

Risk Management

Management
Approach**Material Issues and Our Approach**

As a Group that operates global business across a wide range of fields, Kawasaki regards the management of serious risks that could impede its business activities as important and conducts integrated risk management.

Focus Activities and Medium-term Targets

Kawasaki's corporate risk management system entails the integrated execution of business segment-level risk management and Group-wide risk management. Based on the results of the business segments' risk monitoring (activities to identify, evaluate and reduce risks and assessments of such activities), every year, we identify major risks that may have a serious impact on operations (Group-level risks), monitor how these risks are being addressed by the Head Office and, from among such risks, identify three to five items that particularly require Group-wide countermeasures (risks requiring Group-wide action). The results of risk reduction activities are then reported to and discussed by top management.

With regard to the risks associated with the execution of individual businesses, the relevant divisions carry out assessments and analyses and sufficiently examine countermeasures in advance in accordance with Kawasaki's Board of Directors Regulations, Management Meeting Regulations, Approval Regulations and other related rules. The Company practices even more thorough risk management for major projects with significant impact on operations in accordance with such company regulations as the Major Project Risk Management Regulations. This includes management at the time of bidding and concluding agreements for such projects as well as regular follow-up by the Head Office, internal companies and business divisions as needed after a project begins.

- **Goal for the MTBP 2019**

- Detect risks globally and manage risks appropriately through avoidance, reduction, and transfer.

Progress, Results and Challenges

- **Goal for Fiscal 2019**

- Set up a globally integrated risk management system to accurately understand material risks that could impact operations and implement rational controls.

- **Fiscal 2019 Results**

- Carried out risk-reduction activities for risks related to product quality, human resources, safety and health, project management and country risk, which are specified as risks requiring Group-wide action

- **Goal for Fiscal 2020**

- Enhance the globally integrated risk management system to accurately understand material risks that could impact operations and implement rational controls.

Risk Management Policy

In accordance with the Companies Act, the Kawasaki Board of Directors has adopted a basic policy for internal control systems. The policy makes it clear that risk management should be addressed in accordance with the Risk Management Regulations by seeking to anticipate and avoid loss caused by risks, and to minimize risks through appropriate preparation and operation of the risk management system.

In addition, to achieve the sustained improvement of profitability and enterprise value, the Kawasaki Group Mission Statement identifies risk management as a guiding theme of the Kawasaki Group Management Principles.

Based on the aforementioned, the Risk Management Regulations lay down the following basic policy for the Kawasaki Group in the field of risk management.

- **Basic Policy**

1. Aiming to realize its Group Mission, "Kawasaki, working as one for the good of the planet," Kawasaki and the Kawasaki Group will facilitate global and sustained business execution by continuously implementing risk management.
2. Each individual corporate officer and employee will engage actively with risk management and will work to maintain the risk management system and improve the response capabilities of risk management.
3. In the event that a risk materializes, Kawasaki and the Kawasaki Group will implement a response focused on the following perspectives, working to minimize loss to customers, employees, local communities and other stakeholders and to prevent recurrence.
 - (1) Protecting the lives and property of employees and their families (including non-employees working on site and visitors)

- (2) Performing duties essential to the fulfillment of our social responsibilities (requests from customers, suppliers and government offices, and maintenance and restoration of critical systems, such as public infrastructure and civil defense)
- (3) Normalizing the business operations of the Kawasaki Group
- (4) Fulfilling responsibilities and contributing to local communities

Structure

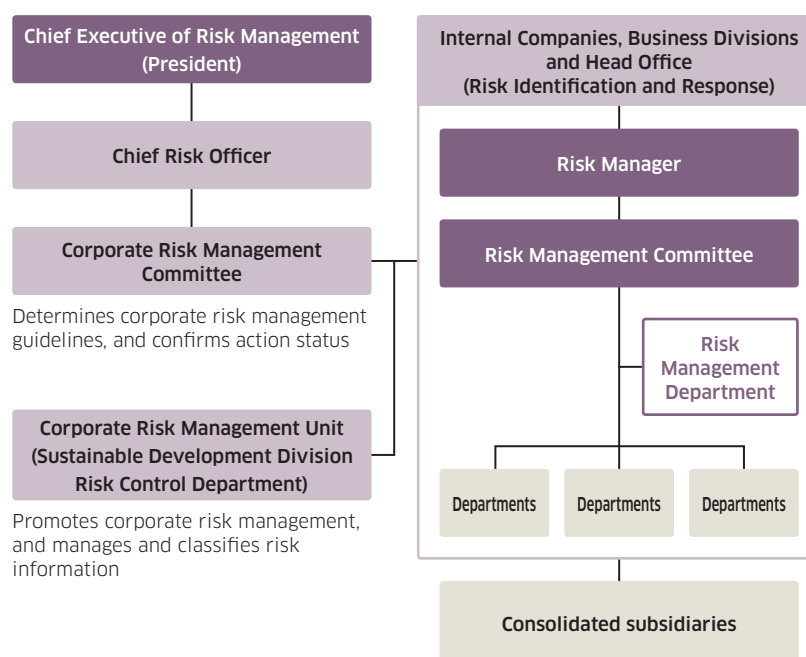
The Kawasaki Group has established a Corporate Risk Management System to ensure a uniform level of risk management across the Group. Through this system, we identify and respond to major risks with the potential for serious impact on operations and work to enhance risk management as outlined in the Kawasaki Group Management Principles.

Through the Corporate Risk Management System, we carry out continuous risk management initiatives. Specifically, in this system, the president is designated the Chief Executive of Risk Management, and an executive officer is designated the Chief Risk Officer, responsible for the overall control of risk management operations. Under their leadership, a Corporate Risk Management Committee, charged with deliberating important matters related to risk management and monitoring implementation, works to reinforce the risk management system.

In addition, a secretariat within the Risk Control Department of the Head Office Sustainable Development Division promotes and supports Group-wide risk management based on cooperation between the Head Office divisions and ensures that each internal company and business division operates a similar system, for which the general managers of business divisions are responsible. These measures are designed to reinforce Group-wide risk management.

We have also created a system that incorporates domestic Group companies and implement risk management activities at key overseas consolidated subsidiaries (model companies).

Corporate Risk Management System



- **Responsible Officers**
 Chief Executive of Risk Management: Yasuhiko Hashimoto, Representative Director, President and Chief Executive Officer
 Chief Risk Officer: Atsuko Kakiyama, Executive Officer
- **Responsible Executive Organ and/or Committee**
 Corporate Risk Management Committee
- **Independence of Risk Management Functions and the Involvement of the Board of Directors**
 The Corporate Risk Management Committee comprises Directors (excluding Outside Directors), internal company presidents, the executive officer in charge of risk management, Head Office division heads and other persons designated by the president. Also, the full-time Audit & Supervisory Committee Members participate in the committee as part of their auditing of the execution of business.

Risk Management

Performance Data

Risk Assessment**Risks Covered and Risk Assessment Methods**

The Kawasaki Group defines risks as “factors or phenomena that hinder the execution of business operations or the achievement of organizational goals” and works to manage all risks classified as either external risks or internal risks (with the latter further classified as strategic risk or business risk), while giving due consideration to the potential beneficial effects associated with strategic and other risks.

The Company’s risk management process consists of a version of the COSO framework customized for the Company’s environment and circumstances.

- **Risk Factors Currently Covered in the Scope of Risk Management**



Within Risk Management: List of Risks Covered

<https://global.kawasaki.com/en/corp/sustainability/mgmt/management.html>

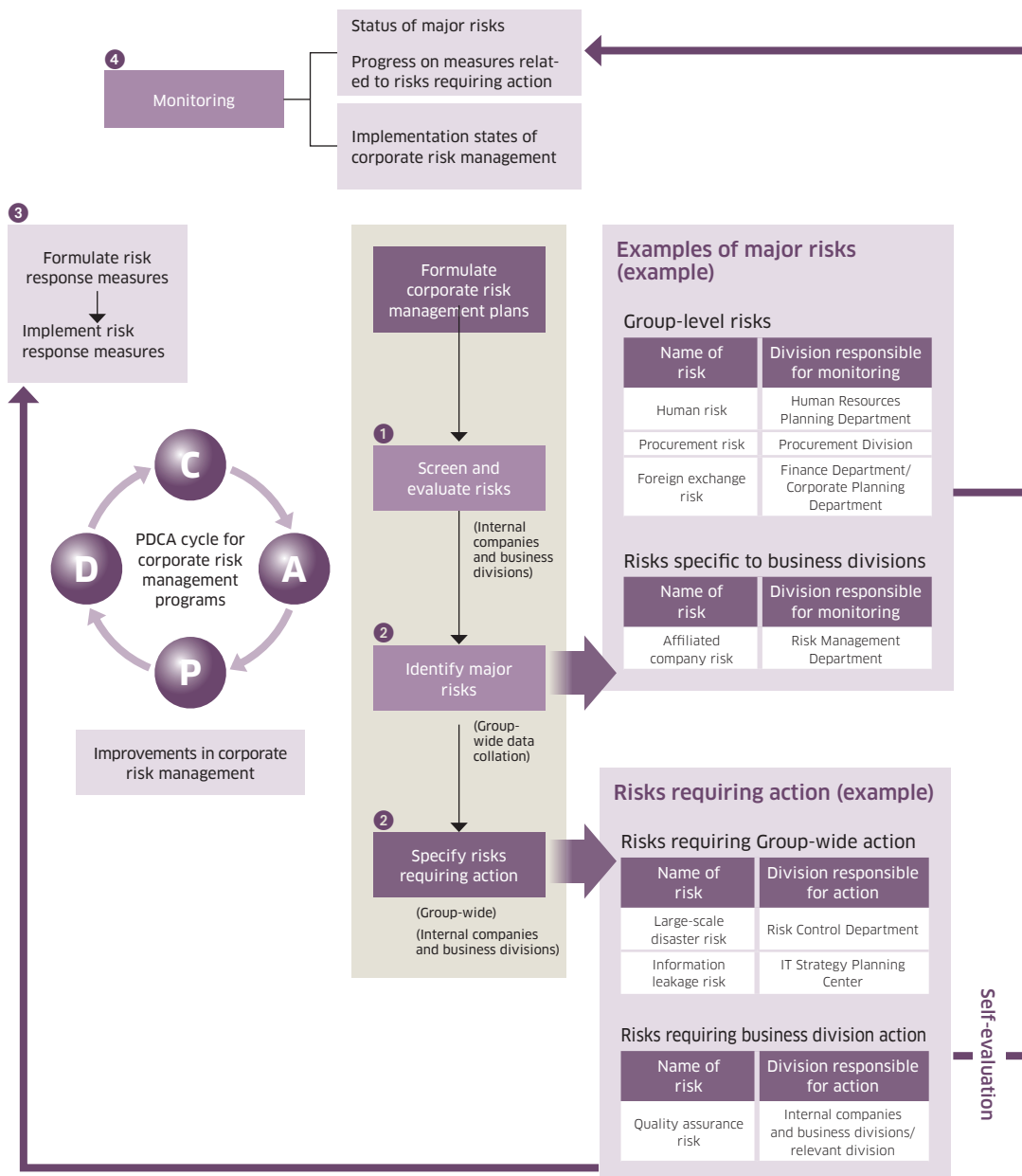
Responding to Significant Risks

Under the Corporate Risk Management System, major risks that could have a potentially serious impact on Group-wide operations are identified on an annual basis using uniform metrics and managed using methods that are deemed efficient and optimal from a Group-wide perspective.

In concrete terms, this means that management of major risks at the Group-wide level is carried out by applying the following Plan-Do-Check-Act (PDCA) cycle in Group-wide risk management:

1. Screening and evaluation of risks
2. Identification of major risks and specification of risks requiring action
3. Formulation and implementation of risk response measures
4. Monitoring

Corporate Risk Management Programs



1 Screening and Evaluation of Risks

Risk reviews are undertaken every fiscal year by each division and major risks are then pinpointed by the risk management committees of the internal companies and business divisions.

2 Identification of Major Risks and Specification of Risks Requiring Action

Identification of Major Risks

Major risks identified by the internal companies and business divisions are compiled and examined by the Corporate Risk Management Committee, which identifies around 13 categories of risk that could significantly affect Group operations (Group-level risks).

Risk factors other than Group-level risks are categorized as risks specific to the internal company or business division and to be monitored and addressed by said company or division. For Group-level risks, a division at the Head Office responsible for monitoring risk is assigned to regularly monitor risks.

Specification of Risks Requiring Action

Among the Group-level risks, those deemed to be inadequately addressed and urgently requiring Group-wide action are specified as risks requiring Group-wide action. At the same time, each internal company and business division specifies risk factors that require a response at the company or division level (risks requiring business segment action).

3 Formulation and Implementation of Risk Response Measures

For risks requiring Group-wide action, a division at the Head Office responsible for risk response formulates response measures and, following discussion and approval by the Corporate Risk Management Committee, implements them. Similarly, for risks requiring business segment action, the internal companies and business divisions formulate and execute risk response measures.

4 Monitoring

Monitoring Major Risks

At the end of each fiscal year, the risk management department of each internal company and business division undertakes a review of major risks for the following fiscal year. This process includes monitoring each risk factors with regard to significance, level of action required and urgency. Of note, with regard to Group-level risks, the division at the Head Office responsible for risk monitoring checks at the beginning of each fiscal year to see if the measures and structures introduced to reduce relevant risks affecting internal company and business divisions are functioning effectively, from a Group-wide perspective, based on the monitoring results compiled by each business segment.

Monitoring of Risks Requiring Action

Risks requiring action—both Group-level risks and business segment risks—are subject to a twice yearly self-evaluation by the division responsible for executing relevant measures, at the end of the first half and at the end of the second half of the fiscal year. Results of these assessments are tracked by the Risk Management Office and risk management department of each internal company and business division.

Reporting Monitoring Results to Risk Management Committees

The results of the monitoring of major risks and risks requiring action carried out by the internal companies and business divisions are reported to their respective risk management committees. The results of the monitoring of Group-level risks and risks requiring Group-wide action are reported to the Corporate Risk Management Committee.

Group-level Risks

In fiscal 2020, data on major risks identified by the internal companies and business divisions were collated, and the Corporate Risk Management Committee then identified 13 categories of major risks that could have a serious impact on operations. These risks are subject to monitoring in March of every year by the Head Office division responsible for monitoring. The risk categories are reviewed every year.

Risks Requiring Group-wide Action

In fiscal 2020, within Group-level risks, we specified three items as risks requiring Group-wide action (large-scale disaster risk, cyberattack risk, and environment and climate change risk). To deal with these risks, each division at the Head Office responsible for action is designated to take the main role in formulating and implementing response measures in their area of responsibility.

 **Within Risk Management: Risks Identified as Group-Level Risk for Fiscal 2020**
Within Risk Management: Risks Specified as Risk Requiring Group-wide Action for Fiscal 2020
<https://global.kawasaki.com/en/corp/sustainability/mgmt/management.html>

Long-term Risks

Long-term Risk 1

Large-scale disaster risks: Risks from large-scale disasters, including earthquakes, floods and pandemics, that can cause long-term impediments to corporate activities.

● Potential Impact on Operations

Our business operations can be severely affected by natural disasters, which can threaten the safety of our employees or destroy our works and facilities, as well as pandemics, which can have a long-term impact on business activities. These risks can cause harm to our human resources, facilities, offices, works and facilities, and data, as well as delays in the provision of products and services, posing a serious threat to business continuity. This could lead to the inability to provide products necessary

to the maintenance and operation of public infrastructure, such as airplanes and rolling stock, causing a loss of social trust, or to dramatic declines in our performance and share prices. Ultimately, we may be rendered unable to fulfill our social responsibilities.

- **Risk Mitigation Measures**

In preparation for crisis events, we have improved the crisis management system and laterally integrated the system in the overall Group structure. The president is the Chief Crisis Management Officer. The heads of operating sites or organizational divisions function as Crisis Management Officers who oversee the setting up of their crisis management offices. In the event of an accident or natural disaster, all necessary information is sent to where it is needed through predefined reporting routes that have been set up for use in times of emergency. These routes are made known clearly to employees and officers through the Crisis Management Organization, which in normal circumstances underpins the Group's crisis management structure.

Long-term Risk 2

Information Leakage Risks

- **Potential Impact on Operations**

Information safety-related risks, such as system problems, blocking by or attacks from external perpetrators, and accidents caused by intentional or negligent insider actions or omissions can have a direct or indirect impact on our business activities and result in situations such as those described below.

1. The leak of customer information or important internal information due to the infection of systems with malware
 2. The theft and illicit use of technical information or illicit interference in the Group's finances or business transactions due to unauthorized access from outside
 3. The improper removal or abuse of information due to intentional or negligent actions
- If such circumstances arise and escalate, they may lead to a loss of confidence, damage liabilities, a loss of business opportunities or damage to the Group's technological competitiveness.

- **Risk Mitigation Measures**

We have established a risk management system to handle information security management for the Group. We promote a management cycle (with an emphasis on rules, training, and technology measures) to address rapidly changing information security risks, and we systematically implement, maintain and enhance information security measures.

Risk Culture

Risk Management Training and Awareness Building

Kawasaki explains the importance of risk management in its grade-specific training programs for employees. In addition, our commitment to improving our enterprise value based on the guiding principles of "selective focusing of resources," "emphasis on quality over quantity," and "risk management" is clearly stated in the Kawasaki Group Management Principles, part of the Kawasaki Group Mission Statement. We also post the Mission Statement at work areas and distribute Mission Statement cards to employees to build awareness of these principles.

HR Evaluation and Financial Incentives

The practicing of Group Management Principles, including risk management, is examined as part of the performance evaluation of managerial staff.

Checking and Reporting of Potential Risks Caused by Employees

We have established and operate the Compliance Reporting and Consultation System for the domestic Kawasaki Group to identify any potential risks that may exist at the employee level.

Internal Feedback Process on Potential Risks

The incidents reported under the compliance reporting and consultation system are regularly compiled and reported to management. Risk assessment is performed based on these reports.

Crisis Management

The Kawasaki Group's Risk Management Regulations contain crisis management provisions set out in readiness for the emergence of a risk. These regulations set forth behavioral guidelines and response systems that serve to protect lives and preserve assets, minimize damage and loss, and expedite the resumption of business activities in the event of unplanned interruption.

Basic Policy

Paragraph 3 of the basic policy of the Risk Management Regulations lays out the Kawasaki Group's policy for responding to crises.

In addition to, of course, putting human lives first, the policy also clearly lays out the Company's priority of fulfilling its social responsibility as a company involved in infrastructure-related industries. Specifically, in the event of a major earthquake, we will help operate equipment used for disaster relief (such as aircraft and ships), work to quickly restore and maintain the operation of infrastructure (such as rolling stock, power generation facilities and waste processing facilities) and support our customers and suppliers.

For details on the basic policy, please refer to Risk Management Policy  (page 34).

● **Crisis Management Structure (at Times of Crisis and Non-Crisis)**

In readiness for risks, including large-scale disasters, we maintain a Group-wide horizontally integrated Crisis Management Organization at all times.

The president is the Group's Chief Crisis Management Officer, while the head of each operating site or organizational unit acts as its crisis management officer. Crisis management offices are set up under the crisis management officers to assist them and are charged with the practical work of putting in place and maintaining a first response system for mobilization in the event of an emergency. Meanwhile, the heads of the various Head Office divisions and other staff members whom they designate form a dedicated support team for the crisis management offices.

● **In Times of Disaster or Accident**

The disaster management system sets out in advance emergency reporting routes and organizations charged with responding when emergencies occur. Complementary to the emergency reporting routes, we have set up contact networks covering each internal company, business division and operating site to ensure quick internal reporting and information promulgation.

In Times of Disaster or Accident

Type of Command Center	Key Role	Location
Corporate Command Center	Set up in the event of a crisis that requires a Group-wide response; determines measures to be implemented throughout the Group and basic policy on action plans	Office that has not sustained any damage In principle, either the Kobe Head Office or the Tokyo Head Office
Integrated Plant Command Center	Determines issues that affect the works as a whole; coordinates with internal companies operating in the same works	Works that belong to several internal companies
Company Command Center	Provides an internal company support in areas devastated by disaster; determines response to affected suppliers and customers	Appropriate location at each internal company
Local Command Center	Determines measures, according to business segment and business office	Office that sustained damage

Emergency Communication System

The Kawasaki Group has introduced an emergency communication system for the entire domestic Group to rapidly confirm the safety of employees when a disaster occurs. Tests are conducted every year to ensure that employees are familiar with the system and know how to use it.

Focus Activities and Medium-term Targets

● **Goal for the MTBP 2019**

Create appropriate Company-wide crisis management procedures and maintain a crisis management system to facilitate rapid response to and recovery from emergencies that could affect management.

Progress, Results and Challenges

● Goal for Fiscal 2019

- Drill and revise response procedures and systems based on case studies and quickly handle emergencies and restore business activities through the Countermeasures Command Center.

● Fiscal 2019 Results

- Conducted drills according to business continuity plans (BCPs) in preparation for major earthquakes at major business sites
- In response to the COVID-19 pandemic, provided the business segments with response policy and communicated concrete guidelines and other information to ensure thorough awareness of infection prevention measures

● Goal for Fiscal 2020

- Drill and revise response procedures and systems based on case studies and quickly handle emergencies and restore business activities through the Countermeasures Command Center.

Business Continuity Plans

A business continuity plan (BCP) is itself a management strategy. In addition to typical measures related to response immediately after a disaster, such as setting up disaster-prevention supplies and running evacuation drills, a BCP requires consideration of measures to maintain business with minimal interruption and fulfill the corporate mission.

Based on the basic policy of the Risk Management Regulations, the Kawasaki Group has formulated BCPs for major earthquakes, including earthquakes directly striking Tokyo or the Nankai Trough, and pandemics, such as the outbreak of a new strain of influenza.

● Business Continuity Plan Review

The lessons learned in the Great Hanshin Earthquake, which hit the Kobe area in January 1995, formed the basis of the Group's disaster-prevention measures. In light of the Great East Japan Earthquake of March 2011, the Group significantly revised its BCP for large-scale earthquakes. In response to the COVID-19 pandemic in 2020, we have revised our pandemic response BCP to include, for example, remote working and other new workstyles. Furthermore, we regularly implement drills and use the results to revise BCPs on an ongoing basis.

1. Basic Policy

Based on basic policy, determine course of action to be taken by the Kawasaki Group in the event of natural disasters.

2. Head Office and Internal Company Priorities

With the basic policy in mind, designate functions to be maintained at the Head Office, internal companies and business divisions in the event of disaster.

We have identified priorities for the Head Office, internal companies and business divisions in line with our basic policy and have designated certain functions that must be maintained even in the event of disaster with due consideration given to the different business content of each internal company and business divisions and the features inherent in products and services.

3. Response in Time of Disaster and Preparation during Normal Time

Consider responses appropriate in the wake of disaster and prepare for the eventuality of such events during normal times.

Many disaster scenarios indicate the possibility of a massive earthquake centered directly under Tokyo as well as a cascadelike triple megaquake event along the Tokai-Tonankai-Nankai segment of the Pacific Ocean coastline. Bearing these potential events in mind, we considered the responses necessary should such catastrophes occur and activities that could be undertaken during normal times to prepare for such eventualities.

We formulated a plan that designated specific divisions with a specific task, and outlined preparations necessary to achieve the desired objectives. Preparations are moving ahead in line with this plan.

4. Drills and Revisions

Drills are undertaken regularly and content is revised based on results.

We are constantly running BCP drills and revising BCP content based on how the drills were performed.

Information Security

Information Security Management Policy

The Kawasaki Group provides products to a diverse range of customers, from general consumers and the public sector to the Self-Defense Forces, and constantly works towards maintaining and improving its information security to protect information relating to our customers and suppliers as well as information on their businesses to suit the requirements of each customer sector.

The necessary information security management practices have been established as corporate regulations to ensure compliance with prevailing domestic and international laws and in respect of contractual promises to clients and to protect our businesses from external risks. These corporate regulations comprise Rules for Information Management, as the underlying policy, along with various standards for establishing administrative management guidelines, including the development, implementation and use of information systems.

Focus Activities and Medium-term Targets

● **Goal for the MTBP 2019**

- Have in place a digital information platform that can handle cyber security issues.
- Build a usage platform that balances the utility of evolving cloud services with information security.

Progress, Results and Challenges

● **Goal for Fiscal 2019**

- Implement information security and cyber security measures at overseas sites.
- Conduct periodic educational activities at sites in Japan.
- Provide information security training to 9,200 individuals.

● **Fiscal 2019 Results**

- Overseas sites
 - (1) Presented explanations of China's Cyber Security Law (CS Law) at IT liaison meetings for sites in China and made preparations for assessments at each site
 - (2) Prepared for the provision of asset management support (introduced asset management tools) as a first step toward supporting individual sites
 - (3) Established a new Security Center within KHI (Dalian) Computer Technology Co., Ltd. (KDC) on April 1, 2020, to provide security support to sites in China
 - (4) Began discussions with Kawasaki Motors Corp., USA (KMC), a potential key site for establishing a support center in North America
- Could not conduct periodic educational activities at sites in Japan, but will continue to conduct such essential activities where possible
- Provided information security training to 9,866 individuals

● **Goals for Fiscal 2020**

- Adopt Tanium endpoint security systems throughout the domestic Group.
- Conduct assessments aimed at responding to China's CS Law at Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd. (KPM Shanghai) and Kawasaki Robotics (Tianjin) Co., Ltd. (KRCT).
- Begin discussions with Kawasaki Motors Europe N.V. (KME), a potential key site for establishing a support center in Europe, and continue discussions with KMC regarding the establishment of a support center in North America.
- Introduce asset management tools at sites in China (beginning with KDC, KPM Shanghai and KRCT) and commence asset management support through KDC.
- Provide information security training to 10,000 individuals.

● **Progress**

	(FY)	2015	2016	2017	2018	2019
Information security training participants		–	–	–	8,394	9,866

Structure

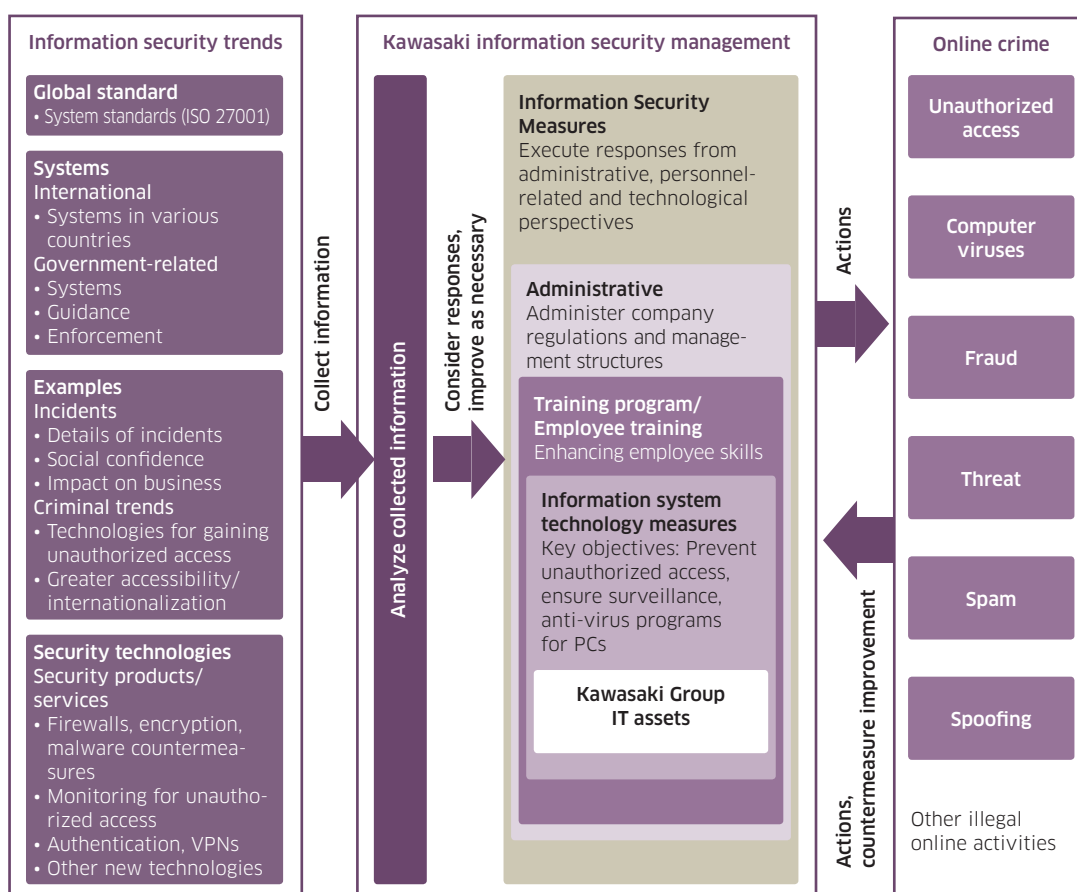
The Corporate Technology Division's IT Strategy Planning Center serves as the Group's coordinating department for information security. The center promotes the implementation of security measures throughout the Group, including at the Head Office, and provides guidance regarding information system operation- and management-related security measures implemented by the internal companies and business divisions. Each internal company and business division also has an information system department that implements security measures based on Company policy.

We have established a dedicated framework under the corporate risk management structure to handle information security management for the Group. We adhere to a management cycle with an emphasis on rules, training and technology measures to address constantly changing information security risks while systematically implementing, maintaining and enhancing information security measures.

In addition, the Group's data center has acquired ISO 27001 certification, an international standard for information security management, and strives to uphold a high level of operational reliability.

We have implemented systems to prevent unauthorized access to data from outside as well as information leaks from inside and to stop the spread of computer viruses as well as systems to check for illicit activity.

Information Security Management System



Information Security Education and Training

We conduct education and training specifically focused on information security for Kawasaki Group employees.

This instruction covers laws and social customs as well as corporate rules and examples of incidents, and course content is tailored by position, with content for newly hired employees, general employees and managerial staff. Training uses simulations, conducted on a regular basis, that help employees learn how to avoid damaging situations, such as cyberattacks and online crime, which can occur in the course of daily business operations.

Information Security Violations and Actions Taken

Over the most recent five years, there have been no cases of corporate misconduct that were subject to administrative disciplinary action or sanction.

Personal Information Protection

Kawasaki abides by its Privacy Policy, a basic policy for protecting personal information. This policy is publicly disclosed.

Further, we control personal information and anonymously processed information by such means as appointing a personal information administrator, establishing company regulations titled Personal Information Protection Rules and issuing the *Personal Information Protection Manual*, which explains the rules clearly for employees. In 2017, in response to the revision of the Act on the Protection of Personal Information of Japan, we revised related company regulations, the Privacy Policy and the Personal Information Protection Manual, and implemented internal training and explanatory meetings for affiliates several times. Furthermore, in 2020 we established the Kawasaki Group Policy on the Protection of Personal Information, laying out Group-wide rules for the proper handling of personal information.

For the control of personal information, such measures are taken as constructing the security control systems for the personal information possessed by each division and preparing and regularly updating the personal data handling ledger in which the handling status of such personal information can be checked.

With regard to personal information in the Company's possession, we have put in place a structure that ensures a prompt response to requests from individuals related to their own personal information, such as requests for disclosure or discontinuance of utilization.

Response to the General Data Protection Regulation

Kawasaki has established internal regulations regarding compliance with the European Union's General Data Protection Regulation (GDPR), laying out rules for the proper handling of personal information covered by the GDPR.



Privacy Policy

https://global.kawasaki.com/en/privacy_policy/index.html

Kawasaki Group Policy on the Protection of Personal Information

https://global.kawasaki.com/en/corp/sustainability/procurement/pdf/personal_information.pdf