The Purpose and Characteristics of Kawasaki ROIC Management

July 30, 2014

Kawasaki Heavy Industries, Ltd.
About Kawasaki ROIC Management

This material provides further explanation about the purpose and characteristics of Kawasaki ROIC management and introduces the new ranks for our business unit (BU) classification. Firstly, the ultimate goal of Kawasaki ROIC management is the **improvement of enterprise value**, through the increase of capital efficiency, and planning and execution of strategies for future growth. The realization of Kawasaki ROIC management comprises of 5 Actions.

| Action 1 | Plan and execute **growth strategies** through the **strengthening of core competence** in each BU |
| Action 2 | Set our **optimal financial indicator**, with a focus on ROIC, and create specific action plans for achievement |
| Action 3 | **Create new value** through **internal company synergies** generated by our conglomerate advantage |
| Action 4 | Define **scale-down or withdrawal strategies** broken down to each Sub-BU and product |
| Action 5 | **Create a portfolio** focusing on **profitability, stability and growth** |
## Establishment of BUs In Each Segment

The concept behind the establishment of BUs in each section is as follows, although we do not disclose the details of each BU as we carries our management by segment.

<table>
<thead>
<tr>
<th>Segment</th>
<th>BU Area</th>
<th>Business Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ship &amp; Offshore Structure</td>
<td>By segment</td>
<td>Form a global business structure positioning domestic factories as mother factories, with strategies planned according to factory (Grouped into sub-BUs by factory)</td>
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<tr>
<td>Rolling Stock</td>
<td>By market and product</td>
<td>Customize strategies to accommodate the different regulations and railway situations of each country and region</td>
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<tr>
<td>Aerospace</td>
<td>By product</td>
<td>Customize strategies to accommodate the characteristics of each market and product (e.g. life cycle, etc.)</td>
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<tr>
<td>Gas Turbine &amp; Machinery</td>
<td>By usage</td>
<td>Plan strategies according to usage of products, such as propulsion systems and energy systems, while sharing technology of products such as rotary machines and reciprocating engines within the segment</td>
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<tr>
<td>Plant &amp; Infrastructure</td>
<td>By product</td>
<td>Plan strategies according to the original or underlying technology of each product, while sharing human engineering resources within the segment</td>
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<tr>
<td>Motorcycle &amp; Engine</td>
<td>By market</td>
<td>Customize strategies to accommodate the tastes of customers of each region (Grouped into sub-BUs by product, e.g. motorcycles, All-Terrain Vehicles (ATVs), etc.)</td>
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<tr>
<td>Precision Machinery</td>
<td>By market and product</td>
<td>With high shares in existing fields, further strengthen underlying and systemization technologies, and plan strategies to develop new businesses</td>
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# About Core Competence

Our company defines core competence as the most effective asset of each BU that provides its competitive edge. In addition to its products, technology, and price competitiveness, core competence includes factors such as having diverse knowledge, and the strength of the organization. As a conglomerate, our company has the advantage of synergies built up between BUs. Below are some examples of our core competence.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Examples of Core Competence</th>
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</table>
| Ship & Offshore Structure       | - Ability to design and manufacture high value-added ships with technology derived from gas carriers and submarines  
- A global business structure positioning domestic factories as mother factories                                                                                                                                                                                                                           |
| Rolling Stock                   | - Ability to fulfil contracts in North America, which are said to have the strictest regulations in the world  
- Synergies as a conglomerate (development of carbon fiber technology, etc.)  
- A track record of more than 20 years for projects in Asia                                                                                                                                                                                                                                           |
| Aerospace                       | - Advanced technology and system integration ability from rich experience in domestic development  
- Leading-edge manufacturing technology and equipment to prevent catching up of emerging countries                                                                                                                                                                                                                                                   |
| Gas Turbine & Machinery         | - Component parts of commercial aircraft jet engines: High level of special process, quality and ability to respond to strict delivery periods  
- Energy & environment: Ability to provide solutions that combine products such as our gas engines, which have the highest efficiency in the world, gas turbines and steam turbines                                                                                                                                 |
| Plant & Infrastructure          | - Stable management through shifting of human resources within BU  
- Engineering ability that allows utilization of monozukuri (manufacturing) by in-house factory                                                                                                                                                                                                                                                   |
| Motorcycle & Engine             | - A recognized brand image for high-performance, built through the [Ninja], [Z] and [KX] and race activities  
- Global supply chain system (procurement, manufacturing)  
- In-house development technology for supercharger engine                                                                                                                                                                                                                                           |
| Precision Machinery             | - Precision machinery: Leading-edge technology, brand power and systemization for excavator hydraulic equipment  
- Robots: Application development abilities and system solutions to respond to diverse needs of customers                                                                                                                                                                                                                                               |
Setting New Ranks for BU Classification

Our company has continuously carried out scale-downs, withdrawals, and spinouts/spinoffs of BUs and products. As a result, no BUs or products were deemed as such targets in the FY2013 rating. However, as an indication of our stance to continue with scale-downs, withdrawals, and spinouts/spinoffs when necessary, we have set the new \( f \) (small \( f \)) rank for BU classification. Furthermore, a new \([\alpha+]\) (alpha plus) rank has been set to set apart products and businesses deemed to contribute to value creation in the future.

ROIC Rating
※ Based on the following 5 years:
FY2011·2012 (Actual), FY2013~2015 (Forecast)
※ Exchange rate (Yen/US$):

With thorough consideration to factors such as ROIC rating, core competence and future market trends, scale-downs and withdrawals will be considered for BUs that do not contribute to the improvement of enterprise value. (Sub-BUs, products included)

- New products and businesses deemed to contribute to value creation in the future
- Technological synergies that cross over the border of segments or BUs

Shift business resources to area of growth
Creating Our Optimal Business Portfolio

Our Company focuses on the simultaneous pursuance of **profitability, stability and growth**, and are seeking for our optimal business portfolio from various viewpoints.

- **Profitability**

  \[ \text{ROIC} = \frac{\text{EBIT}}{\text{Invested Capital}} \]

  Cash flows from operating activities > Cash flows from investing activities

- **Stability**

  - Pursue Balance
    - 7 Segments
    - Advanced, Emerging and Domestic Markets
    - Public sector demand and private sector demand, production on order and mass production
    - Transportation Systems, Energy & Environmental Engineering, Industrial Equipment

- **Growth**

  - Reinforce ROIC Management
    - Focus on capital efficiency
    - Focus also on absolute amount of profits
    - Selectively focus resources on strategic BUs
    - Secure Free Cash Flows while continuing CAPEX for growth
  
  - Improve Enterprise Value
    - Strengthen core competence
    - Strengthen synergies between internal companies
    - M&A

We will continue to inform stakeholders about the progress of Kawasaki ROIC management.
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.