

(Translation)

Basic Policy and Initiatives on the Corporate Governance of Kobe Steel, Ltd.

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## I. Fundamental Attitude toward Corporate Governance

The Kobe Steel Group recognizes that corporate value includes not only business results and technological capabilities, but also the attitude toward social responsibility for all stakeholders affected by business activities such as shareholders, investors, customers, employees and local communities. Earnestly undertaking efforts to improve for all stakeholders leads to an improvement in corporate value.

Therefore, corporate governance is not merely a form of the organization, but is a framework to realize all the efforts the Kobe Steel Group is undertaking. In building the framework, the Group recognizes the importance of establishing a system that contributes to improving corporate value by taking appropriate risks; acting in cooperation with stakeholders; promoting appropriate dialogue with investors in the capital market; maintaining the rights of and fairness for shareholders; and securing transparency in business dealings.

Under such a policy, the Kobe Steel Group has established the Core Values of KOBELCO, which are promises that the Group has made to society demonstrating the values shared throughout the Group, and the Six Pledges of KOBELCO Men and Women, which are concrete actions to fulfill the Core Values of KOBELCO that all employees must carry out. The Group aims to improve its corporate value over the medium to long term by implementing these policies while operating its businesses.

## II. Management Philosophy and etc. of the Company

### 1. Corporate Philosophy and Management Vision

#### (1) Corporate Philosophy (Core Values of KOBELCO and Six Pledges of KOBELCO Men and Women)

The Company Group aims to sustainably enhance the Group's corporate value capabilities by continuing to make efforts to implement its social liability as a corporate group for any its stakeholders such as shareholders, investors, customers, business partners, employees and local societies under the following corporate philosophy.

#### Core Values of KOBELCO

1. We provide technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live.
2. We value each employee and support his and her growth on an individual basis, while creating a cooperative and harmonious environment.
3. Through continuous and innovative changes, we create new values for the society of which we are a member.

## Six Pledges of KOBELCO Men and Women

We, the men and women of KOBELCO, in the spirit of honoring Core Values of KOBELCO, make the following Six Pledges:

### 1. Heightened Sense of Ethics and Professionalism

We not only follow the laws, corporate rules and societal norms, but also conduct our corporate activity in a fair and sound manner with the highest sense of ethics and professionalism.

### 2. Providing Superior Products and Services

Guided by our "Quality Charter", we provide safe, sound and innovative products and services to our customers, and thereby ensure customer satisfaction and contribute to the advancement of the society.

#### **Quality Charter**

The KOBELCO Group will comply with all laws, public standards, and customer specifications, and make continuous efforts to improve quality, with the goal of providing Trusted Quality in our products and services.

### 3. Establishing a Comfortable but Challenging Work Environment

We provide a safe and comfortable work environment, and we value each employee's character, personality and diversity, and provide each employee with a challenging work experience so as to allow each employee to use his and her fullest capability.

### 4. Living in Harmony with Local Community

We make efforts to be a good "corporate citizen" in each local community which serves as the base for our group.

### 5. Contribution to a Sustainable Environment

We aim to build a richer and more sustainable world, and we conduct environmentally friendly manufacturing and contribute to the betterment of the natural environment through our technologies, products and services.

### 6. Respect for Each Stakeholder

We respect all of our stakeholders, including customers, business associates, employees and shareholders, as our colleagues and build good and sound relationships with all of them.

## (2) Medium-to Long-Term Business Vision

The Company Group continues to carry out various undertakings to attain its Medium-to Long-Term Business Vision; KOBELCO VISION “G” – Creating New Value, Aiming for Global Growth – formulated in April 2010. This vision provides the business framework for the Group over the next five to 10 years. By further integrating the knowledge and technologies of its diverse businesses in materials and machinery, the Company Group aims to become a corporate group that:

Has a presence in the global market;

Maintains a stable profit structure and a strong financial foundation; and

Prosper together with its shareholders, business partners, employees and society.

In achieving the Group image above, measures for safety and compliance shall first be thoroughly undertaken, and then under the basic policy below, the Group aims to create new value and global growth.

The Company has started initiatives for a new medium – term management plan, KOBELCO VISION “G+” (pronounced “G plus”) that follows KOBELCO VISION “G” and further strengthens and clarifies the growth strategy. The Group plans to focus its management resources in growing fields anticipated to expand over the medium to long term such as weight savings in transportation as well as energy and infrastructure and to increase the original added value of the Group. By achieving a strong competitive edge, the Group aims to expand and grow its businesses and contribute to society.

## (3) Management Strategy and the medium-term management plan

The Company intends to establish a solid business enterprise by further strengthening the three core business areas of the materials businesses, machinery businesses and the electric power business as concrete business image of its Medium-to Long-Term Business Vision.

To achieve its business vision, the Company establishes as needed a medium-term management plan covering three to five years.

In formulating the medium-term management plan, the Company reviews not only the current business situation and future forecast, but also the results of the previous medium-term management plan, which serves as the premise in the formulation of the new management plan.

The Company also considers matters regarding safety, compliance and sustainability, improvement of the Company’s financial standing and its capital policy, as well as its profit plan in formulating a new medium-term management plan.

The Company may reconsider the management plan in the event circumstances surrounding the Company's business drastically changes.

Please click on the link below for the Company's "Fiscal Year 2016 - 2020 Group Medium-Term Business Plan."

[http://www.kobelco.co.jp/english/releases/1194607\\_15581.html](http://www.kobelco.co.jp/english/releases/1194607_15581.html)

## 2. Corporate Ethics

The Company Group considers our corporate social responsibilities (CSR) to be an important component of Group management and have adopted specific CSR guidelines in the form of our Corporate Code of Ethics.

### (1) Corporate Code of Ethics

The Corporate Code of Ethics sets out policies and guidelines to implement the "Core Values of KOBELCO." It consists of the Corporate Ethical Principles, Standards of Corporate Conduct, and Implementation Guidelines for the Corporate Code of Ethics.

The Corporate Ethical Principles are a set of guidelines that the Company, its directors, officers and employees are required to follow when engaging in business activities

This Corporate Ethical Principle is simplified as the Six Pledges of KOBELCO Men and Women to lead to concrete actions by all employees of the Company Group.

The Standards of Corporate Conduct set out guidelines for particularly important activities for the implementation of the Corporate Ethical Principles in day-to-day operations.

The Standards of Corporate Conducts are implemented by individual employees based on operating manuals containing detailed explanations.

In order to make a positive difference in society and the environment, we ensure that all of the Company's corporate operations comply with the Corporate Code of Ethics. The Corporate Code of Ethics is published on the Company's website below:

[http://www.kobelco.co.jp/english/about\\_kobelco/kobesteel/cce/index.html](http://www.kobelco.co.jp/english/about_kobelco/kobesteel/cce/index.html)

### (2) The Corporate Code of Ethics and top management

Management must assume the responsibility for implementing the Corporate Code of Ethics and for taking all necessary actions in order to promote awareness of the Corporate Code of Ethics among all those concerned.



Management must also heed the voice of the Company's stakeholders, both internally and externally, and promote the development and implementation of systems that will contribute to the achievement of ethical corporate behavior.

In the event of a violation of the Corporate Code of Ethics, management must investigate the cause of the violation, develop reforms to prevent its recurrence, and make information publicly available regarding its intended actions for reforms.

If health or safety is placed in danger, the company will carry out its responsibility to society by promptly disclosing any information necessary to minimize such risk. After the prompt public disclosure of appropriate information regarding the violation, responsibility for the violation and its effects will be clarified and disciplinary action will be taken against persons responsible, which include the highest levels of management where necessary.

The adoption, abolishment and amendment of the Principles are subject to resolution by the Board of Directors of the Company after inquiries for the Compliance Committee.

### 3. Basic Environmental Management Policy

The Company Group believes we have a duty to future generations to leave behind a healthy ecosystem, in which all living creatures can thrive. To this end, the Company has established the following Basic Environmental Management Policy in order and strives to implement environmentally conscious environmental management during every stage of our operations.

“Enhancing Corporate Value Further through Group-wide Environmental Management – Improving Group Environmental Capabilities”

As a leading environmental business enterprise, the Company Group will fulfill its corporate social responsibilities, improve its environmental capabilities and raise its corporate value by putting the following three principles into practice:

- (i) Reducing the environmental impact from production;
- (ii) Contributing to the environment through products, technologies and services; and
- (iii) Maintaining a relationship of trust and collaboration with society at large.

### 4. Initiatives on Enhancing Diversity in the Company

The Company respects the diversity of all employees, values their independence and creativity, and creates a corporate culture that utilizes them in corporate activities aimed at sustained development and growth. The Company determines these policies in the Corporate Code of Ethics and aggressively

implements the Corporate Code of Ethics such as maintenance of various internal systems and enlightenment movements for employees of the Company.

### III. Management Structure

#### 1. Policy regarding management structure (Management structure and the range of authorization of management)

The Company believes the basis of its corporate value is the promotion of its diversified management covering a wide range of segments with different demand fields—business environments, sales channels and business scales—and the leveraging of that synergy. The Company believes it is impossible to pursue technical development and innovations, which form the foundation for the Company’s continued growth, without integrating discussions with the plants.

Furthermore, to advance its diversified management, the Company believes it is necessary to actively discuss and undertake appropriate decision-making with regard to the risk management of its various businesses and the allocation of management resources, as well as to flexibly oversee business executions by the Board of Directors. It is desirable to maintain certain cohesion between execution and oversight and to have the Board of Directors served by members with correct understanding for the Company’s business execution.

In line with this approach, the Company has shifted to adopting an Audit & Supervisory Committee whose members have voting rights on the Board of Directors. Under this new governance structure, the Company aims to enable comprehensive audits of the Company’s extensive businesses; maintain and strengthen the supervisory function of the Board of Directors; and accelerate decision-making with regard to management without completely separating the oversight and execution functions.

The Company determines the Board of Directors as follows;

##### (1) Structure, Supervision and Executive Authority of the Board of Directors

The number of Directors (excluding Members of the Audit & Supervisory Committee) shall be no more than 15 pursuant to the Articles of Incorporation of the Company. The Board of Directors consists of an appropriate number of Directors, while considering the diversity of the members, to ensure substantial discussions at meetings of the Board of Directors. Specifically, the Board of Directors includes the President and directors overseeing the Head Office, materials businesses, machinery businesses, the electric power business, and the Technical Development Group. The Board also includes the Director overseeing compliance; and the Director overseeing quality management.

To enhance active discussion, appropriate decisionmaking and supervision, in principle, the Company invites two or more Independent Directors who are not Audit & Supervisory Committee Members in

addition to those in the Audit & Supervisory Committee because it is essential to reflect a fair and neutral viewpoint, as well as the viewpoint of stakeholders such as minority shareholders.

The number of directors who are also Audit & Supervisory Committee Members is no more than five as stipulated under the Articles of Incorporation of the Company.

Independent Directors will account for one third (1/3) or more of the board.

In selecting candidates for the Board of Directors, the Company will seek personnel from a wide range of fields, regardless of gender, nationality or whether they are inside or outside the Company, who can contribute to improving the corporate value of the Company. The Nomination and Compensation Committee, the majority of whom shall consist of Independent Directors, shall consider the candidates and report its opinion to the Board of Directors.

We basically appoint a chairman of the Board of Directors from among the Independent Directors.

The Board of Directors is responsible for deliberating and deciding on matters concerning execution of important business and other legal matters, as well as for overseeing business execution.

However, to ensure that the prompt decision-making at meetings of the Board of Directors is not impeded, the Company has established deliberation standards for the Board meetings and delegated authority, within a certain scope, to persons responsible for specific duties, including the President and other executives.

In addition, by appointing Executive Officers as assistants to Directors who execute duties, the Company has established a system that enables delegation of business management responsibilities and prompt decision-making with respect to business management. The term for Directors (excluding Audit & Supervisory Committee Members) and Executive Officers shall be one year to enable the Company to respond flexibly to a volatile business environment.

The term for Directors (excluding those are also Audit & Supervisory Committee Members) and executive officers shall be one year to enable the Company to quickly respond to drastic changes in the business environment. The term for directors who are also Audit & Supervisory Committee Members shall be two-year determined under the Companies Law.

## (2) The role and function of Independent Directors

Independent Directors (excluding those are also Audit & Supervisory Committee Members) back up appropriate risk-taking and support the Company's medium- to long-term growth by reflecting outside persons' fair and neutral opinions and viewpoints of stakeholders such as minority shareholders on resolutions at the meetings of the Board of Directors advising with respect to management based on their own experiences as well as have functions as a supervising organ.

Under this policy, with respect to roles and functions, etc. of Independent Directors (excluding those are also Audit & Supervisory Committee Members), These Independent Directors attend monthly meetings

of the Board of Directors and provide appropriate advice that is based on their diverse experience and takes into account fair and neutral perspectives, which are necessary for the Company's continued growth, as well as the viewpoints of minority shareholders and other stakeholders. In light of these viewpoints, Independent Directors exercise their voting rights at meetings of the Board of Directors, supervise the meetings of the Board of Directors, and supervise conflicts of interests between the Company and its executives.

In addition, with a view to realizing livelier, more in-depth discussions at meetings of the Board of Directors and thereby enhancing the function of the Board of Directors to monitor business activities, an Independent Director is appointed as the Chairman of the Board.

### (3) Mechanism for Business Execution etc.

Directors (excluding those are also Audit & Supervisory Committee Members) who are elected by shareholders at the Ordinary General Meeting of Shareholders and assume legal responsibility for stakeholders, including shareholders and customers, oversee assigned duties regarding business divisions, the Head Office, the Technical Development Group, compliance and quality management, respectively. Under the direction of these directors, Executive Officers share the execution of business.

The post of Executive Officers of the Company is not an organ legally designated, but is identified as an important post as Executive Officers who are elected by the Board of Directors and execute operations commissioned by the President.

Under such system, the Company holds meetings of the Executive Council (twice a month), where managerial directions, including business strategies, and matters presented to the Board of Directors are discussed

The Executive Council consists of regular members (who are Executive Directors that oversee the head office, business segments and technical divisions; an Executive Officer in charge of the Corporate Planning Department; Executive Officers appointed by the Company's President; and a director who is also a full-time regular Audit & Supervisory Committee Member) and ad-hoc members appointed depending on the agenda to be discussed. The Executive Council is not decision making body, but is the forum where members actively discuss the agenda in order to consider executions of businesses regarding each business segment of the Company and the Group from various angles. The agenda discussed at the Executive Council is presented at meetings of the Board of Directors as an agenda to be resolved or reported.

The Company also established the Executive Liaison Committee (held once a quarter), comprised of directors, Executive Officers and Technical Experts who execute business and the presidents and directors of affiliated companies designated by the President of the Company, to facilitate sharing of information on important matters relating to management.

The Executive Liaison Committee is the body that shares information regarding important management issues and holds seminars taught by outside and/or inside instructors in order that attendees of this committee acquire information necessary for the Company Group's integrated management and business execution and for appropriate updates thereof. In addition, the Company may establish a committee where the persons concerned discuss matters that have a great degree of influence on the management of the company in general, at the request of the President or officials in upper posts.

#### (4) Audit & Supervisory Committee and Its Members

With regard to Audit & Supervisory Committee Members, the Companies Act requires companies to install three or more Audit & Supervisory Committee Members, more than half of whom are Independent Directors. However, the Company's Audit & Supervisory Committee consists of five Audit & Supervisory Committee Members, of which three are Outside Audit & Supervisory Committee Members invited each from various circles such as the legal, financial and industrial circles.

The Audit & Supervisory Committee — as an independent organ entrusted by shareholders that plays a role in the Company's supervisory function in cooperation with the board of directors — implement the tasks below in order to ensure the healthy and sustainable growth of the Company, including the Company's corporate group; to maintain growth that takes value creation into consideration for various stakeholders; and to establish a good corporate governance system that meets social trust.

The Audit & Supervisory Committee makes efforts to maintain the Company's internal arrangements so that the Company is capable of quick and decisive decision-making and actively express opinions on directors and employees, as well as guarantee the Company's clear and fair decision making.

Full-time Audit & Supervisory Committee Members are appointed at the Audit & Supervisory Committee for smooth business execution of the Audit & Supervisory Committee.

Full-time Audit & Supervisory Committee Members are elected as the selected Audit & Supervisory Committee Members actively strive to collect internal information of the Company and maintain the internal control system of the Company, based on the characteristics of full-time Audit & Supervisory Committee Members. In addition, full-time Audit & Supervisory Committee Members share information they acquire in the course of fulfillment of their duties with other Audit & Supervisory Committee Members.

Independent Directors who are also Audit & Supervisory Committee Members recognize that they are especially expected to objectively express opinions regarding auditing from a neutral viewpoint and make their own candid opinions on the board of directors, etc., based on their independence from the Company or reasons of their election.

At least one Audit & Supervisory Committee Member with considerable knowledge of finance and accounting must be elected.

Audit & Supervisory Committee Members always make efforts to study diligently to properly fulfill their roles and responsibilities expected as persons in charge of part of the supervisory function of the Company. The Company supports Audit & Supervisory Committee Members to have opportunities to well understand their roles and responsibilities.

#### (5) Supervisory Function

Each director observes and supervises each other at the Company's board of directors meetings, and the Board of Directors observes and oversees business executions by business divisions.

Additionally, each Audit & Supervisory Committee Member strengthens supervising function in order not only to audit whether business executions are legal or not, but also to have a function to supervise whether business executions are based on the Company's fundamental policy of its internal control system, through making statements at meetings of the Audit & Supervisory Committee and Board of Directors, and exerting their voting rights at these meetings.

Furthermore, Independent Directors (including those who are also Audit & Supervisory Committee Members) account for one third (1/3) or more of the Company's Board of Directors and thus, hold an effective function to oversee the Company's business executions.

The Company establishes a Nominating and Compensation Committee, as an advisory body to the Board of Directors, to discuss election or removal of major executives such as Directors or Executive Officers and the remuneration system of such executives.

To enable directors to appropriately assume risks without being daunted too much by such risks for improving its mid- to long-term corporate value, the Company stipulates in the Articles of Incorporation that under the provisions of Article 426, paragraph 1 of the Companies Act, the Company may, by resolution of the Board of Directors, exempt directors from liability for damage stipulated by Article 423, paragraph 1 of the same law, within the limits permitted by law.

The Company believes it is important for persons without business executing authority such as directors who are not executive directors, to exercise their authority in a more active and proactive fashion and offer opinions appropriately to the management team, so as not only avoid and prevent risks and stop improprieties, but also to support the management team in taking appropriately risks. Accordingly, the Company believes that establishing a fixed maximum limit for liability of the Company's directors who are not executive Directors will be useful for them to perform these functions adequately. Hence, based on the resolution of the Board of Directors, the Company enters into agreements limiting liability for damage stipulated by Article 423, paragraph 1 of the Companies Act with Directors who are not executive Directors under the provisions of Article 427, paragraph 1 of the Companies Act and the Article of Incorporation of the Company.

#### (6) Initiatives to Maintain the Effectiveness of the Board of Directors

The Company undertakes the following matters in order for the Board of Directors to make the appropriate decision and fulfill the supervising function.

The Audit & Supervisory Committee examines decision making regarding business execution by the Board of Directors and implementation of effective business executions stipulated in the fundamental policy regarding the internal control system through interviews with each director every year.

The Company basically distributes materials for a meeting of the Board of Directors to each director at least three days before the meeting depending on the necessity, to enable active and sufficient deliberation at the meeting. The Company therefore promotes the use of electronic methods to enable each director to receive such materials, paying strict attention to protect the Company's confidential information regardless of where each director is.

With a view to realizing livelier, more in-depth discussions at meetings of the Board of Directors and thereby enhancing the function of the Board of Directors to monitor business activities, an Independent Director is appointed as the Chairman of the Board.

The Company provides each director with adequate information and explains the necessary information in addition to producing materials for the meetings of Board of Directors depending on the necessity such as requirements from directors and so on.

The Corporate Planning Department serves as the secretariat for the Board of Directors and such a secretariat determines and maintains the yearly schedule of meetings of the Board of Directors and anticipated agenda of these meetings to whatever extent possible, before each fiscal year begins.

Additionally, the secretariat coordinates with the business divisions the number of items on the agenda, frequency of meetings, and whether the Board of Directors has adequate time for discussion.

Directors and the Audit & Supervisory Committee make efforts to enhance the effectiveness of the supervising function of the Board of Directors by asking for advice from outside authorities at the Company's expense, as necessary.

The Board of Directors and the Audit & Supervisory Committee confirm whether each director and Audit & Supervisory Committee Member is ensured to smoothly receive information required by them through supervision and audit of the Company's internal control system.

With respect to effectiveness of the Board of Directors whole, each director answers a questionnaire. The Audit & Supervisory Committee primarily evaluates results of the questionnaire and the Board of Directors finally discusses and evaluates the effectiveness, and abstracts tasks every fiscal year. The Board of Directors reconsiders items of such questionnaires based on results of evaluation every fiscal year. Furthermore, the Audit & Supervisory Committee holds an interview with each director based on

the result of this evaluation. The Company is going to disclose a summary of the evaluation results every fiscal year.

#### (7) Nomination and Compensation Committee

The Company has established a Nomination and Compensation Committee as an advisory body to the Board of Directors on important matters concerning nominator and compensation of Directors and Executive Officers in order to enhance fairness and transparency in the management of the Board of Directors.

The Nomination and Compensation Committee shall consist of three to five members, including the President and the majority shall be served by Independent Directors. Meetings shall be held one or more times per fiscal year as needed. An Independent Director shall serve as chairman of the Nomination and Compensation Committee.

The Nomination and Compensation Committee shall deliver its opinion to the Board of Directors on the following issues upon consultation with the Board of Directors.

- A) Nomination and appointment of candidates for Directors (excluding Audit & Supervisory Committee Members) and Executive Officers, and their dismissal
- B) Nomination and appointment of candidates for Representative Directors, and their dismissal
- C) Appointment or dismissal of senior advisers
- D) Principles regarding A) to C)
- E) Remuneration system for Directors (excluding Audit & Supervisory Committee Members), Executive Officers and Senior Advisers

The Board of Directors shall fully respect the opinions of the Nomination and Compensation Committee and decide on the subject matters.

The Human Resources Department shall serve as the secretariat of the Nomination and Compensation Committee.

#### IV. Maintenance of circumstances to secure transparency of the Company's management and support appropriate risk-taking

The Company thinks it necessary to maintain the system to secure transparency of the Company's management and support appropriate risk-taking in order to accomplish the improvement of mid-to-long term corporate value by realizing the Company's management vision based on Core Values of KOBELCO, Six Pledges of KOBELCO Men and Women and Basic Environmental Management Policy. Initiatives implemented by the Company are as follows.



## 1. Appointment of Candidates for Executives

### (1) Principles with regard to Appointment of Candidates for Directors

- ① principles with regard to Appointment of Candidates for Directors (excluding those are also Audit & Supervisory Committee Members)

The Company appoints candidates for directors (excluding those are also Audit & Supervisory Committee Members) based on a policy that the person suitable to be the Company's directors should have the following qualities below in order to carry out their roles in consideration of shareholders.

- A) To be able to take care of the Company's stakeholders and fulfill the Company's social responsibility as well as make an effort to well understand and implement the Company's corporate vision and management vision to improve the Company's corporate value;
- B) Based on his or her own career, to be capable to hold deep insight regarding the Company's business and his or her duties, and make flexible and balanced judgments to fully display the synergistic effects between the Company's various businesses, such as businesses in materials, machinery and electric power supply, in the case of determining important management issues including the distribution of management resources;
- C) To be able to make prompt and decisive decisions under circumstances of hectic change;
- D) To be able to actively make proposals or suggestions to other directors as a member of the Board of Directors and
- E) The Company wants Independent Directors to be able to back up appropriate risk-taking and support the Company's medium- to long-term growth by reflecting outside persons' fair and neutral opinions on resolutions at the meetings of the Board of Directors. The Company requires Independent Directors to meet the following requirements in addition to requirements A) to D) above:
  - a. To have extensive experience and deep insight to be able to make objective, fair and neutral judgment in light of his or her career;
  - b. Especially, to have global insight necessary for the implementation of the Company's management vision or business plan or insight regarding the Company's business areas and
  - c. To meet the standards for Independent Directors stipulated by the Company.

- ② Principles with regard to Appointment of Candidates for Directors Who Are Also Audit & Supervisory Committee Members

The Company appoints candidates for directors who are also Audit & Supervisory Committee Members based on the policy that the person suitable as such should have the following qualities in order to carry out their roles entrusted by shareholders:

- A) To well understand the characteristics of the Company's wide-ranging businesses and be able to audit and supervise the Company's business based on its duties and functions stipulated in the Companies Law;
- B) To be able to consider appropriateness of management to improve corporate value, in addition to auditing the legality of management, and actively make statements at meetings of the Board of Directors;
- C) To be able to appropriately exert authorities as directors considering they are also Audit & Supervisory Committee Members;
- D) At least one Director who is also an Audit & Supervisory Committee Member with considerable knowledge of finance and accounting must be elected and
- E) The Company invites directors who are also Audit & Supervisory Committee Members from the legal, financial and industrial circles in order to show the functions of auditing and supervising from various angles, wants them to be able to back up appropriate risk-taking and support the Company's medium- to long-term growth, and requires directors who are also Audit & Supervisory Committee Members to meet the following requirements in addition to requirements A) to C) above;
  - a. To have extensive experience and deep insight and is expected to be able to make objective, fair and neutral judgment in light of his or her career and
  - b. To meet the standards for Independent Directors set by the Company.

## (2) Standards for Independent Directors

The Company's Independent Directors (including Audit & Supervisory Committee Members) are recognized as Independent Directors as long as any of the following requirements are not applicable. Requirement "L" only applies to Independent Directors serving on the Audit & Supervisory Committee.

- A) A person who currently executes or has executed businesses of the Group, which includes the Company and its subsidiaries (i.e. Executive Directors, Executive Officers, Officers and other employees; hereinafter the same shall apply).
- B) A person who has a close relative (spouse, relative within the second degree of kinship; hereinafter the same shall apply) who currently executes or has executed businesses of the Group within the past five years.

- C) A person who is currently or has been over the past three years a principal shareholder of the Company (a shareholder who, directly or indirectly, currently owns or has owned 10% or more of all voting rights of the Company), or who currently executes or has executed businesses of the principal shareholders' companies within the past three years.
- D) A major business partner of the Company (when the highest payment among payments by this partner to the Company accounts for more than 2% of the Company's annual consolidated net sales in the past three fiscal years) or a person who currently executes or has executed its business over the past three years.
- E) A person who executes businesses thereof whose major business partner is the Company (when the highest payment among payments by the Company to the person accounts for more than 2% of the person's annual consolidated net sales in past three fiscal years) or person who currently executes or has executed its business over the past three years.
- F) Persons who are or have been over the past three years financial institutions, other large creditors or those executives indispensable for the Company's financing and that the Company depends on to the degree there is no substitute.
- G) A consultant, accountant or legal professional who has received a large sum of money or other financial gain in the past three years from the Company, excluding remuneration for Director of the Company. If the person receiving such financial gain is an individual, the "large sum" means the larger of 10 million yen or 100 thousand U.S. dollars or more in a year. If the person receiving such financial gain is a party such as a company or an association, the "large sum" means the amount equal to or more than 2% of the party's annual consolidated net sales, and this condition is applicable to an individual who belongs to the party (but excluding an individual independently performing his or her duties without receiving any remuneration from the party).
- H) Certified public accountants who are Accounting Auditors of the entity or those who belong to the audit corporation which is an Accounting Auditor of the Company.
- I) A representative person or the equivalent thereof of the company who receives a donation or aid (which exceeds the larger of 10 million yen, 100 thousand U.S. dollars or 30% of the total average annual cost of the company in a year) from the Company.
- J) A person who executes businesses of the companies which mutually dispatches outside directors/corporate auditors. (The person who executes the business of the Group is an outside director/corporate auditor and the person who executes the business of such a company is the Outside Director of the Company.)
- K) A person who has a close relative who falls under any of the categories C through J above. The person who executes a business of the Company is limited to directors and executive officers and,

regarding the person who belongs to a professional advisory firm such as a law firm, limited to a member or a partner of the firm.

L) A person who has a close relative with the person who falls under either of the following categories a) through c).

a) A person who is currently or has been over the past one year a non-executive director of a subsidiary of the Company.

b) A person who is currently or has been over the past one year an accounting advisor of a subsidiary of the Company. (If the accounting advisor is a company, it is limited to those with a certified public accountant or a certified public tax accountant.)

c) A person who over the past one year has been a non-executive director of the Company.

### (3) Procedures/Processes to Elect Candidates for Executives

Members of the Board of Directors discuss and approve appointments of candidates for the Company's directors based on whether or not he or she meets the requirements for appointment.

Although the Company recognizes discussions regarding appointments of candidates for directors are sufficiently fair due to attendances at meetings of the Board of Directors by five Independent Directors, the President and the Board of Directors requests for consultation the Nomination and Compensation Committee, a majority of which are Independent Directors, as voluntary advisory organ to the Board of Directors, and receives reports regarding its opinion from the Nomination and Compensation Committee before these discussions.

The policy regarding appointments of candidates for the Company's directors and standards of appointments of Independent Directors are regularly examined by the Nomination and Compensation Committee and amended when necessary..

### (4) Disclosures regarding Reasons to Appoint Candidates for Executives Holding Two Posts Concurrently at Another Company

The Company discloses reasons to appoint candidates for directors in the reference documents for the Ordinary General Meeting of Shareholders.

If the directors are serving as executives or other posts equivalent to executives at any other company, the Company does not restrict the maximum number of such posts served concurrently at other companies. The company also requires them to consider there is no impact on the execution of their duties and responsibilities at the Company. If directors newly serve as executives at any company other than the Company, such facts are reported at meetings of the Board of Directors and appropriately and timely disclosed in the reference documents for the Ordinary General Meeting of Shareholders, the Business Report and the Securities Report of the Company.

## (5) Supervision of Transactions with Conflict of Interests

If a person is determined as a candidate for director of the Company, the Corporate Communications Department examines whether such a person does transactions with conflict of interests, asks the Board of Directors for approval in advance, and reports results of the examination to the Board of Directors after the event.

After such candidates are appointed as Directors, the Company periodically and continuously confirms posts concurrently held at other companies, examines the possibility of transactions with conflict of interests, and requires the Board of Directors to approve such transactions, if necessary.

With regard to the appointment of Directors of the Company to the Company's subsidiaries, the Company will undertake sufficient deliberations at meetings of the Board of Directors and will not approve such appointment other than that necessary under its management strategy, in order to minimize the possibility of transactions of conflict of interests.

The Company approves transactions the Company is involved in as a related party, taking into consideration market conditions similar to general business transactions and negotiating the price of these transactions.

## 2. Training and Cultivating the Company's Executives

### (1) Training the Company's Executives

The Company produces training opportunities as follows and supports expenses regarding such training as the place where directors and executive officers acquire necessary knowledge, with appropriate updates, so that they can fully undertake their roles and duties.

When executives are appointed, the Company prepares opportunities for such executives to acquire knowledge and information including but not limited to giving adequate explanations by related departments regarding the Company's businesses and financial conditions, as well as visiting manufacturing sites, as necessary.

Especially, the Company provides new Directors and new Executive Officers originally from the Company with opportunities for training regarding roles and the responsibilities of directors and executive officers, legal matters and corporate governance.

The Company holds seminars several times a year, inviting instructors from inside and outside the Company for the purpose of studies such as acquiring or appropriate updates of various kinds of knowledge with regard to revisions of laws and regulations and management, etc.

Once a year, the Company holds the Compliance Top Seminar as the place where such executives learn matters required for top management regarding compliance from outside instructors.

Additionally, the Company arranges, recommends and supports participation in outside seminars with respect to management strategies, finance, accounting, organization and so on.

The Company confirms participation in these training seminars once a year and makes a report to the Board of Directors.

## (2) Concept for the Development of Successors to the Chief Executive Officer

The development of successors to the Chief Executive Officer is one of our top management priorities. The Nomination and Compensation Committee, chaired by an Independent Director and the majority of whom shall consist of Independent Directors, shall discuss the qualities and human resources required to resolve our management issues and improve our corporate value on an ongoing basis.

With regard to the appointment of the Chief Executive Officer, the Nomination and Compensation Committee shall provide its opinion to the Board of Directors taking into consideration our business environment, the promotion of our management plans and so on. The Board of Directors will then make a decision on the Chief Executive Officer.

In developing successors to the Chief Executive Officer, the Company selects a number of candidates from among the Directors and Executive Officers, and after discussions by the Nomination and Compensation Committee, appoints those candidates to important management roles.

The Directors and Executive Officers are also provided with training opportunities to acquire the knowledge and qualifications necessary to assume the management of the Company. The Nomination and Compensation Committee shall review the training menus based on our business environment and report to the Board of Directors every fiscal year.

The Nomination and Compensation Committee shall confirm the training status of each Director and Executive Officer once a year.

## 3. Remuneration of the Company's Executives

The Company has set forth the following remuneration system for Directors in order to improve medium- to long-term corporate value, as well as to effectively offer incentives for Directors to carry out their expected roles in their fullest capacities.

### (1) Fundamental Policy of Remuneration of the Company's Executives

- A) A system able to secure talented human resources who can contribute to the Company's continued growth and appropriately compensate for such efforts.
- B) A system able to share values widely with stakeholders and promote not only short-term growth but also medium- to long-term growth.

- C) In incentivizing the accomplishment of consolidated business result targets, the system must consider the characteristics of each business so that directors can fully carry out their roles.
- D) Ensuring the objectivity and transparency of judgments regarding remuneration decisions by having the Nomination and Compensation Committee, the majority of which consist of Independent Directors, deliberate on the composition of the remuneration system and the necessity of its reevaluation.

## (2) Remuneration Framework

- A) Remuneration for the Company's directors (excluding those who are Audit & Supervisory Committee Members) will consist of fixed compensation, performance based compensation linked to the achievement of business results targets during individual fiscal years, and medium- to long-term incentive compensation based on stock compensation with the goal of sharing values with shareholders. Taking into consideration their duties, part-time Internal Directors and Independent Directors will not be eligible for performance-based compensation, and Independent Directors will not be eligible for medium- to long-term incentive compensation.
- B) The standard amount of performance-based compensation for each rank will be at the level of 25 to 30% of fixed compensation, and the value of medium- to long-term incentives paid per fiscal year will be at the level of 25 to 30% of fixed compensation.

## (3) Performance-based systems

- A) The amount of performance-based compensation will be determined using net income attributable to owners of the parent (hereinafter "net income") and net income of each business division as evaluation indicators. Target standards used in evaluations will be based on the net income standard of the Company as a whole, which becomes "consolidated ROA of 5% or more" as stated in the medium-term management plan. Additionally, target standards for each business division will be based on the same net income standard for each business division of "ROA of 5% of more in each business division," and according to the accomplishment of these targets for both the Company as a whole and in each business division, a coefficient of 0-200% will multiplied to the base amount in order to determine the amount paid.
- B) For medium- to long-term incentive compensation, a system known as Board Benefit Trust will be adopted in order to raise the consciousness for contribution from directors regarding continuously improving corporate value. Payments based on this system will use a base point number established for each rank and a number of points according to a coefficient of 0-100% will be provided each fiscal year based on whole-company net income and the state of dividend payment, and on a fixed date during each trust period of three years, a number of the Company's shares and a cash equivalent to the amount converted from the market price of the Company's shares will be provided according to the number of points provided.

#### (4) Method to Determine Remuneration Standard

- A) Director remuneration survey data from an external specialized agency will be used as a base to determine remuneration standards commensurate with the Company's corporate scale and the duties expected of Directors.

#### (5) Method to Determine and Examine the Policy regarding Remuneration

- A) The policy concerning remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) is determined by the Board of Directors, and the policy concerning remuneration for Directors who are Audit & Supervisory Committee Members is determined by all Audit & Supervisory Committee Members.
- B) The Company examines ways for and necessity to revise the remuneration system at the Nomination and Compensation Committee. If it is necessary to revise the remuneration system, the Company will present a revised remuneration plan at a meeting of the Board of Directors and it will be resolved.

Based on the resolution at the Ordinary General Meeting of Shareholders, the total amount of remuneration for directors is determined as follows;

#### A) Remuneration for directors (excluding those are Audit & Supervisory Committee Members)

The limit of fixed compensation: Within a total of 650 million yen per fiscal year

The limit of performance-based compensation: Within a total of 350 million yen per year

#### B) Remuneration for directors who are also Audit & Supervisory Committee Members:

The limit of remuneration (fixed compensation only) as being within a total of 132 million yen per fiscal year

- C) With respect to a stock compensation plan for Directors, please see the press release dated April 28, 2016, "Introduction of a stock compensation plan for Directors" on the Company's web site (<http://www.kobelco.co.jp>).

#### V. Initiatives to Improve the Effectiveness of Audits by the Audit & Supervisory Committee and the System to Secure the Proper Accounting Audit

##### 1. Initiatives to Improve the Effectiveness of Audits by Audit & Supervisory Committee Members

The Company struggles with following matters to improve the effectiveness of audits by the Audit & Supervisory Committee:



The Company organized the Audit & Supervisory Committee Secretariat to support the duties of Audit & Supervisory Committee. Personnel changes, performance appraisal, and other issues relating to the employees of the secretariat shall require prior discussions with the Audit & Supervisory Committee in order to ensure the independence of the employees from Directors and the effectiveness of such instructions.

Employees of the Audit & Supervisory Committee Secretariat mainly support audits by the Audit & Supervisory Committee based on instructions by the Audit & Supervisory Committee in accordance with the "Rule regarding Audits by the Audit & Supervisory Committee." Directors (excluding those who are also Audit & Supervisory Committee Members), Executive Officers and employees shall avoid preventing such support activities by the Audit & Supervisory Committee Secretariat and cooperate to ensure the effectiveness of audits by the Audit & Supervisory Committee.

Directors, Executive Officers and employees shall periodically report the status of performance of duties, important committees, and other matters to the Audit & Supervisor Committee, in addition to matters designated by law. They shall also report each time material risks occur in business activities and the status of response to them, as well as the design and operational effectiveness of internal systems for ensuring proper financial reporting. Additionally, they shall report the current circumstances of their subsidiaries to the Audit & Supervisory Committee depending on the necessity to do so. The Audit & Supervisory Committee Secretariat and the internal audit division (among departments in charge of audits regarding specific operations with high specialization or peculiarity) report to the Audit & Supervisory Committee current situations regarding the Company's group compliance and risk management.

To ensure the effectiveness of audits by the Audit & Supervisory Committee, explanations of annual audit policies and plans of the Audit & Supervisory Committee shall be made at meetings of the Board of Directors and on other occasions. The Company shall improve the audit environment by holding periodic meetings between the Audit & Supervisory Committee and the President and through cooperation with the internal audit division.

The Company stipulates prohibition to retaliate the informing employees through the internal reporting system and reporting employees to the Audit & Supervisory Committee in "Corporate Code of Ethics" and dissemination this prohibition among the Company.

If the Audit & Supervisory Committee claims for payment of expenses or debts based on the Companies Act regarding the execution of their duties, the Company will pay for such expenses or debts except that the Company confirms such claims not necessary to execute duties of the Audit & Supervisory Committee. Regarding the expenses necessary for the Audit & Supervisory Committee to execute their duties, the Company will take appropriate budgetary steps to secure a certain amount that the Audit & Supervisory Committee deem necessary each year.

The Company maintains a system to enable each business division to receive requests for information from Independent Directors who are Audit & Supervisory Committee Members through Directors who

are full-time Audit & Supervisory Committee Members or the secretariat of the Audit & Supervisory Committee.

## 2. The system to Secure Legality of Accounting Audit

The Audit & Supervisory Committee receives notification from accounting auditors of the following matters, confirms whether accounting auditors observe quality control standards necessary for execution of accounting auditing, requires accounting auditors to properly explain them, and confirms the evaluation standard, in order to ensure that accounting auditors perform their duties appropriately.

Matters regarding the observance of laws, regulations and internal rules related to auditing including but not limited to matters with respect to independence of accounting auditors from the Company.

Matters related to the policy on continuing to execute agreements regarding auditing, services corresponding to auditing, and services related to them.

Other matters regarding the system to secure accounting auditors to perform their duties properly.

The Audit & Supervisory Committee listens to the audit plan from the accounting auditors and confirms (i) whether the range of the audit and contents of audit activities are reasonable, (ii) whether accounting auditors ensure appropriate and adequate days for auditing considering the maintenance of audit quality and effectiveness of the audit and (iii) whether the accounting auditors' team consist of persons with professional skills regarding implementation of the audit and quarterly reviewing, with respect to the Company, subsidiaries and affiliates including those overseas, based on audit results to date.

The Audit & Supervisory Committee closely cooperates with accounting auditors, periodically hold meetings and exchange opinions regarding the audit system, audit plans and circumstances of auditing. In the case of periodical meetings among the Audit & Supervisory Committee and accounting auditors, the Company confirms whether Independent Directors other than those who are also Audit & Supervisory Committee Members intend to attend these meetings and secures opportunities to exchange opinions among Independent Directors other than those who are also Audit & Supervisory Committee Members and accounting auditors.

The Audit & Supervisory Committee implements effective audits by cooperating closely, periodically listen to audit policies and audit plans from the internal audit division, and receive reports regarding implementation of the internal control system including but not limited to compliance or risk control from both its internal audit division and its internal control division.

Under the audit system described above, accounting auditors conduct audits by exchanging appropriate information with its internal audit division and its internal control division.

If accounting auditors find illegality and are required to take appropriate measures, or indicate inadequacy or problems regarding the Company's business operations, directors will make efforts to promptly respond to them.

### 3. Election, Removal and Remuneration of Accounting Auditors

Every fiscal year, the Audit & Supervisory Committee examines whether accounting auditors should be reelected considering the performance of the accounting auditors' duties.

If accounting auditors meet any of the requirements stipulated under each sub-section in Section 1, Article 340 of the Companies Act, Audit & Supervisory Committee will remove those accounting auditors based on agreement of all of the Audit & Supervisory Committee Members.

When the Company judges that accounting auditors are unable to properly perform accounting audits, and it is necessary to remove them, the Audit & Supervisory Committee determines the contents of the agenda regarding removal or non-reappointment of such accounting auditors and the Board of Directors submits the agenda at the shareholders meeting of the Company.

If the Company executes an audit agreement with the accounting auditor, the Company examines whether the amount of the fee regarding auditing for the accounting auditor, the person in charge of auditing and other terms and conditions with respect to the audit agreement are appropriate, considering non-auditing services for confirmation of independence, in addition to the terms and conditions of the audit agreement with the accounting auditor.

The Company is offered methods to audit, auditing plans including the period of auditing, and the amount of the fee for auditing based on the plan from the accounting firm before determination of the fee for auditing. With respect to the suitability of the audit plan and fee for auditing, the Company examines whether enough time for auditing is secured to properly perform the auditing service, or whether an effective auditing service is implemented, referring the Company's business volume and business menus, and determine the fee after consultation with the accounting firm. If the Company finally determines the fee for auditing, the Company shall acquire the consent of the Audit & Supervisory Committee.

### VI. The System of Cooperation between Independent Directors and the Audit & Supervisory Committee, the Cooperation with Internal Audit Department and Support System for Independent Directors

The Company has temporarily established the Independent Quality Supervision Committee, which is comprised outside experts and specializes in quality assurance.

The Committee will continuously monitor rectifications and measures to prevent recurrence with respect to the recent misconduct from independent and objective perspectives.

The Committee will also deliberate on solutions for the various issues that the Group will face relating to quality compliance in the future.

By establishing a task force within the Quality Management Department, which serves as the secretariat of the Independent Quality Supervision Committee, the Company ensures the Committee can engage in practical and proactive activities.

## VII. Compliance and Risk Management System (The System and Relationship with the Board of Directors)

As a part of the internal control system constructed based on the fundamental policy resolved at the meeting of the Board of Directors, the Company establishes a range of internal regulations and ensures awareness of these regulations among employees at the Company and at the Group companies through companywide training for every position.

Furthermore, the Company has been carrying out “Risk Management Activities” with the goal of achieving an organizational culture that is highly sensitive to compliance issues.

These activities are implemented under the direction of the Director overseeing compliance and the Executive Officer who will be exclusively in charge of compliance.

With respect to internal control over financial reporting, the Company is working on properly utilizing the internal control system under supervision of the Board of Directors, such as making a resolution of policies for internal control including the scope of assessment every fiscal year and receiving affirmation by the Board of Directors in the case of changes of the decided policy.

### 1. Risk Management Activities

The Company’s Risk Management Activities are implemented according to the following process and cycle every fiscal year. This system is proactively deployed at all Group companies.

- A) In addition to compliance risks that are universal throughout the Company in light of legal and societal changes and listed by the department in charge of internal control, each division identifies and checks the risks within their individual businesses.
- B) Every year, each division formulates an annual risk management plan while consulting internal Company rules, manuals and other documentation as necessary (This constitutes the Plan stage of the PDCA).
- C) Each division implements these plans (Do) and reviews the results (Check).
- D) Each division reflects any improvements in the next year’s risk management plan (Action).
- E) Every year, each division implements the Plan, Do, Check, Action cycle.

F) To ensure effectiveness, the results of the year's activities of the each business unit are incorporated in plans for the next year and subsequent years after executive management has verified them.

The Company periodically implements an attitude survey regarding compliance targeting all employees of the Company and examines the effectivity of Risk Management Activities through it. Based on the result and analysis of the attitude survey regarding compliance, the Company introduces new viewpoints in risk assessment and ensure effective discovery of risks by investigation and evaluation of the risks.

## 2. To Guarantee the Sensibility of the Company by the Internal Reporting System

The Company implements the following initiatives as methods to prevent risks associated with legal, ethical and other compliance-related issues from materializing and spreading, by quickly identifying problems and implementing appropriate measures. This system is deployed at all Group companies.

The Company has established an internal reporting system as the system for receiving reports regarding the observance of illegal acts inside the Company in violation of articles under the Corporate Code of Ethics.

The system for receiving reports is an attorney (an outside attorney without a retainer fee arrangement with the Company) recommended by bar associations and holding a neutral position to maintain independence from the Company and fairness.

The Company built user-friendly system for employees to establish the Compliance Hotline connected to internal compliance management divisions in addition to the internal reporting system.

The Company has a system to properly deliberate on the contents of reports to the internal reporting system and the Compliance Hotline at the Compliance Committee consisting of the attorney in charge of receiving reports and in-house directors and appropriately deal with them.

To protect internal whistleblowers, the Company determines penal provisions for persons searching for anonymous whistleblowers inside and outside the Company and treating whistle blowers disadvantageously because of the reporting under the rules and regulations regarding the internal reporting system, in addition to permitting anonymous reporting.

## 3. The Compliance Committee

The Company has established the Compliance Committee, which, as an independent advisory body to the Board of Directors, deliberates matters regarding compliance with laws, regulations and ethics concerning the Company's business activities.

The Compliance Committee consists of the President, the Director overseeing companywide compliance, the Executive Officer in charge of compliance, internal and external experts, and an attorney in charge of receiving reports via the internal reporting (whistleblowing) system (an attorney without a retainer agreement with the Company and recommended by bar associations). The majority of the Committee consists of members from outside of the Company.

The Compliance Committee submits reports and recommendations on necessary actions to the Board of Directors, plans fundamental policies regarding compliance activities, and monitors the progress of compliance activities.

The Compliance Committee holds regular meetings biannually, and ad-hoc meetings when necessary.

## VIII. System for Dialogue with the Capital Market

### 1. The General Meeting of Shareholders

- (1) The setup of the Schedule of Events related to the General Meeting of Shareholders and Disclosures of Documents with regard to the General Meeting of Shareholders

The Company regards the General Meeting of Shareholders as the place to dialogue with shareholders (one of the important stakeholders of the Company) and implements the following initiatives.

- A) The Company sends out the notice of General Meetings of Shareholders earlier than the statutory deadline and discloses documents related to General Meetings of Shareholders on the Company's website and Tokyo Stock Exchange's "Timely Disclosure Network" (TDnet) earlier than dispatch of the notice.
- B) The Company prepares translations in English of documents related to General Meetings of Shareholders and discloses them on the Company's website.
- C) The Company selects the date of the General Meeting of Shareholders avoiding the dates on which the concentration of shareholders' meetings of other companies is anticipated.
- D) The Company analyzes causes based on voting results regarding resolution of the General Meeting of Shareholders, promotes dialogues with investors and enriches the contents of documents related to the General Meeting of Shareholders.
- E) The Company participates in the electric voting platform for institutional investors and adopts other electric measures to exert voting rights through PC, cell phones or smart phones.

(2) Exercise of Voting Rights by Institutional Shareholders Hold Shares in the Name of Trust Banks, etc.

If institutional shareholders hold shares in the name of trust banks, etc. hope in advance to exercise their own voting right instead of trust banks, etc. at General Meeting of Shareholders of the Company, an electronic voting platform is available.

If institutional shareholders holding shares in the name of trust banks, etc. wish to visit the Ordinary General Meeting of Shareholders, the Company will consider details for a concrete response to trust banks, etc. on the provision of proof of the holding of the Company's shares at the record date.

## 2. Fundamental Policy on Disclosure

The Company recognizes that information transmission is a foundation for dialogue with the capital market. The Company makes efforts to actively dispatch information that is easy to understand through the Company's website and publications, etc. in addition to disclosing information required under Companies Act, the Financial Instruments and Exchange Act, and securities listing regulations of financial instruments exchanges, etc. under supervision of the Board of Directors.

The Company improves translations of these disclosures in English and prepares English or Chinese versions for the Company's web site.

The Company strictly treats information transmission in accordance with the rules and regulations regarding confidential information and prevention of insider transactions under the supervision of departments in charge of each issue.

## 3. System for Dialogue with the Capital Market

The Company engages in a dialogue, when necessary, with principle shareholders holding an investment policy leading to the enhancement of the Company's medium- to long-term interest of shareholders regarding corporate governance and important management policies. Systems on this issue are as follows:

- A) The Director who oversees the Corporate Communications Department unifies dialogue with the capital market and the Executive Officer in charge of the Corporate Communications Department supports this.
- B) Under supervision by these Directors and Executive Officers, the Corporate Communications Department is in charge of such dialogue, and the Corporate Planning Department, Legal Department, Finance Department and Accounting Department provide support.

- C) Departments and members selected by executives or the Corporate Communications Department respond each time to dialogues depending on the content of the dialogue, as the content of meetings requested by investors is expected to cover various matters from management policy of the Company to detailed information gathering.
- D) Moreover, the Company makes efforts to improve dialogue with the capital market by holding quarterly meetings to explain its financial results to investors (including holding telephone conferences), visiting institutional investors, and holding factory tours for shareholders.
- E) If important dialogues or opinions are expressed with investors including shareholders, the person who conducted the dialogue reports the contents to management.
- F) The Company strictly conducts dialogue and limits the period of meetings if necessary, based on the Company's internal rules, in terms of trade secret control and the prevention of insider trading.
- G) The Company receives shareholder registry data on a quarterly basis from the Japan Securities Depository Center and undertakes semiannually identification of institutional shareholders, etc. who hold the Company's shares in the name of trust banks, etc., in order to grasp the composition of the Company's shareholders as a premise of such dialogues.

## IX. Capital Policy, Anti-Takeover Measures and Cross-Shareholdings

### 1. Basic Strategy for Capital Policy

- A) The Company is a corporation that operates under diversified management consisting of the three core business areas of materials, machinery and electric power. These three businesses need strategic investments to strengthen competitiveness, as well as periodic maintenance and large-scale renewal investments of existing facilities necessary for stable production.
- B) Therefore, it is necessary to maintain a certain level of equity capital and internal reserves to carry out flexible and strategic management.
- C) On the other hand, the Company recognizes it is essential to have a sound financial standing to improve its corporate value, and is therefore constantly working to reduce its interest-bearing debts and improve cash-flows. The target figure for the time being is a debt/equity ratio of 1 time or less.
- D) The Company recognizes that management indicators should be different depending on the level of the Company's growth and will consider and disclose management indicators in consideration of conditions when the Company formulates its medium-term management plan.
- E) In addition, when the Company implements a capital policy on the dilution of its stock to maintain capital adequacy, the Company will make efforts to fully explain the necessity and rationality to



the capital market, on the major premise of observing related laws and regulations such as the Financial Instruments and Exchange Act, etc.

[Financial Strategy under the Company's Fiscal 2016-2020 Group Medium-Term Management Plan]

A) In principle, the basic policy is to finance large strategic investments and regular investments that support the business base by business cash flows. However, to maintain financial discipline when the business environment worsens, while steadily carrying out growth investments, the Company will consider cash generation measures such as asset sales targeting a maximum of 100 billion yen, improvements in working capital and other measures.

B) Targets for the Final Year of Plan (Fiscal 2020)

ROA (ordinary income/total assets) sticks to 5% or more.

D/E Ratio (interest-bearing debt/net worth) sticks to 1 time or less.

## 2. Dividends

The Company determines dividend amounts after duly considering financial standing of the Company, business performance, future capital needs and other factors and looking at each period's business performance and payout ratio, with a focus on making continuous, stable dividend payments. For the time being, the Company shall set the payout ratio to between 15% and 25% of consolidated net profit.

To enable more mobile redistribution of profits, the Company determines dividend amounts by the resolution of the Board of Directors based on the Company's Articles of Incorporation and elects several outside directors to secure the fairness of the decision.

## 3. Initiatives to Prevent Unsuitable Parties from Having an Impact on the Company's Financial and Business Policy Decisions in Light of Its Basic Policy on Corporate Control

The Company will request that persons who are engaging in or aim to engage in a large-scale purchase provide necessary and sufficient information to allow the shareholders to appropriately determine the question of the large-scale purchase in accordance with relevant laws and regulations from the viewpoint of ensuring its corporate value and the common interests of its shareholders, disclose the opinions of the Board of Directors of the Company, and endeavor to secure necessary time and information for the shareholders to consider such large-scale purchase.

Further, if it is rationally judged that there is a risk of damage to the Company's corporate value and the common interests of shareholders unless timely defensive measures are implemented, the Company will endeavor to secure its corporate value and the common interests of its shareholders, as an obvious

obligation of the Board of Directors entrusted with management of the Company by its shareholders, by promptly deciding the content of the concrete measures deemed most appropriate at the time in accordance with the relevant laws and regulations and executing such measures.

#### 4. Cross-Shareholdings

##### (1) Fundamental Policy for Shareholdings

A) The Company's policy for shareholdings is as follows:

- a. If the Company believes the shareholding is necessary for an alliance that will contribute to the growth of the Kobe Steel Group, the Company will hold those shares, in consideration of capital efficiency and economic rationality.
- b. In the case of shareholdings, the Company receives approval from the Board of Directors or the head of the business division based on the amount of funding necessary and purpose of the shareholding in accordance with the Company's internal approval standard.
- c. Since the shareholdings are not held for the purpose of net investment, the necessity of the holdings is not decided based solely on the short-term stock price level. However, in each fiscal year, the Board of Directors will review the amount of the holdings and the necessity of the holdings, taking into account changes in the objectives and environment, cash flow, etc., and will then sell or transfer the holdings as necessary.
- d. We will disclose the results of the review every fiscal year on the Company's website.
- e. In the event that a company that holds the Company's shares for the purpose of forming an alliance with the Company indicates an intention to sell the Company's shares, the Company shall not engage in any action that would prevent the sale, etc. of the shares.

##### (2) Policy to Exercise Voting Rights

The Company's policy for exercising voting rights is as follows:

- A) The Company generally consents to proposals by another company in which shares are held by the Company if the Company judges the other company's management is in accordance with the fundamental policy concerning shareholdings and the purpose of shareholdings.
- B) Provided, however, that in the following cases, the department in charge shall conduct verification and close examination, including interviews with the relevant company:

- a. The unqualified audit report of accounting auditors is not attached to the financial reports of the said company.
- b. It is judged there is a possibility of undermining the purpose for the shareholding caused by a serious breach of laws and regulations or considerable management problems in the said company.
- c. It is judged there is a possibility of greatly harming the shareholders' rights of the said company.

Based on the aforementioned basic policy, the divisions in charge shall exercise their voting rights after obtaining approval from the heads of business divisions in accordance with our Investment and Loan Administration Regulations and Detailed Rules for Exercising Voting Rights.

#### X. Approach as Asset Owner of Corporate Pension Plan

The Company has introduced a Defined Benefit Corporate Pension Plan as part of our employees' welfare programs, and as the administrator of the Corporate Pension Plan, the Company shall implement the following initiatives.

The Pension Asset Management Committee shall be established as an organization to formulate basic policies for asset management and to select and evaluate investment trustees in order to protect pension assets and efficiently manage them.

The Committee shall appoint one chairman (executive) and four representatives from several departments (general managers of the Human Resources Department, Corporate Planning Department, Accounting Department, and Finance Department).

The Secretariat of the said Committee shall include members from the Finance Department.

The Secretariat is responsible for drafting the basic investment policy and plan to select investment trustees, compiling reports on investment results from investment managers, and reporting results and opinions regarding these matters to the Committee. The Secretariat also requests investment managers to conduct stewardship activities from the perspective of the beneficiaries.

The Committee shall deliberate important matters fairly, such as the selection of investment trustees, from the viewpoint of the beneficiaries of the pension system.

The Committee respects the investment trustees' stance toward the stewardship code and takes care not to cause any conflict of interest between the Company and the beneficiaries.

In principle, our corporate pension management policy is to invest in safe assets.

End

[Appendix 1]

< The List of the Situation regarding Responses to Japan's Corporate Governance Code >

Principles under Japan's Corporate Governance Code	No. of the Principles	Evaluation	Stipulation in Basic Policy and Initiatives on the Corporate Governance of Kobe Steel, Ltd.
Securing the Rights and Exual Treatment of Shareholders	1	○	II. 2. Corporate Ethics
Securing the Rights of Shareholders	1-1	○	VIII. 1. The General Meeting of Shareholders
	1-1①	○	VIII. 1. The General Meeting of Shareholders
	1-1②	○	III. 1. Policy regarding Management Structure (Management Structure and the Range of Authorization of Management)
	1-1③	○	II. 2. Corporate Ethics
Exercise of Shareholder Rights at General Shareholder Meetings	1-2	○	VIII. 1. The General Meeting of Shareholders
	1-2①	○	VIII. 1. The General Meeting of Shareholders
	1-2②	○	VIII. 1. The General Meeting of Shareholders
	1-2③	○	VIII. 1. The General Meeting of Shareholders
	1-2④	○	VIII. 1. The General Meeting of Shareholders
	1-2⑤	○	VIII. 1. The General Meeting of Shareholders
Basic Strategy for Capital Policy	1-3	○	IX. 1. Basic Strategy for Capital Policy
Cross-Shareholdings	1-4	○	IX. 4. Cross-Shareholdings
	1-4①	○	IX. 4. Cross-Shareholdings
	1-4②	○	IX. 4. Cross-Shareholdings
Anti-Takeover Measures	1-5	○	IX. 3. Initiatives to Prevent Unsuitable Parties from Having an Impact on the Company's Financial and Business Policy Decisions in Light of Its Basic Policy on Corporate Control
	1-5①	○	IX. 3. Initiatives to Prevent Unsuitable Parties from Having an Impact on the Company's Financial and Business Policy Decisions in Light of Its Basic Policy on Corporate Control
Capital Policy that May Harm Shareholder Interests	1-6	○	IX. 1. Basic Strategy for Capital Policy
Related Party Transactions	1-7	○	IV. 1. (5) Supervision of Transactions with Conflict of Interests
Appropriate Cooperation with Stakeholders Other Than Shareholders	2	○	I. Fundamental Attitude toward Corporate Governance
Business Principles as the Foundation of Corporate Value Creation Over the Mid- to Long-Term	2-1	○	II. Management Philosophy and etc. of the Company
Code of Conduct	2-2	○	II. Management Philosophy and etc. of the Company
	2-2①	○	VII. 1. Risk Management Activities
Sustainability Issues, Including Social and Environmental Matters	2-3	○	II. Management Philosophy and etc. of the Company
	2-3①	○	II. Management Philosophy and etc. of the Company
Ensuring Diversity, Including Active Participation of Women	2-4	○	II. Management Philosophy and etc. of the Company
Whistleblowing	2-5	○	VII. 2. To Guarantee the Sensibility of the Company by the Internal Reporting System
	2-5①	○	VII. 2. To Guarantee the Sensibility of the Company by the Internal Reporting System
Roles of Corporate Pension Funds as Asset Owners	2-6	○	X. Approach as Asset Owner of Corporate Pension Plan
Ensuring Appropriate Information Disclosure and Transparency	3	○	VIII. System for Dialogue with the Capital Market
Full Disclosure	3-1	○	I. Fundamental Attitude toward Corporate Governance II. Management Philosophy and etc. of the Company III. Management Structure IV. 3. Remuneration of the Company's Executives IV. 1. Appointment of Candidates for Executives
	3-1①	○	VIII. System for Dialogue with the Capital Market
	3-1②	○	VIII. System for Dialogue with the Capital Market
	3-2	○	V. Initiatives to Improve the Effectiveness of the Audits by Audit & Supervisory Committee and the System to Secure the Proper Accounting Audit
External Auditors	3-2①	○	V. Initiatives to Improve the Effectiveness of the Audits by Audit & Supervisory Committee and the System to Secure the Proper Accounting Audit
	3-2②	○	V. Initiatives to Improve the Effectiveness of the Audits by Audit & Supervisory Committee and the System to Secure the Proper Accounting Audit

※○=Comply, ●=Explain

Principles under Japan's Corporate Governance Code	No. of the Principles	Evaluation	Stipulation in Basic Policy and Initiatives on the Corporate Governance of Kobe Steel, Ltd.
Responsibilities of the Board	4	○	III. Management Structure
Roles and Responsibilities of the Board (1)	4-1	○	III. Management Structure
	4-1①	○	III. Management Structure
	4-1②	○	II. Management Philosophy and etc. of the Company
	4-1③	○	IV. 2. Training and Cultivating the Company's Executives
Roles and Responsibilities of the Board (2)	4-2	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
	4-2①	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
Roles and Responsibilities of the Board (3)	4-3	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
	4-3①	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
	4-3②	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
	4-3③	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
	4-3④	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
Roles and Responsibilities of Kansayaku and the Kansayaku Board	4-4	○	III. 1. (5) Supervisory Function, V. Initiatives to Improve the Effectiveness of the Audits by Audit & Supervisory Committee and the System to Secure the Proper Accounting Audit
	4-4①	○	VI. The System of Cooperation Between Independent Directors and the Audit & Supervisory Committee, the Cooperation with Internal Audit Department and Support System for Independent Directors
Fiduciary Responsibilities of Directors and Kansayaku	4-5	○	II. Management Philosophy and etc. of the Company
Business Execution and Oversight of the Management	4-6	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
Roles and Responsibilities of Independent Directors	4-7	○	III. (2) The Role and Function of Independent Directors
Effective Use of Independent Directors	4-8	○	III. Management Structure
	4-8①	○	VI. The System of Cooperation Between Independent Directors and the Audit & Supervisory Committee, the Cooperation with Internal Audit Department and Support System for Independent Directors
	4-8②	○	VI. The System of Cooperation Between Independent Directors and the Audit & Supervisory Committee, the Cooperation with Internal Audit Department and Support System for Independent Directors
Independence Standards and Qualification for Independent Directors	4-9	○	IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
Use of Optional Approach	4-10	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
	4-10①	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
Preconditions for Board and Kansayaku Board Effectiveness	4-11	○	III. Management Structure
	4-11①	○	III. Management Structure, IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
	4-11②	○	IV. Maintenance of Circumstances to Secure Transparency of the Company's Management and Support Appropriate Risk-Taking
	4-11③	○	III. Management Structure
Active Board Deliberations	4-12	○	III. Management Structure
	4-12①	○	III. Management Structure
Information Gathering and Support Structure	4-13	○	III. Management Structure
	4-13①	○	III. Management Structure
	4-13②	○	III. Management Structure
	4-13③	○	VI. The System of Cooperation Between Independent Directors and the Audit & Supervisory Committee, the Cooperation with Internal Audit Department and Support System for Independent Directors
Director and Kansayaku Training	4-14	○	IV. 2. Training and Cultivating the Company's Executives
	4-14①	○	IV. 2. Training and Cultivating the Company's Executives
	4-14②	○	IV. 2. Training and Cultivating the Company's Executives
Dialogue with Shareholders	5	○	VIII. 3. System for Dialogue with the Capital Market
Policy for Constructive Dialogue with Shareholders	5-1	○	VIII. 3. System for Dialogue with the Capital Market
	5-1①	○	VIII. 3. System for Dialogue with the Capital Market
	5-1②	○	VIII. 3. System for Dialogue with the Capital Market
	5-1③	○	VIII. 3. System for Dialogue with the Capital Market
Establishing and Disclosing Business Strategy and Business Plan	5-2	○	II. Management Philosophy and etc. of the Company, VIII. System for Dialogue with the Capital Market

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