

# Corporate Governance

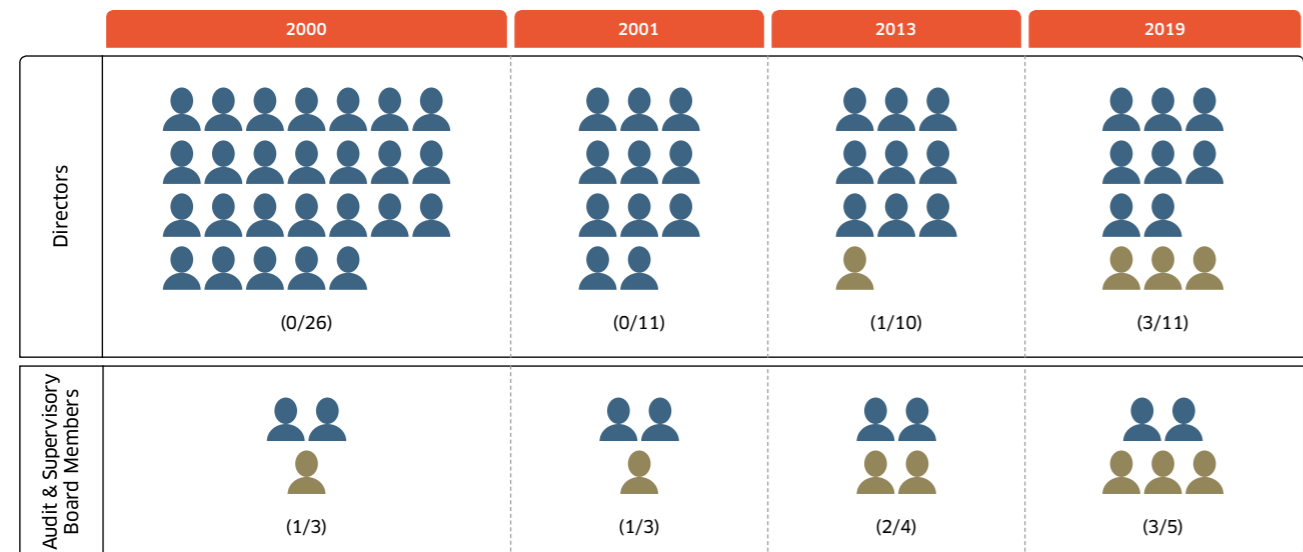
## Basic Stance on Corporate Governance and Initiatives to Date

Guided by the Group Mission “Kawasaki, working as one for the good of the planet,” the Kawasaki Group has established a corporate governance system centered on directors and audit & supervisory board members, with content appropriate for the global activities that the Group undertakes, and takes efforts to further improve the system. The basic stance on corporate governance for the Group as a whole 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.

### Initiatives to Strengthen Corporate Governance

Year	Initiative
2001	<ul style="list-style-type: none"> <li>Adopted the executive officer system</li> <li>Reduced the number of directors from 26 to 11</li> </ul>
2002	<ul style="list-style-type: none"> <li>Increased the number of outside audit &amp; supervisory board members to two</li> <li>Adopted a performance-based compensation system</li> </ul>
2005	<ul style="list-style-type: none"> <li>Abolished the retirement benefit system for directors</li> </ul>
2013	<ul style="list-style-type: none"> <li>Appointed an outside director</li> </ul>
2015	<ul style="list-style-type: none"> <li>Increased the number of outside directors to two</li> <li>Took steps in response to the introduction of Japan's Corporate Governance Code</li> <li>Established the Nomination Advisory Committee and Compensation Advisory Committee</li> <li>Began evaluations of the effectiveness of the Board of Directors</li> </ul>
2016	<ul style="list-style-type: none"> <li>Added stock purchase funds to director's compensation</li> </ul>
2017	<ul style="list-style-type: none"> <li>Increased the number of outside audit &amp; supervisory board members to three</li> <li>Revised matters requiring resolution by the Board of Directors (expanding the scope of delegation to executives)</li> </ul>
2018	<ul style="list-style-type: none"> <li>Increased the number of outside directors to three</li> <li>Revised the director and executive officer system</li> </ul>
2019	<ul style="list-style-type: none"> <li>Reduced the number of directors from 12 to 11</li> </ul>

Number of Outside Directors and Audit & Supervisory Board Members and Ratio to Total Officers (As of June 26, 2019)



 : Internal  : Outside



## Corporate Governance System

Kawasaki adopts the statutory auditor system with a Board of Directors and Audit & Supervisory Board, and appoints an independent auditor. The Company also maintains the discretionary Nomination Advisory Committee, Compensation Advisory Committee, Management Committee, and Executive Officers Committee. The composition and role of each of these organizations are described below.

### Board of Directors

The Board of Directors comprises 11 directors (authorized number: 18), with the chairman serving as the presiding officer. The number of outside directors (independent officers, as required by the Tokyo Stock Exchange) is three. The outside directors are independent of any role in the execution of business activities. Furthermore, the Nomination Advisory Committee and Compensation Advisory Committee have been established as advisory bodies to the Board of Director in an effort to strengthen its transparency and objectivity of the Board of Directors. A majority of the committees' members are outside officers, and the presiding officers of each are outside directors. The Nomination Advisory Committee discusses such matters as policy regarding the appointment of directors and audit & supervisory board members and the appropriateness of candidates for such positions. The Compensation Advisory Committee discusses such matters as director compensation policy and the appropriateness of the director compensation system. These committees provide reports and advice to the Board of Directors.

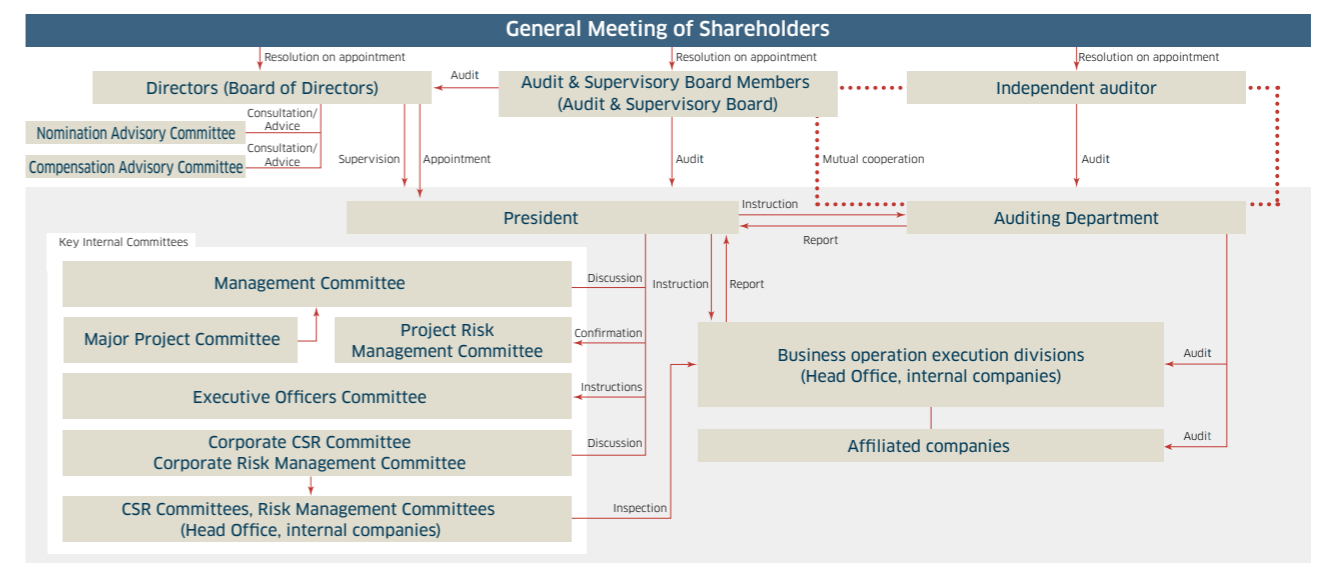
### Audit & Supervisory Board

The Audit & Supervisory Board comprises five audit & supervisory board members (authorized number: five). To ensure the reliability of financial reports, the Company appoints internal audit & supervisory board members who have considerable knowledge of finance and accounting. Furthermore, to ensure the objectivity and neutrality of the supervisory function, the Company appoints three outside audit & supervisory board members (independent officers, as required by the Tokyo Stock Exchange) with no business relationships or other vested interests in the Company. The internal and outside audit & supervisory board members share information closely and work to enhance the Audit & Supervisory Board's supervisory function.

### Key Internal Committees Other than the Board of Directors and Audit & Supervisory Board

Nomination Advisory Committee	<ul style="list-style-type: none"> <li>An advisory body on the nomination of directors and audit &amp; supervisory board members</li> </ul>
Compensation Advisory Committee	<ul style="list-style-type: none"> <li>An advisory body on the compensation of directors</li> </ul>
Management Committee	<ul style="list-style-type: none"> <li>Includes executive directors and internal company presidents</li> <li>Assists the president as an advisory body with regard to Group management</li> <li>Discusses important Group management policy, management strategy and management issues</li> </ul>
Executive Officers Committee	<ul style="list-style-type: none"> <li>Comprises all executive officers appointed by the Board of Directors</li> <li>Conveys business execution policy based on management policy and management plans determined mainly by the Board of Directors and the Management Committee</li> <li>Venue for communicating necessary and important information regarding business execution and exchanging opinions</li> </ul>
Corporate CSR Committee	<ul style="list-style-type: none"> <li>Discusses and decides on basic policy and important matters related to CSR for the Group as a whole and monitors implementation</li> </ul>
Corporate Risk Management Committee	<ul style="list-style-type: none"> <li>Discusses and identifies important issues pertaining to risk management for the Group as a whole and monitors implementation</li> </ul>
Major Project Committee	<ul style="list-style-type: none"> <li>Assesses risk and considers appropriate responses before the acceptance of major projects</li> </ul>
Project Risk Management Committee	<ul style="list-style-type: none"> <li>Regularly follows up on major projects during execution</li> </ul>

The Kawasaki Group's Governance Structure (As of June 26, 2019)



## Evaluation of the Board of Directors' Effectiveness

The Company strives to ensure that directors and audit & supervisory board members, including independent outside directors and audit & supervisory board members, engage in free, vigorous discussion based on their insights and experience at meetings of Kawasaki's Board of Directors and reach appropriate management decisions. As part of these efforts, since fiscal 2015, the Company annually evaluates and analyzes the effectiveness of the Board of Directors.

### Evaluation Method

The fiscal 2018 effectiveness evaluation was, as in previous years, carried out as follows.

- (1) A survey of all directors and audit & supervisory board members, based on advice from outside experts was made\*
- (2) The survey results were aggregated and analyzed by outside experts

- (3) The aggregated information and analysis results were discussed at a Board of Directors meeting

\* A survey comprising questions mainly about the overall operation of the Board of Directors and its discussions, designed with regard to the Company's particular characteristics

### Evaluation Results and Response

The Board of Directors' discussion found that the Board's effectiveness was appropriately ensured, based on such factors as its resolutions having been reached after active discussion among both the internal and outside members.

However, regarding the further enhancement of the Board of Directors' oversight function, the directors and audit & supervisory board members provided multiple opinions related to such considerations as the Board's composition and the topics it should discuss, sharing their understanding of tasks for the Board. The Board will continue to engage in discussion from various viewpoints and work to increase its effectiveness.

### Initiatives to Address Issues Identified in Previous Years

The main initiatives implemented in fiscal 2018 to address issues identified by previous evaluations of a Board of Directors' effectiveness were as follows.

- To reinforce the Board of Directors' oversight function, the number of outside directors was increased by one, with consideration given to ensuring the Board's diversity (in terms of nationality, gender, professional background, etc.). In addition, the Company revised its director and executive officer system, clarifying the respective roles of directors and executive officers.
- To enhance discussion of medium-to-long-term management issues, when formulating the medium-term business plan, in addition to discussions at Board of Directors meetings, the participants of these meetings (directors and audit & supervisory board members) held meetings with the executive officers several times, taking ample time and creating opportunities for deeper discussion.

## Corporate Officer Compensation

### Kawasaki's Approach to Corporate Officer Compensation

The compensation system for Kawasaki directors and audit & supervisory board members is designed to promote sustained improvement in corporate performance and enterprise value, align the interests of corporate officers with those of shareholders, secure outstanding human resources, and ensure a level of compensation commensurate with the duties of the individual officer.

### Director Compensation

Compensation for directors, excluding outside directors, consists of basic compensation, performance-based compensation and stock purchase funds.

Compensation for outside directors is set at a fixed level not tied to corporate performance, to ensure professional independence.

Directors' compensation is set within the maximum total compensation for directors (¥1,200 million per year), as resolved at the 189th Ordinary General Meeting of Shareholders (held on June 27, 2012). After receiving the results of deliberations by the Compensation Advisory Committee, the president, as delegated by the Board of Directors, decides director compensation in line with the Company's internal rules. A majority of the members and the presiding officer of the Compensation Advisory Committee are outside officers.

### Audit & Supervisory Board Member Compensation

The compensation of audit & supervisory board members is set at a fixed level not tied to corporate performance to ensure professional independence. This compensation is determined by the Audit & Supervisory Board.

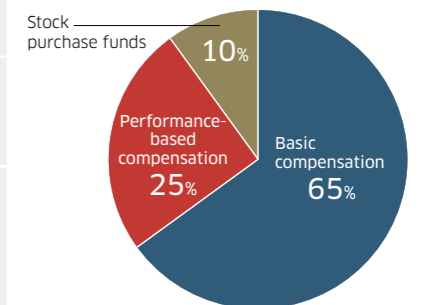
The total maximum compensation for audit & supervisory board members is ¥120 million per year (as resolved at the 194th Ordinary General Meeting of Shareholders held on June 28, 2017).

## Structure of Director Compensation

### Composition of Director Compensation (Excluding Outside Directors)

Basic compensation	Based on position and responsibilities.
Performance-based compensation	Linked mainly to net income attributable to owners of the parent ("net income"), consolidated ROIC and the ROIC of internal companies.
Stock purchase funds	Each month, a fixed monthly amount is paid to the directors for contribution to a stock ownership plan for the purpose of aligning directors' interests with those of shareholders and incentivizing directors to enhance medium- to long-term enterprise value. This entire amount is contributed to the officers' stock ownership plan in order to purchase shares of the Company on a continuous basis.

### Compensation Composition (assuming 8% Before-tax ROIC)



### Performance-Based Compensation Indicators

Indicator	Reason for Selection
Net income	Net income, which funds dividends, was selected as an indicator to incentivize directors to increase shareholder value.
Consolidated ROIC	Consolidated ROIC was selected as an indicator because Kawasaki has made ROIC management a part of its basic management policy and aims to achieve ROIC of 8% or above.
Internal Company ROIC	Internal company ROIC was selected as an indicator because Kawasaki aims to achieve ROIC of 8% or above at each internal company.

### Activities of the Board of Directors and Compensation Advisory Committee

Policy and systems related to director compensation are decided by resolution of the Board of Directors based on the deliberation of the Compensation Advisory Committee. A majority of the members and the presiding officer of the Compensation Advisory Committee are outside officers.

The Compensation Advisory Committee meets once a month, in principle. In fiscal 2018, the committee met 11 times. In addition to the matters described above, the committee discussed the form of the corporate officer compensation system going forward.

Note: For more information about the members of the Compensation Advisory Committee and their meeting attendance, please refer to page 46.

### Corporate Officer Compensation

The following table provides a breakdown of fiscal 2018 corporate officer compensation.

Type of officer	Total compensation (millions of yen)	Total compensation by compensation type (millions of yen)			Number of individuals receiving compensation
		Basic compensation	Performance-based compensation	Stock purchase fund	
Directors (excluding outside directors)	568	408	97	62	12
Audit & supervisory board members (excluding outside audit & supervisory board members)	70	70	–	–	3
Outside directors and outside audit & supervisory board members	73	73	–	–	7

Notes: 1. The above numbers of officers include the directors (four, including one outside director) and audit & supervisory board members (one) who retired as of conclusion of the General Meeting of Shareholders held in June 2018.

2. Performance-based compensation paid in fiscal 2018 is based on fiscal 2017 performance.