

Compliance

Management
Approach**Material Issues and Our Approach**

The Kawasaki Group Management Principles, part of the Kawasaki Group Mission Statement, extol the 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 Action Guidelines, 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.”

We have established the Kawasaki Group Code of Conduct and set ethical standards to be the basis of decisions.

In accordance with the Code, the Kawasaki Group is committed to further strengthening its corporate culture of not tolerating compliance violations.

Furthermore, because a large portion of our business comes from the sale of made-to-order products for such customers as national governments, municipalities, government ministries and publicly run corporations, we put great emphasis on preventing corruption and maintaining fair business practices.

Focus Activities and Medium-term Targets

Our aim is to establish a state where the risks of compliance violations are checked as accurately as possible, and where comprehensive and effective compliance structures for addressing applicable risks have been put in place, are implemented on an ongoing basis, and regularly updated.

Furthermore, we aim to establish a state where all officers and employees have an in-depth understanding of the corruption issue and the need for its prevention. A sufficiently effective structure for keeping the Group from becoming involved in corruption in its business activities has also been established and is being updated regularly.

● Goals for the MTBP 2019

- Zero serious violations and incidents.
- Expand the use and reach of internal reporting systems at overseas subsidiaries.
- Carry out employee compliance awareness survey (in and outside Japan).
- Carry out e-learning on the Code of Conduct (in and outside Japan).

Progress, Results and Challenges**● Goals for Fiscal 2018**

- Zero serious violations and incidents.
- Set up internal reporting systems at overseas subsidiaries.
- Hold compliance liaison meetings at overseas sites.
- Carry out employee compliance awareness survey (Japan).
- Distribute Code of Conduct booklets and hold awareness-building activities in workplaces.
- Carry out e-learning (in and outside Japan).

● Fiscal 2018 Results

- Zero serious violations and incidents.
- Progress toward setting up internal reporting systems at overseas subsidiaries: Implemented preliminary surveys
- Compliance liaison meetings at overseas sites: Held at four sites
- Compliance awareness survey: Implemented in May 2018
- Distributed Code of Conduct booklets (in Japan) and revised the Code.
- e-learning: Postponed (planned for use in overseas bribery prevention training in fiscal 2019)

● Goals for Fiscal 2019

- Zero serious violations and incidents.
- Begin operating internal reporting systems at overseas subsidiaries.
- Distribute Code of Conduct booklets (second version) and hold awareness-building activities in workplaces.
- Hold compliance liaison meetings at overseas sites.

KPI**● Frequency of Serious Compliance Violations per Year**

- Target: Zero serious compliance violations

● Progress

(FY)	2014	2015	2016	2017	2018
Number of cases	0	0	0	0	0

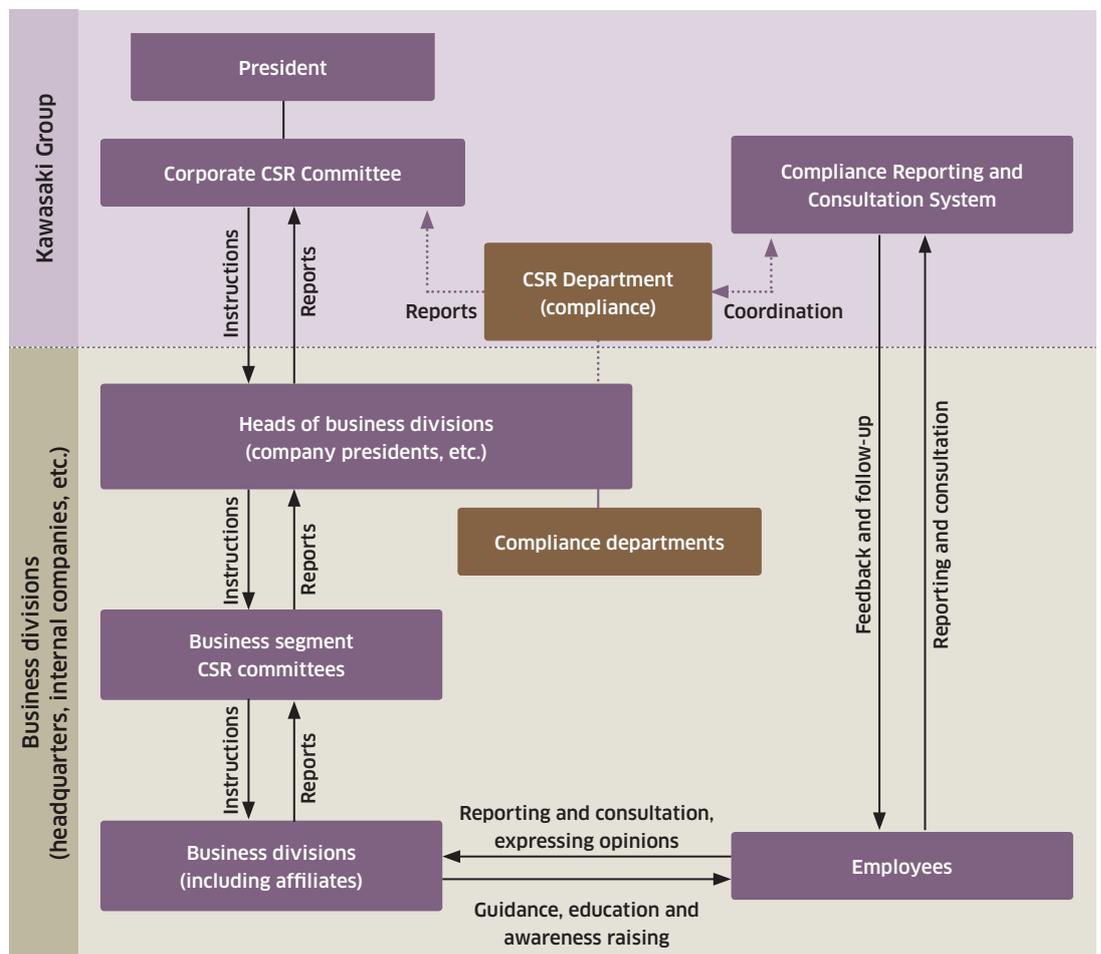
Structure

The Corporate CSR Committee is chaired by the Kawasaki president. The committee meets at least twice a year (three meetings in fiscal 2018). Its functions are to discuss and determine measures to ensure that the Kawasaki Group fulfills its corporate social responsibilities and maintains thorough compliance, and to monitor compliance efforts. To ensure that the objectives of the Corporate CSR Committee extend to all corporate structures, business segment CSR committee meetings are held at the Head Office, internal companies and business divisions at least twice a year to promote compliance throughout the Group.

Because of the diversity of the Group's businesses, some of the compliance activities required in the business divisions are specific to their respective forms of business and may vary from those of other divisions. At the same time, many measures are best implemented across the entire Company in a unified manner.

For this reason, the Kawasaki Group formulates annual Group-wide compliance activity plans that, following the approval of the Corporate CSR Committee, it carries out. In addition, the internal companies and business divisions each formulate annual activity themes that they use to carry out compliance-related initiatives.

Compliance Promotion Structure



- **Responsible Officer**
Chair of Corporate CSR Committee: Yoshinori Kanehana, Representative Director, President and Chief Executive Officer
- **Responsible Executive Organ and Committee**
The Corporate CSR Committee is the executive organ responsible for compliance. With the president of Kawasaki as the chair, the committee is composed of directors, internal company presidents, the executive officer in charge of CSR and Head Office division heads. The attendance of outside directors is requested so that the committee can glean the benefits of their external expertise and opinions and reflect them in its decision-making process. Also, audit & supervisory board members participate in the committee as part of their auditing of the execution of business.
- **Audits and Third-Party Certification of the Compliance System by Third Parties**
The state of compliance is audited by audit & supervisory board members and independent auditors.

Compliance

Compliance Policy

In July 2017, we established the Kawasaki Group Code of Conduct as a set of ethical standards to guide the decision making of Kawasaki Group officers and employees. The code was amended in January 2019, and a second version was established in April.

In the statement by the president at the beginning of the Code, he states, "I declare that the Kawasaki Group Code of Conduct shall serve to help all officers and employees in each country and region to come together in unity, with a deep awareness that the Code will serve as the foundation for ensuring the highest standards of conduct in all of our business activities and that we shall adhere to this Code in making decisions and taking action, even in difficult circumstances," and asks that all officers and employees adhere to this Code.

- **Scope of Policy Application**

All Kawasaki Group officers and employees



The Kawasaki Group Code of Conduct

<https://global.kawasaki.com/en/corp/sustainability/business-conduct-guideline.html>

State of Affairs Regarding Compliance

Efforts to Promote Compliance

- **President's Declaration of Compliance**

Soon after taking office, each of our presidents announces the Presidents Declaration of Compliance to Group employees.

- **Declaration to Observe Laws and Regulations**

Each officer and managerial staff of the Company, at his or her appointment, is required to prepare and submit to the Company a completely handwritten Declaration to Observe Laws and Regulations to reconfirm the awareness that he or she will never commit a violation and will cause other employees to ensure compliance. This Declaration includes the representation that they understand that they may be subject to a penalty or punishment if they commit a violation.

- **Compliance Guidebook**

The Compliance Guidebook provides knowledge that is necessary and useful for ensuring thorough compliance within the Company in an easy-to-understand way. The guidebook is distributed to all officers, 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, which serves as the Group's internal whistle-blower system. The guidebook uses illustrations to present easy-to-understand examples of important compliance-related matters. It is divided into 20 sub-sections within six sections: "Securing the Trust of Customers and Business Partners," "Matters to Be Observed as a Corporate Citizen," "Data Protection," "Handling Financial Transactions," "The Workplace" and "Responsibilities of Managers." The guidebook also contains an index of the corresponding sections of the Kawasaki Group Code of Conduct and serves as a text for increasing compliance awareness. The Compliance Guidebook is used in internal compliance training and educational activities. Since the first edition was issued in 2003, its content has been constantly updated in light of evolving compliance requirements around the world (the current guidebook is version 5.2).



President's Declaration of Compliance

<https://global.kawasaki.com/en/corp/sustainability/mgmt/Presidents-Declaration-of-Compliance.pdf>

Employee Awareness Surveys

The Kawasaki Group implements periodic employee awareness surveys to monitor internal compliance violation risks. Recent surveys aimed at measuring compliance awareness among employees were implemented in fiscal 2011, 2014 and 2018. Survey results are analyzed and reflected in subsequent initiatives.

In fiscal 2016, we carried out compliance awareness surveys of certain executives and managers at Group companies outside Japan and made the results available to employees, including those in Japan. These results will also be reflected in subsequent initiatives.

● Compliance Awareness Survey Results

	(FY)	2014	2015	2016	2017	2018
Survey target coverage rate		Kawasaki and domestic consolidated subsidiaries				
Survey response rate	%	95.7	–	–	–	93.8
The percentage of respondents who replied that their company was being managed in a compliant manner	%	80.2	–	–	–	78.6
	Scope	cd	–	–	–	cd

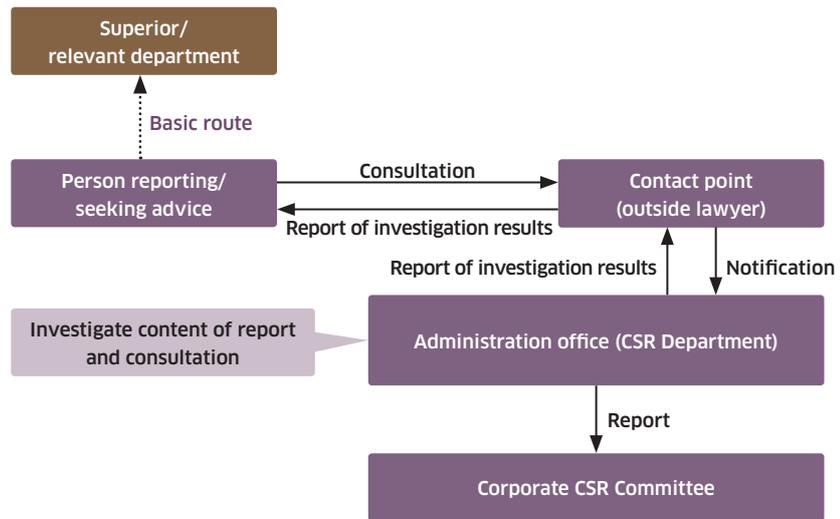
Whistle-Blowing System and Consultation Points

We have established the Compliance Reporting and Consultation System, with an outside lawyer acting as the contact, so that employees (including contract employees and temporary staff) of the Company and domestic consolidated subsidiaries can report or seek consultation regarding suspected violations of compliance practices relating to their operations.

Under the Compliance Reporting and Consultation System, employees report to or consult with an outside lawyer directly. The lawyer then investigates to determine whether or not there is in fact a compliance problem, and if a problem is found, advises the Company on how to remedy it. Furthermore, the lawyer reports the results of this process back to the employee who used the system. During the investigation, the employee's name is not disclosed to the Company without his or her permission.

The Group works to ensure that employees know how to use this system by providing information on it via such means as the Company intranet, leaflet inserts in Kawasaki Group Code of Conduct pamphlets, Compliance Guidebooks and Group newsletters.

Compliance Reporting and Consultation System Flow Chart



● Number of Reports or Consultations

	(FY)	2014	2015	2016	2017	2018
Number of reports or consultations*	Cases	31	19	20	27	29
Abuse of authority	Cases	10	8	5	7	13
Personnel matters	Cases	8	6	4	8	5
Financial Fraud	Cases	6	–	2	1	4
Sexual harassment	Cases	–	1	2	3	1
Threats and harassment	Cases	–	–	–	1	3
Safety	Cases	–	–	–	2	–
Others	Cases	7	4	7	5	3

* The numbers of cases listed above refer to reports and consultations received, not those identified as actual compliance violations. Note: The scope of statistics includes Kawasaki and domestic consolidated subsidiaries.

Number of Compliance Violations, Details of Violations, and Actions Taken

Over the five years in the immediate past, there have been no cases of corporate misconduct that were subject to administrative disciplinary action or sanction.

Anti-Corruption

Anti-Corruption Policy

Taking an even tougher stand against corruption, we established the Bribery Prevention Regulations in August 2013. 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 are not at all condoned. Additionally, the Company presents in its guidelines titled, Basic Stance on Sales Promotion Activities toward Overseas Public Officials and Appointment of Agents, the basic ideas regarding the provision of travel expenses, food and drink expenses, gifts, facilitation payments in sales promotion activities as well as on the appointment of agents for negotiations with overseas public officials. In addition, we are implementing regulations with similar effect at domestic and overseas consolidated subsidiaries.

Also, in the Kawasaki Group Code of Conduct, we clearly define “actions that individuals must take” to ensure correct conduct for each individual officer and employee as it relates to anti-corruption.

● Scope of Policy Application

All Kawasaki Group officers and employees



The Kawasaki Group Code of Conduct

<https://global.kawasaki.com/en/corp/sustainability/business-conduct-guideline.html>

Focus Activities and Medium-term Targets

● Goals for the MTBP 2019

- Zero bribery violations.
- Revise internal rules on entertainment and gifts (Group-wide reinforcement).
- Implement ongoing overseas bribery prevention training (group training and e-learning).

Progress, Results and Challenges

● Goals for Fiscal 2018

- Zero bribery violations.
- Implement overseas bribery prevention training.
- Review internal rules on entertainment and gifts.

● Fiscal 2018 Results

- Bribery violations: 0
- Training: Seven venues, 181 participants
- Considered ways to strengthen rules on entertainment and gifts.

● Goals for Fiscal 2019

- Zero bribery violations.
- Revise internal rules on entertainment and gifts.
- Implement overseas bribery prevention training (group training and e-learning).

Anti-Corruption Training for Employees

We provide overseas bribery prevention training for employees involved in overseas businesses every year in Japan. In fiscal 2018, 181 employees took part in overseas bribery prevention training. Furthermore, compliance training with a focus on anti-corruption is included in training programs for employees in charge of overseas businesses.

Number of Anti-Corruption Violations, Details of Violations, and Actions Taken

Over the five years in the immediate past, there have been no cases of corruption that were subject to administrative disciplinary action or sanction.

Expenditures to External Organizations

Political Contributions

	(FY)	2014	2015	2016	2017	2018
Total political contributions	Millions of yen	3.0	3.0	3.0	3.0	3.0

Expenditures to Industry Organizations

	(FY)	2014	2015	2016	2017	2018
Total expenditures to industry organizations	Millions of yen	50	50	50	50	50

Other Expenditures for Donations, Support Funding, etc.

	(FY)	2014	2015	2016	2017	2018
Total expenditures for donation support funding, etc.	Millions of yen	194	211	255	208	173

Compliance with Antimonopoly (Competition) Laws

Policy Regarding Compliance with the Antimonopoly Act

The Kawasaki Group is focusing efforts on compliance with the Antimonopoly Act. Since 2006, the Board of Directors has adopted a resolution to comply with the Antimonopoly Act and strive to maintain and improve the Company's enterprise value in society at the first Board of Directors meeting held immediately following each year's general meeting of shareholders. The Kawasaki Group Code of Conduct also states that the Group will not obstruct free and fair competition and will work to maintain a healthy market.

● Scope of Policy Application

All Kawasaki Group officers and employees



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Employee Training on Compliance with Antimonopoly (Competition) Laws

The Company publishes a variety of guidebooks on the Antimonopoly Act for employees to ensure a broader awareness of situations at the Kawasaki Group that could become problematic and conducts regular training on the Antimonopoly Act. In fiscal 2018, 140 employees took part in Antimonopoly Act compliance training. Furthermore, regarding overseas antimonopoly (competition) laws, in addition to overseas bribery prevention training, we carry out overseas antimonopoly (competition) law training, which 181 employees took part in fiscal 2018.

Number of Violations Relating to the Antimonopoly Act, Details of Violations, and Actions Taken

Since 2010, there have been no serious violations that were subject to administrative disciplinary action by the Fair Trade Commission. Since 2006, there have been no serious violations that were subject to criminal penalties.

Other Important Compliance Risks

Prevention of Insider Trading

For the purpose of preventing insider trading, Kawasaki has established company regulations titled, the Insider Trading Control Rules, that it uses to implement and regulate related actions. In addition, to further ensure the prevention of insider trading, the Company established a new system in fiscal 2013 that obligates Company officers and employees who intend to trade Company shares to notify the Company by a prescribed date (the Treasury Stock Trading Prior Notification System). Also, the Kawasaki Group Code of Conduct forbids insider trading.

- **Number of Violations, Details of Violations, and Actions Taken**

Since 1989, when the amended Securities and Exchange Act which regulates insider trading was enacted, there have been no serious violations by the Group or Group employees that were subject to penalties or administrative monetary penalties.

Elimination of Antisocial Forces

The Company resolutely rejects inappropriate requests from antisocial forces and undertakes various measures to break off any relationship with such forces.

Specifically, in addition to what is described in the Kawasaki Group Code of Conduct and the Compliance Guidebook, we also publish the Manual of Responses to Antisocial Forces, and strive to promote awareness and full compliance with established internal practices and systems, as well as with prescribed procedures of response. In addition, we have established a unit at the Head Office to supervise responses associated with the elimination of antisocial forces. This unit works closely with the police and other external specialist organizations to establish an internal structure to systematically deal with inappropriate requests from antisocial forces.

- **Number of Violations, Details of Violations, and Actions Taken**

According to our survey of the period from 1997 to present, all inappropriate requests and requests for meeting appointments from antisocial forces and other similar organizations have been denied and eliminated during this period, and there have been no violations.

Measures to Prevent Money Handling Risks at Small-Scale Operating Sites

Certain situations are unique to small-scale operating sites, such as regional offices and satellite branches. These organizations may be ill-equipped to perform sufficient checks, or may have particular individuals within the organization who have become fixed to a particular position due to difficulties in implementing personnel rotation. Based on such circumstances, the Company has carried out reviews, improved the manuals for checking procedures, and enhanced audits in order to reduce risks, particularly as they relate to the handling of money.

- **Number of Violations, Details of Violations, and Actions Taken**

Over the five years in the immediate past, there have been no cases of corporate misconduct that were subject to administrative disciplinary action or sanction.