

Basic Stance on Corporate Governance

The Kawasaki Group's basic stance on corporate governance is to raise enterprise value through effective and sound management while forming solid relationships with all stakeholders, including shareholders, customers, employees, and communities,

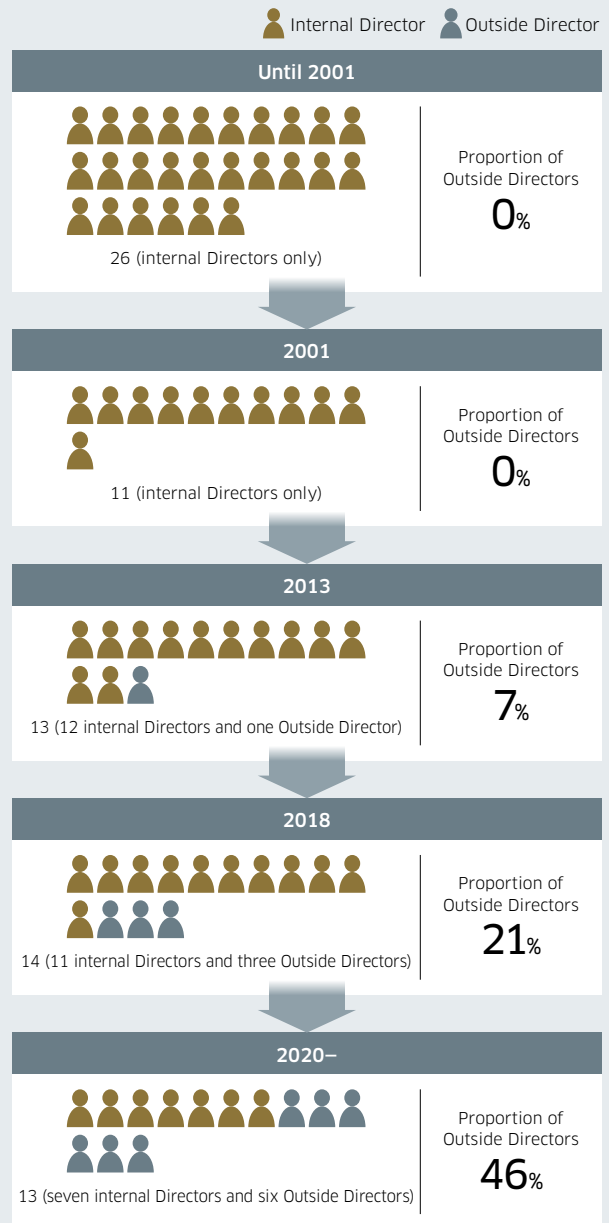
through highly transparent management practices. The Kawasaki Group is striving to further strengthen and enhance corporate governance systems as appropriate for its businesses and scale.

Initiatives to Strengthen Corporate Governance

Background of Improvement Measures

Year	Initiative
2001	<ul style="list-style-type: none"> Adopted the executive officer system Reduced the number of Directors from 26 to 11
2002	<ul style="list-style-type: none"> Increased the number of Outside Audit & Supervisory Board Members to two Adopted a performance-based compensation system
2005	<ul style="list-style-type: none"> Abolished the retirement benefit system for Directors
2013	<ul style="list-style-type: none"> Appointed an Outside Director
2015	<ul style="list-style-type: none"> Increased the number of Outside Directors to two Took steps in response to the introduction of Japan's Corporate Governance Code Established the Nomination Advisory Committee and Compensation Advisory Committee Began evaluations of the effectiveness of the Board of Directors
2016	<ul style="list-style-type: none"> Added stock purchase funds to Director's compensation
2017	<ul style="list-style-type: none"> Increased the number of Outside Audit & Supervisory Board Members to three Revised matters requiring resolution by the Board of Directors (expanding the scope of delegation to executives)
2018	<ul style="list-style-type: none"> Increased the number of Outside Directors to three Revised the Director and executive officer system
2019	<ul style="list-style-type: none"> Reduced the number of Directors from 12 to 11
2020	<ul style="list-style-type: none"> Transitioned to a company with an audit & supervisory committee Reduced the number of Directors not serving as Audit & Supervisory Committee Members from 11 to 8 Eliminated overlap between Directors and officers responsible for specific businesses
2021	<ul style="list-style-type: none"> Revised the Director compensation system (adopted a performance-based stock compensation plan)

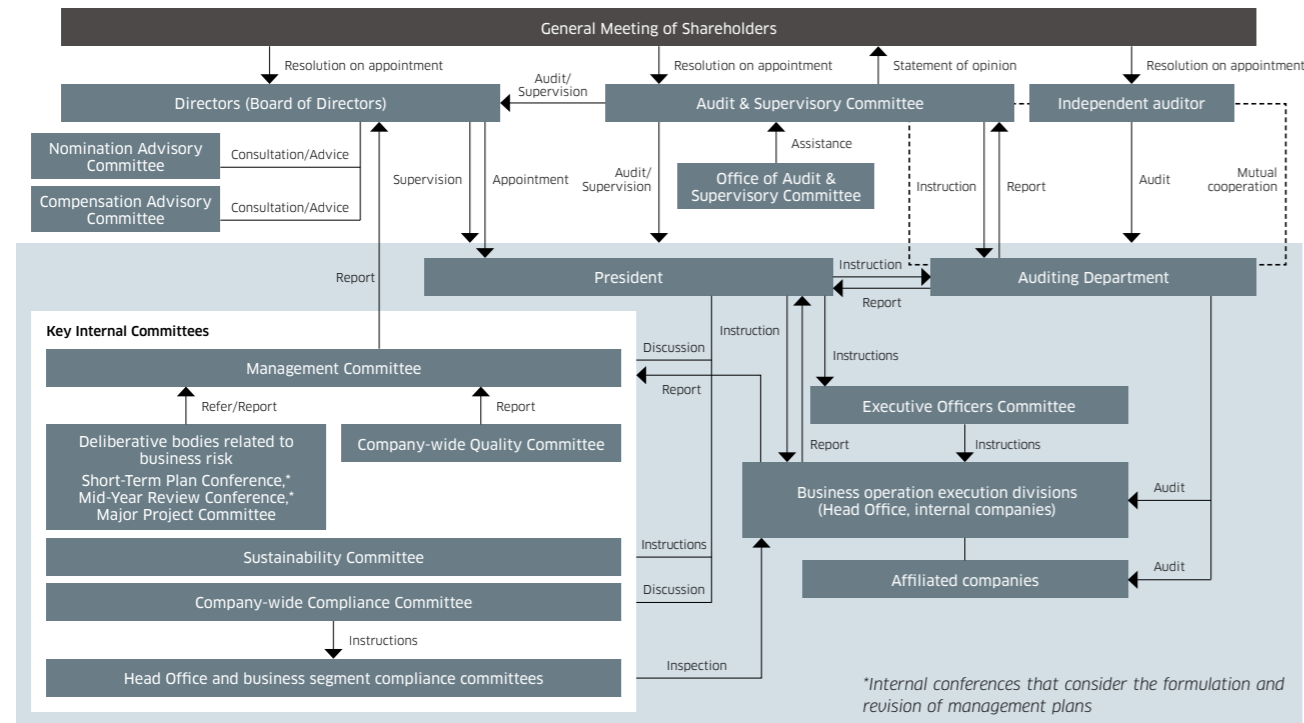
Changes in the Number of Directors and the Proportion of Outside Directors



Corporate Governance System

Kawasaki is a company with an Audit & Supervisory Committee and has voluntarily established a Nomination Advisory Committee and a Compensation Advisory Committee as advisory bodies to the Board of Directors as well as a Management Committee, an Executive Officers Committee, and other governance bodies.

The Kawasaki Group's Governance Structure (As of June 25, 2021)



Kawasaki's main deliberative bodies are as follows.

● Internal (male)
 ● Outside (male)
 ● Outside (female)
 ★ Presiding officer

Board of Directors

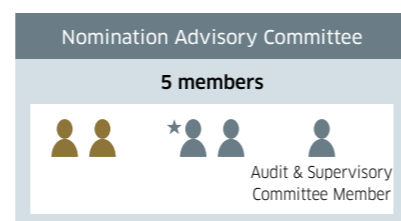
The Board of Directors comprises 13 Directors (of whom, five serve as Audit & Supervisory Committee Members), with the chairman serving as the presiding officer by resolution of the Board. Six Directors are Outside Directors (of whom, three serve as Audit & Supervisory Committee Members) and independent of business execution. By avoiding having Directors serve concurrently as officers responsible for specific businesses (the internal company presidents), the Company seeks to enhance the separation of management oversight and business execution and thereby further reinforce the Board of Director's oversight functions.

Audit & Supervisory Committee

The Audit & Supervisory Committee comprises five Directors, including three Outside Directors. To secure effective oversight, the two internal Directors have been appointed as full-time Audit & Supervisory Committee Members. Furthermore, to ensure the reliability of financial reporting, the Company appoints Audit & Supervisory Committee Members who have considerable knowledge of finance and accounting.

Nomination Advisory Committee

The Nomination Advisory Committee has been established as an advisory body to the Board of Directors in an effort to reinforce the transparency and objectivity of its deliberations. A majority of the committee members are Outside Directors, as is the presiding officer. The Nomination Advisory Committee discusses such matters as policies and standards pertaining to the appointment of Directors and other officers as well as the appropriateness of candidates for such positions and provides reports and advice to the Board of Directors.



Compensation Advisory Committee

The Compensation Advisory Committee has been established as an advisory body to the Board of Directors in an effort to reinforce the transparency and objectivity of its deliberations. A majority of the committee members are Outside Directors, as is the presiding officer. The Compensation Advisory Committee discusses such matters as Director compensation policy and systems and the appropriateness of individual Directors' compensation and provides reports and advice to the Board of Directors.



Business Execution Framework

Kawasaki has adopted an executive officer system in order to facilitate response to rapid changes in the business environment. To accelerate decision making, a great deal of authority over business execution decisions is delegated to the executive Directors and executive officers, who are appointed by the Board of Directors.

• Management Committee

Kawasaki maintains a Management Committee, comprising mainly executive Directors and internal company presidents, as an advisory body to the president. The Management Committee discusses matters that are important to business execution.

For the sake of auditing business execution, Directors who serve as full-time Audit & Supervisory Committee Members also attend the committee's meetings.

• Executive Officers Committee

Kawasaki maintains an Executive Officers Committee, comprising all of the executive officers, with the President as the presiding officer, to build unified consensus in Group management and smoothly advance business execution. This committee issues business execution policy based on management policy and plans determined mainly by the Board of Directors and Management Committee as well as decisions made by the Management Committee. It also discusses management issues.

For the sake of auditing business execution, Directors who serve as full-time Audit & Supervisory Committee Members also attend the committee's meetings.

• Major Project Committee

To manage risk before bidding on and making investment decisions regarding major projects that could significantly impact operations and performance, Kawasaki maintains a Major Project Committee, attended by representatives from related Head Office divisions and divisions related to specific projects, with the general manager of the Corporate Planning Division serving as presiding officer. The Major Project Committee evaluates and considers ways of addressing the risks of such projects.

• Company-wide Quality Committee

To reinforce quality control at the internal companies, Kawasaki maintains a Company-wide Quality Committee, comprising representatives from the Corporate Planning Division, Corporate Technology Division, and the related divisions of the internal companies and other related companies, with the vice president in charge of technology serving as the presiding officer. The Company-wide Quality Committee discusses Company-wide quality control policy, ensures its application, and shares information.

• Sustainability Committee

To promote the sustainability of society, the environment, and the Kawasaki Group, Kawasaki maintains a Sustainability Committee, comprising the Directors (excluding the Audit & Supervisory Committee Members and Outside Directors), the internal company presidents, the executive officer in charge of sustainability, the general managers of the Head Office divisions, and others, with the President serving as presiding officer. The Sustainability Committee discusses and decides measures to promote sustainability and monitors the achievement of targets and compliance with such policy.

For the sake of auditing business execution and to reflect a broad range of external insights and opinions in the committee's decisions, Directors who serve as Audit & Supervisory Committee Members as well as the remaining Outside Directors also attend the committee's meetings.

• Company-wide Compliance Committee

To ensure rigorous compliance throughout the Kawasaki Group, Kawasaki maintains a Company-wide Compliance Committee, comprising the Directors (excluding the Audit & Supervisory Committee Members and Outside Directors), the internal company presidents, the executive officer in charge of compliance, the general managers of the Head Office divisions, and others, with the President serving as presiding officer. The Company-wide Compliance Committee discusses and decides measures to ensure thorough compliance and monitors the achievement of targets and compliance with such policy.

For the sake of auditing business execution and to reflect a broad range of external insights and opinions in the committee's decisions, Directors who serve as Audit & Supervisory Committee Members as well as the remaining Outside Directors also attend the committee's meetings.

Evaluation of the Board of Directors' Effectiveness

The Board of Directors strives to ensure that its members, including independent Outside Directors, engage in free, vigorous discussion based on their insights and experience and reach appropriate management decisions. As part of these efforts, since fiscal 2015, the Board of Directors annually evaluates and analyzes the effectiveness of its operations.

Evaluation Process

Board of Directors		All Directors	External specialists	Board of Directors	
①	②	③	④	⑤	⑥
Confirm the status of initiatives to address issues identified via the previous evaluation.	Determine evaluation methods to be used, key items to be surveyed and other matters pertaining to the upcoming evaluation.	Conduct surveys. An anonymous survey of all Directors and Audit & Supervisory Committee Members is carried out based on advice from and with the cooperation of outside experts.	Aggregate and analyze survey results.	Discuss findings from analysis.	Determine issues to be addressed and policies for countermeasures based on findings from analysis and results of the Board of Directors' discussion.

Process of Fiscal 2020 Effectiveness Evaluation and Evaluation Results

The Board of Directors determines items to be surveyed.	A survey of all Directors is conducted.	Outside experts aggregate and analyze the survey results.
①②	③	④
Items surveyed <ul style="list-style-type: none"> Roles and responsibilities of the Board of Directors Composition of the Board of Directors Roles and qualities of the Directors Operation of the Board of Directors Survey methods <p>Respondents gave their ratings based on a four-grade rating system and were invited to freely comment on each item. To ensure consistency, the majority of questions were similar to those asked in preceding evaluations. At the same time, surveyed items were partially updated in light of governance issues the Company is confronting and changes in the external environment.</p>		Evaluation results <p>The analysis of survey results found that the Board of Directors' operations were evaluated highly overall. Specifically, a significant improvement was confirmed as a result of implementing various initiatives undertaken in conjunction with the transition to the new organizational form to address the following issues identified in the previous year.</p> <ul style="list-style-type: none"> Clarifying the division of roles between the Board of Directors and Management Committee Revising the Director compensation system (enhancement of medium- to long-term incentives) Enhancing the content of explanations offered to the Board of Directors with regard to risks Quickly reporting information about risks to the Board of Directors <p>(For details, please refer to "Initiatives to Address Issues Identified in the Course of Preceding Evaluations" on p. 57.)</p>

Discussion by the Board of Directors

⑤⑥

Conclusions reached by the Board of Directors

While room for improvement remains, the Board of Directors is currently implementing measures to address relevant issues, and its operations are deemed to be effective.

Initiatives to further improve effectiveness

- Enhancing the content of the Board of Directors' discussion regarding medium- to long-term management policies
- Clarifying requirements for Director candidates
- Upgrading leadership succession plans
- Strengthening supervision over the development of internal control systems and risk management structures

For details of initiatives, please refer to "Initiatives to Further Improve Effectiveness" on p. 57.

Initiatives to Address Issues Identified in the Course of Preceding Evaluations

Issues identified in the course of preceding evaluations	Initiatives
Clarifying the division of roles between the Board of Directors and Management Committee	Along with overlaps between agenda items discussed by the Board of Directors and the Management Committee, the delegation of authority from the former to the latter has been considered an issue that must be addressed. In response, the Board of Directors delegated its authority over decisions on specific projects and other matters to executive bodies, including the Management Committee, in conjunction with the June 2020 transition to a company with an Audit & Supervisory Committee. In this way, the Board of Directors strove to resolve the aforementioned overlaps. At the same time, it was decided that matters deemed particularly important must be discussed by the Board of Directors, which is charged with supervising the execution of business, after sufficient deliberation by the Management Committee. As such, efforts are under way to strengthen the Company's governance structure.
Revising the Director compensation system (enhancement of medium- to long-term incentives)	To realize Group Vision 2030, "Trustworthy Solutions for the Future," established in November 2020, the compensation system for Directors (excluding Audit & Supervisory Committee Members and Outside Directors) was revised in accordance with basic policies described on page 58.
Enhancing the content of explanations offered to the Board of Directors with regard to risks	Descriptions of risk analysis in handout materials used at Board of Directors meetings have been considered insufficient. To resolve this issue, a new process was instituted, mandating that projects to be discussed by the Board of Directors must undergo sufficient verification in terms of risk identification and risk countermeasures. Following this verification, these projects must be deliberated by the Management Committee before being addressed by the Board of Directors which, in turn, receives briefings on risk verification results, examines conclusions reached by the Management Committee, and gives final approval.
Quickly reporting information about risks to the Board of Directors	With the objective of ensuring the early detection of signs of changes in the business environment, a framework has been developed to ensure that, among factors that could exert a profound impact on the Company's management plans and operating results, matters deemed particularly important are swiftly reported to the Board of Directors. By doing so, the Company is endeavoring to strengthen monitoring functions provided by the Board of Directors.

Initiatives to Further Improve Effectiveness

Issues identified via the latest evaluation	Initiatives
Enhancing the content of the Board of Directors' discussion regarding medium- to long-term management policies	The Board of Directors engages in the periodic discussion of important management policies and strategies (e.g. sustainability management policies, human resource strategies, corporate transformation) in light of the recent revision of the Corporate Governance Code.
Clarifying requirements for Director candidates	The Board of Directors and the Nomination Advisory Committee strive to identify skills and other requirements for Director candidates in light of the Company's medium- to long-term management policies and strategies. Through the preparation of a skills matrix, the Board of Directors also endeavors to ensure that its members, collectively, possess all the necessary skills.
Upgrading leadership succession plans	The Board of Directors and the Nomination Advisory Committee deliberate on requirements for future leadership successors, such as desirable traits of those in key positions, including the CEO and internal company presidents, thereby pushing ahead with the preparation of successor training plans.
Strengthening supervision over the development of internal control systems and risk management structures	The Board of Directors receives periodic reporting on the status of the development and operation of risk management structures in addition to monitoring the results of evaluations regarding the development and operation of internal control systems as part of its efforts to strengthen its supervisory functions.

Director Compensation

To realize Group Vision 2030, "Trustworthy Solutions for the Future," established in November 2020, the Company has revised its basic policies for Director compensation as well as its composition, determination process, and other relevant matters. Details are as follows.

Basic Policy

Placing stronger emphasis on contribution to the Company's goals, the revised compensation system is designed to reward each recipient based on their responsibilities and accomplishments. To this end, it not only provides short-term incentives but also rewards Directors for their contributions to medium- to long-term improvement in corporate value. In this way, we aim to promote the sharing of value between Directors and stakeholders, including shareholders.

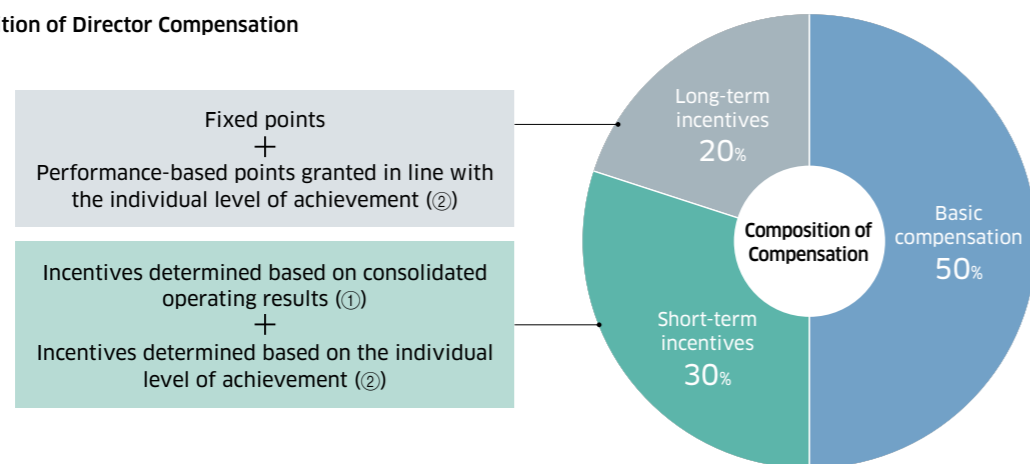
Compensation for Directors (Excluding Audit & Supervisory Committee Members and Outside Directors)

Compensation for Directors consists of basic compensation, short-term incentives, and long-term incentives. Basic compensation and short-term incentives are paid in cash. Long-term incentives are paid in the form of performance-based stock compensation to promote the sharing of benefits and risks between the Directors and shareholders in addition to more strongly incentivizing medium- to long-term contribution to corporate value.

These three components of director compensation account for approximately 50%, 30%, and 20%, respectively, of the total, assuming that the Group's consolidated operating results in the preceding fiscal year reached target levels and that each Director's individual performance targets for said fiscal year are fully met.

	Payment method	Details
Basic compensation (fixed compensation)	Cash	Each Director's pay grade is determined based on the missions assigned to them.
Short-term incentives (performance-based compensation)	Cash	Performance-based compensation is determined in line with single-year operating results and other indicators. Specifically, the amount of this compensation is determined based on consolidated operating results and the level of achievement of each Director's individual performance targets. Profit attributable to owners of parent is used as the indicator for assessing consolidated operating results, with the aim of providing incentives for the steady accomplishment of single-year operating results targets and promoting the sharing of value with shareholders. The payment ratio applied to this performance-based compensation is determined based on the profit attributable to owners of parent for the year, as presented on the next page (see ①). Details of the process for determining the level of achievement are presented in ② on the same page.
Long-term incentives (fixed portion and performance-based portion)	Stock	Long-term incentives utilize a stock benefit trust and are determined based on fixed points granted to Directors in line with their periods of service as well as performance-based points granted for their accomplishments vis-à-vis individual performance targets. In principle, these incentives are paid to the recipients in the form of both Company shares and cash (the latter being in an amount equivalent to the value of a portion of said shares after conversion) at the time of their retirement as Director. The proportions of fixed points and performance-based points are designed to account for 50% each when the recipient's level of achievement is at a standard level. Details of the process for determining the level of achievement are presented in ② on the next page.

Composition of Director Compensation



① Payment Ratio Based on Profit Attributable to Owners of Parent

Profit Attributable to Owners of Parent	Payment ratio (%)
0 or less	–
0 to less than ¥25 billion	0% to 45%
¥25 billion to less than ¥45 billion	50% to 95%
¥45 billion to less than ¥70 billion	100% to 195%
¥70 billion or more	200%

② Process for Determining Level of Achievement of Individual Performance Targets

Setting of Targets
Each Director sets their own targets in terms of addressing short-, medium- and long-term issues, including those associated with business units and operations under their supervision and Company-wide issues. These include targets pertaining to important financial indicators as well as targets associated with initiatives aimed at realizing the United Nations Sustainable Development Goals (SDGs), efforts to improve employee engagement, and other aspects of non-financial performance. •Targets for short-term issues: Targets to be achieved by the end of the fiscal year •Targets for medium- to long-term issues: Targets to be achieved in light of the Group Vision 2030
Methods for Determining the Level of Target Achievement
•President: After a face-to-face interview with Outside Directors who serve as members of the Compensation Advisory Committee, the level of achievement is determined via discussion among these Outside Directors. •Vice President: After a face-to-face interview with Outside Directors who serve as members of the Compensation Advisory Committee, the level of achievement is determined via discussion among these Outside Directors and the president. •Other Directors: After a face-to-face interview with the president and vice president, who together formulate a draft performance evaluation, the level of achievement is determined by the resolution of the Board of Directors based on the deliberations of the Compensation Advisory Committee.

Compensation of Outside Directors and Directors Serving as Audit & Supervisory Committee Members

To ensure their professional independence, compensation for these individuals consists only of fixed compensation and is not linked with performance.

Methods for Determining Compensation

The total maximum amount of compensation for Directors (excluding Audit & Compensation Committee Members) is set by a resolution passed at the General Meeting of Shareholders. Within this limit, the amount of compensation is determined by the resolution of the Board of Directors based on the deliberations of the Compensation Advisory Committee. The presiding officer and a majority of the members of the Compensation Advisory Committee are Outside Directors.

The Board of Directors may also resolve to entrust the president with the responsibility of determining the amount of

compensation for each director. In such cases, however, the president is required to honor the conclusions reached via the deliberations of the Compensation Advisory Committee and comply with policies regarding the determination of the amounts of director compensation and methods for calculating such compensation.

To ensure their professional independence, compensation for Audit & Supervisory Committee Members consists only of fixed compensation and is not linked with performance. Compensation for these individuals is determined by deliberations among Directors who serve as Audit & Supervisory Committee Members.

Fiscal 2020 Compensation

Type of officer	Total compensation (millions of yen)	Total compensation by type (millions of yen)			Number of recipients
		Basic compensation	Performance-based compensation	Stock purchase fund	
Directors (excluding Audit & Supervisory Committee Members and Outside Directors)	355	288	23	43	9
Audit & Supervisory Committee Members (excluding Outside Directors)	51	51	–	–	2
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	16	16	–	–	2
Outside Officers	79	79	–	–	7

Notes: 1. The Company transitioned to a company with an Audit & Supervisory Committee upon a resolution passed at the 197th Ordinary General Meeting of Shareholders held on June 25, 2020 regarding the amendment of its Articles of Incorporation.
2. Fiscal 2020 compensation was determined based on the former compensation system.
3. The total maximum amount of annual compensation for Directors (excluding Audit & Supervisory Committee Members) is set at ¥800 million based on a resolution passed at the 197th Ordinary General Meeting of Shareholders held on June 25, 2020.
4. The total maximum amount of performance-based stock compensation is set at ¥325 million per year, with the annual number of Company shares to be allocated to the recipients being limited to 50,000 shares. At the 198th Ordinary General Meeting of Shareholders held on June 25, 2021, these frameworks were approved separately from the total maximum amount of annual compensation for Directors (excluding Audit & Supervisory Committee Members).
5. The total maximum amount of annual compensation for Audit & Supervisory Committee Members is set at ¥120 million based on a resolution passed at the 197th Ordinary General Meeting of Shareholders held on June 25, 2020.