

(Please note that the following is an English translation of the original Japanese version, prepared only for the convenience of non-Japanese speaking shareholders. In the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.)

(Stock Exchange No.: 5406)

May 31, 2018

**NOTICE OF  
165TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders,

Kobe Steel, Ltd. (“the Company”) would hereby like to inform you that the 165th Ordinary General Meeting of Shareholders will be held as follows, and would be grateful if you could attend the meeting. **Those who will not be able to attend the meeting on the day are kindly requested to consider appended “Reference Documents for the General Meeting of Shareholders” and exercise your voting rights by one of the following methods no later than 5:30 p.m., Wednesday, June 20, 2018 (JST (Japan Standard Time)).**

**[Voting by mail]**

**Please indicate on the voting form enclosed herewith your approval or disapproval of the matters to be resolved, and return it to us.**

**[Voting via the Internet]**

**Please read the “Matters related to the exercise of voting rights” on page 3 and input your approval or disapproval of the matters to be resolved in accordance with the instructions on the website.**

Yours faithfully,

Mitsugu Yamaguchi

*President, CEO and Representative Director*

Kobe Steel, Ltd.

2-4, Wakinohama-Kaigandori 2-chome, Chuo-ku, Kobe, Hyogo

**1. Date and Time:**

**10:00 a.m., Thursday, June 21, 2018** (JST (Japan Standard Time))  
(The venue is scheduled to be open at 8:30 a.m.)

**2. Venue:**

Kobe International Exhibition Hall No. 2 (first floor)  
11-1, Minatojima-nakamachi 6-chome, Chuo-ku, Kobe, Hyogo

**3. Meeting Agenda:**

- Matters to be reported:*
1. The business report, consolidated financial statements, and non-consolidated financial statements for the 165th business term (from April 1, 2017 to March 31, 2018)
  2. The results of audit to consolidated financial statements by Accounting Auditors and the Audit & Supervisory Committee for the 165th business term

*Matters to be resolved:*

- Item 1: Partial Amendments to the Articles of Incorporation
- Item 2: Election of ten (10) Directors (excluding Directors who are Audit & Supervisory Committee Members)
- Item 3: Election of five (5) Directors who are Audit & Supervisory Committee Members
- Item 4: Election of one (1) Director who is a substitute Audit & Supervisory Committee Member

**4. Information regarding parts of consolidated financial statements and non-consolidated financial statements provided via the Internet**

Based on laws and regulations and the provisions of Article 14 of the Company's Articles of Incorporation, matters that should be displayed as consolidated statements of changes in net assets, notes to consolidated financial statements, non-consolidated statements of changes in net assets, and notes to non-consolidated financial statements are posted on the Company's website (<http://www.kobelco.co.jp>). The consolidated statements of changes in net assets, notes to consolidated financial statements, non-consolidated statements of changes in net assets, and the notes to non-consolidated financial statements were audited as part of the consolidated financial statements and the non-consolidated financial statements by Accounting Auditors and the Audit & Supervisory Committee in the course of the preparation of their audit reports.

## 5. Matters related to the exercise of voting rights

### (1) Procedures for the exercise of voting rights over the Internet

- (a) Please access the voting exercise website (<https://www.evotet.tr.mufg.jp/>) using a computer, smartphone or a cellular phone connected to the Internet. Then, according to the instructions on the website, please enter the login ID and temporary password supplied on the voting form (you may use the password you have registered), and exercise your voting rights.
- (b) You may exercise your voting rights from Thursday, May 31, 2018 to 5:30 p.m., Wednesday, June 20, 2018 (JST (Japan Standard Time)). Please note that we suspend handling of the exercise of voting rights from 2:00 a.m. to 5:00 a.m. of each day.
- (c) You may exercise your voting rights by means of either mail using the voting form or the voting exercise website. Please make sure not to exercise your voting rights via both means.  
In the event that your voting rights are exercised via both mail and the Internet, the vote exercised by the Internet will be regarded as valid.
- (d) In the event that multiple votes are exercised over the Internet, the last vote made will be regarded as valid.
- (e) Any fees in accessing the Internet (ISP connection fees, telephone charges, etc.) will be borne by shareholders.

### (2) Electronic voting platform [for institutional investors]

In exercising voting rights at the General Meeting of Shareholders of the Company, institutional investors may use the electronic voting platform operated by ICJ Inc., a joint venture established by Tokyo Stock Exchange, Inc. and others.

### (3) Notification method for the revision of the description of Reference Documents for the General Meeting of Shareholders and other attached documents

In the event that the Company revises the description of Reference Documents for the General Meeting of Shareholders, business report, and consolidated and non-consolidated financial statements, the matters to be revised will be posted on the Company's website (<http://www.kobelco.co.jp>).

### (4) Exercise of voting rights by proxy

You may entrust another shareholder with voting rights to attend the meeting to act as a proxy. If you do so, please submit your proxy statement together with the voting form.

#### <Inquiries about the voting exercise website for the Ordinary General Meeting of Shareholders>

- (i) Please contact the following office about how to operate your computer:

Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation Tel.: 0120-173-027 (This toll-free number is available only within Japan.) (9:00 a.m. - 9:00 p.m.)
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- (ii) As for inquiries other than those covered in the item (i) above, please contact the following office:

Osaka Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation Tel.: 0120-094-777 (This toll-free number is available only within Japan.) (9:00 a.m. - 5:00 p.m., excluding Saturdays, Sundays and Japanese national holidays)
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#### NOTE:

You are requested to submit the enclosed voting form at the reception desk in case that you attend the meeting in person. You may entrust another shareholder having the voting rights to attend the meeting to act as a proxy. If you do so, please submit your proxy statement together with the voting form.

Souvenirs will not be prepared for shareholders that attend the meeting. We appreciate the understanding of all shareholders.
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## Reference Documents for the General Meeting of Shareholders

**1. Total Number of Voting Rights Held by All Shareholders: 3,610,251**

**2. Agenda Items and Reference Documents:**

**<Reference material common to Item 1 through Item 4>**

In order to achieve the continued growth and enhancement of corporate value of the Kobe Steel Group (the “Group”), the Company has thus far elected two (2) or more Independent Directors, and five (5) Audit & Supervisory Board Members, of which the Companies Act stipulates three (3) or more, in addition to establishing the “Meeting of Independent Directors” comprised entirely of Independent Directors in December 2015, as a forum where the Company conducts hearings of objective opinions with respect to appointment and/or remuneration of its executives from Independent Directors, shares wide-ranging business information related to large-scale investments, etc., and provides Independent Directors with information with respect to the execution of the Company’s business for the purpose of further strengthening the supervisory function of Independent Directors, and thereby enhanced the corporate governance system.

Furthermore, to further strengthen the Company’s corporate governance system and the auditing function of the Board of Directors and to accelerate decision-making with regard to management, the Company transitioned to a company with an Audit & Supervisory Committee in June 2016.

Thus far, in addition to the Meeting of Independent Directors, the Company has also established a Compliance Committee mainly comprised of external experts as an advisory organ to the Board of Directors, and this Committee monitors the implementation status of compliance activities and whether the Company is responding appropriately to matters about which the internal reporting system has been used from a fair standpoint, and provides reports and recommends response measures and other opinions to the Board of Directors.

However, in view of the misconduct of the Group (the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications (nonconforming products), and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications), we believe it is essential that we ensure thorough risk management once again, build systems capable of preventing and quickly detecting compliance issues, and expand these activities to cover the Group as a whole, and based on this belief, for the purpose of further strengthening governance in relation to quality and enhancing fairness and transparency of the Board of Directors, we have strengthened the monitoring function of the Board of Directors by revising the advisory organs to the Board of Directors and changing the composition of Directors as follows.

**(1) We Will Revise the Composition of Independent Directors**

For the purpose of enhancing fairness and transparency of the Board of Directors and advancing our growth strategies as a company, Independent Directors will account for one third (1/3) or more of the board. As for now, we have a total of sixteen (16) board members, but we will change the authorized number to fifteen (15) and ensure that five (5) of them are Independent Directors.

(2) We Revise the Advisory Organ to the Board of Directors

We introduce a Nomination and Compensation Committee, a majority of which are Outside Directors, as voluntary advisory organ to the Board of Directors, and enhance fairness and transparency of the Board of Directors.

(3) We Will Remove the Chairman Position and Appoint a Chairman of the Board of Directors

The Company had a chairman of the Board of Directors as well as a chairman of the Company who was in charge of external corporate affairs. We will remove the chairman of the Company position and appoint a chairman of the Board of Directors from among the Independent Directors in order to further encourage discussions at the Board of Directors and enhance the function of the Board to monitor the business activities of each division.

(4) We Will Revise the Composition of the Board of Directors

1) We Will Cease the Practice of Appointing Each Division Head as Director

The Company used to appoint each division head as a director, but we cease that practice. For the purpose of reinforcing the monitoring function of the Board of Directors, we will assign one director position to the materials business (i.e., Iron and Steel, Welding, Aluminum & Copper), one (1) director position to the machinery business (i.e., Machinery, Engineering, Construction Machinery), and one (1) director position to the electric power business.

2) We Appoint a Director in Charge of Risk Management

For the purpose of strengthening our corporate governance to ensure compliance, in particular, we appoint a director who primarily oversees and be responsible for compliance and other risk management activities so that the Group can engage in risk management activities effectively with a focus on preventing any misconduct from taking place.

3) We Appoint a Director in Charge of Quality Assurance

We appoint a director who oversees and be responsible for company-wide quality assurance for the purposes of strengthening our corporate governance as a Group in terms of quality.

If the proposal submitted at this Ordinary General Meeting of Shareholders is approved, the composition of the Board of Directors will be as shown below.

Before change		
Summary	No. of directors	System in fiscal year 2017
Chairman	1	1
President (CEO)	1	
Iron & Steel Business	1	1
Welding Business	1	1
Aluminum & Copper Business	1	1
Machinery Business	1	1
Engineering Business	1	1
Construction Machinery Business	1	1
Electric Power Business	1	-
Corporate	1	1
Corporate (technical)	1	1
Independent Directors	2	2
Audit & Supervisory Committee Members	Outside	3
	Inside	2
Total	18	16
(Of which Independent Directors)	5	5

After change		
Summary	No. of directors	
President (CEO)	1	
Materials	1	
Machinery	1	
Electric Power	1	
Quality	1	
Corporate	1	
Risk Management	1	
Corporate (technical)	1	
Independent Directors	2	
Audit & Supervisory Committee Members	Outside	3
	Inside	2
Total	15	
(Of which Independent Directors)	5	

(Note) The Director in charge of Corporate concurrently served as the Director of the Electric Power Business.

**Item 1: Partial Amendments to the Articles of Incorporation**

(Reasons for partial amendments to the Articles of Incorporation)

Previously, meetings of the Board of Directors were chaired by the Chairman of the Company as his duty, but for the purpose of selecting a Chairman of Meetings of the Board of Directors from among Outside Directors and to abolish the offices of Chairman of the Company and Vice Chairmen of the Company, amendments are to be made to Articles 20, 21 and 25 of the Articles of Incorporation.

The amendments to the Articles of Incorporation proposed in this Item shall become effective upon the conclusion of the 165th Ordinary General Meeting of Shareholders.

The details of the amendments are as follows:

(Amended parts are underlined.)

Current Articles of Incorporation	Proposed amendments
<p>Article 20. Representative Directors and Directors with Special Titles</p> <p>The Board of Directors may by resolution select from among Directors (excluding Directors who are Audit &amp; Supervisory Committee Members) <u>one (1) Chairman of the Board, one (1) or more Vice Chairmen of the Board and</u> one (1) President.</p> <p>The Board of Directors shall by its resolution select the Representative Directors of the Company from among Directors (excluding Directors who are Audit &amp; Supervisory Committee Members).</p> <p>Article 21. Division of Duties of Directors with Special Titles</p> <p><u>The Chairman of the Board shall preside over meetings of the Board of Directors and the Vice Chairmen of the Board shall assist the Chairman.</u></p> <p>The President shall carry out the resolutions of the Board of Directors and supervise the Company's business.</p> <p>If the President is unable to act, another Director shall act for him in accordance with the order previously established by resolution of the Board of Directors.</p>	<p>Article 20. Representative Directors and Directors with Special Titles</p> <p>The Board of Directors may by resolution select from among Directors (excluding Directors who are Audit &amp; Supervisory Committee Members) one (1) President.</p> <p>The Board of Directors shall by its resolution select the Representative Directors of the Company from among Directors (excluding Directors who are Audit &amp; Supervisory Committee Members).</p> <p>Article 21. Division of Duties of Directors with Special Titles</p> <p>(Deleted)</p> <p>The President shall carry out the resolutions of the Board of Directors and supervise the Company's business.</p> <p>If the President is unable to act, another Director shall act for him in accordance with the order previously established by resolution of the Board of Directors.</p>

Current Articles of Incorporation	Proposed amendments
<p>Article 22. to Article 24. (Omitted)</p> <p>Article 25. Person to convene and to Act as Chairman at Meetings of the Board of Directors</p> <p><u>The Chairman of the Board</u> shall convene and act as Chairman of Meetings of the Board of Directors except as required by mandatory provisions of laws and regulations.</p> <p><u>If the office of the Chairman of the Board is vacant or he is unable to act, one of the Vice Chairmen of the Board in accordance with order previously established by resolution of the Board of Directors shall convene the meeting and/or act as chairman. If all the offices of the Vice Chairmen of the Board are vacant or all of them are unable to act, the President shall convene the meeting and/or act as chairman. If the President is unable to act, the Director next in line in accordance with the order previously established by resolution of the Board of Directors shall convene the meeting and/or act as chairman.</u></p>	<p>Article 22. to Article 24. (Same as the present)</p> <p>Article 25. Person to convene and to Act as Chairman at Meetings of the Board of Directors</p> <p><u>The Director previously determined by resolution of the Board of Directors</u> shall convene and act as Chairman of Meetings of the Board of Directors except as required by mandatory provisions of laws and regulations.</p> <p><u>If the Director set for the in the preceding paragraph is unable to act, the Director next in line in accordance with the order previously established by resolution of the Board of Directors shall convene the meeting and/or act as chairman.</u></p>



**Item 2: Election of ten (10) Directors (excluding Directors who are Audit & Supervisory Committee Members)**

The terms of office of the eleven (11) incumbent Directors (excluding Directors who are Audit & Supervisory Committee Members; hereinafter, the same shall apply in this Item) will expire at the conclusion of the 165th Ordinary General Meeting of Shareholders. Accordingly, it is proposed that ten (10) Directors be elected.

The candidates for Directors are as follows.

No.	Name		Current position
1	Mitsugu Yamaguchi	Reappointment	President, CEO and Director
2	Yoshinori Onoe	Reappointment	Executive Vice President and Director
3	Fusaki Koshiishi	Reappointment	Executive Vice President and Director
4	Shohei Manabe	Reappointment	Director, Senior Managing Executive Officer
5	Takao Kitabata	Reappointment Independent Outside Director	Director
No.	Name		Current position
6	Hiroyuki Bamba	Reappointment Independent Outside Director	Director
7	Takao Ohama	New appointment	Executive Vice President and Officer
8	Koichiro Shibata	New appointment	Executive Vice President and Officer
9	Jiro Kitagawa	New appointment	Senior Managing Executive Officer
10	Yoshihiko Katsukawa	New appointment	Senior Managing Executive Officer

There are no special interests between the candidates and the Company.

The Audit & Supervisory Committee has stated that there are no issues to be noted for this proposal upon prior examination.

Career summary of each candidate is as follows.

No. 1	<b>Mitsugu Yamaguchi</b> (Date of birth: January 8, 1958)	Reappointment/ Internal Director	Number of shares of the Company owned: 11,000 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1981:	Joined the Company		
April 2011:	Officer		
April 2013:	Senior Officer		
April 2015:	Executive Officer		
June 2016:	Director, Senior Managing Executive Officer		
April 2017:	Executive Vice President and Director		
April 2018:	President, CEO and Director (incumbent)		
Reasons for selecting the candidate	Mitsugu Yamaguchi has abundant experience and knowledge through promoting the iron & steel business, machinery business, and M&As and alliances in the Head Office, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26). In particular, in rebuilding the governance system centered on quality, which is an urgent task, and in leading the reform of the Group's culture, it is necessary to take an objective and comprehensive view not biased toward a particular business. In this sense, we have concluded that Mitsugu Yamaguchi, who has experience in the various fields of materials, machinery and Head Office, is well qualified for the position.		

No. 2	<b>Yoshinori Onoe</b> (Date of birth: November 30, 1955)	Reappointment/ Internal Director	Number of shares of the Company owned: 19,200 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1980:	Joined the Company	Oversees companywide technical development. Oversees the Environmental Control & Disaster Prevention Department, the Research & Development Planning Department and IT Planning Department. Oversees companywide information systems. Head of the Technical Development Group.	
April 2008:	Officer		
April 2010:	Senior Officer		
April 2012:	Executive Officer		
April 2014:	Executive Vice President and Officer		
June 2014:	Executive Vice President and Director		
April 2016:	Executive Vice President and Director (incumbent)		
Reasons for selecting the candidate	Yoshinori Onoe has abundant experience and knowledge in the field of product technology in the iron & steel business and experience as General Manager of an ironwork, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26). In addition, as a person to supervise the field of technical development that serves as the foundation of our growth strategy, and environmental control and disaster prevention forming the basis for our business promotion, we have concluded that Yoshinori Onoe, who has experience and knowledge in the technical field and production sites, is well qualified.		

No. 3	<b>Fusaki Koshiishi</b> (Date of birth: August 29, 1959)	Reappointment/ Internal Director	Number of shares of the Company owned: 11,900 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1984:	Joined the Company	Oversees the Quality Management Department, Intellectual Property Department and MONODZUKURI (Production System Innovation) Planning and Promotion Department and companywide quality management.	
April 2012:	Officer		
April 2014:	Senior Officer		
June 2015:	Managing Director		
April 2016:	Director, Senior Managing Executive Officer		
April 2018	Executive Vice President and Director (incumbent)		
Reasons for selecting the candidate	Fusaki Koshiishi has abundant experience and knowledge in the field of product technology in the welding business, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26). In addition, as a person to supervise companywide quality management at the Company, which operates various businesses including materials, machinery and electric power, we have concluded that Fusaki Koshiishi, who has experience and knowledge in the Welding Business engaging in both materials and machinery businesses, namely welding materials and welding robot systems, is well qualified.		

No. 4	<b>Shohei Manabe</b> (Date of birth: September 16, 1955)	Reappointment/ Internal Director	Number of shares of the Company owned: 14,400 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1978:	Joined the Company	Oversees the Audit Department and Compliance Management Department. Oversees companywide compliance.	
April 2009:	Officer		
April 2011:	Senior Officer		
April 2015:	Executive Officer		
June 2015:	Senior Managing Director		
April 2016:	Director, Senior Managing Executive Officer (incumbent)		
Reasons for selecting the candidate	Shohei Manabe has abundant experience and knowledge in project management in the engineering business and planning and administration division in the business divisions, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26). In addition, as a person to supervise companywide compliance, we have concluded that Shohei Manabe, who has experience in risk management in project management, is well qualified.		

No. 5	<b>Takao Kitabata</b> (Date of birth: January 10, 1950)	Reappointment/ Outside Director/ Independent Director	Number of shares of the Company owned: 3,800 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1972:	Joined the Ministry of International Trade and Industry	Chairman of SANDA GAKUEN Junior High School – Senior High School	
June 2004:	Director-General, Economic and Industrial Policy Bureau, the Ministry of Economy, Trade and Industry (METI)	Outside Director of Marubeni Corporation	
July 2006:	Vice-Minister of Economy, Trade and Industry	Outside Director of SEIREN CO., LTD.	
July 2008:	Retired from METI	Outside Director of Zeon Corporation	
June 2010:	Director of the Company (incumbent) Outside Corporate Auditor of Marubeni Corporation		
June 2013:	Chairman of SANDA GAKUEN Junior High School – Senior High School (incumbent) Outside Director of Marubeni Corporation (incumbent)		
April 2014:	Principal of SANDA GAKUEN Junior High School – Senior High School		
June 2014:	Outside Director of SEIREN CO., LTD. (incumbent) Outside Director of Zeon Corporation (incumbent)		
Reasons for selecting the candidate	Although Takao Kitabata has not participated in the management of a company in a position other than outside director or outside audit & supervisory board member, as he is able to make objective, fair and neutral judgment based on his deep insight in the world of industry backed by his broad experience as an administrative official and extensive knowledge as an outside director/audit & supervisory board member of listed companies, we have concluded that he is well qualified to be an Outside Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors and Standards for Independent Directors (please see pages 25 through 27).		
Attendance at Board of Directors meetings during fiscal 2017: 20/21 meetings held (95%)	Term of office as Outside Director of the Company: 8 years		

- Takao Kitabata is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Takao Kitabata as an Independent Director at the financial instruments exchange. If Takao Kitabata is elected as Outside Director at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to register Takao Kitabata again as an Independent Director at the financial instruments exchange.
- In October 2017, during the term of office of Takao Kitabata, the Company announced the fact that misconducts had been taking place in the Group concerning the products and services delivered by the Group, including the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications, and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications.  
Takao Kitabata was not aware of these facts until problems were identified, but he had made proposals and called attention to matters regarding the type of company that the Company should aspire to be, and from the perspective of ensuring compliance, on a regular basis at meetings of the Board of Directors and other occasions.  
Since these facts were identified, Takao Kitabata has expressed various views aimed at ensuring the appropriateness and validity of the method of investigation, in addition to uncovering the causes and verifying safety, at meetings of the Board of Directors, and, based on his experience and knowledge as an administrative official and as an outside director/audit & supervisory board member of other listed companies, has also contributed to the formulation of measures to prevent reoccurrence by providing proactive and constructive views as a member of the Quality Governance Restructuring Deliberation Committee, on matters including measures for strengthening quality governance, including at Group companies, organizational reforms, awareness-raising, and

utilization of external personnel, as well as strengthening of the functions of overseas regional headquarters.

- The Company and SANDA GAKUEN Junior High School – Senior High School do not have business transactions. In addition, the Company does not make donations to the said school corporation. Therefore, he meets the Company's Standards for Independent Directors.
- The Company has entered into an agreement with Takao Kitabata that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If he is elected as Director at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with him.

No. 6	<b>Hiroyuki Bamba</b> (Date of birth: January 27, 1954)	Reappointment/ Outside Director/ Independent Director	Number of shares of the Company owned: 1,600 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1976:	Joined Sumitomo Rubber Industries, Ltd.	Outside Director of Sekisui Plastics Co., Ltd.	
March 2000:	Director of Sumitomo Rubber Industries, Ltd.		
March 2003:	Executive Officer of Sumitomo Rubber Industries, Ltd.		
July 2003:	President and Director of SRI Sports Limited (currently Sumitomo Rubber Industries, Ltd.)		
March 2011:	Chairman and Director of SRI Sports Limited		
March 2015:	Counselor to Sumitomo Rubber Industries, Ltd.		
June 2015:	Outside Director of Sekisui Plastics Co., Ltd. (incumbent)		
June 2017:	Director of the Company (incumbent)		
Reasons for selecting the candidate	As Hiroyuki Bamba is able to make objective, fair and neutral judgment based on his abundant experience in the different business fields from ours in the world of industry and deep insight as a corporate executive, we have concluded that he is well qualified to be an Outside Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors and Standards for Independent Directors (please see pages 25 through 27).		
Attendance at Board of Directors meetings during fiscal 2017:	17/17 meetings held (100%)	Term of office as Outside Director of the Company:	1 year

- Hiroyuki Bamba is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Hiroyuki Bamba as an Independent Director at the financial instruments exchange. If Hiroyuki Bamba is elected as Outside Director at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to register Hiroyuki Bamba again as an Independent Director at the financial instruments exchange.
- Since Hiroyuki Bamba assumed office as Director on June 21, 2017, 17 Board of Directors meetings have been held.
- In October 2017, during the term of office of Hiroyuki Bamba, the Company announced the fact that misconducts had been taking place in the Group concerning the products and services delivered by the Group, including the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications, and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications.  
Hiroyuki Bamba was not aware of these facts until problems were identified, but he had made proposals and called attention to matters regarding the type of company that the Company should aspire to be, and from the perspective of ensuring compliance, on a regular basis at meetings of the Board of Directors and other occasions. Since these facts were identified, Hiroyuki Bamba has expressed various views aimed at ensuring the appropriateness and validity of the method of investigation, in addition to uncovering the causes and verifying safety, at meetings of the Board of Directors, and, based on his experience and knowledge as a corporate executive in the different business fields from ours, has also contributed to the formulation of measures to prevent reoccurrence by providing proactive and constructive views as a member of the Quality Governance Restructuring Deliberation Committee, on matters including measures for strengthening quality governance, including at Group companies, organizational reforms, awareness-raising, and utilization of external personnel, as well as strengthening of the functions of overseas regional headquarters.
- Although the Company and Sumitomo Rubber Industries, Ltd. have business transactions in the Machinery Business, three or more years have passed since Hiroyuki Bamba's retirement as an executive person of Sumitomo Rubber Industries, Ltd., and additionally the amount of these transactions totals less than 2% of the Company's consolidated net sales. Therefore it would not be classified as a "major business partner" and he meets the Company's Standards for Independent Directors. SRI Sports Limited (renamed Dunlop Sports Co., Ltd. in May 2012) merged with Sumitomo Rubber Industries, Ltd. in January 2018. The Company did not have any business transactions with SRI Sports Limited or Dunlop Sports Co., Ltd.
- The Company has entered into an agreement with Hiroyuki Bamba that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If he is elected as Director at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with him.

No. 7	<b>Takao Ohama</b> (Date of birth: October 14, 1955)	New appointment/ Internal Director	Number of shares of the Company owned: 16,900 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1981:	Joined the Company	Oversees the machinery businesses. Head of the Machinery Business	
April 2010:	Officer		
April 2012:	Senior Officer		
April 2014:	Executive Officer		
April 2018:	Executive Vice President and Officer (incumbent)		
Reasons for selecting the candidate	Takao Ohama has abundant experience and knowledge in the field of product technology in the machinery business and overseas business entities, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26). In addition, as a person to supervise the machinery businesses, we have concluded that Takao Ohama, who has experience in the technical field in the machinery business field and experience in the management of overseas business entities, is well qualified.		

No. 8	<b>Koichiro Shibata</b> (Date of birth: December 6, 1958)	New appointment/ Internal Director	Number of shares of the Company owned: 10,900 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1984:	Joined the Company	Oversees the materials businesses. Head of the Iron & Steel Business	
April 2012:	Officer		
April 2014:	Senior Officer		
April 2016:	Executive Officer		
April 2018:	Executive Vice President and Officer (incumbent)		
Reasons for selecting the candidate	Koichiro Shibata has abundant experience and knowledge in the field of product technology in the iron & steel business and experience as General Manager of an ironwork, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26). In addition, as a person to supervise the diversifying metallic materials businesses, we have concluded that Koichiro Shibata, who has experience and knowledge in the field of product technology and production sites, is well qualified.		

No. 9	<b>Jiro Kitagawa</b> (Date of birth: September 1, 1959)	New appointment/ Internal Director	Number of shares of the Company owned: 10,400 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1982:	Joined the Company	Oversees the electric power business. Head of the Electric Power Business	
April 2013:	General Manager of the IPP Division, General Manager of Planning Department, Iron & Steel Business		
July 2013:	General Manager of the IPP Division, General Manager of Planning Department, Attached to Iron & Steel Administration Department, Iron & Steel Business (President and Representative Director of Shinko Kobe Power Inc. (currently Kobelco Power Kobe Inc.))		
April 2014:	Officer		
April 2016:	Senior Officer		
April 2018:	Executive Officer (incumbent)		
Reasons for selecting the candidate	Jiro Kitagawa has abundant experience and knowledge in the field of manufacturing facility technology in the iron & steel business and in the field of electric power business, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26). In addition, as a person to supervise the electric power business, which is currently promoting a large-scale project, we have concluded that Jiro Kitagawa, who has abundant experience in facility technology and facility planning, is well qualified.		

No. 10	<b>Yoshihiko Katsukawa</b> (Date of birth: March 12, 1962)	New appointment/ Internal Director	Number of shares of the Company owned: 5,600 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1985:	Joined the Company	Oversees the Legal Department, Corporate Communications Department, General Administration 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, domestic branch offices and sales offices (including Takasago Works) and responsible for overseas locations (under the head office).	
April 2011:	General Manager of the Planning & Administration Department, Machinery Business		
April 2014:	General Manager of the Corporate Planning Department		
April 2015:	Officer		
April 2017:	Senior Officer		
April 2018:	Executive Officer (incumbent)		
Reasons for selecting the candidate	Yoshihiko Katsukawa has abundant experience and knowledge in operations in the corporate planning divisions and planning and administration division in the business divisions, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26). In addition, as a person to supervise the Head Office, which promotes the reform of the Group's culture and supports our business activities, we have concluded that Yoshihiko Katsukawa, who has abundant experience at planning divisions and administration divisions, is well qualified.		



**Item 3: Election of five (5) Directors who are Audit & Supervisory Committee Members**

The terms of office of the five (5) incumbent Directors who are Audit & Supervisory Committee Members will expire at the conclusion of the 165th Ordinary General Meeting of Shareholders. Accordingly, it is proposed that five (5) Directors who are Audit & Supervisory Committee Members be elected. As for submitting this Item, the consent of the Audit & Supervisory Committee has been obtained.

The candidates for Directors who are Audit & Supervisory Committee Members are as follows.

No.	Name		Current position
1	Takashi Okimoto	Reappointment Independent Outside Director	Director who is an Audit & Supervisory Committee Member
2	Yoshiiku Miyata	Reappointment Independent Outside Director	Director who is an Audit & Supervisory Committee Member
3	Hidero Chimori	Reappointment Independent Outside Director	Director who is an Audit & Supervisory Committee Member

No.	Name		Current position
4	Hiroshi Ishikawa	New appointment	Senior Officer
5	Yasushi Tsushima	New appointment	Director, Managing Executive Officer of Kobelco Construction Machinery Co., Ltd.

There are no special interests between the candidates and the Company.

Career summary of each candidate is as follows.

No. 1	<b>Takashi Okimoto</b> (Date of birth: November 14, 1950)	Reappointment/ Outside Director/ Independent Director	Number of shares of the Company owned: 7,700 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1973:	Joined The Dai-Ichi Kangyo Bank, Limited		
June 2001:	Executive Officer of The Dai-Ichi Kangyo Bank, Limited		
April 2002:	Executive Officer of Mizuho Corporate Bank, Ltd.		
Oct. 2002:	Managing Executive Officer of Mizuho Corporate Bank, Ltd.		
April 2005:	Deputy President of Mizuho Corporate Bank, Ltd.		
April 2007:	Retired from Deputy President of Mizuho Corporate Bank, Ltd. Advisor of Orient Corporation		
June 2007:	Representative Director, Chairman and Corporate Officer of Orient Corporation		
June 2008:	Outside Director of Daiichi Sankyo Company, Limited		
June 2011:	Retired from Representative Director, Chairman and Corporate Officer of Orient Corporation Audit & Supervisory Board Member of the Company External Director of Fujitsu Limited		
June 2012:	Outside Director of FUJI ELECTRIC CO., LTD. President and Representative Director, Chuo Real Estate Co., Ltd.		
June 2013:	Outside Audit & Supervisory Board Member of Shindengen Electric Manufacturing Co., Ltd. Audit & Supervisory Board Member of Seiwa Sogo Tatemono Co., Ltd.		
June 2015:	Chairman and Representative Director, Chuo Real Estate Co., Ltd.		
June 2016:	Retired from Chairman and Representative Director, Chuo Real Estate Co., Ltd. Director who is an Audit & Supervisory Committee Member of the Company (incumbent)		
Reasons for selecting the candidate	Takashi Okimoto has abundant experience in credit management and financial management at financial institutions and deep insight as a corporate executive of financial institutions, and as he is able to make objective, fair and neutral judgment based on his insight in the financial sector, we have concluded that he is well qualified to be an Outside Director who is an Audit & Supervisory Committee Member of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors and Standards for Independent Directors (please see pages 25 through 27). Additionally, he has considerable knowledge of finance and accounting.		
Attendance at Board of Directors meetings during fiscal 2017: 21/21 meetings held (100%)	Term of office as Outside Director of the Company: 7 years		
Attendance at Audit & Supervisory Committee meetings during fiscal 2017: 19/19 meetings held (100%)			

- Takashi Okimoto is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Takashi Okimoto as an Independent Director at the financial instruments exchange. If Takashi Okimoto is elected as Director who is an Audit & Supervisory Committee Member at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to register Takashi Okimoto again as an Independent Director at the financial instruments exchange.
- The above term of office as Outside Director includes five (5) years in office as Outside Audit & Supervisory Board Member of the Company (from June 2011 to June 2016).
- In October 2017, during the term of office of Takashi Okimoto, the Company announced the fact that misconducts had been taking place in the Group concerning the products and services delivered by the Group, including the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications, and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications.

Takashi Okimoto was not aware of these facts until problems were identified, but he had made proposals and called attention to matters regarding the type of company that the Company should aspire to be, and from the perspective of ensuring compliance, on a regular basis at meetings of the Board of Directors and other occasions.

Since these facts were identified, Takashi Okimoto has expressed various views aimed at ensuring the appropriateness and validity of the method of investigation, in addition to uncovering the causes and verifying safety, at meetings of the Board of Directors, and, based on his experience and knowledge as a corporate executive of financial institutions and as an outside director/audit & supervisory board member at other listed companies, has also contributed to the formulation of measures to prevent reoccurrence by providing proactive and constructive views as a member of the Quality Governance Restructuring Deliberation Committee, on matters including measures for strengthening quality governance, including at Group companies, organizational reforms, awareness-raising, and utilization of external personnel, as well as strengthening of the functions of overseas regional headquarters.

- Orient Corporation, where Takashi Okimoto served as an executive director, received administrative penalties (order for business improvement) from the Kanto Bureau of Economy, Trade and Industry in January 2014 in relation to installment sales finance business during the period that Takashi Okimoto was at office.
- Mizuho Corporate Bank, Ltd. (currently Mizuho Bank, Ltd.) is a lender of the Company. However, as Takashi Okimoto retired as an executive person of said bank more than three years ago and the Company makes transactions with a large number of financial institutions besides said bank, the amount of the Company's borrowings from said bank is less than 10% and not a large dependency. Therefore, the Company believes that Takashi Okimoto meets the Company's standards for Independent Directors.
- The Company has transactional relationships with Orient Corporation in the Machinery Business, however, Takashi Okimoto retired as executive director of Orient Corporation more than three years ago and the amount of these transactions totals less than 2% of the Company's consolidated net sales, and therefore it would not be classified as a "major business partner" and he meets the Company's standards for Independent Directors. The Company does not have any transactional relationships with Chuo Real Estate Co., Ltd.
- The Company has entered into an agreement with Takashi Okimoto that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If he is elected as Director who is an Audit & Supervisory Committee Member at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with him.

No. 2	<b>Yoshiiku Miyata</b> (Date of birth: April 24, 1953)	Reappointment/ Outside Director/ Independent Director	Number of shares of the Company owned: 2,400 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1977:	Joined Matsushita Electric Ind. Co., Ltd.	Outside Director, JXTG Holdings, Inc.	
April 2007:	Executive Officer, Matsushita Electric Ind. Co., Ltd.		
April 2009:	Managing Executive Officer, Panasonic Corporation		
April 2011:	Senior Managing Executive Officer, Panasonic Corporation		
June 2011:	Senior Managing Director, Member of the Board, Panasonic Corporation		
June 2014:	Corporate Advisor, Panasonic Corporation		
March 2015:	Outside Director, TonenGeneral Sekiyu K.K.		
December 2015:	Retired from Corporate Advisor, Panasonic Corporation		
June 2016:	Director who is an Audit & Supervisory Committee Member of the Company (incumbent)		
April 2017:	Outside Director, JXTG Holdings, Inc. (incumbent)		
Reasons for selecting the candidate	As Yoshiiku Miyata is able to make objective, fair and neutral judgment based on his abundant experience in the different business fields from ours in the world of industry and deep insight as a corporate executive including the post of president of overseas business entities, we have concluded that he is well qualified to be an Outside Director who is an Audit & Supervisory Committee Member of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors and Standards for Independent Directors (please see pages 25 through 27).		
Attendance at Board of Directors meetings during fiscal 2017: 19/21 meetings held (90%)	Term of office as Outside Director of the Company: 2 years		
Attendance at Audit & Supervisory Committee meetings during fiscal 2017: 17/19 meetings held (89%)			

- Yoshiiku Miyata is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Yoshiiku Miyata as an Independent Director with the financial instruments exchange. If Yoshiiku Miyata is elected as Director who is an Audit & Supervisory Committee Member at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to register Yoshiiku Miyata again as an Independent Director with the financial instruments exchange.
- In October 2017, during the term of office of Yoshiiku Miyata, the Company announced the fact that misconducts had been taking place in the Group concerning the products and services delivered by the Group, including the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications, and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications.  
Yoshiiku Miyata was not aware of these facts until problems were identified, but he had made proposals and called attention to matters regarding the type of company that the Company should aspire to be, and from the perspective of ensuring compliance, on a regular basis at meetings of the Board of Directors and other occasions.  
Since these facts were identified, Yoshiiku Miyata has expressed various views aimed at ensuring the appropriateness and validity of the method of investigation, in addition to uncovering the causes and verifying safety, at meetings of the Board of Directors, and, based on his abundant experience in the different business fields from ours, and experience and knowledge as a corporate executive including the post of president of overseas business entities, has also contributed to the formulation of measures to prevent reoccurrence by providing proactive and constructive views as a member of the Quality Governance Restructuring Deliberation Committee, on matters including measures for strengthening quality governance, including at Group companies, organizational reforms, awareness-raising, and utilization of external personnel, as well as strengthening of the functions of overseas regional headquarters.
- Panasonic Corporation, where Yoshiiku Miyata served as an executive director, agreed to pay fines in July 2013 to

the US Department of Justice and in February 2014 to the Competition Bureau of Canada regarding a violation of antitrust laws in the automotive parts business.

- Although the Company and Panasonic Corporation have business transactions, he retired as an executive director of Panasonic Corporation more than 3 years ago and the amount of these transactions totals less than 2% of the Company's consolidated net sales and less than 2% of Panasonic Corporation's consolidated net sales, and therefore it would not be classified as a "major business partner" and he meets the Company's standards for Independent Directors.
- The Company has entered into an agreement with Yoshiiku Miyata that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If he is elected as Director who is an Audit & Supervisory Committee Member at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with him.

No. 3	<b>Hidero Chimori</b> (Date of birth: May 24, 1954)	Reappointment/ Outside Director Independent Director	Number of shares of the Company owned: 700 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1983:	Registered as Attorney at Law	Representative Partner, Miyake & Partners Outside Audit & Supervisory Board Member, NAITO Securities Co., Ltd. Outside Company Auditor, ROHM Co., Ltd.	
May 2002:	Representative Partner, Miyake & Partners (incumbent)		
June 2002:	Outside Audit & Supervisory Board Member, OMRON Corporation		
June 2006	Outside Audit & Supervisory Board Member, DUSKIN CO., LTD.		
June 2011:	Outside Audit & Supervisory Board Member, NAITO Securities Co., Ltd. (incumbent)		
June 2016:	Director who is an Audit & Supervisory Committee Member of the Company (incumbent)  Outside Company Auditor, ROHM Co., Ltd. (incumbent)		
Reasons for selecting the candidate	Although Hidero Chimori has not participated in the management of a company in a position other than outside director and outside audit & supervisory board member, as he has deep insight backed by his abundant experience in the legal profession as an attorney at law and extensive knowledge as an Outside Audit & Supervisory Board Member of listed companies, and is able to make objective, fair and neutral judgment, we have concluded that he is well qualified to be an Outside Director who is an Audit & Supervisory Committee Member of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors and Standards for Independent Directors (please see pages 25 through 27).		
Attendance at Board of Directors meetings during fiscal 2017: 20/21 meetings held (95%)	Term of office as Outside Director of the Company: 2 years		
Attendance at Audit & Supervisory Committee meetings during fiscal 2017: 19/19 meetings held (100%)			

- Hidero Chimori is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Hidero Chimori as an Independent Director with the financial instruments exchange. If Hidero Chimori is elected as Director who is an Audit & Supervisory Committee Member at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to register Hidero Chimori again as an Independent Director with the financial instruments exchange.
- In October 2017, during the term of office of Hidero Chimori, the Company announced the fact that misconducts had been taking place in the Group concerning the products and services delivered by the Group, including the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications, and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications.  
Hidero Chimori was not aware of these facts until problems were identified, but he had made proposals and called attention to matters regarding the type of company that the Company should aspire to be, and from the perspective of ensuring compliance, on a regular basis at meetings of the Board of Directors and other occasions.  
Since these facts were identified, Hidero Chimori has expressed various views aimed at ensuring the appropriateness and validity of the method of investigation, in addition to uncovering the causes and verifying safety, at meetings of the Board of Directors, and, based on his experience and knowledge as an attorney at law and as an outside audit & supervisory board member at other listed companies, has also contributed to the formulation of measures to prevent recurrence by providing proactive and constructive views as a member of the Quality Governance Restructuring Deliberation Committee, on matters including measures for strengthening quality governance, including at Group companies, organizational reforms, awareness-raising, and utilization of external personnel, as well as strengthening of the functions of overseas regional headquarters.
- Although the Company and Miyake & Partners have business transactions, no advisory contract exists between the two, and as the amount of these transactions totals less than 1 million yen, and less than 1% of Miyake & Partners' net sales, he meets the Company's standards for Independent Directors.
- The Company has entered into an agreement with Hidero Chimori that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If he is elected as Director who is an Audit & Supervisory Committee Member at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with him.

No. 4	<b>Hiroshi Ishikawa</b> (Date of birth: April 7, 1958)	New Appointment/ Internal Director	Number of shares of the Company owned: 8,000 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1982:	Joined the Company		
April 2013:	General Manager, the Iron Unit Division, General Manager of the International Operations Department, General Manager of the Plant Engineering Department, Engineering Business		
April 2014:	Officer		
April 2016:	Senior Officer (incumbent)		
Reasons for selecting the candidate	Hiroshi Ishikawa has abundant experience and insight in project management in the engineering business and operations at planning and administration division in the business divisions, and we have concluded that he is well qualified to be an Audit & Supervisory Committee Member of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26).		

- If Hiroshi Ishikawa is elected as Director who is an Audit & Supervisory Committee Member, the Company is scheduled to select him as a full-time Audit & Supervisory Committee Member at the first meeting of the Audit & Supervisory Committee to be held after the conclusion of the 165th Ordinary General Meeting of Shareholders.
- If Hiroshi Ishikawa is elected as Director who is an Audit & Supervisory Committee Member at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to enter into an agreement with him that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations.

No. 5	<b>Yasushi Tsushima</b> (Date of birth: July 8, 1959)	New Appointment/ Internal Director	Number of shares of the Company owned: 6,300 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1982:	Joined the Company		
April 2013:	Officer		
June 2015:	Director, Managing Executive Officer of Kobelco Construction Machinery Co., Ltd. (incumbent)		
Reasons for selecting the candidate	Yasushi Tsushima has abundant experience and insight in operations of planning and administration divisions in the iron & steel business and the electric power business as well as Kobelco Construction Machinery Co., Ltd., and we have concluded that he is well qualified to be an Audit & Supervisory Committee Member of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors (please see pages 25 through 26).		

- If Yasushi Tsushima is elected as Director who is an Audit & Supervisory Committee Member, the Company is scheduled to select him as a full-time Audit & Supervisory Committee Member at the first meeting of the Audit & Supervisory Committee to be held after the conclusion of the 165th Ordinary General Meeting of Shareholders.
- If Yasushi Tsushima is elected as Director who is an Audit & Supervisory Committee Member at the 165th Ordinary General Meeting of Shareholders, the Company is scheduled to enter into an agreement with him that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations.

**Item 4: Election of one (1) Director who is a substitute Audit & Supervisory Committee Member**

To prepare for the case where the number of Directors who are Audit & Supervisory Committee Members falls below the number required by laws and regulations, it is proposed that one (1) Director who is a substitute Audit & Supervisory Committee Member be elected.

As for submitting this Item, the consent of the Audit & Supervisory Committee has been obtained.

The candidate for Director who is a substitute Audit & Supervisory Committee Member is as follows. There are no special interests between the candidate and the Company.

<b>Kunio Miura</b> (Date of birth: February 13, 1953)		Outside Director/ Independent Director	Number of shares of the Company owned: 0 shares
Career summary (positions)		Duties and significant concurrent positions	
April 1979:	Appointed as judge	Representative of Kawamoto, Miura and Hirata Law Office Outside Audit & Supervisory Board Member of ASAHI INTELLIGENCE SERVICE CO., LTD. External Corporate Auditor of Sumitomo Seika Chemicals Company Limited	
March 1988:	Retired as judge		
April 1988:	Admitted to the bar		
April 1997:	Representative of Kawamoto and Miura Law Office (currently Kawamoto, Miura and Hirata Law Office) (incumbent)		
June 2003:	Outside Corporate Auditor of YAMAHA CORPORATION		
June 2008:	Outside Audit & Supervisory Board Member of ASAHI INTELLIGENCE SERVICE CO., LTD. (incumbent)		
June 2010:	External Corporate Auditor of Sumitomo Seika Chemicals Company Limited (incumbent)		
Reasons for selecting the candidate	As Kunio Miura is able to make objective, fair and neutral judgment drawing on his abundant experience as a judge and lawyer and insight as an Outside Audit & Supervisory Board Member of listed companies, we have concluded that he is well qualified to be an Outside Director who is a substitute Audit & Supervisory Committee Member of the Company in light of the Company's fundamental policy with regard to appointment of candidates for Directors and Standards for Independent Directors (please see pages 25 through 27).		

- Kunio Miura is a candidate for Outside Director who is a substitute Audit & Supervisory Committee Member.
- The Company and Kawamoto, Miura and Hirata Law Office have no business transactions.
- If this Item is approved at the 165th Ordinary General Meeting of Shareholders, and Kunio Miura assumes the position as Director who is an Audit & Supervisory Committee Member, the Company is scheduled to enter into an agreement with him that limits his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act.



**<Reference: the Company’s fundamental policy with regard to appointment of candidates for Directors and Standards for Independent Directors>**

Members of the Board of Directors discussed and approved appointments of each candidate proposed in Item 2, Item 3 and Item 4, based on whether or not he or she meets the requirements described in the Company’s fundamental policy with regard to appointment of candidates for Directors and Standards for Independent Directors.

The President, CEO and Director of the Company explains the appointment to and receives opinions from the Meeting of Independent Directors before these discussions.

**The Company’s fundamental policy with regard to appointment of candidates for Directors (excluding Directors who are Audit & Supervisory Committee Members)**

The Company appoints candidates for Directors (excluding Directors who are Audit & Supervisory Committee Members) based on a policy that person suitable to the position should have the following qualities in order to carry out their roles entrusted by shareholders.

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

**The Company’s fundamental policy with regard to appointment of candidates for Directors who are Audit & Supervisory Committee Members**

The Company appoints candidates for Directors who are Audit & Supervisory Committee Members based on the policy that persons suitable to the position should have the following qualities in order to carry out their roles entrusted by shareholders.

- A) To well understand the characteristics of the Company’s wide-ranging businesses and be able to audit and supervise the Company’s business based on its duties and functions stipulated in the Companies Act;
- B) To be able to consider appropriateness of management to improve corporate value, in addition to auditing the legality of management, and actively make statements at meetings of the Board of

Directors;

- C) In consideration of the fact that they are Audit & Supervisory Committee Members, they are able to appropriately exercise their authority as Directors.
- D) At least one Audit & Supervisory Board Member with considerable knowledge of finance and accounting must be elected; and
- E) The Company invites Outside Directors who are Audit & Supervisory Committee Members from the legal, financial and industrial circles in order to show the functions of auditing and supervising from various angles, wants them to be able to back up appropriate risk-taking and support the Company's medium- to long-term growth, and requires them to meet the following requirements in addition to requirements A) through C) above;
  - a. To have extensive experience and deep insight to be able to make objective, fair and neutral judgment in light of his or her career; and
  - b. To meet the standards for Independent Directors stipulated by the Company.

#### **The Company's Standards for Independent Directors**

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

- A) A person who currently executes or has executed businesses of the Group, which includes the Company and its subsidiaries (meaning executive directors, executive officers, officers and other employees, hereinafter the same shall apply).
- B) A person who has a close relative (spouse, relative within the second degree of kinship, hereinafter the same shall apply) who currently executes or has executed businesses of the Group within the past five years.
- C) A person who is currently or has been over the past three years a principal shareholder of the Company (a shareholder who, directly or indirectly, currently owns or has owned 10% or more of all voting rights of the Company) or who currently executes or has executed businesses of the principal shareholders' company within the past three years.
- D) A major business partner of the Company (when the highest payment among payments by this partner to the Company accounts for more than 2% of the Company's annual consolidated net sales in the past three fiscal years) or a person who executes businesses thereof or has executed over the past three years businesses thereof.
- E) A person who executes businesses thereof whose major business partner is the Company (when the highest payment among payments by the Company to the person accounts for more than 2% of the person's annual consolidated net sales in last three fiscal years) or a person who executes businesses thereof or has executed over past three years businesses thereof.
- F) Persons who are or have been over the past three years financial institutions, other large creditors or those executives indispensable for the Company's financing and that the Company depends on to the degree there is no substitute.
- G) A consultant, accountant or legal professional who has received a large sum of money or other financial gain in the past three years (the larger of 10 million yen or 100 thousand U.S. dollars or more in a year if the person is an individual, or, if the person is a party such as a company or an association, the amount equal to or more than 2% of the party's annual consolidated net sales) from the Company as an individual, excluding remuneration for Director of the Company. (If a party including but not limited to a company or an association receives such financial gain, a person who

belongs to those companies, excluding the person individually performing his or her duties without receiving any remuneration from those companies.)

- H) Certified public accountants who are Accounting Auditors of the Company or those belong to the audit corporation which is an Accounting Auditor of the Company.
- I) A representative person or the equivalent thereof of the company who receives a donation or aid (which exceeds the larger of 10 million yen, 100 thousand U.S. dollars or 30% of the total average annual cost of the company in a year) from the Company.
- J) A person who executes businesses of the companies which mutually dispatches outside directors/corporate auditors. (The person who executes the business of the Group is an outside director/corporate auditor and the person who executes the business of such a company is the outside director of the Company.)
- K) A person who has a close relative who falls under any of the categories C) through J) above. (The person who executes a business of the Company is limited to directors and executive officers and, regarding the person who belongs to a professional advisory firm such as a law firm, limited to a member or a partner of the firm.)
- L) A person who has a close relative with the person who falls under either of the following categories a) through c).
  - a) A person who is currently or has been over the past one year a non-executive director of a subsidiary of the Company.
  - b) A person who is currently or has been over the past one year an accounting advisor of a subsidiary of the Company. (If the accounting advisor is a company, it is limited to those with a certified public accountant or a certified public tax accountant.)
  - c) A person who over the past one year has been a non-executive director of the Company.

## **Business Report**

(From April 1, 2017 to March 31, 2018)

### 1. Status of the Corporate Group

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

##### (a) Progress and Results of Operations

We deeply and sincerely apologize once again for causing substantial troubles to our shareholders due to the misconduct (the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications (the “Affected Products”), and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications, henceforth referred to as the “Misconduct”) of the Group. In order to complete safety verifications as soon as possible for a total of 688 customers who, as we announced, have received Affected Products, we are proceeding with safety verifications together with customers as a matter of the highest priority, and at the same time we are implementing measures to prevent recurrence, as described in “Issues to Be Addressed” below.

Japan’s economy in fiscal year 2017 (April 1, 2017–March 31, 2018) continued on a gradual recovery trend supported by recovery in personal spending on the back of improvements in the employment and income situation and by firm corporate capital investment for upgrading existing facilities, labor-saving purposes and other factors. In overseas economies, China showed signs of recovery from a slowdown, and parts of Southeast Asia, the United States, Europe and other areas continued to gradually improve.

In this economic environment in the Kobe Steel Group, the sales volume of steel products, supported by firm demand in the automotive sector, was similar to the previous year. The sales volume of aluminum rolled products was higher than the previous year. Although demand for can stock for beverage cans was similar to the previous year, demand in the automotive sector was higher than the previous year. The sales volume of copper rolled products was similar to the previous year. Although demand for copper strips increased for automotive terminals and semiconductors, the sales volume of copper tubes decreased due to equipment trouble at a manufacturing facility in Thailand. Unit sales of hydraulic excavators were higher than the previous year, owing to higher demand in Japan, China and other markets.

As a result, consolidated sales in fiscal year 2017 increased 185.2 billion yen, compared with the previous year, to 1,881.1 billion yen. Operating income improved 79.1 billion yen, compared with the previous year, to 88.9 billion yen from the posting of a one-time expense for the refurbishment of a blast furnace in the Iron & Steel business and the posting of an allowance for retained receivables in the Construction Machinery segment’s China business in the previous year as well as other factors. Ordinary income\* improved 90.2 billion yen, compared with the previous year, to 71.1 billion yen. As for extraordinary income and loss, although compensation to customers and other parties and other expenses were posted in connection with the Misconduct, a gain on the sale of investment securities resulted in extraordinary income of 2.0 billion yen. Net income attributable to owners of the parent improved 86.2 billion yen to 63.1 billion yen.

Dividends for fiscal year 2017 are decided after taking into full account the Company’s financial condition, business performance, future capital needs and other factors, including the impact of the Misconduct. As a result, the Company proposes a year-end dividend of 30 yen per share for fiscal year 2017.

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

### **Iron & Steel**

The sales volume of steel products was similar to the previous year due to firm domestic demand in the automotive sector and other factors, although exports were lower than the previous year. Sales prices were higher than the previous year, affected by higher raw material prices and other factors.

Sales of steel castings and forgings were lower than the previous year due to lower demand for ships. Sales of titanium products were higher than the previous year owing to higher sales in the aircraft sector and general industries and other factors.

As a result, consolidated segment sales in the fiscal year 2017 increased 15.3 percent, compared with the previous year, to 715.5 billion yen. Ordinary income\* improved 46.8 billion yen, compared with the previous year, to 17.3 billion yen from the posting of a one-time expense for the refurbishment of a blast furnace in the previous year and other factors.

### **Welding**

The sales volume of welding materials was lower than the previous year. In Japan, demand in the architectural steel frame sector and the sluggish energy sector was on a recovery trend. However, in overseas markets, sales volume decreased significantly in the shipbuilding sector of South Korea.

Sales of welding systems decreased, compared with the previous year, in which sales were at a high level, although demand remained firm in the architectural steel-frame sector.

As a result, consolidated segment sales in the fiscal year 2017 decreased 2.1 percent, compared with the previous year, to 80.5 billion yen. Ordinary income\* decreased 1.9 billion yen, compared with the previous year, to 4.9 billion yen.

### **Aluminum & Copper**

The sales volume of aluminum rolled products was higher than the previous year. Although demand for can stock for beverage cans was similar to the previous year, demand in the automotive sector increased.

The sales volume of copper rolled products was similar to the previous year. Demand increased for copper strips used in automotive terminals and semiconductors. However, the sales volume of copper tubes decreased because of equipment trouble at a manufacturing facility in Thailand in December 2016.

As a result, consolidated segment sales in the fiscal year 2017 increased 8.1 percent, compared with the previous year, to 349.5 billion yen. Ordinary income\* was 11.8 billion yen, similar to the previous year, impacted by the Misconduct and the deterioration of the performance of group companies, although inventory valuation improved due to high metal prices.

### **Machinery**

Consolidated orders in fiscal year 2017 increased 17.9 percent, compared with the previous year, to 151.1 billion yen, as China's petrochemical sector and other markets were on a recovery track and other factors. The consolidated backlog of orders at the end of the fiscal year 2017 stood at 140.4 billion yen.

Consolidated segment sales in the fiscal year 2017 increased 7.0 percent, compared with the previous year, to 161.3 billion yen. However, ordinary income\* decreased 3.5 billion yen, compared with the previous year, to 2.3 billion yen from deterioration of profitability in some of the compressors and other factors.

### **Engineering**

Consolidated orders in fiscal year 2017 were 119.2 billion yen, a decrease of 31.6 percent, compared with the previous year, which saw several large orders. The consolidated backlog of orders at the end of the fiscal year 2017 came to 183.4 billion yen.

Consolidated segment sales for the fiscal year 2017 increased 1.4 percent, compared with the previous year, to 122.8 billion yen. Ordinary income\* increased 4.1 billion yen, compared with the previous year, to 6.9 billion yen owing to the steady progress of ongoing projects and other factors.

### **Construction Machinery**

Unit sales of hydraulic excavators were higher than the previous year, owing to a spike in demand ahead of stricter exhaust emission regulations in Japan and rising demand from infrastructure investments in China and other factors.

However, unit sales of crawler cranes were lower than the previous year because of lower demand mainly in Southeast Asia and other factors.

As a result, consolidated segment sales in the fiscal year 2017 increased 17.4 percent, compared with the previous year, to 364.5 billion yen. Ordinary income\* in the previous year was impacted by the posting of an additional allowance for retained receivables incurred in the excavator business in China and other factors. Consequently, ordinary income\* improved 53.3 billion yen, compared with the previous year, to 21.9 billion yen, also aided by the higher unit sales of hydraulic excavators.

### **Electric Power**

The amount of electricity sold was less than the previous year due to the increase in the number of days for periodic inspection. The unit price of electricity was higher than the previous year because of higher market prices of coal used as fuel.

As a result, consolidated segment sales in the fiscal year 2017 increased 2.2 percent, compared with the previous year, to 72.1 billion yen. Ordinary income\* decreased 5.1 billion yen, compared with the previous year, to 7.9 billion yen because of the transition to a new contract for the Kobe Power Plant's No.1 unit, higher maintenance costs for periodic inspections, and other factors.

### **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 resulting from the Misconduct. In addition, Shinko Care Life Co., Ltd., which was previously a consolidated subsidiary, was excluded from the scope of consolidation in fiscal year 2017 and is included as an affiliate company accounted for by the equity method.

As a result, consolidated segment sales in the fiscal year 2017 decreased 8.0 percent, compared with the previous year, to 68.8 billion yen. Ordinary income\* decreased 2.1 billion yen, compared with the previous year, to 5.4 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

The business environment surrounding the Kobe Steel Group in Japan is anticipated to continue on a gradual recovery trend owing to improvement in the employment situation and signs of recovery in corporate capital investment and personal spending. Overseas, growth rates in China are anticipated to slow, but in the United States, Southeast Asia and other areas, economic recovery is anticipated to continue on track.

On the other hand, protectionist trade policies, sharp exchange rate fluctuations and other factors that impact economic trends need monitoring.

In such an environment, the Group recognizes that the issues it should tackle this period are, first, urgently rebuilding governance centered on quality, in view of the Misconduct announced in October 2017, and recovering the trust we have lost, in addition to the steady promotion of growth strategies for the future based on the three core business areas of the materials businesses, the machinery businesses, and the electric power business, which are presently underway.

**<Rebuilding Quality Governance in the Group>**

**—Background—**

In light of our discovering that JIS Standard violations took place in June 2016 at Shinko Wire Stainless Company, Ltd., the Company, in April 2017, began a quality-assurance audit covering all business divisions. This audit, which was led by the Head Office, focused on determining whether the quality of shipped products conformed not only with public standards related to quality, such as the JIS Standard, but also with customer specifications. Furthermore, in early August 2017, we also instructed all Kobe Steel Group companies to begin conducting quality self-inspections from September covering products shipped over the previous one-year period (September 2016 to August 2017).

In response to this request, the Aluminum and Copper Business, which had already started its self-inspections, discovered in late August 2017 that the Misconduct had taken place.

When this was discovered, the Company immediately halted shipment of products affected by the Misconduct, and, after conducting an internal investigation using an external law firm, began providing explanations to customers starting in September 2017, and made announcements to the public on October 8, 2017.

Subsequently, on October 26, 2017, the Company established an Independent Investigation Committee (the “IIC”) with lawyers with no special interests with the Company as members, which took over the investigation, and the Company has cooperated in full with the investigation of the IIC.

Afterward, the Company, on November 10, 2017, published a report which summarized the cause analyses that had been compiled by the Company up to that point in time. On the same date, the Company also established a Quality Governance Restructuring Deliberation Committee consisting of 8 members, with 5 persons being outside board members, as an advisory body to the Board. The Quality Governance Restructuring Deliberation Committee continued to examine issues related to the governance of the Group, as indicated in the above-mentioned report.

Subsequently, on March 6, 2018, upon receipt of the results of the investigations by the IIC, the Company announced the facts regarding, the cause analyses of, and the measures for preventing the recurrence of, the Misconduct, together with the examination results of the Company’s Compliance Committee and the Quality Governance Restructuring Deliberation Committee. The outline of the announcement is as follows.

\* For details of the Company’s announcement, please visit the Company’s website (<http://www.kobelco.co.jp>).

(i) Analyses of the causes of the Misconduct

We conclude that the causes of the Misconduct can be grouped into the following three categories: 1) the management style that overemphasized profitability and the inadequate corporate governance, 2) the imbalanced operation of plants that resulted in the reduced

awareness of quality compliance among employees, and 3) the insufficient quality control procedures that allowed the Misconduct to take place. Details are provided below.

- 1) Management style that overemphasized profitability and the inadequate corporate governance
  - To align with the Head Office’s emphasis on profitability, each business division felt the need to adopt an attitude that led them to accept purchase orders without reviewing their production capacities.
  - A large-scale transfer of authority from the Head Office to each of the individual divisions weakened the Head Office’s ability to assume centralized control over the entire Kobe Steel Group; this, in turn, led to the Head Office’s inability to manage a compliance program that ensured effective quality assurance.
  - Failure to detect the Misconduct at an early stage is also attributable to several factors relating to our corporate governance. For example, even when conduct similar to the Misconduct was found in the past, the Company’s management did not take drastic enough measures to address such issues. Internal audits at each division, moreover, were not sufficiently extensive.
- 2) Imbalanced operation of plants that resulted in the reduced awareness of quality compliance among employees
  - The manufacturing of products based on customer specifications not matched to process capability; a culture that prioritized winning purchase orders and meeting delivery deadlines over ensuring quality
  - An insular organization where personnel were rarely exchanged or transferred between different divisions; the absence of appropriate quality-related education / training and disciplinary actions
  - The employee’s quality compliance awareness dulled; and thus, there is a false assumption that products falling short of customer specifications could be shipped to the extent that they had no safety issues
- 3) Insufficient quality control procedures that allowed the Misconduct to take place
  - There are certain issues on quality management processes, such as inspection processes enabling data falsification or fabrication, isolated and rigid operational systems, and the establishment of internal standards utterly impossible to conform to

(ii) Measures to prevent a recurrence of the Misconduct

Based on the cause analyses mentioned above and taking the IIC’s suggestions into consideration, we have set out and are currently working on the following measures to prevent a recurrence of the Misconduct.

1) Measures in terms of governance— restructuring our quality governance systems

a. Penetration of the Group’s corporate philosophy

- Resolutely pursue reforms aimed at restoring trust in the Kobe Steel Group by further promoting the “Next 100 Project” activities (a project to shape the Kobe Steel Group’s future for the next 100 years), through which the top management talks to the employees face-to-face about the intent of the Group’s corporate philosophy “Core Values of KOBELCO” and the “Six Pledges of KOBELCO,” the guidelines for the philosophy, along with the management’s thoughts on these pledges.
- Designate every October as “Core Value of KOBELCO Month” to keep remembering the lessons learned from the past compliance incidents including the recent Misconduct
- In light of the significant impact the Misconduct had on the society, in addition, revise the “Six Pledges of KOBELCO,” pledges to be kept by all employees, to



include the expressions that emphasize customer satisfaction and contribution to the society

b. Desirable state of the Board of Directors

- To improve the fairness and transparency of the Board of Directors, ensure that at least one third of the members of the Board of Directors are Independent Directors
- As a voluntary advisory body, create a Nominating and Compensation Committee, a majority of which are outside directors
- Abolish the offices of Chairman of the Company and elect a chairman of Meetings of the Board of Directors from among the Independent Directors
- Revise the current structure under which all division heads are directors, and assign one director position to the materials business, one director position to the machinery business, and one director position to the electric power business. In addition, appoint a director overseeing compliance and a director overseeing quality management
- Set up an Independent Quality Supervision Committee consisting of external experts, as an organization that is dedicated to discussing various issues about quality compliance

c. Restructuring of the risk management system

- Conduct a Compliance Awareness Survey on a regular basis
- Strengthen the risk management of Group companies based on the Group's standards
- Formulate the "KOBELCO Quality Guidelines"
- Establish a Compliance Management Department under the guidance of an executive officer who is invited from outside dedicated to compliance matters

d. Reformation of the insular nature of organizations

- Fundamentally reinforce governance by restructuring divisions and Group companies
- Reform the insular nature of organizations through personnel rotation among the divisions
- Take control of and resolve issues arising at worksites through implementation of measures such as employee awareness surveys

e. Restructuring of the quality assurance system

- Adopt the "Quality Charter"
- Establish a Quality Management Department at the Head Office and a quality assurance section that is under the direct control of each division to reinforce the quality assurance system at each layer of our business: factories / plants, divisions, and the Head Office
- Have the Quality Management Department oversee quality audits and the development of quality assurance personnel as well as support the divisions' quality education and training
- Invite from outside an executive officer in charge of the Quality Management Department

f. Revising strategy for managing the business

- In order to increase our sustainable corporate values, adopt a management strategy that will aim at implementing a well-balanced internal control system throughout the organization and being capable of detecting risks and taking remedial measures (as Business Management Goals, define and determine how to implement the following in the fiscal year 2018: Economy, Legal and contractual compliance, Customer satisfaction, Sustainable quality, Safety, Employee satisfaction, and

Environmental Friendly Management)

2) Ensuring quality management

a. Measures for quality management

- Strengthen quality assurance management at each business location in line with the “KOBELCO Quality Guidelines”
- Hold group quality leader conferences organized by the Quality Management Department
- Have the quality assurance departments conduct audit, and assist in solving issues arising at worksites through the “quality caravan team” activities carried out by specialized personnel at the Head Office

b. Education for and development of quality assurance personnel

- Regard quality assurance personnel as specialized personnel for the entire company, and rotate and develop personnel in a manner that cuts across business divisions and locations
- Strengthen in-house education intended for all workers involved in quality at the Group in accordance with the Quality Charter

3) Strengthening quality control processes

a. Improvement of quality control processes

- Proceed with automating the processes of recording test / inspection data and eliminate as much as possible one-man operations in data entry processes
- Adopt a single shipment standard to remove opportunities for the Misconduct that resulted from double shipment standards (customer specifications and internal standards)

b. Revision of the authorization process to be followed when receiving new orders

- Revise the authorization process to be followed when receiving new orders and also aim at understanding our process capability compared with customer specifications when receiving order

c. Revision of the authorization process to be followed when changing manufacturing processes

- Revise the authorization process to be followed when changing manufacturing processes affecting product quality

Considering the facts relating to the Misconduct that were found by the Group’s quality self-inspections and the IIC’s investigation, together with multiple compliance incidents in which the Company was involved in the past, we must acknowledge that the Company is facing deep-seated issues concerning its organizational culture and awareness of its officers and employees, as well as its compliance systems.

In the process of investigating the causes of the Misconduct, we discovered the need to make reforms aimed at addressing issues more fundamental than issues that involved only quality, including those relating to governance in general, not to mention the importance of focusing on issues with management and operational processes relating to the Company’s quality assurance. We are also cognizant that there still remain issues that require further consideration, such as the desirable state of the Board of Directors, the desirable state of the division system, and the desirable methods of personnel allocation and development and of formulation of management plans.

We will continue to place the highest priority to completing the safety verification. At the same time, we will pursue fundamental reforms of our organizational systems and corporate culture by involving all of the Kobe Steel Group’s employees, led by the top management,

in diligently and earnestly implementing each measure to prevent a recurrence mentioned in “Measures to prevent a recurrence of the Misconduct” above.

The Group, in addition to undergoing an investigation by the investigation authorities in Japan on the Misconduct, has been under investigation by the U.S. Department of Justice since October 2017 for allegedly selling the Affected Products to customers in the United States.

In addition, three civil complaints have been brought against the Kobe Steel Group and other similar lawsuits may be filed in the future. The three civil complaints are as follows:

1. Class actions in Canada seeking compensation for economic loss and other reliefs caused by the automotive metal products manufactured by the Kobe Steel Group and the use of these products in the manufacture of automobiles.
2. A securities class action in the United States based on violations of the U.S. Securities Exchange Act (misrepresentation of the compliance system, etc.) concerning The Company’s American Depositary Receipts (ADR)
3. A class action in the United States seeking compensation for economic loss from the decline in the resale value of the plaintiffs’ vehicles and other relief, arising from the use of metal products manufactured by the Company in the manufacture of the vehicles.

The investigation by the investigation authorities in Japan, the investigation by the U.S. Department of Justice and the above-mentioned civil complaints are all at an early stage. It is difficult to reasonably estimate the final penalties, compensation for damages, and other outcomes at this time, but they may possibly result in a monetary burden.

The Group takes the investigations and lawsuits arising because of the Misconduct very seriously, and will earnestly work toward resolving them as soon as possible.

**<Promoting 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.

In November 2017, the Company completed the transfer of upstream production to Kakogawa Works in the steel business, which was part of our initiatives to increase profits. In addition, in the construction machinery business, in which we posted significant allowances in the previous fiscal year, we have been able to put business performance on the track to recovery by restructuring the sales and the production structure in China. The external environment is changing rapidly, but we believe we are making definite steps toward achieving the medium-term management plan.

As we approach the midway point of our five-year plan, while steadily promoting initiatives for weight savings in transportation currently underway, and initiatives to expand business in the energy and infrastructure field and the electric power business, the Company will adopt cash generation measures in order to maintain a D/E ratio of 1 time or less to maintain financial discipline. Through strengthening the business base, the Company aims to establish a solid business enterprise and generate growth.

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	i) Strengthening corporate governance	
	ii) Securing and developing human resources	
	iii) Strengthening technology development capabilities and manufacturing capabilities	
3) Financial Strategy	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		

\* For details of the Fiscal Year 2016-2020 Group Medium-Term Management Plan, please visit the Company’s website (<http://www.kobelco.co.jp>).

During the half-year-long investigation concerning the Group’s Misconduct, we gained great cooperation from those concerned, especially our customers, in the safety verification and other processes, and also received very valuable advice and opinions.

The Company has also received many severe reprimands from shareholders, in addition to admonishments and encouragements aimed at recovering trust.

For over 112 years since its founding, the Company has managed its business by valuing trust of its customers, partners, shareholders, and a number of other stakeholders. The recent loss of such trust, notwithstanding, is truly regrettable. To fulfill our responsibilities for the recent Misconduct and to be reborn as a company in which people can place their trust, we will go back to our roots (the “Base of *Monodzukuri*”), take to heart again the fact that reliable quality is the core of trust, strive to prevent a recurrence with an unwavering resolution, and commit ourselves to making this moment a true turning point.

We would like to ask all shareholders for their continued guidance and encouragement, in addition to support for the Group.

**[Core Values of KOBELCO]**

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

**[Six Pledges of KOBELCO Men and Women]**

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

**1. Heightened Sense of Ethics and Professionalism**

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

**2. Contribution to the Society by Providing Superior Products and Services**

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

**“Quality Charter”**

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

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

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

**4. Living in Harmony with Local Community**

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

**5. Contribution to a Sustainable Environment**

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

**6. Respect for Each Stakeholder**

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

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

(i) Production Volume (In thousands of tons)

Category		164th Business Term (Fiscal year 2016)	165th Business Term (Current term) (Fiscal year 2017)
Iron & Steel	Crude steel	7,275	7,537
Aluminum & Copper	Aluminum rolled products	376	384
	Copper rolled products	142	142

(ii) Orders Received (In millions of yen)

Category			164th Business Term (Fiscal year 2016)	165th Business Term (Current term) (Fiscal year 2017)
Machinery	Orders	Domestic	58,298	62,565
		Overseas	69,901	88,538
		Total	128,200	151,104
	Backlog of orders	Domestic	36,134	41,200
		Overseas	91,682	99,259
		Total	127,817	140,459
Engineering	Orders	Domestic	111,108	80,632
		Overseas	63,138	38,612
		Total	174,247	119,245
	Backlog of orders	Domestic	102,629	97,986
		Overseas	77,280	85,500
		Total	179,909	183,487

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

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

Category	164th Business Term (Fiscal year 2016)		165th Business Term (Current term) (Fiscal year 2017)	
	Net sales	Ordinary income	Net sales	Ordinary income
Iron & Steel	620,611	(29,557)	715,553	17,312
Welding	82,274	6,854	80,585	4,917
Aluminum & Copper	323,327	12,020	349,562	11,871
Machinery	150,710	5,896	161,325	2,379
Engineering	121,182	2,809	122,834	6,922
Construction Machinery	310,494	(31,399)	364,585	21,991
Electric Power	70,605	13,082	72,129	7,918
Other Businesses	74,874	7,610	68,882	5,418
Adjustment	(58,217)	(6,422)	(54,300)	(7,583)
Total	1,695,864	(19,103)	1,881,158	71,149
[Of the above, overseas net sales]	[573,624]		[648,527]	

(2) Capital Expenditures

Total capital expenditures on a construction (inspection and acceptance) base is 128.6 billion yen.

The major capital expenditures completed in fiscal year 2017 or ongoing as of the end of fiscal year 2017 are as follows:

Category	Facility Name
Completed	The Company Kakogawa Works and Kobe Works Strengthening equipment and distribution facilities etc. accompanying transfer upstream production to Kakogawa Works (Iron & Steel)
	Kobe Aluminum Automotive Products, LLC Melting and casting line, forging press etc. in Kentucky, the United States (6th investment) (Aluminum & Copper)
	The Company Takasago Works Strengthening rotating machine plant facility (opened a facility for large-capacity nonstandard compressors) (Machinery)
In progress	Kobelco Aluminum Products & Extrusions Inc. Melting furnaces, extrusion presses, processing lines etc., in Kentucky, the United States (Aluminum & Copper)
	The Company Moka Plant Heat treatment and surface treatment facilities for aluminum panel material (Aluminum & Copper)
	Kobe Aluminum Automotive Products, LLC Melting and casting line, forging press etc. in Kentucky, the United States (7th investment) (Aluminum & Copper)
	Kobelco Power Moka Inc. Power Supply Plant in Moka-shi, Tochigi-prefecture (Electric Power )
	The Company Kobe Works Power Supply Plant (Electric Power)

Note: In April 2018, the Company decided to make capital expenditures in facilities including the continuous annealing lines for ultra high-strength steel sheets at Kakogawa Works.

(3) Financing Activities

During fiscal year 2017, 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		162nd Business Term (Fiscal year 2014)	163rd Business Term (Fiscal year 2015)	164th Business Term (Fiscal year 2016)	165th Business Term (Current term) (Fiscal year 2017)
Net sales	(In millions of yen)	1,886,894	1,822,805	1,695,864	1,881,158
Operating income	(In millions of yen)	119,460	68,445	9,749	88,913
Ordinary income	(In millions of yen)	101,688	28,927	(19,103)	71,149
Net income attributable to owners of the parent	(In millions of yen)	86,549	(21,556)	(23,045)	63,188
Net income per share	(yen)	238.19	(59.34)	(63.54)	174.43
Total assets	(In millions of yen)	2,300,241	2,261,134	2,310,435	2,352,425
Net assets	(In millions of yen)	851,785	745,492	729,404	790,984
Net assets per share	(yen)	2,137.00	1,903.80	1,860.36	2,049.95

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 162nd business term.

(b) Assets and Results of Operations of the Company

Category		162nd Business Term (Fiscal year 2014)	163rd Business Term (Fiscal year 2015)	164th Business Term (Fiscal year 2016)	165th Business Term (Current term) (Fiscal year 2017)
Net sales	(In millions of yen)	1,028,146	979,085	923,700	1,041,923
Operating income	(In millions of yen)	35,297	21,006	(7,096)	32,121
Ordinary income	(In millions of yen)	46,600	26,690	(16,557)	44,449
Net income	(In millions of yen)	52,321	(6,217)	(6,319)	43,468
Net income per share	(yen)	143.79	(17.09)	(17.39)	119.77
Total assets	(In millions of yen)	1,432,210	1,478,036	1,607,297	1,634,268
Net assets	(In millions of yen)	556,645	514,575	513,620	556,715
Net assets per share	(yen)	1,529.83	1,413.07	1,415.24	1,534.02

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 162nd business term.



## (5) Major Businesses (As of March 31, 2018)

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

Category		Major Products and Businesses
Iron & Steel	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		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	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		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		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		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, General trading

## (6) Major Offices and Plants (As of March 31, 2018)

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	DETROIT, BANGKOK, 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 represent regional headquarters (local subsidiaries).

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	51.84	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.
Quintus Technologies AB [Sweden] *1	10 million Swedish krona	100.00	Design, manufacture, sales and servicing of isostatic pressing equipment and sheet metal forming equipment
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	80.22	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
Kobelco Construction Machinery (China) Co., Ltd. [China] *1	1,976,468 thousand yuan	100.00	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	100.00	Manufacture and sales of construction machinery
Chengdu Kobelco Construction Machinery Financial Leasing Ltd. [China] *1	437,994 thousand yuan	75.95	Leasing business
Kobelco Construction Machinery Southeast Asia Co., Ltd. [Thailand] *1	2,279 million Thai baht	100.00	Manufacture and sales of construction machinery
Kobelco International (S) Co., Pte. Ltd. [Singapore] *1	1,058 million yen	100.00	Sales and servicing of construction machinery
Kobelco Construction Machinery Europe B.V. [Netherlands] *1	8,800 thousand euro	100.00	Sales and servicing of construction machinery
Kobelco Construction Machinery USA, Inc. [United States] *1	2.3 thousand U.S. dollars	100.00	Manufacture, sales and servicing of construction machinery
Kobelco Construction Equipment India Pvt. Ltd. [India] *1	3,312 million Indian rupees	96.98	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

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
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
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, LLC [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
Ulsan Aluminum, Ltd. [Korea]	588,361 million won	50.00	Manufacture of aluminum sheet base material
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	35.02	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 2017, Quintus Technologies AB and Ulsan Aluminum, Ltd. were newly added.

Note 4: On March 15, 2018, Chengdu Kobelco Construction Machinery (Group) Co., Ltd. changed its registered trade name to Kobelco Construction Machinery (China) Co., Ltd. In fiscal year 2017, the Company changed its ratio of voting rights in the said company from 56.32% to 100.00%.

Note 5: On April 1, 2017, Thai Kobelco Construction Machinery Ltd. changed its registered trade name to Kobelco Construction Machinery Southeast Asia Co., Ltd. In fiscal year 2017, the company increased its capital, which resulted in its common stock totaling 2,279 million Thai baht.

Note 6: On February 28, 2018, PRO-TEC Coating Company changed its registered trade name to PRO-TEC Coating Company, LLC.

Note 7: In fiscal year 2017, Kobelco Construction Equipment India Pvt. Ltd. increased its capital, which resulted in its common stock totaling 3,312 million Indian rupees.

Note 8: In fiscal year 2017, the Company changed its ratio of voting rights in Hangzhou Kobelco Construction Machinery Co., Ltd. from 50.67% to 100.00%

Note 9: On April 1, 2018, Shinko Wire Company, Ltd. merged its subsidiary Tesac Wire Rope Co., Ltd. by way of share exchange. In line with this merger, the shares held by the Company in Tesac Wire Rope Co., Ltd. were

exchanged with the shares in Shinko Wire Company, Ltd. As a result, Shinko Wire Company, Ltd. became a major subsidiary of the Company.

Note 10: On May 11, 2018, the Company established KOBELCO POWER KOBE No.2, INC. and made it a major subsidiary.

Note 11: At the meeting of the Board of Directors held on April 27, 2018, the Company resolved to transfer 75 % of the Company's shareholding in Shinko Real Estate Co., Ltd. to Tokyo Century Corporation and NIPPON TOCHI-TATEMONO Co., Ltd. as of July 1, 2018. When the share transfer is completed, Shinko Real Estate Co., Ltd. will become the Company's affiliated company.

(8) Employees (As of March 31, 2018)

(a) Employees of the Group (Persons)

Category	Number of Employees
Iron & Steel	9,795
Welding	2,551
Aluminum & Copper	7,239
Machinery	4,010
Engineering	2,920
Construction Machinery	7,075
Electric Power	235
Other Businesses or Corporate	3,611
Total	37,436

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
11,191	+157	39.2 years old	16.3 years

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

Note 2: The number of employees stated above does not include 913 seconded employees.

(9) Major Lenders and Amount of Borrowings (As of March 31, 2018)

Main Lenders	Balance of Loans (In millions of yen)
Development Bank of Japan Inc.	83,759
Mizuho Bank, Ltd.	58,749
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	30,816
Nippon Life Insurance Company	30,326
Sumitomo Mitsui Banking Corporation	29,559
Sumitomo Mitsui Trust Bank, Limited	27,138
The Yamaguchi Bank, Ltd.	22,814
Mitsubishi UFJ Trust and Banking Corporation	21,351

Note 1: 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.

Note 2: On April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its registered trade name to MUFG Bank, Ltd.

2. Shares of the Company (As of March 31, 2018)

(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	189,496
(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 (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,497	3.98	–	–
Japan Trustee Services Bank, Ltd. (Trust Account)	12,150	3.34	–	–
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 5)	6,906	1.90	–	–
Mizuho Bank, Ltd.	6,467	1.78	–	–
STATE STREET BANK WEST CLIENT - TREATY 505234	5,911	1.62	–	–
Mitsubishi UFJ Trust and Banking Corporation	5,233	1.44	–	–
Japan Trustee Services Bank, Ltd. (Trust Account 2)	5,133	1.41	–	–
Japan Trustee Services Bank, Ltd. (Trust Account 1)	5,077	1.39	–	–

Note 1: The Company holds 229 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	8,838 shares
Total amount of purchases	9,865,885 yen

(b) Shares Disposed of

• Disposal of shares by requests for supplementary purchase of shares constituting less than one unit	
Common stock	340 shares
Total amount of disposal	337,217 yen

(c) Shares Held as of March 31, 2018

Common stock	229,235 shares
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### 3. Directors, Audit & Supervisory Committee Members and Officers

#### (1) Directors (As of March 31, 2018)

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, Quality Management Department, Secretariat & Publicity Department, General Administration Department, Legal Department, Human Resources Department, Corporate Planning Department (excluding the Automotive Materials Planning Section), Research & Development 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.
Executive Vice President (Representative Director)	Mitsugu Yamaguchi	Head of the Machinery Business
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	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. Head 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	Hiroyuki Bamba	Outside Director of Sekisui Plastics Co., Ltd.
Director (Audit & Supervisory Committee Member, full time)	Hiroaki Fujiwara	



Positions	Name	Duties & Significant concurrent positions
Director (Audit & Supervisory Committee Member, full time)	Yoshimasa Yamamoto	
Director (Audit & Supervisory Committee Member)	Takashi Okimoto	
Director (Audit & Supervisory Committee Member)	Yoshiiku Miyata	Outside Director of JXTG Holdings, Inc.
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, Hiroyuki Bamba, 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, Hiroyuki Bamba, 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, JXTG Holdings, Inc., 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: The Director who retired this term is as follows.

Positions	Name	Resignation Date
Director	Hiroshi Ochi	June 21, 2017

Note 8: The new positions and duties of directors whose positions or duties have changed as of April 1, 2018 are as follows:

Positions	Name	Duties
President & CEO (Representative Director)	Mitsugu Yamaguchi	
Executive Vice President (Representative Director)	Yoshinori Onoe	Oversees companywide technical development. Oversees the Environmental Control & Disaster Prevention Department, Research & Development Planning Department, and IT Planning Department. Oversees companywide information systems. Head of the Technical Development Group.
Executive Vice President (Representative Director)	Fusaki Koshiishi	Oversees the Quality Management Department, Intellectual Property Department and MONODZUKURI (Production System Innovation) Planning & Promotion Department. Oversees companywide quality.
Director, Senior Managing Executive Officer	Shohei Manabe	Oversees the Audit Department and Compliance Management Department. Oversees companywide compliance.
Director	Hiroya Kawasaki	
Director	Akira Kaneko	
Director	Naoto Umehara	
Director	Toshiya Miyake	

Note 9: The Company has implemented an officer system, with the names and duties of officers as of April 1, 2018 as follows:

	Positions	Name	Duties
Head Office	Senior Managing Executive Officer	Makoto Mizuguchi	Responsible for the Environmental Control & Disaster Prevention Department, Corporate Planning Department (Automotive Materials Planning Section), Research & Development Planning Department, Intellectual Property Department, MONODZUKURI (Production System Innovation) Planning & Promotion Department and IT Planning Department. Responsible for companywide information systems. Responsible for Automotive Solution Center in the Technical Development Group. Responsible for companywide automotive projects.
	Senior Managing Executive Officer	Yoshihiko Katsukawa	Oversees the Legal Department, Corporate Communications Department, General Administration 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, and branch offices and sales offices (including Takasago Works). Oversees overseas locations (under the head office).
	Managing Executive Officer	Hiroshi Ishikawa	Assistant to the President and CEO
	Managing Executive Officer	Kazuaki Kawahara	Responsible for the Corporate Planning Department (excluding the Automotive Materials Planning Section), Accounting Department and Finance Department
	Managing Executive Officer	Yasushi Okubo	Responsible for the Audit Department, Legal Department and General Administration Department. Responsible for special assignments from the President and CEO.
	Managing Executive Officer	Hajime Nagara	Responsible for the Corporate Communications Department, Human Resources Department, Marketing Planning Department, Civil Engineering & Construction Technology Department, Rugby Administration Office, domestic branch offices and sales offices (including Takasago Works), and overseas locations (under the head office).
	Managing Executive Officer	Kunio Uchiyamada	Responsible for Compliance Management Department. Responsible for companywide compliance.
	Managing Executive Officer	Yutaka Yamaguchi	Responsible for the Quality Management Department. Responsible for companywide quality assurance.
	Executive Officer	Yuichiro Goto	Vice Head of the Technical Development Group
Iron & Steel	Executive Vice President and Officer	Koichiro Shibata	Oversees the materials businesses. Head of the Iron & Steel Business
	Senior Managing Executive Officer	Yoshihiro Oka	Responsible for the Sales Management & Administration Department and Sheet Products Sales Department. Responsible for overseas locations in the sheet products field. Responsible for overall sales.
	Senior Managing Executive Officer	Shoji Miyazaki	Responsible for overall production of steel products. Responsible for production technology in the flat steel field. General Manager of Kakogawa Works
	Managing Executive Officer	Koji Yamamoto	Responsible for the Technology Administration Department, Computer Systems Department, and the Research & Development Laboratory.
	Managing 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.
	Executive Officer	Shuji Kitayama	Responsible for production technology in the wire rod and bar field. General Manager of Kobe Works
	Executive Officer	Kazuhiko Kimoto	Responsible for the Planning & Administration Department, the Raw Materials Department, and Purchasing Department.
Welding	Managing	Akira Yamamoto	Head of the Welding Business

	Positions	Name	Duties
	Executive Officer		
Aluminum & Copper	Senior Managing Executive Officer	Yukimasa Miyashita	Head of the Aluminum & Copper Business
	Senior Managing Executive Officer	Hiroaki Matsubara	Responsible for the casting and forging business, extrusion business, and environmental control and disaster prevention
	Executive Officer	Seiji Hirata	Responsible for special assignments from Head of the Aluminum & Copper Business
	Executive Officer	Hideki Asada	Responsible for aluminum flat rolled products business and copper flat rolled products business. Responsible for safety management. General Manager of the Technology Control Department.
	Executive Officer	Ryosaku Kadowaki	Responsible for the Raw Materials Department and Quality Assurance Department. General Manager of the Planning & Administration Department
Machinery	Executive Vice President and Officer	Takao Ohama	Oversees the machinery businesses. Head of the Machinery Business
	Managing Executive Officer	Masamichi Takeuchi	General Manager of the Industrial Machinery Division
	Executive Officer	Hiroki Iwamoto	General Manager of the Compressor Division. General Manager of the Standard Compressor Business Unit in the Compressor Division
	Executive Officer	Yoshinori Kurioka	Deputy General Manager of the Compressor Division. General Manager of the Rotating Machinery Business Unit of the Compressor Division. General Manager of the Rotating Machinery Engineering Department in the Rotating Machinery Business Unit of the Compressor Division. General Manager of the Business Development Section in the Rotating Machinery Business Unit of the Compressor Division
Engineering	Senior Managing Executive Officer	Kazuto Morisaki	Head of the Engineering Business
	Executive Officer	Masahiro Motoyuki	Responsible for the Iron Unit Division. General Manager of the Project Engineering Division
Electric Power	Senior Managing Executive Officer	Jiro Kitagawa	Oversees electric power business. Head of the Electric Power Business. General Manager of the Planning & Administration Department

(2) Remuneration and Other Amounts to Directors

Category	Number of Payees (Persons)	Amount (In millions of yen)	Total by amount type breakdown, including remuneration (In millions of yen)			
			Fixed remuneration	Performance-based remuneration	Stock remuneration	
Directors (excluding Audit & Supervisory Committee Members) (of which, Outside Directors)	12 (3)	640 (26)	415 (26)	86 (-)	138 (-)	Number of Payees and Amount include one Outside Director (who is not an Audit & Supervisory Committee Member), retired in fiscal year 2017.
Directors (Audit & Supervisory Committee Members) (of which, Outside Directors)	5 (3)	109 (43)	109 (43)	- (-)	- (-)	
Total	17	750	524	86	138	

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 53 to 54.

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

Note 3: The Company views the net loss in fiscal year 2016 and the postponement of the annual dividend as serious matters, and in the period from February 2017 to January 2018, reduced 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 10% of their fixed remuneration in the period from February to April 2017.

Note 4: The Company takes very seriously the fact that the Misconduct in the Group has caused significant troubles to many people, and all Directors excluding Outside Directors and Directors who are Audit & Supervisory Committee Members have voluntarily returned 10 to 50% of their fixed remuneration in the period from in the period from March to June 2018.

Note 5: Totals for performance-based remuneration are estimated payments.

Note 6: The total amount of stock remuneration is the amount of expenses posted for points awarded.

Note 7: The Company's approach to amount of remuneration, etc. for Directors and decisions involving its method of calculation are as follows (pages 53 to 54). From April 1, 2018, the Company changed the advisory body concerning the policies for remuneration to its Directors from the Meeting of Independent Directors to the Nominating and Compensation Committee.

**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, the Company ensures the objectivity and transparency of judgments regarding remuneration decisions by conducting deliberations at Nominating and Compensation Committee, a majority of which are 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) Regarding ways for and necessity to revise the remuneration system, it is deliberated at the Nominating and Compensation Committee, a majority of which are Independent Directors. Then, 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 Committee Meetings Attended (Attendance Rate)	Advice Received at Board of Directors, Audit & Supervisory Board and Audit & Supervisory Committee Meetings
Director	Takao Kitabata	20/21 meetings held (95%)	–	Provided advice and suggestions concerning corporate management from his deep insight in the world of industry backed by his broad experience as an administrative official and extensive knowledge as an outside director / outside audit & supervisory board member of listed companies.
Director	Hiroyuki Bamba	17/17 meetings held (100%)	–	Provided advice and suggestions concerning corporate management from his abundant experience in a different business fields from ours in the world of industry and deep insight as a corporate executive.
Director (Audit & Supervisory Committee Member)	Takashi Okimoto	21/21 meetings held (100%)	19/19 meetings held (100%)	Provided advice and suggestions concerning corporate management from his abundant experience in credit management and financial management at financial institutions and deep insight as a corporate executive of financial institutions. He also actively shared his thoughts on matters related to compliance.
Director (Audit & Supervisory Committee Member)	Yoshiiku Miyata	19/21 meetings held (90%)	17/19 meetings held (89%)	Provided advice and suggestions concerning corporate management from his abundant experience in a different business fields from ours in the world of industry and deep insight as a corporate executive including the post of president of overseas business entities. He also actively shared his thoughts on matters related to compliance.
Director (Audit & Supervisory Committee Member)	Hidero Chimori	20/21 meetings held (95%)	19/19 meetings held (100%)	Provided advice and suggestions concerning corporate management from his deep insight backed by his abundant experience in the legal profession as an Attorney at Law and his extensive knowledge as an outside director and outside audit & supervisory board member of listed companies. He also actively shared his thoughts on matters related to compliance.

Note: Since June 21, 2017, the date on which Director Hiroyuki Bamba assumed his office, Board of Directors Meetings have been held 17 times.

In October 2017, the Company announced the fact that misconducts had been taking place in the Group concerning the products and services delivered by the Group, including the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications, and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications.

Directors Takao Kitabata, Hiroyuki Bamba, Takashi Okimoto, Yoshiiku Miyata and Hidero Chimori were not aware of these facts until the problems were identified, but they had made suggestions and called attention to matters regarding the type of company that the Company should aspire to be, and from the perspective of ensuring compliance, on a regular basis at meetings of the Board of Directors and other occasions.

Since these facts were identified, these five Directors have expressed various views aimed at ensuring the appropriateness and validity of the method of investigation, as well as uncovering the causes and verifying safety, at meetings of the Board of Directors. In addition, based on their respective experience and knowledge, they have also contributed to the formulation of measures to prevent recurrence by providing proactive and constructive views as members of the Quality Governance Restructuring Deliberation Committee, on matters including measures for strengthening quality governance,

organizational reforms, awareness-raising, and utilization of external personnel including at Group companies, as well as strengthening of the functions of overseas regional headquarters.

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	133
(b)	Total amount of money and other financial interests to be paid by the Company and its subsidiaries	442

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 adopts the structure of a company with an Audit & Supervisory Committee model under which those responsible for audits have voting rights on the Board of Directors, to enable comprehensive audits of the Company's extensive businesses, maintain and strengthen the auditing function of the Board of Directors and to accelerate decision-making with regard to management, while the functions of auditing and execution are not separated under this model.

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. In addition, 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.

Furthermore, in order to further enhance the monitoring function of the Board of Directors, in April 2018, we revised the current structure under which all division heads are Directors, and operations to be delegated. Besides the President and CEO, we decided to assign Directors overseeing each of the head office division, the materials businesses, the machinery businesses, and the electric power businesses. In addition, in order to enhance the effectiveness of compliance and risk management, and enhance quality governance, we have decided to appoint a Director overseeing compliance and a Director overseeing quality management. (For the structure of the Board of Directors, please see page 6.)

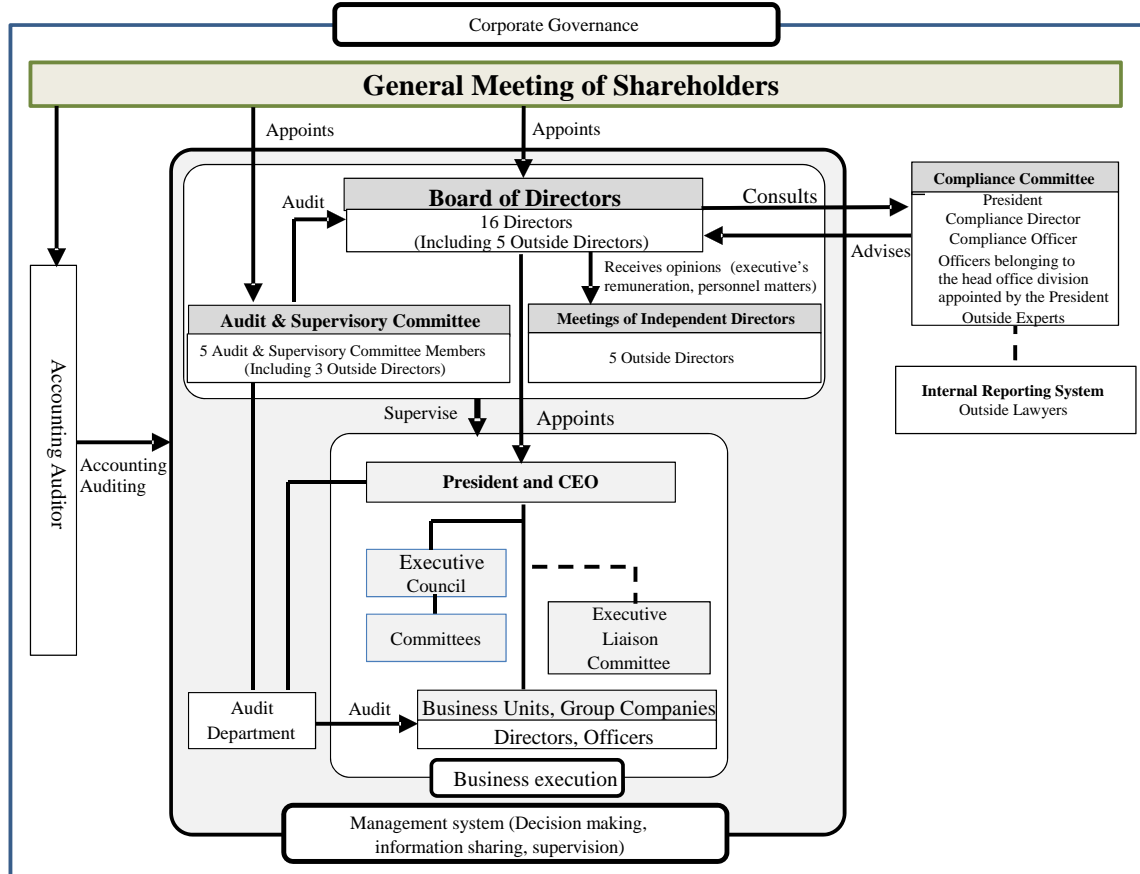
In addition, in order to enhance the fairness and transparency of the Board of Directors, and further stimulate discussion regarding growth strategies as a company, we have decided to make the following changes:

- Independent Directors will account for 1/3 or more of the Board
- Establish a Nominating and Compensation Committee, a majority of which are Outside Directors, as an advisory body to the Board of Directors
- Abolish the Office of Chairman of the Company and elect the Chairman of the Board of Directors from among the Independent Directors

At the 165th Ordinary General Meeting of Shareholders, the Company has submitted proposals regarding partial amendments to the Articles of Incorporation necessary for the above

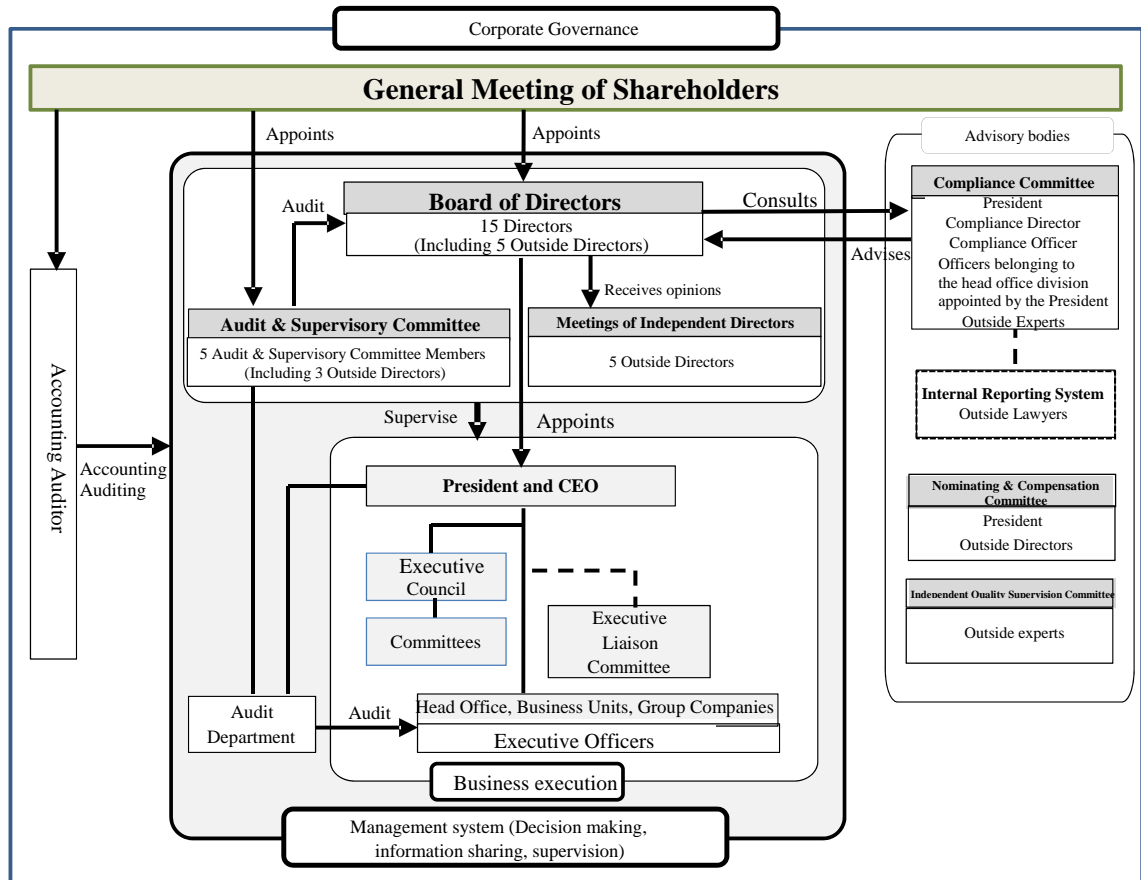
changes, and the election of ten (10) Directors (excluding Directors who are Audit & Supervisory Committee Members).

<Corporate Governance System>  
 [System in fiscal year 2017]



[System in fiscal year 2018]

If the proposal submitted at the 165th Ordinary General Meeting of Shareholders is approved, the system will be as shown below.



(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 for compliance. The Company shall build a compliance structure that incorporates checks by outside experts at the Company and principal Group companies, including the establishment of a Compliance Committee — an advisory organ to the Board of Directors that has outside committee members — and , and 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 proper and efficient operations by establishing "Risk Management Regulations." These regulations are applied when each division extracts individual risk items concerning risks surrounding the business of the Company and formulates measures to prevent the extracted risk items and procedures for coping with the risks when they become evident. They also specify the system to monitor risk management. Details of the Risk Management Standards, stipulated in the Risk Management Regulations, shall be reviewed properly. The internal audit division shall verify the appropriateness and effectiveness of the systems for risk management.

**(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 plays a central function in the corporate governance of the Company Group.

The Company also adopts the Business Unit System as a management system by which to fully display our group's total capability such as information sharing or cooperation between business units, in addition to promoting "prompt" decision making. Under this system, 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 Committee, comprised of Directors, Executive Officers and Executive Technical Officers who execute business and the presidents and executives of affiliated companies designated by the President of the Company, to facilitate the sharing of information on important matters relating to management.

**(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 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 address their risks, evaluate the current situation of such addressed risks and draw suitable preventive maintenance policies in accordance with "Risk Management Regulations."

The Company shall dispatch its employees to its 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 compliance committees and maintain internal reporting systems.

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

**(g) Matters regarding Directors and employees who assist in the 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 a system to ensure the effectiveness of instructions from the Audit & Supervisory Committee to the said Directors and employees**

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

Employees of the Audit & Supervisory Committee Secretariat mainly support the audits by the Audit & Supervisory Committee based on instructions by the Audit & Supervisory Committee in accordance with the "Rule regarding Audits by the Audit & Supervisory Committee." Directors (excluding Directors who are Audit & Supervisory Committee Members), Executive Officers and employees shall not hinder such support activities by the Audit & Supervisory Committee Secretariat and cooperate to ensure the effectiveness of the audits by the Audit & Supervisory Committee.

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

Directors (excluding Directors who are Audit & Supervisory Committee Members), Executive Officers and employees shall periodically report the status of performance of duties, important committees, and other matters to the Audit & Supervisory Committee, in addition to matters designated by law. They shall also report each time material risks occur in business activities and the status of response to them, as well as the design and operational effectiveness of internal systems for ensuring proper financial reporting.

Additionally, they shall report the current circumstances of their subsidiaries to the Audit & Supervisory Committee depending on the necessity to do so. The Audit & Supervisory Committee Secretariat and the internal audit division (among departments in charge of audits regarding specific operations with high specialization or peculiarity) report to the Audit & Supervisory Committee current situations regarding the Company's group compliance and risk management.

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

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

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

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

**(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 through cooperation with the internal audit division.

Note: The above shows the system implemented in fiscal year 2017. Furthermore, at the meeting of the Board of Directors held on April 27, 2018, the Company resolved to make amendments reflecting revisions to the risk management system that we are currently focusing on, etc. The new Internal

Control System Basic Policy is posted on the Company's website (<http://www.kobelco.co.jp>) as reference materials for the 165th Ordinary General Meeting of Shareholders.

(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 2017 is as follows.

**(a) Compliance measures**

In fiscal year 2017, the Compliance Committee met six (6) times. Activities included formulation of compliance activity plan for fiscal year 2017, and monitoring the status of implementation of compliance activities.

Furthermore, based on compliance activity plans for fiscal year 2017, 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.

The Company has established an internal reporting system with lawyers introduced by bar associations as contact points, and the Compliance Hotline connected to compliance management divisions. The Company is focusing on making its compliance activities function more effectively, including protecting the privacy of persons inquiring and making reports, taking care to ensure these persons do not suffer any disadvantage, and accommodating anonymous consultation and reporting. In order to further enhance compliance, the Company will expand its activities in future, including regularly conducting a "compliance awareness survey."

**(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.

However, in order to build a more effective risk management system, in view of the misconduct affecting product quality in the Group announced in October 2017, the Company has begun initiatives, including appointing an Executive Officer who will be exclusively responsible for quality assurance and an Executive Officer who will be exclusively in charge of compliance from outside the Company, and establishing a new Quality Management Department and Compliance Management Department to function as executive departments on a cross-company basis.

**(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 addition, regarding the effectiveness of the Board of Directors, the Company identified issues and made improvements to the way the Board of Directors operates by conducting surveys of each Director every fiscal year, and discussing and evaluating the results of the surveys at meetings of the Board of Directors, after a primary assessment by the Audit & Supervisory Committee.

Furthermore, in order to further enhance the fairness and transparency of governance, in view of the misconduct affecting product quality in the Group announced in October 2017, the Company decided to implement various measures to enhance the monitoring function of the Board of Directors.

- Revise the structure of the Board of Directors; revise operations to be delegated

Abolish the current structure under which all division heads concurrently serve as Directors, and

appoint Directors overseeing each of the materials businesses, the machinery businesses, and the electric power businesses

Appoint a Director overseeing compliance and risk management, and a Director overseeing quality governance

- Independent Directors will account for 1/3 or more of the Board
- Establish a Nominating and Compensation Committee as voluntary advisory body of the Board of Directors
- Abolish the Office of Chairman of the Company and elect the chairman of the Board of Directors from among the Independent Directors

**(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.

In particular, in view of the misconduct affecting product quality in the Group announced in October 2017, the Audit & Supervisory Committee expressed its view that the Board of Directors should focus on reforming governance systems and corporate culture, etc., and also requested that the Board of Directors make timely reports to the Audit & Supervisory Committee regarding the status of progress on the response to the misconduct.

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

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

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

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

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

However, the Company believes that a party which will have an impact on its financial and business policy decisions must be one that fully understands the sources of its corporate value such as the Company's management principles and the relationship of mutual trust it shares with its stakeholders, which are necessary and indispensable for the enhancement of corporate value and, ultimately, the common interests of its shareholders. Such a party must also be able to protect and enhance the Company's corporate value and, ultimately, the common interests of its shareholders as a result.

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

- (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

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

The Company plans to focus its management resources in growing fields anticipated to expand over the medium to long term such as weight savings in transportation as well as energy and infrastructure.

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

\* 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

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

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

Going forward, the Company will continue looking for ways to further strengthen corporate governance. The Company will reference opinions presented at the Meetings of Independent Directors and the results of the Board of Directors' effectiveness evaluation,



which are based on an annual survey of each director and an evaluation of the survey results by the Audit & Supervisory Committee.

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

Further, if it is rationally judged that there is a risk of damage to the Company's corporate value and the common interests of shareholders unless timely defensive measures are implemented, the Company will endeavor to secure its corporate value and the common interests of its shareholders, as an obvious obligation of the Board of Directors entrusted with management of the Company by its shareholders, by promptly deciding the content of the concrete measures deemed most appropriate at the time in accordance with the relevant laws and regulations and executing such measures.

Based on the policy stipulated in (a) hereinabove, the Company believes these initiatives stipulated in (b) and (c) hereinabove meet its corporate value and the common interests of its shareholders and are not aimed at preserving the personal status of its Directors.

- (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.

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

## Consolidated Balance Sheets

(As of March 31, 2018)

(In millions of yen)

Item	Amount	Item	Amount
<b>ASSETS</b>		<b>LIABILITIES</b>	
<b>Current Assets</b>	<b>1,046,288</b>	<b>Current liabilities</b>	<b>901,018</b>
Cash and deposits	165,526	Notes and accounts payable	457,126
Notes and accounts receivable	324,811	Short-term borrowings	205,732
Merchandise and finished goods	159,910	Bonds due within one year	14,000
Work-in-process	136,530	Accounts payable - other	54,436
Raw materials and supplies	152,007	Income and enterprise taxes payable	8,551
Deferred tax assets	27,989	Deferred tax liabilities	724
Other	84,185	Provision for bonuses	20,872
Allowance for doubtful accounts	(4,672)	Provision for product warranties	14,505
<b>Fixed assets</b>	<b>1,306,136</b>	Provision for loss on construction contracts	9,633
<b>Tangible fixed assets</b>	<b>981,689</b>	Provision for loss on guarantees	2,660
Buildings and structures	279,270	Provision for structural reform-related expenses	364
Machinery and equipment	433,414	Provision for dismantlement-related expenses	10,116
Tools, equipment and fixtures	15,575	Provision for customer compensation expenses	3,583
Land	192,158	Other	98,709
Construction in progress	61,271	<b>Long-term liabilities</b>	<b>660,422</b>
<b>Intangible fixed assets</b>	<b>40,807</b>	Bonds and notes	132,000
Software	16,720	Long-term borrowings	387,133
Other	24,087	Deferred tax liabilities	9,819
<b>Investments and other assets</b>	<b>283,639</b>	Deferred tax liabilities on land revaluation	3,251
Investments in securities	197,839	Net defined benefit liability	70,946
Long-term loans receivable	6,266	Provision for environmental measures	777
Deferred tax assets	21,505	Provision for dismantlement-related expenses	2,490
Net defined benefit asset	17,088	Other	54,003
Other	97,190	<b>Total liabilities</b>	<b>1,561,440</b>
Allowance for doubtful accounts	(56,250)	<b>NET ASSETS</b>	
		<b>Stockholders' equity</b>	<b>746,115</b>
		Common stock	250,930
		Capital surplus	102,314
		Retained earnings	395,542
		Treasury stock, at cost	(2,671)
		<b>Accumulated other comprehensive income</b>	<b>(3,527)</b>
		Unrealized gains on securities, net of taxes	17,333
		Deferred gains (losses) on hedges, net of taxes	(9,913)
		Land revaluation differences, net of taxes	(3,406)
		Foreign currency translation adjustments	10,185
		Remeasurements of defined benefit plans, net of taxes	(17,726)
		<b>Non-controlling interests</b>	<b>48,396</b>
		<b>Total net assets</b>	<b>790,984</b>
<b>Total assets</b>	<b>2,352,425</b>	<b>Total liabilities and net assets</b>	<b>2,352,425</b>

(Amounts are rounded down to the nearest million yen.)

## Consolidated Statements of Income

(From April 1, 2017 to March 31, 2018)

(In millions of yen)

Item	Amount	
Net sales		1,881,158
Cost of sales		1,595,229
<b>Gross profit</b>		<b>285,928</b>
Selling, general and administrative expenses		197,014
<b>Operating income</b>		<b>88,913</b>
Non-operating income		
Interest and dividend income	6,259	
Other	18,961	25,221
Non-operating expenses		
Interest expense	12,303	
Other	30,682	42,986
<b>Ordinary income</b>		<b>71,149</b>
Extraordinary income		
Gain on sales of investment securities	9,140	9,140
Extraordinary losses		
Customer compensation expenses	4,361	
Dismantlement-related expenses	2,759	7,121
<b>Income before income taxes and non-controlling interests</b>		<b>73,168</b>
Income taxes – current	15,424	
Income taxes – deferred	(4,803)	10,621
<b>Income before non-controlling interests</b>		<b>62,547</b>
Net loss attributable to non-controlling interests		640
<b>Net income attributable to owners of the parent</b>		<b>63,188</b>

(Amounts are rounded down to the nearest million yen.)

(Reference) Summary of Consolidated Statements of Cash Flows

(From April 1, 2017 to March 31, 2018)

Item	Amount
	(In millions of yen)
Net cash provided by operating activities	190,832
Net cash used in investing activities	(161,598)
Net cash used in financing activities	(66,598)
Effect of exchange rate changes on cash and cash equivalents	1,719
Increase (Decrease) in cash and cash equivalents	(35,644)
Cash and cash equivalents at the beginning of fiscal year	200,417
Increase in cash and cash equivalents resulting from change in scope of consolidation	494
Cash and cash equivalents at the end of fiscal year	165,267

(Amounts are rounded down to the nearest million yen.)

## Non-Consolidated Balance Sheets

(As of March 31, 2018)

(In millions of yen)

Item	Amount	Item	Amount
<b>ASSETS</b>		<b>LIABILITIES</b>	
<b>Current Assets</b>	<b>609,799</b>	<b>Current liabilities</b>	<b>552,586</b>
Cash and deposits	67,910	Accounts payable	281,882
Notes receivable	1,593	Short-term borrowings	119,479
Accounts receivable	123,717	Lease obligations	37
Lease receivables	379	Bonds due within one year	14,000
Merchandise and finished goods	80,282	Accounts payable - other	42,528
Work-in-process	97,165	Accrued expenses	26,912
Raw materials and supplies	101,967	Income and enterprise taxes payable	1,459
Advance payments - trade	1,509	Advances received	19,504
Prepaid expenses	2,827	Deposits received	6,974
Deferred tax assets	13,462	Unearned revenue	165
Short-term loans receivable	73,519	Provision for bonuses	8,890
Accounts receivable - other	33,778	Provision for product warranties	3,179
Other	11,700	Provision for loss on construction contracts	8,447
Allowance for doubtful accounts	(14)	Provision for structural reform-related expenses	364
<b>Fixed assets</b>	<b>1,024,468</b>	Provision for dismantlement-related expenses	10,116
<b>Tangible fixed assets</b>	<b>597,356</b>	Provision for customer compensation expenses	3,100
Buildings	103,259	Asset retirement obligations	54
Structures	51,182	Other	5,488
Machinery and equipment	323,317	<b>Long-term liabilities</b>	<b>524,966</b>
Vehicles	1,632	Bonds and notes	132,000
Tools, equipment and fixtures	7,572	Long-term borrowings	347,113
Land	70,007	Lease obligations	54
Construction in progress	40,384	Deferred tax liabilities	8,553
<b>Intangible fixed assets</b>	<b>13,931</b>	Provision for retirement benefits	20,752
Software	11,339	Provision for environmental measures	509
Right of using facilities	533	Provision for dismantlement-related expenses	2,490
Other	2,057	Asset retirement obligations	811
<b>Investments and other assets</b>	<b>413,180</b>	Other	12,681
Investments in securities	109,137	<b>Total liabilities</b>	<b>1,077,553</b>
Shares of subsidiaries and associates and investments in capital	233,062	<b>NET ASSETS</b>	
Long-term loans receivable	40,587	<b>Stockholders' equity</b>	<b>551,895</b>
Prepaid pension cost	23,470	<b>Common stock</b>	<b>250,930</b>
Other	8,547	<b>Capital surplus</b>	<b>100,789</b>
Allowance for doubtful accounts	(1,625)	Legal capital surplus	100,789
		<b>Retained earnings</b>	<b>201,884</b>
		Other retained earnings	201,884
		Reserve for special depreciation	299
		Reserve for advanced depreciation of fixed assets	2,454
		Retained earnings brought forward	199,130
		<b>Treasury stock, at cost</b>	<b>(1,708)</b>
		<b>Valuation and translation adjustments</b>	<b>4,820</b>
		Unrealized gains on securities, net of taxes	12,789
		Deferred gains (losses) on hedges, net of taxes	(7,969)
		<b>Total net assets</b>	<b>556,715</b>
<b>Total assets</b>	<b>1,634,268</b>	<b>Total liabilities and net assets</b>	<b>1,634,268</b>

(Amounts are rounded down to the nearest million yen.)

## Non-Consolidated Statements of Income

(From April 1, 2017 to March 31, 2018)

(In millions of yen)

Item	Amount	
Net sales		1,041,923
Cost of sales		921,806
<b>Gross profit</b>		<b>120,116</b>
Selling, general and administrative expenses		87,995
<b>Operating income</b>		<b>32,121</b>
Non-operating income		
Interest and dividend income	33,702	
Other	12,899	46,602
Non-operating expenses		
Interest expense	5,406	
Other	28,867	34,273
<b>Ordinary income</b>		<b>44,449</b>
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	3,684	
Gain on sales of investment securities	5,679	9,364
Extraordinary losses		
Customer compensation expenses	3,797	
Dismantlement-related expenses	2,759	6,557
<b>Income before income taxes</b>		<b>47,256</b>
Income taxes – current	(27)	
Income taxes – deferred	3,816	3,788
<b>Net income</b>		<b>43,468</b>

(Amounts are rounded down to the nearest million yen.)

## Consolidated Statements of Changes in Net Assets

(From April 1, 2017 to March 31, 2018)

(In millions of yen)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance as of April 1, 2017	250,930	103,537	331,679	(2,660)	683,486
Amount of change					
Net income attributable to owners of the parent			63,188		63,188
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock			(0)	0	0
Changes in stockholders interest due to transaction with non-controlling interests		(1,232)			(1,232)
Increase due to changes in scope of consolidation		9	675		684
Net changes other than stockholders' equity					
Total changes	—	(1,223)	63,863	(10)	62,629
Balance as of March 31, 2018	250,930	102,314	395,542	(2,671)	746,115

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total Accumulated other comprehensive income		
Balance as of April 1, 2017	17,475	(9,229)	(3,406)	7,708	(22,106)	(9,557)	55,476	729,404
Amount of change								
Net income attributable to owners of the parent								63,188
Purchase of treasury stock								(11)
Disposal of treasury stock								0
Changes in stockholders interest due to transaction with non-controlling interests								(1,232)
Increase due to changes in scope of consolidation								684
Net changes other than stockholders' equity	(141)	(683)	—	2,476	4,379	6,030	(7,080)	(1,049)
Total changes	(141)	(683)	—	2,476	4,379	6,030	(7,080)	61,579
Balance as of March 31, 2018	17,333	(9,913)	(3,406)	10,185	(17,726)	(3,527)	48,396	790,984

(Amounts are rounded down to the nearest million yen.)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Important Matters Forming the Basis of the Preparation of Consolidated Financial Statements**

#### 1. Matters Concerning the Scope of Consolidation

Kobe Steel, Ltd. (the “Company”) has 212 subsidiaries, of which 173 subsidiaries are included in the scope of consolidation (the “Kobe Steel Group”). Names of major consolidated subsidiaries are as follows.

Nippon Koshuha Steel Co., Ltd., Kobelco Steel Tube Co., Ltd., Shinko Kenzai, Ltd., Kobelco Logistics, Ltd., Shinko Bolt, Ltd., Shinko Engineering & Maintenance Co., Ltd., Kobe Welding of Qingdao Co., Ltd., Kobe Welding of Korea Co., Ltd., Kobelco & Materials Copper Tube, Ltd., Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd., Kobe Aluminum Automotive Products (China) Co., Ltd., Kobelco & Materials Copper Tube (Thailand) Co., Ltd., Kobelco Aluminum Products & Extrusions Inc., Kobe Aluminum Automotive Products, LLC, Kobelco & Materials Copper Tube (M) Sdn. Bhd., Kobe Precision Technology Sdn. Bhd., Kobelco Compressors Corporation, Shinko Engineering Co., Ltd., Quintus Technologies AB, Kobelco Compressors Manufacturing (Shanghai) Corporation, Kobelco Compressors America, Inc., Kobelco Eco-Solutions Co., Ltd., Kobelco Eco-Maintenance Co., Ltd., Midrex Technologies, Inc., Kobelco Construction Machinery Co., Ltd., KOBELCO Construction Machinery (East Japan) Co., Ltd., KOBELCO Construction Machinery (West Japan) Co., Ltd., Kobelco Construction Machinery (China) Co., Ltd., Chengdu Kobelco Construction Machinery Co., Ltd., Hangzhou Kobelco Construction Machinery Co., Ltd., Chengdu Kobelco Construction Machinery Financial Leasing Ltd., Kobelco Construction Machinery Southeast Asia Co., Ltd., Kobelco International (S) Co., Pte. Ltd., Kobelco Construction Machinery Europe B.V., Kobelco Construction Machinery USA, Inc., Kobelco Construction Equipment India Pvt. Ltd., Kobelco Power Kobe Inc., Kobelco Power Moka Inc., Shinko Real Estate Co., Ltd., Kobelco Research Institute, Inc., Kobelco (China) Holding Co., Ltd., Kobe Steel USA Holdings Inc.

For fiscal year 2017, 12 companies, including Quintus Technologies AB, are newly consolidated and 10 companies, including Kobelco Cranes India Pvt., Ltd. are excluded from the scope of consolidation due to an absorption-type merger, etc.

39 non-consolidated subsidiaries, including Shinkyō Kaiun Co., Ltd., are excluded from the scope of consolidation because the aggregated amounts of their total assets, sales, net income (corresponding to amount of equity interest), retained earnings (corresponding to amount of equity interest) and other indicators are insignificant compared to those of the consolidated companies.

#### 2. Matters Concerning the Application of the Equity Method

Of the 39 non-consolidated subsidiaries and 55 affiliates, 41 companies are accounted for by the equity method. Names of major companies accounted for by the equity method are as follows.

OSAKA Titanium technologies Co., Ltd., Shinko Wire Company, Ltd., Kansai Coke and Chemicals Co., Ltd., Japan Aeroforge, Ltd., Tesac Wire Rope Co., Ltd., PRO-TEC Coating Company, LLC, Kobelco Angang Auto Steel Co., Ltd., Kobelco Spring Wire (Foshan) Co., Ltd., Kobelco Millcon Steel Co., Ltd., Ulsan Aluminum, Ltd., Wuxi Compressor Co., Ltd., Shinsho Corporation.

For fiscal year 2017, 2 companies, including Ulsan Aluminum, Ltd., are newly accounted for by the equity method and 3 companies, including KS Summit Steel CO., LTD., are excluded from the application of equity method mainly due to the transfer of shares.



39 non-consolidated subsidiaries, including Shinkyō Kaiun Co., Ltd., and 14 affiliates, including J&T Welding Supply Co., Ltd., are not accounted for by the equity method because the aggregated amounts of their net income (corresponding to amount of equity interest), retained earnings (corresponding to amount of equity interest) and other indicators are insignificant compared to those of the consolidated companies and companies accounted for by the equity method.

### 3. Matters Concerning Accounting Policies

#### (1) Basis and method for valuation of significant assets

##### A. Basis and method for valuation of securities

###### Available-for-sale securities

- i) Securities with market quotations      Fair value basis, based on the market price etc. on the balance sheet date (with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets and cost of securities sold is primarily determined using the moving average method).
- ii) Securities without market quotations      Cost basis, determined mainly using the moving average method.

##### B. Basis for valuation of derivatives

Fair value basis

##### C. Basis and method for valuation of inventories

Cost basis, determined principally by the average method for inventories in the Iron & Steel Business, Welding Business, Aluminum & Copper Businesses and Electric Power Business, and by the specific identification method for inventories in the Machinery Business, Engineering Business and Construction Machinery Business (the book value on the balance sheets may be written down to market value due to decline in the profitability).

#### (2) Depreciation and amortization method for significant depreciable assets

##### a) Tangible fixed assets

- i) Owned fixed assets      Primarily by the straight-line method.
- ii) Leased assets
  - Under finance leases that transfer ownership of the leased assets      By the same method as the owned fixed assets.
  - Under finance leases that do not transfer ownership of the leased assets      By the straight-line method over the respective lease term (equal to estimated useful lives) with no residual value.

- b) Intangible fixed assets      Primarily by the straight-line method.  
For software for internal use, by the straight-line method over the estimated internal use lives (primarily 5 years).

#### (3) Basis for recognition of significant allowances and provisions

##### a) Allowance for doubtful accounts

To provide for potential losses on doubtful accounts, allowance is made at an amount based on the actual bad debt ratio in the past for normal accounts, and estimated uncollectible amounts based on specific collectability assessments for certain individual receivables, such as those with a possibility of default.

##### b) Provision for bonuses

To provide for employee bonus payments, provision is made based on the estimated amounts to be paid.

c) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, mainly for steel castings and forgings in the Iron & Steel Business, Machinery Business, Engineering Business and Construction Machinery Business, provision is made at an estimated amount attributable to the fiscal year 2017 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2017 for certain individual cases.

d) Provision for loss on construction contracts

To provide for future losses on construction contracts, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2017.

e) Provision for loss on guarantees

Provision for future loss on guarantees is based on an estimate of total loss at the end of the fiscal year 2017, considering the financial position, etc. of the guaranteed parties on a case- by- case basis.

f) Provision for structural reform related expenses

For expenses expected to arise related to structural reform of the steel business, provision is made at an estimated amount at the end of the fiscal year 2017.

g) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, provision is made at an estimated amount at the end of the fiscal year 2017.

h) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2017.

i) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste”, provision is made at an estimated amount at the end of the fiscal year 2017.

(4) Accounting method for retirement benefits

To provide for payments of retirement benefits to employees, the amount of retirement benefit obligations net of the amount of plan is established assets based on the amount expected at the end of the fiscal year 2017.

In determining retirement benefit obligations, the benefit formula basis is adopted as the attribution method of the projected retirement benefit obligations.

Prior service costs are charged to income mainly using the straight-line method based on the average remaining service period of the employees.

Actuarial differences are charged to income from the period following the period in which it arises mainly using the straight-line method based on the average remaining service period of the employees.

Unrecognized prior service costs and unrecognized actuarial differences, net of applicable taxes, are stated in “Remeasurements of defined benefit plans, net of taxes” in accumulated other comprehensive income under net assets.

(5) Basis for recognition of revenue and expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2017 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

(6) Basis for translation of significant assets and liabilities denominated in foreign currencies into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of the consolidated balance sheet date, except for those hedged by foreign currency exchange contracts, with the resulting gains and losses recognized in income.

Assets and liabilities of consolidated foreign subsidiaries are translated into Japanese yen at the spot exchange rates as of the balance sheet date and revenues and expenses are translated into Japanese yen at average rates for the period, with the resulting gains and losses included in “Foreign currency translation adjustments” under net assets and “Non-controlling interests”.

(7) Principal method for hedge accounting

A. Method for hedge accounting   Deferred hedge method is applied.

Assigning method is applied to monetary receivables and payables denominated in foreign currencies that are specifically covered by foreign currency exchange contracts and qualify for such assigning.

Exceptional method is applied to interest rate swaps that meet specific matching criteria and qualify for such accounting.

B. Hedging instruments and hedged items

a) Hedging instruments   Foreign currency exchange contracts, interest rate swap contracts and commodity forward contracts

b) Hedged items   Assets and liabilities exposed to losses from market fluctuations related to foreign exchange rates, interest rates and trading of bare metal such as aluminum (including those expected from forecasted transactions).

C. Hedging policy and method for assessing the hedge effectiveness

The Company and its consolidated subsidiaries use hedge transactions to reduce the risks from market fluctuations and do not enter into hedge transactions for speculative purposes. The Company assesses the hedge effectiveness in accordance with its internal rules.

The consolidated subsidiaries assess the hedge effectiveness in accordance with similar internal rules through the Company’s responsible division or the subsidiary’s own responsible division.

(8) Method for amortization of goodwill

Goodwill is amortized using the straight-line method (or immediately charged to income if immaterial) over the practically estimated effective periods where estimable during the period in which it arises, or otherwise, over five years.

(9) Accounting for consumption taxes

The tax-exclusion method is applied for the consumption tax and the local consumption tax.

(10) Application of consolidated taxation system

Consolidated taxation system is applied.

## Additional Information

### Introduction of a Board Benefit Trust (BBT) for Directors

The Company introduced a new stock compensation plan, a “Board Benefit Trust (BBT)”, to more clearly link the compensation of Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and executive officers to the Company’s performance and the value of its stock, and in order to encourage the Directors to contribute to improve medium- to long-term business performance and enhance corporate value.

The accounting method regarding the BBT agreement complies with the Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts (Practical Issues Task Force (PITF) No. 30, March 26, 2015).

#### 1) Overview of transactions

This plan is a stock compensation plan under which money contributed by the Company is used as funds to acquire the Company’s shares through a trust. With regard to Directors and executive officers (hereinafter “Directors, etc.”), in accordance with Director stock benefit rules established by the Company, the Company’s shares (hereinafter the “Company’s Shares, etc.”) and the cash equivalent to the amount converted from the market price of the Company’s Shares are provided through the trust. In addition, Directors, etc. shall receive the Company’s Shares, etc. in principle every three years on a fixed date during the trust period.

#### 2) Kobe Steel stock remaining in the Trust

The Company’s stock remaining in the trust is posted as treasury stock in a part of net assets based on the book value (excludes amounts for incidental expenses). The corresponding treasury stock’s book value at the end of the fiscal year under review was 1,099 million yen for 1,223 thousand shares.

## Notes to Consolidated Balance Sheets

### 1. Assets Pledged as Collateral and Collateralized Debt

#### (1) Assets pledged as collateral

Cash and deposits	7,074 million yen
Tangible fixed assets	11,651
<u>Other</u>	<u>1,414</u>
Total	20,140

#### (2) Collateralized debt

Short-term borrowings	265 million yen
<u>Long-term borrowings</u>	<u>14,143</u>
Total	14,408 *

\* In addition to the above, borrowings of other subsidiaries and affiliates are collateralized by assets pledged as collateral. The corresponding loans balance was 872 million yen at the end of fiscal year 2017.

2. Accumulated Depreciation of Tangible Fixed Assets 2,404,688 million yen

### 3. Guarantee Liabilities

(1) Guarantees of loans from financial institutions are provided to companies other than consolidated companies.

Kobelco Angang Auto Steel Co., Ltd.	6,964 million yen	
Kobelco Millcon Steel Co., Ltd.	5,774	
Japan Aeroforge, Ltd.	3,440	
<u>Other (22 companies and other)</u>	<u>4,216</u>	*
Total	20,396	

The above includes activities similar to guarantees (150 million yen).

\*Of which, 517 million yen is covered by reassurances from other companies.

Kobelco Construction Machinery (China) Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy construction machinery, pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Kobelco Construction Machinery (China) Co., Ltd. pledges reassurance for this guarantee. The balances of the reassurance were 14,474 million yen at the end of fiscal year 2017.

Chengdu Kobelco Construction Machinery (Group) Co., Ltd. presented in fiscal year 2016 changed its registered trade name to Kobelco Construction Machinery (China) Co., Ltd. from fiscal year 2017.

(2) Trade notes receivable discounted	78 million yen
(3) Trade notes receivable endorsed	1,966 million yen
(4) Repurchase obligation accompanying securitization of receivables	3,787 million yen

### 4. Contingent liabilities

The Kobe Steel Group discovered that misconduct had taken place. Through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications (the "Affected Products") were shipped or provided to customers as if they had met these requirements (the "Misconduct").

The Kobe Steel Group, with the cooperation of its customers to which the Affected Products were shipped, is proceeding to carry out technical verifications on the impact (including safety) of its Affected Products on customers' products. Safety confirmation has been completed for most of the customers. Although the verification of the safety has not yet been completed for some customers, the Kobe Steel Group at this time has not confirmed cases that would require the immediate suspension of use or immediate recall of the products.

The Kobe Steel Group, in addition to undergoing an investigation by the investigation authorities in Japan on the Misconduct, has been under investigation by the U.S. Department of Justice since October 2017 for allegedly selling the Affected Products to customers in the United States.

In addition, three civil complaints have been brought against the Kobe Steel Group and other similar lawsuits may be filed in the future. The three civil complaints are as follows:

1. Class actions in Canada seeking compensation for economic loss caused by the automotive metal products manufactured by the Kobe Steel Group and the use of these products in the manufacture of automobiles.

2. A securities class action in the United States based on violations of the U.S. Securities Exchange Act (misrepresentation of the compliance system, etc.) concerning Kobe Steel's American Depository Receipts (ADR)
3. A class action in the United States seeking compensation for economic loss from the decline in the resale value of the plaintiffs' vehicles and other relief, arising from the use of metal products manufactured by Kobe Steel in the manufacture of the vehicles.

The investigation by the investigation authorities in Japan, the investigation by the U.S. Department of Justice and the above-mentioned civil complaints are all at an early stage. It is difficult to reasonably estimate the final penalties, compensation for damages, and other outcomes at this time, but they may possibly result in a monetary burden. In addition, there may be additional monetary burden due to compensation cost for the exchange of products by customers, compensation cost relating to the inspections by customers and other actions.

It is possible that these factors will affect Kobe Steel's consolidated financial results. However, as it is difficult to reasonably estimate the impact of these factors at this time, these factors have not been reflected in the consolidated financial statements.

#### **Notes to Consolidated Statements of Income**

1. Customer compensation expenses  
The 4,361 million yen of customer compensation expenses are expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc.
2. Dismantlement related expenses  
The 2,759 million yen of dismantlement related expenses are an additional posting of dismantlement construction expenses arising in line with the dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, and other expenses, owing to an increase in the scope of construction.

#### **Notes to Consolidated Statements of Changes in Net Assets**

1. Type and Total Number of Shares Issued at the End of Fiscal Year 2017
 

Common stock	364,364,210 shares
--------------	--------------------
2. Matters Concerning Dividends
  - (1) Dividends paid  
Not applicable.
  - (2) Dividends with the record date in fiscal year 2017 and the effective date in fiscal year 2018  
At the meeting of the Board of Directors to be held on May 16, 2018, the following matters concerning dividends on common stock are going to be discussed.
 

1) Total dividends	10,924 million yen
2) Dividends per share	30.0 yen
3) Record date	March 31, 2018
4) Effective date	June 22, 2018

 The Company intends for the source of dividends to be retained earnings.

## **Notes on Financial Instruments**

### **1. Matters Concerning Status of Financial Instruments**

The Kobe Steel Group raises long-term funds mainly by bank loans and issuance of bonds based on its capital budget as well as its investment and loan plan. For short-term capital needs, the Kobe Steel Group raises funds mainly by bank loans and commercial paper in relation to its projected income and working capital. The Kobe Steel Group invests temporary excess cash in secure financial assets.

Notes and accounts receivable are exposed to the credit risks of customers. In order to manage these risks, the Company follows its internal credit management rules and the consolidated subsidiaries follow similar rules. Investments in securities consist principally of the shares of customers and are exposed to the risk of changes in quoted market prices, etc. Quoted market prices of securities are regularly monitored and reported to the Board of Directors.

Notes and accounts payable and borrowings are exposed to liquidity risk related to financing. The Finance Department of the Company controls financial plans at the group level to manage the risk.

Derivative transactions are utilized to avoid the risks from market fluctuations related to foreign exchange rates, interest rates and trading of aluminum bare metal etc. and the Group does not enter into derivative transactions for speculative purposes. In order to manage these risks, the Company follows its internal rules and the consolidated subsidiaries follow similar rules.



2. Matters concerning fair value of financial instruments

Carrying amount of financial instruments on the consolidated balance sheets, fair value and the difference as of March 31, 2018 are as follows.

(In millions of yen)

	Carrying amount *1	Fair value *1	Difference
(1) Cash and deposits	165,526	165,526	—
(2) Notes and accounts receivable - trade	324,811	324,811	—
(3) Investments in securities			
a) Securities of subsidiaries and affiliates	17,973	25,801	7,827
b) Available-for-sale securities	102,879	102,879	—
(4) Notes and accounts payable	(457,126)	(457,126)	—
(5) Short-term borrowings	(205,732)	(205,481)	251
(6) Bonds and notes due within one year	(14,000)	(14,056)	(56)
(7) Accounts payable-other	(54,436)	(54,436)	—
(8) Bonds and notes	(132,000)	(130,471)	1,528
(9) Long-term borrowings	(387,133)	(386,993)	139
(10) Derivative transactions *2			
a) Hedge accounting not applied	456	456	—
b) Hedge accounting applied	(13,182)	(13,182)	—

\*1 Liabilities are presented with parentheses ( ).

\*2 Assets and liabilities arising from derivative transactions are presented after offsetting and with parentheses ( ) if the offset results in a liability.

Note 1: Methods used to determine fair value of financial instruments and matters concerning securities and derivative transactions

(1) Cash and deposits and (2) Notes and accounts receivable-trade

The carrying amounts approximate fair values because of the short maturities of these instruments.

(3) Investments in securities

Based mainly on quoted market prices, etc.

(4) Notes and accounts payable, (5) Short-term borrowings and (7) Accounts payable-other

The carrying amounts approximate fair values because of the short maturities of these instruments.

The fair values of long-term borrowings due within one year which are included in short-term borrowings (with a carrying amount of 70,051 million yen) are determined using the same method as (9) Long-term borrowings.

(6) Bonds and notes due within one year and (8) Bonds and notes

Based mainly on quoted market prices.

(9) Long-term borrowings

The fair values are determined based on the present value by discounting the sum of principal and interest by the assumed rate which would be applied if a similar new borrowing were entered into. The fair values of floating rate long-term borrowings hedged by interest rate swaps that qualify for hedge accounting and meet specific matching criteria for an exceptional method, are calculated by discounting the sum of principal and interest, including the differential paid or received under the swap agreements, by the reasonably estimated rate which would be applied if a similar new borrowing were entered into.

(10) Derivative transactions

For foreign currency exchange contracts, the fair values are determined based on forward foreign exchange rate. For interest rate swaps, the fair values are determined based on quotes obtained from counterparty financial institutions. For commodity forward contracts, the fair values are determined based on commodity futures price.

For certain foreign currency exchange contracts for which the “assigning” method is applied, the fair values are included in the fair values of the hedged accounts receivable and accounts payable (see (2), (4) and (7) above).

For interest rate swaps for which the “exceptional” method is applied, the fair values are included in the fair values of the hedged long-term borrowings (see (9) above).

Note 2: Non-listed equity securities (with carrying amount of 76,986 million yen) are not included in (3) Investments in securities a) Securities of subsidiaries and affiliates and b) Available-for-sale securities, as it is extremely difficult to determine their fair value since there is no market price and future cash flows cannot be estimated.

**Notes on Per Share Information**

Net assets per share	2,049.95 yen
Net income per share	174.43 yen

Note: The Company’s shares (posted as treasury stock in stockholders’ equity) remaining in the trust related to the Board Benefit Trust (BBT) plan posted as treasury stock in stockholders’ equity are included in treasury stock. These are excluded from the calculation of the number of shares at the end of the period and the average number of shares during the period when calculating net assets per share and net income per share. The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 1,223 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 1,223 thousand shares.

**Significant subsequent events**

Sale of shares of a subsidiary company

At the meeting of the Board of Directors held on April 27, 2018, the Company resolved to transfer part of the issued shares of Shinko Real Estate Co., Ltd., a consolidated subsidiary of the Company, as follows.

1. Names of parties acquiring the shares  
Tokyo Century Corporation and NIPPON TOCHI-TATEMONO Co., Ltd.
2. Businesses operated by the company to be transferred  
Real estate development, Construction, Sales, Brokering, Remodeling, Leasing, Building management, Condominium management
3. Reason for the transfer  
To achieve synergy by utilizing mutual customer bases, business know-how and the ability to provide financing and reinforce the business by building a strategic alliance relationship with both of the parties acquiring the shares
4. Execution date of the transfer  
Scheduled on July 1, 2018
5. Other information for the transfer
  - (1) Legal form of the transfer  
Transferring part of the issued shares of Shinko Real Estate Co., Ltd. in exchange for cash consideration
  - (2) Transfer price

Approximately 74.0 billion yen

(3) Income from the transfer

To post an extraordinary income of approximately 30.0 billion yen on a consolidated basis for the fiscal year 2018.

(4) Number of shares to be transferred and situation of shares held before and after transfer

1) No. of shares held before transfer

57,670 shares (ownership ratio of voting rights: 100.0%)

2) No. of shares to be transferred

43,253 shares

3) No. of shares held after transfer

14,417 shares (ownership ratio of voting rights: 25.0%)

Following the transfer, Shinko Real Estate Co., Ltd. will become a company accounted for by the equity method of the Company.

(Amounts are rounded down to the million yen.)

## Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2017 to March 31, 2018)

(In millions of yen)

	Stockholders' equity								
	Common stock	Capital surplus		Retained earnings				Treasury stock, at cost	Total stockholders' equity
		Legal capital surplus	Total capital surpluses	Other retained earnings			Total retained earnings		
				Reserve for special depreciation	Reserve for advanced depreciation of fixed assets	Retained earnings brought forward			
Balance as of April 1, 2017	250,930	100,789	100,789	353	2,634	155,427	158,415	(1,699)	508,435
Amount of change									
Reversal of reserve for special depreciation				(54)		54	—		—
Reversal of reserve for advanced depreciation of fixed assets					(180)	180	—		—
Net income						43,468	43,468		43,468
Purchase of treasury stock								(9)	(9)
Disposal of treasury stock								0	0
Net changes other than stockholders' equity									
Total changes	—	—	—	(54)	(180)	43,702	43,468	(8)	43,459
Balance as of March 31, 2018	250,930	100,789	100,789	299	2,454	199,130	201,884	(1,708)	551,895

	Valuation and translation adjustments			Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges net of taxes	Total valuation and translation adjustments	
Balance as of April 1, 2017	12,955	(7,771)	5,184	513,620
Amount of change				
Reversal of reserve for special depreciation				—
Reversal of reserve for advanced depreciation of fixed assets				—
Net income				43,468
Purchase of treasury stock				(9)
Disposal of treasury stock				0
Net changes other than stockholders' equity	(166)	(198)	(364)	(364)
Total changes	(166)	(198)	(364)	43,094
Balance as of March 31, 2018	12,789	(7,969)	4,820	556,715

(Amounts are rounded down to the nearest million yen.)

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

### **Matters concerning Significant Accounting Policies**

#### 1. Basis and Method for Valuation of Securities

- (1) Securities of subsidiaries and affiliates      Cost basis, determined using the moving average method.
- (2) Available-for-sale securities
  - Securities with market quotations      Fair value basis, based on the market price etc. on the balance sheet date (with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets and cost of securities sold is primarily determined using the moving average method).
  - Securities without market quotations      Cost basis, determined using the moving average method.

#### 2. Basis for Valuation of Derivatives

Fair value basis

#### 3. Basis and Method for Valuation of Inventories

Cost basis, determined by the average method for inventories in the Iron & Steel Business (except for cast forged steel products), Welding Business and Aluminum & Copper Businesses, and by the specific identification method for cast forged steel products in the Iron & Steel Business and inventories in the Machinery Business and Engineering Business (the book value on the balance sheet may be written down to market value due to decline in the profitability).

#### 4. Depreciation and Amortization Method for Fixed Assets

- (1) Tangible fixed assets
  - a) Owned fixed assets      By the straight-line method.
  - b) Leased assets
    - Under finance leases that transfer ownership of the leased assets      By the same method as the owned fixed assets.
    - Under finance leases that do not transfer ownership of the leased assets      By the straight-line method over the respective lease term (equal to estimated useful lives) with no residual value.
- (2) Intangible fixed assets      By the straight-line method.  
For software for internal use, by the straight-line method over the estimated internal use lives (five (5) years).
- (3) Long-term prepaid expenses      By the straight-line method.

## 5. Basis for Recognition of Allowances and Provisions

### (1) Allowance for doubtful accounts

To provide for potential losses on doubtful accounts, allowance is made at an amount based on the actual bad debt ratio in the past for normal accounts, and estimated uncollectible amounts based on specific collectability assessments for certain individual receivables, such as those with a possibility of default.

### (2) Provision for bonuses

To provide for employee bonus payments, provision is made based on the estimated amounts to be paid.

### (3) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, for steel castings and forgings in the Iron & Steel Business, Machinery Business, and Engineering Business, provision is made at an estimated amount attributable to the fiscal year 2017 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2017 for certain individual cases.

### (4) Provision for loss on construction contracts

To provide for future losses on construction contracts, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2017.

### (5) Provision for structural reform related expenses

For expenses expected to arise related to structural reform of the steel business, provision is made at an estimated amount at the end of the fiscal year 2017.

### (6) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, provision is made at an estimated amount at the end of the fiscal year 2017.

### (7) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2017.

### (8) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste”, provision is made at an estimated amount at the end of the fiscal year 2017.

### (9) Provision for retirement benefits

To provide for payments of retirement benefits to employees, provision is made based on the retirement benefit obligation and the estimated amount of plan assets at the end of the fiscal year 2017.

Prior service costs are charged to income using the straight-line method based on the average remaining service period of the employees. Actuarial differences are charged to income from the period following the period in which it arises using the straight-line method based on the average remaining service period of the employees.

## 6. Basis for Recognition of Revenue and Expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2017 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

## 7. Basis for Translation of Assets and Liabilities Denominated in Foreign Currencies into Japanese Yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of the balance sheet date, except for those hedged by foreign currency exchange contracts, with the resulting gains and losses recognized in income.

## 8. Method for Hedge Accounting

- (1) Method for hedge accounting      Deferred hedge method is applied.  
Assigning method is applied to monetary receivables and payables denominated in foreign currencies that are specifically covered by foreign currency exchange contracts and qualify for such assigning.  
Exceptional method is applied to interest rate swaps that meet specific matching criteria and qualify for such accounting.
- (2) Hedging instruments and hedged items
- |                     |                                                                                                                                                                                                                         |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Hedging instruments | Foreign currency exchange contracts, interest rate swap contracts and commodity forward contracts                                                                                                                       |
| Hedged items        | Assets and liabilities exposed to losses from market fluctuations related to foreign exchange rates, interest rates and trading of bare metal such as aluminum (including those expected from forecasted transactions). |
- (3) Hedging policy and method for assessing the hedge effectiveness
- The Company uses hedge transactions to reduce the risks from market fluctuations and does not enter into hedge transactions for speculative purposes.  
The Company assesses the hedge effectiveness in accordance with its internal rules.

## 9. Accounting for Retirement Benefits

Accounting method for unrecognized prior service costs and unrecognized actuarial differences for retirement benefits are different from that applied in preparing the consolidated financial statements.

## 10. Accounting for Consumption Taxes

The tax-exclusion method is applied for the consumption tax and the local consumption tax.

## 11. Application of Consolidated Taxation System

Consolidated taxation system is applied.

## Additional Information

Introduction of the Board Benefit Trust (BBT) for Directors, etc.

Notes on transactions that provide the Company's shares through the trust for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and executive officers are omitted as the same details are contained in "Additional information" in the Notes to Consolidated Financial Statements.

## Notes to Non-consolidated Balance Sheets

### 1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral		
Securities of subsidiaries and affiliates	1,108 million yen	*
(2) Collateralized debt		
Borrowings of subsidiaries and affiliates from financial institutions	14,009 million yen	*

\* Of the assets pledged as collateral, 1,090 million yen are the mortgages established for borrowings of 12,852 million yen from financial institutions to Kobelco Power Moka Inc., which is one of the primary operators of the wholesale power supply business.

### 2. Accumulated Depreciation of Tangible Fixed Assets 1,872,850 million yen

### 3. Guarantee Liabilities

(1) Guarantees of borrowings from financial institutions are provided to other companies.		
Kobelco Construction Machinery (China) Co., Ltd.	17,163 million yen	*1 *3
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	11,873	
Chengdu Kobelco Construction Machinery Financial Leasing Ltd.	9,633	*1
Kobelco Angang Auto Steel Co., Ltd.	6,964	
Kobelco Millcon Steel Co., Ltd.	5,774	
Hangzhou Kobelco Construction Machinery Co., Ltd.	4,823	*1
Chengdu Kobelco Construction Machinery Co., Ltd.	4,145	*1
Other (16 companies and other)	20,544	*2
<u>Total</u>	<u>80,923</u>	

The above includes activities similar to guarantees (529 million yen).

\*1 The entire amount is covered by reassurances from Kobelco Construction Machinery Co., Ltd.

\*2 Of which, 2,458 million yen is covered by reassurances from other companies.

\*3 Chengdu Kobelco Construction Machinery (Group) Co., Ltd. presented in fiscal year 2016 changed its registered trade name to Kobelco Construction Machinery (China) Co., Ltd. from fiscal year 2017.

### (2) Repurchase obligation accompanying securitization of receivables 3,240 million yen

### 4. Contingent liabilities

The Kobe Steel Group discovered that misconduct had taken place. Through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications (the "Affected Products") were shipped or provided to customers as if they had met these requirements (the "Misconduct").



The Kobe Steel Group, with the cooperation of its customers to which the Affected Products were shipped, is proceeding to carry out technical verifications on the impact (including safety) of its Affected Products on customers' products. Safety confirmation has been completed for most of the customers. Although the verification of the safety has not yet been completed for some customers, Kobe Steel at this time has not confirmed cases that would require the immediate suspension of use or immediate recall of the products.

The Kobe Steel Group, in addition to undergoing an investigation by the investigation authorities in Japan on the Misconduct, has been under investigation by the U.S. Department of Justice since October 2017 for allegedly selling the Affected Products to customers in the United States.

In addition, three civil complaints have been brought against the Kobe Steel Group and other similar lawsuits may be filed in the future. The three civil complaints are as follows:

1. Class actions in Canada seeking compensation for economic loss caused by the automotive metal products manufactured by the Kobe Steel Group and the use of these products in the manufacture of automobiles.

2. A securities class action in the United States based on violations of the U.S. Securities Exchange Act (misrepresentation of the compliance system, etc.) concerning Kobe Steel's American Depository Receipts (ADR)

3. A class action in the United States seeking compensation for economic loss from the decline in the resale value of the plaintiffs' vehicles and other relief, arising from the use of metal products manufactured by Kobe Steel in the manufacture of the vehicles.

The investigation by the investigation authorities in Japan, the investigation by the U.S. Department of Justice and the above-mentioned civil complaints are all at an early stage. It is difficult to reasonably estimate the final penalties, compensation for damages, and other outcomes at this time, but they may possibly result in a monetary burden. In addition, there may be additional monetary burden due to compensation cost for the exchange of products by customers, compensation cost relating to the inspections by customers and other actions.

It is possible that these factors will affect Kobe Steel's financial results. However, as it is difficult to reasonably estimate the impact of these factors at this time, these factors have not been reflected in the non-consolidated financial statements.

#### 5. Monetary Receivables and Payables to Subsidiaries and Affiliates

Short-term monetary receivables	145,562 million yen
Long-term monetary receivables	37,912
Short-term monetary payables	79,656
Long-term monetary payables	225

## Notes to Non-consolidated Statements of Income

### 1. Transactions with Subsidiaries and Affiliates

#### Operating transactions

Net sales 324,644 million yen

Purchases 591,417

Non-operating transactions 54,747

### 2. Customer compensation expenses

The 3,797 million yen of customer compensation expenses are expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc.

### 3. Dismantlement related expenses

The 2,759 million yen of dismantlement related expenses are an additional posting of dismantlement construction expenses arising in line with the dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, and other expenses, owing to an increase in the scope of construction.

## Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2017

Common stock 1,452,035 shares

(Note) 1,222,800 shares of Kobe Steel owned by Trust & Custody Services Bank, Ltd. (Trust Account E) related to the Board Benefit Trust (BBT) are included in treasury stock listed above.

## Notes on Tax Effect Accounting

Major causes for accrual of deferred tax assets are loss on write-down of equity securities and tax loss carryforwards, and assets that are not recognized as recoverable are posted in the valuation reserve.

## Notes on Transactions with Related Parties

Category	Company name	Ownership of voting rights etc. (Ownership percentage)	Relationships with related parties	Description of transactions	Transaction amounts (million yen)	Account	Fiscal year-end balance (million yen)
Subsidiaries	Kobelco Construction Machinery Co., Ltd.	100.00% directly	Sales of steel materials, etc. Lease of commercial buildings and land Interlocking directors, etc.	Receipt of guarantees	35,766	—	—
	Kobelco Construction Machinery (China) Co., Ltd.	100.00% indirectly	Guarantees Interlocking directors, etc.	Guarantees Receipt of guarantee fees	17,163 27	— Other current assets	— 12
Affiliates	Shinsho Corporation	13.33% directly and 0.13% indirectly (21.55%)	Sales of certain finished goods of the Company Purchase of raw materials Interlocking directors, etc.	Purchase of raw materials for iron and steel, other raw materials and materials for equipment	326,123	Trade accounts payable	19,713
	Kansai Coke and Chemicals Co., Ltd.	24.00% directly	Sales of coal, etc. Purchase of coke, etc. Interlocking directors, etc.	Sales of coal, etc. Purchase of coke, etc.	80,377 87,758	Other accounts receivable Trade accounts	7,471 16,928

						payable	
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Note 1: The terms and conditions and policies for their determination:

The terms and conditions applicable to the above transactions are determined through price negotiations on an arm's length basis and with reference to normal market prices.

Note 2: Consumption taxes are not included in the amount of the transactions, but are included in the amount of fiscal year-end balances.

Note 3: The figure contained in parentheses is excluded from above number and represents the percentage of ownership with which the Company has received consent for exercise of voting rights.

Note 4: Chengdu Kobelco Construction Machinery (Group) Co., Ltd. presented in fiscal year 2016 changed its registered trade name to Kobelco Construction Machinery (China) Co., Ltd. from fiscal year 2017.

The Company receives guarantee fees at an annual rate of 0.1% for guarantees relating to bank loans by Kobelco Construction Machinery (China) Co., Ltd.

Kobelco Construction Machinery Co., Ltd. pledges reassurance for the entire amount, and the Company pays no guarantee fees.

#### Notes on Per Share Information

Net assets per share	1,534.02 yen
Net income per share	119.77 yen

Note: The Company's shares (posted as treasury stock in stockholders' equity) remaining in the trust related to the Board Benefit Trust (BBT) plan are included in treasury stock. These are excluded from the calculation of the number of shares at the end of the period and the average number of shares during the period when calculating net assets per share and net income per share. The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 1,223 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 1,223 thousand shares.

#### Significant subsequent events

##### Sale of shares of a subsidiary company

At the meeting of the Board of Directors held on April 27, 2018, the Company resolved to transfer part of the issued shares of Shinko Real Estate Co., Ltd., a subsidiary of the Company, as follows.

1. Names of parties acquiring the shares  
Tokyo Century Corporation and NIPPON TOCHI-TATEMONO Co., Ltd.
2. Businesses operated by the company to be transferred  
Real estate development, Construction, Sales, Brokering, Remodeling, Leasing, Building management, Condominium management
3. Reason for the transfer  
To achieve synergy by utilizing mutual customer bases, business know-how and the ability to provide financing and reinforce the business by building a strategic alliance relationship with both of the parties acquiring the shares
4. Execution date of the transfer  
Scheduled on July 1, 2018
5. Other information for the transfer
  - (1) Legal form of the transfer  
Transferring part of the issued shares of Shinko Real Estate Co., Ltd. in exchange for cash consideration
  - (2) Transfer price

Approximately 74.0 billion yen

(3) Income from the transfer

To post an extraordinary income of approximately 35.0 billion yen for the fiscal year 2018.

(4) Number of shares to be transferred and situation of shares held before and after transfer

1) No. of shares held before transfer

57,670 shares (ownership ratio of voting rights: 100.0%)

2) No. of shares to be transferred

43,253 shares

3) No. of shares held after transfer

14,417 shares (ownership ratio of voting rights: 25.0%)

Following the transfer, Shinko Real Estate Co., Ltd. will become an affiliated company of the Company.

(Amounts are rounded down to the million yen.)