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We are improving capital efficiency and strengthening human resources to realize sustainable growth.

Finance

Earnings recovering and growing in line with our growth scenario to 2030

The Kawasaki Heavy Industries Group is advancing the growth scenario outlined in the Group Vision 2030 announced in November 2020. The first step in the scenario set out by the Vision was for the Powersports & Engine, Precision Machinery & Robot, and other mass production businesses to underpin our earnings through the COVID-19 pandemic. The next step is to reestablish and steadily expand the markets for the orders-based businesses, such as Aerospace Systems. Once that is underway, we will then work on building the hydrogen business and other new businesses into new earnings pillars for the Group.

The strategies we have been implementing started producing tangible results in fiscal 2022 as we posted record levels for orders received, revenue, and profit. The accelerated decision-making achieved by setting up Kawasaki Motors as an independent company had a notably strong impact as the Powersports & Engine business posted a second straight year of record-high profits. While demand related to outdoor recreation increased, mainly in developed countries, due to the

COVID-19 pandemic, earnings were being impacted by both distribution disruptions and soaring input prices. Nevertheless, the business was able to quickly implement measures to reorganize its production equipment and pass on the cost increases to continue capturing demand. Earnings in the Aerospace Systems business are finally approaching pre-pandemic levels as passenger numbers return to normal. The Rolling Stock business, which was also set up as an independent company in fiscal 2021, continued posting profits and progress continued with the expansion of its maintenance operations and other measures to reform and strengthen its business structure. Two years into the Group Vision 2030, I feel a great sense of confidence that the results we are producing match with the scenario we envisioned.

We will continue reforming our business with the medium- to long-term perspective to establish a corporate structure that is highly resilient to changes in the external environment.

Business profit margin consistently above 10% and improving cash flow

Group Vision 2030 calls for generating average annual sales growth of 5%, which exceeds the projected 3%

growth for global GDP. Achieving that will require continuing to grow our existing businesses in line with our growth scenario and creating products and services that address social issues in the Vision's three focal fields of "a safe and secure remotely connected society," "near-future mobility," and "energy and environmental solutions." The keys to success will be our business profit margin and cash flow.

Business profit margin was 4.8% in fiscal 2022. The Vision target is 5-8%, but we will need to aim for closer to 10% in the long term to ensure fulfilling the growth scenario. To achieve that, we will need to take concrete steps to improve the profit margin.

Free cash flow in fiscal 2022 was negative ¥53.8 billion. This was mainly due to large outflows in working capital items in the Aerospace Systems business, where earnings are recovering, and the Powersports & Engine business, which is posting solid results. R&D and capital investments centered on the three focal fields and on allocating funds to the Powersports & Engine and the Precision Machinery & Robot businesses in order to earn cash in the short term. At the same time, the increase in profits improved the net debt-to-equity ratio, which we use as a measure of financial discipline, from above 80% in fiscal 2021 to 77.0% in fiscal 2022.

Clarifying capital costs and added value, resetting ROIC targets

We had introduced Kawasaki-ROIC Management and set before-tax ROIC of 8% as a uniform baseline for all business divisions to generate the return required for profits to exceed cost of capital. The cost of capital is often used as a baseline target. However, the internal targets we were setting for management also included added value, which had the effect of pushing the targets to excessive levels while also making them difficult to understand. To make the target more

reasonable and clear, in Group Vision 2030 we made it clear how much we expect added value to contribute to the cost of capital and set a target ROIC of cost of capital plus 3%.

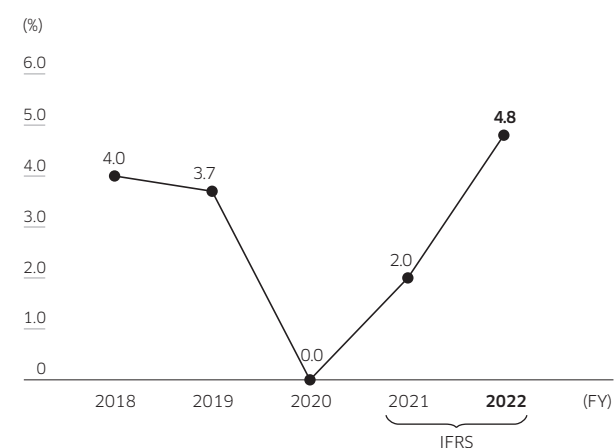
In fiscal 2023, we adopted after-tax ROIC as a management indicator and added weighted average cost of capital (WACC) to our disclosure data to improve dialogue with the capital markets and to show that the cost of capital is fully considered in our management decisions. By our calculations, our WACC is estimated just above 4%, and ROIC was higher than WACC in fiscal 2022. Since our aim is for ROIC to be WACC plus 3%, our ROIC target is above 7%. We will use this as criteria for evaluating each business division's profit targets to determine how much profit we need to generate sufficient return compared to invested capital.

Creating hydrogen synergies to establish a conglomerate premium

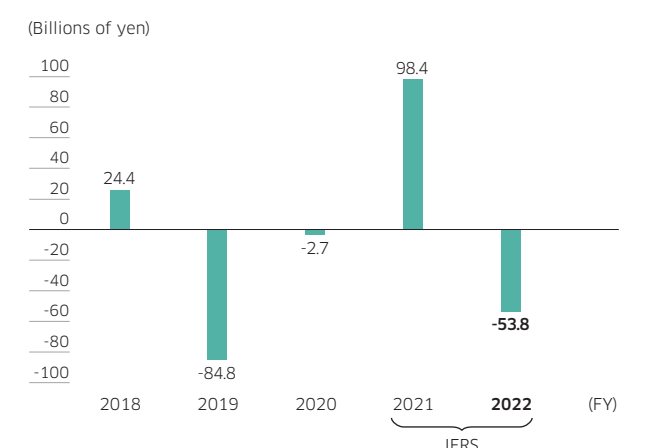
Creating business synergies centered on the hydrogen business will be key to improving our capital efficiency. To integrate the hydrogen business basic strategies and commercialization efforts, in fiscal 2023 we started introducing mechanisms for closer cooperation between the Hydrogen Strategy Division at the head office and the Energy Solution and Marine Engineering Company which is one of our business segments, including the executive appointments.

Developing the hydrogen business will require a substantial amount of funds. We plan to partner with other companies not only to reduce the financial burden on our Company, but also to establish operations and achieve commercialization as quickly as possible. We currently expend about ¥10 billion annually on activities related to hydrogen, but this does not represent the full scale of the business. The business is part of a collective public and private sector effort and also receives funds from the Japanese government's

Business profit margin



Free cash flow



Message from the Officer—Finance and Human Resources

Green Innovation Fund and other subsidies. Kawasaki Heavy Industries is at the forefront of the hydrogen movement, and we are highly motivated to accelerate commercialization of its hydrogen business to help achieve a hydrogen society.

Over 90% of long-term financing in fiscal 2022 was sustainable finance

In fiscal 2022, sustainable financing was used for 93% of our ¥27.5 billion funding needs and accounted for 11% of our long-term borrowings balance as of the end of March 2023.

We also formulated a framework for sustainability-linked loans and positive impact finance. We are the first company in Japan to attempt to use the same framework for financing agreements with multiple financial institutions. This approach reduces the burden on both the company and the financial institution, and we believe it will promote the use of sustainable finance in Japan.

We are aiming to use sustainable financing for 50% of our long-term borrowings by 2030 and for 100% by 2050.

Enhancing shareholder value through stable dividends and a rising share price

We are currently at the point where upfront investment is necessary for the future growth that will enable us to fulfill Group Vision 2030. As such, the cash that our existing businesses generate is allocated to capital investment and R&D as well as to investment in human capital, such as to increase wages and provide education and training. At the same time, shareholder return is a management priority, and we have set a benchmark for medium- to long-term consolidated dividend payout ratio of 30%.

With the record-high profit in fiscal 2022, we

increased the annual dividend by ¥50 from the previous fiscal year to ¥90 per share, placing the dividend payout ratio at 28.4%. In fiscal 2023, our plan is to distribute an annual dividend of ¥80 per share for a dividend payout ratio of 28.5%, but we will continue striving to improve our earnings performance with the aim of raising this amount. We also recognize the importance of increasing the value of our shares in the medium and long term is essential to enhancing shareholder value. The Group growth strategies toward 2030 will be driven by a management focus on addressing social issues and on developing the hydrogen and other new businesses into earnings drivers. We will also prioritize dialogue with shareholders and investors so they will fully understand our vision for the Group's future as we steadily implement growth strategies aimed at attaining a market capitalization value of ¥1 trillion.

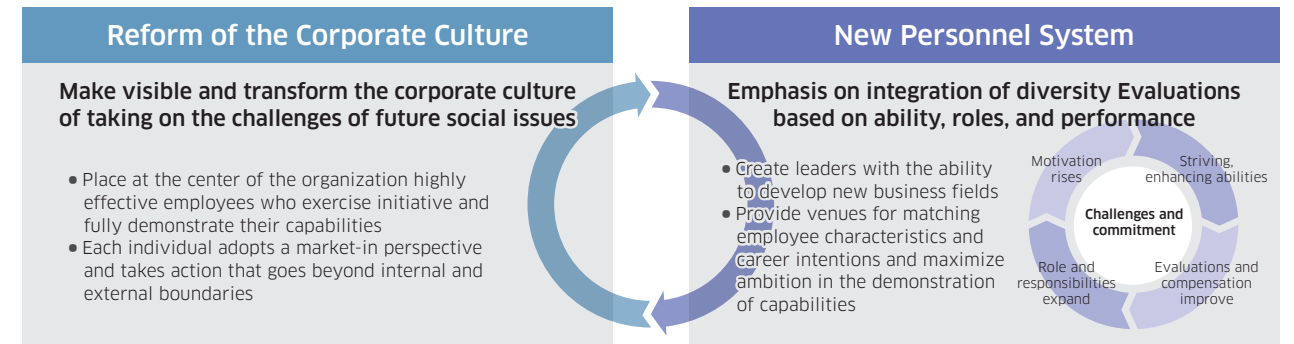
Human resources

Visualizing human resource skills and activity levels

The Kawasaki Group Policy on Human Resource Management states our commitment to continuously developing human resources who are ardent about taking on and proactively pursuing challenges and to understanding the abilities and aspirations of our human resources and to provide the work and skill development opportunities so they can fulfill their career ambitions.

Human resources are often described as an “asset,” which makes them a part of a company’s capital. The question in human capital management is how to increase that capital, and one of the main ways is to develop the mindset of each individual employee. Of course, it’s important to improve the skill levels of employees, but I also believe that developing each employee’s passion for their work will be absolutely essential to our growth as an organization.

The revisions to our personnel system apply a concept of “Challenge & Commitment” under which are seeking to fairly evaluate and treat employees seeking to increase their awareness and motivation and aim for higher goals. Key to the success of this initiative is creating a visualization of our human resources. The first step to this conducting regular interviews to accurately comprehend each employee’s individual qualities. We are also conducting engagement surveys to quantitatively measure employee motivation and satisfaction with their work. Visualizing the degree of employee activity will enable us to consider issues and develop effective measures for enhancing employee mindset and to regularly verify the status of our organizational strength.



Initiatives to advance employee careers

Our corporate succession plan included the Kawasaki executive coaching program for executive candidates. Originally designed for senior managers, the training program was expanded to include section managers and accelerate their development by breaking it down into three stages of programs focused specifically on basic foundations, management, and practical application. In addition, the president and I meet individually with executive candidates to understand the management mindset on issues related to their divisions and the Kawasaki Group, and how they can apply their personal strengths to their management roles.

To increase motivation for employees to grow and develop their careers, we introduced the Career Challenge System that enables employees to seek to develop their careers by pursuing transfer opportunities geared to their personal career aspirations.

We are also actively examining areas where we can develop new business. The Presidential Project Management Division brings in personnel from each Company so we can combine our diverse range of knowledge to generate new synergies. The number of manufacturing sites using hydrogen, medical robots, and other exciting new technologies and businesses are growing, and we are updating our personnel systems to keep pace with the changes and taking steps to help employees advance their careers.

Enhancing the sense of unity through organizational management emphasizing dialogue

Respecting employees as individuals means that we must continue to develop our system for providing feedback on job evaluations and supporting career development, and to provide environment that provides employees with opportunities to pursue new challenges. My impression is that the efforts we have been making to increase employee motivation and engagement have vastly increased dialogue within the Company.

Communication has improved on all levels between management and employees, superiors and subordinates, and among coworkers. Using the results of our engagement surveys and other investigations, discussions about problem solving and new initiatives have expanded, and I believe the sense of unity in the organization is steadily growing.

My mission is not only to execute financial strategies, but also to maximize the abilities of employees responsible for implementing strategies—in other words, to strengthen human capital. We are seeking to establish sustainable growth both financially and for human capital.

