

Advancing Group Vision 2030 and working to quickly create new value to solve social issues.

Yasuhiko Hashimoto

Representative Director, President and Chief Executive Officer

My First Year as President

When I took office as president last year, we were already in the middle of the COVID-19 pandemic, and the Aerospace Systems segment, one of our mainstay business areas, was facing a rapid decline in performance. However, over the course of my career, I have been appointed to lead at many times of dramatic social and economic change, and I approached this, too, as a new and exciting opportunity to blaze the trail forward to the future.

My first job as president was to believe in our future. I felt the importance of this strongly when I made the rounds to greet our customers and business partners after taking office. It was evident to me that many of our customers see Kawasaki as a company with integrity.

In November 2020, the Kawasaki Group established Group Vision 2030. The vision contains the message “Trustworthy Solutions for the Future.” Indeed, we determined our vision for a bigger, brighter future based on our culture of valuing trustworthiness.

I have seen the dedication of our employees as they put customer value first. At the same time, I have also once again felt that, as we tend to focus so much on customers’ immediate needs, we are not as strong as we should be in terms of offering suggestions that go one step further—to solve issues or offer value the customer has not even thought of yet. Looking at Kawasaki from an engineer’s perspective, there is value in all our technologies, and these are important assets for the Company. If we can be more strategic when converting these diverse technologies into customer value, I am confident that Kawasaki will continue to grow going forward.

It has also been a year since the transition to a company with an Audit & Supervisory Committee, and the Board of Directors now discusses important matters even more actively. In fiscal 2020, I met individually with our executive officers and officer candidates, about 150 people in total, recording each meeting and making the videos available to the Audit & Supervisory Committee, Nomination Advisory Committee, and Compensation Advisory Committee. I hope to further enhance the transparency of the processes used to fill important positions so that we can more objectively evaluate candidates.



Generating Synergies in Three Focal Fields to Become a Market Leader

Kawasaki has long prioritized technological synergy. The three focal fields of business under Group Vision 2030, “a safe and secure remotely connected society,” “near-future mobility,” and “energy and environmental solutions,” comprise a new framework for realizing such synergy.

Under “a safe and secure remotely connected society,” we will leverage our technologies to realize better living using remote technologies, eliminate accessibility gaps between those who are skilled at using remote technologies and those who are not, and better protect lives and property from natural disasters. For example, our automated PCR testing business uses robotics to help alleviate personnel shortages and eliminate the risk of contagion for persons administering tests. Having now seen the havoc that a tiny virus can wreak upon society, and given that the next pandemic could strike at any time, we expect to see ongoing demand in this area going forward, even after COVID-19. We are also offering solutions to allow PCR testing equipment to snap into action when needed at airports or other facilities without disrupting the flow of people.

In addition, the field of medicine faces certain issues that can only be resolved with remote technologies. Mediaroid Corporation, our joint venture with Sysmex Corporation, developed *hinotori*, the first robotic assisted surgery system produced in Japan, which I believe will be remembered as having opened the door to remote medicine. Also, our new joint venture with Sony Group Corporation, announced in May 2021, will create a platform to connect people who want to work with businesses seeking labor by enabling the remote operation of robots. By doing so, it will help eliminate dangerous and highly strenuous work. At the same time, it will offer new ways of working, enabling more people to take part in society on their own terms, including people who would like to work but cannot physically go to worksites.

Realizing a safe and secure society will require dealing with natural disasters. To this end, we will bring together the Group’s diverse range of technologies to develop hospital ships and floating power plants. In addition to medical service helicopters, off-road four-wheelers, and stand-by generator sets, we aim to offer new solutions for use in disasters that integrate our unique concept of telemedicine using robots for remote medicine in order to protect lives and property.

Spurred by the COVID-19 pandemic, some of the movement of people for business purposes (such as commuting and business travel) is expected to be replaced permanently by remote operations, but the shift to “new normal” lifestyles is also increasing demand for logistics, such as deliveries to individuals. Under “near-future mobility,” we aim to combine our mobility technologies in such areas as airplanes, robots, motorcycles, and off-road four-wheelers to develop new forms of mobility, like remotely controlled, unmanned helicopters and self-driving delivery robots. By doing so, we will, for example, offer new solutions to the last-mile problem in logistics. Few companies in the world other than Kawasaki have the technologies spanning multiple fields necessary to provide these new mobility solutions. “Near-future mobility” is thus a prime example of how we can create new value through synergies between Group technologies.

The hydrogen business (in the energy and environmental solutions field) is an excellent example of an initiative that spans the borders between the internal companies. We anticipate the growing presence of hydrogen in a wide range of fields, including the creation of a hydrogen supply chain. As such, we established the Hydrogen Strategy Division within the Head Office to coordinate hydrogen-related businesses. Hydrogen businesses will be crucial if Japan is to reach its goal of realizing a carbon-neutral society in 2050, and this is an unparalleled area in which Kawasaki is concentrating strengths from across the Group.

The three focal fields under Group Vision 2030 are all new areas, the very frontier. We have taken the lead in developing hydrogen, in particular, for a decade already, based on our belief that it will be powerful tool for eliminating carbon emissions. I think that this will be a major advantage for Kawasaki. We are, in fact, receiving inquiries about our hydrogen business from around the world. We will now work to set global standards based on the components and operational know-how of our liquefied hydrogen carrier, *SUISO FRONTIER*, and other efforts thus far. Similarly, we will make our technologies for medical robots the global standard. Through such efforts, and while working with a wide range of other players, we will remain a market leader far into the future.

Growth Scenario Leading to 2030

Under Group Vision 2030, we will make strong investments in growth businesses as we pursue ongoing growth. As a result of these efforts, we aim for an operating profit margin of 5% to 8% and pre-tax ROIC that is 3% or more higher than WACC.

In the ship & offshore structure and rolling stock businesses, which have faced challenging circumstances since several years before the COVID-19 pandemic, we are implementing business structure reforms in order to promote growth going forward. By merging the Ship & Offshore Structure Company and Energy System & Plant Engineering Company, we are reinforcing the system engineering business, leveraging synergies with hydrogen-related businesses and the marine propulsion business, with the aim of greatly increasing profitability and boosting sales.

In the rolling stock business, the *R211* subway car project for the New York City Transit Authority, for which we have a large order backlog, has begun. Through a corporate split, we will transition to a framework that allows this business to nimbly and flexibly work with industry companies, thereby bolstering our ability to propose solutions and meet railway demand around the world. Furthermore, the motorcycle business is seeing strong growth in off-road motorcycles and four-wheelers for developed countries. The spin-off of this business will allow us to devolve greater authority and thus more quickly respond to market needs and dealer requests, and we

aim for dramatic growth through aggressive investment. The motorcycle business enjoys great brand recognition around the world and, as our only B-to-C business, will continue to be the vanguard of the Kawasaki brand.

As part of Group Vision 2030, we have laid out the following growth scenario leading to 2030.

- 1) Our mass-production businesses, such as precision machinery, robots, motorcycles, and energy products, will provide revenue for the time being, while the establishment of the automated PCR viral testing business will help speed the recovery of aviation demand.
- 2) Once the Aerospace Systems business recovers, the steady expansion of the aerospace market will generate revenue and cash.
- 3) Further down the line, new businesses, such as hydrogen and medical robots, will become revenue pillars, leading to a stable growth trajectory.

For the period leading to 2030, we have already laid out an overall roadmap delineating areas in which we expect to generate profit and areas that will need support at each stage. In this way, as we advance under Group Vision 2030, we will reinforce profitability and earn social recognition for Kawasaki’s contribution to the realization of a sustainable world.



Initiatives to Achieve Carbon Neutrality

Given that hydrogen is a key Group business, we recognize contributing to the achievement of a carbon-neutral society as a major responsibility of the Group. We must not only promote the elimination of carbon emissions on the part of customers and society through our hydrogen and other businesses, but accelerate initiatives to eliminate emissions in our product manufacturing processes and throughout the value chain. In the Kawasaki Global Environmental Vision

2050, established in 2017, we announced our target of carbon neutrality by 2050, but we hope to reach this target far earlier. Until now, we have worked to reduce CO₂ emissions, save energy, and reduce waste at the individual plant level. To achieve carbon neutrality, however, we must work strategically at the Company-wide level. We are currently studying ways that we might realize plants that emit no CO₂. I look forward to sharing the details soon.

Personnel System Reforms, Including the Elimination of Seniority-Based Elements

The future-oriented path we have laid out for solving issues, including dealing with the low birth rate and aging population, our ideas for a remotely connected society, and energy and environmental solutions, was well received at the Group Vision 2030 progress report meeting we held in June 2021. Our three focal fields of business are all areas in which we aim to solve social issues. To achieve this, employees will need broad perspectives and an ambitious spirit. This is precisely the objective of our new personnel system, which eliminates seniority-based elements and uses a job-based pay system. We are creating ways to give opportunities to employees who are motivated and capable, even if they are young, and to allow older employees who are still up to taking on new challenges to continue to do so.

Under the new personnel system, we aim to increase the portion of highly effective employees by giving due recognition and reward to those who are highly capable and produce results. This requires motivation on the part of employees as well as effort on the part of the Company to provide an environment that will

allow them to excel. The world's top companies are said to be more than 55% highly effective employees. Kawasaki will therefore build mechanisms to provide the conditions that allow highly motivated employees to thrive, aiming to raise our proportion of highly effective employees to over 50%.

Suggestions and contributions toward the growth of Kawasaki as a whole, not just specific internal companies, will be incorporated into the evaluations of executive officers and above. Outstanding suggestions and ambitious targets will be viewed favorably, and even more favorably if they lead to results. The role of division heads will be to keep an eye on social needs, commit to addressing even difficult issues, and encouraging personnel to take on ambitious challenges. By getting as many people as possible to take on more ambitious targets, we seek to bolster the vitality of the Company as a whole.

The new personnel system is a framework for accurately evaluating those who are trying hard, even when they are not successful, and recognizing those who are working with passion. We have instituted more systematic methods to ensure that supervisors carefully observe their subordinates' work. Employees will be evaluated on the results they achieve, but their effort will also be a significant factor.

The personnel system reforms are also aimed at uniting all our employees in the effort to realize Group Vision 2030. The new system places greater weight on abilities, roles, and achievements and enables the more flexible utilization of human resources beyond the bounds of the internal companies. At the same time, we have established the Presidential Project Management Division and will work to quickly achieve results from Company-wide projects, such as the automated PCR viral testing service business and efforts in near-future mobility.



Encouraging a Greater Emphasis on Speed

Since before I took office as president, I have been saying that speed produces value, and I think more employees have come to understand the importance of this principle. I am sure that the experience of the COVID-19 pandemic, though still ongoing, has only reinforced this awareness.

As I see it, there are two types of speed. The first type is about reacting quickly. For example, quickly deciding what we could rapidly do in response to the halt in the movement of people due to COVID-19. This led to the automated PCR viral testing business.

The second type of speed is about quickly grasping

global trends and future trajectories to stay a step ahead. The hydrogen business is a prime example of this. Our ability to quickly respond now that the world is waking up to hydrogen is thanks to our having foreseen the importance of hydrogen more than a decade ago and all the work we have done on related technologies since.

Accomplishing tasks quickly depends on training—even preparing a single document involves knowing the most efficient methods and the right procedures. The key to survival in a business environment of dizzying change is speed, and speed is a skill and a habit that can be built up and honed.

Promoting Dialogue, Disclosure, and Sustainability Management

After taking office as president, I gained an increased awareness of how unforgiving analysts are in their opinions about Kawasaki. I asked myself how we could help them understand us better, and came to the conclusion that dialogue and disclosure are, as always, key. Our work to enhance our quarterly financial results materials in the current fiscal year is part of efforts in this area. We are enhancing disclosure not only of financial information, but also ESG-related data. Through dialogue and disclosure, we aim to further invigorate communication with stakeholders and build stronger relationships of trust.

In formulating Group Vision 2030, we analyzed global social issues, considered the strengths and competitive advantages of our business portfolio, envisioned what we think the Company should look like in 2030, and then worked out a growth scenario to get there. Based on the vision, we recently reviewed our

designated material issues and positioned our three focal fields of business as top priorities for the Group to address over the long term. By promoting efforts in these three fields, we will also contribute to the achievement of the Sustainable Development Goals (SDGs). We have defined our vision for the Group in 2030 using quantitative targets as much as possible, and we will regularly report progress against these targets going forward.

In addition, we are reinforcing ESG initiatives, which we position as part of the foundation supporting the achievement of Group Vision 2030. As a signatory company to the United Nations Global Compact, Kawasaki supports the Compact's 10 principles in the four areas of human rights, labor, environment, and anti-corruption. By practicing them in our business activities, we will promote sustainability for society, the environment, and Kawasaki.

Reaping the Fruits of Diverse New Initiatives in the Coming Year

Over the past year, although we have faced crises, we have also begun many new initiatives. We implemented the new personnel system, laid out a new strategy, and reorganized our businesses. Amid a severe drop in performance due to the COVID-19 pandemic, the entire Company worked steadfastly to secure a profit. Unfortunately, these efforts ultimately fell short, and we recorded a net loss for fiscal 2020. I take my responsibility for this as the head of management very seriously. However, we returned to profitability in the first quarter of fiscal 2021, with operating profit nearly the highest it has been in a decade. By advancing Group

Vision 2030, I am confident that we will accomplish our plan for the fiscal year and continue to grow our businesses around the world.

As evoked by the philosophy espoused by Kawasaki founder Shozo Kawasaki of "contributing to the nation—to society—through expertise," solving social issues through business is in Kawasaki's very DNA. Staying true to this heritage, we will strive to increase our enterprise value and fulfill the roles required of us going forward so that we can provide "Trustworthy Solutions for the Future."