

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

(Stock Exchange No.: 5406)

May 30, 2019

**NOTICE OF
166TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders,

Kobe Steel, Ltd. (“the Company”) would hereby like to inform you that the 166th Ordinary General Meeting of Shareholders will be held as follows, and would be grateful if you could attend the meeting. **Those who will not be able to attend the meeting on the day are kindly requested to consider appended “Reference Documents for the General Meeting of Shareholders” and exercise your voting rights by one of the following methods no later than 5:30 p.m., Wednesday, June 19, 2019 (JST (Japan Standard Time)).**

[Voting in writing (by mail)]

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

[Voting via the Internet]

Please read the “Guide to Exercising Voting Rights” on pages 3 and 4 and input your approval or disapproval of each proposal to be resolved in accordance with the instructions on the website.

Yours faithfully,

Mitsugu Yamaguchi

President, CEO and Representative Director

Kobe Steel, Ltd.

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

1. Date and Time:

10:00 a.m., Thursday, June 20, 2019 (JST (Japan Standard Time))
(The venue is scheduled to be open at 8:30 a.m.)

2. Venue:

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

3. Meeting Agenda:

- Matters to be reported:*
1. The business report, consolidated financial statements, and non-consolidated financial statements for the 166th business term (from April 1, 2018 to March 31, 2019)
 2. The results of audit to consolidated financial statements by Accounting Auditors and the Audit & Supervisory Committee for the 166th business term

Matters to be resolved:

- Item 1: Election of eleven (11) Directors (excluding Directors who are Audit & Supervisory Committee Members)
- Item 2: Election of one (1) Director who is a substitute Audit & Supervisory Committee Member

4. Matters regarding this Notice of Convocation

(1) Information regarding parts of consolidated financial statements and non-consolidated financial statements provided via the Internet

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

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

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



Guide to Exercising Voting Rights

Voting rights at General Meetings of Shareholders are important rights held by shareholders. Please exercise your voting right after reviewing the Reference Documents for the General Meeting of Shareholders. Voting rights can be exercised by the following three methods.

By Attending the General Meeting of Shareholders



Please submit the enclosed voting form at the meeting venue reception desk.

Date and time of the Meeting: Thursday, June 20, 2019, at 10:00 a.m.

(JST (Japan Standard Time))

(Reception is scheduled to start at 8:30 a.m. (JST (Japan Standard Time)))

Exercising Voting Rights in Writing (by mail)



Please indicate your approval/disapproval of each matter to be resolved shown on the enclosed Voting Form, and then return the voting form back to the Company so that it reaches us by the deadline.

Deadline for the exercise of voting rights: No later than 5:30 p.m. Wednesday, June 19, 2019 (JST (Japan Standard Time))

Exercising Voting Rights via the Internet (using a personal computer, a smartphone or a mobile phone)



Please follow the guidance below and enter your approval/disapproval of each matter to be resolved.

Deadline for the exercise of voting rights: No later than 5:30 p.m. Wednesday, June 19, 2019 (JST (Japan Standard Time))

*** Exercise of voting rights by proxy**

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

Guide to Exercising Voting Rights via the Internet

By Entering Login ID and Temporary Password

“Exercise of Voting Rights website” <https://evote.tr.mufg.jp/>

1. Please access the Exercise of Voting Rights website.
2. Enter your Login ID and Temporary Password provided on the voting form and click on Login.
3. Please register a new password.
4. Please indicate your approval or disapproval of each proposal following on-screen instructions

- (i) Please contact the following office about how to operate your computer, smartphone or mobile phone in order to exercise your voting rights via the Internet:

Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation
Tel.: 0120-173-027 (This toll-free number is available only within Japan.)
(9:00 a.m. - 9:00 p.m.) (JST (Japan Standard Time))

- (ii) As for inquiries other than those covered in item (i) above, please contact the following office:

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

1. The Exercise of Voting Rights website is unavailable from 2 a.m. to 5 a.m. every day.
2. Institutional investors may use the electronic voting platform for institutional investors operated by ICJ, Inc.
3. The costs incurred for the access to the Exercise of Voting Rights website (such as provider's Internet connection fees and communication charges) shall be borne by the shareholders.

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

Reference Documents for the General Meeting of Shareholders

1. Total Number of Voting Rights Held by All Shareholders: 3,611,441

2. Agenda Items and Reference Documents:

Item 1: Election of eleven (11) Directors (excluding Directors who are Audit & Supervisory Committee Members)

The terms of office of the ten (10) incumbent Directors (excluding Directors who are Audit & Supervisory Committee Members; hereinafter, the same shall apply in this Item) will expire at the conclusion of the 166th Ordinary General Meeting of Shareholders. Accordingly, it is proposed that eleven (11) Directors be elected.

The Company proposes to add one (1) more Independent Director 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.

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

For the selection of candidates for Director, the Company set forth the principles on appointment of candidates for Directors and Standards for Independent Directors, and the Board of Directors deliberates on whether or not the candidate has insights or qualities that meet the requirements described therein after consultation with the Nomination & Compensation Committee. Principal experiences etc. of the candidates for Directors at the 166th Ordinary General Meeting of Shareholders are as follows:

(Please see pages 20 through 22 for the principles on appointment of candidates for Directors and Standards for Independent Directors).

<Principal experiences etc. of the candidates for Directors (excluding Directors who are Audit & Supervisory Committee Members)>

| No. | Name | Reappointment/New appointment Internal/Outside | Independent Director at the financial instruments exchange | Gender | Current position, etc. | Planning/Project management | Finance/Accounting | Materials business | Machinery business | Electric power business | Technical development/manufacturing/facility technology | Overseas business | Legal/risk management | Insights into other industry sectors |
|-----|---------------------|---|--|--------|--|-----------------------------|--------------------|--------------------|--------------------|-------------------------|---|-------------------|-----------------------|--------------------------------------|
| 1 | Mitsugu Yamaguchi | Reappointment Internal | - | Male | President, CEO and Representative Director, Member of Nomination & Compensation Committee | ✓ | ✓ | ✓ | ✓ | | | ✓ | | |
| 2 | Yoshinori Onoe | Reappointment Internal | - | Male | Representative Director, Executive Vice President | ✓ | | ✓ | | ✓ | ✓ | | | |
| 3 | Fusaki Koshiishi | Reappointment Internal | - | Male | Representative Director, Executive Vice President | ✓ | | ✓ | | | ✓ | | | |
| 4 | Takao Ohama | Reappointment Internal | - | Male | Representative Director, Executive Vice President | ✓ | | | ✓ | | ✓ | ✓ | | |
| 5 | Koichiro Shibata | Reappointment Internal | - | Male | Representative Director, Executive Vice President | ✓ | | ✓ | | | ✓ | | | |
| 6 | Shohei Manabe | Reappointment Internal | - | Male | Director, Senior Managing Executive Officer | ✓ | | | ✓ | | | ✓ | ✓ | |
| 7 | Jiro Kitagawa | Reappointment Internal | - | Male | Director, Senior Managing Executive Officer | ✓ | | ✓ | | ✓ | ✓ | | | |
| 8 | Yoshihiko Katsukawa | Reappointment Internal | - | Male | Director, Senior Managing Executive Officer | ✓ | ✓ | | ✓ | | | | ✓ | |
| 9 | Takao Kitabata | Reappointment Outside | ✓ | Male | Director, Chairman of the Board of Directors, Member (Chairman) of Nomination & Compensation Committee | | | | | | | | ✓ | ✓ |
| 10 | Hiroyuki Bamba | Reappointment Outside | ✓ | Male | Director | ✓ | | | | | ✓ | | | ✓ |
| 11 | Yumiko Ito | New appointment Outside | ✓ | Female | - | | | | | | | | ✓ | ✓ |

* The above list only shows a part of all experiences etc. of each candidate. Please also refer to the “Reasons for selecting the candidate” described in each candidate’s career summary section below.

<Grounds for determining the independence of candidates for Outside Directors (excluding Directors who are Audit & Supervisory Committee Members)>

| Name | Grounds for determining independence | |
|----------------|---|---|
| Takao Kitabata | SANDA GAKUEN Junior High School – Senior High School | No business transactions with and no donations from the Company. Retired from Chairman in March 2019 |
| Hiroyuki Bamba | Sumitomo Rubber Industries, Ltd. | Sales from the Company: The amount of these transactions totals less than 0.1% of the Company's consolidated net sales. Retired from executive position in June 2003 (three or more years have passed) |
| | SRI Sports Limited (currently Sumitomo Rubber Industries, Ltd.) | No business transactions with the Company. Retired from executive position in March 2015 (three or more years have passed) |
| Yumiko Ito | GE Yokogawa Medical Systems, Ltd. (currently GE Healthcare Japan Corporation) | No business transactions with the Company. |
| | IBM Japan, Ltd. | Purchases by the Company: The amount of these transactions totals less than 0.01% of the IBM Japan, Ltd.'s consolidated net sales. |
| | Microsoft Co., Ltd. (currently Microsoft Japan Co., Ltd.) | No business transactions with the Company. Retired from executive position in March 2013 (three or more years have passed) |
| | Sharp Corporation | Sales from the Company: The amount of these transactions totals less than 0.01% of the Company's consolidated net sales. Retired from executive position in March 2019 |
| | Sakawa Law Office | No advisory contract (Retired in July 1991). No business transactions with the Company. |
| | Tanabe & Partners | No advisory contract (Retired in March 2001). Payment by the Company: Less than 1 million yen |
| | Ito Law Office | No advisory contract. No business transactions with the Company. |

* The amounts of sales, purchases and payments above represent annual transaction amounts over the past three years.

[Supplemental Information: Principal experiences etc. of Directors who are Audit & Supervisory Committee Members]

(Not candidates for the 166th Ordinary General Meeting of Shareholders)

| Name | Internal/Outside | Independent Director at the financial instruments exchange | Gender | Current position, etc. | Planning/Project management | Finance/Accounting | Materials business | Machinery business | Electric power business | Technical development/manufacturing/facility technology | Overseas business | Legal/risk management | Insights into other industry sectors |
|------------------|------------------|--|--------|--|-----------------------------|--------------------|--------------------|--------------------|-------------------------|---|-------------------|-----------------------|--------------------------------------|
| Hiroshi Ishikawa | Internal | - | Male | Audit & Supervisory Committee Member (full time) | ✓ | | | ✓ | | | ✓ | | |
| Yasushi Tsushima | Internal | - | Male | Audit & Supervisory Committee Member (full time) | ✓ | ✓ | ✓ | ✓ | ✓ | | | | |
| Takashi Okimoto | Outside | ✓ | Male | Audit & Supervisory Committee Member (Chairman), Member of Nomination & Compensation Committee | | ✓ | | | | | | | ✓ |
| Yoshiiku Miyata | Outside | ✓ | Male | Audit & Supervisory Committee Member | ✓ | | | | | | ✓ | | ✓ |
| Hidero Chimori | Outside | ✓ | Male | Audit & Supervisory Committee Member | | | | | | | | ✓ | ✓ |

| Name | Grounds for determining independence | |
|-----------------|---|--|
| Takashi Okimoto | Mizuho Corporate Bank, Ltd. (currently Mizuho Bank, Ltd.) | Borrowings from the Bank: Less than 10% of funds. Retired from executive position in April 2007 (three or more years have passed) |
| | Orient Corporation | Sales from the Company: The amount of these transactions totals less than 0.01% of the Company's consolidated net sales. Retired from executive position in June 2011 (three or more years have passed) |
| | Chuo Real Estate Co., Ltd. | No business transactions with the Company. |
| Yoshiiku Miyata | Panasonic Corporation | Sales from the Company: The amount of these transactions totals less than 0.1% of the Company's consolidated net sales. Purchases by the Company: The amount of these transactions totals less than 0.1% of the Panasonic Corporation's consolidated net sales. Retired from executive position in June 2014 (three or more years have passed) |
| Hidero Chimori | Miyake & Partners | No advisory contract. Payment by the Company: The amount of payment is less than 1% of the Miyake & Partners' net sales. Retired from Representative Partner in May 2019 |

* The amounts of sales, purchases and payments above represent annual transaction amounts over the past three years.

Career summary of each candidate is as follows. There are no special interests between the candidates and the Company.

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| No. 1 | Mitsugu Yamaguchi (Date of birth: January 8, 1958) | Reappointment/ Internal Director | Number of shares of the Company owned: 13,500 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1981: Joined the Company April 2011: Officer April 2013: Senior Officer April 2015: Executive Officer June 2016: Director, Senior Managing Executive Officer April 2017: Executive Vice President and Director April 2018: President, CEO and Director (incumbent) | | | |
| Reasons for selecting the candidate | Mitsugu Yamaguchi has abundant experience and knowledge through promoting the iron and steel business, machinery business, and M&As and alliances in the Head Office, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In particular, in rebuilding the governance system centered on quality, which is an important task, and in leading the reform of the Group's culture, it is necessary to take an objective and comprehensive view not biased toward a particular business. In this sense, we have concluded that Mitsugu Yamaguchi, who has experience in the various fields of materials, machinery and the Head Office, is well qualified for the position. | | |

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| No. 2 | Yoshinori Onoe (Date of birth: November 30, 1955) | Reappointment/ Internal Director | Number of shares of the Company owned: 21,700 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1980: Joined the Company April 2008: Officer April 2010: Senior Officer April 2012: Executive Officer April 2014: Executive Vice President June 2014: Executive Vice President and Director April 2016: Executive Vice President and Director (incumbent) | | 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. | |
| Reasons for selecting the candidate | Yoshinori Onoe has abundant experience and knowledge in the field of product technology in the iron and steel business and experience as General Manager of a steelworks, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise the field of technical development that serves as the foundation of our growth strategy, and health and safety and environmental control and disaster prevention forming the basis for our business promotion, we have concluded that Yoshinori Onoe, who has experience and knowledge in the technical field and pertaining to production sites, is well qualified. | | |

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| No. 3 | Fusaki Koshiishi (Date of birth: August 29, 1959) | Reappointment/ Internal Director | Number of shares of the Company owned: 14,400 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1984: | Joined the Company | Oversees the Quality Management Department, Intellectual Property Department and MONODZUKURI (Production System Innovation) Planning & Promotion Department. Oversees companywide quality management. | |
| April 2012: | Officer | | |
| April 2014: | Senior Officer | | |
| June 2015: | Managing Director | | |
| April 2016: | Director, Senior Managing Executive Officer | | |
| April 2018: | Executive Vice President and Director (incumbent) | | |
| Reasons for selecting the candidate | Fusaki Koshiishi has abundant experience and knowledge in the field of product technology in the welding business, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise companywide quality management at the Company, which operates various businesses including materials, machinery and electric power, we have concluded that Fusaki Koshiishi, who has experience and knowledge in the Welding Business engaging in both materials and machinery businesses, namely welding materials and welding robot systems, is well qualified. | | |

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| No. 4 | Takao Ohama (Date of birth: October 14, 1955) | Reappointment/ Internal Director | Number of shares of the Company owned: 19,400 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1981: | Joined the Company | Oversees machinery businesses. Head of the Machinery Business | |
| April 2010: | Officer | | |
| April 2012: | Senior Officer | | |
| April 2014: | Executive Officer | | |
| April 2018: | Executive Vice President | | |
| June 2018: | Executive Vice President and Director (incumbent) | | |
| Reasons for selecting the candidate | Takao Ohama has abundant experience and knowledge in the field of product technology in the machinery business and overseas business entities, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise the machinery businesses, we have concluded that Takao Ohama, who has experience in the technical field in the machinery business field and experience in the management of overseas business entities, is well qualified. | | |

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| No. 5 | Koichiro Shibata (Date of birth: December 6, 1958) | Reappointment/ Internal Director | Number of shares of the Company owned: 12,800 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1984: | Joined the Company | Oversees materials businesses. Head of the Iron & Steel Business | |
| April 2012: | Officer | | |
| April 2014: | Senior Officer | | |
| April 2016: | Senior Managing Executive Officer | | |
| April 2018: | Executive Vice President | | |
| June 2018: | Executive Vice President and Director (incumbent) | | |
| Reasons for selecting the candidate | Koichiro Shibata has abundant experience and knowledge in the field of product technology in the iron & steel business and experience as General Manager of a steelworks, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise the diversified metallic materials businesses, we have concluded that Koichiro Shibata, who has experience and knowledge in the field of product technology and production sites, is well qualified. | | |

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| No. 6 | Shohei Manabe (Date of birth: September 16, 1955) | Reappointment/ Internal Director | Number of shares of the Company owned: 16,200 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1978: | Joined the Company | Oversees the Audit Department and Compliance Management Department. Oversees companywide compliance. | |
| April 2009: | Officer | | |
| April 2011: | Senior Officer | | |
| April 2015: | Executive Officer | | |
| June 2015: | Senior Managing Director | | |
| April 2016: | Director, Senior Managing Executive Officer (incumbent) | | |
| Reasons for selecting the candidate | Shohei Manabe has abundant experience and knowledge in project management in the engineering business and planning and administration in the business divisions, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise companywide compliance, we have concluded that Shohei Manabe, who has experience in risk management in project management, is well qualified. | | |

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| No. 7 | Jiro Kitagawa (Date of birth: September 1, 1959) | Reappointment/ Internal Director | Number of shares of the Company owned: 13,500 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1982: | Joined the Company | Oversees the electric power business. Head of the Electric Power Business | |
| April 2014: | Officer | | |
| April 2016: | Managing Senior Officer | | |
| April 2018: | Senior Managing Executive Officer | | |
| June 2018: | Director, Senior Managing Executive Officer (incumbent) | | |
| Reasons for selecting the candidate | Jiro Kitagawa has abundant experience and knowledge in the field of manufacturing facility technology in the iron and steel business and in the electric power business field, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise the electric power business, which is currently promoting a large-scale project, we have concluded that Jiro Kitagawa, who has abundant experience in facility technology and facility planning, is well qualified. | | |

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| No. 8 | Yoshihiko Katsukawa (Date of birth: March 12, 1962) | Reappointment/ Internal Director | Number of shares of the Company owned: 7,400 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1985: | Joined the Company | Oversees the Legal Department, Corporate Communications Department, General Administration Department, Human Resources Department, Corporate Planning Department (excluding the Automotive Materials Planning Section), Accounting Department, Finance Department, Marketing Planning Department, Civil Engineering & Construction Technology Department, Rugby Administration Office, domestic branch offices and sales offices (including Takasago Works) and responsible for overseas locations (under the head office). | |
| April 2014: | General Manager of the Corporate Planning Department | | |
| April 2015: | Officer | | |
| April 2017: | Managing Executive Officer | | |
| April 2018: | Senior Managing Executive Officer | | |
| June 2018: | Director, Senior Managing Executive Officer (incumbent) | | |
| Reasons for selecting the candidate | Yoshihiko Katsukawa has abundant experience and knowledge in the Company's corporate planning department and planning and administration departments in the business divisions, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise the Head Office, which promotes the reform of the Group's culture and supports our business activities, we have concluded that Yoshihiko Katsukawa, who has abundant experience at planning departments and administration departments, is well qualified. | | |

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| No. 9 | Takao Kitabata (Date of birth: January 10, 1950) | Reappointment/ Outside Director/ Independent Director at the financial instruments exchange | Number of shares of the Company owned: 4,700 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1972: | Joined the Ministry of International Trade and Industry | Outside Director of Marubeni Corporation | |
| June 2004: | Director-General, Economic and Industrial Policy Bureau, the Ministry of Economy, Trade and Industry (METI) | Outside Director of SEIREN CO., LTD. | |
| July 2006: | Vice-Minister of Economy, Trade and Industry | Outside Director of Zeon Corporation | |
| July 2008: | Retired from METI | | |
| June 2010: | Director of the Company (incumbent) Outside Corporate Auditor of Marubeni Corporation | | |
| June 2013: | Chairman of SANDA GAKUEN Junior High School – Senior High School Outside Director of Marubeni Corporation (incumbent) | | |
| April 2014: | Principal of SANDA GAKUEN Junior High School – Senior High School | | |
| June 2014: | Outside Director of SEIREN CO., LTD. (incumbent) Outside Director of Zeon Corporation (incumbent) | | |
| March 2019: | Retired from Chairman of SANDA GAKUEN Junior High School – Senior High School | | |
| Reasons for selecting the candidate | Although Takao Kitabata has not participated in the management of a company in a position other than outside director or outside audit & supervisory board member, as he is able to make objective, fair and neutral judgment based on his deep insight in the world of industry backed by his broad experience as an administrative official and extensive knowledge as an outside director/audit & supervisory board member of listed companies, we have concluded that he is well qualified to be an Independent Director of the Company in light of the Company's principles on appointment of candidates for Directors and Standards for Independent Directors (please see pages 20 through 22). | | |
| Attendance at Board of Directors meetings during fiscal 2018: 16/16 meetings held (100%) | Term of office as Outside Director of the Company: 9 years | | |

- Takao Kitabata is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Takao Kitabata as an Independent Director at the financial instruments exchange. If Takao Kitabata is elected as Independent Director at the 166th Ordinary General Meeting of Shareholders, the Company is scheduled to register Takao Kitabata again as an Independent Director at the financial instruments exchange.
- In October 2017, during the term of office of Takao Kitabata, the Company announced the fact that misconducts had been taking place in the Group concerning the products and services delivered by the Group, including the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications, and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications. 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. Takao Kitabata was not aware of these facts until the problems were identified, but he 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, Takao Kitabata has 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 his experience and knowledge as an administrative official and as an outside director/audit & supervisory board member of other listed companies, he has 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. Subsequently, since Takao Kitabata assumed the position of Chairman of the Board of Directors in June 2018, he 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.

- Takao Kitabata meets the Company's Standards for Independent Directors. The summary is as follows.

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| SANDA GAKUEN Junior High School – Senior High School | No business transactions with and no donations from the Company. Retired from Chairman in March 2019 |
|---|---|

- The Company has entered into an agreement with Takao Kitabata that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If he is elected as Director at the 166th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with him.

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| No. 10 | Hiroyuki Bamba (Date of birth: January 27, 1954) | Reappointment/ Outside Director/ Independent Director at the financial instruments exchange | Number of shares of the Company owned: 2,900 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1976: | Joined Sumitomo Rubber Industries, Ltd. | Outside Director of Sekisui Plastics Co., Ltd. | |
| March 2000: | Director of Sumitomo Rubber Industries, Ltd. | | |
| March 2003: | Executive Officer of Sumitomo Rubber Industries, Ltd. | | |
| July 2003: | President and Director of SRI Sports Limited (currently Sumitomo Rubber Industries, Ltd.) | | |
| March 2011: | Chairman and Director of SRI Sports Limited | | |
| March 2015: | Counselor to Sumitomo Rubber Industries, Ltd. | | |
| June 2015: | Outside Director of Sekisui Plastics Co., Ltd. (incumbent) | | |
| June 2017: | Director of the Company (incumbent) | | |
| Reasons for selecting the candidate | As Hiroyuki Bamba is able to make objective, fair and neutral judgment based on his abundant experience in the different business fields from ours in the world of industry and deep insight as a corporate executive, we have concluded that he is well qualified to be an Independent Director of the Company in light of the Company's principles on appointment of candidates for Directors and Standards for Independent Directors (please see pages 20 through 22). | | |
| Attendance at Board of Directors meetings during fiscal 2018: 16/16 meetings held (100%) | Term of office as Outside Director of the Company: 2 years | | |

- Hiroyuki Bamba is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Hiroyuki Bamba as an Independent Director at the financial instruments exchange. If Hiroyuki Bamba is elected as Outside Director at the 166th Ordinary General Meeting of Shareholders, the Company is scheduled to register Hiroyuki Bamba again as an Independent Director at the financial instruments exchange.
- In October 2017, during the term of office of Hiroyuki Bamba, the Company announced the fact that misconducts had been taking place in the Group concerning the products and services delivered by the Group, including the act of falsifying or fabricating inspection data for products falling short of public standards or customer specifications, and shipping or delivering those products to customers as if they conformed to the public standards or customer specifications. 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. Hiroyuki Bamba was not aware of these facts until the problems were identified, but he 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, Hiroyuki Bamba has 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 his experience and knowledge as a corporate executive in the different business fields from ours, he has 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. Subsequently, Hiroyuki Bamba 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.

- Hiroyuki Bamba meets the Company's Standards for Independent Directors. The summary is as follows.

| | |
|---|---|
| Sumitomo Rubber Industries, Ltd. | Sales from the Company: The amount of these transactions totals less than 0.1% of the Company's consolidated net sales. Retired from executive position in June 2003 (three or more years have passed) |
| SRI Sports Limited (currently Sumitomo Rubber Industries, Ltd.) | No business transactions with the Company. Retired from executive position in March 2015 (three or more years have passed) |

- The Company has entered into an agreement with Hiroyuki Bamba that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If he is elected as Director at the 166th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with him.

| | | | |
|-------------------------------------|---|---|--|
| No. 11 | Yumiko Ito (Date of birth: March 13, 1959) | New appointment/ Outside Director/ Independent Director at the financial instruments exchange | Number of shares of the Company owned: 0 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1984: | Legislation Staff (<i>Sanji</i>), The Legislative Bureau of the House of Representatives of Japan | Attorney at Law, Ito Law Office | |
| April 1989: | Admitted to the bar in Japan Joined Sakawa Law Office | | |
| July 1991: | Joined Tanabe & Partners | | |
| April 2001: | General Counsel, Legal & Patent Operation, GE Yokogawa Medical Systems, Ltd. (currently GE Healthcare Japan Corporation) | | |
| May 2004: | Staff Counsel, Legal & Intellectual Property, IBM Japan, Ltd. | | |
| March 2007: | Executive Officer, Legal & Corporate Affairs, Microsoft Co., Ltd. (currently Microsoft Japan Co., Ltd.) | | |
| April 2013: | Executive Officer and General Counsel, Sharp Corporation | | |
| June 2013: | Director, Executive Officer and General Counsel, Sharp Corporation | | |
| April 2014: | Director, Executive Managing Officer and General Counsel, Sharp Corporation | | |
| June 2016: | Executive Managing Officer and General Counsel, Sharp Corporation | | |
| March 2019: | Retired from the position of Executive Managing Officer and General Counsel, Sharp Corporation | | |
| April 2019: | Established Ito Law Office | | |
| Reasons for selecting the candidate | As Yumiko Ito is able to make objective, fair and neutral judgment based on her abundant experience and deep insight centered on legal affairs in corporate management, we have concluded that she is well qualified to be an Independent Director of the Company in light of the Company's principles on appointment of candidates for Directors and Standards for Independent Directors (please see pages 20 through 22). | | |

- Yumiko Ito is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- If Yumiko Ito is elected as Outside Director at the 166th Ordinary General Meeting of Shareholders, the Company is scheduled to register Yumiko Ito as an Independent Director at the financial instruments exchange.

- Yumiko Ito meets the Company's Standards for Independent Directors. The summary is as follows.

| | |
|--|---|
| GE Yokogawa Medical Systems, Ltd. (currently GE Healthcare Japan Corporation) | No business transactions with the Company. |
| IBM Japan, Ltd. | Purchases by the Company: The amount of these transactions totals less than 0.01% of the IBM Japan, Ltd.'s consolidated net sales. |
| Microsoft Co., Ltd. (currently Microsoft Japan Co., Ltd.) | No business transactions with the Company. Retired from executive position in March 2013 (three or more years have passed) |
| Sharp Corporation | Sales from the Company: The amount of these transactions totals less than 0.01% of the Company's consolidated net sales. Retired from executive position in March 2019 |
| Sakawa Law Office | No advisory contract (Retired in July 1991). No business transactions with the Company. |
| Tanabe & Partners | No advisory contract (Retired in March 2001). Payment by the Company: Less than 1 million yen |
| Ito Law Office | No advisory contract. No business transactions with the Company. |

- Yumiko Ito is a candidate for Outside Corporate Auditor at the 107th Annual General Meeting of Shareholders of Santen Pharmaceutical Co., Ltd. to be held on June 25, 2019.
- If Yumiko Ito is elected as Outside Director at the 166th Ordinary General Meeting of Shareholders, the Company is scheduled to enter into an agreement with her that the limit of her liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations.

Item 2: Election of one (1) Director who is a substitute Audit & Supervisory Committee Member

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

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

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

| | | | |
|--|--|--|---|
| Kunio Miura (Date of birth: February 13, 1953) | | Outside Director/ Independent Director at the financial instruments exchange | Number of shares of the Company owned: 0 shares |
| Career summary (positions) | | Duties and significant concurrent positions | |
| April 1979: | Appointed as judge | Representative of Kawamoto, Miura and Hirata Law Office Outside Audit & Supervisory Board Member of ASAHI INTELLIGENCE SERVICE CO., LTD. External Corporate Auditor of Sumitomo Seika Chemicals Company, Limited. | |
| March 1988: | Retired as judge | | |
| April 1988: | Admitted to the bar in Japan | | |
| April 1997: | Representative of Kawamoto and Miura Law Office (currently Kawamoto, Miura and Hirata Law Office) (incumbent) | | |
| June 2003: | Outside Corporate Auditor of YAMAHA CORPORATION | | |
| June 2008: | Outside Audit & Supervisory Board Member of ASAHI INTELLIGENCE SERVICE CO., LTD. (incumbent) | | |
| June 2010: | External Corporate Auditor of Sumitomo Seika Chemicals Company, Limited. (incumbent) | | |
| Reasons for selecting the candidate | As Kunio Miura is able to make objective, fair and neutral judgment drawing on his abundant experience as a judge and lawyer and insight as an Outside Audit & Supervisory Board Member of listed companies, we have concluded that he is well qualified to be an Independent Director who is a substitute Audit & Supervisory Committee Member of the Company in light of the Company's principles on appointment of candidates for Directors and Standards for Independent Directors (please see pages 20 through 22). | | |

- Kunio Miura is a candidate for Outside Director who is a substitute Audit & Supervisory Committee Member.
- If this item is approved at the 166th Ordinary General Meeting of Shareholders and Kunio Miura assumes the position as Director who is an Audit & Supervisory Committee Member, the Company is scheduled to register him as an Independent Director at the financial instruments exchange.
- The Company and Kawamoto, Miura and Hirata Law Office have no business transactions.
- If this Item is approved at the 166th Ordinary General Meeting of Shareholders and Kunio Miura assumes the position as Director who is an Audit & Supervisory Committee Member, the Company is scheduled to enter into an agreement with him that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated by laws and regulations.

<Reference: the Company's principles on appointment of candidates for Directors and Standards for Independent Directors>

Members of the Board of Directors discussed and approved appointments of each candidate proposed in Item 1 and Item 2, based on the consultation with and reports from the Nomination & Compensation Committee about whether or not he or she meets the requirements described in the Company's principles on appointment of candidates for Directors and Standards for Independent Directors.

The Company's principles on appointment of candidates for Directors (excluding Directors who are Audit & Supervisory Committee Members)

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

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

The Company's principles on appointment of candidates for Directors who are Audit & Supervisory Committee Members

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

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

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

The Company's Standards for Independent Directors

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

- A) A person who currently executes or has executed businesses of the Group, which includes the Company and its subsidiaries (i.e., executive directors, executive officers (consisting of *shikkoyaku* and *shikkoyakuin*) and other employees; hereinafter the same shall apply).
- B) A person who has a close relative (spouse, relative within the second degree of kinship; hereinafter the same shall apply) who currently executes or has executed businesses of the Group within the past five years.
- C) A person who is currently or has been over the past three years a principal shareholder of the Company (a shareholder who, directly or indirectly, currently owns or has owned 10% or more of all voting rights of the Company), or who currently executes or has executed businesses of the principal shareholders' company within the past three years.
- D) A major business partner of the Company (when the highest payment among payments by this partner to the Company accounts for more than 2% of the Company's annual consolidated net sales in the past three fiscal years) or a person who currently executes or has executed its business over the past three years.
- E) A person who executes businesses thereof whose major business partner is the Company (when the highest payment among payments by the Company to the person accounts for more than 2% of the person's annual consolidated net sales in last three fiscal years) or a person who currently executes or has executed its business over the past three years.
- F) Persons who are or have been over the past three years financial institutions, other large creditors or those executives indispensable for the Company's financing and that the Company depends on to the degree there is no substitute.
- G) A consultant, accountant, or legal professional who has received a large sum of money or other financial gain in the past three years from the Company, excluding remuneration for Director of the Company. If the person receiving such financial gain is an individual, the "large sum" means the larger of 10 million yen or 100 thousand U.S. dollars or more in a year. If the person receiving such financial gain is a party such as a company or an association, the "large sum" means the amount equal to or more than 2% of the party's annual consolidated net sales, and this condition is applicable to an individual who belongs to the party (but excluding an individual independently performing his

or her duties without receiving any remuneration from the party).

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

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) |
|--|--|

* 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.

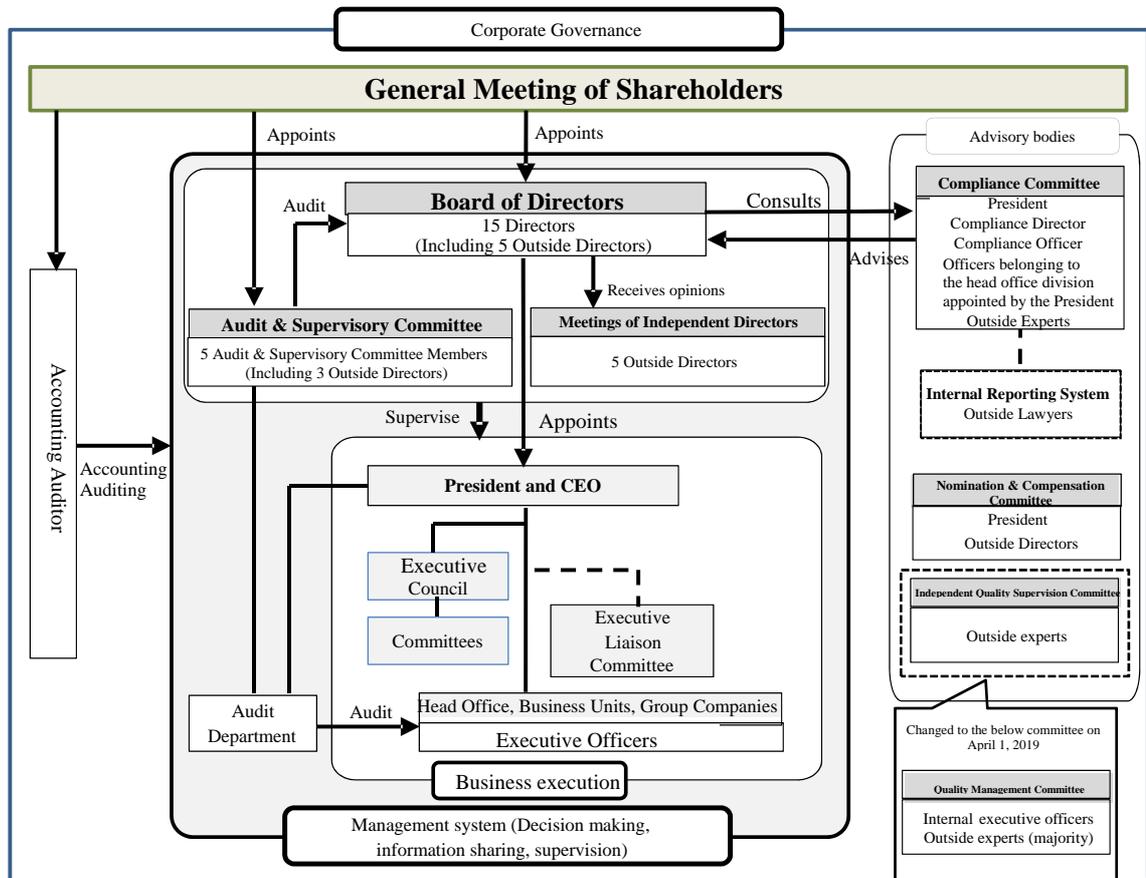
| Name | Composition | Fundamental Role |
|-------------------------------------|---|--|
| Meeting of Independent Directors | All Independent Directors | The meeting is a platform where the Company provides and shares information with Independent Directors regarding the Company's businesses other than 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).

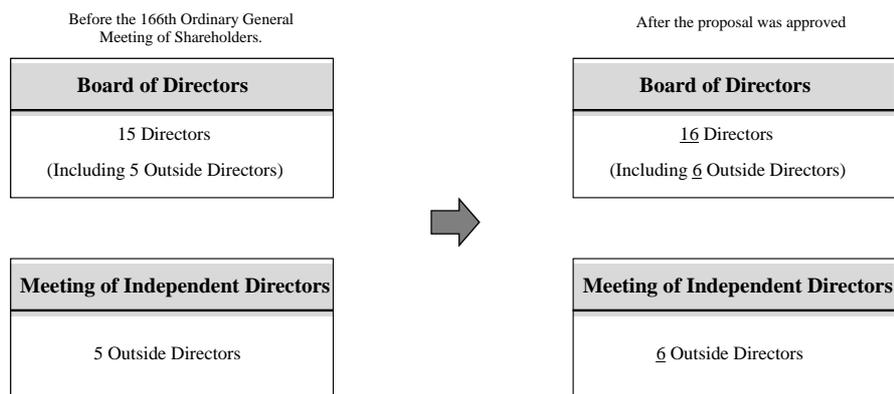
*1 Currently, the Company has two (2) Outside Directors who are not Audit & Supervisory Committee Members. The Company resolved to add one (1) more Outside Director who is not an Audit & Supervisory Committee Member at the meeting of the Board of Directors held on April 3, 2019, as improvement of medium- 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.

Consolidated Balance Sheets

(As of March 31, 2019)

(Millions of yen)

| Item | Amount | Item | Amount |
|-------------------------------------|------------------|---|------------------|
| ASSETS | | LIABILITIES | |
| Current Assets | 1,102,249 | Current liabilities | 811,727 |
| Cash and deposits | 173,899 | Notes and accounts payable | 455,310 |
| Notes and accounts receivable | 343,288 | Short-term borrowings | 116,382 |
| Merchandise and finished goods | 178,080 | Bonds due within one year | 22,215 |
| Work-in-process | 131,198 | Accounts payable - other | 49,705 |
| Raw materials and supplies | 167,127 | Income and enterprise taxes payable | 7,080 |
| Other | 112,868 | Provision for bonuses | 20,803 |
| Allowance for doubtful accounts | (4,212) | Provision for product warranties | 14,693 |
| Fixed assets | 1,282,723 | Provision for loss on construction contracts | 10,428 |
| Tangible fixed assets | 930,584 | Provision for loss on guarantees | 2,162 |
| Buildings and structures | 257,510 | Provision for dismantlement-related expenses | 1,611 |
| Machinery and equipment | 429,209 | Provision for customer compensation expenses | 3,362 |
| Tools, equipment and fixtures | 16,093 | Other | 107,970 |
| Land | 144,459 | Long-term liabilities | 769,932 |
| Construction in progress | 83,312 | Bonds and notes | 111,837 |
| Intangible fixed assets | 32,640 | Long-term borrowings | 509,929 |
| Software | 17,897 | Deferred tax liabilities | 10,355 |
| Other | 14,743 | Deferred tax liabilities on land revaluation | 3,251 |
| Investments and other assets | 319,498 | Net defined benefit liability | 81,079 |
| Investments in securities | 190,008 | Provision for environmental measures | 2,698 |
| Long-term loans receivable | 5,313 | Provision for dismantlement-related expenses | 3,343 |
| Deferred tax assets | 61,765 | Other | 47,436 |
| Net defined benefit asset | 18,284 | Total liabilities | 1,581,660 |
| Other | 87,712 | NET ASSETS | |
| Allowance for doubtful accounts | (43,585) | Stockholders' equity | 765,855 |
| | | Common stock | 250,930 |
| | | Capital surplus | 102,218 |
| | | Retained earnings | 415,320 |
| | | Treasury stock, at cost | (2,614) |
| | | Accumulated other comprehensive income | (26,278) |
| | | Unrealized gains on securities, net of taxes | 7,105 |
| | | Deferred gains (losses) on hedges, net of taxes | (14,030) |
| | | Land revaluation differences, net of taxes | (3,406) |
| | | Foreign currency translation adjustments | 2,705 |
| | | Remeasurements of defined benefit plans, net of taxes | (18,652) |
| | | Non-controlling interests | 63,736 |
| | | Total net assets | 803,312 |
| Total assets | 2,384,973 | Total liabilities and net assets | 2,384,973 |

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

Consolidated Statements of Income

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

(Millions of yen)

| Item | Amount | |
|---|---------|----------------|
| Net sales | | 1,971,869 |
| Cost of sales | | 1,704,972 |
| Gross profit | | 266,897 |
| Selling, general and administrative expenses | | 218,614 |
| Operating income | | 48,282 |
| Non-operating income | | |
| Interest and dividend income | 7,059 | |
| Other | 26,636 | 33,696 |
| Non-operating expenses | | |
| Interest expense | 9,153 | |
| Other | 38,196 | 47,350 |
| Ordinary income | | 34,629 |
| Extraordinary income | | |
| Gain on sales of investment securities | 31,485 | |
| Gain related to subsidiary conversion | 4,892 | 36,377 |
| Extraordinary losses | | |
| Loss on impairment | 13,924 | |
| Loss on disaster | 3,353 | |
| Customer compensation expenses | 2,587 | |
| Environmental expenses | 2,154 | 22,020 |
| Income before income taxes and non-controlling interests | | 48,985 |
| Income taxes – current | 13,994 | |
| Income taxes – deferred | (3,537) | 10,457 |
| Income before non-controlling interests | | 38,528 |
| Net loss attributable to non-controlling interests | | 2,587 |
| Net income attributable to owners of the parent | | 35,940 |

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

(Reference) Summary of Consolidated Statements of Cash Flows

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

| Item | Amount |
|---|-------------------|
| | (Millions of yen) |
| Net cash provided by operating activities | 67,136 |
| Net cash used in investing activities | (28,603) |
| Net cash used in financing activities | (9,561) |
| Effect of exchange rate changes on cash and cash equivalents | (2,797) |
| Increase in cash and cash equivalents | 26,174 |
| Cash and cash equivalents at the beginning of fiscal year | 165,267 |
| Increase in cash and cash equivalents resulting from change in scope of consolidation | 5,735 |
| Increase in cash and cash equivalents resulting from change in scope of consolidation | 39 |
| Cash and cash equivalents at the end of fiscal year | 197,216 |

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

Non-Consolidated Balance Sheets

(As of March 31, 2019)

(Millions of yen)

| Item | Amount | Item | Amount |
|--|------------------|---|------------------|
| ASSETS | | LIABILITIES | |
| Current Assets | 657,093 | Current liabilities | 498,425 |
| Cash and deposits | 98,649 | Accounts payable | 265,239 |
| Notes receivable | 1,606 | Short-term borrowings | 62,456 |
| Accounts receivable | 140,955 | Lease obligations | 21 |
| Lease receivables | 311 | Bonds due within one year | 22,000 |
| Securities | 23,499 | Accounts payable - other | 42,076 |
| Merchandise and finished goods | 81,781 | Accrued expenses | 28,891 |
| Work-in-process | 95,908 | Income and enterprise taxes payable | 1,457 |
| Raw materials and supplies | 109,142 | Advances received | 35,300 |
| Advance payments - trade | 16,271 | Deposits received | 7,852 |
| Prepaid expenses | 2,738 | Unearned revenue | 245 |
| Short-term loans receivable | 39,262 | Provision for bonuses | 7,930 |
| Accounts receivable - other | 36,153 | Provision for product warranties | 3,694 |
| Other | 10,825 | Provision for loss on construction contracts | 8,330 |
| Allowance for doubtful accounts | (13) | Provision for dismantlement-related expenses | 1,611 |
| Fixed assets | 983,778 | Provision for customer compensation expenses | 3,038 |
| Tangible fixed assets | 587,121 | Asset retirement obligations | 47 |
| Buildings | 101,349 | Other | 8,230 |
| Structures | 53,593 | Long-term liabilities | 587,605 |
| Machinery and equipment | 315,977 | Bonds and notes | 110,000 |
| Vehicles | 1,584 | Long-term borrowings | 442,707 |
| Tools, equipment and fixtures | 7,831 | Lease obligations | 48 |
| Land | 70,007 | Provision for retirement benefits | 23,026 |
| Construction in progress | 36,778 | Provision for environmental measures | 1,929 |
| Intangible fixed assets | 14,087 | Provision for dismantlement-related expenses | 3,343 |
| Software | 11,716 | Asset retirement obligations | 743 |
| Right of using facilities | 361 | Other | 5,805 |
| Other | 2,009 | Total liabilities | 1,086,030 |
| Investments and other assets | 382,569 | NET ASSETS | |
| Investments in securities | 95,843 | Stockholders' equity | 551,729 |
| Shares of subsidiaries and associates and investments in capital | 190,370 | Common stock | 250,930 |
| Long-term loans receivable | 59,993 | Capital surplus | 100,789 |
| Prepaid pension cost | 21,655 | Legal capital surplus | 100,789 |
| Deferred tax assets | 8,206 | Retained earnings | 201,663 |
| Other | 9,246 | Other retained earnings | 201,663 |
| Allowance for doubtful accounts | (2,745) | Reserve for special depreciation | 244 |
| | | Reserve for advanced depreciation of fixed assets | 2,275 |
| | | Retained earnings brought forward | 199,143 |
| | | Treasury stock, at cost | (1,653) |
| | | Valuation and translation adjustments | 3,112 |
| | | Unrealized gains on securities, net of taxes | 3,543 |
| | | Deferred gains (losses) on hedges, net of taxes | (430) |
| | | Total net assets | 554,841 |
| Total assets | 1,640,872 | Total liabilities and net assets | 1,640,872 |

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

Non-Consolidated Statements of Income

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

(Millions of yen)

| Item | Amount | |
|--|---------|---------------|
| Net sales | | 1,073,791 |
| Cost of sales | | 976,997 |
| Gross profit | | 96,794 |
| Selling, general and administrative expenses | | 94,473 |
| Operating income | | 2,321 |
| Non-operating income | | |
| Interest and dividend income | 28,483 | |
| Other | 15,019 | 43,502 |
| Non-operating expenses | | |
| Interest expense | 4,846 | |
| Other | 29,036 | 33,883 |
| Ordinary income | | 11,940 |
| Extraordinary income | | |
| Gain on sales of shares of subsidiaries and associates | 36,888 | 36,888 |
| Extraordinary losses | | |
| Loss on impairment | 6,070 | |
| Loss on disaster | 2,882 | |
| Loss on valuation of shares of subsidiaries and associates | 8,559 | |
| Loss on valuation of investments in capital of subsidiaries and associates | 12,358 | |
| Customer compensation expenses | 2,544 | |
| Environmental expenses | 1,585 | 34,001 |
| Income before income taxes | | 14,828 |
| Income taxes – current | 2,165 | |
| Income taxes – deferred | (1,683) | 482 |
| Net income | | 14,345 |

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

Consolidated Statements of Changes in Net Assets

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

(Millions of yen)

| | Stockholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------------------|-------------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total stockholders' equity |
| Balance as of April 1, 2018 | 250,930 | 102,314 | 395,542 | (2,671) | 746,115 |
| Amount of change | | | | | |
| Dividends of surplus | | | (14,565) | | (14,565) |
| Net income attributable to owners of the parent | | | 35,940 | | 35,940 |
| Purchase of treasury stock | | | | (8) | (8) |
| Disposal of treasury stock | | | (0) | 66 | 65 |
| Changes in stockholders interest due to transaction with non-controlling interests | | (95) | | | (95) |
| Increase due to changes in scope of consolidation | | | (1,596) | | (1,596) |
| Net changes other than stockholders' equity | | | | | |
| Total changes | — | (95) | 19,777 | 57 | 19,739 |
| Balance as of March 31, 2019 | 250,930 | 102,218 | 415,320 | (2,614) | 765,855 |

| | Accumulated other comprehensive income | | | | | | Non-controlling interests | Total net assets |
|--|--|---|--|--|---|--|---------------------------|------------------|
| | Unrealized gains on securities, net of taxes | Deferred gains (losses) on hedges, net of taxes | Land revaluation differences, net of taxes | Foreign currency translation adjustments | Remeasurements of defined benefit plans, net of taxes | Total Accumulated other comprehensive income | | |
| Balance as of April 1, 2018 | 17,333 | (9,913) | (3,406) | 10,185 | (17,726) | (3,527) | 48,396 | 790,984 |
| Amount of change | | | | | | | | |
| Dividends of surplus | | | | | | | | (14,565) |
| Net income attributable to owners of the parent | | | | | | | | 35,940 |
| Purchase of treasury stock | | | | | | | | (8) |
| Disposal of treasury stock | | | | | | | | 65 |
| Changes in stockholders interest due to transaction with non-controlling interests | | | | | | | | (95) |
| Increase due to changes in scope of consolidation | | | | | | | | (1,596) |
| Net changes other than stockholders' equity | (10,228) | (4,117) | — | (7,480) | (925) | (22,751) | 15,339 | (7,411) |
| Total changes | (10,228) | (4,117) | — | (7,480) | (925) | (22,751) | 15,339 | 12,328 |
| Balance as of March 31, 2019 | 7,105 | (14,030) | (3,406) | 2,705 | (18,652) | (26,278) | 63,736 | 803,312 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Matters Concerning the Scope of Consolidation

Kobe Steel, Ltd. (the “Company”) has 218 subsidiaries, of which 177 subsidiaries are included in the scope of consolidation (the “Kobe Steel Group”). Names of major consolidated subsidiaries are as follows.

Nippon Koshuha Steel Co., Ltd., Shinko Wire Company, Ltd., Kobelco Steel Tube Co., Ltd., Shinko Kenzai, Ltd., Kobelco Logistics, Ltd., Shinko Bolt, Ltd., Shinko Engineering & Maintenance Co., Ltd., Kobe Welding of Qingdao Co., Ltd., Kobe Welding of Korea Co., Ltd., Kobelco & Materials Copper Tube, Ltd., Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd., Kobe Aluminum Automotive Products (China) Co., Ltd., Kobelco & Materials Copper Tube (Thailand) Co., Ltd., Kobelco Aluminum Products & Extrusions Inc., Kobe Aluminum Automotive Products, LLC, Kobelco & Materials Copper Tube (M) Sdn. Bhd., Kobe Precision Technology Sdn. Bhd., Kobelco Compressors Corporation, Shinko Engineering Co., Ltd., Kobelco Compressors Manufacturing (Shanghai) Corporation, Quintus Technologies AB, Kobelco Compressors America, Inc., Kobelco Eco-Solutions Co., Ltd., Kobelco Eco-Maintenance Co., Ltd., Midrex Technologies, Inc., Kobelco Construction Machinery Co., Ltd., KOBELCO Construction Machinery (East Japan) Co., Ltd., KOBELCO Construction Machinery (West Japan) Co., Ltd., TOYOSUGIUE Co., Ltd., Kobelco Construction Machinery International Trading Co., Ltd., Kobelco Construction Machinery (China) Co., Ltd., Hangzhou Kobelco Construction Machinery Co., Ltd., Chengdu Kobelco Construction Machinery Financial Leasing Ltd., Kobelco Construction Machinery Southeast Asia Co., Ltd., Kobelco Construction Equipment India Pvt. Ltd., Kobelco Construction Machinery Europe B.V., Kobelco International (S) Co., Pte. Ltd., Pt. Daya Kobelco Construction Machinery Indonesia, Kobelco Construction Machinery USA, Inc., Kobelco Power Kobe Inc., Kobelco Power Moka Inc., Kobelco Power Kobe No.2, Inc., Kobelco Research Institute, Inc., Kobelco (China) Holding Co., Ltd., Kobe Steel USA Holdings Inc.

For fiscal year 2018, 17 companies, including Shinko Wire Company, Ltd. are newly consolidated and 13 companies, including Shinko Real Estate Co., Ltd. are excluded from the scope of consolidation due to the transfer of shares.

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

2. Matters Concerning the Application of the Equity Method

Of the 41 non-consolidated subsidiaries and 52 affiliates, 40 companies are accounted for by the equity method. Names of major companies accounted for by the equity method are as follows.

OSAKA Titanium technologies Co., Ltd., Kansai Coke and Chemicals Co., Ltd., Japan Aeroforge, Ltd., Kobelco Angang Auto Steel Co., Ltd., PRO-TEC Coating Company, LLC, Kobelco Millcon Steel Co., Ltd., Ulsan Aluminum, Ltd., Wuxi Compressor Co., Ltd., Shinsho Corporation, Shinko Real Estate Co., Ltd.

For fiscal year 2018, 3 companies, including Shinko Real Estate Co., Ltd., are newly accounted for by the equity method and 4 companies, including Shinko Wire Company,

Ltd., are excluded from the application of equity method mainly due to making it a subsidiary through acquisition of additional shares.

41 non-consolidated subsidiaries, including Shinkyō Kaiun Co., Ltd., and 12 affiliates, including J&T Welding Supply Co., Ltd., are not accounted for by the equity method because the aggregated amounts of their net income (corresponding to amount of equity interest), retained earnings (corresponding to amount of equity interest) and other indicators are insignificant compared to those of the consolidated companies and companies accounted for by the equity method.

3. Matters Concerning Accounting Policies

(1) Basis and method for valuation of significant assets

A. Basis and method for valuation of securities

Available-for-sale securities

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

B. Basis for valuation of derivatives

Fair value basis

C. Basis and method for valuation of inventories

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

(2) Depreciation and amortization method for significant depreciable assets

a) Tangible fixed assets

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

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

(3) Basis for recognition of significant allowances and provisions

a) Allowance for doubtful accounts

To provide for potential losses on doubtful accounts, allowance is made at an amount based on the actual bad debt ratio in the past for normal accounts, and estimated uncollectible amounts based on specific

collectability assessments for certain individual receivables, such as those with a possibility of default.

b) Provision for bonuses

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

c) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, mainly for steel castings and forgings in the Iron & Steel Business, Machinery Business, Engineering Business and Construction Machinery Business, provision is made at an estimated amount attributable to the fiscal year 2018 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2018 for certain individual cases.

d) Provision for loss on construction contracts

To provide for future losses on construction contracts, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2018.

e) Provision for loss on guarantees

Provision for future loss on guarantees is based on an estimate of total loss at the end of the fiscal year 2018, considering the financial position, etc. of the guaranteed parties on a case- by- case basis.

f) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, provision is made at an estimated amount at the end of the fiscal year 2018.

g) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2018.

h) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste” and others, provision is made at an estimated amount at the end of the fiscal year 2018.

(4) Accounting method for retirement benefits

To provide for payments of retirement benefits to employees, the amount of retirement benefit obligations net of the amount of plan is established assets based on the amount expected at the end of the fiscal year 2018.

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

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

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

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

(5) Basis for recognition of revenue and expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2018 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

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

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

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

(7) Principal method for hedge accounting

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

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

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

B. Hedging instruments and hedged items

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

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

C. Hedging policy and method for assessing the hedge effectiveness

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

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

- (8) Method for amortization of goodwill
Goodwill is amortized using the straight-line method (or immediately charged to income if immaterial) over the practically estimated effective periods where estimable during the period in which it arises, or otherwise, over five years.
- (9) Accounting for consumption taxes
The tax-exclusion method is applied for the consumption tax and the local consumption tax.
- (10) Application of consolidated taxation system
Consolidated taxation system is applied.

Change in Presentation Method

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 fiscal year 2018. In relation to the application, deferred tax assets have been classified in investments and other assets and deferred tax liabilities in long-term liabilities.

Additional Information

Introduction of a Board Benefit Trust (BBT) for Directors

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

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

1) Overview of transactions

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

2) Kobe Steel stock remaining in the Trust

The Company’s stock remaining in the trust is posted as treasury stock in a part of net assets based on the book value (excludes amounts for incidental expenses). The corresponding treasury stock’s book value at the end of the fiscal year under review was 1,036 million yen for 1,154 thousand shares.

Notes to Consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

| | |
|----------------------------------|--------------------|
| (1) Assets pledged as collateral | |
| Tangible fixed assets | 29,514 million yen |
| Other | <u>11,842</u> |
| Total | 41,357 |
| (2) Collateralized debt | |
| Short-term borrowings | 253 million yen |

| | |
|-----------------------------|---------------|
| <u>Long-term borrowings</u> | <u>37,185</u> |
| Total | 37,439 |

2. Accumulated Depreciation of Tangible Fixed Assets 2,461,912 million yen

3. Guarantee Liabilities

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

| | | |
|---------------------------------------|-------------------|---|
| Kobelco Millcon Steel Co., Ltd. | 6,696 million yen | |
| Kobelco Angang Auto Steel Co., Ltd. | 5,084 | |
| Japan Aeroforge, Ltd. | 3,087 | |
| <u>Other (26 companies and other)</u> | <u>4,862</u> | * |
| Total | 19,730 | |

The above includes activities similar to guarantees (227 million yen).

*Of which, 83 million yen is covered by reassurances from other companies.

Kobelco Construction Machinery (China) Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy construction machinery, pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Kobelco Construction Machinery (China) Co., Ltd. pledges reassurance for this guarantee. The balances of the reassurance were 16,273 million yen at the end of fiscal year 2018.

- | | |
|--|-------------------|
| (2) Trade notes receivable discounted | 349 million yen |
| (3) Trade notes receivable endorsed | 680 million yen |
| (4) Repurchase obligation accompanying securitization of receivables | 4,439 million yen |

4. Contingent liabilities

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

The Kobe Steel Group, with the cooperation of its customers to which the Affected Products were shipped, proceeded to carry out technical verifications on the impact of the quality (including safety) of its Affected Products on customers' products. As a result, the Kobe Steel Group confirmed that of the 688 companies to which the Affected Products were delivered, no safety problems were found or no immediate problems with safety were found. With regard to the Affected Products that are viewed to have no immediate problems with safety, Kobe Steel will, as necessary, conduct additional verification while cooperating with its customers.

Furthermore, Kobe Steel was indicted in July 2018 on charges of allegedly violating the Unfair Competition Prevention Act. The Kobe Steel Group has also been under investigation by the U.S. Department of Justice since October 2017 for allegedly selling the Affected Products to customers in the United States.

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

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

With regard to item 2 of the above-mentioned civil complaints, a securities class action in the United States concerning Kobe Steel's ADR, a settlement was reached in September 2018 for Kobe Steel to pay settlement money to the plaintiffs and for the plaintiffs to withdraw their lawsuit. In February 2019, the court approved the settlement and the lawsuit came to an end.

In regard to the indictment on the alleged violation of the Unfair Competition Prevention Act, a second court hearing was conducted in January 2019, where the prosecutors demanded a fine of 100 million yen. Kobe Steel was consequently convicted on the said fine in March 2019, and the judgement became final. It is difficult to reasonably estimate the final penalties, compensation for damages, and other outcomes at this time in regard to the investigation by the U.S. Department of Justice and the above-mentioned civil complaints (excluding item 2 above), but they may possibly result in a monetary burden. In addition, there may be additional monetary burden due to compensation cost for the exchange of products by customers, compensation cost relating to the inspections by customers, and other actions.

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

Notes to Consolidated Statements of Income

1. Gain related to subsidiary conversion

Gain related to subsidiary conversion of 4,892 million yen are 7,272 million yen of gain on bargain purchase and 2,380 million yen of loss on step acquisitions recorded for having Shinko Wire Company, Ltd. as a subsidiary.

2. Loss on impairment

The Company and the Group recorded loss on impairment on the following assets group for the fiscal year under review.

| Use | Location and number | Type and amount (millions of yen) |
|--|---|---|
| Assets for industrial machinery business | Vasteras, Sweden | Goodwill and other intangible assets: 6,259 |
| Assets for manufacturing forged titan products | Takasago-shi, Hyogo Prefecture | Machinery and equipment, etc. 5,904 |
| Assets for other business, etc. | Moji-ku, Kitakyushu-shi and other locations 6 times in total | Machinery and equipment, etc. 1,760 |

The Company and the Group conduct grouping per business location to recognize losses on impairment in principle.

In regard to the above, book values were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (13,924 million yen) under extraordinary losses due to the decrease in profitability resulting from current declining performance.

3. Loss on disaster

The 3,353 million yen of loss on disaster were 5,097 million yen of loss on damaged inventories due to typhoons (No. 20, 21, and 24), heavy rain in western Japan, and an earthquake in northern Osaka and 1,743 million yen of insurance income related to such loss.

4. Customer compensation expenses

The 2,587 million yen of customer compensation expenses are expenses related to a response to the misconduct that through data falsification or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for investigations carried out by customers, etc.

5. Environmental expenses

The 2,154 million yen of environmental expenses are the cost of PCB waste treatment required by the “Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes” and have been additionally recorded as details of treatment methods and schedules have become apparent.

Notes to Consolidated Statements of Changes in Net Assets

1. Type and Total Number of Shares Issued at the End of Fiscal Year 2018

Common stock 364,364,210 shares

2. Matters Concerning Dividends

(1) Dividends paid

| Resolution | Type of stock | Total dividends | Dividends per share | Record date | Effective date | Source of dividends |
|---|---------------|--------------------|---------------------|--------------------|------------------|---------------------|
| May 16, 2018 Board of Directors' meeting | Common stock | 10,924 million yen | 30.0 yen | March 31, 2018 | June 22, 2018 | Retained earnings |
| October 30, 2018 Board of Directors' meeting | Common stock | 3,641 million yen | 10.0 yen | September 30, 2018 | December 3, 2018 | Retained earnings |

(2) Dividends with the record date in fiscal year 2018 and the effective date in fiscal year 2019

At the meeting of the Board of Directors to be held on May 15, 2019, the following matters concerning dividends on common stock are going to be discussed.

- 1) Total dividends 3,641 million yen
- 2) Dividends per share 10.0 yen
- 3) Record date March 31, 2019
- 4) Effective date May 31, 2019

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

Notes on Financial Instruments

1. Matters Concerning Status of Financial Instruments

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

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

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

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

2. Matters concerning fair value of financial instruments

Carrying amount of financial instruments on the consolidated balance sheets, fair value and the difference as of March 31, 2019 are as follows.

(Millions of yen)

| | Carrying amount *1 | Fair value *1 | Difference |
|---|-----------------------|---------------|------------|
| (1) Cash and deposits | 173,899 | 173,899 | — |
| (2) Notes and accounts receivable - trade | 343,288 | 343,288 | — |
| (3) Investments in securities | | | |
| a) Securities of subsidiaries and affiliates | 13,262 | 20,308 | 7,045 |
| b) Available-for-sale securities | 90,114 | 90,114 | — |
| (4) Notes and accounts payable | (455,310) | (455,310) | — |
| (5) Short-term borrowings | (116,382) | (116,497) | (114) |
| (6) Bonds and notes due within one year | (22,215) | (22,228) | (13) |
| (7) Accounts payable-other | (49,705) | (49,705) | — |
| (8) Bonds and notes | (111,837) | (111,961) | (124) |
| (9) Long-term borrowings | (509,929) | (502,721) | 7,208 |
| (10) Derivative transactions *2 | | | |
| a) Hedge accounting not applied | 537 | 537 | — |
| b) Hedge accounting applied | (18,597) | (18,597) | — |

*1 Liabilities are presented with parentheses ().

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

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

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

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

(3) Investments in securities

Based mainly on quoted market prices, etc.

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

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

The fair values of long-term borrowings due within one year which are included in short-term borrowings (with a carrying amount of 58,113 million yen) are determined using the same method as (9) Long-term borrowings.

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

Based mainly on quoted market prices.

(9) Long-term borrowings

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

(10) Derivative transactions

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

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

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

Note 2: Non-listed equity securities (with carrying amount of 86,631 million yen) are not included in (3) Investments in securities a) Securities of subsidiaries and affiliates and b) Available-for-sale securities, as it is extremely difficult to determine their fair value since there is no market price and future cash flows cannot be estimated.

Notes on Per Share Information

| | |
|----------------------|--------------|
| Net assets per share | 2,041.29 yen |
| Net income per share | 99.20 yen |

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

The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 1,154 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 1,171 thousand shares.

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

Non-Consolidated Statements of Changes in Net Assets

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

(Millions of yen)

| | Stockholders' equity | | | | | | | | |
|---|----------------------|-----------------------|-------------------------|----------------------------------|---|-----------------------------------|-------------------------|-------------------------|----------------------------|
| | Common stock | Capital surplus | | Retained earnings | | | | Treasury stock, at cost | Total stockholders' equity |
| | | Legal capital surplus | Total capital surpluses | Other retained earnings | | | Total retained earnings | | |
| | | | | Reserve for special depreciation | Reserve for advanced depreciation of fixed assets | Retained earnings brought forward | | | |
| Balance as of April 1, 2018 | 250,930 | 100,789 | 100,789 | 299 | 2,454 | 199,130 | 201,884 | (1,708) | 551,895 |
| Amount of change | | | | | | | | | |
| Reversal of reserve for special depreciation | | | | (54) | | 54 | — | | — |
| Reversal of reserve for advanced depreciation of fixed assets | | | | | (178) | 178 | — | | — |
| Dividends of surplus | | | | | | (14,565) | (14,565) | | (14,565) |
| Net income | | | | | | 14,345 | 14,345 | | 14,345 |
| Purchase of treasury stock | | | | | | | | (8) | (8) |
| Disposal of treasury stock | | | | | | (0) | (0) | 63 | 62 |
| Net changes other than stockholders' equity | | | | | | | | | |
| Total changes | — | — | — | (54) | (178) | 12 | (220) | 54 | (166) |
| Balance as of March 31, 2019 | 250,930 | 100,789 | 100,789 | 244 | 2,275 | 199,143 | 201,663 | (1,653) | 551,729 |

| | Valuation and translation adjustments | | | Total net assets |
|---|--|--|---|------------------|
| | Unrealized gains on securities, net of taxes | Deferred gains (losses) on hedges net of taxes | Total valuation and translation adjustments | |
| Balance as of April 1, 2018 | 12,789 | (7,969) | 4,820 | 556,715 |
| Amount of change | | | | |
| Reversal of reserve for special depreciation | | | | — |
| Reversal of reserve for advanced depreciation of fixed assets | | | | — |
| Dividends of surplus | | | | (14,565) |
| Net income | | | | 14,345 |
| Purchase of treasury stock | | | | (8) |
| Disposal of treasury stock | | | | 62 |
| Net changes other than stockholders' equity | (9,246) | 7,538 | (1,707) | (1,707) |
| Total changes | (9,246) | 7,538 | (1,707) | (1,873) |
| Balance as of March 31, 2019 | 3,543 | (430) | 3,112 | 554,841 |

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Matters concerning Significant Accounting Policies

1. Basis and Method for Valuation of Securities

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

2. Basis for Valuation of Derivatives

Fair value basis

3. Basis and Method for Valuation of Inventories

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

4. Depreciation and Amortization Method for Fixed Assets

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

5. Basis for Recognition of Allowances and Provisions

(1) Allowance for doubtful accounts

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

(2) Provision for bonuses

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

(3) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, for steel castings and forgings in the Iron & Steel Business, Machinery Business, and Engineering Business, provision is made at an estimated amount attributable to the fiscal year 2018 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2018 for certain individual cases.

(4) Provision for loss on construction contracts

To provide for future losses on construction contracts, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2018.

(5) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, provision is made at an estimated amount at the end of the fiscal year 2018.

(6) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2018.

(7) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste”, provision is made at an estimated amount at the end of the fiscal year 2018.

(8) Provision for retirement benefits

To provide for payments of retirement benefits to employees, provision is made based on the retirement benefit obligation and the estimated amount of plan assets at the end of the fiscal year 2018.

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

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

6. Basis for Recognition of Revenue and Expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2018 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

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

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

8. Method for Hedge Accounting

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

9. Accounting for Retirement Benefits

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

10. Accounting for Consumption Taxes

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

11. Application of Consolidated Taxation System

Consolidated taxation system is applied.

Change in Presentation Method

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 fiscal year 2018. In relation to the application, deferred tax assets have been classified in investments and other assets and deferred tax liabilities in long-term liabilities.

Additional Information

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

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

Notes to Non-consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral

| | | |
|---|--------------------|-------|
| Securities of subsidiaries and affiliates | 11,110 million yen | *1 *2 |
| Other | 6,168 | *2 |

(2) Collateralized debt

| | | |
|---|--------------------|-------|
| Borrowings of subsidiaries and affiliates from financial institutions | 37,140 million yen | *1 *2 |
|---|--------------------|-------|

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

*2 Of the assets pledged as collateral, 16,170 million yen are the mortgages established for borrowings of 23,291 million yen from financial institutions to Kobelco Power Kobe No.2, Inc., which is one of the primary operators of the wholesale power supply business.

| | |
|--|-----------------------|
| 2. Accumulated Depreciation of Tangible Fixed Assets | 1,911,166 million yen |
|--|-----------------------|

3. Guarantee Liabilities

(1) Guarantees of borrowings from financial institutions are provided to other companies.

| | | |
|---|--------------------|----|
| Chengdu Kobelco Construction Machinery Financial Leasing Ltd. | 15,643 million yen | *1 |
| Kobelco Construction Machinery (China) Co., Ltd. | 10,473 | *1 |
| Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd. | 9,521 | |
| Kobelco Steel International (USA) Inc. | 7,547 | |
| Kobelco Millcon Steel Co., Ltd. | 6,696 | |
| Kobelco Angang Auto Steel Co., Ltd. | 5,084 | |
| <u>Other (18 companies and other)</u> | <u>21,410</u> | *2 |
| Total | 76,378 | |

The above includes activities similar to guarantees (514 million yen).

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

*2 Of which, 2,963 million yen is covered by reassurances from other companies.

| | |
|--|-------------------|
| (2) Repurchase obligation accompanying securitization of receivables | 3,214 million yen |
|--|-------------------|

4. Contingent liabilities

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

The Kobe Steel Group, with the cooperation of its customers to which the Affected Products were shipped, proceeded to carry out technical verifications on the impact of the quality (including safety) of its Affected Products on customers' products. As a result, the Kobe Steel Group confirmed that of the 688 companies to which the Affected Products were delivered, no safety problems were found or no immediate problems with safety were found. With regard to the Affected Products that are viewed to have no immediate problems with safety, Kobe Steel will, as necessary, conduct additional verification while cooperating with its customers.

Furthermore, Kobe Steel was indicted in July 2018 on charges of allegedly violating the Unfair Competition Prevention Act. The Kobe Steel Group has also been under investigation by the U.S. Department of Justice since October 2017 for allegedly selling the Affected Products to customers in the United States.

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

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

With regard to item 2 of the above-mentioned civil complaints, a securities class action in the United States concerning Kobe Steel's ADR, a settlement was reached in September 2018 for Kobe Steel to pay settlement money to the plaintiffs and for the plaintiffs to withdraw their lawsuit. In February 2019, the court approved the settlement and the lawsuit came to an end.

In regard to the indictment on the alleged violation of the Unfair Competition Prevention Act, a second court hearing was conducted in January 2019, where the prosecutors demanded a fine of 100 million yen. Kobe Steel was consequently convicted on the said fine in March 2019, and the judgement became final. It is difficult to reasonably estimate the final penalties, compensation for damages, and other outcomes at this time in regard to the investigation by the U.S. Department of Justice and the above-mentioned civil complaints (excluding item 2 above), but they may possibly result in a monetary burden. In addition, there may be additional monetary burden due to compensation cost for the exchange of products by customers, compensation cost relating to the inspections by customers, and other actions.

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

| | |
|---|---------------------|
| 5. Monetary Receivables and Payables to Subsidiaries and Affiliates | |
| Short-term monetary receivables | 118,818 million yen |
| Long-term monetary receivables | 57,927 |
| Short-term monetary payables | 83,287 |
| Long-term monetary payables | 210 |

Notes to Non-consolidated Statements of Income

1. Transactions with Subsidiaries and Affiliates

Operating transactions

| | |
|----------------------------|---------------------|
| Net sales | 338,267 million yen |
| Purchases | 596,710 |
| Non-operating transactions | 58,390 |

2. Loss on impairment

The Company recorded loss on impairment on the following assets group for the fiscal year under review.

| Use | Location and number | Type and amount (millions of yen) |
|--|--|--|
| Assets for manufacturing forged titan products, etc. | Takasago-shi, Hyogo Prefecture and other locations 2 times in total | Machinery and equipment, etc. 6,070 |

The Company conducts grouping per business location to recognize losses on impairment in principle.

In regard to the above, book values were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (6,070 million yen) under extraordinary losses due to the decrease in profitability resulting from current declining performance.

3. Loss on disaster

The 2,882 million yen of loss on disaster were 3,799 million yen of loss on damaged inventories due to typhoons (No. 20, 21, and 24), heavy rain in western Japan, and an earthquake in northern Osaka and 916 million yen of insurance income related to such loss.

4. Customer compensation expenses

The 2,544 million yen of customer compensation expenses are expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for investigations carried out by customers, etc.

5. Environmental expenses

The 1,585 million yen of environmental expenses are the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste” and have been additionally recorded as details of treatment methods and schedules have become apparent.

Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2018

| | |
|--------------|------------------|
| Common stock | 1,391,640 shares |
|--------------|------------------|

(Note) 1,153,700 shares of Kobe Steel owned by Trust & Custody Services Bank, Ltd. (Trust Account E) related to the Board Benefit Trust (BBT) are included in treasury stock listed above.

Notes on Tax Effect Accounting

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

Notes on Transactions with Related Parties

| Category | Company name | Ownership of voting rights etc. (Ownership percentage) | Relationships with related parties | Description of transactions | Transaction amounts (million yen) | Account | Fiscal year-end balance (million yen) |
|------------------------|--|--|---|---|-----------------------------------|---------------------------|---------------------------------------|
| Subsidiaries | Kobelco Construction Machinery Co., Ltd. | 100.00% directly | Sales of steel materials, etc. Lease of commercial buildings and land Interlocking directors, etc. | Receipt of guarantees | 26,116 | – | – |
| Affiliates | Shinsho Corporation | 13.33% directly and 1.04% indirectly (21.55%) | Sales of certain finished goods of the Company Purchase of raw materials Interlocking directors, etc. | Purchase of raw materials for iron and steel, other raw materials and materials for equipment | 319,476 | Trade accounts payable | 20,987 |
| | Kansai Coke and Chemicals Co., Ltd. | 24.00% directly | Sales of coal, etc. Purchase of coke, etc. Interlocking directors, etc. | Sales of coal, etc. | 76,113 | Other accounts receivable | 8,646 |
| Purchase of coke, etc. | | | | 86,453 | Trade accounts payable | 20,410 | |

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

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

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

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

Note 4: The Company guarantees relating to bank loans by Chengdu Kobelco Construction Machinery Financial Leasing Ltd. and Kobelco Construction Machinery (China) Co., Ltd. Kobelco Construction Machinery Co., Ltd. pledges reinsurance for the entire amount, and the Company pays no guarantee fees.

Notes on Per Share Information

| | |
|----------------------|--------------|
| Net assets per share | 1,528.60 yen |
| Net income per share | 39.52 yen |

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

The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 1,154 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 1,171 thousand shares.

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