Attached Documents

Business Report

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

1. Status of the Corporate Group

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

(a) Progress and Results of Operations

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

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

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

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

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

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

Iron & Steel

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

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

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

Welding

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

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

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

Aluminum & Copper

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

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

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

Machinery

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

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

Engineering

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

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

Construction Machinery

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

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

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

Electric Power

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

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

Other Businesses

At Shinko Real Estate Co., Ltd., both the residential property sales business and the leasing business remained firm. At Kobelco Research Institute, Inc., orders decreased in the testing and research business resulting from the Misconduct. In addition, Shinko Care Life Co., Ltd., which was previously a consolidated subsidiary, was excluded from the scope of consolidation in fiscal year 2017 and is included as an affiliate company accounted for by the equity method.

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

Definition of Ordinary Income (Loss)*

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

(b) Issues to Be Addressed

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

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

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

<Rebuilding Quality Governance in the Group>

—Background—

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

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

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

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

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

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

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

(i) Analyses of the causes of the Misconduct

We conclude that the causes of the Misconduct can be grouped into the following three categories: 1) the management style that overemphasized profitability and the inadequate corporate governance, 2) the imbalanced operation of plants that resulted in the reduced awareness of quality compliance among employees, and 3) the insufficient quality control procedures that allowed the Misconduct to take place. Details are provided below.

1) Management style that overemphasized profitability and the inadequate corporate governance

- To align with the Head Office's emphasis on profitability, each business division felt the need to adopt an attitude that led them to accept purchase orders without reviewing their production capacities.
- A large-scale transfer of authority from the Head Office to each of the individual divisions weakened the Head Office's ability to assume centralized control over the entire Kobe Steel Group; this, in turn, led to the Head Office's inability to manage a compliance program that ensured effective quality assurance.
- Failure to detect the Misconduct at an early stage is also attributable to several factors relating to our corporate governance. For example, even when conduct similar to the Misconduct was found in the past, the Company's management did not take drastic enough measures to address such issues. Internal audits at each division, moreover, were not sufficiently extensive.

2) Imbalanced operation of plants that resulted in the reduced awareness of quality compliance among employees

- The manufacturing of products based on customer specifications not matched to process capability; a culture that prioritized winning purchase orders and meeting delivery deadlines over ensuring quality
- An insular organization where personnel were rarely exchanged or transferred between different divisions; the absence of appropriate quality-related education / training and disciplinary actions
- The employee's quality compliance awareness dulled; and thus, there is a false assumption that products falling short of customer specifications could be shipped to the extent that they had no safety issues

3) Insufficient quality control procedures that allowed the Misconduct to take place

- There are certain issues on quality management processes, such as inspection processes enabling data falsification or fabrication, isolated and rigid operational systems, and the establishment of internal standards utterly impossible to conform to

(ii) Measures to prevent a recurrence of the Misconduct

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

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

a. Penetration of the Group's corporate philosophy

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

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

b. Desirable state of the Board of Directors

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

c. Restructuring of the risk management system

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

d. Reformation of the insular nature of organizations

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

e. Restructuring of the quality assurance system

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

f. Revising strategy for managing the business

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

Environmental Friendly Management)

2) Ensuring quality management

a. Measures for quality management

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

b. Education for and development of quality assurance personnel

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

3) Strengthening quality control processes

a. Improvement of quality control processes

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

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

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

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

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

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

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

We will continue to place the highest priority to completing the safety verification. At the same time, we will pursue fundamental reforms of our organizational systems and corporate culture by involving all of the Kobe Steel Group’s employees, led by the top management, in diligently and earnestly implementing each measure to prevent a recurrence mentioned in "Measures to prevent a recurrence of the Misconduct" above.

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

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

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

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

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

<Promoting Fiscal Year 2016-2020 Group Medium-Term Business Plan>

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

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

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

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

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

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

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

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

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

[Core Values of KOBELCO]

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

[Six Pledges of KOBELCO Men and Women]

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

1. Heightened Sense of Ethics and Professionalism

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

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

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

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

3. Establishing a Comfortable but Challenging Work Environment

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

4. Living in Harmony with Local Community

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

5. Contribution to a Sustainable Environment

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

6. Respect for Each Stakeholder

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

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

(i) Production Volume (In thousands of tons)

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

(ii) Orders Received (In millions of yen)

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

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

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

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

(2) Capital Expenditures

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

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

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

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

(3) Financing Activities

During fiscal year 2017, there were no special matters to be noted, including the issuance of corporate bonds, etc.

(4) Assets and Results of Operations

(a) Assets and Results of Operations of the Group

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

Note: Since a ten-for-one consolidation of the Company's shares was implemented on October 1, 2016, net income per share and net assets per share were calculated based on the assumption that the share consolidation was conducted at the beginning of the 162nd business term.

(b) Assets and Results of Operations of the Company

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

Note: Since a ten-for-one consolidation of the Company's shares was implemented on October 1, 2016, net income per share and net assets per share were calculated based on the assumption that the share consolidation was conducted at the beginning of the 162nd business term.

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

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

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

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

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

Note 1: Overseas offices represent regional headquarters (local subsidiaries).
Note 2: The locations of head offices of major subsidiaries are described in the following note "(7) Major Subsidiaries, etc."

(7) Major Subsidiaries, etc.
(Subsidiaries)

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Nippon Koshuha Steel Co., Ltd. [Tokyo]	15,669 million yen	51.84	Manufacture and sales of specialty steels
Kobelco Steel Tube Co., Ltd. [Shimonoseki, Yamaguchi]	4,250 million yen	100.00	Manufacture and sales of stainless steel tube and precision tube
Shinko Kenzai Ltd. [Amagasaki, Hyogo]	3,500 million yen	96.80	Manufacture and sales of products for civil engineering and construction work
Kobelco Logistics, Ltd. [Kobe]	2,479 million yen	97.68	Harbor transportation, coastal shipping, customs clearance, truck transportation, warehousing and contracting plant work
Shinko Bolt, Ltd. [Ichikawa, Chiba]	465 million yen	100.00	Manufacture and sales of bolts for construction and bridges
Shinko Engineering & Maintenance Co., Ltd. [Kobe]	150 million yen	100.00	Design, manufacture, installation, piping and maintenance of plants and equipment
Kobe Welding of Qingdao Co., Ltd. [China]	211,526 thousand yuan	90.00	Manufacture and sales of welding materials
Kobe Welding of Korea Co., Ltd. [Korea]	5,914 million won	91.06	Manufacture and sales of welding materials
Kobelco & Materials Copper Tube, Ltd. [Tokyo]	6,000 million yen	55.00	Manufacture and sales of copper tubes for air conditioners, construction and cold/hot water supply
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd. [China] *1	454,000 thousand yuan	100.00	Manufacture and sales of aluminum sheets for automotive body panels
Kobe Aluminum Automotive Products (China) Co., Ltd. [China]	239,681 thousand yuan	60.00	Manufacture and sales of aluminum forgings for automotive suspensions
Kobelco & Materials Copper Tube (Thailand) Co., Ltd. [Thailand] *1	1,129 million Thai baht	100.00	Manufacture and sales of inner-grooved copper tubes and smooth bore copper tubes for air conditioners
Kobelco Aluminum Products & Extrusions Inc. [United States] *1	24,000 thousand U.S. dollars	100.00	Manufacture and sales of bumper materials and frame materials for automotive bumpers
Kobe Aluminum Automotive Products, LLC [United States] *1	24,000 thousand U.S. dollars	60.00	Manufacture and sales of aluminum forgings for automotive suspensions
Kobelco & Materials Copper Tube (M) Sdn. Bhd. [Malaysia] *1	25,500 thousand Malaysian ringgit	100.00	Manufacture and sales of copper tubes and secondary processed products

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Kobe Precision Technology Sdn. Bhd. [Malaysia]	19,000 thousand Malaysian ringgit	100.00	Manufacture and sales of aluminum disk material for HDDs
Kobelco Compressors Corporation [Tokyo]	450 million yen	100.00	Sales and servicing of compressors
Shinko Engineering Co., Ltd. [Ogaki, Gifu] *1	388 million yen	100.00	Manufacture and sales of internal combustion engines, transmissions and testing machines, etc.
Quintus Technologies AB [Sweden] *1	10 million Swedish krona	100.00	Design, manufacture, sales and servicing of isostatic pressing equipment and sheet metal forming equipment
Kobelco Compressors Manufacturing (Shanghai) Corporation [China]	87,796 thousand yuan	100.00	Development and manufacture of compressors and related products Sales and servicing of products of the Company
Kobelco Compressors America, Inc. [United States] *1	5 thousand U.S. dollars	100.00	Manufacture and sales of compressor system for process gas, refrigeration compressor system and parts, etc.
Kobelco Eco-Solutions Co., Ltd. [Kobe] *2	6,020 million yen	80.22	Design, manufacture, construction and maintenance of environmental plants Design, manufacture and maintenance of industrial machinery and equipment
Kobelco Eco-Maintenance Co., Ltd. [Kobe] *1	80 million yen	100.00	Operation of water treatment facilities and waste treatment facilities, etc.
Midrex Technologies, Inc. [United States] *1	1 thousand U.S. dollars	100.00	Design, manufacture and construction of direct reduction plants
Kobelco Construction Machinery Co., Ltd. [Tokyo]	16,000 million yen	100.00	Manufacture and sales of construction machinery
KOBELCO Construction Machinery (East Japan) Co., Ltd. [Ichikawa, Chiba] *1	490 million yen	100.00	Sales and servicing of construction machinery
KOBELCO Construction Machinery (West Japan) Co., Ltd. [Amagasaki, Hyogo] *1	490 million yen	100.00	Sales and servicing of construction machinery
Kobelco Construction Machinery (China) Co., Ltd. [China] *1	1,976,468 thousand yuan	100.00	Sales and servicing of construction machinery
Chengdu Kobelco Construction Machinery Co., Ltd. [China] *1	139,846 thousand yuan	100.00	Manufacture and sales of construction machinery
Hangzhou Kobelco Construction Machinery Co., Ltd. [China] *1	237,551 thousand yuan	100.00	Manufacture and sales of construction machinery
Chengdu Kobelco Construction Machinery Financial Leasing Ltd. [China] *1	437,994 thousand yuan	75.95	Leasing business
Kobelco Construction Machinery Southeast Asia Co., Ltd. [Thailand] *1	2,279 million Thai baht	100.00	Manufacture and sales of construction machinery
Kobelco International (S) Co., Pte. Ltd. [Singapore] *1	1,058 million yen	100.00	Sales and servicing of construction machinery
Kobelco Construction Machinery Europe B.V. [Netherlands] *1	8,800 thousand euro	100.00	Sales and servicing of construction machinery
Kobelco Construction Machinery USA, Inc. [United States] *1	2.3 thousand U.S. dollars	100.00	Manufacture, sales and servicing of construction machinery
Kobelco Construction Equipment India Pvt. Ltd. [India] *1	3,312 million Indian rupees	96.98	Manufacture, sales and servicing of construction machinery
Kobelco Power Kobe Inc. [Kobe]	3,000 million yen	100.00	Wholesale power supply
Kobelco Power Moka Inc. [Moka, Tochigi]	600 million yen	100.00	Wholesale power supply
Shinko Real Estate Co., Ltd. [Kobe]	3,037 million yen	100.00	Real estate sales, brokering, remodeling and leasing

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Kobelco Research Institute, Inc. [Kobe]	300 million yen	100.00	Material analysis and testing, structural analyses Manufacture and sales of target material, semiconductor and inspection equipment
Kobelco (China) Holding Co., Ltd. [China]	1,265,939 thousand yuan	100.00	Holding company in China
Kobe Steel USA Holdings Inc. [United States]	205 thousand U.S. dollars	100.00	Holding shares of companies in the United States

(Affiliated Companies)

Company Name [Locations of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
OSAKA Titanium technologies Co., Ltd. [Amagasaki, Hyogo]	8,739 million yen	23.92	Manufacture and sales of titanium sponge, polycrystalline silicon and other titanium products
Shinko Wire Company, Ltd. [Amagasaki, Hyogo] *1	8,062 million yen	35.90	Manufacture and sales of secondary products of wire rod Contracting construction work of structures
Kansai Coke and Chemicals Co., Ltd. [Amagasaki, Hyogo]	6,000 million yen	24.00	Manufacture and sales of coke and other chemical products
Japan Aeroforge, Ltd. [Kurashiki, Okayama]	1,850 million yen	40.54	Manufacture and sales of large forgings
Tesac Wirerope Co., Ltd. [Kaizuka, Osaka]	450 million yen	42.10	Manufacture and sales of wire rope and wire rod
PRO-TEC Coating Company, LLC [United States] *1	123,000 thousand U.S. dollars	50.00	Manufacture and sales of galvanized steel sheet and cold-rolled, high-strength steel
Kobelco Angang Auto Steel Co., Ltd. [China] *1	700,000 thousand yuan	49.00	Manufacture and sales of cold-rolled, high-strength steel
Kobelco Spring Wire (Foshan) Co., Ltd. [China] *1	196,220 thousand yuan	50.00	Manufacture and sales of valve spring wire
Kobelco Millcon Steel Co., Ltd. [Thailand]	2,830 million Thai baht	50.00	Manufacture and sales of specialty steels and ordinary steel wire
Ulsan Aluminum, Ltd. [Korea]	588,361 million won	50.00	Manufacture of aluminum sheet base material
Wuxi Compressor Co., Ltd. [China] *1	92,010 thousand yuan	44.35	Manufacture and sales of compressors
Shinsho Corporation [Osaka] *1 *2	5,650 million yen	35.02	Trading of iron & steel and nonferrous metal products and machinery, etc.

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

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

Note 3: In fiscal year 2017, Quintus Technologies AB and Ulsan Aluminum, Ltd. were newly added.

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

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

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

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

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

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

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

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

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

(a) Employees of the Group

(Persons)

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

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

(b) Employees of the Company

Number of Employees	Increase/Decrease from the Previous Fiscal Year-End	Average Age	Average Years of Service
11,191	+157	39.2 years old	16.3 years

Note 1: The number of employees indicates the number of working employees.
Note 2: The number of employees stated above does not include 913 seconded employees.

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

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

Note 1: Other than stated above, there was a syndicate loan amounting to a total of 91,200 million yen with Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Sumitomo Mitsui Banking Corporation, etc. as agent banks, however this is not included in the balance of loans of the respective lenders.
Note 2: On April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its registered trade name to MUFG Bank, Ltd.

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

(1) Total number of shares authorized to be issued 600,000,000 shares
(2) The aggregate number of the issued shares 364,364,210 shares
(3) Total number of shareholders 189,496
(4) Major shareholders (Top ten shareholders)

Name of Shareholders	Number of Shares Held (In thousands of shares)	Shareholding Ratio (%)	Shares Held in Major Shareholders	
			Number of Shares Held (In thousands of shares)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,497	3.98	–	–
Japan Trustee Services Bank, Ltd. (Trust Account)	12,150	3.34	–	–
Nippon Steel & Sumitomo Metal Corporation	10,735	2.95	6,744	0.71
Nippon Life Insurance Company	10,119	2.78	–	–
Japan Trustee Services Bank, Ltd. (Trust Account 5)	6,906	1.90	–	–
Mizuho Bank, Ltd.	6,467	1.78	–	–
STATE STREET BANK WEST CLIENT - TREATY 505234	5,911	1.62	–	–
Mitsubishi UFJ Trust and Banking Corporation	5,233	1.44	–	–
Japan Trustee Services Bank, Ltd. (Trust Account 2)	5,133	1.41	–	–
Japan Trustee Services Bank, Ltd. (Trust Account 1)	5,077	1.39	–	–

Note 1: The Company holds 229 thousand shares in treasury stock. Treasury stock is excluded in the calculation of the major shareholders' ratio of shareholding in the Company.

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

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

(5) Purchase, Disposal and Holding of Treasury Stock

(a) Shares Purchased

- Purchase of shares constituting less than one unit

  Common stock 8,838 shares

  Total amount of purchases 9,865,885 yen

(b) Shares Disposed of

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

  Common stock 340 shares

  Total amount of disposal 337,217 yen

(c) Shares Held as of March 31, 2018

  Common stock 229,235 shares

3. Directors, Audit & Supervisory Committee Members and Officers

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

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

Positions	Name	Duties & Significant concurrent positions
Director (Audit & Supervisory Committee Member, full time)	Yoshimasa Yamamoto	
Director (Audit & Supervisory Committee Member)	Takashi Okimoto	
Director (Audit & Supervisory Committee Member)	Yoshiiku Miyata	Outside Director of JXTG Holdings, Inc.
Director (Audit & Supervisory Committee Member)	Hidero Chimori	Representative Partner of Miyake & Partners, Outside Audit & Supervisory Board Member of NAITO Securities Co., Ltd., Outside Company Auditor of ROHM Co., Ltd.

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

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

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

- Director Hiroaki Fujiwara was an officer and the general manager of the Company's Finance Department from April 2004 to March 2005, an officer responsible for the Finance Department from April 2005 to March 2009, and an officer responsible for the Finance and Accounting departments from April 2009 to June 2009, and a director overseeing the same departments from June 2009 to March 2014.
- Director Takashi Okimoto worked for many years at the Dai-Ichi Kangyo Bank, Ltd. and at Mizuho Corporate Bank, Ltd. and engaged in banking operations as a director from April 2005 to April 2007.

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

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

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

Note 7: The Director who retired this term is as follows.

Positions	Name	Resignation Date
Director	Hiroshi Ochi	June 21, 2017

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

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

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

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

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

(2) Remuneration and Other Amounts to Directors

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

Note 1: At the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016, a resolution was made to set the limit of remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) including fixed remuneration as being within a total of 650 million yen per fiscal year and performance-based remuneration as being within a total of 350 million yen per fiscal year, and the limit of remuneration for Directors who are Audit & Supervisory Committee Members as being within a total of 132 million yen per fiscal year. Furthermore, as a new stock remuneration for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members), a resolution was passed that introduced a stock remuneration plan, Board Benefit Trust (BBT), to which the Company has contributed an amount of 570 million yen for a three-fiscal year period.
Approach to amount of remuneration, etc. for Directors of the Company and decisions involving its method of calculation are described in pages 53 to 54.

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

Note 3: The Company views the net loss in fiscal year 2016 and the postponement of the annual dividend as serious matters, and in the period from February 2017 to January 2018, reduced the fixed remuneration for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) by 5 to 10%. Furthermore, in consideration of significant losses incurred at Group companies, Chairman, President, CEO and Representative Director, and certain Directors have voluntarily returned 10% of their fixed remuneration in the period from February to April 2017.

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

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

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

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

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

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

1) Fundamental Policy of Remuneration of the Company's Directors
   A) A system able to secure talented human resources who can be responsible for the Company's continued expansion and appropriately remunerate them.
   B) A system able to share values widely with stakeholders and promote not only short-term growth but also medium- to long-term growth.
   C) Creating a system that incentivizes the accomplishment of consolidated business result targets while sufficiently considering the characteristics of each business so that Directors can fully

carry out their roles.

D) Regarding the composition of the remuneration system and the necessity of its reevaluation, the Company ensures the objectivity and transparency of judgments regarding remuneration decisions by conducting deliberations at Nominating and Compensation Committee, a majority of which are Independent Directors.

2) Remuneration Framework

A) Remuneration for the Company's Directors (excluding Directors who are Audit & Supervisory Committee Members) will consist of fixed compensation, performance-based compensation linked to the achievement of business results targets during individual fiscal years, and medium- to long-term incentive compensation based on stock compensation with the goal of sharing values with shareholders. Taking into consideration their duties, part-time Internal Directors and Outside Directors will not be eligible for performance-based compensation, and Outside Directors will not be eligible for medium- to long-term incentive compensation.

B) The standard amount of performance-based compensation for each rank will be at the level of 25 to 30% of fixed compensation, and the value of medium- to long-term incentives paid per fiscal year will be at the level of 25 to 30% of fixed compensation.

C) The Company's Directors who are Audit & Supervisory Committee Members will only be paid fixed compensation as Director remuneration, taking into consideration their duties.

3) Performance-based systems

A) The amount of performance-based compensation will be determined using net income attributable to owners of the parent (hereinafter "net income") and net income of each business division as evaluation indicators. Target standards used in evaluations will be based on the net income standard of the Company as a whole, which becomes "consolidated ROA of 5% or more" as stated in the medium-term management plan. Additionally, target standards for each business division will be based on the same net income standard for each business division of "ROA of 5% of more in each business division," and according to the accomplishment of these targets for both the Company as a whole and in each business division, a coefficient of 0-200% will multiplied to the base amount in order to determine the amount paid.

B) For medium- to long-term incentive compensation, a system known as Board Benefit Trust (BBT) will be adopted in order to raise the consciousness for contribution from Directors regarding continuously improving corporate value. Payments based on this system will use a base point number established for each rank and a number of points according to a coefficient of 0-100% will be provided each fiscal year based on whole-company net income and the state of dividend payment, and on a fixed date during each trust period of three years, a number of the Company's shares and a cash equivalent to the amount converted from the market price of the Company's shares will be provided according to the number of points provided.

4) Method to Determine Remuneration Standard

Director remuneration survey data from an external specialized agency will be used as a base to determine remuneration standards commensurate with the Company's corporate scale and the duties expected of Directors.

5) Method to Determine and Examine the Policy regarding Remuneration

A) The policy concerning remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) is determined by the Board of Directors, and the policy concerning remuneration for Directors who are Audit & Supervisory Committee Members is determined by all Audit & Supervisory Committee Members.

B) Regarding ways for and necessity to revise the remuneration system, it is deliberated at the Nominating and Compensation Committee, a majority of which are Independent Directors. Then, if it is necessary to revise the remuneration system, the Company will present a revised remuneration plan at a meeting of the Board of Directors and it will be resolved.

(3) Overview of Agreements Limiting Liability

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

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

		Board of Directors Meetings Attended (Attendance Rate)	Audit & Supervisory Committee Meetings Attended (Attendance Rate)	Advice Received at Board of Directors, Audit & Supervisory Board and Audit & Supervisory Committee Meetings
Director	Takao Kitabata	20/21 meetings held (95%)	–	Provided advice and suggestions concerning corporate management from his deep insight in the world of industry backed by his broad experience as an administrative official and extensive knowledge as an outside director / outside audit & supervisory board member of listed companies.
Director	Hiroyuki Bamba	17/17 meetings held (100%)	–	Provided advice and suggestions concerning corporate management from his abundant experience in a different business fields from ours in the world of industry and deep insight as a corporate executive.
Director (Audit & Supervisory Committee Member)	Takashi Okimoto	21/21 meetings held (100%)	19/19 meetings held (100%)	Provided advice and suggestions concerning corporate management from his abundant experience in credit management and financial management at financial institutions and deep insight as a corporate executive of financial institutions. He also actively shared his thoughts on matters related to compliance.
Director (Audit & Supervisory Committee Member)	Yoshiiku Miyata	19/21 meetings held (90%)	17/19 meetings held (89%)	Provided advice and suggestions concerning corporate management from his abundant experience in a different business fields from ours in the world of industry and deep insight as a corporate executive including the post of president of overseas business entities. He also actively shared his thoughts on matters related to compliance.
Director (Audit & Supervisory Committee Member)	Hidero Chimori	20/21 meetings held (95%)	19/19 meetings held (100%)	Provided advice and suggestions concerning corporate management from his deep insight backed by his abundant experience in the legal profession as an Attorney at Law and his extensive knowledge as an outside director and outside audit & supervisory board member of listed companies. He also actively shared his thoughts on matters related to compliance.

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

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

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

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

4. Accounting Auditor

(1) Name of Accounting Auditor

KPMG AZSA LLC

(2) Remuneration and Other Amounts to Accounting Auditor

	Category	Amount (In millions of yen)
(a)	Remuneration and other Amounts to be paid as payment to Accounting Auditor by the Company	133
(b)	Total amount of money and other financial interests to be paid by the Company and its subsidiaries	442

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

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

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

(3) Description of Non-Auditing Services

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

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

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

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

5. The Company's Systems and Policies

(1) The Company's Corporate Governance System

The Company believes the basis of its corporate value is the promotion of its diversified businesses, composed of various segments with different demand fields, business environments, sales channels and business scales, and the leveraging of that synergy. The Company believes it is impossible to pursuit technical development and innovations, which form the foundation for the Company's continued growth, without integrating discussions with the shop floor.

Furthermore, to advance its diversified businesses, the Company believes it is necessary to actively discuss and undertake appropriate decision-making with regard to the risk management of its various businesses and the distribution of management resources, as well as flexibly audit business executions by the Board of Directors. It is desirable that members with the correct understanding regarding the business execution side attend the Board of Directors meetings, without completely separating auditing from execution.

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

The numbers of Directors (excluding Directors who are Audit & Supervisory Committee Members) shall be not more than fifteen (15) as stipulated under the Articles of Incorporation of the Company. An appropriate number of Directors constitutes the Board of Directors in light of ensuring Directors' conducting substantial discussion at meetings of the Board of Directors as well as considering their diversity. In addition, to enhance active discussion, appropriate decision-making and supervision, the Company invites two (2) or more Outside Directors because it is essential to reflect a fair and neutral viewpoint and the viewpoint of stakeholders such as minority shareholders. Currently, the Company appoints two (2) Outside Directors who are not Audit & Supervisory Committee Members.

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

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

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

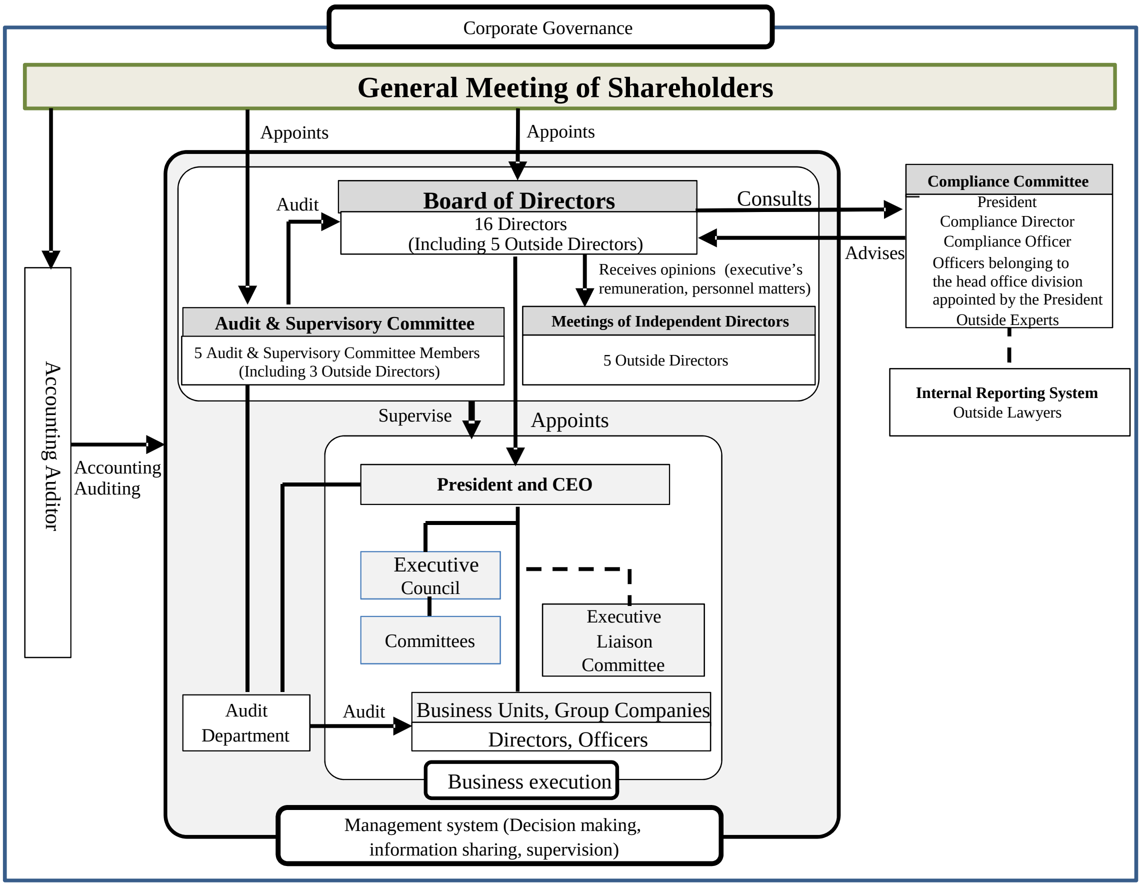
• Independent Directors will account for 1/3 or more of the Board

• Establish a Nominating and Compensation Committee, a majority of which are Outside Directors, as an advisory body to the Board of Directors

• Abolish the Office of Chairman of the Company and elect the Chairman of the Board of Directors from among the Independent Directors

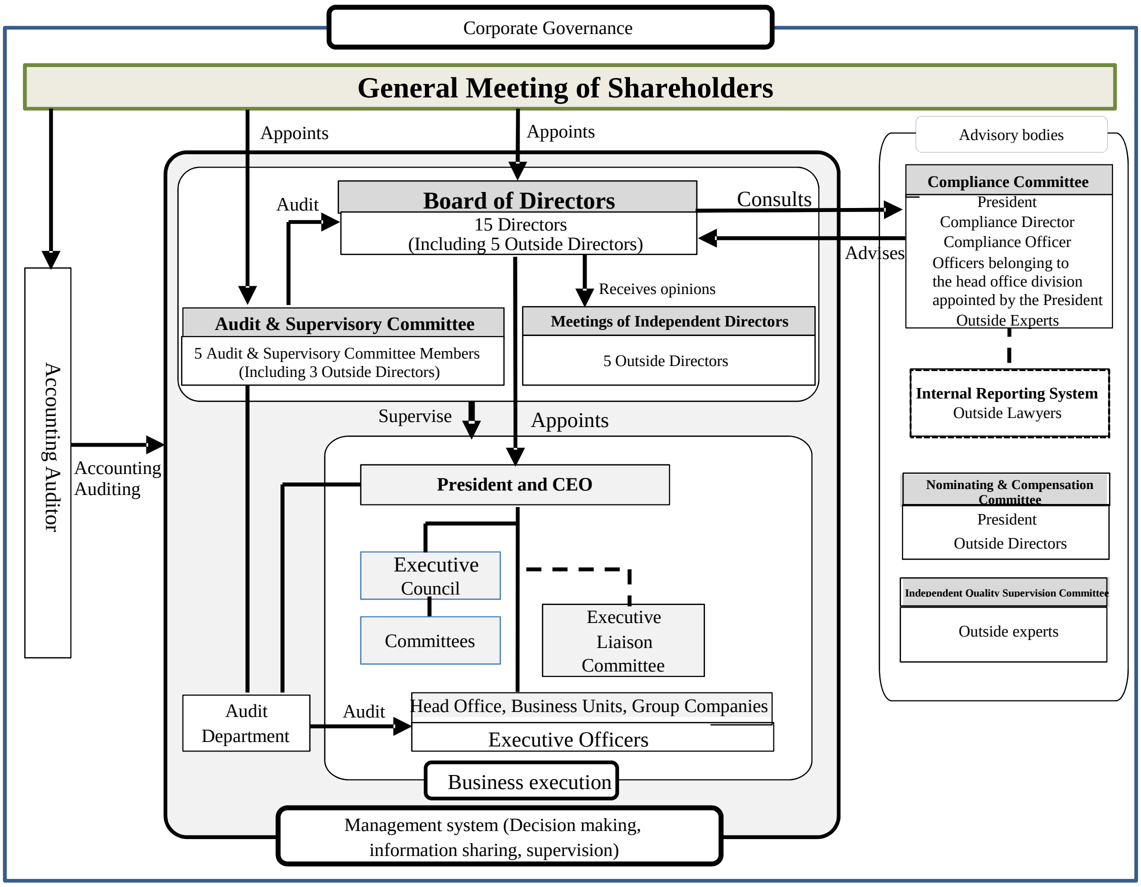
At the 165th Ordinary General Meeting of Shareholders, the Company has submitted proposals regarding partial amendments to the Articles of Incorporation necessary for the above changes, and the election of ten (10) Directors (excluding Directors who are Audit & Supervisory Committee Members).

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



[System in fiscal year 2018]

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



(2) System for Ensuring the Propriety of Business Operations

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

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

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

(b) Establishment of systems for ensuring proper financial reporting

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

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

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

(d) Rules and other systems for risk management

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

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

The Company is a company with an Audit & Supervisory Committee. To realize a management structure for which transparency and fairness are further ensured, the Company shall elect outside Directors who are not Audit & Supervisory Committee Members in addition to Outside Directors who are Audit & Supervisory Committee Members for the Company's Board of Directors, which plays a central function in the corporate governance of the Company Group.

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

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

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

In accordance with the "Affiliated Company Management Regulations," the Company obliges affiliated companies to consult with the supervisory division and the head office division of the Company and report important matters when they make important decisions. The Company also strives to manage the Group as a whole by requiring affiliated companies to obtain prior approval of the Board of Directors and the President of the Company concerning disposal of assets that surpass a certain amount in value.

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

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

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

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

(g) Matters regarding Directors and employees who assist in the duties of the Audit & Supervisory Committee, and matters regarding the independence of the said Directors and employees from Directors (excluding Directors who are Audit & Supervisory Committee Members); and a system to ensure the effectiveness of instructions from the Audit & Supervisory Committee to the said Directors and employees

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

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

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

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

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

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

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

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

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

(j) Other systems to ensure effective audits by the Audit & Supervisory Committee

To ensure the effectiveness of audits by the Audit & Supervisory Committee, explanations of annual audit policies and plans of the Audit & Supervisory Committee shall be made at meetings of the Board of Directors and on other occasions. The Company shall improve the audit environment by holding periodic meetings between the Audit & Supervisory Committee and the President and through cooperation with the internal audit division.

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

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

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

The Company is taking measures to develop the System for Ensuring the Propriety of Business Operations, and ensure its proper operation, in line with its basic policy on this system. A summary of the operational status of the system in fiscal year 2017 is as follows.

(a) Compliance measures

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

Furthermore, based on compliance activity plans for fiscal year 2017, the Company implemented compliance training for executives of the Company and its group companies, and training and legal education separated by employment level for responsible persons and supervisors in each business segment, newly appointed managers, and newly hired persons, etc. Additionally, the Company also implemented legal compliance training toward group companies both within and outside of Japan, based on examples of past and current scandals.

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

(b) Risk management

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

To ensure effectiveness, the results of the fiscal year's activities of each business unit are incorporated in plans for the next fiscal year and subsequent fiscal years after executive management has verified them. This system is proactively deployed at all Group companies.

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

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

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

Besides, the Executive Liaison Committee meetings were held to share information regarding important management issues and as study sessions, in order that attendees of this committee acquire information necessary for the Company Group's integrated management and business execution and for appropriate updates thereof. In addition, regarding the effectiveness of the Board of Directors, the Company identified issues and made improvements to the way the Board of Directors operates by conducting surveys of each Director every fiscal year, and discussing and evaluating the results of the surveys at meetings of the Board of Directors, after a primary assessment by the Audit & Supervisory Committee.

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

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

Abolish the current structure under which all division heads concurrently serve as Directors, and appoint Directors overseeing each of the materials businesses, the machinery businesses, and the electric power businesses

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

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

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

The Company's Audit & Supervisory Committee consists of five (5) Audit & Supervisory Committee Members, three (3) of whom are Audit & Supervisory Committee Members who are Outside Directors with a high degree of independence, so that the supervisory function works with transparency and fairness. Among them, two (2) full-time Audit & Supervisory Committee Members who are inside Directors actively strive to maintain circumstances for auditing and collect internal information of the Company. In addition, full-time Audit & Supervisory Committee Members daily audit the internal control system of the Company, and share information they acquire in the course of fulfillment of their duties with other Audit & Supervisory Committee Members. Outside Directors who are Audit & Supervisory Committee Members recognize that they are especially expected to objectively express opinions regarding auditing from a neutral viewpoint and make their own candid opinions on the Board of Directors, etc., based on their independence from the Company or reasons of their election.

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

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

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

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

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

(a) Basic policy details

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Going forward, the Company will continue looking for ways to further strengthen corporate governance. The Company will reference opinions presented at the Meetings of Independent Directors and the results of the Board of Directors' effectiveness evaluation, which are based on an annual survey of each director and an evaluation of the survey results by the Audit & Supervisory Committee.

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

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

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

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

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

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

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

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

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

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

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

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