



## Evaluation of the Board of Directors' Effectiveness

The Board of Directors strives to ensure that its members, including independent Outside Directors, engage in free, vigorous discussion based on their insights and experience at meetings of Kawasaki's Board of Directors and reach appropriate management decisions. As part of these efforts, since fiscal 2015, the Board of Directors annually evaluates and analyzes its effectiveness.

### Evaluation Method

The fiscal 2019 effectiveness evaluation was, as in previous years, carried out as follows.

- (1) A survey of all Directors and Audit & Supervisory Board Members, based on advice from outside experts, was made\*
- (2) The survey results were aggregated and analyzed by outside experts
- (3) The aggregated information and analysis results were discussed at a Board of Directors meeting

\* A survey comprising questions mainly about the overall operation of the Board of Directors and its discussions, designed with regard to the Company's particular characteristics

### Evaluation Results and Response

The Board of Directors' discussion found that the Board's effectiveness was appropriately ensured, based on such factors as its resolutions having been reached after active discussion among both the internal and outside members.

Issues raised included clarifying the division of roles between the Board of Directors and Management Committee and quickly reporting information about risks to the Board of Directors. However, the June 2020 transition to a company with an audit & supervisory committee has helped to make progress with regard to refining the topics that the Board of Directors should discuss and, in turn, advancing delegation from the Board to executives, as well as improving the system of reporting to the Board. By steadily implementing initiatives in these areas going forward, we will work to further reinforce the oversight function of the Board of Directors.

Furthermore, the Directors shared information about other tasks the Board needs to undertake, such as further enhancing succession planning, determining Director compensation, and reinforcing coordination with the committees run by executives. The Board will continue to engage in discussion and considerations from various viewpoints, working to increase its effectiveness.

### Initiatives to Address Issues Identified in Previous Years

The main initiatives we have implemented to address issues identified by previous evaluations of a Board of Directors' effectiveness are as follows.

- Aiming to further enhance discussions of management strategy and other matters at the Board of Directors, accelerate management decision making, and reinforce the oversight function of the Board of Directors, Kawasaki transitioned to a company with an audit & supervisory committee in June 2020, thereby enabling significant delegation of authority from the Board of Directors to executives. In addition, we revised the composition of the Board of Directors to avoid having directors serve concurrently as officers responsible for specific businesses (the internal company presidents) and thereby better separate management oversight and business execution while increasing the proportion of Outside Directors. By doing so, we clarified that oversight is the primary role of the Board of Directors.
- We set up a system in which items that could significantly affect management plans or management performance are reported to the Board of Directors following their discussion at monthly meetings of the Management Committee to ensure that the Board maintains a broad-ranging and up-to-date grasp of risks and signs of change in the business environment. Through such efforts, we continue working to reinforce the Board of Directors' monitoring functions.

## Corporate Officer Compensation

### Kawasaki's Approach to Corporate Officer Compensation

The compensation system for Kawasaki Directors is designed to promote sustained improvement in corporate performance and enterprise value, align the interests of Directors with those of shareholders, secure outstanding human resources, and ensure a level of compensation commensurate with the duties of the individual officer.

### Compensation for Directors (Excluding Directors Serving as Audit & Supervisory Committee Members)

Compensation for Directors (excluding Outside Directors and Directors serving as Audit & Supervisory Committee Members) consists of basic compensation, performance-based compensation and stock purchase funds.

Compensation for Outside Directors (excluding Directors serving as Audit & Supervisory Committee Members) is set at a fixed level not tied to corporate performance, to ensure professional independence.

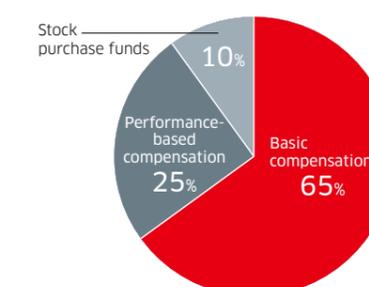
Compensation for Directors (excluding Directors serving as Audit & Supervisory Committee Members) is set within the

maximum total compensation for Directors (¥800 million per year), as resolved at the 197th Ordinary General Meeting of Shareholders (held on June 25, 2020). After receiving the results of deliberations by the Compensation Advisory Committee, the Representative Director, President and Chief Executive Officer, as delegated by the Board of Directors, decides Director compensation in line with the Company's internal rules. A majority of the members and the presiding officer of the Compensation Advisory Committee are Outside Directors.

### Composition of Director Compensation (Excluding Outside Directors)

Basic compensation	Based on position and responsibilities.
Performance-based compensation	Linked mainly to net income attributable to owners of the parent ("net income"), consolidated ROIC and the ROIC of internal companies.
Stock purchase funds	Each month, a fixed monthly amount is paid to the Directors for contribution to a stock ownership plan for the purpose of aligning Directors' interests with those of shareholders and incentivizing Directors to enhance medium- to long-term enterprise value. This entire amount is contributed to the officers' stock ownership plan in order to purchase shares of the Company on a continuous basis.

### Compensation Composition (assuming 8% Before-tax ROIC)



### Performance-Based Compensation Indicators

Indicator	Reason for Selection
Net income	Net income, which funds dividends, was selected as an indicator to incentivize Directors to increase shareholder value.
Consolidated ROIC	Consolidated ROIC was selected as an indicator because Kawasaki has made ROIC management a part of its basic management policy and aims to achieve ROIC of 8% or above.
Internal Company ROIC	Internal company ROIC was selected as an indicator because Kawasaki aims to achieve ROIC of 8% or above at each internal company.

### Compensation of Directors Serving as Audit & Supervisory Committee Members

The compensation of Audit & Supervisory Committee Members is set at a fixed level notified to corporate performance to ensure professional independence. This compensation is determined by the Audit & Supervisory Committee. The

total maximum compensation for Audit & Supervisory Committee Members is ¥120 million per year (as resolved at the 197th Ordinary General Meeting of Shareholders held on June 25, 2020).

### Activities of the Board of Directors and Compensation Advisory Committee

Policy and systems related to the compensation of Directors (excluding Directors serving as Audit & Supervisory Committee Members) are decided by resolution of the Board of Directors based on the deliberations of the Compensation Advisory Committee. A majority of the members and the presiding officer of the Compensation Advisory Committee are Outside

Directors. The Compensation Advisory Committee met six times in fiscal 2019. In addition to the matters described above, the committee discussed the form of the corporate officer compensation system going forward.

Note: For more information about the members of the Compensation Advisory Committee and their meeting attendance, please refer to pages 54-56.

### Corporate Officer Compensation

The following table provides a breakdown of fiscal 2019 corporate officer compensation.

Type of officer	Total compensation (millions of yen)	Total compensation by compensation type (millions of yen)			Number of individuals receiving compensation
		Basic compensation	Performance-based compensation	Stock purchase fund	
Directors (excluding Outside Directors)	530	385	85	58	10
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	70	70	-	-	2
Outside Directors and Outside Audit & Supervisory Board Members	76	76	-	-	7

Notes: 1. On June 25 2020, Kawasaki transitioned from a company with an Audit & Supervisory Board to a company with an Audit & Supervisory Committee.  
2. The above numbers of officers include the Directors (two) and Audit & Supervisory Board Members (one Outside Director) who retired as of conclusion of the General Meeting of Shareholders held in June 2019.  
3. Performance-based compensation paid in fiscal 2019 is based on fiscal 2018 performance.