

Basic Stance on Corporate Governance

Guided by the Group Mission, "Kawasaki, working as one for the good of the planet," the Kawasaki Group's basic stance on corporate governance is to raise enterprise value through effective and sound management while forming solid relationships with all stakeholders, including shareholders, customers, employees, and communities, through highly transparent management practices. The Kawasaki Group is striving to further strengthen and enhance corporate governance systems as appropriate for its businesses and scale.

Transition to a Company with an Audit & Supervisory Committee

To enhance the Board of Directors' discussions of management strategy and other matters and to further reinforce the Board's oversight function while facilitating nimble response to rapid changes in the operating environment, Kawasaki transitioned to a company with an Audit & Supervisory Committee pursuant to a resolution passed at the 197th General Meeting of Shareholders on June 25, 2020.

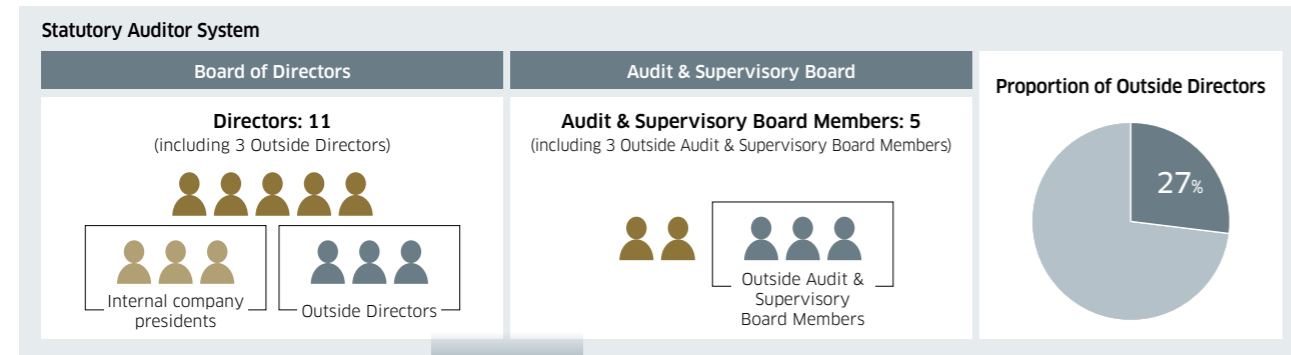
With this transition, a great deal of authority over business execution decisions has been delegated to the executive Directors and executive officers, who are appointed by the Board of Directors, thereby realizing more agile decision making. In addition, the composition of the Board of Directors has been revised, increasing the proportion of Outside Directors. Through these and other measures, Kawasaki secures management transparency while enabling nimble, efficient management.

Initiatives to Strengthen Corporate Governance

Year	Initiative
2001	<ul style="list-style-type: none"> Adopted the executive officer system Reduced the number of Directors from 26 to 11
2002	<ul style="list-style-type: none"> Increased the number of Outside Audit & Supervisory Board Members to two Adopted a performance-based compensation system
2005	<ul style="list-style-type: none"> Abolished the retirement benefit system for Directors
2013	<ul style="list-style-type: none"> Appointed an Outside Director
2015	<ul style="list-style-type: none"> Increased the number of Outside Directors to two Took steps in response to the introduction of Japan's Corporate Governance Code Established the Nomination Advisory Committee and Compensation Advisory Committee Began evaluations of the effectiveness of the Board of Directors
2016	<ul style="list-style-type: none"> Added stock purchase funds to Director's compensation
2017	<ul style="list-style-type: none"> Increased the number of Outside Audit & Supervisory Board Members to three Revised matters requiring resolution by the Board of Directors (expanding the scope of delegation to executives)
2018	<ul style="list-style-type: none"> Increased the number of Outside Directors to three Revised the Director and executive officer system
2019	<ul style="list-style-type: none"> Reduced the number of Directors from 12 to 11
2020	<ul style="list-style-type: none"> Transitioned to a company with an audit & supervisory committee Reduced the number of Directors (excluding Directors serving as Audit & Supervisory Committee Members) from 11 to 8 Eliminated overlap between Directors and officers responsible for specific businesses

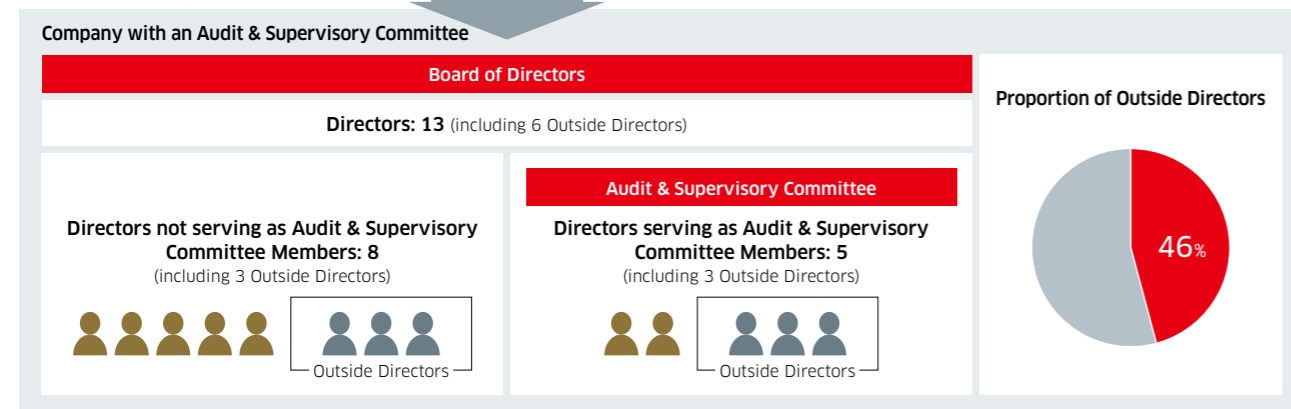
Change in the Composition of the Board of Directors with the Transition to a Company with an Audit & Supervisory Committee

Fiscal 2019



Fiscal 2020
(transitioned June 25, 2020)

Transition to a Company with an Audit & Supervisory Committee



Corporate Governance System

Kawasaki's main deliberative bodies, their composition and roles are as follows.

Board of Directors

The Board of Directors comprises 13 Directors (of whom, five serve as Audit & Supervisory Committee Members), with the chairman serving as the presiding officer by resolution of the Board. Six Directors are Outside Directors (of whom, three serve as Audit & Supervisory Committee Members) and independent of business execution. By avoiding having Directors serve concurrently as officers responsible for specific businesses (the internal company presidents), the Company seeks to enhance the separation of management oversight and business execution and thereby further reinforce the Board of Director's oversight functions.

Furthermore, the Nomination Advisory Committee and

Audit & Supervisory Committee

The Audit & Supervisory Committee comprises five Directors, including three Outside Directors. To secure effective oversight, the two Internal Directors have been appointed as full-time Audit & Supervisory Committee Members. Furthermore,

Business Execution Framework

Kawasaki has adopted an executive officer system in order to facilitate response to rapid changes in the business environment. To accelerate decision making, a great deal of authority over business execution decisions is delegated to the executive Directors and executive officers, who are appointed by the Board of Directors.

Kawasaki maintains a Management Committee, comprising mainly executive Directors and internal company presidents, as an advisory body to the president. The Management Committee

Compensation Advisory Committee have been established as advisory bodies to the Board of Directors in an effort to reinforce the transparency and objectivity of its deliberations. A majority of the members of both committees are Outside Directors, as are the presiding officers of each. The Nomination Advisory Committee discusses such matters as policies regarding the appointment of Directors and other officers and the appropriateness of candidates for such positions. The Compensation Advisory Committee discusses such matters as Director compensation policy and the appropriateness of the Director compensation system. These committees provide reports and advice to the Board of Directors.

to ensure the reliability of financial reporting, the Company appoints Audit & Supervisory Committee Members who have considerable knowledge of finance and accounting.

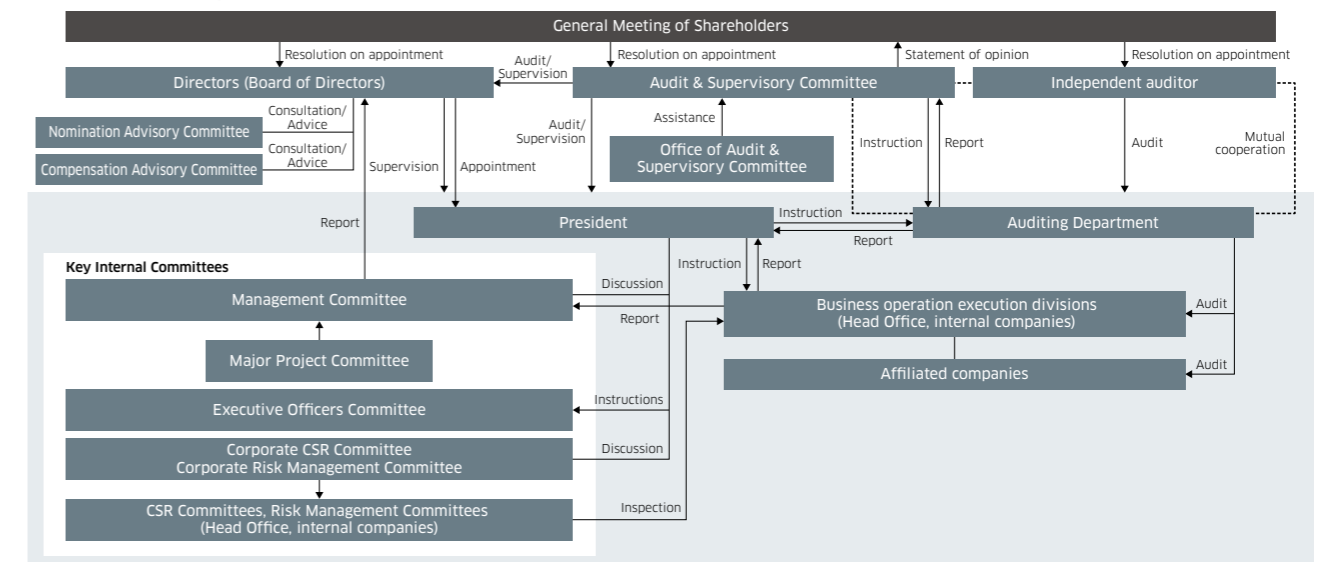
discusses matters that are important to Group management, including management policy, strategy, and challenges.

Furthermore, the Company maintains an Executive Officers Committee, comprising all executive officers. This committee issues business execution policy based on management policy and plans determined mainly by the Board of Directors and Management Committee. It also discusses management issues, striving to build unified consensus in Group management.

Other Key Internal Committees

Corporate CSR Committee	Discusses and decides on basic policy and important matters related to CSR and compliance for the Group as a whole and monitors implementation
Corporate Risk Management Committee	Discusses and identifies important issues pertaining to risk management for the Group as a whole and monitors implementation
Major Project Committee	Assesses risk and considers appropriate responses before the acceptance of major projects

The Kawasaki Group's Governance Structure (As of July 1, 2020)



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.

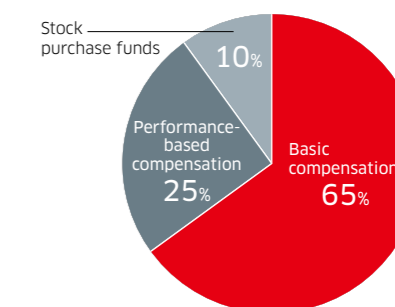
Compensation for Directors (excluding Directors serving as Audit & Supervisory Committee Members) is set within the

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.