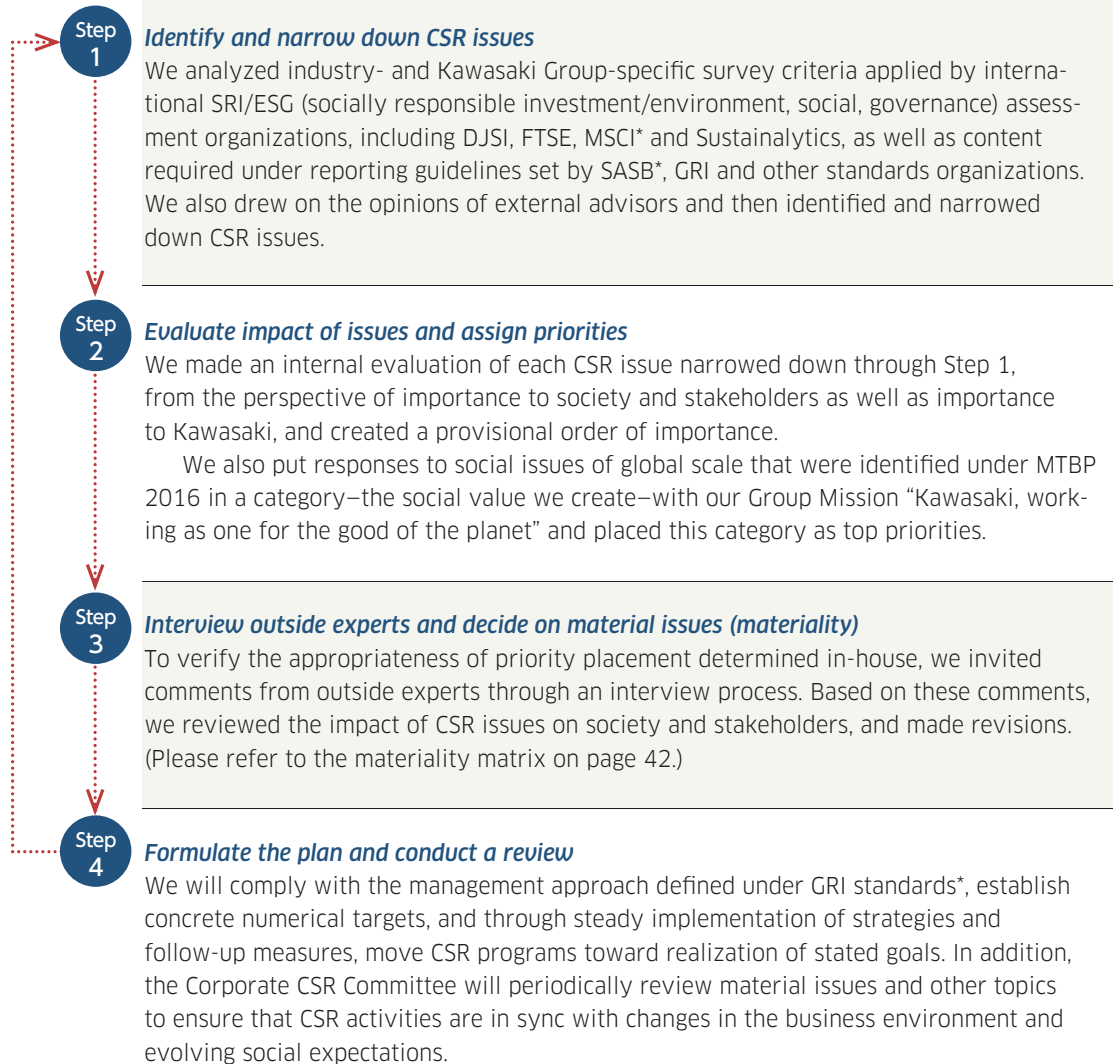# Process for Identifying Materiality

Given diversifying stakeholder expectations and requests and a changing business environment, management took a fresh look at Group activities that impact society and then identified material issues–that is, materiality.

Step 1
Identify and narrow down CSR issues
We analyzed industry- and Kawasaki Group-specific survey criteria applied by international SRI/ESG (socially responsible investment/environment, social, governance) assessment organizations, including DJSI, FTSE, MSCI* and Sustainalytics, as well as content required under reporting guidelines set by SASB*, GRI and other standards organizations. We also drew on the opinions of external advisors and then identified and narrowed down CSR issues.

Step 2
Evaluate impact of issues and assign priorities
We made an internal evaluation of each CSR issue narrowed down through Step 1, from the perspective of importance to society and stakeholders as well as importance to Kawasaki, and created a provisional order of importance.

We also put responses to social issues of global scale that were identified under MTBP 2016 in a category–the social value we create–with our Group Mission "Kawasaki, working as one for the good of the planet" and placed this category as top priorities.

Step 3
Interview outside experts and decide on material issues (materiality)
To verify the appropriateness of priority placement determined in-house, we invited comments from outside experts through an interview process. Based on these comments, we reviewed the impact of CSR issues on society and stakeholders, and made revisions. (Please refer to the materiality matrix on page 42.)

Step 4
Formulate the plan and conduct a review
We will comply with the management approach defined under GRI standards*, establish concrete numerical targets, and through steady implementation of strategies and follow-up measures, move CSR programs toward realization of stated goals. In addition, the Corporate CSR Committee will periodically review material issues and other topics to ensure that CSR activities are in sync with changes in the business environment and evolving social expectations.

*DJSI, FTSE, MSCI: please refer to page 16.
*SASB: Sustainability Accounting Standards Board
*GRI Standards: Global Reporting Initiative Sustainability Reporting Standards

Comments from Experts Providing Opinions on Step 3

Keisuke Takegahara
Executive Officer, Development Bank of Japan Inc.

From an institutional investor and capital market perspective, a value creation scenario is of particular importance. The Four Outcomes reflect the Kawasaki Group's contribution to society through business activities, and you've made this the highest priority. But I'd like to know what KPIs will measure your efforts to contribute to solve social issues, over what timeline and under what scenario. For example, under the Group's growth strategy, the more the Group's business performance grows and its ROIC rises, the more social issues the Group will be able to help solve. The Group will also develop a solid management foundation. If investors see these tangible strategies, they will be able to invest with peace of mind.

Takeshi Mizuguchi
Professor, Takasaki City University of Economics

I think "creating clean energy" and "low-carbon society" are equivalent concepts, so both should go to the very top right on the materiality matrix. But they are, essentially, redundant, so I'd suggest consolidating them. Also, today, the world is shifting from "low-carbon" to "carbon-free." Maybe you should consider using the term "carbon-free society" instead of "low-carbon society."

An issue I think the Kawasaki Group should prioritize is climate change. I'd like you to realize a low-carbon society through technology, but you can't solve any issues at all through mere extension of current technology. Embrace a sense of crisis–a proactive awareness that pushes you to come up with revolutionary technology.

Masao Seki
Senior Advisor on CSR, Sompo Japan Nipponkoa Insurance Inc.
Professor, School of Business Administration, Meiji University

You should raise the priority ranking of human rights. Take a bird's-eye view of your value chain to pinpoint the kind of human rights risks that exist. Then engage in activities to prevent infringement of human rights, starting from high-risk issues.

The business structure appears male-dominated, so I'd suggest you give more attention to promoting women's participation in the workplace and addressing gender-related problems.
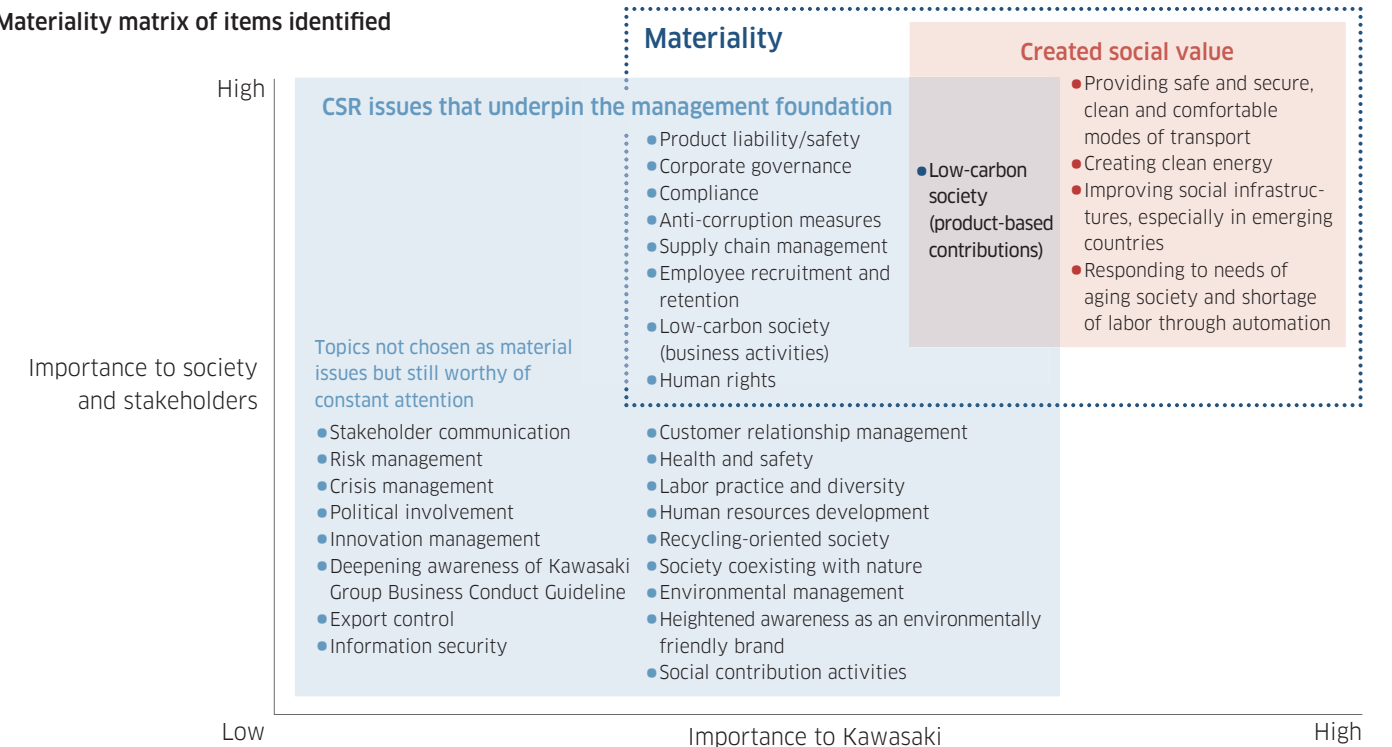
Points Taken

For the "low-carbon society," we split the category in two: "low-carbon society (product-based contributions)," for efforts to realize a low-carbon society by providing products that emit low levels of CO_2, and "low-carbon society (business activities)," for efforts to realize a low-carbon society through business processes by the Group. The revised categories are re-located in the matrix. "Human rights" was added to materiality categories.

We defined the creation of social value as top priorities to be achieved over the long term, and we added a category–CSR issues that underpin the management foundation–for other CSR issues that will enable us to create social value. For our follow-up approach, we changed the control method because the timeline for the creation of social value differs from that of CSR issues that underpin the management foundation.

The materiality matrix, which was revised to reflect input from outside experts, is presented on page 42.

Materiality matrix of items identified

Materiality

Created social value
- Providing safe and secure, clean and comfortable modes of transport
- Creating clean energy
- Improving social infrastructures, especially in emerging countries
- Responding to needs of aging society and shortage of labor through automation

High — Importance to society and stakeholders

CSR issues that underpin the management foundation
- Product liability/safety
- Corporate governance
- Compliance
- Anti-corruption measures
- Supply chain management
- Employee recruitment and retention
- Low-carbon society (business activities)
- Human rights

- Low-carbon society (product-based contributions)

Topics not chosen as material issues but still worthy of constant attention
- Stakeholder communication
- Risk management
- Crisis management
- Political involvement
- Innovation management
- Deepening awareness of Kawasaki Group Business Conduct Guideline
- Export control
- Information security

- Customer relationship management
- Health and safety
- Labor practice and diversity
- Human resources development
- Recycling-oriented society
- Society coexisting with nature
- Environmental management
- Heightened awareness as an environmentally friendly brand
- Social contribution activities

Low ————— Importance to Kawasaki ————— High

Details on the process used to identify materiality are introduced on our website.
http://global.kawasaki.com/en/corp/sustainability/materiality.html

Kawasaki Group's Approach to SDGs

We believe our Group Mission–"Kawasaki, working as one for the good of the planet"–is extremely compatible with SDGs. And as we strive to provide solutions to social issues through our business activities, we will most certainly contribute significantly to the achievement of SDGs.

In the process of identifying materiality, we reconfirmed the social issues that we should address and positioned efforts to maximize the social value we create through our businesses as top priorities to be achieved over the long term.

As presented below, we determined our contribution to successful SDGs through an internal examination of the correlation between created social value and the 17 SDGs and 169 targets of the universal agenda and through discussion by the Corporate CSR Committee and the Management Committee, which are both chaired by the president. We set non-financial targets to achieve by 2030 for each type of created social value, and will regularly disclose the status of progress toward these targets.

Kawasaki Group's Approach to SDGs

Created Social Value	Responsible Division	Applicable SDGs	SDGs Common Throughout All Businesses
Providing safe and secure, clean, comfortable movement of people and transportation of goods by land, sea and air	• Ship & Offshore Structure Company • Rolling Stock Company • Aerospace Systems Company • Motorcycle & Engine Company	3, 7, 11	12
Creating clean energy	• Corporate Technology Division • Energy System & Plant Engineering Company	7, 8	9
Improving social infrastructure, especially in emerging countries	• Energy System & Plant Engineering Company • Precision Machinery & Robot Company	7, 8, 11	13
Responding to needs of aging society and shortage of labor through automation	• Precision Machinery & Robot Company	3, 8	17