Corporate Social Responsibility

We at the Kobe Steel Group are keenly aware of our corporate social responsibility (CSR), an important element of Group management. We therefore pursue various environmental and social-contribution projects based on our Corporate Code of Ethics. Committed to strengthening our compliance measures and protecting the environment, we will continue to develop along with society by providing our diverse stakeholders with greater levels of satisfaction.

CSR Promotion System

Amid a drastically changing operating environment, in 2006, we established a CSR Committee that is in charge of determining policies related to corporate social responsibility and providing centralized implementation.

To facilitate discussion, make proposals and conduct follow-up verification of important matters, we also established a Compliance Committee to advise the Board of Directors.

The CSR Committee's Report Production Subcommittee compiles information concerning CSR activities and publishes it each year in the form of a Sustainability Report.

Corporate Governance

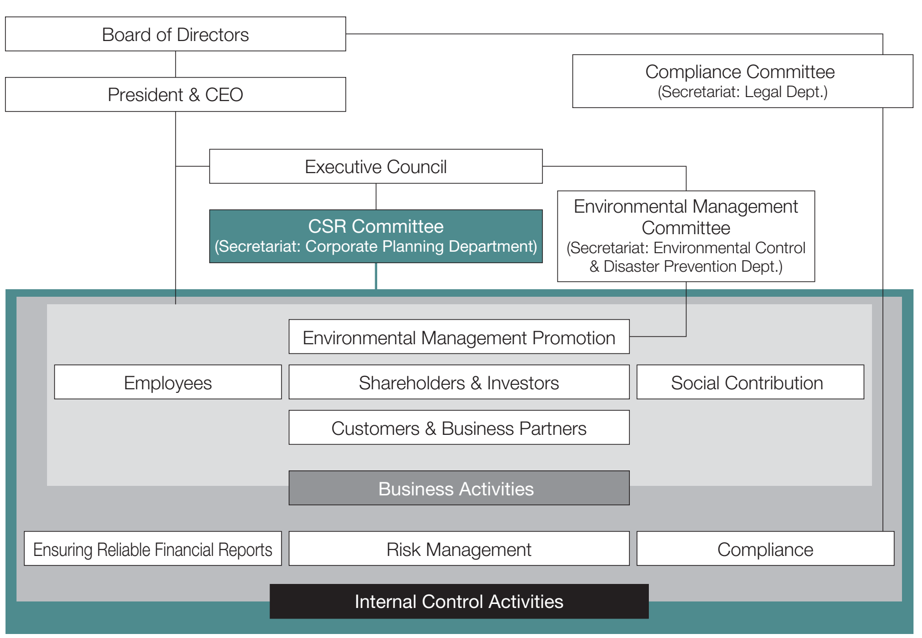
With its operating environment undergoing major changes, Kobe Steel is being strongly urged to increase its self-monitoring capability and take on even greater responsibility than before. It is therefore keenly aware that it cannot survive nor raise its corporate value without strictly adhering to rules and regulations and effective corporate governance.

Corporate Governance

Basic Concept of Corporate Governance

In place of a corporate system with committees that completely separates the supervision and execution of business operations, Kobe Steel opted for a corporate system with a Board of Corporate Auditors in order to achieve a more agile management driven by people who are familiar with Kobe Steel's businesses. In addition, with the goal of achieving an increasingly transparent and fair business structure, the Company is taking various initiatives including the selection of outside directors and the strengthening of supervisory functions.

CSR Promotion Structure



Board of Directors and Corporate Auditors

Structure of the Board of Directors

As stipulated in Article 18 of Kobe Steel's Articles of Incorporation, the Board of Directors may consist of no more than 15 members. Kobe Steel's Board is comprised of the president, key directors at corporate headquarters and directors of the five major business divisions to encourage active and wide discussion. In addition, there are two outside directors who have no conflicting interests with the Company, for a total of 11 board members. An additional role of the outside directors is to serve as members of the Independent Committee established under Kobe Steel's Policy on the Large-Scale Purchasing of its Shares. The Independent Committee is convened when a large-scale purchase of the Company's shares is proposed, over and above the regular meetings held twice a year to collect information about the business environment surrounding the Company and its performance during the said period as well as external factors including recent Companies Act revisions and stock market conditions. By sharing knowledge and discussing the aforementioned topics, the Independent Committee members are prepared for contingencies so that they are able to make recommendations to the Board of Directors that are fair, impartial and appropriate.

Structure of the Board of Corporate Auditors

In accordance with Japan's Companies Act, the Board of Corporate Auditors must consist of three or more corporate auditors, the majority of whom must be outside corporate auditors. The Company has appointed five corporate auditors, including three outside corporate auditors from legal, financial and industrial circles in order to ensure a more transparent and fair business management as well as better supervisory functions.

With the appointment of two outside directors and three outside corporate auditors, the Company's Board of Directors consists of five individuals who are separated from business execution involvement and hold fair and neutral positions. These changes have helped to improve Kobe Steel's governance system.

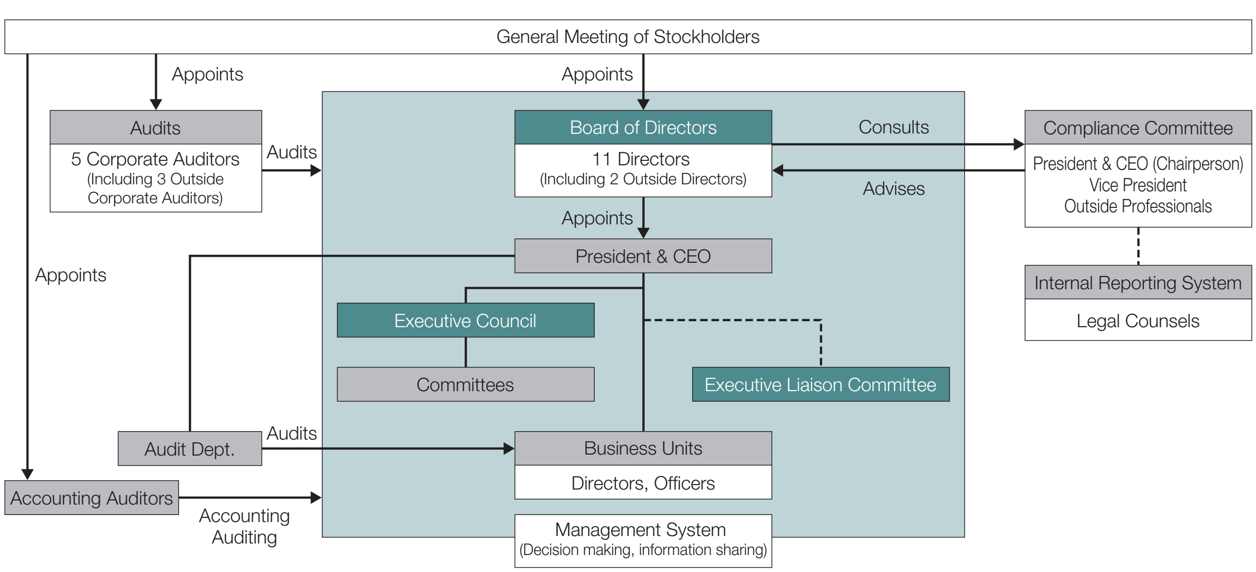
Business Execution Structure

Directors and Corporate Officers

Appointed by shareholders at the General Meeting of Stockholders, directors who have legal responsibilities to shareholders, business partners and other stakeholders play a central role in business execution and control the business operations of principal business divisions. Corporate officers, under the leadership of the directors, are responsible for the conduct of business affairs, and therefore occupy an important position at Kobe Steel. Although not constituting a legal body, officers of the Company are elected by the Board of Directors and carry out duties that the president assigns to them.

To enable the Company to quickly respond to a rapidly changing business environment, the term of office of both directors and officers has been set at one year.

Corporate Governance



Management System

In 1999, Kobe Steel adopted an internal company management system to increase profitability in each business unit and to implement structural reforms through the selection and focus of management resources. However, in order to adapt to changing times, the Kobe Steel Group shifted to a business unit system in April 2010, recognizing the importance of transcending boundaries between business units to maximize advantages from the Group's diverse businesses and reinforce Groupwide collaboration.

Under this system, the Group Executive Council (held quarterly) and the Executive Council (held semimonthly) convene to discuss the business direction, including the business strategy of the Group, as well as to confer over matters deliberated on in the Board of Directors meetings.

The Executive Liaison Committee (held quarterly)—composed of directors responsible for business execution, corporate officers, executive technical advisors, and the presidents and directors of affiliates appointed by the president—shares information on important management issues.

Other committees may be set up as forums for relevant parties to consider the president's and senior executives' advice before deliberating on issues that have a material impact on the overall business of the Company.

Internal Audits, Corporate Auditors and Accounting Audit System

Internal Audits

Kobe Steel established the Audit Department as an independent auditing body to conduct internal audits. Audits, especially those conducted in the head office departments for compliance, environment and information security, are carried out cooperatively or in partnership between the Audit Department and the respective administrative departments at headquarters.

Accounting Audits

Accounting audits are conducted by three certified public accountants (CPAs) from KPMG. Other CPAs and junior accountants from KPMG AZSA & Co. are responsible for assisting with the accounting audits.

Coordination between Internal Audits, Corporate Audits and Accounting Audits

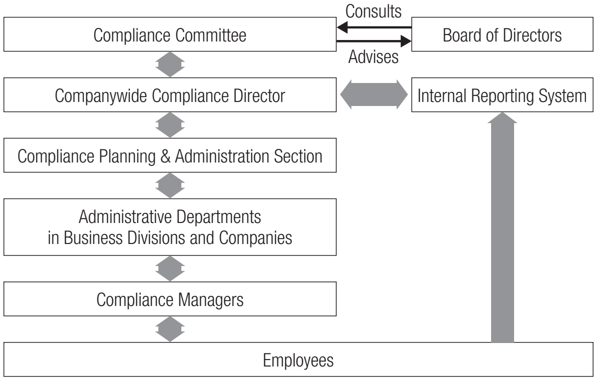
Corporate auditors routinely meet with accounting auditors to closely collaborate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, corporate auditors accompany accounting auditors on their audits of business sites and receive timely reports about the progress of those audits. Furthermore, corporate auditors are routinely informed about audit policies and plans by the internal audit department. Corporate auditors also maintain close cooperation with others through reports they receive about the status of internal control system implementation, including compliance and risk management status, and the audit results, thereby enabling them to conduct efficient audits.

Compliance Initiatives

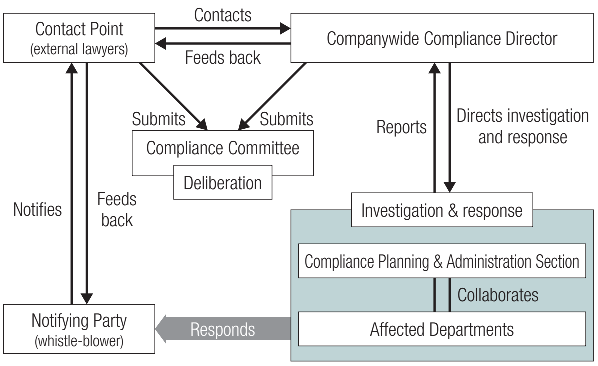
Compliance Committee

The Compliance Committee was established as an advisory body to the Board of Directors and undertakes a wide range of initiatives. Specifically, the Compliance Committee works to raise the effectiveness of compliance management not only through the drafting of compliance programs and confirming the progress status of them, but also by submitting measures related to reports made through the Internal Reporting System for discussion at Board of Directors meetings.

Compliance System



Internal Reporting System



Corporate Code of Ethics

The Corporate Code of Ethics sets out principles and guidelines established to maintain legal compliance and make Kobe Steel a better company. The Corporate Code of Ethics consists of the Corporate Ethical Principles and Standards of Corporate Conduct. Major Group companies have also formulated similar policies.

The Corporate Ethical Principles sets forth the standards by which Kobe Steel, its directors, officers and employees must comply in conducting the Company's various business activities, and covers the following principles.

From Kobe Steel's Corporate Code of Ethics:

Kobe Steel will:

1. Operate business fairly and honestly and comply with applicable laws, rules and principles of society.
2. Contribute to society by offering excellent products and services. In particular, pay special attention to product safety and the protection of personal and customer information.
3. Create a safe, comfortable and productive workplace and respect the individuality and differences of employees.
4. Respect the interests of stakeholders. Maintain healthy, positive relations with society at large including customers, partners, employees and shareholders.
5. Be a good corporate citizen that contributes to local communities.
6. Contribute to protecting the environment and creating a livable society.
7. Respect the culture and customs of other nations and contribute to the growth and development of their communities.

Standards of Corporate Conduct were specifically established as particularly important standards of behavior that allow the Corporate Ethical Principles to be put into practice in employees' daily work activities. An operational manual has been created to explain in greater detail each item set out in the Standards of Corporate Conduct so that employees are thoroughly trained.

Risk Management Activities

Kobe Steel 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 by themselves the risks within their individual businesses, they formulate an annual risk management plan while consulting internal Company rules, manuals and other documentation as necessary. After that, every year each division turns the Plan, Do, Check, Action (PDCA) cycle by implementing the plan (Do), reviewing the results (Check) and reflecting any improvements in next year's risk management plan (Action).

In addition, staff, mainly from corporate headquarters, visit offices and plants to ensure that the PDCA cycle for Companywide risk management activities is being properly turned. They verify what progress has been made while collaborating with each location's compliance department.

To ensure effectiveness, the results of the year's activities of each division are incorporated in plans for the next year and subsequent years after executive management has verified them.

Measures and policies are also adopted based on risk management activities with the goal of creating a corporate culture that is more highly sensitive to compliance issues.

Group Company Compliance System

Each Kobe Steel Group company has established a Compliance Committee, a Corporate Code of Ethics and introduced an Internal Reporting System. A Compliance Officer and Compliance Promotion Manager have been appointed in each company and they pursue their efforts in coordination with Kobe Steel. Group companies also engage in risk management activities.

Basic Policy for Parties Affecting Policy Decisions of Kobe Steel's Financial and Business Affairs (hereinafter, "Basic Policy on Corporate Control")

Basic Policy

Kobe Steel, Ltd. (hereinafter, "Kobe Steel" or the "Company"), as a listed company, naturally accepts, in the course of open stock trading, large-scale purchases of its shares (hereinafter, "Large-Scale Purchases" or "Large-Scale Purchasing") that result in a change of corporate control if such purchase facilitates the protection and enhancement of its corporate value, and ultimately, the common interests of its shareholders.

However, Japanese capital markets have recently witnessed a number of instances in which corporate shares have been rapidly purchased on a massive scale without the adequate disclosure of information to public shareholders or investors. Large-scale purchases or proposals of this type may cause irreparable harm to Kobe Steel or may not provide its shareholders with needed information or sufficient time for them to determine whether to accept these large-scale purchases. Such purchases may harm Kobe Steel's corporate value and ultimately, the common interests of its shareholders.

More specifically, Kobe Steel is engaged in a wide range of businesses, including the materials and machinery sectors, and because the Company has broad business interests, it has numerous stakeholders and many synergies created as a result of its businesses. Kobe Steel views all of these factors as sources of its corporate value. Therefore, if Large-Scale Purchasers, who lack an adequate understanding of these stakeholder relationships and synergies among businesses, were to control the finances and the business policies of Kobe Steel, the corporate value of the Company, and ultimately, the common interests of its shareholders could be impaired. Accordingly, Kobe Steel believes that any party that is to have any influence over 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 corporate value, and ultimately, the common interests of shareholders. Therefore, such a party must also be able to protect and enhance Kobe Steel's corporate value, and ultimately, the common interests of its shareholders. On the contrary, Kobe Steel views any party involved in a large-scale purchase or proposal described above to be an unsuitable party to have influence over its financial and business policy decisions.

In light of Kobe Steel's operating environment—with ever intensifying international competition—corporate acquisitions are quite naturally increasing. Therefore, a large-scale purchase of our stock that materially impacts our management policies is undeniably possible.

On the other hand, in the takeover bid system that would be used in such large-scale purchases, as long as it is at least based on the current system, there may be times when shareholders do not have sufficient information or time to review the relative merits of a large-scale stock purchase in order to make a decision.

Which is to say, in light of past large merger and acquisition projects in Japan and abroad, even when conducted amicably, in many cases it has taken more than six months to negotiate an agreement. To contribute to increasing corporate value, and ultimately, the common interests of shareholders, large-scale purchases, even those that are undertaken without the prior consent of management, must be ensured the same time period for information disclosure and examination and evaluation as is provided in the case of friendly acquisitions. The Company believes that procedures to ensure this are necessary when shareholders select the party who is to be in control of determining the Company's financial and business policies.

With the above in mind, Kobe Steel believes rules must be established whereby Large-Scale Purchasers are forced to provide to the Board of Directors in advance necessary and sufficient information in connection with the Large-Scale Purchase, and to initiate Large-Scale Purchases only after the expiry of a specific period of time for the examination and evaluation by the shareholders and the Board of Directors.

Initiatives to Prevent Unsuitable Parties from Influencing Kobe Steel's Financial and Business Policy Decisions in Light of Its Basic Policy on Corporate Control

At the General Meeting of Stockholders held on June 23, 2011, the following plan (hereinafter, "the Plan") to prevent Kobe Steel's financial and business policies from being controlled by parties deemed inappropriate was approved.

[Overview of the plan]

The Plan stipulates that the following procedure be taken when a Large-Scale Purchase of the Company's shares is made.

1. Providing Required Information

With respect to Large-Scale Purchasers of Kobe Steel's stock, shareholders and the Board of Directors must decide whether the proposed Large-Scale Purchase further improves corporate value as well as the common interests of shareholders. To reach that decision, information is required prior to the Large-Scale Purchase about the purpose of the share acquisition and the post-share acquisition management policy.

However, Kobe Steel shall not engage in operations that deviate from that aim, such as demanding that Large-Scale Purchasers provide information exceeding the standards necessary and sufficient for the shareholders, Board of Directors and Independent Committee of the Company to decide whether the Large-Scale Purchase is appropriate.

2. Establishment of an Independent Committee

To prevent its Board of Directors from making arbitrary judgments and ensure that procedures under the share purchasing rules remain objective, fair, and reasonable, an Independent Committee has been established as an organization independent from the Board of Directors. The Independent Committee is composed of outside attorneys, certified public accountants, tax accountants, academic experts and outside managers as well as outside directors of the Company.

3. Examination and Evaluation

After disclosing that it has received necessary and sufficient information and secured the periods of time listed below from such disclosure date, the Independent Committee will report to the Board of Directors on whether it should initiate takeover defense measures, based on its examination and judgment of the legitimacy of the Large-Scale Purchase.

Examination and Evaluation Period

In the case of a takeover bid of all of the Company's shares with Japanese yen in cash	60 days
Other than that above	90 days

Should the Independent Committee rationally judge it is necessary for the evaluation period of the Large-Scale Purchase to be extended, the Company shall extend such period by up to 60 days, and the relevant Large-Scale Purchase shall be implemented after the extended evaluation period.

As a general rule, the resolutions of the Independent Committee shall be made by a majority vote with all members in attendance. However, should it be deemed unavoidable, the Independent Committee's resolution may be made by a majority vote of those members present at a meeting attended by a majority of Independent Committee members. However, should the Independent Committee recommend that the Board of Directors take defensive measures, the resolution of such recommendation will require at least one affirmative vote from a Committee member who serves as an outside director of the Company.

4. Initiation of Takeover Defense Measures

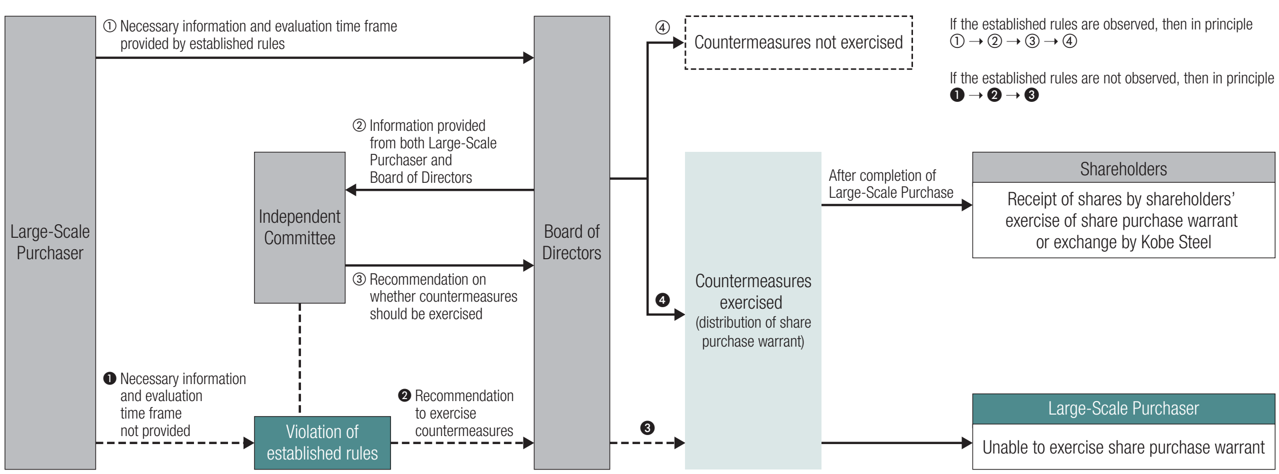
The Board of Directors decides whether to initiate takeover defense measures after giving serious consideration to the Independent Committee's report. The takeover defense measures involve the distribution of share purchase warrants to shareholders under certain terms and conditions, which include prohibiting the exercise of the share purchase warrants by Large-Scale Purchasers. Therefore, exercising these share purchase warrants has the effect of reducing the ratio of the aforementioned Large-Scale Purchasers' voting rights and blocking any Large-Scale Purchase feared to be detrimental to corporate value and the common interests of shareholders.

In addition, as part of the share purchase warrants' terms and conditions, the Board of Directors shall not attach any redemption clauses to the effect that the Company will provide cash as consideration for the redemption of those warrants held by the Large-Scale Purchasers.

5. Effective Term

The effective term lasts up to the time of the end of the first Board of Directors meeting to be held after the General Meeting of Stockholders, which is scheduled for June 2013.

Schematic Flow Diagram



Note: For details, please refer to the press release "Continuation of Kobe Steel, Ltd.'s Policy on Large-Scale Purchasing of its Shares (Anti-Takeover Measures)" released on April 27, 2011 on the Company's website (http://www.kobelco.co.jp/english).