

Using Cutting-edge Technology to Build a Brighter Future

2013–2018

In the year preceding the start of its MTBP 2013 medium-term business plan, Kawasaki saw orders increase across the board, with both net sales and profits in fiscal 2013 and 2014 growing substantially year on year. However, as orders increased, so did interest-bearing debt, while free cash flow dropped significantly. Kawasaki, then turned to Kawasaki-ROIC Management to save the day by boosting ROIC and core competencies at the business unit level. As a result, ROIC jumped to 10.4% in fiscal 2014, and both sales and profits reached record highs in fiscal 2015.

In April 2016, Kawasaki launched its MTBP 2016 (FY2016–2018) amid a slump in the Japanese economy triggered by declining foreign demand and sluggish consumer spending. The company allocated management resources primarily to the aerospace system, energy, robot, and other businesses that were expected to grow significantly in the medium to long term. In 2018, it reorganized three internal companies operating aerospace and energy-related businesses into two in order to generate greater synergy through the integration of their technologies. It also bridged the boundaries of internal companies to pioneer new product technology.

In the 2010s, companies were feeling the pressure to address energy and environmental issues, strengthen governance, promote diversity, transform the way employees worked, and more. The Kawasaki Group promoted environmental management aimed at achieving a sustainable society, invited in outside directors, and instituted work style reforms with the input of all employees.

1.

Reforming the Management Structure

1) Inauguration of Shigeru Murayama as President

At its extraordinary meeting held on June 13, 2013, the Board of Directors unanimously passed a resolution to dismiss three directors from the positions of president, senior executive vice president, and senior vice president respectively and reappoint them as directors under the supervision of the president. The Board determined that these three persons were not qualified to play a central role in the management of the company. It believed their arbitrary management decisions neglected the majority view of the Board and were in misalignment with what the Board considered good corporate governance. During the same meeting, the Board also passed resolutions to terminate negotiations regarding a merger with Mitsui Engineering and Shipbuilding Co., Ltd. as well as to revamp the management structure. It was then that Shigeru Murayama, Senior Vice President, was appointed as the new president.

At a meeting of the Board of Directors held after the annual general meeting of shareholders on June 26, Murayama, who was re-elected president, urged employees to embrace a free and open corporate culture. He said, "As companies become increasingly globalized, the public is making greater demands on them in terms of corporate social responsibility and compliance. It is vital that we continue to question what enterprise value means from these perspectives as well, as we move forward to further enhance our Group's enterprise value."

2) Appointing Outside Directors

Kawasaki appointed its first outside director in 2013. Since then it has worked to bolster the external supervisory function of outside directors, who have no vested interest in the company, with the aim of enhancing management transparency and objectivity. Outside directors from various backgrounds attend Board of Directors meetings and provide opinions and advice on the Kawasaki Group's business operations from an independent standpoint, thereby strengthening its supervisory function. They also actively participate in and provide advice on the company's management by chairing the Nomination Advisory Committee and the Compensation Advisory Committee, which will be discussed later.

The first person to be appointed outside director in June 2013 was Yoshihiko Morita. Having served as the president of the Japan Institute for Overseas Investment, a corporate auditor of Tokyo Gas Co., Ltd., and an advisor at Sumitomo Mitsui Banking Corporation, Morita provided input drawn from his wealth of international experience and financial expertise.

After that, Kawasaki decided to appoint two outside directors in June 2015, and later increased the number of outside directors to three in June 2018.



Message from President Murayama in the company newsletter

3) Introducing the Position of Fellow

In April 2014, Kawasaki created the position of fellow. It is the highest professional rank one can achieve. Employees with outstanding knowledge and expertise, mainly in a technical field, who have contributed to improving the company's business performance and enterprise value are appointed fellows and accorded the same treatment as an executive officer.

The introduction of this position was designed to boost employee morale as well as instill a desire to become a fellow that would serve as a shining star for all to follow. It would be the foundation for taking professionalism to new heights.

4) Strengthening the Energy and Environmental Engineering Business

Kawasaki's energy plant business started to see the entire business unit's product profit margin tank in fiscal 2012 and go on to suffer a recurring loss in fiscal 2013. In order to improve its performance, Kawasaki consolidated the business unit and transferred common back-office operations being conducted at the Tokyo head office to Kobe in a move to strengthen and streamline the organizational functions of the company. This major organizational shift was the culmination of a series of reform initiatives, focusing on four areas (awareness, operations, organization, and products), that had been ongoing since the spin-off in 2005.

Kawasaki needed to strengthen the energy plant business in order to build a stronger foundation in the energy and environmental engineering sector, which was designated as a focus area in the Group Management Model 2018 formulated in October 2014. That meant integrating it into other Plant & Infrastructure Company divisions in Kobe.

Out of 369 employees at the Tokyo Head Office, a total of 239, including 123 senior executives and 116 general employees, were transferred to the Kobe Works in April 2015.

5) Behind the Shareholder Derivative Suit

In September 2012, the Tokyo District Public Prosecutors Office conducted an investigation into a violation of the Act on Elimination and Prevention of Involvement in Bid Rigging, etc. and Punishments for Acts by Employees that Harm Fairness of Bidding, etc. in connection with the development of a new multi-purpose helicopter (UH-X) for which Kawasaki won a contract from the Ministry of Defense in March 2012. In the end no charges were filed against Kawasaki and its associates. However, the company was suspended by the Ministry of Defense for two months from July 31, 2013 for inappropriate conduct during the bidding process.

In connection to this matter, one of Kawasaki's shareholders filed a shareholder derivative suit against a director and a former director of Kawasaki in July 2014, demanding compensation for damages.

The shareholder claimed that the defendants were negligent in either knowingly breaking the law, overlooking any misconduct, or tacitly condoning a violation of the law. The plaintiff demanded damages in the amount of 4,628 million yen in total for the loss caused by the invalidation of the contract, etc. resulting from the criminal investigation.

Having determined that the defendants were not derelict in their duty as alleged by the plaintiff, Kawasaki decided to join the defendants in this lawsuit to assist them in clarifying, among other things, that there were no deficiencies in the company's management.

The lawsuit was concluded at the Kobe District Court in October 2019, with a ruling against the plaintiff. The plaintiff lost his rights as a shareholder and the lawsuit was dismissed, effectively handing a victory to the two defendants.

2. To Become a Truly Global Company



Explanation of the MTBP 2016 in the company newsletter

1) Formulation of MTBP 2016

In fiscal 2015, the final year of the MTBP 2013 medium-term business plan, the Kawasaki Group earned 1,541 billion yen in net sales, 95.9 billion yen in operating income, and 93.2 billion yen in recurring profit, with all figures hitting record highs. Although sales and before-tax ROIC fell slightly short of the targets set in the medium-term business plan, operating income and recurring profit both exceeded the set targets.

Following this achievement, Kawasaki launched the MTBP 2016 medium-term business plan in April 2016. The company reaffirmed the goals spelled out in the Group Mission and Group Vision statements, and set specific strategies and quantitative targets for the next three years while painting a picture of how the business should look ten years down the road.

[Basic Policy]

(1) Further progress on Kawasaki-ROIC Management

- All employees engaged in Kawasaki-ROIC Management: Set KPIs* that contribute to improving enterprise value based on the characteristics of each business segment.
 - Enhance risk management position: Ensure risk management at each phase of the project in order to take the next step as quickly as possible.
- * *Key performance indicators (KPIs) are quantitative metrics used to evaluate progress in reaching business goals.

(2) Investments targeting medium- to long-term growth

Continue to aggressively make capital investments and conduct R&D for medium- to long-term growth, as done under the previous mid-term plan.

(3) Business realignment

- Ship & Offshore Structure Business: (1) Maximize profits through integrated operation of Sakaide Works and NACKS/DACKS; (2) Achieve stable business activities at Kobe Works by focusing on submarine-related operations; (3) Shrink the offshore service vessels business
- Hydraulic Machinery Business: (1) Make Kawasaki the top brand in the hydraulic market; (2) Develop business beyond excavators, to construction and agricultural machinery; (3) Seek synergies and enhanced efficiency through integrated operations with the Robot Division

[Financial Strategy]

Increase operating cash flow to aggressively make investments for future growth, return profits to shareholders, and strengthen the company's financial position all with an aim for medium- to long-term growth.

[Quantitative Targets] (FY2018)

Net sales	1.74 trillion yen
Operating income	100 billion yen (Ratio of operating income to sales: 5.7%)
Recurring profit	97 billion yen (Ratio of recurring profit to sales: 5.5%)
Before-tax ROIC	11.0%

2) Inauguration of Yoshinori Kanehana as President

In June 2016, Kawasaki's president, Shigeru Murayama, became its chairman, and Yoshinori Kanehana, its senior executive vice president, became president. In his inaugural address, Kanehana, who took over the reins on the occasion of Kawasaki's 120th anniversary, said, "I believe it is my mission to ensure the sustainable growth of our Group so that we can continue to be a company that inspires our employees and makes them proud. I will carry the torch that has been handed to me by President Murayama and pass it on to the next generation in an unbroken chain that over the years has linked us to the philosophy espoused by our founder, Shozo Kawasaki, of 'contributing to the nation—to society—through expertise.'" The new leader pledged to steadily implement various measures that would enable the Kawasaki Group to continue to grow in the years following its 120th anniversary.



Chairman Murayama (left) and President Kanehana (right)

3) Taking Kawasaki-ROIC Management to New Heights

The Kawasaki Group has been promoting its own ROIC management since fiscal 2000, with a focus on striking the optimal balance between enterprise value, employee value, and customer value, while making the most of the various types of technology and intellectual strengths it has cultivated through its wide-ranging businesses encompassing land, sea and air transportation systems, energy and environmental engineering, and industrial equipment. As a result, the company's operations have remained strong, and the total free cash flow (operating cash flow + investing cash flow) increased by 140 billion yen from fiscal 2001 to fiscal 2007, while interest-bearing debt of 420 billion yen was reduced to 280 billion yen. The company began to see its ROIC management efforts bear fruit around 2006 as the financial performance of each business segment started to recover and grow.

Subsequently, however, due in part to growing economic bubbles in emerging markets triggered by monetary easing measures implemented in the wake of the Lehman Brothers collapse, the company changed its management course toward expanding operations. This shift was accompanied by a renewed increase in interest-bearing debt resulting in a significant deterioration of free cash flow by the end of fiscal 2012. In response, the company decided to focus on ROIC management from June 2013 onward. It aimed at improving ROIC and core competencies (competitive advantages) at the business unit (BU) level, in order to enhance its enterprise value. Emphasis was placed on strictly applying a hurdle rate of 8%, enhancing risk management, and using KPIs.

The objectives of ROIC management were to leverage Kawasaki's advantages as a conglomerate and ensure stable operations via BU portfolio management, focus on capital cost management by thorough control of the balance sheets of each BU, and enhance core competencies while fostering growth-inducing synergy. The company allocated more business resources to BUs with higher investment efficiency. In addition to that, it identified hurdles and issues facing each BU in their markets, growth potential, core competencies, etc. as well as their financial challenges and enlisted the support of the entire company to achieve its targets.



President Kanehana's 2017 New Year's address in the company newsletter



Explanation of Kawasaki-ROIC Management in the company newsletter

The company also sought to enhance enterprise value by leveraging the synergy created from combining businesses across internal company boundaries.

As a result, free cash flow improved significantly, and before-tax ROIC, which was 8.1% in fiscal 2013, increased to 10.4% in fiscal 2014. Furthermore, the company achieved the goal of reaching a net debt-to-equity (D/E) ratio* of 100% by fiscal 2015 in fiscal 2014, a year ahead of schedule. Under the MTBP 2016 medium-term business plan, the company set fiscal 2018 quantitative targets of a before-tax ROIC of 11% and operating income of 100 billion yen.

*Net D/E Ratio = (Interest-bearing liabilities as of previous fiscal year-end - Cash and cash equivalents as of previous fiscal year-end)/Equity as of the previous fiscal year-end × 100

4) Kawasaki Celebrates Its 120th Anniversary

Kawasaki marked its 120th anniversary on October 15, 2016 with various commemorative events.

In January of the same year, the company unveiled a 120th anniversary logo. Combining the kanji character for “kawa” and the number 120 in the base colors of gold and silver, the logo design visualized a symbol of trust backed by history and tradition. The logo was used for public relations activities to further enhance Kawasaki’s corporate brand value as well as to express gratitude to its stakeholders.

On October 14, 2016, Kawasaki hosted its 120th anniversary celebration at the Kobe Portopia Hotel. The event was attended by Kawasaki executives, directors, former executives, presidents of domestic affiliates, representatives of the Kawasaki labor union (head office and branch office executive committee members), and members of the prefectural and city assemblies (who were former Kawasaki employees).

On the following day of October 15, “Kawasaki Heavy Industries 120th Anniversary Exhibition: Passion and Pride for Being the Fastest in the World” opened at Kobe Port Terminal Hall. The exhibition featured photo panels of Kawasaki products that had been behind the development of modern industries in Japan over the last 120 years. It also showcased a restored model of the Hien, a fighter aircraft developed and manufactured by Kawasaki Aircraft Co., Ltd. for the Imperial Japanese Army during World War II. Over 44,000 people attended the exhibition, which ended on a high note on November 3. From September 17 to November 27, the Kobe City Museum held the “Matsukata Collection Exhibition—Tracing the Dream of Kojiro Matsukata,” bringing together a large collection of ukiyoe and Western art that Kawasaki’s first president, Kojiro Matsukata, had collected at his own personal expense.



120th anniversary logo



Restored Hien fighter aircraft on display at the Kawasaki Heavy Industries 120th Anniversary Exhibition

5) Establishing a Companywide Quality Control Committee

On December 11, 2017, a crack was found in the bogie frame of the series N700 Shinkansen train manufactured by Kawasaki at Nagoya Station on the Tokaido Shinkansen line. This was the first serious incident of its kind involving the Shinkansen.

This bogie frame was manufactured at the Kawasaki Rolling Stock Company’s Hyogo Works in February 2007. The investigation results found that the crack was caused by manufacturing defects.

In April 2018, Kawasaki established the Companywide Quality Control Committee with outside experts to investigate the causes of the manufacturing defects and discuss measures to prevent their recurrence. The company also put together an investigative team consisting of internal and external experts that answered to the committee.

Based on the findings of the investigative team, the Companywide Quality Control Committee identified the problems and hammered out the corrective measures to take. The implementation of corrective measures at the Rolling Stock Company was regularly monitored by the Management Committee and supervised by the Board of Directors.

The results of the investigation conducted by the Companywide Quality Control Committee revealed that manufacturing defects were due to vulnerabilities in quality control and management. There was too much reliance on the manufacturing lines and not enough risk management to prevent defects.

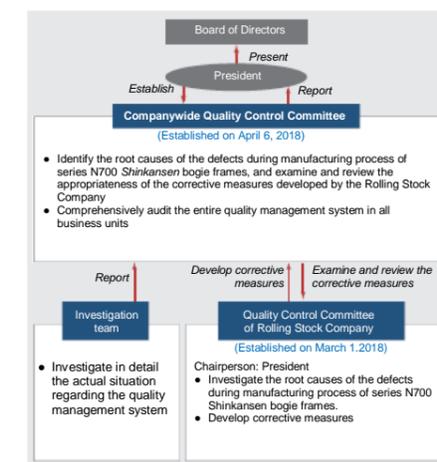
Kawasaki took the investigation results seriously, and in September 2018, announced that it would (1) review work processes, (2) tighten risk management, (3) promote close cooperation and communication between related departments, and (4) review the internal education and training curriculum as corrective measures to enhance quality management and prevent any recurrence. In order to make sure these efforts took root throughout the company, Kawasaki decided to introduce total quality management (TQM) and set up the Companywide Quality Committee to implement it.

6) Reorganizing Internal Companies

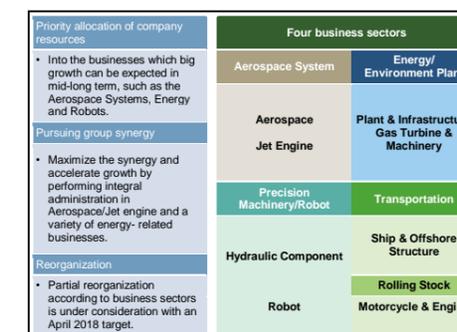
Priority Allocation of Company Resources and Promotion of Synergies

In following the Business Portfolio Strategy outlined in the MTBP 2016 medium-term business plan, Kawasaki allocated extensive management resources to businesses that displayed significant growth potential in the medium to long term, such as aerospace systems, energy solutions, and robots. The company also worked on maximizing synergy and accelerating growth through integrated operations of the aircraft fuselage and jet engine businesses as well as various energy-related businesses. In fiscal 2017, the Kawasaki Group’s sales reached a new record high due to increases in sales in the precision machinery, gas turbine and machinery, and motorcycle and engine businesses. The ROIC, however, hit 3.9% due to the impact of an extraordinary loss caused by the termination of a shipbuilding contract for a Norwegian offshore service vessel, falling below the Group’s hurdle rate of 8% for the next two consecutive years of fiscal 2016 and 2017.

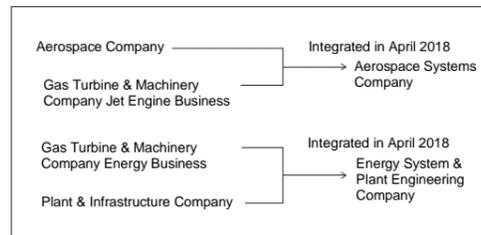
Kawasaki responded to these changes in the business environment in April 2018 with the introduction of Kawasaki-ROIC Management and the reorganization of three internal companies, in the growth areas of aerospace and energy, into two.



Functions and Relationship of Committees



Business Portfolio Strategy



Reorganizing three internal companies into two

Establishing the Aerospace Systems Company

In the area of aerospace, Kawasaki merged the Aerospace Company and the Gas Turbine & Machinery Company's jet engine business into the Aerospace Systems Company. In streamlining the organization, the company aimed to strengthen its global cost competitiveness and create new businesses through the integration of technologies. It also stipulated operational rules for production and quality control systems, which previously existed in both companies, to facilitate manufacturing operations.

Establishing the Energy System & Plant Engineering Company

In the area of energy, Kawasaki integrated the Gas Turbine & Machinery Company's energy business and the Plant & Infrastructure Company into the Energy System & Plant Engineering Company. The establishment of the new internal company was designed to incorporate energy-related products and technologies into optimum energy systems that could meet a world of customers' needs.

Precision Machinery Company Renamed Precision Machinery & Robot Company

In the robot business, the Precision Machinery Company was renamed the Precision Machinery & Robot Company with an aim to expand operations even further.

The robot business, which was poised to take off, needed more design and production space. While Kawasaki had a showroom at its Nishi-Kobe Works, it used the Akashi Works for pre-delivery inspections by customers.

The solution to these problems that Kawasaki came up with included transferring the factory automation and clean robot divisions of the Akashi Works to the Nishi-Kobe Works between fiscal 2016 and 2017. Of the 456 employees at the Akashi Works, 92 employees, including senior executives, were transferred to the Nishi-Kobe Works in October 2016, and 40 employees, including senior executives, were transferred in October 2017.

7) Trends at Overseas Locations

KMM Begins Aircraft Parts Production

In 1975, KMC began mass production of motorcycles at its Lincoln Plant in the U.S. Kawasaki Motors Manufacturing Corp., U.S.A. (KMM), which was split off from KMC in December 1981, opened a rolling stock factory at its Lincoln Plant in 2001. It is the Kawasaki Group's only overseas production base that manufactures products for multiple internal companies.



Kawasaki Motors Manufacturing Corp., U.S.A.(KMM)
Lincoln Plant rolling stock production line

In May 2017, KMM completed a production line for the cargo doors of the Boeing 777X, Boeing's newest commercial airliner. It was the first aircraft parts production line operated by a Japanese manufacturer in the United States, and full-scale operation kicked off in autumn of the same year. Kawasaki seized this opportunity to position the Lincoln Plant as a major production base for aircraft parts in the United States and has been working to expand its commercial aircraft business ever since.

Boosting Motorcycle Sales in Southeast Asia and Establishing a Sales Company in Vietnam

Kawasaki's motorcycle sales are growing year by year in countries throughout Southeast Asia.

Annual motorcycle production at Kawasaki Motors (Phils.) Corporation (KMPC) in the Philippines skyrocketed in just three years as it jumped from 170,000 in 2017 to 250,000 in 2020. This includes the BARAKO II, an overwhelmingly popular model used as the motorized element of the tricycle (a three-wheeled taxi consisting of a small motorcycle and a sidecar). This was the highest production volume of any factory operated by the Motorcycle & Engine Company in the world.

The motorcycle market in Vietnam is expected to keep pace with the country's economic growth. Sales exceeded 3.3 million units in 2018, trailing just behind China, India, and Indonesia. In January 2019, Kawasaki established Kawasaki Motors Vietnam Co., Ltd. (KMV) to import and sell motorcycles. The company is Kawasaki's twelfth overseas motorcycle sales subsidiary.

Accelerating Global Expansion of Robot Business

In the 2000s, China's robot market expanded quickly in step with the country's rapid economic growth. In 2006, the Kawasaki Group established Kawasaki Robotics (Tianjin) Co., Ltd. (KRCT) in Tianjin. Kawasaki's first robot business location in China, KRCT built and delivered robots to major Japanese automaker's factories in China. In 2013, Kawasaki Robotics (Kunshan) Co., Ltd. was established to promote local production and consumption. In 2015, Kawasaki Precision Machinery (Suzhou) Ltd. (KPM Suzhou) began manufacturing robots. The company worked to improve production efficiency based on the concept of robots making robots.



Aircraft parts production line at Lincoln Plant



Production line at Kawasaki Motors (Phils.) Corporation (KMPC)



Kawasaki Motors Vietnam Co., Ltd.
(KMV) office building



Exterior view of Kawasaki Robotics (Tianjin) Co., Ltd.
(KRCT) when it first opened



Opening ceremony of Kawasaki Robotics (Tianjin) Co., Ltd. (KRCT) Kunshan Branch [currently Kawasaki Robotics (Kunshan) Co., Ltd. (KRCK)]



Robot factory at Kawasaki Precision Machinery (Suzhou) Ltd. (KPM Suzhou)



Robot sales office of Kawasaki Heavy Industries (India) Pvt. Ltd.

In the same year, Kawasaki (Chongqing) Robotics Engineering Co., Ltd. (KCRE) was established in Chongqing, the world capital for electronics manufacturing services (EMS). In addition to manufacturing and selling robots, KCRE expanded into the production line building business, handling everything from design to the start-up of factory assembly lines for automobile manufacturers. Kawasaki established locations across Asia, from South Korea to Taiwan and Thailand. In Singapore, it launched the Singapore Kawasaki Robot Center (SKRC) in 2014 to provide after-sales services, and in 2017, the Singapore Kawasaki Robot Engineering Center (SKRE) to provide support for industrial robot applications development and training for engineers. In 2015, Kawasaki established a robot division (KIRD) at its Indian subsidiary, Kawasaki Heavy Industries (India) Pvt. Ltd. In the United States, a local subsidiary of Mediaroid Corporation, a joint venture between Kawasaki and Sysmex Corporation, which has a broad network in the medical field, began operating in Silicon Valley in 2016. The company works jointly with Mediaroid on medical robot technology development, marketing activities, and regulatory affairs for approval by the U.S. Food and Drug Administration (FDA), with the aim of expanding the sales of medical robots. Since the 2010s, the Kawasaki Group has been accelerating the introduction of robots around the world that contribute to a wide range of industries.

3.

Toward the Sustainable Development of the Group (Harmonious Coexistence with Stakeholders)

1) Corporate Governance

Basic Stance on Corporate Governance

The Kawasaki Group has established a corporate governance system that is suitable for a corporate group that operates globally, with directors and corporate auditors playing central roles. Kawasaki believes corporate governance can raise enterprise value through effective and sound management while forming solid relationships with all stakeholders through highly transparent management practices.

Establishment of the Nomination Advisory Committee and Compensation Advisory Committee

In May 2015, Kawasaki established the Nomination Advisory Committee and the Compensation Advisory Committee as advisory bodies to the chairman of the Board of Directors. With chairs and a majority of members who are outside corporate officers, the committees are designed to improve the transparency and objectivity of board decisions.

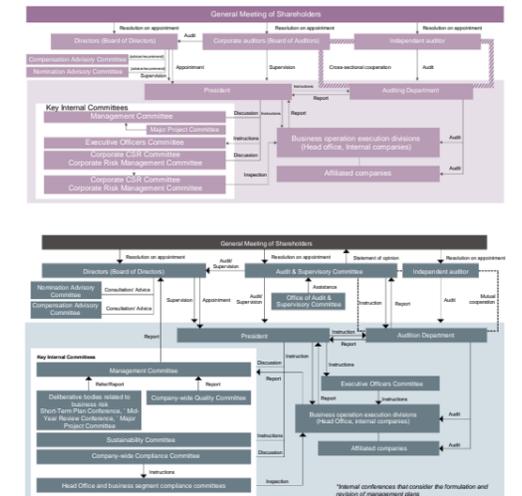
The Nomination Advisory Committee deliberates on the appropriateness of policies and proposals for the election of corporate officers while the Compensation Advisory Committee deliberates on the appropriateness of executive compensation policies and plans. Both committees then report to or advise the Board of Directors.

Revising the Director and Executive Officer Positions

On April 1, 2018, Kawasaki revised the director and executive officer positions in order to separate the supervisory and monitoring function of the Board of Directors from its execution function with an eye to further strengthening corporate governance.

- (1) With the exception of the chairman, vice chairman, and president, the company would no longer appoint managing directors but appoint representative directors and directors instead.
- (2) The positions of president, senior executive vice president, executive vice president, and senior vice president were respectively changed to president and chief executive officer, vice president and senior executive officer, senior managing executive officer, and managing executive officer positions.

The company also increased the number of outside directors by one in order to strengthen the board's ability to oversee business operations.



Kawasaki's Governance Structure (Top: As of June 25, 2015, Bottom: As of June 25, 2021)



Cumulative number of visitors to Kawasaki Good Times World reaches three million



Kids science class in Minami-sanrikucho, Iwate Prefecture



Kawasaki Robostage



Participating in Hyogo Prefecture's forest conservation activities



Participating in Team Tyura Sango

2) Establishment of the Social Contribution Activities Policy

In November 2018, Kawasaki established the Kawasaki Group Social Contribution Activities Policy in order to clarify its official position regarding community engagement and its impact. Kawasaki is a good corporate citizen committed to fulfilling its corporate social responsibility through engagement and coexistence with local communities with a focus on the following areas.

- (1) The Kawasaki Group, as a corporate citizen, constructs a good relationship with local communities and contributes to their development.
 - Operating Kawasaki Good Times World
 - Operating the Kawasaki Good Times Foundation in the U.S.
 - Donating money and Kawasaki products to aid victims and areas hit by disasters around the world
- (2) The Kawasaki Group supports the next generation who lead the technology of the future.
 - Hosting science classes for elementary school students
 - Participating in the Youngsters' Science Festival that provides elementary, junior high, and high school students with opportunities to experience the fun of science
 - Operating Kawasaki Robostage, where visitors can experience the cutting-edge technology and know-how behind Kawasaki robots
- (3) The Kawasaki Group preserves the environment and achieves a sustainable society.
 - Conducting forest protection and restoration activities via Kochi Prefecture's afforestation project, Hyogo Prefecture's corporate forest restoration project, etc.
 - Participating in Team Tyura Sango activities to restore coral reefs in Onna-son, Okinawa Prefecture

3) Sustainability and SDG Initiatives

Establishing a Code of Conduct

The Kawasaki Group drafted the Kawasaki Corporate Code of Ethics in 1999 and the Global Business Ethics Guidelines for its overseas subsidiaries in 2011 to ensure total compliance. In an effort to get everyone across the Group on the same page, Kawasaki set forth the Kawasaki Group Code of Conduct in September 2017. It is the Kawasaki Group's ethics bible to be followed religiously by all officers and employees.

Focusing on corporate and societal rules, section 1 of the Code of Conduct, entitled "In Order to Ensure Correct Conduct," covers twelve areas that are strictly regulated around the world (including fair business practices, prohibition of improper gifts and entertainment, information security, and personal information protection). Section 2, entitled "In Order to Face Stakeholders," covers ten areas related to the Kawasaki Group's responsibilities and ethical duties to society and its stakeholders (which includes providing safe, top-quality, high-performance products and services, respecting human rights, ensuring a safe and healthy work environment, and protecting the global environment). As of April 2021, the Code of Conduct has been published in ten different languages (i.e. Japanese, English, simplified and traditional Chinese, Korean, Thai, Indonesian, Portuguese, German, and Russian) and distributed to employees around the world.

Identifying Material Issues

Today stakeholders are demanding companies be more responsible than ever for the impact their operations have on the environment while keeping pace with changes in society. The Kawasaki Group took heed of those demands, and in 2018 reassessed how its corporate activities would affect society and the environment. For the first time ever, it pinpointed social issues and material issues it should address so that it could develop and implement business strategies with these issues in mind. The company divided its material issues into the two broad categories of social value created through its business and the foundation of its business activities. This move was aimed at stepping up efforts to solve issues facing society through products and services and address CSR issues such as corporate governance, supply chain management, compliance, and human rights.

Following the formulation of the Group Vision 2030, the company reassessed materiality and identified its material issues in 2021 (see the figure on the right). The company has set KPIs for the identified material issues and designated departments responsible for steadily implementing necessary measures and follow-up activities to achieve targets.

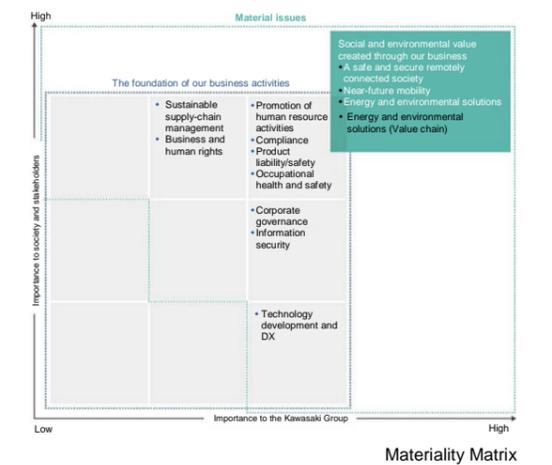
In 2021, the Sustainability Committee and the Company-wide Compliance Committee, chaired by the president, were established in place of the Corporate CSR Committee in order to address the growing importance of sustainability worldwide against the backdrop of intensifying climate change due to global warming, and to further strengthen compliance in corporate activities.

Efforts to Achieve SDGs

The Sustainable Development Goals (SDGs) were adopted by all 193 UN member states at the United Nations summit held in September 2015. The SDGs are composed of 17 goals to be achieved by 2030 that address eradicating poverty, inequality, injustice, and fighting climate change, along with 169 specific targets aimed at achieving them.



Kawasaki Group Code of Conduct



		Social and environmental value created through our business		
		Safe and secure remotely connected society	Near-future mobility	Energy and environmental solutions
		Suppliers	Kawasaki Group	Customers
Especially important matters going forward (matters having an increasing impact on future long-term conditions)	Energy and environmental solutions (value chain)		Decarbonization Improvement of resilience to climate change Effective use of resources	
	Business and human rights		Implementation of human rights due diligence	
	Promotion of human resource activities		Personal system reform and human resource development Promotion of diversity	
	Technology development and DX		Co-creation intellectual property strategy toward new business creation Open innovation Promotion of DX	
Matters given importance until now but to be steadily strengthened going forward	Product liability/safety		Product liability/safety	
	Compliance	Compliance with the Kawasaki Group CSR Procurement Guidelines	Compliance with the Kawasaki Group Code of Conduct	
	Occupational health and safety		Anticorruption measures Occupational health and safety	
	Information security		Strengthening of product security Strengthening of information security Strengthening of cyber defense	
		Personal information protection		
		Corporate governance (all mechanisms to be improved as business foundations)		

KHI Group Crisis Management System

Created Social and Environmental Value	Applicable SDGs			
A safe and secure remotely connected Society	3 GOOD HEALTH AND WELL-BEING	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	17 PARTNERSHIPS FOR THE GOALS
Near-future mobility	3 GOOD HEALTH AND WELL-BEING	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES	17 PARTNERSHIPS FOR THE GOALS
Energy and environmental solutions	7 AFFORDABLE AND CLEAN ENERGY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	17 PARTNERSHIPS FOR THE GOALS	

Kawasaki Group's Approach to the SDGs

Corporations are also required to contribute to solving issues facing the world through their business activities. The Kawasaki Group's mission statement, "Kawasaki, working as one for the good of the planet" and the SDGs have a strong affinity. Kawasaki is working to do its share in achieving the SDGs and believes that it can make a significant contribution toward achieving them. When looking at its material issues in 2018, Kawasaki identified the corporate group's most important long-term goal as creating social value through its business operations. In light of that goal, it picked the SDGs it should contribute to achieving and set non-financial targets for 2030. The company revised these targets when it reassessed materiality in 2021. While regularly disclosing the progress toward achieving the targets, the company aims to maximize social value and sustainable growth, while contributing to the achievement of the SDGs.

Establishing a Human Rights Policy and Joining the United Nations Global Compact

As its value chain was expanding worldwide in step with the globalization of its operations, Kawasaki established the Kawasaki Group Human Rights Policy in 2019, recognizing the growing importance of respect for human rights in corporate activities. The Human Rights Policy states that it is essential that the human rights of all stakeholders be fully respected in order to achieve the Group Mission and that all Kawasaki Group employees must act in accordance with the highest of ethical standards. It stipulates that the Group will actively outline Kawasaki's commitment to actively addressing the key areas of human rights, including diversity, equal opportunity, forced labor, child labor, discrimination, harassment, freedom of association and collective bargaining rights, and occupational health and safety, in fulfilling its responsibility to respect all human rights.

Following the establishment of the Human Rights Policy, Kawasaki signed and joined the United Nations Global Compact (UNGC) in January 2020. The UNGC is a global initiative calling on leaders of private companies and organizations to solve social issues and achieve sustainable growth in the face of global conflicts, poverty, and widening disparities caused by economic globalization. As a signatory company, Kawasaki supports the ten principles advocated by the UNGC in the four areas of human rights, labor, environment, and anti-corruption, and continues to work towards their achievement.



UN Global Compact membership certificate

4) Addressing Climate Change Risks and the Coming Decarbonized Society

Promoting Kawasaki Green Products

Since June 2014, the Kawasaki Group has evaluated its own products, designated those with superior environmental performance as Kawasaki Green Products, and made a list of these products public. Once selected, they are re-evaluated every three years to determine whether they will remain listed as Kawasaki Green Products. The first set of Kawasaki Green Products included ten products, of which nine were Kawasaki Super Green products boasting the industry's most outstanding environmental performance. The list of Kawasaki Green Products has been announced annually since then.

The 9th Environmental Management Activities Plan (FY2016–2018)

In the 9th Environmental Management Activities Plan, Kawasaki picked up where the 8th Environmental Management Activities Plan left off and continued to focus on aligning its business management with environmental management. The company also placed an emphasis on responding to the diversification of procurement associated with energy liberalization, coordinating with Japan's nationally determined contributions (NDCs) that were adopted after being presented at the 21st session of the Conference of the Parties (COP 21) to the United Nations Framework Convention on Climate Change, and ensuring appropriate disclosure and transparency of environmental information to institutional investors, corporate evaluation agencies, and others. Moving forward to achieve its Environmental Vision 2020, the company worked to improve its environmental brand by promoting Kawasaki Green Products and focusing on four key issues: (1) reducing CO₂ and energy costs; (2) promoting the 3Rs; (3) reducing environmentally hazardous substances and conserving resources; and (4) enhancing the Group's environmental management system.

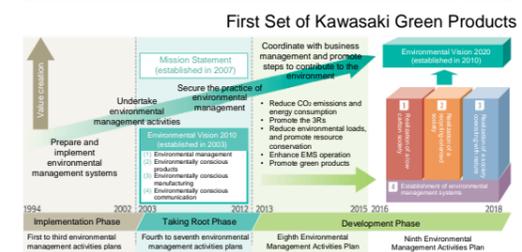
Formulating the Kawasaki Global Environmental Vision 2050

Pledging to achieve a sustainable society in the future, the Kawasaki Group formulated Kawasaki Global Environmental Vision 2050 in August 2017.

At this time the Paris Agreement following COP21, the UN SDGs, and other global measures to combat global warming were coming into effect, and corporations, public pension funds, and institutional investors in Europe and the United States began to move aggressively to reduce greenhouse gases, especially CO₂. Leading Japanese companies, including Toyota Motor Corporation, followed suit with long-term visions and public disclosures of long-term environmental management strategies.

CO₂ FREE

- Aim for zero CO₂ emissions in business activities
- Provide products and services that greatly curb CO₂ emissions



Kawasaki Group's Environmental Management Activities



Explanation of Kawasaki Global Environmental Vision 2050 in the company newsletter



Takumi Juku, a professional skills training center



Manabiya, a manufacturing skills creation center at the Akashi Works



Employee training at Manabiya

Waste FREE

- Aim for zero waste emissions in business activities
- Thoroughly enforce conservation and the recycling of water resources

Harm FREE

- Aim for zero harmful chemical substance emissions in business activities
- Develop business with respect for biodiversity

The Annual Report on the Environment in Japan 2020 highlighted frequent natural disasters and used the term "climate crisis" to refer to climate change risks. Social demands for a decarbonized society gradually increased, as evidenced by the 2017 TCFD recommendations (which was endorsed by Kawasaki in 2019).

5) Nurturing a Vigorous Workplace Culture

Efforts to Strengthen On-site Capabilities

• **Opening Takumi Juku and Manabiya skills training centers**

Kawasaki opened training centers to actively pass down technical skills with an eye to strengthening its manufacturing capabilities that are the business foundation of its corporate group.

In March 2012, Takumi Juku, a professional skills training center, was completed at the Harima Works. The center offers various skill development programs for young and mid-career workers, educational training for trainees and new employees, and production technology education for engineers. It serves as a facility that teaches both skills and techniques.

In April 2014, Manabiya, a manufacturing skills creation center, opened at the Akashi and started providing skills training. In addition to skills training for new production workers, Manabiya provides production staff with classroom and hands-on training designed to acquire basic skills. Its training programs include special education and training for selected workers in preparation for various skills competitions and support for acquiring qualifications required at production sites.

Working in synergy with the technical skills education system implemented so far, these training centers are not only successfully passing on technical skills but also helping employees acquire new skills or develop technical and leadership skills in a short period of time, and providing employees with opportunities to enhance each other's skills.

Promoting Diversity

In April 2010, the Diversity Promotion Section was established within the Personnel & Labor Administration Division. To enable diverse human resources, regardless of race, gender, age, or faith, to make the most of their abilities, Kawasaki is taking various steps, such as allowing employees to embrace diverse workstyles to help them strike an optimal work-life balance, promoting the active participation of women, facilitating the employment of people with disabilities, extending support for the next generation and those engaging in nursing care, promoting the active participation of non-Japanese nationals, and creating an LGBT-friendly work environment.



Nadeshiko Brand mark

Eruboshi mark



Kurumin mark



Pride Index Gold mark

Kawasaki was recognized for its efforts to support the professional development of women and named a Nadeshiko Brand by the Tokyo Stock Exchange and the Ministry of Economy, Trade and Industry in March 2015. It was also awarded Eruboshi certification by the Ministry of Health, Labour and Welfare in May 2016. In 2010, the company was awarded the Kurumin mark from the director of the Hyogo Labor Bureau in recognition of its efforts to support and nurture the next generation. In 2018, it won the highest rating of Gold in Work with Pride's Pride Index for its outstanding LGBT-related workplace initiatives.

Workstyle Reform: Promoting K-Win Activities

In 2016, Kawasaki launched Kawasaki Workstyle Innovation Activities (K-Win Activities) to embrace diverse and flexible working styles. K-Win Activities are aimed at changing the way people work, in mainly administrative and technical positions, with an eye to further enhancing enterprise value. These activities are designed to help employees reach their full potential and increase productivity in order to improve profitability and achieve growth over the medium- to long-term while maximizing individuals' abilities in the workplace and enabling them to lead rich and rewarding lives.

K-Win Activities are conducted with the participation of all employees in a concerted effort to change three areas: organizational culture, operations, and personnel systems. As part of this initiative, Kawasaki introduced a remote working program in January 2018. The program is designed to set working hours within certain limits and improve work productivity by allowing flexible work styles that are not restricted by location or time constraints. Starting in fiscal 2018, the company revised its personnel assessment method to raise awareness of its efforts to improve productivity, as well as actively shared information with all employees about tools that could help them visualize tasks, manage time, and improve communication.

In fiscal 2020 Kawasaki took K-Win Activities to the next level in line with the Group Vision 2030 and has been working to transform its corporate culture with the aim of achieving this vision.

Health and Safety Initiatives

The Kawasaki Group believes that ensuring the safety as well as maintaining and improving the health of its employees are key foundational components of corporate activities that enhance its enterprise value. Its clearly defined Philosophy, Declaration, and Basic Policy on Safety, Sanitation and Health is the basis of its three-year Medium-term Safety and Health Management plans as well as its Safety and Health Management Platform (a one-year plan) for occupational safety and health activities. These plans cover the prevention of work-related accidents and illnesses, as well as health maintenance and improvement, along with the development of comfortable workplaces.



Intranet site for K-Win Activities



Goals of K-Win Activities



Safety dojo



Inside the safety dojo

● **Opening of the Safety Dojo**

Kawasaki opened a safety dojo, its corporate safety education facility, at the Kobe Works in July 2015. It's a place that provides all Kawasaki Group employees with training on safety basics and refines their risk sensitivity with the objectives of learning from past incidents, raising safety awareness, and developing the capabilities needed to ensure safety.

● **Named Certified Health & Productivity Management Outstanding Organization**

Kawasaki was named a Certified Health & Productivity Management Outstanding Organization for three years running, from 2017 to 2019. The certification is awarded in recognition of efforts to take strategic measures to manage workplace health and productivity from a business-management perspective. Operated jointly by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi, the Certified Health & Productivity Management Outstanding Organizations Recognition Program recognizes companies that implement outstanding health and productivity management initiatives that address local health issues and Nippon Kenko Kaigi's efforts to promote health.

Adhering to the core principle of respect for human life and promoting good health, Kawasaki offers health education classes aimed at preventing lifestyle diseases, including an eating habit improvement seminar and exercise seminar. The company works with the health insurance union and labor union to hold the Kawasaki Health Challenge, a health promotion campaign for employees and their families, and encourages everyone to participate.



Announcement of the Kawasaki Health Challenge in the company newsletter

6) **Creating the Innovation Department**

Kawasaki started conducting ICT/IoT research in January 2015, and opened a corporate office in the United States' Silicon Valley in October 2016 with the aim of gathering innovation-related information and cultivating business partnerships. Having observed cutting-edge technologies, marketing methods, and the entrepreneurial ecosystem in Silicon Valley, Kawasaki decided that Japan needed an innovation organization.

The company then established the Innovation Office within the Marketing Division in April 2017. It was renamed the Innovation Department in June of the same year and placed under the Corporate Planning Division in April 2019. The department was established with an aim to create value through collaboration with external startups, etc. (promote open innovation) and foster a culture of innovation. The company worked with several startups, including Global Mobility Service, Inc., a Japanese company that provides credit services to tricycle drivers, in 2018, and OSARO, Inc., an American company that develops AI for robots, in 2019.

In April 2020, Kawasaki launched an in-house program for soliciting business ideas in an effort to spark innovation throughout the organization. The program serves as a tool that can be used to tap into employees' creative side and passions.



Innovation Department's San Jose Office (photo taken in 2016)



The noslisu three-wheeled electric vehicle

The program received more than 100 submissions within a year of its launch, from which the noslisu, a new three-wheeled electric vehicle, and the iPNT-K, an indoor location information service, were commercialized in no time. As these ideas, born from the passion of employees, have taken shape and turned into real-world products, they have inspired others across the Group to seize the opportunity this program offers.

7) **Toward the Achievement of a Hydrogen Society**

Joining the Hydrogen Council

Aiming to build a CO₂-free hydrogen supply chain, Kawasaki developed the first industrial hydrogen liquefaction system using its home-grown proprietary technology. After beginning hydrogen liquefaction testing at its Harima Works in November 2014, the company worked on building a hydrogen supply chain, with a focus on liquefied hydrogen.

In February 2016, Kawasaki, working jointly with Iwatani Corporation, Shell Japan Limited, and Electric Power Development Co., Ltd., established the CO₂-free Hydrogen Energy Supply-Chain Technology Research Association (HySTRA) to promote the construction of a CO₂-free hydrogen supply chain and began moving full-steam ahead.

In January 2017, the Hydrogen Council was formed as a global initiative by 13 leading energy, transport, and manufacturing companies, including Kawasaki, with the shared vision and long-term ambition to foster a transition to hydrogen energy. As of 2018, the council is comprised of 39 companies (including steering members and supporting members).



Hydrogen Council