We are strengthening our financial foundation and improving capital efficiency to raise the business profit margin above 10% by fiscal 2030.

Reestablishing a growth track and improving profitability further

We achieved record levels of orders received and revenue in fiscal 2023, but profit declined due to a ¥58 billion loss in business profit posted in the second quarter owing to the losses related to operational issues with commercial aircraft engines. Without this one-time loss, business profit would have exceeded ¥100 billion, which we believe is evidence that our earning power is steadily building.

Segment earnings included the Powersports & Engine business continuing its strong earnings performance begun in fiscal 2022. The Energy Solution & Marine Engineering business also posted solid results, supported by consecutive LPG/ammonia carriers built in Japan and sales of waste incineration plants. The Aerospace Systems business is also rising back to its pre-pandemic earnings level.

In fiscal 2024, we anticipate generating record highs for orders received, revenue and business profit. We have created roadmaps for each business segment to consolidate our return to an earnings growth track and attain our Group Vision 2030 target to raise the business profit margin to 8% by fiscal 2027 and above 10% by fiscal 2030.

Cost of capital awareness and sophisticated business portfolio management

We are aware of the general opinion of the importance for conglomerate companies like ours to disclose ROIC for each business. The Kawasaki-ROIC Management that we introduced set a hurdle rate for pre-tax ROIC of 8% for all business divisions. However, our management decisions are now being made by taking into account the Company's overall cost of capital as a way to optimize the Group's overall fundraising and growth investment capability. Our cost of capital (WACC) is estimated around 4-5%, and the Group Vision 2030 sets a target for after-tax ROIC to be 3% higher than WACC.

Although we do not disclose ROIC for each business segment, we do use it to evaluate the compensation amounts of executive officers, such as internal company presidents, and for executing business strategies with an awareness of cost of capital. Management of our business portfolio will seek to improve each segment's cost of capital management as well as to identify ways to improve business profits and strategically allocate resources.

Improving business profit margins and maximizing cash flow

A strong financial foundation is essential for sustainable corporate growth. The Group's financial condition indicators have been gradually deteriorating from the significant increase in working capital accompanying the growth in revenue in the past few years.

Part of our financial discipline is to maintain a net debt-to-equity ratio within 70-80%; however, increased borrowing as of the end of fiscal 2023 pushed the ratio over 80%. To improve our cash efficiency, we are working with the business segments to diligently implement improvement measures and stepping up our financial improvement program and cash management system.

Free cash flow was negative ¥58.1 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 sales growth each year, as well as from the major investments in the Powersports & Engine business, including to construct a new plant in Mexico. We expect free cash flow to normalize in fiscal 2024 as business profit recovers. To ensure we have a firm foundation for growing our business, we will continue shifting our mindset to place the highest priority on cash, strengthen financial discipline, and aim to improve the business profit margin and maximize cash flow.

Maintaining financial discipline and implementing strategic cash allocation

Our target for increasing operating cash inflow is to raise the business profit margin above 10%. On the financing side, we will use long-term fixed interest rate loans to control risk and also actively use sustainable finance. At the end of fiscal 2023, sustainable finance accounted for roughly 20% of our outstanding long-term debt, and we plan to raise the level of sustainable finance to 50% by 2030 and 100% by 2050.

Cash outflows will include spending on R&D and capital investment in growth areas, investments in human capital including wage increases, investments in DX and operating efficiency, as well as shareholder returns. Key investment areas will be investments to quickly raise the hydrogen business to profitability and to expand the surgical support robot business. The allocation of funds will be managed to promote business growth while maintaining a healthy financial balance.

Boosting shareholder value through revisions of director compensation system more strongly linked to the stock price

Our basic shareholder return policy is to maintain stable dividends and increase dividends as our earnings grow, and we have set a benchmark for medium- to long-term dividend payout ratio of 30%. In fiscal 2023, the annual dividend was ¥50 per share, and the dividend payout ratio was 33.0%. In fiscal 2024, we plan to increase the annual dividend by ¥90 to ¥140 per share.

We recognize that enhancing shareholder value requires that we improve our earnings performance not only to increase the dividend payout, but also to raise the stock value. Our market capitalization value attained our target of ¥1 trillion in fiscal 2024, which I attribute to the stock price reflecting the changes we've made in the Group and growing expectations for our future. We responded by revising our executive compensation system in May 2024 to share more value with shareholders and stakeholders and to enhance our corporate value over the medium to long term. The revised compensation system, which will be implemented in fiscal 2024, puts more evaluation emphasis on earnings performance and is geared toward long-term incentives linked to the stock price and non-financial targets.

Ambidextrous management to achieve Group Vision 2030

Group Vision 2030 calls for generating average annual revenue growth of 5%, which exceeds the projected growth rate for global GDP. We have achieved this target, as our business growth is currently in the 7-8% range. Since announcing the vision in November 2020, we have been steadily progressing on the path envisioned in the growth scenario and are now within range of our 2030 target for ¥3 trillion in revenue. To continue on our path, we must continue applying ambidextrous management that generates cash by deepening existing businesses and investing in new businesses developing innovative solutions for a sustainable future.

The key to success will be to simultaneously improve profitability and maximize cash flow. Cash management with an awareness of cost of capital, and risk management that maximizes opportunities while minimizing losses will be vitally important. We will use these to enhance our corporate value in both financial and non-financial aspects.

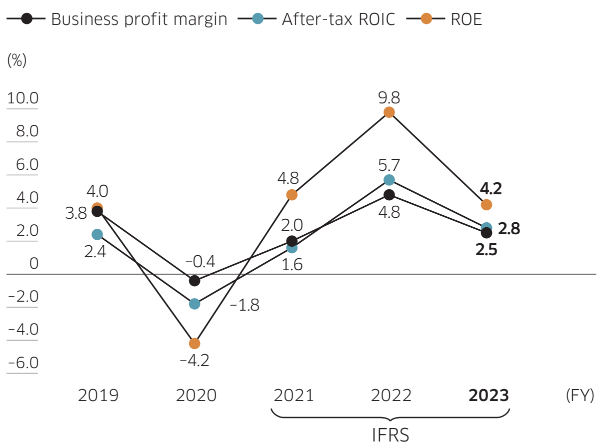
Financial Strategy

Business Profit Margin, After-tax ROIC, ROE

In fiscal 2023, due to one-off factors, the business profit margin was 2.5%; the after-tax return on invested capital (ROIC) was 2.8%; and the ratio of profit to equity attributable to owners of parent (ROE) was 4.2%.

We will aim to realize an after-tax ROIC of 3% or more higher than weighted average cost of capital (WACC) by returning to a growth trajectory from fiscal 2024 onwards and conducting business operations in line with a scenario aiming for a business profit margin of over 10% by fiscal 2030.

Business profit margin, after-tax ROIC, ROE

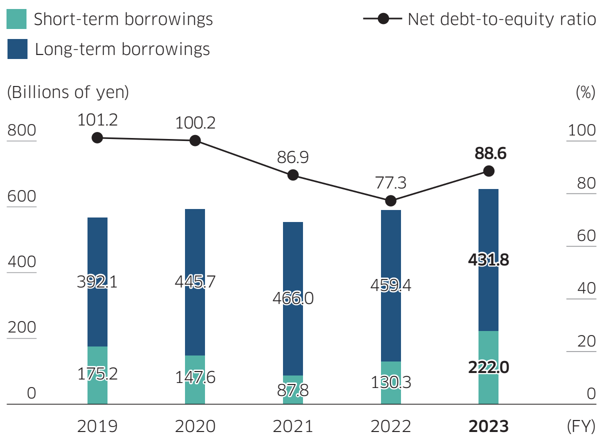


Net Debt-to-Equity Ratio, Net Interest-Bearing Debt

Regarding funding needs, these are chiefly financed using cash flow from operating activities. However, owing to recent business growth and the deterioration of cash flow from operating activities in fiscal 2023, interest-bearing debt has increased, and the net debt-to-equity (NET D/E) ratio has exceeded the target of 70-80%.

We will continue to ameliorate our Cash Conversion Cycle, while also striving to improve inter-Group cash efficiency by leveraging means including cash management systems.

Net debt-to-equity ratio, net interest-bearing debt

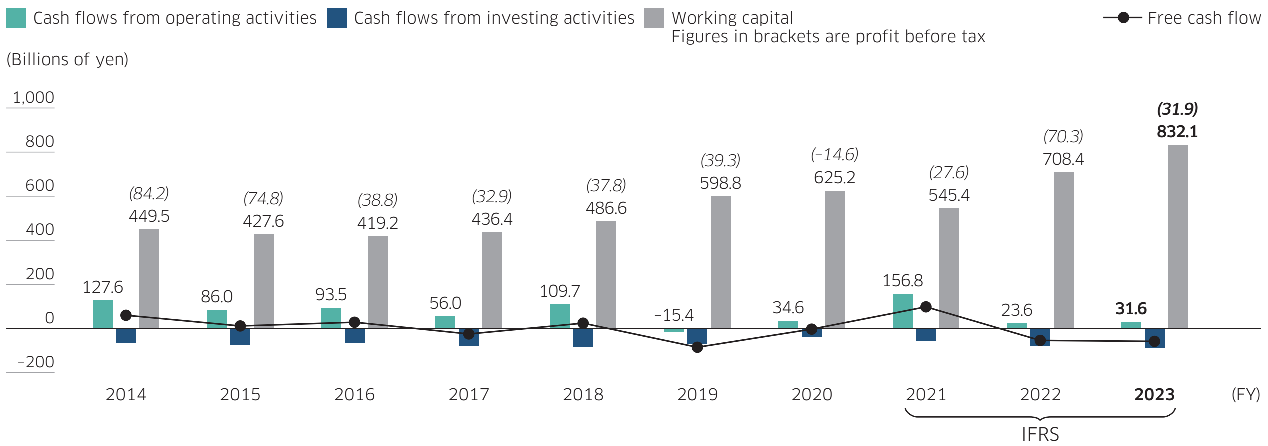


Cash Flow

Working capital continues to increase accompanying business growth in existing operations. In addition, progress is being made in upfront investments to improve profitability and build a hydrogen supply chain in accordance with the Group Vision 2030, with investment cash flow thereby expected to remain at a level of more than 100 billion yen.

Under such circumstances, there was a deficit in free cash flow for the second year in a row. Free cash flow is expected to shift to a surplus in fiscal 2024 due to an improvement in operating cash flow, and will be allocated to the reduction of interest-bearing debt and investment in growth.

Cash flow



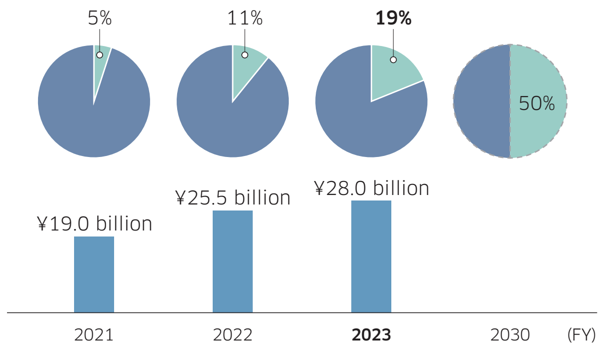
Use of Sustainable Finance

We have implemented sustainable financing to contribute to environmental and social sustainability, beginning with the issuance of sustainability bonds in July 2021.

In fiscal 2022, we formulated the frameworks of sustainability linked loans and positive impact finance. This is the first example in Japan of an attempt to use the same frameworks to conclude individual loan agreements with multiple financial institutions.

In fiscal 2023, we issued transition bonds, a first for the Company. Funds raised in the domestic market, through a public offering based on the Sustainable Finance Master Framework formulated in November 2023, will be allocated towards projects to build a clean hydrogen supply chain, an essential component in the achievement of global carbon neutrality.

Share of long-term debt accounted for by sustainable finance and procurement amounts

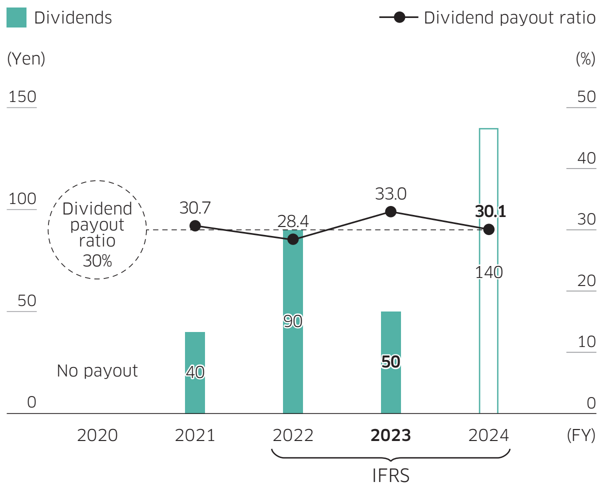


Shareholder Returns Approach

Kawasaki's basic policy on management involves increasing our corporate value, namely to generate stable profits exceeding cost of capital into the future. We position shareholder returns, achieved by increasing long-term shareholder value through continuous investment in the cutting-edge research and development and innovative facilities required for future growth, as one of our key management priorities.

For medium- to long-term consolidated dividend payouts, we set as our benchmark a ratio of 30%, and determine this by considering forecasts of future business performance, free cash flow, net debt-to-equity (NET D/E) ratio, and other financial circumstances.

Dividend payout ratio, dividends

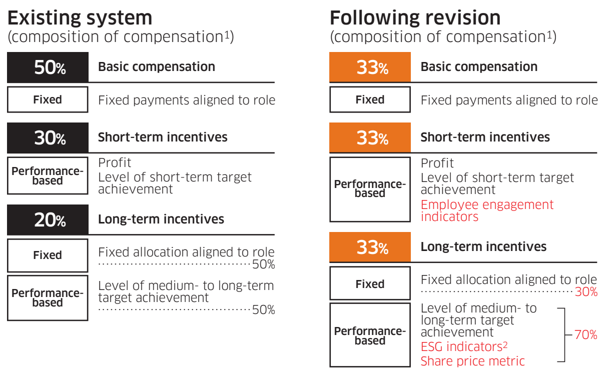


Revision of the Executive Compensation System

We revised the system for the compensation of Directors and Executive Officers in May 2024. We have scaled back fixed points and expanded performance-based points, which vary in line with the current year's profits and achievement of respective targets. For performance assessments too, we have adopted new indicators linked, for example, to employee engagement indicators and contributions to the reduction of CO_2 emissions, to expedite relevant initiatives, including those for the reform of our corporate culture and achievement of a decarbonized society. We furthermore adopted a share price metric as a long-term incentive, with the aim of enhancing mindsets oriented towards increasing corporate value.

Through these systems, the Company will set its sights on greater sharing of value with shareholders and other stakeholders and increasing corporate value over the medium to long term.

Visual model of executive compensation



1 In the case that the target levels for the Group's consolidated operating performance and each indicator in the preceding fiscal year were achieved and each Executive's degree of achievement of targets set for the preceding fiscal year is 100%. Note also that the composition of respective items is based on the example of the CEO, and long-term incentives were calculated based on the share price level at the time of the system's adoption under the existing system, and are calculated at the most recent share price level under the revised system.

2 CO_2 emissions reductions as part of the Company's business activities; contributions to reductions in global CO_2 reductions through the provision of solutions to realize carbon neutrality; and a third-party institution assessment (the Dow Jones Sustainability Index) are taken as the three indicators.