



We are enhancing the effectiveness of the Board of Directors with free and vigorous discussions from diverse perspectives.

Katsuhiko Yoshida  
Outside Director

Yoshinori Kanehana  
Chairman of the Board

Melanie Brock  
Outside Director

Susumu Tsukui  
Outside Director (Audit & Supervisory Committee Member)

**Board of Directors Effectiveness**

**What is your assessment of the current state of the Board of Directors? What activities are the committees currently engaged in?**

**Tsukui:** Performance-wise, fiscal 2023 was a year of peaks and valleys. As the final decision-making body for governance, the Board of Directors dynamically set policies and opened up new perspectives by incorporating each member's area of expertise into its discussions. We are now entering the fourth year since transitioning to a company with an Audit & Supervisory Committee, and I feel that the separation of management and monitoring and of execution and supervision has become more natural for the Board.

**Brock:** When I was appointed as an outside director, I wondered to what extent robust discussions would take place at Kawasaki board meetings, as might be undertaken

in boardrooms in western countries. However, in the year since joining the Board, I have come to appreciate how Kawasaki provides the space for directors to truly engage. My background is not a technical one, and sometimes I questioned whether this would impact on my capacity to fulfill my responsibilities, but Kawasaki has created an environment where all directors contribute their personal experience and knowledge to the discussions. It is commendable that the Board is flexible and indeed welcomes change in order to make the system work better.

**Yoshida:** I'm in my third year as a director and feel the Board meetings have an excellent atmosphere that encourages discussion. In 2022, the Board started holding special discussions about longer-term perspectives on a specific theme for each meeting, which was a great opportunity to deepen my understanding of the Company. When a topic seems to need more discussion, Mr. Kanehana, who is the Board Chair, will say "I'd like to hear a little more about this" to prompt us to explore more perspectives. In most



Yoshinori Kanehana  
Chairman of the Board

cases, it's thought that an outside director should serve as the Board Chair in order to ensure independence, but Kawasaki's business is so diversified that I think discussions are deeper because the Chair is deeply versed on the Company's business content and history.

**Tsukui:** The Audit and Supervisory Committee, of which I am a member, is very active and, compared to when I first joined, the Auditing Department, which is in charge of internal audits, and the Audit & Supervisory Committee are working much more in cooperation while also having a clear division of roles. In addition, the Nomination Advisory Committee does an enormous amount of work contemplating the general view on what would make an ideal executive for the Company and carefully scrutinizing each candidate. I believe the revised executive compensation system introduced in 2024 is very high quality and detailed system. I think Kawasaki wants its Board to be more than just a group providing authorizations, I think it wants to use the Board to its full potential. My impression is that all of the committees are fully active.

**Kanehana:** I appreciate your comments. Since becoming Board Chair, I feel that the intended effects of reforms implemented based on the Board effectiveness evaluation are gradually taking shape. I look forward to hearing your views and working together to continue improving the Board's effectiveness.

**Future Issues and Outlook**

**What topics do you see as management issues for the longer term?**

**Yoshida:** One area I am paying attention to is activities related to human resources, particularly the scores in the employee engagement surveys, because they strongly correlate to business performance. Each

company section has their own score level but, in my experience, whether a section's score is low or high, increasing the number of people doing their best in each section improves a company's overall atmosphere and leads to better business performance. Kawasaki is implementing various measures, including reforming the personnel system and work styles. I will be looking at the engagement survey scores when I consider how well those measures are working and will also be looking to see if they contribute to the business performance.

**Brock:** Human resources is an area of key focus for me, and as such, I believe in the importance of promoting diversity. To bring about change in Japan, we need to challenge the male-centered mindset and promote women's active participation. In the future, the Japanese workforce will become much more diverse by incorporating mid-career hires, engaging older colleagues, and people whose native language is not Japanese. It is my hope that Kawasaki Heavy Industries is a company with employees who are motivated because of the respect it has for the diverse values and lifestyles of the employees. Companies like Kawasaki, particularly companies involved in heavy industries, are considered to be quite conservative. I hope we can dispel that image through bold reforms and show the depth of activities undertaken to a broader audience.

**Tsukui:** Law is my area of specialty, so my view of the Company is largely from a compliance and legal perspective. Kawasaki is advancing a "defense" measure of strengthening compliance along with an "offense" initiative for legal matters in which the legal department is more involved in overall management while also strengthening the legal department's functions by increasing the staff of qualified lawyers. I will be closely watching the progress of these initiatives and providing my full support because I think they are very important and will strengthen the Company's intellectual property strategy and governance while also preventing losses caused by contracts.



Susumu Tsukui  
Outside Director (Audit & Supervisory Committee Member)

## Roundtable Discussion with the Chairman and Outside Directors

**Kanehana:** I believe monitoring the outcome of the personnel system reforms is critical from the perspective that an “organization is its people” and a “company is its people,” including the issue of the legal department. The current reforms include some major changes, such as introducing job-based personnel management, promoting younger employees, and tightening performance-linked remuneration. We will need to watch for what tangible results they are producing, such as in the engagement surveys, and whether sufficient care is being provided to employees. This is an important topic that I think we should regularly discuss at the Board meetings.

### How do you view the status of compliance at Kawasaki?

**Tsukui:** A series of fraud incidents were discovered in the submarine repair and marine diesel engine businesses. The Company has been strengthening compliance oversight since the fraud inspection incident at a subsidiary two years ago, so it was a shock when fraudulent activity was discovered again. I think the recent cases are not so much a continuation of fraud and more a surfacing of entrenched practices that have been going on for many years. Therefore, even as we work to heighten compliance, there may well still be areas where people are not yet sensitive to the issues or that are behind the times. I think the Company is at the stage where compliance sensitivity needs to be raised and the mindset changed not just on the executive level, but also among all employees at the operating sites.

**Brock:** My first reaction when advised of the fraudulent incidents was to consider what, as a director, I might have done to prevent them through audit and other measures. Management and the Board are taking action to reflect on this. We need to consider how this matter affects our reputation globally. As a director, I will monitor the situation to ensure global standards are maintained and



Melanie Brock  
Outside Director

that we provide customers, business partners, and others with appropriate explanation and provide updates and information in a transparent manner.

**Yoshida:** No matter how good the system is, in the end, fraud cannot be prevented unless the awareness of every employee changes. So, these incidents tell us that compliance has not yet sufficiently permeated throughout the Company. We need to build a structure that makes fraud impossible while also further changing employee awareness. I think both the system and the organizational culture need to be reformed.

**Kanehana:** As you say, rather than correcting wrongdoing when it is pointed out to us from the outside, we need an organization that is more self-regulating. Every employee must be strongly determined to eliminate fraud, and we need to create a system and environment where someone who is engaging in wrongdoing can come forward and people who see misconduct can immediately speak up. How can we change the employee mindset? That is my task from this point. In response to the incidents, President Hashimoto said, “we will take resolute steps to ensure that such fraud does not happen again.” The Board of Directors will also work with the Special Investigative Committee, comprised of external experts, and the internal Special Compliance Promotion Committee to investigate the actual situation and prevent recurrence as well as to reform the corporate culture.

### Looking Forward

### What are your future expectations for Kawasaki Heavy Industries?

**Tsukui:** The Company has been implementing corporate transformation for some time, but more discussions about selecting and concentrating our existing businesses would also be good. I also think the Company should pursue M&A and similar actions as a way to keep pace with the speed of change in the world. I'd like to see the Company accelerate the transformation by actively replacing the old with the new. Also, other than its motorcycles, Kawasaki has a rather subdued image as a company, so I think it needs to make an effort to make the Group Vision 2030 initiatives sound more compelling to the general public.

**Brock:** This is related to what Mr. Tsukui mentioned, but I firmly believe new business needs stronger sales and marketing strategies. We need to focus on developing marketing and branding stories that enhance our products and services. We also need a stronger focus on communication, backed by talent with high level and

appropriate expertise. For example, our hydrogen business is being expanded worldwide and will continue to grow. Over the past year or so, I have been considering carefully how the hydrogen partnership between Australia and Japan might develop given the difference in energy supply and self-sufficiency between the two countries. We need an approach that takes these differences into account. Mr. Kanehana served as co-chair of the Hydrogen Council, an international organization, until July 2024, which was very important in terms of creating a “global face” for Kawasaki Heavy Industries. I hope Kawasaki continues to increase its presence as an international company and play an important role on the global stage.

**Yoshida:** Management issues become more complex as a company broadens its business domain, which makes it more difficult to see the benefits of diversification. Markets tend to apply a “conglomerate discount” to highly diversified business groups, which is the case for Kawasaki. In the hydrogen business, which is the core of Group Vision 2030, we aim to respond to social issues by creating synergies using technologies cultivated in our existing businesses, such as liquefied hydrogen carriers, hydrogen power generation facilities, and hydrogen engine motorcycles. Management is emphasizing market dialogue and is holding regular information briefings. I'd like the Company to gain market support and build a “conglomerate premium” by presenting a clear story about its creation of synergies, providing transparent explanations, including when major capital investment will be recovered, and then creating a record of achievements.

**Kanehana:** The hydrogen business is increasing



Katsuhiko Yoshida  
Outside Director

recognition around the world that Kawasaki is the hydrogen leader. As Ms. Brock and Mr. Yoshida said, I would like to strengthen our communication capabilities so we can raise our reputation further. Corporate transformation is critical. As we move forward with both the hydrogen business and new businesses, what business will we keep and how will we change? For some businesses, there is also the issue of how to deal with regional market bias. We're making changes, but we still have ways to go. I think the Board of Directors needs to discuss our corporate transformation more deeply, including topics like the necessity of M&A and withdrawal from unprofitable divisions. President Hashimoto comes from the robotics business, and he is trying to instill throughout the Company the mentality of quickly changing to follow the market. I'm very excited about that change. The Board of Directors will support the management team's efforts to reform.



Yoshinori Kanehana  
Chairman of the Board

### Message from the Chairman of the Board

Kawasaki has been implementing reforms to enhance the effectiveness of the Board of Directors since the transition four years ago to a company with an Audit & Supervisory Committee. Under the new structure, the delegation of authority to management and the clear separation of management execution and supervision have reduced the number of agenda items submitted for Board consideration, which has created a more sufficient amount of time to deliberate on each agenda item. In addition, we have set up special discussion slots in the regular meetings of the Board that give us time to talk at length about topics that warrant long-term perspectives as well as about current hot management issues. These and other modifications have led to increasingly active discussions with each year. The 13-member Board is also becoming more diverse with currently five women and two non-Japanese. The various backgrounds and areas of specialty that the Board members bring lead to very meaningful discussions that incorporate a variety of perspectives.

As we seek to fulfill our Group Vision 2030, we are pursuing new opportunities in various fields to bring about a corporate transformation and aiming to be a company where every employee is actively engaged and highly motivated. The Board of Directors is strengthening governance and closely monitoring the direction and process of our transformation.