

[Translation]

June 2, 2016

Dear All Shareholders and Investors,

Listed Company's Name: Kobe Steel, Ltd.  
Representative: Hiroya Kawasaki  
Chairman, President, CEO and Representative Director  
(Stock Exchange No.: 5406)  
Contact Person: Junji Yamashita,  
Senior Corporate Council, Legal Department  
(TEL: 078-261-4066)

Supplementary Explanation on the Matters to be Resolved in Kobe Steel, Ltd.'s 163rd Ordinary  
General Meeting of Shareholders

Regarding the matters to be resolved presented to Kobe Steel, Ltd. (the "Company")'s 163rd Ordinary General Meeting of Shareholders which is scheduled to be held on June 22, 2016 (the "163rd General Meeting of Shareholders"), we have acquired information that Institutional Shareholder Services Inc. ("ISS") is recommending voting "against" the following candidates:

Candidate No. 1 "Hiroya Kawasaki" from Item 2 (Election of eleven (11) Directors (excluding Directors who are Audit & Supervisory Committee Members)); and  
Candidate No. 3 "Takashi Okimoto" and Candidate No. 5 "Hidero Chimori" from  
Item 3 (Election of five (5) Directors who are Audit & Supervisory Committee Members).

Regarding the above, we provide supplementary explanation on these matters to be resolved, as follows. Please kindly confirm the details, we appreciate your understanding very much.

Note

1. Grounds of ISS' recommendation to vote "against"

(i) Item 2 of the matters to be resolved

In its Proxy Voting Guidelines, ISS recommends voting "against" the director(s), being "[t]op executive(s) at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years), unless an improvement is observed"; and recommends voting "against" Candidate No. 1 "Hiroya Kawasaki", on the basis that this criteria applies to the Company.

(ii) Item 3 of the matters to be resolved

ISS recommends voting "against" Candidate No. 3 "Takashi Okimoto" on the basis that he lacks independence because he executed the business of Mizuho Corporate Bank, Ltd. (Current Mizuho Bank, Ltd.), a creditor and a shareholder of the Company.

ISS recommends voting “against” Candidate No. 5 “Hidero Chimori” on the basis that he lacks independence because he is currently a Representative Partner of Miyake & Partners, and the Company is in a business relationship with Miyake & Partners, although the Company does not have a retainer agreement with the firm.

## 2. The Company’s Stance

### (i) Item 2 of the matters to be resolved

It is true that the Company’s average return on equity (ROE) over the last five (5) fiscal years is less than five (5) percent, and that in the immediate fiscal year (the fiscal year ending March 2016), the Company has posted a net loss attributable to owners of the parent of 21.5 billion yen due mainly to posting of the loss on business of subsidiaries and associates (e.g., a loss on the write-down of investment securities, and provision of guarantee) as an extraordinary loss of 39.5 billion yen, attributed to the rapid economic slowdown of emerging economies and mainly the rapid deterioration in business conditions in the construction machinery business field in China.

Nevertheless, the Company announced the “Fiscal 2016-2020 Group Medium-Term Management Plan” in April this year, based on the principle of further strengthening the Group’s growth strategy centered on the three core business areas of materials, machinery and electric power to establish a solid business enterprise aimed at improving corporate value, and have started various initiatives. Therein, we posted targets such as the continued advancement of drastic structural reform of the iron and steel business by consolidating the upstream steel material production operations that we have been pursuing, initiatives for profit improvement in the construction machinery business field, a further expansion of the electric power supply business which will serve as a stable profit base, and achieving an ROA of 5% or more, as targets for capital efficiency improvement, and we are currently working earnestly on these matters.

In this way, the Company has already embarked on specific initiatives to improve capital efficiency, and consider that capital efficiency is improving.

\* For “Fiscal 2016-2020 Group Medium-Term Management Plan” of the Company, please refer to [http://www.kobelco.co.jp/releases/1194519\\_15541.html](http://www.kobelco.co.jp/releases/1194519_15541.html). [Note: For English translation, please refer to [http://www.kobelco.co.jp/english/releases/1194607\\_15581.html](http://www.kobelco.co.jp/english/releases/1194607_15581.html).]

Note that for the fiscal year ending March 2017, the net income attributable to owners of the parent is expected to be 20.0 billion yen, which is an improvement of 41.5 billion yen compared to the previous fiscal year, due mainly to taking into consideration the profit improvement effect as already announced in the “Announcement of Earnings Forecast” dated April 28, 2016.

### (ii) Item 3 of the matters to be resolved

- The reason why we consider Mr. Takashi Okimoto to be a candidate for a position as an independent Outside Director who is an Audit & Supervisory Committee Member

The Company has set C) and F) in the standards for Independent Directors and Auditors, on Page 20 of the “Reference Documents for the General Meeting of Shareholders” [Note: page 32 of the English translation of the “Reference Documents for the General Meeting of Shareholders”], as follows:

“C) A person who is currently or has been over the past three years a major shareholder of the Company (a shareholder who currently owns or has owned 10% or more of all voting rights of the Company) or who currently executes or has executed the business of the shareholder company.

...

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."

Although Mr. Takashi Okimoto executed the business of Mizuho Corporate Bank, Ltd. (Current Mizuho Bank, Ltd.), a creditor of the Company, until April 2007, the Company has had transactions with many financial institutions other than this bank, and the amount of borrowing from this bank does not even amount to 10% of the Company's entire amount raised, and the Company does not depend on this bank to the degree there is no substitute in fund-raising. Furthermore, more than nine (9) years have already passed since Mr. Takashi Okimoto resigned from the post where he executed the business of this bank. Still further, this bank's ratio of the Company's shares is merely 1.78%, a holding which does not affect the Company's management. In this way, Mr. Takashi Okimoto satisfies both of the criteria C) and F) at a high level.

The above criteria C) and F) are strict standards which can more than sufficiently bear comparison with the standards of companies listing their stock on the New York Stock Exchange or the NASDAQ in the U.S.

From the above, the Company believes that the independence of Mr. Takashi Okimoto is sufficient, and that Mr. Takashi Okimoto is an appropriate choice for the Company's Director, who is also an Audit & Supervisory Committee Member.

- The reason why we consider Mr. Hidero Chimori to be a candidate for a position as an independent Outside Director who is an Audit & Supervisory Committee Member

Mr. Hidero Chimori is currently a Representative Partner of Miyake & Partners, and the Company is in business relationship with Miyake & Partners although the Company does not have a retainer agreement therewith. In addition, Mr. Hidero Chimori is not involved in any of the cases the Company has referred to Miyake & Partners.

The Company has set G) as one of the standards for Independent Directors and Auditors, on Page 20 of the "Reference Documents for the General Meeting of Shareholders" [Note: page 32 of the English translation of the "Reference Documents for the General Meeting of Shareholders" ], as follows:

"A consultant, accountant or legal professional who has received a large sum of money or other financial gain in the past three years (the larger of 10 million yen or 100 thousand U.S. dollars or more in a year if the person is an individual, or the amount equal to or more than 2% of the party's annual consolidated net sales if the person is a party such as a company or an association) from the Company as an individual, excluding remuneration for Director/Auditor of the Company. (If a party including but not limited to a company or an association receives such financial gain, a person who belongs to those companies, excluding any person individually performing his or her duties without receiving any remuneration from those companies.)" The content of business between the Company and Miyake & Partners is an information provision request concerning intellectual property and the like, and the amount of business accounts for less than 2% (not even reaching 1%) of the consolidated net sales of Miyake & Partners.

The above criteria G) is a strict standard which can more than sufficiently bear comparison with the standards of companies listing their stock on the New York Stock Exchange or the NASDAQ in the U.S.

From the above, the Company believes that the independence of Mr. Hidero Chimori is sufficient, and that Mr. Hidero Chimori is an appropriate choice for the Company's Director, who is also an Audit & Supervisory Committee Member.

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