

(Translation)

Date of Latest Update: December 21, 2018

**Kobe Steel, Ltd.**

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<http://www.kobelco.co.jp>

This statement is intended to inform you of the current status of the corporate governance of Kobe Steel, Ltd. (the “Company”).

## Basic Policy on Corporate Governance and Capital Structure, Corporate Data, and Other

### I Basic Information

#### 1. Basic policy

<Fundamental Position on 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.

<Management Philosophy and Other Policies of the Company

[Corporate Philosophy & Business Vision]

【The Core Values of KOBELCO & the Six Pledges of KOBELCO Men and Women】

The Company Group aims to enhance the Group’s sustainable corporate value by continuing to make efforts to implement its social responsibility as a corporate group for all of its stakeholders, including shareholders, investors, customers, business partners, employees and local communities, 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**

All employees affiliated with the Kobe Steel Group make the following pledges in order to fulfill the Core Values of KOBELCO. 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.

[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. 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.

The Company Group 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 Company 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 Company Group. By achieving a strong competitive edge, the Company Group aims to expand and grow its businesses and contribute to society.

[Reasons for Not Implementing Each Principle of Japan’s Corporate Governance Code] Update

We comply with all the principles of the Corporate Governance Code revised in June 2018.

[Disclosure Based on Each Principle of the Corporate Governance Code] Update

The Company systematically organized various actions with respect to corporate governance, which the Company so far determined includes the “Corporate Philosophy” and “Corporate Code of Ethics,” and determined to disclose them as “Basic Policy and Initiatives on Corporate Governance of Kobe Steel, Ltd.”

The Basic Policy and Initiatives on Corporate Governance of Kobe Steel, Ltd. is published on the Company’s website below:

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

The "Basic Policy and Initiatives on Corporate Governance of Kobe Steel, Ltd." shows our compliance with the Corporate Governance Code set forth in the Securities Listing Regulations.

## 2. Capital structure

Percentage of Shares Held by Foreign Investors	Equal to or more than twenty percent (20%), less than thirty percent (30%)
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### [Major shareholders]

Name of Shareholders	Number of Shares Held	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,497,100	3.98
Japan Trustee Services Bank, Ltd. (Trust Account)	12,150,300	3.34
NIPPON STEEL & SUMITOMO METAL CORPORATION	10,734,500	2.95
Nippon Life Insurance Company	10,118,942	2.78
Japan Trustee Services Bank, Ltd. (Trust Account 5)	6,906,000	1.90
Mizuho Bank, Ltd.	6,466,930	1.78
STATE STREET BANK WEST CLIENT - TREATY 505234	5,910,612	1.62
Mitsubishi UFJ Trust and Banking Corporation	5,232,900	1.44
Japan Trustee Services Bank, Ltd. (Trust Account 2)	5,132,900	1.41
Japan Trustee Services Bank, Ltd. (Trust Account 1)	5,076,700	1.39

Controlling shareholder (except parent company)

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Parent company

None

### Supplementary information

In the Report of Possession of Large Volume provided for public viewing on October 21, 2016, the following shareholdings are respectively attributed to Mizuho Bank, Ltd. and its two joint holders (The date to incur need to be reported is October 14, 2016.). However, the Company is unable to confirm the actual number of shares held as of March 31, 2017. The Contents of the Report of Possession of Large Volume is as follows.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Mizuho Bank, Ltd.	6,467	1.77
Mizuho Trust & Banking Co., Ltd.	3,423	0.94
Asset Management One Co., Ltd.	13,935	3.82
Total	23,825	6.54

In the Report of Possession of Large Volume provided for public viewing on March 22, 2017, the following shareholdings are respectively attributed to BlackRock Japan Co., Ltd. and its five joint holders (The date to incur need to be reported is March 15, 2017.). However, the Company is unable to confirm the actual number of shares held as of March 31, 2017. The Contents of the Report of Possession of Large Volume is as follows.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
BlackRock Japan Co., Ltd.	6,401	1.76
BlackRock Life Limited	841	0.23
BlackRock Asset Management Ireland Limited	1,367	0.38
BlackRock Fund Advisors	4,301	1.18
BlackRock Institutional Trust Company, N.A.	4,782	1.31
BlackRock Investment Management (UK) Limited	1,105	0.30
Total	18,797	5.16

In the Report of Possession of Large Volume provided for public viewing on October 19, 2017, the following shareholdings are respectively attributed to Sumitomo Mitsui Trust Bank, Limited and its joint holder (The date to incur need to be reported is October 13, 2017). However, the Company is unable to confirm the actual number of shares held as of March 31, 2018. The Contents of the Report of Possession of Large Volume is as follows.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Mitsui Trust Bank, Limited	8,261	2.27
Nikko Asset Management Co., Ltd.	2,796	0.77
Total	11,058	3.03

In the Report of Possession of Large Volume provided for public viewing on November 22, 2017, the following shareholdings are respectively attributed to Nomura Securities Co., Ltd. and its two joint holders (The date to incur need to be reported is November 15, 2017.). However, the Company is unable to confirm the actual number of shares held as of March 31, 2018. The Contents of the Report of Possession of Large Volume is as follows.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Nomura Securities Co., Ltd.	740	0.20
NOMURA INTERNATIONAL PLC	3,785	1.04
Nomura Asset Management Co., Ltd.	8,693	2.39
Total	13,218	3.63

In the Report of Possession of Large Volume provided for public viewing on April 16, 2018, the following shareholdings are respectively attributed to MUFG Bank, Ltd. and its three joint holders (The date to incur need to be reported is April 9, 2018.). However, the Company is unable to confirm the actual number of shares held as of March 31, 2018. The Contents of the Report of Possession of Large Volume is as follows.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
MUFG Bank, Ltd.	4,315	1.18
Mitsubishi UFJ Trust and Banking Corporation	15,350	4.21
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	1,364	0.37
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	507	0.14
Total	21,536	5.91

### 3. Corporate data

Stock exchanges and sections where shares are listed	Tokyo Stock Exchange (1st Section) Nagoya Stock Exchange (1st Section)
End of fiscal year	March
Industry	Steelmaking
Number of employees (consolidated)	Not less than one thousand (1,000) employees
Sales (consolidated)	Not less than one (1) trillion yen
Number of consolidated subsidiaries	Not less than one hundred (100), but less than three hundred (300)

### 4. The policy for protection of minority shareholders when the Company has dealings with

## a controlling shareholder

None

### 5. Other special factors that may significantly affect corporate governance

In accordance with the “Group Company Management Regulations,” the Company obliges group companies to consult with the supervisory division and the head office division of the Company and report important matters when they make important decisions. The Company also strives to manage the Group as a whole by requiring affiliated companies to obtain prior approval of the Board of Directors and the President of the Company concerning disposal of assets that surpass a certain amount in value. However, with regard to listed companies, the Company tries not to restrict the original judgment of the corporate managers of such companies, since it is necessary to ensure certain managerial independence of these companies from the Company.

Information on management control organizations for decision making, execution and monitoring, and other features of the corporate governance

**1. Organizational structure and operations of the management control organizations**

Organizational form	Company with an audit and supervisory Committee
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[Directors]

Number of Directors under the Articles of Incorporation	Twenty (20)
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Term of the Company's Directors under the Articles of Incorporation	One (1) year
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Chairman of the Board of Directors	Independent Director
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Number of Directors	Fifteen (15)
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Appointment of Outside Directors	Appointed
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Number of Outside Directors	Five (5)
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Number of Outside Directors also appointed as independent directors	Five (5)
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Relationships of the Outside Directors with the Company (1)

Name	Background	Relationship with the Company											
		a	b	c	d	e	f	g	h	i	j	K	
Takao Kitabata	Other												
Hiroyuki Banba	Joined from another company									△			
Takashi Okimoto	Joined from another company								△				
Yoshiiku Miyata	Joined from another company									△			
Hidero Chimori	Attorney									○			

\* Relationship with the Company

\* ○ indicates the relevant item that the person falls under as of “today or recently” . △ indicates the relevant item that the person falls under as of “previously”.

\* ● indicates the relevant item that the person’s close family member falls under as of “today or recently” . ▲ indicates the relevant item that the person’s close family member falls under as of “previously”.

a A person who executes the business of the listed company or its subsidiary

b A person who executes the business or non- Executive Director of a parent company of the listed company

c A person who executes the business of a subsidiary of a parent company of the listed company

d A person who has a significant business relationship with the listed company or who executes the business of an entity that has such a significant business relationship

e A person with whom the listed company has a significant business relationship or who executes the business of an entity with whom the listed company has a significant business relationship

f A consultant, accounting expert or legal expert who receives significant remuneration or other assets from the listed company other than remuneration as a director or executive officer

g A principal shareholder of the listed company (if a principal shareholder is a legal entity, a person who executes the business of such a legal entity)

h A person who executes the business of entity with whom the listed company has a business relationship (does not fall under d, e, and f) (only with respect to the person)

i A person who executes the business of a company whose outside executive persons assume the post on a reciprocal basis with the listed company (only with respect to the person)

j A person who executes the business of an entity to whom the listed company makes a donation

k Other

Relationships of the Outside Directors with the Company (2)

Name	Supplementary information on the items specified above	Reason for appointment as an Outside Director
<p>Takao Kitabata (Independent director)</p>	<p>He is concurrently serving as Outside Director of Marubeni Corporation, Outside Director of SEIREN Co., LTD., Outside Director of Zeon Corporation, and as Chairman of the board of SANDAGAKUEN Junior High School·Senior High School.</p> <p>The Tokyo Stock Exchange has been notified that he is an independent director.</p>	<p>Though he has not been involved in management of companies in any other way than as an outside director or an outside audit &amp; supervisory board member, he is able to make objective, fair, and neutral judgments based on his deep insight into the world of industry, backed by his broad experience as an administrative official, and his extensive knowledge as an outside director and as an audit and supervisory board member of listed companies. We have concluded that he is well qualified to be the Independent Director of the Company in light of the Company's principles on appointments of candidates for director and standards regarding selection of an independent director.</p> <p>He does not fall under any of the matters prescribed in Item 6 of Article 211, Paragraph 4 of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange, and the Company has designated him (Outside Director) as the Independent Director in light of the purposes of the independent director designation system.</p>
<p>Hiroyuki Banba (Independent director)</p>	<p>Until March 2003, he was the Executive Officer of Sumitomo Rubber Industries, Ltd. Although the Company and Sumitomo Rubber Industries, Ltd. have business transactions, three or more years have passed since Hiroyuki Bamba's retirement as an executive person of Sumitomo Rubber Industries, Ltd., and additionally the amount of these transactions totals less than 2% of the Company's consolidated net sales.</p> <p>The Tokyo Stock Exchange has been notified that he is an independent director.</p>	<p>He is able to make objective, fair, and neutral judgments based on his abundant experience in the different business fields from those of the Company in the world of industry and his deep insight as a corporate executive, and we have concluded that he is well qualified to be the Independent Director in light of the Company's principles on appointments of candidates for director and standards regarding selection of the Independent Director.</p> <p>Although he served as an executive of our business partner, the relationship between the Company and such executive is described at left. We believe this relationship does not affect his objective, fair and neutral judgment as outside director and there is no conflict of interest against shareholders. Therefore, the Company has designated him (Outside Director) as an independent director in light of the purposes of the independent director designation system.</p>

Name	Supplementary information on the items specified above	Reason for appointment as an Outside Director
<p>Takashi Okimoto (Independent director, the Audit &amp; Supervisory Committee Member)</p>	<p>He was the executive person of Mizuho Corporate Bank, Ltd. (currently Mizuho, Ltd.) However, as the Company makes transactions with a large number of financial institutions besides said bank, the amount of the Company's borrowings from said bank is less than 10% and not a large dependency, and he retired as an executive person of said bank more than 3 years ago.</p> <p>The Tokyo Stock Exchange has been notified that he is an independent director.</p>	<p>He is able to make objective, fair, and neutral judgments based on his insight in the financial sector, which stems from his abundant experience in credit management and financial management at financial institutions and his deep insight as a corporate executive of financial institutions, and we have concluded that he is well qualified to be an Outside Audit &amp; Supervisory Committee Member in light of the Company's principles on appointments of candidates for Audit &amp; Supervisory Committee Member and standards regarding selection of the Independent Director. Additionally, he has considerable financial and accounting knowledge. Though he was the executive person of the Company's main bank, the relationship between the Company and such executive is described at left and he retired as an executive person of said bank more than 3 years ago. These factors do not affect his objective, fair and neutral judgment as Outside Director. He has no conflict of interests with the Company's shareholders. For the above reasons, the Company appointed him as an independent director.</p>
<p>Yoshiiku Miyata (Independent director, the Audit &amp; Supervisory Committee Member)</p>	<p>Concurrently, serving as the Outside Director of JXTG Holdings, Inc. Until June, 2014, he was the executive person of Panasonic Corporation. Although the Company and Panasonic Corporation have business transactions, the amount of these transactions totals less than 2% of the Company's consolidated net sales and less than 2% of Panasonic Corporation's consolidated net sales.</p> <p>The Tokyo Stock Exchange has been notified that he is an independent director/auditor.</p>	<p>He is able to make objective, fair, and neutral judgments based on his abundant experience in the different business fields from those of the Company in the world of industry and his deep insight as a corporate executive, including the post of president of an overseas business entities, and we have concluded that he is well qualified to be Outside Audit &amp; Supervisory Committee Member in light of the Company's policy on appointments of candidates for Audit &amp; Supervisory Committee Member, that is applied mutatis mutandis to this case, and standards regarding selection of an independent director.</p> <p>Although he served as an executive of our business partner, the relationship between the Company and such a business partner is described at left. We believe this relationship does not affect his objective, fair and neutral judgment as an outside director and there is no conflict of interest against shareholders.</p> <p>Therefore, the Company has designated him as an independent director.</p>
<p>Hidero Chimori (Independent director, the Audit &amp; Supervisory Committee Member)</p>	<p>Concurrently serving as the Representative Partner of Miyake &amp; Partners, Outside Audit &amp; Supervisory Board Member of NAITO Securities Co., Ltd., and Outside Company Auditor of ROHM Co., Ltd.</p> <p>He is the Representative Partner of Miyake &amp; Partners. Although the Company and Miyake &amp; Partners have business transactions, no retainer contract exists between the two and he is not involved in any legal affairs the Company assigns to Miyake &amp; Partners to deal with. The amount of these transactions totals much less than 2 % (and less than 1 %) of Miyake &amp; Partners' consolidated net sales.</p> <p>The Tokyo Stock Exchange has been notified that he is an independent director/auditor.</p>	<p>Though he has not been involved in management of companies in any other way than as an outside audit &amp; supervisory board member, he is able to make objective, fair, and neutral judgments based on his deep insight backed by his abundant experience in the legal profession as an attorney at law and his extensive knowledge as an outside audit and supervisory board member of listed companies, and we have concluded that he is well qualified to be Outside Audit &amp; Supervisory Committee Member in light of the Company's policy on appointments of candidates for Audit &amp; Supervisory Committee Member and standards regarding selection of an independent director.</p> <p>Although he served as the Representative Partner of the law firm as our business partner, the relationship between the Company and such a business partner is described at left. We believe this relationship does not affect his objective, fair and neutral judgment as outside director and there is no conflict of interest against shareholders. Therefore, the Company has designated him as an independent director.</p>

**[Audit & Supervisory Committee Members]**

**Committee’s Composition and Attributes of Chairperson**

	The Number of All Committee Members	The Number of Full-time Members	The Number of Inside Directors	The Number of Outside Directors	Chairperson
Audit & Supervisory Committee	5	2	2	3	Outside Director

**Appointment of Directors and/or Staff to Support the Audit & Supervisory Committee**

Appointed

**Matters Related to the Independence of Such Directors and/or Staff from Executive Directors**

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 Audit & Supervisory Committee in order to ensure the independence of the employees from directors (excluding those who are also Audit & Supervisory Committee Members) and the effectiveness of such instructions.

Employees of the Audit & Supervisory Committee Secretariat mainly support the 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 the audits by the Audit & Supervisory Committee.

**Cooperation between the Audit & Supervisory Committee, Independent Accounting Auditors and the internal audit division**

With regard to internal audits, the Company established the Audit Department (fifteen (15) employees including those who concurrently hold another office) as an independent audit organization. In particular, audits on issues such as compliance, the environment, and information security are implemented by the divisions respectively supervising these areas jointly with or in cooperation with the Audit Department. The Audit Department also conducts audits and confirms the control

circumstances undertaken by the internal control divisions.

Three certified public accountants who belong to KPMG AZSA & Co. — Daisuke Harada, Hiroyuki Matano and Sakurako Otsuki— execute accounting audits. Nine other certified public accountants, six staff members (including junior accountants) and four others serve as assistants concerning accounting audits. The accounting auditors conduct audits by exchanging information with the internal audit divisions and the internal control divisions.

As linkage between internal audits, audits by the Audit & Supervisory Committee and accounting audits, the Audit & Supervisory Committee maintains close cooperation with the independent Accounting Auditors, and periodically holds meetings to exchange views about the audit structure, audit plans, the implementation status of audits and other matters. They also attend visiting audits conducted by the independent Accounting Auditors and properly receive reports on the progress in implementation of audits. In addition, the Audit & Supervisory Committee periodically listens to audit policies and plans from the internal audit departments and others, and efficiently conduct their audits of the Company by closely cooperating with the internal audit departments and the internal control departments, properly receiving reports on the implementation status of internal control systems, including compliance and risk management, and on results of its audits.

The Meetings of Independent Directors established by the Company consist of all of Outside directors (both those who are also Audit & Supervisory Board Members and those who are not so), and they share information thereof.

**[Voluntary Establishment of Nomination/Remuneration Committee]**

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination & Compensation Committee	Nomination & Compensation Committee
All Committee Members	3	3
Full-time Members	1	1
Inside Directors	1	1
Outside Directors	2	2
Outside Experts	None	None
Other	None	None

Chairperson	Independent Director	Independent Director
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Supplementary Information on the above item

The Company has established a Nomination & 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 & 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 & Compensation Committee

**[Independent Directors]**

Number of Independent Director	Five (5)
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Other information on the major activities of the Independent Directors

The Tokyo Stock Exchange has been notified that five (5) Outside Directors (including three (3) Audit & Supervisory Committee Members) are Independent Directors of the Company.

(Standards for Independent Directors)

The Company's Outside 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.

### [Incentives]

Measures to grant incentives to directors

Introduction of performance-linked remuneration and others

Supplementary information on the above item

Supplementary information is also stipulated in "Disclosure of the policy to determine the amount of directors'

remunerations and these calculation methods” herein below.

Eligible persons for stock options

Supplementary information on the above item

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**[Compensation for Directors]**

Status of disclosure regarding the sum of the remunerations for individual directors

None

Supplementary information on the above item

In the annual securities reports and operating statements at shareholders meetings, the total compensation for all the Internal Directors and for all the Outside Directors is disclosed respectively.

The policy to determine the amount of directors’ remunerations and the calculation method

Determined

Disclosure of the policy to determine the amount of directors’ remunerations and these calculation methods

**[Policies Regarding the Setting of Remuneration Levels for Directors and the Method for Calculating Remuneration]**

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 Directors**

- 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 & 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 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.
- C) The Company's Directors who are Audit & Supervisory Committee Members will only be paid fixed compensation as Director remuneration, taking into consideration their duties

#### (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% or 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 be 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 the entire Company's 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

Data from a director's remuneration survey by 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 Audit & Supervisory Committee Members) is determined by the Board of Directors, and the policy concerning remuneration for Audit & Supervisory Committee Members is determined within the Audit & Supervisory Committee.
- B) The state of the remuneration system and the necessity for its revision are deliberated by the Nominating and Compensation Committee, a majority of whose members consist of Independent Directors. 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 for resolution.

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 also 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 fiscal 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

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>).

**[Support system for Outside Directors]**

With respect to Outside Directors who are also Audit & Supervisory Committee Members, the Company has established an Audit & Supervisory Committee Members' Secretariat to support the duties of the Audit & Supervisory Committee. The secretariat handles administrative work of the Audit & Supervisory Committee; provides information to the Audit & Supervisory Committee, including prior distribution of materials on important decision-making cases; collects information requested by the Audit & Supervisory Committee; and communicates information to relevant in-house divisions.

With regard to matters to be submitted to the Board of Directors, the divisions in charge give prior explanations to the Audit & Supervisory Committee, as necessary.

Regarding Outside Directors who are not Audit & Supervisory Committee Members, the Corporate Planning Department gives prior explanations of matters to be submitted to the Board of Directors to Outside Directors.

The Company has established the Meetings of Independent Directors to maximize the roles of Independent Directors. The meetings are a platform where the Company shares information with Independent Directors regarding the Company's businesses other than nomination and compensation of executives. The Meetings of Independent Directors consist solely of independent directors. Regular meetings are held every quarter and ad-hoc meetings are held, if necessary.

Executive Directors of the Company attend the Meetings of Independent Directors occasionally to share information and exchange opinions with the Independent Directors. Furthermore, to facilitate information sharing among the Audit & Supervisory Committee, the internal audit departments, and the internal control departments, the Corporate Planning Department serves as the secretariat of the Meetings of Independent Directors and is supported by the Audit Department.

**[Status of persons who resigned from Representative Director and President or other positions]**

Names and other information of Executive Advisors or Corporate Advisors who used to be Representative Director and President or other positions

Name	Position	Roles & Responsibilities	Work style, Conditions (Full time or part time, w/ or w/o Compensation)	Date of retirement from Representative Director and President or other positions	Term
Hiroya Kawasaki	Senior Adviser	1) Supports for human resources training and activities to promote corporate philosophy within the Group (The Next 100 Project) 2) To offer advice, give support and participate in external activities based on requirements from the President	Full time (w/ Compensation)	March 31, 2018	Until June 30, 2019
Hiroshi Sato	Adviser	External activities at local communities and an economic organization (Vice Chairman of Kansai Economic Federation)	Part time (w/o Compensation)	March 31, 2016	Until May 31, 2019

Number of Executive Advisors or Corporate Advisors who served as Representative Director and President or other positions

Two

Supplementary information on the above item

The written retirement date of Hiroshi Sato is the date of his retirement from the Company's Chairman & Representative Director.

## 2. Information on functions including business execution, auditing and monitoring, nominations, and decisions on compensation (Summary of present corporate governance system)

### (1) Details of organizations of the Company

#### 1) Composition of directors (excluding those who are also Audit & Supervisory Committee Members)

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 decision-making 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. Currently, two Independent Directors serve on the Board of Directors in addition to three Independent Directors who sit on the Audit & Supervisory Committee. 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.

#### 2) Directors Who Are Audit & Supervisory Committee Members and the Structure of the Audit & Supervisory Committee

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 Outside Audit & Supervisory Committee Members. 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 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 "Selected Audit & Supervisory Committee Members" actively strive to collect internal information of the Company and maintain circumstances for auditing, and daily audit 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.

Outside 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.

### 3) Mechanism for business execution

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.

### 4) Establishment of Independent Directors Meetings

The Company has established the Meetings of Independent Directors to maximize the roles of Independent

Directors.

The meetings are a platform where the Company shares information with Independent Directors regarding the Company's businesses other than nomination and compensation of executives. The Meetings of Independent Directors consist solely of independent directors. Regular meetings are held every quarter and ad-hoc meetings are held, if necessary. Executive Directors of the Company attend the Meetings of Independent Directors occasionally to share information and exchange opinions with the Independent Directors.

Furthermore, to facilitate information sharing among the Audit & Supervisory Committee, the internal audit departments, and the internal control departments, the Corporate Planning Department serves as the secretariat of the Meetings of Independent Directors and is supported by the Audit Department.

(2) Principles on Selecting Director Candidates

The Company has outlined and disclosed its standards for independent directors and its principles for determining the qualities a director needs in order to fulfill the mandate from shareholders. The Company selects candidates in line with the principles.

1) Principles with regard to appointment of candidates for directors (excluding those who are also Audit & Supervisory Committee Members)

The Company appoints candidates for directors (excluding those who are also Audit & Supervisory Committee Members) based on a policy that persons 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; and
- D) To be able to actively make proposals or suggestions to other directors as a member of the Board of Directors
- E) The Company wants Outside 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 Outside 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 persons suitable as the Company's Audit & Supervisory Committee Members should have the following qualities in order to carry out their rules 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 outside directors who are also Audit & Supervisory Committee Members to meet the following requirements in addition to requirements A) and B) 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.

(3) Mechanism for business execution

Directors (excluding those who are also Audit & Supervisory Committee Members) oversee assigned duties with respect to each business division, the Head Office, the Technical Development Group, quality management and compliance, respectively. Under the direction of these Directors, Executive Officers implement 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 Board of Directors.

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 Directors overseeing the Head Office, materials businesses, machinery businesses, the electric power business, and the Technical Development Group, the Director overseeing compliance and the Director overseeing quality management; 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 Audit & Supervisory Committee Member) and ad-hoc members appointed depending on the agenda to be discussed.

These meetings are not decision making bodies, but are forums 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 officers 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) Outline of Agreements Limiting Liability

Based on the resolution of the Board of Directors, the Company has concluded an agreement limiting liability with Non-executive Directors concerning the liability for damages specified in Article 423, Paragraph 1 of the Companies Act pursuant to Article 427, Paragraph 1 of the Companies Act and provisions in the Company's Articles of Incorporation. The total maximum liability under such agreements shall be an amount stipulated in laws and regulations.

#### (5) Special provisions concerning directors and general meetings of shareholders in the Articles of Incorporation

The Articles of Incorporation of the Company stipulates the following special provisions concerning directors:

- 1) Article 19, Paragraph 2 stipulates that the directors shall be elected by the affirmative vote of shareholders representing a half or more of the shares held by the shareholders with voting rights present at such a meeting and the quorum requirement shall be not less than one-third (1/3) of the total number of voting rights of such shareholders. Article 19, Paragraph 3 stipulates that cumulative voting shall not be used for the election of directors.
- 2) To enable directors to fully play the roles they are expected to play in the performance of their duties, Article 29, Paragraph 1 and supplemental provisions stipulate 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 (including the former directors and Audit & Supervisory Board Members) from liability for damage stipulated by Article 423, paragraph 1 of the same law, within the limits permitted by law.
- 3) Companies that satisfy requirements, including setting of the term of office of directors at one (1) year, are



allowed the Board of Directors to decide on matters such as dividends of surplus (including the acquisition of treasury stock) in accordance with the provisions of the Articles of Incorporation to realize adroit capital policies by allocating profits as results of business activities to shareholders in a flexible and more agile way without requiring a resolution of a general meeting of shareholders. Article 35 of the Company's Articles of Incorporation stipulates: "Except as otherwise provided in laws and regulations, the Company shall determine the matters concerning distribution of retained earnings, etc. stipulated in each item of Article 459, paragraph 1 of the Companies Act, by resolution of the Board of Directors instead of the resolution of a general meeting of shareholders."

For smooth operation of general meetings of shareholders, Article 15, Paragraph 2 of the Company's Articles of Incorporation stipulates that resolutions of general meeting of shareholders provided in Article 309, paragraph 2 of the Companies Act shall be adopted by a vote of two-thirds (2/3) or more of the shareholders with voting rights who are present and who hold one-third (1/3) or more of the voting rights of all the shareholders.

### 3. Reason for choosing the present corporate governance system

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.

## Measures for shareholders and other stakeholders

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### 1. Initiatives to activate general meetings of shareholders and facilitate the exercise of voting rights

Supplementary information

Early sending of notice of general meetings of shareholders

The Company sends out the notice of general meetings of shareholders about one (1) week earlier than the statutory deadline.

Selection of the date of the general meeting of shareholders avoiding the dates on which the concentration of shareholders' meetings of other companies is anticipated

Yes.

Exercise of voting rights by an electromagnetic method

Yes.

Supplementary information

Measures to improve the circumstance where institutional investors exert their voting rights such as participation in the electric voting platform

The Company participates in the electric voting platform for institutional investors.

Summary of notices regarding general meeting of shareholders in English

Yes.

Other

The Company puts up the notices of general meetings of shareholders on its website. (one (1) week before the date of delivery of the Notice of the Ordinary General Meeting of Shareholders)

## 2. IR activities

	Explanation by the Company's representative	Supplementary explanations
Regular IR meetings for analysts and institutional investors	Yes	Regular meetings are held about four (4) times a year (coinciding with the announcements of settlements of accounts and others).
Disclosure of IR information on the website	—	The Company discloses its summaries of financial results, annual securities reports and quarterly reports and presentation materials used in IR briefings on its website.
	Explanation by the Company's representative	Supplementary explanations
Establishment of a division (or a person) in charge of IR	—	Corporate Communications Department
Others	—	<p>The Company holds briefings for individual investors, but not on a regular basis. The Company does not hold regular explanatory meetings for foreign investors. However, the Company's representatives directly and separately give explanations to such investors on demand.</p> <p>The Company holds tours of its offices and plants for shareholders about twice a year (and chooses the participants by lottery from shareholders subscribed for these factory tours).</p> <p>The Company agrees to interviews with institutional investors on demand.</p>

### 3. Initiatives to pay due respect to the stakeholders of the Company

	Supplementary explanations
Articulation in the internal rules of the corporate policy to pay due respect to the stakeholders	The Kobe Steel Group established (i) the “Core Values of KOBELCO,” which are the commitments of the Group to society determined as the values shared by the entire Group in order to promote the sustainable development of the Group, and, to fulfill these commitments, (ii) the “Six Pledges of KOBELCO Men and Women,” which are determined as a concrete code of conduct for implementation by all employees in the Group based on the “Corporate Ethical Principles” under the “Corporate Code of Ethics.” The Six Pledges of KOBELCO Men and Women articulates the Company’s policy to pay due respect to the stakeholders and strive to maintain sound and good relationship with its stakeholders including customers, suppliers, employees and shareholders.
Engagement in environmental conservation activities and CSR activities	The Company has established a CSR Committee and an Environmental Management Committee. It also prepares and opens to the public a “Sustainability Report.” The Company joins forest development programs in Hyogo, Japan.
Establishment of corporate policies for providing information to stakeholders	The Company has established internal rules concerning a system for timely disclosure and built a system for disclosing important corporate information in a timely and properly manner. The Company discloses its initiatives for active dialogues with the capital market, the Company’s policy and systems for these dialogues as “Basic Policy and Initiatives on the Corporate Governance of Kobe Steel, Ltd.” on the Company’s web site.  <a href="http://www.kobelco.co.jp/english/about_kobelco/kobesteel/governance/index.html">http://www.kobelco.co.jp/english/about_kobelco/kobesteel/governance/index.html</a>

## IV Matters with respect to the Internal Control System, etc.

### 1. Basic policy and the current status of the Company’s internal control system

The systems for ensuring compliance with laws and regulations and the Company’s Articles of Incorporation in the performance of duties by the Company’s directors and other systems stipulated by the ordinance of the Ministry of Justice as systems that are necessary to ensure proper operations of a joint stock company are stipulated as follows.

(1) Systems for ensuring compliance with laws and regulations and the Company’s Articles of Incorporation in the performance of duties by Directors and employees

(i) The “Core Values of KOBELCO,” which are the commitments of the Kobe Steel Group (“the Group”) to society determined as the values shared by the entire Group in order to promote the sustainable development of the Group and (ii) the “Six Pledges of KOBELCO Men and Women,” which are determined as a concrete code of conduct for implementation by all employees in the Group based on the “Corporate Ethical Principles” that aim to fulfill these commitments under the “Corporate Code of Ethics,” shall be the norms and criteria for compliance. The Company shall build a compliance structure with laws, regulations, social norms, etc., that incorporates checks by outside experts at the Company and principal Group

Companies, including the establishment of a Compliance Committee — an advisory organ to the Board of Directors that has outside committee members — and the introduction of an internal reporting system, in which outside lawyers act as designated contact points.

(2) Establishment of systems for ensuring proper financial reporting

The Company shall establish an in-house structure to ensure proper financial reporting in accordance with the “Regulations for Internal Control over Financial Reporting.”

(3) Systems regarding the retention and management of information relating to the performance of duties by Directors

The Company shall properly store and manage information relating to the performance of duties by Directors in accordance with the “Regulations Relating to Retention and Management of Information Relating to Performance of Duties by Directors.”

(4) Rules and other systems for risk management

The Company shall ensure proper and efficient operations by establishing “Risk Management Regulations.” These regulations are applied when each division extracts individual risk items concerning risks surrounding the business of the Company and formulates measures to prevent the extracted risk items and procedures for coping with the risks when they become evident. They also specify the system to monitor risk management. Details of the Risk Management Standards, stipulated in the Risk Management Regulations, shall be reviewed properly. The internal audit division shall verify the appropriateness and effectiveness of the systems for risk management.

(5) Systems for ensuring the efficient performance of duties by Directors

The Company is a company with an Audit & Supervisory Committee. To realize a management structure for which transparency and fairness are further ensured, the Company shall elect outside Directors who are not Audit & Supervisory Committee Members in addition to Outside Directors who are Audit & Supervisory Committee Members for the Company’s Board of Directors, which plays a central function in the corporate governance of the Company Group.

The Company also adopts the Business Unit System as a management system by which to fully display our Group’s total capability, such as information sharing or cooperation between business units, in addition to promoting prompt decision making. Under this system, the Company appoints one director to oversee the materials businesses, one director to oversee the machinery businesses, and one director to oversee the electric power business, and executive officers, who are elected by the Board of Directors, shall execute business under the supervision of the directors. The Company also appoints a director to oversee compliance and a director to oversee quality management for the purpose of reinforcing the monitoring function of the business divisions.

In addition, the Company shall hold meetings of the Executive Council, where managerial directions, including business strategies, and matters presented to the Board of Directors are discussed. The Company shall also establish an Executive Liaison Committee, comprised of directors, executive officers and executive technical officers who execute business and the

presidents and executives of affiliated companies designated by the President of the Company, to facilitate the sharing of information on important matters relating to management.

(6) Systems for ensuring the proper operation of the Group, consisting of the Company and its subsidiaries

In accordance with the “Group Company Management Regulations,” the Company obliges Group Companies (\*) to consult with the supervisory division and the head office division of the Company and report important matters when they make important decisions. The Company also strives to manage the Group as a whole by requiring Group Companies to obtain prior approval of the Board of Directors and the President of the Company concerning disposal of assets that surpass a certain amount in value.

In addition, the Company issues the Standard Practice for the Group, which provides rules commonly introduced within the Group, and each of our Group Companies is required to establish its own code of conduct in accordance with the Standard Practice for the Group. The Company promotes and educates our risk management based on the Standard Practice for the Group.

With respect to risks surrounding the Company’s businesses, the Group Companies shall individually address their risks, evaluate the current situation of such addressed risks and draw suitable preventive maintenance policies in accordance with “Risk Management Regulations.”

The Company shall dispatch its employees to its Group Companies as directors and/or corporate auditors of such Group Companies, make such directors and/or audit & supervisory board members attend the meetings of board of directors in these Group Companies, and manage and control management of these Group Companies.

Furthermore, the Company builds its Group compliance system with laws, regulations, etc., by requiring its Group Companies to share the “Core Values of KOBELCO” and the “Six Pledges of KOBELCO Men and Women” as a concrete corporate code of conduct, establish compliance committees and maintain internal reporting systems.

However, with regard to listed companies, the Company shall try not to restrict the original judgment of the corporate managers of such companies, since it is necessary to ensure certain managerial independence of the companies from the Company.

(7) Matters regarding Directors and employees who assist in the duties of the Audit & Supervisory Committee, and matters regarding the independence of both said Directors and employees from Directors who are not Audit & Supervisory Committee Members; and a system to ensure the effectiveness of instructions from the Audit & Supervisory Committee to the said Directors and employees

The Company organized the Audit & Supervisory Committee Secretariat to support the duties of the 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 the Directors (excluding Directors who are Audit & Supervisory Committee Members) and the effectiveness of such instructions.

Employees of the Audit & Supervisory Committee Secretariat mainly support the 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 Directors who are Audit & Supervisory Committee Members), Executive Officers and employees shall not hinder such support activities by the Audit & Supervisory Committee Secretariat and cooperate to ensure the effectiveness of the audits by the Audit & Supervisory Committee.

(8) Systems for reporting to the Audit & Supervisory Committee by Directors (excluding Directors who are Audit & Supervisory Committee Members) and employees and other systems regarding reporting to the Audit & Supervisory Committee; systems for reporting to the Audit & Supervisory Committee by Directors and employees of the Company’s subsidiaries; and systems to ensure that a person who has made the said report does not receive unfair treatment due to the making of the said report

Directors (excluding Directors who are Audit & Supervisory Committee Members), Executive Officers and employees shall periodically report the status of performance of duties, important committees, and other matters to the Audit & Supervisory 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.

Under the “Corporate Code of Ethics,” the Company prohibits retaliation on whistleblowers who inform through the internal reporting system and on employees who make reports to the Audit & Supervisory Committee and shall disseminate this prohibition throughout the Company.

(9) Policies on prepaid expenses for the execution of the duties of the Audit & Supervisory Committee, on procedures for repayment and the execution of other relevant duties, and on debt processing

If the Audit & Supervisory Committee requests payment for expenses or debts based on the Companies Act regarding the execution of its duties, the Company will pay for such expenses or debts, except when the Company confirms that the execution of such duties is not necessary. 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 deems necessary each fiscal year.

(10) Other systems to ensure effective audits by the Audit & Supervisory Committee

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 had previously managed companies consisting mainly of subsidiaries in which it has made direct

investments and affiliated companies that have especially strong relationships with the Company as “Designated Affiliated Companies” from the standpoint of their importance to the business. The Company has abolished this term and has changed to managing subsidiaries in which it has made direct and indirect investments as “Group Companies.”

Number of Designated Affiliated Companies: 110

Number of Group Companies: 212 (as of the end of March, 2018)

A summary of management control organizations for decision making, execution and monitoring, and other features of the corporate governance are as described in the Attachment.

## 2. Basic ideas about and establishment status of the systems for eliminating antisocial forces

The Company states in the “Corporate Code of Ethics” that the Company rejects all contacts with any individuals and entities that adversely affect social order and wholesome business activity, and has stipulated the following items as action standards:

- Management is expected to not be afraid of them and take the lead to reject such contacts.
- The Company rejects any *minji kainyu boryoku* (gangsters' involvement in the settlement of problems) in accordance with the principles of “not to fear,” “not to pay,” and “not to make use of gangs.” In rejecting approaches from gangs, the company will take organized and systematic action so that employees are not required to respond to gangs by themselves. In addition, the Company will obtain as much assistance as possible from the police and legal professionals.

The Company has set up the Security and Safety Group in the General Administration Department as an in-house supervisory department. The Security and Safety Group unitarily controls information on antisocial forces. Internally, it gives counsel to employees facing problems and gives advice on how to solve those problems. In addition, it periodically implements training and other activities using the “Manual regarding extortion against companies,” prepared by the Company, as a teaching material. Externally, the Group obtains information and advice related to antisocial forces from the police, anti-violence bodies and other organizations.

The Company has also set up the Compliance Hotline, which strives to detect moral problems in early stages or prevent them as an in-house consultation contact point for moral issues. The Company has established an employee action manual for not only eliminating antisocial forces but also for compliance with laws and regulations, and is implementing training.



## V Others

### 1. Matters concerning anti-takeover measures

Whether the anti-takeover measure is adopted or not

None

#### Supplemental explanation regarding this issue

##### (1) Basic Policy on Corporate Control

The Company has formed unique business domains over its 110 year history, which extends back to its establishment in 1905. The peripheral fields of the materials and machinery businesses span especially broad areas, and the diversity of the individual businesses that comprise these business fields has enabled the Company to be the first to harness particular synergies. In addition, these businesses are supported by a wide range of stakeholders, including the Company's employees who boldly take on challenges in R&D and on the production floor, business partners and customers in Japan and abroad—mainly in the fields of transportation vehicles, energy and infrastructure—with whom the Company has nurtured relationships of trust over many years.

Furthermore, the Company supplies a wide range of customers with unique and diverse product lineups that encompass its materials businesses' difficult-to-substitute materials and components and its machinery businesses' energy efficient and eco-friendly products.

In addition, by providing electricity—a crucial component of social infrastructure—through its electric power business the Company provides services that benefit society. The Company believes it has a significant responsibility to society that it is addressing through these activities.

The Company provides unique and high-value-added products and creates synergistic effects by exchanging and combining technologies among its businesses. This practice has allowed the Company to build up relationships of trust with stakeholders, fulfill the duty of providing social infrastructure, and gain the trust of society. The Company considers these to be the bedrock of its corporate value.

The Company, as a listed company, thinks that any large-scale purchase of the Company's shares involving a change of its corporate control should be approved if such purchase facilitates the protection and enhancement of its corporate value, which is generated from the sources described above, and, ultimately, the common interests of its shareholders in the course of open stock trading.

However, the Company believes that a party which will have an impact on its financial and business policy decisions must be one that fully understands the sources of its corporate value such as the Company's management principles and the relationship of mutual trust it shares with its stakeholders, which are necessary and indispensable for the enhancement of

corporate value and, ultimately, the common interests of its shareholders. Such a party must also be able to protect and enhance the Company's corporate value and, ultimately, the common interests of its shareholders as a result.

The Company must therefore strive to secure its corporate value and the common interests of its shareholders by taking appropriate action in accordance with the relevant laws and regulations in response to persons who are engaging in or aim to engage in a large-scale purchase.

## (2) Special Initiatives to Help Enforce the Basic Policy on Corporate Control

### 1) Initiatives to Improve Corporate Value by Carrying Out Business Strategies

In April 2016, the Company formulated the Fiscal Year 2016-2020 Group Medium-Term Management Plan and started initiatives under the new medium- to long-term business vision, KOBELCO VISION "G+" which will establish a solid business enterprise aimed at further strengthening the three core business areas of the materials businesses, machinery businesses, and the electric power business.

The Company 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.

The Company plans to increase the original added value of the Kobe Steel Group. By achieving a strong competitive edge, the Company aims to expand and grow its businesses and contribute to society.

### 2) Initiatives to Improve Corporate Value by Strengthening Corporate Governance

The Company considers the strengthening of corporate governance a necessary part of ongoing efforts to improve corporate value.

The Company has worked to strengthen corporate governance through a variety of measures. These include transitioning to a company with an Audit & Supervisory Committee, revising the Board of Directors roster, and establishing the Meetings of Independent Directors, which consist of all of the Independent Directors and the Nomination & Compensation Committee, the majority of which consist of Independent Directors, and provide objective opinions regarding executives' appointments and remuneration.

Going forward, the Company will continue looking for ways to further strengthen corporate governance. The Company will reference opinions presented at the Meetings of Independent Directors and the results of the Board of Directors' effectiveness evaluation, which are based on an annual survey of each director and an evaluation of the survey results by the Audit & Supervisory Committee.

## (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.

Based on the policy stipulated in (1) hereinabove, the Company believes these initiatives stipulated in (2) and (3) hereinabove meet its corporate value and the common interests of its shareholders and are not aimed at preserving the personal status of its directors.

## **2. Other matters concerning the corporate governance system**

The situation of the Company's internal system regarding disclosure of the Company's information in the "Timely Disclosure Browsing Service" (Japanese) (the "Timely Disclosure") held by Tokyo Stock Exchange, Inc. ("TSE") is stipulated as follows.

In the Company, the Corporate Communications Department is in charge of tasks regarding the Timely Disclosure. The Company also appoints the director who is in charge of the Corporate Communications Department as the "Person Responsible for Handling Information." Under their management, the Company does maintenance on the organization with respect to the Timely Disclosure pursuant to rules of timely disclosure of corporate information stipulated in the Securities Listing Regulations made by the TSE ("Timely Disclosure Regulations").

The Company adopts the Business Unit System which is most suitable for management of our business. With regard to important information of the Company, the planning and administration department of each business unit centrally manages information regarding the business unit and subsidiary companies under its control, and the Corporate Planning Department in the Company's headquarters controls information concerning the headquarters and companywide management.

The Company has established a system whereby the Corporate Planning Department and the planning and administration department of each business unit can decide in advance whether information needs to be disclosed based on the Timely Disclosure Regulations, and then, seek from the Corporate Communications Department (as the department in charge of the Timely Disclosure) confirmation and final judgment regarding whether such matters are obligated to be disclosed. The Legal Department reports such matters to the Person Responsible for Handling Information, determines the necessity or the lack thereof of the Timely Disclosure of such matters, and then, replies the results to each department.

The Corporate Communications Department promptly takes steps, to disclose, on TDnet, information included in the "decisions made by the listed company or its subsidiaries, etc." the "details of account settlement" and so on under the Timely Disclosure Regulations at the time of internal approval made by headquarters and each unit, and information included in "Facts that have occurred" under the Timely Disclosure Regulations at the time when the Company recognizes the occurrence if the Corporate Communications Department judges that there is a necessity to do so.

The Company makes every effort to maintain the system to maintain timely and appropriate disclosure of information such as i) to appoint the person responsible for controlling information regarding the Timely Disclosure in each unit and ii) to let the Corporate Communications Department give the widest possible publicity to standards of the Timely Disclosure by preparing manuals regarding the Timely Disclosure. The Company also makes it mandatory for departments in charge of drafting documents to be laid before internal decision-making bodies to put in writing the necessity or the lack thereof of the Timely Disclosure of such documents.

With respect to the internal system of the Timely Disclosure, the Company arranges the system so that the Audit Department, which conducts audits regarding the company-wide management of business, regularly investigates the appropriateness and effectiveness of the system and offers opinions with regard to improvements and corrections of problems depending on the necessity.

The summary of the internal control system regarding the Timely Disclosure is depicted in the attached paper.

<Current Corporate Governance System>



