1.

Basis of presenting consolidated financial statements

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2020, which was ¥108.83 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange. As permitted, fractional amounts have not been adjusted.

2.

Significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. The consolidated financial statements include the accounts of the Company and 96 subsidiaries (94 in the year ended March 31, 2019). The aggregate amount of total assets, net sales, profit and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2020, 17 affiliates (17 in 2019) were accounted for by the equity method. For the year ended March 31, 2020, investments in 11 affiliates (10 in 2019) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the profit and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end

For the year ended March 31, 2020, the fiscal year-end of 30 consolidated subsidiaries (30 in 2019) was December 31. These subsidiaries were consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, were adjusted for on consolidation.

(d) Foreign currency translations

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

(e) Revenue recognition

<Sales of products and construction contracts>

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

(f) Cash and cash equivalents

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

(g) Allowance for doubtful receivables

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

(h) Assets and liabilities arising from derivative transactions

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

(i) Inventories

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

(j) Investment securities

The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2020 or 2019. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

(k) Property, plant and equipment

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

(l) Intangible assets

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

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

(m) Provision for bonuses

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

(n) Provision for construction warranties

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

(o) Provision for losses on construction contracts

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

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

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

(q) Provision for sales promotion expenses

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

(r) Retirement benefit liability

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

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

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

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

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

(s) Hedge accounting

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

(t) Finance leases

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

(u) Accounting for consumption taxes

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

(v) Application of consolidated tax reporting

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

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

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

3.

Changes in accounting policies

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

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

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

4.

Accounting standards issued but not yet adopted

The following guidance was issued but not yet adopted.

1. The Company and its affiliated companies

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

(a) Overview

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

(b) Effective date
Scheduled to be applied from the end of the fiscal year ending March 31, 2021.

• "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)

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

(b) Effective date
Scheduled to be applied from the end of the fiscal year ending March 31, 2021.

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

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

(b) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.

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

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

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

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

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

(b) Effective date
Scheduled to be applied from the beginning of the fiscal year ending March 31, 2022

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

2. Subsidiaries and affiliated companies in the United States
• Topic 842 "Leases"

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

(b) Effective date
Scheduled to be applied from the beginning of the fiscal year ending March 31, 2022.

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

5.

Additional information

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

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

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

(ii) Countries other than China
The spread of the coronavirus will peak in the first quarter of FY2020, subsequently settle down, and economic activity will head towards normalization from the third quarter of FY2020.

6. Work in process

A trust was established for the Company's accounts receivable–trade generated in selling certain work in process using a self-settled trust. The Company has a beneficiary interest in the accounts receivable–trade as trust assets. The work in process related to the trust assets as of March 31, 2020 and 2019 amounted to ¥4,479 million ($41,156 thousand) and ¥4,926 million, respectively.

7. Accumulated depreciation of property, plant and equipment

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

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

8. Securities

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

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

2019	Millions of yen		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥8,008	¥3,488	¥4,519
Other securities:			
Equity securities	131	141	(9)
Total	¥8,140	¥3,629	¥4,510

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

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

2019	Millions of yen		
	Sales amounts	Gains	Losses
Equity securities:	¥965	¥862	¥–

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

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

9. Investments in non-consolidated subsidiaries and affiliates

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

10. Claim for damages in overseas LNG tank construction work

Year ended March 31, 2020
The Company sustained losses (approximately ¥51 billion ($468,621 thousand)) due to breach of contract by an overseas construction subcontractor in connection with a certain overseas liquefied natural gas (LNG) tank construction project. The Company has filed a petition for arbitration on this matter with the International Chamber of Commerce (ICC). The Company plans to settle this matter through the arbitration process, and the expected amount recoverable through the arbitration process has been recorded in "Others" under "Investments and other assets."

Year ended March 31, 2019
In connection with a certain liquefied natural gas (LNG) tank construction project carried out by the Company overseas, the Company filed a petition for arbitration with the International Chamber of Commerce (ICC) during the fiscal year under review concerning losses sustained by the Company due to breach of contract by an overseas construction subcontractor. The Company plans to recover the amount of loss (approximately ¥51 billion) in connection with this matter through future arbitration and has recorded a portion of the expected amount in "Others" under "Investments and other assets."

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

In the fiscal year ended March 31, 2020 and with regard to the gas-fired power generation facility in Japan constructed by the Company but not yet delivered, the client has informed the Company that they are unable to honor their payment as a result of credit insecurity. On the consolidated balance sheet, assets related to this project are recorded in both trade receivables and work in process. The outstanding unpaid amount due to the Company is approximately ¥20 billion ($183,773 thousand), and negotiations aimed at collecting the unpaid amount are under way, including negotiations on a possible sale of the facility to a third party.

12.

Short-term debt and long-term debt

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

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

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

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

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

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

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

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

13.

Provision for losses on construction contracts

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

14.

Employees' retirement and severance benefits

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

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

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

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

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

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

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

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

(4) Breakdown of retirement benefit expense

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

(5) Adjustments for retirement benefits

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

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

(6) Accumulated adjustments for retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized prior service cost	¥ 616	¥(1,482)	$ 5,660
Unrecognized actuarial gains and losses	(29,566)	(5,979)	(271,671)
Total	¥(28,949)	¥(7,462)	$(266,002)

(7) Plan assets

(i) Main breakdown of plan assets

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

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

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

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

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

(8) Underlying actuarial assumptions

The main underlying actuarial assumptions as of March 31, 2020 and 2019, respectively, were as follows:

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

3. Defined contribution plan

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

15.

The provision for the in-service issues of commercial aircraft jet engines

The Company participates as a risk and revenue sharing partner on the Rolls-Royce Trent 1000 engine program, which has been impacted by the challenge of managing significant in-service issues. Rolls-Royce continues to work hard to remedy this situation and has made further substantial progress on the implementation of long-term solutions and mitigation of the near-term impact on customers. The Company made a provision for the abnormal cost related to in-service issues which the Company would cover as a member of this program.

16.

Contingent liabilities

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

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

17.

Net assets

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

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

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

18.

Cost of sales

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

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

19.

Research and development expenses

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Research and development expenses	¥52,608	¥48,734	$483,396

20.

The payments for the in-service issues of commercial aircraft jet engines

The Company participates as a risk and revenue sharing partner on the Rolls-Royce Trent 1000 engine program, which has been impacted by the challenge of managing significant in-service issues. Rolls-Royce continues to work hard to remedy this situation and has made further substantial progress on the implementation of long-term solutions and mitigation of the near-term impact on customers. The Company made a provision for the abnormal cost related to in-service issues which the Company would cover as a member of this program. The provision was included within the non-operating expenses.

21.

Gain on sales of property, plant and equipment

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

22.

Loss on withdrawal from business

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

23.

Consolidated statement of comprehensive income

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

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

24.

Dividends

(a) Dividends paid

Year ended March 31, 2020

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2019 General Meeting of Shareholders	**Common stock**	**¥5,846 million ($53,717 thousand)**	**¥35.0 ($0.32)**	**March 31, 2019**	**June 27, 2019**
October 31, 2019 Board of Directors Meeting	**Common stock**	**¥5,846 million ($53,717 thousand)**	**¥35.0 ($0.32)**	**September 30, 2019**	**December 2, 2019**

Year ended March 31, 2019

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

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

Year ended March 31, 2020

Not applicable.

Year ended March 31, 2019

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

25.

Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporate tax (national tax) and enterprise and inhabitants' taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 30.5% for the years ended March 31, 2020 and 2019.

(a) The significant differences between the statutory and effective tax rates for the years ended March 31, 2020 and 2019 were as follows:

	2020	2019
Statutory tax rate	**30.5%**	30.5%
Valuation reserve	**19.7**	(0.9)
Equity in income of non-consolidated subsidiaries and affiliates	**(1.0)**	(1.7)
Tax credit for research and development expenses	**(1.9)**	(4.7)
Elimination of unrealized profits	**0.3**	(1.1)
Retained earnings for foreign subsidiaries	**0.2**	1.0
Other	**0.7**	(1.9)
Effective tax rate	**48.4%**	21.2%

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

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

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

26.

Cash and cash equivalents

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

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

27.

Profit per share

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

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

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

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

28.

Derivative transactions

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

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

	2020				
	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell					
USD	**¥74,350**	**¥ –**	**¥(311)**	**¥(311)**	**$(2,858)**
EUR	**11,566**	**–**	**45**	**45**	**413**
Others	**7,609**	**28**	**259**	**259**	**2,380**
To purchase					
USD	**973**	**–**	**1**	**1**	**9**
EUR	**230**	**–**	**(13)**	**(13)**	**(119)**
Others	**1,903**	**6**	**(61)**	**(61)**	**(561)**
Total	**¥96,634**	**¥34**	**¥ (81)**	**¥ (81)**	**$ (744)**

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

(Derivative transactions to which the Company applied hedge accounting)

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

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

		2020		
		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency related contracts:				
Foreign exchange contracts				
To sell	Accounts receivable–trade			
USD		**$160,719**	**$ 8,316**	**$(2,049)**
EUR		**27,189**	**–**	**119**
Others		**3,078**	**312**	**(0)**
To purchase	Accounts payable–trade			
USD		**47,634**	**17,844**	**2,196**
EUR		**22,962**	**2,325**	**(349)**
Others		**44,547**	**2,830**	**(110)**
Total		**$306,147**	**$31,646**	**$ (193)**

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

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

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

		2020		
		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Fixed-rate payment/floating-rate receipt	Long-term loans payable	**$160,801**	**$160,801**	**$(1,231)**
		$160,801	**$160,801**	**$(1,231)**

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

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

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

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

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

(Derivative transactions to which the Company applied hedge accounting)

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

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

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

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

29. Financial instruments

Information related to financial instruments as of March 31, 2020 and 2019 was as follows.

(1) Matters related to the status of financial instruments

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

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

Almost all notes and accounts payable—trade and electronically recorded obligations are due within one year. A portion of accounts payable—trade are denominated in foreign currency—specifically those related to payment for imported materials, etc., and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of accounts payable—trade denominated in foreign currency being less than the position of receivables in the same currency. Loans payable and bonds payable are used mainly to raise operating capital and carry out capital expenditure and are due in a maximum of twenty years from March 31, 2020 (eighteen years in 2019). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest rate and currency swaps) as necessary.

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

(c) Risk management system for financial instruments

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

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

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

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

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

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

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

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

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

(d) Supplemental information on the fair value of financial instruments
The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described in Note 25, "Derivative transactions," these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments

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

	2020			
	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash and deposits	**¥106,108**	**¥106,108**	**¥ –**	**$ –**
Notes and accounts receivable–trade	**473,204**	**473,133**	**(71)**	**(652)**
Investment securities	**5,738**	**5,738**	**–**	**–**
Total assets	**¥585,052**	**¥584,981**	**¥ (71)**	**$ (652)**
Notes and accounts payable–trade	**261,159**	**261,159**	**–**	**–**
Electronically recorded obligations–operating	**110,526**	**110,526**	**–**	**–**
Short-term debt and current portion of long-term debt (excluding lease obligations)	**186,188**	**186,188**	**–**	**–**
Long-term debt, less current portion (excluding lease obligations)	**348,859**	**348,662**	**(197)**	**(1,810)**
Total liabilities	**¥906,733**	**¥906,536**	**¥(197)**	**$(1,810)**
Derivative transactions (*)	**¥ (237)**	**¥ (237)**	**¥ –**	**$ –**

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

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

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

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

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

<Assets>

- Cash and deposits

  The book values are used as the fair values since the settlement periods of these items are short and their fair values are substantially the same as their book values.
- Notes and accounts receivable–trade

  The fair value of notes and accounts payable–trade is stated at present value computed by applying a discount rate reflecting the settlement period and the credit risk.
- Investment securities

  Equity securities are stated at the fair value, and bonds are stated at market price. See Note 2(j), "Investment securities," for the detailed information by classification.

<Liabilities>

- Notes and accounts payable–trade, Electronically recorded obligations–operating, short-term loans payable and current portion of long-term loans payable

  Since the settlement periods of these items are short and their fair values are substantially the same as their book values, the relevant book values are used.

- Long-term debt, less current portion

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

<Derivatives>

See Note 28, "Derivative transactions."

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

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

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

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investment securities with maturity dates as of March 31, 2020 and 2019 were as follows:

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

	2020			
	Thousands of U.S. dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	**$ 974,989**	**$ –**	**$–**	**$–**
Notes and accounts receivable–trade	**4,032,886**	**315,216**	**–**	**–**
Convertible bonds	**–**	**1,645**	**–**	**–**
Total	**$5,007,884**	**$316,861**	**$–**	**$–**

	2019			
	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	¥ 74,311	¥ –	¥–	¥–
Notes and accounts receivable–trade	408,527	19,137	–	–
Total	¥482,839	¥19,137	¥–	¥–

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

See Note 12, "Short-term debt and long-term debt."

30.

Finance leases

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

<Lessee>

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

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

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

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

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

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

31.

Operating leases

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

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

32.

Segment information

(a) Overview of reportable segments

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

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

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

(b) Calculation methods for sales, profit (loss), assets, liabilities and other items by reportable segment

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

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

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

Year ended March 31, 2020

Millions of yen

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

Year ended March 31, 2019

Millions of yen

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

Year ended March 31, 2020

Thousands of U.S. dollars

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

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

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

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

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

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

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

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

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

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

(e) Related information

(i) Sales by geographic region

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

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

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

Property, plant and equipment

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

(ii) Information by major clients

Year ended March 31, 2020

Clients	Net sales	Related segments
Ministry of Defense	¥256,839 million ($2,360,002 thousand)	Aerospace Systems, Energy System & Plant Engineering, Ship & Offshore Structure, etc.

Year ended March 31, 2019

Clients	Net sales	Related segments
Ministry of Defense	¥216,989 million	Aerospace Systems, Energy System & Plant Engineering, Ship & Offshore Structure, etc.

33. Related party transactions

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

	Year ended March 31, 2020 — Non-consolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($92 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥118,869 million ($1,092,245 thousand)
Account	Accounts receivable—trade
Ending balance	¥56,654 million ($520,573 thousand)
Account	Advances received
Ending balance	¥52,346 million ($480,989 thousand)

	Year ended March 31, 2019 — Non-consolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥115,035 million
Account	Accounts receivable—trade
Ending balance	¥15,003 million
Account	Advances received
Ending balance	¥61,246 million

(b) A summary of the total financial information of affiliates, which was the basis for calculating the equity in income of the non-consolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2020 and 2019 is as follows:

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

34.

Subsequent events

(Issuance of Corporate Bonds)

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

1. The 55th unsecured straight bond

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

2. The 56th unsecured straight bond

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

3. The 57th unsecured straight bond

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

35.

Other matters

(a) Quarterly financial information

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

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

(b) Material lawsuits, etc.

<Snow disaster at NIPPI Corporation>

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

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

KAWASAKI MOTORS ENTERPRISE (THAILAND) CO., LTD. (hereinafter, "KMT"), a consolidated subsidiary of the Company in the Kingdom of Thailand, received a reassessment notification of customs duties for 4,029 million baht (equivalent to approximately ¥14,000 million ($128,641 thousand) when converted at a rate of 0.29 yen to 1 baht) from the Revenue Department of Thailand. KMT had until that time filed its customs duties in accordance with guidance from the Revenue Department. Since the content of the notification of reassessment lacked a legitimate basis and was extremely unreasonable, KMT could not accept it and submitted an appeal of the reassessment to the Commission of Appeal, the appeals body for tax assessments received from the Revenue Department of Thailand. Based on the opinion of attorneys consulted regarding this matter, the Company maintains that there is a strong possibility KMT's assertion will be upheld.

<Claim for damages in overseas LNG tank construction work>

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

Independent auditor’s report

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

Opinion

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

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

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

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

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

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

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

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

Tanaka Motohiro

Designated Engagement Partner

Certified Public Accountant

Narumoto Koji

Designated Engagement Partner

Certified Public Accountant

Seishi Kyoichi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Kobe Office, Japan

June 25, 2020

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