**Through management focused on Kawasaki-ROIC and total optimization, we will enhance our financial stability and sustainably create enterprise value**

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## Financial Management during the COVID-19 Pandemic

The COVID-19 pandemic represents an unprecedented crisis for the global economy. The Kawasaki Group's businesses have been impacted in many ways, from lost sales opportunities to delays in business negotiations and supply chain disruptions. The Aerospace Systems business, in particular, has been hit hard, reflecting the rapid decrease in passenger demand, and Kawasaki expects to record an operating loss for fiscal 2020.

Our highest priority in responding to the current emergency situation is securing liquidity on hand. To this end, we increased our limit on cash on hand at the end of fiscal 2019, issued bonds, and expanded our commitment lines. By doing so, I believe we have secured adequate liquidity on hand, which is indispensable to business continuity.

However, these measures have also increased our interest-bearing debt, so we are working to rein in cash outflows and improve cash management. Specifically, we are being more careful when selecting projects that require the investment of management resources, avoiding holding excess inventory, reducing fixed costs, and reducing total assets. As we take these steps, we are aiming to improve the D/E ratio to the 70% to 80% range, which we believe is an appropriate level in light of the Group's business risks.

## Enhancing Kawasaki-ROIC Management

The Kawasaki Group operates a diverse range of businesses with distinct business cycles, including the Aerospace Systems, Energy System & Plant Engineering, Precision Machinery & Robot, Ship & Offshore Structure, Rolling Stock, and Motorcycle & Engine businesses. The distribution of cash sources that this diversity of businesses creates has a particularly beneficial stabilizing effect in the current emergency situation.

However, operating diverse businesses also makes management more complex, and maintaining discipline across all our business units (BUs) can be difficult. In light of this, in fiscal 2000 we adopted Kawasaki-ROIC Management, in which we use BU-level ROIC to evaluate management performance, allocate resources, and decide compensation. Of course, simply adopting ROIC-focused management is not, in itself, sufficient to increase competitiveness. The important thing is to carefully examine the issues that arise in the course of such management and implement improvements accordingly on a continuous basis. The Kawasaki Group is implementing several ongoing initiatives to enhance the effectiveness of Kawasaki-ROIC Management.

One of these is "balancing autonomous business management and Company-wide corporate governance," which is the basic policy of the Medium-Term Business Plan 2019 (fiscal 2019–2021). In April 2020, we consolidated the 28 BUs into 14 business divisions and appointed divisional heads charged with overseeing their business execution. For ROIC-focused management to function effectively, each of these divisional heads must advance management with strong leadership and commitment. In particular, they must implement management with a sense of ownership. We will ensure that they are capable of doing so by delegating authority so that they can take necessary risks within the limits imposed by their divisional equity and financial base in order to quickly and precisely achieve results and by encouraging further selective concentration of resources within their respective business divisions. To reinforce the oversight of management within the business divisions from a Company-wide perspective, in June 2020 Kawasaki transitioned to a company with an Audit & Supervisory Committee. The separation of business execution from management oversight will help us further advance the selective concentration of management resources.

Furthermore, in preparation for these changes, we implemented structural reforms in April 2019, establishing the Corporate Control Department, Finance Department, and Accounting Department under the Finance and Control Division. We also reinforced coordination between the administrative departments of the internal companies and the Corporate Planning Division of the Head Office, creating an organizational structure that is better able to enforce financial discipline.

## Cash Flows Created through Total Optimization

The organizational reforms aimed at separating business execution from management oversight and reinforcing financial discipline play an important role in ensuring that ROIC-focused management contributes to enterprise value. However, for the Kawasaki Group, with its many businesses and their diverse business cycles, to create even greater enterprise value, those businesses must quickly and comprehensively combine their resources to produce innovation and solutions to social issues and advance business creation in ways that specialized businesses cannot do alone.

Currently, one priority initiative of the Kawasaki Group is leveraging Group technologies, products, and services to create solutions to the challenges faced by society due to the COVID-19 pandemic. For example, considering the ways the pandemic is changing the world we live in, we are working to expand the use of remotely operated robots to enable remote work in both offices and production sites, and, leveraging those robotics technologies, developing an automatic PCR viral testing robot system that can be used at airports and other facilities. By bringing together the diverse technical backgrounds within the Kawasaki Group and working with other companies and organizations, we aim to deliver these solutions to society faster than ever before. Such initiatives not only have a positive effect in terms of solving social issues, but are expected to improve the Group's medium- and long-term cash flows.

To bring out the value of the Group that is present in its diverse businesses, we are advancing the sharing of business strategy based on Kawasaki's analysis of mega-trends between the head office divisions and internal companies, promoting management visualization that leverages digital transformation (DX) technologies and bolstering all our initiatives through total optimization.

## Realizing both Shareholder Returns and Corporate Growth

The Kawasaki Group positions increasing enterprise value—that is, the stable creation of profit in excess of capital cost into the future—as its fundamental management policy. Furthermore, continuously investing in the cutting-edge R&D and innovative capital expenditure necessary for future growth and thereby returning profits to shareholders by enhancing shareholder value over the long term is one of our material management issues.

We seek to maintain a good balance between enhancing shareholder value and returning profits to shareholders through dividends. Based on a comprehensive examination of both the outlook for future earnings and the Company's financial condition, including free cash flow and D/E ratio, and with an eye to maintaining stable dividends, we have set a medium-to-long-term consolidated payout ratio standard of 30% (calculated against profit attributable to the owners of the parent).

The Kawasaki Group has been greatly impacted by the stagnation of the global economy caused by the COVID-19 pandemic. As such, giving priority to securing liquidity on hand, we decided not to pay a year-end dividend for fiscal 2019. By further accelerating initiatives to reinforce the financial base, enhance ROIC-focused management, and promote total optimization, we will strive to achieve recovery as quickly as possible while working toward enterprise value creation over the medium and long terms.