(19,946)	(29,892)	15,934	471,562
Changes of items during the period							
Cash dividends							–
Net loss attributable to owners of parent							(19,332)
Treasury stock purchased							(3)
Treasury stock disposed							0
Transfer of loss on disposal of treasury stock							–
Change in ownership interest of parent due to transactions with non-controlling interests							(0)
Other							(716)
Net changes of items other than shareholders' equity	319	92	10,379	18,966	29,758	1,507	31,265
Total changes of items during the period	319	92	10,379	18,966	29,758	1,507	11,213
Balance at the end of the period	1,955	(179)	(931)	(979)	(134)	17,442	482,775

Notes to the Consolidated Financial Statements

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

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

1. Scope of consolidation

(1) Number of consolidated subsidiaries and names of principal consolidated subsidiaries — 99 in total

(Domestic) Kawasaki Trading Co., Ltd., Kawasaki Machine Systems, Ltd., NIPPI Corporation, Kawasaki Motors Corporation Japan, Kawasaki Thermal Engineering Co., Ltd., EarthTechnica Co., Ltd.

(Overseas) Kawasaki Motors Corp., U.S.A., Kawasaki Motors Manufacturing Corp., U.S.A., Kawasaki Motors Enterprise (Thailand) Co., Ltd., Kawasaki Motors Europe N.V., Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd., Kawasaki Precision Machinery (Suzhou) Ltd., Kawasaki Rail Car, Inc., Kawasaki Robotics (USA) Inc., Flutek, Ltd.

Four subsidiaries have been included in the scope of consolidation, due to establishment of three companies of them and share acquisition of the other one company.

One subsidiary has been excluded from the scope of consolidation due to completion of liquidation.

(2) Names of principal non-consolidated subsidiaries, etc.

Green Park Chiba Shin-Minato and other companies

(Reason for exclusion from scope of consolidation)

The non-consolidated subsidiaries were excluded from the scope of consolidation because they are small in size, and its accounts, such as total assets, net sales, net income and retained earnings have no significant effects on the Company’s consolidated financial statements.

2. Application of the equity method

(1) Number of affiliates which are subject to application of the equity method — 19 in total

Name of principal company: Nantong COSCO KHI Ship Engineering Co., Ltd.

Two affiliates which are subject to application of the equity method have been included in the scope of application of the equity method due to establishment, etc.

(2) Non-consolidated subsidiaries not subject to application of the equity method (Green Park Chiba Shin-Minato and other companies) and affiliates (Commercial Airplane Co., Ltd. and other companies) are excluded from the scope of application of the equity method, because they only have minimal effects on the Company’s consolidated financial statements with respect to net income (for the Company’s equity interest) and retained earnings (for the Company’s equity interest), and they have no significance as a whole.

3. Significant accounting policies

(1) Standards and methods for evaluation of significant assets

(i) Marketable securities

a. Bonds held to maturity

Amortized cost method (straight-line method) is principally applied.

b. Other marketable securities

Securities with market value

Market value method based on the market value as of the account closing date (with all valuation differences charged to net assets and the cost of sale computed mainly by the moving-average method) is applied.

Securities without market value

The cost method based on the moving-average method is principally applied.

(ii) Inventories

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

(iii) Derivatives

Stated at market value.

(2) Depreciation and amortization method for significant depreciable assets

(i) Net property, plant and equipment (other than leased assets)

The straight-line method is principally applied.

(ii) Intangible assets (other than leased assets)

The straight-line method is applied.

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

(iii) Leased assets

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

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

Finance lease transactions not involving the transfer of ownership

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

(3) Accounting standards for significant provisions

(i) Allowance for doubtful accounts

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

(ii) Provision for bonuses

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

(iii) Provision for construction warranties

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

(iv) Provision for loss on construction contracts

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

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

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

(vi) Provision for sales promotion expenses

A provision is recorded for sales rebates, etc. that are anticipated to be disbursed for the next consolidated fiscal year based on past experience or on estimations of individual cases, concerning dealer inventories at the end of the consolidated fiscal year under review.

(4) Method of accounting treatment for retirement benefits

(i) Allocation of expected retirement benefit payments

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

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

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

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

(iii) Method of accounting treatment for unrecognized actuarial gains and losses, and unrecognized past service costs

Unrecognized actuarial gains and losses, and unrecognized past service cost, net of applicable taxes, are recorded in "Accumulated adjustment for retirement benefits" of "Accumulated other comprehensive income" in "Net assets."

(iv) Simplified accounting method used by small companies

Certain consolidated subsidiaries apply a simplified accounting method in which the calculation of liabilities for retirement benefits and retirement benefit expenses is carried out by using a method in which the retirement benefit obligations are deemed to be the amount of retirement benefits to be paid in cases where all eligible employees retired at the fiscal year-end date.

(5) Standards for the recognition of significant revenues and expenses

Recognition of net sales of completed construction contracts and cost of sales of completed construction contracts

(i) Construction activities whose outcome from the completed portion as of the end of the consolidated fiscal year are deemed to be definite

Percentage-of-completion method (the cost-to-cost method is principally used to estimate the percentage of completion) is applied.

(ii) Other construction activities

Completed-contract method is applied.

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

Receivables and payables denominated in foreign currencies are translated into yen at the foreign exchange spot rate on the date of the balance sheet, and differences arising from the translation are calculated as gains or losses. The Company translates assets and liabilities of foreign consolidated subsidiaries into yen at the foreign exchange spot rate on the date of the balance sheet of each of those subsidiaries. Revenues and expenses are translated using the average foreign exchange rate of the statement of income's period. Translation adjustments are included in "Foreign currency translation adjustments" and "Non-controlling interests" in "Net assets."

(7) Method of significant hedge accounting

(i) Method of hedge accounting

Deferred hedge accounting is applied.

(ii) Hedging instruments and hedged items

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

(iii) Hedging policy

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

(iv) Method of assessing hedging effectiveness

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

(8) Method and period for amortization of goodwill

Goodwill equivalent is equally amortized over the estimated effective period of the investment. However, goodwill is amortized in lump-sum in the fiscal year when incurred if the amount is minimal.

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

(i) Accounting treatment for consumption taxes

The tax-exclusion method is applied for the consumption tax and the local consumption tax.

(ii) Application of the consolidated taxation system

The consolidated taxation system is applied.

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

Regarding the items related to the transition to the Group Tax Sharing System newly established in the "Act for Partial Amendment of the Income Tax Act" (Act No.8, 2020) and the review of the non-consolidated taxation system in line with the transition, the Company and some domestic consolidated subsidiaries have not applied the provisions of paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018), pursuant to paragraph 3 of 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 amounts of deferred tax assets and deferred tax liabilities are recorded in accordance with the tax act prior to the amendment.

(Changes in presentation methods)

Changes due to adoption of "Accounting Standard for Disclosure of Accounting Estimates"

The Company has adopted the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) effective from the consolidated fiscal statements as of the end of the fiscal year under review. Accordingly, "Notes to Accounting Estimates" are presented in the consolidated financial statements.

Consolidated Statement of Income

Effective from the consolidated fiscal year under review, "Loss on retirement of non-current assets," which was included in "Other" under "Non-operating expenses" for the previous consolidated fiscal year, is presented separately as a result of an increase in its quantitative materiality. On the other hand, "Penalty income" and "Insurance claim income," which were presented separately under "Non-operating income" for the previous consolidated fiscal year, are included in "Other" under "Non-operating income" effective from the consolidated fiscal year under review as a result of a decrease in their quantitative materiality.

(Notes to Accounting Estimates)

Recoverability of deferred tax assets

(1) The amount recorded in the consolidated financial statements
Deferred tax assets ¥70,452 million

(2) Information contributing to understanding of the accounting estimates

(i) Methods to calculate the estimates
The recoverability of deferred tax assets is determined based on business plans, taking into account taxable income for a certain future period and tax planning.

(ii) Assumptions used to calculate the estimates
Estimation on net sales and income, a key element for business plans, is performed with some assumptions on factors including future economic conditions. In addition, COVID-19 has had an extensive impact on our business plans. The following assumptions are considered when performing accounting estimates.

- It will take quite some time for the Aerospace Systems segment to recover fully due to declining passenger demand worldwide, while demand is gradually increasing thanks to relaxation of travel restrictions.
- In other business segments, sales have already recovered to pre-COVID-19 levels in the Precision Machinery & Robot segment and the Motorcycle & Engine segment for sales of hydraulic equipment to the Chinese construction machinery market and sales to advanced countries respectively. In those segments, solid demand is expected to continue. On the other hand, for other products, it will take some time for demand to recover.

(iii) Impact on the consolidated financial statements for the next fiscal year
Future accounting estimates can be affected by factors including changes in future economic conditions and the situation of COVID-19. Although the Group provides reasonable estimates on the recoverability, future changes in those conditions on the estimates can have a material impact on the amount of deferred tax assets in the consolidated financial statements in future periods.

(Notes to Consolidated Balance Sheet)

1. Accumulated depreciation of property, plant and equipment ¥891,135 million
2. Assets pledged as collateral and Liabilities relating to collateral
   (1) Assets pledged as collateral

Investment securities	¥39 million
Other	¥80 million
Total	¥119 million

   (2) Liabilities relating to collateral

Notes and accounts payable - trade	¥5 million
Total	¥5 million

3. Guarantee obligations for bank loans of subsidiaries and affiliates, etc. and employees ¥24,086 million
4. In some overseas construction works for LNG tanks, the Company suffered damage (about ¥51.0 billion) due to a breach of contract because of non-fulfillment of contract by an overseas subcontractor. In this case, a petition for arbitration has been filed with the ICC (The International Chamber of Commerce). We plan to resolve this case through arbitration in the future, and the expected amount of recovery from the arbitration has been recorded in "Other" under "Investments and other assets."
5. The Company was notified that payment to the Company could not be made for domestic gas-fired power generation facility projects that it had constructed, but had not been delivered, due to credit concern on the part of our counterpart. In the consolidated balance sheet, assets related to this case are recorded in both trade receivables and work in process. The unpaid amount to the Company is approximately ¥20.0 billion, and we are in the process of discussing the way to recover the unpaid amount including reselling it to a third party.

(Notes to Consolidated Statement of Income)

1. Reversal of provision for the in-service issues of commercial aircraft jet engines has been recorded in a decrease of the amount expected to be covered by the Company with regard to costs associated with significant in-service issues arising in the Rolls-Royce Trent 1000 engine program for Boeing 787, in which the Company has participated as a risk and revenue sharing partner (RRSP).
2. Gain on sales of non-current assets proceeds from the sale of former dormitory and company housing sites of the Company and subsidiaries.
3. Gain on sales of shares of subsidiaries and associates proceeds from the sale of shares of subsidiaries and associates.
4. Amount of impairment losses
   (1) Overview of the asset group for which impairment losses are recognized

Location	Use	Type	Amount	Grounds for calculation
Sakaide-shi, Kagawa	Assets for business use	Buildings and structures	¥885 million	Net selling price
		Machinery and vehicles	¥2,647 million	
		Others	¥544 million	
Hyogo-ku, Kobe	Assets for business use	Buildings and structures	¥5,978 million	Value in use
		Machinery and vehicles	¥4,082 million	
		Others	¥1,068 million	
Total			¥15,205 million	

   (2) Method of asset grouping
   Assets are mainly grouped by business, and assets for rent and idle assets are treated as separate asset groups.
   (3) Background to recognition of impairment losses

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

(4) Calculation method of recoverable amount

The recoverable amount is measured at the net selling price or value in use. The net selling price is valued based mainly on the property appraisal value. Assets for which sales or other usage are unlikely are valued at memorandum value. The value in use is calculated by discounting future cash flows at a discount rate of 5.5%.

(Notes to Consolidated Statement of Changes in Net Assets)

1. Total number of shares issued as of end of the consolidated fiscal year under review

Ordinary share 167,080,532 shares

2. Dividends

(1) Dividends

Not applicable.

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

Not applicable.

(Notes to Financial Instruments)

1. Matters regarding financial instruments

KHI Group raises necessary funds, in light of its business plans; for long-term working capital and capital expenditure funds the Group predominantly raises funds through bank loans and issuance of corporate bonds, for short-term working capital it raises funds through bank loans and issuance of short-term bonds (electronic commercial paper), and so forth. Temporary surplus funds are invested in highly secure financial assets. We use derivatives to avoid risks described hereunder and do not engage in speculative transactions.

Operating receivables, namely, notes and accounts receivable - trade are exposed to counterparty credit risk. The currency exchange risk of the debts and credits in foreign currencies which arise from global business operations is hedged by using foreign exchange forward contracts, and so forth in principle against the net amount of the debts and credits in the foreign currency. Investments securities are mainly shares of corporations which we have business dealings with, and of these investments, those shares that are listed are exposed to the risk of market price fluctuations.

Notes and accounts payable - trade and electronically recorded obligations - operating, which are operating liabilities, have maturities of less than one year. Some of those are denominated in foreign currencies due to the import of materials, and so forth, and although they are exposed to the risk of currency fluctuation, most are within the limit of the balance of accounts receivable in the same foreign currency. Debts payable that are composed of borrowings and bonds payable are raised for the purpose of securing working capital and capital investments, and the longest maturity from the date of balance sheet is about 20 years. Some of those instruments have floating interest and are denominated in foreign currencies and are therefore exposed to the risk of interest rate and currency exchange fluctuations, however we hedge those risks as required by using derivatives transactions (interest rate swap transactions and currency swap transactions).

Derivative transactions are transactions which include exchange forward contracts and currency options and currency swap transactions for the purpose of hedging exchange fluctuation risks of the debts and credits in foreign currencies, and interest rate swap transactions and so forth for the purpose of hedging interest fluctuation risks of debts payable. Details of hedging instruments, hedged items, hedging policies, assessment of hedging effectiveness of hedge accounting are stated in "3. Significant accounting policies, (7) Method of significant hedge accounting" of "Notes to the basis for preparation of consolidated financial statements" described above.

2. Matters concerning market value, etc. of financial instruments

The prices recorded in the consolidated balance sheet, market values and the difference between those as of the end of this consolidated fiscal year are as follows.

(Unit: Millions of yen)

	Price recorded in the consolidated balance sheet (*)	Market value (*)	Difference
(1) Cash and deposits	126,702	126,702	–
(2) Notes and accounts receivable - trade	460,436	460,462	25
(3) Investment securities	5,566	5,566	–
(4) Notes and accounts payable - trade	[247,294]	[247,294]	–
(5) Electronically recorded obligations - operating	[107,849]	[107,849]	–
(6) Short-term borrowings	[141,579]	[141,579]	–
(7) Current portion of bonds payable	[30,000]	[30,000]	–
(8) Bonds payable	[190,000]	[189,836]	164
(9) Long-term borrowings	[199,177]	[199,325]	(148)
(10) Derivatives transactions	[4,074]	[4,074]	–

(*) Figures which are posted as liabilities are shown in [ ].

(Note 1) Matters concerning the method for calculating the market value of financial instruments and marketable securities and derivatives transactions

(1) Cash and deposits
These instruments can be settled within short term and the market value is roughly equal to book value, therefore the fair market value is stated at book value.

(2) Notes and accounts receivable - trade
Trade receivables are grouped into a specified period, and are stated at market value calculated by the discount rate, which takes into account the respective period to maturity and credit risk.

(3) Investment securities
The market value for these securities is stated at the price listed on the exchange.

(4) Notes and accounts payable - trade, (5) Electronically recorded obligations - operating, (6) Short-term borrowings, (7) Current portion of bonds payable
These instruments can be settled within short term and the market value is roughly equal to book value, therefore the fair market value is stated at book value.

(8) Bonds payable
The fair market value of these instruments is stated at the market value.

(9) Long-term borrowings
The market value of long-term borrowings is determined by discounting the total of principal and interest by the interest rate on similar new debt.

(10) Derivatives transactions
The market value of derivatives is stated at the forward exchange rate or the price offered by the trading financial institution.

(Note 2) Financial instruments whose market value is deemed extremely difficult to ascertain

Shares of affiliates, investments in affiliates and unlisted stocks, and investments in silent partnerships (amount recorded in the consolidated balance sheet was ¥87,999 million) are not included in the table above, as it is deemed to be extremely difficult to ascertain fair market value because those instruments have no market prices, and it is not possible to estimate their future cash flows.

(Notes to Per Share Information)

1. Net assets per share	¥2,785.71
2. Net loss per share	¥115.73

(Other)

Not applicable.

Non-consolidated Statement of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Unit: Millions of yen)

	Shareholders' equity							
		Capital surplus		Retained earnings				
				Other retained earnings				
	Common stock	Legal capital surplus	Other capital surplus	Reserve for special depreciation	Reserve for tax purpose reduction entry of non-current assets	Retained earnings brought forward	Treasury shares	Total shareholders' equity
Balance at beginning of the period	104,484	52,210	–	1,742	9,967	154,796	(133)	323,068
Changes of items during the period								
Cash dividends								–
Net loss						(35,788)		(35,788)
Treasury stock purchased							(3)	(3)
Treasury stock disposed			(0)				0	0
Transfer of loss on disposal of treasury stock			0			(0)		–
Reversal of reserve for special depreciation				(467)		467		–
Reserve for advanced depreciation of fixed assets					6	(6)		–
Reversal of provision for advanced depreciation of fixed assets					(4,825)	4,825		–
Net changes of items other than shareholders' equity								
Total changes of items during the period	–	–	–	(467)	(4,819)	(30,501)	(3)	(35,791)
Balance at end of the period	104,484	52,210	–	1,274	5,147	124,295	(136)	287,276

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of the period	1,059	(290)	768	323,836
Changes of items during the period				
Cash dividends				–
Net loss				(35,788)
Treasury stock purchased				(3)
Treasury stock disposed				0
Transfer of loss on disposal of treasury stock				–
Reversal of reserve for special depreciation				–
Reserve for advanced depreciation of fixed assets				–
Reversal of provision for advanced depreciation of fixed assets				–
Net changes of items other than shareholders' equity	(70)	(225)	(296)	(296)
Total changes of items during the period	(70)	(225)	(296)	(36,087)
Balance at end of the period	988	(516)	472	287,749

Notes to the Non-consolidated Financial Statements

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

(Significant accounting policies)

1. Standards and methods for evaluation of assets
   (1) Standards and methods for evaluation of marketable securities
      (i) Shares of subsidiaries and affiliates
         Cost using the moving-average method is applied.
      (ii) Other marketable securities
         Securities with market value
            Market value method based on the market value as of the account closing date (with all valuation differences charged to net assets and the cost of sale computed mainly by the moving-average method) is applied.
         Securities without market value
            The cost method based on the moving-average method is applied.
   (2) Standards and methods for evaluation of inventories
         Stated at cost using the specific identification method and the moving average method (balance sheet amounts are determined based on the method of lowering the book value in accordance with the deterioration of profitability).
   (3) Standards and methods for evaluation of derivatives
         Stated at market value.

2. Method of depreciation of fixed assets
   (1) Net property, plant and equipment (other than leased assets)
         The straight-line method is applied.
   (2) Intangible assets (other than leased assets)
         The straight-line method is applied.
         Software for internal use is amortized by the straight-line method over the internally estimated useful lives (within 5 years).
   (3) Leased assets
         The leased assets involved in finance lease transactions that involve transfer of ownership
            The same method as that applied to property, plant and equipment is applied.
         Finance lease transactions not involving the transfer of ownership
            The straight-line method is used with the useful life equal to the lease term and zero residual value.

3. Standards of accounting for provisions
   (1) Allowance for doubtful accounts
      In order to provide for losses due to doubtful accounts from bad debt including trade receivables and loan receivables, allowance for doubtful receivables is provided based on the historical default rate of normal receivables and with reference to the collectability of receivables from companies in financial difficulty.
   (2) Provision for bonuses
      To prepare for the bonus payments to employees, provision for bonuses is provided in the amount based on the estimated amount of bonus payment.
   (3) Provision for construction warranties
      A provision is recorded for expenditures for warranties concerning construction contracts based on past experience or on estimations of individual cases.
   (4) Provision for loss on construction contracts
      A provision for an estimated amount of losses is recorded for the next fiscal year and thereafter concerning construction works which are anticipated to incur significant losses and which allow reasonable estimation of the loss incurred at the end of the fiscal year under review among those construction works that have not been delivered as of the end of the fiscal year.
   (5) Provision for retirement benefits
      Employees' retirement and severance benefits is recorded based on the estimated

amount of retirement benefit obligations and plan assets as of the end of the fiscal year under review (including the retirement benefit trust) in order to cover employee retirement benefits.

(i) Allocation of expected retirement benefit payments

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

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

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

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

(6) Provision related to in-service issues regarding commercial aircraft jet engines

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

4. Standards for recognition of revenue and expenses

Recognition of net sales of completed construction contracts and cost of sales of completed construction contracts

(i) Construction activities whose outcome from the completed portion as of the end of the fiscal year are deemed to be definite

Percentage-of-completion method (the cost-to-cost method is principally used to estimate the percentage of completion) is applied.

(ii) Other construction activities

Completed-contract method is applied.

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

(1) Accounting treatment for hedges

(i) Method of hedge accounting

Deferred hedge accounting is applied.

(ii) Hedging instruments and hedged items

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

(iii) Hedging policy

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

(iv) Method of assessing hedging effectiveness

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

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

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

(3) Accounting treatment for retirement benefits

Accounting treatment for unrecognized actuarial gains or losses and unrecognized past service cost for retirement benefits are different from accounting treatment for them in the consolidated financial statements.

(4) Accounting treatment for consumption taxes
The tax-exclusion method is applied for the consumption tax and the local consumption tax.

(5) Application of the consolidated taxation system
The consolidated taxation system is applied.

(6) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system
Regarding the items related to the transition to the Group Tax Sharing System newly established in the "Act for Partial Amendment of the Income Tax Act" (Act No.8, 2020) and the review of the non-consolidated taxation system in line with the transition, the Company has not applied the provisions of paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018), pursuant to paragraph 3 of 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 amounts of deferred tax assets and deferred tax liabilities are recorded in accordance with the tax act prior to the amendment.

(Changes in presentation methods)

Changes due to adoption of "Accounting Standard for Disclosure of Accounting Estimates"

The Company has adopted the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) effective from the consolidated fiscal statements as of the end of the fiscal year under review. Accordingly, "Notes to Accounting Estimates" are presented in the financial statements.

Statement of Income

"Penalty income" which was presented separately under "Non-operating income" for the previous fiscal year, is included in "Other" under "Non-operating income" effective from the fiscal year under review as a result of a decrease in its quantitative materiality.

(Notes to Accounting Estimates)

Recoverability of deferred tax assets

(1) The amount recorded in the non-consolidated financial statements
Deferred tax assets ¥63,265 million

(2) Information contributing to understanding of the accounting estimates
Notes are omitted as the same information is provided in "Notes to Accounting Estimates" in the consolidated financial statements.

(Notes to Non-consolidated Balance Sheet)

1. Accumulated depreciation of property, plant and equipment ¥671,068 million
2. Monetary receivables from and payables to affiliates

Short-term monetary assets	¥167,325 million
Long-term monetary assets	¥528 million
Short-term monetary liabilities	¥118,848 million

3. Guarantee liability for bank loans of subsidiaries and affiliates, etc. and employees ¥41,803 million
4. In some overseas construction works for LNG tanks, the Company suffered damage (about ¥51.0 billion) due to a breach of contract because of non-fulfillment of contract by an overseas subcontractor. In this case, a petition for arbitration has been filed with the ICC (The International Chamber of Commerce). We plan to resolve this case through arbitration in the future, and the expected amount of recovery from the arbitration has been recorded in "Other" under "Investments and other assets."
5. The Company was notified that payment to the Company could not be made for domestic gas-fired power generation facility projects that it had constructed, but had not been delivered, due to credit concern on the part of our counterpart. In the non-consolidated balance sheet, assets related to this case are recorded in both trade receivables and work in process. The unpaid amount to the Company is approximately ¥20.0 billion, and we are in the process of discussing the way to recover the unpaid amount including reselling it to a third party.

(Notes to Non-consolidated Statement of Income)

1. Transactions with affiliates

Transaction from operating transactions	
Net sales	¥356,446 million
Purchases	¥185,855 million
Transaction from non-operating transactions	¥17,178 million

2. Reversal of provision for the in-service issues of commercial aircraft jet engines has been recorded in a decrease of the amount expected to be covered by the Company with regard to costs associated with significant in-service issues arising in the Rolls-Royce Trent 1000 engine program for Boeing 787, in which the Company has participated as a risk and revenue sharing partner (RRSP).
3. Gain on sales of non-current assets proceeds from the sale of former dormitory and company housing sites.
4. Impairment losses incurred associated with the fact that profitability of the assets related to the Sakaide Works of the Ship & Offshore Structure Company and the Rolling Stock Company is deteriorated based on the assumption of current market conditions.

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

Type of treasury shares and number of shares at the end of the current fiscal year

Ordinary share 38,282 shares

(Notes to Tax Effect Accounting)

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

(Notes to Transactions with Interested Parties)

Not applicable.

(Notes to Per Share Information)

1. Net assets per share ¥1,722.61

2. Net loss per share ¥214.24

(Other)
Not applicable.