

Kawasaki Heavy Industries, Ltd.

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Notice Concerning the Introduction of a Performance-based Stock Compensation Plan in Conjunction with the Review of the Executive Compensation System

Kawasaki Heavy Industries, Ltd. (hereinafter, Kawasaki) hereby notifies that in a Board of Directors meeting held today, we resolved to revise the compensation system for the Directors of Kawasaki (excluding Directors who are Audit & Supervisory Committee Member, and Outside Directors; hereinafter, the Eligible Directors) and Executive Officers, and to introduce a performance-based stock compensation plan using a trust in conjunction therewith (hereinafter, the Plan), and decided to submit a proposal concerning the introduction of the Plan to the 198th Ordinary General Meeting of Shareholders to be held on this June 25 (hereinafter, the General Meeting of Shareholders).

1. Revision of the Executive Compensation System

The Company's compensation for Eligible Directors consists of "basic compensation", "performance-based compensation", and "share purchase funds" and, in order to accomplish the Group Vision 2030, "Trustworthy Solutions for the Future", which was established in November last year, we hereby establish the following basic policy and review the compensation system.

[Basic policy]

Based on the concept of "Pay for Mission (compensation for accomplishing what a company should accomplish)", we will have a compensation system according to each officer's responsibilities and performance, rewarding contributions to improving corporate value not only in the short term, but also in the medium to long term, and accomplishing shared value with our shareholders and other stakeholders.

Following the review, the Company's remuneration will consist of "basic compensation", "short-term incentives", and "long-term incentives", with "basic compensation" and "short-term incentives" being paid in cash. In addition, "long-term incentives" will be performance-based stock compensation with the aim of sharing profits/risks with shareholders and increasing incentives to contribute to improving corporate value over the medium to long term.

(1) Compensation composition

The composition ratio of "basic compensation", "short-term incentives", and "long-term incentives", will be set to be approximately "50%:30%:20%" in the event that the Group's consolidated performance for the previous fiscal year achieves the target level and the degree of attainment of targets set by each Eligible Director for the previous fiscal year is 100%.

(2) Framework of basic compensation and incentives

(a) The "basic compensation" will be determined according to the individual grade based on the mission required for the position.

(b) The "short-term incentives" will be performance-linked compensation according to the degree of attainment of business targets for a single fiscal year and will be determined based on the Group's consolidated business performance and the degree of attainment of targets for each position.

The Group's consolidated performance indicator will be the current net income attributable to shareholders of the parent company in order to steadily attain business performance targets for a single fiscal year and promote shared value with shareholders.

The degree of attainment of targets for each position will be the degree of attainment of targets set by each Eligible Director in the previous fiscal year for short-term issues within the Company as a whole and his/her organization/duty.

(c) The "long-term incentives" will utilize a board benefit trust system, and in principle, when a Director retires from his/her position, the Director is granted the Company's shares and is paid an amount equivalent to the Company's share conversion disposal amount, based on the points awarded according to the position held during the Director's term of office and the degree of attainment of targets for each position.

The points to be awarded will be divided into a fixed portion and performance-based portion, and the fixed portion will be awarded with a certain number of shares based on the position held during the Director's term of office, thereby aiming to share value with shareholders.

The performance-based portion will be awarded with shares based on the degree of attainment of targets for each position, as an incentive to increase corporate value in the medium to long term. The degree of attainment of targets for each position will be the degree of attainment of targets set by each Eligible Director in the previous fiscal year for medium- to long-term issues within the Company as a whole, and his/her organization/duty.

(3) Targets set by Eligible Directors

Eligible Directors will set targets for short- and medium- to long-term issues for the Company as a whole, their organizations/duties according to respective positions, and the degree of attainment of these targets will be reflected in their short- and long-term incentives.

Among these, targets for short-term issues will be targets to be attained within the relevant fiscal year, and actions to be taken by each Director and the attainment level will be set to achieve these targets. In addition, targets for medium- to long-term issues will be targets to be attained in light of the future vision for 2030 set out in Group Vision 2030, and actions to be taken by each Eligible Director and the attainment level will be set to achieve these targets.

The targets to be set will include important financial indicators related to business performance, as well as non-financial indicators such as efforts to achieve the SDGs, and efforts to improve employee engagement.

2. Introduction of the Plan

The Plan will be introduced as "long-term incentives" with the aim of clarifying the link between the compensation of Eligible Directors and the Company's business performance and share value, and by having Eligible Directors share the profits/risks due to share price movements with shareholders, raising their awareness of contributing to improving medium- to long-term business performance and increasing corporate value.

The introduction of the Plan is subject to approval at the General Meeting of Shareholders.

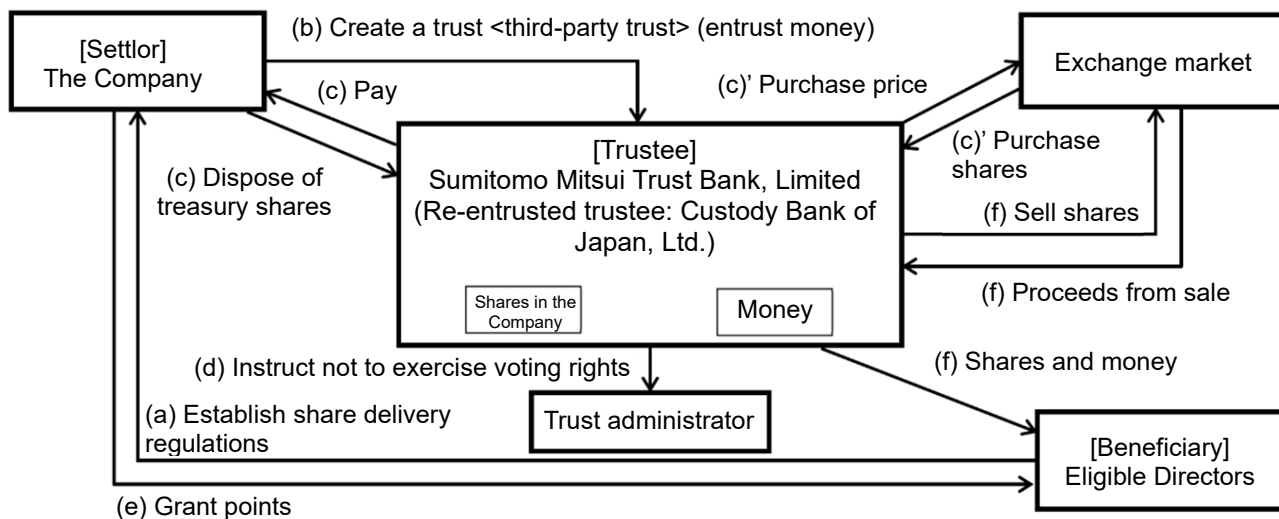
In addition, if the introduction of the Plan is approved at the General Meeting of Shareholders, we plan to introduce a performance-based stock compensation plan similar to that for the Company's Eligible Directors for Executive Officers who have concluded a delegation agreement with the Company, as well as Directors (excluding Outside Directors) and Executive Officers of some of the Company's subsidiaries (hereinafter, collectively referred to as Executive Officers, etc.). In this case, the Executive Officers, etc. will also be beneficiaries of the trust established by the Company for the operation of the Plan, as with the Company's Eligible Directors. In addition, the Company will entrust share acquisition funds to be granted to the Executive Officers, etc. to the Trust.

(1) Framework of the Plan

The Plan is a stock compensation system under which a trust established by the Company through monetary contributions (hereinafter, the Trust) will acquire shares in the Company, and the number of shares in the Company equivalent to the number of points granted by the Company to each Eligible Director, will be delivered to each Eligible Director through the Trust.

The delivery of shares in the Company under the Plan will be made to the Company's Eligible Directors who are in office during the three fiscal years from the fiscal year ending March 31, 2022, to the fiscal year ending March 31, 2024 (hereinafter, the Eligible Period). In principle, the Eligible Directors will receive shares in the Company when they retire from their positions.

<Overview of the framework of the Plan>



- (a) The Company will establish share delivery regulations for Eligible Directors.
- (b) The Company will create a board benefit trust (third-party trust) with the Eligible Directors as beneficiaries (the Trust). In doing so, the Company will entrust to the trustee an amount of money equivalent to the share acquisition funds (however, this will be within the range of the amount approved at the General Meeting of Shareholders).
- (c) The trustee will acquire a significant number of shares in the Company that are expected to be delivered in the future in a lump sum (either by disposing of treasury shares or by acquiring them from the exchange market (including off-floor trading)).
- (d) The interests of the beneficiary subject to the share delivery regulations will be protected throughout the trust period, and a trust administrator (who is independent of the Company and the Company's Directors) will be appointed to oversee the trustee. With respect to the shares in the Company held in the Trust, the trust administrator will instruct the trustee not to exercise voting rights, and the trustee will follow such instruction and will not exercise voting rights throughout the trust period.
- (e) Pursuant to the share delivery regulations, the Company will grant points to the Eligible Directors.
- (f) The Eligible Directors who meet the requirements set forth in the share delivery regulations and the trust agreement pertaining to the Trust will, as beneficiaries of the Trust, receive shares in the Company from the trustee according to the points awarded to them. If certain events set forth in advance in the share delivery regulations and the trust agreement occur, a portion of the shares in the Company to be delivered will be sold on the exchange market and money will be granted.

(2) Creation of trust

Subject to the approval of the introduction of the Plan at the General Meeting of Shareholders, the Company will create the Trust by contributing the funds necessary for the Trust to acquire, in advance for a certain period of time, the number of shares in the Company that are reasonably expected to be required to make the delivery in accordance with (6) below. The Trust will acquire shares in the Company using the funds contributed by the Company as the source of capital, as described (5) below.

The trustee under the Plan, Sumitomo Mitsui Trust Bank, Limited, will entrust the management of the trust assets to the Custody Bank of Japan, Ltd. (re-entrustment).

(3) Trust period

The trust period will be approximately three years, from August 2021 (planned) to August 2024 (planned). However, the trust period may be extended as described in (4) below.

(4) Upper limit of the trust funds to be contributed to the Trust as share acquisition funds

The Company will contribute with a total of up to 975 million yen as compensation to the Eligible Directors who are in office during the Eligible Period, as funds for the acquisition of shares in the Company that are necessary to deliver the shares in the Company to the Eligible Directors under the Plan during the Eligible Period, and will create the Trust with the Eligible Directors who acquire

beneficiary rights as specified in (6) (c) below as the beneficiaries. The Trust will acquire shares in the Company through the disposal of treasury shares from the Company or by acquiring them from the exchange market (including off-floor trading), using the money entrusted to it by the Company as the source of capital.

Note: The amount of money that the Company actually entrusts to the Trust, will be the total amount of the funds to acquire the shares in the Company as described above, as well as the estimated amount of necessary expenses such as trust fees and trust administrator fees. In addition, if a share-based compensation system similar to the Plan is introduced for the Executive Officers who have concluded a delegation agreement with the Company as described above, as well as for the Directors (excluding Outside Directors) and Executive Officers of some of the Company's subsidiaries, the funds to acquire the shares in the Company that are necessary to deliver to those persons under the plan will also be entrusted to the Trust.

The Company may, with its Board of Directors' decision, extend the Eligible Period for a period of up to five fiscal years each time, and accordingly extend the trust period of the Trust (including effectively extending the trust period by transferring the trust assets of the Trust to a trust created by the Company with the same purpose as that of the Trust; the same applies hereinafter), and continue the Plan. In this case, during the extended part of the Eligible Period, the Company will make additional monetary contributions to the Trust up to an amount equal to the number of fiscal years of the extended part of the Eligible Period multiplied by 325 million yen, as funds for the additional acquisition of shares in the Company that are necessary to be delivered to the Eligible Directors under the Plan, and will continue to grant points and deliver shares in the Company as described in (6) below.

In addition, even if the Eligible Period is not extended as described above and the Plan is not continued, if there is any Director who has already been granted points, but has not yet retired at the expiration of the trust period, the trust period of the Trust may be extended until such Eligible Director retires and the delivery of shares in the Company is completed.

(5) Method of acquiring shares in the Company through the Trust, etc.

It is planned that the Trust initially acquires shares in the Company through the disposal of treasury shares from the Company or from the exchange market, within the upper limit of the share acquisition funds described in (4) above, however details of the acquisition method will be decided and disclosed after the resolution of the General Meeting of Shareholders.

If, during the trust period, there is a possibility that the number of shares in the Company in the Trust will fall short of the number of shares corresponding to the number of points granted to the Eligible Directors due to an increase in the number of Eligible Directors or other reasons, additional money may be entrusted to the Trust and additional shares in the Company may be acquired, within the upper limit of the trust funds described in (4) above.

(6) Calculation method and the upper limit of shares in the Company to be delivered to Directors

(a) Method of granting points to the Directors, etc.

Pursuant to the share delivery regulations established by the Company's Board of Directors, the Company will grant points to each Eligible Director on the points' grant date during the trust period set forth in the share delivery regulations according to the position, the degree of attainment of business performance targets, etc.

However, the total number of points granted by the Company to the Directors will be up to 50,000 points per fiscal year.

(b) Delivery of shares in the Company according to the number of points granted

The Eligible Directors will be granted shares in the Company according to the number of points granted as described in (a) above, in accordance with the procedure described in (c) below. However, if an Eligible Director resigns during his/her term of office, all or part of the points granted up to that point will be cancelled, and the shares in the Company corresponding to the cancelled points may not be delivered.

One point is equivalent to one share in the Company. However, with respect to the shares in the Company, if any event occurs in which it is deemed reasonable to adjust the number of shares in the Company to be delivered, such as share splitting or consolidation, the number of shares in the Company per point will be adjusted according to the split ratio, consolidation ratio, etc.

(c) Delivery of shares in the Company to the Eligible Directors

In principle, each Eligible Director will acquire beneficiary rights to the Trust upon retirement through the prescribed procedures, and as a beneficiary of the Trust, will receive shares in the Company from the Trust as described in (b) above.

However, a certain percentage of the shares in the Company may be sold and converted into cash by the Trust for the purpose of the Company withholding the funds for payment of withholding income tax, etc., and then be delivered in cash instead of shares in the Company. In addition, if the shares in the Company held by the Trust are converted into cash, such as when a tender offer is made and settled therefor, they may be delivered in cash instead of shares in the Company.

(7) The exercise of voting rights

The voting rights pertaining to shares in the Company held in the Trust will not be exercised uniformly, based on the instructions of the trust administrator who is independent of the Company and its Directors. By adopting such methods, we intend to ensure neutrality of the management of the Company with respect to the exercise of the voting rights pertaining to shares in the Company held in the Trust.

(8) Handling of dividends

The dividends pertaining to shares in the Company held in the Trust will be received by the Trust and used to cover the acquisition costs of the shares in the Company and the trustee's trust fees pertaining to the Trust, etc.

(9) Handling of the shares in the Company and cash upon termination of the Trust

Of the remaining assets of the Trust upon termination of the Trust, the Company plans to acquire all shares in the Company free of charge and cancel them by resolution of the Board of Directors.

In addition, of the remaining assets of the Trust upon termination of the Trust, the Company plans to donate a certain amount of money to a specified public interest promotion corporation that has no vested interest with the Company's Directors, as stipulated in advance in the share delivery regulations and trust agreement.

(Reference) Overview of the trust agreement pertaining to the Trust

Settlor	The Company
Trustee	Sumitomo Mitsui Trust Bank, Limited (re-entrusted trustee: Custody Bank of Japan, Ltd.)
Beneficiary	The Company's Directors (excluding Directors who are Audit & Supervisory Committee Member, and Outside Directors) and Executive Officers who have concluded a delegation agreement, as well as Directors (excluding Outside Directors) and Executive Officers of some of the Company's subsidiaries
Trust administrator	A third party independent of the Company and its Directors will be selected
The exercise of voting rights	Throughout the trust period, voting rights pertaining to the shares held by the Trust will not be exercised
They type of trust	Trust of money other than money trust (third-party trust)
Date of trust agreement	August 2021 (planned)
Period of trust	August 2021 - August 2024 (planned)
The purpose of the trust	To deliver Company's shares to the beneficiary in accordance with the share delivery regulations