Strengthening & Enhancing Corporate Governance

Raising the Effectiveness of Corporate Governance

The Company has, in principle, adopted the corporate officer system. In our opinion, however, in the form in which it has been adopted by the majority of companies, this system does not allow day-to-day operations to be taken sufficiently into account in the course of management decision-making. Accordingly, we have concluded that our directors, who are legally responsible for obligations to customers and the interests of shareholders and others, should be primarily responsible for conducting the business affairs of major importance to the Company.

The current Board of Directors comprises senior management and executives responsible for head office functions, key business divisions, internal companies, and equivalent business units. The Company's corporate officers are selected by the Board of Directors. Their role is to carry out the duties assigned to them by the directors.

Under this management system, Kobe Steel employs an auditing system carried out by five statutory auditors, including three outside auditors. This system has led to a further strengthening of auditing functions and has contributed significantly to more effective corporate governance. In addition, internal audits of all of the company's business activities are conducted by the Audit Department established as an independent organization.

Strengthening the Compliance System

The management recognizes that strengthening the Company's compliance system is its most important task. This is being carried out with the awareness that the Company could not exist if it did not abide by laws, regulations and generally accepted rules of ethical standards.

In June 2003 we reorganized our Corporate Ethics Committee. In its place we established the Compliance Committee to serve as an advisory body to the Board of Directors. To ensure that the Committee adopts fair and neutral positions, four of its members are selected from inside the Company and a majority of five members are from outside the Company, to provide an impartial viewpoint. The Committee develops proposals on compliance issues, verifies whether or not progress is being made on compliance, and deliberates on concerns that emerge through the internal reporting (whistleblowing) system, in order to help management engage in more effective compliance.

The Committee also works to spread this activity throughout the Group, and leading group companies have taken such measures as establishing compliance committees to ensure basic corporate ethics are adhered to. In addition, a Kobe Steel Group internal reporting system for whistle-blowing reports has been created under which employees can directly contact lawyers. Moreover, the Committee constantly compiles and updates rules and manuals, and organizes compliance education.

