

Kawasaki Heavy Industries, Ltd.

May 9, 2024

Notice Concerning the Revision of the Executive Compensation System

Kawasaki Heavy Industries, Ltd. (hereinafter, Kawasaki) hereby notifies that in a Board of Directors meeting held today, a motion passed for the revision of the compensation system for Directors of Kawasaki (excluding Directors who are Audit & Supervisory Committee Member, and Outside Directors) and Executive Officers.

1. Purpose of the Revision of the Executive Compensation System

In quest to achieve Group Vision 2030: Trustworthy Solutions for the Future, Kawasaki will partially revise its Executive Compensation System in order to firmly ensure an even higher level of value sharing with shareholders and all of the other stakeholders and a mid- to long-term corporate value increase.

2. Outline of the Revision of the Executive Compensation System

(1) Reinforced linkage with performance

Kawasaki's executive compensation is composed of basic compensation (Cash), short-term incentives (Cash), and long-term incentives (Stock).

Reducing basic compensation and increasing short-term incentives to reinforce the linkage with performance allows the company to steadily achieve targets and increase corporate value. The long-term incentives consist of a fixed portion and a performance-based portion, and decreasing the fixed portion and increasing the performance-based portion encourages efforts to improve corporate value while also enhancing value sharing with all of its stakeholders. Additionally, to increase corporate value, maintaining the conventional number of granted shares in general, instead of using the total long-term incentives amount and share value to calculate the number of shares granted, the company will employ a framework of increasing the compensation standard as the share value increases.

(2) New valuation indices

Previously, each executive individually set targets concerning highly effective employee ratios, ESG (Environment, Society, and Governance), and share value increasing. However, moving forward, the company will reflect the following in performance-based compensation as independent valuation indices with shared standards set.

- (a) In order to extract an even higher level of activity from the human resources who work at the company, the ratio of employees with high levels reported for both Supportive environment and employee engagement in employee engagement

- surveys (i.e. highly effective employees) in short-term incentives will be reflected.
- (b) In order to encourage overall ESG related efforts, including efforts for CO₂ reduction, the company will employ the following three indices long-term incentives: CO₂ emission reduction in its business activities, the degree of the contribution to CO₂ reduction around the world through providing the solutions that lead to achieve carbon neutrality, and evaluations by third party-institutions (Dow Jones Sustainability Index*¹).
 - (c) In order to enhance awareness concerning the increasing of corporate value, share value in long-term incentives as an index will be reflected.

3. Application period

After evaluating FY2024 activities for each index target, the results in executive compensation in FY2025 onward will be reflected.

*1: Share indices jointly developed by S&P Dow Jones Indices and RobecoSAM

[Image on the Revision of the Executive Compensation System]

Monetary compensation

Before revisions			After revisions		
Basic compensation (Cash)	Fixed 60%*1	Fixed payment based on role	Basic compensation (Cash)	Fixed 50%*1	Fixed payment based on role
Short-term incentives (Cash)	Performance-based 40%*1	Profit for the period	Short-term incentives (Cash)	Performance-based 50%*1	Profit for the period
		Short-term target achievement			Short-term target achievement
				New	Employee engagement index *2

*1. When previous fiscal year group consolidated performance and standards set as targets for each index have been met, and the achievement rate for targets concerning the previous fiscal year set by each executive is 100%.

*2. Extracted from short-term target achievement and set as an independent index.

Share-based compensation

Before revisions *1			After revisions *1		
Long-term incentives (share-based)	Fixed 50%*2	Fixed payout based on role	Long-term incentives (share-based)	Fixed 30%*2	Fixed payout based on role
	performance-based 50%*2	Mid- to long-term target achievement		performance-based 70%*2	Mid- to long-term target achievement
				New	ESG indices (CO2 reduction and third-party institution evaluations) *3
					Share value index *3

*1. The current system assumes conversion via the initial share value standard at time of introduction, and the revised system assumes conversion via the current share value standard. The total long-term incentives amount will increase with increases in share value.

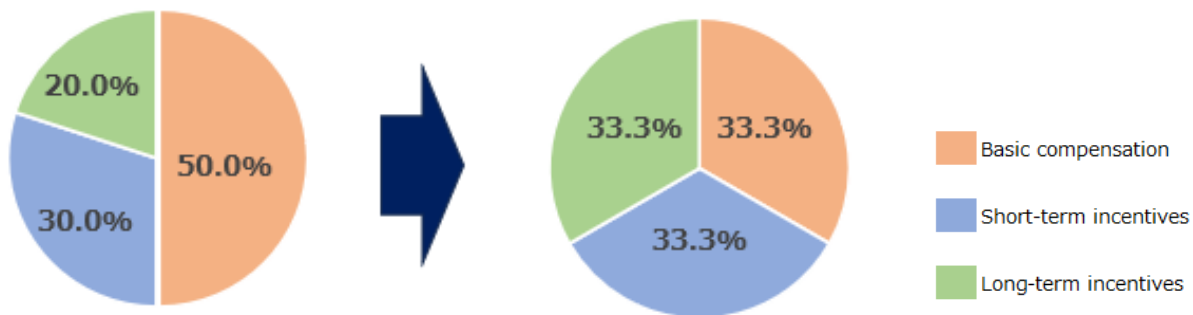
*2. When standards set as targets for each index have been met, and the achievement rate for targets concerning the previous fiscal year set by each executive is 100%.

*3. Extracted from mid- to long-term target achievement and set as an independent index.

For Reference: Compensation Standard of President:

Compensation composition ratio for conversion via initial share value standard at time of introduction

Compensation composition ratio for conversion via the current share value standard



*The total long-term incentives amount will increase with increases in share value.