Kawasaki Heavy Industries, Ltd. and Subsidiaries

Consolidated Financial Statements
For the Years ended March 31, 2023 and 2022
Together with Independent Auditor's Report

June 2023

This report contains 75 pages

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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 statement of financial position as at March 31, 2023, and the consolidated statements of prfit or loss, comprehensive income, changes in net assets and cash flows for the year then ended and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (hereinafter referred to as "IFRS").

Basis for Opinion

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

Key Audit Matters

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

Appropriateness of management's judgment on the recoverability of deferred tax assets	
The key audit matter	**How the matter was addressed in our audit**
In the consolidated balance sheet of Kawasaki Heavy Industries, Ltd. (hereinafter, the "Company") and its consolidated subsidiaries as of March 31, 2023, deferred tax assets of ¥110,264 million were recognized. As described in Note 14, "Deferred taxes and income taxes" of the consolidated financial statements, the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to ¥132,812 million. Of this amount, the gross deferred tax assets held by the Company, which applies the Group Tax Sharing System, amounted to ¥94,581 million, representing approximately 3.8% of total assets in the consolidated financial statements. As described in Note 3(16), "Significnat accounting policies - Income taxes," recoverability of deferred tax assets are reassessed every fiscal year end and are recognized to the extent that deductible temporary differences are expected to reduce future taxable income. The future taxable income to be generated by the Company, which was used to determine the recoverability of its deferred tax assets, was estimated based primarily on the business plan prepared by management. This business plan involved uncertainty due to the reasons set forth below and had a significant effect on the assessment of the recoverability of deferred tax assets. ▪ Forecasts of revenue and profit, which are the key elements of the business plan, may be affected by changes in future economic conditions and other factors. ▪ The business plan includes significant management judgements such as the forecasts related to recovery situation from the effects of COVID-19. We, therefore, determined that our assessment of the appropriateness of management's judgement on the recoverability of deferred tax assets of the Company was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.	The primary procedures we performed to assess whether management's judgment on the recoverability of deferred tax assets of the Company was appropriate included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the judgment on the recoverability of deferred tax assets. In this assessment, we focused our testing on internal controls over the preparation of the business plan used to estimate the Company's future taxable income. **(2) Assessment of the reasonableness of the estimated future taxable income** In order to assess the reasonableness of key assumptions adopted in preparing the business plan that served as the basis for estimating future taxable income, we: ▪ evaluated the process of preparing the business plan that served as the basis for estimating future taxable income by inquiring of management of the Company, each company president and management of Kawasaki Moters, Ltd. and Kawasaki Railcar Manufacturing Co., Ltd. and inspecting the minutes of the Management Committee of the Company. ▪ assessed the consistency of the estimated future taxable income used to determine the recoverability of deferred tax assets with the business plan approved by the Management Committee of the Company. ▪ assessed the appropriateness of key assumptions which formed the basis for the sales forecasts used for the estimates incorporated into the business plan of Aerospace Systems Company by comparing them with information provided by major customers and the market forecasts published by the International Air Transport Association.

Management's assessment of the financial asset based on contractual rights related to certain overseas LNG tank construction work (Energy Solution & Marine Engineering Company)	
The key audit matter	**How the matter was addressed in our audit**
As described in Note 13, "Other financial assets," Kawasaki Heavy Industries, Ltd. (hereinafter, the "Company") sustained a loss of approximately ¥51 billion due to a breach of contract by an overseas construction subcontractor that failed to fulfill the contract on certain overseas LNG tank construction work. In connection with this issue, the Company filed a petition for arbitration with the International Chamber of Commerce ("ICC"). The Company plans to settle this dispute through the arbitration process and recognized a financial asset based on its contractual rights within "Other" under "Other financial assets." Management's assessment of the financial asset based on the Company's contractual rights considered the progress of the arbitration proceedings at the ICC and the prospect for an award of the arbitration tribunal as well as the business environment and the financial conditions of the overseas construction subcontractor. These estimates included significant management judgments, including the prospects for an award of the arbitration tribunal and amount of claim the Company alleged was caused by the breach of contract by the overseas construction subcontractor, as well as the ability of the overseas construction subcontractor to make payment for any amount of claim to be determined by the arbitration tribunal, all of which involved uncertainty. We, therefore, determined that our assessment of the appropriateness of management's assessment of the financial asset based on the Company's contractual rights related to certain overseas LNG tank construction project was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.	The primary procedures we performed to assess the appropriateness of management's assumptions used for assessing the financial asset based on the Company's contractual rights related to certain overseas LNG tank construction work included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to management's assessment of the financial asset based on its contractual rights. In the assessment, we focused on internal controls in which the personnel responsible for the accounting division assess the estimates of the arbitration tribunal related to the subject and amount of claim based on its contractual rights as well as the ability of the overseas construction subcontractor to make payment for any amount of claim to be determined by the arbitration tribunal, giving consideration to the opinion of the Company's legal counsel. **(2) Assessment of the reasonableness of the estimation related to the amount of the financial asset based on the Company's contractual rights** ▪ We inspected the minutes of the Management Committee of the Company related to the estimation of the amount of financial asset. In addition, we inquired of several personnel, such as management (including the president of Energy Solution & Marine Engineering Company) and those responsible for the administration division and the accounting division and then assessed the reasonableness of their respective responses. ▪ We circularized through a written legal confirmation directly with the legal counsel engaged by the Company to assess the amount of the financial asset and assessed the consistency of the opinion of the legal counsel with the result of management's assessment of the amount of the financial asset. ▪ We inspected the annual reports issued by the overseas construction subcontractor and the monthly research reports on the financial conditions, order booking status and other information of the overseas construction subcontractor submitted by the Company's

	legal counsel and evaluated the consistency of the information with the result of management's assessment of the overseas construction subcontractor's ability to make payment.

Other Information

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

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

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

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 IFRS.

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

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

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

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

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

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 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 2 to the consolidated financial statements.

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

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

Matsuyama Kazuhiro
Designated Engagement Partner
Certified Public Accountant

Horiuchi Kazuhisa
Designated Engagement Partner
Certified Public Accountant

Seishi Kyoichi
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Kobe Office, Japan
June 28, 2023

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.

Management Discussion & Analysis

Overview

The global economy has remained strong due to factors such as an increase in air travel demand resulting from the easing of travel restrictions in each country and an increase in domestic demand following the end of China's Zero-COVID policy. In Japan, the economy has been recovering gradually mainly as a result of service consumption and inbound tourists due to the relaxation of various regulations related to COVID-19. Although, a bankruptcy of a financial institution in the United States led to concerns about a temporary adverse impact on the financial system and the real economy, the impact has remained relatively minor.

On the other hand, we need to keep a close watch on the global economic outlook and its impact on the domestic economy since there is a growing concern about an economic slowdown due to high inflation and monetary tightening, particularly in Europe and the U.S.

In this business environment, the Group's consolidated orders received in the fiscal year ended March 31, 2023, increased due mainly to increases in the Rolling Stock segment and the Powersports & Engine segment. Revenue increased from the previous fiscal year as a whole, due to higher sales in the Powersports & Engine segment, the Aerospace Systems segment, etc. Business profit increased year on year due mainly to increases in the Powersports & Engine segment, the Aerospace Systems segment, and the Energy Solution & Marine Engineering segment, despite a decrease in the Precision Machinery & Robot segment. Profit attributable to owners of parent increased due to an increase in business profit, despite a deterioration in foreign exchange gains and losses.

As a result, the Group's consolidated orders received increased by ¥435.3 billion year on year to ¥2,037.4 billion, consolidated revenue increased by ¥224.7 billion year on year to ¥1,725.6 billion, business profit increased by ¥51.9 billion year on year to ¥82.3 billion, and profit attributable to owners of parent increased by ¥40.3 billion year on year to ¥53.0 billion. Before-tax ROIC was 7.7%, after-tax ROIC was 5.7%, and ROE was 9.8%.* In addition, the current cost of capital (WACC) is estimated to be in the 4% range, and we have secured a higher after-tax ROIC than this.

*Before-tax ROIC = EBIT(profit before tax + interest expense) ÷ invested capital (average of net interest-bearing debt at the beginning and end of the fiscal year + average of shareholders' equity at the beginning and end of the fiscal year)

After-tax ROIC = (profit attributable to owners of parent + interest expense × (1-effective tax rate)) ÷ invested capital (average of net interest-bearing debt at the beginning and end of the fiscal year + average of shareholders' equity at the beginning and end of the fiscal year)

For the entire group, in order to promote dialogue with capital markets and from the perspective of promoting management that is conscious of the cost of capital, we disclosed after-tax ROIC and WACC (weighted average cost of capital) in addition to before-tax ROIC in fiscal year 2022 and will unify them into after-tax ROIC for the fiscal year 2023 and onward.

Consolidated operating performance in the fiscal year ended March 31, 2023, is summarized by segment below.

From this consolidated fiscal year, the name of the previous reportable segment "Motorcycle & Engine" has been changed to "Powersports & Engine" for the purpose of aligning with the Group's business strategy. This change is a change in name only and has no impact on segment information.

Business segment

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

Aerospace Systems

Regarding the business environment surrounding the Aerospace Systems segment, demand from Ministry of Defense in Japan is expected to increase under the Ministry of Defense's policy of drastic strengthening of defense capabilities. With respect to commercial aircraft, demand for the passenger was sluggish due to the spread of the infection by COVID-19 pandemic, but is making significant progress toward recovery as more countries are prioritizing the resumption of economic

activities.
Amid such an operating environment, consolidated orders received decreased by ¥37.7 billion to ¥345.5 billion from the previous fiscal year when large scale orders from the Ministry of Defense in Japan were received, despite an increase in orders for component parts of jet engines for commercial aircraft.
Consolidated revenue increased by ¥50.6 billion year on year to ¥348.8 billion due mainly to an increase in component parts of airframes and jet engines for commercial aircraft.
Business profit came to ¥14.8 billion, improving ¥25.2 billion year on year, due mainly to an increase in component parts of airframes and jet engines for commercial aircraft.

Rolling Stock

Regarding the business environment surrounding the Rolling Stock segment, although there was a decrease in the number of railway users due to the spread of the infection by COVID-19 pandemic, the number of the users is expected to recover due to the convergence of the infection, and the resumption of investments in rolling stock in Japan and overseas. On the other hand, although the impact on the current situation is limited, we need to keep a close watch on shortages of electronic components, logistics disruptions, and rising raw materials prices, while they appear to be converging. In the medium and long term, however, relatively stable growth is expected around the world due to the development of urban transportation as an environmental protection measure in large cities in overseas markets as well as demand for railway infrastructure following economic development in Asian countries.
Amid such an operating environment, consolidated orders received increased by ¥241.7 billion to ¥313.2 billion from the previous fiscal year due mainly to orders under option contracts for new generation subway cars for the New York City Transit System.
Consolidated revenue increased by ¥5.2 billion year on year to ¥131.9 billion due mainly to an increase in sales of railcars for the United States and the domestic market.
Business profit of ¥1.3 billion was on par with the previous year's result, due mainly to the impact of delays in the project for the Long Island Rail Road in the United States, despite an increase in revenue.

Energy Solution & Marine Engineering

The business environment surrounding the Energy Solution & Marine Engineering segment remains on a recovery track as the global economy moves from stagnation due to the COVID-19 pandemic to normalization. Demand for distributed power sources in Japan and overseas and, for energy infrastructure development in emerging countries, remains strong, while there is ongoing demand for the replacement of aging facilities for refuse incineration plants in Japan. Also, demand for LPG/NH3 carriers is expected to be strong. In addition, there is a growing worldwide trend toward achieving carbon neutrality, and contacts and requests for cooperation for decarbonization solutions, including hydrogen-one products of the Company’s strengths, are increasing. On the other hand, besides the uncertainty about the current situation, such as the stability of fuel gas supply required for the operation of power generation facilities, it is necessary to pay attention to the impact on orders and revenues due to the recent persistently high prices of raw material, equipment, fuel, and transportation.
Amid such an operating environment, consolidated orders received increased by ¥95.4 billion from the previous fiscal year to ¥439.0 billion due mainly to orders for submarines for the Ministry of Defense in Japan and increases in orders for LPG/NH3 carriers and power generation facilities.
Consolidated revenue increased by ¥17.2 billion year on year to ¥314.5 billion due mainly to an increase in the volume of work in the energy business and submarines for the Ministry of Defense in Japan, despite a decrease in the volume of work of municipal waste incineration plants.
Business profit came to ¥3.9 billion, improving ¥14.7 billion year on year, due mainly to higher sales in the energy business and for submarines for the Ministry of Defense in Japan and an improvement in the share of profit and loss of investments accounted for using the equity method, despite a decrease in the volume of work of municipal waste incineration plants.

Precision Machinery & Robot

Regarding the business environment surrounding the Precision Machinery & Robot segment, in the precision machinery field, while performance continued to be strong in the construction machinery market outside China, demand in the Chinese construction machinery market was sluggish due to the effects of lockdowns associated with China's Zero-COVID policy and other factors. In the robotics field, although demand for robots for semiconductor manufacturing equipment slowed down due to the recent decline in the semiconductor market, centered on memory and economic frictions between the United States and China, performance was favorable for the full year. Also, the demand for general industrial robots continued the high demand for automation investment globally.

Amid such an operating environment, consolidated orders received decreased by ¥9.8 billion year on year to ¥262.0 billion due mainly to a decrease in hydraulic components for the Chinese construction machinery market, despite an increase in various robots.

Consolidated revenue of ¥252.6 billion was on par with the previous year's result due mainly to an increase in the sale of various robots, resulting from an expansion in sales and easing of component supply shortages, despite a decrease in sales of hydraulic components for the Chinese construction machinery market.

Business profit decreased by ¥5.1 billion year on year to ¥8.7 billion due to an increase in soaring costs of electronic components and materials, a temporary decrease in operations during the lockdowns in China, and a decrease in hydraulic components for the Chinese construction machinery market.

Powersports & Engine

Regarding the business environment surrounding the Powersports & Engine segment, the impact on the marketplace from the spread of the infection by the COVID-19 pandemic gradually weakened. Although we still need to keep a close watch on the remaining impact on product supply due to shortages of semiconductors etc., logistics disruptions have settled down. Demand in the United States, the major market, is slightly slowing down, however, it is going strong for the time being. In addition, the Southeast Asian market has been recovering from the previous fiscal year as a whole, although the extent of the recovery varies by country.

Amid such an operating environment, consolidated revenue increased by ¥143.2 billion year on year to ¥591.1 billion due mainly to an increase in motorcycles for North America and Southeast Asia, off-road four wheelers for North America, and general-purpose engines as well as the effects of a weaker yen on foreign exchange rates.

Business profit increased by ¥34.0 billion year on year to ¥71.5 billion due to the steady progress in pass-through pricing, despite a rise in the costs of raw materials and logistics costs and an increase in fixed costs, the sales expansion of motorcycles, off-road four wheelers and general-purpose engines and the impact of foreign exchange rates.

Other Operations

Consolidated revenue increased by ¥8.3 billion year on year to ¥86.3 billion. Business loss came to ¥1.8 billion, deteriorating ¥4.9 billion year on year.

In the Group Vision 2030, the Group will focus on three fields; “A Safe and Secure Remotely Connected Society,” “Near-Future Mobility” and “Energy and Environmental Solutions,” and is making steady progress in creating solutions to social issues, such as in the medical and healthcare business with surgical support robots, and moreover, the commercialization of delivery robots and unmanned transport helicopters, and the promotion of the hydrogen business and electrification to realize a carbon neutral society at an early date.

Consolidated financial condition

(1) Assets

Current assets were ¥1,570.3 billion, a ¥250.1 billion increase from the previous fiscal year due mainly to an increase in inventories, trade and other receivables and contract assets. Non-current assets were ¥887.3 billion, a ¥32.9 billion increase from the previous fiscal year due mainly to an increase in right-of-use assets. As a result, total assets were ¥2,457.7 billion, a ¥283.0 billion increase from the previous fiscal year.

(2) Liabilities
Interest-bearing debt was ¥589.8 billion, a ¥35.9 billion increase from the previous fiscal year. Liabilities were ¥1,860.8 billion, a ¥211.1 billion increase from the previous fiscal year due mainly to an increase in bonds, borrowings and other financial liabilities.

(3) Equity
Equity was ¥596.8 billion, a ¥71.9 billion increase from the previous fiscal year due mainly to the recording of profit attributable to owners of parent.

Cash Flows
Cash and cash equivalents (hereinafter referred to as "net cash") at the end of this fiscal year were ¥138.4 billion, an increase of ¥29.9 billion from the previous fiscal year. The cash flow situation and relevant factors are stated below.

(1) Cash flows from operating activities
Operating activities provided net cash of ¥23.6 billion, a ¥133.2 billion decrease from the previous fiscal year. Major sources of operating cash flows included depreciation and amortization of ¥77.3 billion and an increase in trade and other payables of ¥42.2 billion. Major uses of operating cash flows included an increase in inventories of ¥64.2 billion, an increase in contract assets of ¥50.2 billion, and an increase in trade and other receivables of ¥59.3 billion.

(2) Cash flows from investing activities
Investing activities used net cash of ¥77.4 billion, which is ¥19.0 billion more than in the previous fiscal year. This was due mainly to purchases of property, plant and equipment, and intangible assets.

(3) Cash flows from financing activities
Financing activities provided net cash of ¥85.3 billion, which is ¥194.2 billion more than in the previous fiscal year. This was due mainly to proceeds from the fluidity of lease receivables.

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 make the innovative capital investment required to achieve future growth and thereby return profits to shareholders by enhancing shareholder value over the long term.

In order to maintain a good balance between enhancing shareholder value and returning profits to shareholders through dividends, the Company has set a medium- to long-term consolidated payout ratio standard of 30% corresponding to the consolidated profit attributable to the owners of the parent and in light of both the outlook for future earnings and a comprehensive examination of its financial condition, including its free cash flow, D/E ratio (Net 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 second quarter of the fiscal year 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 Statement of Financial Position
As of March 31, 2023, 2022 and Apr 1, 2021

		Millions of yen			Thousands of U.S. dollars
	Notes	Transition date	2022	2023	2023
Assets					
Current assets					
Cash and cash equivalents	6,21	¥ 122,166	¥ 108,511	¥ 138,420	$ 1,036,543
Trade and other receivables	7,16,21,24,31	355,061	409,246	470,398	3,522,525
Contract assets	16,21,24	148,523	109,132	159,422	1,193,815
Inventories	8,24	565,860	615,476	690,431	5,170,219
Income taxes receivable		3,482	3,046	551	4,126
Other financial assets	13,21	6,660	10,606	10,741	80,433
Other current assets	25	23,110	64,184	100,385	751,722
Total current assets		1,224,865	1,320,204	1,570,350	11,759,398
Non-current assets					
Property, plant and equipment	9,11	449,155	444,375	451,010	3,377,340
Intangible assets	10,11	62,510	61,940	66,248	496,091
Right-of-use assets	11,12	55,504	58,524	68,422	512,371
Investments accounted for using equity method	23	73,464	70,438	77,440	579,901
Other financial assets	13,21	69,913	70,752	70,224	525,865
Deferred tax assets	14	106,430	102,209	110,264	825,700
Other non-current assets	11,17,25	48,835	46,183	43,763	327,715
Total non-current assets	4	865,814	854,425	887,374	6,645,005
Total assets		¥ 2,090,679	¥ 2,174,630	¥ 2,457,725	$ 18,404,411
Liabilities and equity					
Liabilities					
Current liabilities					
Trade and other payables	15,21	¥ 418,070	¥ 399,892	¥ 452,250	$ 3,386,626
Bonds, borrowings and other financial liabilities	16,21	266,724	208,773	340,176	2,547,372
Income taxes payable		4,753	8,506	18,071	135,323
Contract liabilities	24,31	159,476	256,189	256,247	1,918,878
Provisions	18	26,918	24,409	22,897	171,462
Other current liabilities	25	116,244	161,951	219,019	1,640,100
Total current liabilities		992,187	1,059,723	1,308,661	9,799,768
Non-current liabilities					
Bonds, borrowings and other financial liabilities	16,21	478,002	458,068	445,082	3,332,949
Retirement benefit liability	17	115,218	107,024	91,552	685,577
Provisions	18	7,082	4,136	1,942	14,542
Deferred tax liabilities	14	1,038	1,382	833	6,238
Other non-current liabilities	25	17,504	19,403	12,779	95,694
Total non-current liabilities		618,847	590,014	552,190	4,135,016
Total liabilities		1,611,034	1,649,738	1,860,852	13,934,791
Equity					
Equity attributable to owners of parent					
Share capital	19	104,484	104,484	104,484	782,417
Capital surplus	19	54,542	55,525	55,716	417,223
Retained earnings	19	299,409	320,671	380,255	2,847,499
Treasury shares	19	(136)	(1,129)	(1,107)	(8,290)
Other components of equity	19,20	3,846	25,931	36,852	275,962
Total equity attributable to owners of parent		462,146	505,484	576,201	4,314,820
Non-controlling interests		17,498	19,407	20,670	154,785
Total equity		479,645	524,891	596,872	4,469,612
Total liabilities and equity		¥ 2,090,679	¥ 2,174,630	¥ 2,457,725	$ 18,404,411

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

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Profit or Loss
For the years ended March 31, 2023 and 2022

	Notes	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Revenue	24,31	¥ 1,500,879	¥ 1,725,609	$ 12,922,038
Cost of sales	8,9,10,11,17	1,247,615	1,391,787	10,422,248
Gross profit		253,263	333,822	2,499,790
Selling, general and administrative expenses	9,10,12,17,26	211,134	252,311	1,889,404
Share of profit (loss) of investments accounted for using equity method	23	(14,410)	3,314	24,817
Other income	27	6,795	4,850	36,319
Other expenses	27	4,147	7,320	54,815
Business profit		30,366	82,355	616,707
Finance income	21,28	2,556	2,291	17,156
Finance costs	12,21,28	5,251	14,297	107,062
Profit before tax		27,670	70,349	526,801
Income tax expense	14	12,834	15,058	112,760
Profit		14,836	55,290	414,033
Profit attributable to:				
Owners of parent		12,638	53,029	397,102
Non-controlling interests		¥ 2,198	¥ 2,261	$ 16,931
Earnings per share	30			
Basic earnings per share		¥ 75.51	¥ 316.63	$ 2,371.05

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2023 and 2022

	Notes	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Profit		¥ 14,836	¥ 55,290	$ 414,033
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Financial assets measured at fair value through other comprehensive income	20,21	2,350	(363)	(2,718)
Remeasurements of defined benefit plans	17,20	10,281	14,353	107,481
Share of other comprehensive income of investments accounted for using equity method	20,23	(1)	0	0
Total of items that will not be reclassified to profit or loss		12,630	13,989	104,755
Items that may be reclassified to profit or loss				
Cash flow hedges	20,21	(125)	1,932	14,468
Exchange differences on translation of foreign operations	20	13,680	10,112	75,723
Share of other comprehensive income of investments accounted for using equity method	20,23	9,220	508	3,804
Total of items that may be reclassified to profit or loss		22,775	12,553	94,002
Total other comprehensive income		35,405	26,542	198,757
Comprehensive income		¥ 50,241	¥ 81,833	$ 612,798
Comprehensive income attributable to:				
Owners of parent		47,186	78,785	589,973
Non-controlling interests		¥ 3,055	¥ 3,048	$ 22,825

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

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended March 31, 2023 and 2022

Millions of yen

	Notes	Equity attributable to owners of parent											
						Other components of equity							
		Share capital	Capital surplus	Retained earnings	Treasury shares	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Cash flow hedges	Exchange differences on translation of foreign operations	Total	Total equity attributable to owners of parent	Non-controlling interests	Total
Balance as of April 1, 2021		¥ 104,484	¥ 54,542	¥ 299,409	¥ (136)	¥ -	¥ 4,025	¥ (179)	¥ -	¥ 3,846	¥ 462,146	¥ 17,498	¥ 479,645
Profit				12,638							12,638	2,198	14,836
Other comprehensive income	20					10,224	2,343	200	21,779	34,548	34,548	857	35,405
Comprehensive income				12,638		10,224	2,343	200	21,779	34,548	47,186	3,055	50,241
Issuance of new shares	19		1,916								1,916		1,916
Purchase of treasury shares	19				(994)						(994)		(994)
Disposal of treasury shares	19		2		1						3		3
Transfer of loss on disposal of treasury shares			0	(0)							-		-
Dividends	19			(3,357)							(3,357)	(936)	(4,294)
Transfer to retained earnings				12,158		(10,224)	(1,933)			(12,158)	-		-
Change in scope of consolidation												795	795
Loss of control of subsidiaries													-
Change in ownership interest of parent due to transactions with non-controlling interests			(936)								(936)	(1,004)	(1,940)
Transfer to non-financial assets								(305)		(305)	(305)		(305)
Other				(177)					0	0	(176)		(176)
Total transactions with owners			982	8,623	(992)	(10,224)	(1,933)	(305)	0	(12,463)	(3,849)	(1,145)	(4,995)
Balance as of March 31, 2022		¥ 104,484	¥ 55,525	¥ 320,671	¥ (1,129)	¥ -	¥ 4,435	¥ (284)	¥ 21,780	¥ 25,931	¥ 505,484	¥ 19,407	¥ 524,891
Profit				53,029							53,029	2,261	55,290
Other comprehensive income	20					14,235	(370)	1,603	10,286	25,755	25,755	787	26,542
Comprehensive income				53,029		14,235	(370)	1,603	10,286	25,755	78,785	3,048	81,833
Issuance of new shares	19												-
Purchase of treasury shares	19				(4)						(4)		(4)
Disposal of treasury shares	19		(0)		26						26		26
Transfer of loss on disposal of treasury shares			0	(0)							-		-
Dividends	19			(8,394)							(8,394)	(964)	(9,358)
Transfer to retained earnings				14,191		(14,235)	43			(14,191)	-		-
Change in scope of consolidation												366	366
Loss of control of subsidiaries												(2,079)	(2,079)
Change in ownership interest of parent due to transactions with non-controlling interests			190								190	891	1,082
Transfer to non-financial assets								(643)		(643)	(643)		(643)
Other				756							756		756
Total transactions with owners			190	6,554	22	(14,235)	43	(643)		(14,834)	(8,067)	(1,785)	(9,852)
Balance as of March 31, 2023		¥ 104,484	¥ 55,716	¥ 380,255	¥ (1,107)	¥ -	¥ 4,109	¥ 676	¥ 32,066	¥ 36,852	¥ 576,201	¥ 20,670	¥ 596,872

Thousands of U.S. dollars

	Notes	Equity attributable to owners of parent											
						Other components of equity							
		Share capital	Capital surplus	Retained earnings	Treasury shares	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Cash flow hedges	Exchange differences on translation of foreign operations	Total	Total equity attributable to owners of parent	Non-controlling interests	Total
Balance as of March 31, 2022		$ 782,417	$ 415,793	$ 2,401,310	$ (8,454)	$ -	$ 33,211	$ (2,127)	$ 163,097	$ 194,182	$ 3,785,263	$ 145,327	$ 3,930,590
Profit				397,102							397,102	16,931	414,033
Other comprehensive income	20					106,597	(2,771)	12,004	77,026	192,864	192,864	5,893	198,757
Comprehensive income				397,102		106,597	(2,771)	12,004	77,026	192,864	589,973	22,825	612,798
Issuance of new shares	19												-
Purchase of treasury shares	19				(30)						(30)		(30)
Disposal of treasury shares	19		(0)		195						195		195
Transfer of loss on disposal of treasury shares			0	(0)							-		-
Dividends	19			(62,858)							(62,858)	(7,219)	(70,076)
Transfer to retained earnings				106,268		(106,597)	322			(106,268)	-		-
Change in scope of consolidation												2,741	2,741
Loss of control of subsidiaries												(15,568)	(15,568)
Change in ownership interest of parent due to transactions with non-controlling interests			1,423								1,423	6,672	8,102
Transfer to non-financial assets								(4,815)		(4,815)	(4,815)		(4,815)
Other				5,661							5,661		5,661
Total transactions with owners			1,423	49,079	165	(106,597)	322	(4,815)		(111,083)	(60,409)	(13,367)	(73,776)
Balance as of March 31, 2023		$ 782,417	$ 417,223	$ 2,847,499	$ (8,290)	$ -	$ 30,770	$ 5,062	$ 240,123	$ 275,962	$ 4,314,820	$ 154,785	$ 4,469,612

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

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Cash Flow
For the years ended March 31, 2023 and 2022

	Notes	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Cash flows from operating activities				
Profit		¥ 14,836	¥ 55,290	$ 414,033
Depreciation and amortization		76,998	77,374	579,407
Impairment losses		728	4,606	34,492
Finance income and finance costs		2,172	7,312	54,755
Share of loss (profit) of investments accounted for using equity method		14,410	(3,314)	(24,817)
Loss (gain) on sale of fixed assets		(554)	1,042	7,803
Income tax expense		12,834	15,058	112,760
Increase (decrease) in retirement benefit liability		4,778	1,281	9,593
Decrease (increase) in trade and other receivables		(38,213)	(59,334)	(444,316)
Decrease (increase) in contract assets		39,412	(50,291)	(376,599)
Decrease (increase) in inventories		(37,984)	(64,217)	(480,882)
Increase (decrease) in trade and other payables		(11,848)	42,213	316,108
Decrease (increase) in advance payment		(31,707)	(28,508)	(213,479)
Increase (decrease) in contract liabilities		92,072	(3,730)	(27,932)
Increase(decrease) in other current liabilities		40,939	43,231	323,731
Others		(8,122)	5,962	44,646
Subtotal		170,751	43,975	329,302
Interest received		1,755	3,328	24,921
Dividends received		865	332	2,486
Interest paid		(4,318)	(5,005)	(37,479)
Income taxes paid		(12,164)	(19,013)	(142,377)
Net cash provided by (used in) operating activities		¥ 156,890	¥ 23,617	$ 176,853
Cash flows from investing activities				
Purchase of property, plant and equipment		¥ (58,943)	¥ (58,943)	$ (441,388)
Proceeds from sale of property, plant and equipment		2,929	2,180	16,325
Purchase of intangible assets		(8,700)	(11,001)	(82,380)
Payments for equity method investment and purchase of other financial assets		(2,042)	(6,702)	(50,187)
Proceeds from equity method investment and sale of other financial assets		6,347	160	1,198
Payments for acquisition of subsidiaries		-	(648)	(4,852)
Decrease due to loss of control over subsidiaries		-	(3,224)	(24,143)
Proceeds from acquisition of subsidiaries		489	-	-
Others		1,522	722	5,407
Net cash provided by (used in) investing activities		¥ (58,396)	¥ (77,457)	$ (580,028)
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings	16	¥ (74,247)	¥ 36,664	$ 274,554
Repayments of lease liabilities	12,16	(13,436)	(14,545)	(108,919)
Proceeds from long-term borrowings	16	15,500	18,500	138,535
Repayments of long-term borrowings	16	(17,001)	(21,987)	(164,647)
Proceeds from issuance of bonds	16	10,000	9,000	67,396
Redemption of bonds	16	(30,000)	(20,000)	(149,768)
Dividends paid	19	(3,384)	(8,383)	(62,775)
Proceeds from fluidity of lease receivables	16	62,749	130,662	978,448
Repayment of payables under fluidity lease receivables	16	(56,186)	(37,861)	(283,518)
Dividends paid to non-controlling interests		(913)	(964)	(7,219)
Others		(1,983)	(5,777)	(43,260)
Net cash provided by (used in) financing activities		¥ (108,904)	¥ 85,305	$ 638,797
Effect of exchange rate change on cash and cash equivalents		(3,244)	(1,556)	(11,652)
Net increase (decrease) in cash and cash equivalents		(13,654)	29,909	223,970
Cash and cash equivalents at beginning of period	6	122,166	108,511	812,573
Cash and cash equivalents at end of period	6	¥ 108,511	¥ 138,420	$ 1,036,543

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

1. Reporting Entity

Kawasaki Heavy Industries, Ltd. (hereinafter referred to as the "Company") is a company incorporated in Japan. The consolidated financial statements of the Company with a closing date as of March 31, 2023 comprise the Company and its subsidiaries (hereinafter referred to as the "Group") and the Group's interests in associates and joint ventures. The Group is engaged in the Aerospace Systems segment, the Rolling Stock segment, the Energy Solution & Marine Engineering segment, the Precision Machinery & Robot segment, the Powersports & Engine segment, and the Other segment, centering on the Company.

2. Basis of preparation

(1) Compliance with IFRS

The consolidated financial statements of the Group, which meet the requirements of the "Specified Company Applying Designated International Financial Reporting Standards" prescribed in Article 1-2 of the Ordinance on Consolidated Financial Statements, have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to the provisions of Article 93 of the Ordinance.

The consolidated financial statements for the fiscal year ended March 31, 2023 are the first ones the Group has prepared in compliance with IFRS, and the date of transition to IFRS is April 1, 2021. In addition, the Group has applied IFRS 1, "First-time Adoption of International Financial Reporting Standards" (hereinafter referred to as "IFRS 1"). The impact of the transition to IFRS on the financial position, operating results, and cash flows of the Group is provided in Note 33, "First-time adoption of IFRS."

The consolidated financial statements were approved on June 28, 2023 by the Board of Directors Meeting.

(2) Basis of measurement

The consolidated financial statements of the Group were prepared on the acquisition cost basis, except for financial instruments and defined benefit liability (asset), etc., as described in Note 3, "Significant accounting policies."

(3) Functional currency and presentation currency

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency, and figures are rounded down to the nearest million yen, unless otherwise stated.

U.S dollar amounts are included solely for convenience purposes. These translations should not be construed as representations that the Japanese yen amounts actually represent or have been or could be converted into U.S. dollars.

As the amounts shown in U.S. dollars are solely for convenience purposes, the prevailing rate on March 31, 2023 of ¥133.54 to US$1.00 is used for the purpose of presenting U.S. dollar amounts in the accompanying consolidated financial statements.

(4) Use of significant estimates and judgments

In the preparation of the IFRS-compliant consolidated financial statements, the management is required to make judgements, estimates and assumptions that could have an impact on the application of accounting policies and reporting of assets and liabilities as well as revenue and expenses. Actual results could differ from those estimates. Estimates and their underlying assumptions are continually reviewed. The impact of any review in accounting estimates is recognized in the accounting period in which the review was made and in future accounting periods.

Information about estimates that could have a significant impact on the amounts recognized in the consolidated financial statements and judgements made in the application of accounting policies are as follows:

- Impairment of non-financial assets (Note 3 (9), "Impairment of non-financial assets," Note 11, "Impairment of non-financial assets")
- Provisions (Note 3 (12), "Provisions," Note 18, "Provisions")
- Revenue (Note 3 (14), "Revenue," Note 24, "Revenue")
- Income taxes (Note 3 (16), "Income taxes," Note 14, "Deferred taxes and income taxes")

(5) Issued accounting standards and interpretations not yet adopted

Of the accounting standards and the interpretations that have been newly issued or amended by the date of approval of the consolidated financial statements, there were no items that had significant impact on the consolidated financial statements.

3. Significant accounting policies

The accounting policies set out below, unless otherwise stated, have been applied continuously to all periods presented in these consolidated financial statements as well as in preparation of the opening IFRS statement of financial position as of April 1, 2021, the date of transition to IFRS.

(1) Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Group.
The Group controls an entity when the investor's returns resulting from its involvement with the entity may vary due to the performance of the investee and has the ability to affect those returns through its power over the entity.
The financial statements of a subsidiary when the Group are included in the consolidated financial statements of the Group from the date when control is obtained until the date when it is lost. A subsidiary's' financial statements are adjusted if the subsidiary's accounting policies differ from those applied by the Group. All intergroup balances of receivables and payables and other internal transactions within the Group, as well as unrealized gains and losses arising from internal transactions are eliminated in preparing the consolidated financial statements.
Changes in the Group's ownership interests in its subsidiaries that do not result in loss of control are accounted for as equity transactions. The carrying amount of the Group's ownership and non-controlling interest in a subsidiary is adjusted to reflect the changes in ownership interest. However, any difference between the amount by which the non-control interest is adjusted and the fair value of the consideration received is recognized directly as equity of attributable to owners of parent. Upon loss of control over a subsidiary, the Group recognizes gain or loss resulting from the loss of control in profit or loss.

(ii) Associates
Associates are entities in which the Group has significant influence over the financial and operating policies but does not have control.
Investments in associates are recognized at acquisition cost when the investment is obtained and subsequently accounted for using the equity method. The acquisition cost of an investment includes the transaction cost.
The consolidated financial statements include investments in entities accounted for using the equity method whose fiscal year-end dates differ from that of the parent company since it is impracticable to unify the closing dates of associates due to certain reasons such as relationships with other shareholders. The difference between the fiscal year-end dates of these equity-method entities and that of the parent company never exceeds three months. Equity method is applied after making necessary adjustments in relation to significant transactions or events during the period occurring from the difference in the fiscal year-end date. The equity-method entities' financial statements are adjusted if their accounting policies differ from those applied by the Group.
If the Group's interest in loss exceeds the investment in an entity accounted for using the equity method, the carrying amount of the investment, including the long-term interest, is written down to zero. No further loss is recognized unless the Group assumes or pays the obligation on behalf of the investee.

(iii) Joint arrangements
A joint arrangement is an arrangement in which the Group shares control with one or more parties. A joint arrangement exists only when decisions about relevant activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control. When the Group has parties that have joint control as a joint arrangement whereby the Group has only rights to the net assets of the arrangement, the Group is accounted for using the equity method, the same as an associate.

(iv) Business combinations
Business combinations are accounted for using the acquisition method.
Goodwill is measured as the excess amount when the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree exceeds the net fair value of the acquisition date amount of identifiable assets acquired and liabilities assumed. It is immediately recognized as profit if the difference is a negative amount.
Acquisition related costs, excluding those associated with the issuance of debt or equity securities, incurred by the Group in connection with business combinations are expensed as incurred.

(2) Foreign currency translation

(i) Foreign currency transactions
Upon initial recognition, foreign currency transactions are translated into the relevant functional currency of the Group and its associates and joint ventures at the spot exchange rate, or an approximation of the rate, at the date of the transaction.
Monetary assets and liabilities denominated in foreign currencies at the fiscal year-end are translated into the functional currency at the exchange rate at the fiscal year-end. Non-monetary items denominated in foreign currencies that are measured at acquisition cost are translated into the functional currency at the spot exchange rate, or an approximation of the rate, at the date of the transaction, and those that are measured at fair value are translated into the functional currency at the exchange rate prevailing at the fair value measurement date.
Exchange differences arising from translations and settlements are recognized in profit or loss. However, if gains or losses of non-monetary items are recognized as other comprehensive income, exchange differences are also recognized as other comprehensive income.

(ii) Foreign operations
Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisitions are translated into Japanese yen at the relevant exchange rate prevailing at the fiscal year-end. Revenues and expenses of foreign operations are translated into Japanese yen at the average exchange rate during the fiscal year, except in cases in which exchange rate fluctuate significantly.
Exchange differences arising from translations are recognized in other comprehensive income. The differences are recognized as exchange differences on translation of foreign operations from April 1, 2021, the Group's transition date to IFRS.
At the time a partial or entire foreign operation is disposed of and control or significant influence is lost, the cumulative amount of exchange differences recognized in other components of equity are reclassified to profit or loss.

(3) Financial instruments

(i) Non-derivative financial assets
Financial assets are classified into those measured at amortized cost, those measured at fair value through other comprehensive income, and those measured at fair value through profit or loss.
Financial assets are recognized when the Group becomes a party to the contractual provisions of the assets. Financial assets that are bought and sold in the regular way are recognized on the transaction date.
When the contractual right to cash flows from a financial asset expires or the Group transfers the contractual right to receive the cash flows of a financial asset and substantially all the risks and rewards of ownership of the financial asset have been transferred, the financial asset is derecognized.

(a) Financial assets measured at amortized cost
Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:
a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets measured at amortized cost are measured at fair value plus transaction costs that are directly attributable to the assets' acquisition at initial recognition. However, trade receivables without a significant financing component are initially measured at their transaction price. In addition, after initial recognition, they are measured at amortized cost using the effective interest method.

(b) Financial assets measured at fair value through other comprehensive income
Financial assets besides the financial assets measured at amortized costs are classified into those measured at fair value.
For investments in equity instrument not held for trading purposes among financial assets measured at fair value, the Group can irrevocably designates the instrument as measured at fair value through other comprehensive income, and the Group applies such designates for each financial instrument.

Financial assets measured at fair value through other comprehensive income are measured at fair value plus transaction costs directly attributable to their acquisition at initial recognition. In addition, after initial recognition, those assets are measured at fair value, and subsequent changes are recognized as other comprehensive income. Recognized changes in fair value in other comprehensive income are reclassified the accumulated amount not to profit or loss but to retained earnings, in case of derecognition. Dividends are recognized as profit or loss.

(c) Financial assets measured at fair value through profit or loss
Financial assets other than those above are classified into those measured at fair value through profit or loss.
Financial assets measured at fair value through profit or loss are measured at fair value at the initial recognition, and the expenses that are directly attributable to their acquisition are recognized as profit or loss as incurred. In addition, after initial recognition, the assets are measured at fair value, and subsequent changes are recognized as profit or loss.

(ii) Impairment of financial assets
For financial assets measured at amortized cost, contract assets and lease receivables, an allowance is recognized for expected credit losses.
On the reporting date, if a credit risk on a financial instrument has significantly increased since its initial recognition, the allowance on the financial instrument is measured at the amount equal to the expected credit loss arising from all the possible events of default occur over the lifetime of the financial instrument (lifetime expected credit loss).
On the reporting date, if a credit risk on a financial instrument has not significantly increased since its initial recognition, the allowance on the financial instrument is measured at an amount equal to the expected credit loss arising from possible events of default that could occur within 12-month from the reporting date (12-month expected credit loss).
However, for trade receivables, contract assets and lease receivables, allowances are always measured at the amount equal to expected lifetime credit losses.
Further details regarding the assessment of significant increases in the credit risk and the measurement of expected credit losses are provided in Note 21. "Financial Instruments."

(iii) Non-derivative financial liabilities
Non-derivative financial liabilities are classified as financial liabilities measured at amortized cost.
Financial liabilities measured at amortized cost are measured at fair value less transaction costs directly attributable to their acquisition at initial recognition. In addition, after initial recognition, they are measured at amortized cost using

the effective interest method.
Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the liabilities.
When the financial liabilities are extinguished and the obligation specified in the contract is extinguished, discharged, canceled or invalidated, only those cases, the financial liability is derecognized.

(iv) Derivative transactions and hedge accounting
The Group is exposed to market risks, such as exchange fluctuation and interest rate fluctuation, in its regular operating activities. In order to manage these risks, the Group seeks to reduce market risk by leveraging transactions that have the effect of offsetting risks, such as executing derivative transactions in accordance with internal regulations as needed and so on. At the inception of the hedge, the Group formally documents the relationship between the hedging instruments and the hedged items, including the risk management objectives, strategies for undertaking the hedge transactions and the method of assessing the effectiveness of hedging relationships. In addition, the Group sets appropriate hedge ratios based on the economic relationship between the hedging instruments and the hedged items and the risk management policy.
The Group continuously evaluates whether the hedging instruments can be predicted to have a highly offsetting effect against changes in the fair value or cash flows of the related hedged items over the hedged period.
Derivatives are initially recognized at fair value. In addition, after initial recognition, those that are measured at fair value and the subsequent changes are accounted for as follows:

(a) Fair value hedges
Changes in the fair value of derivatives used as hedging instruments are recognized in profit or loss. In addition, changes in fair value of hedged items attributable to the hedged risks are recognized in profit or loss, adjusting the carrying amount of the hedged item.

(b) Cash flow hedges
The effective portion of changes in the fair value of derivatives used as hedging instruments is recognized in other comprehensive income, while the accumulated amount is included in other components of equity. In addition, the ineffective portion of the hedge effect is recognized in profit or loss. The amounts accumulated in other components of equity are reclassified to profit or loss in the accounting period in which the hedged transactions affect profit or loss. However, if a forecast transaction of hedge subsequently results in the recognition of a non-financial asset or a non-financial liability, the amounts accumulated in other components of equity are accounted as adjustments to the initial carrying amount of the non-financial asset or the non-financial liability.
Hedge accounting is discontinued prospectively if the hedging instruments are invalidated, sold, terminated or exercised or the hedge does not meet the requirements for hedge accounting. If a forecast transaction is no longer deemed to have a probability of occurring, the amounts accumulated in other components of equity are immediately reclassified to profit or loss.

(c) Derivatives not designated as hedges
Changes in the fair value of derivatives are recognized in profit or loss.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits available to be withdrawn at any time and short-term investments with maturities of three months or less from the date of acquisition that are readily convertible to cash and subject to an insignificant risk of changes in value.

(5) Inventories

Inventories are measured at the lower of acquisition cost and net realizable value.
The acquisition cost of inventories is determined mainly by the specific identification method, first-in first-out method and moving average method and comprises the costs of purchase, costs of conversion and all other costs incurred in bringing the inventories to their present location and condition.
Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to sell.

(6) Property, Plant and Equipment

(i) Recognition and measurement
Property, plant and equipment are measured using the cost model and presented at cost less accumulated depreciation and accumulated impairment loss.
The acquisition cost includes cost directly attributable to the acquisition of the asset, borrowing costs that meet certain criteria for asset recognition and costs of dismantling, removing and restoring the asset.
The gain or loss on disposal of property, plant and equipment is measured by the difference between the amount received on disposal and the carrying amount and is recognized in profit or loss.

(ii) Depreciation
Property, plant and equipment are depreciated from the date the asset is available for use.
Depreciation costs are determined based on the depreciable amount of an asset. The depreciable amount is determined by deducting the residual value from the acquisition cost of an asset.
Property, plant and equipment, excluding land and other non-depreciable assets, are depreciated mainly on a straight-line method over their respective estimated useful lives.

The estimated useful lives of major classes of assets are as follows:

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

The depreciation method, useful lives and residual values are reviewed at the end of each fiscal year and modified as needed.

(7) Intangible assets

(i) Recognition and measurement

(a) Development expenses
Development activities include planning and designing to create new or substantially improved products or processes. Development expenses are capitalized only if all of the following requirements are met.

- the technical feasibility
- the intention to complete and use or sell
- the ability to use or sell
- future economic benefits
- the availability of adequate resources
- reliable measurement

Since the possibility of inflows of future economic benefits cannot be demonstrated, expenditure on research is not capitalized but recognized as an expense when incurred.
Capitalized costs include material costs, direct labor costs and indirect costs directly related to preparing an asset for its intended use. Other development expenses are recognized as expenses when incurred.
Capitalized development expenses are presented at acquisition cost less accumulated amortization and accumulated impairment loss using the cost model.

(b) Software and other intangible assets
Software and other intangible assets acquired by the Group with finite useful lives are accounted for using the cost model and recorded at the acquisition cost less accumulated amortization and accumulated impairment loss. Those assets with indefinite useful lives are recorded at the acquisition cost less accumulated impairment loss.

(c) Goodwill
Goodwill arising from the acquisition of a subsidiary is recorded as an intangible asset. Initial recognition and measurement of goodwill are stated above in Note 3 (1) (iv), "Business combinations."
Goodwill is accounted for using the cost model and measured at the acquisition cost less accumulated impairment loss. For the equity-method entities, the carrying amount of goodwill is included in the carrying amount of investments.

(ii) Amortization
Excluding goodwill, intangible assets with finite useful lives are amortized from the date the asset is available for use over its respective estimated useful life. Development expenses are amortized by the units-of-production method according to the production volume of the product development model, and other intangible assets are amortized by the straight-line method.
The estimated useful lives of major classes of assets are as follows:

- Software: 5 years
- Development expenses: 2 to 10 years

Amortization methods, useful lives and residual values are reviewed at the end of each fiscal year and modified as needed.

(8) Leases

(i) Leases as lessee
A right-of-use asset and a lease liability are recognized at the commencement date of the respective lease.
Right-of-use assets are measured using the cost model and presented at the acquisition cost at the commencement date of lease less accumulated depreciation and accumulated impairment loss. The acquisition cost is measured at the amount of the initial measurement of lease liability, which is adjusted for in the lease payments at the commencement date and reflect prepaid lease payments, including initial direct costs and costs of dismantling, removal and restoration under the lease contract, less any lease incentives received. After initial recognition, a right-of-use asset is depreciated on a straight-line basis over the shorter of its useful life and the lease term.
Lease liabilities are initially measured at the present value of the outstanding lease payments at the commencement date of the lease, discounted using the interest rate implicit in the lease. If the interest rate implicit in the lease is not readily determinable, the Group's incremental borrowing rate is used instead.
Lease liabilities are measured at amortized cost using the effective interest method. Each contract includes an option to buy the underlying asset and extend or terminate the lease term. Lease liabilities are remeasured if there is any change in the prospects for exercising the option.
In addition, right-of-use assets and lease liabilities are not recognized for short-term leases whose lease terms are 12 months or less and leases of low-value assets, and the related lease payments are recognized as expenses on a straight-

line basis over the lease term.
The Group distinguishes right-of-use assets from other assets and presents lease liabilities in "Bonds, borrowings and other financial liabilities" in the consolidated statement of financial position.

(ii) Leases as lessor
Contractually, leases which substantially all risks and economic value associated with ownership of the underlying assets are transferred to the lessee are classified as finance leases. Other leases beside finance leases are classified as operating leases.
With regard to finance lease transactions, the net investment in the lease is recognized as lease receivable (included in "trade and other receivables"). Unearned finance income is allocated to net investment at a constant interest rate over the lease term and recognized as revenue in the period to which it applies.
For operating lease transactions, lease payments received are recognized as revenue on a straight-line basis over the lease terms.

(9) Impairment of non-financial assets

The Group's carrying amounts of property, plant and equipment and intangible assets are determined by whether there is any indication of impairment at the end of each reporting period. If there is an indication of impairment, the Group estimates the recoverable amount of the asset and performs an impairment test. Goodwill and intangible assets with indefinite useful lives or not yet available for use are not only periodically tested for impairment once a year, but also whenever there is an indication of impairment.
The recoverable amount of assets or cash-generating unit is the higher of its value in use and its fair value less costs of disposal. With regard to the measurement of value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. The cash-generating unit is the smallest unit of an asset group that can be identified as generating cash inflows that are largely independent of cash inflows from other assets or groups of assets.
An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. An impairment loss is recognized in profit or loss. An impairment loss recognized in relation to a cash-generating unit is allocated to reduce the carrying amount of goodwill allocated to the unit and subsequently to reduce the carrying amount of other assets within the unit on a pro-rata basis.
Impairment loss in relation to goodwill is not reversed. For non-financial assets other than goodwill with impairments loss recognized in the past, a determination is made to whether there is any indication of a reversal of the impairment loss recorded in previous years at the end of each reporting period. If such an indication exists, the recoverable amount of the asset or cash-generating unit is estimated, and if the recoverable amount exceeds the carrying amount of the asset or the unit, impairment loss is reversed up to the lower of the calculated recoverable amount and the carrying amount after deducting any depreciation of which no impairment loss had been recognized in the previous years.

(10) Government grants

Government grants are measured at fair value when there is reasonable assurance that the Group will receive the grant and will comply with the required terms and conditions, and recognized as following method.
Grants related to assets are recognized by a method which deducte the value of the grant from the acquisition cost of the asset to determine the carrying amount of the asset. Grants related to revenue are recognized by a method which deducts the value of the grant from the related expenses.

(11) Employee benefits

(i) Long-term employee benefits

(a) Post-employment benefits
a) Defined contribution plans
The Company and some subsidiaries have adopted defined contribution plans. Defined contribution pension plans are post-employment benefit plans under which an entity pays fixed contributions into a separate independent entity and will have no legal or constructive obligation to pay further contributions. The contribution obligation of the defined contribution pension plan is recognized as an employee benefits expense in profit or loss over the period in which employees render related services.

b) Defined benefit plans
Defined benefit plans are recognized as liabilities or assets in which the fair value of the plan asset is deducted from the present value of the defined benefit obligations.
The present value of the defined benefit obligations and service cost are determined using the projected unit credit method for each system.
The discount rate is determined at the end of the accounting period by reference to market yields on high-quality corporate bonds that correspond to the currency used for the payment of the defined benefit obligations and the estimated due date.
Remeasurements arising from defined benefit plans are composed of actuarial gains and losses, the income from plan assets (excluding interest) and the effect of any asset ceiling and are immediately recorded in other comprehensive income and immediately reclassified to retained earnings.
When a plan is amended, the variable portion of the benefits related to past service by employees is immediately recognized in profit or loss.

(b) Other long-term employee benefits
For long-term employee obligations other than post-employment benefits, the Group has a system that grants leave and allowance when achieving long-term employment. The long-term employee benefits are calculated by estimating the amount of future benefits earned for services rendered by employees in the prior and current fiscal years and discounting that amount to the present value.

(ii) Short-term employee benefits
Short-term employee benefits are not discounted but recorded as expenses as the relevant services are provided.
For bonuses, if the Group has the present legal and constructive obligation to pay them as the result of past services provided by employees and the amount can be reliably estimated, the estimated amount to be paid is recognized as a liability.

(12) Provisions

Provisions are recognized when the Group has a legal or constructive obligation the amount of the obligation can be reliably estimated as a result of a past event, and it is probable that an outflow of economic resources will settle the obligation.
When the effect of the time value of money is significant, the provision is measured at the present value of the amount of expenditure expected to be required to settle the obligation.

(13) Shareholders' equity

(i) Common shares
Equity instruments issued by the Company are recorded at the issue price in share capital and capital surplus, and costs directly attributable to the issuance (after tax effect adjustments) are deducted from equity.

(ii) Treasury shares
When treasury shares are acquired, consideration paid, including costs incurred directly related to the acquisition, is deducted from equity. When treasury shares are disposed of, the difference between the consideration received and the carrying amount of the treasury shares is accounted for as equity.

(14) Revenue

The Group recognizes revenue at the amount of consideration to which the Group expects to be entitled in exchange for goods or services when the control of the goods or services is transferred to the customer. In its recognition of revenue, the Group takes the following five-step approach.

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

In relation to the recognition of revenue from contracts with the Group's customers, the nature of principal performance obligations for major businesses and typical timing of the satisfaction of those performance obligations (typical timing of revenue recognition) are as follows:

(i) Sale of products, etc.
For revenues from the sale of products, etc., because the Group has performance obligations to transfer products to the customer under contract and determines that control of the products will transfer to the customer at the time of delivery or acceptance of products, etc., the revenues are recognized on the delivery or acceptance date. Revenues are measured by the amount of consideration promised in the contract less any discounts and rebates.

(ii) Construction contracts and rendering of services
Revenues from construction contracts and the rendering of services are derived from the manufacturing of products based on orders from customers and the maintenance of the associated products. The Group also has the performance obligations to transfer goods or services to the customer under the contract. For construction contracts and rendering of services, the Company recognizes revenue by reasonably measuring the progress towards complete satisfaction of performance obligations as control over goods or services is transferred to the customer over a certain period. The measurement of the progress takes into account the nature of the goods or services promised to be transferred to the customer. If costs incurred are proportional to progress in satisfying the performance obligations, such as with construction contracts in the Aerospace Systems segment and the Energy Solution & Marine Engineering segment, the progress is measured using the input method based on the ratio of the current cumulative costs incurred to the estimated total costs of the entire transaction. In the case of contracts that charge a fixed amount for services provided over a certain period of time, such as maintenance contracts in the Energy Solution & Marine Engineering segment, etc., or contracts that have the right to receive from the customer an amount of consideration that directly corresponds to the value to the customer for the portion of the performance completed, such as with maintenance contracts for commercial aircraft jet engines in the Aerospace Systems segment and the manufacturing of rolling stock in the Rolling Stock segment, the progress is measured using the output method based on the ratio of the elapsed period to the entire contract period and the ratio of the fulfilled obligation up to the current time to the total performance obligation. If the Group is unable to reasonably estimate the progress but expects to recover the costs incurred, the Group

recognizes revenue within the range of the costs incurred.

Consideration for these performance obligations is usually received within one year from the fulfilment of the performance obligations. Significant financing components are not included in the consideration.
The Group provides a warranty that products meet the specifications set forth in the contracts. However, since the product warranty does not provide for separate service, it is not distinguished as an independent performance obligation.
For transaction contracts that include changes in consideration, such as for rebates and post-sale discounts, the variable price is estimated to the extent that it is highly probable that a significant reversal in sales revenue will not occur when the uncertainty is resolved to determine the transaction price.
In addition, the Group capitalizes the amounts that it expects to recover from contract fulfillment costs with customers. These assets are amortized over the pattern of provision of the related services to the customers.

(15) Finance income and costs

Finance income and finance costs consist of interest income, interest expense, dividend income, gains and losses on foreign exchange, gains and losses on derivatives (except for gains and losses recognized in other comprehensive income) and others. Interest income and expense are recognized using the effective interest method when incurred. Dividend income is recognized on the date the Group’s right to receive the income is established.

(16) Income taxes

Income taxes comprise current taxes and deferred taxes and are recognized in profit or loss, except for taxes arising from business combinations and taxes incurred from items directly recognized in equity or other comprehensive income.
Current taxes are measured at the amount expected to be paid to or recovered from the taxation authorities. The calculation of the taxes is based on tax rates and tax laws that have been enacted or substantively enacted at the end of reporting period.
Deferred taxes are measured at the end of reporting period based on temporary differences between the carrying amount of assets and liabilities for accounting purposes and their value for tax purposes, and tax loss carryforward and tax credit carryforward.
Deferred tax assets are recognized for the unused tax loss carryforward, tax credit carryforward, and deductible temporary differences only to the extent that it is probable that future taxable income will be available against which they can be utilized. In addition, they are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to realize the benefits of the deferred tax assets.
Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized in the following cases:

- Differences arising from investments in subsidiaries to the extent that it is probable that the temporary differences will not reverse in the foreseeable future
- Temporary differences arising on initial recognition of goodwill

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply when the temporary differences are resolved based on tax laws that have been enacted or substantively enacted by the end of the reporting period.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and despite income taxes levied by the same taxation authority on the same taxable entity, or on different taxable entity, these taxable entities intend either to settle current tax assets and liabilities on a net basis, or when these tax assets and liabilities are expected to be realized at the same time.
With regard to uncertain tax positions of income taxes, a reasonably estimated amount is recognized as an asset or liability when it is probable that the tax position will be incurred based on interpretations for the purpose of tax laws.

(17) Earnings per share

Basic earnings per share are determined by dividing profit attributable to owners of parent by the weighted average number of shares of outstanding common stock less treasury shares during the period.
Diluted earnings per share are determined by adjusting the impact of all potential common shares with a dilutive effect.

4. Operating segments

(1) Overview of reportable segments

The Group's reportable segments are components of the Group about which separate financial information is available. These segments are subject to periodic reviews by the Group's board of directors meeting to decide how to allocate resources and assess performance. The Group's operations are divided into internal companies based on product categories, and certain authority is delegated to each of the internal companies. Based on this authority, the companies conduct business operation in Japan and overseas. The Group's operations are therefore segmented based on each internal company's product categories. The Group's six reportable segments are the Aerospace Systems segment, the Rolling Stock segment, the Energy Solution & Marine Engineering segment, the Precision Machinery & Robot segment, the Powersports & Engine segment, and the Other segment.
From this consolidated fiscal year, the name of the previous reportable segment of "Motorcycle & Engine" has been changed to "Powersports & Engine" for the purpose of better aligning with the Group's business strategy. This change is a change in the name of the reportable segment only and it has had no impact on segment information.

The main business activities of each reportable segment are as follows:

Reportable segments	Main business activities
Aerospace Systems	Production and sale of aircraft, aircraft jet engines, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Energy Solution & Marine Engineering	Production and sale of energy-related machinery and systems, marine machinery and systems, plant machinery and systems, ships and other vessels, etc.
Precision Machinery & Robot	Production and sale of hydraulic equipment, industrial robots, etc.
Powersports & Engine	Production and sale of motorcycles, off-road vehicles-models (SxS, ATV), personal watercraft ("JET SKI"), general-purpose gasoline engines, etc.
Other	Commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

(2) Information about reportable segments

The accounting policies applied to the reportable segments are generally the same as the Group's accounting policies described in Note 3, "Significant accounting policies."
Information about the reportable segments of the Group is as follows:

Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

Millions of yen

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total	Eliminations and corporate *2	Consolidated total
Revenue from external customers	¥298,212	126,684	297,306	252,678	447,927	78,070	1,500,879	-	1,500,879
Intersegment revenue and transfers*1	10,123	33	15,936	19,746	845	20,164	66,850	(66,850)	-
Total revenue	308,335	126,718	313,243	272,425	448,773	98,234	1,567,730	(66,850)	1,500,879
Segment profit (loss) *3	(10,346)	2,250	(10,884)	13,928	37,523	3,151	35,623	(5,257)	30,366
Finance income									2,556
Finance costs									(5,251)
Profit before tax									27,670
Depreciation and amortization	30,906	1,567	6,184	10,835	17,521	1,285	68,301	8,696	76,998
Impairment loss	-	-	728	-	-	-	728	-	728
Share of profit (loss) of investments accounted for using equity method	-	17	(11,261)	(3,437)	81	156	(14,442)	32	(14,410)

Notes: 1. Intersegment revenue and transfers are recorded at normal market prices.
2. Eliminations and corporate of ¥(5,257) million include ¥(517) million for intersegment transactions and ¥(4,740) million for general and administrative expenses not attributed to reportable segments.
3. Segment profit (loss) is calculated by deducting from revenue: cost of sales; selling, general and administrative expenses; share of profit and loss of investments accounted for using equity method; other income; and other expenses.

Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

Millions of yen

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total	Eliminations and corporate *2	Consolidated total
Revenue from external customers	¥348,880	131,935	314,552	252,697	591,151	86,392	1,725,609	-	1,725,609
Intersegment revenue and transfers*1	10,254	14	21,303	19,315	1,033	23,270	75,191	(75,191)	-
Total revenue	359,134	131,949	335,856	272,013	592,184	109,662	1,800,801	(75,191)	1,725,609
Segment profit (loss) *3	14,877	1,372	3,905	8,766	71,533	(1,845)	98,611	(16,256)	82,355
Finance income									2,291
Finance costs									(14,297)
Profit before tax									70,349
Depreciation and amortization	29,499	1,913	6,231	11,271	17,408	1,413	67,738	9,636	77,374
Impairment loss	1,649	-	554	-	-	2,402	4,606	-	4,606
Share of profit (loss) of investments accounted for using equity method	-	8	6,016	(2,761)	(40)	104	3,328	(14)	3,314

Notes: 1. Intersegment revenue and transfers are recorded at normal market prices.
2. Eliminations and corporate of ¥(16,256) million ($(121,731) thousand) include ¥(838) million ($(6,275) thousand) for intersegment transactions and ¥(15,418) million ($(115,456) thousand) for general and administrative expenses not attributed to reportable segments.
3. Segment profit (loss) is calculated by deducting from revenue: cost of sales; selling, general and administrative expenses; share of profit and loss of investments accounted for using equity method; other income; and other expenses.

Thousands of U.S. dollars

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total	Eliminations and corporate *2	Consolidated total
Revenue from external customers	$2,612,551	987,981	2,355,489	1,892,294	4,426,771	646,937	12,922,038	-	12,922,038
Intersegment revenue and transfers*1	76,786	105	159,525	144,638	7,736	174,255	563,060	(563,060)	-
Total revenue	2,689,337	988,086	2,515,022	2,036,940	4,434,507	821,192	13,485,106	(563,060)	12,922,038
Segment profit (loss) *3	111,405	10,274	29,242	65,643	535,667	(13,816)	738,438	(121,731)	616,707
Finance income									17,156
Finance costs									(107,062)
Profit before tax									526,801
Depreciation and amortization	220,900	14,325	46,660	84,402	130,358	10,581	507,249	72,158	579,407
Impairment loss	12,348	-	4,149	-	-	17,987	34,492	-	34,492
Share of profit (loss) of investments accounted for using equity method	-	60	45,050	(20,675)	(300)	779	24,921	(105)	24,817

(3) Information by product and service

This information is omitted because the classification by products and services is the same as the classification by reportable segments.

(4) Information by region

The Group's revenues by region are based on the geographical distribution of its customers, the breakdown of which is described in Note 24, "Revenue."

The breakdown of the carrying amounts of non-current assets (excluding financial assets, deferred tax assets, and retirement benefit asset, etc.) analyzed by region of the Group is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Japan	¥ 610,843	¥ 601,589	¥ 594,647	$ 4,452,950
Overseas total	78,462	79,673	111,891	837,884
Total	¥ 689,305	¥ 681,262	¥ 706,539	$ 5,290,842

(5) Information about major customers

Revenue from customers that accounted for 10% or more of consolidated revenue is as follows:

	Related major reportable segments	Millions of yen		Thousands of U.S. dollars
		2022	2023	2023
Ministry of Defense	Aerospace Systems, Energy Solution & Marine Engineering, etc.	¥ 227,696	¥ 240,584	$ 1,801,588

5. Acquisition of subsidiaries and non-controlling interests

Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)
There were no significant business combinations.

Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)
There were no significant business combinations.

6. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Cash and deposits	¥ 119,651	¥ 104,807	¥ 137,499	$ 1,029,647
Cash equivalents	2,514	3,703	920	6,889
Total	¥ 122,166	¥ 108,511	¥ 138,420	$ 1,036,543

Cash and cash equivalents are classified as financial assets measured at amortized cost.
The balance of cash and cash equivalents in the consolidated statements of financial position corresponds the balance of cash and cash equivalents at end of period in the consolidated statements of cash flow.

7. Trade and other receivables

The breakdown of trade and other receivables is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Notes and accounts receivable - trade	¥ 338,557	¥ 369,949	¥ 427,922	$ 3,204,448
Other	16,504	39,297	42,475	318,069
Total	¥ 355,061	¥ 409,246	¥ 470,398	$ 3,522,525

Trade and other receivables, except for lease receivables included in other, are all classified as financial assets measured at amortized cost.
The amount of these trade and other receivables to be collected more than 12 months as of the transition date, the previous consolidated fiscal year, and this consolidated fiscal year were ¥22,018 million, ¥32,120 million and ¥46,031 million ($344,698 thousand), respectively.

8. Inventories

The breakdown of inventories is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Merchandise and finished goods	¥ 69,228	¥ 78,616	¥ 110,270	$ 825,745
Work in process	360,160	376,746	403,676	3,022,885
Raw materials and supplies	136,471	160,113	176,484	1,321,582
Total	¥ 565,860	¥ 615,476	¥ 690,431	$ 5,170,219

The amounts of inventory write-downs (negative is a reversal) recognized as expenses are included in cost of sales in the consolidated statements of profit and loss, and ¥(2,766) million and ¥3,180 million ($23,813 thousand) for the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023, respectively. The amount of reversal of inventory write-downs in the previous consolidated fiscal year included reversal of inventory write-downs due to the resale of a domestic gas-fired power generation facility project that the Company had constructed, but had not been delivered.

Of the above, inventories to be paid and sold for more than 12 months are insignificant in terms of amount as of the transition date, the previous consolidated fiscal year, and the consolidated fiscal year ended March 31, 2023.

9. Property, plant and equipment

Changes in carrying amount, acquisition cost, accumulated depreciation and accumulated impairment loss of property, plant and equipment are as follows:

Carrying amount

	Millions of yen					
	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance as of April 1, 2021	¥ 173,298	¥ 146,717	¥ 59,896	¥ 17,344	¥ 51,898	¥ 449,155
Acquisitions	437	4,866	-	41,174	2,660	49,139
Transfer of accounts	4,901	16,677	7	(37,719)	13,912	(2,221)
Sale or disposal	(345)	(2,566)	(186)	(22)	(252)	(3,374)
Depreciation*1	(11,414)	(25,838)	-	-	(17,315)	(54,568)
Impairment loss*2and3	(61)	(576)	-	-	(46)	(685)
Exchange differences	1,796	2,597	312	681	588	5,976
Other	104	191	507	29	121	953
Balance as of March 31, 2022	¥ 168,715	¥ 142,068	¥ 60,537	¥ 21,489	¥ 51,565	¥ 444,375
Acquisitions	2,182	4,156	-	57,492	2,582	66,414
Transfer of accounts	7,706	21,293	716	(42,800)	11,415	(1,668)
Sale or disposal	(395)	(1,422)	(383)	(122)	(437)	(2,763)
Depreciation*1	(11,523)	(26,098)	-	-	(16,798)	(54,420)
Impairment loss*2and3	(44)	(255)	-	(1,638)	(939)	(2,879)
Exchange differences	1,389	1,647	251	418	556	4,263
Other	(110)	(1,354)	179	(1,486)	459	(2,312)
Balance as of March 31, 2023	¥ 167,919	¥ 140,034	¥ 61,301	¥ 33,351	¥ 48,403	¥ 451,010

	Thousands of U.S. dollars					
	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance as of March 31, 2022	$ 1,263,404	$ 1,063,861	$ 453,325	$ 160,918	$ 386,139	$ 3,327,655
Acquisitions	16,340	31,122	-	430,523	19,335	497,334
Transfer of accounts	57,706	159,450	5,362	(320,503)	85,480	(12,491)
Sale or disposal	(2,958)	(10,648)	(2,868)	(914)	(3,272)	(20,690)
Depreciation*1	(86,289)	(195,432)	-	-	(125,790)	(407,518)
Impairment loss*2and3	(329)	(1,910)	-	(12,266)	(7,032)	(21,559)
Exchange differences	10,401	12,333	1,880	3,130	4,164	31,923
Other	(824)	(10,139)	1,340	(11,128)	3,437	(17,313)
Balance as of March 31, 2023	$ 1,257,443	$ 1,048,630	$ 459,046	$ 249,745	$ 362,461	$ 3,377,340

Acquisition cost

	Millions of yen					
	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance as of April 1, 2021	¥ 452,952	¥ 582,638	¥ 59,896	¥ 17,344	¥ 275,366	¥ 1,388,199
Balance as of March 31, 2022	¥ 450,788	¥ 598,416	¥ 60,537	¥ 21,489	¥ 284,288	¥ 1,415,520
Balance as of March 31, 2023	¥ 461,137	¥ 614,410	¥ 61,301	¥ 34,990	¥ 292,937	¥ 1,464,776

	Thousands of U.S. dollars					
	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance as of March 31, 2023	$ 3,453,175	$ 4,600,944	$ 459,046	$ 262,019	$ 2,193,627	$ 10,968,818

Accumulated depreciation and accumulated impairment loss

	Millions of yen					
	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance as of April 1, 2021	¥ 279,653	¥ 435,921	¥ -	¥ -	¥ 223,468	¥ 939,043
Balance as of March 31, 2022	¥ 282,073	¥ 456,347	¥ -	¥ -	¥ 232,723	¥ 971,144
Balance as of March 31, 2023	¥ 293,217	¥ 474,375	¥ -	¥ 1,638	¥ 244,533	¥ 1,013,765

Notes: 1. Depreciation is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.
2. Impairment loss is included in "Cost of sales" in the consolidated statement of profit or loss.
3. Details of impairment loss are disclosed in Note 11, "Impairment of non-financial assets."

	Thousands of U.S. dollars					
	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance as of March 31, 2023	$ 2,195,724	$ 3,552,306	$ -	$ 12,266	$ 1,831,159	$ 7,591,471

10. Intangible assets

Changes in carrying amount, acquisition cost, accumulated amortization and accumulated impairment loss of intangible assets are as follows:

Carrying amount

	Millions of yen			
	Development expenses	Software	Other	Total
Balance as of April 1, 2021	¥ 32,158	¥ 14,037	¥ 16,315	¥ 62,510
Acquisitions through internal development	2,445	-	-	2,445
Acquisitions	—	8,534	3,718	12,252
Sale or disposal	(1,225)	(28)	(901)	(2,155)
Amortization*1	(5,678)	(5,640)	(1,013)	(12,332)
Impairment loss*2and3	-	(29)	-	(29)
Exchange differences	0	77	70	148
Other	(24)	(107)	(765)	(897)
Balance as of March 31, 2022	¥ 27,674	¥ 16,842	¥ 17,423	¥ 61,940
Acquisitions through internal development	3,752	-	-	3,752
Acquisitions	-	6,049	6,071	12,120
Sale or disposal	-	(28)	(1)	(29)
Amortization*1	(4,436)	(6,425)	(504)	(11,367)
Impairment loss*2and3	(56)	(40)	-	(96)
Exchange differences	13	33	56	103
Other	(77)	30	(126)	(174)
Balance as of March 31, 2023	¥ 26,869	¥ 16,459	¥ 22,919	¥ 66,248

	Thousands of U.S. dollars			
	Development expenses	Software	Other	Total
Balance as of March 31, 2022	$ 207,234	$ 126,120	$ 130,470	$ 463,831
Acquisitions through internal development	28,096	-	-	28,096
Acquisitions	-	45,297	45,462	90,759
Sale or disposal	-	(210)	(7)	(217)
Amortization*1	(33,219)	(48,113)	(3,774)	(85,121)
Impairment loss*2and3	(419)	(300)	-	(719)
Exchange rate differences	97	247	419	771
Other	(577)	225	(944)	(1,303)
Balance as of March 31, 2023	$ 201,206	$ 123,251	$ 171,626	$ 496,091

Acquisition cost

	Millions of yen			
	Development expenses	Software	Other	Total
Balance as of April 1, 2021	¥ 33,830	¥ 65,745	¥ 24,838	¥ 124,414
Balance as of March 31, 2022	¥ 34,880	¥ 74,038	¥ 25,943	¥ 134,862
Balance as of March 31, 2023	¥ 38,579	¥ 80,007	¥ 32,369	¥ 150,956

	Thousands of U.S. dollars			
	Development expenses	Software	Other	Total
Balance as of March 31, 2023	$ 288,895	$ 599,124	$ 242,392	$ 1,130,418

Accumulated amortization and accumulated impairment loss

	Millions of yen			
	Development expenses	Software	Other	Total
Balance as of April 1, 2021	¥ 1,671	¥ 51,708	¥ 8,522	¥ 61,903
Balance as of March 31, 2022	¥ 7,205	¥ 57,196	¥ 8,519	¥ 72,921
Balance as of March 31, 2023	¥ 11,709	¥ 63,547	¥ 9,450	¥ 84,708

Notes: 1. Amortization is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.
2. Impairment loss is included in “Cost of sales” in the consolidated statement of profit or loss.
3. Details of impairment loss are disclosed in Note 11. “Impairment of non-financial assets.”

	Thousands of U.S. dollars			
	Development expenses	Software	Other	Total
Balance as of March 31, 2023	$ 87,682	$ 475,865	$ 70,765	$ 634,327

11. Impairment of non-financial assets

The Group recorded impairment loss for the following groups of assets during this consolidated fiscal year. The impairment loss is included in "Cost of sales" in the consolidated statement of profit or loss.
The Group groups assets into cash-generating units, which are the smallest units that generate largely independent cash inflows based on business units.

As of March 31, 2022

Impairment loss for the fiscal year ended March 31, 2022 were due to a decline in profitability from the assets of the Sakaide Works in the Energy Solution & Marine Engineering segment based on the current market environment.

As of March 31, 2023

Reportable segments	Location	Use	Type of assets	Millions of yen Amount	Thousands of U.S. dollars Amount
Other	Chuo-ku, Kobe City, Hyogo, Japan Narita City, Chiba, Japan	Business assets	Machinery, equipment and vehicles, etc.	¥ 2,402	$ 17,987
Aerospace Systems	Akashi City, Hyogo, Japan	Business assets	Other non-current assets	¥ 1,593	$ 11,929
			Intangible assets	56	419
Energy Solution & Marine Engineering	Sakaide city, Kagawa, Japan	Business assets	Buildings, etc.	¥ 554	$ 4,149

In the consolidated fiscal year ended March 31, 2023, the value of the automated robotic the PCR testing system used in PCR testing business, a part of the Other segment, was reduced to its recoverable amount as no future use was expected due to a significant decline in demand for PCR testing caused by changes in the position of COVID-19 under the Infectious Diseases Control Law. In addition, in the Aerospace Systems segment, the assets related to a certain civil aviation engine program in which the Company has been participating were reduced to their recoverable amounts due to the impact of the prolonged situation in Ukraine. In the Energy Solution & Marine Engineering segment, the assets of the Sakaide Works were reduced due to a decline in profitability based on the current market environment. The recoverable amounts of the assets of the Other segment were calculated by their fair values less the costs of disposal. The assets of the Aerospace Systems segment and the Energy Solution & Marine Engineering segment were calculated by their value in use. Their values were mainly zero.

12. Leases

The Group leases land and buildings as offices and warehouses. Typical office leases have terms ranging from 10 to 20 years and include options to extend the leases for a certain period after the end of the lease term.

The Group subleases part of rental properties under operating or finance leases.

Some leases for offices, etc., contain extension options that are exercisable by the Group up to one year before the end of the non-cancelable term. Leases for offices, etc., are subject to the Act on Land and Building Leases under the Act, unless there is a justifiable reason for the lessor to refuse to renew the contract at the expiration of the contract, the Group is entitled to renew the contract. The right of contract renewal is exercisable only by the Group and not by the lessor. The Group evaluates whether it is reasonably certain to exercise the right of contract renewal at the lease commencement date. The Group reviews whether it is reasonably certain to exercise the option upon the occurrence of a significant event or a significant change in circumstances within the controllable scope by the Group.

Also, the Group leases mainly machinery and equipment other than offices, etc., and the lease terms for machinery and equipment is from 5 to 10 years. Among these leases are leases under which the Group has the option to purchase the asset at the end of the contract term and leases under which the Group guarantees the residual value of the lease assets at the end of the contract term.
The Group remeasures right-of-use assets and lease liabilities through monitoring the use of the machinery and equipment and revaluing amounts expected to be paid based on residual value guarantees as of the reporting date.

Other IT equipment leases include short-term leases and leases of low-value assets, for which right-of-use assets and lease liability are not recognized.

(1) Right-of-use assets

The breakdown of right-of-use assets at the transition date, the end of the previous consolidated fiscal year, and the end of the consolidated fiscal year ended March 31, 2023 is as follows:

	Millions of yen			
	Type of underlying assets			
	Buildings and structures, land and other properties	Machinery, equipment and vehicles	Other	Total
Transition date	¥ 37,863	¥ 16,558	¥ 1,082	¥ 55,504
2022	¥ 42,853	¥ 13,555	¥ 2,115	¥ 58,524
2023	¥ 51,319	¥ 16,012	¥ 1,089	¥ 68,422

	Thousands of U.S. dollars			
	Type of underlying assets			
	Buildings and structures, land and other properties	Machinery, equipment and vehicles	Other	Total
2023	$ 384,297	$ 119,904	$ 8,155	$ 512,371

The depreciation of right-of-use assets and increases in right-of-use assets at the end of the previous consolidated fiscal year, and the end of the consolidated fiscal year ended March 31, 2023 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Underlying assets of buildings and structures, land and other properties	¥ 6,395	¥ 7,390	$ 55,339
Underlying assets of machinery, tools and fixtures	2,546	3,631	27,190
Underlying assets of other	737	564	4,223
Total depreciation of right-of-use assets	9,679	11,586	86,761
Increase in right-of-use assets	10,411	12,196	91,328

(2) Lease liabilities

The maturity analysis of lease liabilities at the transition date, at the end of the previous consolidated fiscal year, and at the end of the consolidated fiscal year ended March 31, 2023 is described in Note 21, "Financial Instruments."

(3) Amount recognized in profit and loss

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Interest expense on lease liabilities	¥ 614	¥ 718	$ 5,377
Expenses related to short-term leases	198	154	1,153
Expenses related to leases of low-value assets	734	816	6,111

Rental revenue from subleasing right-of-use assets and expense related to variable lease payments not included in the measurement of lease liabilities were immaterial.

(4) Cash outflow related to leases

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Cash outflow related to leases	¥ 14,984	¥ 16,235	$ 121,574

(5) Sale and leaseback

Information about sale and leaseback was immaterial and is therefore omitted.

Lease information for which the Group was the lessor was immaterial and is therefore omitted.

13. Other financial assets

(1) The breakdown of other financial assets

The breakdown of other financial assets is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Financial assets measured at fair value through profit or loss				
Derivative assets*1	¥ 1,047	¥ 4,498	¥ 3,778	$ 28,291
Other	194	405	240	1,797
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	23,752	26,109	26,953	201,835
Financial assets measured at amortized cost				
Time deposits with maturities of more than three months	4,536	5,957	5,997	44,908
Other*2	47,041	44,389	43,996	329,459
Total	¥ 76,573	¥ 81,359	¥ 80,966	$ 606,305
Current assets	6,660	10,606	10,741	80,433
Non-current assets	69,913	70,752	70,224	525,865
Total	¥ 76,573	¥ 81,359	¥ 80,966	$ 606,305

Notes: 1. Derivative assets include those designated as hedging instruments. The effective portion of any change in fair value of derivative assets is recognized as other comprehensive income.

2. The Company sustained losses (approximately ¥51 billion ($381,908 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 dispute through the arbitration process and recognized a financial asset based on contractual rights within "Other" under "Other financial assets."

(2) Financial assets measured at fair value through other comprehensive incomes

The Company holds shares of companies with which it has a business relationship for a long period. The Company classifies the shares into financial assets measured at fair value through other comprehensive income.

(i) The breakdown of major stocks and fair value
Major stocks and the fair values of financial assets measured at fair value through other comprehensive income are as follows:

	Millions of yen
	Transition date
IHI Aero Engines US Co., Ltd.	¥ 2,140
Seiwa Building Co., Ltd.	2,087
THE KOBE SHIMBUN	1,463
AKASHI-KIKAI INDUSTRY Co., Ltd.	1,358
WEST JAPAN RAILWAY TECHNOS CORPORATION	1,240

	Millions of yen
	2022
IHI Investment for Aero Engine Leasing LLC	¥ 3,690
Seiwa Building Co., Ltd.	3,090
IHI Aero Engines US Co., Ltd.	2,458
AKASHI-KIKAI INDUSTRY Co., Ltd.	1,528
THE KOBE SHIMBUN	1,216

	Millions of yen	Thousands of U.S. dollars
	2023	2023
IHI Investment for Aero Engine Leasing LLC	¥ 3,981	$ 29,811
Seiwa Building Co., Ltd.	2,819	21,110
IHI Aero Engines US Co., Ltd.	2,720	20,368
THE KOBE SHIMBUN	1,286	9,630
AKASHI-KIKAI INDUSTRY Co., Ltd.	1,220	9,136

(ii) Derecognition
The Company sold and derecognized a part of its equity instruments measured at fair value through other comprehensive income primarily to increase asset efficiency and make more effective use of its assets. The fair value and accumulated gains and losses of the financial assets measured at fair value through other comprehensive income sold during the period are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Fair value as of the sale date	¥ 5,312	¥ 188	$ 1,408
Accumulated gains (losses)	1,949	(63)	(472)

When financial assets measured at fair value through other comprehensive income are derecognized, the accumulated gains and losses recognized in other comprehensive income are reclassified from other components of equity to retained earnings. The amounts of accumulated gains (after-tax) reclassified from other components of equity to retained earnings during the period was ¥1,933 million and ¥(43) million ($(322) thousand) for the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023, respectively.

(iii) Dividend income

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Investments derecognized during the period	¥ 43	¥ 2	$ 15
Investments held as of the year end	822	330	2,471
Total	¥ 865	¥ 332	$ 2,486

14. Deferred taxes and income taxes

(1) Deferred Taxes

(i) Deferred tax assets and liabilities
The breakdown of deferred tax assets and liabilities is as follows:

Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

	Millions of yen			
	April 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	March 31, 2022
Deferred tax assets				
Inventories	¥ 5,606	¥ 1,801	¥ -	¥ 7,407
Excess of book depreciation over tax depreciation, etc	13,718	419	-	14,137
Provisions	11,199	(1,705)	-	9,493
Retirement benefit liability	43,435	3,383	(4,403)	42,415
Tax loss carryforward	12,601	(1,846)	-	10,755
Other	36,869	1,289	-	38,158
Total	¥ 123,429	¥ 3,342	¥ (4,403)	¥ 122,368
Deferred tax liabilities				
Reserve for tax purpose reduction entry of non-current assets, etc	¥ (4,550)	¥ (148)	¥ -	¥ (4,698)
Investments in subsidiaries, associates and joint ventures	(6,012)	246	(2,716)	(8,482)
Other financial assets	(4,093)	978	(1,004)	(4,119)
Other	(3,382)	(858)	-	(4,241)
Total	(18,038)	217	(3,720)	(21,541)
Net amount	¥ 105,391	¥ 3,559	¥ (8,124)	¥ 100,826

Notes: The difference between the total amount recognized through profit or loss and deferred tax expense is due to fluctuations in foreign exchange rates.

Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

	Millions of yen			
	April 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	March 31, 2023
Deferred tax assets				
Inventories	¥ 7,407	¥ 3,096	¥ -	¥ 10,504
Excess of book depreciation over tax depreciation, etc	14,137	(433)	-	13,704
Provisions	9,493	(1,778)	-	7,715
Retirement benefit liability	42,415	7,912	(6,213)	44,114
Tax loss carryforward	10,755	(6,713)	-	4,041
Other	38,158	18,034	-	56,193
Total	¥ 122,368	¥ 20,117	¥ (6,213)	¥ 136,272
Deferred tax liabilities				
Reserve for tax purpose reduction entry of non-current assets, etc	¥ (4,698)	¥ 1,070	¥ -	¥ (3,628)
Investments in subsidiaries, associates and joint ventures	(8,482)	(1,400)	(451)	(10,333)
Other financial assets	(4,119)	(2,669)	(254)	(7,043)
Other	(4,241)	(1,595)	-	(5,837)
Total	(21,541)	(4,594)	(705)	(26,841)
Net amount	¥ 100,826	¥ 15,523	¥ (6,918)	¥ 109,430

Notes: The difference between the total amount recognized through profit or loss and deferred tax expense is due to fluctuations in foreign exchange rates.

	Thousands of U.S. dollars							
		April 1, 2022		Recognized in profit or loss		Recognized in other comprehensive income		March 31, 2023
Deferred tax assets								
Inventories	$	55,467	$	23,184	$	-	$	78,658
Excess of book depreciation over tax depreciation, etc		105,863		(3,242)		-		102,621
Provisions		71,087		(13,314)		-		57,773
Retirement benefit liability		317,620		59,248		(46,525)		330,343
Tax loss carryforward		80,538		(50,270)		-		30,261
Other		285,742		135,046		-		420,795
Total	$	916,340	$	150,644	$	(46,525)	$	1,020,458
Deferred tax liabilities								
Reserve for tax purpose reduction entry of non-current assets, etc	$	(35,180)	$	8,013	$	-	$	(27,168)
Investments in subsidiaries, associates and joint ventures		(63,517)		(10,484)		(3,377)		(77,378)
Other financial assets		(30,845)		(19,987)		(1,902)		(52,741)
Other		(31,758)		(11,944)		-		(43,710)
Total		(161,307)		(34,402)		(5,279)		(200,996)
Net amount	$	755,025	$	116,242	$	(51,805)	$	819,455

In recognizing deferred tax assets, the Group assesses whether it is possible that part or all of the deductible temporary differences, tax loss carryforward and tax credit carryforward are to be utilized against future taxable income. In the assessment of the recoverability of deferred tax assets, the Group considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning. Based on the historical taxable income levels and projections of future taxable income over the periods in which the deferred tax assets are deductible, the Group believes that deferred tax assets at the end of the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023 are highly probable to be recovered. However, uncertainty in forecasting future taxable income will increase due to market trends surrounding the Group and economic conditions, such as exchange rate changes.

Of the deferred tax assets at the end of the previous consolidated fiscal year and this consolidated fiscal year, ¥11,741 million and ¥11,777 million, ($88,191 thousand) respectively, were attributed to taxable entities which have incurred losses in the previous consolidated fiscal year or in the consolidated fiscal year ended March 31, 2023.

(ii) Tax loss carryforward and deductible temporary differences for which deferred tax assets are not recognized

	Millions of yen						Thousands of U.S. dollars	
		Transition date		2022		2023		2023
Tax loss carryforward	¥	6,936	¥	47,921	¥	20,763	$	155,482
Deductible temporary differences		320		1,512		209		1,565

(iii) The amount and expiration year of tax loss carryforward and tax credits carryforward for which deferred tax assets are not recognized

Tax loss carryforward	Millions of yen						Thousands of U.S. dollars	
		Transition date		2022		2023		2023
Year 1	¥	0	¥	3	¥	15	$	112
Year 2		1		8		9		67
Year 3		7		5		3		22
Year 4		4		1		3		22
Year 5 or later		6,922		47,903		20,731		155,242
Total	¥	6,936	¥	47,921	¥	20,763	$	155,482

(iv) Taxable temporary differences for which deferred tax liabilities are not recognized
The Group does not recognize deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries, except for those related to undistributed profits scheduled to be distributed at the end of the reporting period. This is because the Group is in a position to control the timing of the reversal of the temporary differences, and it is certain that the temporary differences will not be reversed within the foreseeable future. The taxable temporary differences associated with investments in subsidiaries for unrecognized deferred tax liabilities at the transition date, at the end of the previous consolidated fiscal year and at the end of the consolidated fiscal year ended March 31, 2023 were ¥120,773 million, ¥169,947 million and ¥238,290 million ($1,784,409 thousand), respectively.

(2) Income tax expense

The breakdown of income tax expense is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Current tax expense	¥ 15,053	¥ 29,838	$ 223,439
Deferred tax expense	(2,219)	(14,780)	(110,678)
Total	¥ 12,834	¥ 15,058	$ 112,760

Deferred tax expense includes the amount of benefit arising from a previously unrecognized tax loss, tax credit or temporary difference of a prior period, and the write-down or reversal of the previous write-down of the deferred tax assets. The related deferred tax expense for the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023 increased by ¥1,568 million and decreased by ¥1,248 million ($9,346 thousand), respectively.
The current tax expense includes the amount of benefit arising from a previously unrecognized tax loss, tax credit or temporary difference of a prior period. The related deferred tax expense for the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023 decreased by ¥219 million and ¥76 million ($569 thousand), respectively.

(3) Reconciliation of applicable tax rate

The breakdown of the differences between the effective statutory tax rates and the actual tax rates are as follows:

	%	
	2022	2023
Income taxes at the effective statutory tax rates	30.5	30.5
Movements in unrecognized deferred tax assets	5.6	(0.2)
Share of profit and loss of investments accounted for using equity method	16.0	(1.5)
Tax credit for research and development expenses	(1.2)	(6.5)
Investments in subsidiaries, associates and joint ventures	(0.9)	2.0
Tax rate difference between subsidiaries	(6.0)	(2.7)
Other	2.4	(0.2)
Actual tax rate	46.4	21.4

The Group is subject to income, inhabitant and enterprise taxes in the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023. The effective statutory tax rates calculated based on these taxes were both 30.5%. The Group’s foreign subsidiaries, are subject to income taxes in their respective locations.

15. Trade and other payables

The breakdown of trade and other payables is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Notes payable - trade	¥ 8,315	¥ 6,673	¥ 5,718	$ 42,819
Accounts payable - trade	238,978	233,206	248,123	1,858,043
Electronically recorded obligations	107,849	104,336	141,325	1,058,297
Other	62,926	55,676	57,081	427,445
Total	¥ 418,070	¥ 399,892	¥ 452,250	$ 3,386,626

Trade and other payables are classified as financial liabilities measured at amortized cost.
As of the transition date in the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023, the amounts of notes and accounts payable for which collateral was pledged and the assets pledged as collateral (financial assets measured at fair value through other comprehensive income, etc.) were immaterial.

16. Bonds, borrowings and other financial liabilities

(1) Breakdown

The breakdown of bonds, borrowings and other financial liabilities is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Financial liabilities measured at amortized cost				
Bonds	¥ 219,888	¥199,915	¥ 188,941	$ 1,414,864
Short-term borrowings	124,577	75,641	114,702	858,934
Long-term borrowings	215,862	214,497	211,080	1,580,650
Commercial paper	22,000	-	-	-
Other	24,988	24,600	20,627	154,463
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	5,122	10,974	4,619	34,589
Payables associated with receivables securitization	70,769	77,331	170,132	1,274,015
Lease liabilities	61,518	63,881	75,155	562,790
Total	¥ 744,726	¥666,841	¥ 785,258	$ 5,880,321
Current liabilities	266,724	208,773	340,176	2,547,372
Non-current liabilities	478,002	458,068	445,082	3,332,949
Total	¥ 744,726	¥666,841	¥ 785,258	$ 5,880,321

Average interest rates for short-term and long-term borrowings applicable to the consolidated fiscal year ended March 31, 2023 were 2.855% and 0.418%, respectively.
Long-term borrowings will be due in 2023 through 2033.

(2) Contractual terms and repayment schedule

The contractual terms and repayment schedule for bonds are as follows:

			Millions of yen			Thousands of U.S. dollars		
Company	Description	Date of issuance	Transition date	2022	2023	2023	Interest rate	Maturity
KHI	34th Unsecured Bonds	July 25, 2011	¥ 10,000	¥ -	¥ -	$ -	1.415%	July 23, 2021
KHI	36th Unsecured Bonds	July 19, 2012	10,000	10,000	-	-	1.100%	July 19, 2022
KHI	40th Unsecured Bonds	December 16, 2013	10,000	10,000	10,000	74,884	0.988%	December 15, 2023
KHI	41st Unsecured Bonds	July 18, 2014	10,000	-	-	-	0.451%	July 16, 2021
KHI	42nd Unsecured Bonds	July 18, 2014	10,000	10,000	10,000	74,884	0.791%	July 18, 2024
KHI	44th Unsecured Bonds	July 24, 2015	10,000	10,000	10,000	74,884	0.853%	July 24, 2025
KHI	45th Unsecured Bonds	July 15, 2016	10,000	-	-	-	0.100%	July 15, 2021
KHI	46th Unsecured Bonds	July 15, 2016	10,000	10,000	10,000	74,884	0.820%	July 15, 2036
KHI	47th Unsecured Bonds	July 20, 2017	10,000	10,000	-	-	0.150%	July 20, 2022
KHI	48th Unsecured Bonds	July 20, 2017	10,000	10,000	10,000	74,884	0.900%	July 17, 2037
KHI	49th Unsecured Bonds	July 20, 2018	10,000	10,000	10,000	74,884	0.180%	July 20, 2023
KHI	50th Unsecured Bonds	July 20, 2018	10,000	10,000	10,000	74,884	0.400%	July 20, 2028
KHI	51st Unsecured Bonds	July 12, 2019	10,000	10,000	10,000	74,884	0.150%	July 12, 2024
KHI	52nd Unsecured Bonds	July 12, 2019	10,000	10,000	10,000	74,884	0.820%	July 12, 2039
KHI	53rd Unsecured Bonds	January 21, 2020	10,000	10,000	10,000	74,884	0.180%	January 21, 2025
KHI	54th Unsecured Bonds	January 21, 2020	10,000	10,000	10,000	74,884	0.700%	January 20, 2040
KHI	55th Unsecured Bonds	June 11, 2020	20,000	20,000	20,000	149,768	0.060%	June 9, 2023
KHI	56th Unsecured Bonds	June 11, 2020	29,888	29,915	29,941	224,210	0.260%	June 11, 2025
KHI	57th Unsecured Bonds	June 11, 2020	10,000	10,000	10,000	74,884	0.480%	June 11, 2030
KHI	58th Unsecured Bonds	July 15, 2021	-	10,000	10,000	74,884	0.300%	July 15, 2031
KHI	59th Unsecured Bonds	July 14, 2022	-	-	9,000	67,396	0.789%	July 14, 2032
	Total		¥ 219,888	¥ 199,915	¥ 188,941	$ 1,414,864		

(3) Receivables securitization

Although the Group transfers a portion of the receivables arising from business transactions, liquidated assets that would result in a retroactive payment obligation to the Group if the debtor does not make the payment, have not been derecognized as they do not meet the criteria for derecognition. Contract assets also have not been derecognized, although they too been transferred, as they do not meet the criteria for derecognition.

At the transition date, the end of the previous consolidated fiscal year and the end of the consolidated fiscal year ended March 31, 2023, such transferred assets were recorded in the consolidated statement of financial position in the amount of ¥28,846 million, ¥30,144 million and ¥60,616 million ($453,916 thousand) respectively, as "Trade receivables and other receivables," and ¥38,905 million, ¥44,750 million and ¥104,949 million ($785,899 thousand) respectively as "Contract assets." Amounts received upon the transfer of the assets concerned are recorded as related liabilities in "Bonds, borrowings and other financial liabilities" in the same amounts, respectively. The carrying amounts of the transferred assets and the related liabilities roughly approximate fair value.

(4) Reconciliation of liabilities on financing activities

Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

	Millions of yen					
			Non-cash transactions			
	April 1, 2021	Cash flows	New contracts	Foreign currency translation	Other	March 31, 2022
Bonds	¥ 219,888	¥ (20,000)	¥ -	¥ -	¥ 26	¥ 199,915
Short-term borrowings	124,577	(52,247)	-	3,177	134	75,641
Long-term borrowings	215,862	(1,501)	-	46	91	214,497
Payables associated with receivables securitization	70,769	6,562	-	-	-	77,331
Lease liabilities	61,518	(13,436)	9,924	85	5,788	63,881
Commercial paper	22,000	(22,000)	-	-	-	-
Other	12,513	(2,640)	-	-	216	10,090
Total	¥ 727,129	¥(105,263)	¥ 9,924	¥ 3,309	¥ 6,258	¥ 641,357

Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

	Millions of yen					
			Non-cash transactions			
	April 1, 2022	Cash flows	New contracts	Foreign currency translation	Other	March 31, 2023
Bonds	¥ 199,915	¥ (11,000)	¥ -	¥ -	¥ 26	¥ 188,941
Short-term borrowings	75,641	36,664	-	2,472	(75)	114,702
Long-term borrowings	214,497	(3,487)	-	20	50	211,080
Payables associated with receivables securitization	77,331	92,800	-	-	-	170,132
Lease liabilities	63,881	(14,545)	20,583	1,803	3,433	75,155
Commercial paper	-	-	-	-	-	-
Other	10,090	(4,539)	-	-	35	5,585
Total	¥ 641,357	¥ 95,891	¥ 20,583	¥ 4,296	¥ 3,469	¥ 765,598

	Thousands of U.S. dollars					
			Non-cash transactions			
	April 1, 2022	Cash flows	New contracts	Foreign currency translation	Other	March 31, 2023
Bonds	$ 1,497,042	$ (82,372)	$ -	$ -	$ 195	$ 1,414,864
Short-term borrowings	566,430	274,554	-	18,511	(562)	858,934
Long-term borrowings	1,606,238	(26,112)	-	150	374	1,580,650
Payables associated with receivables securitization	579,085	694,923	-	-	-	1,274,015
Lease liabilities	478,366	(108,919)	154,134	13,502	25,708	562,790
Commercial paper	-	-	-	-	-	-
Other	75,558	(33,990)	-	-	262	41,823
Total	$ 4,802,733	$ 718,069	$ 154,134	$ 32,170	$ 25,977	$ 5,733,099

17. Employee benefits

(1) Overview of retirement benefit plans

The Group has lump-sum severance payment plans, defined benefit corporate pension plans, and cash balance plans (pension plans linked to market interest rates) as defined benefit plans and defined contribution pension plans. The Company has an employees' retirement benefit trust.

The lump-sum severance payment plans are plans that pay a one-time, ”lump-sum” payment to retirees, and the Company and some of its subsidiaries have direct payment obligations to the retirees.

The defined benefit corporate pension plans and cash balance plans (pension plans linked to market interest rates) are plans that accumulate funds by regularly contributing premiums to entrusted financial institutions, and after retirement, the entrusted financial institutions pay a lump sum or make pension payments from the accumulated funds to the employees who are eligible for benefits.

The defined contribution pension plans are plans in which employees who choose to join and their employers contribute premiums over the enrollment period. The enrollees themselves manage the accumulated funds, and the benefits are paid by the entrusted institutions.

The Group is exposed to actual risks (interest rate risk, market risk, etc.) through these retirement benefit plans.

(2) Defined benefit plans

(i) The breakdown of amounts recognized in the consolidated statement of financial position

The breakdown of net defined benefit liability recognized in the consolidated statement of financial position is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Present value of defined benefit obligations	¥ 218,968	¥ 224,045	¥ 208,456	$ 1,561,000
Fair value of plan assets	103,906	117,222	117,249	878,007
Changes in the effect of the asset ceiling	-	-	-	-
Net defined benefit liability	¥ 115,062	¥ 106,823	¥ 91,206	$ 682,986
Retirement benefit liabilities	115,218	107,024	91,552	685,577
Retirement benefit assets*	155	200	346	2,591
Net defined benefit liabilities	¥ 115,062	¥ 106,823	¥ 91,206	$ 682,986

Notes: Retirement benefit assets are included in "Other non-current assets" in the consolidated statement of financial position.

(ii) Changes in present value of defined benefit obligations

Changes in the present value of defined benefit obligations are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Balance at the beginning of the year	¥ 218,968	¥ 224,045	$ 1,677,737
Current service cost	11,390	11,572	86,656
Interest cost	2,103	2,422	18,137
Remeasurement of defined benefit plans			
Actuarial gains (losses) arising from changes in demographic assumptions	31	(860)	(6,440)
Actuarial gains (losses) arising from changes in financial assumptions	(2,872)	(23,888)	(178,883)
Actuarial gains (losses) arising from experience adjustment	6	527	3,946
Past service cost	-	(1,300)	(9,735)
Payment of benefits	(7,276)	(4,663)	(34,918)
Other	1,693	601	4,501
Balance at the end of the year	¥ 224,045	¥ 208,456	$ 1,561,000

Notes: Current service cost, interest cost and past service cost are included in "Cost of sales" and "Selling, general and administrative expenses" in the Consolidated Statement of profit or loss.

The Company’s weighted average duration of the defined benefit obligations at the transition date, the end of the previous consolidated fiscal year and the end of the consolidated fiscal year ended March 31, 2023 were 16.3 years, 15.9 years and 14.9 years, respectively.

(iii) Changes in fair value of plan assets
Changes in the fair values of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Balance at the beginning of the year	¥ 103,906	¥ 117,222	$ 877,804
Return on interest income on plan assets	1,469	1,668	12,491
Remeasurement of defined benefit plans			
Return on plan assets	11,851	(3,655)	(27,370)
Contributions by the employer	4,125	4,701	35,203
Payment of benefits	(4,306)	(2,872)	(21,507)
Other	176	184	1,378
Balance at the end of the year	117,222	117,249	878,007

The Group plans to contribute ¥4,223 million ($31,623 thousand) to defined benefit plans for the following consolidated fiscal year.

(iv) Components of plan assets
The investment of plan assets in the Group is carried out with the aim of securing sufficient assets to ensure the payment of pension benefits and lump-sum benefits into the future by securing the required total return over the medium to long term within the range of permissible risks.

The main objective of the investment is to secure a rate of return which is sufficient to maintain sound pension finances into the future. To this end, the Expert Committee objectively reconfirms the current status of the investment of plan assets regularly. For individual assets, the Group strives to achieve results that exceed the market rate of return for each item of the investment. For assets as a whole, the objective of the investment is to at least exceed the combined rate of return for each investment item’s rate of return in the market according to the asset composition ratio.

In order to achieve the investment objectives, the Group has established and strived to maintain a policy asset composition ratio (hereinafter referred to as "asset mix policies"), which is the optimal combination of assets for the future, taking into consideration the expected rate of return forecasting, standard deviation (risk), and correlation on each asset of the investment target. Although, in principle, the asset mix policies are reviewed every three years, they will be reviewed as necessary if there is a significant change in the environment surrounding the fund and for other factors.

	Millions of yen					
	Transition date			2022		
	Quoted market prices in active markets			Quoted market prices in active markets		
	Yes	No	Total	Yes	No	Total
Cash and cash equivalents	¥ 4,901	¥ -	¥ 4,901	¥ 7,198	¥ -	¥ 7,198
Shares	57,028	-	57,028	64,043	-	64,043
Bonds	13,452	-	13,452	14,331	-	14,331
General accounts of life insurance companies	-	8,152	8,152	-	8,750	8,750
Other	-	20,372	20,372	-	22,897	22,897
Total	¥ 75,382	¥ 28,525	¥ 103,906	¥ 85,573	¥ 31,648	¥ 117,222

	Millions of yen			Thousands of U.S. dollars		
	2023			2023		
	Quoted market prices in active markets			Quoted market prices in active markets		
	Yes	No	Total	Yes	No	Total
Cash and cash equivalents	¥ 20,730	¥ -	¥ 20,730	$ 155,234	$ -	$ 155,234
Shares	49,201	-	49,201	368,436	-	368,436
Bonds	12,698	-	12,698	95,088	-	95,088
General accounts of life insurance companies	-	9,888	9,888	-	74,045	74,045
Other	-	24,730	24,730	-	185,188	185,188
Total	¥ 82,630	¥ 34,619	¥ 117,249	$ 618,766	$ 259,241	$ 878,007

(v) The significant actuarial assumptions used to measure present value

	Transition date	2022	2023
Discount rate (%)	0.78	0.80	1.48

The discount rate used in the Company's actuarial calculations is stated as the significant actuarial assumptions.

(vi) Sensitivity analysis of defined benefit obligations
The amount of increase and decrease in defined benefit obligations if there is a 0.5% change in significant actuarial assumptions at the end of a period is as follows. The analysis assumes that all other variables remain constant. This analysis is performed based on the same basis as in the previous consolidated fiscal year. Negative figures represent a decrease in liabilities and positive figures represent an increase in liabilities.

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Increase by 0.5%	¥ (15,418)	¥ (15,601)	¥ (13,342)	$ (99,910)
Decrease by 0.5%	17,224	17,406	14,796	110,798

(3) Defined contribution plans

The pension expenses related to defined contribution plans for the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023 were ¥2,831 million and ¥2,727 million ($20,421 thousand), respectively.

(4) Employee benefit expenses

Total amounts of employee benefit expenses recognized for the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023 were ¥262,994 million and ¥294,868 million ($2,208,087 thousand), respectively.

18. Provisions

(1) Statements of changes
Changes in provisions are as follows:

	Millions of yen			
	Provision for construction warranties	Provision for loss on construction contracts	Other	Total
April 1, 2022	¥ 14,797	¥ 9,602	¥ 4,145	¥ 28,545
Increase	14,352	3,874	649	18,876
Utilization	(10,320)	(5,709)	(2,718)	(18,747)
Reversal	(614)	(3,103)	(127)	(3,845)
Unwinding of provisions due to passage of time	-	-	4	4
Other	(2)	-	9	7
March 31, 2023	18,213	4,663	1,963	24,840
Current liabilities	18,213	4,663	20	22,897
Non-current liabilities	-	-	1,942	1,942
Total	¥ 18,213	¥ 4,663	¥ 1,963	¥ 24,840

	Thousands of U.S. dollars			
	Provision for construction warranties	Provision for loss on construction contracts	Other	Total
April 1, 2022	$ 110,806	$ 71,904	$ 31,039	$ 213,756
Increase	107,473	29,010	4,860	141,351
Utilization	(77,280)	(42,751)	(20,353)	(140,385)
Reversal	(4,598)	(23,236)	(951)	(28,793)
Unwinding of provisions due to passage of time	-	-	30	30
Other	(15)	-	67	52
March 31, 2023	136,386	34,918	14,700	186,012
Current liabilities	136,386	34,918	150	171,462
Non-current liabilities	-	-	14,542	14,542
Total	$ 136,386	$ 34,918	$ 14,700	$ 186,012

(2) Details of provisions

(i) Provision for construction warranties
To provide for expenses of construction warranties, the provision for construction warranties is based on past experience or provided separately. Most are expected to be paid within a year of occurrence.

(ii) Provision for loss on construction contracts
A provision for the estimated amounts of loss in respect to the following consolidated fiscal year and thereafter is recorded for construction work that has not been delivered as of the end of the consolidated fiscal year ended March 31, 2023 and which allows reasonable estimation of the loss incurred at the end of the consolidated fiscal year among construction work which is anticipated to incur significant loss. The timing of cash outflows depends on the progress of the project in the future.

(iii) Other
Other includes asset retirement obligations and provision for environmental measures, etc.

19. Paid-in capital and other equity

(1) Capital Management

The Group's basic management policy is to stably generate profits that exceed the cost of capital into the future in order to sustainably improve corporate value and strengthen the Group’s financial base. In order to do so, the Group believes that it is important to maintain an appropriate balance between continuously conducting advanced research and development and innovative capital investment to improve long-term shareholder value and returns to shareholders by distribution of dividends while maintaining financial soundness. In this pursuit, the Group places after-tax ROIC and net D/E ratio as significant monitoring targets.

	%		
	Transition date	2022	2023
After-tax ROIC	-	1.6	5.7
Net D/E ratio	111.9	86.9	77.3

The Group is not subject to any significant capital regulations.

(2) Share capital and treasury shares

Changes in authorized shares and issued shares are as follows:

	Thousands of shares	
	2022	2023
Type of shares	Common shares	Common shares
Number of authorized shares	336,000	336,000
Number of issued shares		
Beginning of the year	167,080	167,921
Change during the year	841	-
End of the year	167,921	167,921
Treasury shares		
Beginning of the year	38	449
End of the year	449	440

All common shares have no par value, and all issued shares are fully paid up.
The increase in the number of issued shares during the previous consolidated fiscal year was due to the share exchange that made Kawasaki Thermal Engineering Co., Ltd. a wholly-owned subsidiary company on August 1, 2021.
In addition, the number of treasury shares includes 409 thousand shares and 398 thousand shares held by trusts set up by a performance-linked share compensation plan whose beneficiaries are directors and others at the end of the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023, respectively.

(3) Surplus

(i) Capital surplus
The Companies Act of Japan (hereinafter referred to as “the Companies Act”) requires that at least half of paid-in capital be appropriated as share capital and the rest be appropriated as legal capital surplus within capital surplus. In addition, under the Companies Act, legal capital surplus can be transferred to share capital upon approval at the General Meeting of Shareholders.

(ii) Retained earnings
The Companies Act requires that 10 percent of retained earnings appropriated for dividends be reserved either as legal capital surplus or legal retained earnings until the total amount of legal capital surplus within capital surplus or legal retained earnings within retained earnings reaches 25 percent of the amount of share capital. Further, legal retained earnings may be reduced by resolution of the General Meeting of Shareholders.

(4) Other components of equity

(i) Remeasurements of defined benefit plans
Remeasurements of defined benefit plans consists of actuarial gains and losses recognized for individual defined benefit plans.

(ii) Financial assets measured at fair value through other comprehensive income
Financial assets measured at fair value through other comprehensive income include the cumulative amount of net changes in fair value of a financial asset measured at fair value through other comprehensive income.

(iii) Cash flow hedges
Cash flow hedges consist of the hedges’ effective portion of the cumulative amount of net changes in the fair value of cash flow hedging instruments related to hedging transactions not yet accrued.

(iv) Exchange differences on translation of foreign operations
Exchange differences on translation of foreign operations consist of exchange differences arising from the translation

of the financial statements of foreign operations.

(5) Dividends

Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)
(i) Total dividends and dividends per share

Resolution	Type of shares	Total amount of dividends paid	Source of dividends	Dividends per share	Date of record	Effective date
November 9, 2021 Board of Directors Meeting	Common share	¥3,357 million	Retained earnings	¥20.0	September 30, 2021	December 3, 2021

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

(ii) Dividend payments for which the record date is in the current consolidated fiscal year but the effective date is in the following consolidated fiscal year

Resolution	Type of shares	Total amount of dividends paid	Source of dividends	Dividends per share	Date of record	Effective date
June 24, 2022 General Meeting of Shareholders	Common shares	¥3,357 million	Retained earnings	¥20.0	March 31, 2022	June 27, 2022

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

Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)
(i) Total dividends and dividends per Share

Resolution	Type of shares	Total amount of dividends paid	Source of dividends	Dividends per share	Date of record	Effective date
June 24, 2022 General Meeting of Shareholders	Common shares	¥3,357million ($25,139 thousand)	Retained earnings	¥20.0 ($0.150)	March 31, 2022	June 27, 2022
November 10, 2022 Board of Directors Meeting	Common shares	¥5,036 million ($37,712 thousand)	Retained earnings	¥30.0 ($0.225)	September 30, 2022	December 5, 2022

The total amount of dividends declared by the resolution of the General Meeting of Shareholders on June 24, 2022 includes dividends of ¥8 million ($60 thousand) for shares held by trusts whose beneficiaries are directors and others and which were set by the introduction of a performance-linked stock compensation plan.

The total amount of dividends declared by the resolution of the Board of Directors Meeting on November 10, 2022 includes dividends of ¥11 million ($82 thousand) for shares held by trusts whose beneficiaries are directors and others and which were set by the introduction of a performance-linked stock compensation plan.

(ii) Dividend payments for which the record date is in the current consolidated fiscal year but the effective date is in the following consolidated fiscal year

Resolution	Type of shares	Total amount of dividends paid	Source of dividends	Dividends per share	Date of record	Effective date
June 28, 2023 General Meeting of Shareholders	Common shares	¥10,072 million ($75,423 thousand)	Retained earnings	¥60.0 ($0.449)	March 31, 2023	June 29, 2023

The total amount of dividends declared by the resolution of the General Meeting of Shareholders on June 28, 2023 includes dividends of ¥23 million ($172 thousand) for shares held by trusts whose beneficiaries are directors and others and which were set by the introduction of a performance-linked stock compensation plan.

20. Other comprehensive income

Changes in other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income			
Amount arising during the year	¥ 3,403	¥ (509)	$ (3,812)
Before tax effects	3,403	(509)	(3,812)
Tax effects	(1,053)	145	1,086
After tax effects	2,350	(363)	(2,718)
Remeasurements of defined benefit plans			
Amount arising during the year	14,685	20,566	154,006
Before tax effects	14,685	20,566	154,006
Tax effects	(4,403)	(6,213)	(46,525)
After tax effects	10,281	14,353	107,481
Share of other comprehensive income of investments accounted for using equity method			
Amount arising during the year	(1)	0	0
Before tax effects	(1)	0	0
Tax effects	-	-	-
After tax effects	(1)	0	0
Items that may be reclassified to profit or loss			
Cash flow hedges			
Amount arising during the year	(4,454)	(8,224)	(61,585)
Reclassification adjustments	4,279	10,556	79,047
Before tax effects	(174)	2,331	17,455
Tax effects	48	(399)	(2,988)
After tax effects	(125)	1,932	14,468
Exchange differences on translation of foreign operations			
Amount arising during the year	16,396	10,050	75,258
Reclassification adjustments	-	61	457
Before tax effects	16,396	10,112	75,723
Tax effects	(2,716)	-	-
After tax effects	13,680	10,112	75,723
Share of other comprehensive income of investments accounted for using equity method			
Amount arising during the year	9,220	959	7,181
Reclassification adjustments	-	-	-
Before tax effects	9,220	959	7,181
Tax effects	-	(451)	(3,377)
After tax effects	9,220	508	3,804
Total other comprehensive income	¥ 35,405	¥ 26,542	$ 198,757

21. Financial instruments

(1) Financial risk management

The Group is exposed to the following risks on financial instruments.
・Credit risk (see (2))
・Liquidity risk (see (3))
・Market risk (see (4))

(2) Credit risk

(i) Details of credit risk and risk management policy
The Group’s trade and other receivables, contract assets and other financial assets are exposed to the credit risk of customers, etc. For these credit risks, the Group’s sales management department regularly monitors the condition of major customers and manages the due dates and balances of each and seeks early identification and mitigation of collectability concerns caused by any deterioration in financial status. With regard to derivative transactions, since the Group enters into contracts with highly rated financial institutions to reduce counterparty risk, the Group considers the credit risk associated with such transactions to be limited. The Group has neither significant exposure to credit risk related to particular counterparties nor excessive concentration of credit risk that requires special management. Furthermore, the maximum exposure to credit risk on financial assets is the carrying amount of the financial assets after impairment presented in the consolidated statements of financial position.

For trade receivables, contract assets and lease receivables, the allowance for doubtful accounts is always measured at an amount equal to the lifetime expected credit loss (simplified approach). For receivables, etc., other than trade receivables, contract assets and lease receivables, the allowance for doubtful accounts is generally measured at an amount equal to the 12-month expected credit losses when the credit risk has increased significantly, it is measured at an amount equal to the lifetime expected credit loss (general approach). Whether or not there has been a significant increase in credit risk since the initial recognition is determined at each fiscal year-end by considering available, reasonable and corroborative information, such as information regarding past due accounts. IIf a contractual payment is past due by more than 30 days, it is determined that there is a significant increase in credit risk of financial asset from the initial recognition.

The Group believes that a financial asset is in default if it determines that all or a portion of the financial assets will not be able to be recovered or will be extremely difficult to recover, unless the Group exercises its security interest and so on. Any financial assets are treated as a credit-impaired financial assets if there is a serious financial difficulty or breach of contract by the issuer or debtor (such as an event of default or payments being past due) and a high possibility that the borrower will go into bankruptcy or other financial restructuring. These judgements are determined as no significant increase in credit risk has occurred, by considering reasonable and corroborative information that is available without excessive cost or effort, and if it is falsifiable based on the information. Additionally, if there are no reasonable prospects of future recovery, financial assets are directly amortized.

(ii) Credit risk exposure

(a) Total balance of assets subject to allowance for doubtful accounts
Total balance of assets subject to allowance for doubtful accounts is as follows:

		Millions of yen			Thousands of U.S. dollars
Measurement method of credit losses	Classification	Transition date	2022	2023	2023
Simplified approach	-	¥ 497,127	¥ 488,388	¥ 598,896	$ 4,484,769
General approach	Measured at an amount equal to the 12-month expected credit losses	48,457	71,608	75,472	565,164
	Measured at an amount equal to the lifetime expected credit losses	191	1,066	2,070	15,501
	Measured at an amount equal to the lifetime expected credit losses (credit impaired)	1,227	1,212	1,365	10,222
Total		¥ 547,004	¥ 562,276	¥ 677,803	$ 5,075,655

(b) Debt guarantees
The Group has provided guarantees for transactions with equity-method entities, financial institutions of customers and employees, and transactions with leasing companies as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Equity-method entities	¥ 16,560	¥ 20,065	¥ 14,036	$ 105,107
Third parties	7,511	6,439	6,633	49,671
Employees	13	9	5	37
Total	24,086	26,514	20,674	154,815

(iii) Changes in allowance for doubtful accounts
The amount of allowance for doubtful accounts is calculated as follows:
・Trade receivables, contract assets and lease receivables
Since the Company business entails of a large number of counterparties, the expected credit loss is measured by adjusting forecasts of future economic conditions and other factors into historical default rates after classifying receivables, etc., based on the credit risk characteristics of the counterparties.
・Receivables, etc., other than trade receivables, contract assets and lease receivables
For assets for which credit risk has not increased significantly, the expected credit loss is measured by multiplying the total carrying amount by an allowance ratio based on the historical default rate.

For assets which significantly increased the credit risk, and credit-impaired financial assets, the expected credit loss is measured as the difference between the recoverable amount that is individually calculated by considering the financial condition of the counterparty related to such assets and the total carrying amount.

Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

	Millions of yen		
	Financial assets applied by the simplified approach	Financial assets applied by the general approach	
		Credit-impaired financial assets	Other than credit-impaired financial assets*
Balance at the beginning of the year	¥ 3,191	¥ 1,226	¥ 575
Increase during period	(6)	19	11
Utilization	(51)	(50)	-
Other	305	16	36
Balance at the end of the year	3,439	1,212	622

Notes: Assets that should be measured at an amount equal to the lifetime expected credit loss are insignificant, so they are disclosed together with assets that should be measured at an amount equal to the 12-month expected credit loss.

Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

	Millions of yen		
	Financial assets applied by the simplified approach	Financial assets applied by the general approach	
		Credit-impaired financial assets	Other than credit-impaired financial assets*
Balance at the beginning of the year	¥ 3,439	¥ 1,212	¥ 622
Increase during period	3,234	66	26
Utilization	(2,162)	(0)	-
Other	309	9	27
Balance at the end of the year	4,821	1,288	676

Notes: Assets that should be measured at an amount equal to the lifetime expected credit loss are insignificant, so they are disclosed together with assets that should be measured at an amount equal to the 12-month expected credit loss.

	Thousands of U.S. dollars		
	Financial assets applied by the simplified approach	Financial assets applied by the general approach	
		Credit-impaired financial assets	Other than credit-impaired financial assets*
Balance at the beginning of the year	$ 25,753	$ 9,076	$ 4,658
Increase during period	24,217	494	195
Utilization	(16,190)	(0)	-
Other	2,314	67	202
Balance at the end of the year	36,102	9,645	5,062

There were no significant changes in the total carrying amount of any of these assets that would affect the change in the allowance for doubtful accounts for the previous consolidated fiscal year or the consolidated fiscal year ended March 31, 2023.

In addition, there are no significant properties held as security or other credit enhancements.

(3) Liquidity risk

(i) Details and management policy of liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in discharging its financial liabilities using cash or other financial assets.

The Group is exposed to the liquidity risk of the Group being unable to fulfill payments on the due date when the repayment obligations of its financial liabilities fall due. The Group manages liquidity risks by forming and updating its funding plans in a timely manner by each group company and appropriately ensuring sufficient funds for the repayment of financial liabilities.

In addition, the Group maintains flexible funding capabilities among the group companies using a cash management system, diversifying financing methods, adjusting the balance between long- and short-term financing with consideration for the financing environment, and securing commitment lines, etc.

(ii) Maturity analysis
The breakdown of financial liabilities by due date is as follows:

(a) Transition date (As of April 1, 2021)

	Millions of yen				
	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 5 years	Over 5 years
Non-derivative liabilities					
Bonds and borrowings	¥ 560,328	¥ 574,723	¥ 174,461	¥ 230,641	¥ 169,620
Commercial paper	22,000	22,000	22,000	-	-
Payables associated with receivables securitization	70,769	70,769	53,795	16,973	-
Trade and other payables	418,070	418,070	413,779	4,291	-
Lease liabilities	61,518	70,671	12,763	30,612	27,295
Other financial liabilities	24,988	24,988	15,690	6,051	3,246
Total	¥ 1,157,675	¥ 1,181,223	¥ 692,490	¥ 288,569	¥ 200,163
Derivative liabilities	5,122	¥ 5,122	¥ 4,843	¥ 222	¥ 55

(b) As of March 31, 2022

	Millions of yen				
	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 5 years	Over 5 years
Non-derivative liabilities					
Bonds and borrowings	¥ 490,053	¥ 502,828	¥ 118,530	¥ 224,893	¥ 159,404
Commercial paper	-	-	-	-	-
Payables associated with receivables securitization	77,331	77,331	68,040	9,291	-
Trade and other payables	399,892	399,892	396,711	3,180	-
Lease liabilities	63,881	71,224	13,840	33,552	23,830
Other financial liabilities	24,600	24,600	15,196	7,913	1,490
Total	¥ 1,055,759	¥ 1,075,877	¥ 612,321	¥ 278,830	¥ 184,725
Derivative liabilities	¥ 10,974	¥ 10,974	¥ 10,898	¥ 72	¥ 3

(c) As of March 31, 2023

	Millions of yen				
	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 5 years	Over 5 years
Non-derivative liabilities					
Bonds and borrowings	¥ 514,724	¥ 529,994	¥ 182,792	¥ 225,386	¥ 121,814
Commercial paper	-	-	-	-	-
Payables associated with receivables securitization	170,132	170,132	138,769	31,363	-
Trade and other payables	452,250	452,250	445,047	7,202	-
Lease liabilities	75,155	80,750	16,599	37,854	26,296
Other financial liabilities	20,627	20,627	13,429	5,605	1,592
Total	¥ 1,232,889	¥ 1,253,754	¥ 796,638	¥ 307,411	¥ 149,704
Derivative liabilities	¥ 4,619	¥ 4,619	¥ 4,496	¥ 122	¥ -

	Thousands of U.S. dollars				
	Carrying amount	Contractual cash flows	Within 1 year	Between 1 year and 5 years	Over 5 years
Non-derivative liabilities					
Bonds and borrowings	$ 3,854,456	$ 3,968,803	$ 1,368,818	$ 1,687,779	$ 912,191
Commercial paper	-	-	-	-	-
Payables associated with receivables securitization	1,274,015	1,274,015	1,039,157	234,858	-
Trade and other payables	3,386,626	3,386,626	3,332,687	53,931	-
Lease liabilities	562,790	604,688	124,300	283,466	196,915
Other financial liabilities	154,463	154,463	100,562	41,972	11,922
Total	$ 9,232,357	$ 9,388,603	$ 5,965,538	$ 2,302,014	$ 1,121,042
Derivative liabilities	$ 34,589	$ 34,589	$ 33,668	$ 914	$ -

(iii) Overdraft agreements and commitment line agreements (as a debtor)

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Total amount of maximum overdraft limit and commitment line agreements	¥ 658,393	¥ 560,389	¥ 564,554	$4,227,602
Balance of executed loans	113,129	47,308	68,130	510,184
Net amount	545,264	513,080	496,424	3,717,418

(4) Market risk

(i) Foreign currency risk

(a) Details and management policy of foreign currency risk
The Group operates internationally and has significant exposure to the foreign currency risk on receivables and payables denominated in foreign currencies. The Company and certain of its consolidated subsidiaries hedge foreign currency fluctuation risk on receivables and payables in foreign currencies using mainly forward exchange contracts, which are categorized by the type of currency and the monthly due date. In principle, the net position of trade receivables less trade payables in a foreign currency that are expected to arise reliably from anticipated export-related transactions is hedged mainly with forward exchange contracts.

(b) Exposures to foreign currency risk
Exposures to foreign currency risk of the Group are as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
U.S. dollar	¥ 35,021	¥ (18,285)	¥ 16,624	$ 124,487
Euro	645	4,014	1,682	12,595

(c) Foreign currency sensitivity analysis
The impact of a 1% increase in the value of the yen against the U.S. dollar and the Euro on profit before tax at the end of each reporting period is as follows. This analysis is based on the assumption that all other variables are constant.

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
U.S. dollar	¥ 182	¥ (166)	$ (1,243)
Euro	(40)	(16)	(120)

(ii) Interest rate risk
Details and management policy of interest rate risk
The Group is exposed to the risk of fluctuation in interest rates as it borrows with variable interest rates. For a portion of their long-term borrowings the Company and certain consolidated subsidiaries use interest rate swap transactions to fix their interest expense as a hedge against the risk of fluctuation in for interest rates.

(5) Hedge accounting

Exchange contracts and interest rate swaps are utilized to hedge cash flow fluctuation risk associated with changes in foreign exchange rates in transactions denominated in foreign currencies and changes in interest rates of borrowings, and are designated as cash flow hedges. For details of hedge accounting, such as hedging instruments and hedged items, hedging policy and methods used to assess hedge effectiveness, refer to Notes 3, "Significant accounting policies," subsection 3(iv), "Financial instruments - Derivative transactions and hedge accounting."

(i) Significant derivatives designated as hedges

(a) Transition date (As of April 1, 2021)

	Millions of yen				
				Carrying amount of hedging instruments	
Hedging instruments	Notional amount	Of which, over 1 year	Average rate	Derivative Assets	Derivative Liabilities
Interest rate risk					
Interest rate swap	¥ 19,500	¥ 19,500	0.31%	¥ -	¥ 161
Foreign currency risk					
Exchange contracts	¥ 48,346	¥ 10,796	JPY 106.92/USD JPY 126.79/EUR	¥ 561	¥ 986

(b) As of March 31, 2022

	Millions of yen				
				Carrying amount of hedging instruments	
Hedging instruments	Notional amount	Of which, over 1 year	Average rate	Derivative Assets	Derivative Liabilities
Interest rate risk					
Interest rate swap	¥ 19,500	¥ 19,500	0.30%	¥ -	¥ 48
Foreign currency risk					
Exchange contracts	¥ 43,048	¥ 3,098	JPY 113.04/USD JPY 130.00/EUR	¥ 972	¥ 1,975

(c) As of March 31, 2023

	Millions of yen				
				Carrying amount of hedging instruments	
Hedging instruments	Notional amount	Of which, over 1 year	Average rate	Derivative Assets	Derivative Liabilities
Interest rate risk					
Interest rate swap	¥ 19,500	¥ 13,500	0.31%	¥ 40	¥ 9
Foreign currency risk					
Exchange contracts	¥ 160,937	¥ 3,983	JPY 131.28/USD JPY 138.90/EUR	¥ 2,307	¥ 1,616

	Thousands of U.S. dollars				
				Carrying amount of hedging instruments	
Hedging instruments	Notional amount	Of which, over 1 year	Average rate	Derivative Assets	Derivative Liabilities
Interest rate risk					
Interest rate swap	$ 146,024	$ 101,093	0.31%	$ 300	$ 67
Foreign currency risk					
Exchange contracts	$ 1,205,160	$ 29,826	JPY 131.28/USD JPY 138.90/EUR	$ 17,276	$ 12,101

Derivatives assets and derivative liabilities are included in "Other financial assets" and "Other financial liabilities" on the consolidated statement of financial position.

(ii) Cash flow hedge reserve
The balance of cash flow hedge reserve is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Interest rate risk	¥ (112)	¥ (33)	¥ 21	$ 157
Foreign currency risk	(66)	(250)	654	4,897

Since the amount of the ineffective portion of the hedges recognized in profit or loss was immaterial, a description of the changes in the fair value of the hedged items used as the basis for recognizing the hedge ineffectiveness is omitted.

(iii) Impact on the consolidated statement of profit or loss and the consolidated statement of comprehensive income

(a) Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

	Millions of yen		
	Gains and losses on hedges recognized in other comprehensive income	Reclassification adjustments from other components of equity into profit or loss	Line items including reclassification adjustments in the consolidated statements of profit and loss
Interest rate risk	¥ 138	¥ (25)	Finance income, Finance costs
Foreign currency risk	(4,592)	4,304	Finance income, Finance costs

(b) Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

	Millions of yen		
	Gains and losses on hedges recognized in other comprehensive income	Reclassification adjustments from other components of equity into profit or loss	Line items including reclassification adjustments in the consolidated statements of profit and loss
Interest rate risk	¥ 104	¥ (24)	Finance income, Finance costs
Foreign currency risk	(8,328)	10,580	Finance income, Finance costs

	Thousands of U.S. dollars		
	Gains and losses on hedges recognized in other comprehensive income	Reclassification adjustments from other components of equity into profit or loss	Line items including reclassification adjustments in the consolidated statements of profit and loss
Interest rate risk	$ 779	$ (180)	Finance income, Finance costs
Foreign currency risk	(62,363)	79,227	Finance income, Finance costs

Since the amount of the ineffective portion of the hedges recognized in profit or loss is immaterial, a description of the ineffective portion of the hedges recognized in profit or loss is omitted.

(6) Fair values of financial instruments

(i) Fair value hierarchy
The respective levels are defined as follows:
Level 1: Fair value measured at the quoted price (unadjusted) in an active market for identical assets or liabilities
Level 2: Fair value measured directly or indirectly using observable inputs that are other than those in Level 1
Level 3: Fair value measured using significant unobservable inputs

When multiple inputs are used that have a significant impact on the fair value measurement, the fair value is categorized at the lowest level in fair value measurement among the levels to which each of those inputs belongs.

(ii) Method of fair value measurement
The method of measuring the fair values of financial assets and liabilities is as follows:

(a) Cash and cash equivalents, trade and other receivables, trade and other payables, payables associated with receivables securitization, and short-term borrowings
The carrying amount is used as the fair value because the fair value of these financial instruments is almost equal to their carrying amount because they are settled within a short period of time.

(b) Derivatives
The fair value of exchange contracts is determined based on the market forward exchange rate as of the end of each reporting period. In addition, the fair value of interest rate swaps is determined by discounting the estimated future cash flows to the present value at the interest rate as of the end of each reporting period.

(c) Shares and investments in capital
The fair value of shares with active markets is determined using market prices. The fair value of shares with no active markets is generally determined using appropriate valuation techniques such as the comparable company method.

(d) Long-term borrowings
The fair value of long-term borrowings is determined as the total amount of principal and interest discounted by using an interest rate that would be applied on equivalent new borrowings.

(e) Bonds
The fair value of a bond is determined based on the market price.

(iii) Financial instruments measured at fair value

The tables analyzing the financial instruments measured at fair value by the respective valuation methods are as follows. Transfers between the levels in the fair value hierarchy are determined at the end of each reporting period. There were no significant transfers between Level 1 and Level 2 for the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023. In addition, financial assets measured at fair value are separately presented as "Other financial assets" in both the current assets and non-current assets sections of the consolidated statement of financial position. Similarly, financial liabilities measured at fair value are separately presented as "Bonds, borrowings and other financial liabilities" in both the current liabilities and non-current liabilities sections.

(a) Transition date (As of April 1, 2021)

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	¥ 6,021	¥ -	¥ 17,731	¥ 23,752
Financial assets measured at fair value through profit or loss				
Derivative assets	-	1,047	-	1,047
Other	-	-	194	194
Total assets	¥ 6,021	¥ 1,047	¥ 17,926	¥ 24,995
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	5,122	-	5,122
Total liabilities	¥ -	¥ 5,122	¥ -	¥ 5,122

(b) As of March 31, 2022

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	¥ 4,041	¥ -	¥ 22,067	¥ 26,109
Financial assets measured at fair value through profit or loss				
Derivative assets	-	4,498	-	4,498
Other	-	-	405	405
Total assets	¥ 4,041	¥ 4,498	¥ 22,472	¥ 31,012
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	10,974	-	10,974
Total liabilities	¥ -	¥ 10,974	¥ -	¥ 10,974

(c) As of March 31, 2023

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	¥ 4,665	¥ -	¥ 22,287	¥ 26,953
Financial assets measured at fair value through profit or loss				
Derivative assets	-	3,778	-	3,778
Other	-	-	240	240
Total assets	¥ 4,665	¥ 3,778	¥ 22,527	¥ 30,971
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	4,619	-	4,619
Total liabilities	¥ -	¥ 4,619	¥ -	¥ 4,619

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	$ 34,933	$ -	$ 166,894	$ 201,835
Financial assets measured at fair value through profit or loss				
Derivative assets	-	28,291	-	28,291
Other	-	-	1,797	1,797
Total assets	$ 34,933	$ 28,291	$ 168,691	$ 231,923
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	34,589	-	34,589
Total liabilities	$ -	$ 34,589	$ -	$ 34,589

a) Valuation techniques and significant unobservable inputs

The fair value of shares with no active market classified as Level 3 is calculated by using valuation techniques based on the market prices of comparable companies and others. The significant unobservable inputs used to calculate fair value are the price book-value ratio (0.5 to 2.0 times) and the illiquidity discount (30%). The estimate of fair value is increased (decreased) by an increase (decrease) in the price book-value ratio and decreased (increased) by an increase (decrease) in the illiquidity discount.

For Level 3 financial instruments, the changes in their fair value would be immaterial if unobservable inputs were switched to reasonable alternative assumptions.

b) Valuation process

The fair value measurements for Level 3 financial instruments are performed in accordance with relevant internal regulations, and the measurement results are approved by the divisional administrator.

c) Reconciliation of the beginning and ending balances of financial instruments that are categorized within Level 3

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Balance at the beginning of the year	¥ 17,926	¥ 22,472	$ 168,279
Purchases	388	1,550	11,607
Gains and losses			
Other comprehensive income*1	1,476	(745)	(5,579)
Profit or loss*2	10	(159)	(1,191)
Sales	(12)	(174)	(1,303)
Transfer to Level 3and4	2,680	-	-
Transfer from Level 3and4	-	(439)	(3,287)
Other	3	24	180
Balance at the end of the year	22,472	22,527	168,691
Changes in unrealized gains and losses recorded in profit or loss on assets held at the end of the reporting period*2	10	(159)	(1,191)

Notes: 1. Included in "Financial assets measured at fair value through other comprehensive income" on the consolidated statement of comprehensive income. All were recognized in other comprehensive income, none in net profit or loss.
2. Included in "Finance income" and "Finance costs" on the consolidated statement of profit or loss.
3. Transfer b investees that no longer qualify as associates due to the sale of shares.
4. Transfer by converting an investee into a consolidated subsidiary.

(iv) Financial instruments not measured at fair value

The carrying amounts and fair values of financial assets and liabilities not measured at fair value are as follows:

	Millions of yen			
	Transition date		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	¥ 215,862	¥ 216,327	¥ 214,497	¥ 214,332
Bonds	219,888	219,836	199,915	197,997
Total financial liabilities	¥ 435,750	¥ 436,163	¥ 414,412	¥ 412,329

	Millions of yen		Thousands of U.S. dollars	
	2023		2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	¥ 211,080	¥ 209,170	$ 1,580,650	$ 1,566,347
Bonds	188,941	185,332	1,414,864	1,387,839
Total financial liabilities	¥ 400,021	¥ 394,502	$ 2,995,514	$ 2,954,186

Notes: The fair values of financial assets and liabilities measured at amortized cost other than the above approximates the carrying amounts. For the fair value hierarchy of financial liabilities measured at amortized cost above, borrowings are classified as Level 3, and bonds are classified as Level 2.

22. Consolidation

(1) Composition of the Group

Major subsidiaries at the end of this consolidated fiscal year is as follows.
There were no significant changes in principal subsidiaries and ownership percentages of voting rights from the transition date to the end of the consolidated fiscal year ended March 31, 2023.

Name	Address	Reportable segment	Ownership percentage of voting rights As of March 31, 2022	Ownership percentage of voting rights As of March 31, 2023
NIPPI Corporation	Kanazawa-ku, Yokohama City	Aerospace Systems	100%	100%
Kawasaki Railcar Manufacturing Co., Ltd.	Hyogo-ku, Kobe City	Rolling Stock	100%	100%
Kawasaki Rail Car, Inc.	New York, U.S.A.	Rolling Stock	100% (100%)	100% (100%)
EarthTechnica Co., Ltd.	Chiyoda-ku, Tokyo	Energy Solution & Marine Engineering	100%	100%
Kawasaki Thermal Engineering Co., Ltd.	Kusatsu City, Shiga	Energy Solution & Marine Engineering	100%	100%
Kawasaki Machine Systems, Ltd.	Kita-ku, Osaka City	Energy Solution & Marine Engineering	100%	100%
Wuhan Kawasaki Marine Machinery Co., Ltd.	Wuhan, China	Energy Solution & Marine Engineering	55%	55%
Kawasaki Precision Machinery (Suzhou) Ltd.	Suzhou, China	Precision Machinery & Robot	100%	100%
Kawasaki Precision Machinery (U.S.A.), Inc.	Michigan, U.S.A.	Precision Machinery & Robot	100%	100%
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.	Shanghai, China	Precision Machinery & Robot	100%	100%
Kawasaki Precision Machinery (UK) Ltd.	Plymouth, United Kingdom	Precision Machinery & Robot	100%	100%
Wipro Kawasaki Precision Machinery Private Limited	Bangalore, India	Precision Machinery & Robot	51%	51%
Flutek, Ltd.	Kyungnam, Korea	Precision Machinery & Robot	50.38%	50.38%
Kawasaki Robotics (Tianjin) Co., Ltd.	Tianjin Economic-Technological Development Area, China	Precision Machinery & Robot	100%	100%
Kawasaki Robotics (Kunshan) Co., Ltd.	Kunshan, China	Precision Machinery & Robot	100%	100%
Kawasaki Robotics (U.S.A.) Inc.	Delaware, U.S.A.	Precision Machinery & Robot	100% (100%)	100% (100%)
Kawasaki Motors, Ltd.	Akashi City, Hyogo	Powersports & Engine	100%	100%
Kawasaki Motors Corporation Japan	Akashi City, Hyogo	Powersports & Engine	100% (100%)	100% (100%)
India Kawasaki Motors Pvt. Ltd.	Maharashtra, India	Powersports & Engine	100% (100%)	100% (100%)
Kawasaki Motors Corp., U.S.A.	Delaware, U.S.A.	Powersports & Engine	100% (100%)	100% (100%)
PT. Kawasaki Motor Indonesia	Bekasi, Indonesia	Powersports & Engine	90% (90%)	90% (90%)
Kawasaki Motores do Brasil Ltda.	Sao Paulo, Brasil	Powersports & Engine	100% (100%)	100% (100%)
Kawasaki Motors Europe N.V.	Hoofddorp, The Netherlands	Powersports & Engine	100% (100%)	100% (100%)
Kawasaki Motors (Phils.) Corporation	Metro Manila, Philippines	Powersports & Engine	50% (50%)	50% (50%)
Kawasaki Motors Manufacturing Corp., U.S.A.	Nebraska, U.S.A.	Powersports & Engine, Rolling Stock, Aerospace Systems	100% (100%)	100% (100%)
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Rayong, Thailand	Powersports & Engine, Precision Machinery & Robot	100% (100%)	100% (100%)
Kawasaki Motores de Mexico S.A. de C.V.	Nuevo Leon, Mexico	Powersports & Engine	100% (100%)	100% (100%)
Japan Suiso Energy, Ltd.	Minato-ku, Tokyo	Other	100%	66.6%
Kawasaki Trading Co., Ltd.	Chuo-ku, Kobe City	Other	70%	70%
Kawasaki Life Corporation	Chuo-ku, Kobe City	Other	100%	100%
Other subsidiaries			72 companies	74 companies

Note: The numbers in brackets in "Ownership percentage of voting rights" represent the percent of indirect ownership out of the total ownership percentage.

(2) Subsidiaries with material non-controlling interests

The Group does not have any subsidiaries with material non-controlling interests.

(3) Significant restrictions

Not applicable.

23. Investments accounted for using equity method

(1) Information about interest

(i) Material associates
The Group does not have any material associates.

(ii) Material joint ventures
The Group does not have any material joint ventures.

(iii) Immaterial associates and joint ventures accounted for using equity method

(a) Financial information

	Total amount of immaterial associates			Total amount of immaterial joint ventures		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023	2022	2023	2023
Profit or loss	¥ (6,894)	¥ 4,734	$ 35,450	¥ (7,516)	¥ (1,420)	$ (10,634)
Other comprehensive income	4,294	110	824	4,924	397	2,973
Comprehensive income	(2,599)	4,844	36,274	(2,592)	(1,022)	(7,653)

(b) Carrying amount of the equity method affiliates
The carrying amount of equity in affiliates accounted for by the equity method as of the transition date, the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023 was ¥37,312 million, ¥32,958 million and ¥38,765 million ($290,288 thousand), respectively.
The carrying amount of the equity in joint venture accounted for by the equity method as of the transition date, the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023 was ¥36,152 million, ¥37,479 million and ¥38,675 million ($289,614 thousand), respectively.

(2) Significant restrictions

Not applicable.

(3) Contingent liabilities with associates and joint ventures

The Group maintains debt guarantees of ¥16,560 million, ¥20,065 million, and ¥14,036 million ($105,107 thousand) for the borrowings from financial institutions of certain associates and joint ventures as of the transition date, the previous consolidated fiscal year, and the consolidated fiscal year ended March 31, 2023, respectively.

24. Revenue

(1) Disaggregation of revenue

The Group is basically composed of six core businesses described in Note 4, "Operating segments." To understand the revenue from contracts with customers, the revenue in some of the reportable segments (Aerospace Systems, Energy Solution & Marine Engineering, and Precision Machinery & Robots) is reported by product type. The breakdown by product type and region and its relationship to the reportable segments are as follows:

(i) Breakdown by product type

Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

Millions of yen

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

Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

Millions of yen

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total
Aerospace	¥ 249,356	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 249,356
Jet Engines	99,524	-	-	-	-	-	99,524
Rolling Stock	-	131,935	-	-	-	-	131,935
Energy & Plant & Marine Machinery	-	-	234,457	-	-	-	234,457
Ship & Offshore Structure	-	-	80,095	-	-	-	80,095
Precision Machinery	-	-	-	153,027	-	-	153,027
Robot	-	-	-	99,670	-	-	99,670
Powersports & Engine	-	-	-	-	591,151	-	591,151
Other	-	-	-	-	-	86,392	86,392
Revenue from contracts with customers	¥ 348,880	¥ 131,935	¥ 314,552	¥ 252,697	¥ 591,151	¥ 86,392	¥ 1,725,609

Thousands of U.S. dollars

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total
Aerospace	$ 1,867,276	$ -	$ -	$ -	$ -	$ -	$ 1,867,276
Jet Engines	745,275	-	-	-	-	-	745,275
Rolling Stock	-	987,981	-	-	-	-	987,981
Energy & Plant & Marine Machinery	-	-	1,755,706	-	-	-	1,755,706
Ship & Offshore Structure	-	-	599,783	-	-	-	599,783
Precision Machinery	-	-	-	1,145,926	-	-	1,145,926
Robot	-	-	-	746,368	-	-	746,368
Powersports & Engine	-	-	-	-	4,426,771	-	4,426,771
Other	-	-	-	-	-	646,937	646,937
Revenue from contracts with customers	$ 2,612,551	$ 987,981	$ 2,355,489	$ 1,892,294	$ 4,426,771	$ 646,937	$12,922,038

(ii) Breakdown by region

Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

Millions of yen

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

Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

Millions of yen

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

Thousands of U.S. dollars

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total
Japan	$ 1,381,421	$ 581,833	$ 1,786,970	$ 529,834	$ 262,221	$ 572,218	$ 5,114,520
United States	839,262	277,857	10,663	189,022	2,420,758	2,239	3,739,823
Europe	345,425	-	101,797	111,884	600,120	966	1,160,207
Asia	6,672	128,284	155,676	1,000,996	710,866	61,075	2,063,584
Other areas	39,756	-	300,374	60,544	432,784	10,416	843,889
Revenue from contracts with customers	$ 2,612,551	$ 987,981	$ 2,355,489	$ 1,892,294	$ 4,426,771	$ 646,937	$12,922,038

The major revenue recording methods in each segment of the Group are as follows:

・"Aerospace Systems," "Rolling Stock," and "Energy Solution & Marine Engineering"

In these segments, in addition to the sale of products such as component parts of airframes and jet engines for commercial aircraft, the Group executes construction contracts for the manufacture of rolling stock and construction of various plants, and provides services such as those related to maintenance contracts. For sales of products, the Group recognizes revenue on the date of delivery or acceptance of the goods in principle due to its performance obligations being mainly satisfied at that point in time. For the execution of construction contracts and the rendering of services, the Group recognizes revenues by measuring the progress of completion as performance obligations are satisfied over a certain period. The progress is measured by using the input method, which is mainly based on costs incurred, while the output method is used for rendering of services such as those under maintenance contracts and some construction contracts such as with the manufacture of rolling stock.

Under "Aerospace Systems," a portion of the costs incurred in connection with the civil aviation engine program in which the Company is participating has been reduced from revenue by estimating amounts in consideration of payments to customers. In addition, certain types of discounts the Company is willing to pay in accordance with the ratio of participation in the civil aviation engine program have been reduced from revenue by estimating such discount amounts as variable compensation at the time of revenue recognition.

・"Precision Machinery & Robot," "Powersports & Engine," and "Other"

For sales of products such as hydraulic equipment for the construction machinery market, various robots, motorcycles, and four-wheeled vehicles in these segments, the Group recognizes revenues on the date of delivery or acceptance of the goods in principle due to the performance obligations being mainly satisfied at that point in time.

(2) Contract balances

(i) Receivables from contracts with customers, contract assets and contract liabilities
The breakdown of receivables from contracts with customers, contract assets and contract liabilities is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Receivables from contracts with customers	¥ 338,557	¥ 369,949	¥ 427,922	$3,204,448
Contract assets	148,523	109,132	159,422	1,193,815
Contract liabilities	159,476	256,189	256,247	1,918,878

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

Contract assets are, under contracts with performance obligations satisfied mainly over a certain period, excluded receivables from the rights to the consideration received in exchange for the satisfaction of performance obligations measured by the progress at the end of each reporting period. Contract assets are reclassified as receivables from contracts with customers when the right to the consideration becomes unconditional, which requires only the passage of time. Changes to contract assets occurred mainly as a result of the recognition of revenue (leading to increases in contract assets) and transfers to trade receivables (leading to decreases in contract assets).

Contract liabilities are recognized mainly when consideration as advances received is paid prior to the goods or services, which are promised to customers, being transferred to customers. When the Group has satisfied the performance obligations, the Group derecognizes them as contract liabilities and recognizes them as revenue. Changes to contract liabilities occurred mainly as a result of advance payments from customers (leading to increases in contract liabilities) and the recognition of revenue (leading to decreases in contract liabilities).

(ii) Amounts of recognized revenue included in the beginning balance of contract liabilities and performance obligations that were satisfied in prior periods

Revenues recognized for the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023, amounts included in the beginning balance of contract liabilities were ¥149,791 million and ¥179,729 million ($1,345,881 thousand), respectively.

In addition, the amounts of revenues recognized for the previous fiscal year and the current fiscal year ended March 31, 2023 from performance obligations that had been satisfied in past periods were immaterial.

(3) Transaction price allocated to the remaining performance obligations

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

Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

Millions of yen

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total
Remaining performance obligations	¥ 619,877	¥ 388,184	¥ 507,161	¥ 88,435	¥ -	¥ 27,709	¥ 1,631,366

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

Fiscal year ended March 31, 2023 (April 1, 2022 – March 31, 2023)

Millions of yen

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

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

	Aerospace Systems	Rolling Stock	Energy Solution & Marine Engineering	Precision Machinery & Robot	Powersports & Engine	Other	Total
							Thousands of U.S. dollars
Remaining performance obligations	$ 5,022,360	$ 4,272,300	$ 4,710,589	$ 732,964	$ -	$ 208,147	$ 14,946,361

The remaining performance obligations of each reportable segment are estimated to be recognized as revenue in the following period from the end of the consolidated fiscal year ended March 31, 2023.

- Aerospace Systems: About 90% are within 2 years, and about 10% are over 2 years
- Rolling Stock: About 90% are within 1 year, and about 10% are over 1 year
- Energy Solution & Marine Engineering: About 90% are within 5 years, and about 10% are over 5 years
- Precision Machinery & Robot: Within 1 year
- Other: Within 1 year

(4) Assets recognized from contract costs

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Assets recognized from the costs incurred to fulfill a contract	¥ 11,740	¥ 13,008	¥ 14,120	$ 105,736

Costs incurred to fulfill a contract capitalized by the Group are the recoverable amounts of costs for fulfilling contracts with customers in the commercial aircraft jet engine business. These assets are recorded in "Inventories" in the consolidated statement of financial position and are amortized in accordance with the pattern in which the related services are transferred to customers. Amortization related to capitalized costs to fulfill a contract in the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023 was ¥2,179 million and ¥2,208 million ($16,534 thousand), respectively.

25. Other assets and other liabilities

(1) Other assets

The breakdown of other assets is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Advance payments	¥ 14,728	¥ 47,444	¥ 76,783	$ 574,981
Prepaid expenses	52,489	49,343	48,552	363,576
Retirement benefit asset	155	200	346	2,591
Other	4,571	13,379	18,466	138,281
Total	¥ 71,945	¥ 110,368	¥ 144,148	$ 1,079,437
Current assets	¥ 23,110	¥ 64,184	¥ 100,385	$ 751,722
Non-current assets	48,835	46,183	43,763	327,715
Total	¥ 71,945	¥ 110,368	¥ 144,148	$ 1,079,437

(2) Other liabilities

The breakdown of other liabilities is as follows:

	Millions of yen			Thousands of U.S. dollars
	Transition date	2022	2023	2023
Accrued expenses	¥ 64,077	¥ 93,715	¥ 114,256	$ 855,594
Deposits received	22,522	24,466	28,791	215,598
Provision for bonuses	18,239	23,938	39,394	294,998
Refund liabilities	7,380	8,073	10,258	76,816
Other	21,529	31,160	39,098	292,781
Total	¥ 133,749	¥ 181,355	¥ 231,799	$ 1,735,802
Current liabilities	¥ 116,244	¥ 161,951	¥ 219,019	$ 1,640,100
Non-current liabilities	17,504	19,403	12,779	95,694
Total	¥ 133,749	¥ 181,355	¥ 231,799	$ 1,735,802

26. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Salaries and allowances	¥ 59,872	¥ 70,411	$ 527,265
Research and development expenses	45,795	50,768	380,171
Advertising expenses	10,708	13,605	101,880
Other	94,758	117,526	880,081
Total	¥ 211,134	¥ 252,311	$ 1,889,404

27. Other income and expenses

(1) Other income

The breakdown of other income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Gain on sale of non-current assets	¥ 1,659	¥ 657	$ 4,920
Other	5,135	4,193	31,399
Total	¥ 6,795	¥ 4,850	$ 36,319

(2) Other expenses

The breakdown of other expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Loss on sale and disposal of non-current assets	¥ 1,105	¥ 1,699	$ 12,723
Other	3,042	5,621	42,092
Total	¥ 4,147	¥ 7,320	$ 54,815

28. Finance income and finance costs

(1) Finance income

The breakdown of finance income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Interest income			
Financial assets measured at amortized cost	¥ 1,098	¥ 1,576	$ 11,802
Dividend income			
Financial assets measured at fair value through other comprehensive income	865	332	2,486
Foreign exchange gain	569	-	-
Others	22	382	2,861
Total	¥ 2,556	¥ 2,291	$ 17,156

(2) Finance costs

The breakdown of finance costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Interest expense			
Financial liabilities measured at amortized cost	¥ 3,467	¥ 4,467	$ 33,451
Lease liabilities	614	541	4,051
Foreign exchange loss	-	4,693	35,143
Others	1,168	4,594	34,402
Total	¥ 5,251	¥ 14,297	$ 107,062

29. Government grants

Government grants received by the Group relate principally to research and development activities.
Government grants received in the previous consolidated fiscal year and the consolidated fiscal year ended March 31, 2023 were ¥4,515 million and ¥8,092 million ($60,596 thousand), respectively. Of this amount, the grants related to revenue were deducted from research and development expenses, and the grants related to assets were deducted from the acquisition cost of acquired assets.

30. Earnings per share

The basis for calculating basic earnings per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Profit attributable to owners of parent	¥ 12,638	¥ 53,029	$ 397,102

	Thousands of shares	
	2022	2023
Average number of common shares	167,361	167,477

	yen		U.S. dollars
	2022	2023	2023
Basic earnings per share	¥ 75.51	¥ 316.63	$ 2.371

Notes: 1. Diluted earnings per share are not stated because there were no potential dilutive shares.
2. The company's shares held by trusts whose beneficiaries are directors and others recorded as treasury shares under equity are included in the number of shares held in treasury to be deducted from the calculation of the average number of shares during respective periods in computing the earnings per share. (At the end of the previous consolidated fiscal year: 409,600 shares, at the end of the consolidated fiscal year ended March 31, 2023: 398,600 shares).

31. Related party

(1) Related party transactions

Transactions between the Group and related parties and the balances of receivables and payables are as follows:

Transition date (As of April 1, 2021)

Type	Name	Details of transactions	Line item	Outstanding balance	Allowance for credit loss outstanding balance
Associate	Commercial Airplane Co., Ltd.	Sales of Company products	Accounts receivable - trade	¥ 36,382 million	¥ -
			Contract liabilities	¥ 48,512 million	¥ -

Notes: Transaction terms are determined by price negotiations based on the Company's submission of preferred prices after taking the total cost into account.

As of March 31, 2022

Type	Name	Details of transactions	Transaction amount	Line item	Outstanding balance	Allowance for credit loss outstanding balance
Associate	Commercial Airplane Co., Ltd.	Sales of Company products	¥ 49,547 million	Accounts receivable - trade	¥ 33,742 million	¥ -
				Contract liabilities	¥ 9,455 million	¥ -

Notes: Transaction terms are determined by price negotiations based on the Company's submission of preferred prices after taking the total cost into account.

As of March 31, 2023

Type	Name	Details of transactions	Transaction amount	Line item	Outstanding balance	Allowance for credit loss outstanding balance
Associate	Commercial Airplane Co., Ltd.	Sales of Company products	¥52,403 million ($392,414 thousand)	Accounts receivable - trade	¥ 24,844 million ($186,042 thousand)	¥ -
				Contract liabilities	¥ 6,867 million ($ 51,423 thousand)	¥ -

Notes: Transaction terms are determined by price negotiations based on the Company’s submission of preferred prices after taking the total cost into account.

(2) Remuneration for key management personal
Remuneration for directors is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Short-term remuneration	¥ 467	¥ 437	$ 3,272
Share-based remuneration	69	72	539

32. Subsequent events

Not applicable.

33. First-time adoption of IFRS

The Group disclosed its consolidated financial statements in accordance with IFRS from the consolidated fiscal year ended March 31, 2023. The most recent consolidated financial statements prepared in accordance with Japanese GAAP are those for the consolidated fiscal year ended March 31, 2022, and the IFRS transition date was April 1, 2021.

(1) Mandatory exceptions and exemption provisions under IFRS 1

In principle, IFRS requires companies that adopt IFRS for the first time to apply the standards required by IFRS retrospectively. However, for some of the standards required under IFRS, IFRS 1 specifies the standards for which the exemption is applied mandatorily and those for which the exemption is applied voluntarily.

Items for which the mandatory exemptions must be applied are “estimates,” “derecognition of financial assets and financial liabilities,” “hedge accounting,” “non-controlling interests,” and “classification and measurement of financial instruments,” etc., For these items, retrospective application of IFRS is prohibited. Except for “derecognition of financial assets and financial liabilities,” the Group applies the exemptions prospectively from the transition date. For “Derecognition of financial assets and financial liabilities” the exemptions are applied prospectively from the date selected by the Group (March 31, 2021).

Major exemptions adopted by the Group when transitioning from Japanese GAAP to IFRS are as follows.

(i) Business combinations
The Group elected not to apply IFRS 3, “Business combinations” retrospectively to the business combinations that occurred before the date of transition to IFRS.

(ii) Leases
The Group determined whether a contract existing at the date of transition to IFRS included leases based on the facts and circumstances existing as of that date, and the lease liability was determined to be the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate as of the transition date. In addition, right-of-use asset was measured as of the transition date as equal to the lease liability.

(iii) Exchange differences on translation of foreign operations
The Group deemed the cumulative translation differences of all foreign operations to be zero at the date of transition to IFRS.

(iv) Financial instruments
The designation in accordance with IFRS 9, “Financial Instruments,” for financial instruments recognized prior to the date of transition to IFRS is based on the facts and circumstances that existed at the date of transition to IFRS.

(2) Reconciliations

In preparing the consolidated financial statements based on IFRS, the Company reconciled equity, profit and loss, and comprehensive income, which had been previously reported in the consolidated financial statements based on Japanese GAAP. The effects of this adjustment on the Group’s financial condition, operating results and cash flows were as set forth in the tables below.

In the reconciliations below, “Reclassification” includes items that do not affect retained earnings and comprehensive income, while “Differences in recognition and measurement” include items that affect retained earnings and comprehensive income.

(i) Reconciliations of equity

(a) Transition date (As of April 1, 2021)

Millions of yen

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	126,702	(4,536)	-	122,166	(a)	Cash and cash equivalents
Notes and accounts receivable - trade, and contract assets	429,673	(102,212)	27,600	355,061	(b),(c), (d),(j)	Trade and other receivables
Allowance for doubtful accounts	(3,589)	3,589	-	-	(c)	
	-	114,664	33,858	148,523	(d),(j)	Contract assets
Merchandise and finished goods	69,223	(69,223)	-	-	(e)	
Work in process	399,847	(399,847)	-	-	(e)	
Raw materials and supplies	138,215	(138,215)	-	-	(e)	
	-	607,285	(41,425)	565,860	(e),(k)	Inventories
	-	3,482	-	3,482		Income taxes receivable
	-	6,660	-	6,660	(a),(g)	Other financial assets
Other	43,314	(21,648)	1,443	23,110	(b),(g)	Other current assets
Total current assets	1,203,387	-	21,477	1,224,865		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	451,259	(10,564)	8,460	449,155	(k)	Property, plant and equipment
Intangible assets	22,427	(37)	40,120	62,510	(k)	Intangible assets
	-	10,602	44,902	55,504	(l)	Right-of-use assets
Investments and other assets						
Investment securities	12,721	(12,721)	-	-	(g)	
	-	73,464	-	73,464	(f)	Investments accounted for using equity method
Retirement benefit asset	155	(155)	-	-		
	-	58,057	11,856	69,913	(c),(g), (o)	Other financial assets
Deferred tax assets	81,587	-	24,843	106,430	(p)	Deferred tax assets
Other	165,967	(120,047)	2,916	48,835	(f),(g)	Other non-current assets
Allowance for doubtful accounts	(1,403)	1,403	-	-	(c)	
Total non-current assets	732,715	-	133,099	865,814		Total non-current assets
Total assets	1,936,103	-	154,576	2,090,679		Total assets

Millions of yen

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	247,294	170,776	-	418,070	(b)	Trade and other payables
Electronically recorded obligations - operating	107,849	(107,849)	-	-	(b)	
Short-term borrowings	141,579	(141,579)	-	-	(h)	
Current portion of bonds payable	30,000	(30,000)	-	-	(h)	
Lease liabilities	1,061	(1,061)	-	-	(h)	
	-	207,395	59,328	266,724	(g),(h),(j),(l)	Bonds, borrowings and other financial liabilities
Income taxes payable	4,753	-	-	4,753		Income taxes payable
Contract liabilities	159,476	-	-	159,476		Contract liabilities
Provision for bonuses	18,239	(18,239)	-	-	(i)	
Provision for construction warranties	12,550	(12,550)	-	-	(i)	
Provision for loss on construction contracts	14,367	(14,367)	-	-	(i)	
	-	26,918	-	26,918	(i)	Provisions
Other	192,849	(79,441)	2,836	116,244	(b),(g),(h),(i),(m)	Other current liabilities
Total current liabilities	930,022	-	62,165	992,187		Total current liabilities
Non-current liabilities						Non-current liabilities
Bonds payable	190,000	(190,000)	-	-	(h)	
Long-term borrowings	199,177	(199,177)	-	-	(h)	
Lease liabilities	9,532	(9,532)	-	-	(h)	
	-	421,831	56,170	478,002	(g),(h),(j),(l)	Bonds, borrowings and other financial liabilities
Retirement benefit liability	115,456	-	(238)	115,218	(n)	Retirement benefit liability
Provision for the in-service issues of commercial aircraft jet engines	5,984	(5,984)	-	-	(i)	
	-	7,082	-	7,082	(i)	Provisions
Deferred tax liabilities	1,125	-	(87)	1,038	(p)	Deferred tax liabilities
Other	41,668	(24,220)	57	17,504	(g),(n)	Other non-current liabilities
Total non-current liabilities	562,944	-	55,902	618,847		Total non-current liabilities
Total liabilities	1,492,967	-	118,067	1,611,034		Total liabilities
Net assets						Equity
Share capital	104,484	-	-	104,484		Share capital
Capital surplus	54,542	-	-	54,542		Capital surplus
Retained earnings	266,937	-	32,472	299,409	(r)	Retained earnings
Treasury shares	(136)	-	-	(136)		Treasury shares
Total accumulated other comprehensive income	(134)	-	3,980	3,846	(n),(o),(q)	Other components of equity
	425,693	-	36,453	462,146		Total equity attributable to owners of parent
Non-controlling interests	17,442	-	55	17,498		Non-controlling interests
Total net assets	443,135	-	36,509	479,645		Total equity
Total liabilities and net assets	1,936,103	-	154,576	2,090,679		Total liabilities and equity

(b) As of March 31, 2022

Millions of yen

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	114,469	(5,957)	-	108,511	(a)	Cash and cash equivalents
Notes and accounts receivable - trade, and contract assets	418,625	(39,268)	29,890	409,246	(b),(c), (d),(j)	Trade and other receivables
Allowance for doubtful accounts	(3,908)	3,908	-	-	(c)	
	-	74,130	35,002	109,132	(d),(j)	Contract assets
Merchandise and finished goods	78,616	(78,616)	-	-	(e)	
Work in process	419,954	(419,954)	-	-	(e)	
Raw materials and supplies	160,113	(160,113)	-	-	(e)	
	-	658,684	(43,208)	615,476	(e),(k)	Inventories
	-	3,046	-	3,046		Income taxes receivable
	-	10,606	-	10,606	(a),(g)	Other financial assets
Other	109,911	(46,465)	739	64,184	(b),(g)	Other current assets
Total current assets	1,297,781	-	22,423	1,320,204		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	444,262	(10,815)	10,928	444,375	(k)	Property, plant and equipment
Intangible assets	23,413	(112)	38,638	61,940	(k)	Intangible assets
	-	10,927	47,597	58,524	(l)	Right-of-use assets
Investments and other assets						
Investment securities	14,539	(14,539)	-	-	(g)	
	-	70,436	2	70,438	(f)	Investments accounted for using equity method
Retirement benefit asset	200	(200)	-	-		
	-	57,858	12,894	70,752	(c),(g), (o)	Other financial assets
Deferred tax assets	86,249	-	15,959	102,209	(p)	Deferred tax assets
Other	157,668	(114,921)	3,437	46,183	(f),(g)	Other non-current assets
Allowance for doubtful accounts	(1,366)	1,366	-	-	(c)	
Total non-current assets	724,967	-	129,458	854,425		Total non-current assets
Total assets	2,022,748	-	151,881	2,174,630		Total assets

Millions of yen

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	239,976	159,935	(19)	399,892	(b)	Trade and other payables
Electronically recorded obligations - operating	104,336	(104,336)	-	-	(b)	
Short-term borrowings	96,108	(96,108)	-	-	(h)	
Current portion of bonds payable	20,000	(20,000)	-	-	(h)	
Lease liabilities	1,175	(1,175)	-	-	(h)	
	-	141,069	67,704	208,773	(g),(h),(j),(l)	Bonds, borrowings and other financial liabilities
Income taxes payable	8,506	-	-	8,506		Income taxes payable
Contract liabilities	256,189	-	-	256,189		Contract liabilities
Provision for bonuses	23,938	(23,938)	-	-	(i)	
Provision for construction warranties	14,797	(14,797)	-	-	(i)	
Provision for loss on construction contracts	9,602	(9,602)	-	-	(i)	
	-	24,409	-	24,409	(i)	Provisions
Other	212,696	(55,455)	4,709	161,951	(b),(g),(h),(i),(m)	Other current liabilities
Total current liabilities	987,328	-	72,394	1,059,723		Total current liabilities
Non-current liabilities						Non-current liabilities
Bonds payable	180,000	(180,000)	-	-	(h)	
Long-term borrowings	194,297	(194,297)	-	-	(h)	
Lease liabilities	9,899	(9,899)	-	-	(h)	
	-	404,821	53,247	458,068	(g),(h),(j),(l)	Bonds, borrowings and other financial liabilities
Retirement benefit liability	106,803	-	220	107,024	(n)	Retirement benefit liability
Provision for the in-service issues of commercial aircraft jet engines	3,054	(3,054)	-	-	(i)	
	-	4,112	24	4,136	(i)	Provisions
Deferred tax liabilities	1,593	-	(210)	1,382	(p)	Deferred tax liabilities
Other	41,249	(21,683)	(162)	19,403	(g),(n)	Other non-current liabilities
Total non-current liabilities	536,896	-	53,117	590,014		Total non-current liabilities
Total liabilities	1,524,225	-	125,512	1,649,738		Total liabilities
Net assets						Equity
Share capital	104,484	-	-	104,484		Share capital
Capital surplus	55,526	-	(0)	55,525		Capital surplus
Retained earnings	285,381	-	35,290	320,671	(r)	Retained earnings
Treasury shares	(1,129)	-	-	(1,129)		Treasury shares
Total accumulated other comprehensive income	34,917	-	(8,986)	25,931	(n),(o),(q)	Other components of equity
	479,180	-	26,303	505,484		Total equity attributable to owners of parent
Non-controlling interests	19,342	-	65	19,407		Non-controlling interests
Total net assets	498,522	-	26,369	524,891		Total equity
Total liabilities and net assets	2,022,748	-	151,881	2,174,630		Total liabilities and equity

(c) Notes on reconciliation of equity

(Reclassification)

a) Reclassification of cash and deposits
Time deposits with maturities of more than three months, which were included in "Cash and deposits" under Japanese GAAP, are reclassified to "Other financial assets" of current assets under IFRS.

b) Reclassification of account receivables, electronically recorded obligations - operating, and account payables
Account receivables, which were included in "Other" of current assets under Japanese GAAP, are reclassified to "Trade and other receivables" under IFRS. In addition, "Electronically recorded obligations - operating," which were presented separately, and account payables, which were included in "Other" of current liabilities under Japanese GAAP, are reclassified to "Trade and other payables" under IFRS.

c) Reclassification of allowance for doubtful accounts
"Allowance for doubtful accounts," which was presented separately in current assets under Japanese GAAP, is reclassified to directly deduct the item from "Trade and other receivables" etc., under IFRS. In addition, "Allowance for doubtful accounts," which was presented separately in non-current assets under Japanese GAAP, is reclassified to directly deduct the item from "Other financial assets" of non-current assets under IFRS.

d) Reclassification of contract assets
"Contract assets," which were included in "Notes and accounts receivable - trade and contract assets" under Japanese GAAP, are presented separately under IFRS.

e) Reclassification of inventories
"Merchandise and finished goods," "Work in process," and "Raw materials and supplies," which were presented separately under Japanese GAAP, are reclassified to "Inventories" under IFRS.

f) Reclassification of investments accounted for using equity method
"Investments accounted for using equity method," which were included in "Other" of investments and other assets under Japanese GAAP, are presented separately under IFRS.

g) Reclassification of other financial assets and other financial liabilities
Derivative assets, etc., which were included in "Other" of current assets under Japanese GAAP, are reclassified to "Other financial assets" of current assets under IFRS. In addition, "Investment securities," which were presented separately under Japanese GAAP, and long-term accounts receivable, etc., which were included in "Other" of investments and other assets under Japanese GAAP, are reclassified to "Other financial assets" of non-current assets under IFRS.
Derivative liabilities, which were included in "Other" of current liabilities under Japanese GAAP, are reclassified to "Bonds, borrowings and other financial liabilities" of current liabilities under IFRS. In addition, long-term accounts payable, etc., which were included in "Other" of non-current liabilities under Japanese GAAP, are reclassified to "Bonds, borrowings and other financial liabilities" of non-current liabilities under IFRS.

h) Reclassification of bonds payable, commercial paper, borrowings, and lease liabilities
"Short-term borrowings," "Current portion of bonds payable," and "Lease liabilities," which were presented separately in current liabilities under Japanese GAAP, and commercial paper, which was included in "Other" of current liabilities under Japanese GAAP, are reclassified to "Bonds, borrowings and other financial liabilities" of current liabilities under IFRS. In addition, "Bonds payable," "Long-term borrowings," and "Lease liabilities," which were presented separately in non-current liabilities under Japanese GAAP, are reclassified to "Bonds, borrowings and other financial liabilities" of non-current assets under IFRS.

i) Reclassification of provisions
"Provision for construction warranties," and "Provision for loss on construction contracts," which were presented separately under Japanese GAAP, are reclassified to "Provisions" of current liabilities under IFRS. In addition, "Provision for the in-service issue of commercial aircraft jet engines," which was presented separately under Japanese GAAP, is reclassified to "Provisions" of non-current liabilities under IFRS.
"Provision for bonuses," which was presented separately under Japanese GAAP, is reclassified to "Other current liabilities" under IFRS.

(Differences in recognition and measurement)

j) Adjustments to receivables securitization transactions
Certain trade receivables that were derecognized regarding receivables securitization transactions under Japanese GAAP, are recognized as "Contract assets" instead of being derecognized because they do not meet the derecognition criteria under IFRS. In addition, payables associated with receivables securitization are recognized as "Bonds, borrowings and other financial liabilities" under current and non-current liabilities.

k) Adjustments to property, plant and equipment, and intangible assets
Under Japanese GAAP, development expenses were treated as research and development expenses and expensed as "Selling, general and administrative expenses" when incurred, and a portion of costs related to the mass production of new products and models, etc., was recorded as "Work in process." Under IFRS, development expenses that meet the

criteria for capitalization are recorded as "Intangible assets." In addition, certain expenses that were expensed as "Selling, general and administrative expenses" when incurred as development expenses under Japanese GAAP are recorded as "Property, plant and equipment" as they meet the criteria for capitalization under IFRS. Furthermore, since IFRS does not allow depreciation for asset acquisitions other than government subsidies, records processed using the direct depreciation method under Japanese GAAP have been canceled.

l) Adjustments to right-of-use assets and lease liabilities

Under Japanese GAAP, except for finance lease transactions, lease payments are expensed at the time they are incurred. Under IFRS, the present value is measured based on future lease payments at the lease commencement date and recorded as "Right-of-use assets" and "Lease liabilities." "Lease liabilities" are included in "Bonds, borrowings and other financial liabilities" under current and non-current liabilities.

m) Adjustments to levies

Under Japanese GAAP, expenses were recognized for items qualified as levies, such as property taxes, over the fiscal year. Under IFRS, they are expensed at the time the tax assessment is determined and recognized as "Other current liabilities" under current liabilities.

n) Adjustments to employee benefits

With respect to retirement benefit liability, under Japanese GAAP, actuarial gains and losses and prior service costs were recognized in other comprehensive income as incurred. For the amount prorated over a certain number of years within the average remaining service period of employees at the incurrence, actuarial gains and losses were expensed from the fiscal year following the year of the incurrence, while prior service costs were expensed from the fiscal year in which they were incurred. Under IFRS, actuarial gains and losses are recognized in other comprehensive income as incurred and immediately reclassified to "Retained earnings." Prior service costs are recognized in profit or loss as incurred.

In addition, special holidays, etc., granted subject to a certain number of years of service, which were not accounted for under Japanese GAAP, are recorded as "Other non-current liabilities" under IFRS.

o) Adjustments to equity instruments

Under Japanese GAAP, unlisted shares and investments with no market value were measured using the cost method. Under IFRS, however, they are measured at fair value. In addition, for equity financial assets, gains and losses on sales and impairment loss were recognized as profit or loss under Japanese GAAP. However, under IFRS, the changes in fair value are recognized as other comprehensive income when subsequent changes in the fair value are designated to be presented in other comprehensive income.

p) Adjustments to tax effects

Regarding the adoption of IFRS, "Deferred tax assets" and "Deferred tax liabilities" have increased or decreased due to the reconsideration of the recoverability of all deferred tax assets. In addition, under Japanese GAAP, tax effects arising from the elimination of unrealized profits and losses are calculated using the effective tax rate of the seller, Under IFRS, however, these are calculated using the effective tax rate of the buyer.

q) Reclassification of exchange differences on translation of foreign operations

At a first-time adoption, the Group has opted to apply the exemption provided in IFRS 1 and transferred the entire balance of cumulative exchange differences of foreign operations to "Retained earnings" at the transition date.

r) Retained earnings

The impact of the above adjustments on retained earnings is as follows:

	Millions of yen	
Consolidated statement of Financial Position	Transition date (As of April 1, 2021)	As of March 31, 2022
k) Adjustments to property, plant and equipment and intangible assets	¥ 6,785	¥ 6,646
l) Adjustments to right-of-use assets and lease liabilities	-	(132)
m) Adjustments to levies	(3,402)	(3,395)
n) Adjustments to employee benefits	(2,240)	8,563
o) Adjustments to equity instruments	5,094	5,116
p) Adjustments to tax effects	28,940	22,262
q) Reclassification of exchange differences on translation of foreign operations	(931)	(931)
Other	(1,772)	(2,840)
Adjustments to retained earnings	32,472	35,290

(ii) Reconciliations of profit or loss and comprehensive income

(a) Fiscal year ended March 31, 2022 (April 1, 2021 – March 31, 2022)

Millions of yen

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Net sales	1,500,879	-	-	1,500,879		Revenue
Cost of sales	1,244,300	-	3,314	1,247,615	(a),(c)	Cost of sales
Gross profit	256,578	-	(3,314)	253,263		Gross profit
Selling, general and administrative expenses	210,772	123	239	211,134	(c)	Selling, general and administrative expenses
	-	(14,289)	(120)	(14,410)	(a)	Share of profit (loss) of investments accounted for using equity method
	-	6,292	503	6,795	(a)	Other income
	-	7,245	(3,098)	4,147	(a)	Other expenses
Operating profit	45,805	(15,366)	(72)	30,366		Business profit
Non-operating income	9,342	(9,342)	-	-	(a)	
Non-operating expenses	25,213	(25,213)	-	-	(a)	
Extraordinary income	1,633	(1,633)	-	-	(a)	
Extraordinary losses	715	(715)	-	-	(a)	
	-	4,684	(2,128)	2,556	(a),(d)	Finance income
	-	4,270	981	5,251	(a),(d)	Finance costs
Profit before income taxes	30,853	-	(3,182)	27,670		Profit before tax
Income taxes	6,867	-	5,966	12,834	(b),(e)	Income tax expense
Profit	23,985	-	(9,149)	14,836		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss:
Valuation difference on available-for-sale securities	(524)	-	2,874	2,350	(d)	Financial assets measured at fair value through other comprehensive income
Remeasurement of defined benefit plans	11,130	-	(848)	10,281	(c)	Remeasurements of defined benefit plans
	-	(1)	-	(1)		Share of other comprehensive income of investments accounted for using equity method
						Items that may be reclassified to profit or loss:
Deferred gains and losses on hedges	(337)	-	211	(125)		Cash flow hedges
Foreign currency translation adjustments	16,407	-	(2,727)	13,680		Exchange differences on translation of foreign operations
Share of other comprehensive income of entities accounted for using equity method	9,218	1	-	9,220		Share of other comprehensive income of investments accounted for using equity method
Total other comprehensive income	35,895	-	(489)	35,405		Total other comprehensive income
Comprehensive income	59,880	-	(9,639)	50,241		Comprehensive income

(b) Notes on reconciliation of profit and loss and comprehensive income

(Reclassification)

a) Reclassification of line items
For items presented as "Non-operating income," "Non-operating expenses," "Extraordinary income" and "Extraordinary losses" under Japanese GAAP, finance-related profits and losses are recorded as "Finance income" and "Finance costs," and other items are presented as "Cost of sales," "Other income," "Other expenses," and "Share of profit (loss) of investments accounted for using equity method" under IFRS.

b) Income tax expense
"Income taxes - current" and "Income taxes - deferred," which were separately presented under Japanese GAAP, are presented in total as "Income tax expense" under IFRS.

(Differences in recognition and measurement)
c) Adjustment to employee benefits
Under Japanese GAAP, actuarial gains and losses and prior service costs were recognized in other comprehensive income as incurred. For the amount prorated over a certain number of years within the average remaining service period of employees at the incurrence, actuarial gains and losses were expensed from the fiscal year following the year of the incurrence, while prior service costs were expensed from the fiscal year in which they incurred. Under IFRS, actuarial gains and losses are recognized in other comprehensive income as incurred and immediately reclassified to "Retained earnings." Prior service costs are recognized in profit or loss as incurred.

d) Adjustments to equity instruments
Under Japanese GAAP, unlisted shares and investments with no market value were measured using the cost method. Under IFRS, however, they are measured at fair value. In addition, for equity financial assets, gains and losses on sales and impairment loss were recognized as profit or loss under Japanese GAAP. However, under IFRS, the changes in fair value are recognized as other comprehensive income when subsequent changes in the fair value are designated to be presented in other comprehensive income.

e) Adjustment to tax effects
Regarding the adoption of IFRS, "Deferred tax assets" and "Deferred tax liabilities" have increased or decreased due to the occurrence of temporary differences and the reconsideration of the recoverability of all deferred tax assets. In addition, under Japanese GAAP, tax effects arising from the elimination of unrealized profits and losses are calculated using the effective tax rate of the seller. Under IFRS, however, these are calculated using the effective tax rate of the buyer.

(iii) Adjustment to cash flow

Major differences between the consolidated cash flows statement based on Japanese GAAP and the consolidated cash flows statement based on IFRS are as follows.
・The classification for receivables securitization transactions that do not meet the criteria for derecognition of financial assets under IFRS have been changed from cash flows from operating activities to cash flows from financing activities.
・With the application of IFRS 16, the classification of lease payments under operating leases have been changed from cash flows from operating activities to cash flows from financing activities as "Repayments of lease liabilities."
・The classification for expenditures of development expenses that meet the criteria for capitalization under IFRS have been changed from cash flows from operating activities to cash flows from investing activities.

34. Others

(1) Quarterly financial information

	Millions of yen			
Cumulative	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	¥ 350,344	¥ 759,745	¥ 1,196,330	¥ 1,725,609
Profit before tax	10,605	35,946	72,127	70,349
Profit attributable to owners of parent	5,457	23,763	52,512	53,029
	Yen			
Basic earnings per share	¥ 32.58	¥ 141.89	¥ 313.55	¥ 316.63

	Thousands of U.S. dollars			
Cumulative	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	$ 2,623,514	$ 5,689,269	$ 8,958,589	$ 12,922,038
Profit before tax	79,414	269,178	540,115	526,801
Profit attributable to owners of parent	40,864	177,947	393,230	397,102
	U.S. dollars			
Basic earnings per share	$ 0.244	$ 1.063	$ 2.348	$ 2.371

Three months	Yen			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Basic earnings per share	¥ 32.58	¥ 109.30	¥ 171.65	¥ 3.08

Three months	U.S. dollars			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Basic earnings per share	$ 0.244	$ 0.818	$ 1.285	$ 0.023

(2) Material lawsuits, etc.

<Receipt of customs duty reassessment notification in the Kingdom of Thailand>
KAWASAKI MOTORS ENTERPRISE (THAILAND) CO., LTD. (hereinafter referred to as "KMT"), a consolidated subsidiary of the Company in the Kingdom of Thailand, received a reassessment notification of customs duties for 4,029 million baht ($117,568 thousand) 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.

In this case, KMT is proceeding in a direction in which its assertions can be accepted.

<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 a breach of contract by an overseas construction subcontractor. During the arbitration proceedings, the counterparty claimed damages from the Company, but the Company believes that these claims lack legitimate grounds and are thus unjustified. The Company will continue to assert the legitimacy of its claims through the arbitration process.

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