

Corporate Governance System

Basic Stance on Corporate Governance

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 activities that the Group undertakes, and efforts are made 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 business activities while forming solid relationships with all stakeholders, including shareholders, customers, employees and communities, through highly transparent management practices.

Overview of the 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 has 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.

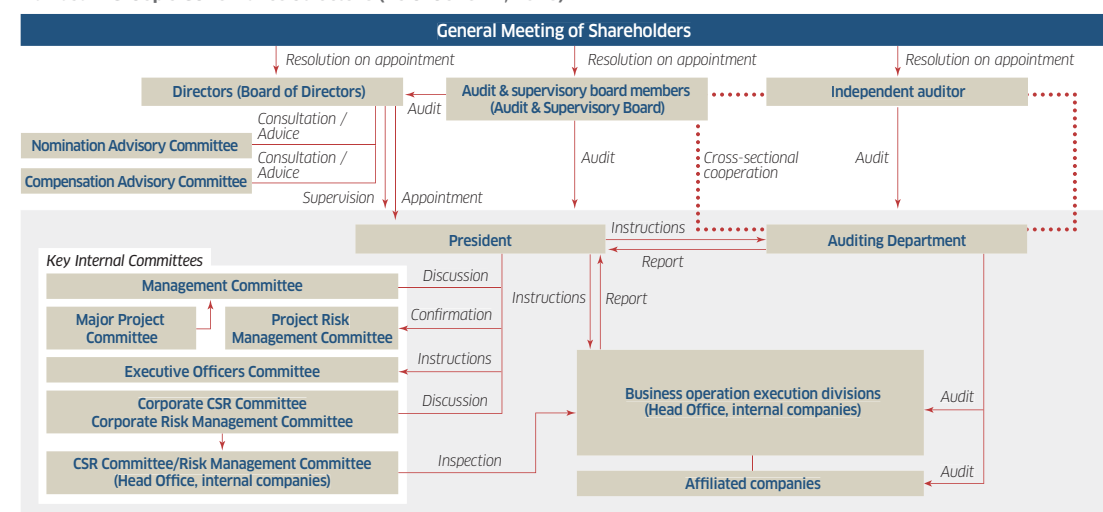
●Board of Directors

The Board of Directors comprises 12 directors (authorized number: 18), with the chairman serving as the presiding officer. The Company has increased the number of its outside directors (independent officers, as required by the Tokyo Stock Exchange) from two to three. These directors are independent of any role in the execution of business activities. As a result, eight of the 12 directors concurrently serve as executive officers. The Company is seeking to strengthen the supervisory function of the Board of Directors with regard to overall management, while paying attention to the balance with its business execution function. Furthermore, the Nomination Advisory Committee and Compensation Advisory Committee have been

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

Name	Activities
Nomination Advisory Committee	• An advisory body on nomination of directors and audit & supervisory board members
Compensation Advisory Committee	• An advisory body on compensation for directors
Management Committee	• Includes executive directors and internal company presidents • Assists the president as an advisory body with regard to Group management • Discusses important management policy, management strategy, management issues, and other matters from a Group perspective
Executive Officers Committee	• Comprises all executive officers appointed by the Board of Directors • Conveys business execution policy based on management policy and management plans determined mainly by the Board of Directors and the Management Committee • Venue for communicating necessary and important information regarding business execution and exchanging opinions
Corporate CSR Committee	• Discusses and decides on basic policy and important matters related to CSR for the Group as a whole and monitors implementation status
Corporate Risk Management Committee	• Discusses important issues pertaining to risk management for the Group as a whole and monitors implementation status
Major Project Committee	• Assesses risk and considers appropriate responses before acceptance of major projects
Project Risk Management Committee	• Regularly follows up on major projects during execution

Kawasaki Group's Governance Structure (As of June 27, 2018)



established as advisory bodies to the Board of Directors, in an effort to strengthen the 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.

In fiscal 2018, the Board of Directors' Meeting was held 15 times (including extraordinary meetings), and the attendance rate was 97% or above for internal and outside directors and audit & supervisory board members.

●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 supervisory function.

In fiscal 2018, the Audit & Supervisory Board's Meeting was held 17 times, and the attendance rate was 100% for internal and outside audit & supervisory board members.

Reasons for Appointment of Outside Officers

The reasons for the appointment of outside officers (three outside directors and three outside audit & supervisory board members) are as follows:

●Outside Directors

**Michio Yoneda** Mr. Yoneda has expressed useful opinions and given advice in determining important matters of the Company's management from a position independent of any role in the execution of business activities, based on his abundant management experience and high level of knowledge regarding corporate governance acquired over a career including President & CEO (Member of the Board) of Osaka Securities Exchange Co., Ltd., Director & Representative Executive Officer and Group COO of Japan Exchange Group, Inc., and other important positions. In consideration of these points, the Company believes he would be able to fully perform his roles as an Outside Director in supervising the execution of duties of the Company and increasing its enterprise value.

**Yoshiaki Tamura (newly appointed)** Mr. Tamura served as Representative Director and Executive Vice President, Asahi Glass Co., Ltd. (currently, AGC Inc.), GM of Technology General Division, Deputy Leader of AGC Group Improvement Activities and President of Glass Company and other important positions. He has extensive experience in corporate management and deep insights into manufacturing. In consideration of these points, the Company believes he would be able to fully perform his roles as an Outside Director in supervising the execution of duties of the Company and increasing its enterprise value.

**Jennifer Rogers (newly appointed)** Ms. Rogers has extensive international experience and deep insights into legal affairs,

compliance, and risk management, having served as an in-house lawyer and counsel at international financial institutions for many years. In consideration of these points, the Company believes she would be able to fully perform her roles as an Outside Director in supervising the execution of duties of the Company and increasing its enterprise value.

●Outside Audit & Supervisory Board Members

**Takashi Torizumi** The Company has judged that Mr. Torizumi would be able to fully perform his roles as outside audit & supervisory board member from an independent position, based on his abundant experience as a corporate manager.

**Satoru Kohdera** The Company has judged that Mr. Kohdera would be able to fully perform his roles as outside audit & supervisory board member from an independent position, based on his abundant experience as an attorney and high level of knowledge of legal affairs.

**Atsuko Ishii** The Company has judged that Ms. Ishii would be able to fully perform her roles as outside audit & supervisory board member from an independent position, based on her abundant experience and high level of knowledge of labor administration.

Compensation to Corporate Officers

The compensation system for Kawasaki directors and audit & supervisory board members—which is designed to promote sustained improvement in corporate performance and enterprise value and to secure outstanding human resources—ensures a level of compensation in line with the duties of the individual officer. Compensation for directors, excluding outside directors consists of basic compensation, performance-based compensation, and a stock purchase fund. Among these, performance-based compensation is determined by linking corporate performance with the aim of using compensation as an incentive for achieving business goals. The stock purchase fund is distributed in fixed amounts each month for the purpose of sharing value with shareholders and incentivizing directors to enhance medium- to long-term enterprise value, with the entire amount contributed to the officers' stock ownership plan in order to purchase shares of the Company on a continuous basis. Compensation for outside directors is set at a fixed level not tied to corporate performance,

Topics

Efforts to Enhance the Supervisory Function of the Board of Directors

The Company modified the Board of Director and Executive Officer System effective April 1, 2018, in order to further strengthen corporate governance. This change has made it clear that business execution is carried out by executive officers to promote separation from the supervisory function of the Board of Directors.

Furthermore, seeking to strengthen the supervisory function of the Board of Directors with regard to overall management, the Company increased the number of outside directors by one. The Company appoints outside directors who are capable of providing appropriate opinions and advice from an objective perspective, independent of any role in the execution of business activities, based on abundant experience and specialized knowledge in fields different from the Company's business fields, while ensuring diversity of their professional background, nationality, gender, and so forth.

We will continue working to strengthen the supervisory function of the Board of Directors and establish the corporate governance system suitable for the Kawasaki Group.



from the perspective of professional independence. These types of compensation for directors are determined by the President as delegated by the Board of Directors, after consultation with the Compensation Advisory Committee. The compensation of

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

**Amount of Corporate Officers' Compensation in Fiscal 2018**

(Millions of yen)

	Directors 13 people	Audit & supervisory board members 6 people	Total 19 people (including 6 people from outside)	
Total amount of compensation	675	103	778	(60)
Total amount of compensation, etc. by category (Fiscal 2018)	Basic compensation	473	576	(60)
	Performance-based compensation	134	134	(-)
	Stock purchase fund	67	67	(-)

Notes:

1. The number of officers includes four directors and one audit & supervisory board member who retired at the conclusion of the General Meeting of Shareholders held in June 2017.
2. The maximum amount of compensation for directors is ¥1,200 million per year (as resolved at the 189th Ordinary General Meeting of Shareholders held on June 27, 2012). The maximum amount of 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).

## Compliance

### Basic Stance

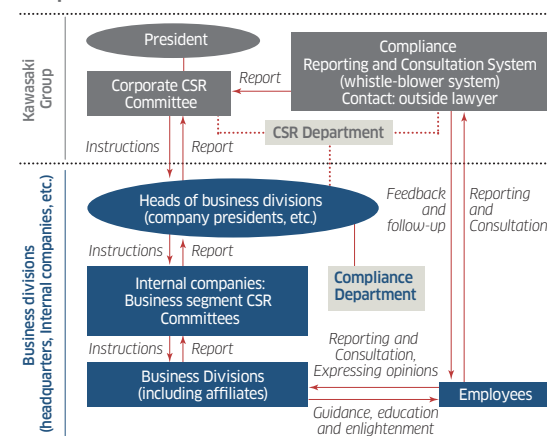
In the Kawasaki Group Management Principles, which target the entire Kawasaki Group, we set forth our corporate virtue of “recognizing social responsibility and coexisting harmoniously with the environment, society as a whole, local communities and individuals,” and in the Kawasaki Group Code of Conduct, we ask each and every member of the Group to “earn the trust of the community through high ethical standards and the example you set for others.”

Furthermore, we have established the Kawasaki Heavy Industries Group Business Conduct Guideline and set ethical standards to be the basis of decisions. At the same time, our executives and employees are requested to comply with the content specified in the Conduct Guideline in the Regulations Concerning the Kawasaki Heavy Industries Group Business Conduct Guideline as a set of company regulations.

### Compliance Promotion Structure

The Corporate CSR Committee comprises all execu-

#### Compliance Promotion Structure



tives as members and is chaired by the Kawasaki president. The committee meets at least twice a year (three meetings in fiscal 2018). Its goals are to discuss and determine various measures designed to allow the Kawasaki Group to fulfill its corporate social responsibilities and ensure thorough compliance, and to monitor the achievement levels and status of compliance efforts. To ensure that the objectives of the Corporate CSR Committee extend to all corporate structures, business segments at the head office and internal companies hold CSR committee meetings at least twice a year, in their effort to promote compliance throughout the Group.

### Compliance Reporting and Consultation System (whistle-blower system)

In certain situations, employees (including contract employees, temporary staff, and retired employees) of the Company and domestic consolidated subsidiaries who suspect a violation of compliance practices relating to their operations may find it difficult to report the situation or seek advice from superiors or a department that would normally address alleged

#### Number of Reports or Consultations (in fiscal 2018)

Nature of report or consultation	Number of cases
Power harassment	7
Personnel matters	8
Financial fraud	1
Sexual harassment	3
Blackmail and harassment	1
Safety	2
Others	5
<b>Total</b>	<b>27</b>

\*Number of cases listed above refers to reports and consultations received, not those identified as violation of compliance practices.

misconduct. To address this problem, we established the Compliance Reporting and Consultation System, with an outside lawyer acting as the contact.

There were 27 reports or consultations made through the Compliance Reporting and Consultation System in fiscal 2018.

### Distribution of the Compliance Guidebook

The Compliance Guidebook, which describes necessary and useful knowledge in an easy-to-understand way for ensuring thorough compliance within the Company, is distributed to all executives, employees, and temporary staff at all Group companies in Japan.

The Compliance Guidebook outlines the Group's compliance system and activities as well as the Compliance Reporting and Consultation System. The Guidebook uses illustrations to present easy-to-understand examples that should be noted regarding compliance-related matters. It is divided into 20 sub-sections in total with six classified sections, “Matters concerning Securing the Trust of Customers and Business Partners,” “Matters to Be Observed as a Corporate Citizen,” “Matters concerning Data Protection,” “Matters concerning Handling Financial Transactions,” “Matters concerning the Workplace,” and “Responsibilities of Managers.”



Compliance Guidebook

### Compliance with Competition Laws

The Kawasaki Group is focusing its efforts on compliance with competition (antimonopoly) laws.

## Risk Management

### Basic Stance

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 appropriate risk-management strategies (avoidance, reduction, etc.) should be executed in accordance with the Risk Management Regulations as company regulations upon identifying and classifying risks and performing analysis and assessment of such risks.

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

### Responding to Major Risks

To undertake integrated risk management on a Group-wide basis, divisions responsible for operations re-check for the presence of risks and iden-

tify major ones that have the potential to exert a significant impact on operations (Group-level risks), as well as monitor the status of responses to these risks each year. Furthermore, they specify two to three risk items from among the ones identified that require Group-wide response measures, and specifically confirm the status of risk responses as Group-wide action.

Since 2006, the Board of Directors has adopted a resolution to comply with antimonopoly laws and strive to maintain and improve our enterprise value in society at the first Board of Directors' Meeting, held immediately following each year's general meeting of shareholders.

We also broadly disseminate knowledge of case studies of potential issues for the Company, and promote learning and understanding of competition laws, through the issuance of guidebooks on competition laws to our employees.

### Efforts to Prevent Corruption

Taking an even tougher stand against corruption, we established the Bribery Prevention Regulations in August 2013. These regulations represent a thorough commitment to prevent situations with the potential for dishonesty in corporate practices. Our basic policy states that “the Kawasaki Group will uphold laws in the execution of business activities and that bribes to public officials in Japan or overseas is not at all condoned.” In addition, we implement the establishment of regulations with similar content at domestic and overseas affiliated companies.

In fiscal 2018, we conducted Group-wide training activities on overseas competition laws and bribery prevention laws. Fourteen sessions of the training program were provided at the bases within the Group. Taking part were a total of 409 employees, including the Group's overseas sales staff and executives involved in overseas business operations.