

Improving Enterprise Value

Kawasaki – ROIC management

April 25, 2014

Kawasaki Heavy Industries, Ltd.

Improving Enterprise Value

Improving Enterprise Value (EV) is beneficial for all stakeholders, enabling sustainable growth for the company, an improved work environment for employee satisfaction, good relationships with our suppliers, customer satisfaction, and return to our investors.



The Essence of Kawasaki – ROIC Management

We fully utilize the technology cultivated from our wide range of businesses in “Transportation systems”, “Energy & Environmental Engineering”, and “Industrial Equipment” to execute our ROIC management.

Stable management is made possible by Business Unit (BU) portfolio management, leveraging our advantages as a conglomerate

Focus on capital cost management by thorough control of balance sheets by BUs

Aim for sustainable growth through core competence and synergies between internal companies

ROIC Rating

- **Identify** financial issues of each BU
- **Set** hurdle rate based on the weighted-average capital cost
- **Classify** each BU into 5 ranks from A to E based on the trends of its' ROIC for recent 5 years, consisting of the past 2 years and future 3 years including FY2013
- **Revise** BU classification or rating as needed

A

• Market leader

B

• Stable contributor

C

• Contributor(unstable) *

D

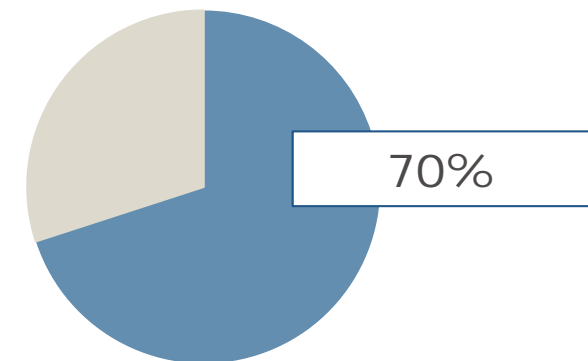
• Improved investment efficiency required

E

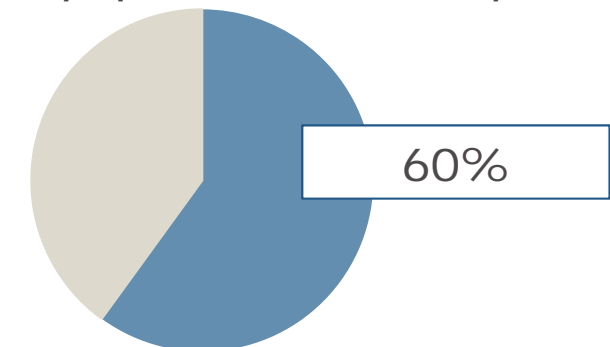
• Restructuring required

*C Rank BUs are susceptible to external factors, such as FX fluctuation risk

A, B and C proportions of net sales



A, B and C proportions of Invested capital



ROIC Management

~Improving EV through ROIC~

To achieve our goal for “MTBP 2013”, we will not only allocate more business resources to upper rank BUs, but will also overcome challenges in other BUs, taking into consideration each of their markets, potential, core competences, as well as financial positions.

1. Leveraging our conglomerate advantages

We will revive businesses that require improvement of investment efficiency “reasonably, without risk, and without taking time”, to be contributors to the improvement of EV, with our conglomerate advantage of company-wide support.

Rank D

Steady measures will be taken to improve BUs with low ROIC but a positive recurring profit margin of 0% to 3% for the recent 5 years, to rank C or above to contribute to the improvement of EV

Rank E

For a BU that has been stagnant for the recent 5 years mainly due to external factors such as the market situation, steps are currently being considered or taken to improve its' rank to C or above, through reviewing and restructuring of its' business strategy

In case of difficulty

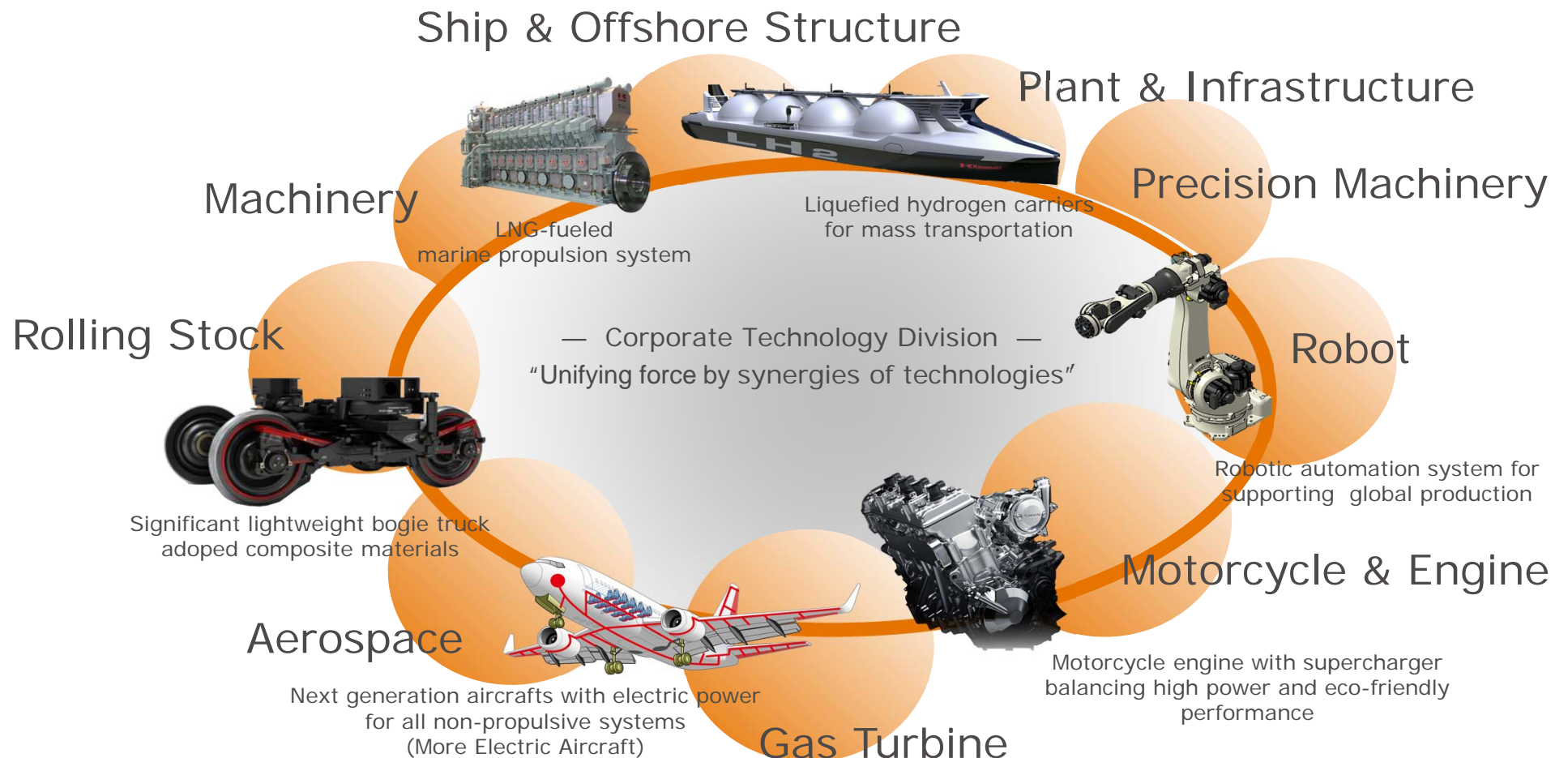
Actions to shift business resources and withdrawal or scaling down of the BU will be taken, if ROIC improvement cannot be expected in the prospective 3 to 5 years in spite of the above measures

ROIC Management

~Core Competence & Synergies~

2. Pursuing our optimal business portfolio

We will strengthen synergies between internal companies, as well as the core competence of each internal company from a medium- to long-term point of view for sustainable growth to improve EV.



Quantitative Targets

FY2015 Targets	
Net Sales	1,600.0 billion yen
Operating Profit	90.0 billion yen
Recurring Profit	85.0 billion yen
ROIC	11%
Interest-Bearing Debt	400.0 billion yen level, D/E ratio 100%
Invested Capital	800.0 billion yen level
Asset Turnover	100% or more (Efficient management)



Future target:ROIC **12% or more**
Recurring Profit **100.0 billion yen**

Kawasaki, Working as one for the good of the planet

Figures recorded in the business forecasts are forecasts that reflect the judgment of the Company based on the information available at the time of release and include risks and uncertainties. Accordingly, the Company cautions investors not to make investment decisions solely on the basis of these forecasts.

Actual business results may differ materially from these business forecasts due to various important factors resulting from changes in the external environment and internal environment. Important factors that may affect actual business results include, but are not limited to, economic conditions, the yen exchange rate against the U.S. dollar and other currencies, the tax system, and laws and regulations.