

**Notice Regarding the Additional Investigation Findings for Submarine
Repairs and Marine Engines, and Measures to Prevent Recurrence
(Progress on Disclosed Matters)**

As announced in two press releases published on July 3, 2024 (“Kawasaki reports findings related to the tax investigation on the 201st Securities Report”) and August 21, 2024 (“Notice Regarding Misconduct in the Testing of Marine Diesel Engines”), Kawasaki Heavy Industries, Ltd., discovered misconduct in its submarine repairs business and in the testing of its marine engines. The Company takes this misconduct very seriously and offers an assurance to all stakeholders that it will continue to take clear and resolute compliance measures to ensure such misconduct is prevented in the future.

To address the two areas of misconduct, the Company established two Special Investigative Committees, comprising of external legal experts, to conduct a thorough investigation. Following the publication of the interim report (the “Interim Report”)*¹, which covers fact-finding, background, and root-cause analysis, management and employees have further cooperated in these additional investigations and have worked on thoroughly examining past incidents with determination to put controls in place to eradicate the issues that led to these incidents.

Today, the Company received final reports for the two investigations described below in items (1) and (2) and against which corrective measures have been taken.

- (1) Work hours misallocation at the Kobe Shipyard (a special defense investigation final report published by the Ministry of Defense on July 30, 2025)
- (2) Misconduct in the fuel efficiency testing of submarine engines (published as “the possibility that there may also have been misconduct in fuel efficiency testing for some submarine engine models manufactured up to 2021” on August 29, 2025)

Further details will be provided in the English version of the investigation report, which will be published in the near future.

These additional investigations conclude the respective Special Investigative Committees' investigations. However, the Company takes the repeated compliance incidents and the reports from each committee very seriously and will continue to thoroughly implement highly effective recurrence prevention measures to not only enhance the compliance and governance system but also to restore trust. This will be conducted under the leadership of the Special Compliance Promotion Committee*² (Refer to Figure 1) chaired by the President, while taking into consideration the recurrence prevention measures recommended by the Special Investigative Committees for the two incidents and focusing on the three core compliance pillars: creating a system that

prevents misconduct, strengthening detection capabilities, and reforming organizational culture.

Building on the announcements made on December 25 and 27, 2024, the Company further reports as follows regarding the group-wide recurrence prevention measures. Please refer to tables 1 and 2 for the background concerning the two incidents.

The Company is currently examining whether these findings will have an impact on financial results. If it is determined to be the case, an appropriate notification will be issued.

Table 1: Background of the Submarine Repair Incident

Special Investigative Committee	Date of establishment Office	June 14, 2024 Kitahama Partners
Incidents discovered	The investigation reported in the interim report	1) Fictitious transactions between the Ship Repair Department of the Company's Kobe Shipyard and business partners. 2) Use of funds generated through such fictitious transactions for the purchase of goods and cash vouchers, as well as for food and drink expenses. 3) Involvement of Company employees and submarine crew members in the use of these funds as indicated in 2) above.
	The investigations reported in this report	Inaccurate records of actual work hours at the Kobe Shipyard
Disclosure background	July 3, 2024 December 27, 2024	<ul style="list-style-type: none"> • Kawasaki Reports Findings Related to the Tax Investigation on the 201st Securities Report • [Announcement by the Ministry of Defense] The Status of Special Defense Investigation (Interim Report) • Notice Regarding the Findings of the Special Investigative Committee for Submarine Repairs (Interim Report) and Measures to Be Implemented in Response (Progress on Disclosed Matters) • Notice Regarding Disposition of Officers (Progress on Disclosed Matters)
	April 10, 2025 July 30, 2025	<ul style="list-style-type: none"> • Notice Regarding Tax Investigation Completed by the Osaka Regional Taxation Bureau in Fiscal Year 2024 • [Announcement by the Ministry of Defense] the Final Report of the Special Defense Investigation on Submarine Repair Contracts, Actions Against Parties Involved, and Measures to Prevent Recurrence • Notice Regarding Issues Related to Submarine Repairs (Progress on Disclosed Matters)
	December 26, 2025	<ul style="list-style-type: none"> • Notice Regarding Additional Investigation Findings for the Submarine Repair Incident and the Marine Engine Incident, and Measures to Prevent Recurrence (Progress on Disclosed Matters)

Table 2: Background of the Marine Engine Incident

Special Investigative Committee	Date of establishment Office	August 28, 2024 Mori Hamada & Matsumoto
Incidents discovered	The investigation reported in the interim report	Misconduct in testing two-stroke engines for commercial ships during factory trials
	The investigations reported in this report	Misconduct in fuel efficiency testing for submarine engines
Disclosure background	August 21, 2024	• Notice Regarding Misconduct in the Testing of Marine Diesel Engines
	September 27, 2024	• Notice Regarding Misconduct in the Testing of Marine Engines (Progress on Disclosed Matters)
	September 30, 2024	• [Announcement by the Ministry of Land, Infrastructure, Transport and Tourism] Findings of the Field Investigation on the Existence of Misconduct in the NOx Emission Verification Tests for Marine Engines
	December 25, 2024	• Notice Regarding Misconduct in the Testing of Marine Engines (Progress on Disclosed Matters) (Internal Investigation Report to the Ministry of Land, Infrastructure, Transport and Tourism)
	December 27, 2024	• Notice Regarding Disposition of Officers (Progress on Disclosed Matters)
	January 24, 2025	• (Progress on Disclosed Matters) Notice Regarding the Findings of the Special Investigative Committee for Marine Engines (Interim Report)
	August 29, 2025	• Notice Regarding Misconduct in the Testing of Marine Engines (Progress on Disclosed Matters)
	December 26, 2025	• Notice Regarding Additional Investigation Findings for the Submarine Repair Incident and the Marine Engine Incident, and Measures to Prevent Recurrence (Progress on Disclosed Matters)

Figure 1. Positioning of the Special Compliance Promotion Committee and Special Investigative Committees



Details

In light of governance and organizational culture issues that have contributed to these incidents, the Company has developed three core compliance pillars for its recurrence prevention strategy: creating a system that prevents misconduct, strengthening detection capabilities, and reforming organizational culture. The following measures are being implemented as outlined accordingly.

Measure (1) Creating a system that prevents misconduct

The Company is focusing on the weaknesses of those who engage in misconduct to create a system that prevents misconduct in all operations.

(1) -1 Work process

1) Simultaneous investigation of company-wide testing and inspection processes

Following the marine engine incident, the Company conducted a group-wide investigation into misconduct risks within testing and inspection processes in FY2024 and implemented measures for processes where such risks were identified.

Furthermore, the Marine Propulsion Business Division has been implementing process-focused audits based on internal and external cases of quality-related misconduct since October 2025.

2) Automation of inspection processes

As a permanent measure to address the misconduct risks identified in the simultaneous investigation of company-wide testing and inspection processes, the Company is currently automating inspection processes. Each business division has established a roadmap and is responding accordingly. Going forward, the Company plans to conduct surveys at the end of each fiscal year to confirm the progress of the automation process.

3) Investigation of procurement and other processes

In the submarine repair incident, one cause of the misconduct was that it was possible for repair departments to issue fictitious orders to suppliers. Accordingly, by the end of October 2025, the Company conducted a group-wide investigation of procurement and other processes. This investigation identified misconduct risks within the procurement process, and corrective actions were implemented for processes where such risks were confirmed.

Additionally, in the Ship & Offshore Structure Business Division, steps were taken to strengthen related internal checks. In principle, departments making purchase requests have been prohibited from specifying specific suppliers when making such a request. If there is a specific reason for suppliers being specified, the requesting department must submit documentation explaining its reasons to the Procurement Department in advance to obtain approval.

(1) -2 Structural change

1) Separation of functions and strengthening of the oversight function

In the Energy Solution & Marine Engineering (ES&M) Company, the Quality Assurance Department of the Marine Propulsion Business Division was placed under direct control of the ES&M Company in April 2018, strengthening the oversight function. However, to further enhance the independence of the oversight function, this function will be

transferred from the Quality Assurance Division to the Corporate Planning Division under the direct control of the ES&M Company in January 2026. Other functions have been segregated and transferred to estimation, sales, and warehouse departments respectively, thereby strengthening mutual checks between departments.

(1) -3 System and rules

1) Revision of the estimation method in submarine repair contracts

The previous method for quotation was based on standard work hours defined under the specifications issued by the Japan Maritime Self-Defense Force and its cost accounting categories. This has changed to a quotation using an actual cost-based method based on the Company's cost accounting categories since April 2025.

2) Application of a special clause for the refund of excess profits to submarine repair contracts

Given that the collection and analysis of actual cost data, which serves as the basis for quotation accuracy, is ongoing, the contract type of repair contracts will change from a general fixed contract to a contract with a special clause for the refund of excess profits in August 2024, and contracts will be concluded accordingly. This change applies not only to new contracts but also retroactively to contracts currently in progress.

3) Proper recording of work hours in the Ship & Offshore Structure Business Division

The following system has been implemented since July 2025.

- (1) Create a work record in which workers record their own daily work hours and take it as evidence of entry to the shipbuilding work hour system.
- (2) Workers shall check their work hour records on a monthly basis, and if no mistakes are found, they shall submit a printout of the work hour record with their seal affixed to the Manufacturing Control Section.
- (3) This work record shall be retained for 10 years.

Additionally, the following has been implemented since September 2025.

- (4) Section Managers or Assistant Managers will conduct sampling checks on the last day of each month to check if there are any discrepancies between the work record and the recorded work hours.
 - (5) The Operation Control Department (not the department that entered the work hours) will monitor the implementation of the consistency check in (4) above quarterly, ensuring a double consistency check.
- 4) Prevention of shipments that do not meet quality standards
- In the Marine Propulsion Business Division, the Conditional Shipment regulation, which enables the consideration of quality-delivery time tradeoffs and shipment after obtaining customer approval, has been formulated effectively since September 2024.
- 5) Review of unreasonable quality requirements
- In the Marine Propulsion Business Division, verification of the technical grounds for quality requirements and review of unreasonable quality requirements, even during new product development, have been promoted since November 2024.

6) Establishment of control regulations for measurement systems

In the Marine Propulsion Business Division, control regulations for performance measurement systems have been established. The design of these systems has been deliberated and considered since January 2025 to ensure the prevention of data falsification.

Measure (2) Strengthening detection capabilities

The Company is working on strengthening misconduct detection capabilities and is establishing systems that enable early detection and prevention.

(2) -1 Organizational reforms

1) Establishment of the Corporate Defense Business Management Division

The Company will oversee defense business–related operations of each division, centralizing defense business management within Head Office to boost governance and compliance, as well as the security framework. The Company established the Corporate Defense Business Management Division in November 2024 with a view to integrating the management of defense business–related information and create a unified contact point for external parties, particularly public relations officers. The Company is committed to steps such as reinforcing governance throughout the defense business and implementing compliance education.

2) Centralization of audit organizations at Head Office

From April 2025, the Company will centralize audit functions previously dispersed across business divisions into audit departments at Head Office. This will enable audits to be conducted from an independent perspective using a unified methodology, thereby strengthening group-wide assurance by optimizing audit functions.

(2) -2 Rules and systems

1) Establishment of a business partner reporting system (“Business Partner Hotline”)

The Company established the “Business Partner Hotline” as a system to receive reports from business partners regarding compliance violations by the Company’s officers and employees to ensure thorough compliance. This system has been in full operation since September 2024.

2) Fortification of a whistleblower system

In April 2024, the Company increased the number of attorneys serving as the internal whistleblower contact point to three, thereby strengthening the operational framework. In addition, the Company is continuing to actively encourage the use of the internal whistleblower system, for example, by highlighting cases where problems were corrected through reporting in the Company’s newsletter.

3) Promotion of efforts to prevent expense misconduct

The Company is promoting various measures to prevent accounting misconduct ensuring that proper accounting practices form the foundation of compliance. In addition to establishing stricter internal regulations and operational rules for the reimbursement of expenses incurred by employees in the course of their duties, the Company has begun to operate data audits that monitor expense reimbursement data for employees across the Group, aiming to deter and quickly detect expense misconduct.

4) Strengthening of quality audits

As a deterrent against misconduct and to proactively detect individual irregularities, the Company is enhancing quality audits by introducing measures such as audits that extend into testing and inspection processes. In addition, the Company is strengthening its quality assurance function to ensure that checks and balances between departments function effectively.

5) Introduction of verification system using photography

In the Marine Propulsion Business Division, the delivery and inspection of goods was consolidated into the Warehouse Department from April 2024. Subsequently, a system has been developed where photographs are taken by acceptance inspection departments during physical item verification, enabling subsequent verification.

6) Recording of decision-making and implementation of sampling inspections

In the Marine Propulsion Business Division, regulations for preserving records of decision-making and periodic sampling inspections have been implemented since September 2025.

Measure (3) Reforming organizational culture

For many years, the organizational culture promoted following past practices without question, did not confront management or challenge hierarchy, and did not escalate this outside of their divisions, which has resulted in continuous compliance violations. The Company is committed to reforming the organizational culture and this requires cultivation of an open workplace environment, with the stated objective being to understand the workplace environment, promote communication between management and employees, emphasize insights offered by the unconventional perspective and points of view of new employees and mid-career hires, and actively exchanging personnel.

(3) -1 Clarification of policies

1) Establishment of basic legal and compliance policies

In January 2025, the Company established its Basic Legal and Compliance Policy, which clearly sets forth the compliance-first principle, based on the belief that compliance must take precedence in every situation and that any corporate activities that violate laws, regulations or social norms will not be tolerated.

2) Strengthening of employee awareness of compliance, etc.

In addition to continuing existing compliance education initiatives targeting the Company's employees, including code of conduct read-through sessions and e-learning, the Company has taken steps to promote a compliance-first mindset, including information sharing and the promotion of discussion related to compliance issues at the Board of Directors' and management meetings, and by releasing regular messages from the President conveying the importance of compliance.

(3) -2 Human resources and education

1) Education for managers

Recognizing that managers, department heads, and others particularly familiar with the workplace are key to preventing compliance violations, the Company conducted compliance training from December 2024 to January 2025 focused on a better understanding of past cases that led to disciplinary action and creating open workplaces. In addition, from May to June 2025, the Company

conducted training to deepen understanding of the importance of enhancing the wellbeing of employees.

2) Defense compliance education

From May to July 2025, the Corporate Defense Business Management Division led the implementation of “Defense Compliance Training” explaining proper cost recording, the importance of specifications, and the content of the Self-Defense Forces Personnel Ethics Act to employees involved in the Company’s defense business. In addition, the “Defense Business Compliance Guidebook” was published in November 2025 to ensure thorough compliance in defense business operations.

3) Establishment of a compliance awareness facility

The Company plans to establish a permanent Compliance Awareness facility within Kobe Works with the aim of ensuring that officers and employees correctly understand the circumstances that lead to misconduct incidents and their negative impact on society, while also preventing reduced awareness. Preparations for the facility, including exhibition content planning, are currently underway.

4) Compliance and ethics education

July 3 has been designated as Compliance Day at the ES&M Company, and the Company conducts ongoing compliance education based on an annual plan. At the Ship & Offshore Structure Business Division, furthermore, the third day of each month has been designated as Compliance Day.

In addition, in the Ship & Offshore Structure Business Division, the Company has established and implemented regulations for entertainment expenses on both the host and guest sides that are in line with ethical regulations for public officials and members of the Self-Defense Forces. In the Marine Propulsion Business Division, a compliance-first culture is being promoted through regular top management messages emphasizing the importance of customer integrity and eliminating the fraud triangle (motive, opportunity, and rationalization).

5) Strengthening of human resource exchange

In the Marine Propulsion Business Division, personnel rotation regulations and rules will be applied from April 2026 to prevent personnel from staying in fixed roles.

(3) -3 Creation of a positive workplace

1) Creation of a positive workplace

In an effort to create work environments that are conducive to freedom of expression and to both discourage compliance-related issues and facilitate swift responses in the event of such issues arising, the Company will implement specific measures, such as accelerating efforts to create regular opportunities for one-on-one communication between supervisors and subordinates with the aim of encouraging supervisors to actively listen to the views of the people they oversee, as well as conducting regular engagement surveys and using 360-degree feedback on managerial staff, to demonstrate an attitude of being attentive to and supportive of the concerns of those at work sites and gain an objective understanding of current workplace conditions.

In addition, in each business division, officers responsible for specific businesses visit workplaces to hold town hall meetings where they engage in direct dialogue with employees, ensuring opportunities for two-way communication.

2) Strengthening of insights from fresh perspectives

Since April 2024, the Company has started implementing initiatives to carefully gather insights and questions regarding organizational culture, such as through the new Alumni Network established in March 2025 for retirees and others, and through follow-up with regular and mid-career hires.

3) Ensuring wellbeing and creating an environment for open exchange of opinions

In the Marine Propulsion Business Division, dialogue sessions between management and employees, as well as meetings in units smaller than sections, have been held regularly since July 2025.

Additionally, a voluntary working group of mid-level employees has been formed to consider organizational culture reforms. The group proposes best case scenarios and solutions with the support of external facilitators, and initiatives by management have been underway since August 2025.

*1: Notice Regarding the Findings of the Special Investigative Committee for Submarine Repairs (Interim Report) and Measures to Be Implemented in Response (Progress on Disclosed Matters) (December 27, 2024)

https://global.kawasaki.com/news_241227-1e.pdf

(Progress on Disclosed Matters) Notice Regarding the Findings of the Special Investigative Committee for Marine Engines (Interim Report) (January 24, 2025)

https://global.kawasaki.com/news_250124-1e.pdf

*2: Established on April 16, 2024, in response to the discovery of the submarine repair and marine engine incidents for the purpose of strengthening group-wide governance and thoroughly preventing recurrence.

— End of Document —

Note : This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.