

Business Report

(From April 1, 2019 to March 31, 2020)

1. Status of the Corporate Group

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

(a) Progress and Results of Operations

Sluggishness was seen in Japan's economy in fiscal 2019 (April 1, 2019–March 31, 2020) centered on the manufacturing industry owing to a decline in personal spending affected by natural disasters and the increase of the consumption tax rate, along with the continued slump in exports from the slowdown in the world economy, although it had been on a moderate recovery supported by increased personal spending from improvements in employment and income conditions and by firm corporate capital investments. Overseas economies also saw a slowdown in economic growth from the impact of U.S.-China trade friction and other factors. Toward the end of fiscal 2019, economic conditions worsened significantly with a plunge in demand both in Japan and overseas, affected by the outbreak of the novel coronavirus infection.

In this economic environment, the Kobe Steel Group recorded a year-on-year increase of ordinary income in the Machinery and Electric Power segments. However, ordinary income decreased year on year in the Welding, Engineering, and Construction Machinery segments, while ordinary loss was posted in the Iron & Steel segment and the Aluminum & Copper segment.

As a result, consolidated net sales in fiscal 2019 decreased 102 billion yen year on year to 1,869.8 billion yen. Operating income decreased 38.4 billion yen year on year to 9.8 billion yen. Ordinary income worsened 42.7 billion yen year on year to ordinary loss of 8.0 billion yen. As for extraordinary income and loss, Kobe Steel posted a gain on the sale of investment securities, but recorded loss on impairment of fixed assets and loss on the valuation of investment securities, resulting in extraordinary loss of 57.4 billion yen. Net income attributable to owners of the parent decreased 103.9 billion yen, compared with the previous year, to net loss attributable to owners of the parent of 68.0 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. After duly considering that full-year net income attributable to owners of the parent turned deeply negative, and that the uncertain business environment is expected to continue, the Company has regrettably decided to suspend dividend payments for fiscal 2019. We deeply and sincerely apologize for causing substantial trouble to our shareholders. We will do our utmost to improve profits swiftly and kindly ask for your understanding in consideration of the circumstances.

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 year on year as demand fell mainly for automobiles overseas, impacted by U.S.-China trade friction, and affected by the outbreak of the novel coronavirus infection toward the end of fiscal 2019. Sales prices were similar year on year, as a portion of the prices rose in Japan on account of higher main raw materials prices and other factors, while export prices decreased due to a softening in the market.

Sales of steel castings and forgings decreased year on year owing to lower sales volume as demand worsened. Sales of titanium products increased year on year as sales expanded in the aircraft sector and other factors.

As a result, consolidated segment sales for fiscal 2019 decreased 4.0% year on year to 723.7 billion yen. Ordinary loss worsened 26.0 billion yen year on year to 21.3 billion yen due to lower sales volume for steel products and steel castings and forgings, along with a worsened product mix

and the posting of an allowance for anticipated future loss owing to decreasing profitability in the aircraft sector of the titanium business.

Welding

The sales volume of welding materials in Japan was similar to the previous year as demand was firm in the first half of the fiscal year, but was affected by lower demand for architectural steel frames, automobiles, and construction machinery in the second half of the fiscal year. The sales volume overseas decreased year on year owing to continued sluggish demand in Southeast Asia centered on Thailand and Indonesia, although demand rose in LNG shipbuilding in the Republic of Korea.

Sales of welding systems increased year on year as domestic demand for the renewal of facilities for architectural steel frames and construction machinery continued to remain firm.

As a result, consolidated segment sales for fiscal 2019 came to 83.7 billion yen, similar to the previous fiscal year. Ordinary income decreased 0.7 billion yen year on year, to 2.9 billion yen due to the lower sales volume of welding materials.

Aluminum & Copper

The sales volume of aluminum rolled products decreased year on year as demand declined for automobiles and semiconductors and in the IT field, although demand for can stock for beverage cans was similar year on year.

The sales volume of copper rolled products decreased year on year due to a decrease in demand for copper strip used in automotive terminals and semiconductors, along with a decrease in overseas demand for copper tubes in the second half of the fiscal year.

As a result, consolidated segment sales for fiscal 2019 decreased 7.1% year on year to 333.4 billion yen. Ordinary loss worsened 18.9 billion yen year on year to 20.4 billion yen owing to the impact of equipment trouble at an overseas subsidiary and other factors, in addition to lower sales volume, increased fixed costs, and the worsening of the impact from inventory valuation.

Machinery

Orders in fiscal 2019 decreased 11.7% year on year to 151.6 billion yen owing to the posting of several large orders in fiscal 2018, although demand remained firm in the petrochemical sector. The backlog of orders at the end of fiscal 2019 stood at 155.1 billion yen.

Consolidated segment sales for fiscal 2019 decreased 3.2% year on year to 165.9 billion yen owing to the posting of sales from large orders of compressors for the petrochemical sector in the previous fiscal year. Ordinary income increased 8.4 billion yen year on year to 9.6 billion yen owing to improved profitability, higher sales of after-sales services, improvement in plant operating rates, and other factors.

Engineering

Consolidated orders in fiscal 2019 came to 116.9 billion yen, down 4.7% from the previous year, which saw orders for several large projects in the waste treatment business. The backlog of orders at the end of fiscal 2019 stood at 145.5 billion yen.

Owing to the progress of existing orders, consolidated segment sales for fiscal 2019 decreased 6.7% year on year to 141.5 billion yen. Ordinary income decreased 0.8 billion yen year on year to 5.7 billion yen.

Construction Machinery

Unit sales of hydraulic excavators on the whole decreased year on year as overseas unit sales decreased year on year along with a decline in demand centered on Southeast Asia due to delays in infrastructure construction and other factors, although unit sales rose in Japan and China owing to firm capital investments and higher government-led public investments respectively.

Unit sales of crawler cranes decreased year on year as competition from overseas manufacturers intensified mainly in Southeast Asia, despite an increase in Japan backed by steady demand.

As a result, consolidated segment sales for fiscal 2019 decreased year on year by 6.5% to 360.8 billion yen owing to a decrease in unit sales, along with changes in the sales composition of hydraulic excavators and the impact of the high yen on the exchange rate of the euro. Ordinary

income declined 18.0 billion yen year on year to 7.5 billion yen owing to a decrease in sales and in the reversal of allowance for doubtful receivables year on year.

Electric Power

The amount of electricity sold was higher year on year owing to the start of the No. 1 unit of the Moka Power Plant in October 2019 and the No. 2 unit of the Moka Power Plant in March 2020. The unit price of electricity decreased year on year, affected by a market fall in the price of coal for power generation.

As a result, consolidated segment sales for fiscal 2019 were similar to the previous fiscal year at 75.6 billion yen. However, ordinary income improved 9.2 billion yen to 8.9 billion yen year on year with the operation of the Moka Power Plant and the posting of expenses in the previous fiscal year for arranging project finance for new power generation projects in the city of Kobe.

Other Businesses

Consolidated Segment sales for fiscal 2019 decreased 20.0%, compared with the previous fiscal year, to 33.6 billion yen. Ordinary income increased 0.9 billion yen, compared with previous fiscal year, to 3.3 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 stakeholders due to the quality misconduct (the “Misconduct”) of the Group announced in October 2017.

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

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

The Company is focusing on communication revitalization, such as creating dialogue opportunities at various levels to change the mindset of employees, which is the core element of measures to prevent recurrence. In addition, the Company is steadily undertaking efforts to rebuild and ensure a quality management system, strengthen quality management processes, and conduct relevant capital investments. These efforts are making good progress overall.

Furthermore, the Quality Management Committee, which comprises of a majority of external experts, is currently monitoring the effectiveness of measures to prevent recurrence and the activities to strengthen the Group’s quality management, and making recommendations for them.

Each item of measures to prevent recurrence and details of its progress are reported on the Company’s website. Please follow the below link to see them.

(<https://www.kobelco.co.jp/english/progress/relapse-prevention/index.html>).

The status of lawsuits and investigation regarding the Misconduct that the Company has disclosed so far is summarized below. Taking this matter seriously, the Group will continue to earnestly work toward final settlement.

	Case	Status
Japan	Indicted on charges of allegedly violating the Unfair Competition Prevention Act (July 2018)	March 2019: Convicted with a fine of 100 million yen
United States	Investigation initiated by the U.S. Department of Justice (October 2017)	July 2019: Investigation complete
	A securities class action based on violations of the U.S. Securities Exchange Act (misrepresentation of the compliance system, etc.) concerning the Company’s American Depository Receipts (ADR)	February 2019: Settlement reached (settlement of 500 thousand U.S. dollars)

	A class action 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	February 2020: Agreement on the basic principles of settlement reached April 2020: Settlement procedures complete (settlement amount not disclosed).
Canada	Class actions 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	June 2019: Settlement reached (settlement of 1,950 thousand Canadian dollars) Agreement on the basic principles of settlement reached, with the main content being discontinuance of the suits (procedures on lawsuit's dismissal in progress)

(c) Issues to Be Addressed

<Response to the spread of the novel coronavirus infection>

While the novel coronavirus infection is spreading globally, causing unprecedented impact on all kinds of social and economic activities in the world, the Company is implementing various measures based on three basic principles.

[Three basic principles]

1. We place the highest priority on safety and health for all stakeholders in Japan and overseas, including customers, business partners, community members, employees of the Kobe Steel Group and others working on company premises, and their respective families.
2. In order to fulfill our social responsibility, we continue to provide products and services necessary to maintain the social infrastructure and other aspects, while carrying out thorough preventive measures to prevent infection.
3. We implement timely and appropriate information disclosure to fulfill our accountability to stakeholders.

The Company set up a group-wide response office at the end of January this year (reorganized into a group-wide response headquarters in April), and started encouraging wearing of face masks, promoting thorough hand-washing and disinfection, and requesting temperature-taking and health questions for visitors. Subsequently, the Company stepped up response measures in stages, such as staggered working hours, switch to work from home, use of virtual conferences, and general ban of domestic and overseas business trips, ahead of the declaration of the state of emergency. With the safety and health of our customers, employees, and their families as our top priority, the Company is working to prevent the spread of the infection and aiming for appropriate business continuity.

The Company sincerely hopes that the novel coronavirus infection will end as soon as possible, and thanks all the medical staff and those who are fighting at the frontline against the novel coronavirus. The Company will continue to implement initiatives in response to changing circumstances.

Please see the Company's website (<https://www.kobelco.co.jp/english/>) for measures taken by the Group.

<Emergency measures to improve profits and cash flows>

The Special Committee for Emergency Profit Improvement (chaired by the President) was established on February 7, 2020, as an organization to evaluate emergency measures and monitor their implementation, in response to large deficits projected in the fiscal 2019 business results centered on the steel business and aluminum and copper business due to the global economic slowdown arising from U.S.-China trade friction. The Company then formulated emergency profit improvement measures aiming to return to profitability in fiscal 2020. However, due to the spread of the novel coronavirus infection, a drop in production and order volume at domestic and overseas locations has become apparent. As a considerable impact on business performance is likely to be inevitable, the Company developed and has been implementing additional measures.

Emergency profit improvement measures	<ul style="list-style-type: none"> • Decreasing fixed costs (on the scale of 20 billion) • Measures to improve cash flows by roughly 120 billion yen, including improving working capital by reducing inventories and other means, selling assets, and deferring capital investments • Profit enhancement centered on materials through base cost improvement, capital investment effects, etc. (over 20 billion yen)
Additional measures in response to the impact of the novel coronavirus	<ul style="list-style-type: none"> • Maximum control on spending through production that meets demand • Implementation of detailed fund management including group companies and necessary measures • Freezing of expenses and expenditures of back-office departments in principle • Freezing of capital investments and investments/loans other than those essential for business operations such as replacement investments

In addition, taking seriously the large net loss attributable to owners of the parent and the forgoing of the annual dividend, the Company has reduced the remuneration amounts for Directors for the time being from February 2020 (details are provided on page 53).

The Special Committee for Emergency Profit Improvement will study and implement all possible measures to further reduce fixed costs, as well as measures for additional cash flows.

< Looking to the next medium-term management plan >

Under the current Fiscal 2016-2020 Group Medium-Term Management Plan, the Company has aimed to establish a business enterprise centered on the three core business areas of materials, machinery, and electric power, and implemented various measures by fiscal 2018.

Specifically, main initiatives include the pursuit of growth opportunities through automotive weight reduction strategies, strengthening of the business foundation through corporate governance enhancement and the Next 100 Project, and initiatives aimed at establishing a stable earnings base, such as consolidation of upstream operations in the steel business and the implementation of new power generation projects.

Furthermore, in view of changes in the market environment and the circumstance of the Kobe Steel Group since the formulation of the Group Medium-Term Management Plan, the “Rolling of the Medium-Term Management Plan” was released in May 2019, which summarized key themes to be completed during the remaining two years of the Medium-Term Management Plan period in fiscal 2019 and 2020, as well as key issues and measures for the future. We have been carrying out measures to “strengthen profitability with a focus on materials” and “make efficient use of management resources and strengthen the management foundation” as specific themes.

During fiscal 2019, to make efficient use of management resources, the Company made decisions on initiatives such as reducing strategically held shares and reorganizing group companies, at a faster pace than planned, and implemented them in stages. In terms of strengthening profitability with a focus on materials, consolidation of upstream operations to Kakogawa Works, which had been carried out ahead of schedule, has been achieving effects. The Company has also taken steps to strengthen monozukuri capabilities, including group-wide support.

However, as evident from the recording of large losses on impairment in fiscal 2019, monozukuri capabilities and sales prices in the whole materials businesses have not improved sufficiently, and it is taking longer than anticipated for strategic investment projects to turn profitable. Accordingly, strengthening profitability in the materials businesses remains the highest priority issue for the Kobe Steel Group, and we must tackle it with a sense of urgency.

The Company is facing a more difficult business environment than ever before, due to a decrease in demand stemming from the U.S.-China trade friction and the impact of the novel coronavirus. We recognize that it is necessary to take the reality seriously and press ahead with reforms without fear of change so that the Kobe Steel Group will survive and achieve sustainable growth.

Based on this recognition, the Kobe Steel Group will proceed with the following initiatives from fiscal 2020, the final year of the current Medium-Term Management Plan, in anticipation of the next medium-term management plan period, which will start from fiscal 2021.

[Measures to strengthen profitability in the materials businesses]

The Company will promote the following measures to strengthen profitability in the materials businesses.

Issues		Actions
Steel products	Response to changes in industrial structure (response to sustained high fixed costs, high costs of raw materials/low prices of products, and shrinking demand)	<ul style="list-style-type: none"> Attaining of appropriate selling prices to maintain sustainable production and determination of profitability and quantity scale Early implementation of fixed cost reduction Consideration of production system overhaul to respond to the shrinking crude steel production in Japan
Aluminum flat-rolled products	Response to a significant delay in demand expansion phase (response to a delay in strategic investment projects turning profitable)	<ul style="list-style-type: none"> Creation of the “Solution Technology Center” to further strengthen solution proposals to customers Expansion of sales in all fields centered on can stock for beverage cans Fixed cost reduction including emergency profit measures
Titanium Aluminum forgings for suspensions Aluminum castings and forgings	Restoration and enhancement of monozukuri capabilities (strengthening of business management)	<ul style="list-style-type: none"> Monozukuri cooperation and strengthening of planning and management functions through reorganization* (implementation of strategies for each demand field centered on parts monozukuri capabilities, strengthening of planning and management functions including monitoring of decisions on orders received) Securing of stable profits through business operations with a focus on profitability (including narrowing down menus)
Steel castings and forgings	Response to changes in industrial structure (response to prolonged demand slump)	<ul style="list-style-type: none"> Securing of stable profits by reducing fixed costs to align with demand and attaining appropriate selling prices to maintain sustainable production

* On April 1, 2020, the Iron & Steel Business and the Aluminum & Copper Business were reorganized into the Steel & Aluminum Business, which deals with materials (steel and aluminum), and the Advanced Materials Business, which deals with parts (advanced materials).

[Concept and framework for the next medium-term management plan]

For the time being, as emergency measures to improve profits and cash flows, the Company will continue to carefully select investments/loans including capital investments and curb payments, while controlling fixed costs as much as possible.

On that basis, to prepare for the period of the next medium-term management plan, we will aim to recover profitability by objectively determining the positions, strengths, and weaknesses of the Kobe Steel Group’s products and services, and focusing on truly competitive products and services.

In pursuit of value creation through leveraging our unique characteristics as a company with diverse technologies, the Company will also develop businesses that contribute to reducing environmental impact, explore the growth potentials of machinery businesses, and carry out other efforts for future growth fields and new fields.

To evaluate these efforts, the Company will introduce the concept of ROIC (return on invested capital) and strengthen business portfolio management.

Furthermore, the Company will study the optimal business foundation and organizational structure that can support businesses and organically connect various businesses.

[Strengthen business portfolio management by introducing ROIC management]

We take seriously the recording of large losses on impairment in fiscal 2019. Going forward, the introduction of ROIC as a management tool for each business unit will raise awareness of capital costs and clarify the current position of each business unit. Also considering business and financial perspectives, common goals of the international community such as the SDGs (UN Sustainable Development Goals), and growth potentials, we will examine our future directions.

While addressing the serious impact of the novel coronavirus on each business, in anticipation of the next medium-term plan, we will rebuild the optimal business portfolio from a group-wide perspective through further involvement at the business unit level.

[Promoting sustainability management based on the Group's Corporate Philosophy]

We regard the promotion of sustainability management (contributing to the environment and society through business activities and pursuing sustainable growth) based on the Group's Corporate Philosophy as a constant theme for the Kobe Steel Group.

It is our mission and purpose to attempt to solve social issues and continue to create new value so that we become indispensable to our customers and society.

We will aim for early recovery of profitability by rebuilding the business portfolio and strengthening business management, while making contributions to the environment and society through business activities and pursuing sustainable growth based on external evaluations of our ESG (environment, society, governance) activities and SDGs.

Information on the Group's efforts to promote sustainability management will be proactively disclosed through the Kobe Steel Group Integrated Report and other means.

Since its founding, the Kobe Steel Group has made concerted efforts to contribute in its own way to the environment and society through its technologies, products, and services. In the wake of the Group's quality misconduct discovered in October 2017, Group employees have been engaged in discussions at each workplace to look back on such steps taken by the Group and to reconsider what the Group's purpose is. After gathering the results of these discussions and extracting the thoughts of the Group employees, in May 2020, we created new definitions of "KOBELCO's View of the Future" and "KOBELCO's Mission," and together with the existing "Core Values of KOBELCO" and "Six Pledges of KOBELCO Men and Women," organized them to create a new framework of the Group's Corporate Philosophy.

With this Kobe Steel Group's Corporate Philosophy as the basis for all business activities, the Group will not only improve profitability swiftly, but also demonstrate its comprehensive capabilities arising from its diverse technologies, products, services, and human resources, thereby promoting sustainability management that achieves both business growth and the resolution of social issues.

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

Kobe Steel Group's Corporate Philosophy

[KOBELCO's View of the Future]

We envision a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives.

Our technologies, products, and services are not only for those who live in the present, but also for future generations.

KOBELCO sees a sustainable, beautiful, and flourishing world in the future, with safety and security in people's lives. Such a foundation will support the creation of value leading to new conveniences and comfort and helping people fulfill their hopes and dreams.

[KOBELCO's Mission]

Our mission is to provide solutions to the needs of society, by making the best use of the talents of our employees and our technologies.

KOBELCO's assets and strengths lie in the various talents of each employee as well as in its diverse technologies that support our broad range of businesses. We have cultivated these advantages in an effort to meet the needs of the times.

We continue to take on the challenge of transcending organizational boundaries and conventional thinking to solve increasingly complex issues, while supporting the foundations of society.

[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		166th Business Term (Fiscal year 2018)	167th Business Term (Current term) (Fiscal year 2019)
Iron & Steel	Crude steel	6,978	6,566
Aluminum & Copper	Aluminum rolled products	355	340
	Copper rolled products	145	135

(ii) Orders Received (Millions of yen)

Category			166th Business Term (Fiscal year 2018)	167th Business Term (Current term) (Fiscal year 2019)
Machinery	Orders	Domestic	61,225	52,482
		Overseas	110,499	99,156
		Total	171,724	151,639
	Backlog of orders	Domestic	43,274	35,031
		Overseas	113,363	120,110
		Total	156,637	155,141
Engineering	Orders	Domestic	90,532	103,269
		Overseas	32,109	13,639
		Total	122,641	116,909
	Backlog of orders	Domestic	104,213	106,868
		Overseas	65,177	38,695
		Total	169,391	145,563

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	166th Business Term (Fiscal year 2018)		167th Business Term (Current term) (Fiscal year 2019)	
	Net sales	Ordinary income	Net sales	Ordinary income
Iron & Steel	753,953	4,733	723,749	(21,303)
Welding	83,947	3,627	83,770	2,924
Aluminum & Copper	359,053	(1,525)	333,426	(20,498)
Machinery	171,488	1,207	165,940	9,628
Engineering	151,753	6,564	141,536	5,763
Construction Machinery	386,077	25,577	360,869	7,530
Electric Power	76,128	(326)	75,678	8,954
Other	42,063	2,337	33,670	3,332
Adjustment	(52,597)	(7,566)	(48,805)	(4,411)
Total	1,971,869	34,629	1,869,835	(8,079)
[Overseas sales of the above]	[713,942]		[653,853]	

(2) Capital Investments

Total capital investment on a construction (inspection and acceptance) basis is 239.8 billion yen.

The major capital investments completed in fiscal year 2019 or ongoing as of the end of fiscal year 2019 are as follows:

Category	Facility Name
Completed	Kobelco Power Moka Inc. Power supply facility in Moka, Tochigi Prefecture (Electric Power)
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 Kobe No.2, Inc. Power supply facility in Kobe, Hyogo Prefecture (Electric Power)

(3) Financing Activities

The Company borrowed 30,000 million yen under a commitment line contract (contract amount: 150,000 million yen) signed on March 30, 2018.

(4) Assets and Results of Operations

(a) Assets and Results of Operations of the Group

Category		164th Business Term (Fiscal year 2016)	165th Business Term (Fiscal year 2017)	166th Business Term (Fiscal year 2018)	167th Business Term (Current term) (Fiscal year 2019)
Net sales	(Millions of yen)	1,695,864	1,881,158	1,971,869	1,869,835
Operating income	(Millions of yen)	9,749	88,913	48,282	9,863
Ordinary income	(Millions of yen)	(19,103)	71,149	34,629	(8,079)
Net income attributable to owners of the parent	(Millions of yen)	(23,045)	63,188	35,940	(68,008)
Net income per share	(yen)	(63.54)	174.43	99.20	(187.55)
Total assets	(Millions of yen)	2,310,435	2,352,114	2,384,973	2,411,191
Net assets	(Millions of yen)	729,404	790,984	803,312	716,369
Net assets per share	(yen)	1,860.36	2,049.95	2,041.29	1,811.10

Note: 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 166th business term, 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		164th Business Term (Fiscal year 2016)	165th Business Term (Fiscal year 2017)	166th Business Term (Fiscal year 2018)	167th Business Term (Current term) (Fiscal year 2019)
Net sales	(Millions of yen)	923,700	1,041,923	1,073,791	995,447
Operating income	(Millions of yen)	(7,096)	32,121	2,321	(22,163)
Ordinary income	(Millions of yen)	(16,557)	44,449	11,940	(14,269)
Net income	(Millions of yen)	(6,319)	43,468	14,345	(48,759)
Net income per share	(yen)	(17.39)	119.77	39.52	(134.22)
Total assets	(Millions of yen)	1,607,297	1,625,714	1,640,872	1,681,347
Net assets	(Millions of yen)	513,620	556,715	554,841	497,759
Net assets per share	(yen)	1,415.24	1,534.02	1,528.60	1,369.87

Note: 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 166th business term, and accordingly the amount of total assets for the 165th business term is retroactively adjusted.

(5) Major Businesses (As of March 31, 2020)

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 (fuel channels), 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

Note 1: The business of stainless steel tubes under the Iron & Steel Business was transferred to Maruichi Steel Tube Ltd. on April 1, 2020.

Note 2: The business of erosion control and disaster prevention structures under the Engineering Business was transferred to Nippon Steel Metal Products Co., Ltd. and KCON CO. LTD. on April 1, 2020.

(6) Major Offices and Plants (As of March 31, 2020)

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

Note 1: Overseas offices represent regional headquarters (local subsidiaries).

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

(7) Major Subsidiaries, etc.
(Subsidiaries)

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Nippon Koshuha Steel Co., Ltd. [Tokyo]	15,669 million yen	51.84	Manufacture and sales of 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
Kobelco Engineered Construction Materials Co., 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
Tesac Shinko wire rope Co., Ltd. [Osaka] *1	80 million yen	100.00	Sales of wire ropes and accessories, sales of secondary products of wire rod
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	884,000 thousand yuan	100.00	Manufacture and sales of aluminum sheets for automotive body panels
Kobe Aluminum Automotive Products (China) Co., Ltd. [China]	239,681 thousand yuan	60.00	Manufacture and sales of aluminum forgings for automotive suspensions
Kobelco & Materials Copper Tube (Thailand) Co., Ltd. [Thailand] *1	1,129 million Thai baht	100.00	Manufacture and sales of inner-grooved copper tubes and smooth bore copper tubes for air conditioners
Kobelco Aluminum Products & Extrusions Inc. [United States] *1	24,000 thousand U.S. dollars	100.00	Manufacture and sales of bumper materials and frame materials for automotive bumpers
Kobe Aluminum Automotive Products, LLC [United States] *1	24,000 thousand U.S. dollars	85.00	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

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Kobelco Industrial Machinery India Pvt. Ltd. [India] *1	500 million Indian rupees	100.00	Manufacture and sales of rubber mixers and twin screw roller head extruder
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 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 Japan Co., Ltd. [Ichikawa, Chiba] *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 (China) Co., Ltd. [China] *1	2,522,314 thousand yuan	100.00	Sales and servicing of construction machinery
Chengdu Kobelco Construction Machinery Financial Leasing Ltd. [China] *1	374,199 thousand yuan	88.95	Leasing business
Hangzhou Kobelco Construction Machinery Co., Ltd. [China] *1	261,374 thousand yuan	100.00	Manufacture and sales of construction machinery
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
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]	1,695,939 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, etc.
Kansai Coke and Chemicals Company, Limited.[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	100,000 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 Lease Co., Ltd. [Kobe]	3,243 million yen	20.00	Leasing and installment sales of construction machinery, industrial equipment, office equipment, and other moveable property
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 2019, Tesac Shinko wire rope Co., Ltd., Kobelco Industrial Machinery India Pvt. Ltd., and Shinko Lease Co., Ltd. were newly added.

Note 4: Kobelco Construction Machinery International Trading Co., Ltd., which was included in the list in the previous fiscal year, is not included in the list from fiscal year 2019 as it no longer qualifies as a major subsidiary.

Note 5: In fiscal year 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.

Note 6: In fiscal year 2019, Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd. increased its capital, which resulted in its common stock totaling 884,000 thousand yuan.

Note 7: In fiscal year 2019, Kobelco (China) Holding Co., Ltd. increased its capital, which resulted in its common stock totaling 1,695,939 thousand yuan.

Note 8: In fiscal year 2019, the Company's ratio of voting rights in Kobe Aluminum Automotive Products, LLC changed from 60.00% to 85.00%.

Note 9: On April 1, 2020, the Company transferred all of its shares in Kobelco Steel Tube Co., Ltd. to Maruichi Steel Tube Ltd.

Note 10: On April 2, 2020, the Company acquired additional shares in Wuxi Compressor Co., Ltd. As a result, Wuxi Compressor Co., Ltd. became the Company's major subsidiary and the Company's ratio of voting rights in it became 70.00%.

Note 11: On April 22, 2020, Pt. Daya Kobelco Construction Machinery Indonesia increased its capital, which resulted in its common stock totaling 84,000 thousand U.S. dollars.

Note 12: The Company plans to transfer a portion of the issued shares it holds in Kobelco & Materials Copper Tube, Ltd. to CTJ Holdings2, Ltd. in the next fiscal year.

Note 13: On July 1, 2020, Kobe Welding of Korea Co., Ltd. plans to change its registered trade name to Kobelco Welding of KOREA Co., Ltd.

Note 14: The Company and Kobelco Engineered Construction Materials Co., Ltd reached a basic agreement with Nippon Steel Corporation and Nippon Steel Metal Products Co., Ltd. on the integration of the road-related business of Nippon Steel Metal Products Co., Ltd. and all businesses of Kobelco Engineered Construction Materials Co., Ltd and the initiation of discussions on the specific conditions towards the integration, which is expected to be concluded on April 1, 2021.

(8) Employees (As of March 31, 2020)

(a) Employees of the Group (Persons)

Category	Number of Employees
Iron & Steel	11,403
Welding	2,587
Aluminum & Copper	7,897
Machinery	4,278
Engineering	3,584
Construction Machinery	7,765
Electric Power	255
Other or Corporate	3,062
Total	40,831

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
11,560	+159	38.9 years old	15.6 years

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

Note 2: The number of employees stated above does not include 838 seconded employees.

(9) Major Lenders and Amount of Borrowings (As of March 31, 2020)

Main Lenders	Balance of Loans (Millions of yen)
Mizuho Bank, Ltd.	94,245
Development Bank of Japan Inc.	91,257
MUFG Bank, Ltd.	77,250
Sumitomo Mitsui Banking Corporation	59,906
Nippon Life Insurance Company	40,132
Sumitomo Mitsui Trust Bank, Limited	35,473

Note: Other than stated above, there were 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, and a commitment line with a loan balance of 30,000 million yen, however they are not included in the balance of loans of the respective lenders.

2. Shares of the Company (As of March 31, 2020)

(1) Total number of shares authorized to be issued	600,000,000 shares
(2) The aggregate number of the issued shares	364,364,210 shares
(3) Total number of shareholders	189,521
(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)	17,933	4.93	–	–
Nippon Steel Corporation	10,735	2.95	6,744	0.71
Nippon Life Insurance Company	10,119	2.78	–	–
Japan Trustee Services Bank, Ltd. (Trust Account)	8,956	2.46	–	–
Japan Trustee Services Bank, Ltd. (Trust Account 9)	8,379	2.30	–	–
Japan Trustee Services Bank, Ltd. (Trust Account 5)	7,365	2.02	–	–
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	6,680	1.83	–	–
JP MORGAN CHASE BANK 385151	5,166	1.42	–	–
Sojitz Corporation	4,502	1.24	–	–
SHIMABUN Corporation	4,410	1.21	–	–

Note: The Company holds 245 thousand shares in treasury stock. Treasury stock is excluded in the calculation of the major shareholders' ratio of shareholding in the Company.

(5) Purchase, Disposal and Holding of Treasury Stock

(a) Shares Purchased

- Purchase of shares constituting less than one unit

Common stock	7,341 shares
Total amount of purchases	4,576,147 yen

(b) Shares Disposed of

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

Common stock	537 shares
Total amount of disposal	324,185 yen

(c) Shares Held as of March 31, 2020

- Common stock 244,744 shares

3. Directors, Audit & Supervisory Committee Members and Officers

(1) Directors (As of March 31, 2020)

Positions	Name	Duties & Significant concurrent positions
President (Representative Director)	Mitsugu Yamaguchi	
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.
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).
Director	Takao Kitabata	Chairman of the Company's Board of Directors, 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	Yumiko Ito	Representative of Ito Law Office, Outside Corporate Auditor of Santen Pharmaceutical Co., Ltd.
Director (Audit & Supervisory Committee Member, full time)	Hiroshi Ishikawa	
Director (Audit & Supervisory Committee Member, full time)	Yasushi Tsushima	

Positions	Name	Duties & Significant concurrent positions
Director (Audit & Supervisory Committee Member)	Takashi Okimoto	Chairman of the Company's Audit & Supervisory Committee
Director (Audit & Supervisory Committee Member)	Yoshiiku Miyata	Outside Director of JXTG Holdings, Inc.
Director (Audit & Supervisory Committee Member)	Hidero Chimori	Partner of Miyake & Partners, Outside Audit & Supervisory Board Member of NAITO Securities Co., Ltd., Outside Director of ROHM Co., Ltd.

Note 1: Directors Takao Kitabata, Hiroyuki Bamba, Yumiko Ito, 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, Yumiko Ito, 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, Limited 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 April 1, 2020, Director Takao Kitabata was appointed as President of Kaishi Professional University.

Note 6: 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 7: 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 8: The new positions and duties of Directors whose positions or duties have changed as of April 1, 2020 are as follows:

Positions	Name	Duties
Executive Vice President (Representative Director)	Fusaki Koshiishi	Oversees the Health & Safety Department, Quality Management Department, Environmental Control & Disaster Prevention Department and MONODZUKURI (Production System Innovation) Planning & Promotion Department. Oversees companywide health and safety. Oversees companywide quality. Oversees companywide environmental protection and disaster prevention.
Executive Vice President (Representative Director)	Koichiro Shibata	Oversees the materials businesses. Head of the Steel & Aluminum Business
Director, Senior Managing Executive Officer	Yoshihiko Katsukawa	Oversees the Audit Department, Corporate Planning Department (excluding the Automotive Materials Planning Section), Accounting Department, Finance Department, Marketing Planning Department, domestic branch offices and sales offices (including Takasago Works) and overseas locations (under the head office).
Director	Yoshinori Onoe	
Director	Takao Ohama	
Director	Shohei Manabe	

Note 9: The Company has implemented an officer system, with the names and duties of officers as of April 1, 2020 as follows:

	Positions	Name	Duties
Head Office	Executive Vice President	Makoto Mizuguchi	Oversees the Research & Development Planning Department, Intellectual Property Department and IT Planning Department. Oversees companywide technical development. Oversees companywide information systems. Oversees companywide automotive projects.
	Senior Managing Executive Officer	Shoji Miyazaki	Responsible for the Health & Safety Department, Environmental Control & Disaster Prevention Department, Corporate Planning Department (Automotive Materials Planning Section), Research & Development Planning Department and Intellectual Property Department. Responsible for companywide health and safety. Responsible for companywide environmental control and disaster prevention. Responsible for companywide automotive projects.
	Senior Managing Executive Officer	Kazuaki Kawahara	Responsible for the Audit Department, Corporate Planning Department (excluding the Automotive Materials Planning Section), Accounting Department, Finance Department and overseas locations (under the head office).
	Senior Managing Executive Officer	Yasushi Okubo	Responsible for the Compliance Management Department, Legal Department, General Administration Department, Marketing Planning Department and domestic branch offices and sales offices (including Takasago Works). Responsible for companywide compliance.
	Senior Managing Executive Officer	Hajime Nagara	Oversees the Compliance Management Department, Legal Department, Corporate Communications Department, General Administration Department, Human Resources Department, Civil Engineering & Construction Technology Department, Machinery & Materials Procurement Department and the Rugby Administration Office. Oversees companywide compliance.
	Managing Executive Officer	Yutaka Yamaguchi	Responsible for the Quality Management Department and MONODZUKURI (Production System Innovation) Planning & Promotion Department. Responsible for companywide quality assurance.
	Managing Executive Officer	Yuichiro Goto	Head of the Technical Development Group.
Steel & Aluminum	Managing Executive Officer	Shoji Nakamura	Responsible for the Automotive Sheet Sales Department, Automotive Sheet Products Technical Marketing Department, Nagoya Steel & Aluminum Sheet Sales Department and Moka Works.
	Managing Executive Officer	Seiji Hirata	Responsible for the Management Department, SQE System Management Department and Raw Materials Procurement Department. Responsible for special assignments from the Head of the Steel & Aluminum Business.
	Managing Executive Officer	Shuji Kitayama	General Manager of Kakogawa Works.
	Managing Executive Officer	Kazuhiko Kimoto	General Manager of the Wire Rod & Bar Products Unit and Steel Plate Products Unit. Responsible for overall sales.
	Executive Officer	Koichi Sakamoto	Responsible for the Planning Department, Technology Planning Department, IT Management Department and the Research & Development Laboratory.
	Executive Officer	Masaki Tanigawa	General Manager of the Aluminum Flat Rolled Products Unit.
	Executive Officer	Yuji Mihara	General Manager of the Steel Sheet Products Unit.
Advanced Materials	Senior Managing Executive Officer	Yukimasa Miyashita	Head of the Advanced Materials Business.
	Senior Managing Executive Officer	Hiroaki Matsubara	Responsible for the Technology Management Department and the Quality Assurance Department.
	Managing Executive Officer	Hiroyuki Mori	Responsible for the Takasago Management Department and the Takasago Quality Assurance Department. Responsible for the Steel Casting & Forging Unit, Aluminum Casting & Forging Unit and Titanium Unit.
	Executive Officer	Ryosaku Kadowaki	Responsible for the Planning & Management Department.
	Executive Officer	Akihiro Nishiguchi	Responsible for Chofu Works (departments under its direct supervision) and Daian Works (departments under its direct supervision). Responsible for the Aluminum Suspension Unit, Aluminum Extrusion & Fabrication Unit, Copper Rolled Products Unit and Steel Powder Unit.

	Positions	Name	Duties
Welding	Senior Managing Executive Officer	Akira Yamamoto	Head of the Welding Business. Responsible for the IT Planning Department. Responsible for companywide IT systems.
	Executive Officer	Kazuyuki Suenaga	Vice Head of the Welding Business. General Manager of the Quality Management Department.
Machinery	Managing Executive Officer	Masamichi Takeuchi	Head of the Machinery Business.
	Managing Executive Officer	Hiroki Iwamoto	General Manager of the Compressor Division.
	Executive Officer	Yoshinori Kurioka	Deputy General Manager of the Compressor Division. General Manager of the Rotating Machinery Business Unit in the Compressor Division.
	Executive Officer	Shogo Sarumaru	General Manager of the Industrial Machinery Division. General Manager of the Industrial Machinery Department in the Industrial Machinery Division. General Manager of the Energy & Chemical Equipment Business Unit.
Engineering	Executive Vice President	Kazuto Morisaki	Oversees the machinery businesses. Head of the Engineering Business. Responsible for the companywide construction business.
	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)	11 (3)	450 (37)	450 (37)	0 (-)	0 (-)
Directors (Audit & Supervisory Committee Members) (of which, Outside Directors)	5 (3)	109 (44)	109 (44)	-	-
Total	16	560	560	0	0

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.

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

Note 3: Totals for performance-based remuneration are estimated payments, and the total amount of stock remuneration is the amount of expenses posted for points awarded. The Company will not pay performance-based remuneration and stock remuneration as the payment criteria based on the Company's director remuneration system was not met due to the profit level and omitting a dividend for fiscal year 2019. In addition, taking seriously the large net loss attributable to owners of the parent and the forgoing of the annual dividend, the Company has reduced the fixed remuneration of Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) by 8 to 20% from February 2020 to April 2020 and by 13 to 25% for the time being from May 2020.

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

The Company has set forth the following remuneration system for Directors in order to improve medium- to long-term corporate value, as well as to effectively offer incentives for Directors to carry out their expected roles in their fullest capacities.

- 1) Fundamental Policy for Remuneration of the Company's Directors
 - A) A system able to secure talented human resources who can contribute to the Company's continued growth and appropriately compensate for such efforts.
 - 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) In incentivizing the accomplishment of consolidated business result targets, the system must sufficiently consider the characteristics of each business so that Directors can fully carry out their roles.
 - D) Ensures the objectivity and transparency of judgments regarding remuneration decisions by having the Nomination & Compensation Committee, the majority of which consists of Independent Directors, deliberate on the state of the remuneration system and the necessity of its reevaluation.
- 2) Remuneration Framework
 - A) Remuneration for the Company's Directors (excluding Directors who are Audit & Supervisory Committee Members) will consist of basic remuneration as fixed compensation, performance-based compensation linked to the achievement of business results targets for each fiscal year, and medium- to long-term incentive compensation based on stock compensation with the goal of sharing values with shareholders (hereinafter "stock compensation"). Taking into consideration their duties, part-time Internal Directors and Independent Directors will not be eligible for performance-based compensation, and Independent Directors will not be eligible for stock compensation.
 - B) The percentages of compensation by type for each rank is as follows. Higher positions facing

higher expectations for results and responsibilities have higher percentages of performance-based compensation and stock compensation.

Rank	Fixed compensation	Performance-based compensation	Stock compensation	Total
President / Executive Vice President / Senior Managing Executive Officer	Approx. 63%	Approx. 18.5%	Approx. 18.5%	100%
Managing Executive Officer / Director	Approx. 67%	Approx. 16.5%	Approx. 16.5%	100%
Independent Director	100%	-	-	100%

* The amounts of performance-based compensation and stock compensation granted vary depending on business results. The range of fluctuation is 0-200% of the base amount for performance-based compensation and 0-100% of the base amount for stock compensation. The percentages of performance-based compensation and stock compensation in the above table are based on each amount being 100% of the base amount.

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

3) Calculation Method

- A) Basic remuneration consists of a fixed amount paid to each Director depending on rank in internal regulations taking into account an appropriate level of compensation in line with the capabilities and responsibilities expected of each Director.
- B) 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. In terms of target standards used in evaluations, raising the level of profit attained through the steady execution of strategic investments is an important management issue, and the Company places emphasis on how much profit is gained from its total assets including strategic investments. Accordingly, these target standards 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, the 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 depending on target standards for each business division and the accomplishment of these targets for both the Company as a whole and each business division, the amount paid is determined by multiplying a coefficient of 0%-200% to the base amount for each rank.

o Calculation method for performance-based compensation

$$\boxed{\text{Performance-based compensation}} = \boxed{\text{Standard pay amount by rank*1}} \times \boxed{\text{Coefficient based on evaluation index*2}}$$

*1 Standard pay amount by rank:

The standard pay amount by rank is determined by internal regulations taking into consideration a level of compensation in line with the capabilities and responsibilities expected of each Director.

*2 Coefficient based on evaluation index:

Net income over the given period is the indicator used for the coefficient for calculating performance-based compensation, and the calculation method is provided below. The business division used for calculating the portion of compensation linked to division performance is determined based on actual duties assigned to each Director who is scheduled to receive performance-based compensation. Also, if the scope of duties assigned to a Director is the Head Office (including the Technical Development Group) or the electric power business, then said Director's performance-based compensation does not include the portion of compensation linked to division performance. Rather than the formula directly below, the performance-based compensation for such Directors is calculated using the formula "Portion linked to Companywide performance × 1.0."

$$\boxed{\text{Coefficient based on evaluation index (\%)}} = \boxed{\text{(A) Portion linked to Companywide performance (\%)}} \times \boxed{0.7} + \boxed{\text{(B) Portion linked to division performance (\%)}} \times \boxed{0.3}$$

$$\boxed{\text{(A) Portion linked to Companywide performance (\%)}} = \boxed{\text{Companywide consolidated net income}} \div \boxed{\text{Net income equivalent to Companywide consolidated ROA of 5\%}} \times \boxed{100}$$

$$\boxed{\text{(B) Portion linked to division performance (\%)}} = \boxed{\text{Net income in each business division}} \div \boxed{\text{Net income in each business division equivalent to consolidated ROA of 5\%}} \times \boxed{100}$$

* Decimal points are rounded off in the figures for the portion linked to Companywide performance and the portion linked to division performance. In the event that the value falls below 0%, then 0% is established as the value. In the event that the value goes above 200%, then 200% is established as the value.

- C) For stock compensation, a system known as Board Benefit Trust will be adopted in order to raise the awareness of Directors for contributing to continuous improvements in 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%. On a fixed date during each trust period of three years, a number of the Company's shares and 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. The Company positions shareholder returns as an important management issue. Accordingly, the Company calculates a coefficient for shareholder returns based on its entire net income and the state of dividend payments in each fiscal year. The reference value used in this calculation is net income of 73 billion yen, which serves as a target for the dividend payout ratio the Company adopts in its dividend policy.

- o Calculation method for stock compensation

$$\boxed{\text{Number of points to be provided}} = \boxed{\text{Base points for each rank*1}} \times \boxed{\text{Coefficient based on evaluation index*2}}$$

*1 Base points for each rank:

The base points for each rank are obtained by dividing the rank-based standard pay amount for stock compensation specified in internal regulations by the Company's share price used for calculating points (the share price available when the trust acquires the Company's shares). The rank-based standard pay amount is determined by internal regulations taking into consideration a level of compensation in line with the capabilities and responsibilities expected of each Director.

*2 Coefficient based on evaluation index:

The coefficient based on evaluation index is determined according to actual dividends and net income.

4) Method to Determine Remuneration Standard

Data from a Director remuneration survey conducted by 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) Determination of Remuneration Policy and Method for Verification

- A) The policy concerning remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) is determined by resolution of the Board of Directors, and the policy concerning remuneration for Directors who are Audit & Supervisory Committee Members is determined by the Audit & Supervisory Committee.
- B) The state of the remuneration system and the necessity for its revision are deliberated by the Nomination & Compensation Committee, a majority of which consists of Independent Directors. 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 for resolution. The Board of Directors has the duty to adopt such a resolution while fully respecting the opinions submitted by the Nomination & Compensation Committee.
- C) The activities of the Board of Directors and the Nomination & Compensation Committee in the recent fiscal year are as follows.

Board of Directors

In February 2020: the Board of Directors determined the revision of the method of defining coefficients for calculation stock compensation and the reduction of the fixed compensation amounts based on the opinions submitted by the Nomination & Compensation Committee.

In May 2020: the Board of Directors determined the performance-based compensation amounts and the stock compensation amounts for fiscal 2019, as well as increasing the size of reduction in the fixed compensation amounts, based on the opinions submitted by the Nomination & Compensation Committee.

Nomination & Compensation Committee

In December 2019: the Nomination & Compensation Committee deliberated on revising the method of defining coefficients for calculating stock compensation and submitted its opinions to the Board of Directors.

In February 2020: the Nomination & Compensation Committee deliberated on reducing the fixed compensation amounts and submitted its opinions to the Board of Directors.

In May 2020: the Nomination & Compensation Committee deliberated on coefficients for calculating performance-based compensation and stock compensation for fiscal 2019, as well as increasing the size of reduction in the fixed compensation amounts, and submitted its opinions to the Board of Directors.

- 6) Reference values for the most recent fiscal year used in the index related to performance-based compensation and stock compensation; Fiscal 2019 results
 - A) Index related to performance-based compensation
 - Reference value for fiscal 2019: consolidated ROA of 5.0%
 - Results for fiscal 2019: consolidated ROA of (0.3%)
 - B) Index related to stock compensation
 - Reference value for fiscal 2019: net income of 73 billion yen
 - Results for fiscal 2019: net income of (68) billion yen

(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.
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.
Director	Yumiko Ito	11/12 meetings held (92%)	–	Provided advice and suggestions concerning corporate management from her experience in the legal profession as an Attorney at Law and abundant experience as a corporate counsel in a different business fields from ours in the world of industry. Furthermore, as a member of the Meeting of Independent Directors, she contributed to the enhancement of the monitoring functions of the management of the Company.
Director (Audit & Supervisory Committee Member)	Takashi Okimoto	16/16 meetings held (100%)	14/14 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%)	13/14 meetings held (93%)	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	16/16 meetings held (100%)	14/14 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.

Note: Since Director Yumiko Ito assumed office as Director on June 20, 2019, 12 Board of Directors meetings have been held.

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	151
(b)	Total amount of money and other financial interests to be paid by the Company and its subsidiaries	505

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 management, covering a wide range of segments—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 people at its manufacturing sites.

Furthermore, to advance its diversified management, 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 allocation of management resources, as well as to flexibly oversee business executions by the Board of Directors. It is desirable that members with a sound understanding of business execution attend the Board of Directors meetings, without completely separating oversight from execution.

In line with this approach, 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 supervisory function of the Board of Directors and to accelerate decision-making with regard to management, while the functions of oversight and execution are not separated under this model.

Based on this structure, the Company has implemented various measures to enhance the effectiveness of corporate governance. The details of these measures are as follows.

<Measures for the Board of Directors and Audit & Supervisory Committee>

	Item	Details	Purpose
Board of Directors	Number of Directors (excluding Directors who are Audit & Supervisory Committee Members)	Up to 15 (including more than one Outside Director)	Ensuring substantial discussion at meetings of the Board of Directors as well as enhancing the auditing function, while considering their diversity
	Number of Independent Directors	More than one (as of March 31, 2020:six)	Reflecting a fair and neutral viewpoint and the viewpoint of stakeholders including minority shareholders
	Percentage of Independent Directors	One third or more	Enhancing fairness and transparency of the Board of Directors and advancing our growth strategies as a company
	Chairman of the Board of Directors	In principal, selected from among Independent Directors	
	Composition of the Board of Directors (excluding Outside 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	Strengthening the monitoring function of the Board of Directors
Audit & Supervisory Committee	Number of Audit & Supervisory Committee Members	Five (including three Outside Audit & Supervisory Committee Members)	Ensuring transparency and fairness and strengthening the supervisory function
	Composition of Audit & Supervisory Committee Members	Outside Audit & Supervisory Committee Members are invited from each of the legal, financial, and industrial circles	
	Chairman of the Audit & Supervisory Committee	Selected from among Outside Audit & Supervisory Committee Members in principle	
	Full-time Audit & Supervisory Committee Members	Two members to be appointed	Ensuring the smooth execution of duties by the Audit & Supervisory Committee by maintaining an audit environment, collecting internal information on the Company and regularly auditing the internal control system of the Company

<Voluntary establishment of meetings> Those with an asterisk (*) at the end of the names are advisory bodies to the Board of Directors.

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, Outside Directors, and external experts. The majority of the Committee consists of members from outside of the Company. (The Chairman is selected from among members from outside of the Company)	The Committee 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 (An Independent Director shall serve as chairman).	The Committee discusses 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*	Consists of three outside experts and two internal executive officers. (The Chairman is selected from among members from outside of the Company.)	The Committee constantly monitors and gives advice on activities to strengthen the quality management in the Kobe Steel Group, and monitors the effectiveness of preventive measures against the quality 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).

<Other measures>

Action	Purpose
Introduction of performance-based compensation for Directors	Increasing objectivity and transparency, as well as increasing the moral of Directors to contribute to achieving the targets outlined in the Medium-Term Management Plan (The summary of the measure is provided on pages 53 to 56)
Introduction of stock compensation for Directors	Raising Directors' awareness for contributing continuously improving business results over the medium- to long-term and enhancing corporate value through sharing values with shareholders (The summary of the measure is provided on pages 53 to 56)
Creation of the Company's principles on appointment of candidates for Directors	Maintaining management transparency and building a system to support appropriate risk-taking with the goal of achieving medium- to long-term improvement of corporate value (Provided on pages 26 to 28 of the Reference Documents for the General Meeting of Shareholders attached to this Notice)
Creation of the Standards for Independent Directors	

The Company's Corporate Governance System can be found on page 24 of the Reference Documents for the General Meeting of Shareholders attached to this Notice.

(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 according to the degree of importance and procedures for coping with the risks when they become evident. They also specify the system to monitor risk management. Risk management activities are expanded in tandem with business activities to appropriately address risks that may impair corporate value. 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 Independent 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 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 to be

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 provides education on 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 the current situation of such addressed risks and draw suitable preventive maintenance policies in accordance with "Risk Management Regulations."

The Company shall dispatch its employees to its 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 2019. Furthermore, at the meeting of the Board of Directors held on March 31, 2020, the Company resolved to make amendments reflecting revisions to the compliance promotion activities that we are currently focusing on, etc. The new Internal Control System Basic Policy is posted on the Company’s website (<https://www.kobelco.co.jp/english/>) as reference materials for the 167th 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 2019 is as follows.

(a) Compliance measures

With the objective of carrying out compliance promotion activities more comprehensively and effectively, the Company decided to organize current initiatives into a compliance program that provides a common framework and expand it in stages throughout the Group starting from fiscal year 2020.

The Compliance Committee, an advisory body to the Board of Directors, met three (3) times and focused on activities related to compliance with competition laws, bribery prevention, and security trade control. The Company also announced both internally and externally the commitment by senior management. (Commitment / Risk Assessment)

The Company established an Anti-Bribery Policy, which prohibits any provision of benefits that may lead to corruption or embezzlement and disseminated it both inside and outside the Company. It has also begun setting relevant rules and using approval procedures for entertainment expenses. (Setting Rules and Procedures / Securing Resources)

Various compliance training took place, and compliance training programs to be implemented by the Group were categorized by “level-specific,” “individual laws,” and “role-specific” to create a systematic approach. (Training / Information Dissemination)

Compliance with competition laws and security trade control laws was regularly monitored. The internal reporting system set up for early detection and resolution of issues received 119 reports. (Monitoring / Response to Reports)

Some Group companies in Japan conducted compliance awareness surveys, the results of which were used to plan compliance promotion activities for fiscal year 2020. (Review and Improvement)

(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.

In fiscal year 2019, the Company commenced risk management in accordance with the level of importance of risks. This helped to identify high-priority potential risks that are likely to have a significant impact on the entire Group. Relevant officers (Risk Owners) are appointed as persons responsible for individual risks to implement countermeasures, and senior management regularly checks the implementation status of countermeasures.

To manage individual risks, the chief executor of risk management in each department identifies and checks on risks within their individual businesses and formulates an annual risk management plan (Plan) under the guidance of persons responsible for individual risks. Every fiscal year, each business unit implements the Plan, Do, Check, Act cycle by implementing these plans (Do), reviewing the results together with the chief executor of risk management (Check), and reflecting any improvements in the next fiscal year’s risk management plan (Act).

To ensure the effectiveness of activities, 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 addition, the Corporate Planning Department at the Head Office monitors all of these activities.

(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 appoints Directors overseeing the materials, machinery, and electric power businesses; 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 management 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 division 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.

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 Kobe Steel 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 Independent 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 its status, and share information they acquire in the course of fulfillment of their duties with other Audit & Supervisory Committee Members. Independent 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 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 the audit system, planning and implementation status, etc. 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 at our manufacturing sites, 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, on the Kobe Steel Group’s Fiscal 2016-2020 Medium-Term Management Plan on the Company’s website (<https://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, on the Rolling of the Fiscal 2016-2020 Group Medium-Term Management Plan on the Company’s website (<https://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 Independent 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 works 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 the 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 for 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 income.

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 the end of the 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.
