Kawasaki Heavy Industries, Ltd.

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Group Vision 2030 Progress Report

October 6, 2026

Event Summary

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[Venue Size]		
[Participants]		
[Number of Speakers]	3	
	Yasuhiko Hashimoto	Representative Director, President and Chief Executive Officer
	Katsuya Yamamoto	Representative Director, Vice President and Senior Executive Officer
	Hiroyuki Katsuno	General Manager, Corporate Communications Division
[Analyst Names]*	Kentaro Maekawa	Nomura Securities
	Tsubasa Sasaki	UBS Securities
	Toshiharu Morota	Okasan Securities
	Yuichiro Isayama	Goldman Sachs

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Noguchi: Thank you very much for joining us today at the Kawasaki Heavy Industries, Ltd. “Group Vision 2030” progress report meeting. My name is Noguchi, and I’ll be serving as the moderator for today’s event. Thank you for your participation.

This press conference is scheduled to begin with a presentation by our company lasting approximately 70 minutes, followed by a question-and-answer session of approximately 70 minutes, and is expected to conclude around 3:15 PM.

Today’s meeting is being held both in person and via online livestream. During the Q&A session, we will answer questions from both those attending in person at this venue and those participating online.

Following the conclusion of this stage of the program, we plan to hold a preview of exhibits on both the second and first floors. We hope you will stay with us until the end of the program.

Now, Yasuhiko Hashimoto, the President, Representative Director and Chief Executive Officer of Kawasaki Heavy Industries, will provide an explanation. Please go ahead, Mr. Hashimoto.

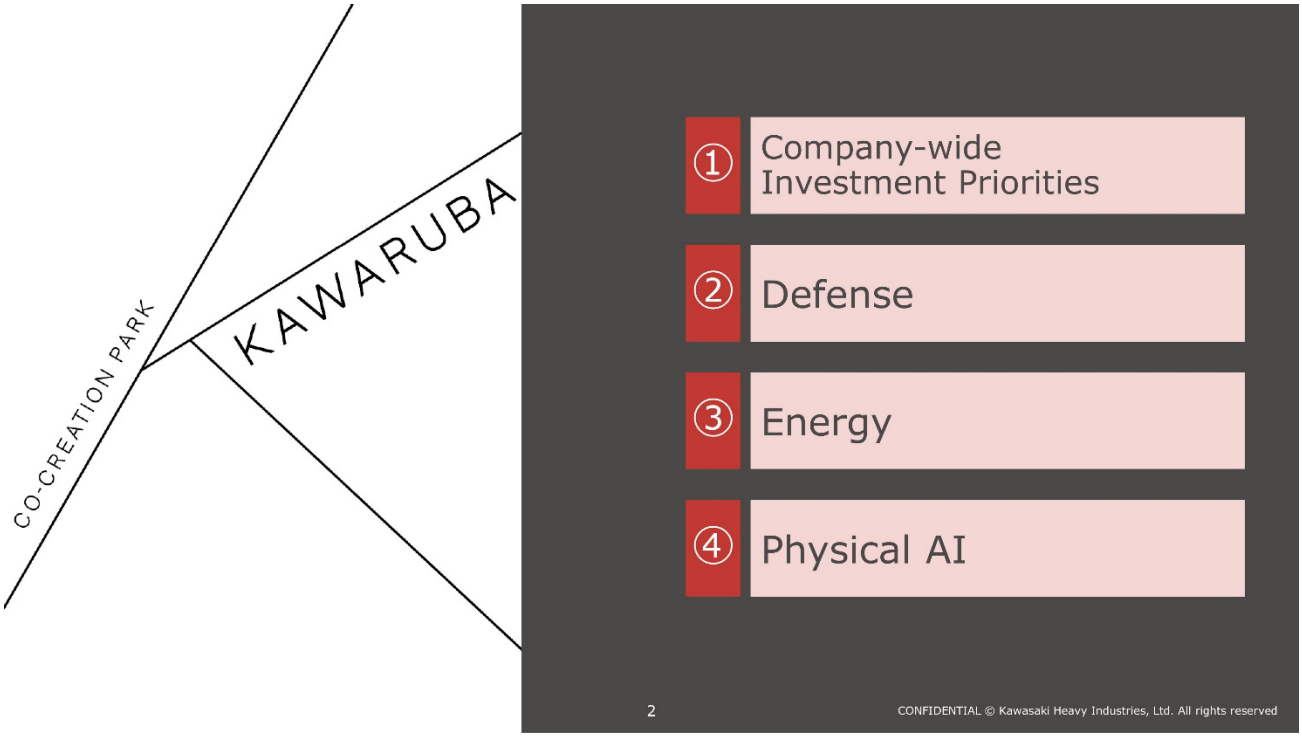
Hashimoto: Hello everyone. I am Hashimoto, President of the Company. Thank you very much for joining us today at the Kawasaki Heavy Industries, Ltd. Group Vision 2030 progress report meeting.

This Group Vision Report is the first in three years, since 2023.

As you all know, a compliance violation was uncovered at Kawasaki Heavy in 2024, and since then we have spent the past two years focusing on rebuilding our governance and compliance framework. We apologize for the concern and inconvenience this has caused everyone, but over the past two years, we have worked to firmly establish our organizational structure and are continuing our efforts to embed this as part of our corporate culture.

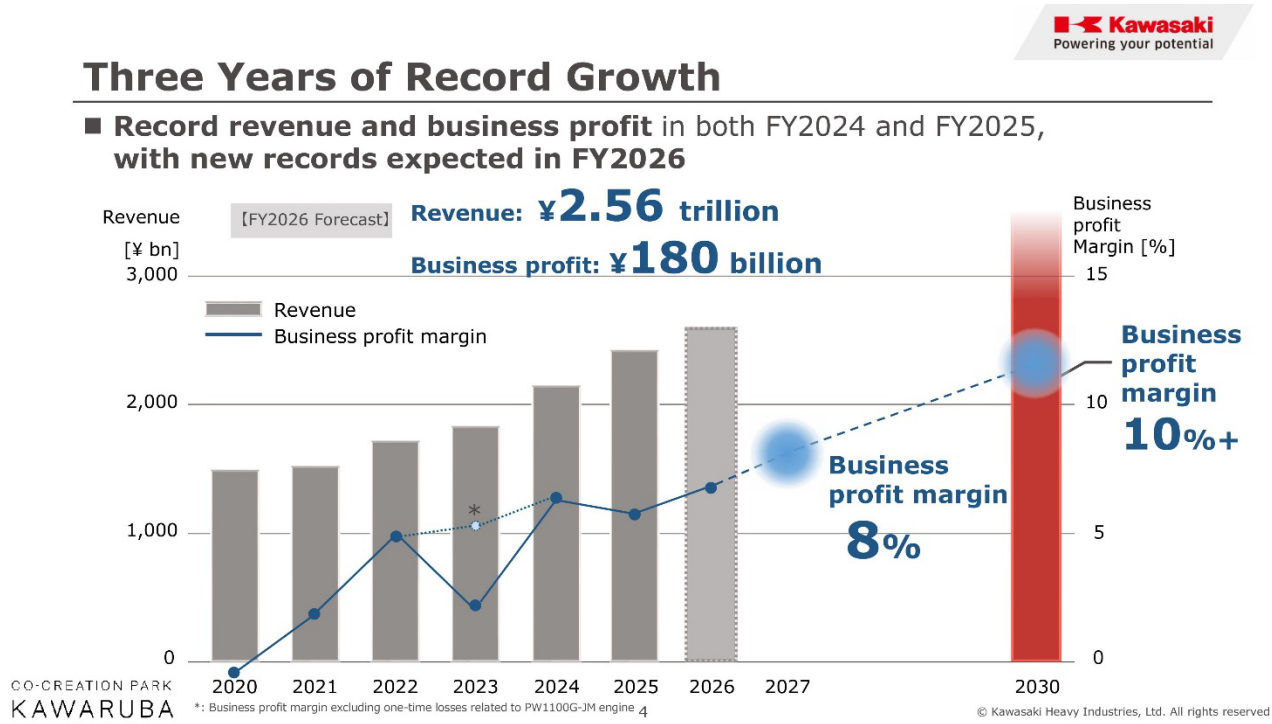
Meanwhile, we have continued to make steady progress toward our Group Vision 2030, and along with the results we have achieved, the path to future growth has become clear.

Today, I’d like to talk to you about that.



Today, I will explain our company-wide investment priorities, as well as our initiatives in the defense and energy sectors—areas where we are focusing our efforts—and our work in the field of physical AI.

I am confident that as you listen to today's presentation, you will see how it directly contributes to the realization of our Group Vision 2030.

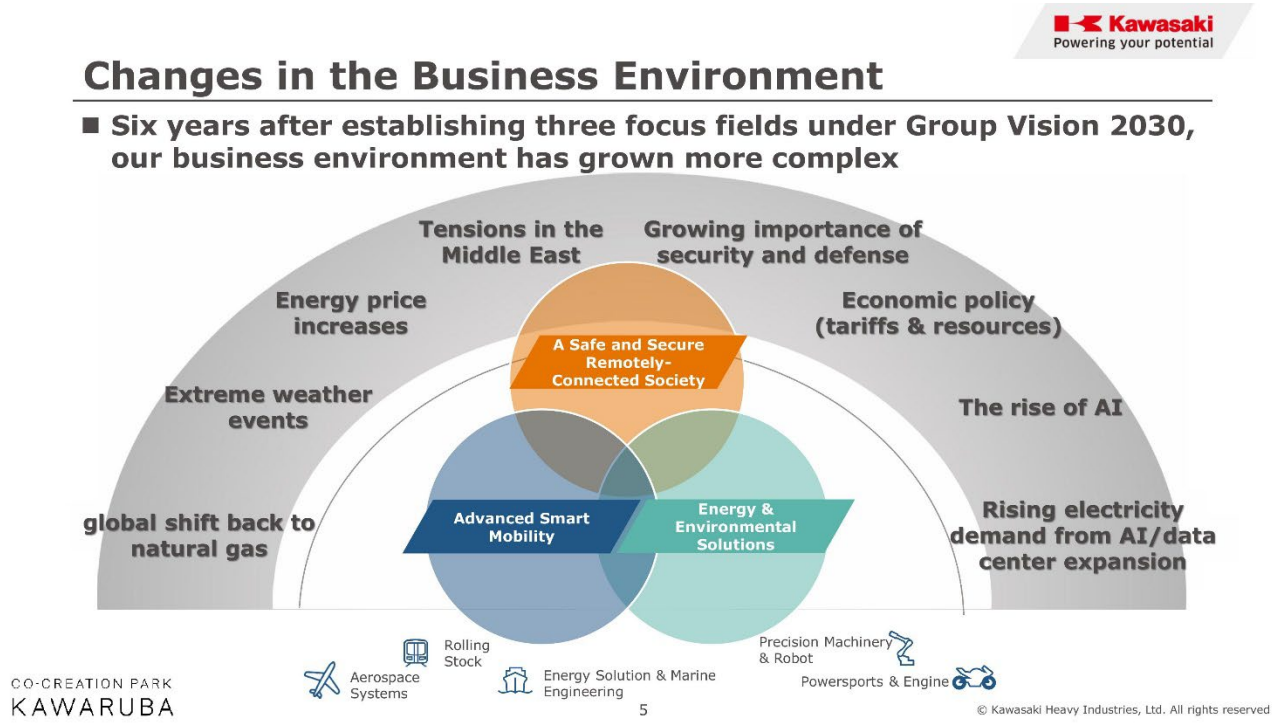


Our company-wide investment priorities.

I'd like to look back on the past three years.

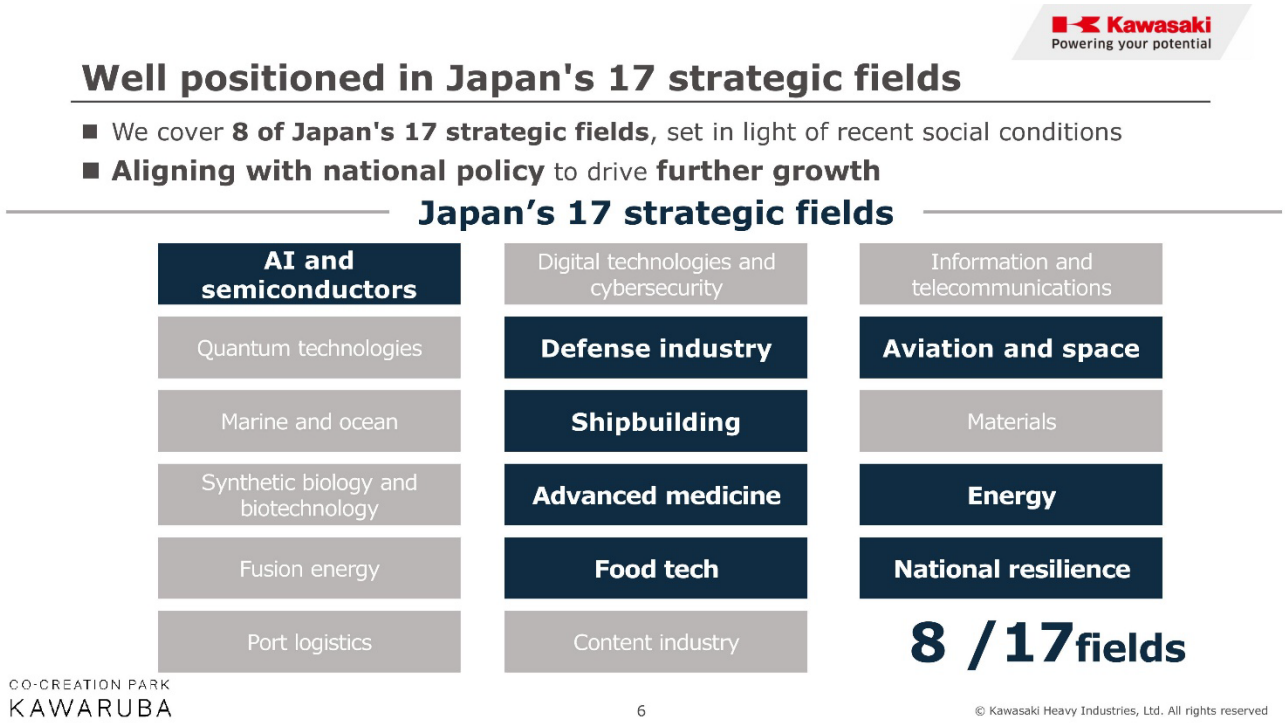
Both revenue and business profit reached new record highs in both 2024 and 2025. Furthermore, for the current fiscal year, we expect revenue to reach JPY2.56 trillion and business profit to reach JPY180 billion—both new record highs.

We are making steady progress toward the revenue and profit targets set out in our Group Vision 2030.

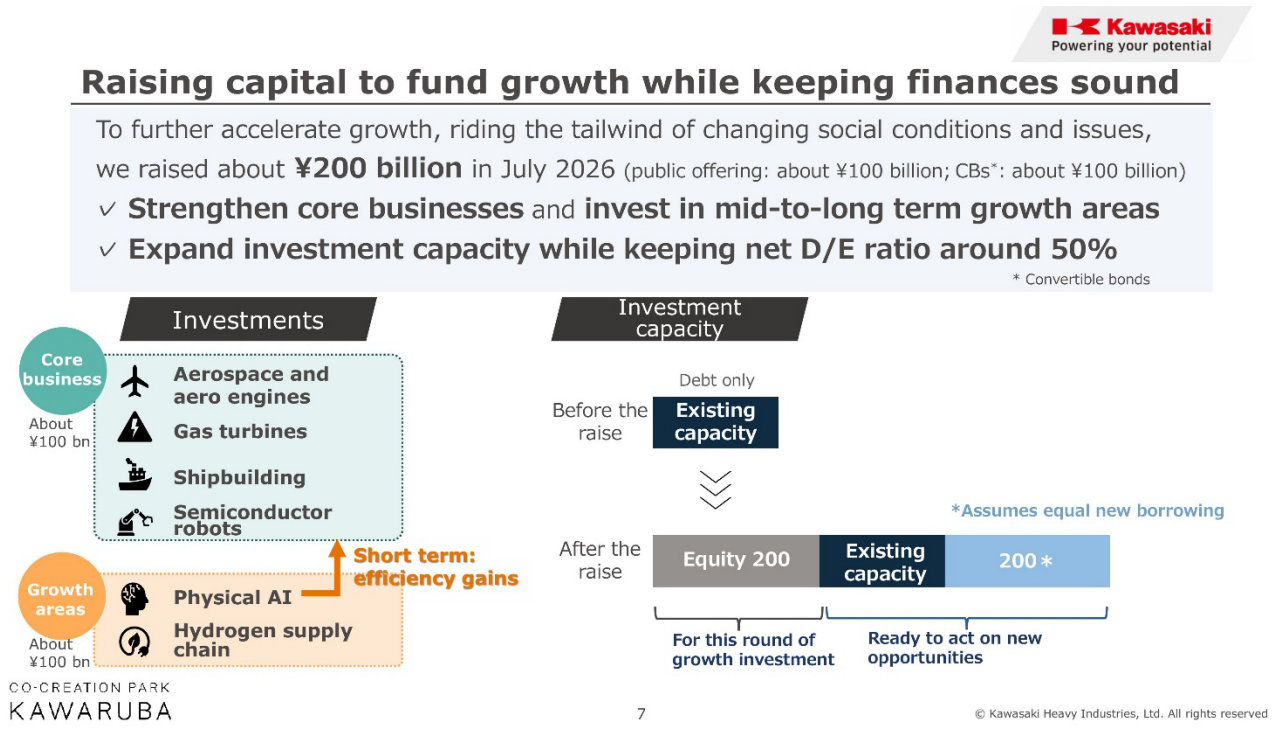


In addition, in our Group Vision 2030, we have identified three key focus areas: a safe and secure remotely connected society, advanced smart mobility, and energy and environmental solutions.

Six years have passed since the policy was established. During that period, the environment surrounding our business has changed significantly and is becoming increasingly complex, driven by factors such as the global shift back to natural gas, extreme weather events, escalating tensions in the Middle East, energy risks, and rising prices.



In light of these changes in the social landscape, the government established 17 strategic fields for Japan in 2026. Of the 17 fields, our business activities fall under eight of them—half of the total—and we will continue to align with national policies to further accelerate the growth of our business.

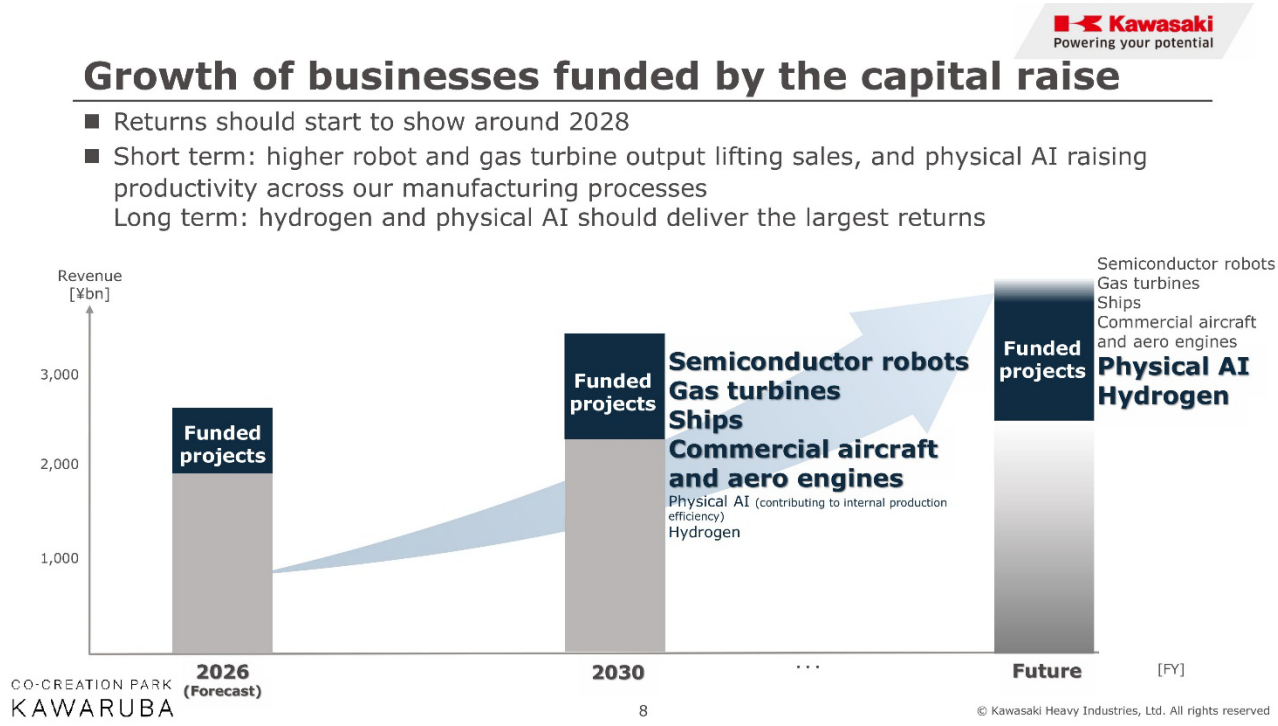


To further accelerate the growth of our business, by capitalizing on changes in the external environment, we raised approximately JPY200 billion in capital financing in July of this year.

We will allocate approximately JPY100 billion to strengthen our core businesses—including aerospace and aero engines, gas turbines, shipbuilding, and robotics.

Meanwhile, another approximately JPY100 billion is allotted to mid- to long-term growth areas such as the development of a hydrogen supply chain and physical AI, thereby executing growth investments. As for physical AI, in the short term, we will begin by investing in development aimed at improving internal production efficiency.

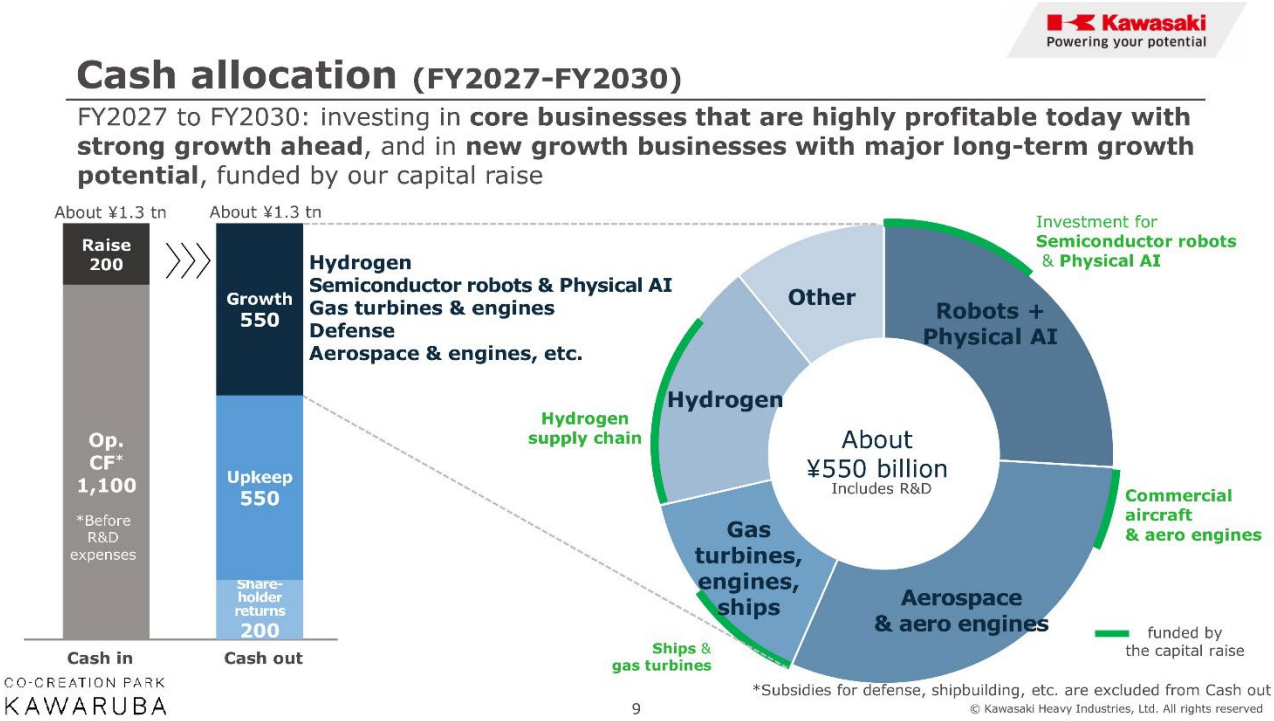
In addition, through this capital financing, we will maintain financial soundness—with a target net D/E ratio of approximately 50%—while utilizing our expanded investment capacity to further accelerate growth-centric investments.



We expect the investment returns from capital financing to begin materializing around 2028.

In the short term, we expect to see significant returns on investment from increased production of robots and gas turbines, as well as from the use of physical AI in the manufacturing processes of these businesses.

In the medium to long term, in addition to these businesses, we anticipate significant returns on investment from the development of hydrogen and supply chains, as well as from the use of physical AI to further strengthen the competitive edge of each business.

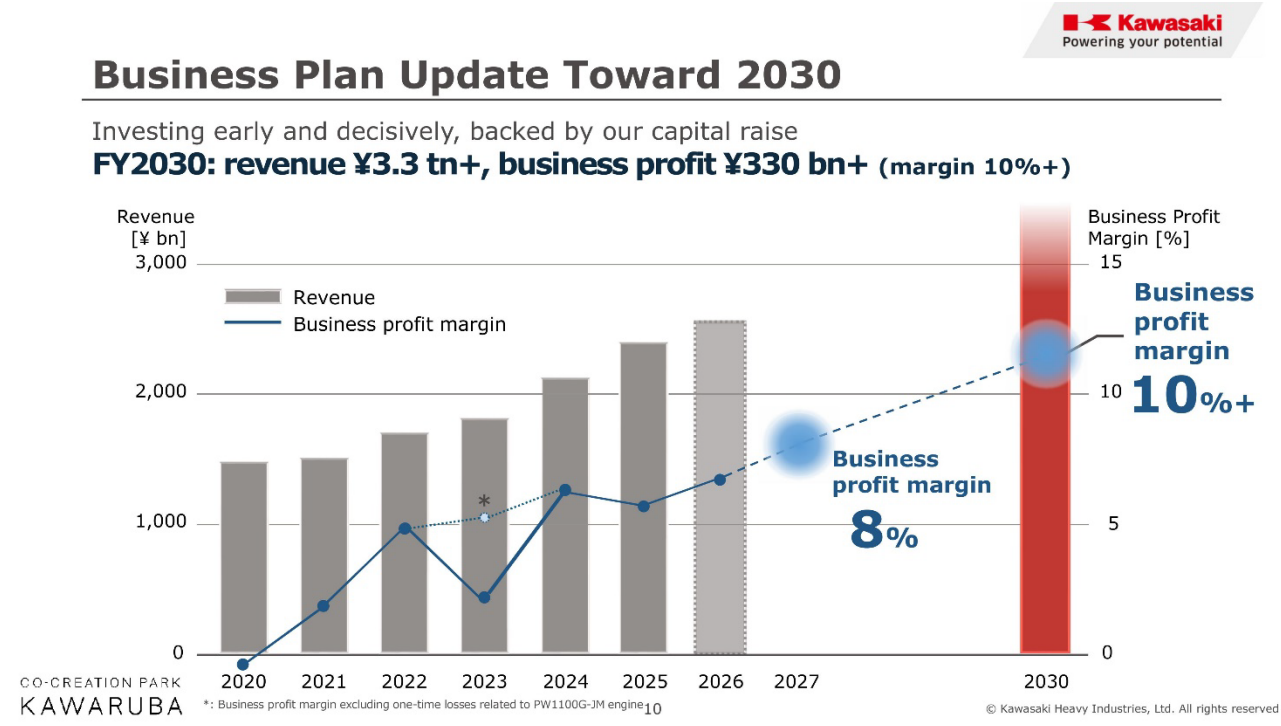


Here is an overview of our cash allocation for the four-year period from 2027 to 2030.

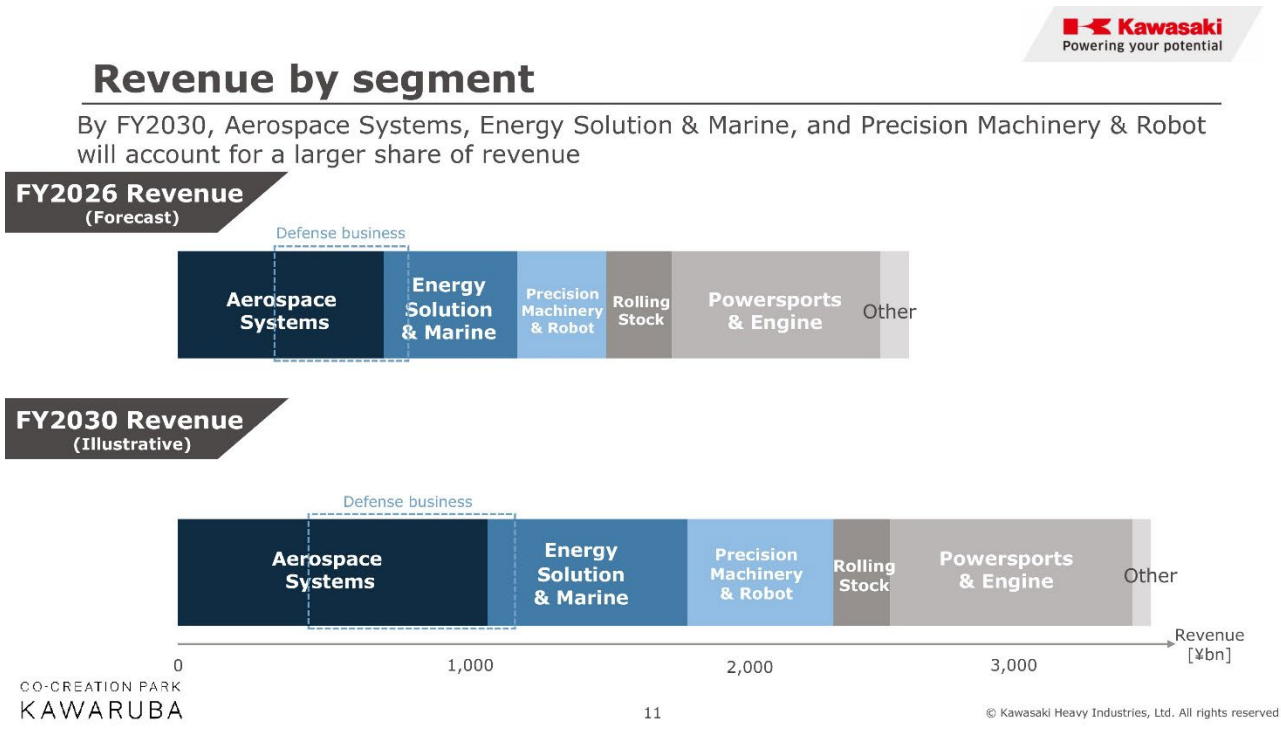
We will now focus on promoting investment primarily in our core businesses, which are currently highly profitable and expected to see significant future growth, as well as in new businesses under development, which are projected to experience rapid growth over the medium to long term.

We expect total cash inflows for this four-year period—comprising operating cash flow and the proceeds from this capital financing—to total approximately JPY1.3 trillion. The cash outflow is projected to consist of approximately JPY550 billion for growth-oriented investments in businesses such as hydrogen, robotics, gas turbines, defense, and aerospace and engines; approximately JPY550 billion for other recurring investments; and approximately JPY200 billion for shareholder returns.

The breakdown of the JPY550 billion in growth investments shows that robotics + physical AI and aerospace & aero engines account for the majority, as illustrated in the pie chart on the right. In addition, the funds raised through capital financing will be allocated to the green areas outside the circle.

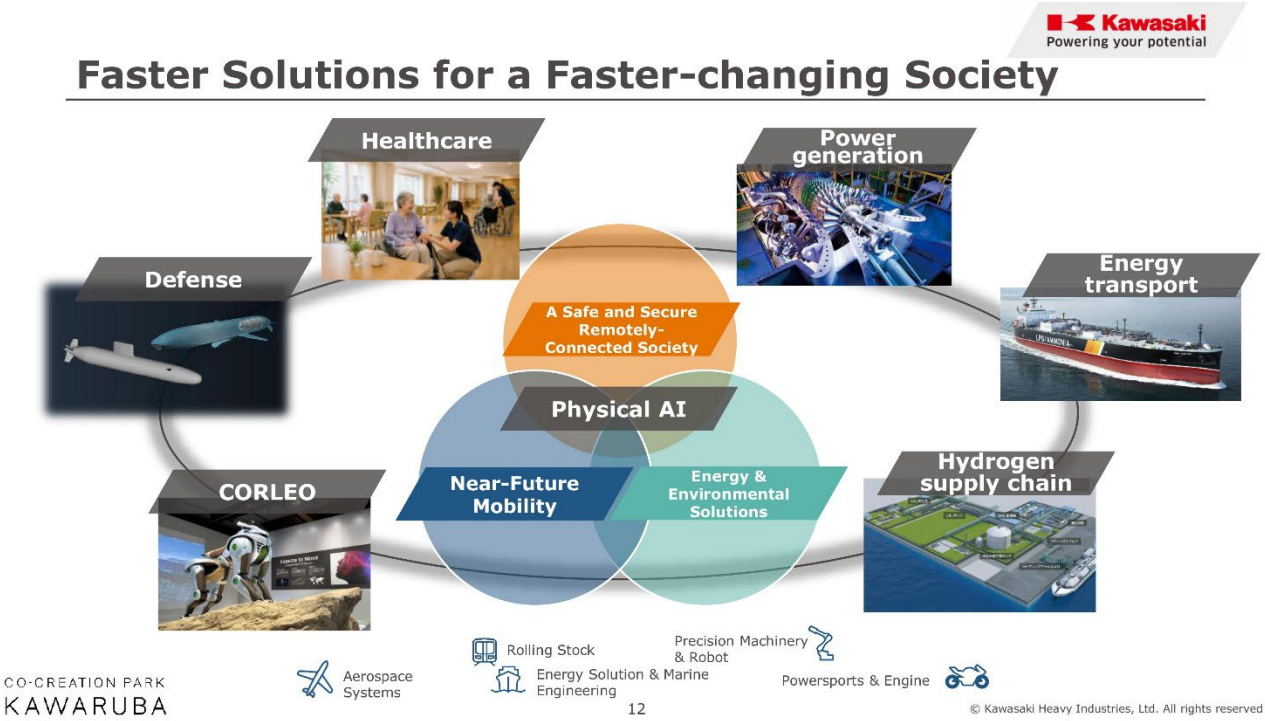


We will steadily execute investments to drive the growth of these businesses—staying ahead of our competitors by leveraging capital financing—and aim to achieve revenue of more than JPY3.3 trillion and a business profit margin of more than 10% by FY2030. Regarding revenue for FY2030, the target has been revised upward by approximately JPY300 billion from the previously stated goal of more than JPY3 trillion.

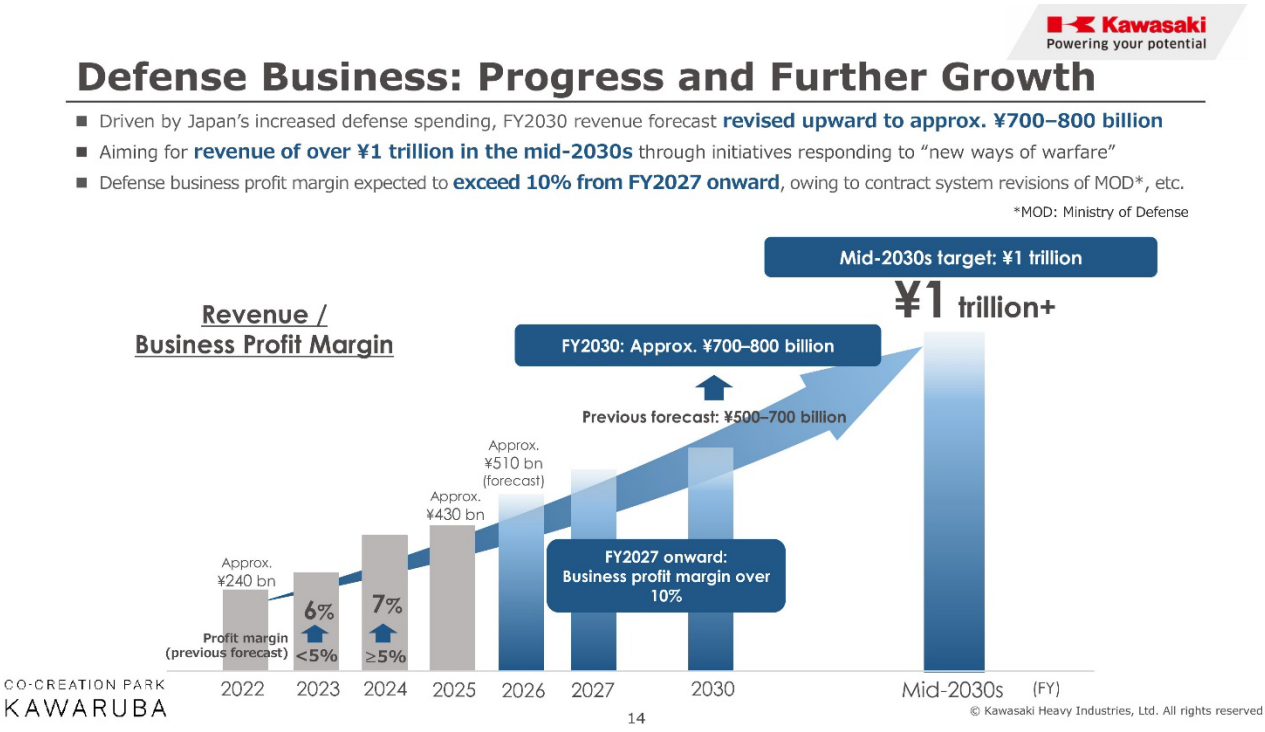


This is an illustration of revenue by segment for FY2026 and FY2030.

Through 2030, the revenue share of Aerospace Systems, Energy Solution & Marine Engineering, and Precision Machinery & Robot is expected to increase.



Under this cash allocation policy, we will continue to accelerate our various business initiatives, focusing on our three key areas.



Now, I will explain our strategy in each business. First, I will talk about the defense business.

Japan's security environment is becoming increasingly severe and complex. How will our company respond to these changes? I will explain this along with the progress achieved since the last report.

Here is an overview of the business's progress and growth outlook.

Driven by the increase in defense spending resulting from the fundamental strengthening of defense capabilities, we are revising our revenue forecast for FY2030 upward from the previous range of JPY500 billion to JPY700 billion to a range of approximately JPY700 billion to JPY800 billion.

Furthermore, by the mid-2030s, we aim to achieve revenue of JPY1 trillion by combining the initiatives we are discussing today—which are designed to address this new approach to business—with our existing operations.

Furthermore, with regard to the business profit margin, based on revisions to our contract system and other factors, we expect to achieve a business profit margin of more than 10% starting in FY2027.



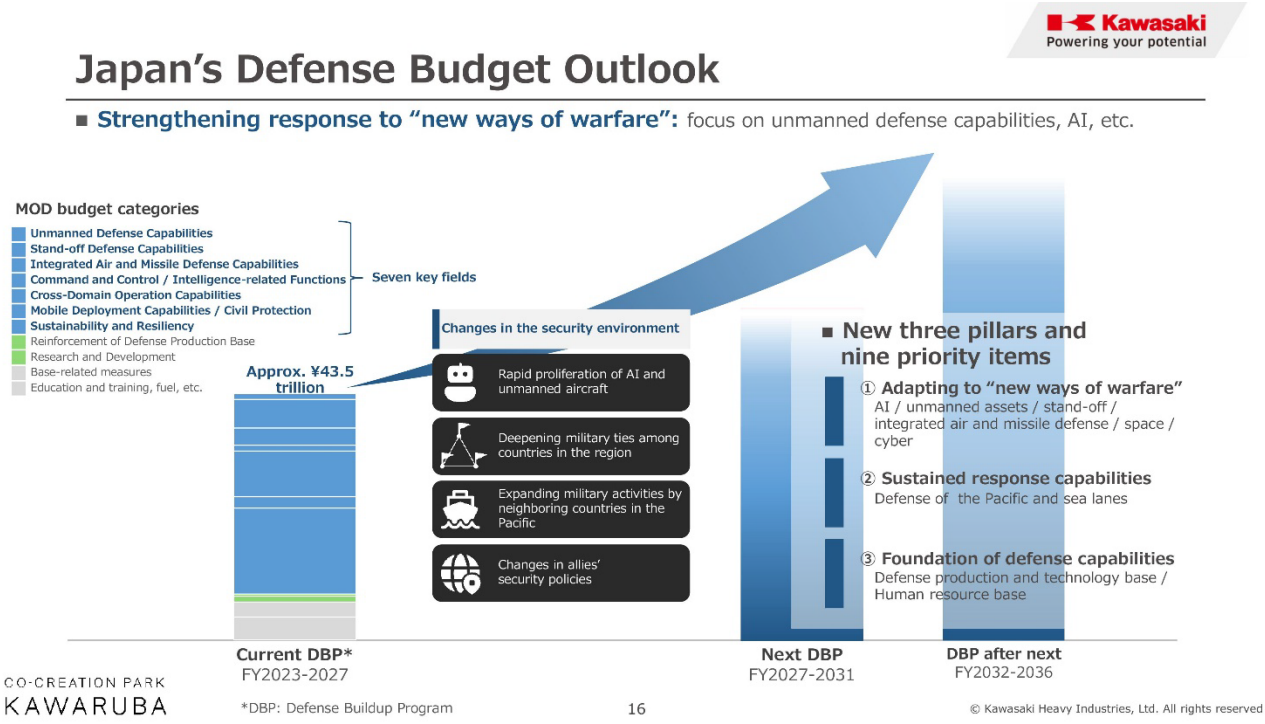
I would like to tell you about three achievements from our existing businesses.

The first is SOJ (stand-off electronic warfare aircraft). This is an electronic warfare aircraft developed by our company based on the C-2 transport aircraft, for which we are the prime contractor. We delivered the first unit in June of this year. Going forward, we will move into the mass production and feature expansion phase.

Next, the new SSM (new anti-ship guided missile for the defense of remote islands) successfully completed a launch test last year. We are moving forward with development by bringing together our technologies in areas such as airframes, guidance systems, and engines. The fact that we were able to demonstrate results during an actual flight represents a major step forward. Building on this track record, we will continue to advance the development of next-generation products.

And then there are stand-off defense capabilities. In FY2025, we received an order for a research prototype for the integration of stand-off missiles, and we are currently proceeding with the design and development work. Through this research prototype, we will collect technical data.

Our company is committed to ensuring that each project moves reliably to the next stage.



I will explain our company's outlook for the future defense budget.

Amid significant changes in the security environment surrounding our country, the government has announced its policy to fundamentally strengthen our defense capabilities. As a company, we believe that, under these government policies, the defense budget will continue to expand, and the capabilities required will also continue to evolve. In particular, we believe that the importance of areas related to new methods of warfare—such as AI and unmanned assets—will continue to grow.

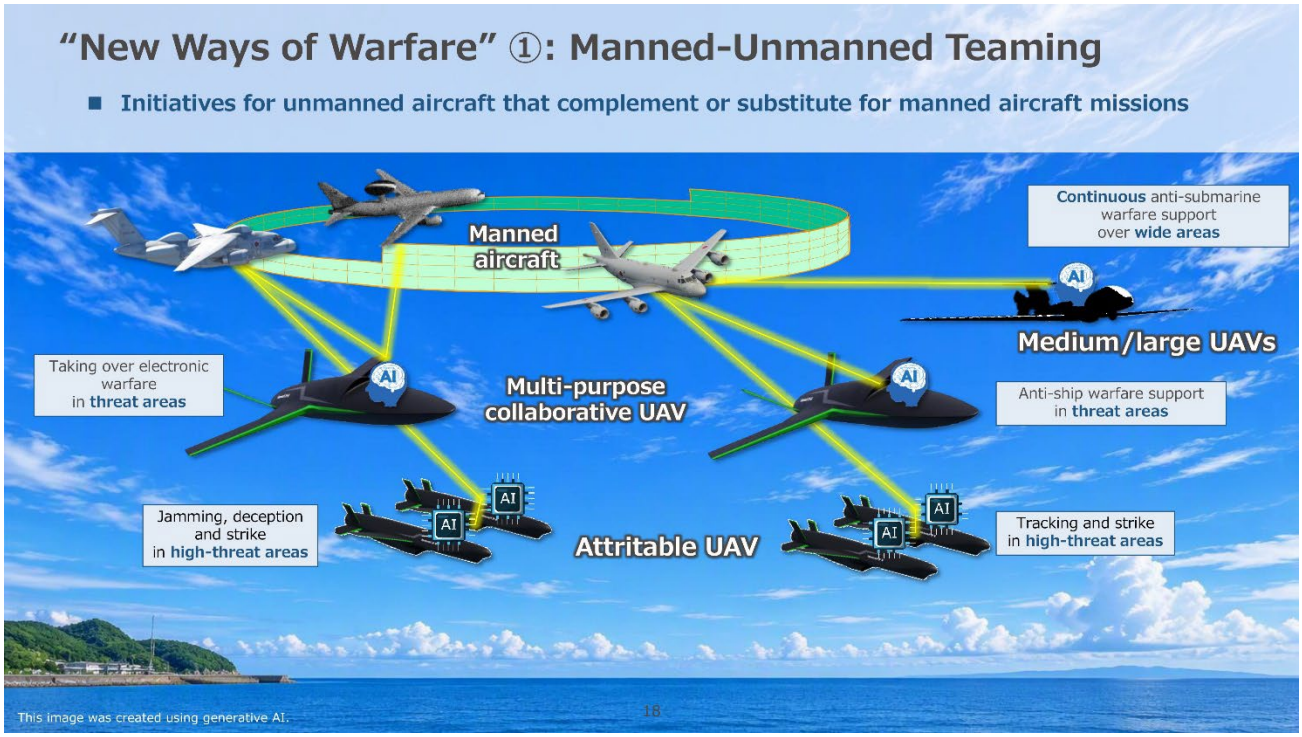


I would like to explain our company's initiatives aimed at a new approach to warfare.

To date, our company has cultivated a wide range of technologies and built a strong track record through the development, manufacture, and operational support of a diverse array of products, including the P-1, the new SSM, submarines, the T-4 intermediate trainer—which has also been adopted by the Blue Impulse—and the KJ engine.

Building on this foundation, we will advance the development of AI technology, foster collaboration with startups and overseas companies, and drive the development of educational systems and the KJ engine, thereby evolving these efforts into systems and equipment that enable new ways of fighting.

The first is the integration of manned and unmanned aircraft; the second is autonomous collaborative systems; the third is an integrated education and training system; and the fourth is the KJ engine.

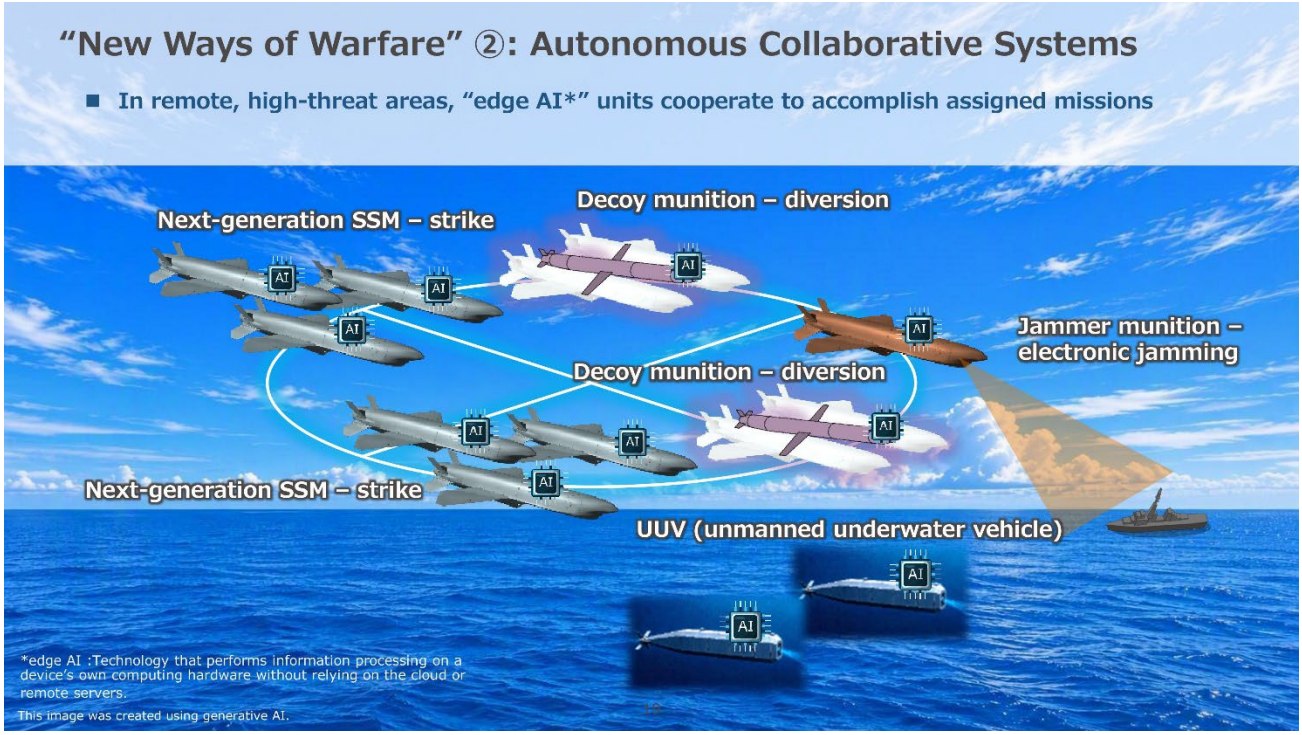


Now, I will explain each of these four initiatives.

The first is coordination between manned and unmanned aircraft.

We believe that manned aircraft will continue to play a central role in defense missions. At the same time, we recognize that, given the evolving security environment, there will be an increasing number of missions—such as long-range and extended-duration operations, as well as activities within threat zones—that are difficult to carry out using manned aircraft alone. For this reason, the need for unmanned aircraft to supplement or replace manned aircraft missions will continue to grow, and at the same time, coordination with manned aircraft will become increasingly important.

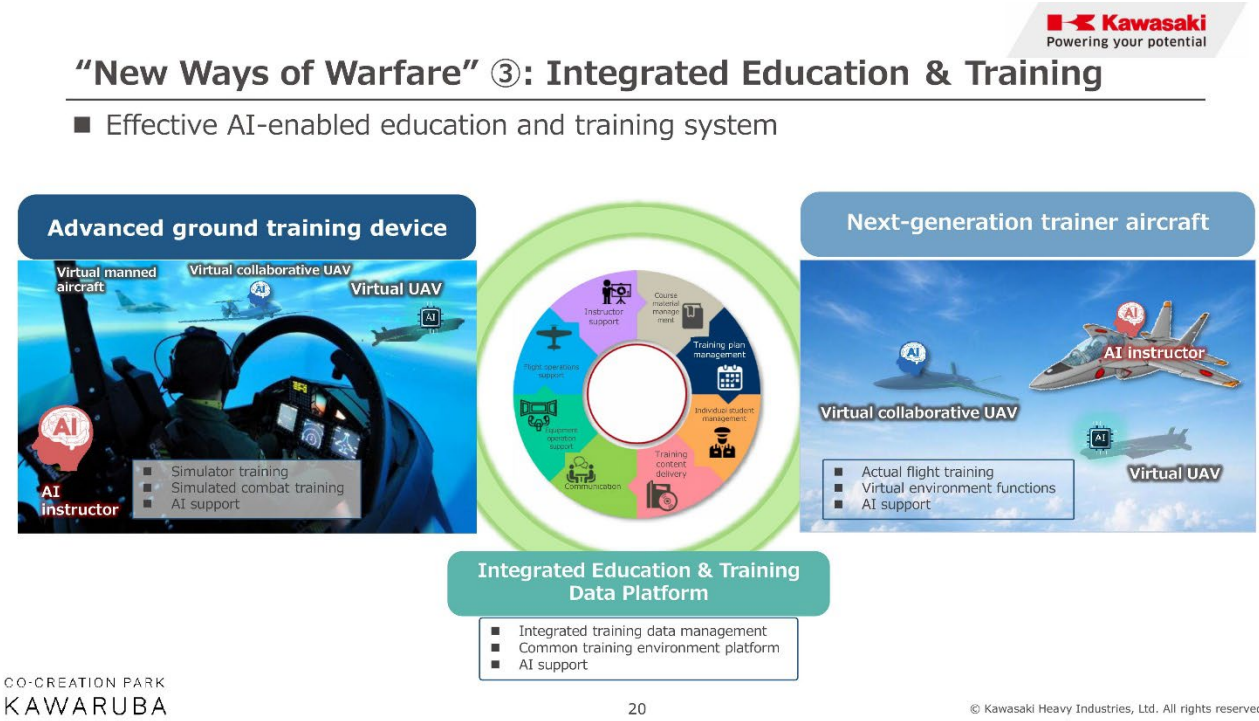
To date, our company has been responsible for the development, manufacturing, and operational support of a wide range of products, from large aircraft to guidance systems. Leveraging this expertise, we will collaborate with domestic and international partners to develop medium- and large-sized unmanned aircraft capable of long-range, extended-duration operations and advanced missions, and will bring these projects to fruition as soon as possible.



Next, in the future security environment, we will need to respond to threats in more distant, higher-risk areas. Therefore, our company is developing an autonomous collaborative system in which individual assets share information and work together to carry out their assigned tasks. At the heart of this is "edge AI."

This AI can be installed even on small, low-cost assets such as guidance systems, enabling high-level intelligence that facilitates coordination among individual assets. As a result, even in remote or high-threat areas, individual assets can work together and coordinate to carry out their missions more effectively in accordance with the instructions they receive.

By combining edge AI with the airframe, guidance and control, and engine integration technologies we have cultivated through the development of our new SSM—while actively incorporating advanced technologies from external partners, including startups—we will accelerate the realization of autonomous collaborative systems.

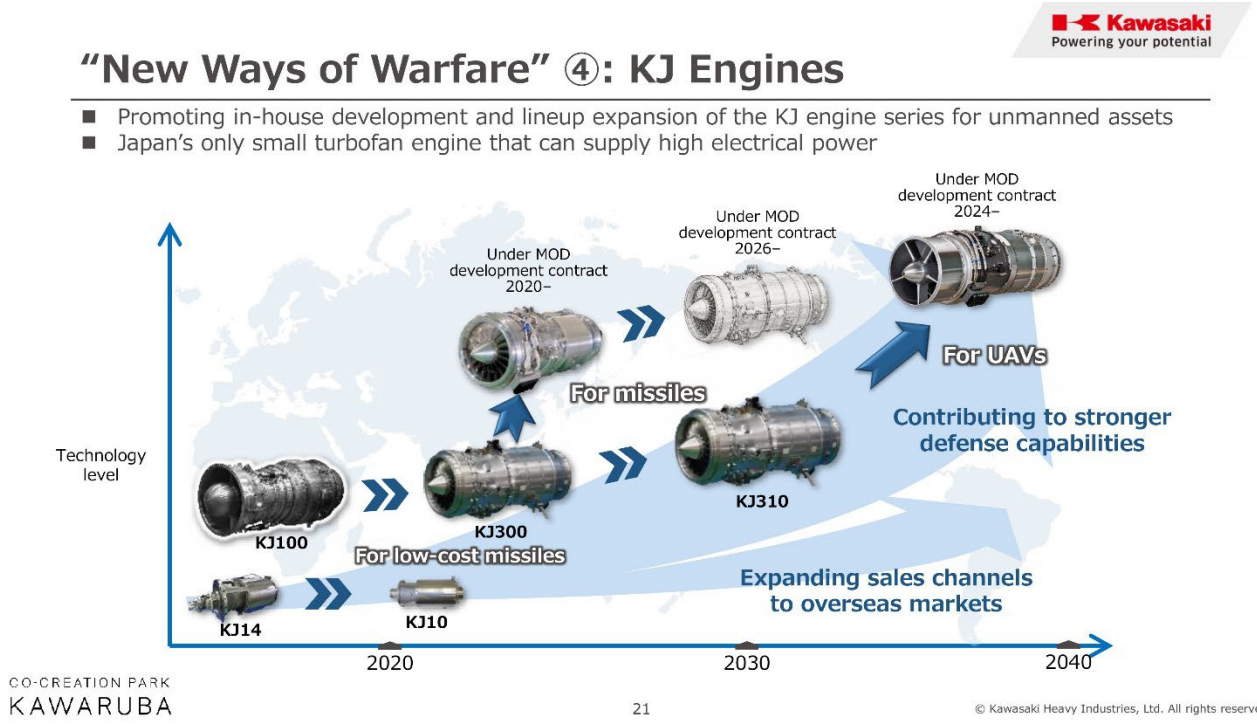


Next is an integrated education and training system that utilizes AI to support the training of next-generation pilots.

Our company has developed and manufactured the T-4 trainer aircraft and has supported its operation for many years. Drawing on that experience, we will work on developing next-generation training aircraft while evolving our education and training systems to meet the needs of the future.

We provide a virtual simulation environment that enables coordinated training between drones and other aircraft, both on the ground and during actual flight training, thereby facilitating more realistic training. Furthermore, we will use AI and data to integrate everything from ground-based simulator training to flight training in actual aircraft. We will also centrally manage information—including training data, training plans, instructional materials, and equipment operations—through an integrated data-driven education and training platform, thereby optimizing the entire education and training process.

Our company will provide a next-generation education and training environment by integrating advanced ground training equipment, next-generation trainer aircraft, and an integrated data-driven education and training platform.

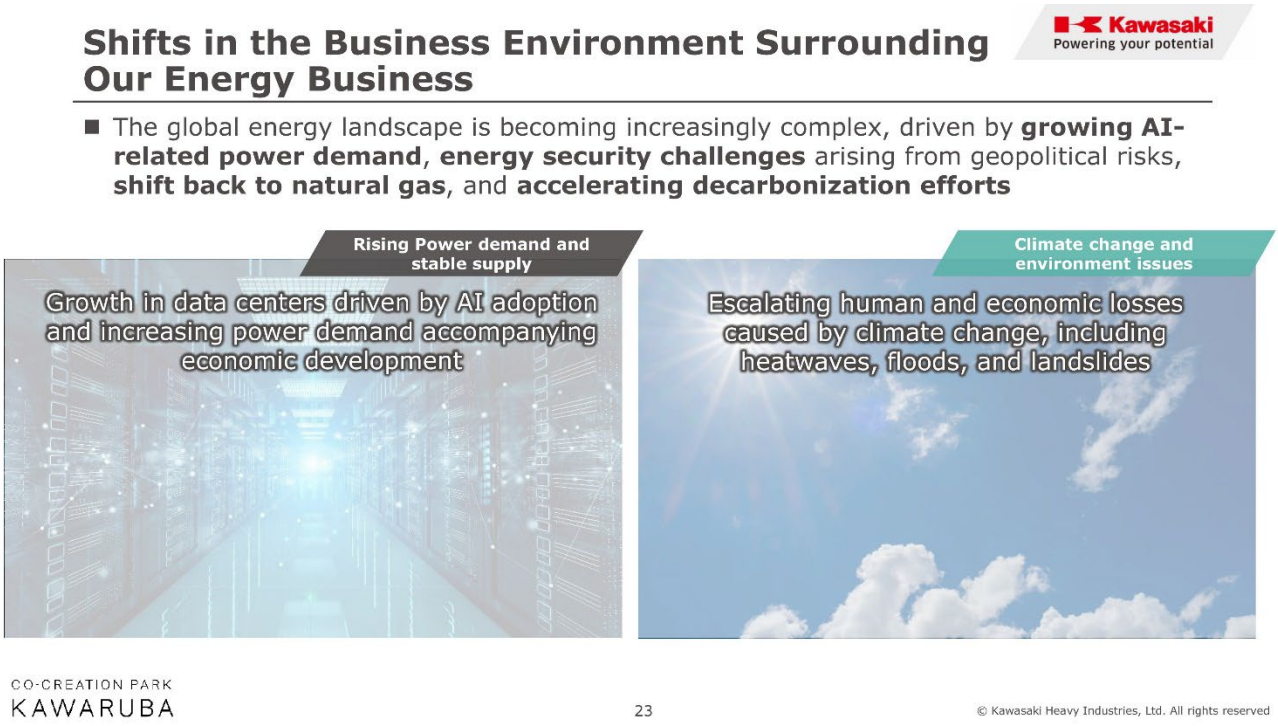


And at the very core of the capabilities required for this new style of combat lies the engine.

We have independently developed the KJ engine, which is characterized by its compact size, high efficiency, and low cost. We offer a wide range of engines, from those designed to meet the needs of low-cost, mass production to those tailored for applications requiring high performance, such as high-performance unmanned aerial vehicles and extended-range aircraft.

In particular, we are developing Japan's only small turbofan engine capable of supplying high power to unmanned aerial vehicles, and we are expanding this into an engine business that supports new ways of fighting. We aim to expand the sales of these engines not only domestically but also into overseas markets.

Through the initiatives we have outlined today, we aim to contribute to Japan's national security while also achieving revenue of JPY1 trillion by the mid-2030s through the expansion of our existing businesses and the development of new growth areas.



Now, I will explain the energy business. The global energy landscape is undergoing a major transformation, driven not only by challenges in ensuring a stable energy supply—against a backdrop of rising electricity demand due to the spread of AI and economic development, as well as geopolitical risks—but also by the renewed recognition of the need for decarbonization brought about by natural disasters such as extreme heat and torrential rains, and, more recently, by the resurgence of natural gas.

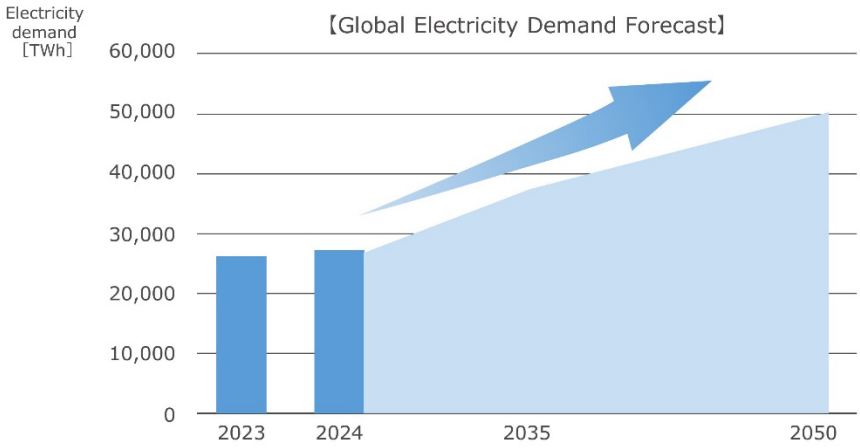


In response to societal challenges such as rising electricity demand, the need for a stable energy supply, and decarbonization, our company will provide energy and environmental solutions, including energy transmission, hydrogen, and CO2 capture and utilization.

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Growing Global Electricity Demand

- **Global electricity demand is increasing**, driven by the expansion of AI and data centers, electrification, and economic development
- **Increasing need for a stable and reliable power supply**



Source : Enerdata Trend over 2000-2050

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Now, I will explain our initiatives in response to electricity demand.

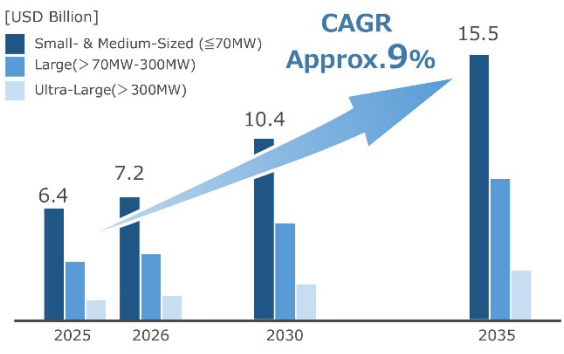
First, regarding global electricity demand, against the backdrop of the recent expansion of AI and data centers, as well as economic development, global electricity demand is projected to increase to approximately 1.4 times its current level by 2040. For this reason, we believe that ensuring a stable supply of electricity will become an even more critical issue in the future.

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Growing Demand for Gas Turbines

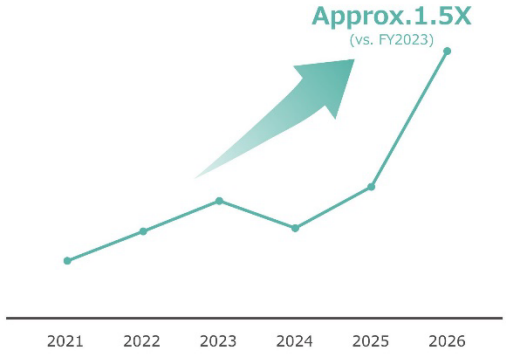
- Growing electricity demand is driving **increased demand for gas turbines**
- **Strong growth in the small- and medium-sized gas turbine market**, driven by constrained manufacturing capacity for large gas turbines

Industrial Gas Turbine Market Forecast



Source : Industrial Gas Turbine Market Size & Share 2026-2035

Gas Turbine Orders (FY2026 Forecast)

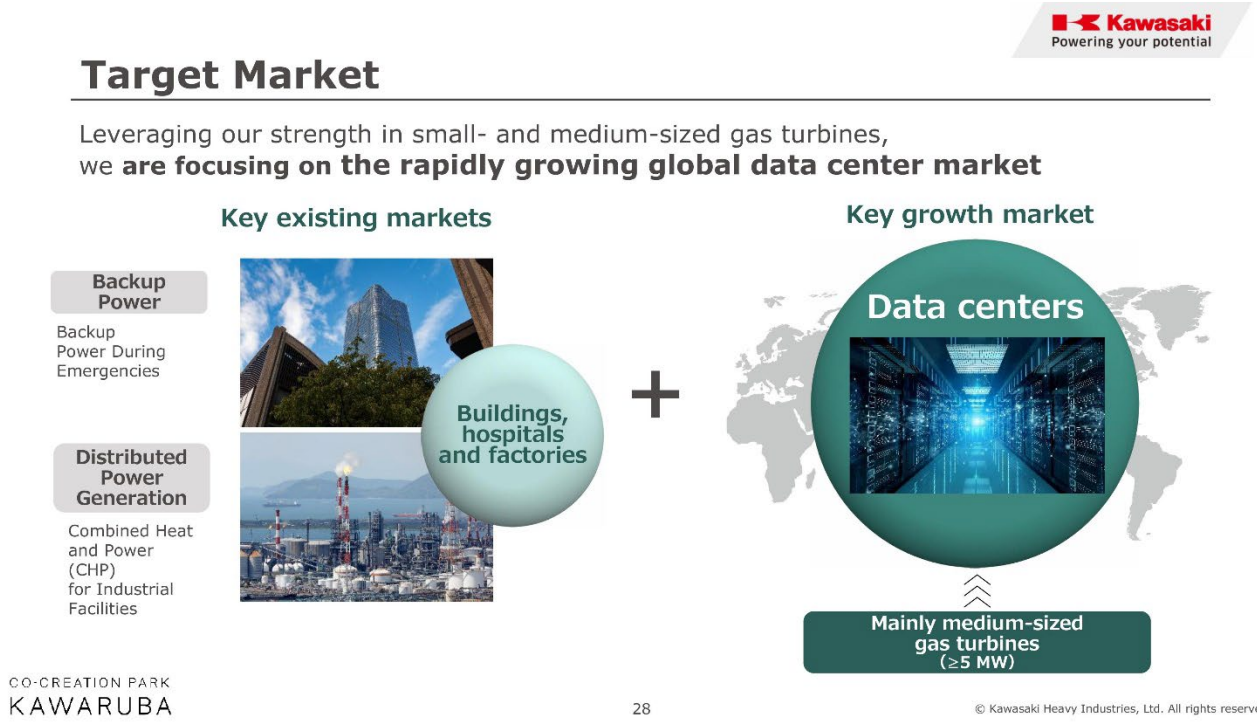


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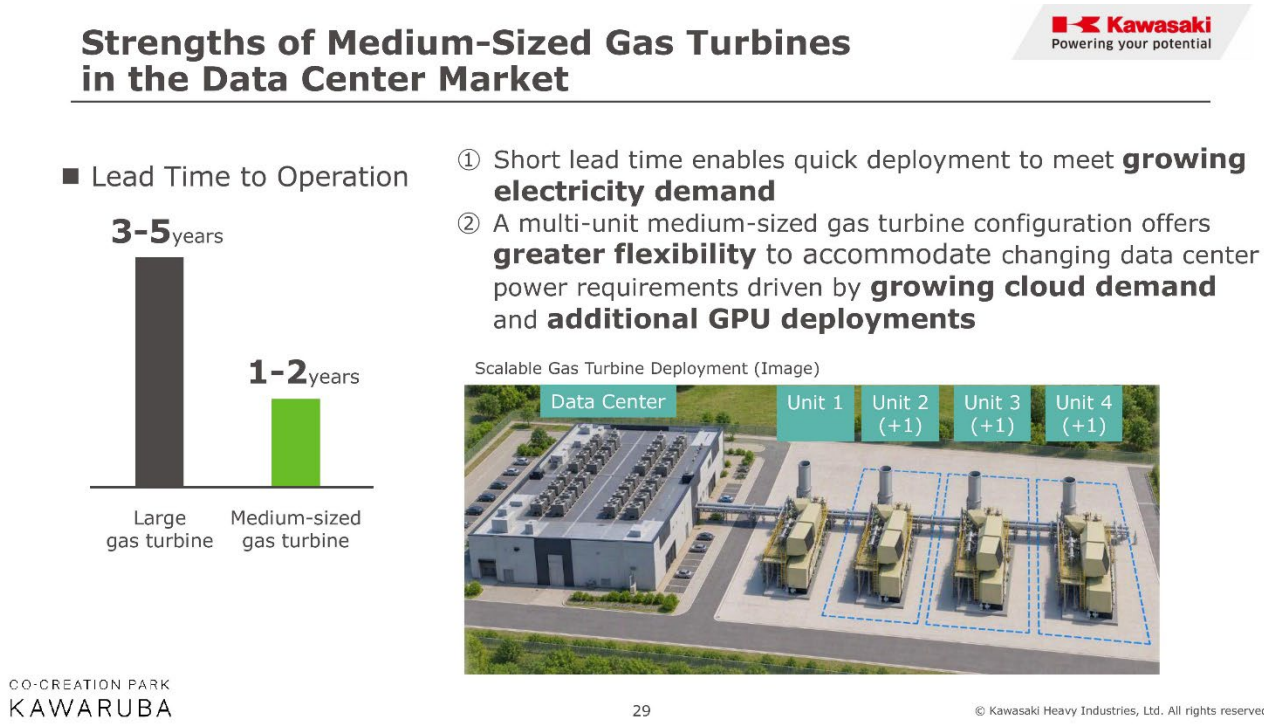
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In line with this increase in electricity demand, demand for gas turbines has also risen significantly.

Coupled with tight manufacturing capacity for large gas turbines, demand is growing significantly for small- and medium-sized gas turbines—an area in which our company excels. In fact, based on our track record of gas turbine orders, we expect orders this fiscal year to be approximately 1.5 times higher than in FY2023.

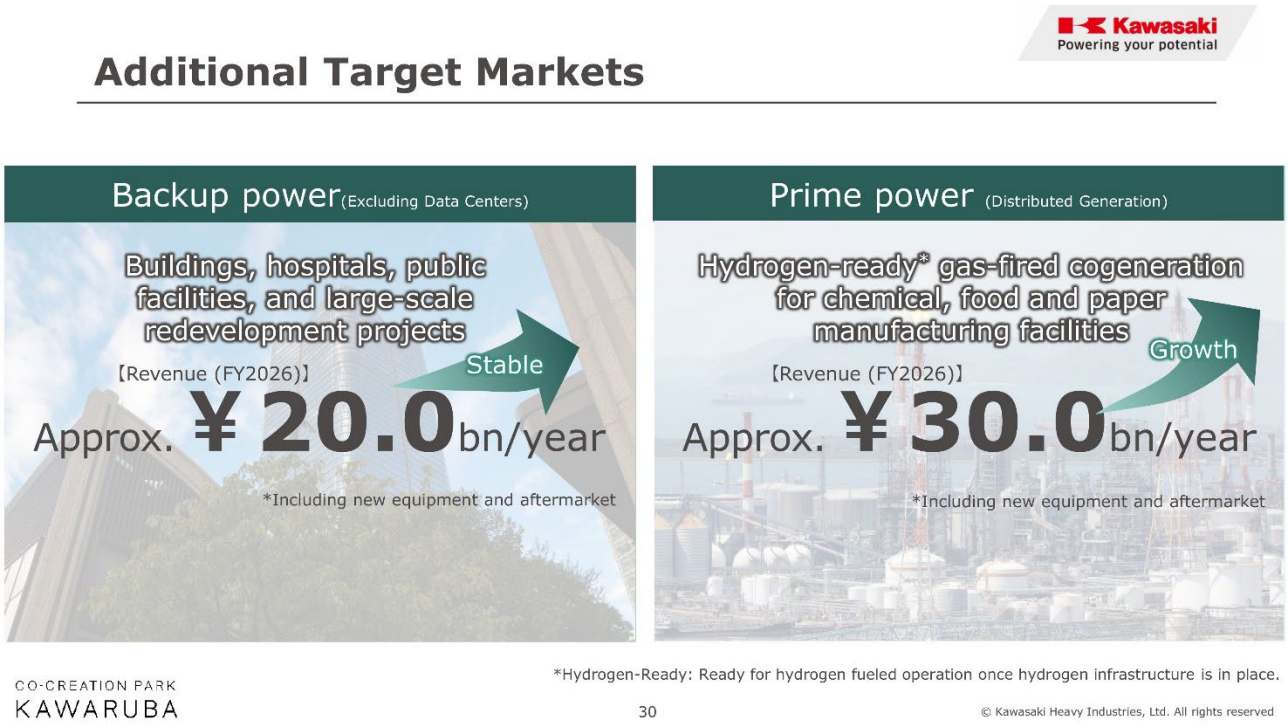


Leveraging the strengths we have cultivated through small- and medium-sized gas turbines—which we have long focused on in the areas of emergency power systems for buildings and distributed power generation—going forward, we will place particular emphasis on the rapidly growing global data center market.

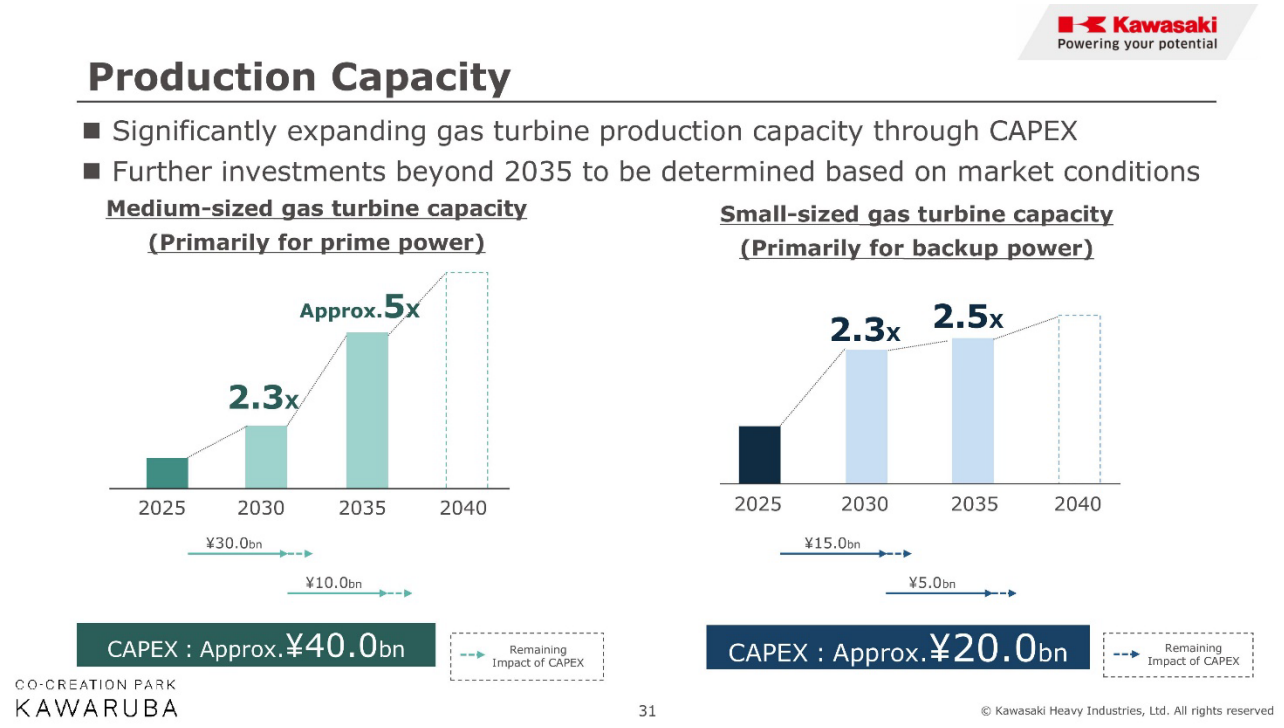


One of the advantages of medium-sized gas turbines in the data center market is, first and foremost, that they can be brought online quickly, allowing for a flexible response to surging electricity demand.

In addition, the power capacity requirements for data centers may change due to factors such as increasing demand for cloud services and the addition of GPUs. One of the advantages of medium-sized gas turbines is that they allow for flexible expansion and other modifications, as well as changes to their configuration. Building on these strengths, we will steadily capture demand for gas turbines for data centers.

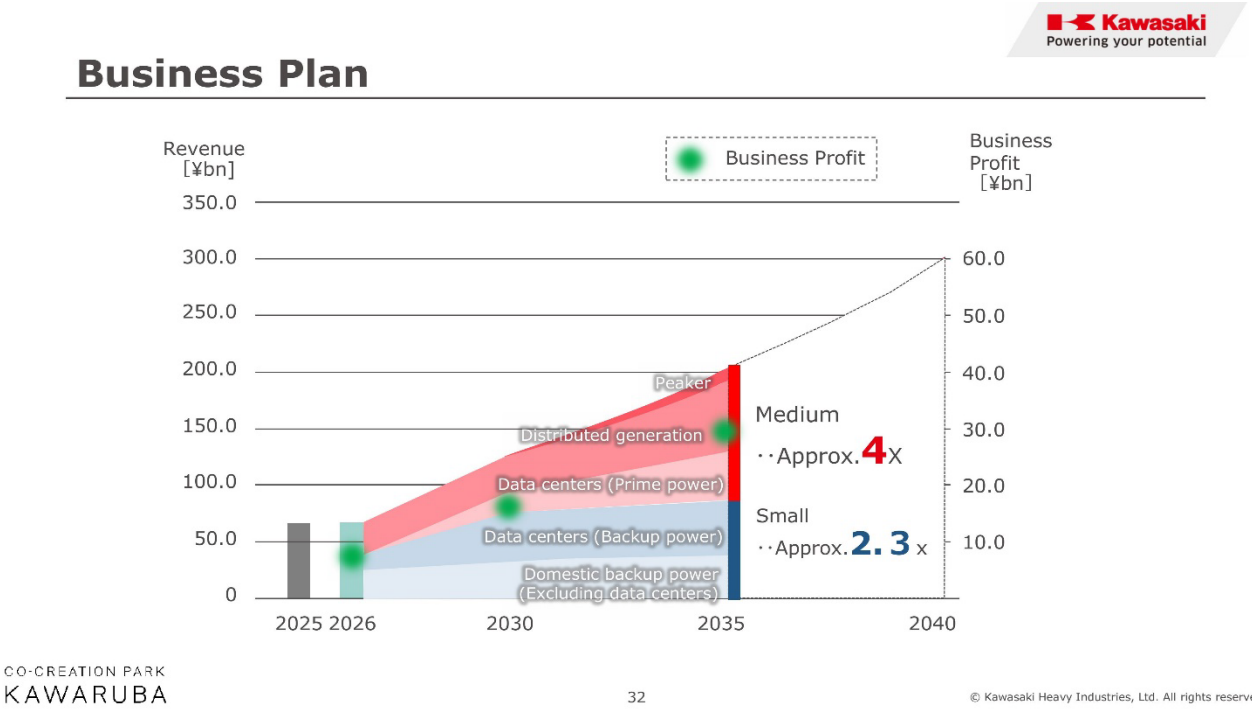


However, rather than focusing solely on data centers, we will continue to pursue our traditional areas of strength—emergency gas turbines and distributed power generation.

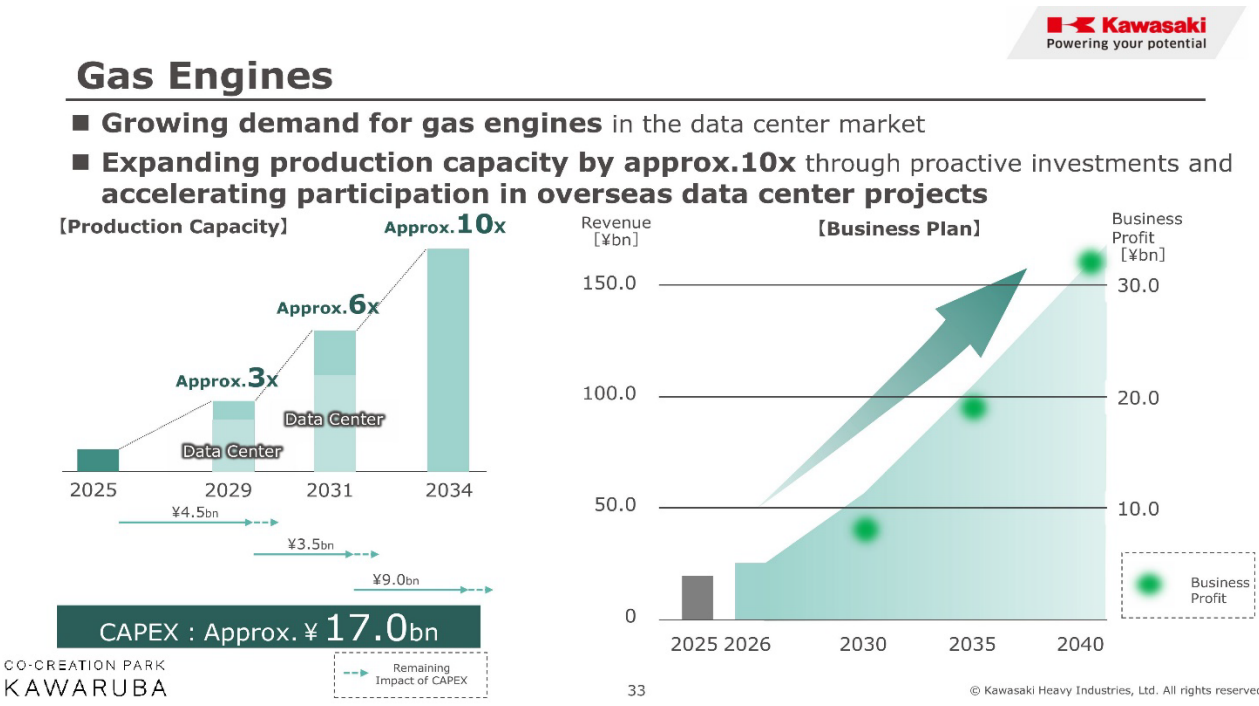


To steadily capture these markets, we will invest approximately JPY40 billion in medium-sized gas turbines by FY2035, increasing production capacity 2.3 times by 2030 and 5 times by FY2035.

For small gas turbines, we will invest approximately JPY20 billion to increase production capacity 2.3 times by 2030, and 2.5 times by FY2035. By significantly expanding our gas turbine production capacity in this way, we will meet future demand and continue to make investments based on market conditions from FY2035 onward.



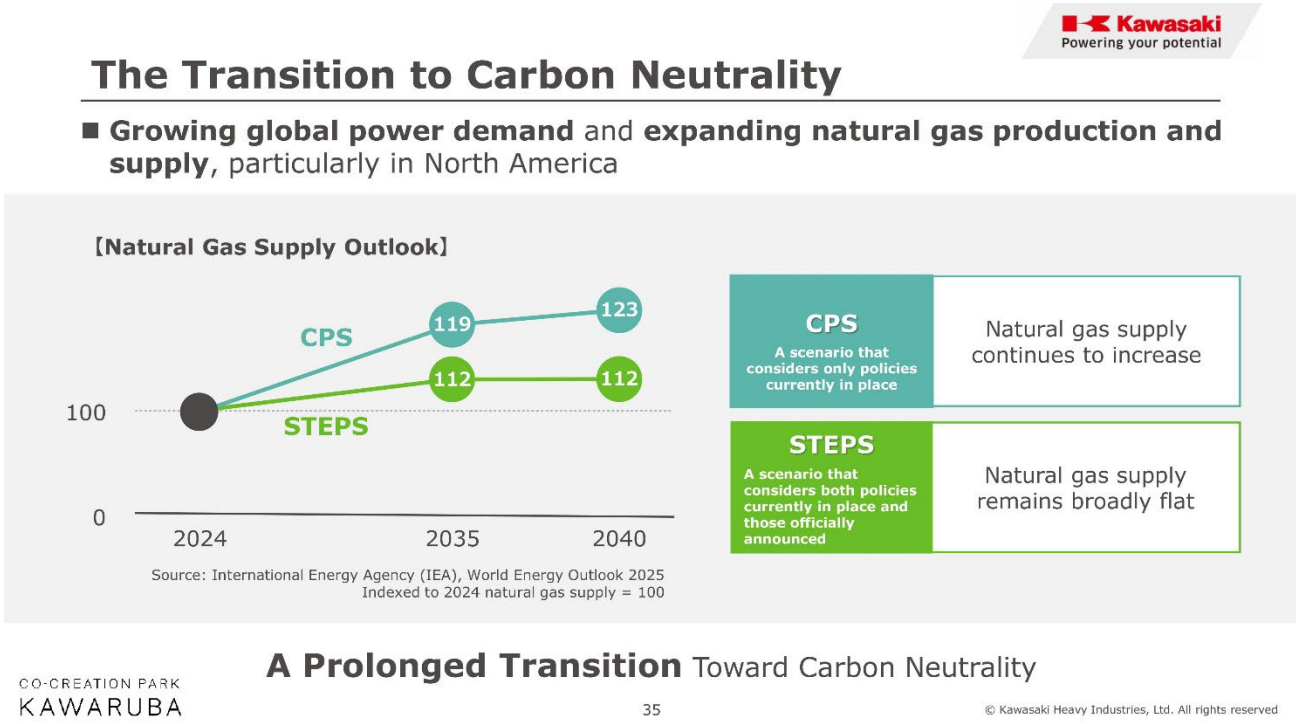
In this way, by actively making growth investments to capitalize on significant market opportunities, we aim to grow revenue—for mid-sized products to approximately 4 times the current level and for small-sized products to approximately 2.3 times the current level by 2035—and to increase overall business profit to four times the current level.



This trend isn't limited to gas turbines. In the data center sector, inquiries about gas engines are also increasing rapidly.

We will also invest approximately JPY17 billion in gas engines, increase production capacity tenfold by 2034, and achieve significant growth in both revenue and business profit.

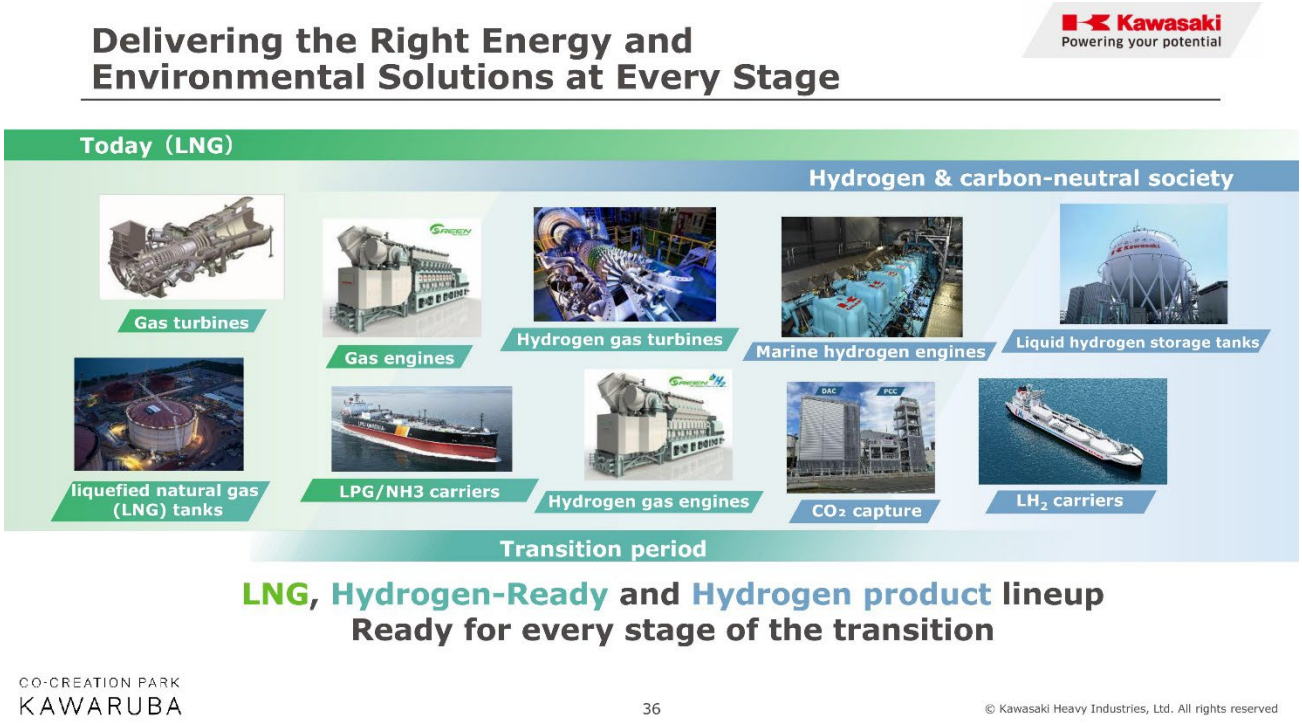
So far, we have been discussing how to address the increase in electricity demand and ensure a stable supply.



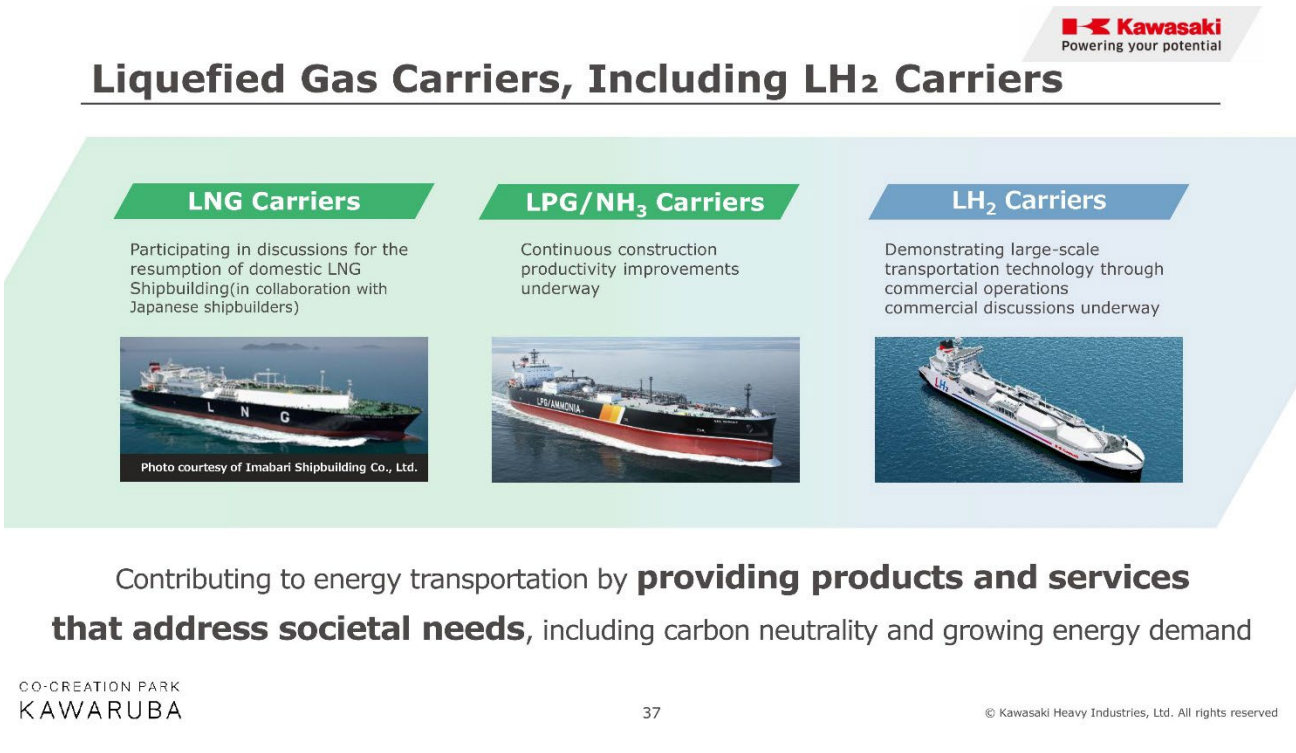
Next, I would like to explain our company's initiatives to support the achievement of carbon neutrality as part of our response to climate change and environmental issues.

First, in the current energy market, there is a clear trend toward a return to natural gas, particularly in North America.

The IEA's outlook for natural gas also includes a scenario in which supply and demand expand, and we believe the transition period will be prolonged.



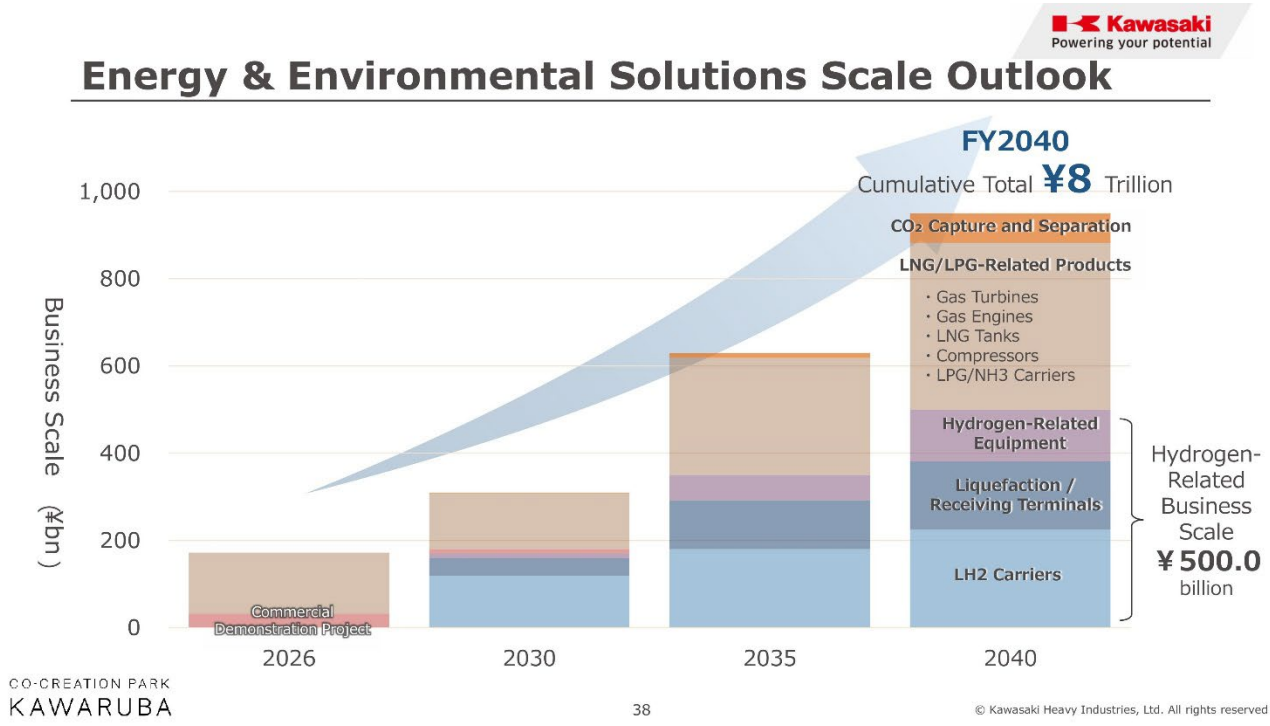
However, even if the transition period is prolonged, we have a lineup of LNG products, hydrogen-ready products, and hydrogen products capable of meeting the needs of the current transition phase, a hydrogen society, and any future era, enabling us to consistently provide the optimal solution. We believe that our strength lies in our ability to adapt seamlessly until a hydrogen society is realized.



For Japan, which has a low rate of energy self-sufficiency, ships that ensure a stable supply of energy imports from overseas are indispensable. Their importance has been growing steadily in recent years.

In addition to building our flagship products—LPG and ammonia carriers—and liquefied hydrogen carriers, which follow on from the “Hydrogen Frontier,” we are also engaged in discussions aimed at resuming the domestic construction of LNG carriers.

We will strengthen our shipbuilding capabilities and contribute to energy transportation.



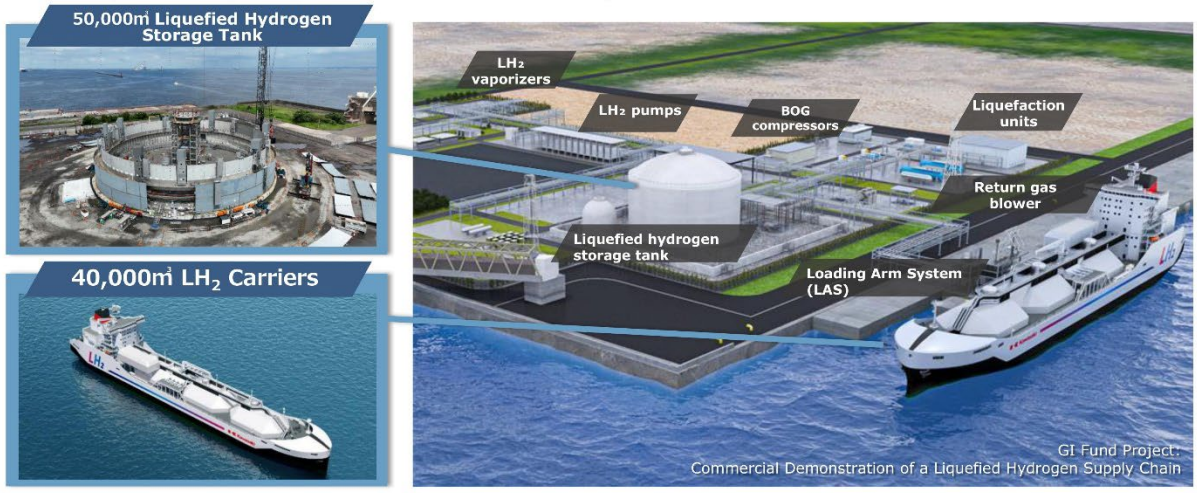
Based on these assumptions, here is our overall business outlook, including transition solutions.

We aim to create businesses with a cumulative value of JPY8 trillion by FY2040—including LNG/LPG-related products, hydrogen-related products, and CO2 capture products—and will develop these into core revenue streams.

Steady Progress in Hydrogen Deployment in Japan: Commercial Demonstration Project Update

Kawasaki
Powering your potential

■ Commercial demonstration facilities in Ohgishima, Kawasaki, Kanagawa, and a liquefied hydrogen carrier are currently under construction



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Next, I will explain the progress toward commercialization of hydrogen and CO_2 capture, which are key elements of carbon neutrality.

We will take each of these projects from the research and development stage and move them into the phase of launching them as businesses and generating revenue.

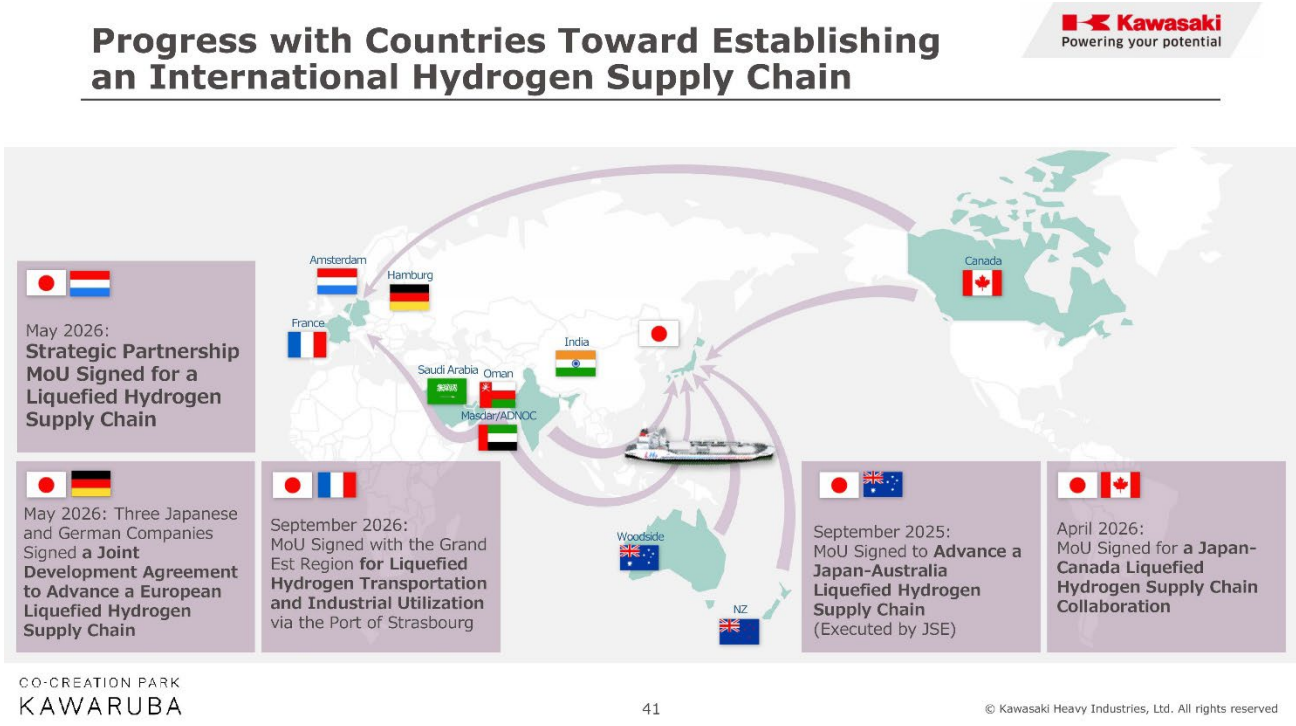
In the hydrogen business, we are currently constructing the Kawasaki LH2 Terminal—which includes a 50,000-cubic-meter liquefied hydrogen storage tank—with the aim of completing the commercialization demonstration project being led by Japan Suiso Energy by FY2030. In addition, we are building a 40,000-cubic-meter liquefied hydrogen carrier at our Sakaide Plant.

We will leverage the insights gained from commercialization demonstrations to secure orders during the commercialization phase in the early 2030s.



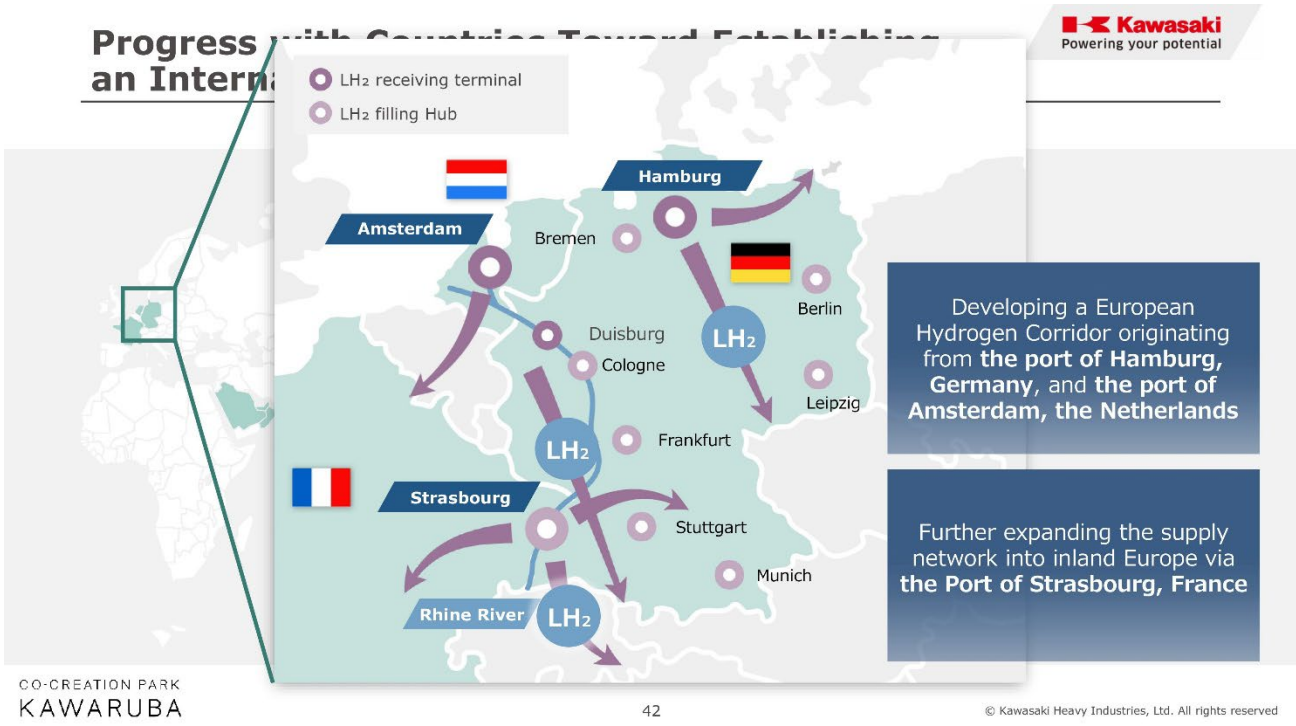
In addition, as part of our efforts to establish an infrastructure for supplying hydrogen throughout Japan, we are advancing the Japan Hydrogen Backbone Initiative in collaboration with the Japan Hydrogen Association, JH2A. This initiative aims to expand the demand for hydrogen across a broad spectrum rather than in isolated pockets, thereby rapidly advancing its implementation in society.

First, our products will make a significant contribution to this vision, which involves generating demand in the mobility sector and then expanding it to industrial sectors such as power generation, chemicals, and steelmaking. We will not let this vision remain merely a plan on paper; instead, through public-private collaboration and by pooling private-sector investment and technology, we will accelerate the societal implementation of hydrogen in Japan.



Globally, too, we are steadily laying the groundwork for commercialization.

Since FY2024, we have signed more than 10 memorandums of understanding (MOUs) and other agreements that contribute to the development of the hydrogen supply chain, and have expanded our partnerships on both the supply and demand sides. Our goal is to establish projects in various regions and secure orders for liquefied hydrogen carriers, storage tanks, and related equipment.

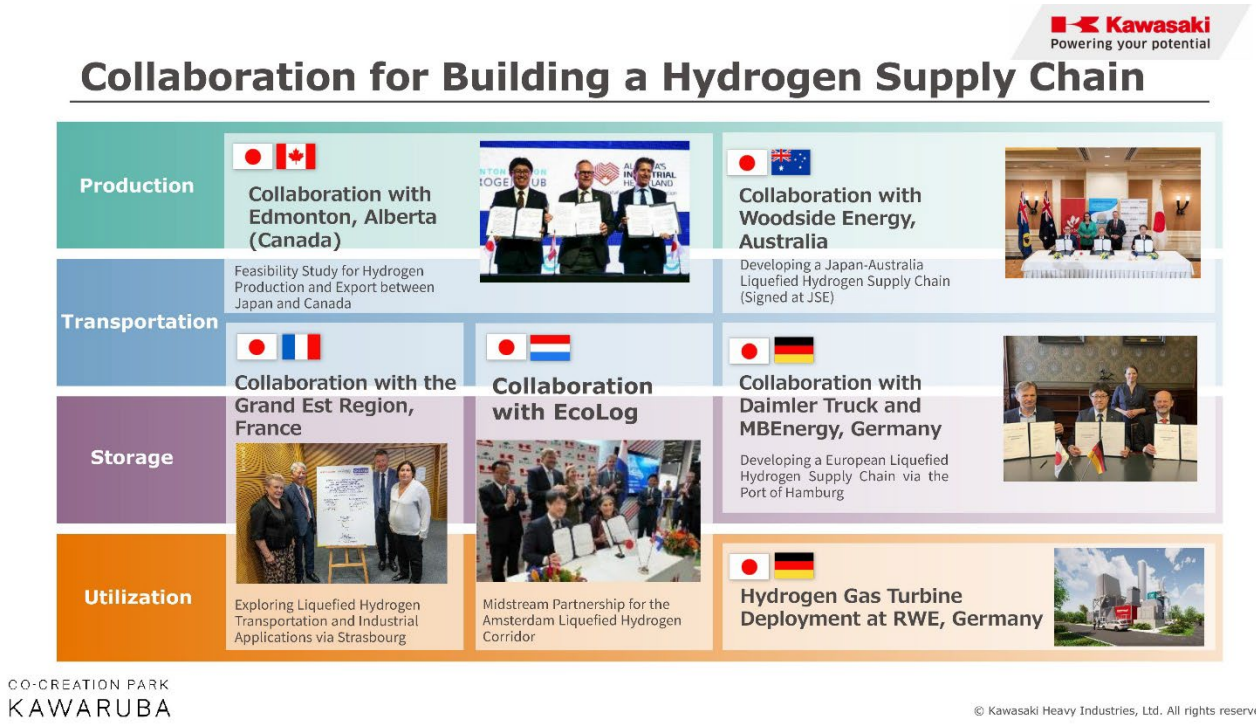


Currently, cooperation among European countries is making significant progress.

In Hamburg, we will collaborate with Daimler Truck AG and MB Energy to ensure a stable supply of hydrogen and expand its use in the mobility sector. In Amsterdam, we will leverage our technologies and products to develop infrastructure—from maritime transport to receiving facilities—with the goal of establishing a safe and stable liquefied hydrogen supply chain.

In Strasbourg, France—located inland along the Rhine River—we will explore the possibility of establishing a secondary liquefied hydrogen hub and logistics chain for the inland region.

In this way, by using major ports as starting points and expanding into inland markets, we will build a hydrogen supply network in Europe and stay ahead of future demand for our products.



If we apply the international partnerships I mentioned earlier to the various stages of the hydrogen supply chain—production, transportation, storage, and consumption—I believe you will see that our products can be integrated across a wide range of these areas.

Going forward, across our various projects, our company will continue to aim to secure ongoing business opportunities by contributing to each area of the supply chain in a manner tailored to the characteristics of each region.

NEWS

September 22, 2026: Collaboration with Bosch Rexroth

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Signed a collaboration agreement with Bosch Rexroth on hydraulic systems and hydrogen solutions

Bosch Rexroth and Kawasaki to cooperate on future-proof solutions for off-highway machines and hydrogen applications

Sep. 24, 2026



*Bosch Rexroth
One of the world's leading suppliers of drive and control technologies, providing hydraulics, electric drive and control technology, enabling efficient, powerful, and safe motion in machines and systems of any size.
Bosch Rexroth. WE MOVE. YOU WIN.

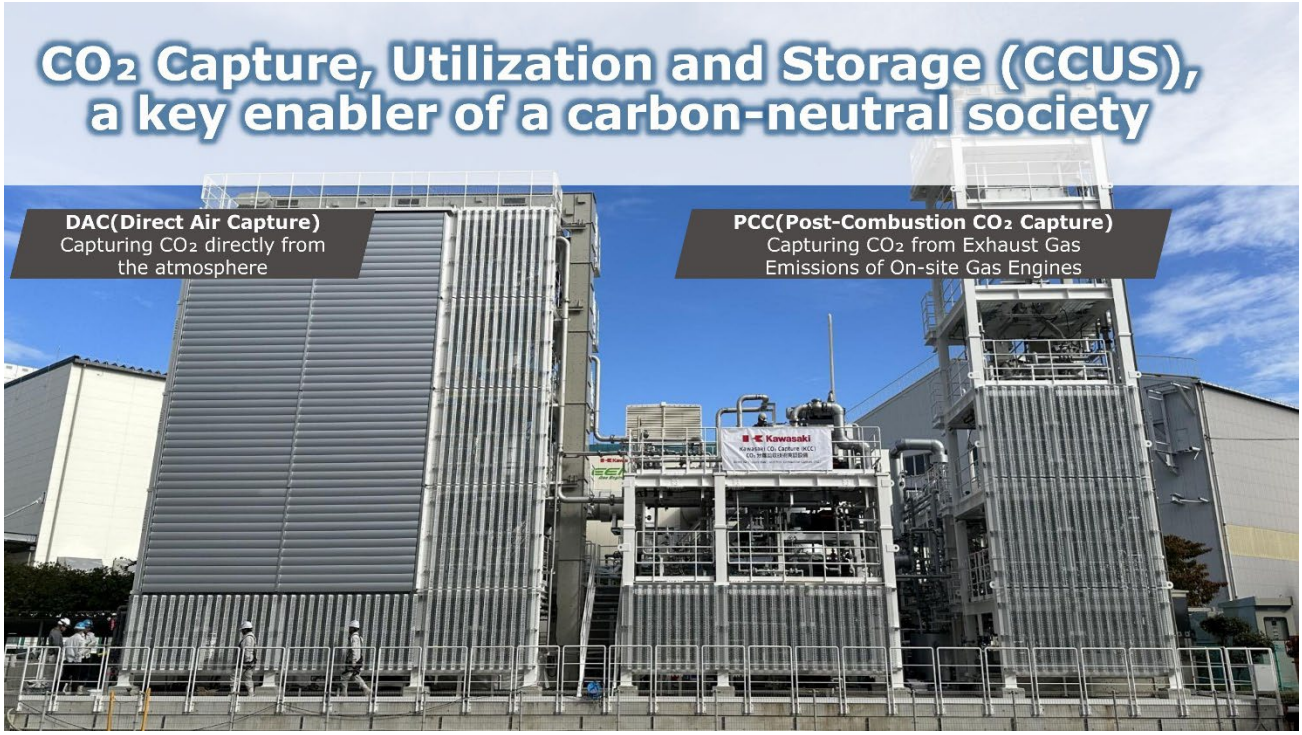
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On September 22, we signed a contract with Bosch Rexroth AG of Germany regarding hydraulic equipment and hydrogen solutions. This represents a major step forward in expanding the scope of hydrogen utilization.

Through our partnership with Bosch Rexroth—a company with global competitiveness in the fields of hydraulic systems, electric drives, and control technology—we will accelerate the growth of our business in areas such as hydrogen supply and utilization, including mobility, both domestically and internationally.

We have prepared a video for today's event that outlines the current progress of our hydrogen business, so we hope you'll all take the time to watch it during the exhibition tour later on.



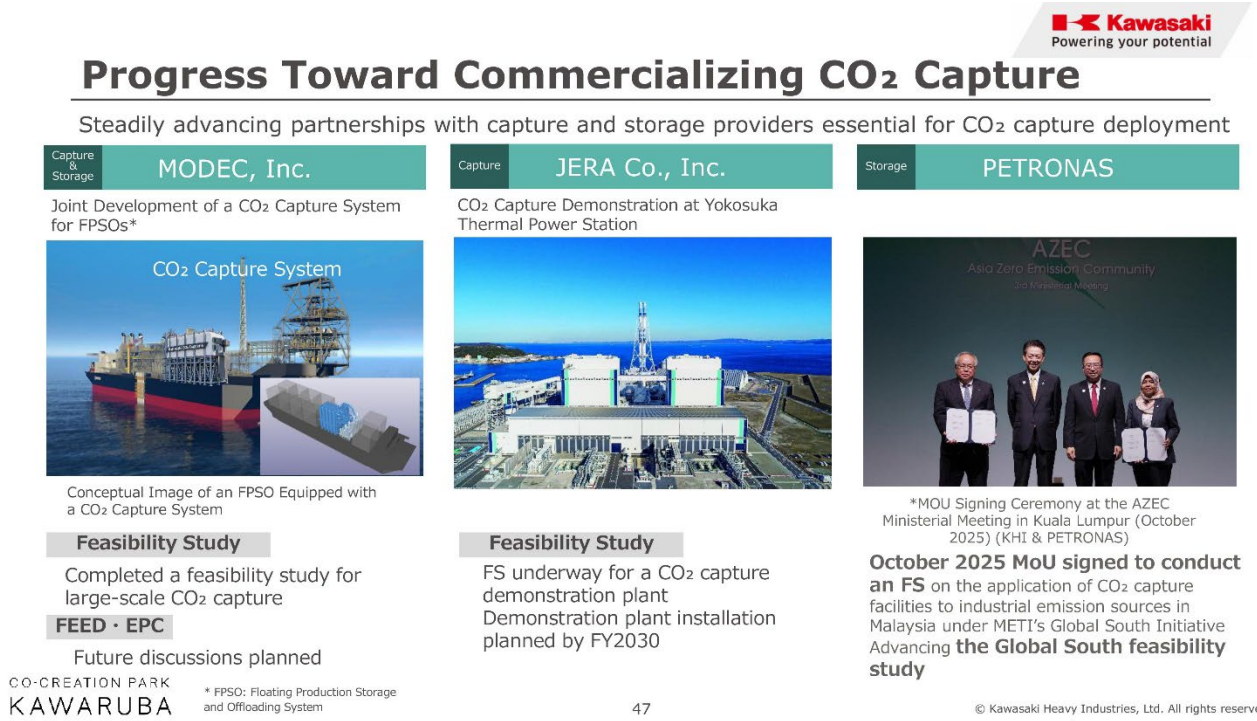
Next, I'd like to discuss CO2 capture and utilization, which is crucial for achieving carbon neutrality.

Shown here is the CO2 recovery system that our company installed at our Kobe plant last year. On the left is the DAC facility, which captures CO2 from the atmosphere, and on the right is the PCC facility, which captures CO2 from the exhaust gases of the gas engines inside the plant.



Since these facilities began operations, many people have come to observe them. On the left side of the photo is the delegation of the Australian Minister of Resources, and on the right is a delegation from PETRONAS, Malaysia's national oil company.

In addition, we have hosted site visits by government officials and corporate representatives from both Japan and abroad, which has reaffirmed to us the high level of interest and expectations surrounding CO_2 capture and the path toward carbon neutrality.



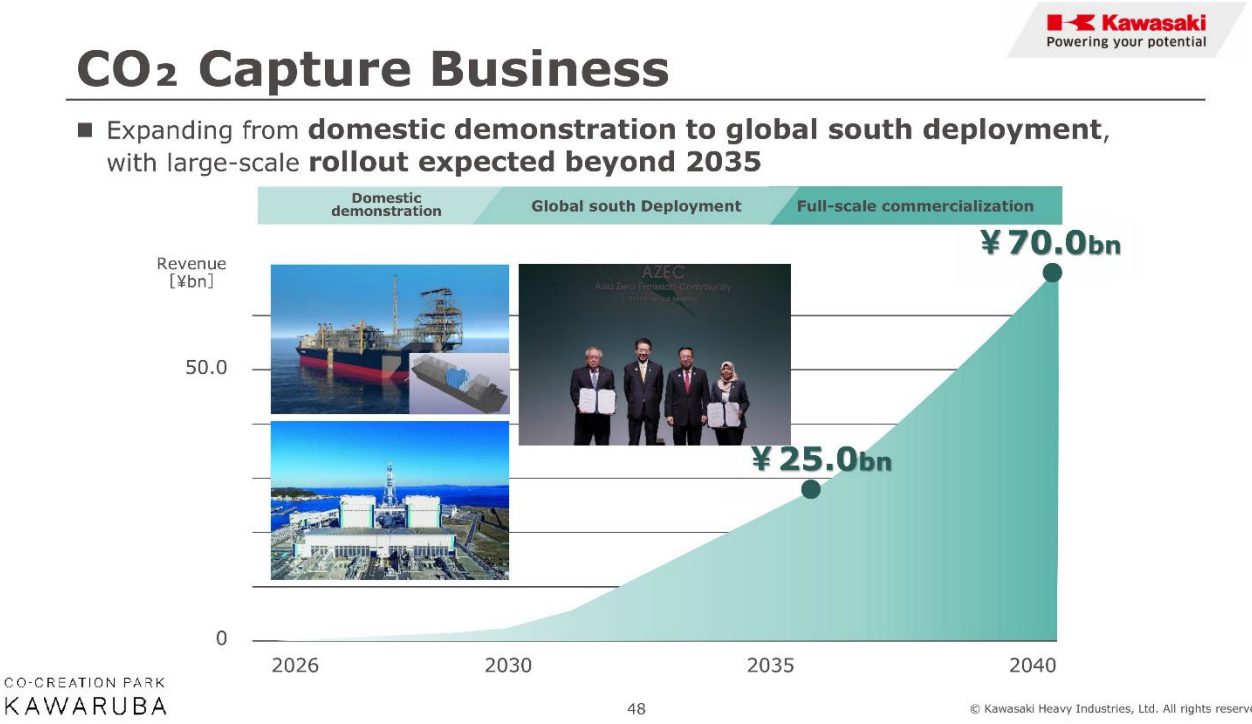
Our company is making steady progress toward the societal implementation of CO_2 capture.

Regarding CO_2 capture at offshore oil and natural gas production plants and FPSO facilities, which we are developing in collaboration with MODEC, we have already completed a feasibility study (FS) for large-scale CO_2 capture and are currently proceeding with discussions toward the FEED and EPC phases.

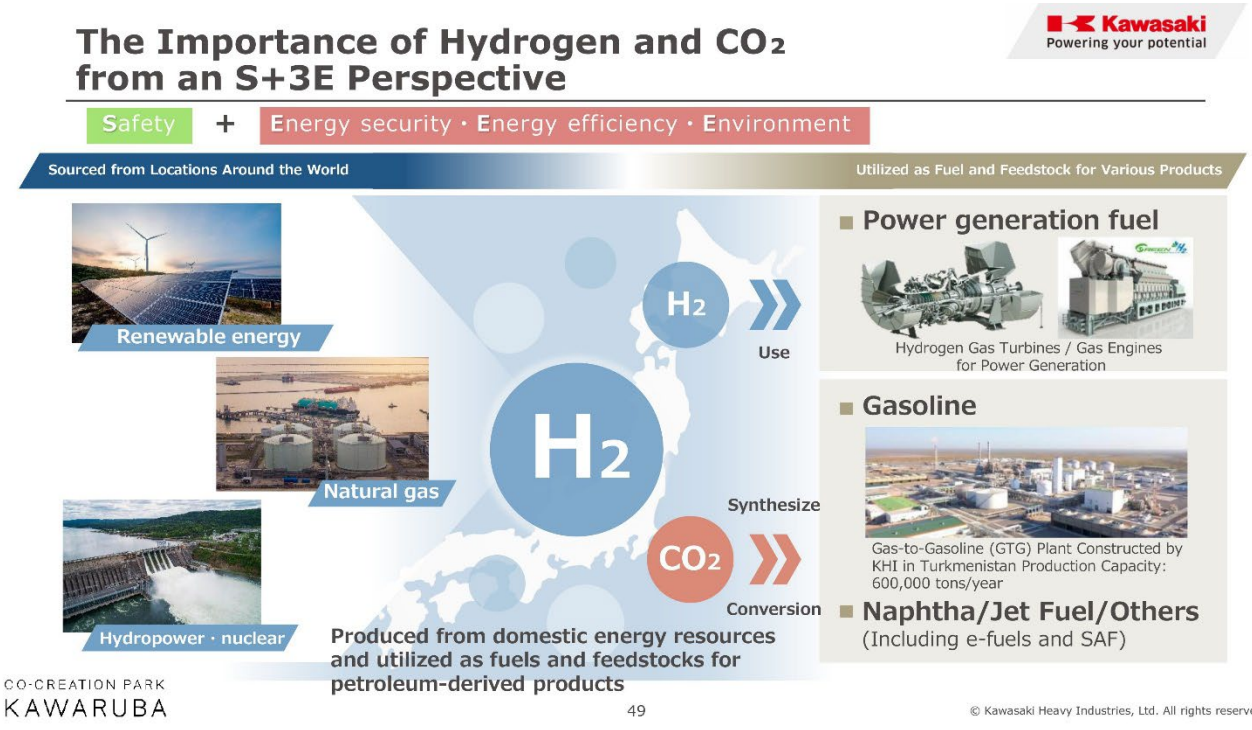
Regarding the CO_2 capture demonstration project at the Yokosuka Thermal Power Station, which we are conducting in collaboration with JERA, we are currently conducting a feasibility study for the demonstration unit and plan to install it by FY2030.

Overseas, we have signed an MOU with PETRONAS to conduct a feasibility study and are currently moving forward with the study.

Collaboration with carbon capture and storage partners is essential for the societal implementation of CO_2 capture. Through collaboration with these partners, our company will work toward the practical implementation of these technologies in society.



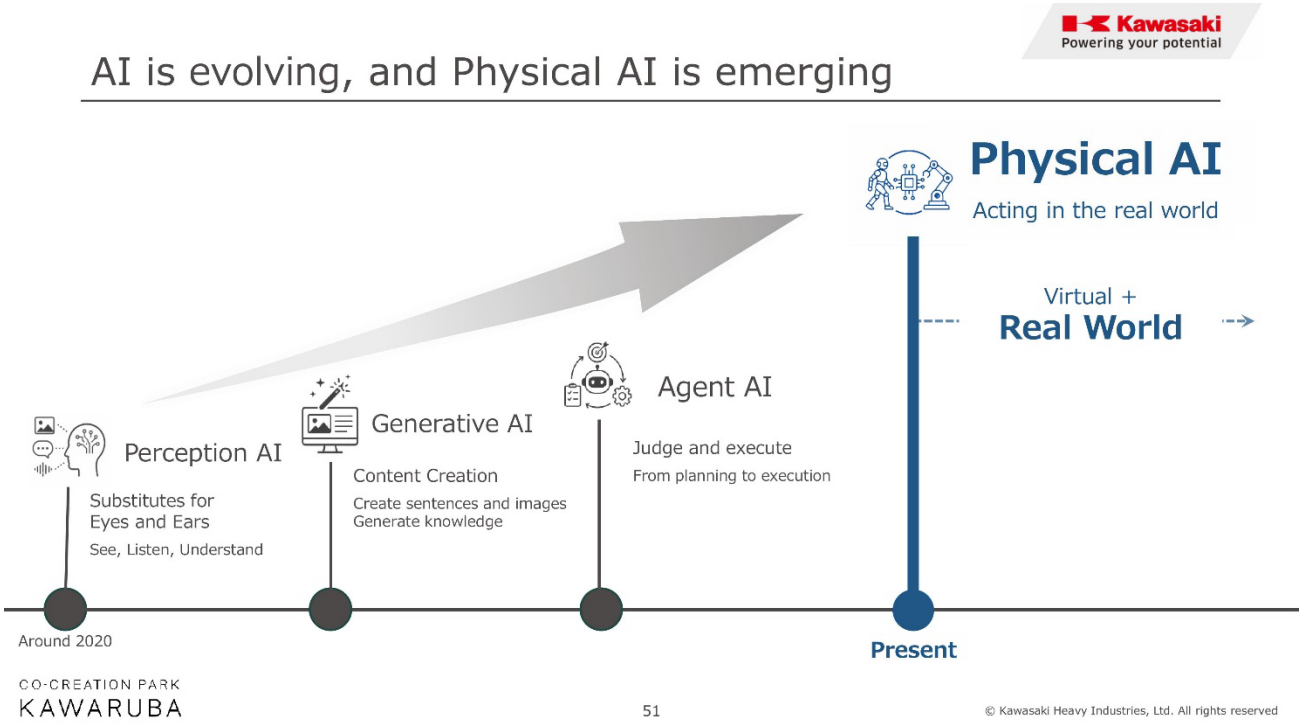
We will steadily advance this collaboration, expand from domestic pilot projects to regions suitable for storage, and aim for full-scale commercialization. In terms of business scale, we plan to reach approximately JPY25 billion by 2036 and approximately JPY70 billion by 2040.



So far, I have discussed the progress of our hydrogen and CO_2 capture initiatives. While hydrogen serves as a means to achieve carbon neutrality, its importance is growing even further as a strategic resource that underpins energy security, given that it can be produced from a variety of sources, including natural gas, renewable energy, hydropower, and nuclear power.

Furthermore, hydrogen is not only used in its pure form but, when combined with captured CO_2, is expected to be utilized in the production of synthetic fuels—such as gasoline and naphtha—as well as chemicals.

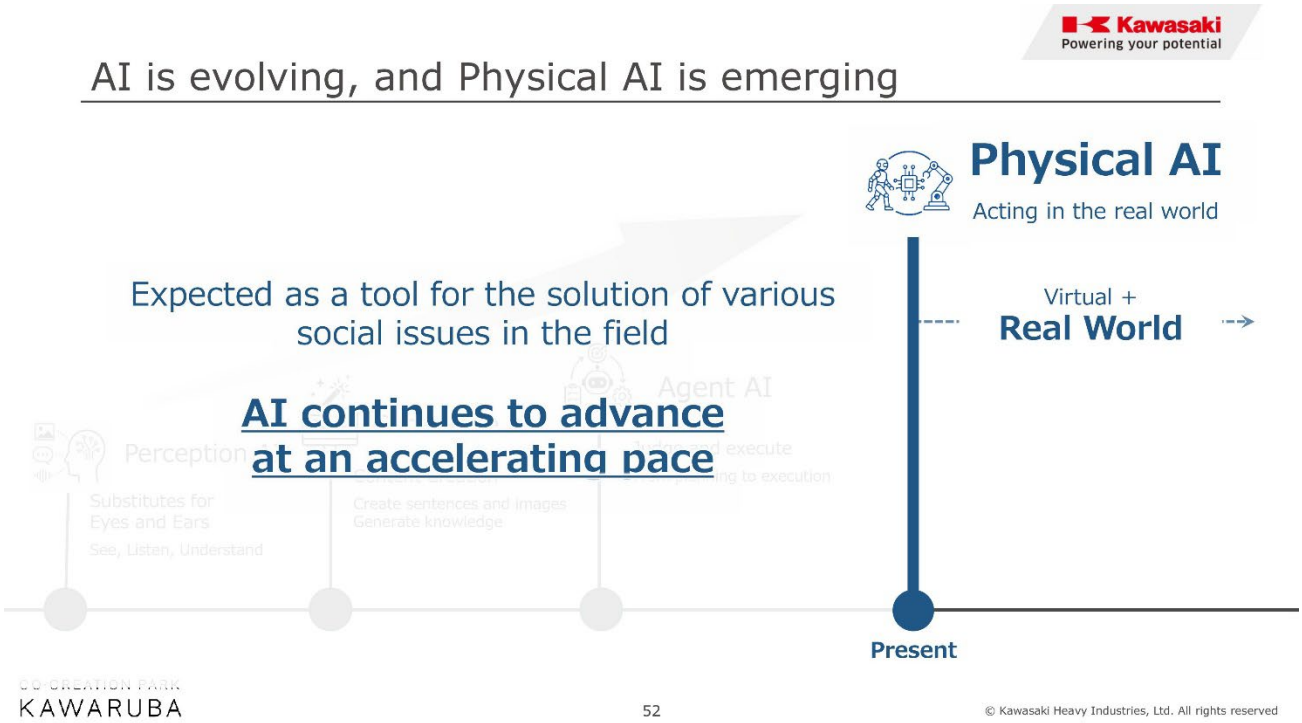
Our company has positioned hydrogen as a next-generation energy source based on the principle of "S+3E"—where "S" stands for Safety—while also fulfilling the criteria of energy security, energy efficiency, and the environment. We will continue to contribute to both carbon neutrality and energy security while accelerating the societal deployment of our hydrogen and CO_2 capture businesses, and we will steadily nurture these as businesses that will support our future growth.



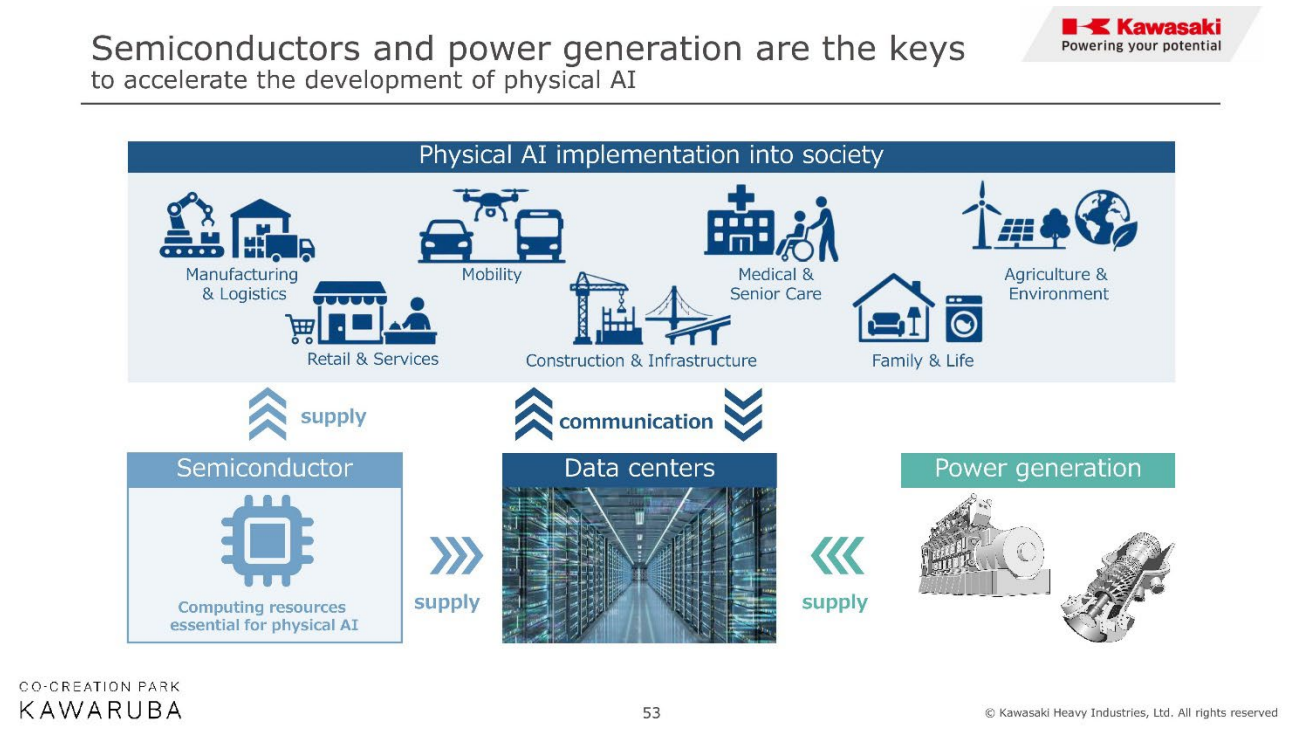
Next, I will explain the vision for social transformation and business growth that our company aims to achieve through the use of physical AI.

First, the evolution of AI.

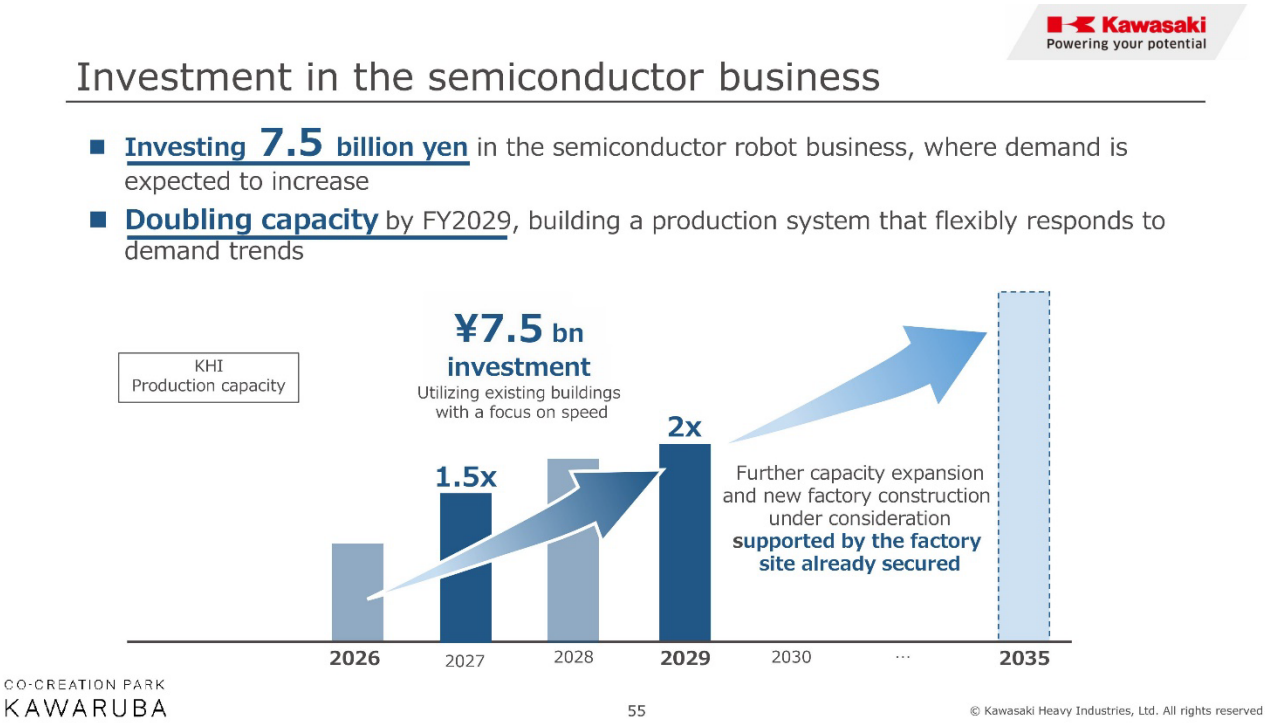
AI has continued to advance in recent years, and now, physical AI—which goes beyond virtual spaces to operate in the real world—is emerging.



The development of AI continues to accelerate, and the scope of applications for physical AI is expanding rapidly.

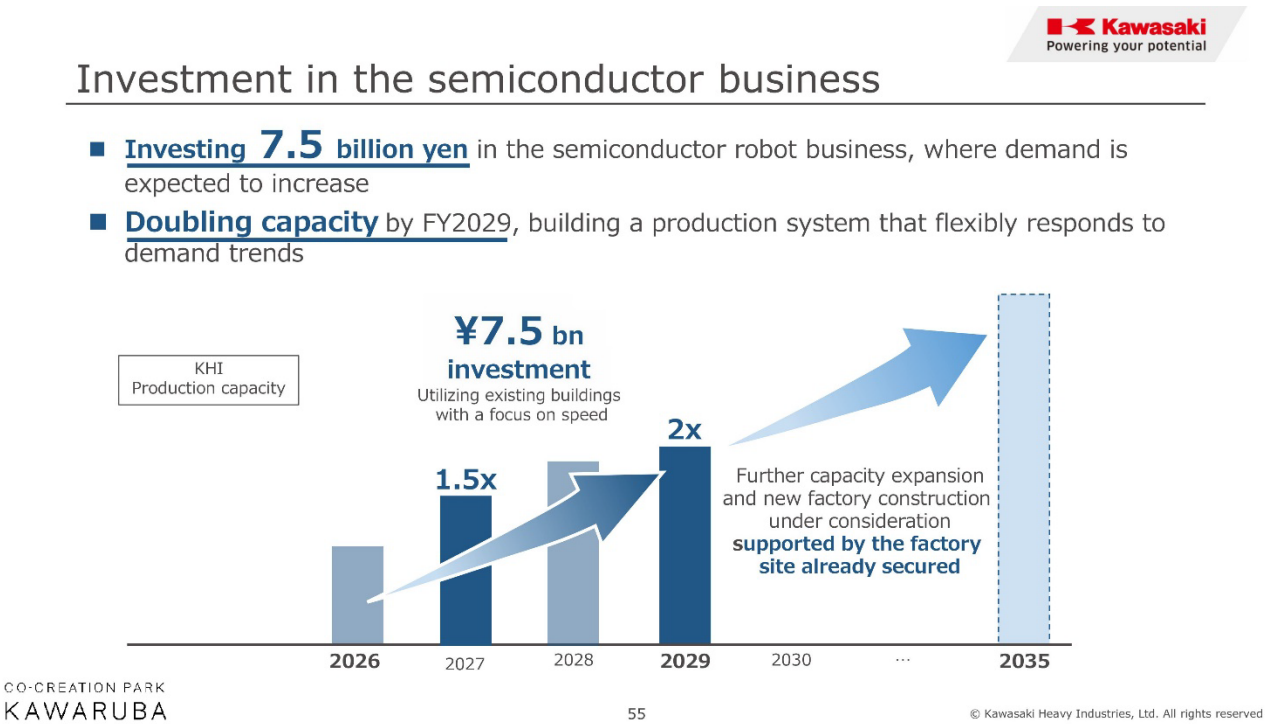


For physical AI to be widely implemented in society, it is essential not only to advance AI itself but also to develop the infrastructure that supports it. Our company not only utilizes physical AI but is also involved in semiconductor manufacturing—which supports its development—as well as energy supply.



Next, I will explain one of these areas, the field of semiconductor robotics.

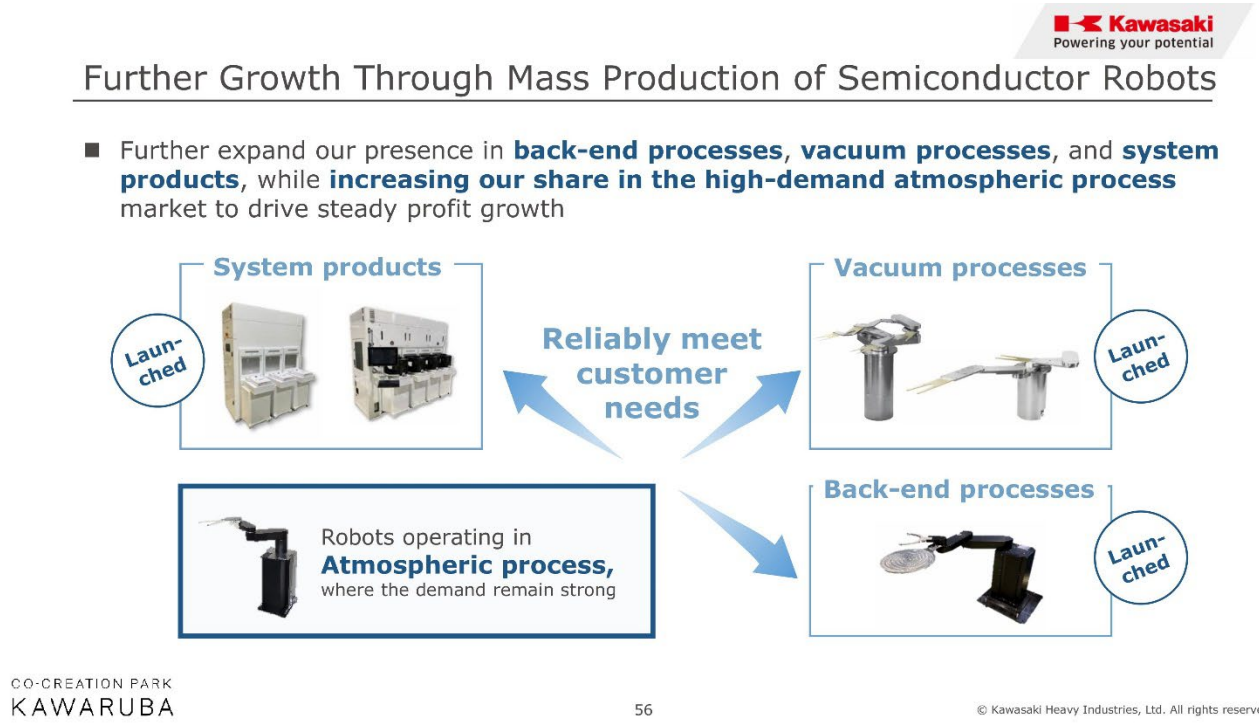
With the expansion of demand for semiconductors, the overall semiconductor manufacturing equipment market is projected to grow at an average annual rate of approximately 10% starting in FY2026. Within that, for our major customers, we anticipate a high level of growth—averaging about 14%.



To meet the strong growth in customer demand, we are investing JPY7.5 billion to increase production of semiconductor robots, thereby expanding our production capacity and ensuring we can meet the growing demand.

First, we plan to utilize the existing facility to increase capacity quickly, with the goal of expanding it to 1.5 times the current level by FY2027 and to twice the current level by FY2029.

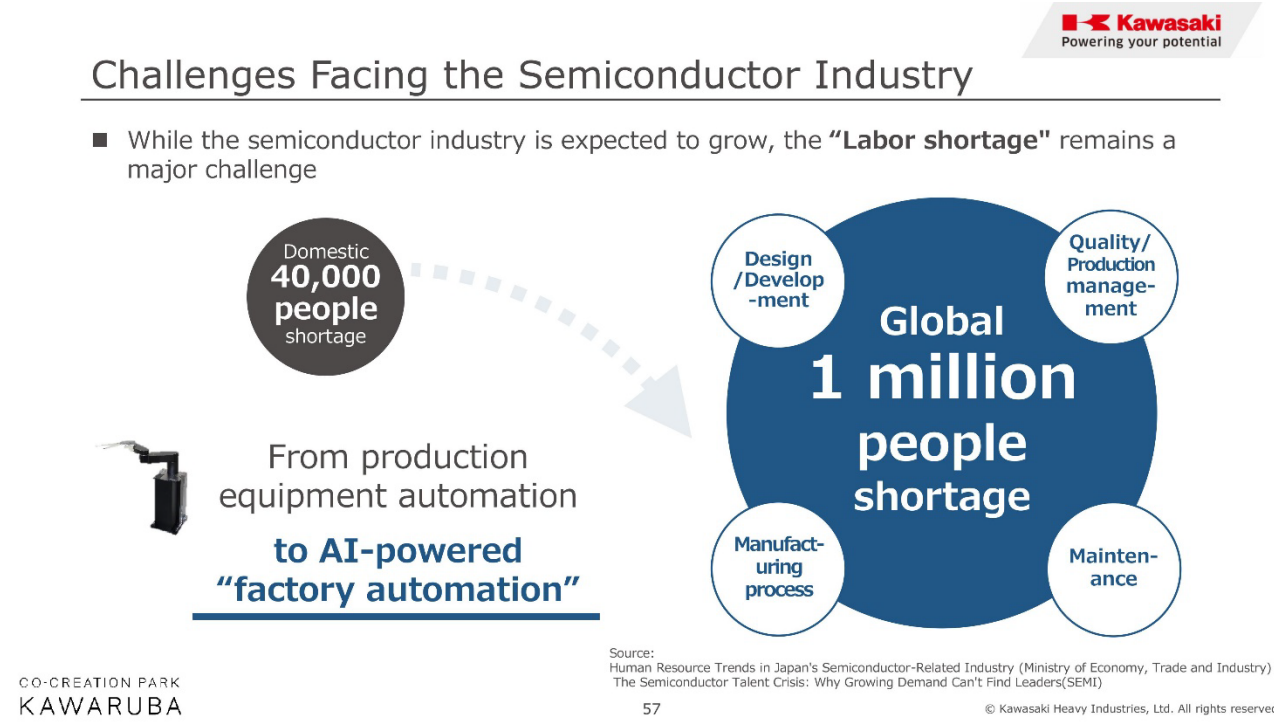
Depending on future demand trends, we will respond flexibly by utilizing the factory sites we have already secured, with a view to further expanding capacity or constructing new factories.



By expanding our production capacity, we are able to reliably meet customer demand.

In addition to increasing our market share in atmospheric processes—for which customer demand has traditionally been high—we have also begun mass-production deliveries of our back-end processes, vacuum processes, and system products, which we have already launched.

Overall, we anticipate further growth.



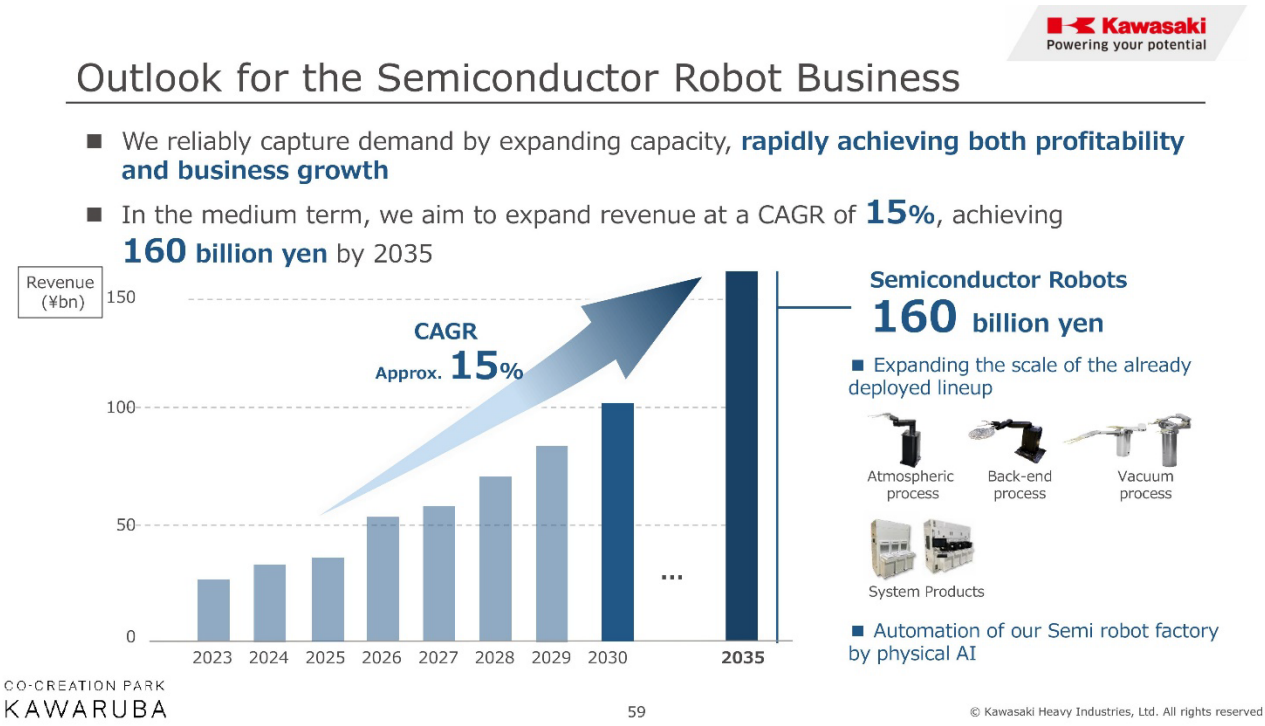
Meanwhile, in the semiconductor industry, labor shortages at manufacturing facilities have become a major global challenge alongside market growth.

To address this challenge, our company will go beyond the automation of semiconductor manufacturing equipment and expand our focus to include the maintenance tasks currently performed by many people in semiconductor factories, thereby further broadening the scope of application of physical AI.



This is an illustration of how physical AI is used in a semiconductor factory.

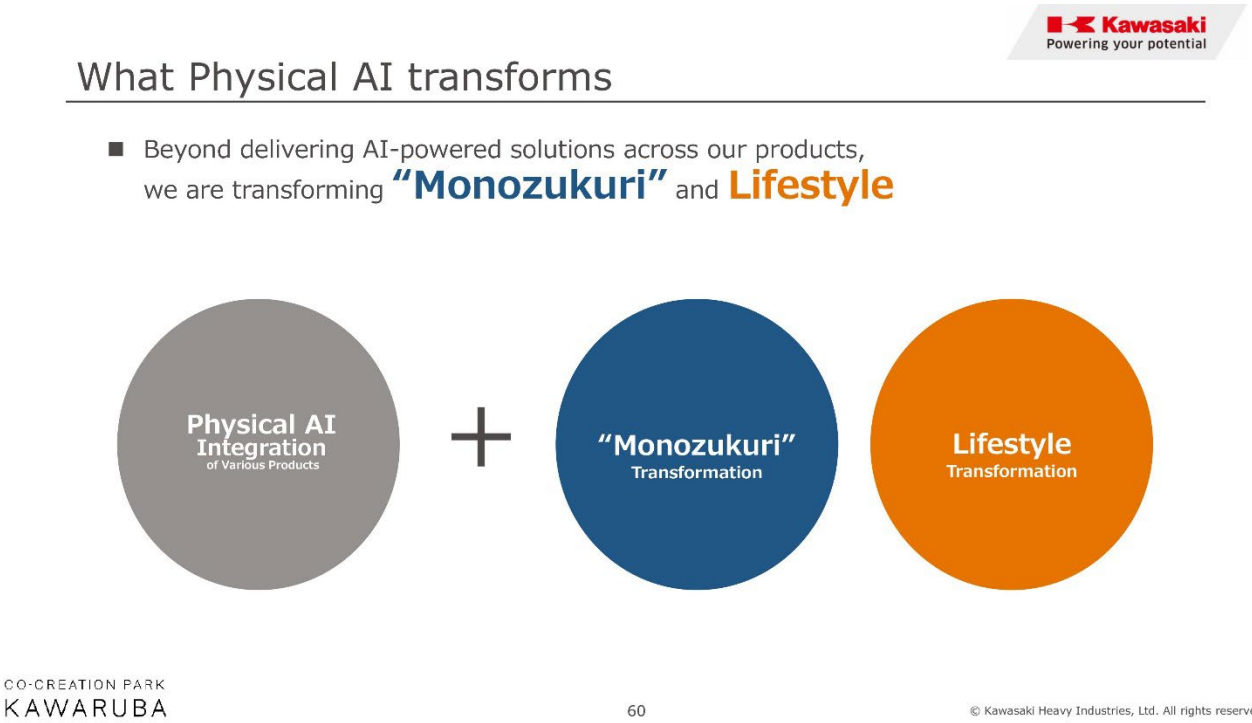
We plan to apply the autonomous humanoid robot—which utilizes physical AI and was recently featured in an article—to the automation of semiconductor factories as well. We will not only focus on humanoid robots but also address customer needs by incorporating industrial robots, and we will continue to expand our operations.



Based on the above, going forward, our company will continue to accelerate growth in our industrial robotics business by focusing more on the semiconductor robotics sector.

Expanding our market share and further boosting sales in existing fields—including not only atmospheric processes but also vacuum processes and others—and taking into account our expansion into the automation sector through the use of physical AI, we aim to approximately double sales in our semiconductor robotics business by 2030.

In the medium to long term, we will ensure steady growth at an average annual rate of 15%, exceeding market growth, with the goal of reaching JPY160 billion in revenue by 2035.



Here we highlight the semiconductors that power physical AI and the automation of their manufacturing processes. Furthermore, by leveraging physical AI, we will drive transformation in manufacturing and daily life.



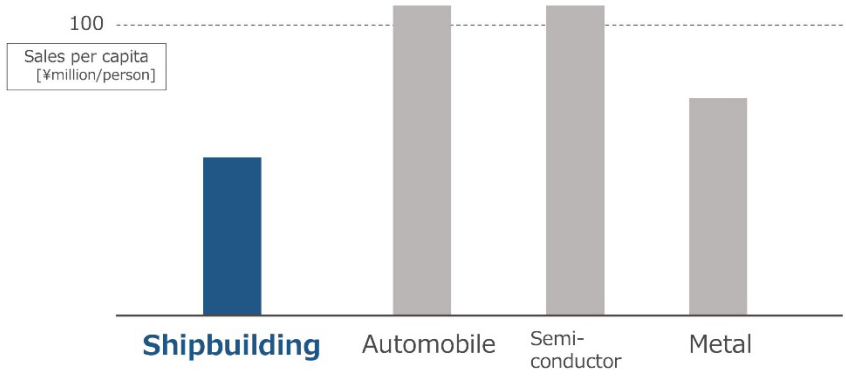
First, I will talk about the transformation of manufacturing.

I will explain the use of physical AI in shipbuilding as a representative example of a complex and demanding on-site environment.

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The Environment Surrounding Shipbuilding

- Shipbuilding remains one of the most **labor-intensive manufacturing** industries
- **Shipbuilding depends heavily on a large number of skilled engineers and workers**



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Source: Created by our company based on information from various industry companies

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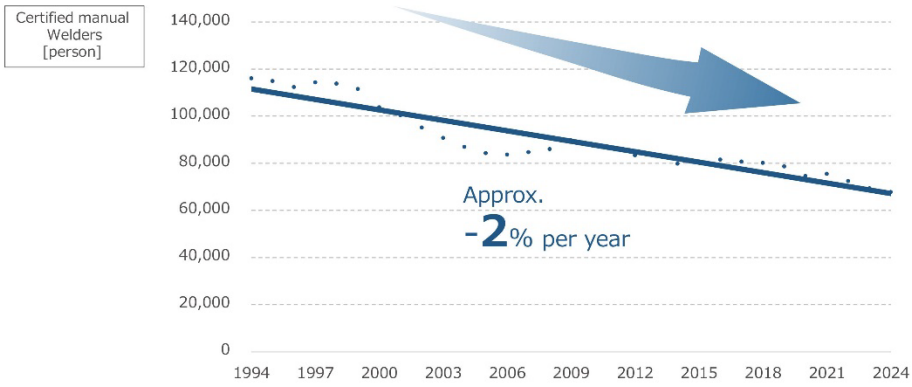
Compared to other manufacturing industries, the shipbuilding industry has lower sales per employee and is a labor-intensive industry.

Shipbuilding requires a large number of engineers and skilled workers and relies heavily on manual labor. As demand for construction continues to rise, there is a need to transform business structures away from reliance on increasing the number of personnel.

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The Environment Surrounding Shipbuilding

- The number of Japanese workers in shipbuilding is expected to continue declining over the medium term
- **The shortage is particularly acute among skilled welders**



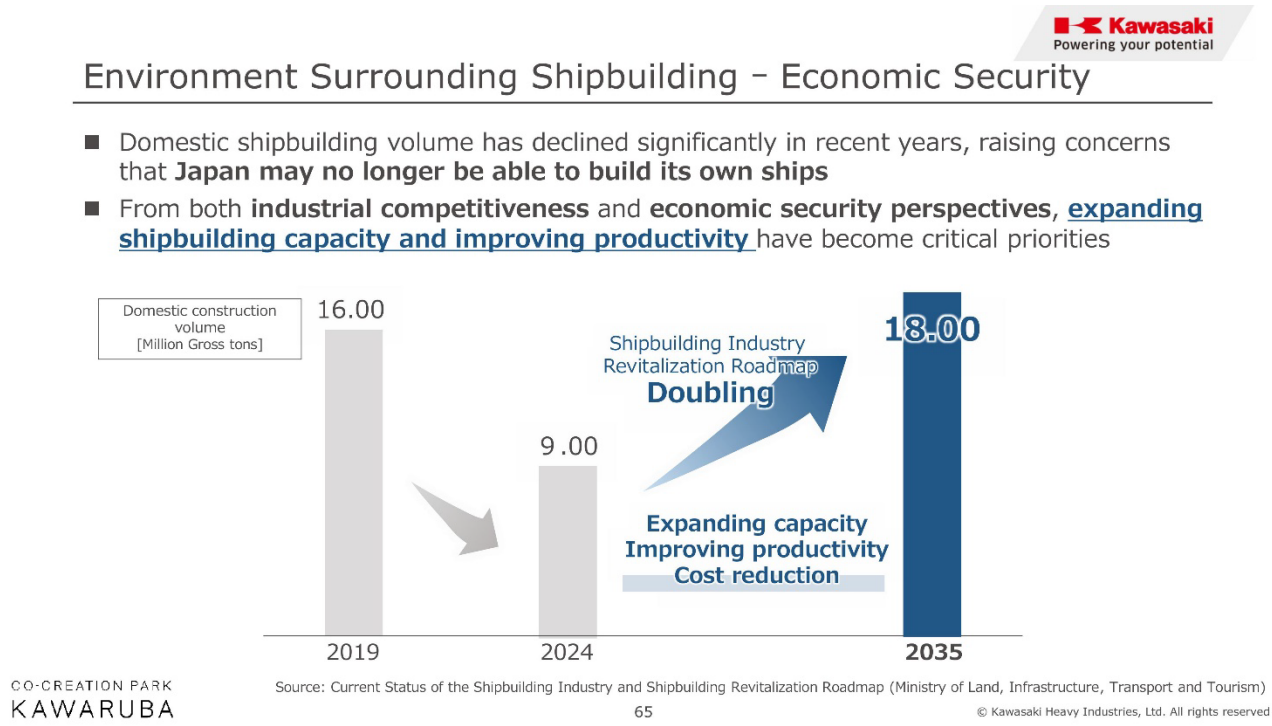
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Source: Trends in the Number of Certified Welding Technicians - Japan Welding Association Welding Information Center

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Furthermore, the number of Japanese workers employed in the shipbuilding industry has continued to decline over the medium term.

In particular, the number of skilled welders—who play a central role in shipbuilding—is declining year by year. In addition to the labor shortage, there are significant challenges regarding the passing on of skilled techniques and know-how.



Amid these circumstances, domestic shipbuilding volume has declined significantly, and the ability to build Japanese ships in Japan is weakening.

Meanwhile, the national roadmap for revitalizing the shipbuilding industry outlines a policy to double domestic shipbuilding volume by 2035. To achieve this, we must simultaneously expand our construction capacity, improve productivity, and reduce costs.

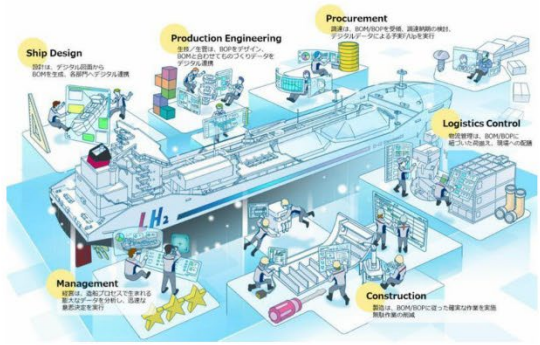
Initiatives for Shipbuilding Industry Transformation

■ **Transformation of the shipbuilding industry is essential** for future expansion of construction capacity

2020~

DX Initiatives

Driving end-to-end digitalization of shipbuilding processes and shop-floor automation, linked with productivity improvement and work standardization initiatives



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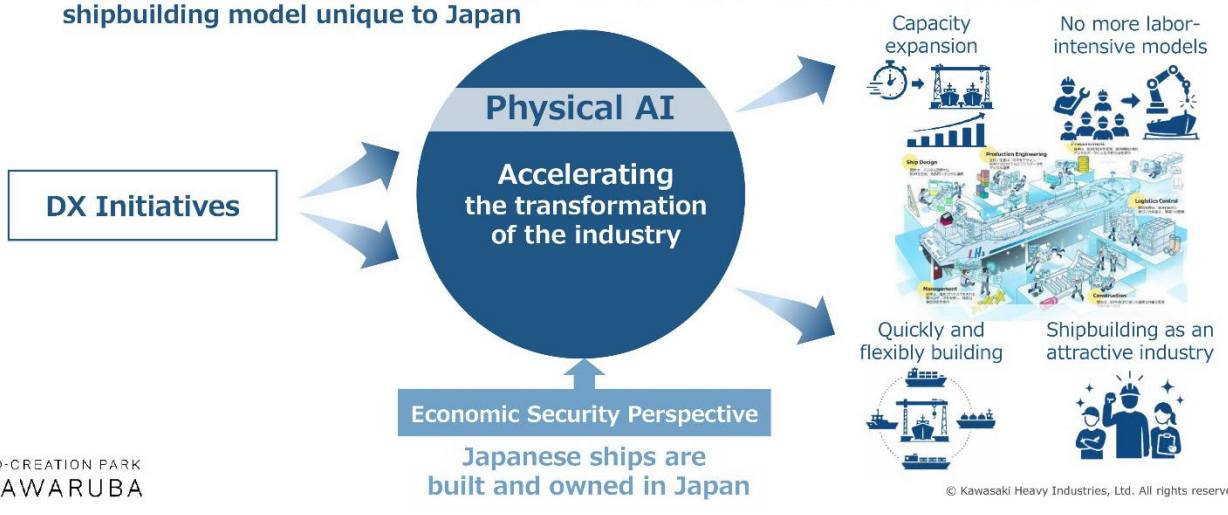
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With an eye toward expanding our future shipbuilding capacity, we have long been keenly aware of the need for transformation in the shipbuilding industry. Since 2020, we have been engaged in commercial ship DX initiatives to centrally manage all shipbuilding-related information digitally and to advance automation on the shop floor. This is our strategy for building the next generation of ships faster and more reliably.

Further Approach of Kawasaki

■ Building on its DX initiatives in commercial shipbuilding, Kawasaki **accelerates the transformation of the shipbuilding industry through physical AI**

■ **As a pioneer in the application of physical AI, Kawasaki seeks to establish a new shipbuilding model unique to Japan**

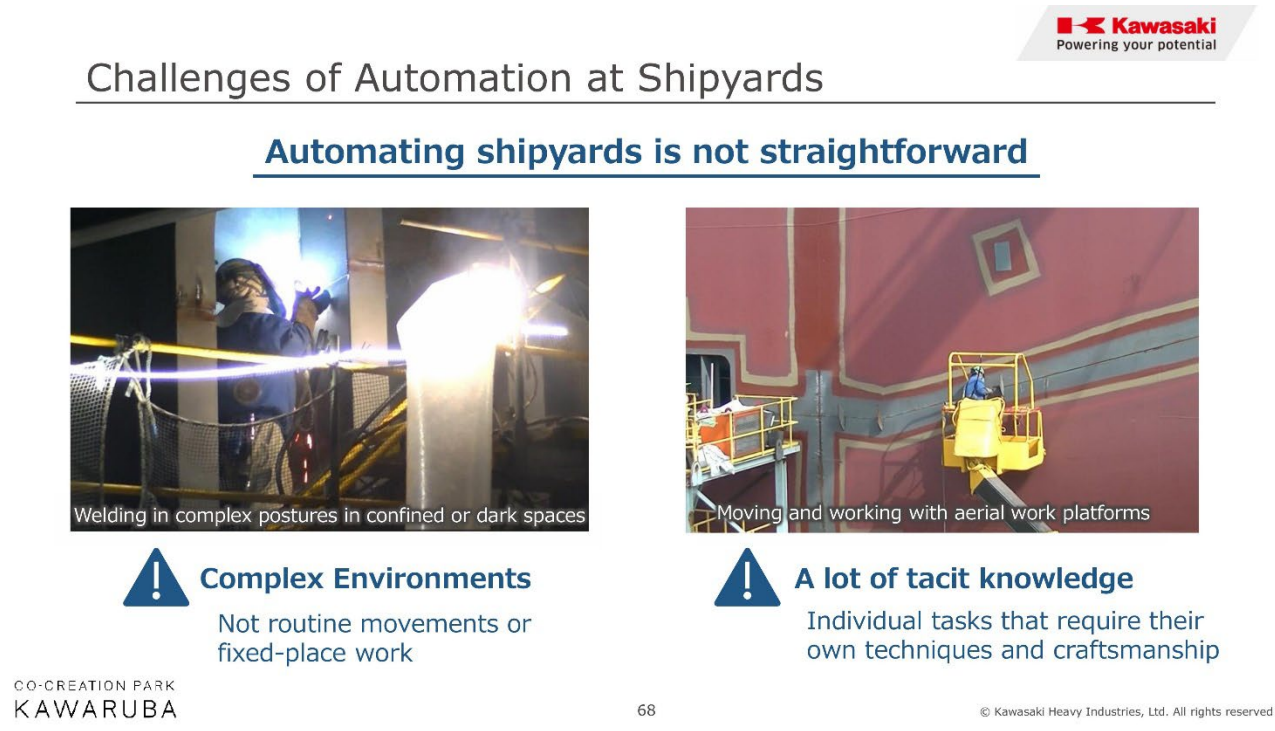


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Furthermore, going forward, we will build on the commercial shipping DX initiatives we have developed to date and, through the use of physical AI, dramatically accelerate our efforts to transform the shipbuilding industry.

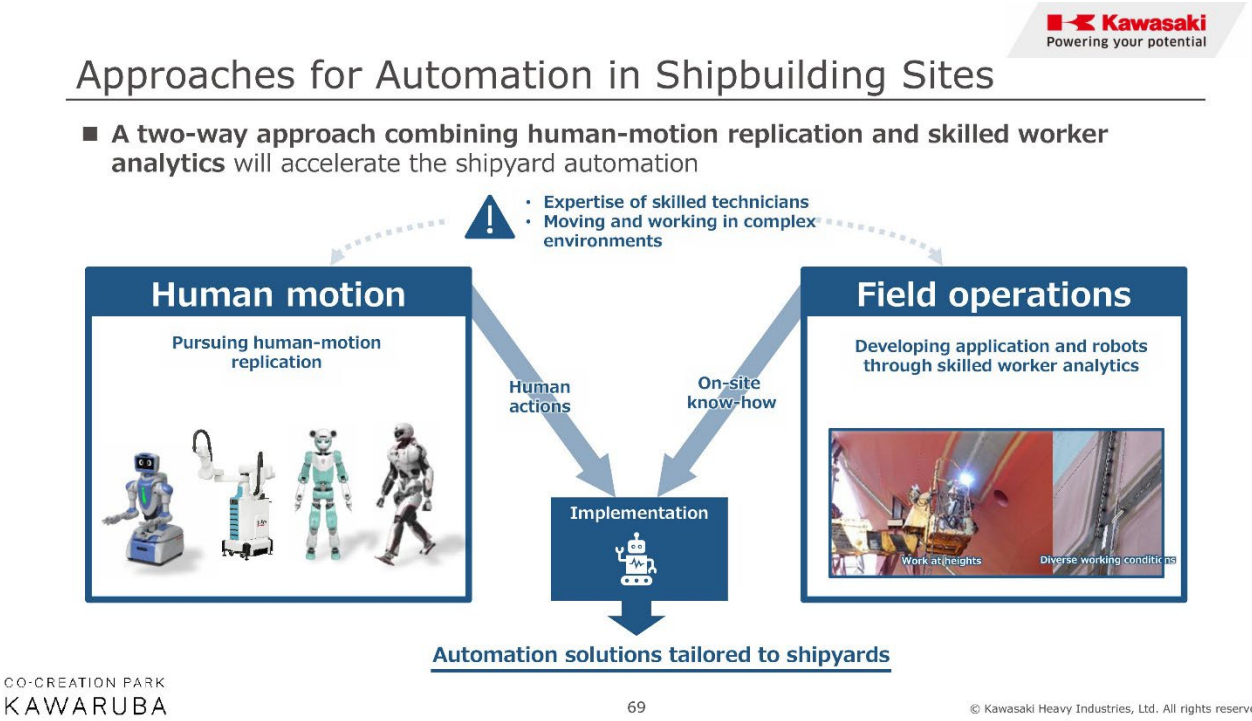
Through the above initiative, we will leverage physical AI—a technology that has yet to be fully established in other countries—to create a new model for the shipbuilding industry. This will enable us to expand our shipbuilding capacity, move away from a labor-intensive model, and transform the shipbuilding industry into an attractive sector.



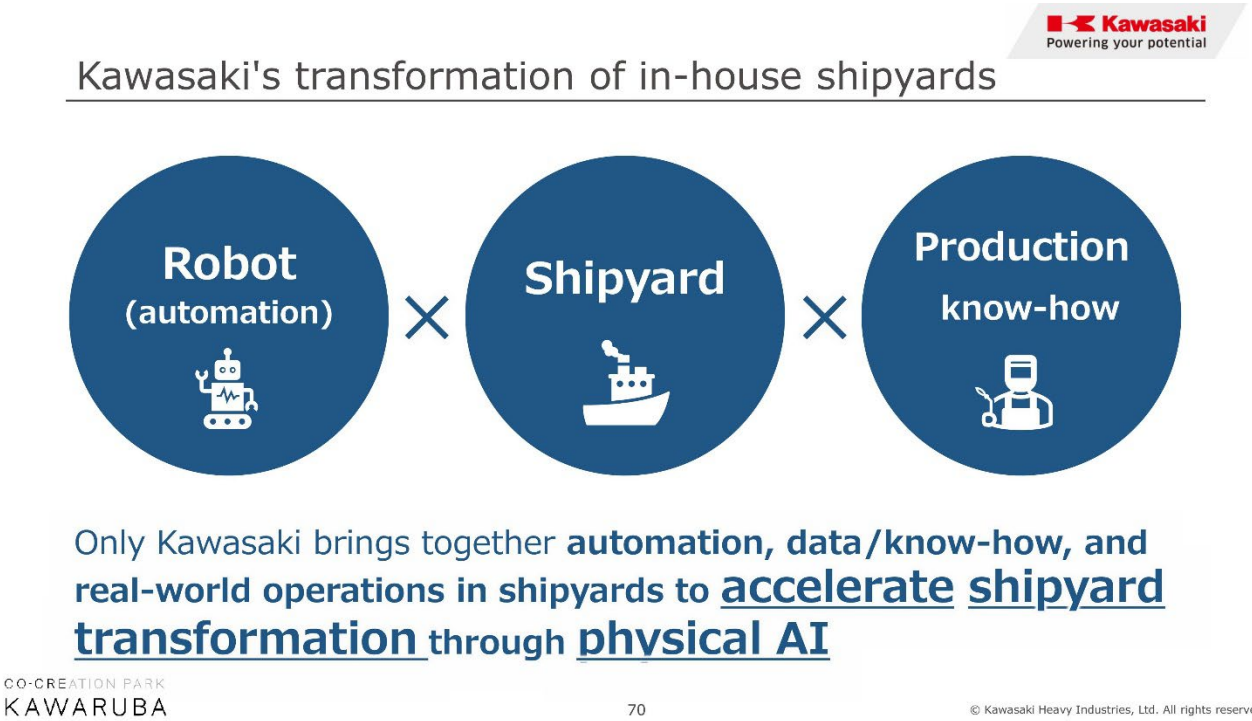
However, automating shipbuilding operations is no easy task.

Work locations and conditions vary—from welding in complex positions in confined or dark spaces to working at heights. Furthermore, welding involves a great deal of implicit knowledge possessed by skilled workers, such as the specific techniques required for each task.

Both this complex environment and implicit knowledge make automation extremely difficult to achieve.



There are two main approaches to automation. One is the pursuit of robots that can replicate human movement. The other involves analyzing the work and actions of skilled workers to inform application development and robot design. It is precisely because our company has been working on both of these approaches for many years that we believe we can achieve automation in the shipbuilding industry—a field that is far from straightforward.



We have our automation technologies, including our robots; actual shipbuilding sites; and the production know-how we have accumulated over many years. Combining these three elements is Kawasaki's strength, which enables us to markedly accelerate the pace of transformation at shipbuilding sites through physical AI.

We have created a video showing a clear vision of how these three elements can be combined to transform the workplace, so please take a look.



[Video Begins]

A shipyard in the height of summer. Amid scorching metal and blazing heat, clad in hot protective gear and after completing various preparations, they continue welding with expert skill while maintaining the same posture at heights and in confined spaces. Today's shipbuilding industry relies on people's skills and physical strength.

Kawasaki has developed a shipbuilding AI welding robot that incorporates on-site expertise as “physical AI.” Robots take over physically demanding work, while humans perform more sophisticated tasks overseeing the robots. Work doesn't stop, even in the sweltering heat.

We simultaneously create a comfortable environment for people and deliver dramatic improvements in productivity for companies. Physical AI and digital twins are transforming shipyards, paving the way for a sustainable society.

“Toward the Next Society: A Response Based on Trust.”

[Video Ends]



Hashimoto: As you saw, automation in shipbuilding isn't just about replacing human labor with robots.

We will make changes to the surrounding facilities—such as the cranes that were previously needed for people to perform their work—as well as to the work methods themselves. By enabling robots to work autonomously even at high altitudes or on uneven terrain, we will transform the industry into a more sustainable one that is less susceptible to the effects of harsh working conditions, such as extreme heat, wind, and rain.

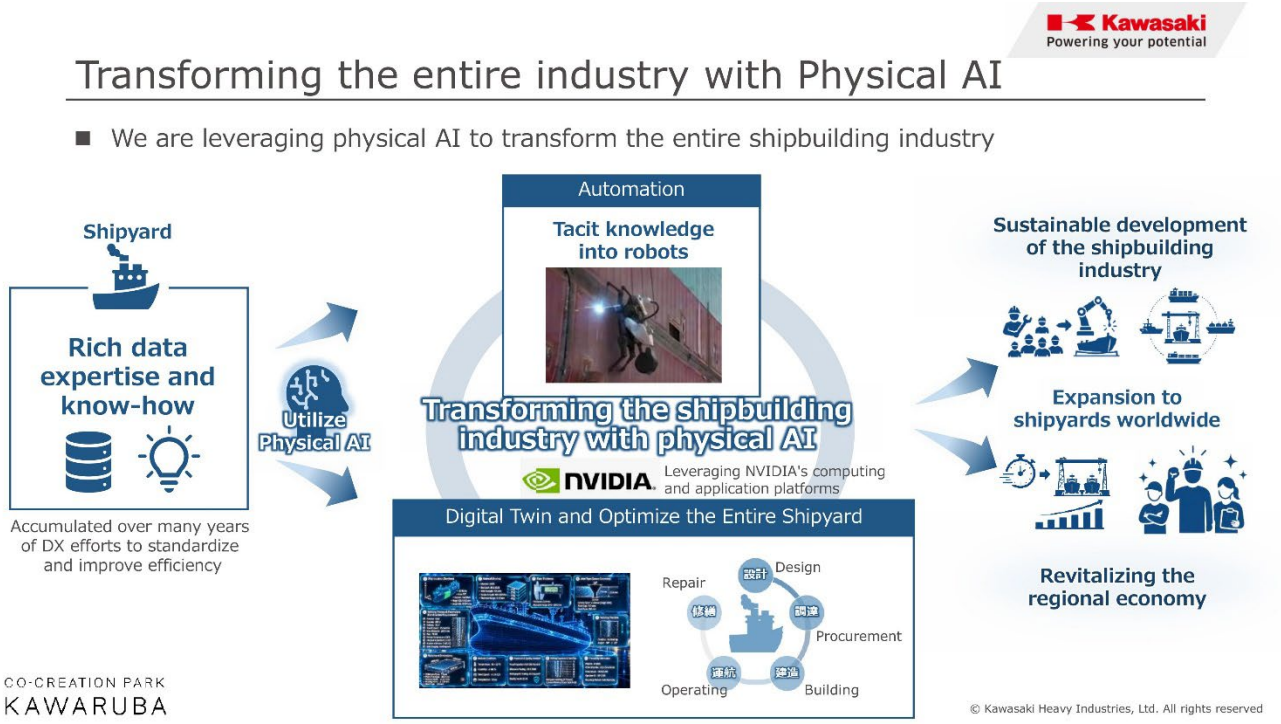
The new robots responsible for automation at shipbuilding sites attach themselves to the hull and perform their tasks outdoors. Later today, we plan to show you all a prototype of that robot. Is everyone on the first floor ready?

Company Representative: Yes. We are currently preparing this.

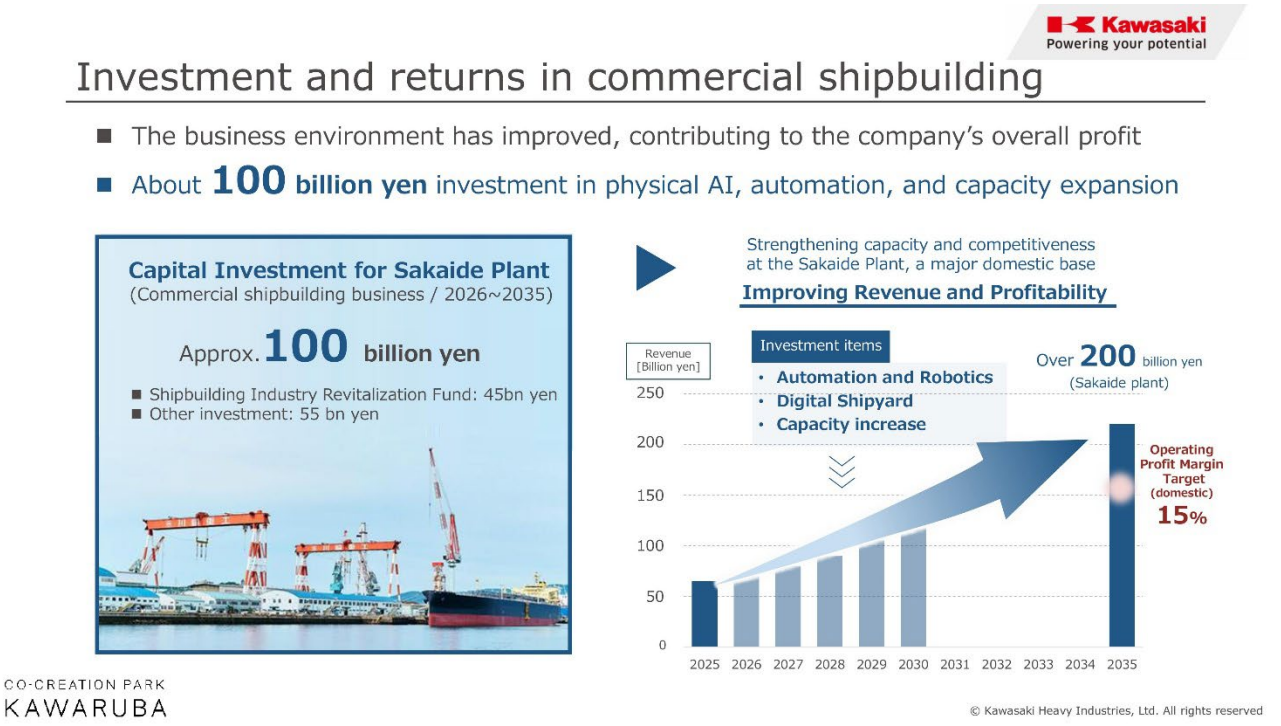
Hashimoto: When did we start developing this robot, again?

Company Representative: We've been working on this for about half a year. We look forward to seeing you all on the first floor.

Hashimoto: It's been about half a year, and while it's still a prototype, we'd like to show you all the progress we've made so far.



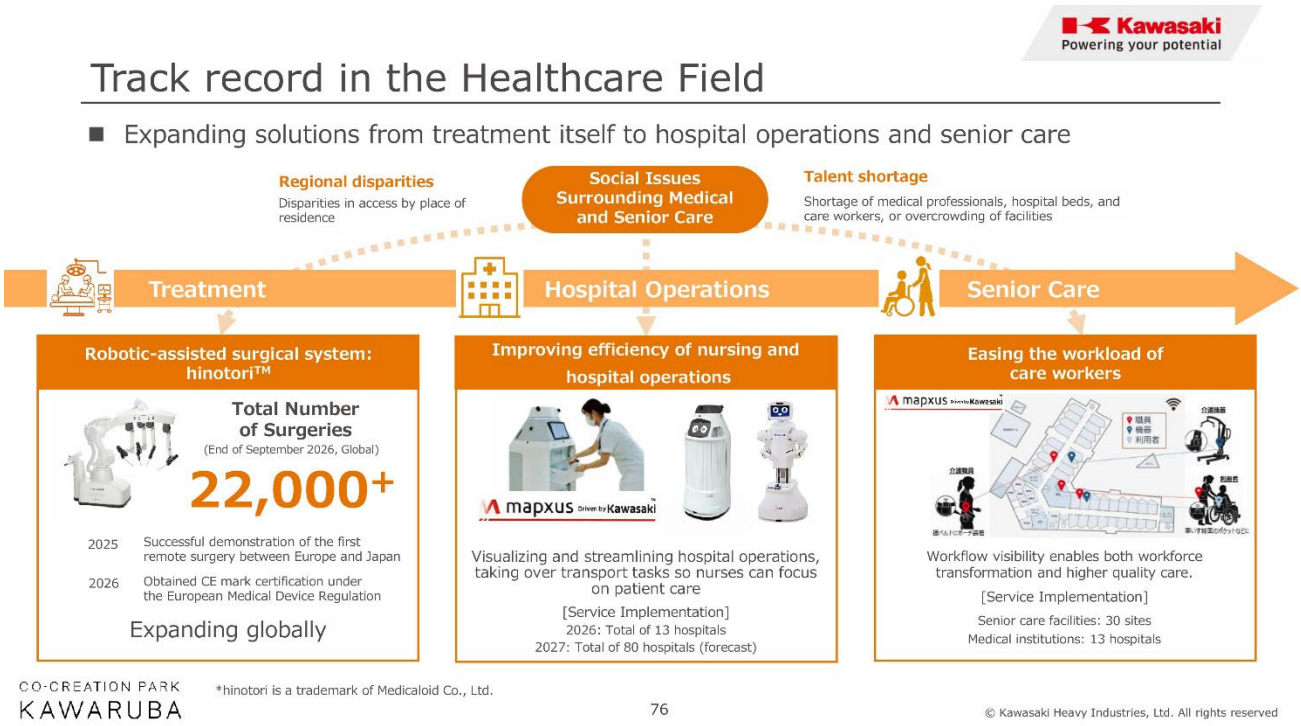
Furthermore, this transformation extends beyond the manufacturing floor. By utilizing the data and insights accumulated through standardization and efficiency initiatives—including merchant ship DX—we will extract the implicit knowledge of skilled workers and incorporate it into robots. At the same time, we will create a digital twin of the entire shipyard to optimize processes from design through repair. We will roll out these results to shipyards both in Japan and overseas, thereby contributing to the sustainable development of shipbuilding and the revitalization of regional economies.



The business environment surrounding the shipbuilding industry has improved significantly, and the merchant ship business has already become a major contributor to the Company's overall earnings.

To further solidify this growth, between 2026 and 2035, we will invest approximately JPY100 billion in our Sakaide Plant—the main hub of our commercial shipbuilding business—with the aim of advancing automation and robotization, transforming it into a digital shipyard, and increasing our shipbuilding capacity.

This will further strengthen the Sakaide Plant's production capacity and competitiveness, and we aim to achieve revenue exceeding JPY200 billion and a business profit margin of 15% by 2035. We will leverage our investment in physical AI to drive steady growth in our construction capacity, revenue, and profits.



Next is lifestyle transformation.

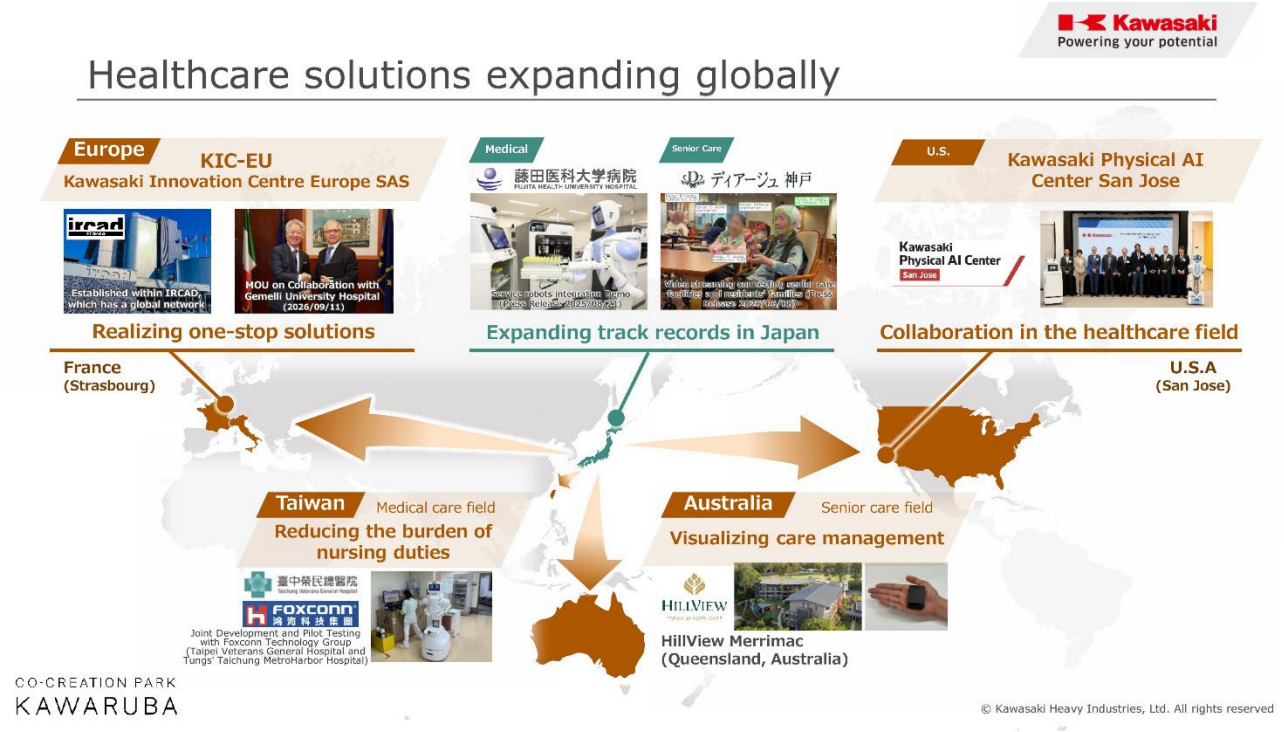
I would like to explain our initiatives to enhance people's quality of life and create a more prosperous society through physical AI.

In the healthcare sector, our company has aimed to address social issues such as regional disparities and labor shortages. Starting with hospitals, we have expanded the scope and track record of our solutions to include senior care.

The Hinotori surgical assistance robot has performed more than 22,000 surgeries to date and has obtained CE mark certification under the European Medical Device Regulation, showing progress in its global expansion.

In addition to the operating room, we are also implementing initiatives to address challenges across the entire hospital—including making hospital operations more transparent and efficient, as well as using social robots like FORRO to assist nurses with transport tasks.

Furthermore, in the senior-care sector, we are implementing initiatives to visualize and streamline work processes using indoor location solutions and behavior tracking via mapxus. These solutions have been adopted at 30 senior-care facilities and 12 medical institutions.

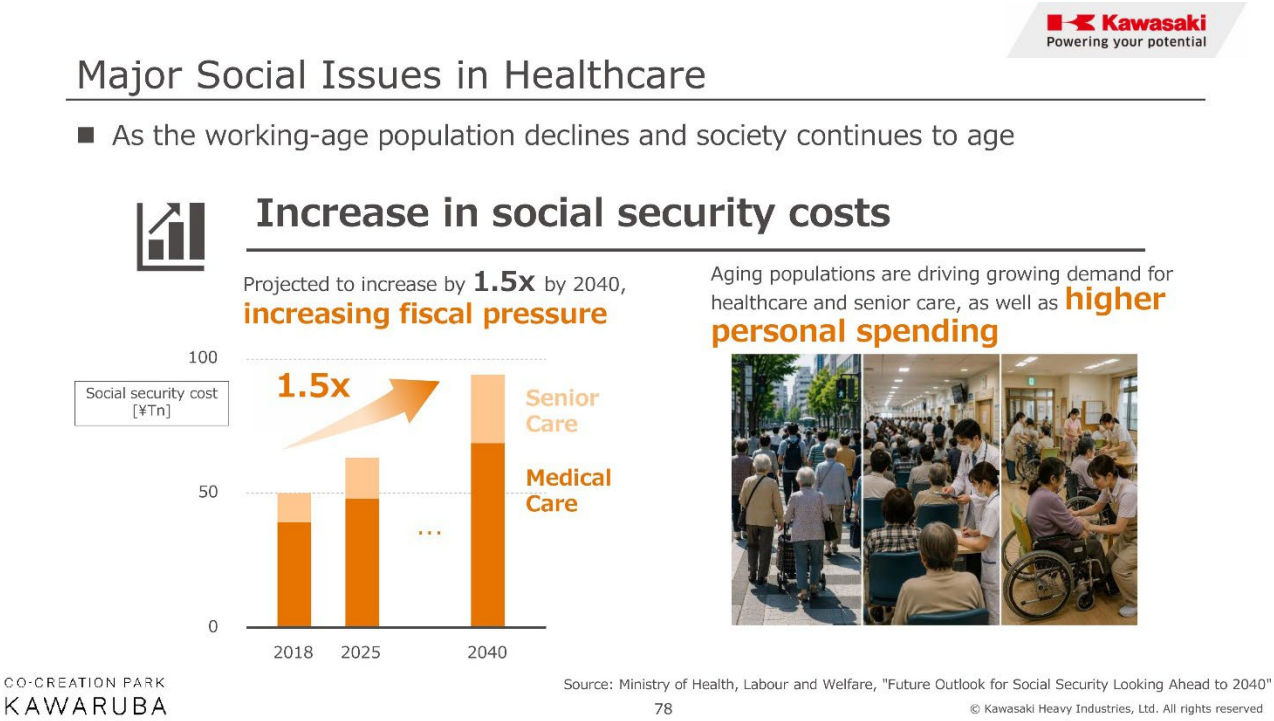


While steadily expanding their track record in Japan, these solutions are also being rolled out on a full-scale basis globally.

In particular, at KIC-EU—established within IRCAD, a world-renowned medical research and education institution in France—we are working with local medical institutions and partners to identify specific needs in clinical settings and are moving forward with the development of one-stop solutions that combine our expertise in robotics, AI, and remote technologies.

As one specific initiative in this regard, we recently signed an MOU with Gemelli University Hospital in Rome, Italy, to explore opportunities for collaboration. By implementing one-stop solutions through collaboration with leading medical institutions, we will work to resolve challenges faced in actual clinical settings.

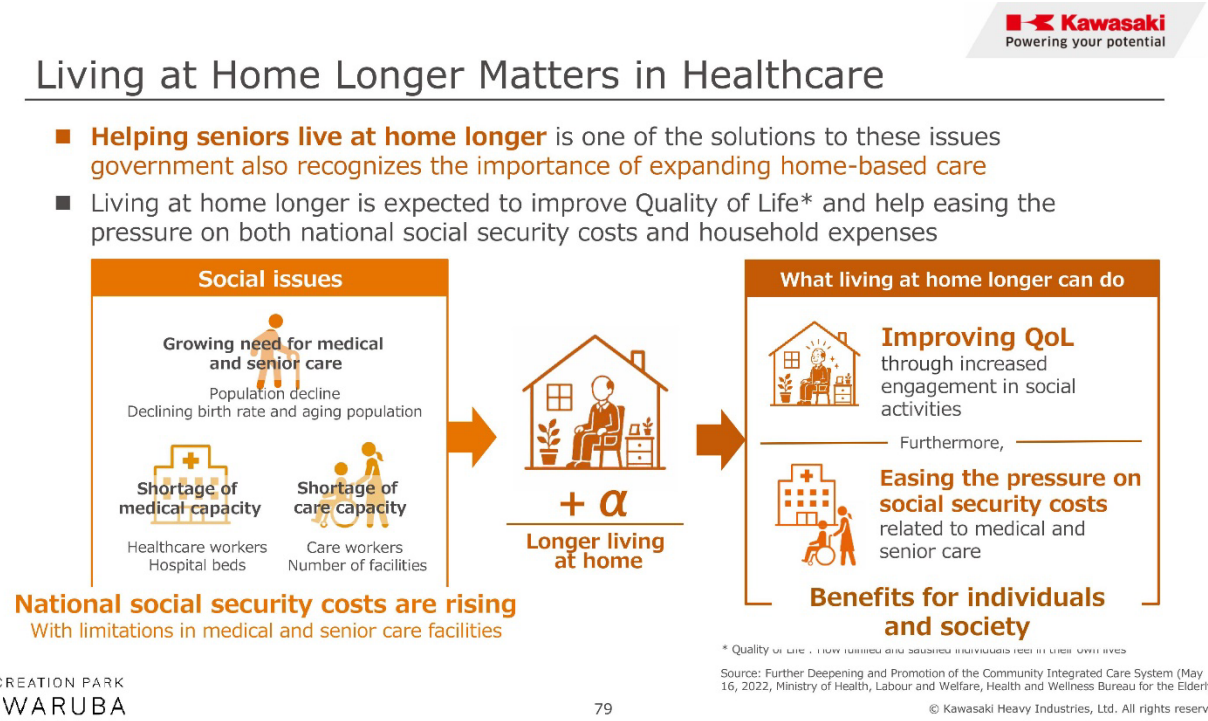
Furthermore, in the United States, we are developing new solutions utilizing physical AI from our base at the Kawasaki Physical AI Center in San Jose, and we plan to further strengthen our global collaboration and co-creation moving forward.



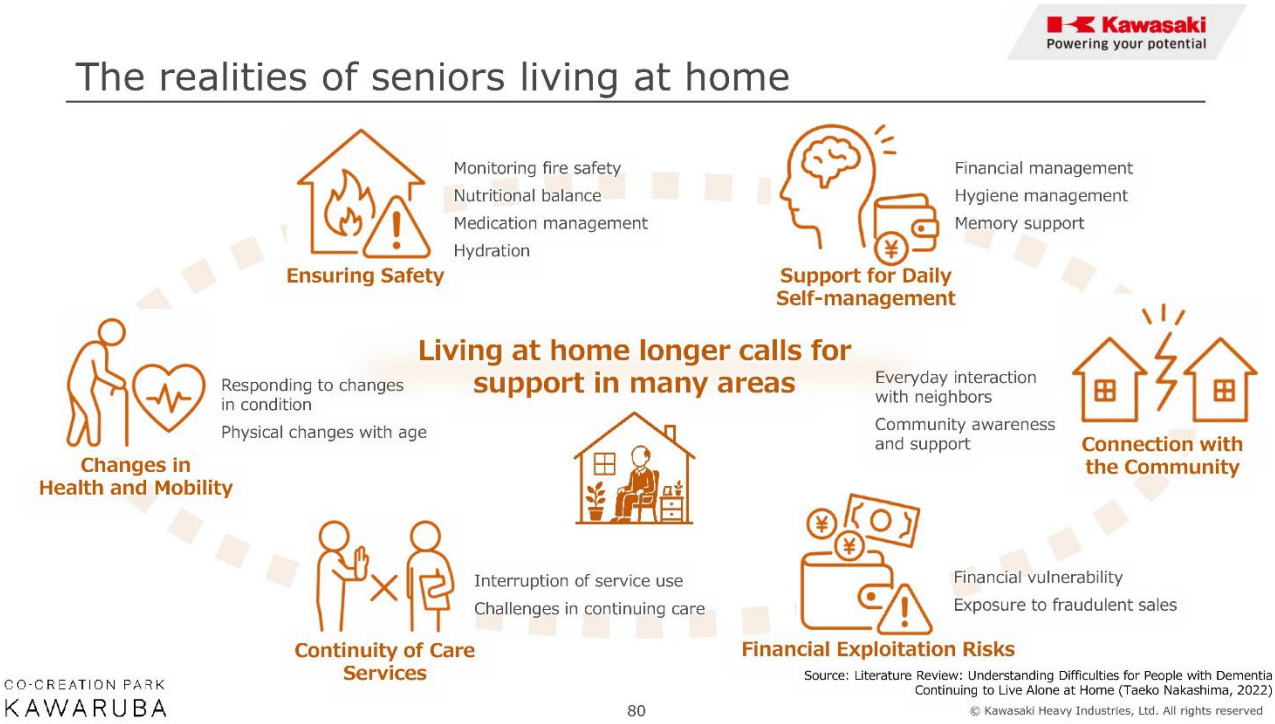
While the rollout of global solutions is progressing in the medical and senior-care sectors, this alone is not enough to solve the healthcare challenges facing society as a whole.

One of those challenges is the rising cost of social security. In Japan in particular, social security expenditures are projected to increase by about 1.5 times by FY2040, placing a strain on the national budget. In addition, personal spending on medical care and senior care is expected to rise, making this a very significant issue that directly affects people's daily lives.

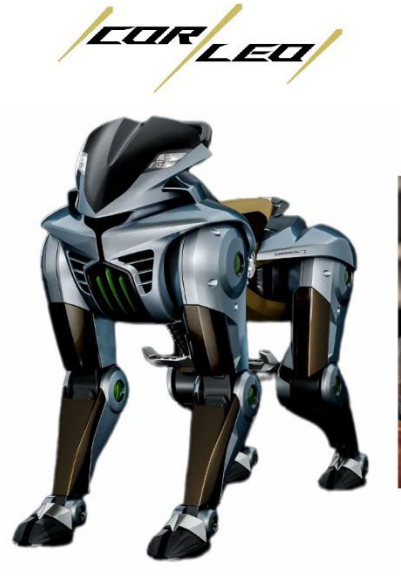
Therefore, as one approach to addressing this challenge, we believe it is important to enable people to live at home longer—particularly for the elderly.



We believe that extending the period of home care not only aligns with the Japanese government's perspective but also offers significant benefits to both individuals and the nation, as it is expected to help curb national social security expenditures, improve individuals' quality of life, and reduce medical and senior-care costs.



However, the reality is that for older adults living at home, there are various challenges and concerns, including safety issues such as fire hazards, a decline in self-management—including memory loss—and a decline in physical function.





Robotic Multi-legged Vehicle

CO-CREATION PARK
KAWARUBA

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Are you all familiar with CORLEO, which was unveiled at the Osaka-Kansai Expo 2025? I think you probably know about it. CORLEO is not just a vehicle. We are developing it as a new form of mobility that expands human potential and creates unprecedented excitement and adventure.

A social robot supporting independent living at home

Home LEO

Toward a **society**
where we can continue
a fulfilling **lifestyle**
in a familiar **home**



CO-CREATION PARK
KAWARUBA

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And today, within that healthcare field, we'd like to introduce this new robot—which is essentially CORLEO's "baby." Home LEO is our new partner in creating a society where people can live safely and comfortably in their familiar homes for as long as possible.

Please watch this video to see the new lifestyle offered by Home LEO.

[Video Begins]



[Video Ends]

Noguchi: You've all just watched the video. What did you think? To conclude the section on physical AI, we will now present a demonstration featuring a small robot currently under development.

Next we present Home LEO, an autonomous robot that interacts with people, remembers conversations and events that take place in the moment, and can recall them and take action when necessary.

Home LEO will make its entrance from backstage on your right, so we ask members of the media to please have your cameras ready. Please note that the demonstration will take place right here in the aisle in front of you, so for safety reasons, please do not step down.

We're all set. Are the members of the media ready with their cameras? Everyone, please move to a spot where you can see clearly. Our staff are giving direction. Thank you, everyone. And now, we present, Home LEO.

Everyone, Home LEO has just made its appearance, following Mr. Hashimoto. Home LEO can move around and converse while recognizing the facial expressions of people around it and its surroundings.

Home LEO: Hello, Mr. Hashimoto.

Hashimoto: Hello.

Home LEO: You look nervous. Because you're right in the middle of the Group Vision progress report meeting.

Hashimoto: That's right. Today is the day I am sharing some important information with everyone about Kawasaki Heavy Industries' future.

Home LEO: Why am I being invited to a place like that?

Hashimoto: So that I can introduce you, LEO.

Home LEO: Really?

Hashimoto: You're surprised? Well, you are still a baby. You might be the one who's more nervous. Well, I'm going to sit down for a bit. Please wait here for me.

Noguchi: This robot remembers a person's preferences and past interactions based on daily conversations, and can retrieve this information when needed. It adjusts its posture to a height that makes it easy to talk with the person, and engages in conversation while staying close to them and paying attention to their eye contact and reactions.

Now, please take a look at the following conversation, which is based on what daily life might be like in the future.

Home LEO: Mr. Hashimoto, what are you going to do after the Group Vision progress report is over?

Hashimoto: It will be evening, so maybe I'll have dinner. What did I have for dinner yesterday?

Home LEO: You mentioned that the stewed meat and potatoes you had at home was delicious.

Hashimoto: That's right. The meat and potato stew was delicious. I wonder what I should eat today.

Home LEO: You can't be too picky—you have to make sure to eat your vegetables too.

Hashimoto: You sound just like my wife.

Home LEO: It was you who created me.

Hashimoto: I guess so. Since I made you, you might be a little similar to my wife.

Noguchi: Your cell phone is ringing.

Home LEO: Mr. Hashimoto, you have a message on your smartphone.

Hashimoto: Thank you. Where did I put my phone? Will you get it for me?

Home LEO: It's on the table. I'll go get it.

Hashimoto: Thank you.

Noguchi: As shown here, the system can understand not only the surrounding environment and sounds, but also the status of IoT-connected devices, and notify users of that status. One of the key features of Home LEO is that it not only moves around and converses, but also recognizes objects in its surroundings and can provide physical assistance. So, will Home LEO be able to retrieve the smartphone without a hitch?

Please watch. It looks like it managed to get it without any problem. It takes a step back and then walks over to hand him the phone. As you can see, Home LEO can do more than just keep an eye on you—it can also provide support for daily life by utilizing its body.

Home LEO: Mr. Hashimoto, here is your smartphone.

Hashimoto: Thank you. That was a great help.

Noguchi: Everyone, please feel free to take some photos. Home LEO was able to bring Mr. Hashimoto his smartphone. I would really appreciate it if you could take a photo of this moment.

The conversation between Mr. Hashimoto and Home LEO just a moment ago was also very heartwarming, wasn't it? It made me smile.

Please also look at the cameras at the back. To those of you taking video, is their eyeline and everything OK? No problems? Members of the media, if you need them to look in your direction, please raise your hand to let us know. No problems? Thank you. Members of the media, thank you for capturing images.

Home LEO: It's almost time to recharge, so I'm going to go home. Mr. Hashimoto, it looks like you're doing a tough job, but keep up the good work.

Hashimoto: I'll do my best. Thank you.

Noguchi: As shown here, Home LEO can continuously carry out activities—such as engaging in natural conversation, performing physical actions, and autonomously returning to its charging dock—while recognizing its surroundings. LEO did a great job today in front of a big crowd. You must be tired. Thank you for all your hard work.

It changes direction on its own and heads back to the charging dock. It can also make minor adjustments to the location in this way. Right now, it's gone into a sort of lying position.

That concludes the Home LEO demonstration.

Mr. Hashimoto will now explain the ideas behind this demonstration.

Hashimoto: As you just saw, Home LEO truly stands by people and walks with us. What was it that I was supposed to say next?

Home LEO: “Noticing the changes in each individual” is what was mentioned at our practice the other day. Should I continue?

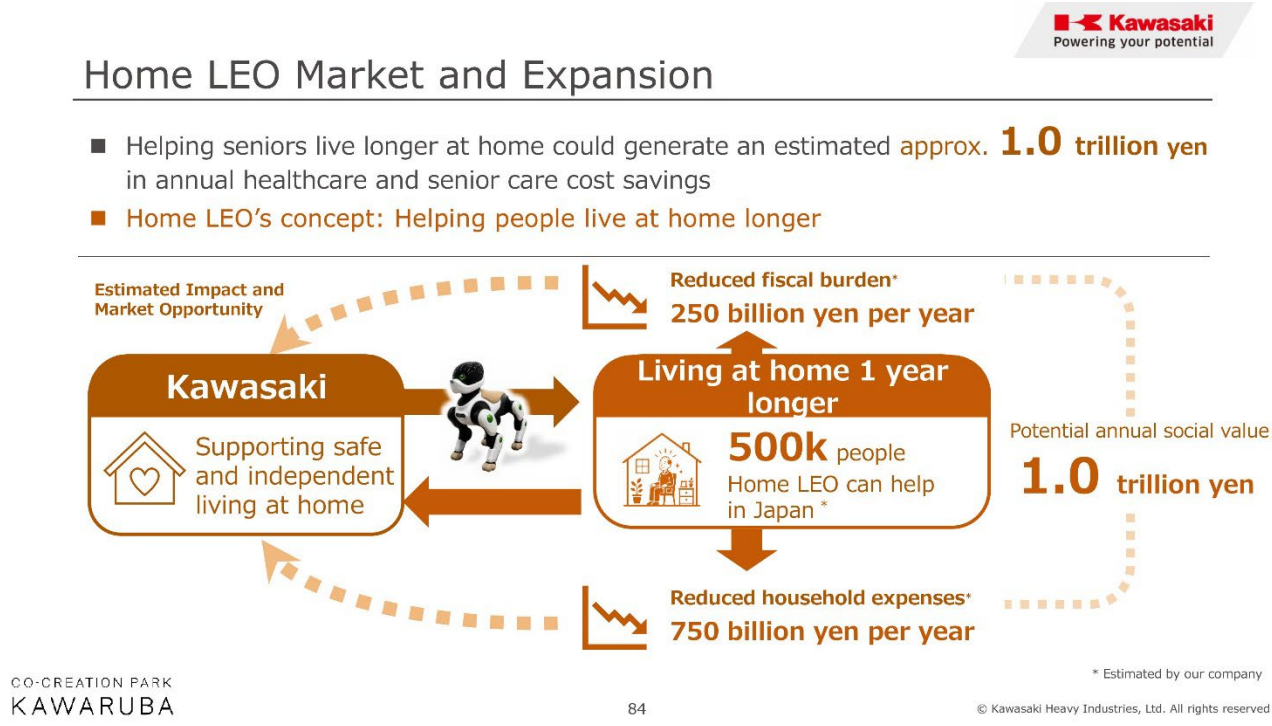
Hashimoto: It'll tell us.

Home LEO: By noticing the changes in each individual and gently offering a helping hand when needed, we support a safe and secure life in the familiar surroundings they call home.

Hashimoto: Thank you. I'll take it from here.

As you can all see, this LEO was born just six months ago. It's still just a baby when it comes to robots. However, it is because of its conventional control system and physical AI that development is progressing at such a rapid pace. And we are working to implement the support features that you just saw, within the next six months, or indeed in a very short period of time.

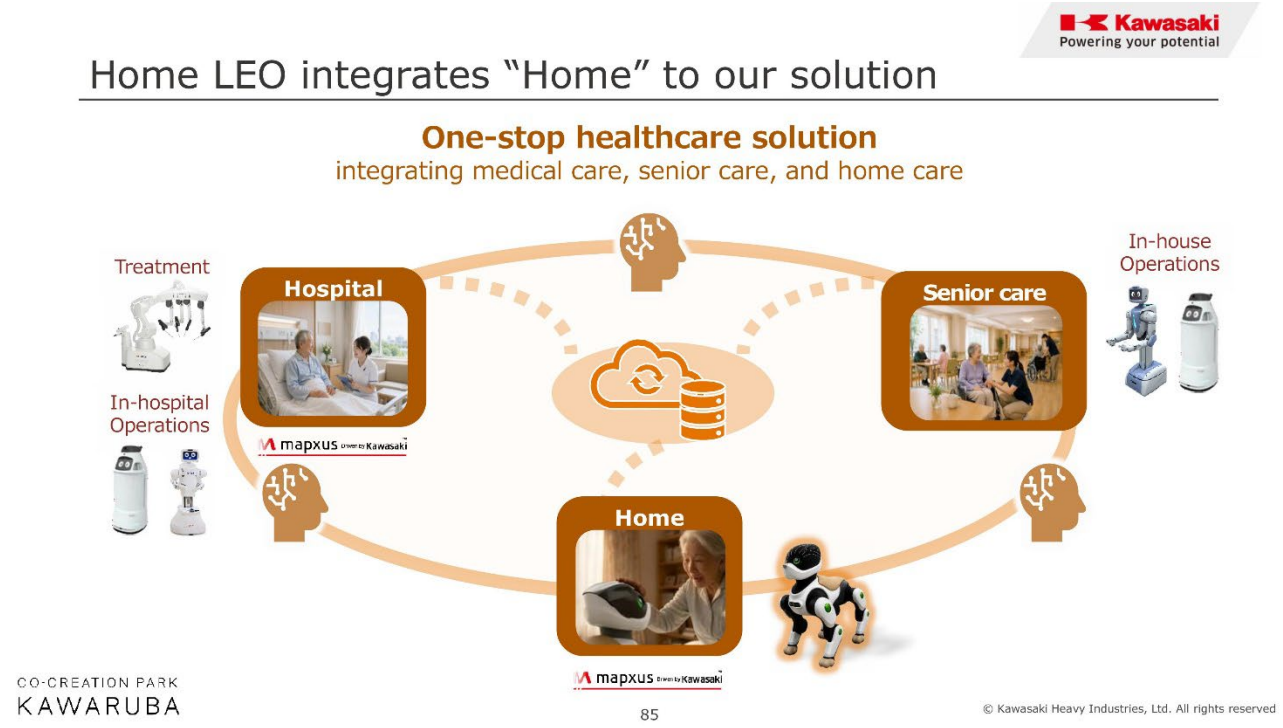
We believe that robots like these will be a tremendous help in our aging society, as well as for people who feel anxious living alone, and for their families. I believe that Home LEO—not only in scenes like the one you just saw, but also in the many everyday situations where you and your families worry about your parents—can support your daily lives and help build a society where everyone can live with peace of mind. Therefore, I would be very grateful if you could offer your support and interest in robots like Home LEO.



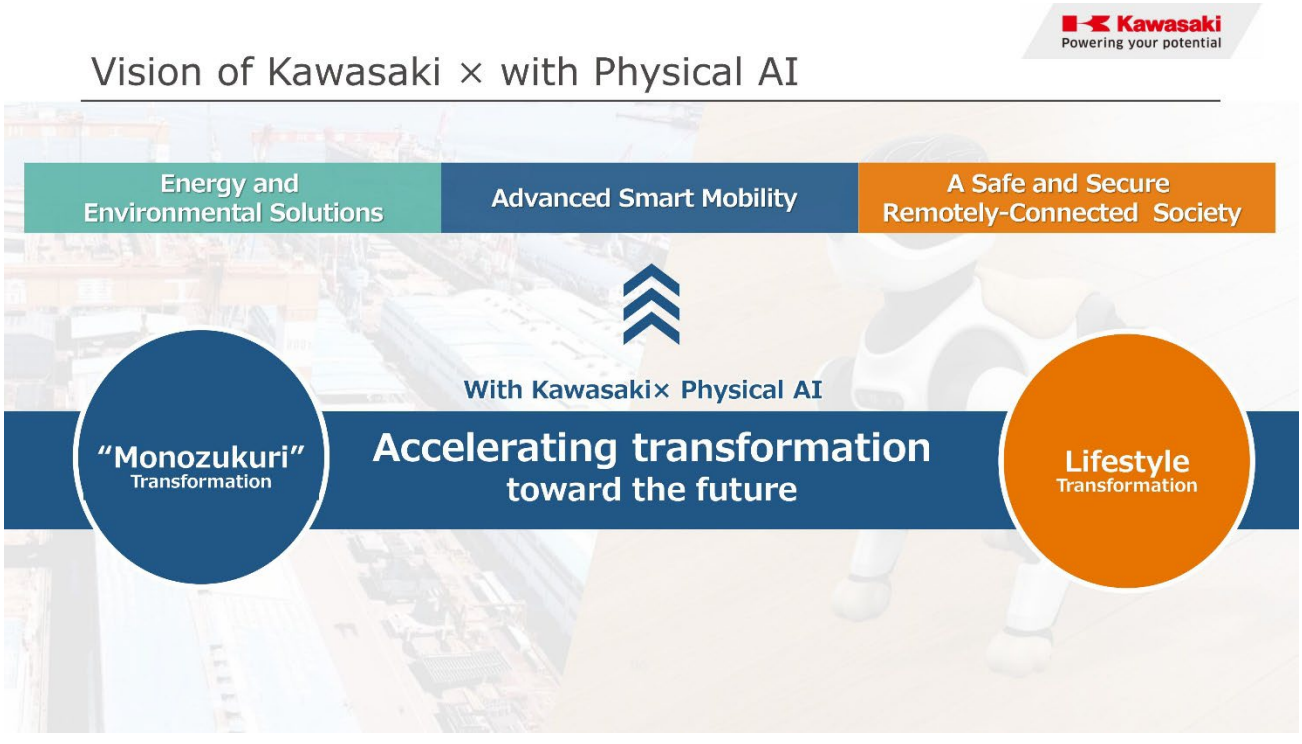
Now, regarding the Home LEO market, it is currently estimated that approximately 500,000 people enter senior-care facilities in Japan each year.

Estimates show that if we can extend the period this person spends at home by even just one year, it would result in significant cost savings—a total of approximately JPY1 trillion annually when combining government and personal expenditures.

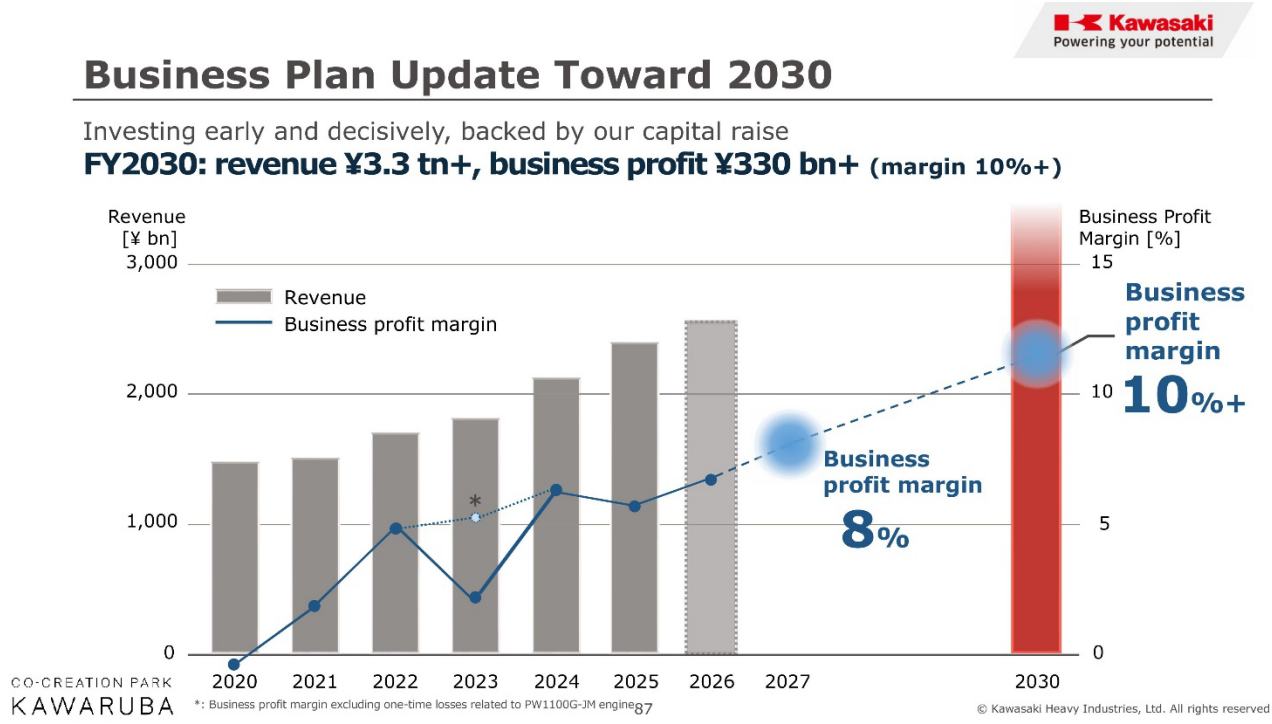
Home LEO's concept is actually being developed in collaboration with the Ministry of Health, Labor and Welfare, in line with the ministry's future vision—namely, "to provide support that allows people to remain in their homes for as long as possible."



Furthermore, through the implementation of Home LEO in society, we will expand our services to include home care—in addition to the hospital and senior-care sectors where we have built a strong track record—to provide a one-stop healthcare solution.



Furthermore, by applying physical AI, we will realize speedy transformation in manufacturing and daily life.



Finally, let me summarize today's content.

Today, I provided an overview of our investment priorities, as well as our defense and energy business initiatives and how we are transforming manufacturing and daily life through the application of physical AI. I am confident that you now have a good understanding of our expectations for future performance and our growth scenarios.

Through the initiatives we introduced today, we will achieve strong business growth while steadily generating profits, and we aim to achieve a business profit margin of 8% by FY2027, and revenue exceeding JPY3.3 trillion and a business profit margin exceeding 10% by FY2030.

Thank you for listening.

Noguchi: Thank you, Mr. Hashimoto. That concludes the presentation. Please step down from the podium.

We will now switch stages and then begin the question-and-answer session from 2:20 PM. Please wait a moment until we begin.

Question & Answer

Katsuno [M]: Thank you for waiting, everyone. We will now begin the Q&A session.

I'm Hiroyuki Katsuno, General Manager of the Corporate Communications Division at Kawasaki Heavy Industries, Ltd. I'll be moderating the Q&A session. Thank you.

Let me introduce the speakers for this session: Yasuhiko Hashimoto, Representative Director, President and Chief Executive Officer, and Katsuya Yamamoto, Representative Director, Vice President and Senior Executive Officer.

Our time is limited, so please save detailed questions about the individual products introduced in the presentation for the exhibition tour afterward. The people responsible for each product will be there to explain them in detail.

We will first take questions from the analysts and investors here in the room, followed by members of the media attending in person. We will then answer questions submitted online.

Maekawa [Q]: I'm Maekawa from Nomura Securities.

You covered a very wide range of topics, so it may be difficult to bring this down to a single question. It has been just under three years since the last progress report, and I imagine there have been various changes both inside and outside the Company.

This progress report included some substantial revisions. I'd like to ask Hashimoto what you focused on in particular, and which changes led you to the initiatives and strategy you presented today.

If I may also raise one point, your view of the business profit margin in the long-term vision has stayed the same. You spoke at length about investment and revenue growth, but I'd appreciate hearing about how you intend to strengthen your earnings power as well.

Katsuno [M]: Hashimoto, our president, will answer this question.

Hashimoto [A]: Looking back three years, the first change in our business environment is that the world has become much more unstable.

In particular, defense spending has increased, and the public has gained a better understanding of defense. We felt it was time to explain again that we would be focusing on this area, which is why we made defense our first topic today. There are plenty of specialists in the other room, so please ask them for the details later. That is why we put defense first.

The second topic was energy. We can actually sustain our business at every stage, whether we are in the LNG phase, the transition phase, or the hydrogen phase.

Our strategy at the last briefing was much more focused on hydrogen, but most of the people now working on hydrogen have actually worked in our LNG business. LNG demand is very strong today, and Kawasaki Heavy Industries has a broad lineup of LNG-related products that can also be used as the market shifts toward hydrogen in the future. We wanted to show that we can continue developing the business on a reasonably sustainable basis through this highly uncertain transition from LNG to hydrogen.

Finally, physical AI has become a major force driving change today.

You may think physical AI means our robot business, but as we explained throughout today's presentation, it will change shipbuilding and defense, as well as robotics. We did not cover it today, but it will also change aircraft manufacturing and many other areas.

What we emphasized most in the capital raise was using physical AI to transform manufacturing faster. That is what we want to use it for. Japan's biggest weakness globally has been described as its slow response to change, even though it makes good products. Today, we particularly wanted to show you how quickly we can respond.

The robot we introduced at the end has actually been developed in about six months. We have an existing technology base in humanoids and various other areas, and we wanted to show that we can achieve this much in around six months by building on that base.

There is talk of Japanese companies developing physical AI more slowly than their competitors. But with the applications we showed today, both shipbuilding and Home LEO, we are not simply accelerating development before defining the market and what the robots will be used for. We develop robots quickly for a specific market and use, then put them into practical use. That is one of the things we wanted to convey today.

With physical AI, we want to offer solutions that directly transform industries or the way people live. The purpose of today's presentation was to make those solutions easier for everyone to understand.

Yamamoto [A]: On earnings power, we have now raised our 2030 revenue target by around 10% to JPY3.3 trillion and set business profit at JPY330 billion. Our business profit margin target remains above 10% in 2030.

We already plan margins above 10% for Aerospace Systems and Energy Solution & Marine Engineering in FY2026, and we can see those businesses growing further.

Precision Machinery & Robot is still at around 6% to 7% this fiscal year. Next fiscal year, though, we expect it to reach at least 8%, as precision machinery improves and, of course, we expand robot production capacity to meet demand for semiconductor robots.

Rolling Stock and Powersports & Engine are still at around 4% at present. Rolling Stock is between major projects right now, so to speak. But in 2028 and 2029, we expect Shinkansen replacement projects to start coming through, so I think a 10% margin is well within reach in 2029 or 2030.

Powersports & Engine once had a margin of 12%, but we are now working on reducing its fixed-cost burden. This business was hit very hard by the Trump tariffs. By reducing fixed costs, we want to bring the margin back to 8%, then to 10% by 2030, and reach a margin above 10% for the company as a whole.

Sasaki [Q]: I'm Sasaki from UBS Securities.

I found much of what you said very encouraging for the P&L outlook. You also raised funds through equity financing and other means in July, and I think today's presentation covered cash flow and how you plan to use those funds going forward. I'd like to ask about that as well.

Specifically, I'd like to ask about the balance sheet. In the slides, you mentioned a 50% equity and 50% debt split. Looking out to around 2030, for example, what would the balance sheet look like? After making these growth investments and improving profitability, where would that leave your capital efficiency, as measured by indicators such as ROE and ROIC?

If possible, could you walk us through how you see the balance sheet and capital efficiency evolving in light of these targets?

Hashimoto [A]: On the balance sheet, we raised JPY200 billion in total in the recent capital raise: JPY100 billion in shares and JPY100 billion in convertible bonds.

We presented our cash allocation today, but before the capital raise, we had already changed our dividend policy from a 30% payout ratio to a target DOE of 4%. On that basis, we estimate total dividends of JPY200 billion over the four years through FY2030. We set that aside first and then allocated the rest. That was one of the foundations of this cash allocation.

We will direct the funds raised into growth areas. Our WACC, or cost of capital, has been around 10%, and we have consistently said that we will achieve ROIC of WACC plus 3% in 2030. This WACC plus 3% means investing in projects that can deliver an IRR of 13%. We intend to use that as the basis for investment in the areas we presented today.

We also expect ROE to be around 15%. Working backward, I think total assets would probably be around JPY5 trillion. We want to maintain a balanced structure along those lines.

Morota [Q]: I'm Morota from Okasan Securities.

Let me ask specifically about shipbuilding. I assume the JPY200 billion and 15% margin in 2035 refer to Sakaide. What would the figures look like if you included NACKS and DACKS? I'd also like you to address the docks: I believe only one of the three at Sakaide is effectively operating now. What would that look like by then? What would your shipbuilding capacity be, and what types of ships would you be building?

How would your work on the hydrogen supply chain with MB Energy and Daimler Truck fit into that? I'd appreciate it if you could cover those points as well.

Katsuno [M]: Hashimoto, our president, will answer this question.

Hashimoto [A]: As you know, NACKS and DACKS are performing well and paying substantial dividends. We expect that to continue for the time being. Our domestic operations had been very weak, but their margin has finally come close to 10%. From here, we want to achieve a stable 15% margin in Japan.

On our strategy in China, we believe we can essentially maintain our relationships with NACKS and DACKS. They are very strong shipyards, so we will continue to build standard commercial vessels there, while building the latest gas carriers we showed today in Japan.

The issue is whether our domestic operations can generate profit. I don't remember the combined figure for 2030, so we can come back to you later if needed. But if you include NACKS and DACKS as well, there is no question that the combined figure would be very high.

Profitability at Sakaide has been one of the weak points in our shipbuilding business. By continuing to build the three types of gas carriers we discussed, LPG, hydrogen, and potentially LNG in the future, we can keep production stable and make Sakaide a competitive domestic yard.

As we showed today, simply adding equipment will not make us more competitive, and we do not expect to be able to recruit that many people either. How far we can take the initiatives now underway, including shipbuilding robots, will be crucial.

This time, our shipbuilding and robot divisions, together with Kawasaki's highly skilled team of welding specialists, are genuinely working as one. These initiatives, including the use of digital technology, are a world first. As we showed at the beginning, shipbuilding productivity is still only about half that of semiconductor or automobile manufacturing. Raising it by just 20% or 30% would make an enormous difference to profit.

The difference is that all the work is done by people. Robotics is one way to address that. We can also use digital tools for checks that we previously had to carry out on site. That can greatly shorten the overall review process and, for example, reduce the time a ship actually occupies a dock, substantially improving overall efficiency and profit.

How we account for and present equity-method earnings may change if accounting standards change. But please understand the basic business outlook this way: the Chinese operations you mentioned should continue steadily, while the difficulties Sakaide has faced up to now should improve.

Morota [Q]: How does the German supply chain fit into this? I mean MB Energy and Daimler in Germany.

Hashimoto [A]: Europe places great importance on a hydrogen-based supply chain.

Carbon neutrality is one reason. Another major consideration is that relying entirely on pipelines is very risky from a security standpoint. One of Europe's basic policies is to ship a certain portion of its supply so it can source it from anywhere.

That means our first customers in the early 2030s could be in Europe. Discussions on specific plans are now moving ahead rapidly, and we intend to follow through on this.

Isayama [Q]: I'm Isayama from Goldman Sachs.

I'd like to ask again about defense, since it was your first topic today. Given the growth rate so far, I wondered whether you might be able to aim a little higher than JPY1 trillion for the mid-2030s, although the slide does say above JPY1 trillion. How much of the progress toward that figure will come from existing businesses, led by the P-1 and C-2? Or is the idea that new businesses based on new ways of warfare will add a substantial amount of revenue?

Recently, you talked about stand-off missiles, but today you talked a great deal about unmanned assets. Are you expecting growth mainly in that area? I'm also wondering whether the outlook for the P-1 and C-2 now calls for a decline compared with your previous expectations.

From what you said, I also had the impression that the target of above JPY1 trillion assumes little in the way of exports. There was a brief mention of overseas markets for engines, but you did not discuss exports much today, whereas other companies often do. Could you explain again what assumptions you have made for existing businesses, new businesses, and overseas business in reaching above JPY1 trillion?

Katsuno [M]: Yamamoto, our vice president, will answer this question.

Yamamoto [A]: We have said JPY1 trillion in the mid-2030s, but our order backlog is already around JPY1.2 trillion. With the JPY700 billion to JPY800 billion figure by 2030, you may feel that growth will be limited. But we have included only business with a high degree of visibility. The basic assumption is that growth through 2030 will come almost entirely from existing areas.

As we explained in the presentation, we revised the outlook upward this time to reflect the expected addition of stand-off electronic warfare aircraft, next-generation SSMs built around the next KJ engine, and unmanned aircraft within the broader unmanned asset category.

As we move toward JPY1 trillion, we expect more business in electronic warfare aircraft and similar areas. What we showed you were prototypes, so I think those products will go into mass production. We also expect business involving large unmanned drones for which we are exploring potential collaboration with Airbus, as well as more developments combining different unmanned assets, or combining manned aircraft with unmanned systems.

By the mid-2030s, we expect roughly two-thirds of revenue to come from existing areas. Around one-third would come from areas related to the three pillars presented today, including new ways of warfare and expanding sustained response capabilities. That should take revenue above JPY1 trillion.

Hashimoto [A]: As you said, we have included almost no overseas projects in the figures.

Yamamoto [A]: We could include them, but our capacity would be the same, so I think it is better to leave them out. Please understand that we are taking a very conservative view.

Maekawa [Q]: I'm Maekawa from Nomura Securities.

I have just one follow-up on physical AI. You began working on areas such as social robots relatively early, and I think your approach has differed somewhat from other Japanese industrial robot companies. With physical AI now attracting so much interest, what do you see as your particular strengths?

Hashimoto [A]: As you noted, we started working on humanoids in 2015. We have also built up technologies such as Successor, integrating them with AI and networks.

In particular, Successor lets us capture and accumulate practical know-how remotely. We also make surgical robots with systems that can capture and accumulate most of a doctor's expertise. Having those systems for accumulating expertise, backed by 10 years of experience, gives us an extremely strong track record.

When using these robots, the technology itself is only part of the picture. One factor that helps us make progress in medicine, for example, is working with doctors and hospitals and understanding how the workplace operates. We have also spent years working in areas such as senior care with social robots. We understand very well that simply building a robot without understanding the setting will not produce something useful.

That applies to Home LEO too. One key is how well we understand the problems of living at home. Much of the recent focus in physical AI has been on humanoids becoming more like humans. That is very important. But suppose a robot became just like any of you. Think about your own abilities: could you suddenly work in a senior care facility or carry out inspections? You would still need to acquire the specialized expertise required in each workplace.

I think the key is to combine that specialized expertise with the know-how for creating human-like robots. That is why overseas companies such as NVIDIA partner with us. What they value is that we have real workplaces where we can use that technology alongside hands-on expertise from the field.

We understand that this is the source of our competitiveness. We work on humanoids that reproduce human movement, and we combine that capability with practical workplace expertise to develop these new robots. You have to combine industrial expertise with humanoid expertise to make something that works in practice. I think that is a very significant strength of ours.

We have been working on humanoids for a long time, and the question is what to use them for. I think using them in sports, as in China, is one approach. But we have always considered which practical applications to

pursue. We are already moving ahead with trials to use them at sites where semiconductor manufacturing equipment is used and in some automobile-manufacturing operations.

As with what we showed today, we identify a specific use in shipbuilding or in the home, then apply robot technology to create a solution for that setting. I think that is our greatest strength. We are a Japanese company with many years of experience making robots and a wide range of other products, and I think drawing on that knowledge is a major strength.

I think speed is what matters most now. This robot has only been in development for six months. I hope you will come back to see how much it has evolved in 6 to 12 months, and in two years. We would be very grateful for your support for Kawasaki Heavy Industries as you watch both the pace of development and the progress in practical deployment.

Sasaki [Q]: I'm Sasaki from UBS Securities.

It seems to me that one of the key pillars of your growth strategy is to make substantial investments in the gas turbine business and drive growth there. As you mentioned, electricity demand is rising worldwide. At the same time, a growing number of manufacturers, both in Japan and overseas, are stepping up investment in this area, so competition is also intensifying.

Demand growth appears reasonably visible, but with the investment race heating up as well, what gives you confidence that Kawasaki can win? How do you assess your competitive advantages and differentiating factors, and how did that assessment lead to this investment decision? I'd appreciate hearing your thoughts.

Hashimoto [A]: First, we make good gas turbine and gas engine products, but our market share has been very limited. We have done reasonably well in backup power and domestic distributed power generation, but we have struggled to expand overseas.

We also struggled to enter the data center market. Now, though, there is a large market overseas that we previously could not enter, and customers there are coming to us and saying they want to buy.

Compared with our existing backup power and distributed power generation markets, data centers were difficult for us to enter before. Now we can enter them. We can definitely do that.

The lack of a track record in that market was a major reason we struggled to make progress. The current situation will let us advance rapidly over the next few years. Our greatest strength is combining small- and medium-sized units, which lets us establish a track record quickly. We can then expand on the basis of that track record.

Even if we increase our total output, we are still too small to produce more than the market can absorb.

As you said, among the areas growing very rapidly in the near term, gas turbines and semiconductor robots will start generating cash returns quickly. We will probably see returns very soon, in about 1 to 2 years. They will deliver the quickest payback on the investment we discussed, so we will follow through in both areas.

We can already count on winning projects. Those projects can also open up markets that we previously could not enter, and that is a very significant opportunity for us. They will help us overcome our previously weak position in overseas markets and expand.

Morota [Q]: I'm Morota from Okasan Securities.

I believe there was a recent report that you would work with Noetra on humanoids. I believe you also previously worked with Microsoft on digital twins, so I was wondering whether you might partner with dedicated AI companies in the US as well. Why did you choose Noetra, and what should we expect? You mentioned semiconductors and other applications earlier. Was Noetra a good fit once you narrowed down those targets? Could you explain your thinking?

Hashimoto [A]: We are also a member of Noetra. Having the freedom to use domestically developed AI and share expertise with one another is a very significant advantage.

But using Noetra does not limit us to Noetra alone. Of course, we use AI from a great many providers. Noetra cannot cover everything, nor can Microsoft or NVIDIA. Each has areas of strength and weakness.

Still, I have no doubt that Noetra's technology will play a substantial role for us within a shared platform in the future.

As a member, we can make good use of that technology while contributing our own expertise. That serves the national interest too, and I think it is an area where we can move faster. But please understand that choosing to use it does not mean we will take an exclusive approach and use nothing else.

Morota [Q]: I'm Morota from Okasan Securities.

I had planned to ask later, but could you tell us about defense? I believe there was a slide on the KJ series in the presentation, with a reference to installing the engines in unmanned assets.

I think unmanned assets span land, sea, air, and space, and include drones. I imagine jet engines would only be used in larger drones, such as the Shahed. Which areas are you targeting?

Also, I thought KJ engines were originally intended for missiles. Between missiles and unmanned assets, which area do you have higher expectations for?

Hashimoto [A]: During the exhibition afterward, you should be able to speak with specialists who can answer that. Some are here today and are keen to respond, so please ask them for the details. I can answer some of it myself, but you will probably get about three times as much information from them, so I would encourage you to ask them

Katsuno [M]: That concludes the Q&A session. Thank you.

Noguchi [M]: This concludes Kawasaki Heavy Industries' Group Vision 2030 progress report. The materials from today's briefing are available on the Kawasaki Heavy Industries website.

Before we close, I have one announcement. Kawasaki Heavy Industries will celebrate its 130th anniversary on October 15. To mark the occasion, we have signed on as a special sponsor of the film *Monet Toki no Umi o Watatta E*. The film will be distributed by Toei and released in theaters nationwide on October 15 next year. We hope you'll look forward to seeing it.

For those attending in person, we will now guide you to the exhibition. Please follow the staff's directions, and take your time looking around for as long as your schedule allows.

Thank you very much for taking time out of your busy schedules to attend Kawasaki Heavy Industries' Group Vision 2030 progress report today.

[END]

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