In this section, the representative director and vice president in charge of finance & accounting and human resources goes into detail about Kawasaki's

- **Financial strategy**
- **Human resource strategy**

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Financial Strategy

Overcoming the COVID-19 Slump, Reinforcing Our Financial Position, and Implementing Business Reforms to Accomplish Group Vision 2030.

Financial Management Amid the COVID-19 Pandemic

The global economic stagnation caused by the COVID-19 pandemic has greatly affected Kawasaki's business. Nowhere was this more evident than in the Aerospace Systems segment, which, having accounted for almost 70% of Group operating profit until the previous fiscal year, saw sharp declines in revenue and profit due to stagnant air travel demand. We were forced to react as the presumptions underlying our business plans suddenly fell out from under us, and we implemented measures that included the issuance of ¥60 billion in straight bonds, our largest issuance ever, as well as commercial paper to ensure that we would have adequate liquidity on hand.

In August 2020, we forecast that the operating loss for the fiscal year could be as large as ¥30 billion. However, sales of off-road motorcycles and four-wheelers grew in the North American market, and sales of excavator hydraulic machinery, mainly for the Chinese market, were quick to recover. In addition, sales of robots for semiconductor manufacturing equipment were strong, reflecting a rise in semiconductor demand that was due in part to the expansion of remote work. The final result of these factors and the enormous impact of COVID-19 was that we recorded an operating loss of ¥5.3 billion for fiscal 2020.

Reinforcing Our Financial Position and Project Management

Due to COVID-19, demand for air travel rapidly declined, leading to a pileup in aerospace systems inventory, which, among other factors, caused the net D/E ratio to worsen in turn to 100% as of the end of the fiscal year. In the current fiscal year, with inventories decreasing due to adjustments in airplane production rates and business results recovering, we expect the D/E ratio to improve. By implementing a program of financial management improvement* aimed at controlling working capital, we hope to quickly return the D/E ratio to the 70% to 80% range, which we believe is an appropriate level.

The cash conversion cycle (CCC) also worsened to over 150 days in fiscal 2020 due to a range of factors, including weak performance in the airplane business, the suspension of operations at rolling stock production plants in the United States due to COVID-19, reduced production capacity due to social distancing, and delays in railway operators accepting rolling stock.

Operations have now returned to normal, so, considering the expected improvement in results, we aim to quickly return the CCC to around 100 days via the aforementioned program of financial management improvement.

Over the past three years, we have fallen short of our plans for profit and loss due to losses on big projects. However, since being put in charge of Company-wide finance and accounting, I have been working urgently to reinforce Company-wide profit and loss management. For important projects with a significant impact on management, we are reinforcing pre-contract risk checking and implementing a risk control approach that keeps the total risk of losses within a level commensurate with the relevant organization's financial strength. Through such measures, we are reinforcing project risk management and enhancing the precision of profit and loss planning.

** Activities to improve operations, including liquidating receivables, using supply chain financing, encouraging collection from customers, controlling inventory, and correcting payment conditions for suppliers*

Business Reforms under Group Vision 2030

Under Group Vision 2030, we are aiming to at achieve total optimization across the Group by implementing Company-wide reforms that transcend the barriers separating internal companies. First, to quickly create new businesses that span the bounds of the internal companies, we have set up a variety of businesses under the Presidential Project Management Division, including automated PCR testing and near-future mobility. Furthermore, we have integrated the Ship & Offshore Structure Company and the Energy System & Plant Engineering Company to form the Energy Solution & Marine Engineering Company, thereby creating a framework for advancing business centered on hydrogen-related businesses and the core component engineering business. We have decided to redirect the capacities of the merchant ship business within the new internal company, mainly toward the liquefied hydrogen carrier business and core component businesses, such as system engineering and marine propulsion. The construction of general vessels will now be carried out instead via collaboration with a Chinese joint venture and other companies.

In the rolling stock business, which has recorded operating losses for four consecutive years, we formed a Company-wide North American task force to reinforce the profitability of North American production sites from a Company-wide perspective. By leveraging insights into quality control from the Aerospace Systems segment and expertise about production efficiency from the motorcycle business, we aim to ensure that the rolling stock business returns to profitability in fiscal 2021.

The rolling stock business and the motorcycle business were each spun off into new, separate companies in October, affording them a high degree of management autonomy. This will allow the rolling stock business to nimbly and flexibly work with companies throughout the industry and the motorcycle business to leverage its characteristics as a B-to-C business to speed up decision making.

Investment in Growth and Sustainable Capital Procurement

Capital expenditures have been rising in recent years, reflecting ongoing upfront investment in growth fields. However, the pace of such investment in the hydrogen business and other areas has subsided somewhat, and, going forward, we plan to keep capital expenditures within the range of depreciation and amortization, in principle. At the same time, we will set aside a separate investment budget for future businesses, such as those related to digital transformation (DX), near-future mobility, and automated PCR testing robots.

In the hydrogen business, support from the Ministry of Economy, Trade and Industry's Green Innovation Fund has begun, and hundreds of billions of yen will be invested. Using this capital and leveraging the advantage of having started investing in this area well ahead of the competition, we will grow the hydrogen business.

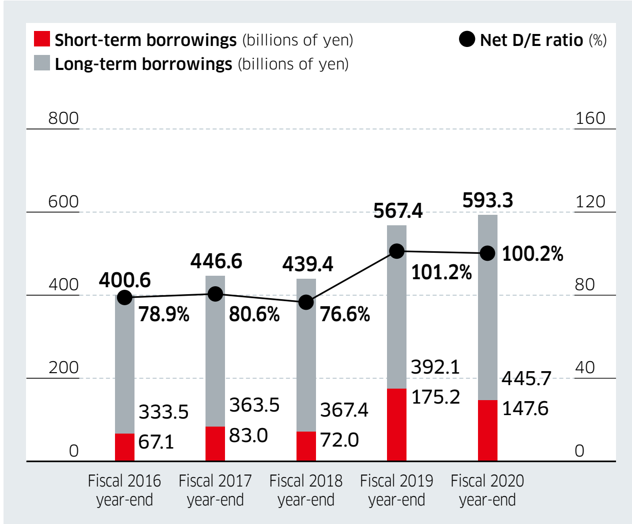
In terms of R&D, we intend to concentrate investment in products and technologies for which we see future potential after the COVID-19 pandemic, mainly in the focal fields under Group Vision 2030. We plan to maintain R&D spending at around ¥50 billion, for a ratio of R&D spending to net sales of around 3% to 3.5%, for the time being.

Looking at capital procurement, in July 2021, Kawasaki issued its first-ever sustainability bond to fund projects related to the popularization of the automated robotic PCR testing system and the establishment of a hydrogen supply chain. Going forward, we will continue to expand our businesses that contribute to social and environmental sustainability, procuring capital mainly through sustainability bonds and loans.

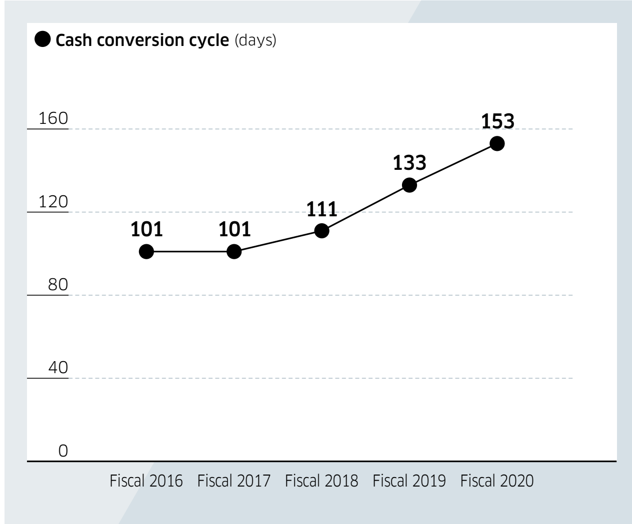
To Our Shareholders and Investors

In our plans for the current fiscal year, we aim to achieve, at minimum, net sales of ¥1,500 billion, operating profit of ¥30 billion, and recurring profit of ¥20 billion. Revenue from the automated PCR testing business, which is currently developing

Net D/E Ratio and Interest-bearing Debt



Cash Conversion Cycle



rapidly, has not been factored into the annual revenue plan, so the growth of this business will further boost results. In terms of shareholder returns, based on a comprehensive consideration of results forecasts and our financial standing (including free cash flow and the D/E ratio), and seeking to ensure stable dividends, we plan for a consolidated payout ratio (calculated against profit attributable to owners of the parent) of approximately 30% over the medium to long term. We thus aim to increase dividends by enhancing profit.

Our current stock price reflects high expectations regarding the future of our businesses, including the hydrogen business. To continue to meet these expectations we will promote DX, proactively allocate management resources to growth fields, and reinforce business reforms and profit-loss management, aiming to reach a market capitalization of ¥1 trillion.

Human Resource Strategy

The New Personnel System Is Built around Fostering a Culture of Taking on New Challenges and Commitment.

Achieving Group Vision 2030

Group Vision 2030 expresses our intention to address social issues with innovative solutions and transcend existing boundaries to act quickly and take on new challenges. For the Kawasaki Group to solve social issues and achieve its vision, a human resource strategy aimed at developing and reinforcing human resources is especially important.

To achieve the vision, we are emphasizing the firm establishment among employees of market-oriented thinking, the idea that speed produces value, awareness that extends beyond organizational bounds, and a culture of valuing ambitious initiative.

Until now, our human resource allocation was oriented mainly around the internal companies and tended to result in outstanding personnel remaining within those companies. The limited exchange of human resources across company lines resulted in conditions that were not conducive to synergy. This may have even been demotivating for employees hoping to realize bold new ideas that span the bounds of internal companies. Unless the Company prioritizes the creation of environments in which employees can engage in work based on their aspirations and grow as individuals, achieving Group Vision 2030 will be very difficult. Based on that understanding, in fiscal 2021, we have launched a new personnel system, aiming to create a framework for the optimal utilization of our human resources.

Boosting Employee Motivation to Grow through the Use of a Job-centered System

A key feature of the new personnel system is the introduction of a job-based pay system.

Under the job-based pay system, employee pay and compensation is decided based on standards related to their job, including the duties they perform and results they achieve.

To maximize the results of this system, each job must be defined in detail—i.e., in terms of the objectives and responsibilities associated with specific tasks, how they are performed, where the delineations separating them lie, and the skills and qualifications necessary for their fulfillment. We began this task by first evaluating the breadth of the role associated with every single post within the Company and reassigned ranks to employees accordingly. By thus clarifying the role entailed in each post, we are continuing to raise employee awareness.

The achievements of employees will be evaluated objectively, based on whether they have fulfilled the prescribed requirements of their job. Furthermore, we have incorporated a mechanism for increasing the compensation of employees who set and achieve more ambitious targets. This will encourage all employees to take on new approaches and ideas and exercise their abilities to the fullest. We expect the implementation of these systems to not only directly bolster productivity internally, but facilitate external hiring by clearly defining available posts, thereby reinforcing the Company's competitiveness.

In addition, the new system enables the more active transfer and mingling of personnel between internal companies. More active exchange among the human resources of the internal companies will stimulate the growth of individuals. By thus nurturing inter-organizational synergies, we seek to achieve the ongoing enhancement of our enterprise value.

Personnel Allocation Focused on Abilities and the Development of Next-Generation Leader Candidates

Another feature of the new personnel system is the elimination of age-based seniority elements. We seek to allocate human resources with a focus on individual abilities, quickly promoting outstanding young employees to encourage their development while also enabling veteran employees to continue to actively contribute, regardless of age.

In addition, I think it is important to create the conditions necessary to ensure that anyone motivated to do so can take part in ambitious initiatives, like the rapid commercialization of our automated PCR testing business. To that end, we will set up a variety of promotion and hiring frameworks.

Among these frameworks are the Kawasaki executive coaching programs, which provide training aimed at developing management candidates. In the past, this training was offered principally to older employees at the senior manager level who had been recommended from within the internal companies.

Now, however, we have changed the age of eligibility to include employees in their 30s and begun accepting employees based not only on recommendations but also applications from employees themselves. In the first year, we have received even more applications than expected, reinforcing our awareness that we have a great deal of ambitious employees.

Formulating section-level leadership plans has also been an issue. Going forward, we will develop the next generation of leader candidates through the enhancement of our training systems to select successors for key posts from a more Company-wide perspective that includes the promotion of younger employees.

Fostering a Corporate Culture that Embodies "Changing Forward."

I think that we need to strengthen the human resource strategy of the entire Group, including overseas subsidiaries. However, even as we aim for global human resource management, there are variations in the makeup of individual businesses in terms of country, work performed, and the people who work in them. Introducing a globally unified system all at once is thus difficult, so we are beginning initiatives in this area in the United States, in light of the significant impact that our businesses there have on the Group as a whole.

We recently formed a North America Project Management Task Force to reinforce the rolling stock business. This task force includes human resource divisions. We plan to begin with carrying out employee engagement surveys and reexamining the personnel systems of our U.S. subsidiaries and will formulate necessary measures accordingly.

We also need to reinforce our human resource data platform using DX technologies. We will make human resource data—like the current assignments, skills, experience, and evaluation results of individuals—more easily accessible in order to more effectively use human resources Group-wide.

Our efforts to enhance the personnel system will not end with the adoption of the new system. The ongoing enhancement of the system's operational level will require time to be spent on setting and evaluating targets and assiduously planning, executing, checking, and improving measures taken.

In an unusual move for Kawasaki, since April 2021, I have been in charge of not only overseeing overall human resource operations as vice president, but also leading the Human Resources Division as its general manager. It will take some time for the new personnel system to change the mindsets of all employees. My mission is to drive the uptake of the new system as quickly as possible and thereby accelerate the achievement of Group Vision 2030.

By firmly establishing this new system built around the ideas of taking on new challenges and commitment, we will foster a corporate culture in which every Group employee embodies our slogan, "Changing Forward." and takes an active role in achieving our management targets.

Key Features of the New Personnel Management System

To achieve Group Vision 2030, we aim to realize a personnel system in which diverse human resources can utilize their abilities to the fullest and produce high added-value results.

Feature 1: Compensation based on ability, job, and results

- Abolished seniority-based elements, shifting to a system of compensation based on ability, job, and results
- Introduced an ability-based qualification system in which employees are evaluated and compensated based on ability, job, and results; compensation comprising wages, regular bonuses and retirement bonuses; and an employee review system

Feature 2: Prompting employees to strive and grow

- Reorganized the ability-based qualification system and took other steps to enable employees to get involved in various types of work and support them in acquiring a broad range of experience
- Adopted an approach that prompts the desire to take on challenges, with those who take on harder tasks evaluated favorably, and that encourages the growth in character and skills that comes from the process and accomplishment of solving problems