

Realizing Highly Effective Governance and Swifter Management

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Looking Back on Fiscal 2020

What has changed in the year since President Hashimoto took office?

Kanehana When President Hashimoto took office, the principal expectation I had was for change. With the world changing in dizzying ways due to the COVID-19 pandemic, speed is of the essence. Until now, most of Kawasaki's former presidents have come up through businesses in which products

are made to order and the time from planning to execution is measured in years. President Hashimoto, however, came up through the industrial robot business—a mass-production business—so, above all, I expected that he would approach the job with a greater sense of speed. In the year since he took

office, he has fully lived up to this expectation. It is evident that decisions and the rollout of new measures, such as the launches of the Presidential Project Management Division and the PCR testing business, have gotten faster.

The Effectiveness of the Board of Directors

Please tell us about the functioning of the Board of Directors and challenges in this area since the transition to a company with an Audit & Supervisory Committee.

Kanehana One of the main objectives of changing our structure was to shift the role of the Board of Directors from management to oversight. This past year has been one of trial and error as we advanced efforts in this area. Upon the change in structure, we also changed the composition of the Board of Directors, increasing the proportion of Outside Directors. Discussions at Board of Directors meetings are very active, so much so that they often do not finish on time. Going forward, I hope to further improve the selection of agenda items and the efficiency of Board proceedings to ensure that we have the time needed for in-depth discussions of major management policy, such as sustainability issues, human resource strategy, and corporate transformation.

Tsujimura In the year since I took office as Outside Director, I've been surprised by how actively the Directors ask questions and offer opinions in Board of Directors meetings. I have also appreciated the quality and

breadth of the prior explanations of Board agenda items provided to Outside Directors.

Kohdera I've worked with many companies as an attorney, but when I came to Kawasaki as an Audit & Supervisory Board Member four years ago, I was struck by the open atmosphere of Kawasaki's Board of Directors meetings, which makes it easy for participants to voice their opinions. Not only that, the opinions of outside officers are taken seriously, and when they offer better alternatives, the Board responds flexibly. With the shift to a company with an Audit & Supervisory Committee, the legal framework is different, as is my own mindset as a director. The company with an Audit & Supervisory Committee structure is, legally speaking, intended to strengthen management's oversight functions, so I feel that, as a director, it is important for me to be more incisive and probing in my Board participation than before.

Saito At the same time as the transition to a company with an Audit &

Supervisory Committee, on the executive side, the internal company presidents were taken off the Board of Directors, bringing the number of internal Directors very close to the number of Outside Directors. I have been an Outside Director for only two years, but I think that Kawasaki's internal and Outside Directors work together effectively as a team. Although their positions differ, focusing respectively on execution and oversight, I think that we are all aligned in our sense of urgency regarding corporate performance and the makeup of the Company as well as in our determination to solve problems. Previously, Kawasaki's internal companies each had an air of being their own, individual entity. Now, while keeping the strengths that make each of them unique, they are more united, as one Kawasaki. There are still hurdles to overcome, but Kawasaki has clearly defined its path forward, so the key will be to continue effectively moving in that direction.

The Board and Directors and the Roles of Its Members

Given your respective areas of expertise, what do you see as your roles as Outside Directors?

Tsujimura I have a lot of experience in B to C business product and technological development and have been involved in launching health food businesses, so (although they may be in different industries) I hope to help

Kawasaki with establishing new businesses. I think I can support Kawasaki by applying the market-oriented thinking I've developed in B to C businesses and with strengthening branding. In addition, for a company like Kawasaki,

whose growth is based on technology, intellectual property is extremely important, and I strive to contribute to efforts to reinforce this area.

Kohdera My area of expertise is law, so I view Kawasaki through that lens.

I am always saying that Kawasaki should further strengthen the strategic elements of its legal operations. As a manufacturer, if Kawasaki's legal strategy is weak, the Company risks being caught up in unnecessary disputes. Kawasaki has taken this point into consideration and is now advancing

uniform Company-wide measures, so I hope I can help with such efforts to create systems that function even better.

Saito The role of an Outside Director is to leverage one's own expertise and to support the decisions of top management by considering how, based on

such expertise, the company can achieve total optimization. I have a great deal of experience in management in and outside Japan, including as a CFO, so I try to provide a perspective that differs from that within Kawasaki in areas related to that experience.

Kawasaki's Businesses

Tell us your thoughts on Group Vision 2030.



Tsujimura A key part of Group Vision 2030 is the idea of building new teams that combine the distinct strengths of the internal companies. I think this is an excellent vision for the Group and provides inspiration for the future even amid the downturn in performance caused by the COVID-19 pandemic. Achieving it will require the internal companies to change their mentalities. To that end, Kawasaki has launched projects under the direct control of the president. These have had a tremendous impact. Our role as members of top management is to guide new businesses toward success, however small their beginnings. Also, I think it will be

important for new business ideas to come not only from President Hashimoto, but also from the people at the front lines of existing businesses.

Kohdera As Mr. Tsujimura said, I think that what Kawasaki needs now is cross-divisional development in technological and other areas that transcends the boundaries of the internal companies. The ideas in Group Vision 2030 are very good, but 2030 will be here before we know it. It will be crucial to make sure that Kawasaki does not content itself with simply having drawn up the vision, but rather takes action, with an emphasis on speed, to make it a reality.

Kanehana In terms of ideas from the front lines, we are implementing a project called the Business Idea Challenge. The spark for this arose from ideas that junior employees were posting in various communities within SKIP, our internal SNS. The project collects such ideas to launch new businesses within the Company. It has received well over a hundred submissions, from which we recently selected three outstanding ideas. The top pick was for *noslisu* electric three-wheelers, as featured in Group Vision 2030. We hope to expand such activities, growing them from initiatives within the infrastructure of existing businesses to freestanding businesses of their own.

Saito Kawasaki both encourages bottom-up initiatives like this and selects businesses in a top-down manner. The important thing is to foster the kind of ambitious spirit needed to propose and try out ideas without fear of failure. In addition, the people working in cross-business projects under the direct control of the president are now discovering various initiatives at other internal companies—discoveries that I think will create tremendous future opportunities for Kawasaki. I think we can expect great things from this.

Do you think that Kawasaki's DX will provide a competitive advantage?

Kanehana Digital transformation (DX) involves a number of stages, and we are still in the first as we digitize our operations. We have huge volumes of internal data. For example, gas turbines for electric power generation are run using dozens of sensors, all of which generate data that we manage in a centralized manner. Right now, however, this data is used only to

respond to technical problems. With better utilization, we could potentially take such businesses further. For example, we could purchase electricity generated by such equipment when customers aren't using it for sale back to the market. In such ways, we are accelerating initiatives aimed at creating new business models that leverage digital technologies.

Tsujimura DX must be implemented with the utmost urgency because it can contribute to profit by enhancing operational efficiency. Eventually, the use of big data through IT and AI will lead to the creation of new businesses. Kawasaki uses excellent digital technologies in motorcycle development. Proactively providing such technologies to other businesses and mutually

leveraging data will, I think, generate new businesses. The fact that Kawasaki handles such a tremendous amount of data means that it already has a tremendous amount of raw material to work with, so I have great expectations for DX.

Kohdera The integration of the internal companies and other internal units is very important, but I think that, whether for Group Vision 2030 or DX, Kawasaki can achieve its goals faster by working more with outside partners. Competing in global markets means that Kawasaki is up against not only the rest of Japan, but the world. Given that, I think that to reach its major goals going forward, Kawasaki should advance collaboration, such as cooperation between Japanese companies. Kawasaki does relatively little M&A, so this will require a proactive and deliberate approach.



Saito Kawasaki's internal companies have each built their own information platforms, and integrating these has been very challenging. Although certain difficulties may be inevitable due to Kawasaki's conglomerate nature, right now, standardizing the base upon which such systems are built is crucial. Standardization is the foundation of DX, and processes that are unstandardized cannot be digitized. At the same

time, we must think about ways to use AI in grander initiatives. Until now, Kawasaki has been a bit behind in DX, but if the Company can effectively implement initiatives in AI and related areas, it could quickly turn the tables. I think that Kawasaki's aggressive investment to take advantage of this opportunity is highly laudable. Furthermore, I hope to see Kawasaki steadily build global networks.

Has the vision for Kawasaki's future changed in light of the TCFD recommendations or the Japanese government's commitment to achieving carbon neutrality in 2050?

Kanehana Addressing climate change involves both offensive and defensive strategies. The offensive side includes selling products aimed at achieving low or zero carbon emissions, such as those using hydrogen. Defense entails reducing CO₂ emissions throughout the value chain; we are already approaching a time when it will be difficult to sell products if such efforts are neglected. Developing both defensive and offensive measures will be an extremely important topic for us to discuss within the Board of Directors.

Saito Kawasaki has always manufactured and sold products that emit CO₂. In terms of offering products that help reduce CO₂ emissions, I think that the

development of hydrogen-powered turbines and reciprocating engines is very promising. I doubt that, going forward, electric motors will be adopted for all forms of propulsion, so hydrogen fuel will be essential. What's more, I think that only Kawasaki can develop the airplanes, ships, plants, and other products that will use new hydrogen technologies. It will be important to take the lead in manufacturing in the hydrogen-powered market in order to win out over global competition, and for this, Kawasaki will need to move fast.

Kohdera With TCFD, the carbon neutral target, and other systems as well, international frameworks have first developed overseas, and Japanese

companies have then had to adjust to them in order to do business. I think that Japanese companies need to take part in the formulation of such systems, with a more proactive mindset of creating systems and standards and driving change around the world themselves. Kawasaki is just one company, so there are areas in which there is no alternative to a more passive approach, working within bounds set by others. However, looking around the world, I think there is a clear pattern of companies that have been highly effective in creating systems and de-facto standards, resulting in great profits.

Tsujimura Kawasaki is at the leading edge in hydrogen and has a tremendous advantage, so I think that, no matter what, Kawasaki needs to be creating the international standards. For this, Kawasaki may also need to further strengthen cooperation with government agencies. As Japan and the world work toward carbon neutrality, companies with outstanding technologies will gain a greater edge. This will take time, but I think Kawasaki must continue to patiently invest in such areas.



Transforming Mindsets

Kawasaki has adopted a new personnel system. Please tell us about its uptake internally and any changes in mindsets or behavior you have seen in employees.



Kanehana Transforming employee mindsets requires ongoing work. Shortly after I became president, we launched K-Win Activities to promote innovation in our organizational structures, mindsets, and work processes, and President Hashimoto has carried on this charge. Changing mindsets requires the combination of K-Win Activities, the Business Idea Challenge, projects under the direct control of the president, changes to the personnel system, and businesses that go beyond the bounds of existing systems, activities, and organizations. I think that such efforts are gradually beginning to yield results, and I will be interested to see how the results of our annual employee engagement survey change going forward.

Tsujimura It was reported in the press that Kawasaki abolished the traditional seniority-based system and shifted to a merit-based system, but I think Kawasaki should take care to ensure that its personnel system is correctly understood. The objectives of the new system are to quantitatively

understand employee performance and recognize such performance fairly. We also sought to build mechanisms to help employees sustain a spirit of ambition over the long term. I think that Kawasaki must begin by carefully communicating these purposes of the system to employees. The employee engagement survey is also important. If the survey results are unfavorable, Kawasaki must assiduously identify the root of the problem and patiently implement improvements, just as with quality control issues. If the new personnel system is operated poorly in the first year or two, I think employee demotivation could become a serious risk. I hope to provide oversight to help ensure that such problems do not arise, because the foundation of a company is its people.

Kohdera My first impression of the new personnel system was that it was extremely well designed, but also very complex. The new system will be good for employees who, until now, were not being adequately recognized for their hard work and motivation, but I

think that the portion of employees who struggle to adapt to the new system will probably be greater. Keeping an eye on and addressing such dark spots will be important.

Saito Under the new personnel system, Kawasaki has created a new indicator, the designation of highly effective employee, based on the engagement survey. Increasing the number of highly effective employees is important, but if it leads to a kind of stereotyping of employees as either highly effective or not, I think it will have a negative effect. If the survey finds few highly effective employees, that reflects a shortcoming on the part of the Company and management, something for human resources divisions to solve, rather than a fault in employees. The mechanisms of the new system can be a double-edged sword, so Kawasaki's human resources divisions and management will need to work hard to enhance their knowledge and abilities as needed. Setting the course for the system over the next two years or so will be extremely important.

Kanehana We decided to have Vice-President Yamamoto serve as general manager of the Human Resources Division for that reason. President Hashimoto and Vice President Yamamoto are very dedicated to personnel system reforms. Because the system is new, there may be issues and difficulties at first, but I am sure they will be able to find top-down fixes as they proceed. For my part, I will work to ensure that the Board of Directors provides effective oversight of their progress.

Lastly, Chairman Kanehana, do you have any message to stakeholders?

Kanehana This year, the Kawasaki Group marked the 125th anniversary of its incorporation. Kawasaki has always practiced the philosophy of founder Shozo Kawasaki, "contributing to the nation—to society—through

expertise," constantly working to solve social issues through technology. While valuing and protecting its heritage, Kawasaki aims to embody "Changing Forward." transforming its business models and employee

mindsets. We ask for our stakeholders' continued support as we work to quickly advance new initiatives while strengthening governance.