

Risk Management

Management
Approach**Material Issues and Our Approach**

As a Group that operates globally across a wide range of fields, Kawasaki regards the management of serious risks that could impede its business activities as important and conducts integrated risk management.

Focus Activities and Medium-term Targets

Kawasaki's overall risk management system entails the integrated execution of business segment-level risk management and Group-wide risk management.

Based on the Group's Risk Management Regulations, Kawasaki has established a Corporate Risk Management System and created manuals outlining specific risk management procedures. By comprehensively understanding potential risks based on shared Group standards, we work to avoid and minimize risks and loss caused by risks.

With regard to the risks associated with the execution of individual businesses, the relevant divisions carry out assessments and analyses and sufficiently examine countermeasures in advance in accordance with Kawasaki's Board of Directors Regulations, Management Meeting Regulations, Approval Regulations, and other related rules. The Company practices even more thorough risk management for major projects with significant impact on operations in accordance with such company regulations as the Major Project Risk Management Regulations. This includes management at the time of bidding and concluding agreements for such projects as well as regular follow-up by the Head Office, internal companies, and business divisions as needed after a project begins.

- **Goal for Fiscal 2019–2021**

- Detect risks globally and manage risks appropriately through avoidance, reduction, and transfer.

Progress, Results, and Challenges

- **Goal for Fiscal 2020**

Enhance the globally integrated risk management system to accurately understand material risks that could impact operations and implement rational controls.

- **Fiscal 2020 Results**

Implemented risk reduction activities for Group-level risks, including climate change risk, cyberattack risk, and large-scale disaster risk.

- **Goal for Fiscal 2021**

Establish a system for implementing Company-wide monitoring and corrective responses to ensure that risks are being comprehensively and appropriately evaluated and effective countermeasures taken in order to enhance the governance of risk management.

Risk Management Policy

In line with its objective of achieving sustainable corporate growth and medium- to long-term improvement in its corporate value, the Kawasaki Group will put in place preemptive risk management measures against a variety of risks that could exert a significant impact on business operations while striving to ensure that, should such a risk materialize, the resulting damage is minimized. To this end, the Group has established the basic policies listed below with the aim of acting as a company worthy of the trust of society as envisioned in its Group Mission—"Kawasaki, working as one for the good of the planet."

- **Fundamental Stance to Activities**

As a corporate group handling the social infrastructure business on a global basis, the Kawasaki Group will address significant risks that could inhibit its business activities by taking a risk management approach that is consistent among all Group companies.

- **Risk Management Structures and Activities**

The Kawasaki Group will develop an integrated risk management structure that encompasses its operations around the globe, with the Board of Directors acting as the highest decision-making body. Under this structure, all business units, officers, and employees will pay close attention to various risks in the course of their business operations and strive to identify both business risks that affect individual businesses and important risks that should be addressed from a Group-wide perspective to ensure the implementation of appropriate countermeasures.

● **Crisis Response**

In the event of a disaster, accident, or other emergency that could exert a major impact on its business continuity, the Kawasaki Group will promptly set up response headquarters and strive for the swift restoration of its operations, placing the utmost priority on the lives of customers, community residents, and employees and acting in collaboration with regional communities, customers, and other stakeholders.

● **Enhancement of Risk Assessment and Response Capabilities**

The Kawasaki Group will engage in risk management and crisis management activities, employee training, and emergency drills on a regular basis in order to raise employees' risk awareness and secure higher capabilities in terms of risk assessment and response.

● **Obligations and Responsibilities**

The Kawasaki Group will comply with its internal rules on risk management and crisis management as well as relevant laws and regulations enforced in Japan and overseas to fulfill its obligations and responsibilities to stakeholders with regard to risk prevention and immediate crisis response.

● **Review and Correction**

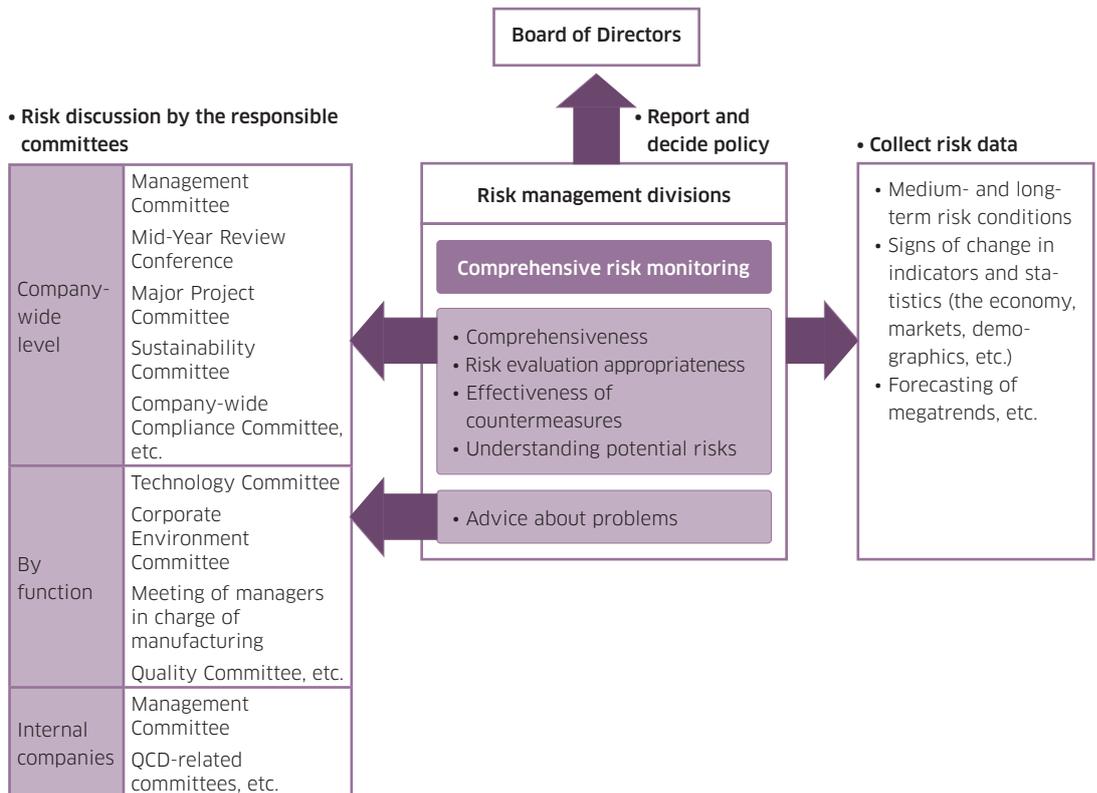
Should a shortfall in risk management or crisis management activities be detected or predicted, the Group will promptly correct said shortfall in order to improve the effectiveness of its risk management activities.

Risk Management System

The Kawasaki Group has established a risk management system to ensure a uniform level of risk management across the Group. Through this system, we identify and respond to major risks with the potential for serious impact on operations and work to enhance risk management as outlined in the Kawasaki Group Management Principles.

In order to appropriately handle diverse risks, Kawasaki designates internal committees and divisions as responsible for specific risk types to establish and operate management methods and systems. In addition, we have established a system for the centralized monitoring of the effectiveness and workability of such management systems, thereby managing risks both individually and comprehensively. We also have in place a system for reporting important risk management matters to the Board of Directors.

Risk Management System



Risk Management

Performance Data

Risk Assessment**Risks Covered and Risk Assessment Methods**

The Kawasaki Group defines risks as “factors or phenomena that hinder the execution of business operations or the achievement of organizational goals” and works to manage all risks classified as either external risks or internal risks (with the latter further classified as strategic risk or business risk), while giving due consideration to the potential beneficial effects associated with strategic and other risks.

The Company’s risk management process consists of a version of the COSO framework customized for the Company’s environment and circumstances.

- **Risk Factors Currently Covered in the Scope of Risk Management**



Within Risk Management: List of Risks Covered

<https://global.kawasaki.com/en/corp/sustainability/mgmt/management.html>

Risk Culture**Risk Management Training and Awareness Building**

Kawasaki explains the importance of risk management in its grade-specific training programs for employees. In addition, our commitment to improving our enterprise value based on the guiding principles of “selective focusing of resources,” “emphasis on quality over quantity,” and “risk management” is clearly stated in the Kawasaki Group Management Principles, part of the Kawasaki Group Mission Statement. We also post the Mission Statement at work areas and distribute Mission Statement cards to employees to build awareness of these principles.

Checking and Reporting of Potential Risks Caused by Employees

We have established and operate the Compliance Reporting and Consultation System for the domestic Kawasaki Group to identify any potential risks that may exist at the employee level.

Crisis Management

The Kawasaki Group’s Risk Management Regulations contain crisis management provisions set out in readiness for the emergence of a risk. These regulations set forth behavioral guidelines and response systems that serve to protect lives and preserve assets, minimize damage and loss, and expedite the resumption of business activities in the event of unplanned interruption.

Basic Policy

Paragraph 3 of the basic policy of the Risk Management Regulations lays out the Kawasaki Group’s policy for responding to crises.

In addition to, of course, putting human lives first, the policy also clearly lays out the Company’s priority of fulfilling its social responsibility as a company involved in infrastructure-related industries. Specifically, in the event of a major earthquake, we will help operate equipment used for disaster relief (such as aircraft and ships), work to quickly restore and maintain the operation of infrastructure (such as rolling stock, power generation facilities and waste processing facilities), and support our customers and suppliers.

For details on the basic policy, please refer to Risk Management Policy  (page 37).

● **Crisis Management Structure (at Times of Crisis and Non-Crisis)**

In readiness for risks, including large-scale disasters, we maintain a Group-wide horizontally integrated Crisis Management Organization at all times.

The president is the Group’s Chief Crisis Management Officer, while the head of each operating site or organizational unit acts as its crisis management officer. Crisis management offices are set up under the crisis management officers to assist them and are charged with the practical work of putting in place and maintaining a first response system for mobilization in the event of an emergency. Meanwhile, the heads of the various Head Office divisions and other staff members whom they designate form a dedicated support team for the crisis management offices.

● **In Times of Disaster or Accident**

The disaster management system sets out in advance emergency reporting lines and organizations charged with responding when emergencies occur. Complementary to the emergency reporting lines, we have set up contact networks covering each internal company, business division and operating site to ensure quick internal reporting and information promulgation.

In Times of Disaster or Accident

Type of Command Center	Key Role	Location
Corporate Command Center	Set up in the event of a crisis that requires a Group-wide response; determines measures to be implemented throughout the Group and basic policy on action plans	Office that has not sustained any damage In principle, either the Kobe Head Office or the Tokyo Head Office
Integrated Plant Command Center	Determines issues that affect the works as a whole; coordinates with internal companies operating in the same works	Works that belong to several internal companies
Company Command Center	Provides internal company support in areas devastated by disaster; determines response to affected suppliers and customers	Appropriate location at each internal company
Local Command Center	Determines measures according to business segment and business office	Office that sustained damage

Emergency Communication System

The Kawasaki Group has introduced an emergency communication system for the entire domestic Group to rapidly confirm the safety of employees when a disaster occurs. Tests are conducted every year to ensure that employees are familiar with the system and know how to use it.

Focus Activities and Medium-term Targets

● **Goal for Fiscal 2019–2021**

Create appropriate Company-wide crisis management procedures and maintain a crisis management system to facilitate rapid response to and recovery from emergencies that could affect management.

Progress, Results, and Challenges

● **Goal for Fiscal 2020**

Drill and revise response procedures and systems based on case studies and quickly handle emergencies and restore business activities through the Countermeasures Command Center.

● **Fiscal 2020 Results**

Maintained appropriate Company-wide crisis management procedures and a crisis management system to facilitate rapid response to and recovery from emergencies that could negatively affect management.

● **Goal for Fiscal 2021**

Drill and revise response procedures and systems based on case studies and quickly handle emergencies and restore business activities through the Countermeasures Command Center.

Business Continuity Plans

A business continuity plan (BCP) is itself a management strategy. In addition to typical measures related to response immediately after a disaster, such as setting up disaster-prevention supplies and running evacuation drills, a BCP requires consideration of measures to continue business operations with minimal interruption and fulfill the corporate mission.

Based on the basic policy of the Risk Management Regulations, the Kawasaki Group has formulated BCPs for major earthquakes, pandemics, and other disasters.

● Business Continuity Plan Review

The lessons learned in the Great Hanshin Earthquake, which hit the Kobe area in January 1995, formed the basis of the Group's disaster-prevention measures. In light of the Great East Japan Earthquake of March 2011, the Group significantly revised its BCP for large-scale earthquakes. In response to the COVID-19 pandemic in 2020, we have revised our pandemic response BCP to include, for example, remote working and other new workstyles. Furthermore, we regularly implement drills and use the results to revise BCPs on an ongoing basis.

1. Basic Policy

Based on basic policy, determine course of action to be taken by the Kawasaki Group in the event of natural disasters.

2. Head Office and Internal Company Priorities

With the basic policy in mind, designate functions to be maintained at the Head Office, internal companies and business divisions in the event of disaster.

We have identified priorities for the Head Office, internal companies and business divisions in line with our basic policy and have designated certain functions that must be maintained even in the event of disaster with due consideration given to the different business content of each internal company and business divisions and the features inherent in products and services.

3. Response in Times of Disaster and Preparation during Normal Times

Consider responses appropriate in the wake of disaster and prepare for the eventuality of such events during normal times.

Many disaster scenarios indicate the possibility of a massive earthquake centered directly under Tokyo as well as a cascadelike triple megaquake event along the Tokai-Tonankai-Nankai segment of the Pacific Ocean coastline. Bearing these potential events in mind, we considered the responses necessary should such catastrophes occur and activities that could be undertaken during normal times to prepare for such eventualities.

We formulated a plan that designates specific divisions with specific tasks, and outlined preparations necessary to achieve the desired objectives. Preparations are moving ahead in line with this plan.

4. Drills and Revisions

Run drills regularly and revise BCP content based on the results.

We are constantly running BCP drills and revising BCP content based on how the drills were performed.

Information Security

Information Security Management Policy

The Kawasaki Group provides products to a diverse range of customers, from general consumers and the public sector to the Self-Defense Forces, and constantly works towards maintaining and improving its information security to protect information relating to our customers and suppliers as well as information on our businesses to suit the requirements of each customer sector.

The necessary information security management practices have been established as corporate regulations to ensure compliance with prevailing domestic and international laws and in respect of contractual promises to clients and to protect our businesses from external risks. These corporate regulations comprise Rules for Information Management, as the underlying policy, along with various standards for establishing administrative management guidelines, including the development, implementation and use of information systems.

Focus Activities and Medium-term Targets

● Goals for Fiscal 2019-2021

- Have in place a digital information platform that can handle cyber security issues.
- Build a usage platform that balances the utility of evolving cloud services with information security.

Progress, Results, and Challenges

● **Goals for Fiscal 2020**

- Adopt Tanium endpoint security systems throughout the domestic Group.
- Conduct assessments aimed at responding to China's Cyber Security Law at Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd. (KPM Shanghai) and Kawasaki Robotics (Tianjin) Co., Ltd. (KRCT).
- Begin discussions with Kawasaki Motors Europe N.V. (KME), a potential key site, for establishing a support center in Europe, and continue discussions with Kawasaki Motors Corp., U.S.A. (KMC) regarding the establishment of a support center in North America.
- Introduce asset management tools at sites in China (beginning with KHI (Dalian) Computer Technology Co., Ltd. (KDC), KPM Shanghai, and KRCT) and commence asset management support through KDC.
- Provide information security training to 10,000 individuals.

● **Fiscal 2020 Results**

- Adopted Tanium endpoint security systems throughout almost 100% of the domestic Group, including internal companies, divisions, and affiliates.
- Completed the adoption of asset management tools at the locations in China that were planned to adopt said tools first.
- Mostly completed the formulation of cyber security reinforcement plans for locations in Europe, Asia, and the United States.
- Began Group-wide cyber security reinforcement project activities and completed the preparation of measure proposals.

● **Goals for Fiscal 2021**

- Advance the following six initiatives under the cyber security reinforcement project
 1. Adopt endpoint detection and response (EDR) tools for dealing with targeted attacks to reinforce endpoint security monitoring in key domestic business areas. Establish a 24/7 cyber attack detection and response system to provide next-generation security for domestic sites.
 2. Advance planning for the development of production system (facility) security. In fiscal 2021 specifically, develop a basic framework and prepare for pilot installation.
 3. Adopt a security platform for safe and secure cloud service use.
 4. Develop and implement a platform for privileged access management and IT asset and configuration management.
 5. Develop threat monitoring for overseas sites and roll out cyberattack detection measures for high-risk sites.
 6. Conduct simulated targeted attack tests and use the results to ascertain and strengthen current cyber defense capabilities.
- Provide information security training to 20,000 individuals.

● **Progress**

	(FY)	2016	2017	2018	2019	2020
Information security training participants		–	–	8,394	9,866	17,779

Structure and Management System

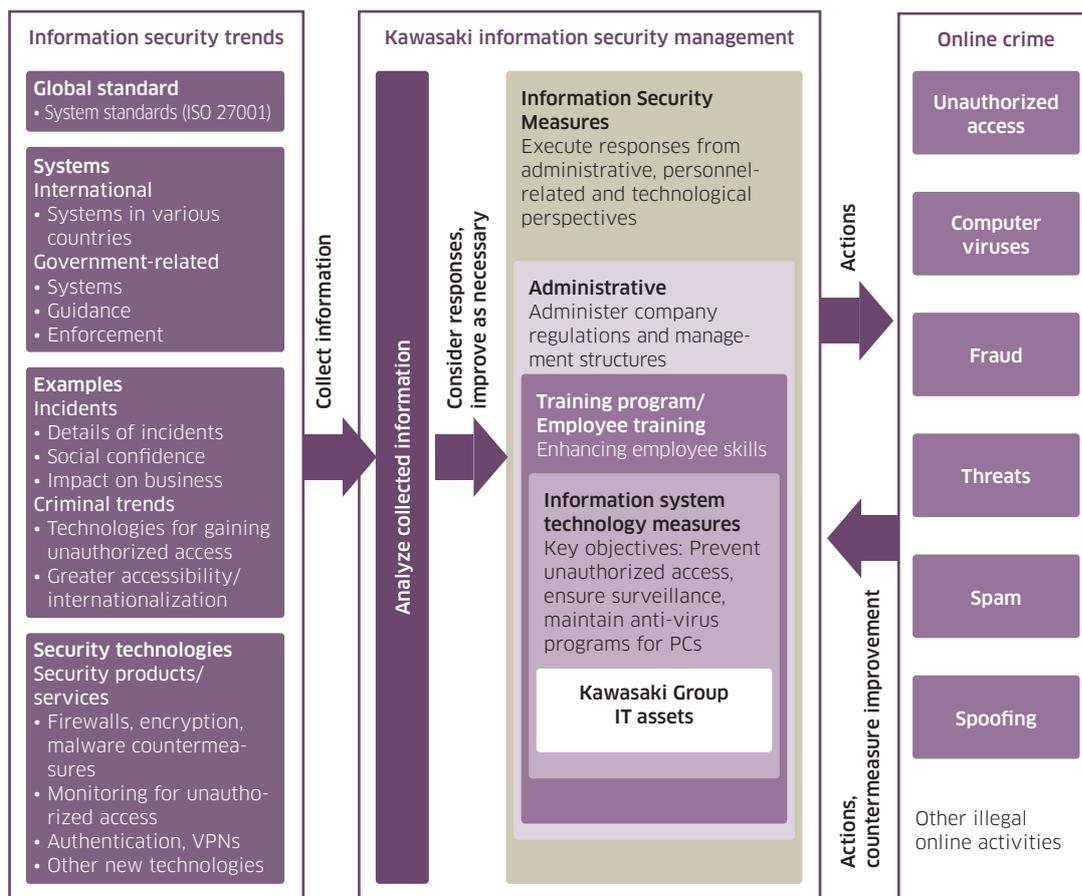
In November 2020, Kawasaki launched the Head Office Cyber Security Group, which forms the core of efforts bringing together the strengths of all internal companies and business divisions to strengthen the Group's cyber security. Each internal company and business division also has an information system department that implements security measures based on Company policy.

We have established a dedicated framework under the Corporate Risk Management System to handle information security management for the Group. We adhere to a management cycle with an emphasis on rules, training, and technology measures to address constantly changing information security risks while systematically implementing, maintaining and enhancing information security measures.

In addition, the Group's data center has acquired ISO 27001 certification, an international standard for information security management, and strives to uphold a high level of operational reliability.

We implement vulnerability analyses of the servers of our demilitarized zone (DMZ) network, which connects internal systems with the outside network, both in-house and with the help of security vendors. Furthermore, we have implemented systems to prevent unauthorized access to data from outside as well as information leaks from inside and to stop the spread of computer viruses as well as systems to check for illicit activity.

Information Security Management System



Information Security Education and Training

We conduct education and training specifically focused on information security for Kawasaki Group employees.

This instruction covers laws and social customs as well as corporate rules and examples of incidents, and course content is tailored by position, with content for newly hired employees, general employees, and managerial staff. Training includes regular drills using simulations of targeted attack phishing emails to help employees learn how to avoid damaging situations, such as cyberattacks and online crime, which can occur in the course of daily business operations.

Information Security Violations and Actions Taken

Following the discovery of unauthorized access by third parties (announced December 28, 2020), Kawasaki formed a special project team with an external specialist organization to investigate damage and analyze the incident at all business sites in Japan and overseas. The investigation found the possibility of information leakage from certain businesses but ultimately did not confirm any leaks of personal information or related harm.

To prevent recurrences, we have implemented measures to prevent unauthorized access to our authentication infrastructure and are further tightening the monitoring and access control of the communications networks between our bases in Japan and overseas. We are strengthening our processes for quickly detecting unauthorized access, rapidly identifying the scope of damage, and implementing a response. We are also strengthening our organization by increasing the number of personnel involved.

 **Concerning Unauthorized Access to Kawasaki Group (December 28, 2020 Kawasaki news release)**
https://global.kawasaki.com/news_201228-1e_1.pdf

Report on the Results of Investigation into Unauthorized Access to Kawasaki Group (July 30, 2020 Kawasaki news release)
https://global.kawasaki.com/news_210730-1e.pdf

Personal Information Protection

Kawasaki abides by its Privacy Policy, a basic policy for protecting personal information. This policy is publicly disclosed.

Further, we control personal information by such means as appointing a personal information administrator, establishing company regulations titled Personal Information Protection Rules and issuing the *Personal Information Protection Manual*, which explains the rules clearly for employees. In 2017, in response to the revision of the Act on the Protection of Personal Information of Japan, we revised related company regulations, the Privacy Policy and the *Personal Information Protection Manual*, and implemented internal training and explanatory meetings for affiliates several times. Furthermore, in 2020 we established the Kawasaki Group Policy on the Protection of Personal Information, laying out Group-wide rules for the proper handling of personal information.

For the control of personal information, such measures are taken as constructing the security control systems for the personal information possessed by each division and preparing and regularly updating the personal data handling ledger in which the handling status of such personal information can be checked.

With regard to personal information in the Company's possession, we have put in place a structure that ensures a prompt response to requests from individuals related to their own personal information, such as requests for disclosure or discontinuance of utilization.

Response to the General Data Protection Regulation

Kawasaki has established internal regulations regarding compliance with the European Union's General Data Protection Regulation (GDPR), laying out rules for the proper handling of personal information covered by the GDPR.



Privacy Policy

https://global.kawasaki.com/en/privacy_policy/index.html

Kawasaki Group Policy on the Protection of Personal Information

https://global.kawasaki.com/en/corp/sustainability/procurement/pdf/personal_information.pdf