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By resolving social issues through wide-ranging business, we will increase Kawasaki's enterprise value.

Beginning the New Medium-Term Business Plan

Over the past three years, the Kawasaki Group has advanced initiatives aimed at achieving the goals for fiscal 2018 laid out in our medium-term business plan, MTBP 2016. We steadily invested in areas with strong future potential, such as aerospace systems and precision machinery and robots, aiming for medium- and long-term growth. Unfortunately, however, quantitative results fell considerably short of our initial goals (Figure 1). This was due in large part to losses recorded each year from major projects, but these losses alone cannot fully explain what happened.

We embarked upon the medium-term plan having mapped out paths to our goals in each business, but our reading of trends in the business environment was inadequate. As a result, we made dispersed investments, some in low-growth, low-return, high-risk fields, weakening the Company's earnings power and worsening its cash flows.

Given this, we fundamentally revised the formulation process for the new medium-term business plan,

MTBP 2019. Previously, each internal company would draft its own business plan, and then, based on these, we would all meet to work out the Company-wide plan. This time, however, the head office divisions and internal companies began by thoroughly discussing the assumptions about mega-trends and individual business strategies that underlie business planning. Furthermore, to ensure that we meet the targets of MTBP 2019, we will carefully monitor the likelihood of achievement of each internal company's plans and business environment risks on an ongoing basis.

The business environment is changing greatly, and we cannot expect to survive by standing still. Aware that the period of the new medium-term management plan will decide the future of Kawasaki, we will implement decisive measures to build a foundation for the achievement of our vision for fiscal 2030, including efforts to reform business models, organizational structures and internal culture.

Figure 1: MTBP 2016 Quantitative Goals and Results

	Goal for FY2018	Result in FY2018
Before-tax ROIC	11.0%	4.5%
Operating income (Billions of yen)	100.0	64.0
Cash flows from operating activities (Billions of yen)	140.0	109.7
Net D/E Ratio	70%-80%	76.6%



Reviewing MTBP 2016

Figure 2, below, provides an overview of the key measures (actions 1-5) of MTBP 2016.

As shown under Action 1, investment in fields expected to drive growth over the medium and long terms, such as aerospace systems and robots, progressed as planned, and we expect to see returns in the form of revenue from fiscal 2021 onward.

However, as indicated under Action 2, we recorded losses on large projects in ships, rolling stock and other businesses and allowed profitability to decrease in other businesses. As a result, we did not meet our quantitative targets.

As for Action 3, we made progress on realizing synergy effects in certain fields, but maximizing these effects at the Company-wide level remains a challenge.

Furthermore, as shown under actions 4 and 5, our business selection and concentration criteria were insufficiently clear, and business replacement stalled. This was a significant reason that profitability did not increase as planned. We still have a ways to go in developing cross-organizational functions and systems needed for overall optimization, and we have incorporated this as a task to address in the new medium-term business plan.

Under the new plan, we will strive to more fundamentally improve and strengthen our earnings power.

Figure 2: Results of Key Measures under MTBP 2016 (Actions to Promote ROIC Management)

- Profitability significantly decreased in several businesses; strengthening the financial base is an urgent requirement
- Returns from ongoing investment of resources in growth fields are approaching

		Results
Action 1	Plan and execute growth strategies through the strengthening of core competence in each business unit (BU)*	Anticipating the beginning of returns from ongoing investment of resources in growth fields <ul style="list-style-type: none"> • Completed a new plant for the 777X and started shipments • Completed one jet engine development cycle • Steady progress in developing medical robots (currently in the final phase)
Action 2	Set appropriate indicators, with a focus on ROIC, and create specific action plans for achievement	Recorded deficits on major projects in several businesses Due to decreased profitability as a result of this and other factors, most quantitative goals (including ROIC) were not achieved
Action 3	Pursue synergy effects through integrated operations to create new value	Mechanisms for realizing synergies in growth fields progressed in certain areas, but Company-wide maximization remains a task <ul style="list-style-type: none"> • Progressed steadily toward demonstration tests of the CO₂-free hydrogen supply chain in fiscal 2020 • Created synergies in the energy field and Aerospace Systems segment through organizational integration
Action 4	Define scale-down or withdrawal strategies broken down to each sub-BU and product	Business selection and concentration criteria were unclear and execution was not fast enough <ul style="list-style-type: none"> • Withdrew from offshore vessels
Action 5	Create a portfolio focusing on profitability, stability, and growth	Cross-organizational functions and systems were insufficient to realize overall optimization

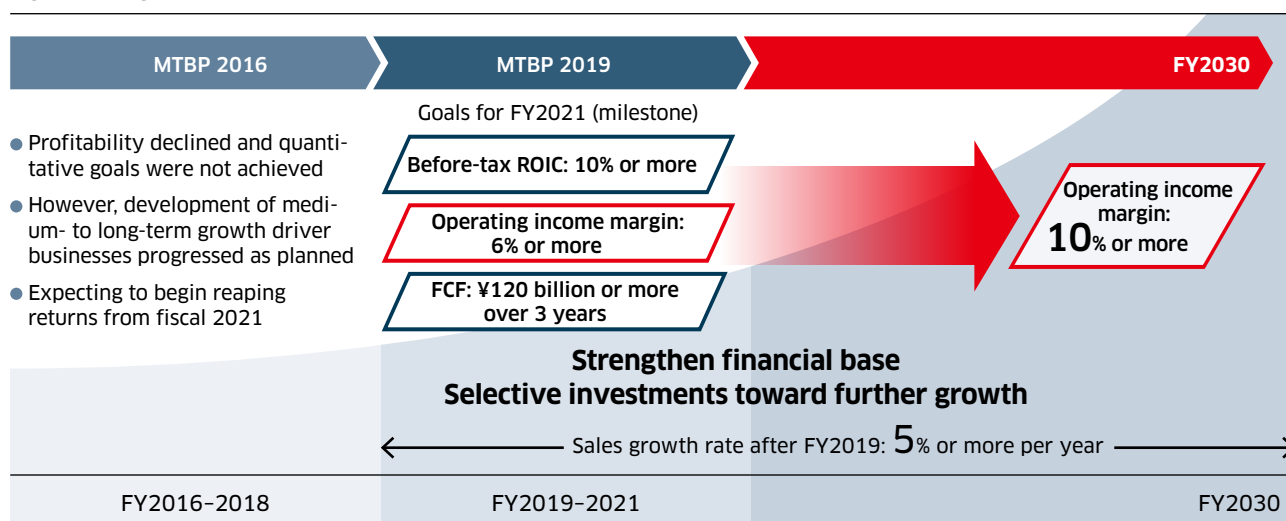
*BU: Business unit

The MTBP 2019 within Our Long-Term Vision

In light of such factors as mega-trends in the business environment and the Sustainable Development Goals, we have designated an operating income margin of 10% or more (with annual net sales growth of 5% or more) as our vision for Kawasaki in fiscal 2030 (Figure 3). To achieve this vision, over the three years of MTBP 2019, we will make selective investment, aiming for further growth, with strengthening our financial

base a top priority. While we regard the final year of plan, fiscal 2021, as only a milestone on the way to fiscal 2030, we have set the targets for fiscal 2021 of before-tax ROIC of 10% or more, operating income margin of 6% or more and free cash flows (FCF) of ¥120 billion or more (over three years). I would next like to describe the initiatives we will advance to achieve these targets.

Figure 3: Long-Term Vision and the MTBP 2019



Basic Policies of MTBP 2019

In light of the lessons learned from MTBP 2016, we have designated four basic policies for MTBP 2019:

1. Strengthen the financial base, 2. Total optimization of the business portfolio, 3. Business model innovation, and 4. Innovate company organization/culture.

Figure 4: Basic MTBP 2019 Policies

1	Strengthen the financial base	Return to the philosophy of emphasizing quality over quantity to improve operational quality (including project risk management), and strengthen the financial base toward future growth
2	Total optimization of the business portfolio	Implement carefully selected investments of labor, resources, and budgets from the viewpoint of total optimization. Consider mega-trends and the SDGs. Clarify each business's role, targets, and optimal scale and form.
3	Business model innovation ("Changing Forward")	Make good use of core competencies to increase enterprise value through business and value chain innovations (without sticking to in-house development and production)
4	Innovate company organization/culture ("Changing Forward")	Construct cross-organizational functions and management systems for total optimization and a company culture to face evolving challenges

Key Measures under MTBP 2019

To reinforce the Company's earnings power and corporate strength over the three years ending fiscal 2021, we will implement the following four key measures.

1 Strengthen the financial base

In order to address the pressing issue of strengthening the financial base, increasing our earnings power and improving cash flows will be top priorities. Specifically, because functions needed to pursue overall optimization have been inadequate, we implemented organizational reforms in April 2019 with the goal of enhancing strategy formulation and execution functions in head office divisions. I think that this will better enable us to avoid getting overly caught up in individual fiscal year profit and loss management and instead develop business strategy focused on the medium and long terms.

Previously, the business units (BUs) each carried out financial management based on ROIC. Going forward, the BUs will also advance comparisons of benchmarks with competitor companies to set goals for business activities, such as target operating income margins. By implementing thoroughgoing target management, we will work to improve the Company's earnings power.

Strengthening Project Risk Management and Building a Quality Management System

Strengthening Project Risk Management

In light of the losses on major projects recorded in recent years, during the previous medium-term business plan, we implemented such countermeasures as requiring stricter evaluations before accepting orders, reinforcing monitoring during contract fulfillment, and sharing examples of projects that went poorly. These efforts have steadily borne results. Under MTBP 2019, we will continue these initiatives while reinforcing Group-level risk asset control, including

that on both the financial and engineering fronts, to better correspond to management resources invested.

Quality Control System

The incident with the manufacturing defect in the series N700 Shinkansen bogie caused our stakeholders tremendous difficulty and concern, and for this, again, I am deeply sorry. We are implementing exhaustive corrective measures at every level to ensure that such a problem never occurs again. Spurred by this incident, we established the TQM Department* to reinforce cross-organizational functions for effectively and efficiently evaluating and improving the quality management systems and standards of each business segment (the internal companies). In addition to supporting the reinforcement of quality management in the business segments, going forward, we will expand the scope of quality management to management divisions to strengthen management quality.

* TQM: Total quality management

2 Total Portfolio Optimization

To make selective investments aimed at future growth, we will revitalize individual businesses by clarifying the position and role of each (Figure 5).

This business positioning is not permanent; it will be periodically and flexibly revised as needed.

In addition to the above, even in businesses in which improving profitability is challenging due to commoditization or other factors, we will realize business innovation by such means as combining the core competencies of multiple businesses to put them back on growth tracks. The example in Figure 6, below, shows how commercial vessels and cold storage technologies can, through hydrogen supply chain initiatives, be transformed back into businesses with future growth potential.

Business Position Clarification and Rebuilding

Figure 5: Revitalizing Individual Businesses by Clarifying Roles and Targets

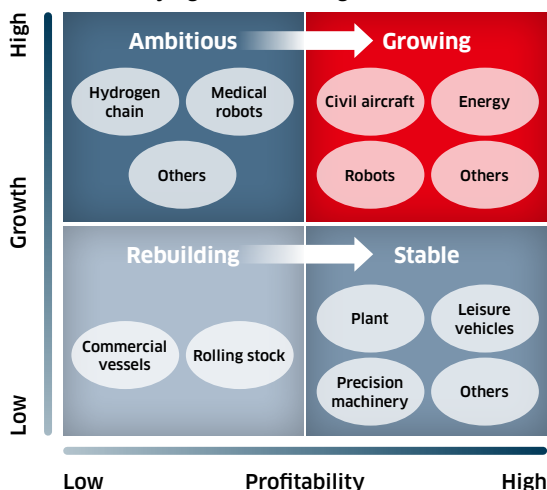
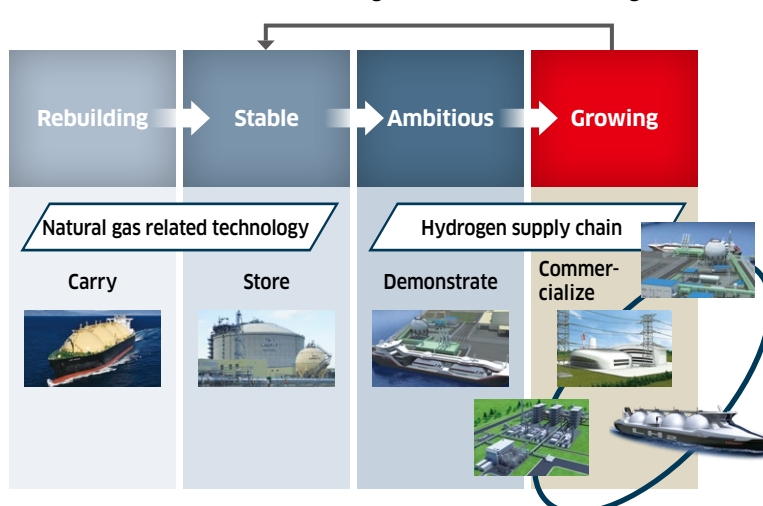


Figure 6: Leveraging Group-wide Core Competencies to Transform Businesses from "Rebuilding" and "Stable" to "Growing"



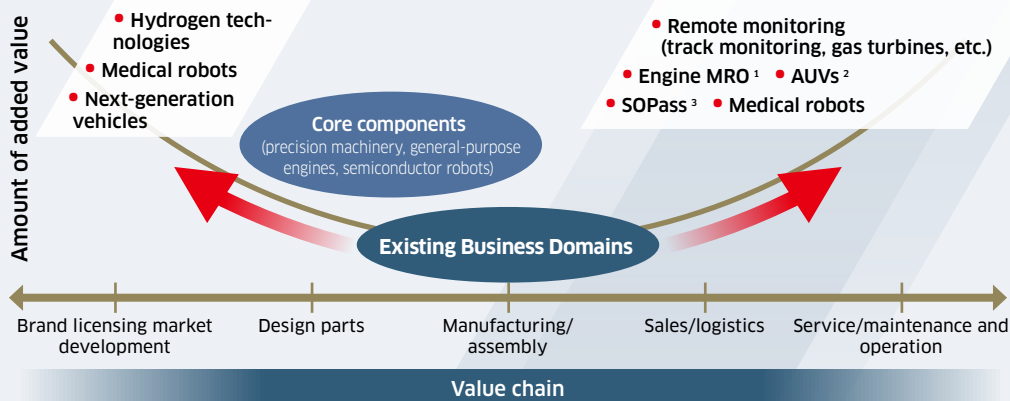
3 Business Model Innovation

Until now, our main business domains have been manufacturing and sales, with certain core components lifting overall profitability. We aim to increase earnings power by shifting from our existing

business domains to upstream and downstream businesses that are higher on the so-called smile curve. Furthermore, by bringing in innovation from outside the Group, we will realize dramatic growth not possible merely by building on our existing businesses.

Figure 7: Business Model Innovation Breaking Away from Approach of Completing all Processes within the Group (Changing Forward)

Continuously increase value Expanding value chains not dependant solely on internal resources



1. MRO: Maintenance, repair and overhaul 2. AUVs: Autonomous underwater vehicles
3. SOPass: Ship Operation and Performance Analysis Support System

4 Innovate Company Organization/Culture through K-Win Activities

K-Win Activities (short for Kawasaki Workstyle Innovation Activities) began in fiscal 2016 as an effort to promote workstyle reforms. As these activities have evolved, their scope has widened to

encompass overall corporate reform activities. We will advance organizational and corporate culture reforms to establish an internal climate of boldly taking on change and embody the Group taglines “Changing Forward” and “Powering your potential.”

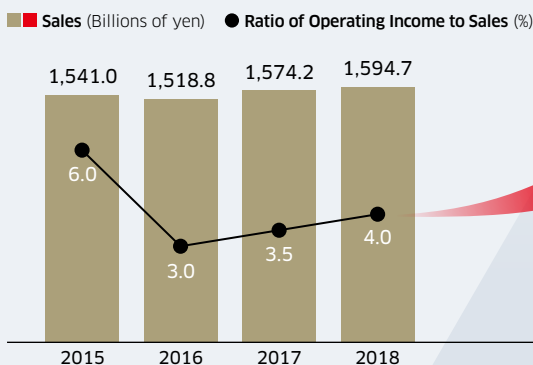
Note: For more information on K-Win Activities, please refer to pages 56–57.

MTBP 2019 Quantitative Targets

The global economic outlook is currently unclear, reflecting U.S.-China trade frictions and the deceleration of growth in the Chinese economy. However, by steadily implementing the initiatives described above, we aim to achieve our management goals for fiscal 2021 of before-tax ROIC of 10% or more, FCF of

¥120 billion or more (three-year total) and an operating income margin ratio of 6% or more (with operating income of ¥100 billion or more). At the same time, we will advance investment aimed at business growth from fiscal 2022 onward.

Figure 8: Achieving the Milestones of ROIC of 10% or More and an Operating Income Margin of 6% or More in Fiscal 2021



Management Targets for FY2021

Before-tax ROIC¹ 10% or more

1. ROIC = EBIT/invested capital
(i.e. shareholders' equity + interest expense)

Ratio of Operating Income to Sales 6% or more (¥100 billion or more)

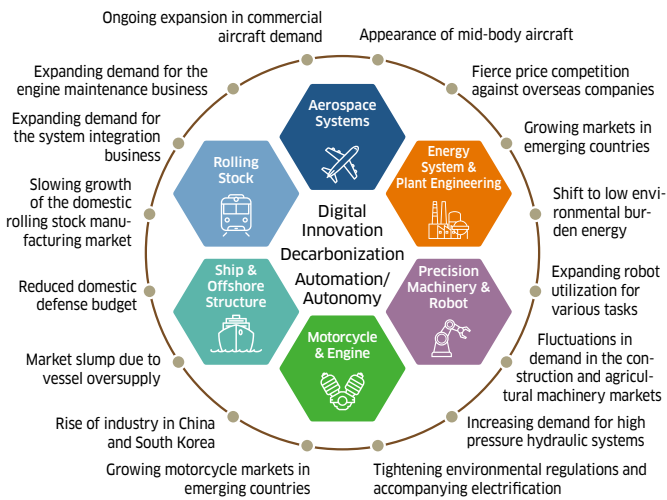
FCF² ¥120 billion or more over 3 years

2. FCF before spending on growth investment

Kawasaki's Vision for Fiscal 2030 and Long-Term Direction

In formulating the MTBP 2019, the head office divisions and internal companies discussed the megatrends in Kawasaki's business environment and strategy going forward. In addition, through the Group's diverse businesses, we will contribute to the achievement of the United Nations' Sustainable Development Goals (SDGs).

Figure 9: Mega-trends Surrounding Kawasaki Heavy Industries—No Survival without Transformation



Through such initiatives, by fiscal 2030, we aim to nurture the Aerospace Systems, Energy System & Plant Engineering, and Precision Machinery & Robot businesses into growth drivers and to solidify efforts to commercialize the hydrogen chain—which is emblematic of the Group's synergy effects—and develop it into a growth engine.

In addition, while the Ship & Offshore Structure and Rolling Stock businesses are currently being rebuilt, after MTBP 2019, we aim to have them stably back on track, while the Motorcycle & Engine business promotes the Kawasaki brand globally.

We also aim for a balanced net sales mix in fiscal 2030, divided into four approximately equal parts, namely those from the Aerospace Systems, Energy System & Plant Engineering, and Precision Machinery & Robot businesses, and the total of the Ship & Offshore Structure, Rolling Stock and Motorcycle & Engine businesses.

Furthermore, in light of the changing business environment and the expectations and demands of our diversifying stakeholders, we will strengthen our ESG initiatives. Under MTBP 2019, having identified material issues for fulfilling the Kawasaki Group's CSR, under the new CSR activity framework, we will work to create social value through our businesses and advance

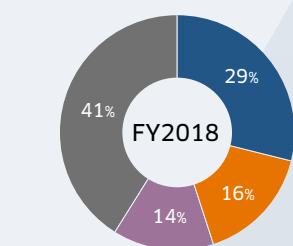
Figure 10: Vision for Business Portfolio in Fiscal 2030

- Growth led by the Aerospace Systems, Energy System & Plant Engineering, and Precision Machinery & Robot businesses

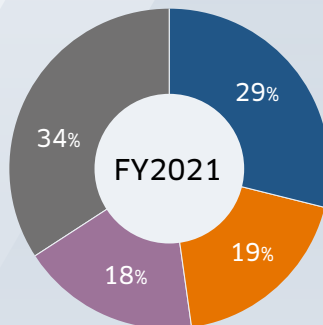
- Ship & Offshore Structure and Rolling Stock businesses back on track, while the Motorcycle & Engine business promotes the Kawasaki brand globally

- Efforts to commercialize the hydrogen chain, emblematic of the Group's synergy effects, coming to fruition and evolving into a growth engine

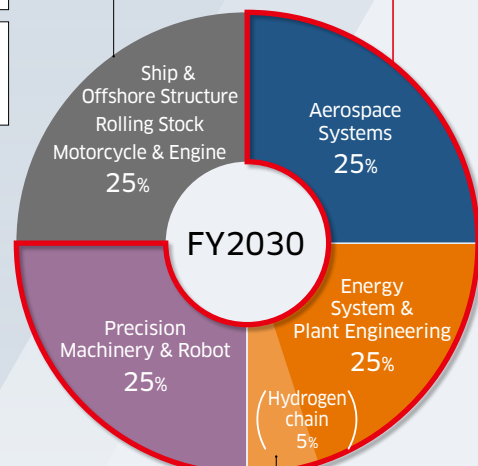
Sales by business area



Operating income margin 4.0%



6.0%



10.0%



initiatives to address such CSR issues as the realization of a low-carbon society, corporate governance, human resource development, human rights, compliance and supply chain management. In particular, we have designated four ways of creating social value through our businesses as topmost priorities over the long term. These are providing safe and secure, clean, comfortable movement of people and goods by land, sea and air; creating clean energy; improving social infrastructure, especially in emerging countries; and responding to the needs of an aging society and shortage of labor through automation. In pursuing these, the Kawasaki Group will contribute to the achievement of the SDGs. For each of these ways of creating social value, we have established visions and non-financial targets for fiscal 2030 that we will use to track progress. Under the MTBP 2019, we will evolve the business portfolio through the pursuit of Group synergy and innovation while maximizing social value and contributing to the realization of the SDGs.

Shareholder Returns

The Kawasaki Group believes that it can best serve shareholders' interests by continuously investing in the cutting-edge R&D and innovative capital expenditure necessary for future growth while steadily generating profit in excess of capital costs and strong cash flows to increase its enterprise value and share price over the long term.

To this end, while maintaining a basic policy of balancing and strengthening our financial base by increasing shareholders' equity and decreasing interest-bearing debt, raising the share price through R&D and capital expenditure, and returning profits to shareholders via dividends, we have set a benchmark of 30% for the medium- to long-term consolidated payout ratio.

Corporate Governance and Engagement

The Kawasaki Group constantly works to maintain and enhance a robust corporate governance system commensurate with its position as a corporate group with

global businesses. Since appointing our first outside director in 2013, we have increased the number of outside directors to three while seeking to maintain an appropriate balance of management oversight and business execution functions. The total portion of directors and audit & supervisory board members that are outside officers stands at 37.5% (6 out of 16). The outside members provide opinions based on their diverse experience outside the Company, contributing to lively, open discussion at Board of Directors meetings. We furthermore strive to maintain management with a high level of transparency for a wide range of stakeholders through such means as proactive and constructive engagement with shareholders.

“Changing forward”

The Kawasaki Group traces its roots back to 1878, when Shozo Kawasaki established Kawasaki Tsukiji Shipyard. The Group has grown, of course, since then and has utilized diverse, sophisticated technological capabilities to create unique, innovative products and services that address all sorts of social issues.

In recent years, the world has undergone incredible changes, and the speed of change is accelerating. In addition, a wave of innovation is building with the rise of full-scale use of information and communication technology (ICT) and the Internet of Things (IoT) as well as artificial intelligence (AI), which has the potential to significantly alter the way we do business and the content thereof. I believe we ourselves must evolve if we are to respond quickly to the new environment. With this sense of urgency in mind, I am promoting a forward-looking perspective on change within the Group under the banner “Changing forward.” I will personally lead the way in taking on new challenges in the management of the Company and the Group.

As always, we will strive to realize our Group Mission, “Kawasaki, working as one for the good of the planet,” and continue to create value for all stakeholders.