

Business Report

(From April 1, 2015 to March 31, 2016)

1. Status of the Corporate Group

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

(a) Progress and Results of Operations

Japan's economy in fiscal year 2015 (April 1, 2015–March 31, 2016) has continued to gradually recover. Although sluggish domestic and overseas demand led to a worsening in business sentiment, public investments remained at a high level while on a decreasing trend, and corporate capital investments remained firm. In overseas market, the overall economic aspect has continued to face uncertain conditions due to the continued deceleration of economies in China and Southeast Asia, although the United States and Europe continued on a gradual recover trend.

In this economic environment, at the Kobe Steel Group the sales volume of steel products (in terms of tons sold) was at a similar level to the previous fiscal year, with demand remaining firm in the shipbuilding sector and demand declining in the automotive sector. The sales volume of aluminum rolled products increased, compared with the previous fiscal year, as demand for can stock for beverage cans was firm. The sales volume of copper rolled products decreased, compared with the previous fiscal year, due to lower demand for copper strips used in semiconductors. Unit sales of hydraulic excavators decreased, compared with the previous fiscal year, due to the considerable drop in demand in China and Southeast Asia, both largely affected by economic deceleration.

As a result, consolidated sales in fiscal year 2015 decreased 64.0 billion yen, compared with the previous fiscal year, to 1,822.8 billion yen, owing to a decline in steel sales price due to lower prices of primary raw materials. Operating income decreased 51.0 billion yen, compared with the previous fiscal year, to 68.4 billion yen. Due to the above and the posting of allowance for doubtful accounts in the construction machinery business in China and other factors, ordinary income* decreased 72.7 billion yen, compared with the previous fiscal year, to 28.9 billion yen. In addition, mainly due to the rapid worsening of the business environment in the construction machinery sector in China, the Company posted extraordinary losses of 39.5 billion yen in business losses from affiliate companies with regard to loss on the valuation of investment securities of affiliate companies and on provision for loss on guarantees. As a result, net income attributable to owners of the parent decreased 108.1 billion yen, compared with the previous fiscal year, to net loss attributable to owners of the parent of 21.5 billion yen.

While following a basic policy of paying dividends on a continuous and stable basis, the Company decides on the dividend after duly considering financial standing, business performance, the future capital needs and other factors. Based on this approach, the Company paid an interim dividend of 2 yen per share, but has decided to suspend the year-end dividend in light of the significant net loss attributable to owners of the parent and the need to make strategic investments in growth amid forecasts of continuing uncertainty in the economic environment. We appreciate all shareholders for their understanding of our position.

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

Iron & Steel Business

The sales volume of steel products was at a similar level to the previous fiscal year, as demand was firm in the shipbuilding sector, but domestic new car sales continued to fall

below the previous fiscal year. Sales prices declined, compared with the previous fiscal year, due to lower primary raw material prices and a stagnant overseas market.

Sales of steel castings and forgings increased, compared with the previous fiscal year, owing to firm demand in the shipbuilding sector. Sales of titanium products increased, compared with the previous fiscal year, due to higher volume of titanium products to the aircraft sector. As for wholesale power supply, the Kobe Power Plant, which has a generation capacity of 1.4 million kW, continued stable operation, supplying electric power.

As a result, consolidated segment sales in fiscal year 2015 decreased 6.9 percent, compared with the previous fiscal year, to 742.5 billion yen. Ordinary income* decreased 25.1 billion yen, compared with the previous fiscal year, to 3.6 billion yen, due to a change in the sales mix of products from lower automotive demand in Japan and overseas, a worsening in inventory valuation due to a large decline in primary raw material prices, and the posting of a valuation loss on raw material interests and investments.

Welding Business

The sales volume of welding materials decreased compared with the previous fiscal year. Although domestic demand remained firm in the shipbuilding sector, demand recovery saw a delay in the construction sector. Overseas, demand in China, Southeast Asia and the United States decreased due to economic slowdown and low crude oil prices. Meanwhile, sales of welding systems increased, compared with the previous fiscal year, owing to continued firm demand.

As a result, consolidated segment sales in fiscal year 2015 decreased 2.4 percent, compared with the previous fiscal year, to 92.2 billion yen. Ordinary income* decreased 2.1 billion yen, compared with the previous fiscal year, to 8.1 billion yen.

Aluminum & Copper Business

The sales volume of aluminum rolled products increased, compared with the previous fiscal year, due to firm demand for can stock for beverage containers and efforts to expand sales, mainly exports, in the automotive sector. Sales of aluminum castings and forgings also increased, compared with previous fiscal year, owing to firm demand from the U.S. automotive sector.

The sales volume of copper rolled products decreased, compared with the previous fiscal year, due to lower demand for copper strips used in semiconductors.

As a result, consolidated segment sales in fiscal year 2015 increased 4.4 percent, compared with the previous fiscal year, to 345.4 billion yen. Ordinary income* was similar level to the previous fiscal year at 15.1 billion yen, due to a worsening in inventory valuation.

Machinery Business

Consolidated orders in fiscal year 2015 were similar level to the previous fiscal year at 140.4 billion yen. Although orders for compressors for the petroleum refining industry declined, in industrial machinery, orders were received for large plastic processing machinery used in the petrochemical field. The consolidated backlog of orders at the end of fiscal year 2015 stood at 133.8 billion yen.

Consolidated segment sales in fiscal year 2015 were similar level to the previous fiscal year at 159.0 billion yen, but ordinary income* decreased 3.6 billion yen, compared with the previous fiscal year, to 6.7 billion yen, due to decreased profits from intensified competition.

Engineering Business

Consolidated orders in fiscal year 2015 increased 100.2 percent, compared with the previous fiscal year, to 50.6 billion yen, owing to an order for a large direct reduction plant in Algeria. The consolidated backlog of orders at the end of fiscal year 2015 stood at 76.8 billion yen.

Consolidated segment sales in fiscal year 2015 were similar level to the previous fiscal year at 48.7 billion yen. Ordinary income* increased 0.2 billion yen, compared with the previous fiscal year, to 1.0 billion yen.

Kobelco Eco-Solutions

Consolidated orders in fiscal year 2015 increased 12.4 percent, compared with the previous fiscal year, to 78.5 billion yen, due to several large orders in the waste treatment-related business. The consolidated backlog of orders at the end of fiscal year 2015 was 44.5 billion yen.

Consolidated segment sales in fiscal year 2015 increased 21.8 percent, compared with the previous fiscal year, to 83.0 billion yen, as construction work progressed on previously ordered large projects in the waste treatment-related business. Ordinary income* increased 0.6 billion yen, compared with previous fiscal year, to 3.6 billion yen.

Kobelco Construction Machinery

Unit sales of hydraulic excavators in fiscal year 2015 decreased compared with the previous fiscal year. In addition to saturation of replacement demand in Japan, demand declined significantly in China and Southeast Asia, which were greatly impacted by the economic slowdown.

As a result, consolidated segment sales in fiscal year 2015 decreased 12.6 percent, compared with the previous fiscal year, to 271.7 billion yen. In addition to a decrease in unit sales due to reduced demand, Kobelco Construction Machinery posted a large allowance for doubtful accounts for accounts receivable in China, against the backdrop of a rapid worsening in the business environment. Consequently, ordinary income* decreased 35.5 billion yen, compared with the previous fiscal year, to ordinary loss* of 14.4 billion yen.

Kobelco Cranes

Unit sales of crawler cranes decreased, compared with the previous fiscal year. Although domestic demand was firm, demand declined in Southeast Asia, which was largely affected by the economic slowdown.

As a result, consolidated segment sales in fiscal year 2015 increased 2.4 percent, compared with the previous fiscal year, to 72.7 billion yen. However, due to higher expenses for the quality maintenance and improvement of products, ordinary income* decreased 2.7 billion yen, compared with the previous fiscal year, to 2.4 billion yen.

Other Businesses

At Shinko Real Estate Co., Ltd., the leasing businesses remained firm, while the residential property sales business saw a decrease in the number of handovers.

At Kobelco Research Institute, Inc.'s testing and research businesses, automotive-related demand remained firm.

Due to these conditions, consolidated segment sales in fiscal year 2015 decreased 2.0 percent, compared with the previous fiscal year, to 74.5 billion yen. Ordinary income* increased 0.2 billion yen, compared with the previous fiscal year, to 7.3 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

(i) Looking back at the Fiscal Year 2013-2015 Medium-Term Business Plan

Formulating the medium- to long-term business vision, **KOBELCO VISION “G”**, in April 2010, the Kobe Steel Group has been actively expanding overseas and working to create products and services that only the Kobe Steel Group can offer.

Formulating the second phase of **KOBELCO VISION “G”**, the Fiscal Year 2013-2015 Medium-Term Business Plan, launched in May 2013, served to start the rebuilding of the Company’s business base. In conformity with the plan, the Company has been working to strengthen profitability primarily in the steel business and improve the financial performance of the Group, as well as promoting reforms to the structure of its steel business, strategic expansion of the machinery businesses, and the growth of the electric power supply business, to establish a foundation for stable profits and business growth.

Rebuilding the Business Foundation	
Strengthening the profitability of the steel business	Improved profitability by 42.0 billion yen in fiscal year 2015 (compared with fiscal year 2012) through capital investments, cost cuts at the production site level and improvement in raw material costs, etc.
Improving financial performance	Created cash generation measures of 180.0 billion yen (cumulative total of fiscal year 2013-2015) by promoting asset sales, reducing inventories, and securitizing receivables, etc.
Laying a Foundation for Stable Profits and Business Growth	
Reforming the structure of the steel business	Decided the plan to consolidate upstream operations to Kakogawa Works to further strengthen competitiveness in the steel business and promoted the plan on schedule.
New investments in growth fields and regions in the materials businesses	<ul style="list-style-type: none">· Established a joint venture in China to produce and sell automotive cold-rolled high strength steel sheet· Established a joint venture in Thailand to produce and sell special steel wire rod· Established a company in China to produce and sell aluminum sheet for automotive panels· Increased production capacity of aluminum forgings for automotive suspensions in the United States
Strategically expanding the machinery businesses	<ul style="list-style-type: none">· Built a construction machinery factory to assemble hydraulic excavators in North America· Decided and promoted expansion of rotating machinery facilities (constructed a test facility for large-sized centrifugal compressors)· Built a comprehensive test center for hydrogen stations· Expanded overseas sales locations for compressors (Brazil, India, Thailand)
Expanding the power supply business	Promoted the construction of new power plants in Moka, Tochigi Prefecture and on the site of the blast furnace to be shutdown at Kobe Works

As for financial performance, Kobe Steel Group achieved ordinary income of 85.0 billion yen in fiscal year 2013 and 101.6 billion yen in fiscal year 2014, increasing more than originally planned. The D/E ratio, a measure of financial discipline, was 1.75 times at the end of fiscal year 2012. It improved to 0.88 times at the end of fiscal year 2014. However, in fiscal year 2015, the final fiscal year of the fiscal year 2013-2015 plan, the economies of China and other emerging countries slowed down more than expected, leading to a sharp decrease in profits. The Company realizes that it is necessary to further strengthen profitability.

(ii) Fiscal Year 2016-2020 Group Medium-Term Business Plan

Looking at the business environment surrounding the Kobe Steel Group, Japan’s economy is anticipated to recover gradually, but in countries overseas, there is concern over the prolonged deceleration of the economies of China and other emerging countries, and the future outlook remains uncertain.

Against this backdrop, in April 2016, Kobe Steel Group formulated the Fiscal Year 2016-2020 Group Medium-Term Management Plan and has started initiatives for a new medium-term management plan, **KOBELCO VISION “G+”** (pronounced “G plus”) that will establish

a solid business enterprise. The new plan aims to further strengthen the three core business areas of the materials businesses, machinery businesses, and the electric power business.

Kobe Steel Group plans to focus its management resources in growing fields anticipated to expand over the medium to long term such as weight savings in transportation as well as energy and infrastructure. Kobe Steel Group plans to increase the original added value of the Kobe Steel Group. By achieving a strong competitive edge, Kobe Steel Group aims to expand and grow its businesses and contribute to society.

Fiscal Year 2016-2020 Group Medium-Term Management Plan Basic Policies		
1) Growth strategies for the three core business areas	Materials Businesses	Initiatives for weight savings in transportation Improving profitability in the iron & steel business
	Machinery Businesses	Initiatives in the energy and infrastructure fields Strengthening profitability in the construction machinery business
	Electric Power Business	Initiatives for stable profits
	2) Strengthening the Business Base	
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		

1) Growth Strategy for the Three Core Business Areas

[Materials Businesses]

< Initiatives for Weight Savings in Transportation >

With fuel consumption and CO₂ regulations becoming stricter in the automotive field, the need for lighter automobiles is anticipated to grow in the future, while enhanced safety requirements are increasing. Light-weight materials include high-strength steel sheet, aluminum, CFRP (carbon fiber reinforced plastics) and other materials. Kobe Steel Group will promote the strengthening of its competitiveness in high-strength steel sheet and aluminum products (sheet, extrusions and forgings), noted for their outstanding balance of weight savings and cost. In addition to that, Kobe Steel Group plans to expand its share of the global market and firmly secure growth in the automotive field, leveraged by its original solution technologies (the joining technology of dissimilar metals, etc.) for realizing the shift to multi-materials*.

* Shift to multi-materials is the use of various materials such as high-strength steel sheet and aluminum sheet, and extrusions in suitable combinations to ensure the right materials for the right location with making best use of each material's outstanding properties, in order to help achieve the needed toughness and lightness at optimal cost.

In the aircraft field where the number of aircraft in service is expected to grow, the Company plans to strengthen the upstream operations (melting, casting and forging) of its titanium, aluminum, magnesium and other material businesses. The Company will also promote research and development and aims to entry and expansion into downstream operations (machining, surface treatment and painting).

At present, the global supply chain for some aircraft components is very complex. In the Asian region, the suppliers for large aircraft components are insufficient. Based on this environment, by establishing an integrated system for upstream and downstream operations, the Company will be able to build a simple supply chain to meet high user needs, and by doing so aims to become a supplier with a presence in Asia, a region that is especially anticipated to grow.

<Improving Profitability in the Steel Business >

By completing the consolidation of upstream operations to Kakogawa Works in fiscal year 2017, the Company plans cost reductions through improvements in the operating rate and a cutback in fixed costs to achieve benefits (+15.0 billion yen per year). In addition, the Company also plans to implement additional profit improvement measures (+30.0 billion yen per year), including capital investments and on-site cost reductions. Together with growth in the transportation field, these initiatives are expected to increase profits.

[Machinery Businesses]

< Initiatives in the Energy and Infrastructure Fields >

To expand the compressor business, the Company plans to open one of the world's largest test facilities for nonstandard compressors in April 2017 to enter the market for large-sized centrifugal compressors for which there is no supply source in the Asian region, and which are used in steelworks and other types of factories, and meet high user's needs. In addition, the Company plans to expand its standard compressor business through global development, strengthened product competitiveness and strengthened manufacturing infrastructure (improvement of production efficiency and reducing lead time through consolidation of production sites), aiming to establish a position as the top group in Asia.

In the hydrogen-related business, the Company aims to strengthen its competitiveness in the domestic and overseas markets and expand sales of units for hydrogen stations by constructing a comprehensive test center for hydrogen stations and carrying out demonstration tests on hydrogen stations using renewable energy to establish differentiated technologies.

< Strengthening Profitability in the Construction Machinery Business >

In the Chinese excavator business, Kobe Steel Group plans to take decisive action on structural change for strengthening profitability and to rebuild the business, including reviewing production capacity in response to demand and promoting active use as supply bases for machines and components to Japan, the United States and Southeast Asia (cross sourcing) regarding its two locations in China. In addition, in April 2016, the U.S. excavator factory started up, and plans are underway to expand sales in Europe and the United States, two markets that we reentered, and India, where demand is anticipated to improve. In addition, the merger of Kobelco Construction Machinery Co., Ltd. and Kobelco Cranes Co., Ltd. on April 1, 2016 Kobe Steel Group aims to establish a strong business base and a company with a presence in global market.

[Electric Power Business]

Kobe Steel Group plans to continue the stable operation of its ongoing Kobe Power Plant and proceed with two new power generation projects in Moka and Kobe. In fiscal year 2022, Kobe Steel Group will have a total power generation capacity of 3.95 million kW, to establish a stable profit base.

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

In tandem with these projects, the Company established a new business segment called the Electric Power Business on April 1, 2016. In addition, to strengthen its competitiveness in the Construction Machinery Business, Kobelco Construction Machinery Co., Ltd. was merged

with Kobelco Cranes Co., Ltd. It also included Kobelco Eco-Solutions Co., Ltd. in its Engineering Business to further cooperation and strengthen profitability.

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

2) Strengthening the Business Base

i) Strengthening Corporate Governance

The Company plans to transition to a company with an Audit & Supervisory Committee, review the members of the board of directors (nomination of a director delegated to serve as the President and CEO of Kobelco Construction Machinery Co., Ltd.), newly establish Meeting of Independent Directors, and take other steps to strengthen corporate governance.

ii) Human Resource Development

Promoting diversity and implementing changes in working styles, the Company will focus on creating a safe, employee-friendly working environment and aims to secure and cultivate employees who will drive growth in the Kobe Steel Group.

iii) Strengthening Technology Development Capabilities and Manufacturing Capabilities

The Company plans to undertake the creation of products and processes that provide customer value in the automotive, aircraft, energy and infrastructure fields and the creation of differentiated technologies that strengthen the competitiveness of major products. In addition, by strengthening product quality, on-site capabilities and data utilization including IoT (the Internet of Things), the Company plans to strengthen its production infrastructure and raise the level of its *monozukuri-ryoku* (manufacturing capabilities).

3) Financial Strategy

The basic policy is to finance strategic investments to grow the materials businesses and machinery businesses under the medium-term management plan and finance regular investments that support the business base by operating cash flows. In the event, cash flows should worsen due to changes in the business environment, Kobe Steel Group intends to maintain financial discipline while steadily carrying out growth investments. It will adopt cash generation measures, targeting a maximum of 100 billion yen, such as asset sales improvements in working capital, and the careful selection of investments.

The Kobe Steel Group recognizes that it cannot promote and achieve these business plans without thorough safety and compliance and harmoniously coexisting with society. The Kobe Steel Group in concert aims to increase sensitivity to safety and compliance, while participating in forest conservation activities, operating experience-based learning facilities, sponsoring the KOBELCO Forest Fairy Tale Prize, and undertaking a variety of other activities inside and outside the Group. At the same time, Kobe Steel Group will promote initiatives to strengthen its business base through its business growth strategy focused on the three core business areas of materials, machinery and electric power, while strengthening corporate governance. In these ways, Kobe Steel Group aims to establish a solid business enterprise and achieve its medium- to long-term business vision.

We appreciate the continued support and encouragement of our shareholders.

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

(i) Production Volume (In thousands of tons)

Category		162nd Business Term (Fiscal year 2014)	163rd Business Term (Current term) (Fiscal year 2015)
Iron & Steel Business	Crude steel	7,549	7,543
Aluminum & Copper Business	Aluminum rolled products	334	372
	Copper rolled products	141	133

(ii) Orders Received (In millions of yen)

Category			162nd Business Term (Fiscal year 2014)	163rd Business Term (Current term) (Fiscal year 2015)
Machinery Business	Orders	Domestic	45,652	53,237
		Overseas	95,704	87,228
		Total	141,356	140,466
	Backlog of orders	Domestic	33,372	37,713
		Overseas	100,005	96,184
		Total	133,378	133,897
Engineering Business	Orders	Domestic	18,929	6,312
		Overseas	6,355	44,308
		Total	25,284	50,621
	Backlog of orders	Domestic	46,577	39,038
		Overseas	21,694	37,783
		Total	68,271	76,821
Kobelco Eco-Solutions	Orders	Domestic	66,294	75,940
		Overseas	3,636	2,633
		Total	69,931	78,574
	Backlog of orders	Domestic	45,496	41,462
		Overseas	3,534	3,137
		Total	49,030	44,599

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	162nd Business Term (Fiscal year 2014)		163rd Business Term (Current term) (Fiscal year 2015)	
	Net sales	Ordinary income	Net sales	Ordinary income
Iron & Steel Business	797,814	28,797	742,549	3,683
Welding Business	94,483	10,266	92,252	8,128
Aluminum & Copper Business	330,838	15,183	345,463	15,121
Machinery Business	159,136	10,400	159,002	6,763
Engineering Business	49,063	785	48,750	1,073
Kobelco Eco-Solutions	68,133	3,004	83,005	3,624
Kobelco Construction Machinery	311,008	21,012	271,775	(14,495)
Kobelco Cranes	71,120	5,168	72,799	2,446
Other Businesses	76,062	7,075	74,528	7,356
Adjustment	(70,766)	(7)	(67,322)	(4,775)
Total	1,886,894	101,688	1,822,805	28,927
[Of the above, overseas net sales]	[715,474]		[662,651]	

(2) Capital Expenditures

Total capital expenditures on a construction (inspection and acceptance) base, is 109,900 million yen.

The major capital expenditures completed in fiscal year 2015 or ongoing as of the end of fiscal year 2015 are as follows:

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

(3) Financing Activities

The Group has issued a total of 80,000 million yen in unsecured bonds for funding for redemption of corporate bonds and repayments of borrowings, etc.

(4) Assets and Results of Operations

(a) Assets and Results of Operations of the Group

Category		160th Business Term (Fiscal year 2012)	161st Business Term (Fiscal year 2013)	162nd Business Term (Fiscal year 2014)	163rd Business Term (Current term) (Fiscal year 2015)
Net sales	(In millions of yen)	1,685,529	1,824,698	1,886,894	1,822,805
Operating income	(In millions of yen)	11,234	114,548	119,460	68,445
Ordinary income	(In millions of yen)	(18,146)	85,044	101,688	28,927
Net income attributable to owners of the parent	(In millions of yen)	(26,976)	70,191	86,549	(21,556)
Net income per share	(yen)	(8.98)	22.62	23.81	(5.93)
Total assets	(In millions of yen)	2,226,996	2,288,636	2,300,241	2,261,134
Net assets	(In millions of yen)	569,922	734,679	851,785	745,492
Net assets per share	(yen)	170.63	184.11	213.70	190.38

Note: In line with amendments to the Ordinance on Company Accounting, “net income” is expressed as “net income attributable to owners of the parent”.

(b) Assets and Results of Operations of the Company

Category		160th Business Term (Fiscal year 2012)	161st Business Term (Fiscal year 2013)	162nd Business Term (Fiscal year 2014)	163rd Business Term (Current term) (Fiscal year 2015)
Net sales	(In millions of yen)	933,879	993,743	1,028,146	979,085
Operating income	(In millions of yen)	(41,199)	46,171	35,297	21,006
Ordinary income	(In millions of yen)	(21,992)	58,355	46,600	26,690
Net income	(In millions of yen)	(6,882)	56,660	52,321	(6,217)
Net income per share	(yen)	(2.28)	18.23	14.37	(1.70)
Total assets	(In millions of yen)	1,455,669	1,463,443	1,432,210	1,478,036
Net assets	(In millions of yen)	380,046	511,758	556,645	514,575
Net assets per share	(yen)	126.43	140.64	152.98	141.30

(5) Major Businesses (As of March 31, 2016)

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

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

(6) Major Offices and Plants (As of March 31, 2016)

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

Note 1: Overseas offices include locally incorporated companies.

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

(7) Major Subsidiaries, etc.
(Subsidiaries)

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Nippon Koshuha Steel Co., Ltd. [Tokyo]	15,669 million yen	51.85	Manufacture and sales of specialty steels
Kobe Special 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
Shinko Kobe Power Inc. [Kobe]	3,000 million yen	100.00	Wholesale power supply
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
Sakai Steel Sheets Works, Ltd. [Sakai, Osaka]	320 million yen	80.00	Shearing and sales of steel sheets
Shinko Engineering & Maintenance Co., Ltd. [Kobe]	150 million yen	100.00	Design, manufacture, installation, piping and maintenance of plants and equipment
NI Welding Corporation [Osaka]	44 million yen	100.00	Sales of welding materials 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
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
Kobe Precision Technology Sdn. Bhd. [Malaysia]	19,000 thousand Malaysian ringgit	100.00	Manufacture and sales of aluminum disk material for HDDs

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Kobelco Compressors Corporation [Tokyo]	450 million yen	100.00	Sales and servicing of compressors and refrigeration compressors
Shinko Engineering Co., Ltd. [Ogaki, Gifu] *1	388 million yen	100.00	Manufacture and sales of internal combustion engines, transmissions and testing machines, etc.
Kobelco Compressors Manufacturing (Shanghai) Corporation [China]	87,796 thousand yuan	100.00	Development and manufacture of compressors and related products Sales and servicing of products of the Company
Kobelco Compressors America, Inc. [United States] *1	5.8 thousand U.S. dollars	100.00	Manufacture and sales of compressor system for process gas, refrigeration compressor system and parts, etc.
Midrex Technologies, Inc. [United States] *1	1 thousand U.S. dollars	100.00	Design, manufacture and construction of direct reduction plants
Kobelco Eco-Solutions Co., Ltd. [Kobe] *1 *2	6,020 million yen	79.99	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
Kobelco Construction Machinery Co., Ltd. [Tokyo]	16,000 million yen	100.00	Manufacture and sales of construction machinery
KOBELCO Construction Machinery (East Japan) Co., Ltd. [Ichikawa, Chiba] *1	490 million yen	100.00	Sales and servicing of construction machinery
KOBELCO Construction Machinery (West Japan) Co., Ltd. [Amagasaki, Hyogo] *1	490 million yen	100.00	Sales and servicing of construction machinery
Chengdu Kobelco Construction Machinery (Group) Co., Ltd. [China] *1	56,468 thousand yuan	56.32	Sales and servicing of construction machinery
Chengdu Kobelco Construction Machinery Co., Ltd. [China] *1	139,846 thousand yuan	88.74	Manufacture and sales of construction machinery
Hangzhou Kobelco Construction Machinery Co., Ltd. [China] *1	237,551 thousand yuan	50.67	Manufacture and sales of construction machinery
Chengdu Kobelco Construction Machinery Financial Leasing Ltd. [China] *1	437,994 thousand yuan	75.95	Leasing business
Thai Kobelco Construction Machinery Ltd. [Thailand] *1	560 million Thai baht	100.00	Manufacture and sales of construction machinery
Kobelco International (S) Co., Pte. Ltd. [Singapore] *1	11,113 thousand U.S. dollars	100.00	Sales of construction machinery
Kobelco Construction Machinery Europe B.V. [Netherlands] *1	3,300 thousand euro	100.00	Sales and servicing of construction machinery
Kobelco Construction Machinery USA, Inc. [United States] *1	2 thousand U.S. dollars	100.00	Sales and servicing of construction machinery
Kobelco Construction Equipment India Pvt. Ltd. [India] *1	2,000 million Indian rupees	95.00	Manufacture, sales and servicing of construction machinery
Kobelco Cranes Co., Ltd. [Tokyo]	6,380 million yen	100.00	Manufacture and sales of construction machinery
Shinko Real Estate Co., Ltd. [Kobe]	3,037 million yen	100.00	Real estate sales, brokering, remodeling and leasing
KOBELCO POWER MOKA INC. [Moka, Tochigi]	600 million yen	100.00	Wholesale power supply
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

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Kobe Steel USA Holdings Inc. [United States]	205 thousand U.S. dollars	100.00	Holding shares of companies in the United States

(Affiliated Companies)

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

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

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

Note 3: In fiscal year 2015, Kobelco Construction Machinery Europe B.V., KOBELCO POWER MOKA INC., Kobelco Spring Wire (Foshan) Co., Ltd. and Kobelco Millcon Steel Co., Ltd. were newly added.

Note 4: SRT Australia Pty Ltd, which was included in the list in the previous fiscal year, is not included in the list from fiscal year 2015, since it no longer qualifies as a major affiliated company.

Note 5: In fiscal year 2015, the Company converted Kobelco Construction Machinery Co., Ltd. into a wholly-owned subsidiary through share exchange. Please note that as of April 1, 2016, Kobelco Construction Machinery Co., Ltd. was merged with Kobelco Cranes Co., Ltd., with Kobelco Construction Machinery as the surviving entity.

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

Note 7: On April 1, 2016, Shinko Kobe Power Inc. changed its registered trade name to KOBELCO POWER MOKA INC.

Note 8: On April 1, 2016, the Company transferred its 80% shareholdings in NI Welding Corporation to Shinsho Corporation, and, on the same day, it changed its registered trade name to SC WELDING CORPORATION.

Note 9: On May 12, 2016, the Company acquired shares in Kobelco Eco-Solutions Co., Ltd. that were held by a subsidiary and an affiliated company of the Company. As a result, the ratio of voting rights increased to 80.24%.

(8) Employees (As of March 31, 2016)

(a) Employees of the Group (Persons)

Category	Number of Employees
Iron & Steel Business	9,798
Welding Business	2,564
Aluminum & Copper Business	6,296
Machinery Business	3,664
Engineering Business	680
Kobelco Eco-Solutions	2,187
Kobelco Construction Machinery	6,287
Kobelco Cranes	904
Other Businesses or Corporate	3,958
Total	36,338

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
10,833	+224	40.0 years old	17.3 years

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

Note 2: The number of employees stated above does not include 1,164 seconded employees.

(9) Major Lenders and Amount of Borrowings (As of March 31, 2016)

Main Lenders	Balance of Loans (In millions of yen)
Mizuho Bank, Ltd.	60,627
Development Bank of Japan Inc.	46,355
Nippon Life Insurance Company	46,323
Sumitomo Mitsui Banking Corporation	31,000
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	30,025
Bank of Tokyo-Mitsubishi UFJ (China), Ltd.	25,083
Sumitomo Mitsui Trust Bank, Limited	24,099
Mizuho Bank (China), Ltd.	20,974
Mizuho Trust & Banking Co., Ltd.	20,842

Note: Other than stated above, there was a syndicate loan amounting to a total of 84,000 million yen with Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Sumitomo Mitsui Banking Corporation each as agent banks, however this is not included in the balance of loans of the respective lenders.

2. Shares of the Company (As of March 31, 2016)

- | | |
|--|----------------------|
| (1) Total number of shares authorized to be issued | 6,000,000,000 shares |
| (2) The aggregate number of the issued shares | 3,643,642,100 shares |
| (3) Total number of shareholders | 220,011 |
| (4) Major shareholders (Top ten shareholders) | |

Name of Shareholders	Number of Shares Held (In thousands of shares)	Shareholding Ratio (%)	Shares Held in Major Shareholders	
			Number of Shares Held (In thousands of shares)	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	127,110	3.49	–	–
The Master Trust Bank of Japan, Ltd. (Trust Account)	118,677	3.26	–	–
Nippon Steel & Sumitomo Metal Corporation	107,345	2.95	6,744	0.71
Nippon Life Insurance Company	101,189	2.78	–	–
Mizuho Bank, Ltd.	64,669	1.78	–	–
Mitsubishi UFJ Trust and Banking Corporation	52,329	1.44	–	–
Japan Trustee Services Bank, Ltd. (Trust Account 7)	46,477	1.28	–	–
STATE STREET BANK WEST CLIENT-TREATY 505234	45,533	1.25	–	–
Sojitz Corporation	45,016	1.24	2,024	0.16
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	43,148	1.18	–	–

Note 1: The Company holds 2,121 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 16,161,453 shares of common stock in the Mizuho Financial Group, Inc. (shareholding ratio 0.06%).

Note 3: Mitsubishi UFJ Trust and Banking Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd. are wholly owned subsidiaries of the Mitsubishi UFJ Financial Group, Inc. The Company holds 8,704,020 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	122,015 shares
Total amount of purchases	20,852,693 yen
- Purchase of treasury stock by resolution of the Board of Directors, based on Article 459, Paragraph 1 of the Companies Act and the Company's Articles of Incorporation.

Common stock	9,000,000 shares
Total amount of purchases	1,680,918,000 yen

(b) Shares Disposed of

- Disposal of shares by requests for supplementary purchase of shares constituting less than one unit

Common stock	8,573 shares
Total amount of disposal	1,188,385 yen

(c) Shares Held as of March 31, 2016

- | | |
|--------------|------------------|
| Common stock | 2,120,511 shares |
|--------------|------------------|

Note: Note: On October 1, 2015, the Company converted Kobelco Construction Machinery Co., Ltd. into a wholly-owned subsidiary through share exchange. In the share exchange, the Company allotted 12,032,000 shares of treasury stock in place of a new stock issue.

3. Directors, Audit & Supervisory Board Members and Officers

(1) Directors and Audit & Supervisory Board Members (As of March 31, 2016)

Positions	Name	Duties & Significant concurrent positions
Chairman of the Board (Representative Director)	Hiroshi Sato	Member, Board of Directors (Outside) of Sumitomo Dainippon Pharma Co., Ltd.
President and CEO (Representative Director)	Hiroya Kawasaki	
Executive Vice President (Representative Director)	Kazuhide Naraki	Head of the Machinery Business
Executive Vice President (Representative Director)	Yoshinori Onoe	Head of the Iron & Steel Business
Executive Vice President (Representative Director)	Akira Kaneko	Head of the Aluminum & Copper Business
Executive Vice President (Representative Director)	Naoto Umehara	Oversees the Audit Department, Secretariat & Publicity Department, General Administration Department, Legal Department, Human Resources Department, Corporate Planning Department, Accounting Department, Finance Department, Marketing Planning Department, Civil Engineering & Construction Technology Department, Rugby Administration Office, Electric Power Project Division, domestic branch offices and sales offices (including Takasago Works), and overseas locations (under the head office). Oversees companywide compliance.
Senior Managing Director	Yasuaki Sugizaki	Oversees companywide technical development. Oversees the Environmental Control & Disaster Planning Department, MONODZUKURI (Production System Innovation) Planning & Promotion Department, and IT Planning Department. Oversees companywide information systems.
Senior Managing Director	Shohei Manabe	Head of the Engineering Business
Managing Director	Fusaki Koshiishi	Head of the Welding Business
Director	Takao Kitabata	Chairman of SANDAGAKUEN Junior High School ·Senior High School, Outside Director of Marubeni Corporation, Outside Director of SEIREN CO., LTD, Outside Director of Zeon Corporation
Director	Hiroshi Ochi	
Audit & Supervisory Board Member	Hiroaki Fujiwara	
Audit & Supervisory Board Member	Yoshimasa Yamamoto	
Outside Audit & Supervisory Board Member	Shigeo Sasaki	Outside Audit & Supervisory Board Member of Sekisui Jushi Corporation, Outside Director of IwaiCosmo Securities Co., Ltd., Governor (Outside) of Japan Exchange Regulation

Positions	Name	Duties & Significant concurrent positions
Outside Audit & Supervisory Board Member	Takashi Okimoto	Outside Audit & Supervisory Board Member of Shindengen Electric Manufacturing Co., Ltd., Audit & Supervisory Board Member of Seiwa Sogo Tatemono Co., Ltd., Chairman and Representative Director of Chuo Real Estate Co., Ltd.
Outside Audit & Supervisory Board Member	Shinya Sakai	Director of Hankyu Hanshin Holdings, Inc., Outside Director of Asahi Broadcasting Corporation and Sanyo Electric Railway Co., Ltd., Chairman of HANSHIN Tigers Baseball Club, Ltd. and Hanshin Electric Railway Co., Ltd.

Note 1: Directors Takao Kitabata and Hiroshi Ochi are outside directors under the Companies Act Article 2, item 15.

Note 2: Audit & Supervisory Board Members Shigeo Sasaki, Takashi Okimoto, and Shinya Sakai are outside audit & supervisory board members under the Companies Act, Article 2, item 16.

Note 3: The Company registered Directors Takao Kitabata, Hiroshi Ochi, Audit & Supervisory Board Members Shigeo Sasaki, Takashi Okimoto, and Shinya Sakai as independent directors/auditors with the financial instruments exchange.

Note 4: Audit & Supervisory Board Members Hiroaki Fujiwara, Takashi Okimoto, and Shinya Sakai have considerable financial and accounting knowledge, as evidenced below.

- Audit & Supervisory Board Member 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.
- Audit & Supervisory Board Member 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.
- Audit & Supervisory Board Member Shinya Sakai worked in the accounting department at Hanshin Electric Railway Co., Ltd. for many years, and was a director in that department from June 2002 to June 2006.

Note 5: Although there are business relationships between the Company and Marubeni Corporation, Zeon Corporation, and Hanshin Electric Railway 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 directors who retired this term are as follows:

Positions	Name	Resignation Date
Executive Vice President	Jun Tanaka	June 24, 2015
Senior Managing Director	Tsuyoshi Kasuya	June 24, 2015

Note 8: The new positions and duties of directors whose positions or duties have changed as of April 1, 2016 are as follows. Please note that on April 1, 2016, the presentation of positions in the following table was partially adjusted, to show more clearly the executive roles of directors.

Positions	Name	Duties
Chairman, President and CEO (Representative Director)	Hiroya Kawasaki	
Executive Vice President (Representative Director)	Yoshinori Onoe	Head of the Iron & Steel Business
Executive Vice President (Representative Director)	Akira Kaneko	Head of the Aluminum & Copper Business
Executive Vice President (Representative Director)	Naoto Umehara	Oversees the Audit Department, Secretariat & Publicity Department, General Administration Department, Legal Department, Human Resources Department, Corporate Planning Department (excluding the Transportation Materials Business Planning Section), IT Planning Department, Accounting Department, Finance Department, Marketing Planning Department, Civil Engineering & Construction Technology Department, Rugby Administration Office, Electric Power Business, domestic branch offices and sales offices (including Takasago Works), and overseas locations (under the head office). Oversees companywide compliance and information systems.
Director, Senior Managing Executive Officer	Yasuaki Sugizaki	Assistant to the President and CEO
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 Adviser)	Hiroshi Sato	
Director (part time)	Kazuhide Naraki	President, CEO and Representative Director of Kobelco Construction Machinery Co., Ltd.

Note 9: The Company has implemented an officer system, with the names and duties of officers as of April 1, 2016 as follows:

	Positions	Name	Duties
Head Office	Senior Managing Executive Officer	Takafumi Morichi	Responsible for the Secretariat & Publicity Department, General Administration Department, Human Resources Department (excluding occupational safety management and QC support activities), Marketing Planning Department, Civil Engineering & Construction Technology Department, Rugby Administration Office, branch offices and sales offices (including Takasago Works).
	Managing Executive Officer	Toshiya Miyake	Oversees companywide technical development. Oversees the Environmental Control & Disaster Prevention Department, Corporate Planning Department (the Transportation Materials Business Planning Section), and MONODZUKURI (Production System Innovation) Planning & Promotion Department. General Manager of the Technical Development Group.
	Managing Executive Officer	Kazuaki Kawahara	Responsible for the Accounting Department and Finance Department.
	Managing Executive Officer	Koji Yamamoto	Responsible for the Environmental Control & Disaster Prevention Department, Human Resources Department (occupational safety management and QC support activities), MONODZUKURI (Production System Innovation) Planning & Promotion Department, Technology Administration Department and Computer Systems Department in the Iron & Steel Business, and the Research & Development Laboratory in the same business.
	Executive Officer	Yasushi Okubo	Responsible for the Audit Department and Legal Department. Responsible for companywide compliance.
	Executive Officer	Yoshihiko Katsukawa	Responsible for the Corporate Planning Department (excluding the Transportation Materials Business Planning Section) and IT Planning Department. Responsible for companywide information systems. Responsible

	Positions	Name	Duties
			for overseas locations (under the head office).
Iron & Steel	Senior Managing Executive Officer	Yukimasa Miyashita	Responsible for the Sales Management & Administration Department and Purchasing Department. Responsible for overall sales.
	Senior Managing Executive Officer	Makoto Mizuguchi	Responsible for the Wire Rod & Bar Products Marketing & Technical Service Department, Plate Products Marketing & Technical Service Department, and Sheet Products Marketing & Technical Service Department.
	Senior Managing Executive Officer	Koichiro Shibata	Responsible for overall production of steel products. General Manager of Kakogawa Works
	Managing Executive Officer	Takashi Goto	Assistant to the Head of the Iron & Steel Business
	Managing Executive Officer	Hiroaki Matsubara	Responsible for the Processed Materials Planning Department, Responsible for the Steel Casting & Forging Division, Titanium Division, and Steel Powder Division.
	Managing Executive Officer	Yoshihiro Oka	Responsible for the Plate Products Sales Department and Sheet Products Sales Department. Responsible for overseas locations in the sheet products field.
	Executive Officer	Shoji Miyazaki	General Manager of Kobe Works
	Executive Officer	Hajime Nagara	Responsible for the Raw Materials Department. General Manager of the Planning & Administration Department.
	Executive Officer	Satoshi Nishimura	Responsible for the Wire Rod & Bar Products Sales Department. Responsible for overseas locations in the wire rod and bar products field.
Welding	Executive Officer	Akira Yamamoto	Responsible for the Production Center, General Manager of the Planning & Administration Department.
Aluminum & Copper	Managing Executive Officer	Hiroshi Kato	Responsible for the Planning & Administration Department and the Raw Materials Department. Responsible for the aluminum flat rolled products business.
	Managing Executive Senior Officer	Takumi Fujii	Responsible for the casting and forging business and extrusion business. Responsible for environmental control and disaster prevention and overall safety management.
	Executive Officer	Nobuaki Isono	Responsible for the Technology Control Department. Responsible for the copper flat rolled products business and the disk business.
Machinery	Senior Managing Executive Officer	Mitsugu Yamaguchi	Head of the Machinery Business
	Senior Managing Executive Officer	Takao Ohama	General Manager of the Compressor Division
	Executive Officer	Masamichi Takeuchi	General Manager of the Industrial Machinery Division
Engineering	Managing Executive Senior Officer	Kazuto Morisaki	Responsible for the SQE System Management Department and the Project Engineering Center. Responsible for the Nuclear & CWD Division.
	Managing Executive Senior Officer	Hiroshi Ishikawa	Responsible for the Iron Unit Division and Infrastructure Division. Responsible for the Business Development Section.
Electric Power	Managing Executive Senior Officer	Jiro Kitagawa	Head of the Electric Power Business. General Manager of the Planning & Administration Department

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

Category	Remuneration		
	Number of Payees (Persons)	Amount (In millions of yen)	
Directors (of which, Outside Directors)	13 (2)	548 (26)	Remuneration for this term includes payments to two Directors who retired in this term.
Audit & Supervisory Board Members (of which, Outside Audit & Supervisory Board Members)	5 (3)	106 (39)	
Total	18	655	

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

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

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

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

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

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

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

Note 4: Please note that in line with the planned transition to company with an Audit & Supervisory Committee at this General Meeting of Shareholders, amounts of remuneration for directors will be subject to re-approval, and a switch to a more performance-based remuneration system is planned. Additionally, we plan to introduce a medium- and long-term incentive-based remuneration system founded on share-based payment, with the aim of sharing with all shareholders the benefits of improved corporate value. For further details, please see pages X to X of the Reference Documents for the General Meeting of Shareholders annexed to the notice of convocation.

(3) Overview of Agreements Limiting Liability

The Company has entered into agreements limiting liability with Outside Directors and Audit & Supervisory Board 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) Outside Directors and Audit & Supervisory Board Members

(a) Major Activities during the Current Fiscal Year

		Board of Directors Meetings Attended (Attendance Rate)	Audit & Supervisory Board Meetings Attended (Attendance Rate)	Advice Received at Board of Directors and Audit & Supervisory Board Meetings
Director	Takao Kitabata	15/15 meetings held (100%)	–	Provided advice and suggestions concerning corporate management from his extensive experience and insight as a government administrator.
Director	Hiroshi Ochi	15/15 meetings held (100%)	–	Provided advice and suggestions concerning corporate management from his extensive experience and insight as a corporate executive.
Audit & Supervisory Board Member	Shigeo Sasaki	15/15 meetings held (100%)	27/27 meetings held (100%)	Provided advice and suggestions concerning corporate management from his extensive experience and insight in the legal profession. He also actively shared his thoughts on matters related to compliance.
Audit & Supervisory Board Member	Takashi Okimoto	14/15 meetings held (93%)	27/27 meetings held (100%)	Provided advice and suggestions concerning corporate management from his extensive experience and insight in the financial profession. He also actively shared his thoughts on matters related to compliance.
Audit & Supervisory Board Member	Shinya Sakai	12/15 meetings held (80%)	26/27 meetings held (96%)	Provided advice and suggestions concerning corporate management from his extensive experience and insight in the world of industry. He also actively shared his thoughts on matters related to compliance.

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	105
(b)	Total amount of money and other financial interests to be paid by the Company and its subsidiaries	522

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 Board 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 financial due diligence 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 Board 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 Board 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 Board 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.

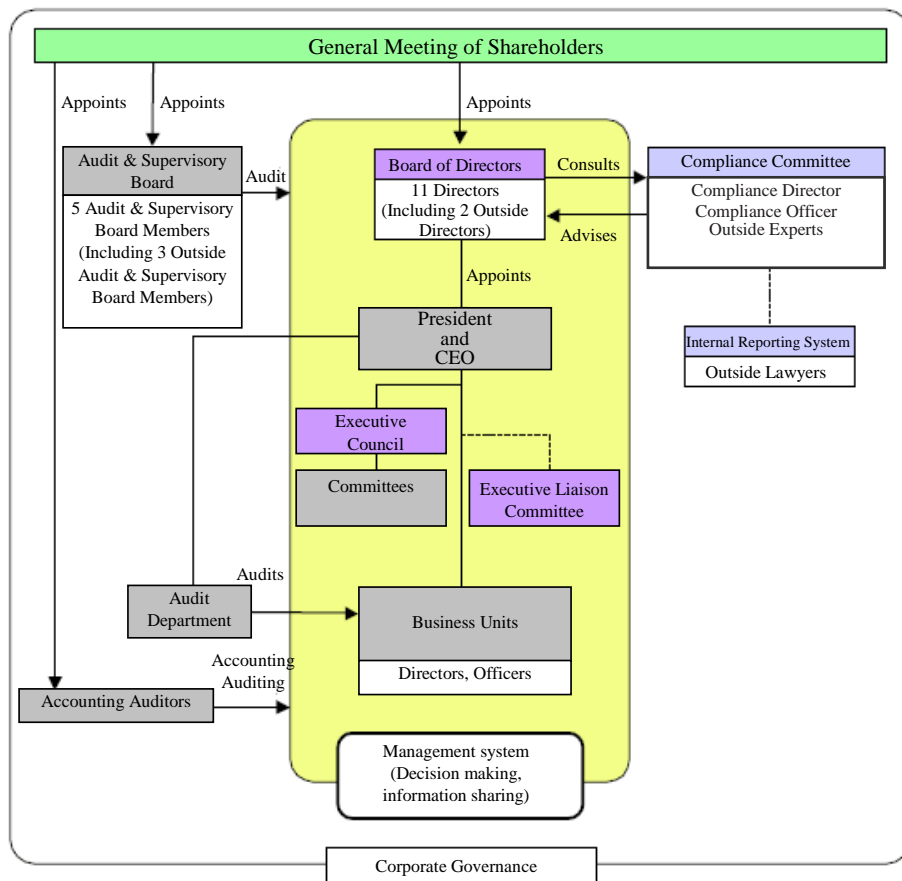
Under this policy the Company has adopted the "Company with Audit & Supervisory Board Members" governance model.

Appropriate numbers of Directors shall constitute the Board of Directors in light of ensuring Directors' conducting substantial discussion at meetings of the Board of Directors as well as considering their diversity. The Board of Directors consists of the President and CEO and executive directors in charge of important posts in the head office division, business divisions or technical development department. In addition, to enhance active discussion, appropriate decision-making and supervision, the Company invites two 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.

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

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

<Current Corporate Governance System>



At a meeting of the Board of Directors held on February 2, 2016, the Company resolved to transition from company with Audit & Supervisory Board Members to company with an Audit & Supervisory Committee, to further strengthen the supervisory function of the Board of Directors and to accelerate decision-making with regard to management. A proposal will be made at the Ordinary General Meeting of Shareholders, to partly amend the Articles of Incorporation to this effect.

(2) System for Ensuring the Propriety of Business Operations

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

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

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

(b) Establishment of systems for ensuring proper financial reporting

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

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

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

(d) Rules and other systems for risk management

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

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

The Company is a company with Audit & Supervisory Board Members. To realize a management structure for which transparency and fairness are further ensured, the Company shall elect outside Directors for the Company's Board of Directors, which is the core of the corporate governance function of the Company Group.

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

In addition, the Company shall hold meetings of the Group Executive Council and the Executive Council, where managerial Directions, including business strategies, and matters presented to the Board of Directors are discussed. The Company shall also establish an Executive Liaison Committees, comprised of directors, Officers and Technical Experts who execute business and the President and CEOs and Directors of affiliated companies designated by the President and CEO of the Company, to facilitate sharing of information on important matters relating to management.

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

In accordance with the "Affiliated Company Management Regulations," the Company shall oblige 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 shall also strive to manage the Group as a whole by requiring affiliated companies to obtain prior approval of the Board of Directors and the President and CEO of the Company concerning disposal of assets that surpass a certain amount in value.

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

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

Furthermore, the Company builds its group compliance system by requiring its affiliated companies to

settle their corporate code of ethics or standards of corporate conduct which determine concrete principles of corporate conducts for the purpose to observe laws and regulations, establish these compliance committees and maintain these internal reporting systems.

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

(g) Matters regarding employees assisting duties of Audit & Supervisory Board Members, when Audit & Supervisory Board Members ask to appoint such employees, and matters regarding the independence of the said employees from Directors; and system to ensure the effectiveness of instructions from the Audit & Supervisory Board Members to the said employees

The Company organized the Audit & Supervisory Board Member Secretariat to support the duties of Audit & Supervisory Board Members. Personnel changes, performance appraisal, and other issues relating to the employees of the secretariat shall require prior discussions with audit & supervisory board members in order to ensure the independence of the employees from directors and the effectiveness of such instructions.

Employees of the Audit & Supervisory Board Member Secretariat mainly support the audits by Audit & Supervisory Board Members based on instructions by Audit & Supervisory Board Members in accordance with the “Rule regarding Audits by Audit & Supervisory Board Members.” Directors, officers and employees shall avoid preventing such support activities by Audit & Supervisory Board Member Secretariat and cooperate to ensure the effectiveness of the audits by Audit & Supervisory Board Members.

(h) Systems of reporting to Audit & Supervisory Board Members by Directors and employees and other systems regarding reporting to Audit & Supervisory Board Members; systems reporting to Audit & Supervisory Board Members 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, Officers and employees shall periodically report the status of performance of duties, important committees, and other matters to the Audit & Supervisor Board or Audit & Supervisory Board Members, 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 Audit & Supervisory Board Members depending on the necessity to do so. The Audit & Supervisory Board Member 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 Board and Audit & Supervisory Board Members current situations regarding the Company’s group compliance and risk management.

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

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

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

(j) Other systems to ensure effective audits by Audit & Supervisory Board Members

To ensure the effectiveness of audits by Audit & Supervisory Board Members, explanations of annual audit policies and plans of the Audit & Supervisory Board 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 Audit & Supervisory Board Members and the President and CEO and through cooperation with the internal audit division.

Note: The above was put into practice during fiscal year 2015. Please note that if approval will be given for transit to company with an Audit & Supervisory Committee at the General Meeting of Shareholders, the Company will pass a new resolution concerning the Internal Control System Basic Policy.

(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 2015 follows below.

(a) Compliance measures

In fiscal year 2015, the Compliance Committee met three times. Activities included formulation of compliance activity plan for fiscal year 2015, and monitoring the status of implementation of compliance activities.

Furthermore, based on compliance activity plans for fiscal year 2015, the Company implemented compliance training for executives of the Company and its group companies, and training and legal education separated by employment level for responsible persons and supervisors in each business segment, newly appointed managers, and newly hired persons, etc. Additionally, the Company also implemented legal compliance training toward group companies both within and outside of Japan, based on examples of past and current scandals.

(b) Risk management

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

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

The Company shall hold meetings of the Group Executive Council and the Executive Council, where managerial directions including business strategies and matters presented to the Board of Directors are discussed. Members of these meetings actively discussed the agenda and considered executions of businesses regarding each business segment of the Company and the Group from various angles. The agenda discussed at the Executive Council was presented at meetings of the Board of Directors as an agenda to be resolved or reported.

Besides, the Executive Liaison Committee meetings were held to share information regarding important management issues and as study sessions, in order that attendees of this committee acquire information necessary for the Company Group’s integrated management and business execution and for appropriate updates thereof.

In order to establish the system that further improves the supervisory function and enable the Company to take appropriate risks, on the basis of the effects of changes in laws and regulations and settlement of the corporate governance code, the Company has decided on transitioning to a “company with an Audit & Supervisory Committee” as the governance system on February 2016.

Additionally, the Company has established the “Meeting of Independent Directors” from December 2015 as a forum where the Company conducts hearings of opinions with respect to appointment and/or remuneration of its executives from outside Directors, and provides outside Directors with information with respect to the management of the Company’s business for the purpose of maximizing the roles of outside directors.

(d) Status of measures to ensure the effective audits by audit & supervisory board members

Comprising five appointed audit & supervisory board members including three outside Audit & Supervisory Board Members with a high degree of independence, internal Audit & Supervisory Board Members in their capacity as full-time employees work to create a better auditing environment, and carry out routine auditing work, including attendance at important internal meetings of the Executive Council, etc., and routine *in situ* business site audits, as well as taking receipt of business reports as needed from subsidiaries in Japan and overseas. They report the status and results of routine audits to the Audit & Supervisory Board, and share information with other Audit & Supervisory Board Members. From their independent and neutral standpoint, the outside Audit & Supervisory Board Members also express their objective audit opinions to the Board of Directors, etc.

Including exchanges of opinion with the President and CEO, the Audit & Supervisory Board Members hold regular discussions with all Directors, and audit the performance of duties by Directors. With regard to joint audits by internal auditors and Accounting Auditor and to audits by audit & supervisory board members, Audit & Supervisory Board Members hold regular meetings with the Accounting Auditor, and

maintain close relations with them through exchange of opinions on audit system, planning and implementation status, etc. In addition to *in situ* visits by Accounting Auditor as needed, reports regarding due progress in audit implementation are also received. Audit & Supervisory Board Members also get regular briefings on audit policy and planning from internal audit offices, and receive from both the internal audit department and internal control departments reports on the implementation status and outcomes of audits of compliance propriety, risk management and other internal control systems, so ensuring close relations and more effective auditing.

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

(a) Basic policy details

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

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

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

For this reason, the Company believes that a party which will have an impact on its financial and business policy decisions must be one that fully understands the Company's management principles, the sources of its corporate value, and the relationships of mutual trust it shares with its stakeholders, which are necessary and indispensable for the enhancement of the corporate value and ultimately, the common interests of its shareholders. Such a party must also be able to protect and enhance the Company's corporate value and ultimately, the common interests of its shareholders as a result. In contrast, the Company views any party involved in the aforementioned large-scale purchases or proposals to be unsuitable as a party that will have an impact on its financial and business policy decisions.

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

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

In other words, by looking at large-scale M&A cases conducted in and outside Japan, even in cases of friendly transactions, there have been more than a few cases in which negotiations lasted for a considerable time before an agreement was reached. In order to

facilitate the protection and enhancement of its corporate value, and ultimately, the common interests of its shareholders, it is necessary to ensure that the standard for information disclosure and evaluation period in large-scale purchases to be conducted without prior agreement with the management is equivalent to that of friendly transactions. Thus, the Company considers that it is necessary to establish a procedure to ensure that the above is achieved upon the shareholders' selection of parties affecting policy decisions of the Company's financial and business affairs.

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

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

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

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

- * Has a presence in the global market;
- * Maintains a stable profit structure and a strong financial foundation; and
- * Prospers together with its shareholders, business partners, employees and society.

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

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

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

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

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

- (c) Initiatives to prevent unsuitable parties from having an impact on the Company's financial and business policy decisions in light of its Basic Policy on Corporate Control

The Company adopted the following plan that prescribes certain rules (hereinafter referred to as this "Plan") as an initiative to prevent unsuitable parties from having an impact on the Company's financial and business policy decisions. This Plan was approved by shareholders in the Ordinary General Meeting of Shareholders held on June 24, 2015.

The summary of this Plan

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

(i) The Purpose and intent of this Plan

Upon the conduct of the (i) purchase and other acquisition of the Shares that result in a Shareholding Ratio of 20% or more, and (ii) tender offer of the Shares that results in a Shareholding Ratio of 20% or more (the “Large-Scale Purchase”), this Plan ensures that persons who are engaging in or aim to engage in Large-Scale Purchases (the “Large-Scale Purchaser”) provide necessary and adequate information to the Company prior to the Large-Scale Purchase so that the shareholders may examine whether or not to accept such purchase. This Plan also prescribes an evaluation period during which the Board of Directors will review and evaluate such Large-Scale Purchase based on the information provided by the Large-Scale Purchaser, and ensures that such Large-Scale Purchase will not begin (a) until such evaluation period has elapsed, or (b) even after such period has elapsed, if a General Meeting to Confirm Shareholders’ Intention (to be defined below) is convened, until a resolution regarding (among other matters) implementation of defensive measures is made at a general meeting of shareholders to confirm the shareholders’ intentions as to (among other matters) whether or not to implement defensive measures (the “General Meeting to Confirm Shareholders’ Intention”).

(ii) Establishment of an Independent Committee

To prevent its Board of Directors from making arbitrary judgments and ensure that the procedures under this Plan remain objective, fair, and reasonable, the Company established an Independent Committee, which is a body independent of the Board of Directors. Members of the Independent Committee will be equal to or more than three (3) and elected from outside lawyers, certified public accountants, certified tax accountants, persons with relevant knowledge and expertise and outside executives as well as one (1) or more outside directors of the Company.

(iii) Provision of required information

The Large-Scale Purchaser are required to disclose the purpose of such acquisition, the basis for the calculation of the purchase price, the information substantiating that the Large-Scale Purchaser has sufficient funds to pay for the intended acquisition, their management policies after the acquisition and other information before the share purchasing so that shareholders, the Board of Directors and the Independent Committee are able to evaluate whether the proposals of the Large-Scale Purchasers enhances the corporate value and the common interests of shareholders.

However, the information to be provided to the Company by the Large-Scale Purchaser shall be limited to the extent necessary and sufficient to appropriately determine the question of the Large-Scale Purchases by the shareholders and the Board of Directors and the Independent Committee and the Independent Committee shall not engage in operations which deviate from the aim of the provision of required information, such as demanding of the Large-Scale Purchasers information disclosure exceeding the standards necessary to appropriately decide the question of the Large-Scale Purchases, or requiring provision of the required information to the Large-Scale Purchasers endlessly.

(iv) Evaluation

The Company has determined an evaluation period by the Board of Directors and the Independent Committee of the Large-Scale Purchase (hereinafter referred to as the “Evaluation Period”) to be as follows, from the date that the Company discloses the fact that the Independent Committee determined that it has received the Required Information necessary and adequate for the decision on the question of the Large-Scale Purchase as set forth in hereinabove: (i) sixty (60) days, in the case of a tender offer with the consideration being only in cash in Japanese yen for all of the Shares, or (ii) ninety (90) days in the case of Large-Scale Purchase other than (i) above.

During this period, the Independent Committee will consider and judge the propriety of the Large-Scale Purchase, the exertion of defensive measures or convocation of a General Meeting to Confirm Shareholders’ Intention, and based upon its evaluation, it will

make a recommendation to the Board of Directors on whether or not defensive measures will be executed or a General Meeting to Confirm Shareholders' Intention will be held.

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

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

(v) Implementation of defensive measures

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

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

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

(vi) Details of defensive measures

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

(vii) The effective period of this Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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