

Medium-Term Business Plan “FY2019 MTBP” (FY2019 - FY2021) Rolling Stock Company

October 2, 2019

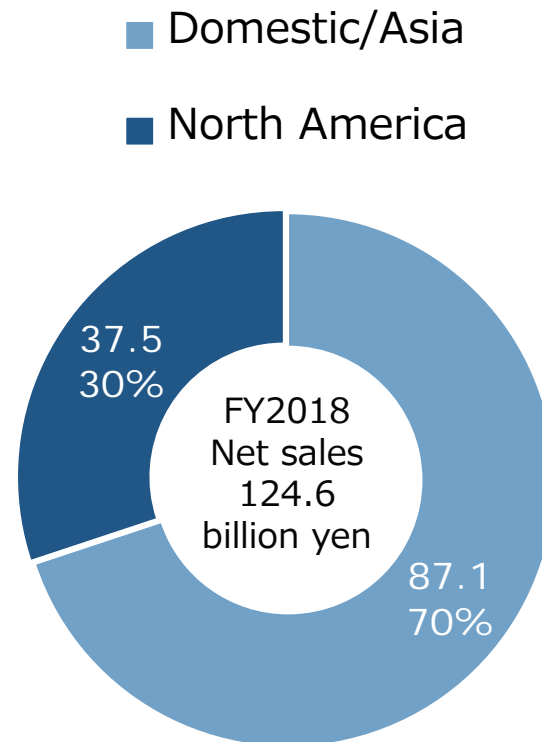
Kawasaki Heavy Industries, Ltd.

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Overview of Rolling Stock Company

| Business | Market | Main Models |
|---------------|---------------|--|
| Rolling Stock | Domestic/Asia | High-speed trains (Shinkansen) Electric or diesel multiple-unit trains Automated guided transit systems Locomotives and freight wagons Bogies (trucks) Rolling stock depot equipment Snow removal wheel loaders Industrial vehicles |
| | North America | Subway trains Commuter trains Trucks (bogies) Rolling stock depot equipment |



Business Strategy of Rolling Stock Company

Business Environment

- Although the domestic market is not expected to expand, stable demand for replacement of aged cars and new models will continue.
- The Asian market can be expected to grow, and projects financed by JICA loan will increase as the Japanese government promotes export of railway infrastructure.
- The North American market is expected to have stable demand, but the market is competitive and the requirements of customers or local regulations are tough.
- Domestic rolling stock manufacturers are systemized under railway operators, and manufacturers are restructured on a global scale

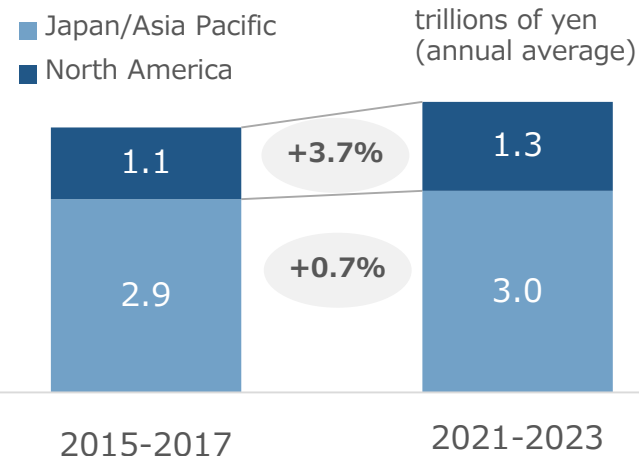
Our strengths

- High technological expertise as a general heavy industrial manufacturer
- Brand power and track record in industries
- Highly customer-oriented solutions

Issues

- Promoting business reforms toward reconstruction
- Upgrading project management capabilities
- Strengthening quality management system
- Contracts with appropriate prices and quantities
- Expanding business revenue foundation by establishing stock businesses opportunities

Railway market - regional market growth rates*



Source: UNIFE World Rail Market Study forecast 2018 to 2023 (€ = 130 yen)

Trains for Dhaka MRT Line 6



Business Strategy of Rolling Stock Company

Overall policy (FY2019 - 2021)

1. Company management policy

Return to a stable track and rebuild trust to management by continuing efforts toward reconstruction, including steady implementation of contracts, and promoting business reforms

2. Issues to be handled during the MTBP to address priority issues throughout the company

(1) Improve profitability

- Emphasis on quality over quantity, and strengthen profit management, taking into account competitive advantage, profitability, risk, and the level of contribution to business, based on reflections on losing projects
- Investing management resources in priority measures for business reconstruction

(2) Business model innovation

- Promote marketing and sales activities of new businesses and create opportunities of profit (track monitoring, etc.)
- Expand after-sales service for maintenance parts for existing rolling stock, refurbishing work, overhauls, etc., and increase profits throughout the entire vehicle lifecycle (stock-based business)

(3) Improvement of cash flow

- Steady payment collection and reduction of inventory by executing contracts as planned
- Improvement of payment terms by negotiating contract terms and securing advance payments

(4) Efforts for resisting foreign currency fluctuations

- Increase proportions of local production and procurement

3. Company-specific efforts/preferential issues

(1) Continue measures to prevent the recurrence of defects with quality and restore trust through stable product quality

(2) Rebuild North American business by earlier completion of M-9 contract early and implementing R211 contract as planned

(3) Work to improve the business environment, etc.

Business Strategies by Product/Market

Priority measures

Business stage: business reform

Role during MTBP: improving profitability

[Domestic]

- Secure contracts of Shinkansen trains and replacement for aged cars, and secure appropriate earnings
- Secure contracts while taking into account competitive advantage, profitability, risk, and level of contribution to business
- Sustainable technical development and expansion of sales of high-speed trains and high value-added products (track material monitoring, anti-vibration devices, etc.)

[Asia (overseas)]

- Contracts taking into account profitability and risks, focusing on JICA financed projects for emerging countries
- Expand stock-based business
- Secure stable contracts through partnering



Kobe City Transportation Bureau/
Type 6000



Singapore Land Transport
Authority T251

Net sales (Unit: 100 million yen)

871

990

FY2018

FY2021

Domestic/Asia
Rolling Stock

Business Strategies by Product/Market

Priority measures

Business stage: business reform

Role during MTBP: improving profitability

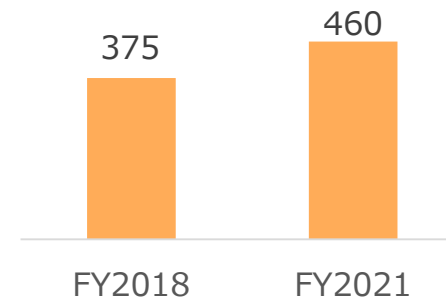
- Earlier completion of M-9 contract by constant production of production cars
- Rebuild North American business by implementing R211 contract as planned
- Promote marketing and sales activities new businesses and create opportunities of profit (track monitoring, etc.)
- Expand stable revenue base by incorporating after-sales service such as supply of maintenance parts and overhaul works for previously supplied cars
- Study and determine an optimal business scale and systems after completion of R211 contract

New York City Transit R211



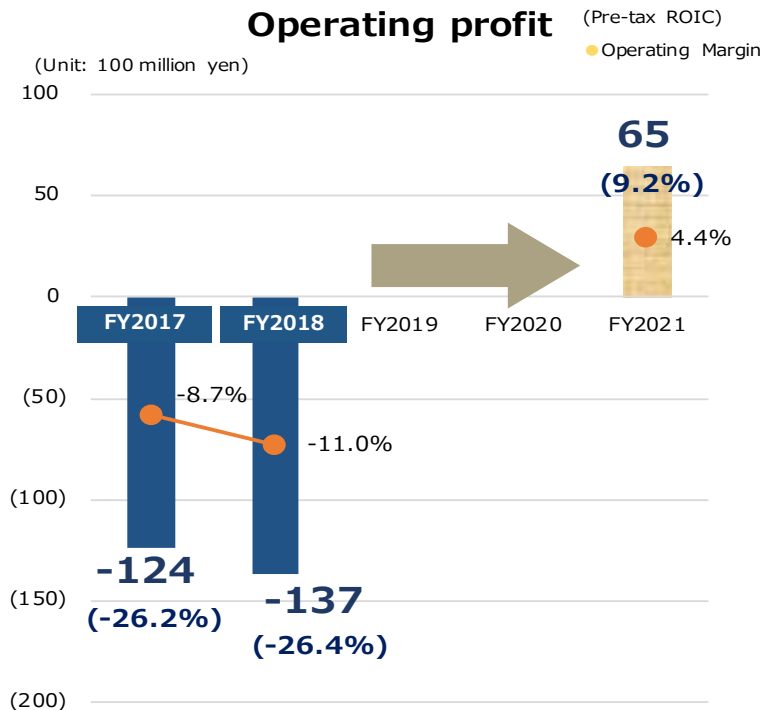
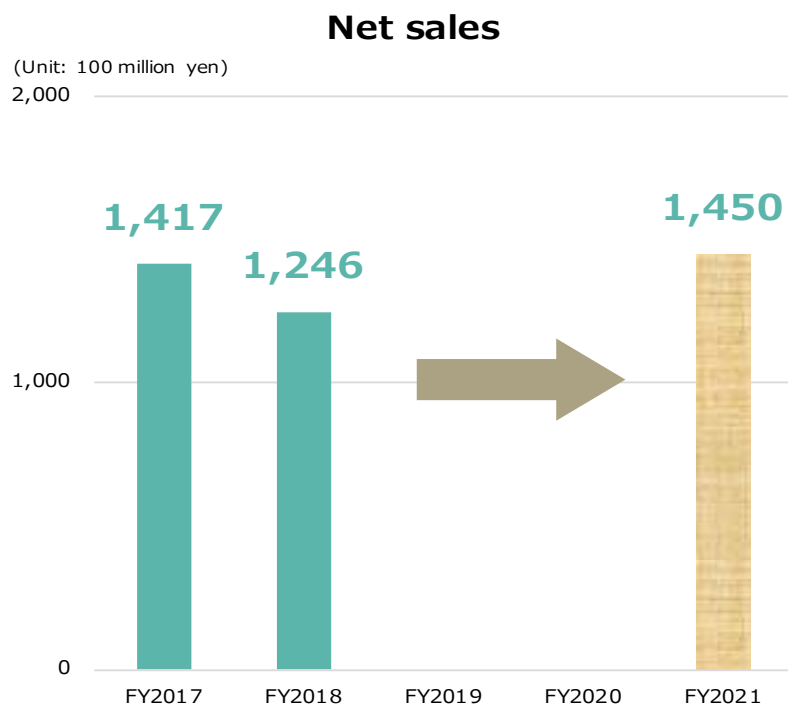
Net sales

(Unit: 100 million yen)



North America
Rolling Stock

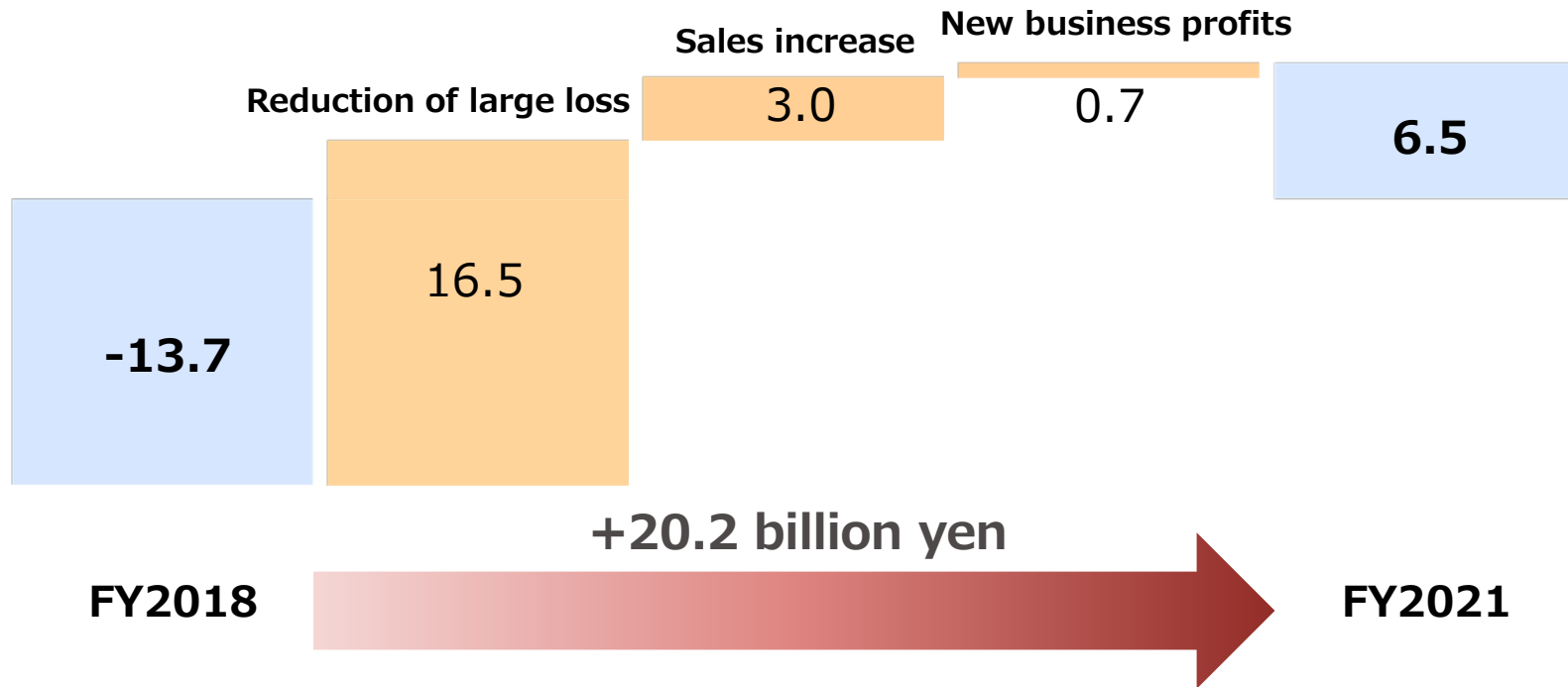
FY2019 MTBP Quantitative Goals



- In FY2021, there will be no impact on provisioned contracts, and profitability will improve due to contracts with appropriate profits and stock-based businesses
- Increased sales and profits in FY2021 due to the start of sales of the R211 contract for New York City Transit and sales of the JICA financed contract in Asia

Measures for Improving Operating Profit

- FY2018 results: -13.7 billion yen ⇒ FY2021 plan: 6.5 billion yen



- Reduction of large loss (provision loss for M-9 contract and several domestic contract)
- Sales increases (start of R211 contract for New York City Transit, improvement of contract price, etc.)
- Creating opportunities of profit of new businesses (track monitoring, etc.)

Long-Term Direction Until FY2030

Overall company policy (medium/long-term)

1. Growth strategy toward FY2030, assuming business reconstruction is complete

- Develop and expand sales of high-speed trains and high value-added products utilizing the technological capabilities of a general heavy industrial manufacturer
- In supply business of new cars, focus on markets with non-price advantage and superior position, and strengthen competitiveness by enhancing cost engineering capabilities and improving design enhancement and efficiency
- In the domestic and North American markets, secure appropriate profit from replacement projects for aged cars and create opportunities of profit by developing stock-based businesses under the assumption that replacement/refurbishing demand is a main business opportunity
- Prioritize deployment of resources in the Asian market where growth is expected

2. Business model innovation

- Expand stock-based business (maintenance service, license agreements, etc.)
- Create new revenue sources through development and sales expansion of new products by technical collaborations with third parties

Kawasaki, working as one for the good of the planet

“Global kawasaki”

Figures recorded in the business forecasts are forecasts that reflect the judgment of the Company based on the information available at the time of release and include risks and uncertainties. Accordingly, the Company cautions investors not to make investment decisions solely on the basis of these forecasts.

Actual business results may differ materially from these business forecasts due to various important factors resulting from changes in the external environment and internal environment. Important factors that may affect actual business results include, but are not limited to, economic conditions, the yen exchange rate against the U.S. dollar and other currencies, the tax system, and laws and regulations.