Promoting ROIC management, we will optimize our overall operations while achieving business model reform.

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Positioning of Kawasaki-ROIC Management in the MTBP 2019

Engaged in the simultaneous pursuit of overall profitability, corporate growth and operational stability while striking a balance between investment and return, the Kawasaki Group has been utilizing ROIC as its key management indicator since fiscal 2000. In fiscal 2013, this approach was upgraded and we launched Kawasaki-ROIC Management, which, unlike our previous segment-focused management approach, deals with operations at the more granular business-unit (BU) level, allowing precise ROIC management. The before-tax ROIC target for all BUs is set at 8%, a hurdle chosen to ensure that each records profit in excess of capital cost.

The Kawasaki Group consists of a variety of operations with different business cycles, and a conglomerate of this kind typically sets the target for each BU with due consideration given to its business cycle. However, our management framework aims to prompt any BUs failing to clear their threshold within a certain time frame to execute thorough-going structural reforms. Unfortunately, the overall Group failed to clear the 8% hurdle under the MTBP 2016. Despite expansion in growth-driving businesses thanks to ongoing investment, a significant decline in the profitability of multiple businesses due to such factors as losses recorded in connection with major projects negatively impacted results.

Drawing lessons from these results, we have stepped up project risk management. Under the MTBP 2019, we are placing the utmost priority on reinforcing our financial position and applying cash flow-focused management to enhance our ROIC. To that end, we have identified our 2021 goals as a before-tax ROIC of 10%, an operating income margin of 6% and operating income of ¥100 billion. Moreover, by continuing to advance selection and concentration, we expect to approach an operating income margin of 10% around fiscal 2030.

Growth Investment Selection Based on a Cash Flow Model

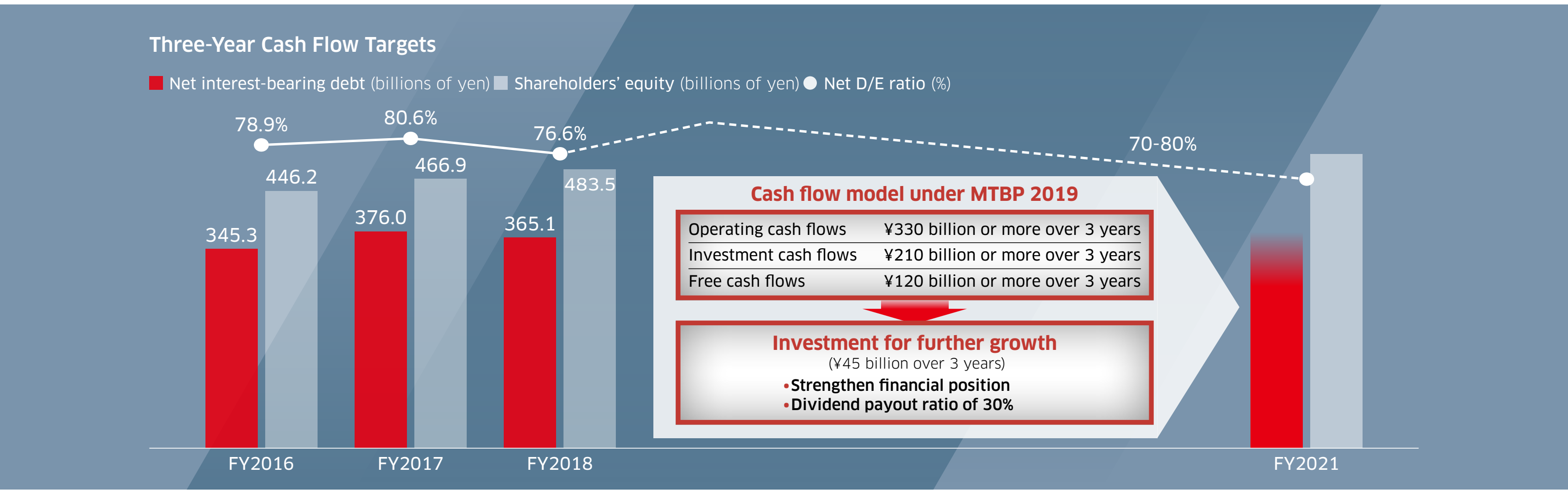
Looking back, ongoing growth investment carried out by each business segment over the course of the three-year period of the MTBP 2016 overburdened our overall cash flows. Learning from this, the MTBP 2019 breaks down BUs in each business segment into four categories: “growing BU,” “ambitious BU,” “stable BU” and “reforming BU.” Each BU is expected to fulfill their role in their category while taking a selective approach to investment, with the aim of optimizing the overall business portfolio.

Under the MTBP 2019 cash flow model, our basic goal is to secure operating cash flows totaling ¥330 billion or more over the plan’s three years. Relevant Head Office departments will work with each internal company to conduct balance-sheet analyses and identify points needing improvement. We will strive to secure free cash flows of ¥120 billion while keeping outflows attributable to investment below ¥210 billion. Furthermore, we will take a flexible approach to M&A, for which we have set aside a three-year budget of ¥45 billion for growth investments. This should reinforce our financial position while allowing a dividend payout ratio of 30%. Striking a balance between securing cash inflows and investing, we will control our net D/E ratio at 70% to 80%.

Strengthening Our Management System

We are acutely aware of the need to establish a highly effective management system for the smooth running of a conglomerate and overall operational optimization. In particular, we need to create mechanisms for bridging information gaps between Head Office departments and business segment departments and assessing changes in the business environment.

Thus, in April 2019, the former Finance Division was made the Finance and Control Division with the Corporate Management Department created to operate under it. With this department leading the way, we will optimize overall operations through internal control and roll out digital



innovation, modeled on our fast-growing robot business operations, throughout the Company. We will also push ahead with digitization throughout the value chain, looking to create seamless business processes and introduce automation technologies for ease of monitoring.

Also, to prevent losses, we will even more closely monitor each project to detect warning signs as early as possible and will tighten our grip on risk-weighted assets in a way that is consistent with our financial strength, applying the lens of risk tolerance in the course of managing overall Group operations.

"Changing Forward": Pursuing Business Model Reforms

Our initiatives under the MTBP 2019 are formulated employing a "backcasting" method based on the business ideals we envision for fiscal 2030.

We expect that around 2030 our existing businesses will be growing consistently thanks to current efforts to enhance product competitiveness. We will also have experienced a transition from low-carbon to de-carbonization solutions and from automated to autonomous machinery while seeing the creation of new value via dramatic innovation associated with digital transformation. These breakthroughs will help create systems, products and services that lead to solutions to the social issues of the future.

Accordingly, the aerospace systems business, which expects robust results in the final year of the MTBP 2019 and beyond, will accelerate its efforts to create next-generation jet engines and aircraft.

Meanwhile, the robot business, which is ready to take steps toward the next growth stage, will significantly expand the scope of its business fields by commercializing autonomous robotic technologies that apply IoT and AI to help resolve issues arising from demographic graying and labor shortages. Medical robots are also expected to be a strong growth driver. In the energy and environment business, despite the need for heavy investment in de-carbonization solutions to meet clean energy demand, we anticipate future revenue from our hydrogen energy business.

As a result, the aerospace systems business, the energy and environment business (which includes the hydrogen chain business), the precision machinery and robot business, and the inland and marine transport business will each account for around 25% of consolidated net sales in fiscal 2030, achieving a well-balanced business portfolio. Taking into account the future outlook for mega trends in the period leading up to 2030, we expect that investment priority will be placed on the aerospace systems business, the precision machinery and robot business and the energy business centered on hydrogen.

Business expansion also requires business model reforms that mean breaking away from the traditional manufacturing approach of completing all processes within the Group.

For example, we aim to reform facility services, maintenance and operations, including the provision of after-sales services for gas turbines and rolling stock. Within our existing business infrastructure, we will thus expand our value chains while collaborating with external corporations. Eventually, we will be able to establish a subscription model that yields stable and secure recurring fee revenues.

Other reforms include the development of a licensing business. We expect our unique hydrogen technologies to help us secure an advantage the future emergence of hydrogen power generation. Specifically, as a leader in the area of low-carbon and de-carbonization solutions encompassing a broad range of the hydrogen supply chain, we will be able to take advantage of the large number of intellectual properties and core technologies we possess to expand our hydrogen business while seeking alliances with a variety of partners around the globe.

In short, the Kawasaki Group boasts a number of businesses with significant potential for growth in fiscal 2030 and beyond. To fully realize their potential, we will strengthen our financial position while developing a highly effective management system to optimize overall operations and aid in the creation of new business models. Through these and other efforts, we will secure further growth for the Kawasaki Group and improve our enterprise value to embody our corporate slogan, "Changing Forward."