



Increasing the Effectiveness of Governance and Solving Social Issues through Technological Synergies

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Transition to a New System of Corporate Governance

Please tell us about the factors that led to the decision to transition to a company with an Audit & Supervisory Committee.

Kanehana Every year since fiscal 2015, we have evaluated the effectiveness of the Board of Directors and discussed the ways the Board and the Management Committee function. In the course of doing so, a frequent comment was that the roles of these two bodies were unclear. To secure adequate time for the Board of Directors to fulfil its true purpose of discussing such topics as how the Company should be run and what it should aspire to, we needed to delegate some of the

Board's decision making to executives. With this in mind, we considered what form of governance would best suit Kawasaki and came to the conclusion that it was a company with an audit & supervisory committee. The transition was intended to clarify the respective roles of the Management Committee and Board of Directors, allowing the latter to engage in more in-depth discussion of the Company's direction while reinforcing its oversight of executives.

The Role and Effectiveness of the Board of Directors

What do you see as the role of the Board of Directors? Has the effectiveness of the Board changed in the last two years?



Rogers I think that the role of the Board of Directors is to exercise oversight and take a comprehensive view of the Company as a whole. Directors are chosen by shareholders, so we have to provide oversight from various stakeholder perspectives and engage in discussions at a higher level. In particular, markets are highly critical of manufacturers these days. Kawasaki has been confronted by fierce competition around the world and has struggled in terms of profit for some time. Backed by its more than 120-year history, Kawasaki now stands at a turning point that will determine what it can achieve going forward.

I can tell that everyone at Kawasaki is serious about its governance systems and wants to improve them. The Board of Directors now has open discussions, and many other positive changes have steadily been implemented. We have also made progress regarding certain organizational improvements, for example, reinforcing the

oversight functions of internal committees and the Board of Directors as a result of comments from the shareholder's perspective on such matters as cash flows, corporate performance, and foreign exchange risk. I think that such improvements will continue and enable us to better perform our oversight duties from stakeholder perspectives.

Ishii I'm now in my fourth year as an outside officer of Kawasaki, and I think that the activities of the Board of Directors are moving in a positive direction, as Ms. Rogers said.

When I first took office, it was most often the outside officers who asked questions, which the executives would answer. Now, the other Directors also actively speak up, and we all actively engage in discussion. This is one area in which there is a clear difference from four years ago. As Chairman Kanehana said, we evaluate the effectiveness of the Board of the Directors every year, and the Board has diligently taken action to address the issues thus identified. These slow but steady initiatives have begun to yield fruit. Since changing to the company with an Audit & Supervisory Committee structure, the Board has already met several times. Topics like business continuity have been brought up, and I feel that our discussions have been substantive.

Tamura When I first took office, Kawasaki's internal company system struck me as rigid. I think that Chairman Kanehana's efforts to encourage the Board to take a more managerial view that goes beyond individual internal companies in order to strengthen the Company as a whole has changed the tone of Board of Directors meetings.

Appointment of President Hashimoto

What did the Nomination Advisory Committee discuss with regard to the appointment of the new President?

Tamura Since last year, we had been discussing the issue from many angles, such as what kind of person we should choose as president and how to develop candidates. We also asked then-president Kanehana what challenges he thought the next president would face and what expectations he had, deepening our understanding within the committee. As a result, we came to the unanimous conclusion that Mr. Hashimoto was the right choice for the next president.

Kanehana Kawasaki's former presidents, including myself, came up through businesses in which products are made to order. Kawasaki has both made-to-order and mass-production businesses, and there is an

order-of-magnitude difference in the time scales of the two. The new president of Kawasaki had to be someone with a tremendous sense of speed and ability to get things done, so I thought perhaps it should be someone from a mass-production business. Given these considerations, I thought that Mr. Hashimoto would be a good fit, especially in this time of instability in the wider world, and discussed the matter with the Nomination Advisory Committee.

Tamura Society is changing extremely rapidly, and it is vital that Kawasaki make its next moves quickly. I felt that Mr. Hashimoto possessed a great ability to take action. He is a person with lots of ideas, and many of us looked favorably on his ability to put those ideas into action.

Expertise and the Roles of Outside Directors

What roles do each of you play as Outside Directors in light of your respective areas of expertise?

Tamura I have experience in manufacturing, was involved in launching an LCD flat panel display business, including technological development, and have served as a chief technical officer (CTO). Kawasaki has a long history of using technology to provide solutions and significantly changing the ways people live. For Kawasaki, differentiating its technologies is key, so I think that my experience in the display industry, which is fast-moving, with new technologies constantly being established, may be useful. I hope to help Kawasaki work out how to use technology to meet the demands of society and speedily develop such technology into business.

Rogers I am an attorney, and I have work experience spanning six countries, so I think I bring a global perspective. I have also worked at financial institutions and a global technology services company. Based on that background, I am constantly thinking about how I can have an impact on Kawasaki and the perspective from which I should speak, taking into account various stakeholder perspectives.

As an American, and based on my many years working at companies outside of Japan, I am able to provide a view that is different from that of the internal Directors regarding things like how to quickly reach decisions or what shareholders and investors will think of financial results and other numbers. Outside Directors have a responsibility to take a neutral position and consider a wide range of stakeholders when making decisions. I always keep this in mind at Board meetings.

Ishii My background is in government, and I think that the importance of accountability is the same for companies as it is for government.

When considering matters up for decision at the Board of Directors, I constantly consider whether I could explain in my own words why a decision is justified and rational, and ask questions accordingly. Also, I think that Outside Directors should proactively say and ask things that might be awkward for the internal Directors to bring up. Even if the internal Directors don't ask a question, shareholders or investors might, so making sure such questions are answered before making a decision is important in terms of risk management.

At the Ministry of Health, Labour and Welfare, I worked in areas related to personnel and labor. I feel that problems related to human resources are a major element of difficulties faced by companies. Building organizations capable of sustaining high levels of motivation and revising personnel management and workstyles are consistently major topics, and I think that I can assist in these areas with my network and insight.



The Roles of Audit & Supervisory Committee Members

What do you see as your roles as Audit & Supervisory Committee Members?

Ishii I served as an Audit & Supervisory Board Member for three years before my current appointment as an Audit & Supervisory Committee Member. The basic role of an Audit & Supervisory Committee Member is, like that of an Audit & Supervisory Board Member, to provide oversight and supervision. The former, however, also has voting rights as a Director and thus a broader and higher level of responsibility. The work of an Audit & Supervisory Board Member centers on auditing of compliance and legality. However, Audit & Supervisory Committee Members must also make decisions about the justifications for and rationality of decisions made by the Board of Directors. As such, I think that we must increase the quality of our

auditing and shift our mindsets to approach auditing from a more future-oriented perspective that examines whether decisions are being made in the best way possible. We also now have the authority to make statements of opinion, which I hope to exercise while coordinating and advancing dialogue with related bodies, such as the internal auditing divisions, Nomination Advisory Committee, and Compensation Advisory Committee.

Kawasaki has two full-time Audit & Supervisory Committee Members. I was concerned that, if left just to the functioning of the internal control system, the quality of auditing would fall, so I am glad that we have full-time members to provide additional support.

How will the Board of Directors help Kawasaki shift toward realizing additional value from the combination of its diverse businesses to merit a conglomerate premium?



Tamura It's certainly a challenge. I think that focusing on lining up synergies, rather than on individual businesses, is crucial. Many of Kawasaki's more high-tech, software-based technologies, such as those related to control, robot remote control, medical robots, and ship operation and performance analysis support systems, will play key roles. Efficiency is a key point. In that vein, I think that we will see a shift in after-sales service from providing maintenance at predetermined intervals to constant, ongoing monitoring that enables targeted maintenance only where and when it is required. Kawasaki will need to create mechanisms for streamlining production, sales, and after-sales service to deliver only what is needed, when it is needed, in the amount it is needed. Thinking about what, concretely, the Group's manufacturing should look like and the role it should play in the world as it does this will, I think, lead to the realization of the type of Group synergies that result in a conglomerate premium.

Rogers The shipbuilding and industrial robot businesses have formed joint ventures in China. By leveraging Kawasaki's expertise and teaming up with outstanding

partners, these businesses are reducing costs and producing excellent products. Kawasaki has also been manufacturing in Nebraska, in the United States, for around 40 years. I think that the way Kawasaki has been able to reduce foreign exchange risk by selling U.S.-made products in the United States shows that the Group has collective strength as a conglomerate at the international level.

This strength or synergy comes from the internal exchange of expertise and information. By going beyond simply selling products to become a solution provider leveraging its global strength as a conglomerate, Kawasaki can address a full range of customer issues. After selling a product, the Company can sell maintenance services and spare parts on the aftermarket. If Kawasaki can leverage its collective strength as a conglomerate to provide total-package products and services that customers trust, I think it will be able to fully realize synergies and additional value from the diversity of its businesses.

Ishii As Kawasaki increasingly combines its own technologies with those from outside the Group, the importance of focusing on solving social issues will grow. Today, regard for companies that create useful value for society and that engage in ESG management and efforts to contribute to the SDGs is growing. I think new business creation that starts with the goal of solving social issues will produce considerable value as a conglomerate, and I think that Kawasaki is capable of doing just that.

Kawasaki is working to reinforce the Group-wide governance system as its businesses grow increasingly global. I think that, as part of doing so, putting greater effort into developing local employees overseas, for example, with a view to appointing a non-Japanese national as an executive officer, will be important.

The way business is done is expected to change in wake of the COVID-19 pandemic. As a manufacturer, what should Kawasaki keep, and what should it change?

Kanehana From the moment of my appointment as president, I emphasized the importance of founder Shozo Kawasaki's philosophy of "contributing to the nation—to society—through expertise." Valuing expertise and technology and using them for the sake of society was a driving principle for Kawasaki's founder, and this spirit is alive and well in Kawasaki today.

Kawasaki boasts many excellent technologies. I think the key issues going forward will be finding ways to combine technologies to realize synergy and figuring

out how to use them to contribute to the world. Building a CO₂-free hydrogen supply chain is an example of such efforts, in which we are using outstanding technologies from across the Group to take on the tremendous challenge of decarbonization. The Board of Directors must thoroughly discuss the direction the Company is going to determine how to use our technologies to contribute to the world—especially since doing so will require the further removal of barriers between internal companies to realize synergies—and then

communicate its decisions to executives and provide oversight of their implementation.

Tamura I think that one of Kawasaki's major strengths is its tradition of changing the world through technology. The Company must make this tradition central and continue this focus going forward. Furthermore, given the global nature of today's markets, I think that fostering mindsets oriented toward corporate reform throughout the Group will be crucial to using technology to solve the issues various regions are facing.

Due to the COVID-19 pandemic, the use of telecommunications within the Group has expanded, rapidly shrinking geographic divides. Increasingly fast data

transmission with the arrival of 5G and even 6G will make distance less and less of an impediment. As we become able to manage plants without being in them, or to converse with colleagues without being physically together, we must think about the ways the Company and the wider world will change going forward. Does Kawasaki have the tools it needs to promote diversity and incorporate the wide-ranging viewpoints needed to succeed in global markets? While valuing and protecting its heritage, Kawasaki must entrust its future to a new generation that is equipped for new business environments. I think that this will help realize Group synergies and build a new Kawasaki.

Transforming the Company Organization and Culture ("Changing Forward")

One of Kawasaki's taglines is "Changing Forward." How is the Board of Directors involved in creating a corporate culture that boldly embraces change?

Kanehana I worked to transform our corporate culture throughout my tenure as president and, recently, have felt that the atmosphere within Kawasaki really begin to change. Through one-on-one meetings with top management and management retreats, the walls between internal companies have gotten lower, and the framework for cooperation among members of the Management Committee has gotten stronger. We also introduced SKIP, an internal SNS that approximately 4,500 employees use to exchange views on their daily work. Employee opinions expressed on SKIP are communicated to the relevant divisions and used to provide feedback to employees. Through SKIP, employees are able to see that management is thinking of them, which I think has changed their mindsets.

By continuing such activities, I think Kawasaki will continue changing, becoming even better. I hope that the Directors will receive reports on such changes from executives and, in turn, provide their opinions and guidance.

Rogers In terms of diversity, I think that awareness within Kawasaki related to the professional participation of women has really improved. However, I wonder



if more focus on other types of diversity, such as by promoting younger employees, might lead to more creative innovation. Mixing together different elements, such as by implementing projects in teams that comprise one person from each internal division, could foster information exchange from various angles and be good for the Company. As Kawasaki's first female non-Japanese Director, I hope to see further efforts to promote diversity going forward.

Message to Stakeholders

Lastly, Chairman Kanehana, do you have any message to stakeholders?

Kanehana Our goal is to maintain the uniqueness of each internal company while realizing synergies that transcend the barriers between them to increase Kawasaki's enterprise value. To achieve this goal, we will build a framework in which the Board of Directors discusses matters pertaining to the business portfolio and other overarching business policy and

the executives systematically put the Board's conclusions into action. We ask for our stakeholders' continued support as we continue to advance corporate culture transformation and strive to solve social issues with technology.