

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

(Stock Exchange No.: 5406)

June 2, 2021

**NOTICE OF  
168TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders,

Kobe Steel, Ltd. (“the Company”) would hereby like to inform you that the 168th Ordinary General Meeting of Shareholders will be held as follows. In a bid to avoid the risk of the novel coronavirus infection, giving top priority to the health and safety of shareholders, we would like to ask you to consider refraining from visiting the venue of the meeting and instead exercising your voting rights in advance in writing (by mail) or via the Internet.

**[Voting in writing (by mail)]**

**Please return to us the voting form enclosed herewith, indicating your approval or disapproval of each proposal to be resolved.**

**[Voting via the Internet]**

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

Yours faithfully,

Mitsugu Yamaguchi

*President, CEO and Representative Director*

Kobe Steel, Ltd.

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

**1. Date and Time:**

**10:00 a.m., Wednesday, June 23, 2021** (JST: Japan Standard Time)  
(The venue is scheduled to be open at 9:00 a.m.)  
Please note that venue's opening time and meeting's starting time are different from those of last year.

**2. Venue:**

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

**3. Meeting Agenda:**

*Matters to be reported:*

1. The business report, consolidated financial statements, and non-consolidated financial statements for the 168th business term (from April 1, 2020 to March 31, 2021)
2. The results of audits by Accounting Auditors and the Audit & Supervisory Committee concerning the consolidated financial statements for the 168th business term

*Matters to be resolved:*

- Item 1: Election of eight (8) Directors (excluding Directors who are Audit & Supervisory Committee Members)
- Item 2: Election of one (1) Director who is a substitute Audit & Supervisory Committee Member
- Item 3: Determination of details of the stock compensation plan for Directors

#### 4. Matters regarding this Notice of Convocation

##### **(1) Information on some parts of the consolidated financial statements and non-consolidated financial statements to be provided via the Internet**

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

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

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

#### **Guide to Exercising Voting Rights**

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

##### **Exercising Voting Rights in Writing (by mail)**



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

**Deadline for the exercise of voting rights: To be received no later than 5:30 p.m. Tuesday, June 22, 2021 (JST)**

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



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

**Deadline for the exercise of voting rights: To be registered no later than 5:30 p.m. Tuesday, June 22, 2021 (JST)**

## By Attending the General Meeting of Shareholders



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

**Date and time of the Meeting: Wednesday, June 23, 2021, at 10:00 a.m. (JST)**

**The venue is scheduled to be open at 9:00 a.m. (JST).**

### \* Exercise of voting rights by proxy

You may entrust another shareholder with voting rights to attend the meeting to act as a proxy.

If you do so, please submit your proxy statement together with the voting form.

## Guide to Exercising Voting Rights via the Internet

### By Entering Login ID and Temporary Password

Link to the Exercise of Voting Rights website: <https://evote.tr.mufg.jp/>

1. Please access the Exercise of Voting Rights website.
  2. Enter your Login ID and Temporary Password provided on the voting form and click on Login.
  3. Please register a new password.
  4. Please indicate your approval or disapproval of each proposal following on-screen instructions
- (i) Please contact the following office about how to operate your computer, smartphone or mobile phone in order to exercise your voting rights via the Internet:

Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation Tel.: 0120-173-027 (This toll-free number is available only in Japan.) (9:00 a.m. - 9:00 p.m. JST)
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- (ii) As for inquiries other than those covered in item (i) above, please contact the following office:

Osaka Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation Tel.: 0120-094-777 (This toll-free number is available only in Japan.) (9:00 a.m. - 5:00 p.m. JST), excluding Saturdays, Sundays, and Japanese national holidays)
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1. The Exercise of Voting Rights website is not available from 2 a.m. to 5 a.m. JST every day.
2. Institutional investors may use the electronic voting platform for institutional investors operated by ICJ, Inc.
3. The costs incurred for the access to the Exercise of Voting Rights website (such as provider's Internet connection fees and communication charges) shall be borne by the shareholders.

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

**1. Total Number of Voting Rights Held by All Shareholders:**

**3,611,764**

**2. Agenda Items and Reference Documents:**

**Item 1: Election of eight (8) Directors (excluding Directors who are Audit & Supervisory Committee Members)**

The terms of office of the eleven (11) incumbent Directors (excluding Directors who are Audit & Supervisory Committee Members; hereinafter, the same shall apply in this Item) will expire at the conclusion of the 168th Ordinary General Meeting of Shareholders. Accordingly, it is proposed that eight (8) Directors be elected. Having decided to review the management system with the aims of achieving sustainable growth and enhancing corporate value, the Company proposes to reduce the number of members of the Board of Directors by three (3) in order to place greater emphasis on decisions related to important management directions as well as on risk management and other forms of monitoring. If this proposal is approved, the composition of the Board of Directors will be changed as detailed on page 26.

In evaluating this Item, the Audit & Supervisory Committee examined the content of the deliberations of the Nomination & Compensation Committee, one of whose members is an Outside Director who is an Audit & Supervisory Committee Member and concluded that there were no specific issues with the procedures for selecting candidates, and that the candidates were selected in accordance with the Company's principles on appointment of candidates for Directors and there are no specific matters to be declared at the General Meeting of Shareholders pursuant to the provisions of the Companies Act.

The candidates for the Company's Directors at the 168th Ordinary General Meeting of Shareholders are as follows.

(Please see pages 20 through 22 for the Company's principles on appointment of candidates for Directors and Standards for Independent Directors. Please also see "(Reference) Directors and their principal experiences etc. subject to the approval of the proposal" on page 7).

<List of the candidates for Directors (excluding Directors who are Audit & Supervisory Committee Members)>

No.	Name	Reappointment/New appointment Internal/Outside	Independent Director at the financial instruments exchange	Current position
1	Mitsugu Yamaguchi (male)	Reappointment Internal	-	President, CEO and Representative Director, Member of Compliance Committee, Member of Nomination & Compensation Committee, Member of Corporate Governance Committee
2	Fusaki Koshiishi (male)	Reappointment Internal	-	Executive Vice President and Representative Director, Member of Quality Management Committee
3	Koichiro Shibata (male)	Reappointment Internal	-	Executive Vice President and Representative Director
4	Yoshihiko Katsukawa (male)	Reappointment Internal	-	Director, Executive Officer, Member of Corporate Governance Committee
5	Hajime Nagara (male)	Reappointment Internal	-	Director, Executive Officer, Member of Compliance Committee, Member of Corporate Governance Committee
6	Takao Kitabata (male)	Reappointment Outside	✓	Director, Chairman of the Board of Directors, Member (Committee Chair) of Nomination & Compensation Committee Member of Corporate Governance Committee
7	Hiroyuki Bamba (male)	Reappointment Outside	✓	Director, Member (Committee Chair) of Corporate Governance Committee
8	Yumiko Ito (female)	Reappointment Outside	✓	Director, Member of Corporate Governance Committee

Note 1. The Company established the Corporate Governance Committee on April 1, 2021. The committee is responsible for continuously examining the state of the management system in response to changes in the business environment from an independent and objective perspective and submitting opinions to the Board of Directors.


Note 2. The Company has entered into a directors and executive officers liability insurance contract with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act with all Directors as the insured to ensure that Directors and officers can fully perform their expected roles in the course of their duties and to allow the Company to obtain superior talent. If each candidate is elected as Director, they will continue to be the insured under said insurance contract. Prior to the renewal of said insurance contract, the Board of Directors will pass a resolution for the renewal of said insurance contract after deliberation by the Corporate Governance Committee. For details regarding the directors and executive officers liability insurance contract, please see page 53 of the business report attached to this Notice of Convocation.

(Reference) Directors and their principal experiences etc. subject to the approval of the proposal


	Name	Current position	Internal/Outside /Independent Director	Planning/Project management	Finance/Accounting	Materials business	Machinery business	Electric power business	Technical development/manufacturing/facility technology	Overseas business	Legal/risk management	Insights into other industry sectors
Candidates for Item 1	Mitsugu Yamaguchi	President, CEO and Representative Director, Member of Compliance Committee, Member of Nomination & Compensation Committee, Member of Corporate Governance Committee	Internal	✓	✓	✓	✓	✓		✓	✓	
	Fusaki Koshiishi	Representative Director, Executive Vice President, Member of Quality Management Committee	Internal	✓		✓			✓			
	Koichiro Shibata	Representative Director, Executive Vice President	Internal	✓		✓			✓			
	Yoshihiko Katsukawa	Director, Executive Officer, Member of Corporate Governance Committee	Internal	✓	✓		✓	✓			✓	
	Hajime Nagara	Director, Executive Officer, Member of Compliance Committee, Member of Corporate Governance Committee	Internal	✓		✓				✓	✓	
	Takao Kitabata	Director, Chairman of the Board of Directors, Member (Committee Chair) of Nomination & Compensation Committee, Member of Corporate Governance Committee	Outside/Independent Director								✓	✓
	Hiroyuki Bamba	Director, Member (Committee Chair) of Corporate Governance Committee	Outside/Independent Director	✓					✓			✓
	Yumiko Ito	Director, Member of Corporate Governance Committee	Outside/Independent Director								✓	✓
[Reference] Directors who are not candidates for Item 1	Hiroshi Ishikawa	Audit & Supervisory Committee Member (full time)	Internal	✓			✓			✓		
	Yasushi Tsushima	Audit & Supervisory Committee Member (full time)	Internal	✓	✓	✓	✓	✓				
	Yoshiiku Miyata	Audit & Supervisory Committee Member	Outside/Independent Director	✓						✓		✓
	Masaaki Kono	Member (Committee Chair) of Audit & Supervisory Committee, Member of Nomination & Compensation Committee, Member of Corporate Governance Committee	Outside/Independent Director	✓	✓							✓
	Kunio Miura	Audit & Supervisory Committee Member, Member (Committee Chair) of Compliance Committee	Outside/Independent Director								✓	✓


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


Among the posts for Executive Officers, the Company abolished the positions of Senior Managing Executive Officer and Managing Executive Officer effective April 1, 2021 as there is an increasing need for flexibly and promptly allocating human resources in response to the rapidly changing business environment.


No. 1	<b>Mitsugu Yamaguchi</b> (Date of birth: January 8, 1958)		
Reappointment/ Internal Director			
Number of shares of the Company owned: 44,700 shares			
Attendance at Board of Directors meetings during fiscal 2020: 15/15 meetings held (100%)			
<b>Career summary (positions)</b>		<b>Reasons for selecting the candidate</b>	
April 1981:	Joined the Company	Mitsugu Yamaguchi has abundant experience and knowledge through promoting the iron and steel business, machinery business, and M&As and alliances in the Head Office, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In order for the Company to complete the KOBELCO Group Medium-Term Management Plan (FY2021–FY2023) and leap forward even further, top management is required to take an objective and comprehensive view not biased toward a particular business. In this sense, we have concluded that Mitsugu Yamaguchi, who has experience in the various fields of materials, machinery, and the Head Office, is well qualified for the position.	
April 2011:	Officer		
April 2013:	Senior Officer		
April 2015:	Executive Officer		
June 2016:	Director, Senior Managing Executive Officer		
April 2017:	Executive Vice President and Director		
April 2018:	President, CEO and Director (incumbent)		
<b>Duties and significant concurrent positions</b>			
Not applicable			



No. 2	Fusaki Koshiishi (Date of birth: August 29, 1959)		
Reappointment/ Internal Director			
Number of shares of the Company owned: 39,900 shares			
Attendance at Board of Directors meetings during fiscal 2020: 15/15 meetings held (100%)			
Career summary (positions)		Reasons for selecting the candidate	
April 1984:	Joined the Company	Fusaki Koshiishi has abundant experience and knowledge in the field of product technology in the welding business, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise companywide health and safety, companywide environmental protection and disaster prevention, and companywide quality at the Company, which operates various businesses including materials, machinery and electric power, we have concluded that Fusaki Koshiishi, who has experience and knowledge in the Welding Business engaging in both materials and machinery businesses, namely welding materials and welding robot systems, is well qualified.	
April 2012:	Officer		
April 2014:	Senior Officer		
June 2015:	Managing Director		
April 2016:	Director, Senior Managing Executive Officer		
April 2018:	Executive Vice President and Director (incumbent)		
Duties and significant concurrent positions			
Oversees the Environment and Safety Department and the Quality Management Department. Oversees companywide health and safety. Oversees companywide environmental protection and disaster prevention. Oversees companywide quality.			

No. 3	<b>Koichiro Shibata</b> (Date of birth: December 6, 1958)		
Reappointment/ Internal Director			
Number of shares of the Company owned: 36,900 shares			
Attendance at Board of Directors meetings during fiscal 2020: 15/15 meetings held (100%)			
Career summary (positions)		Reasons for selecting the candidate	
April 1984:	Joined the Company	Koichiro Shibata has abundant experience and knowledge in the field of product technology in the iron & steel business and experience as General Manager of a steelworks, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise the field of technical development and digital transformation (DX) that serves as the foundation of our growth strategy, we have concluded that Koichiro Shibata, who has experience and knowledge in the field of product technology and production sites, is well qualified.	
April 2012:	Officer		
April 2014:	Senior Officer		
April 2016:	Senior Managing Executive Officer		
April 2018:	Executive Vice President		
June 2018:	Executive Vice President and Director (incumbent)		
Duties and significant concurrent positions			
Oversees the Business Development Department, the Intellectual Property Department, and the IT Planning Department. Oversees companywide technical development. Oversees companywide information systems.			

No. 4	Yoshihiko Katsukawa (Date of birth: March 12, 1962)		
Reappointment/ Internal Director			
Number of shares of the Company owned: 25,200 shares			
Attendance at Board of Directors meetings during fiscal 2020: 15/15 meetings held (100%)			
Career summary (positions)		Reasons for selecting the candidate	
April 1985:	Joined the Company	Yoshihiko Katsukawa has abundant experience and knowledge in the Company's corporate planning department and planning and administration departments in the business divisions, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise the Group's Head Office, which includes the Corporate Planning Department and accounting/finance functions, and supports the implementation of management reforms, we have concluded that Yoshihiko Katsukawa, who has abundant experience at planning departments and administration departments, is well qualified.	
April 2015:	Officer		
April 2017:	Managing Executive Officer		
April 2018:	Senior Managing Executive Officer		
June 2018:	Director, Senior Managing Executive Officer		
April 2021:	Director, Executive Officer (incumbent)		
Duties and significant concurrent positions			
Oversees the Corporate Planning Department, the Finance and Accounting Department, and overseas locations (under the Head Office).			

No. 5	Hajime Nagara (Date of birth: July 5, 1961)		
Reappointment/ Internal Director			
Number of shares of the Company owned: 23,900 shares			
Attendance at Board of Directors meetings during fiscal 2020: 11/11 meetings held (100%)			
Career summary (positions)		Reasons for selecting the candidate	
April 1985:	Joined the Company	Hajime Nagara has abundant experience and knowledge in the human resources department and the planning and administration departments in the business divisions, and we have concluded that he is well qualified to be a Director of the Company in light of the Company's principles on appointment of candidates for Directors (please see page 20). In addition, as a person to supervise the departments that promote the reform of the Group's culture and support our business activities, such as internal control, compliance, legal and human resources, we have concluded that Hajime Nagara, who has abundant experience in the human resources department and planning department, is well qualified.	
April 2016:	Executive Officer		
April 2018:	Managing Executive Officer		
April 2020:	Senior Managing Executive Officer		
June 2020:	Director, Senior Managing Executive Officer		
April 2021:	Director, Executive Officer (incumbent)		
Duties and significant concurrent positions			
Oversees the Internal Control and Audit Department, the Legal Department, the General Administration and CSR Department, the Human Resources Department, the Civil Engineering & Construction Technology Department, the Machinery & Materials Procurement Department, the Rugby Administration Office, domestic branch offices and sales offices, and Takasago Works (departments under its direct supervision). Oversees companywide compliance.			

- Hajime Nagara assumed office as Director on June 24, 2020, eleven (11) Board of Directors meetings have been held.


No. 6	<b>Takao Kitabata</b> (Date of birth: January 10, 1950)	
Reappointment/Outside Director/ Independent Director at the financial instruments exchange		
Number of shares of the Company owned: 9,400 shares		
Attendance at Board of Directors meetings during fiscal 2020: 15/15 meetings held (100%)		
Term of office as Outside Director of the Company: 11 years		
Career summary (positions)		Reasons for selecting the candidate and overview of expected roles
April 1972:	Joined the Ministry of International Trade and Industry	Although Takao Kitabata has not participated in the management of a company in a position other than outside director or outside audit & supervisory board member, as he is able to make objective, fair and neutral judgment based on his deep insight in the world of industry backed by his broad experience as an administrative official and extensive knowledge as an outside director/audit & supervisory board member of listed companies, we have concluded that he is well qualified to be an Outside Director of the Company in light of the Company's principles on appointment of candidates for Directors and Standards for Independent Directors (please see pages 20 through 22). In addition to actively providing advice and recommendations on management at meetings of the Board of Directors and the Meetings of Independent Directors, as Chairman of the Board of Directors and Committee Chair of the Nomination & Compensation Committee, he contributed to the enhancement of the monitoring functions of the management of the Company. As a member of the Corporate Governance Committee which was established in April 2021, he has provided advice and recommendations regarding the state of the Company's management system in a way that contributes to sustainable growth and enhanced corporate value from an independent and fair viewpoint. The Company expects Takao Kitabata to continue to carry out his roles such as overseeing business executions as an Outside Director of the Company.
June 2004:	Director-General, Economic and Industrial Policy Bureau, the Ministry of Economy, Trade and Industry (METI)	
July 2006:	Vice-Minister of Economy, Trade and Industry	
July 2008:	Retired from METI	
June 2010:	Director of the Company (incumbent) Outside Corporate Auditor of Marubeni Corporation	
June 2013:	Chairman of the Board of SANDA GAKUEN Junior High School – Senior High School Outside Director of Marubeni Corporation (incumbent)	
April 2014:	Principal of SANDA GAKUEN Junior High School – Senior High School	
June 2014:	Outside Director of SEIREN CO., LTD. (incumbent) Outside Director of Zeon Corporation (incumbent)	
March 2019:	Retired as Chairman of SANDA GAKUEN Junior High School – Senior High School	
April 2020:	President of Kaishi Professional University (incumbent)	
Duties and significant concurrent positions		
Chairman of the Board of Directors of the Company Outside Director of Marubeni Corporation Outside Director of SEIREN CO., LTD. Outside Director of Zeon Corporation President of Kaishi Professional University		

- Takao Kitabata is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Takao Kitabata as an Independent Director at the financial instruments exchange. If Takao Kitabata is elected as Independent Director at the 168th Ordinary General Meeting of Shareholders, the Company is scheduled to register Takao Kitabata again as an Independent Director at the financial instruments exchange.

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

SANDA GAKUEN Junior High School – Senior High School	No business transactions with and no donations from the Company. Retired as Chairman in March 2019
Kaishi Professional University	No business transactions with and no donations from the Company.


- The Company has entered into an agreement with Takao Kitabata that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If he is elected as Director at the 168th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with him.

No. 7	<b>Hiroyuki Bamba</b> (Date of birth: January 27, 1954)	
Reappointment/Outside Director/ Independent Director at the financial instruments exchange		
Number of shares of the Company owned: 8,300 shares		
Attendance at Board of Directors meetings during fiscal 2020: 15/15 meetings held (100%)		
Term of office as Outside Director of the Company: 4 years		
Career summary (positions)		Reasons for selecting the candidate and overview of expected roles
April 1976:	Joined Sumitomo Rubber Industries, Ltd.	As Hiroyuki Bamba is able to make objective, fair and neutral judgment based on his abundant experience in the different business fields from ours in the world of industry and deep insight as a corporate executive, we have concluded that he is well qualified to be an Outside Director of the Company in light of the Company's principles on appointment of candidates for Directors and Standards for Independent Directors (please see pages 20 through 22). He has actively provided advice and recommendations on management at meetings of the Board of Directors and the Meetings of Independent Directors, and as Committee Chair of the Corporate Governance Committee which was established in April 2021, he has provided advice and recommendations regarding the state of the Company's management system in a way that contributes to sustainable growth and enhanced corporate value from an independent and fair viewpoint. The Company expects Hiroyuki Bamba to continue to properly carry out his roles such as overseeing business executions as an Outside Director of the Company.
March 2000:	Director of Sumitomo Rubber Industries, Ltd.	
March 2003:	Executive Officer of Sumitomo Rubber Industries, Ltd.	
July 2003:	President and Director of SRI Sports Limited (currently Sumitomo Rubber Industries, Ltd.)	
March 2011:	Chairman and Director of SRI Sports Limited	
March 2015:	Counselor to Sumitomo Rubber Industries, Ltd.	
June 2015:	Outside Director of Sekisui Plastics Co., Ltd. (currently Sekisui Kasei Co., Ltd.) (incumbent)	
June 2017:	Director of the Company (incumbent)	
Duties and significant concurrent positions		
Outside Director of Sekisui Kasei Co., Ltd.		

- Hiroyuki Bamba is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Hiroyuki Bamba as an Independent Director at the financial instruments exchange. If Hiroyuki Bamba is elected as Outside Director at the 168th Ordinary General Meeting of Shareholders, the Company is scheduled to register Hiroyuki Bamba again as an Independent Director at the financial instruments exchange.
- Hiroyuki Bamba meets the Company's Standards for Independent Directors. The summary is as follows.

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

- The Company has entered into an agreement with Hiroyuki Bamba that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If he is elected as Director at the 168th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with him.

No. 8	<b>Yumiko Ito</b> (Date of birth: March 13, 1959)	
Reappointment/Outside Director/ Independent Director at the financial instruments exchange		
Number of shares of the Company owned: 4,000 shares		
Attendance at Board of Directors meetings during fiscal 2020: 14/15 meetings held (93%)		
Term of office as Outside Director of the Company: 2 years		
Career summary (positions)		Reasons for selecting the candidate and overview of expected roles
April 1984:	Legislation Staff ( <i>Sanji</i> ), The Legislative Bureau of the House of Representatives of Japan	As Yumiko Ito is able to make objective, fair and neutral judgment based on her abundant experience and deep insight centered on legal affairs in corporate management, we have concluded that she is well qualified to be an Outside Director of the Company in light of the Company's principles on appointment of candidates for Directors and Standards for Independent Directors (please see pages 20 through 22). She has actively provided advice and recommendations on management at meetings of the Board of Directors and the Meetings of Independent Directors, and as a member of the Corporate Governance Committee which was established in April 2021, she has provided advice and recommendations regarding the state of the Company's management system in a way that contributes to sustainable growth and enhanced corporate value from an independent and fair viewpoint. The Company expects Yumiko Ito to continue to properly carry out her roles such as overseeing business executions as an Outside Director of the Company.
April 1989:	Admitted to the bar in Japan Joined Sakawa Law Office	
July 1991:	Joined Tanabe & Partners	
April 2001:	General Counsel, Legal & Patent Operation of GE Yokogawa Medical Systems, Ltd. (currently GE Healthcare Japan Corporation)	
May 2004:	Staff Counsel, Legal & Intellectual Property of IBM Japan, Ltd.	
March 2007:	Executive Officer, Legal & Corporate Affairs of Microsoft Co., Ltd. (currently Microsoft Japan Co., Ltd.)	
April 2013:	Executive Officer and General Counsel of Sharp Corporation	
June 2013:	Director, Executive Officer and General Counsel of Sharp Corporation	
April 2014:	Director, Executive Managing Officer and General Counsel of Sharp Corporation	
June 2016:	Executive Managing Officer and General Counsel of Sharp Corporation	
March 2019:	Retired from the position of Executive Managing Officer and General Counsel of Sharp Corporation	
April 2019:	Established Ito Law Office; appointed as Representative (incumbent)	
June 2019:	Director of the Company (incumbent) Outside Corporate Auditor of Santen Pharmaceutical Co., Ltd. (incumbent)	
Duties and significant concurrent positions		
Representative of Ito Law Office Outside Corporate Auditor of Santen Pharmaceutical Co., Ltd.		

- Yumiko Ito is a candidate for Outside Director under the Regulations for Implementation of the Companies Act, Article 2, paragraph 3, item 7.
- The Company registered Yumiko Ito as an Independent Director at the financial instruments exchange. If Yumiko Ito is elected as Outside Director at the 168th Ordinary General Meeting of Shareholders, the Company is scheduled to register Yumiko Ito again as an Independent Director at the financial instruments exchange.



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


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

- The Company has entered into an agreement with Yumiko Ito that the limit of her liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated in laws and regulations. If she is elected as Director at the 168th Ordinary General Meeting of Shareholders, the Company is scheduled to renew the terms of the agreement limiting liability with her.

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

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

As for submitting this Item, the consent of the Audit & Supervisory Committee has been obtained. The candidate for Director who is a substitute Audit & Supervisory Committee Member is as follows. There are no special interests between the candidate and the Company.

<p><b>Hiroumi Shioji</b> (Date of birth: January 28, 1957)</p>		
<p>Outside Director/ Independent Director at the financial instruments exchange</p>		
<p>Number of shares of the Company owned: 0 shares</p>		
<p> </p>		
<p>Career summary (positions)</p>		<p>Reasons for selecting the candidate and overview of expected roles</p>
<p>April 1987:</p>	<p>Admitted to the bar in Japan. Joined Asaoka Law Office (currently Asaoka Taki Law &amp; Accounting Office)</p>	<p>Although Hiroumi Shioji has not participated in the management of a company in a position other than outside director or outside audit &amp; supervisory board member, as he is able to make objective, fair and neutral judgment drawing on his abundant experience as a lawyer and insight as an outside officer of listed companies, we have concluded that he is well qualified to be Independent Director who is an Audit &amp; Supervisory Committee Member of the Company in light of the Company's principles on appointment of candidates for Directors and Standards for Independent Directors (please see pages 20 through 22). . The Company expects Hiroumi Shioji to actively provide advice and recommendations at meetings of the Board of Directors and the Meetings of Independent Directors, and properly carry out his roles such as overseeing business executions as an Outside Director of the Company.</p>
<p>April 1991:</p>	<p>Established Shioji Law Office; appointed as Representative Lawyer (incumbent)</p>	
<p>June 2007:</p>	<p>External Auditor of TACHIBANA ELETECH CO., LTD. (incumbent)</p>	
<p>June 2015:</p>	<p>Outside Director of Fuji Seal International, INC. (incumbent)</p>	
<p>Duties and significant concurrent positions</p>		
<p>Representative Lawyer of Shioji Law Office External Auditor of TACHIBANA ELETECH CO., LTD. Outside Director of Fuji Seal International, INC.</p>		

- Hiroumi Shioji is a candidate for Outside Director who is a substitute Audit & Supervisory Committee Member.
- If this item is approved at the 168th Ordinary General Meeting of Shareholders and Hiroumi Shioji assumes the position as Director who is an Audit & Supervisory Committee Member, the Company is scheduled to register him as an Independent Director at the financial instruments exchange.
- Hiroumi Shioji meets the Company's Standards for Independent Directors. The summary is as follows.

<p>Asaoka Law Office (currently Asaoka Taki Law &amp; Accounting Office)</p>	<p>No advisory contract (Retired in March 1991). No business transactions with the Company.</p>
<p>Shioji Law Office</p>	<p>No advisory contract. No business transactions with the Company.</p>

- If this Item is approved at the 168th Ordinary General Meeting of Shareholders and Hiroumi Shioji assumes the position as Director who is an Audit & Supervisory Committee Member, the Company is scheduled to enter into an agreement with him that the limit of his liability for damages stipulated in Article 423, paragraph 1 of the Companies Act shall be the minimum liability amount stipulated by laws and regulations.

- The Company has entered into a Directors and officers liability insurance contract with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act with all Directors as the insured to ensure that Directors and officers can fully perform their expected roles in the course of their duties and to allow the Company to obtain superior talent. If Hiroumi Shioji is elected as Director who is an Audit & Supervisory Committee Member, he will become the insured under said insurance contract. For details regarding the directors and executive officers liability insurance contract, please see page 53 of the business report attached to this Notice of Convocation.

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

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

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

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

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

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

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

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

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

**The Company's Standards for Independent Directors**

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

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

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

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

### **Item 3: Determination of details of the stock compensation plan for Directors**

At the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016, the Company obtained approval (hereinafter, the resolution made at said General Meeting of Shareholders is referred to as the “Original Resolution”) for the introduction of a stock compensation plan, Board Benefit Trust (BBT) (hereinafter the “Plan”) for the Company’s Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members; hereinafter, the same shall apply in this Item). However, in accordance with the enactment of the Act Partially Amending the Companies Act (Act No.70 of 2019) as of March 1, 2021, it is proposed that approval be given to the establishment of a new framework of stock compensation for Directors. This Item does not increase the actual limit for the remuneration framework, and instead sets an upper limit on the number of points granted to Directors and other Executives, which establishes the standards for benefits involving Company’s Shares and Money based on the Plan as described in (5) below, in accordance with the amendment of the relevant laws and regulations.

The Board of Directors of the Company believes that the content of this Item is appropriate because, as in the Original Resolution, the purpose is to encourage the Directors to contribute to improving medium- to long-term business performance and increasing corporate value by sharing values with shareholders, and it is also consistent with the Company’s Fundamental Policy for Remuneration of the Company’s Directors as resolved by the Board of Directors of the Company. Furthermore, the Nomination & Compensation Committee, of which a majority of members are Independent Directors, has confirmed that there are no issues with this Item in light of laws and regulations and the Company’s Fundamental Policy for Remuneration of the Company’s Directors. The Audit & Supervisory Committee has stated that there are no issues to be noted for this Item.

Details regarding this system will be entrusted to the Board of Directors within the boundaries of the following Outline of the Plan.

At the present point in time, the number of Directors who fall under the Plan is eight (8), but if Item 1 is approved as proposed, the number of Directors who fall under the Plan will be five (5), excluding Outside Directors and Directors who are Audit & Supervisory Committee Members.

The resolution of this Item shall come into effect retroactively on March 1, 2021.

\* The remuneration system for the Company’s executives is composed of basic remuneration for Directors (the limit being within a total of 650 million yen per fiscal year), performance-based compensation (the limit being a total of 350 million yen per fiscal year) and the Plan as approved at the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016. For details regarding the Company’s Fundamental Policy for Remuneration of the Company’s Directors, please see pages 55 through 58 of the business report attached to this Notice of Convocation.

### **Outline of the Plan**

#### **(1) Outline of the Plan**

The Plan is a stock compensation plan under which money contributed by the Company is used as funds to acquire the Company’s shares through a trust (hereinafter the “Trust”). With regard to Directors and Executive Officers who are subject to the following section (2) (hereinafter “Directors and Other Executives”) the Company’s shares and the cash equivalent to the amount converted from the market price of the Company’s Shares (hereinafter the “Company’s Shares and Money”) are provided through the Trust in accordance with director stock benefit rules established by the Company. In addition, Directors and Other Executives shall receive Company’s Shares and Money in principle every three years on a fixed date during the trust period.

(2) Individuals Subject to the Plan

The Company's Directors (Outside Directors and Directors who are Audit & Supervisory Committee Members are not eligible for the Plan) and Executive Officers

(3) Amount of Money the Company will Contribute to the Trust

The Company has introduced the Plan targeting the three fiscal years from the fiscal year ending March 2017 to the fiscal year ending March 2019 (hereinafter either the period of the three fiscal years concerned or each three-fiscal year period begins after the previous three-year fiscal period is called the "Covered Period.") and each Covered Period thereafter. With regard to the first Covered Period, in order to provide benefits to Directors and Other Executives based on this Plan, 1.1 billion yen (of which 570 million yen is for the Company's Directors) have been contributed to the Trust as funds to acquire the necessary shares. The Company has thereby established the Trust, the beneficiaries of which are Directors and Other Executives who meet the beneficiary requirements. The Trust has acquired 12,228,000 shares of the Company for the first Covered Period using the money entrusted by the Company as funds.

Note: The Company implemented a ten-for-one consolidation of its shares on October 1, 2016. The above number of shares was acquired before said share consolidation.

In addition, even after the first Covered Period, and during the time until the Plan ends, the Company shall make an additional contribution for each Covered Period as funds for the acquisition by the Trust of the aforementioned stock to the Trust with an upper limit of 1.1 billion yen (of which 570 million yen is for the Company's Directors). However, in making an additional contribution, in cases where there are the Company's shares (excluding the Company's shares equivalent to the number of points already granted to Directors and Other Executives at the end of the Covered Period for which benefits have not been completed) and money remaining in the trust property (hereinafter "Remaining Shares and Money") as of the last day of the Covered Period immediately preceding the Covered Period during which said additional contribution is to be made, Remaining Shares and Money shall be allocated to the source of the benefits under the Plan for the following Covered Period. The upper limit of the amount that the Company may make an additional contribution during the applicable Covered Period shall be the amount obtained by deducting the amount of the Remaining Shares and Money (the book value of the Company's shares as of the last day of the Covered Period immediately preceding the Covered Period during which said additional contribution is to be made) from the upper limit approved in this Item.

As a reference, on the assumption of acquiring shares of the Company at 715 yen, the closing price as of April 1, 2021, the number of shares to be acquired for the initial Covered Period will be 1,538,000 shares, which will be acquired using the upper limit of 1.1 billion yen of funds to be contributed to the Trust as funds for the acquisition of the Company's shares to be paid to Directors and Other Executives.

(4) Acquisition Method of the Company's Shares

The acquisition of the Company's shares by the Trust shall be carried out through trading markets, using money contributed for funds as described in (3) above.

(5) Specific Contents of the Company's Shares and Money Granted to Directors and Other Executives



The Company shall provide Directors and Other Executives with points, the number of which is determined according to their ranks, remuneration ranks, business performance, and other factors, based on the director stock benefit rules. The total number of points granted to Directors and Other Executives per fiscal year shall be up to 1,295,600 (of which 671,400 are for the Company's Directors).

Points granted to Directors and Other Executives shall be converted at 1 share of common stock for 1 point when providing the Company Shares and Money as described in (6) below. However, if, after the resolution for the approval of this Item, there are share splits, allotment of shares without contribution or a stock consolidation, etc. with respect to our company shares, the conversion ratio will be adjusted reasonably in accordance with the ratio and other factors that have been applied.

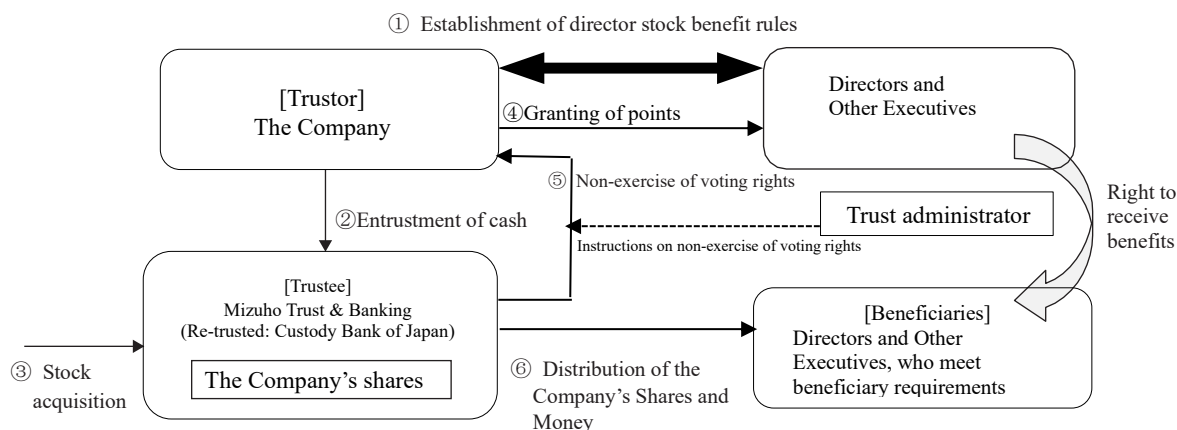
The number of points given to the Directors and Other Executives, which will be used as the standard in providing the Company Shares and Money in accordance with (6) below, shall be the total number of points granted to the Directors and Other Executives up to the time when the beneficiary requirements are fulfilled.

(6) Timing of Providing the Company's Shares and Money to Directors and Other Executives

In cases where Directors and Other Executives meet the beneficiary requirements under the director stock benefit rules, the Directors and Other Executives concerned shall receive the Company's Shares and Money according to the granted points equivalent to the accumulated number of shares from the Trust every three years on a fixed date during the trust period in principle, subject to the prescribed beneficiary determination procedures. However, in cases where Directors and Other Executives retire, they shall receive the Company's Shares and Money from the Trust, regardless of the fixed date, after a period of time necessary for the benefit procedures after retirement, subject to the prescribed beneficiary determination procedures.

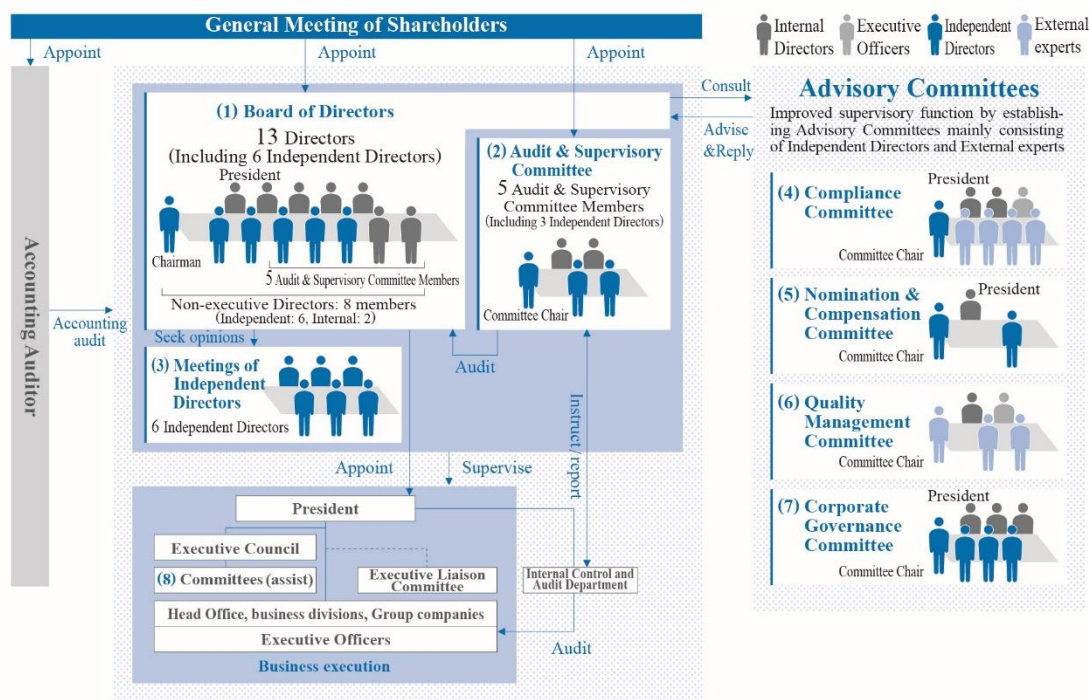
In addition, in cases where Directors and Other Executives meet the beneficiary requirements under the director stock benefit rules, Directors and Other Executives shall receive money in place of a certain portion of the Company's stock benefit converted at the market price. In order to provide this monetary benefit, the Trust may sell the Company's shares.

<Reference: Framework of the Plan>



(Reference) The Company's Corporate Governance System  
(subject to the approval of Item 1)

(1) Corporate Governance System



(2) Characteristics of the Company's Corporate Governance System

The Company believes the basis of its corporate value is to leverage synergy between a wide range of segments in different demand fields, business environments, sales channels and business scales. The Company also believes it is essential to promote discussions with people at its manufacturing sites in pursuit of technical development and innovations, which form the foundation for the Company's continued growth.

Furthermore, the Company believes that it is the responsibilities of the Board of Directors 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. To fulfill such responsibilities, it is desirable to have members with a sound understanding of business execution in the Board of Directors meetings, without completely separating oversight from execution.

In line with this approach, the Company has adopted a corporate structure with an Audit & Supervisory Committee model under which those responsible for audits have voting rights at 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 accelerate decision-making with regard to management, while having the functions of oversight and execution not being separated. In order to improve the effectiveness of monitoring, the Company has established advisory committees, which are responsible for providing clear recommendations to the Board of Directors regarding compliance, nomination & compensation, quality management, and corporate governance. In addition to establishing the Executive Council as a forum where executives, including the President, discuss important matters in order to improve the effectiveness of business execution, the Company has set up various committees as auxiliary

bodies for the Executive Council in order to supervise and promote important matters related to the business units, such as sustainability and business portfolio management. The activities of these committees shall be monitored by the Board of Directors. The Company's Corporate Governance System is characterized as follows.

< Structure of the Board of Directors and Audit & Supervisory Committee >

	Item	Details	Purpose
(1) Board of Directors	Number of Members (including Directors who are Audit & Supervisory Committee Members)	Thirteen (13) (including six (6) Independent Directors) * Directors who are Audit & Supervisory Committee Members: Five (5) members (including three (3) Independent Directors)	Ensuring substantial discussion at meetings of the Board of Directors as well as enhancing the supervisory function, while considering the diversity
	Number of Independent Directors	Six (6) members (46.2%)	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 the growth strategies as a company
	Chairman of the Board of Directors	In principal, selected from among Independent Directors	
	Composition of the Board of Directors	Executive Directors include the President and Directors who oversee specific key companywide functions Eight (8) Non-executive Directors (five (5) Directors who are Audit & Supervisory Committee Members and three (3) Independent Directors) form a majority of the Board of Directors	Strengthening the monitoring function of the Board of Directors
(2) Audit & Supervisory Committee	Number of Members	Five (5) (including three (3) Outside Audit & Supervisory Committee Members)	Ensuring transparency and fairness and strengthening the auditing function
	Composition of Audit & Supervisory Committee Members	Invited Outside Audit & Supervisory Committee Members from each of the legal, financial, and industrial circles	
	Committee Chair of the Audit & Supervisory Committee	Selected from among Independent Directors	
	Full-time Audit & Supervisory Committee Members	Two (2) members to be appointed	Ensuring the smooth execution of duties by the Audit & Supervisory Committee by maintaining a good 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
(3) Meetings of Independent Directors	All Independent Directors	The purpose of the Meetings is to provide and share information regarding the execution of the Company's businesses other than nomination and compensation of executives (attended by Executive Directors of the Company as necessary to share information and exchange opinions with the Independent Directors).
(4) Compliance Committee*	Consists of Independent Directors, external experts, the President, Director who oversees companywide compliance and Executive Officer who is responsible for companywide compliance. (Committee Chair is selected from external members.)	The Committee deliberates matters regarding compliance with laws, regulations and ethics concerning the Company's business activities.
(5) Nomination & Compensation Committee*	Consists of three (3) to five (5) members, including the President with Independent Directors forming the majority (An Independent Director shall serve as Committee Chair).	The Committee discusses matters related to 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.
(6) Quality Management Committee*	Consists of three (3) external experts and two (2) internal Executive Officers. (Committee Chair is selected from external members.)	The Committee constantly monitors and gives advice on activities to strengthen the quality management in the Kobe Steel Group and monitors the effectiveness of the measures to prevent recurrence of the quality misconduct.
(7) Corporate Governance Committee*	Consists of Independent Directors and Internal Directors including the President (Independent Directors form a majority) (An Independent Director shall serve as Committee Chair).	The Committee deliberates on fundamental policies concerning the corporate governance of the Group, evaluations of the effectiveness of the Board of Directors, measures to improve the effectiveness of the Board of Directors, etc.

Committees (auxiliary organizations for the Executive Council) (8)

Sustainability Management Committee, Risk Management Committee, Business Portfolio Management Committee, Investment and Loan Committee, R&D Committee, DX Strategy Committee, Pension Asset Management Committee

## **Business Report**

(From April 1, 2020 to March 31, 2021)

### 1. Status of the Corporate Group

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

##### (a) Progress and Results of Operations

During fiscal 2020, the Japanese economy saw a significant downturn due to the novel coronavirus (COVID-19) pandemic. Although the economy is on a recovery trend as we work to promote economic activities while preventing the spread of infection, the future is still uncertain with signs of a resurgence of cases. As for overseas economies, China resumed economic activities in the middle of February 2020, and investment in infrastructure and real estate development remained firm. The economies of regions other than China also showed signs of gradual recovery from considerable decline.

In this economic environment, the Kobe Steel Group saw a significant decrease in sales, particularly in the automotive, aircraft, and construction sectors. To secure earnings, the Group has made utmost efforts by taking emergency profit improvement measures including reducing fixed costs and by working to improve earnings mainly in the materials businesses.

As a result, consolidated net sales in fiscal 2020 decreased by 164.2 billion yen year on year to 1,705.5 billion yen. Operating income increased by 20.5 billion yen year on year to 30.3 billion yen due to efforts to reduce costs, including emergency profit improvement measures centered on the Steel & Aluminum, Advanced Materials, and Construction Machinery segments, as well as due to the start of operations of the Moka Power Plant and an increase in demand for electricity supply in winter in the Electric Power segment, despite a significant decrease in sales volume due to the impact of COVID-19. Ordinary income improved by 24.2 billion yen year on year to 16.1 billion yen. Extraordinary income amounted to 2.5 billion yen due to gains on sales of fixed assets and others despite the recording of impairment losses. Net income attributable to owners of parent improved by 91.2 billion yen year on year to 23.2 billion yen.

The Company determines dividends taking its financial condition, business performance, future capital needs and other factors into overall consideration with the aim of paying dividends on a continuous and steady basis in principle. Based on this policy, The Company has decided to pay a year-end dividend of 10 yen per share for fiscal 2020.

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

#### **Steel & Aluminum**

##### (Steel)

The sales volume of steel products decreased year on year as demand fell mainly for automobiles. Sales prices decreased year on year due to factors such as lower prices of main raw materials and sluggish export prices.

As a result, consolidated segment sales for fiscal 2020 decreased by 13.3% year on year to 563.8 billion yen. Ordinary loss worsened by 14.5 billion yen year on year to 23.3 billion yen due to lower sales volume despite the implementation of emergency profit improvement measures such as reducing fixed costs.

##### (Aluminum flat-rolled products)

The sales volume of aluminum flat rolled products increased year on year due to steady sales for beverage can stock as well as due to an increase in disk materials and aluminum plates for IT and semiconductors despite a decrease in demand for automobiles.

As a result, consolidated segment sales of aluminum flat rolled products for fiscal 2020 amounted to 132.4 billion yen, similar to the previous fiscal year. Ordinary income improved by 8.3

billion yen year on year to 0.6 billion yen due to sales expansion for beverage can stock and cost reductions.

Consolidated sales in the Steel & Aluminum segment for fiscal 2020 decreased by 10.8% year on year to 696.3 billion yen. Ordinary loss worsened by 6.1 billion yen year on year to 22.6 billion yen.

● Production Volume (In thousands of tons)

Category	167th Business Term (Fiscal year 2019)	168th Business Term (Fiscal year 2020)
Crude steel	6,566	5,870
Aluminum flat-rolled products	304	314

Note) The above amount of crude steel includes the quantity produced with an electric arc furnace at Takasago Works.

**Advanced Materials**

The sales volume of advanced materials decreased year on year mainly in suspensions, aluminum extrusions, copper rolled products, steel powder largely due to a decrease in demand for automobiles. The sales volume of titanium for aircraft and general industries and steel castings and forgings for shipbuilding also declined from the previous fiscal year.

As a result, consolidated segment sales for fiscal 2020 decreased by 19.9% year on year to 238.1 billion yen. Ordinary income (loss) improved by 13.1 billion yen year on year to a loss of 12.1 billion yen due to a decrease in depreciation associated with the impairment of fixed assets in the previous fiscal year and the effect of cost reductions.

● Production Volume (In thousands of tons)

Category	167th Business Term (Fiscal year 2019)	168th Business Term (Fiscal year 2020)
Aluminum extrusions	37	34
Copper rolled products	53	48
Copper tubes	82	65

**Welding**

The sales volume of welding materials decreased year on year due to a decrease in demand for automobiles and construction machinery in Japan. The sales volume overseas was lower than the previous consolidated fiscal year due to a decrease in demand for automobiles in Southeast Asia and other regions and sluggish demand for shipbuilding.

As a result, consolidated segment sales for fiscal 2020 decreased by 16.4% year on year to 70 billion yen, and ordinary income decreased by 1.1 billion yen year on year to 1.7 billion yen.

**Machinery**

Orders in fiscal 2020 decreased by 25.7% year on year to 112.6 billion yen due to a decrease in both industrial machinery and compressors associated with the reduction and deferral of capital investment due to the impact of the COVID-19 pandemic. The backlog of orders at the end of fiscal 2020 amounted to 118 billion yen.

Consolidated segment sales for fiscal 2020 increased by 5.7% year on year to 175.3 billion yen mainly due to strong orders for compressors for LNG carriers and petrochemicals in fiscal 2019, which were recorded in fiscal 2020. Ordinary income increased by 1.8 billion yen year on year to 11.4 billion, partly due to the effect of cost reductions.

● Orders Received (Billions of yen)

Category		167th Business Term (Fiscal year 2019)	168th Business Term (Fiscal year 2020)
Orders	Domestic	52.4	46.0
	Overseas	99.1	66.6
	Total	151.6	112.6
Backlog of Orders	Domestic	35.0	26.3
	Overseas	120.1	91.6
	Total	155.1	118.0

**Engineering**

Consolidated orders in fiscal 2020 decreased by 15.7% year on year to 113.4 billion yen from the previous fiscal year that saw an increase in orders for large-scale projects related to water treatment and waste treatment businesses. The backlog of orders at the end of fiscal 2020 amounted to 282.1 billion yen.

Consolidated segment sales for fiscal 2020 decreased by 3.8% year on year to 136.1 billion yen owing to delays in construction of overseas projects due to the impact of the COVID-19 pandemic. Ordinary income decreased by 1.3 billion yen year on year to 4.4 billion yen.

● Orders Received (Billions of yen)

Category		167th Business Term (Fiscal year 2019)	168th Business Term (Fiscal year 2020)
Orders	Domestic	120.9	94.2
	Overseas	13.6	19.1
	Total	134.5	113.4
Backlog of Orders	Domestic	252.4	231.7
	Overseas	38.6	50.4
	Total	291.1	282.1

Note: Regarding long-term operation and maintenance work in Kobelco Eco Solutions' water treatment and waste treatment business, orders were previously counted at the time of sales. A new counting method has been adopted since FY2020 and orders are counted at the time of acceptance of a contract. Orders and backlog of orders for FY2019 have also been recounted based on the new method.

**Construction Machinery**

The unit sales of hydraulic excavators in Japan increased year on year due to a drop in sales in the previous fiscal year that suffered parts supply disruptions affected by Typhoon Hagibis. In China, unit sales increased due to an increase in demand boosted by the Chinese government's economic policy promoting investment in infrastructure. On the other hand, in Europe and Southeast Asia, unit sales decreased due to the impact of the COVID-19 pandemic, and overseas unit sales fell below the previous consolidated fiscal year. As a result, overall sales volume was similar to the previous fiscal year.

The unit sales of crawler cranes in Japan and overseas fell below that of the previous consolidated fiscal year due to the impact of the COVID-19 pandemic.

As a result, consolidated segment sales for fiscal 2020 decreased by 7.7% year on year to 333.1 billion yen. Ordinary income increased by 5.2 billion year on year to 12.7 billion yen due to cost reductions and other factors.

**Electric Power**

The amount of electricity sold increased year on year due to the start of operations of the Moka Power Plant with No. 1 unit started in October 2019 and No. 2 unit in March 2020, as well as an increase in power transmission associated with a demand rise in power supply in winter.



As a result, consolidated segment sales for fiscal 2020 increased by 6.3% year on year to 80.4 billion yen. Ordinary income increased by 11.7 billion yen year on year to 20.6 billion yen, mainly due to the start of operations of the Moka Power Plant and a demand rise in power supply in winter.

### Other Businesses

Consolidated segment sales for fiscal 2020 decreased by 17.4% year on year to 27.8 billion yen, and ordinary income increased by 0.8 billion yen year on year to 4.2 billion yen, mainly due to reductions in fixed expenses at Kobelco Research Institute, Inc.

Note 1: The orders and the backlog of orders include amount of orders placed among the Kobe Steel's Group companies.

Note 2: The net sales of the Kobe Steel Group include adjustments of (51.7) billion yen. In addition, the percentage of net sales is calculated based on the total net sales of each business, excluding these adjustments.

Note 3: 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).

#### 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."

#### (Reference) Status of Consolidated Cash Flow (from April 1, 2020 to March 31, 2021)

Item	Amount
	(Millions of yen)
Net cash provided by operating activities	194,798
Net cash provided by investing activities	(141,853)
Net cash provided by financing activities	118,444
Effect of exchange rate changes on cash and cash equivalents	150
Increase (decrease) in cash and cash equivalents	171,540
Cash and cash equivalents at the beginning of fiscal year	145,658
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	8
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	102
Cash and cash equivalents at the end of fiscal year	317,310

(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 of the Group announced in October 2017.

The Group has been 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. Each initiative has been progressing as planned, including automation of testing and inspection equipment, which is scheduled to be completed in the first half of fiscal 2021. Going forward, we will continue to focus on revitalizing communication by creating opportunities for dialogue at various levels, including dialogue with management to reform employee awareness, which is the basis of measures to prevent recurrence. With regard to quality management, we will strive to maintain and improve quality management, based on KOBELCO TQM.

We reviewed the Project for Restoring Trust, which was launched to steadily implement recurrence prevention measures, and restructured this project into the newly established Trust Improvement Project directly under the President for the purpose of further restoring and improving the trust of our customers and preventing the quality misconduct from being forgotten. Going forward, centering on the Trust Improvement Project, we will work to improve our quality governance and customer trust, and will explain our quality management activities through integrated reports and other means.

The Quality Management Committee, a majority of which are external experts, will continue to monitor and make recommendations regarding these activities.

Note 1: TQM stands for Total Quality Management, which is one of the quality management methods. As the next step after the completion of measures to prevent recurrence, KOBELCO TQM aims to strengthen the management of each business, while identifying issues that serve the needs of customers and society and addressing them with the participation of all employees.

Note 2: With regard to the lawsuit in Canada, a basic agreement for a settlement to withdraw the lawsuit was concluded and the process of dismissing the lawsuit was in progress. In February 2021, the court's settlement approval procedure was completed.

(c) Issues to Be Addressed

<Looking back on the Fiscal 2016-2020 Group Medium-Term Management Plan>

In the Fiscal 2016-2020 Medium-Term Management Plan, the Group has been promoting measures to establish a stable earnings base through consolidation of upstream processes in the steel business, startup of new electric power projects, restructuring of the construction machinery business in China, and selection of businesses while aiming to establish the three core business areas of materials, machinery, and electric power by pursuing growth opportunities centering on automobile weight reduction strategies.

However, although the Group has been actively investing in the automobile weight reduction strategies, it has required more time to produce earnings than originally expected due to changes in demand forecasts and challenges in monozukuri capability, etc. In addition, sluggish profitability, particularly in the materials business, weighed on earnings.

Based on these circumstances, the Group summarized the key issues it should tackle in fiscal 2019 and fiscal 2020 in the Rolling of the Medium-Term Management Plan in May 2019, concentrating on efforts to strengthen profitability with a focus on materials and to make efficient use of management resources and strengthen the management foundation.

As a result, in the final year of the plan, fiscal 2020, although a certain amount of earnings were recovered by implementing emergency profit improvement measures, the Group has yet to establish our status as a business enterprise centered on the three core business areas as envisioned in the medium-term management plan. In addition, although the Group was able to achieve the stated medium-term management target of maintaining a D/E ratio of 1 or less on real terms, excluding early procurement of borrowings, at the end of fiscal 2020, it has not achieved ROA of 5% or more in the period of fiscal 2016–2020, and establishing the earnings base continues to remain as a key issue.

<The business environment surrounding the Group>

The business environment surrounding the Group is expected to involve the acceleration of structural problems surrounding the steel industry, changes in the industrial structure triggered by COVID-19, social transformation toward the realization of carbon neutrality, and progress on digital transformation (hereinafter “DX”). The Group must proactively address each situation as opportunities for reforming the business structure and gaining new earnings.

<The Fiscal 2021–2023 KOBELCO Group Medium-Term Management Plan>

In the new medium-term management plan announced in May 2021, the two most important issues are “establishing a stable earnings base” and “taking on the challenge of realizing carbon neutrality” in light of the key issues faced by the Group and the business environment surrounding the Group.

First, the Company has positioned the term of this medium-term management plan as a period of establishing a stable earnings base by further enhancing initiatives such as strengthening profitability with a focus on materials. The Company aims to secure earnings with ROIC (return on invested capital) of 5% or more in fiscal 2023 when the startup of new electric power projects is scheduled to be completed, with the assumption that it will lead to earnings contribution. Furthermore, as a future vision, the Group will aim to transform into a corporate group with sustainable growth and maintain ROIC of 8% or more on a stable basis.

The Company regards taking on the challenge of realizing carbon neutrality in the steel and electric power businesses as new business opportunities to contribute to society by leveraging the strengths of the Group, which operates extensive businesses with diverse technologies and human resources as a source for competitiveness. To this end, the Company will make united efforts as the entire Group.

Additionally, in order to achieve these goals, the Company will continue to work on measures to strengthen the management foundation, including revising the management system and promoting the active participation of diverse human resources.

#### 【Establishing a stable earnings base】

In order to secure earnings with ROIC of 5% or more in fiscal 2023 and establish a stable profit base with an aim of achieving ROIC of 8% or more in the future, the Company will steadily implement five key measures, specifically, strengthening the earnings base of the steel business, smooth start-up/stable operation of new electric power projects, strategic investment in the materials businesses leading to earnings contribution, restructuring unprofitable businesses, and stabilizing earnings in the machinery business and responding to growing markets.

For strengthening the earnings base of the steel business, under the assumption that demand will decrease over the long term, the Company aims to establish a structure to secure stable earnings with Kakogawa Works’ crude steel production of 6.3 million tons per year, and to continue turning a profit even with 6.0 million tons. Specifically, the Group will further reduce fixed and variable costs, shift to high-value-added products such as special steel wire rods and high-strength steel (improve product mix), and promote contribution to earnings with overseas businesses. The Company is proceeding to study how to utilize future upstream-process facilities for steel production in the effort to realize carbon neutrality.

For new electric power projects, the Company is focusing on smooth start-ups and stable operations in line with the expectation to be able to contribute approximately 40.0 billion yen annually to earnings from fiscal 2023 with stable operations at all power plants.

For strategic investment projects in the materials businesses, which the Group has been promoting as part of the automobile weight reduction strategies, it has required more time to produce earnings than originally expected due to factors such as delays in the rise of demand and challenges in monozukuri capability. However, the Group is endeavoring to achieve an early contribution to earnings by making steady progress in receiving approval of materials and beginning mass production as inquiries are increasing.

For the restructuring of unprofitable businesses, amid changes in the demand environment and industrial structure, the Company aims to turn profits by streamlining the steel casting and forging business and the titanium business, which incurred impairment of fixed assets in fiscal 2019, as well as the crane business, which continues to face intensifying competition in Japan and overseas, through withdrawal from unprofitable products, staff reduction, etc.

As the machinery business segment is receiving an increasing number of inquiries on environmental contribution menus related to social infrastructure, hydrogen/renewable energy, and CO<sub>2</sub> reduction such as MIDREX®, etc. the Company will work to actively receive orders while promoting intra-Group cooperation. Furthermore, regarding the construction machinery business, the Company strives to turn profits in new areas by breaking away from the conventional earnings structure that is highly dependent on the Chinese market as early as possible. The Company will also promote turning profits from a new value creation business through providing solutions for innovations such as workstyle reforms in the construction industry and commercialization of

peripheral businesses for construction machinery through providing know-how on the installation of new systems and other solutions.

**【Taking on the challenge of realizing carbon neutrality】**

The transition to carbon neutrality and social transformation have become clear global trends, but the Group faces both risks and opportunities in the internal and external environment. The Group believes that our vision for the future is to take on the challenge of realizing carbon neutrality in 2050 and aim to improve corporate value while moving toward this transition.

In order to minimize risks, the Group will boldly take on efforts to reduce CO<sub>2</sub> by promoting development of its own original technologies and utilizing external innovative technology to realize carbon neutrality in 2050. In order to maximize opportunities, taking advantage of the Group's strengths that enable the fusion of diverse technologies and diverse menus that contribute to CO<sub>2</sub> emissions reduction, such as MIDREX® and the supply of materials for lightweighting and vehicle electrification, the Group will respond to growing demand for these menus as new business opportunities.

As the initial step, the Group will take on the challenge of achieving carbon neutrality in 2050 by reducing CO<sub>2</sub> emissions in the production process by 30–40% in 2030 as compared to fiscal 2013.

Regarding the ironmaking process in particular, the Group will strive to lead the industry in the field of CO<sub>2</sub> emission reduction and differentiate itself from other companies by utilizing its original MIDREX® technologies for blast furnaces as announced in February 2021, while promoting the development of existing technologies (energy-saving technologies, increased use of scrap, AI furnace operation, etc.) as well as innovative technologies (COURSE50, ferrocoke, etc.).

In addition, the Group will contribute to the realization of global carbon neutrality through diverse technologies such as the Group's MIDREX® technology and supply of materials and parts that contribute to automobile weight reduction and vehicle electrification, with the aim of contributing to reducing CO<sub>2</sub> emissions by 61.00 million tons in 2030 and 0.1 billion tons or more in 2050.

In the electric power business, the Group will supply heat and hydrogen to surrounding areas using steam from Kobe Power Plant and increase the efficiency of region-wide energy use and promote the collaboration of the electric power business and the engineering business to strengthen CO<sub>2</sub> reduction initiatives such as co-firing of biomass fuel (sewage sludge and food residue) and ammonia, aiming to achieve the world's most advanced urban coal-fired power plant. In addition, at Kobe Power Plant, the Group will increase the rate of co-firing of ammonia, and ultimately, we will take on the challenge of single-fuel firing. At the Moka Power Plant, the Group is also considering the maximum use of carbon neutral city gas, and through these measures, aim to achieve carbon neutrality by 2050.

**【Strengthening the management infrastructure】**

To realize the two priority goals of establishing a stable earnings base, and taking on the challenge of realizing carbon neutrality, the Group will continue to strengthen its management foundation by reviewing its management system, advancing DX strategies, and promoting active participation of diverse human resources, etc..

For the management system, the Company has been reviewing its management system since April this year, implementing measures such as reviewing the composition of the Board of Directors and advisory bodies to strengthen the monitoring function of the Board of Directors, and reviewing the committee system and executive officer system and reorganizing departments at the head office to strengthen the system on the executive side. In the future, the Company will work to improve effectiveness under this system.

For the promotion of DX strategy, in April of this year, the Digital Innovation Technology Center was newly established to strengthen and accelerate technological development and business application in the ICT/AI field. The Company has set up the DX Strategy Committee to comprehensively formulate and execute the Group's strategy for DX to strengthen and accelerate DX initiatives more systematically and strategically.

In addition, the Company will promote reform of the personnel system, reinforcement of human resource development, diversity and inclusion initiatives (recognizing, accepting, and leveraging diversity in human resources), and work style reforms, with the aim of ensuring that

its diverse human resources can fully demonstrate their abilities and play an active role in a wide range of business areas, including materials, machinery, and electric power, which are the strengths of the Group, as well as its diverse technologies.

**【KOBELCO Group's materiality \*(Medium- to long-term important issues)】**

The Group has been promoting sustainability management under the Group's Corporate Philosophy that aims to realize a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives by continuing to provide solutions to the needs of society by making the best use of the talents of its employees and technologies for the sustainable growth of the Group. In order to promote this initiative more effectively, in formulating the new medium-term management plan, the Company has identified important medium- to long-term issues (materiality) for which management resources are intensively invested among various social issues.

The Group will continue to boldly take on the important issues that it must address with an aim of increasing corporate value and continue to be indispensable for all stakeholders of the Group.

We look forward to your continued guidance and encouragement as well as your continued support for the Group.

<Reference>

“KOBELCO Group’s CO<sub>2</sub> Reduction Solution for Blast Furnace Ironmaking”

—Innovative technology to reduce CO<sub>2</sub> emissions from blast furnace operations successfully verified—

The Company has successfully demonstrated technology that can reduce a significant amount of CO<sub>2</sub> emissions from blast furnace operations, combining the technologies of Midrex<sup>\*1</sup> in the engineering business and the blast furnace operation technology in the iron and steel business.

In the verification test, a large amount of hot briquetted iron (HBI)<sup>\*2</sup> produced by the MIDREX® Process<sup>\*3</sup> was charged into the blast furnace. It was verified that the ratio of reducing agents (carbon fuel consumption<sup>\*4</sup> used in the blast furnace), which determines CO<sub>2</sub> emissions from the blast furnace, could be stably reduced from 518 kg / t-hot metal to 415 kg / t-hot metal (CO<sub>2</sub> emissions reduction of about 20% compared to conventional models<sup>\*5</sup>).

In addition, as a result of the world's lowest level of coke rate (239 kg/t-hot metal) being achieved in the demonstration test of this technology, the Company sees it as a promising solution that could become readily available in the near future at a lower additional cost compared to other CO<sub>2</sub> reduction measures.

The key technologies that led to this achievement are two original technologies of the KOBELCO Group, which are generic solution technologies applicable to various blast furnaces.

(Two Key technologies)

\* Technologies of Midrex for HBI manufacturing in the engineering business

\* Blast furnace operation technology in the iron and steel business

(e.g. advanced pellet production technology, HBI charging technology for blast furnaces, and blast furnace operation technology utilizing AI)

The Company will keep improving this CO<sub>2</sub> reduction solution technology while further reducing CO<sub>2</sub> emissions and achieving lower costs for CO<sub>2</sub> reduction. Beyond its own efforts to reduce emissions from its facilities, the Company will strive to contribute to the acceleration of CO<sub>2</sub> reduction through introducing this solution to blast furnaces around the world. In addition, the Company will work to establish production and sales systems and define the terms and conditions for sales so that we can provide customers with low CO<sub>2</sub> steel products that offer new added value.

\*1 Midrex Technologies, Inc. is a Kobe Steel’s wholly owned subsidiary in the U.S.

\*2 Hot briquetted iron (HBI) is direct reduced iron (DRI) in a briquetted form. Since hot DRI is not suitable for long-distance transportation, it is pressed into a compact solid (briquette) upon being discharged from the reduction furnace.

\*3 The MIDREX® Process is the leading direct reduced iron (DRI) making process, which produces approximately 80% of the world’s direct reduced iron with natural gas (approximately 60% of the world’s direct reduced iron at large). The MIDREX® Process uses natural gas as the reductant and pellets made of iron ore as the source of iron to make DRI through the reduction process in the shaft furnace. In comparison to the blast furnace method, the MIDREX® Process can reduce CO<sub>2</sub> emissions by 20 to 40%. There are over 90 MIDREX modules worldwide.

\*4 Reducing agent rate (RAR) = coke rate (determined by the quantity of coke used in blast furnace) + pulverized coal rate (determined by the quantity of pulverized coal injected into blast furnace). Coke is carbon fuel made from coal.

\*5 The results are compared with fiscal 2013, which is the base year of the CO<sub>2</sub> reduction targets set by the government and the KOBELCO Group.

Note The KOBELCO Group’s CO<sub>2</sub> Reduction Solution for Blast Furnace Ironmaking was announced on February 16, 2021. Please refer to the press release section of our website (<https://www.kobelco.co.jp>) for details of the announcement.

## (2) Assets and Results of Operations

### Assets and Results of Operations of the Group

Category		165th Business Term (Fiscal year 2017)	166th Business Term (Fiscal year 2018)	167th Business Term (Fiscal year 2019)	168th Business Term (Fiscal year 2020)
Net sales	(Millions of yen)	1,881,158	1,971,869	1,869,835	1,705,566
[Overseas sales of the above]		648,527	713,942	653,853	573,685
Operating income (loss)	(Millions of yen)	88,913	48,282	9,863	30,398
Ordinary income (loss)	(Millions of yen)	71,149	34,629	(8,079)	16,188
Net income (loss) attributable to owners of the parent	(Millions of yen)	63,188	35,940	(68,008)	23,234
Net income (loss) per share	(yen)	174.43	99.20	(187.55)	64.05
Total assets	(Millions of yen)	2,352,114	2,384,973	2,411,191	2,582,873
Net assets	(Millions of yen)	790,984	803,312	716,369	769,375
Net assets per share	(yen)	2,049.95	2,041.29	1,811.10	1,958.57

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.



### Assets and Results of Operations of the Company

Category		165th Business Term (Fiscal year 2017)	166th Business Term (Fiscal year 2018)	167th Business Term (Fiscal year 2019)	168th Business Term (Fiscal year 2020)
Net sales	(Millions of yen)	1,041,923	1,073,791	995,447	924,648
Operating income (loss)	(Millions of yen)	32,121	2,321	(22,163)	(13,210)
Ordinary income (loss)	(Millions of yen)	44,449	11,940	(14,269)	(7,634)
Net income (loss)	(Millions of yen)	43,468	14,345	(48,759)	7,888
Net income (loss) per share	(yen)	119.77	39.52	(134.22)	21.70
Total assets	(Millions of yen)	1,625,714	1,640,872	1,681,347	1,817,450
Net assets	(Millions of yen)	556,715	554,841	497,759	518,245
Net assets per share	(yen)	1,534.02	1,528.60	1,369.87	1,426.27

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.

(3) Major Businesses (As of March 31, 2021)

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

Category		Major Products and Businesses
Steel & Aluminum	Wire rod & bar products	Ordinary wire rods, special wire rods, special steel wire rods, ordinary steel bars, special steel bars
	Steel sheets, heavy plates	Heavy plates, medium plates, steel sheets (hot-rolled, cold-rolled, surface treated)
	Aluminum sheets	Aluminum can stock, automotive aluminum sheets, aluminum sheets for heat exchangers, aluminum disk material for HDDs
	Other	Steel billets, foundry pig iron, pig iron for steelmaking, slag products, building materials, special steel products, various steel wires
Advanced Materials	Steel castings and forgings	Ship parts, electrical parts, industrial machinery parts, etc.
	Aluminum castings and forgings	Aluminum-alloy and magnesium-alloy castings and forgings (parts for aircrafts and automobiles, etc.)
	Titanium	Titanium and titanium alloys
	Suspensions	Aluminum-alloy castings and forgings and fabricated products (parts for automobiles)
	Aluminum extrusions	Aluminum extrusions and fabricated products (extrusions and parts for automobiles, extrusions for railroad vehicles, etc.)
	Copper rolled products	Copper strips for semiconductors, copper strips for terminals, leadframes
	Steel powder	Steel powder
Other	Copper tubes (copper tubes for air conditioners, condenser tubes, etc.)	
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
Machinery		Equipment for energy and chemical fields, equipment for nuclear power plants, tire and rubber machinery, plastic processing machinery, ultra-high-pressure presses, physical vapor deposition systems, metalworking machinery, compressors, refrigeration compressors, heat pumps, plants (steel rolling, non-ferrous, etc.), internal combustion engines
Engineering		Various plants and equipment (direct reduced iron, pelletizing, petrochemical, nuclear power-related, water treatment, waste treatment, etc.), 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

(4) Major Offices and Plants (As of March 31, 2021)

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	Steel & Aluminum	KAKOGAWA (Hyogo), KOBE (Kobe), MOKA (Tochigi)
	Advanced Materials	TAKASAGO (Hyogo), CHOFU (Yamaguchi), DAIAN (Mie)
	Welding	FUJISAWA (Kanagawa), IBARAKI (Osaka), SAIJO (Hiroshima), FUKUCHIYAMA (Kyoto)
	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 “(5) Major Subsidiaries and Affiliated Companies.” below.

(5) Major Subsidiaries and Affiliated Companies.  
(Subsidiaries)

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Nippon Koshuha Steel Co., Ltd. [Tokyo]	15,669 million yen	51.83	Manufacture and sales of special steel
Kobelco Wire Company, Ltd.[Amagasaki, Hyogo] *1	8,062 million yen	43.93	Manufacture and sales of secondary wire rod products Contracting construction work of structures
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 wire rod products
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 Precision Technology Sdn. Bhd. [Malaysia]	19,000 thousand Malaysian ringgit	100.00	Manufacture and sales of aluminum disk material for HDDs
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
Kobe Aluminum Automotive Products (China) Co., Ltd. [China]	239,681 thousand yuan	60.00	Manufacture and sales of aluminum forgings for automotive suspensions
Kobe Aluminum Automotive Products, LLC [United States] *1	154,000 thousand U.S. dollars	97.66	Manufacture and sales of aluminum forgings for automotive suspensions
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
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 & 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 Welding of Qingdao Co., Ltd. [China]	211,526 thousand yuan	90.00	Manufacture and sales of welding materials
Kobelco Welding of Korea Co., Ltd. [Korea]	6,554 million won	87.74	Manufacture and sales of welding materials
Kobelco Compressors Corporation [Tokyo]	450 million yen	100.00	Sales and servicing of air 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.
Wuxi Compressor Co., Ltd. [China] *1	150,000 thousand yuan	70.00	Manufacture and sales of compressors
Kobelco Compressors Manufacturing (Shanghai) Corporation [China]	87,796 thousand yuan	100.00	Development and manufacture of compressors and related products Sales and servicing of products of the Company
Kobelco 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

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Quintus Technologies AB [Sweden] *1	10 million Swedish krona	100.00	Design, manufacture, sales and servicing of isostatic pressing equipment and sheet metal forming equipment
Kobelco Compressors America, Inc. [United States] *1	5 thousand U.S. dollars	100.00	Manufacture and sales of compressor systems for process gas, refrigeration compressor system and parts, etc.
Kobelco Eco-Solutions Co., Ltd. [Kobe] *2	6,020 million yen	80.23	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 and sales of MIDREX® Process (direct-reduction iron-making process) 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
Toyosugie 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	1,312,592 million Indonesia rupiah	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 and inspection equipment for semiconductor and FPD
Kobelco (China) Holding Co., Ltd. [China]	1,775,939 thousand yuan	100.00	A 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
Kansai Coke and Chemicals Company, Limited. [Amagasaki, Hyogo]	6,000 million yen	24.00	Manufacture and sales of coke and other chemical products
Kobelco Angang Auto Steel Co., Ltd. [China] *1	700,000 thousand yuan	49.00	Manufacture and sales of cold-rolled, high-strength steel
Ulsan Aluminum, Ltd. [Korea]	588,361 million won	50.00	Manufacture of aluminum sheet base material
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
Osaka Titanium Technologies Co., Ltd. [Amagasaki, Hyogo]	8,739 million yen	20.93	Manufacture and sales of titanium sponge, etc.
Japan Aeroforge, Ltd. [Kurashiki, Okayama]	1,850 million yen	40.54	Manufacture and sales of large forgings
Hokuto Co., Ltd. (Hachinohe, Aomori)*1	30 million yen	34.00	Manufacture, sales, repair and leasing of civil engineering, construction, work, mining, transportation, electrical machinery, etc.
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 2020, Hokuto Co., Ltd. was newly added.

Note 4: The Company transferred all its shares in Kobelco Steel Tube Co., Ltd., which was included in the list in the previous fiscal year, to Maruichi Steel Tube Ltd. on April 1, 2020. Therefore, Kobelco Steel Tube Co., Ltd. is not included in the list from fiscal year 2020.

Note 5: In fiscal year 2020, Kobe Aluminum Automotive Products, LLC increased its capital, which resulted in its common stock totaling 154,000 thousand U.S. dollars.

Note 6: On May 18, 2020, Kobe Welding of Korea Co., Ltd. changed its registered trade name to Kobelco Welding of Korea Co., Ltd.

Note 7: In fiscal year 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 changed from 44.35% to 70.00%.

Note 8: In fiscal year 2020, Pt. Daya Kobelco Construction Machinery Indonesia increased its capital, which resulted in its common stock totaling 1,312,592 million Indonesia rupiah.

Note 9: In fiscal year 2020, Kobelco (China) Holding Co., Ltd. increased its capital, which resulted in its common stock totaling 1,775,939 thousand yuan.

Note 10: The Company had planned to transfer a portion of the issued shares it holds in Kobelco & Materials Copper Tube, Ltd. to CTJ Holdings2, Ltd. However, due to changes in the environment caused by the novel coronavirus infection, the outlook for the business environment has become uncertain, and the Company resolved on December 24, 2020 to suspend the transfer.

Note 11: In the next fiscal year, Kobelco Industrial Machinery India Pvt. Ltd. will have capital of 863 million Indian rupees due to the decision to increase capital.

Note 12: The Company has reached a basic agreement to implement a company split to transfer its standard compressor business to Kobelco Compressors Corporation and to sell a 49% stake in Kobelco Compressors Corporation to Miura Co., Ltd.

Note 13: The Company and Kobelco Engineered Construction Materials Co., Ltd. had 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 had been expected to be concluded on April 1, 2021. However, due to the impact of the spread of the novel coronavirus infection, as of the end of the current fiscal year, competition law procedures have not been completed, and the target implementation date of this integration has been changed to the second half of fiscal 2021.

Note 14: The Company sold a portion of the issued shares of Osaka Titanium Technologies Co., Ltd. (OTC) on May 13, 2021. With this, the Company's ratio of voting rights in OTC has decreased to 14.95% and Osaka Titanium Technologies Co., Ltd. is no longer an affiliate of the Company.

(6) Capital Investments

Total capital investment for fiscal 2020 on a construction (inspection and acceptance) basis is 185.0 billion yen.

The major capital investments completed in fiscal year 2020 or ongoing as of the end of fiscal year 2020 are as follows:

Category	Facility Name
Completed	The Company's Kakogawa Works Continuous annealing lines for ultra-high-strength steel sheets for automobiles (Steel & Aluminum) The Company's Moka Plant Heat treatment and surface treatment facilities for aluminum sheets for automotive panels (Steel & Aluminum)
In progress	Kobelco Power Kobe No. 2, Inc. Power supply facility in Kobe, Hyogo Prefecture (Electric Power)

(7) Financing Activities

During fiscal year 2020, there were no special matters to be noted, including the issuance of corporate bonds, etc.

(8) Major Lenders and Amount of Borrowings (As of March 31, 2021)

Main Lenders	Balance of Loans (Millions of yen)
Mizuho Bank, Ltd.	127,529
Development Bank of Japan Inc.	118,594
MUFG Bank, Ltd.	99,424
Sumitomo Mitsui Banking Corporation	82,198
Sumitomo Mitsui Trust Bank, Limited	43,557

Note: Other than stated above, there was a syndicate loan amounting to a total of 74,400 million yen with Mizuho Bank, Ltd., MUFG Bank, Ltd. and Sumitomo Mitsui Banking Corporation as agent banks; however that is not included in the balance of loans of the respective lenders.

(9) Employees (As of March 31, 2021)

(a) Employees of the Group (Persons)

Category	Number of Employees
Steel & Aluminum	12,424
Advanced Materials	6,080
Welding	2,514
Machinery	4,661
Engineering	3,524
Construction Machinery	7,917
Electric Power	263
Other or companywide	3,134
Total	40,517

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

(b) Employees of the Company

Number of Employees	11,837 persons
Increase/Decrease from the Previous Fiscal Year-End	+277 persons
Average Age	38.9 years old
Average Years of Service	15.2 years

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

Note 2: The number of employees stated above does not include 777 seconded employees.



2. Shares of the Company (As of March 31, 2021)

(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	176,886
(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)	28,212	7.75	—	—
Custody Bank of Japan, Ltd. (Trust Account)	15,208	4.18	—	—
Nippon Steel Corporation	10,735	2.95	6,744	0.71
Nippon Life Insurance Company	10,119	2.78	—	—
Custody Bank of Japan, Ltd. (Trust Account 5)	5,545	1.52	—	—
Custody Bank of Japan, Ltd. (Trust Account 9)	5,006	1.37	—	—
Custody Bank of Japan, Ltd. (Trust Account 6)	4,920	1.35	—	—
DFA INTL SMALL CAP VALUE PORTFOLIO	4,417	1.21	—	—
SHIMABUN Corporation	4,410	1.21	—	—
Custody Bank of Japan, Ltd. (Trust Account 1)	4,410	1.21	—	—

Note 1: The Company holds 249,871 shares in treasury stock. Treasury stock is excluded in the calculation of the major shareholders' ratio of shareholding in the Company.

Note 2: Custody Bank of Japan, Ltd. was established through the merger of JTC Holdings, Ltd., Japan Trustee Services Bank, Ltd. and Trust & Custody Services Bank, Ltd. on July 27, 2020.

Note 3: The shares acquired by the Company through the purchase of shares less than one unit during the period is 5,630 shares (total acquisition price is 2,804,209 yen). The number of shares of treasury stock disposed of in response to a request for additional purchase of shares less than one unit is 503 shares (total disposal price is 202,647 yen).

Note 4: The number of shares delivered to directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) by the company as medium- to long-term incentive compensation during fiscal 2020, through the Board Benefit Trust, is as follows. Shares are paid on a fixed day every three years during the trust period. In fiscal 2020, no shares have been granted to the Directors because there was no due date for the share benefits in this fiscal term. Additionally, the Outside Directors and Directors who are Audit and Supervisory Committee members are not covered by medium- to long-term incentive compensation considering their responsibilities. Please refer to pages 55 through 58 for the executive compensation system.

	Number of shares	Number of recipients
Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members)	0	0

### 3. Directors, Audit & Supervisory Committee Members and Officers

#### (1) Directors (As of March 31, 2021)

Positions	Name	Duties & Significant concurrent positions
President (Representative Director)	Mitsugu Yamaguchi	
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.
Executive Vice President (Representative Director)	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.
Executive Vice President (Representative Director)	Kazuto Morisaki	Oversees the machinery businesses. Head of the Engineering Business. Responsible for the companywide construction 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, Senior Managing Executive Officer	Jiro Kitagawa	Oversees the electric power business. Head of the Electric Power Business.
Director, 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.
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, President of Kaishi Professional University.
Director	Hiroyuki Bamba	Outside Director of Sekisui Kasei 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)	Yoshiiku Miyata	Outside Director of ENEOS Holdings, Inc.
Director (Audit & Supervisory Committee Member)	Masaaki Kono	Committee Chair of the Company's Audit & Supervisory Committee, Chairman and Director of Orient Corporation
Director (Audit & Supervisory Committee Member)	Kunio Miura	Representative of Kawamoto and Miura Law Office, Outside Audit & Supervisory Board Member of ASAHI INTELLIGENCE SERVICE CO., LTD., External Corporate Auditor of Sumitomo Seika Chemicals Company Limited.

Note 1: Directors Takao Kitabata, Hiroyuki Bamba, Yumiko Ito, Yoshiiku Miyata, Masaaki Kono and Kunio Miura are outside directors under Article 2, Item 15 of the Companies Act.

Note 2: The Company registered Directors Takao Kitabata, Hiroyuki Bamba, Yumiko Ito, Yoshiiku Miyata, Masaaki Kono and Kunio Miura as independent directors with the financial instruments exchange.

Note 3: Director Masaaki Kono engaged in banking operations for many years 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 June 25, 2020, ENEOS Holdings, Inc. changed its registered trade name from JXTG Holdings, Inc.

Note 6: On July 1, 2020, Kawamoto and Miura Law Office changed its registered trade name from Kawamoto, Miura and Hirata Law Office.

Note 7: Although there are business relationships between the Company and Marubeni Corporation, Zeon Corporation, ENEOS Holdings, Inc., Orient Corporation and Sumitomo Seika Chemicals Company Limited, there are no special relationships that require disclosure.

Note 8: Except as set forth above, there are no special relationships that require disclosure between the Company and entities in which Outside Directors concurrently served.

Note 9: The Directors who retired during this term are as follows:

Positions	Name	Resignation Date
Director	Yoshinori Onoe	June 24, 2020
Director	Takao Ohama	June 24, 2020
Director	Shohei Manabe	June 24, 2020
Director (Audit & Supervisory Committee Member)	Takashi Okimoto	June 24, 2020
Director (Audit & Supervisory Committee Member)	Hidero Chimori	June 24, 2020

Note 10: The new positions and duties of Directors whose positions or duties have changed as of April 1, 2021 are as follows:

Positions	Name	Duties
Executive Vice President (Representative Director)	Fusaki Koshiishi	Oversees the Environment and Safety Department and the Quality Management Department. Oversees companywide health and safety. Oversees companywide environmental protection and disaster prevention. Oversees companywide quality.
Executive Vice President (Representative Director)	Koichiro Shibata	Oversees the Business Development Department, the Intellectual Property Department, and the IT Planning Department. Oversees companywide technical development. Oversees companywide information systems.
Executive Vice President (Representative Director)	Makoto Mizuguchi	Oversees the materials businesses. Head of the Steel & Aluminum Business. Oversees companywide automotive projects.
Director, Executive Officer	Yoshihiko Katsukawa	Oversees the Corporate Planning Department, the Finance and Accounting Department, and overseas locations (under the Head Office).

Positions	Name	Duties
Director, Executive Officer	Jiro Kitagawa	Oversees the electric power business. Head of the Electric Power Business.
Director, Executive Officer	Hajime Nagara	Oversees the Internal Control and Audit Department, Legal Department, the General Administration and CSR Department, the Human Resources Department, the Civil Engineering & Construction Technology Department, the Machinery & Materials Procurement Department, the Rugby Administration Office, domestic branch offices and sales offices, and Takasago Works (departments under its direct supervision). Oversees companywide compliance.

(Reference) The Company's executive officer system

The Company has implemented an executive officer system, with the names and duties of executive officers as of April 1, 2021 as follows. Effective April 1, 2021, the Company abolished the positions of Senior Managing Executive Officer and Managing Executive Officer owing to the growing need to flexibly and promptly allocate human resources in response to the rapidly changing business environment.

Name	Duties
Hiroki Iwamoto	General Manager of the Compressor Division in the Machinery Business
Yasushi Okano	Responsible for the Legal Department, the Human Resources Department, the Civil Engineering & Construction Technology Department, Machinery & Materials Procurement Department, the Rugby Administration Office, and Takasago Works (departments under its direct supervision)
Daisuke Ogura	Responsible for the Quality Management Department and the Intellectual Property Department, responsible for companywide health and safety, responsible for companywide environmental protection and disaster prevention, responsible for companywide quality assurance, General Manager of the Environment and Safety Department
Takeharu Kato	Responsible for the Steel Casting & Forging Unit and the Titanium Unit in the Advanced Materials Business
Ryosaku Kadowaki	Responsible for the Takasago Management Department and the Takasago Quality Assurance Department in the Advanced Materials Business, responsible for the Aluminum Casting & Forging Unit and the Steel Powder Unit in the Advanced Materials Business
Yoichi Kamiyauchi	Responsible for the Nuclear Project Center and CWD Project Center in the Engineering Business
Kazuaki Kawahara	Responsible for the Corporate Planning Department, the Finance and Accounting Department, and overseas locations (under the Head Office)
Shuji Kitayama	General Manager of Kakogawa Works in the Steel & Aluminum Business
Kazuhiko Kimoto	General Manager of the Wire Rod & Bar Products Unit and the Steel Plate Products Unit in the Steel & Aluminum Business, responsible for overall sales in the Steel & Aluminum Business
Yoshinori Kurioka	Deputy General Manager of the Compressor Division in the Machinery Business, General Manager of the Rotating Machinery Business Unit in the Compressor Division in the Machinery Business, General Manager of the CS Engineering Department of the Rotating Machinery Business Unit in the Compressor Division in the Machinery Business
Yuichiro Goto	Head of the Technical Development Group
Koichi Sakamoto	Responsible for the Planning Department, Technology Planning Department, IT Management Department, and the Research & Development Laboratory in the Steel & Aluminum Business
Shogo Sarumaru	General Manager of the Industrial Machinery Division in the Machinery Business
Kazuyuki Suenaga	Vice Head of the Welding Business
Masamichi Takeuchi	Head of the Machinery Business
Masaki Tanigawa	General Manager of the Aluminum Flat Rolled Products Unit in the Steel & Aluminum Business

Name	Duties
Hajime Nakanishi	Responsible for the Automotive Sheet Sales Department and the Nagoya Steel & Aluminum Sheet Sales Department in the Steel & Aluminum Business
Shoji Nakamura	Responsible for the Automotive Materials Planning Section, the Automotive Sheet Products Technical Marketing Department, and Moka Works in the Steel & Aluminum Business, responsible for overall sales of automotive sheet products in the Steel & Aluminum Business, responsible for companywide automotive projects
Keitaro Nakamori	Responsible for the Internal Control and Audit Department and domestic branch offices and sales offices, responsible for companywide compliance, General Manager of the General Administration and CSR Department
Akihiro Nishiguchi	Responsible for Chofu Works (departments under its direct supervision) and Daian Works (departments under its direct supervision) in the Advanced Materials Business, responsible for the Aluminum Extrusion & Suspension Unit and the Copper Rolled Products Unit in the Advanced Materials Business
Seiji Hirata	Responsible for the Management Department, the SQE System Management Department, and the Raw Materials Procurement Department in the Steel & Aluminum Business, responsible for special assignments from the Head of the Steel & Aluminum Business
Hiroaki Matsubara	Responsible for the Technology Management Department and the Quality Assurance Department in the Advanced Materials Business
Yuji Mihara	General Manager of the Steel Sheet Products Unit in the Steel & Aluminum Business
Shoji Miyazaki	Head of the Advanced Materials Business
Masahiro Motoyuki	Responsible for the Iron Unit Center in the Engineering Business, General Manager of the Project Engineering Division in the Engineering Business
Akira Yamamoto	Head of the Welding Business, responsible for the IT Planning Department, responsible for companywide IT systems

(2) 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.

(3) Overview of Agreements Limiting Liability

The Company has entered into a directors and executive officers liability insurance contract with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act with Directors (excluding Directors who are Audit & Supervisory Committee Members), Executive Officers, and "important employees" as defined via a resolution of the Board of Directors as the insured to ensure that the insured can fully perform their expected roles in the course of their duties and to allow the Company to obtain superior talent.

To enable appropriate risk-taking, the Company bears all insurance premiums and the insured do not substantially bear any insurance premiums.

The contract covers expenses and damage payments to be borne by insured persons arising from corporate litigation, third-party litigation, and shareholder derivative suits, etc. However, to ensure that the appropriateness of the execution of duties by the insured is not hindered, there are certain exemptions, such as in case of actions taken with the knowledge that such actions are in violation of laws and regulations.

(4) 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)			
			Basic remuneration	Performance-based compensation	Medium- to long-term incentive compensation	
Directors (excluding Audit & Supervisory Committee Members) (of which, Outside Directors)	14 (3)	449 (40)	370 (40)	32 (-)	46 (-)	Number of Payees and Amount include three Internal Directors (who are not Audit & Supervisory Committee Members) and two Outside Directors (who are Audit & Supervisory Committee Members) that retired in fiscal year 2020.
Directors (Audit & Supervisory Committee Members) (of which, Outside Directors)	7 (5)	106 (44)	106 (44)	- (-)	- (-)	
Total	21	556	477	32	46	

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 basic remuneration as being within a total of 650 million yen per fiscal year and performance-based compensation as being a total of 350 million yen per fiscal year, and the limit of remuneration for Directors who are Audit & Supervisory Committee Members as being a total of 132 million yen per fiscal year. As of the conclusion of said General Meeting of Shareholders, the number of Directors (excluding Directors who are Audit & Supervisory Committee Members) eligible for basic remuneration is eleven (11) (of which, two (2) are Outside Directors), the number of Directors who are Audit & Supervisory Committee Members eligible for basic remuneration is five (5) (of which, three (3) are Outside Directors), and the number of Directors (excluding Directors who are Audit & Supervisory Committee Members) eligible for performance-based compensation is eight (8). Furthermore, as a medium- to long-term incentive compensation 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. As of the conclusion of said General Meeting of Shareholders, the number of Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) who are eligible for medium- to long-term incentive compensation is nine (9).

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

Note 3: Taking seriously the large net loss attributable to owners of the parent for fiscal year 2019 and the forgoing of the annual dividend, the Company has reduced the basic 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.

Note 4: Totals for performance-based compensation are estimated payments, and the total amount of medium- to long-term incentive compensation is the amount of expenses posted for points awarded.

Note 5: The detailed calculation method of the remuneration, etc. for individual Directors of the Company is specified in the internal regulations as approved by the Nomination & Compensation Committee, based on the "Fundamental Policy on Remuneration of the Company's Executives" resolved at a meeting of the Board of Directors, and relevant details are determined in accordance with those internal regulations. The remuneration, etc. for individual Directors for fiscal year 2020 is determined based on said internal regulations, and the Board of Directors has judged that this is in line with the Company's policy on determination.

Note 6: On March 5, 2021, the Company partially revised the remuneration system for executives within the limit resolved at the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016, and the revised remuneration system will be applied from the payment for April 2021. Said remuneration system was resolved at the meeting of the Board of Directors held on the same date after deliberation by the Nomination & Compensation Committee. The Fundamental Policy on Remuneration of the Company's Executives post-revision is as follows.

**Fundamental Policy for Remuneration of the Company's Directors**

- 1) Basic Approach to Remuneration of the Company's Executives
- 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) Based on the resolution at the Ordinary General Meeting of Shareholders, the Board of Directors establishes Executive Remuneration Regulations, Detailed Rules for Executive Remuneration Regulations, Executive Performance-based Compensation Regulations, and Executive Stock Benefit Regulations, which include the calculation methods for individual executive remuneration.
  - B) Remuneration for the Company's Executives consists of basic remuneration (fixed compensation) based on the remuneration rank determined according to rank and assigned duties, performance-based compensation consisting of the portion linked to division performance and the portion linked to individual evaluation for each fiscal year, and medium- to long-term incentive compensation based on stock compensation with the goal of sharing interest in corporate value enhancement with shareholders. Taking into consideration their duties, Independent Directors and Directors who are Audit & Supervisory Committee Members are not eligible for performance-based compensation and medium- to long-term incentive compensation. The remuneration rank is determined by the President taking account of the level of responsibility of the assigned duties and reported to the Nomination & Compensation Committee and the Board of Directors.
  - C) Of performance-based compensation, the standard pay amount for the portion linked to division performance will be set at the level of 25% to 30% of basic remuneration for each rank and remuneration rank, the amount for the portion linked to individual evaluation will be set at the level of -5% to 5% of basic remuneration for each rank and remuneration rank, and the value of medium- to long-term incentive compensation provided per fiscal year will be set at the level of 25% to 30% of basic remuneration for each rank and remuneration rank.
  - D) Limits of remuneration, etc. based on the resolution at the Ordinary General Meeting of Shareholders
    - Remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members)
 

The limit of basic remuneration	Within a total of 650 million yen per fiscal year
The limit of performance-based compensation	Within a total of 350 million yen per fiscal year
    - Remuneration for Directors who are also Audit & Supervisory Committee Members (basic remuneration only)
 

Within a total of 132 million yen per fiscal year
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- (Reference) Percentages of Compensation by Type for each Rank  
 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	Medium- to long-term incentive compensation	Total
		Portion linked to division performance		
President	Approx. 63%	Approx. 19%	Approx. 19%	100%
Executive Vice President	Approx. 63%	Approx. 19%	Approx. 19%	100%

Director, Executive Officer	Approx. 67%	Approx. 17%	Approx. 17%	100%
Director who is an Audit & Supervisory Committee Member	100%	-	-	100%
Independent Director	100%	-	-	100%

\*1 The amounts of the portion linked to division performance of performance-based compensation and medium- to long-term incentive compensation granted vary depending on business results. The range of fluctuation is 0-200% of the base amount for the portion linked to division performance of performance-based compensation and 0-100% of the base amount for medium- to long-term incentive compensation. The percentages of the portion linked to division performance of performance-based compensation and medium- to long-term incentive compensation in the above table are based on each amount being 100% of the base amount. In addition to the above table, the amount for the portion linked to individual evaluation is paid in the range of -5% to 5% of basic remuneration.

\*2 Director, Executive Officer is based on a standard remuneration rank.

### 3) Performance-based Compensation

A) In terms of the portion linked to division performance of performance-based compensation, a performance target will be set based on business management indices as stated in the Medium-term Management Plan. Each business division will also set a performance target based on performance management indices for each business division. The amount to be paid is determined by multiplying the standard pay amount for each rank and remuneration rank by 0%-200% according to the accomplishment of the target. The business management indices, which serve as the basis of calculation, are established by the Board of Directors.

(Reference) Calculation method for the portion linked to division performance of performance-based compensation

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

\*1 Standard pay amount for each rank and remuneration rank:

The standard pay amount for each rank and remuneration rank is set forth in Detailed Rules for Executive Remuneration Regulations.

\*2 Coefficient based on evaluation index:

Net income attributable to owners of the parent (hereinafter "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.

B) The portion linked to individual evaluation of performance-based compensation is subject to comprehensive evaluation, including the performance of assigned duties and business unit, the accomplishment of the target, and other aspects. The amount to be paid is determined by multiplying the basic remuneration for each rank and remuneration rank by -5% to 5%



according to the evaluation results. Evaluation for Executives Officers overseeing business divisions and heads of business divisions is determined by the President, and evaluation for other Executive Officers is determined by the President after primary evaluation by Executive Officers overseeing business divisions and heads of business divisions. The details of evaluation are reported to the Nomination & Compensation Committee.

- C) The calculation methods for the standard pay amount for each rank and remuneration rank are set forth in Detailed Rules for Executive Remuneration Regulations and Executive Performance-based Compensation Regulations.
- D) Business management indices are disclosed in the Business Report.

Note Raising the level of profit attained through the steady execution of strategic investments was set as an important management issue, and the Company placed emphasis on how much profit was gained from its total assets including strategic investments leading up to fiscal year 2020. Accordingly, the Company adopted “a consolidated ROA of 5% or more” as stated in the Medium-Term Management Plan as the index. From fiscal year 2021, the Company will promote efforts to make efficient use of management resources and strengthen the management foundation with an awareness of capital costs by establishing an evaluation index based on business management indices such as ROIC, etc. which will be emphasized in the new Medium-Term Management Plan.

(Reference) Reference value and results for the business management index of the portion of compensation linked to division performance  
 Reference value for fiscal 2020: A consolidated ROA of 5.0%  
 Results for fiscal 2020: A consolidated ROA of 0.6%

4) Medium- to Long-term Incentive Compensation

- A) For medium- to long-term incentive compensation, a system known as Board Benefit Trust is adopted in order to raise the awareness of contributing to continuous improvements in corporate value. The stock benefit uses a base point number calculated based on the standard pay amount for each rank and remuneration rank, and a number of points determined by multiplying the base point number by 0%-100% according to whole-company net income and the state of dividend payment for each fiscal year will be granted. On a fixed date during each trust period of three years, a number of the Company’s shares will be provided according to the number of points granted.
- B) The calculation methods for the base point number for each rank and remuneration rank and coefficients are set forth in Detailed Rules for Executive Remuneration Regulations and Executive Performance-based Compensation Regulations.
- C) As funds for acquisition of shares by the trust, in principle, 1.1 billion yen will be contributed every three years. However, when there are remaining shares of the Company in the trust property as of the last day of the previous trust period, they will be used as funds for the subsequent trust periods, and an amount derived by deducting the amount of the remaining Company shares, etc. from 1.1 billion yen will be contributed.

(Reference) Calculation method for points to grant medium- to long-term incentive compensation

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

- \*1 Base point number for each rank and remuneration rank:  
The base point number for each rank and remuneration rank is set forth in the Detailed Rules for Executive Remuneration Management.
- \*2 Coefficient based on evaluation index:  
The coefficient based on evaluation index is determined according to actual dividends and net income.

(Reference) Reference value and results for the most recent fiscal year used in the index related to medium- to long-term incentive compensation  
 Reference value for fiscal 2020: A net income of 73.0 billion yen  
 Results for fiscal 2020: A net income of 23.2 billion yen

5) The Timing of the Determination and the Payment of Remuneration Amount

- A) Basic remuneration will be paid every month from the month the executive position is assumed in a monthly amount derived by dividing basic remuneration based on rank and remuneration rank by 12 months. If there is a change to the basic remuneration in the middle

of the month due to a change in the assigned tasks and other reasons, the revised remuneration will be paid from the month following the change.

- B) Of performance-based compensation, the amount for the portion linked to division performance will be determined based on the calculation formula after the end of each fiscal year and paid lump-sum by the end of the month following the month when the Ordinary General Meeting of Shareholders is convened. The portion linked to individual evaluation will be paid in an amount derived by dividing the amount determined based on the calculation formula according to the results of individual evaluation after the end of each fiscal year by 12 months, together with monthly basic remuneration.
  - C) In terms of medium- to long-term incentive compensation, the number of points will be determined based on the calculation formula after the end of each fiscal year and granted on June 30 each year. Company shares, etc. will be provided every three years on a fixed date during the trust period.
- 6) Method to Determine Remuneration Standards  
Data from a Director remuneration survey conducted by an external specialized agency is used as a base to determine remuneration standards commensurate with the Company's corporate scale and the duties expected of Directors.
- 7) Method to Determine and Examine Remuneration Policy
- 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 discussion of all Audit & Supervisory Committee Members.
  - B) The state of the remuneration system and the necessity for its revision are deliberated by the Nomination & Compensation Committee. 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.

(Reference) The Activities of the Board of Directors and the Nomination & Compensation Committee in the Recent Fiscal Year:

Board of Directors

February 2020: The Board of Directors determined the reduction of the fixed compensation amounts based on the opinions submitted by the Nomination & Compensation Committee.

May 2020: The Board of Directors determined increasing the size of reduction in the fixed compensation amounts based on the opinions submitted by the Nomination & Compensation Committee.

February 2021: The Board of Directors determined the revision of the director remuneration system based on the opinions submitted by the Nomination & Compensation Committee.

May 2021: The Board of Directors determined the performance-based compensation amounts and the medium- to long-term incentive compensation amounts for fiscal 2020 based on the opinions submitted by the Nomination & Compensation Committee.

Nomination & Compensation Committee

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

May 2020: The Nomination & Compensation Committee deliberated on increasing the size of reduction in the fixed compensation amounts and submitted its opinions to the Board of Directors.

February 2021: The Nomination & Compensation Committee deliberated on the revision of the director remuneration system and submitted its opinions to the Board of Directors.

May 2021: The Nomination & Compensation Committee deliberated on coefficients for calculating performance-based compensation and medium- to long-term incentive compensation for fiscal 2020 and submitted its opinions to the Board of Directors.

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

		Board of Directors Meetings Attended (Attendance Rate)	Audit & Supervisory Committee Meetings Attended (Attendance Rate)	Summary of Advice Received at Board of Directors, Audit & Supervisory Board and Audit & Supervisory Committee Meetings, and Duties Performed in Relation to Expected Roles
Director	Takao Kitabata	15/15 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, at Meetings of Independent Directors, he received information from executives and, based on active related discussion among Independent Directors, provided various kinds of advice and suggestions on business execution from an objective standpoint, as a person responsible for monitoring the management of the Company. At the same time, as Chairman of the Board of Directors and Committee Chair of the Nomination & Compensation Committee, he contributed to the enhancement of the monitoring functions of the management of the Company.
Director	Hiroyuki Bamba	15/15 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, at Meetings of Independent Directors, he received information from executives and, based on active related discussion among Independent Directors, provided various kinds of advice and suggestions on business execution from an objective standpoint, as a person responsible for monitoring the management of the Company.
Director	Yumiko Ito	14/15 meetings held (93%)	–	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 executive, including as someone with responsibility centered on legal affairs in a different business field from ours in the world of industry. Furthermore, at Meetings of Independent Directors, she received information from executives and, based on active related discussion among Independent Directors, provided various kinds of advice and suggestions on business execution from an objective standpoint, as a person responsible for monitoring the management of the Company.

		Board of Directors Meetings Attended (Attendance Rate)	Audit & Supervisory Committee Meetings Attended (Attendance Rate)	Summary of Advice Received at Board of Directors, Audit & Supervisory Board and Audit & Supervisory Committee Meetings, and Duties Performed in Relation to Expected Roles
Director (Audit & Supervisory Committee Member)	Yoshiiku Miyata	15/15 meetings held (100%)	17/17 meetings held (100%)	Provided advice and suggestions concerning corporate management from his abundant experience in a different business fields from ours in the world of industry and deep insight as a corporate executive including the post of president of overseas business entities. He also actively shared his thoughts on matters related to compliance. In addition, at Meetings of Independent Directors, he received information from executives and, based on active related discussion among Independent Directors, provided various kinds of advice and suggestions on business execution from an objective standpoint, as a person responsible for monitoring the management of the Company. In addition, as Audit & Supervisory Committee Member, he actively visited and audited business locations.
Director (Audit & Supervisory Committee Member)	Masaaki Kono	11/11 meetings held (100%)	11/11 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. In addition, at Meetings of Independent Directors, he received information from executives and, based on active related discussion among Independent Directors, provided various kinds of advice and suggestions on business execution from an objective standpoint, as a person responsible for monitoring the management of the Company. Furthermore, as Committee Chair of the Audit & Supervisory Committee and member of the Nomination & Compensation Committee, he contributed to the enhancement of the monitoring functions of the management of the Company, while also actively visiting and auditing business locations as Audit & Supervisory Committee Member.
Director (Audit & Supervisory Committee Member)	Kunio Miura	11/11 meetings held (100%)	11/11 meetings held (100%)	Provided advice and suggestions concerning corporate management from his deep insight backed by his abundant experience in the legal profession as a judge and 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. In addition, at Meetings of Independent Directors, he received information from executives and, based on active related discussion among Independent Directors, provided various kinds of advice and suggestions on business execution from an objective standpoint, as a person responsible for monitoring the management of the Company. Furthermore, he contributed to the enhancement of the monitoring functions of the management of the Company as the Committee Chair of the Compliance Committee, and actively visited and audited business locations as Audit & Supervisory Committee member.

Note: Since Directors Masaaki Kono and Kunio Miura assumed the office of Director on June 24, 2020, eleven (11) Board of Directors meetings and eleven (11) Audit & Supervisory Committee 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	153
(b)	Total amount of money and other financial interests to be paid by the Company and its subsidiaries	474

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 the 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 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 business management" 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) 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, shall be the norms and criteria for compliance. The compliance promotion activities of the Group shall be planned and implemented based on the "KOBELCO Group's Compliance Program." 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 committee members from outside of the Company — and the introduction of an internal reporting (whistleblowing) 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 management of risk of loss**

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 outside Directors who are Audit & Supervisory Committee Members for the Company's Board of Directors, which plays a central function in the corporate governance of the Company Group.

The Company also adopts the Business Unit System as a management system 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 risk management and a director to oversee quality management for the purpose of reinforcing the monitoring function and governance 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 entire

Group 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 minimally introduced within the Group, and each of our subsidiaries 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, subsidiaries 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 subsidiaries as directors and/or corporate auditors of such subsidiaries, make such directors and/or audit & supervisory board members attend the meetings of board of directors in these subsidiaries, and manage and control management of these subsidiaries.

Furthermore, the Company builds its Group compliance system with laws, regulations, etc., by requiring its subsidiaries 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 undertake other initiatives, such as maintaining an internal reporting (whistleblowing) system, based on the KOBELCO Group's Compliance Program.

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 prepayment of expenses for the execution of the duties of the Audit & Supervisory Committee, on procedures for repayment and the execution of other relevant duties, and on debt processing**

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



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

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

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

Note 1: “Group Companies” cover subsidiaries that receive direct or indirect investment from the Company.

Note 2: The above shows the system implemented in fiscal year 2020. Furthermore, at the meeting of the Board of Directors held on March 29, 2021, the Company resolved to make amendments reflecting revisions to the management structure conducted on April 1, 2021, 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 168th Ordinary General Meeting of Shareholders.

(2) 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 2020 is as follows.

**(a) Compliance measures**

- Meetings of the Compliance Committee

The Compliance Committee, an advisory body to the Board of Directors, met two (2) times and its activities included reports on the results of activities in the previous fiscal year, and the formulation and approval of targets for the fiscal year.

- Implementation of the “KOBELCO Group’s Compliance Program”

The Company implemented initiatives focused on “top commitment” and “training,” based on the “KOBELCO Group’s Compliance Program.” In addition, certain domestic Group companies also introduced this program ahead of other companies and conducted diagnoses of the status of activities related to compliance systems, competition law, bribery and corruption prevention, and security trade control.

- Implementation of compliance training

Compliance training programs to be implemented by the Group were categorized by “level-specific,” “individual laws,” and “role-specific,” in order to create a systematic approach, and these training programs were conducted as planned, albeit with a switch to online training, etc.

- Monitoring activities and usage of internal reporting (whistleblowing) system

Compliance with competition laws and security trade control laws was regularly monitored. The internal reporting system received 112 reports that were then appropriately addressed. The Compliance Committee received reports on the status of measures to address these reports.

- Implementation of compliance awareness surveys

In the fiscal year under review, compliance awareness surveys were again conducted at the Company and domestic Group companies, and the results thereof were used to plan compliance promotion activities for fiscal year 2021.

**(b) Risk management**

In order to respond appropriately to risks that may damage the Group’s corporate value, the Company has been carrying out Risk Management Activities.

- Response to high-priority potential risks

Risk management activities for high-priority potential risks that are likely to have a significant impact on the entire Group are promoted under the direction of risk owners (relevant officers). The Board of Directors received reports on factors such as planned activities and the implementation status of activities, and senior management also confirmed the status of related risk management activities.

- Implementation of risk management activities

Under the direction of risk owners, the chief executor of risk management in each department conducted risk management activities based on a cycle of “identifying and examining risks” → “formulating risk management plans” → “implementing” → “examining” → “reflecting points for improvement the next fiscal year.” The results of these activities 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. Furthermore, from fiscal year 2021, the Company will take steps to enhance the effectiveness of risk management, by moving to a system whereby the Risk Management Committee, which was newly established as an auxiliary body to the Executive Council, will formulate and evaluate basic policies related to risk management as a whole and specific policies related to key risk management issues.

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

The Company conducts an evaluation of the effectiveness of the Board of Directors in order to stimulate discussion at meetings of the Board of Directors and enhance its supervisory function. Surveys and interviews were conducted with each Director, based on the results of the effectiveness evaluation in the previous fiscal year, management issues faced by the Company, and other factors. Then, after discussions at meetings of the Board of Directors, the results of the evaluation were disclosed on the Company’s website, and the Board of Directors Secretariat led efforts to address issues identified.

In addition, the Executive Council met 24 times to hold discussions on matters such as management directions including business strategies. The full-time Audit & Supervisory Committee Members attended meetings of the Executive Council, and steps were taken to enhance supervisory functions by providing information to the Audit & Supervisory Committee. Additionally, Meetings of Independent Directors are also held to share information, as part of efforts to enhance supervisory functions.

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

- Monitoring by the Audit & Supervisory Committee

The Audit & Supervisory Committee conducted interviews with executive directors, business heads, and Executive Officers, in order to monitor the status of business execution. In addition, members of the Audit & Supervisory Committee also conducted on-site audits at subsidiaries and held interviews with planning and administration departments in business divisions, and companies overseeing operations overseas. The Audit & Supervisory Committee also obtained information from the corporate auditors of subsidiaries concerning the status of their activities.

Furthermore, the Audit & Supervisory Committee will continue to focus on the implementation status of Measures to Prevent a Recurrence of the Misconduct by the Kobe Steel Group, announced in October 2017, and other activities aimed at recovering and enhancing trust in future and preventing this misconduct being forgotten.

- Status of coordination with the internal control division and Accounting Auditor

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 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.

(3) 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

The Company will focus on achieving “KOBELCO Group Medium-Term Management Plan (FY2021–FY2023)”, in order to enhance corporate value by demonstrating our competitive advantages through the use of the Group’s proprietary technology to solve social issues, including contributing to achieving a green society and contributing to urban planning and manufacturing that are both safe and secure, while also pursuing corporate governance to support these efforts.

As the Company looks to achieve “a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives,” we will continue to utilize the combination of the Group’s unique characteristics and technology as we aim to enhance corporate value through solutions to social issues, based on the three core

business areas of the materials businesses, machinery businesses, and the electric power business.

\* With respect to the details of “KOBELCO Group Medium-Term Management Plan (FY2021–FY2023)”, please see the press release section 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, enhancing supervisory functions by establishing advisory bodies such as the Nomination & Compensation Committee and the Corporate Governance Committee, each with a majority of members from outside the Company, and revising officer compensation plans.

Going forward, the Company, centering on the Corporate Governance Committee, will continue looking for ways to further strengthen corporate governance based on the results of the Board of Directors’ effectiveness evaluation.

(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.

(4) 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 the aim of paying dividends on a continuous and steady basis in principle.

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.

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

## Consolidated Balance Sheets

(As of March 31, 2021)

(Millions of yen)

Item	Amount	Item	Amount
<b>ASSETS</b>		<b>LIABILITIES</b>	
<b>Current Assets</b>	<b>1,156,180</b>	<b>Current liabilities</b>	<b>815,747</b>
Cash and deposits	262,345	Notes and accounts payable	382,751
Notes and accounts receivable	313,994	Short-term borrowings	161,803
Securities	55,199	Bonds due within one year	20,572
Merchandise and finished goods	169,717	Accounts payable - other	85,023
Work-in-process	122,114	Income and enterprise taxes payable	9,587
Raw materials and supplies	158,442	Provision for bonuses	18,655
Other	76,792	Provision for product warranties	15,780
Allowance for doubtful accounts	(2,427)	Provision for loss on construction contracts	18,562
<b>Fixed assets</b>	<b>1,426,693</b>	Provision for loss on guarantees	924
<b>Tangible fixed assets</b>	<b>1,078,619</b>	Provision for customer compensation expenses	1,397
Buildings and structures	247,469	Other	100,688
Machinery and equipment	441,128	<b>Long-term liabilities</b>	<b>997,750</b>
Tools, equipment and fixtures	14,935	Bonds and notes	61,050
Land	134,961	Long-term borrowings	744,382
Construction in progress	240,123	Lease obligations	59,970
<b>Intangible fixed assets</b>	<b>36,565</b>	Deferred tax liabilities	6,638
Software	19,538	Deferred tax liabilities on land revaluation	3,251
Other	17,026	Net defined benefit liability	84,135
<b>Investments and other assets</b>	<b>311,508</b>	Provision for environmental measures	1,799
Investments in securities	172,415	Provision for dismantlement-related expenses	1,620
Long-term loans receivable	3,658	Other	34,901
Deferred tax assets	69,262	<b>Total liabilities</b>	<b>1,813,498</b>
Net defined benefit asset	19,456	<b>NET ASSETS</b>	
Other	65,169	<b>Stockholders' equity</b>	<b>719,789</b>
Allowance for doubtful accounts	(18,454)	Common stock	250,930
		Capital surplus	102,228
		Retained earnings	368,892
		Treasury stock, at cost	(2,261)
		<b>Accumulated other comprehensive income</b>	<b>(9,427)</b>
		Unrealized gains on securities, net of taxes	15,757
		Deferred gains (losses) on hedges, net of taxes	(13,764)
		Land revaluation differences, net of taxes	(3,406)
		Foreign currency translation adjustments	(4,568)
		Remeasurements of defined benefit plans, net of taxes	(3,444)
		<b>Non-controlling interests</b>	<b>59,013</b>
		<b>Total net assets</b>	<b>769,375</b>
<b>Total assets</b>	<b>2,582,873</b>	<b>Total liabilities and net assets</b>	<b>2,582,873</b>

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

## Consolidated Statements of Income

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

Item	Amount	
Net sales		1,705,566
Cost of sales		1,482,378
<b>Gross profit</b>		<b>223,188</b>
Selling, general and administrative expenses		192,789
<b>Operating income</b>		<b>30,398</b>
Non-operating income		
Interest and dividend income	4,889	
Other	20,116	25,006
Non-operating expenses		
Interest expense	11,526	
Other	27,690	39,216
<b>Ordinary income</b>		<b>16,188</b>
Extraordinary income		
Gain on sale of fixed assets	9,900	
Gain on step acquisitions	3,259	
Gain on sale of investment securities	2,909	16,069
Extraordinary losses		
Loss on impairment	13,509	13,509
<b>Income before income taxes and non-controlling interests</b>		<b>18,748</b>
Income taxes – current	9,585	
Income taxes – deferred	(13,490)	(3,904)
<b>Income before non-controlling interests</b>		<b>22,653</b>
Net loss attributable to non-controlling interests		(580)
<b>Net income attributable to owners of the parent</b>		<b>23,234</b>

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



## Non-Consolidated Balance Sheets

(As of March 31, 2021)

(Millions of yen)

Item	Amount	Item	Amount
<b>ASSETS</b>		<b>LIABILITIES</b>	
<b>Current Assets</b>	<b>807,636</b>	<b>Current liabilities</b>	<b>619,865</b>
Cash and deposits	140,523	Accounts payable	239,724
Notes receivable	1,336	Short-term borrowings	101,363
Accounts receivable	108,767	Lease obligations	4,716
Lease receivables	454	Bonds due within one year	20,000
Securities	55,199	Accounts payable - other	69,491
Merchandise and finished goods	77,942	Accrued expenses	20,354
Work-in-process	89,825	Income and enterprise taxes payable	592
Raw materials and supplies	107,861	Advances received	121,966
Advance payments - trade	101,170	Deposits received	6,480
Prepaid expenses	3,168	Unearned revenue	269
Short-term loans receivable	75,278	Provision for bonuses	6,606
Accounts receivable - other	32,712	Provision for product warranties	4,650
Other	13,439	Provision for loss on construction contracts	15,293
Allowance for doubtful accounts	(45)	Provision for environmental measures	1,273
<b>Fixed assets</b>	<b>1,009,814</b>	Provision for customer compensation expenses	1,260
<b>Tangible fixed assets</b>	<b>571,739</b>	Other	5,821
Buildings	91,259	<b>Long-term liabilities</b>	<b>679,340</b>
Structures	46,685	Bonds and notes	60,000
Machinery and equipment	283,896	Long-term borrowings	534,585
Vehicles	899	Lease obligations	39,630
Tools, equipment and fixtures	7,366	Provision for retirement benefits	36,142
Land	65,272	Provision for environmental measures	1,058
Construction in progress	76,358	Provision for dismantlement-related expenses	1,620
<b>Intangible fixed assets</b>	<b>14,734</b>	Asset retirement obligations	738
Software	12,952	Other	5,563
Right of using facilities	326	<b>Total liabilities</b>	<b>1,299,205</b>
Other	1,455	<b>NET ASSETS</b>	
<b>Investments and other assets</b>	<b>423,340</b>	<b>Stockholders' equity</b>	<b>507,565</b>
Investments in securities	73,836	<b>Common stock</b>	<b>250,930</b>
Shares of subsidiaries and associates and investments in capital	194,965	<b>Capital surplus</b>	<b>100,789</b>
Long-term loans receivable	107,431	Legal capital surplus	100,789
Prepaid pension cost	17,836	<b>Retained earnings</b>	<b>157,148</b>
Deferred tax assets	19,726	Other retained earnings	157,148
Other	14,688	Reserve for special depreciation	129
Allowance for doubtful accounts	(5,144)	Reserve for advanced depreciation of fixed assets	1,925
		Retained earnings brought forward	155,093
		<b>Treasury stock, at cost</b>	<b>(1,302)</b>
		<b>Valuation and translation adjustments</b>	<b>10,680</b>
		Unrealized gains on securities, net of taxes	11,191
		Deferred gains (losses) on hedges, net of taxes	(511)
		<b>Total net assets</b>	<b>518,245</b>
<b>Total assets</b>	<b>1,817,450</b>	<b>Total liabilities and net assets</b>	<b>1,817,450</b>

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

## Non-Consolidated Statements of Income

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

Item	Amount	
Net sales		924,648
Cost of sales		863,277
<b>Gross profit</b>		<b>61,370</b>
Selling, general and administrative expenses		74,581
<b>Operating loss</b>		<b>(13,210)</b>
Non-operating income		
Interest and dividend income	21,023	
Other	15,483	36,506
Non-operating expenses		
Interest expense	5,941	
Other	24,989	30,930
<b>Ordinary loss</b>		<b>(7,634)</b>
Extraordinary income		
Gain on sale of fixed assets	2,781	
Gain on sale of shares of subsidiaries and associates	5,386	8,167
Extraordinary losses		
Loss on impairment	2,912	
Loss on valuation of shares of subsidiaries and associates	2,313	5,225
<b>Loss before income taxes</b>		<b>(4,691)</b>
Income taxes – current	(5,877)	
Income taxes – deferred	(6,702)	(12,580)
<b>Net income</b>		<b>7,888</b>

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

## Consolidated Statements of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance as of April 1, 2020	250,930	102,350	345,660	(2,261)	696,678
Amount of change					
Net income attributable to owners of the parent			23,234		23,234
Purchase of treasury stock				(2)	(2)
Disposal of treasury stock			(1)	1	0
Changes in stockholders interest due to transaction with non-controlling interests		(121)			(121)
Increase due to changes in scope of consolidation			(1)		(1)
Change in treasury shares arising from change in equity in entities accounted for using equity method				2	2
Net changes other than stockholders' equity					
Total changes	—	(121)	23,231	0	23,111
Balance as of March 31, 2021	250,930	102,228	368,892	(2,261)	719,789

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total Accumulated other comprehensive income		
Balance as of April 1, 2020	1,485	(15,873)	(2,995)	(1,984)	(20,430)	(39,797)	59,487	716,369
Amount of change								
Net income attributable to owners of the parent								23,234
Purchase of treasury stock								(2)
Disposal of treasury stock								0
Changes in stockholders interest due to transaction with non-controlling interests								(121)
Increase due to changes in scope of consolidation								(1)
Change in treasury shares arising from change in equity in entities accounted for using equity method								2
Net changes other than stockholders' equity	14,272	2,108	(411)	(2,584)	16,985	30,370	(474)	29,895
Total changes	14,272	2,108	(411)	(2,584)	16,985	30,370	(474)	53,006
Balance as of March 31, 2021	15,757	(13,764)	(3,406)	(4,568)	(3,444)	(9,427)	59,013	769,375

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 1. Matters Concerning the Scope of Consolidation

Kobe Steel, Ltd. (the “Company”) has 212 subsidiaries, of which 175 subsidiaries are included in the scope of consolidation (the “Kobe Steel Group”). Names of major consolidated subsidiaries are as follows.

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

For fiscal year 2020, 3 companies, including Wuxi Compressor Co., Ltd. are newly consolidated and 3 companies, including Kobelco Steel Tube Co., Ltd. are excluded from the scope of consolidation due to the transfer of shares, etc.

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

#### 2. Matters Concerning the Application of the Equity Method

Of the 37 non-consolidated subsidiaries and 50 affiliates, 38 companies are accounted for by the equity method. Names of major companies accounted for by the equity method are as follows.

Kansai Coke and Chemicals Company, Limited., Kobelco Angang Auto Steel Co., Ltd., Ulsan Aluminum, Ltd., PRO-TEC Coating Company, LLC, Kobelco Millcon Steel Co., Ltd., Osaka Titanium Technologies Co., Ltd., Japan Aeroforge, Ltd., Hokuto Co., Ltd., Shinsho Corporation, Shinko Lease Co., Ltd., Shinko Real Estate Co., Ltd.

For fiscal year 2020, 2 companies, including Hokuto Co., Ltd., are newly accounted for by the equity method and 2 companies, including Wuxi Compressor Co., Ltd., are

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

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

### 3. Matters Concerning Accounting Policies

#### (1) Basis and method for valuation of significant assets

##### A. Basis and method for valuation of securities

Available-for-sale securities

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

##### B. Basis for valuation of derivatives

Fair value basis

##### C. Basis and method for valuation of inventories

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

#### (2) Depreciation and amortization method for significant depreciable assets

##### a) Tangible fixed assets

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

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

#### (3) Basis for recognition of significant allowances and provisions

##### a) Allowance for doubtful accounts

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

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

b) Provision for bonuses

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

c) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, mainly for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business, Engineering Business and Construction Machinery Business, provision is made at an estimated amount attributable to the fiscal year 2020 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2020 for certain individual cases.

d) Provision for loss on construction contracts

To provide for future losses on construction contracts, mainly for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business and Engineering Business, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2020.

e) Provision for loss on guarantees

Provision for future loss on guarantees is based on an estimate of total loss at the end of the fiscal year 2020, considering the financial position, etc. of the guaranteed parties on a case- by- case basis.

f) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment in relation to construction of the power station at the Kobe Wire Rod & Bar Plant, provision is made at an estimated amount at the end of the fiscal year 2020.

g) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2020.

h) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste” and others, provision is made at an estimated amount at the end of the fiscal year 2020.

(4) Accounting method for retirement benefits

To provide for payments of retirement benefits to employees, the amount of retirement benefit obligations net of the amount of plan is established assets based on the amount expected at the end of the fiscal year 2020.

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

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

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

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

(5) Basis for recognition of revenue and expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2020 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

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

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

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

(7) Principal method for hedge accounting

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

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

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

B. Hedging instruments and hedged items

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

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

C. Hedging policy and method for assessing the hedge effectiveness

The Group uses hedge transactions to reduce the risks from market fluctuations and do not enter into hedge transactions for speculative purposes.

The Company assesses the hedge effectiveness in accordance with its internal rules.

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

<Hedge accounting for which the “Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” is applied>

Of the above hedge-related items, the Company has applied the exceptional treatment defined in the “Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (Practical Issues Task Force (PITF) No. 40 of September 29, 2020) to all hedge-related items included in the applicable scope of this Practical Solution. The details of the hedge-related items to which this Practical Solution is applied are as follows.

Method for hedge accounting	Exceptional method is applied to interest rate swaps.
Hedging instruments	Interest rate swap contracts
Hedged items	Long-term borrowings
Type of hedge transaction	Transactions that fix cash flows

(8) Method for amortization of goodwill

Goodwill is amortized using the straight-line method (or immediately charged to income if immaterial) over the practically estimated effective periods where estimable during the period in which it arises, or otherwise, over five years.

(9) Accounting for consumption taxes

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

(10) Application of consolidated taxation system

Consolidated taxation system is applied.

(11) Treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

With regards to the transition to the group tax sharing system, which was instituted by the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020), and the items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system, in accordance with Paragraph 3 of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Practical Issues Task Force (PITF) No.39, March 31, 2020), the Company and some of its domestic consolidated subsidiaries have applied the provisions of the pre-amendment tax law to deferred tax assets and liabilities, instead of the provisions of Paragraph 44 of Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No.28, February 16, 2018).

## Notes Regarding Accounting Estimates

### 1. Impairment of fixed assets

Regarding fixed assets, if the Group judges that there is an indication of impairment, such as continuous operating losses, the Group estimates future recoverability and assesses whether or not it must recognize an impairment loss. If the undiscounted total amount of future cash flows that will be generated by the asset group is below the book value of the fixed asset, the Group recognizes an impairment loss.

In the fiscal year under review, the Group recorded impairment losses of 13,509 million yen. A breakdown thereof is provided in “Notes to Consolidated Statements of Income 2. Loss on impairment.”

In addition, the book value of fixed assets at the end of the fiscal year under review was 1,115,185 million yen (1,078,619 million yen for tangible fixed assets and 36,565 million yen for intangible fixed assets), including multiple asset groups for which the Group did not recognize an impairment loss despite there being an indication of impairment. The main asset groups to which this applies were as follows.



< Construction Machinery Business >

The Group judged that there was an indication of impairment for fixed assets used in the businesses of Kobelco Construction Machinery Co., Ltd., a subsidiary of the Company in the Construction Machinery Business, as a result of continuous operating losses caused by increasingly fierce competition overseas, lower profitability on exports owing to fluctuations in foreign exchange rates, lower demand owing to the novel coronavirus infection, and other factors. In future business plans, the Group has incorporated certain assumptions, including an improvement in sales prices and an increase in units sold based on capturing overseas demand, which is expected to increase, primarily in emerging markets. The undiscounted total amount of future cash flows estimated based on business plans formulated under these assumptions exceeded the book value of the fixed assets of 58,632 million yen (55,291 million yen for tangible fixed assets and 3,340 million yen for intangible fixed assets), and therefore the Group did not recognize an impairment loss. If there are significant changes to the assumptions for these estimates, such as a large divergence between assumptions set when estimates were made and actual results, and future cash flows underperform as a result, the Group may recognize an impairment loss in the next consolidated fiscal year.

2. Deferred tax assets

The Group recorded 69,262 million yen in “deferred tax assets” under “investments and other assets” in “fixed assets” on the consolidated balance sheets for deductible temporary differences, tax losses carried forward, etc. with a high possibility of being deducted from future taxable income.

The Group has estimated taxable income over a certain future period based on the Medium-Term Management Plan and other business plans that management has judged to be appropriate, and has also made judgments about when specific deductible temporary differences are expected to be reversed. As such, the Group has judged that the possibility of recovery is high for deferred tax assets pertaining to deductible temporary differences expected to be reversed within a certain period, etc. In addition, the Group formulates business plans based on the assumptions provided in “Additional Information, Approach to the impact of the novel coronavirus infection when forming accounting estimates.”

If projections of future taxable income fluctuate significantly as a result of the renewed expansion of the impact of the novel coronavirus infection, an emergence of uncertainties that impact the Group’s demand fields, i.e., a prolonging of the global semiconductor shortage, or other factors, and the recoverability of deferred tax assets fluctuates significantly as a result, there may be a material impact on the recorded amount of deferred tax assets in the next consolidated fiscal year.

## **Additional Information**

### **Introduction of a Board Benefit Trust (BBT) for Directors**

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

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

#### **1) Overview of transactions**

This plan is a stock compensation plan under which money contributed by the Company is used as funds to acquire the Company’s shares through a trust. With regard to Directors and Executive Officers (hereinafter “Directors and Other Executives”), in accordance with the director stock benefit rules established by the Company, the Company’s shares (hereinafter the “Company’s Shares and Money”) and the cash equivalent to the amount converted from the market price of the Company’s Shares are provided through the trust.

In addition, Directors and Other Executives shall receive the Company’s Shares and Money in principle every three years on a fixed date during the trust period.

#### **2) Kobe Steel stock remaining in the Trust**

The Company’s stock remaining in the trust is posted as treasury stock in a part of net assets based on the book value (excludes amounts for incidental expenses). The corresponding treasury stock’s book value at the end of the fiscal year under review was 681 million yen for 758 thousand shares.

### **Approach to the impact of the novel coronavirus infection when forming accounting estimates**

It is difficult to forecast how the novel coronavirus infection will spread in future, when it will recede, etc., but when forming accounting estimates of the recoverability of deferred tax assets and other factors, the Group has assumed that, based on information available at the time of writing, the impact of the decline in production and order volume on the Group has largely been resolved, with the exception of certain demand fields, such as the industrial machinery sector, where the recovery in appetites for capital investment has been delayed, and the aircraft sector, where the market is expect to perform poorly for some years.

## Notes to Consolidated Balance Sheets

### 1. Assets Pledged as Collateral and Collateralized Debt

#### (1) Assets pledged as collateral

Tangible fixed assets	206,371 million yen
<u>Other</u>	<u>43,259</u>
Total	249,631

#### (2) Collateralized debt

Short-term borrowings	7,320 million yen
<u>Long-term borrowings</u>	<u>196,270</u>
Total	203,591

### 2. Accumulated Depreciation of Tangible Fixed Assets 2,569,794 million yen

### 3. Guarantee Liabilities

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

Kobelco Millcon Steel Co., Ltd.	11,898 million yen
Japan Aeroforge, Ltd.	2,200
Kobelco Angang Auto Steel Co., Ltd.	1,732
<u>Other (16 companies and other)</u>	<u>2,004</u> *
Total	17,837

The above includes activities similar to guarantees (268 million yen).

\*Of which, 6,037 million yen is covered by reassurances from other companies.

Kobelco Construction Machinery (China) Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy construction machinery, pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Kobelco Construction Machinery (China) Co., Ltd. pledges reassurance for this guarantee. The balances of the reassurance were 15,092 million yen at the end of fiscal year 2020.

(2) Trade notes receivable discounted	205 million yen
(3) Trade notes receivable endorsed	86 million yen
(4) Repurchase obligation accompanying securitization of receivables	5,484 million yen

## Notes to Consolidated Statements of Income

1. Gain on sale of fixed assets

Gain on sale of fixed assets is due to the sale of land, etc.

2. Loss on impairment

The Company and the Group recorded loss on impairment (13,509 million yen) on the following assets group. The breakdown of loss on impairment is as follows: buildings and structures (1,586 million yen); machinery and equipment (6,269 million yen); tools, equipment and fixtures (361 million yen); land (4,110 million yen); construction in progress (965 million yen); software (212 million yen); and “other” under intangible fixed assets (2 million yen).

Use	Location and number	Type and amount (millions of yen)
Assets for manufacturing special steel products (Nippon Koshuha Steel Co., Ltd.)	Imizu-shi, Toyama Prefecture 1 time	Machinery and equipment, etc. 9,788
Assets to be disposed	Nada-ku, Kobe-shi and another location 2 times in total	Machinery and equipment, etc. 1,533
Assets for titanium business*	Takasago-shi, Hyogo Prefecture and another location 2 times in total	Machinery and equipment, etc. 1,218
Assets for other business, etc.	Takasago-shi, Hyogo Prefecture and other locations 5 times in total	Machinery and equipment, etc. 968

\*Includes assets for manufacturing forged titanium products, assets for manufacturing pure titanium, and jointly used assets

The Group conduct grouping per business location for business assets to recognize losses on impairment in principle, while considering the status of ongoing management of profit and loss and cash-generating units. In addition, idle assets are grouped individually. The recoverable value of an asset is measured based on its value in use, etc., which is obtained by discounting the future cash flows mainly using a discount rate of 6%. The circumstances that led to the recognition of loss on impairment by each major asset group are as follows.

- (1) Assets for manufacturing special steel products (Nippon Koshuha Steel Co., Ltd.)  
Book values (17,193 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (9,788 million yen) under extraordinary losses due to a general worsening of demand conditions across the product sectors of tool steel, special alloy, bearing steel.
- (2) Assets to be disposed  
Book values (1,652 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (1,533 million yen) under extraordinary losses due to the decision to partially dispose of facilities belonging to Kobe Wire Rod & Bar Plan etc.
- (3) Assets for titanium business  
Book values (1,218 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (1,218 million yen) under extraordinary losses due to the decrease in profitability resulting from equipment productivity continuously being at a low level.

- (4) Assets for other business, etc.  
Book values (1,008 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (968 million yen) under extraordinary losses due to the decrease in profitability resulting from the deterioration of the order environment and other factors.

## Notes to Consolidated Statements of Changes in Net Assets

### 1. Type and Total Number of Shares Issued at the End of Fiscal Year 2020

Common stock	364,364,210 shares
--------------	--------------------

### 2. Matters Concerning Dividends

#### (1) Dividends paid

Not applicable.

#### (2) Dividends with the record date in fiscal year 2020 and the effective date in fiscal year 2021

At a meeting of the Board of Directors to be held on May 17, 2021, the Company intends to submit an agenda item concerning the payment of a dividends on common stock as follows.

- |                        |                   |
|------------------------|-------------------|
| 1) Total dividends     | 3,641 million yen |
| 2) Dividends per share | 10.0 yen          |
| 3) Record date         | March 31, 2021    |
| 4) Effective date      | June 24, 2021     |

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

## Notes on Financial Instruments

### 1. Matters Concerning Status of Financial Instruments

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

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

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

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

2. Matters concerning fair value of financial instruments

Carrying amount of financial instruments on the consolidated balance sheets, fair value and the difference as of March 31, 2021 are as follows.

(Millions of yen)

	Carrying amount *1	Fair value *1	Difference
(1) Cash and deposits	262,345	262,345	—
(2) Notes and accounts receivable - trade	313,994	313,994	—
(3) Securities			
Available-for-sale securities (negotiable certificates of deposit)	55,199	55,199	—
(4) Investments in securities			
a) Securities of subsidiaries and affiliates	11,783	13,406	1,622
b) Available-for-sale securities	68,862	68,862	—
(5) Notes and accounts payable	(382,751)	(382,751)	—
(6) Short-term borrowings	(161,803)	(166,346)	(4,542)
(7) Bonds and notes due within one year	(20,572)	(20,704)	(132)
(8) Accounts payable-other	(85,023)	(85,023)	—
(9) Bonds and notes	(61,050)	(61,108)	(58)
(10) Long-term borrowings	(744,382)	(700,877)	43,504
(11) Lease obligations (long-term liabilities)	(59,970)	(58,524)	1,445
(12) Derivative transactions *2			
a) Hedge accounting not applied	(1,148)	(1,148)	—
b) Hedge accounting applied	(17,830)	(17,830)	—

\*1 Liabilities are presented with parentheses ( ).

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

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

(1) Cash and deposits, (2) Notes and accounts receivable-trade and (3) Securities

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

(4) Investments in securities

Based mainly on quoted market prices, etc.

(5) Notes and accounts payable, (6) Short-term borrowings and (8) Accounts payable-other

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

The fair values of long-term borrowings due within one year which are included in short-term borrowings (with a carrying amount of 88,959 million yen) are determined using the same method as (10) Long-term borrowings.

(7) Bonds and notes due within one year and (9) Bonds and notes

Based mainly on quoted market prices.

(10) Long-term borrowings and (11) Lease obligations (long-term liabilities)

The fair values are determined based on the present value by discounting the sum of principal and interest by the assumed rate which would be applied if a similar new borrowing or lease payments were entered into. The fair values of floating rate

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

(12) Derivative transactions

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

For certain foreign currency exchange contracts for which the “assigning” method is applied, the fair values are included in the fair values of the hedged accounts receivable and accounts payable (see (2), (5) and (8) above).

For interest rate swaps for which the “exceptional” method is applied, the fair values are included in the fair values of the hedged long-term borrowings (see (10) above).

Note 2: Non-listed equity securities (with carrying amount of 91,769 million yen) are not included in (4) Investments in securities a) Securities of subsidiaries and affiliates and b) Available-for-sale securities, as it is extremely difficult to determine their fair value since there is no market price and future cash flows cannot be estimated.

**Notes on Per Share Information**

Net assets per share	1,958.57 yen
Net income per share	64.05 yen

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

The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 758 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 758 thousand shares.

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

## Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Stockholders' equity								
	Common stock	Capital surplus		Retained earnings				Treasury stock, at cost	Total stockholders' equity
		Legal capital surplus	Total capital surpluses	Other retained earnings			Total retained earnings		
				Reserve for special depreciation	Reserve for advanced depreciation of fixed assets	Retained earnings brought forward			
Balance as of April 1, 2020	250,930	100,789	100,789	190	2,096	146,974	149,261	(1,301)	499,679
Amount of change									
Reversal of reserve for special depreciation				(60)		60	—		—
Reversal of reserve for advanced depreciation of fixed assets					(171)	171	—		—
Net income						7,888	7,888		7,888
Purchase of treasury stock								(2)	(2)
Disposal of treasury stock							(1)	1	0
Net changes other than stockholders' equity									
Total changes	—	—	—	(60)	(171)	8,119	7,887	(1)	7,885
Balance as of March 31, 2021	250,930	100,789	100,789	129	1,925	155,093	157,148	(1,302)	507,565

	Valuation and translation adjustments			Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges net of taxes	Total valuation and translation adjustments	
Balance as of April 1, 2020	(1,471)	(448)	(1,920)	497,759
Amount of change				
Reversal of reserve for special depreciation				—
Reversal of reserve for advanced depreciation of fixed assets				—
Net income				7,888
Purchase of treasury stock				(2)
Disposal of treasury stock				0
Net changes other than stockholders' equity	12,662	(62)	12,600	12,600
Total changes	12,662	(62)	12,600	20,486
Balance as of March 31, 2021	11,191	(511)	10,680	518,245

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



## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

### **Matters concerning Significant Accounting Policies**

#### 1. Basis and Method for Valuation of Securities

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

#### 2. Basis for Valuation of Derivatives

Fair value basis

#### 3. Basis and Method for Valuation of Inventories

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

#### 4. Depreciation and Amortization Method for Fixed Assets

##### (1) Tangible fixed assets

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

##### (2) Intangible fixed assets

By the straight-line method.  
For software for internal use, by the straight-line method over the estimated internal use lives (five (5) years).

##### (3) Long-term prepaid expenses

By the straight-line method.

## 5. Basis for Recognition of Allowances and Provisions

### (1) Allowance for doubtful accounts

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

### (2) Provision for bonuses

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

### (3) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business, and Engineering Business, provision is made at an estimated amount attributable to the fiscal year 2020 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2020 for certain individual cases.

### (4) Provision for loss on construction contracts

To provide for future losses on construction contracts, for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business and Engineering Business, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2020.

### (5) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment in relation to construction of the power station at the Kobe Wire Rod & Bar Plant, provision is made at an estimated amount at the end of the fiscal year 2020.

### (6) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2020.

### (7) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste”, provision is made at an estimated amount at the end of the fiscal year 2020.

### (8) Provision for retirement benefits

To provide for payments of retirement benefits to employees, provision is made based on the retirement benefit obligation and the estimated amount of plan assets at the end of the fiscal year 2020.

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

6. Basis for Recognition of Revenue and Expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2020 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

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

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

8. Method for Hedge Accounting

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

9. Accounting for Retirement Benefits

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

10. Accounting for Consumption Taxes

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

11. Application of Consolidated Taxation System

Consolidated taxation system is applied.

12. Treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

With regards to the transition to the group tax sharing system, which was instituted by the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020), and the items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system, in accordance with Paragraph 3 of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Practical Issues Task Force (PITF) No.39, March 31, 2020), the Company has applied the provisions of the pre-amendment tax law to deferred tax assets and liabilities, instead of the provisions of Paragraph 44 of Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No.28, February 16, 2018).

### **Notes Regarding Accounting Estimates**

#### Deferred tax assets

The Company recorded 19,726 million yen in “deferred tax assets” under “investments and other assets” in “fixed assets” on the non-consolidated balance sheets for deductible temporary differences, tax losses carried forward, etc. with a high possibility of being deducted from future taxable income.

The main assumptions, etc. used in estimates of the above amounts are the same as those described in “Notes Regarding Accounting Estimates 2. Deferred tax assets” in the Notes to Consolidated Financial Statements.

### **Additional Information**

#### Introduction of the Board Benefit Trust (BBT) for Directors and Other Executives

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

#### Approach to the impact of the novel coronavirus infection when forming accounting estimates

It is difficult to forecast how the novel coronavirus infection will spread in future, when it will recede, etc., but when forming accounting estimates of the recoverability of deferred tax assets and other factors, the Company has assumed that, based on information available at the time of writing, the impact of the decline in production and order volume on the Company has largely been resolved, with the exception of certain demand fields, such as the industrial machinery sector, where the recovery in appetites for capital investment has been delayed, and the aircraft sector, where the market is expect to perform poorly for some years.

## Notes to Non-consolidated Balance Sheets

### 1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral	
Securities of subsidiaries and affiliates	11,110 million yen *1 *2
Other	53,530 *1 *2
(2) Collateralized debt	
Borrowings of subsidiaries and affiliates from financial institutions	202,719 million yen *1 *2

\*1 Of the assets pledged as collateral, 29,940 million yen are the mortgages established for borrowings of 61,362 million yen from financial institutions to Kobelco Power Moka Inc., which is one of the primary operators of the wholesale power supply business.

\*2 Of the assets pledged as collateral, 34,682 million yen are the mortgages established for borrowings of 140,685 million yen from financial institutions to Kobelco Power Kobe No. 2, Inc., which is one of the primary operators of the wholesale power supply business.

2. Accumulated Depreciation of Tangible Fixed Assets 1,992,137 million yen

### 3. Guarantee Liabilities

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

Kobelco Millcon Steel Co., Ltd.	11,898 million yen *2
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	5,272
Kobe Aluminum Automotive Products, LLC.	4,701
Kobelco & Materials Copper Tube, Ltd.	4,453 *2
Chengdu Kobelco Construction Machinery Financial Leasing Ltd.	4,205 *1
Wuxi Compressor Co., Ltd.	4,083
<u>Other (16 companies and other)</u>	<u>13,186 *1 *2</u>
Total	47,801

The above includes activities similar to guarantees (421 million yen).

\*1 Of which, 5,270 million yen is covered by reassurances from Kobelco Construction Machinery Co., Ltd.

\*2 Of which, 9,321 million yen is covered by reassurances from other companies.

(2) Repurchase obligation accompanying securitization of receivables 2,643 million yen

### 4. Monetary Receivables and Payables to Subsidiaries and Affiliates

Short-term monetary receivables	143,513 million yen
Long-term monetary receivables	112,529
Short-term monetary payables	69,523
Long-term monetary payables	593

## Notes to Non-consolidated Statements of Income

### 1. Transactions with Subsidiaries and Affiliates

Operating transactions

Net sales	297,169 million yen
Purchases	461,445
Non-operating transactions	39,906

## 2. Gain on sale of fixed assets

Gain on sale of fixed assets is due to the sale of land, etc.

## 3. Loss on impairment

The Company recorded loss on impairment (2,912 million yen) on the following assets group. The breakdown of loss on impairment is as follows: buildings (46 million yen); structures (63 million yen); machinery and equipment (1,835 million yen); vehicles (1 million yen); tools, equipment and fixtures (137 million yen); construction in progress (803 million yen); software (23 million yen); and other intangible fixed assets (0 million yen).

Use	Location and number	Type and amount (millions of yen)
Assets to be disposed	Nada-ku, Kobe-shi and another location 2 times in total	Machinery and equipment, etc. 1,533
Assets for titanium business*	Takasago-shi, Hyogo Prefecture and another location 2 times in total	Machinery and equipment, etc. 1,218
Assets for business	Takasago-shi, Hyogo Prefecture 1 time	Machinery and equipment, etc. 160

\*Includes assets for manufacturing forged titanium products, assets for manufacturing pure titanium, and jointly used assets

The Company conducts grouping per business location for business assets to recognize losses on impairment in principle, while considering the status of ongoing management of profit and loss and cash-generating units. In addition, idle assets are grouped individually. The recoverable value of an asset is measured based on its value in use, etc., which is obtained by discounting the future cash flows using a discount rate of 6%. The circumstances that led to the recognition of loss on impairment by each major asset group are as follows.

### (1) Assets to be disposed

Book values (1,652 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (1,533 million yen) under extraordinary losses due to the decision to partially dispose of facilities belonging to Kobe Wire Rod & Bar Plant etc.

### (2) Assets for titanium business

Book values (1,218 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (1,218 million yen) under extraordinary losses due to the decrease in profitability resulting from equipment productivity continuously being at a low level.

## Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2020

Common stock 1,007,771 shares

(Note) 757,900 shares of Kobe Steel owned by Trust & Custody Services Bank, Ltd. (Trust Account E) related to the Board Benefit Trust (BBT) are included in treasury stock listed above.

## Notes on Tax Effect Accounting

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

### Notes on Transactions with Related Parties

Category	Company name	Ownership of voting rights etc. (Ownership percentage)	Relationships with related parties	Description of transactions	Transaction amounts (million yen)	Account	Fiscal year-end balance (million yen)
Subsidiaries	Kobelco Power Moka Inc.	100.00% directly	Loan of funds Contracted operation and management of power stations Interlocking directors, etc.	Recovery of funds Interest income	2,110 567	Long-term loans receivable Other current assets	27,779 1,070
	Kobelco Power Kobe No. 2, Inc.	100.00% directly	Contracted operations such as construction management of power stations Loan of funds Interlocking directors, etc.	Contracted operations such as construction management of power stations Loan of funds Interest income	27,424 13,656 359	Accounts receivable Advances received Long-term loans receivable Other investments	496 96,416 24,052 628
	Kobe Steel International (USA) Inc.	100.00% indirectly	Loan of funds Interlocking directors, etc.	Loan of funds Interest income	27,571 32	Long-term loans receivable Other current assets	27,571 1
Affiliates	Shinsho Corporation	13.33% directly and 1.04% indirectly (21.56%)	Sales of certain finished goods of the Company Purchase of raw materials Interlocking directors, etc.	Purchase of raw materials for iron and steel, other raw materials and materials for equipment	254,060	Trade accounts payable	21,971
	Kansai Coke and Chemicals Company, Limited.	24.00% directly	Sales of coal, etc. Purchase of coke, etc. Interlocking directors, etc.	Sales of coal, etc. Purchase of coke, etc.	44,210 60,602	Other accounts receivable Trade accounts payable	6,231 12,394

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

The terms and conditions applicable to the above transactions are determined through price negotiations on an arm's length basis and with reference to normal market prices. Interest rates on loans are reasonably determined in consideration of market interest rates. The transaction amounts are shown on a net basis.

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

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

### Notes on Per Share Information

Net assets per share 1,426.27 yen  
Net income per share 21.70 yen

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

The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 758 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 758 thousand shares.

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