



Yasuhiko Hashimoto

Representative Director
President and Chief
Executive Officer

I pledge to remake us a compliance-first company as we continue pursuing our future vision.

I sincerely apologize for the compliance violations that occurred in the submarine repair and marine diesel engine businesses. We take this situation very seriously and will do our utmost to prevent a recurrence and quickly restore the trust of our stakeholders. We are making steady progress fulfilling the growth scenario that we have been promising for some time, so I would like to begin by talking about this progress, after which I will explain our compliance-first initiatives.

Earnings are steadily growing in line with the growth scenario

In 2020, the Kawasaki Heavy Industries Group announced the Group Vision 2030 and has drawn up a three-step growth scenario to exceed the projected 3% global GDP growth rate by achieving annual business growth rate of 5%. The first step is to establish the Powersports & Engine, Precision Machinery & Robot, and other mass production businesses as our earnings foundation. The second step is to establish consistently growing earnings and cash by expanding the orders-based businesses such as Aerospace Systems as the market recovers. The third step is to create a steady growth trajectory by developing new businesses, such as the hydrogen and medical robot businesses, into new earnings pillars. Currently, four years after the establishment of the vision, we are starting to move from the second to third steps and are exceeding our 5% growth target by expanding our business at a 7-8% annual pace.

Our profit performance has also been improving since we adopted the vision in 2020. We have been targeting a return on invested capital (ROIC) 3% over the cost of capital and a business profit margin of 5% to 8% regardless of the external environment.

Our efforts to improve cash flow and profit margins are gradually beginning to bear fruit and in December 2023, we raised our targets to a business profit margin of 8% by fiscal 2027 and above 10% by fiscal 2030. Profits dipped in fiscal 2023 due to operating issues with commercial aircraft engines, but in fiscal 2024 we expect to reestablish the growth trajectory and set new all-time highs in orders received, revenue, and business profits. To date, our efforts to fulfill the Group Vision 2030 have been steadily transforming our corporate structure to improve our ability to provide solutions to various social issues in a timely manner.

Breaking out of the deflationary spiral and creating a virtuous cycle for the Japanese economy

Japan's economy is emerging from its long-standing deflationary spiral and shifting into a virtuous cycle. While the economy has been in a deflationary phase, products had to be made cheaply in order to be able to sell them, which caused our Company and our suppliers to lower contract unit prices and run our businesses on thin margins. As the economy moves into an inflationary phase, we need to price our products appropriately so we can generate reasonable profits and create a system for sharing the profits with our employees and suppliers. We increased base pay by the full amounts negotiated by the Japanese labor union in both 2023 and 2024. While we believe it is important to raise wages to ensure the livelihood of our employees, we are also aware that our suppliers must also deal with rising costs from employee wages as well as for raw materials and transport. We also must make sure our clients understand the situation and our need to improve the trade conditions. I believe the earnest negotiations

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with clients, and our sales segment's efforts to highlight the value-added features of our products and services are beginning to produce results. With the Japanese economy at a turning point and both our Company and our clients gradually recognizing each other's added-value, we will continue seeking to improve our trade conditions with our clients.

As mentioned, our earnings are moving back onto a growth trajectory, but we recognize that there are still many profitability and cash flow issues that we must address. As a Japanese company, we are determined to continue improving profitability and cash flow and adamant about working with our employees, clients, and suppliers to create a virtuous cycle for the Japanese economy.

Constantly watching to identify emerging needs and swiftly changing with the evolving market

Transforming our businesses is another way we are enhancing our earning power. As we select and concentrate our existing business, it is my conviction that we "will not eliminate or sell business units." The vast range of technologies we possess in various fields is one of the Group's strengths and will be a source of future growth. By selling off a business unit, we would lose some of our strength. However, keeping the technology does not mean maintaining the status quo of the business.

For example, when I was appointed president, there was talk that we should withdraw from the shipbuilding business. Instead, we refocused on the business to specialize in LPG-fueled LPG/ammonia carriers in the short term and liquefied hydrogen carriers in the long term. The shipbuilding business has now become highly profitable and a driver of Group earnings. In this way, if management is able to look ahead and prepare an effective mission and business structure in the current conditions, I believe we can transform our businesses in ways that our clients will welcome.

People outside the Company have told me how Kawasaki has a reputation as a "friendly" company. I take this to mean that people respect our sincere corporate culture, but I also think it has a sense that we are not good at pursuing profits.

Kawasaki has a wealth of human resources who love our technologies and products. That's absolutely wonderful, but I also think that we have had a strong tendency to put more emphasis on

technology and developing technologies than on profits. However, in today's rapidly changing market, the only way for our business to succeed is to continue our development activities but while constantly watching and exploring what the markets need and changing along with the market.

With Group Vision 2030, I am showing the entire Company how we will use the technology we have inherited, how we will earn profits commensurate with our value creation, and how we will change our business to achieve these goals.

As we enter the fourth year since adopting the vision, I believe the stricter scrutiny we have been putting on marketability, cash flow, and profitability has permeated the way our employees think.

Kawasaki founder Shozo Kawasaki had the philosophy of "contributing to the nation and to society through expertise." This will be our guide as we transform our Group to meet the needs of the markets and vigorously pursue cash and profits. Group Vision 2030 will ensure we succeed.

Robotics x mobility for solutions for social issues

The objective of Group Vision 2030 is to provide new value by integrating our extensive technologies and expertise in our three focal fields.

In the fields of "a safe and secure remotely connected society" and "near-future mobility," we have been increasing the number of medical departments and the number of cases for the *hinotori*TM surgical robot system since it was introduced to the market by Medicaroid Corporation, our joint venture with Sysmex Corporation, in 2020. We have also launched several new businesses, including the Remote Robotics Inc. joint venture with Sony Group Corporation and development of K-RACER unmanned vertical take-off and landing (VTOL) aircraft. More recently, the newly developed FORRO indoor delivery robot was officially adopted by Fujita Health University in April 2024.

The advances in digitalization, automation, and artificial intelligence are creating a stronger overlap between the robot and mobility domains. Robots carry goods and people, and mobility devices communicate with robots. Mobility devices communicate with each other and interact with each other. Kawasaki manufactures equipment for land, sea, and air transport, and we recognize that our status as the only heavy industry corporation with a robotics



business puts us in a position of strength. Our collaborations to use sensing technology from SEQSENSE Inc. and location data technology from Mapxus Technology Japan Limited enabled us to introduce the FORRO indoor delivery robot to the public at an early stage. We are urgently advancing initiatives that are making active use of open innovation with other companies.

After the Noto Peninsula earthquake in January 2024, we deployed Z-LegTM, a new helicopter delivery service, to distribute aid in the stricken area. The activities have helped us create a framework for working with the national and local governments to deliver packages, including our products, needed in specific phases of disaster relief so we can be better prepared for future extreme natural events.

I believe that we must have a perspective of "being useful to society" not just when needed after a disaster, but in all of our business activities. We will continue combining the technologies and expertise the Group has cultivated as we pursue the ideal form of a remote society and near-future mobility and seek solutions for evolving social issues.

Fulfilling our social mission as a leader in hydrogen

We have positioned the hydrogen business at the forefront of our energy and environmental solutions activities and are taking steps to construct a hydrogen

supply chain.

We have been focusing on developing hydrogen as a next-generation energy source for over a decade, and it seems as if that expectations for hydrogen energy worldwide have picked up noticeably in the past year. In addition, many of the offers for partnerships that we have received and examined are approaching the stage of actual collaborative activities. Following our strategic collaboration agreement with the Abu Dhabi National Oil Company (ADNOC), the largest energy company in the United Arab Emirates, in June 2024 we signed a memorandum of understanding (MOU) with Daimler Truck Holding AG to establish a liquefied hydrogen supply chain for Germany and a transport network for liquefied hydrogen stations in Europe. In Japan, JFE Steel Corporation agreed to lease land at its Steel's East Japan Works (Keihin District) on Ohgishima for construction of a hydrogen receiving terminal for the Liquefied Hydrogen Supply Chain Commercialization Demonstration Project, as we continue to lay the foundation for full-scale distribution of hydrogen beginning in 2030.

The advantages of hydrogen are that it is a clean fuel and amenable to various production and transport methods as well as mass and long-term storage. In short, it is an energy source that is both carbon neutral and energy secure. There are several ways to transport hydrogen, but we believe the most efficient is liquefied hydrogen because it is non-toxic

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and the carrier does not require large amounts of external energy at the terminal. Our efforts on numerous occasions to advocate the advantages of hydrogen, especially liquefied hydrogen, have garnered support from Japanese and foreign governments and municipalities, as well as the international collaborations mentioned earlier.

We take pride in being the “lead runner in hydrogen” and are actively participating in creating the international standards, but one company alone cannot construct a liquefied hydrogen supply chain or a hydrogen society. We are stepping up the creation of alliances to commercialize hydrogen businesses, joining forces with various players, and sharing our insights for how to make hydrogen energy practical for society.

Cultivating “human resources who take on challenges” to lead the future

It is very gratifying to see that the reforms to the personnel system that I have been pushing since becoming president are having some effect.

The most important element in bringing about the total reform of our Company is for each employee to approach their work with the idea that “my efforts will make the Company better, and my dream is connected to the future of the Company.” When all employees think that the Company will change,

society will change, and their future will change, it will be a great source of strength. As the highest executive in the Company, I am sending the message that “you can make a difference” and providing the systems and incentives to encourage all of us take on the challenge.

That is why the new personnel system is designed to recognize employees who set high targets and reward them for making an effort even if the target is not achieved. I also ask the line managers who oversee the employees to think of not only how to attain the goals for the department, but also how to improve employee engagement and the work environment.

Since the new personnel system was first introduced, the executives I often meet with have shared various views about the results of the WinDEX employee engagement survey, how to raise the scores, how to address employee issues and train employees, and how to reform the organization. The iron rule for transforming an organization’s culture is to start from the top, so it’s gratifying that the institutional reforms implemented so far have made some progress.

On the other hand, I read the survey results a little differently. My sense is that the mindset we are working to establish still hasn’t trickled down to younger employees and the workers at the manufacturing sites, and also that the Company is not yet fully harnessing the drive that employees have to change society and achieve their own self-fulfillment.

Since 2023, I started visiting plants where I would spend three to four hours talking with engineers in charge of operations. In order to clearly convey their own ideas to employees and gain their understanding, managers need to talk directly with them in terms that are understandable to them, and also that it is essential to listen to and incorporate their employees’ ideas. I am trying to help our managers improve their communication skills and create an ongoing dialogue with employees with the hope that it will encourage more employees to take on challenges.

Strengthening compliance

In the course of these efforts, we sincerely apologize for the concern and inconvenience caused to our customers and all stakeholders regarding the compliance violations that were

found in the submarine repairs and marine diesel engine businesses.

The Group considers the repeated compliance violations as an extremely serious matter and has established a Special Investigative Committee of external experts to investigate the causes of each incident and propose measures to prevent recurrence.

In parallel with the Special Investigative Committee’s inquiry, we have established the Special Compliance Promotion Committee, chaired by myself and comprised of senior corporate executive officers and business division heads, with the aims of proactively addressing issues in the Group corporate culture and governance, formulating measures to prevent recurrence, and prioritizing the immediate implementation of corrective measures.

When the Compliance Promotion Committee was created, I immediately sent an internal message reaffirming my commitment to putting the highest priority on compliance. We are currently reviewing our business flow and constructing systems incorporating digital technology and other mechanisms that will prevent fraud and strengthen fraud detection. In the future, we plan to conduct questionnaires and inspections by our own departments, we will conduct company-wide surveys involving the head office, other business divisions, and outside experts to verify the status of on-site operations and business processes.

On November 1, 2024, we established the Corporate Defense Business Management Division at the head office to oversee all of the Group’s defense business activities. Centralizing defense business management at the head office will ensure thorough governance and compliance, fulfill our corporate responsibility to society as a company involved in the defense industry, and realize organic and efficient management.

The Group is taking this as an opportunity to completely deconstruct and rebuild its internal structure by reviewing all of its existing systems, being prepared to drastically change its corporate climate and culture, rebuilding its compliance and governance systems, and taking every step necessary to prevent recurrence.

I pledge to take the lead to build a system that prevents fraud, improve fraud detection, and make Group-wide efforts to fundamentally reform our organizational climate and culture so we will regain full trust in the Company.

Turning ESG into a new strength

One of the ways we will reform our organizational culture is by strengthening our ESG initiatives. In the environmental field, as a “lead runner in hydrogen” and a company providing energy and environmental solutions, we need to be ahead of other companies in decarbonization of our business activities. We are targeting achieving carbon neutrality in Japan by 2030, which we will do by incorporating our own hydrogen power generation facilities.

At the same time, we are transforming the employee work styles. The primary goal is to improve employee work-life balance, but these reforms will also increase operating efficiency and shorten working hours, which will lower our energy consumption and bring us closer to carbon neutrality. As we move toward the goal, it will be important that employees don’t wait for the introduction of hydrogen power generation, which is being tackled by some divisions, but that all employees work toward the goal by looking for ways to improve their own work efficiency. That same approach was behind the revisions to the executive compensation system in fiscal 2024, which now include criteria related to achieving CO₂ emission reduction targets, external ESG evaluations, and stock price indicators. Through these actions and system revisions, we hope to encourage employees to take matters into their own hands, which will generate change in the organizational culture and, ultimately, an increase in corporate value. Also in fiscal 2024, the diversity of the Board of Directors was improved by raising the number of female board members from three to five. The Board will continue incorporating various perspectives to deepen its discussions and enhance corporate governance.

We look forward to the continued understanding and support of our stakeholders.

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President and Chief Executive Officer