

Business Report

(From April 1, 2018 to March 31, 2019)

1. Status of the Corporate Group

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

(a) Progress and Results of Operations

Japan's economy in fiscal 2018 (April 1, 2018–March 31, 2019) has continued on a moderate recovery supported by increased personal spending from improvements in employment and income conditions and by firm corporate capital investments, although Japan was affected temporarily by a series of natural disasters. In overseas economies, on the whole economic recovery trends continued mainly in the United States and Southeast Asia while China and Europe saw a slowdown in economic growth from the effects of protectionist trade policies and other factors.

In this economic environment, the sales volume of steel products in the Kobe Steel Group decreased, compared with the previous fiscal year, affected by temporary trouble with production equipment at Kakogawa Works and the impact of natural disasters, although demand mainly in the domestic automotive sector continued to be firm. The sales volume of aluminum rolled products decreased, compared with the previous fiscal year, as demand for can stock for beverage cans decreased, although demand from the automotive sector increased. The sales volume of copper rolled products increased, compared with previous fiscal year, owing to recovery in the sales volume of copper tubes following the resolution of equipment problems at a production facility in Thailand. Unit sales of hydraulic excavators increased, compared with the previous fiscal year, owing to continued firm demand mainly in Europe and China.

As a result, consolidated net sales in fiscal 2018 increased 90.7 billion yen, compared with the previous fiscal year, to 1,971.8 billion yen. However, owing to lower sales volume from equipment trouble and higher energy costs, operating income decreased 40.6 billion yen, compared with the previous fiscal year, to 48.2 billion yen. Ordinary income* decreased 36.5 billion yen, compared with the previous fiscal year, to 34.6 billion yen. As for extraordinary income and loss, the Company recorded loss on impairment of fixed assets, but posted a gain from transferring 75 percent of its shares., resulting in extraordinary income of 14.3 billion yen. Net income attributable to owners of the parent decreased 27.2 billion yen, compared with the previous fiscal year, to 35.9 billion yen.

The Company aims to pay dividends on a continuous and stable basis. Dividends are decided after taking into full consideration the Company's financial condition, business performance, future capital needs and other factors. On this basis, the Company resolved to pay a year-end dividend of 10 yen per share for fiscal 2018 (or a total of 20 yen for the full fiscal year).

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 decreased, compared with the previous fiscal year, owing to mainly temporary trouble with production equipment at Kakogawa Works and the impact of natural disasters, although demand was firm mainly in the automotive sector in Japan. Sales prices increased, compared with the previous fiscal year, affected by the rise in main raw material prices and other factors.

Sales of steel castings and forgings decreased, compared with the previous fiscal year, owing to changes in the product mix. Sales of titanium products increased, compared with the previous fiscal year, owing to expanded sales to the aircraft sector and other factors.

As a result, segment sales for the consolidated fiscal year increased 5.4 percent, compared with the previous fiscal year, to 753.9 billion yen. However, ordinary income* decreased 12.5

billion yen, compared with the previous fiscal year, to 4.7 billion yen. Although progress was made in measures to improve profitability by consolidating upstream operations, sales volume decreased due to equipment trouble and natural disasters, and additionally, distribution costs increased and other factors.

Welding

The sales volume of welding materials increased compared with the previous fiscal year. Demand increased in the automotive sector overseas, while demand from the shipbuilding sector was sluggish mainly in East Asia.

Sales of welding systems were similar to the previous fiscal year owing to continued firm demand for architectural steel frames in Japan.

As a result, segment sales for the consolidated fiscal year increased 4.2 percent, compared with the previous fiscal year to 83.9 billion yen. Ordinary income* decreased 1.2 billion yen, compared with the previous fiscal year, to 3.6 billion yen owing to higher raw material costs and other factors..

Aluminum & Copper

The sales volume of aluminum rolled products decreased, compared with the previous fiscal year, owing to lower demand for can stock for beverage cans, while demand from the automotive sector increased.

The sales volume of copper rolled products increased, compared with the previous fiscal year, owing to recovery in the sales volume of copper tubes following the resolution of equipment trouble at a production plant in Thailand and other factors.

As a result, segment sales for the consolidated fiscal year increased 2.7 percent, compared with the previous fiscal year, to 359.0 billion yen owing to higher sales prices in association with higher ingot prices, although the sales volume of aluminum rolled products decreased. Ordinary income* worsened by 13.3 billion yen compared with the previous fiscal year to ordinary loss of 1.5 billion yen owing to lower sales volume of aluminum rolled products, higher energy costs, the impact of the Misconduct* and other factors.

*Misconduct that took place in the Group as announced in October 2017 (the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications (nonconforming products), and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications; hereinafter referred to as the "Misconduct").

Machinery

Orders in the consolidated fiscal year increased 13.6 percent, compared with the previous fiscal year, to 171.7 billion yen, owing to a recovery in compressor demand in the oil refining field, higher demand in the petrochemical sector in Asia and the Middle East and other factors. The backlog of orders at the end of the consolidated fiscal year stood at 156.6 billion yen.

Segment sales for the consolidated fiscal year increased 6.3 percent, compared with the previous fiscal year, to 171.4 billion yen owing to steady progress in fulfilling current orders. However, ordinary income* decreased 1.1 billion yen, compared with the previous fiscal year, to 1.2 billion yen owing to deterioration of profitability in current orders and other factors.

Engineering

Orders in the consolidated fiscal year increased 2.8 percent, compared with the previous fiscal year, to 122.6 billion yen, owing to firm orders in the waste treatment business. The backlog of orders at the end of the consolidated fiscal year came to 169.3 billion yen.

Segment sales for the consolidated fiscal year increased 23.5 percent, compared with the previous fiscal year, to 151.7 billion yen owing to steady progress in fulfilling current orders for large projects. However, ordinary income* decreased 0.3 billion yen, compared with the previous fiscal year, to 6.5 billion yen owing to changes in the types of projects and other factors.

Construction Machinery

Unit sales of hydraulic excavators increased, compared with the previous fiscal year, owing to firm demand mainly in China and Europe.

Unit sales of crawler cranes were similar on the whole to the previous fiscal year. Although unit sales of crawler cranes in Japan declined, compared with the previous fiscal year, because of

delays in pre-shipment inspection following the crane collapse accident that occurred at Kobe Steel's Takasago Works in July 2018, demand was firm mainly in Southeast Asia and other overseas markets.

As a result, segment sales for the consolidated fiscal year increased 5.9 percent, compared with the previous fiscal year, to 386.0 billion yen. Ordinary income* increased 3.5 billion yen, compared with the previous fiscal year, to 25.5 billion yen, mainly owing to progress in the reversal of a portion of the allowance for retained receivables in the hydraulic excavator business in China, in addition to higher unit sales of hydraulic excavators.

Electric Power

The amount of electricity sold was less than the previous consolidated fiscal year due to the increase in the number of days for periodic inspection. The unit price of electricity was higher than the previous consolidated fiscal year owing to the effect of higher market prices of coal for power generation.

As a result, segment sales for the consolidated fiscal year increased 5.5 percent, compared with the previous fiscal year, to 76.1 billion yen. However, ordinary income* worsened by 8.2 billion yen, compared with the previous fiscal year, to ordinary loss* of 0.3 billion yen, due to incurring temporary costs in association with fund procurement for the new power generation project in the city of Kobe and other factors.

Other Businesses

At Kobelco Research Institute, Inc., orders fell in the testing and research business. In addition, Shinko Real Estate Co., Ltd., a consolidated subsidiary, was excluded from Kobe Steel's scope of consolidation in the consolidated fiscal year. It is now included as an affiliate accounted for by the equity method.

As a result, segment sales for the consolidated fiscal year decreased 38.9 percent, compared with the previous fiscal year, to 42.0 billion yen. Ordinary income* decreased 3.0 billion yen, compared with previous fiscal year, to 2.3 billion yen.

Definition of Ordinary Income (Loss)*

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

(b) Measures to Prevent a Recurrence of the Misconduct

We deeply and sincerely apologize for causing substantial troubles to our shareholders due to the Misconduct of the Group.

With regard to the safety of nonconforming products subject to the Misconduct, we confirmed that of the 688 companies to which nonconforming products were delivered, no safety problems were found and no immediate problems with safety were found, as announced on March 29, 2019.

Kobe Steel Group is carrying out in sequence the measures described in the "Report on Misconduct in Kobe Steel Group" dated March 6, 2018 to prevent recurrence of similar misconducts.

To change the mindset of employees, which is the core element of the measures to prevent recurrence, in order for the Corporate Philosophy to spread and take root, the President initiated a round of dialogue sessions with general managers at domestic and overseas business locations and bases, as well as with assistant managers and general foremen at each business location from April 2018, accounting for a total of 55 sessions at 42 locations as of the end of April 2019. The heads of business divisions and other executives also conducted a round of dialogue sessions.

Also, the Company designated every October as "Core Values of KOBELCO Month" and launched a dialogue platform to provide opportunities for both supervisors and subordinates to interact and honestly communicate with each other. Through such communication, the Company is changing employee mindsets and building a corporate culture that does not leave problems unresolved at the workplace.

In addition, the Company is undertaking in sequence efforts to rebuild and ensure a quality management system, strengthen quality management processes, and conduct relevant capital investments.

Each item of measures to prevent recurrence and an overview of its progress are as follows. For more details, please see the Company's website (<http://www.kobelco.co.jp/english/progress/relapse-prevention/index.html>).

Measure to Prevent Recurrence of the Misconduct	Status (as of the end of April 2019)
Governance – Building the Quality Governance System	
1) Penetration of the Group's Corporate Philosophy	In Progress
2) Desirable State of the Board of Directors	Completed
3) Restructuring of the Risk Management System	In Progress
4) Reformation of the Organization	Under Consideration
5) Restructuring of the Group Companies	Under Consideration
6) Rotation of Personnel among the Divisions	In Progress
7) Understanding of Issues Occurring at Worksites	In Progress
8) Establishment of the Quality Charter	Completed
9) Restructuring of the Quality Assurance System	Completed
10) Restructuring of our Management Indicators	In Progress
Management – Ensuring Quality Control	
1) Measures for Quality Management	Almost Completed
2) Rotation and Development of Quality Assurance Personnel	Partially In Progress
3) In-house Education Programs Regarding Quality	In Progress
4) Quality Audit by the Head Office	In Progress
Process – Strengthening of Quality Control Process	
1) Elimination of Opportunities for the Improper Handling of Test and Inspection Data and Unification of Shipping Standard	KOBELCO Quality Guidelines enacted Corrections and Improvements are under review by quality audit
2) Understanding of Process Capabilities and Their Utilization (with respect to the materials businesses)	
3) Review of the Approval Process for Accepting New Purchase Orders/when Changing the Manufacturing Process	
4) Promotion of Quality Risk Assessment in Capital Investments	

The Company has been continuously monitored by the Independent Quality Supervision Committee, composed solely of outside experts, on the progress of the preventive measures and has received various proposals for improvements. As announced on March 29, 2019, the Company received the final opinion from the Independent Quality Supervision Committee that the preventive measures have progressed on schedule, in the appropriate manner and with the appropriate content.

In April 2019, the Company established the Quality Management Committee* in which outside experts on quality management comprise the majority of the members. In its final opinion, the Independent Quality Supervision Committee evaluated that, under the monitoring of the Quality Management Committee, supervision of the progress of the preventive measures and efforts to improve quality management are expected to continue on an ongoing basis. Therefore, the Independent Quality Supervision Committee determined that monitoring of the progress of the preventive measures by the Independent Quality Supervision Committee would be ended as of the end of March 2019.

The Company, under the newly established Quality Management Committee, will continue to prevent such incidents by placing quality first, while adopting the recommendations of the outside experts on the Committee.

* The "Quality Management Committee" was established by the Company as an advisory body to the Board of Directors, and the majority of the Committee consists of outside experts. This committee takes over the monitoring activity on effectiveness of the preventive measures against the Misconduct from the "Independent Quality Supervision Committee," which was dissolved after submitting the final report to the Company at the end of March 2019. The new committee monitors and gives advice concerning activities to strengthen quality management in the Kobe Steel Group.

With regard to the Misconduct, the Company was indicted in July 2018 on charges of allegedly violating the Unfair Competition Prevention Act in Japan and the Company Group has also been under investigation by the U.S. Department of Justice since October 2017 for allegedly selling the nonconforming products to customers in the United States.

Furthermore, three types of civil complaints have been brought against the Company Group and other similar lawsuits may be filed in the future. The three civil complaints are as follows:

1. Class actions in Canada seeking compensation for economic loss caused by the automotive metal products manufactured by the Company 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.

With regard to item 2 of the above-mentioned civil complaints, a securities class action in the United States concerning the Company's ADR, a settlement was reached for the Company to pay 500 thousand U.S. dollars to the plaintiffs and for the plaintiffs to withdraw their lawsuit and the lawsuit came to an end in February 2019.

In regard to the indictment on the alleged violation of the Unfair Competition Prevention Act in Japan, the Company was consequently convicted with a fine of 100 million yen in March 2019. As the investigation by the U.S. Department of Justice and the above civil complaints (excluding item 2 above) are still ongoing, the Company Group will gravely accept the investigation and complaints and earnestly work toward early settlement.

(c) Issues to Be Addressed; Revision of Medium-Term Management Plan

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

Since 2016, the Company has been smoothly advancing the initiatives, such as, consolidation of upstream operations in the steel business, the restructuring of the construction machinery business in China, and the promotion of new projects in the electric power business. Meanwhile, we have been facing changes in the market environment such as rising prices of raw materials and energy, production equipment troubles, delays in the profitability of strategic investment projects, and exposure of the Misconduct. Accordingly, the Group recognizes that there are new issues it should tackle to achieve the Medium-Term Management Plan.

Under such circumstance, the Group summarized and announced key issues and measures for the remaining two years and beyond of the Medium-Term Management Plan as the "Rolling of the Medium-Term Management Plan" ("Medium-Term Rolling") in May 2019. The main themes of the Medium-Term Rolling are as follows:

	Main themes of Medium-Term Rolling
Priority themes for Fiscal Year 2019-2020	Strengthen profitability with a focus on materials
	Make efficient use of management resources and strengthen the business base
Medium- to Long-term themes for and after Fiscal Year 2021	Continuously strengthen corporate governance (continuous initiatives for measures to prevent recurrence of misconduct)
	Expand various programs for securing and cultivating human resources
	Strengthen IT strategies
	Promote sustainability management that leverages the distinctive features of the Kobe Steel Group (Contribute to the environment and society)

	through business activities and pursue sustainable growth)
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* With respect to the details of Medium-Term Management Plan, KOBELCO VISION “G+,” please see the press release dated April 5, 2016, “The Kobe Steel Group’s Fiscal 2016-2020 Medium-Term Management Plan,” and with respect to Rolling of Medium-Term Management Plan, please see the press release dated May 15, 2019, “Rolling of the Fiscal 2016-2020 Group Medium-Term Management Plan” on the Company’s web site (<http://www.kobelco.co.jp/english/>).

We take it very seriously that we have only just began restoring the trust that had been lost by the Misconduct and it will take more time to achieve the management objectives than originally planned.

The Group will establish a solid business enterprise and endeavor to grow sustainably as an essential entity that continues to support society by placing utmost priority on restoring trust from all stakeholders while promoting themes established in the Medium-Term Rolling throughout the Group.

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

(Reference) Basic policies and status of the Fiscal 2016-2020 Group Medium-Term Management Plan

Basic Policies			Initiatives and their status
1) Growth strategy for the three core business areas	Materials Businesses	Initiatives for weight savings in transportation	<ul style="list-style-type: none"> Starting operation of a joint venture to serve as a production location for cold-rolled high-strength steel sheets for automobiles in China (Completed the establishment of a global supply system for high-strength steel sheet, covering Japan, the United States, Europe and China) Increase production capacity by adding a continuous annealing line for ultra high-strength steel sheets for automobiles at Kagogawa Works (under construction) Increase production capacity of hot-dipped galvanized ultra high-strength steel for automobiles at PRO-TEC Coating Company, LLC in the United States (under construction). Established a production location and increased production capacity of aluminum extrusions for automobiles in the United States (establishment of a supply system for Japan and the United States.) Increase production capacity of forged aluminum parts for automobile suspension in the United States Increase production equipment for automotive aluminum panel material at Moka Plant (under construction) Established a joint venture in Korea with Novelis Inc., a company in the United States, as a production location for aluminum sheet base material for use in Japan and China
		Strengthening profitability in the iron and steel business	<ul style="list-style-type: none"> Completed consolidation of upstream operations for steel production to Kakogawa Works
	Machinery Businesses	Initiatives in the energy and infrastructure fields	<ul style="list-style-type: none"> Opened one of the world's largest test facilities for nonstandard compressors in Takasago Works Acquired Quintus Technologies AB, the world leader in presses, which gives rise to the expansion of the industrial machinery business
		Strengthening profitability in the construction machinery business	<ul style="list-style-type: none"> The merger of Kobelco Construction Machinery Co., Ltd. and Kobelco Cranes Co., Ltd. Establishment of assembly plants for hydraulic excavators in the United States Completed the reorganization of the Chinese hydraulic excavator business Increase production equipment at Itsukaichi Factory to build a stable supply system for global markets (under construction)
	Electric Power Business	Initiatives for stable profits	<ul style="list-style-type: none"> With regard to the already constructed Kobe Power Plant, renewed the supply contract with The Kansai Electric Power Company, Incorporated for post-expiration of the present contract Start construction work for two new power generation projects at Moka and Kobe (Scheduled date for the commencement of operation in Moka: Fiscal year 2019, Scheduled date for the commencement of operation in Kobe: Fiscal year 2022)
	2) Strengthening the Business Base	i) Strengthening corporate governance	<ul style="list-style-type: none"> Transitioned to a company with an Audit & Supervisory Committee from a company with an Audit & Supervisory Board Launched an assessment system for the effectiveness of the Board of Directors Revised and strengthened the training system for

		<p>executives</p> <ul style="list-style-type: none"> Revised the composition of the Board of Directors and promoted diversity Increased the percentage of Independent Directors in the Board of Directors to one-third or more and add more Independent Directors Selected the chairman of the Board of Directors among the Independent Directors Established the “Nomination & Compensation Committee” and the “Meeting of Independent Directors” Established the “Quality Management Committee”
	ii) Securing and developing human resources	<ul style="list-style-type: none"> Diversity promotion activities including implementing diversity training throughout the Company Started activities throughout the Company to improve working styles, including in principle prohibiting overtime after 7:00 p.m. and making meetings more efficient Revised personnel system (revising telecommuting system, multiple-track personnel promotion system, and raising the retirement age)
	iii) Strengthening technology development capabilities and <i>monodzukuri</i> (production system innovation) capabilities	<ul style="list-style-type: none"> Establishment of the Automotive Solution Center in order to accelerate and promote the Company’s proprietary solutions proposals, including materials for automobiles and joining technologies of dissimilar materials, etc. New establishment of AI Promotion Project Department to strengthen product development capabilities and manufacturing capabilities utilizing artificial intelligence (AI)
3) Financial Strategy	Maintaining financial discipline and undertaking cash generation Measures	<ul style="list-style-type: none"> Implementing cash generation measures of 110.0 billion yen over 3 years.
Numerical Targets for Fiscal Year 2020		
◆ ROA (ordinary profit/total assets): 5% or more		<p>End of Fiscal Year 2016: (0.8)% End of Fiscal Year 2017: 3.1% End of Fiscal Year 2018: 1.5%</p>
◆ D/E Ratio (interest-bearing debt/equity): 1 time or less		<p>End of Fiscal Year 2016: 1.17 time End of Fiscal Year 2017: 0.98 time End of Fiscal Year 2018: 0.98 time</p>

[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.

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

(i) Production Volume (In thousands of tons)

Category		165th Business Term (Fiscal year 2017)	166th Business Term (Current term) (Fiscal year 2018)
Iron & Steel	Crude steel	7,537	6,978
Aluminum & Copper	Aluminum rolled products	384	355
	Copper rolled products	142	145

(ii) Orders Received (Millions of yen)

Category			165th Business Term (Fiscal year 2017)	166th Business Term (Current term) (Fiscal year 2018)
Machinery	Orders	Domestic	62,565	61,225
		Overseas	88,538	110,499
		Total	151,104	171,724
	Backlog of orders	Domestic	41,200	43,274
		Overseas	99,259	113,363
		Total	140,459	156,637
Engineering	Orders	Domestic	80,632	90,532
		Overseas	38,612	32,109
		Total	119,245	122,641
	Backlog of orders	Domestic	97,986	104,213
		Overseas	85,500	65,177
		Total	183,487	169,391

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 (Millions of yen)

Category	165th Business Term (Fiscal year 2017)		166th Business Term (Current term) (Fiscal year 2018)	
	Net sales	Ordinary income	Net sales	Ordinary income
Iron & Steel	715,553	17,312	753,953	4,733
Welding	80,585	4,917	83,947	3,627
Aluminum & Copper	349,562	11,871	359,053	(1,525)
Machinery	161,325	2,379	171,488	1,207
Engineering	122,834	6,922	151,753	6,564
Construction Machinery	364,585	21,991	386,077	25,577
Electric Power	72,129	7,918	76,128	(326)
Other	68,882	5,418	42,063	2,337
Adjustment	(54,300)	(7,583)	(52,597)	(7,566)
Total	1,881,158	71,149	1,971,869	34,629
[Overseas sales of the above]	[648,527]		[713,942]	

(2) Capital Investments

Total capital investment on a construction (inspection and acceptance) basis is 133.4 billion yen.

The major capital investments completed in fiscal year 2018 or ongoing as of the end of fiscal year 2018 are as follows:

Category	Facility Name
Completed	Kobelco Aluminum Products & Extrusions Inc. Melting furnaces, extrusion presses, processing lines etc., in Kentucky, USA (Aluminum & Copper)
	Kobe Aluminum Automotive Products, LLC Melting and casting line, forging press etc. in Kentucky, USA (7th investment) (Aluminum & Copper)
In progress	The Company Kakogawa Works Continuous annealing lines for ultra high-strength steel sheets for automobiles (Iron & Steel)
	The Company Moka Plant Heat treatment and surface treatment equipment for aluminum panel material (Aluminum & Copper)
	Kobelco Power Moka Inc. Power supply facility in Moka, Tochigi Prefecture (Electric Power)
	Kobelco Power Kobe No.2, Inc. Power supply facility in Kobe, Hyogo Prefecture (Electric Power)

(3) Financing Activities

During fiscal year 2018, there were no special matters to be noted with regard to financing activities.

(4) Assets and Results of Operations

(a) Assets and Results of Operations of the Group

Category		163rd Business Term (Fiscal year 2015)	164th Business Term (Fiscal year 2016)	165th Business Term (Fiscal year 2017)	166th Business Term (Current term) (Fiscal year 2018)
Net sales	(Millions of yen)	1,822,805	1,695,864	1,881,158	1,971,869
Operating income	(Millions of yen)	68,445	9,749	88,913	48,282
Ordinary income	(Millions of yen)	28,927	(19,103)	71,149	34,629
Net income attributable to owners of the parent	(Millions of yen)	(21,556)	(23,045)	63,188	35,940
Net income per share	(yen)	(59.34)	(63.54)	174.43	99.20
Total assets	(Millions of yen)	2,261,134	2,310,435	2,352,114	2,384,973
Net assets	(Millions of yen)	745,492	729,404	790,984	803,312
Net assets per share	(yen)	1,903.80	1,860.36	2,049.95	2,041.29

Notes: 1. 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 163rd business term.
2. The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards for Business Enterprises No. 28, February 16, 2018) has been applied from the beginning of the fiscal year under review, and accordingly the amount of total assets for the 165th business term is retroactively adjusted.

(b) Assets and Results of Operations of the Company

Category		163rd Business Term (Fiscal year 2015)	164th Business Term (Fiscal year 2016)	165th Business Term (Fiscal year 2017)	166th Business Term (Current term) (Fiscal year 2018)
Net sales	(Millions of yen)	979,085	923,700	1,041,923	1,073,791
Operating income	(Millions of yen)	21,006	(7,096)	32,121	2,321
Ordinary income	(Millions of yen)	26,690	(16,557)	44,449	11,940
Net income	(Millions of yen)	(6,217)	(6,319)	43,468	14,345
Net income per share	(yen)	(17.09)	(17.39)	119.77	39.52
Total assets	(Millions of yen)	1,478,036	1,607,297	1,625,714	1,640,872
Net assets	(Millions of yen)	514,575	513,620	556,715	554,841
Net assets per share	(yen)	1,413.07	1,415.24	1,534.02	1,528.60

Notes: 1. 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 163rd business term.
2. The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards for Business Enterprises No. 28, February 16, 2018) has been applied from the beginning of the fiscal year under review, and accordingly the amount of total assets for the 165th business term is retroactively adjusted.

(5) Major Businesses (As of March 31, 2019)

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

Category		Major Products and Businesses
Iron & Steel	Steel bars	Ordinary wire rods, special wire rods, special steel wire rods, ordinary steel bars, special steel bars
	Steel sheets	Heavy plates, medium plates, steel sheets (hot-rolled, cold-rolled, surface treated)
	Steel billets	
	Processed product & pig iron, etc.	Steel castings and forgings (ship parts, electrical 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, special steel products, various steel wires
Welding		Welding materials (covered welding electrodes, welding wires for automatic and semi-automatic welding, fluxes), welding robots, welding power sources, welding robot systems, welding-related testing, analysis and consulting
Aluminum & Copper	Aluminum rolled products	Aluminum can stock, aluminum sheets for heat exchangers, automotive aluminum sheets, aluminum extrusions, aluminum disk material for HDDs
	Copper rolled products	Copper strips for semiconductors, copper strips 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, scaffolding material for construction, etc.)
Machinery		Equipment for energy and chemical fields, equipment for nuclear power plants, tire and rubber machinery, plastic processing machinery, ultra high-pressure presses, 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 reduced iron, pelletizing, petrochemical, nuclear power-related, water treatment, waste treatment, etc.), Erosion control and disaster prevention structures, Civil engineering, Advanced urban transit systems, chemical and food processing equipment
Construction Machinery		Hydraulic excavators, mini excavators, wheel loaders, crawler cranes, rough terrain cranes, work vessels
Electric Power		Electric power supply
Other		Special alloys and other new materials (target materials, etc.), material analysis and testing, high-pressured gas cylinder manufacturing, superconducting products, general trading company

(6) Major Offices and Plants (As of March 31, 2019)

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	51.83	Manufacture and sales of special steel
Shinko Wire Company, Ltd. [Amagasaki, Hyogo] *1	8,062 million yen	43.63	Manufacture and sales of secondary products of wire rod Contracting construction work of Structures
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

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
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
Kobe Precision Technology Sdn. Bhd. [Malaysia]	19,000 thousand Malaysian ringgit	100.00	Manufacture and sales of aluminum disk material for HDDs
Kobelco Compressors Corporation [Tokyo]	450 million yen	100.00	Sales and servicing of compressors
Shinko Engineering Co., Ltd. [Ogaki, Gifu] *1	388 million yen	100.00	Manufacture and sales of internal combustion engines, transmissions and testing machines, etc.
Kobelco Compressors Manufacturing (Shanghai) Corporation [China]	87,796 thousand yuan	100.00	Development and manufacture of compressors and related products Sales and servicing of products of the Company
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 America, Inc. [United States] *1	5 thousand U.S. dollars	100.00	Manufacture and sales of compressor systems 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, operation of waste recycling 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
TOYOSUGIUE Co., Ltd. [Takamatsu] *1	350 million yen	100.00	Sales, rental, repair and installation services of construction machinery and industrial machinery
Kobelco Construction Machinery International Trading Co., Ltd. [Kobe] *1	100 million yen	100.00	Purchases and sales of used construction machinery
Kobelco Construction Machinery (China) Co., Ltd. [China] *1	2,522,314 thousand yuan	100.00	Sales and servicing of construction machinery
Hangzhou Kobelco Construction Machinery Co., Ltd. [China] *1	261,374 thousand yuan	100.00	Manufacture and sales of construction machinery
Chengdu Kobelco Construction Machinery Financial Leasing Ltd. [China] *1	56,100 thousand yuan	88.95	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 Construction Equipment India Pvt. Ltd. [India] *1	3,312 million Indian rupees	96.98	Manufacture, 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 International (S) Co., Pte. Ltd. [Singapore] *1	1,058 million yen	100.00	Sales and servicing of construction machinery

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Pt. Daya Kobelco Construction Machinery Indonesia [Indonesia] *1	8,000 thousand U.S. dollars	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 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
Kobelco Power Kobe No.2, Inc. [Kobe]	300 million yen	100.00	Wholesale power supply
Kobelco Research Institute, Inc. [Kobe]	300 million yen	100.00	Material analysis and testing, structural analyses Manufacture and sales of target material, semiconductor and inspection equipment
Kobelco (China) Holding Co., Ltd. [China]	1,265,939 thousand yuan	100.00	Holding company in China
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
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
Kobelco Angang Auto Steel Co., Ltd. [China] *1	700,000 thousand yuan	49.00	Manufacture and sales of cold-rolled, high-strength steel
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 Millcon Steel Co., Ltd. [Thailand]	2,830 million Thai baht	50.00	Manufacture and sales of special 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	35.93	Trading of iron & steel and nonferrous metal products and machinery, etc.
Shinko Real Estate Co., Ltd. [Kobe]	3,037 million yen	25.00	Real estate sales and leasing, and insurance agency business

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 2018, TOYOSUGIUE Co., Ltd, Kobelco Construction Machinery International Trading Co., Ltd., Pt. Daya Kobelco Construction Machinery Indonesia and Kobelco Power Kobe No.2, Inc. were newly added.

Note 4: Chengdu Kobelco Construction Machinery Co., Ltd., which was included in the list in the previous fiscal year, is not included in the list from fiscal year 2018 as it was merged into Kobelco Construction Machinery (China) Co., Ltd. in fiscal year 2018. As a result of the merger, common stock of Kobelco Construction Machinery (China) Co., Ltd. is now 2,522,314 thousand yuan.

Note 5: Tesac Wire rope Co., Ltd., which was included in the list in the previous fiscal year, is not included in the list from fiscal year 2018 as it was merged into its parent company, Shinko Wire Company, Ltd., via a share exchange. As a result of the merger, the Company's ratio of voting rights in Shinko Wire Company, Ltd. increased and Shinko Wire Company, Ltd. is listed as a major subsidiary from fiscal year 2018.

Note 6: Kobelco Spring Wire (Foshan) Co., Ltd., which was included in the list in the previous fiscal year, is not included in the list from fiscal year 2018 as it no longer qualifies as a major affiliated company.

- Note 7: In fiscal year 2018, Chengdu Kobelco Construction Machinery Financial Leasing Ltd. decreased its capital, which resulted in its common stock totaling 56,100 thousand yuan. The Company changed its ratio of voting rights in Chengdu Kobelco Construction Machinery Financial Leasing Ltd. from 75.95% to 88.95%.
- Note 8: On July 1, 2018, the Company transferred its shares in Shinko Real Estate Co., Ltd. and the Company's ratio of voting rights in Shinko Real Estate Co., Ltd. became 25.00% and thus it is included as the Company's affiliated company from fiscal year 2018.
- Note 9: On April 17, 2019, the Company acquired additional shares in L&T Kobelco Machinery Pvt. Ltd. As a result, L&T Kobelco Machinery Pvt. Ltd. became the Company's major subsidiary and the Company's ratio of voting rights in it became 100.00%.
- Note 10: On April 1, 2019, KOBELCO Construction Machinery (East Japan) Co., Ltd. and KOBELCO Construction Machinery (West Japan) Co., Ltd. were merged and changed its registered trade name to KOBELCO Construction Machinery Japan Co., Ltd.

(8) Employees (As of March 31, 2019)

(a) Employees of the Group (Persons)

Category	Number of Employees
Iron & Steel	10,887
Welding	2,560
Aluminum & Copper	7,550
Machinery	4,094
Engineering	3,523
Construction Machinery	7,487
Electric Power	244
Other or Corporate	2,996
Total	39,341

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
11,401	+210	39.0 years old	15.9 years

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

Note 2: The number of employees stated above does not include 853 seconded employees.

(9) Major Lenders and Amount of Borrowings (As of March 31, 2019)

Main Lenders	Balance of Loans (Millions of yen)
Development Bank of Japan Inc.	76,556
Mizuho Bank, Ltd.	64,556
MUFG Bank, Ltd.	57,369
Sumitomo Mitsui Banking Corporation	41,846
Nippon Life Insurance Company	40,273
The Yamaguchi Bank, Ltd.	25,820
Mizuho Trust & Banking Co., Ltd.	21,007

Note 1: Other than stated above, there was a syndicate loan amounting to a total of 86,900 million yen with Mizuho Bank, Ltd., MUFG Bank, 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, 2019)

- (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 185,008
(4) Major shareholders (Top ten shareholders)

Name of Shareholders	Number of Shares Held (Thousands of shares)	Shareholding Ratio (%)	Shares Held in Major Shareholders	
			Number of Shares Held (Thousands of shares)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,079	4.97	–	–
Japan Trustee Services Bank, Ltd. (Trust Account)	13,334	3.66	–	–
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)	7,100	1.95	–	–
Mizuho Bank, Ltd.	6,467	1.78	–	–
Mitsubishi UFJ Trust and Banking Corporation	5,233	1.44	–	–
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000	4,980	1.37	–	–
STATE STREET BANK WEST CLIENT - TREATY 505234	4,847	1.33	–	–
JP MORGAN CHASE BANK 385151	4,613	1.27	–	–

Note 1: The Company holds 238 thousand shares in treasury stock. Treasury stock is excluded in the calculation of the major shareholders' ratio of shareholding in the Company.

Note 2: On April 1, 2019, Nippon Steel & Sumitomo Metal Corporation changed its registered trade name to Nippon Steel Corporation.

Note 3: 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 4: Mitsubishi UFJ Trust and Banking Corporation is a wholly owned subsidiary 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 9,155 shares
 - Total amount of purchases 8,717,506 yen

(b) Shares Disposed of

- Disposal of shares by requests for supplementary purchase of shares constituting less than one unit
 - Common stock 450 shares
 - Total amount of disposal 424,652 yen

(c) Shares Held as of March 31, 2019

- Common stock 237,940 shares

3. Directors, Audit & Supervisory Committee Members and Officers

(1) Directors (As of March 31, 2019)

Positions	Name	Duties & Significant concurrent positions
President (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 environmental control and disaster prevention. 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 management.
Executive Vice President (Representative Director)	Takao Ohama	Oversees machinery businesses. Head of the Machinery Business
Executive Vice President (Representative Director)	Koichiro Shibata	Oversees materials businesses. Head of the Iron & Steel Business
Director, Senior Managing Executive Officer	Shohei Manabe	Oversees the Audit Department and Compliance Management Department. Oversees companywide compliance.
Director, Senior Managing Executive Officer	Jiro Kitagawa	Oversees the electric power business. Head of the Electric Power Business
Director, 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, domestic branch offices and sales offices (including Takasago Works) and responsible for overseas locations (under the head office). Oversees companywide health and safety.
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)	Hiroshi Ishikawa	
Director (Audit & Supervisory Committee Member, full time)	Yasushi Tsushima	
Director (Audit & Supervisory Committee Member)	Takashi Okimoto	

Positions	Name	Duties & Significant concurrent positions
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: 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, and has considerable financial and accounting knowledge.
- 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: On March 31, 2019, Director Takao Kitabata retired as Chairman of SANDA GAKUEN Junior High School – Senior High School.
- Note 6: On May 1, 2019, Director Hidero Chimori retired as Representative Partner of Miyake & Partners. ROHM Co., Ltd., at which Mr. Chimori serves as Outside Company Auditor, will transition to a company with an Audit & Supervisory Committee by resolution at its 61st Ordinary General Shareholders Meeting to be held on June 27, 2019, and Mr. Chimori is scheduled to be a candidate for Director (Outside Director) at the meeting.
- Note 7: 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 8: Except as set forth above, there are no special relationships that require disclosure between the Company and entities in which Outside Directors concurrently served.
- Note 9: The Directors who retired this term were as follows.

Positions	Name	Resignation Date
Director	Hiroya Kawasaki	June 21, 2018
Director	Akira Kaneko	June 21, 2018
Director	Naoto Umehara	June 21, 2018
Director	Toshiya Miyake	June 21, 2018
Director (part time)	Kazuhide Naraki	June 21, 2018
Director (Audit & Supervisory Committee Member, full time)	Hiroaki Fujiwara	June 21, 2018
Director (Audit & Supervisory Committee Member, full time)	Yoshimasa Yamamoto	June 21, 2018

Note 10: The new positions and duties of directors whose positions or duties have changed as of April 1, 2019 are as follows:

Positions	Name	Duties
Executive Vice President (Representative Director)	Yoshinori Onoe	Oversees companywide technical development. Oversees the Health & Safety Department, Environmental Control & Disaster Prevention Department, Research & Development Planning Department and IT Planning Department. Oversees companywide health and safety. Oversees companywide environmental control and disaster prevention. Oversees companywide information systems. Head of the Technical Development Group.
Director, 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, domestic branch offices and sales offices (including Takasago Works) and responsible for overseas locations (under the head office).

Note 11: The Company has implemented an officer system, with the names and duties of officers as of April 1, 2019 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 environmental control and disaster prevention. Responsible for companywide information systems. Responsible for Automotive Solution Center in the Technical Development Group. Responsible for companywide automotive projects.
	Senior Managing Executive Officer	Kazuaki Kawahara	Responsible for the Corporate Planning Department (excluding the Automotive Materials Planning Section), Accounting Department, Finance Department and overseas locations (under the head office).
	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 Health & Safety Department, 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). Responsible for companywide health and safety.
	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	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	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.
	Managing Executive Officer	Hiroyuki Mori	Responsible for the Steel Casting & Forging Division, Titanium Division, and Steel Powder Division. Responsible for the Processed Materials Administration Department and the Processed Materials Quality Assurance Department.
	Executive Officer	Shuji Kitayama	Responsible for the Machinery & Materials Procurement Department. 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, 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	Koichi Sakamoto	Responsible for the Technology Administration Department, Computer Systems Department, and the Research & Development Laboratory.
Welding	Managing Executive Officer	Akira Yamamoto	Head of the Welding Business

	Positions	Name	Duties
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 aluminum flat rolled products business. Responsible for special assignments from Head of the Aluminum & Copper Business.
	Executive Officer	Hideki Asada	Responsible for copper flat rolled products business. Responsible for safety management. General Manager of the Technology Control Department.
	Executive Officer	Ryosaku Kadowaki	Responsible for the Planning & Administration Department, Raw Materials Department and Quality Assurance Department.
Machinery	Managing Executive Officer	Masamichi Takeuchi	General Manager of the Industrial Machinery Division, General Manager of the Energy & Nuclear Equipment Business Unit in the Industrial Machinery Division.
	Managing 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.
Engineering	Senior Managing Executive Officer	Kazuto Morisaki	Head of the Engineering Business. Responsible for companywide construction.
	Executive Officer	Masahiro Motoyuki	Responsible for the Iron Unit Center. General Manager of the Project Engineering Division.
	Executive Officer	Yoichi Kamiyauchi	Responsible for the Nuclear Project Center and CWD Project Center.

(2) Remuneration and Other Amounts to Directors

Category	Number of Payees (Persons)	Amount (Millions of yen)	Total by amount type breakdown, including remuneration (Millions of yen)			
			Fixed remuneration	Performance-based remuneration	Stock remuneration	
Directors (excluding Audit & Supervisory Committee Members) (of which, Outside Directors)	15 (2)	533 (27)	427 (27)	50 (-)	56 (-)	Number of Payees and Amount include five Internal Directors (who are not Audit & Supervisory Committee Members) and two Outside Directors (who are Audit & Supervisory Committee Members) that retired in fiscal year 2018.
Directors (Audit & Supervisory Committee Members) (of which, Outside Directors)	7 (3)	109 (44)	109 (44)	- (-)	- (-)	
Total	22	643	536	50	56	

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 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 47 through 48.

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

Note 3: The Company takes very seriously the fact that the Misconduct in the Group has caused significant trouble 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 March to June 2018.

Note 4: Totals for performance-based remuneration are estimated payments.

Note 5: The total amount of stock remuneration is the amount of expenses posted for points awarded.

Note 6: 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 Nomination & 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 Nomination & Compensation Committee, a majority of which are Independent Directors.
- 2) Remuneration Framework
- A) Remuneration for the Company's Directors (excluding Directors who are Audit & Supervisory Committee Members) will consist of fixed compensation, performance-based compensation linked to the achievement of business results targets during individual fiscal years, and medium- to long-term incentive compensation based on stock compensation with the goal of sharing values with shareholders. Taking into consideration their duties, part-time Internal Directors and Outside Directors will not be eligible for performance-based compensation, and Outside Directors will not be eligible for medium- to long-term incentive compensation.
- B) The standard amount of performance-based compensation for each rank will be at the level of 25 to 30% of fixed compensation, and the value of medium- to long-term incentives paid per fiscal year will be at the level of 25 to 30% of fixed compensation.
- C) The Company's Directors who are Audit & Supervisory Committee Members will only be paid fixed compensation as Director remuneration, taking into consideration their duties.
- 3) Performance-based systems
- A) The amount of performance-based compensation will be determined using net income attributable to owners of the parent (hereinafter "net income") and net income of each business division as evaluation indicators. Target standards used in evaluations will be based on the net income standard of the Company as a whole, which becomes "consolidated ROA of 5% or more" as stated in the medium-term management plan. Additionally, target standards for each business division will be based on the same net income standard for each business division of "ROA of 5% or more in each business division," and according to the accomplishment of these targets for both the Company as a whole and in each business division, a coefficient of 0-200% will multiplied to the base amount in order to determine the amount paid.
- B) For medium- to long-term incentive compensation, a system known as Board Benefit Trust (BBT) will be adopted in order to raise the consciousness for contribution from Directors regarding continuously improving corporate value. Payments based on this system will use a base point number established for each rank and a number of points according to a coefficient of 0-100% will be provided each fiscal year based on whole-company net income and the state of dividend payment, and on a fixed date during each trust period of three years, a number of the Company's shares and a cash equivalent to the amount converted from the market price of the Company's shares will be provided according to the number of points provided.
- 4) Method to Determine Remuneration Standard
- Director remuneration survey data from an external specialized agency will be used as a base to determine remuneration standards commensurate with the Company's corporate scale and the duties expected of Directors.
- 5) Method to Determine and Examine the Policy regarding Remuneration
- A) The policy concerning remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) is determined by the Board of Directors, and the policy concerning remuneration for Directors who are Audit & Supervisory Committee Members is determined by all Audit & Supervisory Committee Members.
- B) Regarding ways for and necessity to revise the remuneration system, it is deliberated at the Nomination & 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 etc.
Director	Takao Kitabata	16/16 meetings held (100%)	–	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. Furthermore, as Chairman of the Board of Directors, Chairman of the Nomination & Compensation Committee, and a member of the Meeting of Independent Directors, he contributed to the enhancement of the monitoring functions of the management of the Company and actively visited business locations.
Director	Hiroyuki Bamba	16/16 meetings held (100%)	–	Provided advice and suggestions concerning corporate management from his abundant experience in different business fields from ours in the world of industry and deep insight as a corporate executive. Furthermore, as a member of the Meeting of Independent Directors, he contributed to the enhancement of the monitoring functions of the management of the Company and actively visited business locations.
Director (Audit & Supervisory Committee Member)	Takashi Okimoto	16/16 meetings held (100%)	15/15 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. Furthermore, as Chairman of the Audit & Supervisory Committee, member of the Nomination & Compensation Committee, and member of the Meeting of Independent Directors, he contributed to the enhancement of the monitoring functions of the management of the Company and actively visited and audited business locations.
Director (Audit & Supervisory Committee Member)	Yoshiiku Miyata	15/16 meetings held (94%)	12/15 meetings held (80%)	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. Furthermore, as a member of the Meeting of Independent Directors, he contributed to the enhancement of the monitoring functions of the management of the Company and actively visited and audited business locations.

		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 etc.
Director (Audit & Supervisory Committee Member)	Hidero Chimori	15/16 meetings held (94%)	15/15 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. Furthermore, as a member of the Meeting of Independent Directors and the Compliance Committee, he contributed to the enhancement of the monitoring functions of the management of the Company and actively visited and audited business locations.

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. In March 2019, with regard to a part of the whole misconducts, the Company was convicted of violating the Unfair Competition Prevention Act in Japan.

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.

After that, these five Directors has been receiving reports in a regular basis at the meetings of the Board of Directors on the progress of measures to prevent recurrence, and appropriately monitoring various initiatives regarding initiatives aimed at restoring trust, such as the implementation of measures to prevent recurrence, governance reform, and employee's awareness -raising by commenting based on their respective professional knowledge.

4. Accounting Auditor

(1) Name of Accounting Auditor
KPMG AZSA LLC

(2) Remuneration and Other Amounts to Accounting Auditor

	Category	Amount (Millions of yen)
(a)	Remuneration and other Amounts to be paid as payment to Accounting Auditor by the Company	146
(b)	Total amount of money and other financial interests to be paid by the Company and its subsidiaries	468

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 "advisory services relating to internal control" to the Accounting Auditor, which are services (non-auditing services) not included in the services under Article 2, Paragraph 1 of the Certified Public Accountants Act.

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

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

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

5. The Company's Systems and Policies

(1) The Company's Corporate Governance System

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

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

Under this policy, the Company has adopted 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. The Company conducts the following actions to ensure that an appropriate number of Directors constitutes the Board of Directors to ensure substantial discussion at meetings of the Board of Directors as well as enhance the auditing function, while considering their diversity.

Purpose	Action
Reflecting a fair and neutral viewpoint and the viewpoint of stakeholders such as minority shareholders	Inviting more than one Outside Directors (*1)
Strengthening the monitoring function of the Board of Directors	In addition to the President, appointing Directors to oversee the head office division, each business division in materials, machinery, and electric power, and the technical development division; a Director to oversee compliance; and a Director to oversee quality assurance
Enhancing fairness and transparency of the Board of Directors and advancing our growth strategies as a company	Appointing Independent Directors so that they will account for one third or more of the Board of Directors
	In principal, the Chairman of the Board of Directors is selected from among the Independent Directors

With regard to the Audit & Supervisory Committee, the Companies Act requires companies to install three (3) or more Audit & Supervisory Committee Members, 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.

In addition, the Company established the following meetings.

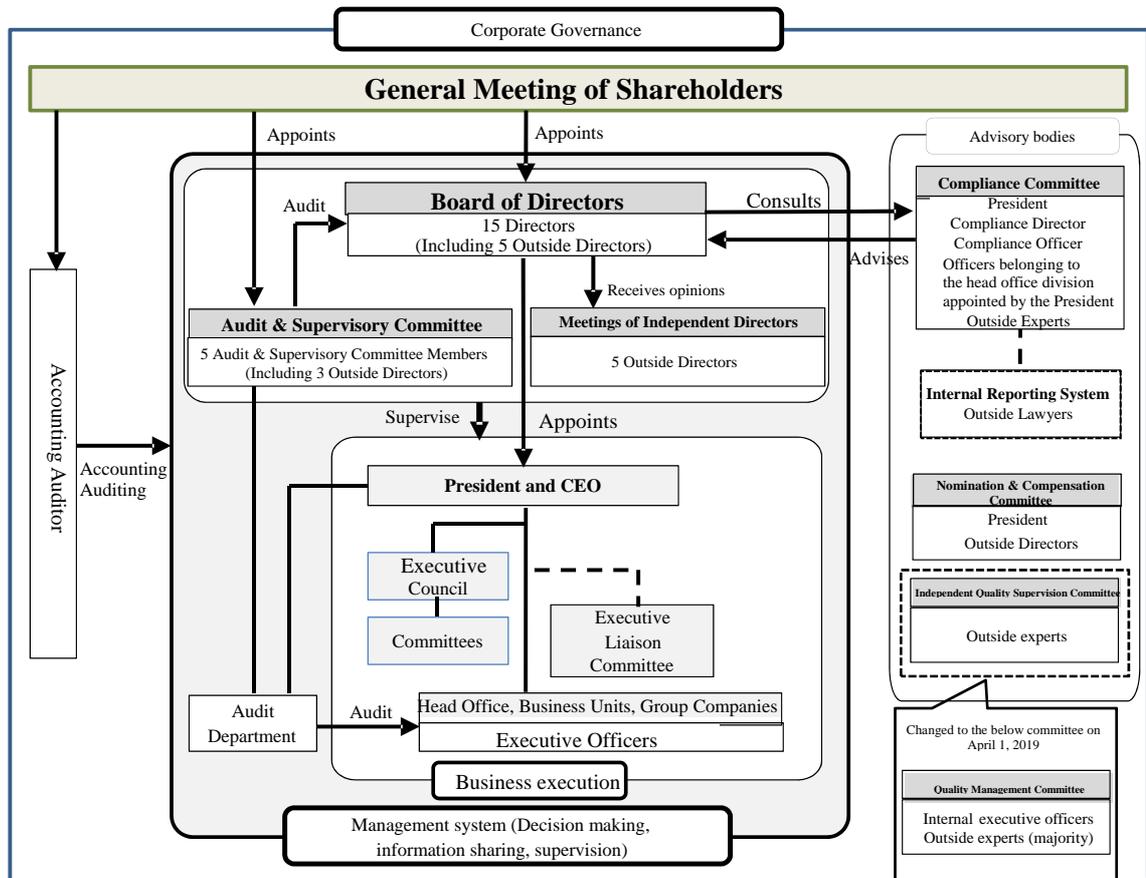
Name	Composition	Fundamental Role
Meeting of Independent Directors	All Independent Directors	The meeting is a platform where the Company provides and shares information with Independent Directors regarding the Company's businesses other than nomination and compensation of executives (executive directors of the Company attend the Meetings of Independent Directors as necessary to share information and exchange opinions with the Independent Directors).
Compliance Committee	Consists of the President, the Director overseeing companywide compliance, the Executive Officer in charge of compliance, an attorney in charge of receiving reports via the internal reporting (whistleblowing) system, and external experts. The majority of the Committee consists of members from outside of the Company.	The Committee is an independent advisory body to the Board of Directors, deliberates matters regarding compliance with laws, regulations and ethics concerning the Company's business activities.
Nomination & Compensation Committee	Consists of three to five members, including the President and the majority shall be served by Independent Directors (Independent Director shall serve as chairman).	The Committee is an advisory body to the Board of Directors to discuss election or removal of major executives such as Directors or Executive Officers, including the selection of successors to the Chief Executive Officer, and the remuneration system of such executives.
Quality Management Committee (*2)	Consists of three outside experts and two internal executive officers (chairman is selected among the outside experts)	The Committee was established as an advisory body to the Board of Directors in April 2019. It monitors activities to strengthen the quality management in the Kobe Steel Group, and continuously monitors and advise on preventive measures against the misconduct.

In addition, the Company established the Executive Council to provide opportunities for lively discussions in order to examine business execution of the Company's business segments and the Group from various angles. The Company also established various types of committees as advisory bodies to the Executive Council. One such committee is the CSR Committee, the core organization to review and promote social responsibility in corporate activities of the Company in light of Environment, Society and Governance (ESG) and the Sustainable Development Goals (SDGs).

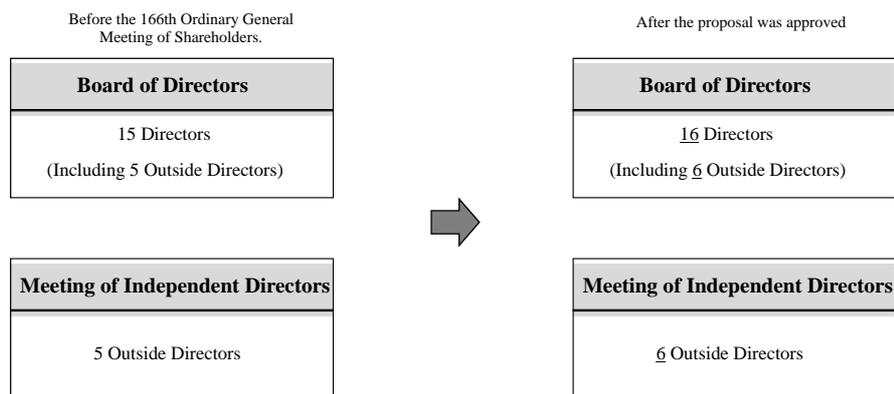
*1 Currently, the Company has two (2) Outside Directors who are not Audit & Supervisory Committee Members. The Company resolved to add one (1) more Outside Director who is not an Audit & Supervisory Committee Member at the meeting of the Board of Directors held on April 3, 2019, as improvement of medium- to long-term corporate value essentially calls for enhanced independence, objectivity, and diversity of the Board of Directors as well as its strengthened supervisory functions. Therefore, the Company has proposed "Item 1: Election of eleven (11) Directors (excluding Directors who are Audit & Supervisory Committee Members)" at the 166th Ordinary General Meeting of Shareholders.

*2 The Quality Management Committee was established by the Company as an advisory body to the Board of Directors, and the majority of the Committee members consist of outside experts. This Committee takes over the monitoring activity on effectiveness of the preventive measures against the Misconduct from the "Independent Quality Supervision Committee," which was dissolved after submitting the final report to the Company at the end of March 2019. The new Committee monitors and gives advice concerning activities to strengthen quality management in the Kobe Steel Group.

<Corporate Governance System>
[System in fiscal year 2018]



*If the proposal is approved at 166th Ordinary General Meeting of Shareholders, the number of the Board of Directors and the Meeting of Independent Directors shown above will be changed as follows:



(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

(i) The "Core Values of KOBELCO," which are the commitments of the Kobe Steel Group ("the Group") to society determined as the values shared by the entire Group in order to promote the sustainable development of the Group and (ii) the "Six Pledges of KOBELCO Men and Women," which are determined as a concrete code of conduct for implementation by all employees in the Group based on the "Corporate Ethical Principles" that aim to fulfill these commitments under the "Corporate Code of Ethics," shall be the norms and criteria for compliance. The Company shall build a compliance structure with laws, regulations, social norms, etc., 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 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, the Company appoints one director to oversee the materials businesses, one director to oversee the machinery businesses, and one director to oversee the electric power business, and executive officers, who are elected by the Board of Directors, shall execute business under the supervision of the directors. The Company also appoints a director to oversee compliance and a director to oversee quality management for the purpose of reinforcing the monitoring function of the business divisions.

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 "Group Company Management Regulations," the Company obliges Group 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 Group 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.

In addition, the Company issues the Standard Practice for the Group, which provides rules commonly

introduced within the Group, and each of our Group Companies is required to establish its own code of conduct in accordance with the Standard Practice for the Group. The Company promotes and educates our risk management based on the Standard Practice for the Group.

With respect to risks surrounding the Company's businesses, Group Companies shall individually address their risks, evaluate 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 Group Companies as directors and/or corporate auditors of such Group Companies, make such directors and/or audit & supervisory board members attend the meetings of board of directors in these Group Companies, and manage and control management of these Group Companies.

Furthermore, the Company builds its Group compliance system with laws, regulations, etc., by requiring its Group Companies to share the "Core Values of KOBELCO" and the "Six Pledges of KOBELCO Men and Women" as a concrete corporate code of conduct, 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 both said Directors and employees from Directors who are not 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.

(Notes)

1. “Group Companies” cover subsidiaries that receive direct or indirect investment from the Company.
2. The above shows the system implemented in fiscal year 2018. Furthermore, at the meeting of the Board of Directors held on March 29, 2019, 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/english/>) as reference materials for the 166th 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 2018 is as follows.

(a) Compliance measures

In fiscal year 2018, the Compliance Committee met three (3) times. Activities included formulation of compliance activity plan for fiscal year 2018, and monitoring the status of implementation of compliance activities.

Furthermore, based on compliance activity plan for fiscal year 2018, the Company implemented compliance training for executives of the Company and its group companies, and training and legal education separated by employment level for newly appointed managers, and newly hired persons, etc. Additionally, the Company implemented quality compliance training toward responsible persons and supervisors in each business segment, and group companies both within and outside of Japan.

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

In order to ensure risk management against the risks that may damage the Group’s corporate value, the Company has been carrying out Risk Management Activities to respond appropriately to such risks. This means that, after the business divisions have identified and checked the risks — mainly those that are universal throughout the Company in light of legal and societal changes — 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.

In fiscal year 2018, the Company commenced risk management in accordance with the level of importance of risks, mainly by the newly established Compliance Management Department. For highly important risk which may be expected to have an impact on the whole Group when the risk occurs, the Company takes measures against such risk by appointing a person responsible for overseeing companywide risks.

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

The Company appoints a Chairman of the Board of Directors from among Independent Directors and ensures that at least one third of the members of the Board of Directors are Independent Directors in order to invigorate substantial discussion that further reflects viewpoints from outside the Company. Also, the Company abolishes the system in which general managers of business divisions were allowed to concurrently serve as Director. Instead, the Company appoints Directors overseeing materials, machinery, and electric power divisions; Directors overseeing compliance and risk management; and Directors overseeing quality governance. In this way, the Company has been creating an environment that facilitates

cross-functional discussion.

The Board of Directors deliberates on important matters concerning nomination and compensation of Directors and Executive Officers, after it receives and carefully reviews the contents of reports from the Nomination & Compensation Committee, an advisory body to the Board of Directors.

In order to fully utilize the function of Independent Directors, executive directors of the Company attend as necessary Meetings of Independent Directors where the Company provides and shares information with Independent Directors regarding the Company's businesses other than nomination and compensation of executives, to share information and exchange opinions with the Independent Directors.

The Company held 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.

(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 in the Group announced in October 2017, the Audit & Supervisory Committee confirmed the progress of the measures to prevent reoccurrence, the changes in employee awareness, and the reform of corporate culture by interviews of executive directors and visits to business locations and affiliated companies on-site.

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 founding in 1905. The Company's 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 2016-2020 Group Medium-Term Management Plan and started initiatives under the new medium- to long-term business vision, KOBELCO VISION "G+" to 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 reduction 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 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 2016-2020 Medium-Term Management Plan” on the Company’s web site (<http://www.kobelco.co.jp/english/>). Based on the progress of “The Kobe Steel Group’s Fiscal 2016-2020 Medium-Term Management Plan”, we reviewed the plan and announced the “Rolling of the Medium-Term Management Plan” on May 15, 2019. For details, please see the press release, “Rolling of the Fiscal 2016-2020 Group Medium-Term Management Plan” on the Company’s web site (<http://www.kobelco.co.jp/english/>).

(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 Nomination & 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.
