

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 yen 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 CO₂ 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 CO₂ 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 CO₂ 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 CO₂ 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 CO₂ 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 CO₂ 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 CO₂ 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 CO₂ Reduction Solution for Blast Furnace Ironmaking”

—Innovative technology to reduce CO₂ emissions from blast furnace operations successfully verified—

The Company has successfully demonstrated technology that can reduce a significant amount of CO₂ emissions from blast furnace operations, combining the technologies of Midrex^{*1} 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)^{*2} produced by the MIDREX® Process^{*3} was charged into the blast furnace. It was verified that the ratio of reducing agents (carbon fuel consumption^{*4} used in the blast furnace), which determines CO₂ emissions from the blast furnace, could be stably reduced from 518 kg / t-hot metal to 415 kg / t-hot metal (CO₂ emissions reduction of about 20% compared to conventional models^{*5}).

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 CO₂ 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 CO₂ reduction solution technology while further reducing CO₂ emissions and achieving lower costs for CO₂ reduction. Beyond its own efforts to reduce emissions from its facilities, the Company will strive to contribute to the acceleration of CO₂ 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 CO₂ 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 CO₂ 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 CO₂ reduction targets set by the government and the KOBELCO Group.

Note The KOBELCO Group’s CO₂ 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

- (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.