

Business Report

(From April 1, 2016 to March 31, 2017)

1. Status of the Corporate Group

(1) Progress and Results of Operations and Issues to Be Addressed

(a) Progress and Results of Operations

Japan's economy in fiscal year 2016 (April 1, 2016–March 31, 2017) is slowly recovering with improvement in the employment situation and signs of recovery in corporate capital investment and personal spending. Overseas, the United States and Europe continued to recover. Meanwhile, in China and parts of Southeast Asia sluggish growth rates persisted.

In this economic environment at the Kobe Steel Group, the sales volume of steel products decreased compared with the previous fiscal year. Although domestic demand in the automotive sector remained firm, exports declined. The sales volume of aluminum rolled products increased compared with the previous fiscal year, as demand remained firm for cans for beverage cans and for the automotive sector. The sales volume of copper rolled products increased compared with the previous fiscal year, due to increased demand for automotive terminals. Unit sales of hydraulic excavators decreased compared with the previous fiscal year, due to lower demand in Japan and to undertaking marketing activities in China with stricter sales terms. In addition, the sales prices of steel, aluminum and copper products decreased, affected by the high yen and decline in raw material prices.

As a result, consolidated sales in fiscal year 2016, largely affected by lower sales prices, went down 126.9 billion yen, compared with the previous fiscal year, to 1,695.8 billion yen. Operating income decreased 58.6 billion yen, compared with the previous fiscal year, to 9.7 billion yen mainly due to the posting of a temporary expense for the refurbishment of a blast furnace in the Iron & Steel business and the additional posting of an allowance for retained receivables in the Construction Machinery segment's China business. Ordinary income* decreased 48.0 billion yen, compared with the previous fiscal year, to ordinary loss of 19.1 billion yen. Extraordinary gains and losses increased 47.6 billion yen, compared with the previous fiscal year, to extraordinary gains of 8.1 billion yen. No extraordinary losses were posted, compared with the previous fiscal year, which recorded extraordinary losses. In addition, the Company recorded a reversal of provision for loans for the China wheel loader business in the fiscal year 2016. Net loss attributable to owners of the parent in fiscal year 2016 worsened by 1.4 billion yen, compared with previous fiscal year, to 23.0 billion yen.

While it is extremely regrettable, the Company has decided to suspend the dividend for fiscal year 2016 in light of the significant net loss attributable to owners of the parent and the need to make strategic investments in growth and other factors.

We express our deep and sincere apologies to all of our shareholders for the significant inconvenience. In order to realize a return to profits in fiscal year 2017, we are dedicating all of our energies to improving profitability, and kindly ask for the understanding of all of our shareholders.

The business progress and results for each business segment of the Kobe Steel Group were as follows.

Iron & Steel Business

The sales volume of steel products decreased compared with the previous fiscal year. Although domestic sales volume to the automotive sector was firm, export volume declined.

Sales prices went down, compared with the previous fiscal year, due to the high yen and fall in primary raw material prices until the first half of fiscal year 2016.

Sales of steel castings and forgings decreased, compared with the previous fiscal year, as demand decreased in the overseas shipbuilding sector. Sales of titanium products decreased compared with the previous fiscal year, mainly due to lower sales volume to desalination plants, chemical plants and for other applications.

As a result, consolidated segment sales in fiscal year 2016 decreased 6.8 percent, compared with the previous fiscal year, to 620.6 billion yen. Ordinary loss* worsened by 14.5 billion yen, compared with the previous fiscal year, to ordinary loss of 29.5 billion yen, due to the fall in sales prices and the posting of a temporary expense for the refurbishment of the blast furnace.

Welding Business

The sales volume of welding materials decreased, compared with the previous fiscal year, due to construction delays and remaining sluggish demand in the energy sector in Japan and as sluggish demand also persisted in the overseas shipbuilding and energy sectors. On the other hand, sales of welding systems increased compared with the previous fiscal year, owing to steady investments in automation for construction sector in Japan.

As a result, consolidated segment sales in fiscal year 2016 declined 10.8 percent, compared with the previous fiscal year, to 82.2 billion yen. Ordinary income* decreased 1.2 billion yen, compared with the previous fiscal year, to 6.8 billion yen.

Aluminum & Copper Business

The sales volume of aluminum rolled products increased compared with the previous fiscal year, as demand remained firm for can stock for beverage cans and for the automotive sector.

The sales volume of copper rolled products increased compared with the previous fiscal year, as demand rose for copper strips used in automotive terminals. The sales volume of copper tubes also increased compared with the previous fiscal year, as demand remained firm for air conditioners.

However, mainly due to lower sales prices from the high yen and lower ingot prices, consolidated segment sales in fiscal year 2016 decreased 6.4 percent, compared with previous fiscal year, to 323.3 billion yen. Ordinary income* decreased 3.1 billion yen, compared with the previous fiscal year, to 12.0 billion yen, due to a worsening in inventory valuation from the fall in lower ingot prices.

Machinery Business

Mainly due to sluggish demand in energy-related sectors, stagnation of the Chinese economy, consolidated orders in fiscal year 2016 decreased 8.7 percent, compared with the previous fiscal year, to 128.2 billion yen. The consolidated backlog of orders at the end of fiscal year 2016 came to 127.8 billion yen.

Consolidated segment sales in fiscal year 2016 declined 5.2 percent, compared with the previous fiscal year, to 150.7 billion yen, mainly due to a decrease from energy-related sectors. Ordinary income* decreased 0.8 billion yen, compared with the previous fiscal year, to 5.8 billion yen.

Engineering Business

Consolidated orders in fiscal year 2016 increased 34.9 percent, compared with the previous fiscal year, to 174.2 billion yen, owing to orders for several large projects in the waste treatment-related business. The consolidated backlog of orders at the end of fiscal year 2016 stood at 179.9 billion yen.

Sales declined mainly in the nuclear power-related business and waste treatment-related business. As a result, consolidated segment sales in fiscal year 2016 decreased 8.0 percent, compared with the previous fiscal year, to 121.1 billion yen. Ordinary income* decreased 1.8

billion yen, compared with the previous fiscal year, to 2.8 billion yen, due to a change in the type of orders.

Construction Machinery

Unit sales of hydraulic excavators decreased, compared with the previous fiscal year, mainly due to lower demand mainly from the rental business in Japan and to undertaking marketing activities in China with stricter sales terms.

Unit sales of crawler cranes also declined compared with the previous fiscal year, mainly in Southeast Asia, mainly due to a decrease in energy-related projects brought about by sluggish crude oil prices.

As a result, consolidated segment sales in fiscal year 2016 decreased 7.7 percent, compared with the previous fiscal year, to 310.4 billion yen. Ordinary loss* worsened by 19.4 billion yen, compared with the previous fiscal year, to ordinary loss* of 31.3 billion yen, mainly due to profit deterioration from the fewer number of units sold and the high yen and the additional posting of an allowance for retained receivables in the China business.

Electric Power Businesses

The amount of electricity sold was at the same level compared with the previous fiscal year. However, due to the high yen and a drop in the price of coal for power generation until the first half of fiscal year 2016, the unit price of electricity decreased compared with the previous fiscal year.

As a result, consolidated segment sales in fiscal year 2016 decreased 8.0 percent, compared with the previous fiscal year, to 70.6 billion yen. Ordinary income* decreased 4.3 billion yen, compared with the previous fiscal year, to 13.0 billion yen, mainly due to a lag in reflecting fuel cost fluctuation in the unit price of electricity.

Other Businesses

At Shinko Real Estate Co., Ltd., both the residential property sales business and the leasing business remained firm. At Kobelco Research Institute, Inc., orders decreased in the testing and research business for the automotive sector.

Due to these conditions, consolidated segment sales in fiscal year 2016 were similar to the previous fiscal year at 74.8 billion yen. Ordinary income* increased 0.2 billion yen, compared with the previous fiscal year, to 7.6 billion yen.

Definition of Ordinary Income (Loss)*

Ordinary income under accounting principles generally accepted in Japan (Japanese GAAP) is a category of income (loss) that comes after operating income (expense) and non-operating income (expense), but before extraordinary income and loss. It is also called "pretax recurring profit" or simply "pretax profit."

(b) Issues to Be Addressed

Looking at the business environment surrounding the Kobe Steel Group, Japan's economy is anticipated to recover gradually, owing to improvement in the employment situation and signs of recovery in corporate capital investment and personal spending. In countries overseas, growth rates in China and India are forecast to slow, but in the United States and Europe, economic recovery trends are anticipated to continue on track.

On the other hand, growing protectionist trends, exchange rate fluctuations and other factors are concerns that impact the economy, and uncertainty continues to persist.

In such an environment, the Group recognizes that issues it should tackle this period are reforming of the profit structure of the iron & steel business and the construction machinery business, both of which was the reason for booking significant losses for two consecutive periods, and the steady promotion of growth strategies for the future based on the three core business areas of the materials businesses, machinery businesses, and the electric power business, which are presently underway.

First, with regard to the iron & steel business, the Company is pressing ahead with measures to strengthen profitability outlined in the Fiscal Year 2016-2020 Group Medium-Term Business Plan, and is specifically dedicating all of its energies to completing the consolidation in fiscal year 2017 of upstream operations for steel production. Furthermore, in the construction machinery business, the Company will work to improve profitability as early as possible by restructuring the sales and the production structure.

With regard to the growth strategy based on the three core business areas of the materials businesses, machinery businesses, and the electric power business, the Company is presently undertaking initiatives for weight savings in transportation, and has been steadily promoting initiatives to expand business in the energy and infrastructure field and the electric power business. To promote the growth strategy, the Company plans to adopt specific cash generation measures targeting 100.0 billion yen as early as possible in order to maintain a D/E ratio of 1 time or less to maintain financial discipline. Through these initiatives, the Company aims to establish a solid business enterprise and generate growth.

An overview and the present status of the Fiscal Year 2016-2020 Group Medium-Term Business Plan are as follows.

Fiscal Year 2016-2020 Group Medium-Term Business Plan

In April 2016, Kobe Steel Group formulated the Fiscal Year 2016-2020 Group Medium-Term Management Plan and has started initiatives for a new medium-term management plan, **KOBELCO VISION “G+”** (pronounced “G plus”) that will establish a solid business enterprise. The new plan aims to further strengthen the three core business areas of the materials businesses, machinery businesses, and the electric power business.

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

| Fiscal Year 2016-2020 Group Medium-Term Management Plan Basic Policies | | |
|--|--|---|
| 1) Growth strategies for the three core business areas | Materials Businesses | Initiatives for weight savings in transportation Improving profitability in the iron & steel business |
| | Machinery Businesses | Initiatives in the energy and infrastructure fields Strengthening profitability in the construction machinery business |
| | Electric Power Business | Initiatives for stable profits |
| | 2) Strengthening the Business Base | |
| 3) Financial Strategy | i) Strengthening corporate governance ii) Securing and developing human resources iii) Strengthening technology development capabilities and manufacturing capabilities Maintaining financial discipline and undertaking cash generation measures | |
| Numerical Targets for Fiscal Year 2020 | | |
| ◆ ROA (ordinary profit/total assets): 5% or more | | |
| ◆ D/E Ratio (interest-bearing debt/equity): 1 time or less | | |

1) Growth Strategy for the Three Core Business Areas

[Materials Businesses]

< Initiatives for Weight Savings in Transportation >

◆ Initiatives in the automotive field where there is a shift to multi-materials* to realize weight savings

- Promoting the strengthening of competitiveness in high-strength steel sheet and aluminum products (sheet, extrusions and forgings)
- Leverage its broad solutions proposals as a company that possesses various materials and joining technologies to expand the Company's share of the global automotive market

* The selective use of various materials by automotive manufacturers to produce lighter automobiles taking advantage of the respective outstanding properties of steel sheet, aluminum products, carbon fiber reinforced plastics and other materials.

◆ Initiatives in the aircraft field where the number of aircraft in service is expected to grow

- Strengthening the upstream operations (melting, casting and forging) of the Company's titanium, aluminum, magnesium and other material businesses for entry and expansion into downstream operations (machining, surface treatment and painting)
- Building a simple supply chain with an integrated system for upstream and downstream operations in the Asian region where there are insufficient numbers of suppliers

<Results of initiatives>

- The Company newly established the Transportation Materials Business Planning Section* in the Corporate Planning Department to facilitate initiatives across the company for the automobile and aircraft sectors (April 2016)
- By starting operation of a joint venture to serve as a production site for cold-rolled high-strength steel sheets for automobiles in China (April 2016), completed the establishment of a global supply system for high-strength steel sheet, covering Japan, the United States, Europe and China
- Established a production site for aluminum extrusions for automobiles in the United States (May 2016) and decided to increase production equipment for forged aluminum products for automobiles in the United States (April 2017)
- Decided to increase production equipment for automotive aluminum panel material at Moka Plant (April 2017)
- Agreed to establish a joint venture to produce aluminum sheet products in Korea with the Korean subsidiary of Novelis Inc., a company in the United States and the world leader in aluminum rolled products, as a production site for semi-finished products for use in Japan and China (May 2017)

* Along with the establishment of the Automotive Solution Center in April 2017, this section was developed and reorganized as the Automotive Materials Planning Section

<Improving Profitability in the Iron & Steel Business >

- Completed consolidation of upstream operations (from blast furnace to continuous caster) for steel production to Kakogawa Works (fiscal year 2017)
- Realize cost reductions by a higher operating rate through the consolidation of upstream operations (+15.0 billion yen per year)
- Increasing profits by implementing additional profit improvement measures (+30.0 billion yen per year) together with growth in the transportation field

< Results of initiatives >

- At Kakogawa Works, completed preparations in terms of the facilities at Kakogawa Works to consolidate upstream operations by completing the relining project for No. 3 Blast Furnace and facility expansion for continuous caster (currently obtaining renewed approval from customers)

[Machinery Businesses]

< Initiatives in the Energy and Infrastructure Fields >

- Opening one of the world's largest test facilities for nonstandard compressors to expand the compressor business and entering the market for large-sized centrifugal compressors which are used in various types of factories
- Expanding standard compressor business through global development, strengthening product competitiveness and strengthening manufacturing infrastructure (improvement of production efficiency and reducing lead time)
- Establishing a position in Asia by implementing both foregoing measures
- Constructing a comprehensive test center for hydrogen stations, carrying out demonstration tests on hydrogen stations using renewable energy to establish differentiated technologies, strengthening competitiveness in the domestic and overseas markets, and expanding sales of units for hydrogen stations

< Results of initiatives >

- The Company opened one of the world's largest test facilities for nonstandard compressors (April 2017)
- The Company started marketing the HyAC mini-A, a high-pressure hydrogen compressor unit for hydrogen stations in the United States (February 2017)
- The Company acquired Quintus Technologies AB (Sweden), the world leader in presses, which gives rise to the expansion of the industrial machinery business (April 2017)

< Strengthening Profitability in the Construction Machinery Business >

- Rebuilding the Chinese excavator business (reviewing local production capacity in response to demand and strengthening profitability)
- Implementing mainly to expand sales in Europe, the United States, and India, where demand is anticipated to improve and other measures
- Establishing a strong business base through the integration of operating companies

< Results of initiatives >

- The merger of Kobelco Construction Machinery Co., Ltd. and Kobelco Cranes Co., Ltd. (April 2016)
- Started operations of assembly plants for hydraulic excavators and established a supply system in the United States, where the Company reentered into (April 2016)
- The Company lead the reorganization of the system in the Chinese excavator business
 - Agreed to dissolve a joint venture with its Chinese partner (February 2017)
 - Started selecting and consolidating dealers, and the restructuring of the sales management system
 - Started restructuring the production system with Chengdu (inland area) as the supply base for China and Hangzhou (coastal area) as the export base

[Electric Power Business]

< Initiatives for Stable Profits >

- Establishing a stable profit base for the future by continuing the stable operation of already constructed Kobe Power Plant and proceeding with two new power generation projects in Moka and Kobe

| Scale of Power Generation Plants | | | | |
|----------------------------------|-------|------------------------|---|---------------------|
| Already constructed | Kobe | 1,400,000 kW | Supply all the electricity generated to The Kansai Electric Power Company, Incorporated | In stable operation |
| To be constructed | Moka | 1,248,000 kW | Supply all the electricity generated to Tokyo Gas Co., Ltd. | Start-up in 2019 |
| To be constructed | Kobe | 1,300,000 kW | Supply all the electricity generated to The Kansai Electric Power Company, Incorporated | Start-up in 2022 |
| | Total | 3,950,000 kW (approx.) | | |

<Results of initiatives>

- With regard to the already constructed Kobe Power Plant, renewed the supply contract with The Kansai Electric Power Company, Incorporated for post-expiration of the present contract (December 2016)
- Moka project: started construction work in June 2016, and is proceeding according to plan
- Kobe project: presently performing the environmental assessment

2) Strengthening the Business Base

i) Strengthening Corporate Governance

- Strengthen corporate governance mainly by reviewing the structure of the Board of Directors

< Results of initiatives >

- The Company transitioned to a company with an Audit & Supervisory Committee from a company with an Audit & Supervisory Board (June 2016)
- Launched an assessment system for the effectiveness of the Board of Directors (April 2016)
- Revised and strengthened the training system for executives (April 2016)

ii) Human Resource Development

- Securing and cultivating employees who will drive growth in the Kobe Steel Group by focusing on creating a safe, employee-friendly working environment through promoting diversity and implementing improvement in working styles

< Results of initiatives >

- Implemented training that encourages a deep understanding and awareness of diversity promotion for managers and supervisors at all business sites
- Started activities throughout the Company to “improve working styles” in order to improve the working environment, including in principle prohibiting overtime after 7:00 pm and making meetings more efficient

iii) Strengthening Technology Development Capabilities and Manufacturing Capabilities

- Creating differentiated technologies that strengthen the competitiveness of major products, and also creating products and processes that provide customer value in the automotive, aircraft, energy and infrastructure fields
- Strengthening production infrastructure and raising the level of *monozukuri-ryoku* (manufacturing capabilities) by strengthening product quality and on-site capabilities and by data utilization including IoT (the Internet of Things)

< Results of initiatives>

- Established the Automotive Solution Center in order to accelerate and promote the Company's proprietary solutions proposals targeting lighter automobiles, including materials for automobiles and joining technologies of dissimilar materials, etc. (April 2017)

3) Financial Strategy

- Financing strategic investments to grow the materials businesses and machinery businesses and regular investments that support the business base by operating cash flows
- Maintaining financial discipline while steadily carrying out investments for weight savings in transportation and other important fields by adopting cash generation measures, such as the sale of 100.0 billion yen in assets, improvements in working capital, and the careful selection of investments

< Results of initiatives>

- Effectively utilized internal Group funds overseas and sold certain assets

The Group will begin the full-scale implementation of large scale projects to realize its medium- to long-term business vision, **KOBELCO VISION "G+."** In light of this situation, the Company believes that it is necessary for all Group employees to again unite, and therefore launched the "Core Values of KOBELCO and the Next 100 Project" in April this year. This initiative, targeting the next 100 years, is not limited to technologies, products and services, but pertains to all of the Kobe Steel Group's business activities, including activities aimed at coexisting harmoniously with society, with respect to becoming a company that is trusted by all stakeholders, including our shareholders; creating a better environment where employees can adequately demonstrate their capabilities; and having a sense of challenge for continuous innovation. These core values make up the Kobe Steel Group's corporate philosophy that each of our employees once again pledge to uphold.

The Kobe Steel Group will dedicate all of its energies to improving profitability, generating profit as early as possible and resuming dividends, all of which are urgent tasks. At the same time, the Group will strive to achieve its medium- to long-term business vision through its business growth strategy focused on the three core business areas of materials, machinery and electric power, while strengthening corporate governance and promoting the "Core Values of KOBELCO and the Next 100 Project."

We appreciate the continued support and encouragement of our shareholders.

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.

* In order to integrate management of the electric power supply business and further clarify the Kobe Steel Group's management visions, on April 1, 2016, the Company integrated the existing electric power supply business under the Iron & Steel Business with the electric power project implemented under the head office, and established a new Electric Power Business.

* To strengthen competitiveness in the construction machinery business, Kobelco Construction Machinery Co., Ltd. was merged with Kobelco Cranes Co., Ltd. and became the construction machinery segment. In addition, the Company also included Kobelco Eco-Solutions Co., Ltd. in

its Engineering Business to further cooperation in the Kobe Steel Group and strengthen competitiveness.

- * Due to these changes, from fiscal year 2016 reporting business segments have changed to seven segments of Iron & Steel, Welding, Aluminum & Copper, Machinery, Engineering, Construction Machinery and Electric Power.

(c) Production Volume, Orders Received, and Net Sales and Ordinary Income by Business Segment

(i) Production Volume (In thousands of tons)

| Category | | 163rd Business Term (Fiscal year 2015) | 164th Business Term (Current term) (Fiscal year 2016) |
|----------------------------|--------------------------|---|---|
| Iron & Steel Business | Crude steel | 7,543 | 7,275 |
| Aluminum & Copper Business | Aluminum rolled products | 372 | 376 |
| | Copper rolled products | 133 | 142 |

(ii) Orders Received (In millions of yen)

| Category | | | 163rd Business Term (Fiscal year 2015) | 164th Business Term (Current term) (Fiscal year 2016) |
|----------------------|-------------------|----------|---|---|
| Machinery Business | Orders | Domestic | 53,237 | 58,298 |
| | | Overseas | 87,228 | 69,901 |
| | | Total | 140,466 | 128,200 |
| | Backlog of orders | Domestic | 37,713 | 36,134 |
| | | Overseas | 96,184 | 91,682 |
| | | Total | 133,897 | 127,817 |
| Engineering Business | Orders | Domestic | 82,253 | 111,108 |
| | | Overseas | 46,942 | 63,138 |
| | | Total | 129,195 | 174,247 |
| | Backlog of orders | Domestic | 80,500 | 102,629 |
| | | Overseas | 40,921 | 77,280 |
| | | Total | 121,421 | 179,909 |

Note 1: The orders and the backlog of orders include amount of orders among the Company's Groups.

Note 2: The orders and the backlog of orders of the Engineering Business in the 163rd business term include the orders and the backlog of orders presented in the 163rd business term as Kobelco Eco-Solutions.

(iii) Net Sales and Ordinary Income by Business Segment (In millions of yen)

| Category | 163rd Business Term (Fiscal year 2015) | | 164th Business Term (Current term) (Fiscal year 2016) | |
|------------------------------------|---|-----------------|---|-----------------|
| | Net sales | Ordinary income | Net sales | Ordinary income |
| Iron & Steel Business | 665,803 | (14,984) | 620,611 | (29,557) |
| Welding Business | 92,252 | 8,128 | 82,274 | 6,854 |
| Aluminum & Copper Business | 345,463 | 15,121 | 323,327 | 12,020 |
| Machinery Business | 159,002 | 6,763 | 150,710 | 5,896 |
| Engineering Business | 131,712 | 4,697 | 121,182 | 2,809 |
| Construction Machinery | 336,225 | (11,930) | 310,494 | (31,399) |
| Electric Power Business | 76,745 | 17,414 | 70,605 | 13,082 |
| Other Businesses | 74,528 | 7,356 | 74,874 | 7,610 |
| Adjustment | (58,929) | (3,640) | (58,217) | (6,422) |
| Total | 1,822,805 | 28,927 | 1,695,864 | (19,103) |
| [Of the above, overseas net sales] | [662,651] | | [573,624] | |

Note: Net sales and ordinary income in the 163rd business term were reclassified in line with net sales and ordinary income by business segment in the 164th business term.

(2) Capital Expenditures

Total capital expenditures on a construction (inspection and acceptance) base is 160.2 billion yen.

The major capital expenditures completed in fiscal year 2016 or ongoing as of the end of fiscal year 2016 are as follows:

| Category | Facility Name |
|-------------|---|
| Completed | The Company Kakogawa Works Relining Project of No. 3 Blast Furnace (Iron & Steel Business) Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd. Production plant of automotive body panels in Tianjin, China (Aluminum & Copper Business) |
| In progress | The Company Kakogawa Works and Kobe Works Strengthening equipment and distribution facilities etc. accompanying transfer upstream production to Kakogawa Works (Iron & Steel Business) Kobe Aluminum Automotive Products, LLC Melting and casting line, forging press etc. in Kentucky, the United States (Aluminum & Copper Business) Kobelco Aluminum Products & Extrusions Inc. Melting furnaces, extrusion presses, processing lines etc., in Kentucky, the United States (Aluminum & Copper Business) The Company Takasago Works Strengthening rotating machine plant facility (opened a facility for large-capacity nonstandard compressors) (Machinery Business) KOBELCO POWER MOKA INC. Power Supply Plant in Moka-shi, Tochigi-prefecture (Electric Power Business) The Company Kobe Works Power Supply Plant (Electric Power Business) |

(3) Financing Activities

During fiscal year 2016, there were no special matters to be noted, including the issuance of corporate bonds, etc.

(4) Assets and Results of Operations

(a) Assets and Results of Operations of the Group

| Category | | 161st Business Term (Fiscal year 2013) | 162nd Business Term (Fiscal year 2014) | 163rd Business Term (Fiscal year 2015) | 164th Business Term (Current term) (Fiscal year 2016) |
|---|----------------------|---|---|---|---|
| Net sales | (In millions of yen) | 1,824,698 | 1,886,894 | 1,822,805 | 1,695,864 |
| Operating income | (In millions of yen) | 114,548 | 119,460 | 68,445 | 9,749 |
| Ordinary income | (In millions of yen) | 85,044 | 101,688 | 28,927 | (19,103) |
| Net income attributable to owners of the parent | (In millions of yen) | 70,191 | 86,549 | (21,556) | (23,045) |
| Net income per share | (yen) | 226.28 | 238.19 | (59.34) | (63.54) |
| Total assets | (In millions of yen) | 2,288,636 | 2,300,241 | 2,261,134 | 2,310,435 |
| Net assets | (In millions of yen) | 734,679 | 851,785 | 745,492 | 729,404 |
| Net assets per share | (yen) | 1,841.10 | 2,137.00 | 1,903.80 | 1,860.36 |

Note: Since a ten-for-one consolidation of the Company's shares was implemented on October 1, 2016, net income per share and net assets per share were calculated based on the assumption that the share consolidation was conducted at the beginning of the 161st business term.

(b) Assets and Results of Operations of the Company

| Category | | 161st Business Term (Fiscal year 2013) | 162nd Business Term (Fiscal year 2014) | 163rd Business Term (Fiscal year 2015) | 164th Business Term (Current term) (Fiscal year 2016) |
|----------------------|----------------------|---|---|---|---|
| Net sales | (In millions of yen) | 993,743 | 1,028,146 | 979,085 | 923,700 |
| Operating income | (In millions of yen) | 46,171 | 35,297 | 21,006 | (7,096) |
| Ordinary income | (In millions of yen) | 58,355 | 46,600 | 26,690 | (16,557) |
| Net income | (In millions of yen) | 56,660 | 52,321 | (6,217) | (6,319) |
| Net income per share | (yen) | 182.36 | 143.79 | (17.09) | (17.39) |
| Total assets | (In millions of yen) | 1,463,443 | 1,432,210 | 1,478,036 | 1,607,297 |
| Net assets | (In millions of yen) | 511,758 | 556,645 | 514,575 | 513,620 |
| Net assets per share | (yen) | 1,406.41 | 1,529.83 | 1,413.07 | 1,415.24 |

Note: Since a ten-for-one consolidation of the Company's shares was implemented on October 1, 2016, net income per share and net assets per share were calculated based on the assumption that the share consolidation was conducted at the beginning of the 161st business term.

(5) Major Businesses (As of March 31, 2017)

The major businesses carried out by the Kobe Steel Group are described below.

| Category | | Major Products and Businesses |
|----------------------------|--------------------------------------|---|
| Iron & Steel Business | Steel bar | Ordinary wire rod, Special wire rod, Specialty steel wire, Ordinary steel bar, Specialty steel bar |
| | Steel sheet | Heavy plate, Medium plate, Sheet (hot-rolled, cold-rolled, surface treated) |
| | Steel billet | |
| | Processed product & pig iron, etc. | Steel castings and forgings (vessel parts, electronics parts, industrial machinery parts, etc.), Titanium and titanium alloys, Steel powder, Foundry pig iron, Pig iron for steelmaking, Slag products, Stainless steel tubes, Building materials, Specialty steel products, Steel wires |
| Welding Business | | Welding materials (covered welding electrodes, welding wire for automatic and semi-automatic welding, flux), Welding robots, Welding power sources, Welding robot systems, Welding-related testing, analysis and consulting |
| Aluminum & Copper Business | Aluminum rolled products | Aluminum can stock, Aluminum sheet for heat exchangers, Automotive aluminum sheet, Aluminum extrusions, Aluminum disk material for HDDs |
| | Copper rolled products | Copper sheet and strip for semiconductors, Copper sheet and strip for terminals, Leadframes, Condenser tubes, Copper tubes for air conditioners |
| | Aluminum castings and forgings, etc. | Aluminum-alloy and magnesium-alloy castings and forgings (parts for aircrafts and automobiles, etc.), Fabricated aluminum products (parts for automobiles, building materials, building temporary construction material, etc.) |
| Machinery Business | | Equipment for energy and chemical fields, Equipment for nuclear power plants, Tire and rubber machinery, Plastic processing machinery, Ultra pressure press, Physical vapor deposition systems, Metalworking machinery, Compressors, Refrigeration compressors, Heat pumps, Plants (steel rolling, non-ferrous, etc.), Internal combustion engines |
| Engineering Business | | Various plants and equipment (direct reduction iron making, pelletizing, petrochemical, nuclear power-related, water treatment, waste treatment, etc.), Erosion control and disaster prevention structures, Civil engineering, Advanced urban transit system, Equipment for chemical and food fields |
| Construction Machinery | | Hydraulic excavators, Mini excavators, Wheel loaders, Crawler cranes, Rough terrain cranes, Work vessels |
| Electric Power Business | | Wholesale power supply |
| Other Businesses | | Real estate development, Construction, Sales, Brokering, Remodeling, Leasing, Building management, Condominium management, Special alloys and other new materials (target materials, etc.), Material analysis and testing, High-pressured gas container manufacturing, Superconducting products, Operation of life care facilities for the elderly, General trading |

(6) Major Offices and Plants (As of March 31, 2017)

| | | |
|-------------------------|-----------------------|---|
| Head offices | | KOBE (Registered Head Office), TOKYO |
| Domestic branch offices | | OSAKA, NAGOYA |
| Domestic sales offices | | HOKKAIDO (Sapporo), TOHOKU (Sendai), NIIGATA (Niigata), HOKURIKU (Toyama), SHIKOKU (Takamatsu), CHUGOKU (Hiroshima), KYUSHU (Fukuoka), OKINAWA (Naha) |
| Overseas offices | | NEW YORK, SINGAPORE, SHANGHAI |
| Research Laboratories | | KOBE (Kobe) |
| Plants | Iron & Steel | KAKOGAWA (Hyogo), KOBE (Kobe), TAKASAGO (Hyogo) |
| | Welding | FUJISAWA (Kanagawa), IBARAKI (Osaka), SAIJO (Hiroshima), FUKUCHIYAMA (Kyoto) |
| | Aluminum & Copper | MOKA (Tochigi), CHOFU (Yamaguchi), DAIAN (Mie) |
| | Machinery Engineering | TAKASAGO (Hyogo), HARIMA (Hyogo) |

Note 1: Overseas offices include locally incorporated companies.

Note 2: The locations of head offices of major subsidiaries are described in the following note “(7) Major Subsidiaries, etc.”

(7) Major Subsidiaries, etc.
(Subsidiaries)

| Company Name [Location of Head Offices] | Common Stock | Ratio of Voting Rights (%) | Major Businesses |
|---|-----------------------------------|-------------------------------------|--|
| Nippon Koshuha Steel Co., Ltd. [Tokyo] | 15,669 million yen | 51.83 | Manufacture and sales of specialty steels |
| Kobelco Steel Tube Co., Ltd. [Shimonoseki, Yamaguchi] | 4,250 million yen | 100.00 | Manufacture and sales of stainless steel tube and precision tube |
| Shinko Kenzai Ltd. [Amagasaki, Hyogo] | 3,500 million yen | 96.80 | Manufacture and sales of products for civil engineering and construction work |
| Kobelco Logistics, Ltd. [Kobe] | 2,479 million yen | 97.68 | Harbor transportation, coastal shipping, customs clearance, truck transportation, warehousing and contracting plant work |
| Shinko Bolt, Ltd. [Ichikawa, Chiba] | 465 million yen | 100.00 | Manufacture and sales of bolts for construction and bridges |
| Shinko Engineering & Maintenance Co., Ltd. [Kobe] | 150 million yen | 100.00 | Design, manufacture, installation, piping and maintenance of plants and equipment |
| Kobe Welding of Qingdao Co., Ltd. [China] | 211,526 thousand yuan | 90.00 | Manufacture and sales of welding materials |
| Kobe Welding of Korea Co., Ltd. [Korea] | 5,914 million won | 91.06 | Manufacture and sales of welding materials |
| Kobelco & Materials Copper Tube, Ltd. [Tokyo] | 6,000 million yen | 55.00 | Manufacture and sales of copper tubes for air conditioners, construction and cold/hot water supply |
| Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd. [China] *1 | 454,000 thousand yuan | 100.00 | Manufacture and sales of aluminum sheets for automotive body panels |
| Kobe Aluminum Automotive Products (China) Co., Ltd. [China] | 239,681 thousand yuan | 60.00 | Manufacture and sales of aluminum forgings for automotive suspensions |
| Kobelco & Materials Copper Tube (Thailand) Co., Ltd. [Thailand] *1 | 1,129 million Thai baht | 100.00 | Manufacture and sales of inner-grooved copper tubes and smooth bore copper tubes for air conditioners |
| Kobelco Aluminum Products & Extrusions Inc. [United States] *1 | 24,000 thousand U.S. dollars | 100.00 | Manufacture and sales of bumper materials and frame materials for automotive bumpers |
| Kobe Aluminum Automotive Products, LLC [United States] *1 | 24,000 thousand U.S. dollars | 60.00 | Manufacture and sales of aluminum forgings for automotive suspensions |
| Kobelco & Materials Copper Tube (M) Sdn. Bhd. [Malaysia] *1 | 25,500 thousand Malaysian ringgit | 100.00 | Manufacture and sales of copper tubes and secondary processed products |

| Company Name [Location of Head Offices] | Common Stock | Ratio of Voting Rights (%) | Major Businesses |
|--|-----------------------------------|-------------------------------------|--|
| Kobe Precision Technology Sdn. Bhd. [Malaysia] | 19,000 thousand Malaysian ringgit | 100.00 | Manufacture and sales of aluminum disk material for HDDs |
| Kobelco Compressors Corporation [Tokyo] | 450 million yen | 100.00 | Sales and servicing of compressors |
| Shinko Engineering Co., Ltd. [Ogaki, Gifu] *1 | 388 million yen | 100.00 | Manufacture and sales of internal combustion engines, transmissions and testing machines, etc. |
| Kobelco Compressors Manufacturing (Shanghai) Corporation [China] | 87,796 thousand yuan | 100.00 | Development and manufacture of compressors and related products Sales and servicing of products of the Company |
| Kobelco Compressors America, Inc. [United States] *1 | 5 thousand U.S. dollars | 100.00 | Manufacture and sales of compressor system for process gas, refrigeration compressor system and parts, etc. |
| Kobelco Eco-Solutions Co., Ltd. [Kobe] *2 | 6,020 million yen | 80.24 | Design, manufacture, construction and maintenance of environmental plants Design, manufacture and maintenance of industrial machinery and equipment |
| Kobelco Eco-Maintenance Co., Ltd. [Kobe] *1 | 80 million yen | 100.00 | Operation of water treatment facilities and waste treatment facilities, etc. |
| Midrex Technologies, Inc. [United States] *1 | 1 thousand U.S. dollars | 100.00 | Design, manufacture and construction of direct reduction plants |
| Kobelco Construction Machinery Co., Ltd. [Tokyo] | 16,000 million yen | 100.00 | Manufacture and sales of construction machinery |
| KOBELCO Construction Machinery (East Japan) Co., Ltd. [Ichikawa, Chiba] *1 | 490 million yen | 100.00 | Sales and servicing of construction machinery |
| KOBELCO Construction Machinery (West Japan) Co., Ltd. [Amagasaki, Hyogo] *1 | 490 million yen | 100.00 | Sales and servicing of construction machinery |
| Chengdu Kobelco Construction Machinery (Group) Co., Ltd. [China] *1 | 56,468 thousand yuan | 56.32 | Sales and servicing of construction machinery |
| Chengdu Kobelco Construction Machinery Co., Ltd. [China] *1 | 139,846 thousand yuan | 100.00 | Manufacture and sales of construction machinery |
| Hangzhou Kobelco Construction Machinery Co., Ltd. [China] *1 | 237,551 thousand yuan | 50.67 | Manufacture and sales of construction machinery |
| Chengdu Kobelco Construction Machinery Financial Leasing Ltd. [China] *1 | 437,994 thousand yuan | 75.95 | Leasing business |
| Thai Kobelco Construction Machinery Ltd. [Thailand] *1 | 560 million Thai baht | 100.00 | Manufacture and sales of construction machinery |
| Kobelco International (S) Co., Pte. Ltd. [Singapore] *1 | 11,113 thousand U.S. dollars | 100.00 | Sales of construction machinery |
| Kobelco Construction Machinery Europe B.V. [Netherlands] *1 | 3,300 thousand euro | 100.00 | Sales and servicing of construction machinery |
| Kobelco Construction Machinery USA, Inc. [United States] *1 | 2 thousand U.S. dollars | 100.00 | Sales and servicing of construction machinery |
| Kobelco Construction Equipment India Pvt. Ltd. [India] *1 | 2,000 million Indian rupees | 95.00 | Manufacture, sales and servicing of construction machinery |
| Kobelco Power Kobe Inc. [Kobe] | 3,000 million yen | 100.00 | Wholesale power supply |
| KOBELCO POWER MOKA INC. [Moka, Tochigi] | 600 million yen | 100.00 | Wholesale power supply |
| Shinko Real Estate Co., Ltd. [Kobe] | 3,037 million yen | 100.00 | Real estate sales, brokering, remodeling and leasing |
| Kobelco Research Institute, Inc. [Kobe] | 300 million yen | 100.00 | Material analysis and testing, structural analyses Manufacture and sales of target material, semiconductor and inspection equipment |

| Company Name [Location of Head Offices] | Common Stock | Ratio of Voting Rights (%) | Major Businesses |
|---|---------------------------|-------------------------------------|--|
| Kobelco (China) Holding Co., Ltd. [China] | 1,265,939 thousand yuan | 100.00 | Holding company in China |
| Kobe Steel USA Holdings Inc. [United States] | 205 thousand U.S. dollars | 100.00 | Holding shares of companies in the United States |

(Affiliated Companies)

| Company Name [Locations of Head Offices] | Common Stock | Ratio of Voting Rights (%) | Major Businesses |
|---|-------------------------------|-------------------------------------|--|
| OSAKA Titanium technologies Co., Ltd. [Amagasaki, Hyogo] | 8,739 million yen | 23.92 | Manufacture and sales of titanium sponge, polycrystalline silicon and other titanium products |
| Shinko Wire Company, Ltd. [Amagasaki, Hyogo] *1 | 8,062 million yen | 35.90 | Manufacture and sales of secondary products of wire rod Contracting construction work of structures |
| Kansai Coke and Chemicals Co., Ltd. [Amagasaki, Hyogo] | 6,000 million yen | 24.00 | Manufacture and sales of coke and other chemical products |
| Japan Aeroforge, Ltd. [Kurashiki, Okayama] | 1,850 million yen | 40.54 | Manufacture and sales of large forgings |
| Tesac Wire Rope Co., Ltd. [Kaizuka, Osaka] | 450 million yen | 42.10 | Manufacture and sales of wire rope and wire rod |
| PRO-TEC Coating Company [United States] *1 | 123,000 thousand U.S. dollars | 50.00 | Manufacture and sales of galvanized steel sheet and cold-rolled, high-strength steel |
| Kobelco Angang Auto Steel Co., Ltd. [China] *1 | 700,000 thousand yuan | 49.00 | Manufacture and sales of cold-rolled, high-strength steel |
| Kobelco Spring Wire (Foshan) Co., Ltd. [China] *1 | 196,220 thousand yuan | 50.00 | Manufacture and sales of valve spring wire |
| Kobelco Millcon Steel Co., Ltd. [Thailand] | 2,830 million Thai baht | 50.00 | Manufacture and sales of specialty steels and ordinary steel wire |
| Wuxi Compressor Co., Ltd. [China] *1 | 92,010 thousand yuan | 44.35 | Manufacture and sales of compressors |
| Shinsho Corporation [Osaka] *1 *2 | 5,650 million yen | 35.08 | Trading of iron & steel and nonferrous metal products and machinery, etc. |

Note 1: *1 in the above table indicates that the shareholdings of subsidiaries are included in the amount.

Note 2: *2 in the above table indicates that shares held as part of a retirement benefits trust are included in the amount.

Note 3: In fiscal year 2016, Kobelco & Materials Copper Tube (Thailand) Co., Ltd., Kobelco Aluminum Products & Extrusions Inc. and Kobelco & Materials Copper Tube (M) Sdn. Bhd. were newly added.

Note 4: Sakai Steel Sheets Works, Ltd., which was included in the list in the previous fiscal year, is not included in the list from fiscal year 2016 as it no longer qualifies as a major subsidiary.

Note 5: NI Welding Corporation, which was included in the list in the previous fiscal year, is not included in the list from fiscal year 2016 since the Company transferred 80% of its shareholdings in NI Welding Corporation to Shinsho Corporation on April 1, 2016, and it no longer qualifies as a major subsidiary.

Note 6: On April 1, 2016, Kobe Special Tube Co., Ltd. changed its registered trade name to Kobelco Steel Tube Co., Ltd.

Note 7: On May 12, 2016, the Company acquired shares in Kobelco Eco-Solutions Co., Ltd. that were held by a subsidiary and an affiliated company of the Company. As a result, the ratio of voting rights increased to 80.24%.

Note 8: On April 1, 2016, Kobelco Cranes Co., Ltd. merged with Kobelco Construction Machinery Co., Ltd., which was included in the list in the previous fiscal year, with Kobelco Construction Machinery as the surviving entity.

Note 9: In fiscal year 2016, the Company changed its ratio of voting rights in Chengdu Kobelco Construction Machinery Co., Ltd. from 88.74% to 100.00%

Note 10: On April 1, 2016, Shinko Kobe Power Inc. changed its registered trade name to Kobelco Power Kobe Inc.

Note 11: On April 1, 2017, following the restructuring of an overseas subsidiary, Thai Kobelco Construction Machinery Ltd. changed its registered trade name to Kobelco Construction Machinery Southeast Asia Co., Ltd.

Note 12: On April 5, 2017, the Company newly made Quintus Technologies AB a major subsidiary.

(8) Employees (As of March 31, 2017)

(a) Employees of the Group (Persons)

| Category | Number of Employees |
|-------------------------------|---------------------|
| Iron & Steel Business | 9,800 |
| Welding Business | 2,532 |
| Aluminum & Copper Business | 6,870 |
| Machinery Business | 3,708 |
| Engineering Business | 2,870 |
| Construction Machinery | 7,060 |
| Electric Power Business | 164 |
| Other Businesses or Corporate | 3,947 |
| Total | 36,951 |

Note: The number of employees indicates the number of working employees.

(b) Employees of the Company

| Number of Employees | Increase/Decrease from the Previous Fiscal Year-End | Average Age | Average Years of Service |
|---------------------|---|----------------|--------------------------|
| 11,034 | +201 | 39.5 years old | 16.7 years |

Note 1: The number of employees indicates the number of working employees.

Note 2: The number of employees stated above does not include 968 seconded employees.

(9) Major Lenders and Amount of Borrowings (As of March 31, 2017)

| Main Lenders | Balance of Loans (In millions of yen) |
|--|---------------------------------------|
| Development Bank of Japan Inc. | 77,954 |
| Mizuho Bank, Ltd. | 61,464 |
| Nippon Life Insurance Company | 40,535 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 28,401 |
| Sumitomo Mitsui Banking Corporation | 27,870 |
| Sumitomo Mitsui Trust Bank, Limited | 26,977 |
| The Yamaguchi Bank, Ltd. | 22,544 |
| Bank of Tokyo-Mitsubishi UFJ (China), Ltd. | 21,834 |

Note: Other than stated above, there was a syndicate loan amounting to a total of 91,200 million yen with Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Sumitomo Mitsui Banking Corporation, etc. as agent banks, however this is not included in the balance of loans of the respective lenders.

2. Shares of the Company (As of March 31, 2017)

* On October 1, 2016, the Company changed the share unit number from 1,000 shares to 100 shares. On the same day, the Company carried out a consolidation of the Company's shares under which every ten shares was consolidated into one share as well as reduced the Company's total number of authorized shares from 6.0 billion shares to 600 million shares. As a result, the total number of shares authorized to be issued was changed from 3,643,642,100 shares to 364,364,210 shares.

- (1) Total number of shares authorized to be issued 600,000,000 shares
 (2) The aggregate number of the issued shares 364,364,210 shares
 (3) Total number of shareholders 200,422
 (4) Major shareholders (Top ten shareholders)

| Name of Shareholders | Number of Shares Held (In thousands of shares) | Shareholding Ratio (%) | Shares Held in Major Shareholders | |
|--|--|------------------------|--|------------------------|
| | | | Number of Shares Held (In thousands of shares) | Shareholding Ratio (%) |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 14,349 | 3.94 | — | — |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 12,646 | 3.47 | — | — |
| Nippon Steel & Sumitomo Metal Corporation | 10,735 | 2.95 | 6,744 | 0.71 |
| Nippon Life Insurance Company | 10,119 | 2.78 | — | — |
| Japan Trustee Services Bank, Ltd. (Trust Account 9) | 9,872 | 2.71 | — | — |
| Japan Trustee Services Bank, Ltd. (Trust Account 5) | 6,649 | 1.83 | — | — |
| Mizuho Bank, Ltd. | 6,467 | 1.78 | — | — |
| Mitsubishi UFJ Trust and Banking Corporation | 5,233 | 1.44 | — | — |
| Japan Trustee Services Bank, Ltd. (Trust Account 1) | 4,962 | 1.36 | — | — |
| Japan Trustee Services Bank, Ltd. (Trust Account 2) | 4,853 | 1.33 | — | — |

Note 1: The Company holds 221 thousand shares in treasury stock. Treasury stock is excluded in the calculation of the major shareholders' ratio of shareholding in the Company.

Note 2: Mizuho Bank, Ltd. is a wholly owned subsidiary of the Mizuho Financial Group, Inc. The Company holds 16,161 thousand shares of common stock in the Mizuho Financial Group, Inc. (shareholding ratio 0.06%).

Note 3: Mitsubishi UFJ Trust and Banking Corporation is wholly owned subsidiaries of the Mitsubishi UFJ Financial Group, Inc. The Company holds 8,704 thousand shares of common stock in the Mitsubishi UFJ Financial Group, Inc. (shareholding ratio 0.06%).

(5) Purchase, Disposal and Holding of Treasury Stock

(a) Shares Purchased

- Purchase of shares constituting less than one unit
 Common stock 40,017 shares
 (including 33,641 shares before the consolidation of shares and 6,376 shares after the consolidation of shares)
- Total amount of purchases 9,973,308 yen

(b) Shares Disposed of

- Disposal of shares by requests for supplementary purchase of shares constituting less than one unit
 Common stock 6,625 shares

| | |
|--------------------------------------|--|
| | (including 6,190 shares before the consolidation of shares and 435 shares after the consolidation of shares) |
| Total amount of disposal | 1,006,116 yen |
| (c) Shares Held as of March 31, 2017 | |
| Common stock | 220,737 shares |

3. Directors, Audit & Supervisory Committee Members and Officers

(1) Directors (As of March 31, 2017)

| Positions | Name | Duties & Significant concurrent positions |
|--|-----------------------|--|
| Chairman, President and CEO (Representative Director) | Hiroya Kawasaki | |
| Executive Vice President (Representative Director) | Yoshinori Onoe | Head of the Iron & Steel Business |
| Executive Vice President (Representative Director) | Akira Kaneko | Head of the Aluminum & Copper Business |
| Executive Vice President (Representative Director) | Naoto Umehara | Oversees the Audit Department, Secretariat & Publicity Department, General Administration Department, Legal Department, Human Resources Department, Corporate Planning Department (excluding the Transportation Materials Business Planning Section), IT Planning Department, Accounting Department, Finance Department, Marketing Planning Department, Civil Engineering & Construction Technology Department, Rugby Administration Office, Electric Power Business, domestic branch offices and sales offices (including Takasago Works), and overseas locations (under the head office). Oversees companywide compliance and systems. |
| Director, Senior Managing Executive Officer | Shohei Manabe | Head of the Engineering Business |
| Director, Senior Managing Executive Officer | Fusaki Koshiishi | Head of the Welding Business |
| Director, Senior Managing Executive Officer | Mitsugu Yamaguchi | Head of the Machinery Business |
| Director, Managing Executive Officer | Toshiya Miyake | Oversees companywide technical development. Oversees the Environmental Control & Disaster Prevention Department, Corporate Planning Department (the Transportation Materials Business Planning Section), and MONODZUKURI (Production System Innovation) Planning & Promotion Department. General Manager of the Technical Development Group. |
| Director (part time) | Kazuhide Naraki | President, CEO and Representative Director of Kobelco Construction Machinery Co., Ltd. |
| Director | Takao Kitabata | Chairman of SANDA GAKUEN Junior High School · Senior High School, Outside Director of Marubeni Corporation, Outside Director of SEIREN CO., LTD, Outside Director of Zeon Corporation |
| Director | Hiroshi Ochi | |
| Director (Audit & Supervisory Committee Member, full time) | Hiroaki Fujiwara | |
| Director (Audit & Supervisory Committee Member, full time) | Yoshimasa Yamamoto | |

| Positions | Name | Duties & Significant concurrent positions |
|---|-----------------|--|
| Director (Audit & Supervisory Committee Member) | Takashi Okimoto | Outside Audit & Supervisory Board Member of Shindengen Electric Manufacturing Co., Ltd. |
| Director (Audit & Supervisory Committee Member) | Yoshiiku Miyata | Outside Director of TonenGeneral Sekiyu K.K. |
| Director (Audit & Supervisory Committee Member) | Hidero Chimori | Representative Partner of Miyake & Partners, Outside Audit & Supervisory Board Member of NAITO Securities Co., Ltd., Outside Company Auditor of ROHM Co., Ltd. |

Note 1: Directors Takao Kitabata, Hiroshi Ochi, Takashi Okimoto, Yoshiiku Miyata and Hidero Chimori are outside directors under Article 2, Item 15 of the Companies Act.

Note 2: The Company registered Directors Takao Kitabata, Hiroshi Ochi, Takashi Okimoto, Yoshiiku Miyata and Hidero Chimori as independent directors with the financial instruments exchange.

Note 3: Directors Hiroaki Fujiwara and Takashi Okimoto have considerable financial and accounting knowledge, as evidenced below.

- Director Hiroaki Fujiwara was an officer and the general manager of the Company's Finance Department from April 2004 to March 2005, an officer responsible for the Finance Department from April 2005 to March 2009, and an officer responsible for the Finance and Accounting departments from April 2009 to June 2009, and a director overseeing the same departments from June 2009 to March 2014.

- Director Takashi Okimoto worked for many years at the Dai-Ichi Kangyo Bank, Ltd. and at Mizuho Corporate Bank, Ltd. and engaged in banking operations as a director from April 2005 to April 2007.

Note 4: The Company elects full-time Audit & Supervisory Committee Members at the Audit & Supervisory Committee. Full-time Audit & Supervisory Committee Members are elected to facilitate the smoother execution of duties by improving the audit environment, compiling company information, and conducting regular audits of the readiness of the internal governance system.

Note 5: Although there are business relationships between the Company and Marubeni Corporation, Zeon Corporation, TonenGeneral Sekiyu K.K., Miyake & Partners and ROHM Co., Ltd., there are no special relationships that require disclosure.

Note 6: Except set forth above, there are no special relationships that require disclosure between the Company and entities in which outside directors concurrently served.

Note 7: Director Yoshiiku Miyata retired from Outside Director of TonenGeneral Sekiyu K.K. in line with the merger of TonenGeneral Sekiyu K.K. and JX Holdings, Inc., and assumed the office of Outside Director of JXTG Holdings, Inc. (to which the company name of JX Holdings, Inc. has been changed) on April 1, 2017. There are no special relationships that require disclosure between the Company and JXTG Holdings, Inc.

Note 8: The Directors and Audit & Supervisory Board Members who retired this term are as follows. Hiroaki Fujiwara, Yoshimasa Yamamoto and Takashi Okimoto were elected and assumed the office of Directors who are Audit & Supervisory Committee Members on the same day they retired from Audit & Supervisory Board Members.

| Positions | Name | Resignation Date |
|---|--------------------|------------------|
| Director, Senior Managing Executive Officer | Yasuaki Sugizaki | June 22, 2016 |
| Director (Senior Adviser) | Hiroshi Sato | June 22, 2016 |
| Audit & Supervisory Board Member | Hiroaki Fujiwara | June 22, 2016 |
| Audit & Supervisory Board Member | Yoshimasa Yamamoto | June 22, 2016 |
| Audit & Supervisory Board Member | Shigeo Sasaki | June 22, 2016 |
| Audit & Supervisory Board Member | Takashi Okimoto | June 22, 2016 |
| Audit & Supervisory Board Member | Shinya Sakai | June 22, 2016 |

Note 9: The new positions and duties of directors whose positions or duties have changed as of April 1, 2017 are as follows:

| Positions | Name | Duties |
|---|-------------------|---|
| Executive Vice President (Representative Director) | Naoto Umehara | Oversees the Audit Department, Secretariat & Publicity Department, General Administration Department, Legal Department, Human Resources Department, Corporate Planning Department (excluding the Automotive Materials Planning Section), Accounting Department, Finance Department, Marketing Planning Department, Civil Engineering & Construction Technology Department, Rugby Administration Office, Electric Power Business, domestic branch offices and sales offices (including Takasago Works), and overseas locations (under the head office). Oversees companywide compliance. |
| Executive Vice President (Representative Director) | Mitsugu Yamaguchi | Head of the Machinery Business |
| Director, Senior Managing Executive Officer | Toshiya Miyake | Oversees companywide technical development. Oversees the Environmental Control & Disaster Prevention Department, MONODZUKURI (Production System Innovation) Planning & Promotion Department, and IT Planning Department. Oversees companywide information systems. General Manager of the Technical Development Group. |

Note 10: The Company has implemented an officer system, with the names and duties of officers as of April 1, 2017 as follows:

| | Positions | Name | Duties |
|-----------------|---|------------------------|---|
| Head Office | Senior Managing Executive Officer | Takafumi Morichi | Assistant to the President and CEO |
| | Senior Managing Executive Officer | Makoto Mizuguchi | Responsible for the Corporate Planning Department (Automotive Materials Planning Section) and Automotive Solution Center in the Technical Development Group. Responsible for companywide automotive projects. |
| | Managing Executive Officer | Kazuaki Kawahara | Responsible for the Accounting Department and Finance Department. |
| | Managing Executive Officer | Yasushi Okubo | Responsible for the Audit Department, General Administration Department, Legal Department and Rugby Administration Office. Responsible for companywide compliance. |
| | Managing Executive Officer | Yoshihiko Katsukawa | Responsible for the Secretariat & Publicity Department, Human Resources Department (excluding occupational safety management), Corporate Planning Department (excluding the Automotive Materials Planning Section), Marketing Planning Department, Civil Engineering & Construction Technology Department, branch offices and sales offices (including Takasago Works). Responsible for overseas locations (under the head office). |
| | Executive Officer | Yuichiro Goto | Responsible for the Environmental Control & Disaster Prevention Department, MONODZUKURI (Production System Innovation) Planning & Promotion Department, and IT Planning Department. Responsible for companywide information systems. General Manager of the Research & Development Planning Department in the Technical Development Group. |
| Iron & Steel | Senior Managing Executive Officer | Yukimasa Miyashita | Responsible for the Sales Management & Administration Department and Purchasing Department. Responsible for overall sales. |
| | Senior Managing Executive Officer | Koichiro Shibata | Responsible for overall production of steel products. General Manager of Kakogawa Works |
| | Managing Executive Officer | Hiroaki Matsubara | Assistant to the Head of the Iron & Steel Business |

| | Positions | Name | Duties |
|-------------------|-----------------------------------|--------------------|--|
| | Managing Executive Officer | Yoshihiro Oka | Responsible for the Sheet Products Sales Department. Responsible for overseas locations in the sheet products field. |
| | Managing Executive Officer | Koji Yamamoto | Responsible for the Technology Administration Department, Computer Systems Department and the Research & Development Laboratory. Responsible for the Human Resources Department (occupational safety management). |
| | Managing Executive Officer | Shoji Miyazaki | General Manager of Kobe Works |
| | Executive Officer | Hajime Nagara | Responsible for the Planning & Administration Department and the Raw Materials Department. |
| | Executive Officer | Satoshi Nishimura | Responsible for the Wire Rod & Bar Products Sales Department and Plate Products Sales Department. Responsible for overseas locations in the wire rod and bar products field. |
| | Executive Officer | Shoji Nakamura | Responsible for the Wire Rod & Bar Products Marketing & Technical Service Department, Plate Products Marketing & Technical Service Department, and Sheet Products Marketing & Technical Service Department. |
| | Executive Officer | Hiroyuki Mori | Responsible for the Steel Casting & Forging Division, Titanium Division, and Steel Powder Division. General Manager of the Processed Materials Planning Department. |
| Welding | Managing Executive Officer | Akira Yamamoto | Responsible for the Planning & Administration Department and the Production Center. |
| Aluminum & Copper | Managing Executive Officer | Hiroshi Kato | Assistant to the Head of the Aluminum & Copper Business |
| | Managing Executive Officer | Takumi Fujii | Responsible for the casting and forging business and extrusion business. Responsible for environmental control and disaster prevention and overall safety management. |
| | Managing Executive Officer | Nobuaki Isono | Responsible for the Technology Control Department. Responsible for the aluminum flat rolled products business |
| | Executive Officer | Seiji Hirata | Responsible for the Planning & Administration Department and Raw Materials Department. Responsible for the copper flat rolled products business. Supports the managing executive officer responsible for the aluminum flat rolled products business. |
| Machinery | Senior Managing Executive Officer | Takao Ohama | General Manager of the Compressor Division |
| | Executive Officer | Masamichi Takeuchi | General Manager of the Industrial Machinery Division |
| | Executive Officer | Hiroki Iwamoto | Deputy General Manager of the Compressor Division. General Manager of the Rotating Machinery Business Unit in the Compressor Division. |
| Engineering | Managing Executive Officer | Kazuto Morisaki | Responsible for the SQE System Management Department and the Project Engineering Center. Responsible for the Nuclear & CWD Division. |
| | Managing Executive Officer | Hiroshi Ishikawa | Responsible for the Iron Unit Division and Infrastructure Division. Responsible for the Business Development Section. |
| Electric Power | Managing Executive Officer | Jiro Kitagawa | Head of the Electric Power Business |

(2) Remuneration and Other Amounts to Directors and Audit & Supervisory Board Members

A resolution was made at the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016 for the Company to establish new remuneration amounts for directors, switch to a more performance-based remuneration system, as well as to introduce a medium- and long-term incentive-based remuneration system founded on share-based payment, in line with the transition from a company with an Audit & Supervisory Board to a company with an Audit & Supervisory Committee. As the Company has changed the remuneration system accordingly, remuneration and other amounts to Directors and Audit & Supervisory Board Members are stated separately before and after the transition to a company with an Audit & Supervisory Committee.

- (a) Before the transition to a company with an Audit & Supervisory Committee (from April 1, 2016 to the conclusion of the 163rd Ordinary General Meeting of Shareholders (June 22, 2016))

| Category | Remuneration | |
|--|----------------------------|-----------------------------|
| | Number of Payees (Persons) | Amount (In millions of yen) |
| Directors (of which, Outside Directors) | 11 (2) | 120 (6) |
| Audit & Supervisory Board Members (of which, Outside Audit & Supervisory Board Members) | 5 (3) | 26 (9) |
| Total | 16 | 146 |

Note 1: The 151st General Meeting of Shareholders held on June 25, 2004 passed a resolution to set the limit of remuneration to 63 million yen a month for Directors (does not include compensation for duties performed by directors who concurrently serves as an employee) and to 11 million yen a month for Audit & Supervisory Board Members.

Note 2: Directors' remuneration is determined based on the Company's performance-based compensation system. Adjusting base remuneration for each position based on the performance of the entire company and individual businesses that fiscal year makes outcome accountability clear for each business.

In view of this role that they assume, Outside Directors are not eligible for performance-based compensation.

Audit & Supervisory Board Members are remunerated based on their function in light of directors' remuneration and other factors.

Director and Audit & Supervisory Board Member remuneration is limited to amounts determined at each General Meeting of Shareholders.

As for the methods for determining these amounts, policy concerning directors' remuneration is determined by the Board of Directors while audit & supervisory board members' remuneration policy is determined by all Audit & Supervisory Board Members.

Note 3: The Company does not pay bonuses to Directors and Audit & Supervisory Board Members.

Note 4: In addition to the remuneration, etc. listed above, based on a resolution at the 151st Ordinary General Meeting of Shareholders held on June 25, 2004, one Director was paid 47 million yen as a retirement benefit payment upon termination.

- (b) After the transition to a company with an Audit & Supervisory Committee (from the conclusion of the 163rd Ordinary General Meeting of Shareholders (June 22, 2016) to March 31, 2017)

| Category | Number of Payees (Persons) | Amount (In millions of yen) | Total by amount type breakdown, including remuneration (In millions of yen) | | |
|---|----------------------------|-----------------------------|---|--------------------------------|--------------------|
| | | | Basic remuneration | Performance-based remuneration | Stock remuneration |
| Directors (excluding Audit & Supervisory Committee Members) (of which, Outside Directors) | 11 (2) | 318 (19) | 318 (19) | - (-) | - (-) |
| Directors (Audit & Supervisory Committee Members) (of which, Outside Directors) | 5 (3) | 82 (32) | 82 (32) | - (-) | - (-) |
| Total | 16 | 400 | 400 | - | - |

Note 1: At the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016, a resolution was made to set the limit of remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) including fixed remuneration as being within a total of 650 million yen per fiscal year and performance-based remuneration as being within a total of 350 million yen per fiscal year, and the limit of remuneration for Directors who are Audit & Supervisory Committee Members as being within a total of 132 million yen per fiscal year. Furthermore, as a new stock remuneration for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members), a resolution was passed that introduced a stock remuneration plan, Board Benefit Trust (BBT), to which the Company has contributed an amount of 570 million yen for a three-fiscal year period.

Approach to amount of remuneration, etc. for Directors of the Company and decisions involving its method of calculation are described in pages 39 to 40.

Note 2: The Company does not pay bonuses to Directors.

Note 3: The Company views the significant downward revision to the earnings and the postponement of the annual dividend as a serious matter, and for the time being will reduce the fixed remuneration for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) by 5 to 10%. Furthermore, in consideration of significant losses incurred at Group companies, Chairman, President, CEO and Representative Director, and certain Directors have voluntarily returned their remuneration (10%, for three months).

Note 4: Totals for performance-based remuneration and stock remuneration are estimated payments. Due to the profit level in fiscal year 2016 and the postponement of the annual dividend, in accordance with the Company's Director remuneration system, the Company will not pay performance-based remuneration and stock remuneration.

Note 5: The Company's approach to amount of remuneration, etc. for Directors and decisions involving its method of calculation are as follows.

Approach to Amount of Director Remuneration, Etc. and Decisions Involving its Method of Calculation

In order to improve medium- to long-term corporate value, the Company aims to have a system of remuneration that effectively acts as an incentive for its Directors to carry out their expected roles in their fullest capabilities and proposes the following Director remuneration system.

- 1) Fundamental Policy of Remuneration of the Company's Directors
 - A) A system able to secure talented human resources who can be responsible for the Company's continued expansion and appropriately remunerate them.
 - 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) Creating a system that incentivizes the accomplishment of consolidated business result targets while sufficiently considering the characteristics of each business so that Directors can fully carry out their roles.
 - D) Regarding the composition of the remuneration system and the necessity of its reevaluation, ensuring the objectivity and transparency of judgments regarding remuneration decisions by listening to and considering the opinions of Meeting of Independent Directors composed entirely of Independent Directors.
- 2) Remuneration Framework
 - A) Remuneration for the Company's Directors (excluding Directors who are Audit & Supervisory Committee Members) will consist of fixed compensation, performance-based compensation

- linked to the achievement of business results targets during individual fiscal years, and medium- to long-term incentive compensation based on stock compensation with the goal of sharing values with shareholders. Taking into consideration their duties, part-time Internal Directors and Outside Directors will not be eligible for performance-based compensation, and Outside 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 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 (BBT) will be adopted in order to raise the consciousness for contribution from Directors regarding continuously improving corporate value. Payments based on this system will use a base point number established for each rank and a number of points according to a coefficient of 0-100% will be provided each fiscal year based on whole-company net income and the state of dividend payment, and on a fixed date during each trust period of three years, a number of the Company's shares and a cash equivalent to the amount converted from the market price of the Company's shares will be provided according to the number of points provided.
- 4) Method to Determine Remuneration Standard
- Director remuneration survey data from an external specialized agency will be used as a base to determine remuneration standards commensurate with the Company's corporate scale and the duties expected of Directors.
- 5) Method to Determine and Examine the Policy regarding Remuneration
- A) The policy concerning remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) is determined by the Board of Directors, and the policy concerning remuneration for Directors who are Audit & Supervisory Committee Members is determined by all Audit & Supervisory Committee Members.
 - B) The Company receives opinions from Meeting of Independent Directors comprised of all Independent Directors regarding ways for and necessity to revise the remuneration system. If it is necessary to revise the remuneration system, the Company will present a revised remuneration plan at a meeting of the Board of Directors and it will be resolved.

(3) Overview of Agreements Limiting Liability

The Company has entered into agreements limiting liability with Outside Directors who are not Audit & Supervisory Committee Members and Directors who are Audit & Supervisory Committee Members as described in Article 427, Paragraph 1 of the Companies Act as well as the Company's Articles of Incorporation to limit the liabilities stipulated in Article 423, Paragraph 1 of the Companies Act. Limits on liability for damages under these agreements shall be the amount set forth by laws and regulations.

(4) Major Activities of Outside Directors during the Current Fiscal Year

| | | Board of Directors Meetings Attended (Attendance Rate) | Audit & Supervisory Board Meetings Attended (Attendance Rate) | Audit & Supervisory Committee Meetings Attended (Attendance Rate) | Advice Received at Board of Directors, Audit & Supervisory Board and Audit & Supervisory Committee Meetings |
|---|-----------------|--|---|---|---|
| Director | Takao Kitabata | 16/18 meetings held (89%) | – | – | Provided advice and suggestions concerning corporate management from his extensive experience and insight as a government administrator. |
| Director | Hiroshi Ochi | 18/18 meetings held (100%) | – | – | Provided advice and suggestions concerning corporate management from his extensive experience and insight as a corporate executive. |
| Director (Audit & Supervisory Committee Member) | Takashi Okimoto | 17/18 meetings held (94%) | 5/5 meetings held (100%) | 12/12 meetings held (100%) | Provided advice and suggestions concerning corporate management from his extensive experience and insight in the financial profession. He also actively shared his thoughts on matters related to compliance. |
| Director (Audit & Supervisory Committee Member) | Yoshiiku Miyata | 13/14 meetings held (93%) | – | 11/12 meetings held (92%) | Provided advice and suggestions concerning corporate management from his extensive experience and insight in the world of industry. He also actively shared his thoughts on matters related to compliance. |
| Director (Audit & Supervisory Committee Member) | Hidero Chimori | 12/14 meetings held (86%) | – | 12/12 meetings held (100%) | Provided advice and suggestions concerning corporate management from his extensive experience and insight in the legal profession. He also actively shared his thoughts on matters related to compliance. |

Note 1: The number of Board of Director Meetings attended by Director Takashi Okimoto includes those attended as an Audit & Supervisory Board Member.

Note 2: Since June 22, 2016, the date on which Directors Yoshiiku Miyata and Hidero Chimori assumed their office, Board of Directors Meetings have been held 14 times and meetings of Audit & Supervisory Committee 12 times.

4. Accounting Auditor

(1) Name of Accounting Auditor
KPMG AZSA LLC

(2) Remuneration and Other Amounts to Accounting Auditor

| | Category | Amount (In millions of yen) |
|-----|--|--------------------------------|
| (a) | Remuneration and other Amounts to be paid as payment to Accounting Auditor by the Company | 123 |
| (b) | Total amount of money and other financial interests to be paid by the Company and its subsidiaries | 448 |

Note 1: The audit agreement between the Accounting Auditor and the Company does not separately stipulate and it is practically unable to distinguish between audit remunerations based on the Companies Act and the Financial Instruments and Exchange Act. Hence, the remuneration in (a) above states aggregate of these two types of payment.

Note 2: The Audit & Supervisory Committee confirms that the scope and content of the Accounting Auditor's audit plan are reasonable, and that an appropriate and sufficient number of audit days and personnel are provided, with due consideration to ensuring audit quality and efficacy. At the same time, it receives from the directors and other parties explanations of audit remuneration-setting processes and of the basis for calculation, etc., of the remuneration estimate after scrutiny of the number of audit days and the audit unit price. It has verified appropriateness and reasonableness in light of actual past audit performance, and gives consent to the audit remuneration, etc. for the Accounting Auditor in accordance with Article 399, Paragraph 1 of the Companies Act.

Note 3: Among the major subsidiaries of the Company, subsidiaries located overseas are audited by auditing firms other than the Accounting Auditor of the Company.

(3) Description of Non-Auditing Services

The Company entrusts "advice and guidance, etc., regarding International Financial Reporting Standards (IFRS)" to the Accounting Auditor, which are services (non-auditing services) not included in the services under Article 2, Paragraph 1 of the Certified Public Accountants Act.

(4) Policy for Decisions on Dismissal and Non-Reappointment of Accounting Auditor

If the Company's Audit & Supervisory Committee determines that any of the provisions of Article 340, Paragraph 1 of the Companies Act applies with respect to the Accounting Auditor, it shall dismiss the Accounting Auditor. Such dismissal shall require the unanimous agreement of all the Audit & Supervisory Committee Members.

Moreover, if it is judged that the Accounting Auditor is incapable of appropriately executing the accounting audit, or if it is judged necessary for another reason, the Audit & Supervisory Committee shall determine the details of a proposal for the dismissal or non-reappointment of the Accounting Auditor, and based on this, the Board of Directors shall submit it as an agenda item to the general meeting of shareholders.

5. The Company's Systems and Policies

(1) The Company's Corporate Governance System

The Company believes the basis of its corporate value is the promotion of its diversified businesses, composed of various 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 shop floor.

Furthermore, to advance its diversified businesses, 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 distribution of management resources, as well as flexibly audit business executions by the Board of Directors. It is desirable that members with the correct understanding regarding the business execution side attend the Board of Directors meetings, without completely separating auditing from execution.

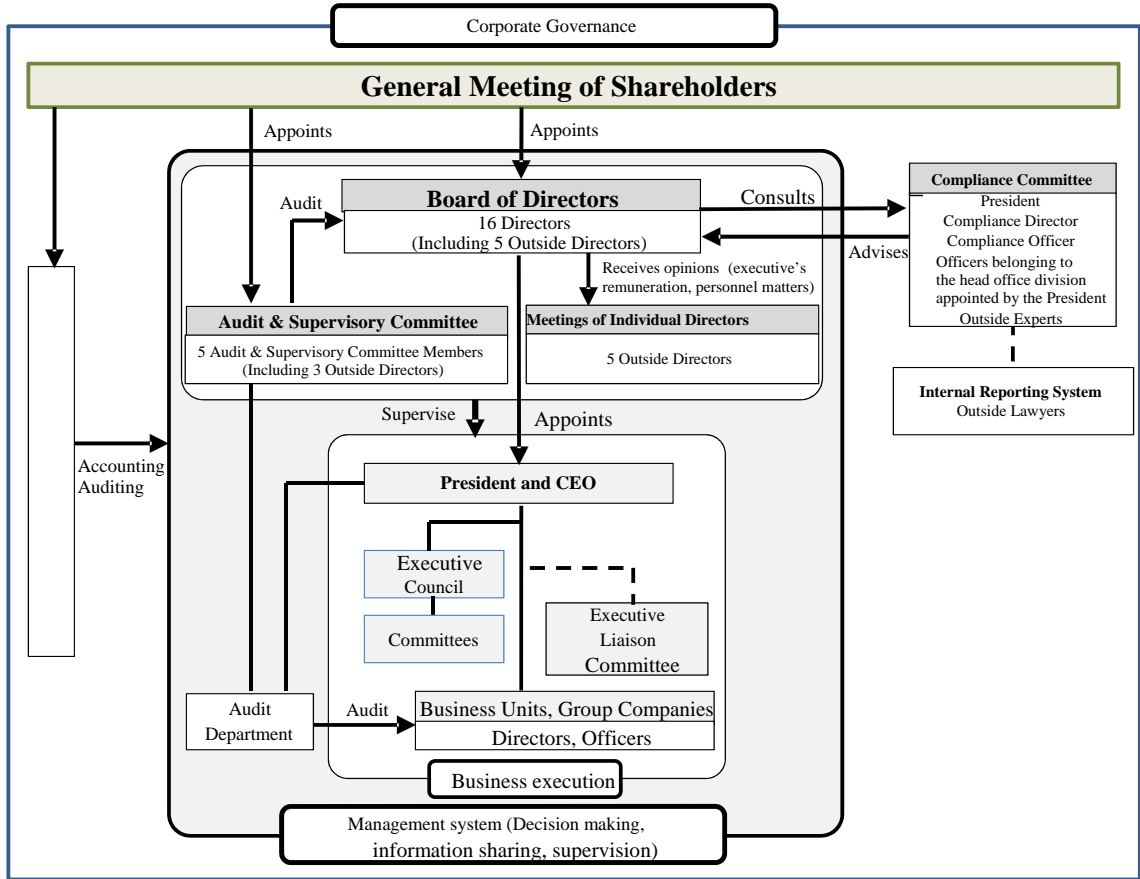
Under this policy, the Company had previously adopted the company with Audit & Supervisory Board Members governance model under which each Audit & Supervisory Board Member possess the authority for investigation. While the functions of auditing and execution were not separated under this model, it enabled comprehensive audits of the Company's extensive businesses. However, to further strengthen the auditing function of the Board of Directors and to accelerate decision-making with regard to management, on June 22, 2016, the Company transitioned to a company with an Audit & Supervisory Committee model under which those responsible for audits have voting rights on the Board of Directors.

The numbers of Directors (excluding Directors who are Audit & Supervisory Committee Members) shall be not more than fifteen (15) as stipulated under the Articles of Incorporation of the Company. An appropriate number of Directors constitutes the Board of Directors in light of ensuring Directors' conducting substantial discussion at meetings of the Board of Directors as well as considering their diversity. The Board of Directors consists of the Chairman of the Board, the President and CEO and executive directors in charge of important posts in the head office division, business divisions or technical development department. However, to enhance active discussion, appropriate decision-making and supervision, the Company invites two (2) or more Outside Directors because it is essential to reflect a fair and neutral viewpoint and the viewpoint of stakeholders such as minority shareholders. Currently, the Company appoints two (2) Outside Directors who are not Audit & Supervisory Committee Members.

With regard to the Audit & Supervisory Committee, the Companies Act requires companies to install three (3) or more Audit & Supervisory Committee Members, the half or more of whom are Outside Directors. The Company's Audit & Supervisory Committee consists of five (5) Audit & Supervisory Committee Members, three (3) of whom are Outside Audit & Supervisory Committee Members invited each from the legal, financial and industrial circles so that the supervisory function works with transparency and fairness.

* For more details of the Company's basic approach to corporate governance systems and related matters, please see the corporate governance section in the corporate information section of our website (<http://www.kobelco.co.jp>). (Japanese language)

<Current Corporate Governance System>



(2) System for Ensuring the Propriety of Business Operations

The Company's basic policy concerning the system for ensuring the propriety of business operations (Internal Control System Basic Policy) is as follows:

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

The "Corporate Code of Ethics", which stipulates a specific corporate action guideline for compliance with laws and regulations, shall be the norms and criteria of compliance. The Company shall establish a Compliance Committee — an advisory organ to the Board of Directors that has outside committee members — at the Company and principal Group companies, and build a compliance structure that incorporates checks by outside experts, including the introduction of an internal reporting system, in which outside lawyers act as designated contact points.

(b) 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".

(c) 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".

(d) Rules and other systems for risk management

The Company shall ensure appropriateness and efficiency of operation 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.

(e) 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 is the core of the corporate governance function of the Company Group.

The Company also adopts the Business Unit System as a management system by which to fully show our group's total capability such as information sharing or cooperation between business units, in addition to "prompt" decision makings. Under this system, Directors shall supervise business execution in principal business divisions; and Officers, who are elected by the Board of Directors, shall execute business under the supervision of directors.

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 Committees, comprised of Directors, Executive Officers and Executive Technical Officers who execute business and the Presidents and executives of affiliated companies designated by the President and CEO of the Company, to facilitate sharing of information on important matters relating to management.

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

In accordance with the "Affiliated Company Management Regulations," the Company obliges affiliated 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 and CEO of the Company concerning disposal of assets that surpass a certain amount in value.

With respect to risks surrounding the Company's businesses, affiliated companies shall individually extract their risks, evaluate current situation of such extracted risks and draw suitable preventive maintenance policies in accordance with "Risk Management Regulations".

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

Furthermore, the Company builds its group compliance system by requiring its affiliated companies to settle their corporate code of ethics or standards of corporate conduct which determine concrete principles of corporate conducts for the purpose to observe laws and regulations, establish these compliance committees and maintain these 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.

(g) Matters regarding Directors and employees assisting duties of the Audit & Supervisory Committee, and matters regarding the independence of the said Directors and employees from Directors (excluding Directors who are Audit & Supervisory Committee Members); and 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 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 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 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 avoid preventing such support activities by Audit & Supervisory Committee Secretariat and cooperate to ensure the effectiveness of the audits by Audit & Supervisory Committee.

(h) Systems of 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 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.

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

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

If the Audit & Supervisory Committee claims for payment of expenses or debts based on the Companies Act regarding the execution of their duties, the Company will pay for such expenses or debts except that the Company confirms such claims not necessary to execute duties of the Audit & Supervisory Committee.

Regarding the expenses necessary for the Audit & Supervisory Committee to execute their duties, the Company will take appropriate budgetary steps to secure a certain amount that the Audit & Supervisory Committee deems necessary each fiscal year.

(j) 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 CEO and through cooperation with the internal audit division.

(3) Operational Status of the System for Ensuring the Propriety of Business Operations

The Company is taking measures to develop the System for Ensuring the Propriety of Business Operations, and ensure its proper operation, in line with its basic policy on this system. A summary of the operational status of the system in fiscal year 2016 is as follows.

(a) Compliance measures

In fiscal year 2016, the Compliance Committee met five (5) times. Activities included formulation of compliance activity plan for fiscal year 2016, and monitoring the status of implementation of compliance activities.

Furthermore, based on compliance activity plans for fiscal year 2016, the Company implemented compliance training for executives of the Company and its group companies, and training and legal education separated by employment level for responsible persons and supervisors in each business segment, newly appointed managers, and newly hired persons, etc. Additionally, the Company also implemented legal compliance training toward group companies both within and outside of Japan, based on examples of past and current scandals.

(b) Risk management

The Company has been carrying out “Risk Management Activities” with the goal of achieving an organizational culture that is highly sensitive to compliance issues. This means that, in addition to compliance risks that are universal throughout the Company in light of legal and societal changes, after the divisions have identified and checked the risks within their individual businesses, they formulate an annual risk management plan while consulting internal company rules, manuals and other documentation as necessary (this constitutes the Plan stage of the PDCA). Every fiscal year, each business unit implements the Plan, Do, Check, Act cycle by implementing these plans (Do), reviewing the results (Check), and reflecting any improvements in the next fiscal year’s risk management plan (Act). To ensure effectiveness, the results of the fiscal year’s activities of each business unit are incorporated in plans for the next fiscal year and subsequent fiscal years after executive management has verified them. This system is proactively deployed at all Group companies.

(c) Measures for ensuring the efficient performance of duties by Directors

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. Members of these meetings actively discussed the agenda and considered executions of businesses regarding each business segment of the Company and the Group from various angles. The agenda discussed at the Executive Council was presented at meetings of the Board of Directors as an agenda to be resolved or reported.

Besides, the Executive Liaison Committee meetings were held to share information regarding important management issues and as study sessions, 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 order to establish the system that further improves the supervisory function and enable the Company to take appropriate risks, on the basis of the effects of changes in laws and regulations and settlement of the corporate governance code, the Company has transitioned to a company with an Audit & Supervisory Committee upon the approval at the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016.

Additionally, the Company has established the “Meeting of Independent Directors” as a forum where the Company conducts hearings of opinions with respect to appointment and/or remuneration of its executives from Outside Directors, and provides Outside Directors with information with respect to the management of the Company’s business for the purpose of maximizing the roles of Outside directors. Executive directors attended, etc. and provided information and exchanged opinions as required.

With respect to effectiveness of the Board of Directors, each Director answered a questionnaire and the Audit & Supervisory Committee conducted preliminary evaluations of results of the questionnaire before the Board of Directors finally discussed and evaluated the effectiveness, and summarized the tasks every fiscal year.

(d) Status of measures to ensure effective audits by the Audit & Supervisory Committee

The Company’s Audit & Supervisory Committee consists of five (5) Audit & Supervisory Committee Members, three (3) of whom are Audit & Supervisory Committee Members who are Outside Directors with a high degree of independence, so that the supervisory function works with transparency and fairness. Among them, two (2) full-time Audit & Supervisory Committee Members who are inside Directors actively strive to maintain circumstances for auditing and collect internal information of the Company. In addition, full-time Audit & Supervisory Committee Members daily audit the internal control system of the Company, and share information they acquire in the course of fulfillment of their duties with other Audit & Supervisory Committee Members. Outside Directors who are 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.

The Audit & Supervisory Committee examines decision making regarding business execution by the Board of Directors and implementation of effective business executions stipulated in the Internal Control System Basic Policy through interviews with each Director.

In addition, with regard to joint audits by internal auditors and Accounting Auditor and to audits by the Audit & Supervisory Committee, the Committee holds regular meetings with the Accounting Auditor, and maintains close relations with them through exchange of opinions on audit system, planning and implementation status, etc. In addition to *in situ* visits by the Accounting Auditor as needed, reports regarding due progress in audit implementation are also received.

The Audit & Supervisory Committee also receives regular briefings on audit policy and planning from the internal audit department, and receive from both the internal audit department and internal control department reports on the implementation status and outcomes of audits of compliance propriety, risk management and other internal control systems, so ensuring close relations and more effective auditing.

(4) Basic policy for parties affecting policy decisions of the Company's financial and business affairs ("Basic Policy on Corporate Control")

(a) Basic policy details

The Company, as a listed company, thinks that any Large-Scale Purchase involving a change of its corporate control should be approved if such purchase facilitates the protection and enhancement of its corporate value, and ultimately, the common interests of its shareholders in the course of open stock trading.

However, Japanese capital markets have recently witnessed a number of instances in which corporate shares have been rapidly purchased on a massive scale without adequate information being disclosed to public shareholders or investors. This type of large-scale purchase or proposals may cause irreparable harm to the Company or may not provide its shareholders with necessary information or time for the shareholders to determine whether to accept these large-scale purchases. These purchases may harm the Company's corporate value and ultimately, the common interests of its shareholders.

Particularly, the Company is engaged in various businesses, such as those in the materials sector and the machinery sector, and as these businesses have broad fields, there are various stakeholders and synergies to be borne by various businesses. The Company believes all of them are the sources of its own corporate value. It is the Company's understanding that the following actions will result in the Company fulfilling its corporate social responsibility in relationships with various stakeholders: promote efforts to lay "the Foundation for Stable Profits and Business Growth", which are described in the "Medium-Term Business Plan" prepared in May 2013 and consist of "structural reform of the steel business", "strategic expansion of the machinery business", and "expansion of the power supply business"; realize the Company's vision of "unique diversified management, where the power supply business is positioned as a stable profit base in addition to the two core businesses, which are the materials business and the machinery business"; and thereby enhance the Company's corporate value in the medium- and long-term.

Therefore, 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 Company's management principles, the sources of its corporate value, and the relationships of mutual trust it shares with its stakeholders, which are necessary and indispensable for the enhancement of the 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. In contrast, the Company views any party involved in the aforementioned large-scale purchases or proposals to be unsuitable as a party that will have an impact on its financial and business policy decisions.

Considering the business environment surrounding the Company, with the intensification of international competition, corporate acquisitions still actively occur. Therefore, the possibility of large-scale purchases of the Company's shares, which may influence the Company's management policy in the future, cannot be ignored.

On the other hand, regarding the tender offer system to be used upon such large-scale purchases, at least based on the current system, there may be cases where the information and examination period to determine whether or not to accept the large scale purchases by the shareholders may not be sufficient.

In other words, by looking at large-scale M&A cases conducted in and outside Japan, even in cases of friendly transactions, there have been more than a few cases in which negotiations lasted for a considerable time before an agreement was reached. In order to facilitate the protection and enhancement of its corporate value, and ultimately, the common interests of its shareholders, it is necessary to ensure that the standard for information disclosure and evaluation period in large-scale purchases to be conducted without prior agreement with the management is equivalent to that of friendly transactions. Thus, the Company considers that it is necessary to establish a procedure to ensure that the above is achieved upon the shareholders' selection of parties affecting policy decisions of the Company's financial and business affairs.

With the above in mind, the Company believes it is necessary to establish rules where the Large-Scale Purchasers are required to provide to the Board of Directors necessary and sufficient information in connection with the Large-Scale Purchases in advance, and to commence the Large-Scale Purchases only after the expiry of a certain evaluation period by the shareholders and the Board of Directors.

- (b) Special initiatives conducive to attaining the Company's Basic Policy on Corporate Control including the effective application of properties and the formation of an appropriate corporate group

- (i) Initiatives to enhance corporate value by development of management strategies

The Kobe Steel Group has made various undertakings to attain a Medium-to Long-Term Business Vision: KOBELCO VISION "G" ~ Creating New Value, Aiming for Global Growth ~ formulated in April 2010. Furthermore, the Kobe Steel Group formulated the Fiscal Year 2016-2020 Group Medium-Term Management Plan, "KOBELCO VISION "G+" (pronounced "G plus") in April 2016. Under the Plan, the Kobe Steel Group aims to establish three core business areas with a stable profit base consisting of the materials businesses, the machinery businesses, and the electric power supply business. By further integrating the knowledge and technologies that only the Kobe Steel Group can offer, the 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
- * Prospers together with its shareholders, business partners, employees and society.

In achieving the group image above, the measures for safety and compliance shall first be thoroughly undertaken, and then the Kobe Steel Group aims to further strengthen the three core business areas and achieve stable earnings and sustainable growth.

* With respect to the details of Fiscal Year 2016-2020 Group Medium-Term Management Plan, "KOBELCO VISION "G+", please see the press release dated April 5, 2016, "The Kobe Steel Group's Fiscal Year 2016-2020 Medium-Term Business Plan" on the Company's web site (<http://www.kobelco.co.jp>).

- (ii) Initiatives to enhance corporate value through stepped-up corporate governance

Based on highly effective internal control systems, the Company is putting full effort into the improvement of its corporate governance and the establishment of thorough compliance systems, and is dealing with the enhancement of corporate value.

* Information about the internal control system can be found on pages 45 through 46.

- (c) 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 adopted the following plan that prescribes certain rules (hereinafter referred to as this "Plan") as an initiative to prevent unsuitable parties from having an impact

on the Company's financial and business policy decisions. This Plan was approved by shareholders in the Ordinary General Meeting of Shareholders held on June 24, 2015.

The summary of this Plan

This Plan settles the following procedure in case someone engages in or aims to engage in Large-Scale Purchases.

- (i) **The Purpose and intent of this Plan**
- Upon the conduct of the (i) purchase and other acquisition of the Shares that result in a Shareholding Ratio of 20% or more, and (ii) tender offer of the Shares that results in a Shareholding Ratio of 20% or more (the "Large-Scale Purchase"), this Plan ensures that persons who are engaging in or aim to engage in Large-Scale Purchases (the "Large-Scale Purchaser") provide necessary and adequate information to the Company prior to the Large-Scale Purchase so that the shareholders may examine whether or not to accept such purchase. This Plan also prescribes an evaluation period during which the Board of Directors will review and evaluate such Large-Scale Purchase based on the information provided by the Large-Scale Purchaser, and ensures that such Large-Scale Purchase will not begin (a) until such evaluation period has elapsed, or (b) even after such period has elapsed, if a General Meeting to Confirm Shareholders' Intention (to be defined below) is convened, until a resolution regarding (among other matters) implementation of defensive measures is made at a general meeting of shareholders to confirm the shareholders' intentions as to (among other matters) whether or not to implement defensive measures (the "General Meeting to Confirm Shareholders' Intention").
- (ii) **Establishment of an Independent Committee**
- To prevent its Board of Directors from making arbitrary judgments and ensure that the procedures under this Plan remain objective, fair, and reasonable, the Company established an Independent Committee, which is a body independent of the Board of Directors. Members of the Independent Committee will be equal to or more than three (3) and elected from outside lawyers, certified public accountants, certified tax accountants, persons with relevant knowledge and expertise and outside executives as well as one (1) or more outside directors of the Company.
- (iii) **Provision of required information**
- The Large-Scale Purchaser are required to disclose the purpose of such acquisition, the basis for the calculation of the purchase price, the information substantiating that the Large-Scale Purchaser has sufficient funds to pay for the intended acquisition, their management policies after the acquisition and other information before the share purchasing so that shareholders, the Board of Directors and the Independent Committee are able to evaluate whether the proposals of the Large-Scale Purchasers enhances the corporate value and the common interests of shareholders.
- However, the information to be provided to the Company by the Large-Scale Purchaser shall be limited to the extent necessary and sufficient to appropriately determine the question of the Large-Scale Purchases by the shareholders and the Board of Directors and the Independent Committee and the Independent Committee shall not engage in operations which deviate from the aim of the provision of required information, such as demanding of the Large-Scale Purchasers information disclosure exceeding the standards necessary to appropriately decide the question of the Large-Scale Purchases, or requiring provision of the required information to the Large-Scale Purchasers endlessly.
- (iv) **Evaluation**
- The Company has determined an evaluation period by the Board of Directors and the Independent Committee of the Large-Scale Purchase (hereinafter referred to as the "Evaluation Period") to be as follows, from the date that the Company discloses the fact that the Independent Committee determined that it has received the Required Information necessary and adequate for the decision on the question of the Large-Scale Purchase as set

forth in hereinabove: (i) sixty (60) days, in the case of a tender offer with the consideration being only in cash in Japanese yen for all of the Shares, or (ii) ninety (90) days in the case of Large-Scale Purchase other than (i) above.

During this period, the Independent Committee will consider and judge the propriety of the Large-Scale Purchase, the exertion of defensive measures or convocation of a General Meeting to Confirm Shareholders' Intention, and based upon its evaluation, it will make a recommendation to the Board of Directors on whether or not defensive measures will be executed or a General Meeting to Confirm Shareholders' Intention will be held.

In the event of a recommendation by the Independent Committee to take defensive measures to the Board of Directors, the resolution of such recommendation requires at least one (1) affirmative vote from the committee member(s) who serve(s) as the outside director of the Company who attended the Independent Committee.

(If the Independent Committee reasonably decides that it is necessary to extend the Evaluation Period, the Company may extend the Evaluation Period for a period up to a maximum of thirty (30) days in addition to the initial period.)

(v) Implementation of defensive measures

The Board of Directors places the highest value on the Independent Committee's recommendations upon the decision of the implementation of the defensive measures in accordance with following standard:

- a. If the Large-Scale Purchaser does not comply with the procedures prescribed in this Plan, the Board of Directors, as a general rule, will implement defensive measures.
- b. If the Large-Scale Purchaser complies with the procedures prescribed in this Plan, the Board of Directors, even when it opposes the Large-Scale Purchase, may only express its dissenting opinion for the Large-Scale Purchases or offer alternatives, etc. The Board of Directors will not implement defensive measures against the Large-Scale Purchase as a general rule. However, the Board of Directors may implement defensive measures, if it believes the Large-Scale Purchase will irreparably harm the Company or materially damage the Company's corporate value.

However, if the Independent Committee decides that it is reasonable to confirm the intentions of the shareholders by holding a General Meeting to Confirm Shareholders' Intention as a condition for implementation of the defensive measures, the Independent Committee will recommend the convocation of a General Meeting to Confirm Shareholders' Intention to the Board of Directors. If the Independent Committee recommends that a General Meeting to Confirm Shareholders' Intention be convened, the Board of Directors of the Company shall place the highest value on such recommendation and, when considered reasonable, take steps to convene the General Meeting to Confirm Shareholders' Intention in order to confirm (among other matters) whether or not to implement the defensive measures, as soon as practically possible. The Company will comply with the decisions of the General Meeting to Confirm Shareholders' Intention.

(vi) Details of defensive measures

Defensive measures are distributing the share purchase warrants (hereinafter referred to as the "Share Purchase Warrants") with the terms and conditions set forth below, including the non-exercise of the share purchase warrants by the Large-Scale Purchaser. However, the Board of Directors shall not, as a condition of the Share Purchase Warrants, require that the Company deliver cash as consideration for the redemption of the Share Purchase Warrants held by the Large-Scale Purchasers.

(vii) The effective period of this Plan

The effective period of this Plan shall be up to the close of the first Board of Directors meeting to be held after the close of the Company's Ordinary General Meeting of Shareholders to be held in June 2017.

(With respect to the details of this Plan, please see the press release dated April 28, 2015, “Continuation of Kobe Steel, Ltd.’s Policy on Large-Scale Purchasing of its Shares (Anti-Takeover Measures)” on the Company’s web site (<http://www.kobelco.co.jp>).

- (d) Statements that the initiatives implemented by the management of the Company are in line with the Basic Policy on Corporate Control, do not undermine the common interests of its shareholders, and are not intended to preserve the personal status of its directors

The Kobe Steel Group’s initiatives represent those of its current management to “protect and enhance the Company’s corporate value and the common interests of its shareholders” in the Basic Policy on Corporate Control.

The Company’s current corporate governance system and various initiatives implemented to strengthen it conform to the Basic Policy on Corporate Control because they ensure that the execution of directors’ duties and responsibilities is supervised, they enhance the transparency of management, and they thereby serve to enhance the Company’s corporate value and, ultimately, the common interests of its shareholders pursuant to the Companies Act.

This Plan is based on the fundamental principle that it is ultimately up to the shareholders to decide whether or not to accept the Large-Scale Purchase. The Company’s procedures stipulated in this Plan have all been adopted as a means of having Large-Scale Purchasers furnish information necessary for the shareholders to decide whether or not to accept the relevant Large-Scale Purchase or of ensuring that the shareholders are presented with alternatives. Hence, it can be stated this Plan has been designed in line with Company’s Basic Policy on Corporate Control.

Furthermore, the effectuation of this Plan is subject to the approval of the Company’s shareholders at its general meeting of shareholders. As the term of validity of this Plan is clearly stipulated, the shareholders are entitled, by way of a resolution at the general meeting, to reject its renewal. It is also possible to abolish this Plan at any time via a resolution of the Board of Directors. Therefore, if the Company’s shareholders determine that continuing this Plan would undermine their common interests, they are entitled to abolish it at any time by exercising their right to elect or dismiss the directors. Under this Plan, in case the Large-Scale Purchasers implement the Large-Scale Purchase without complying with the procedures of this Plan and an Independent Committee judges, as the condition to exert the defensive measures, the company should hold the General Meeting to Confirm Shareholders’ Intention and, when considered reasonable, confirm the shareholders’ intentions as to (among other matters) whether or not to implement defensive measures, the Board of Directors will, by placing the highest value on a recommendation made by the Independent Committee, directly confirm the intention of the shareholders with regard to whether or not to implement the defensive measures against the Large-Scale Purchases by the Large-Scale Purchasers (among other matters). In these ways, due consideration is given to ensuring that this Plan will not undermine the common interests of Company’s shareholders.

The Board of Directors will take these defensive measures pursuant to the provisions of this Plan. Further, in evaluating and considering the Large-Scale Purchase and the decision in taking defensive measures therefor, the Board of Directors is required to seek the advice of outside experts, consult the Independent Committee comprised of those members who are independent of the management team engaged in the business execution of the Company, and place the highest value on the recommendations of said Committee. Thus, this Plan also incorporates procedures to protect the proper operation by the Board of Directors. Based on the foregoing, the Company believes this Plan is not aimed at preserving the personal status of its directors.

(For reference)

The effective period of the Plan is up to the end of the first meeting of the Board of Directors to be held after the 164th Ordinary General Meeting of Shareholders, scheduled to be held on June 21, 2017. As announced in the press release issued on May 15, 2017, at the meeting of the Board of Directors held on the same date, the Company decided to discontinue and abolish the Plan upon the expiration of the effective period as above.

(5) Policy on decisions concerning such matters as dividends of surplus

The Company positions the return of profits to shareholders as a key issue for management and work to improve corporate value throughout the Group by operating businesses with a medium- to long-term perspective.

The Company decides on the dividend after duly considering financial standing of the Company, business performance, future capital needs and other factors. In determining dividend amounts, the Company looks at each period's business performance and payout ratio, with a focus on making continuous, stable dividend payments.

The Company makes allocations of retained earnings to purposes that include investments necessary for future growth in order to bolster earnings and improve the balance sheet.

For the time being, to conduct profit-sharing commensurate with business performance, the Company shall set the payout ratio to between 15% and 25% of consolidated net profit.

The Company's Articles of Incorporation stipulate that dividends of surplus shall be determined via a resolution of the Board of Directors in accordance with Article 459, Paragraph 1 and Article 460, Paragraph 1 of the Companies Act.

Dividends of surplus shall be distributed by a resolution of the Board of Directors twice a fiscal year on the record dates stipulated in the Articles of Incorporation: once at interim period and once at fiscal year end. Payment of dividends on other record dates shall be conducted after establishing the record date at a separate meeting of the Board of Directors.

Note: Amounts shown in this business report are rounded down to the nearest whole unit.