

Corporate Social Responsibility

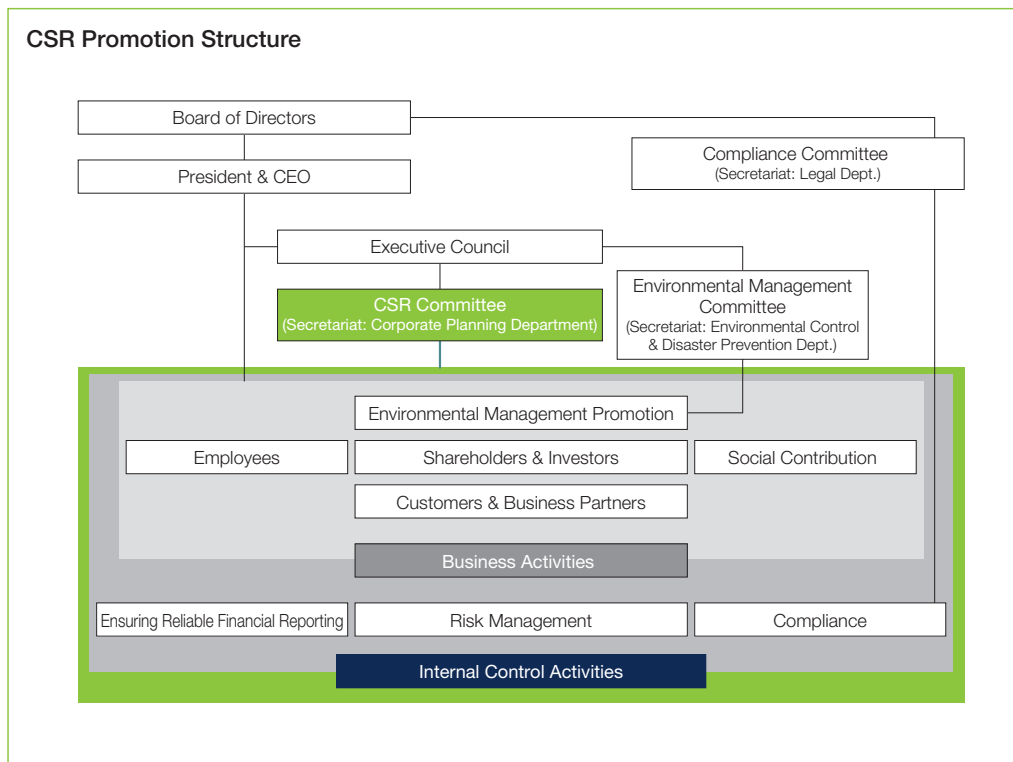
CSR Promotion System

Amid a drastically changing operating environment, in 2006, we established a CSR Committee that is in charge of determining policies related to corporate social responsibility and providing centralized implementation.

To facilitate discussion, make proposals and conduct follow-up verification of important matters, we also

established a Compliance Committee to advise the Board of Directors.

The CSR Committee's Report Production Subcommittee compiles information concerning CSR activities and publishes it each year in the form of a Sustainability Report.



Corporate Governance

With its operating environment undergoing major changes, Kobe Steel is being strongly urged to increase its self-monitoring capability and take on even greater responsibility than before. It is therefore keenly aware that it cannot survive nor raise its corporate value without strictly adhering to rules and regulations and effective corporate governance.

Corporate Governance

Basic Concept of Corporate Governance

In place of a corporate system with committees that completely separates the supervision and execution of business operations,

Kobe Steel opted for a corporate system with a Board of Corporate Auditors in order to achieve a more agile management driven by people who are familiar with Kobe Steel's businesses. In addition, with the goal of achieving an increasingly transparent and fair business structure, the Company is taking various initiatives including the selection of outside directors and the strengthening of supervisory functions.

Board of Directors and Corporate Auditors Structure of the Board of Directors

As stipulated in Article 18 of Kobe Steel's Articles of Incorporation, the Board of Directors may consist of no more than 15 members. To encourage active and wide discussion, Kobe Steel's Board is comprised of the president, key directors at corporate headquarters and directors of the five major business divisions. In

In addition, there are two outside directors who have no conflicting interests with the Company, for a total of 10 board members. An additional role of the outside directors is to serve as members of the Independent Committee established under Kobe Steel's Policy on the Large-Scale Purchasing of its Shares. The Independent Committee is convened when a large-scale purchase of the Company's shares is proposed. These meetings are in addition to the regular meetings held twice a year to collect information about the business environment surrounding the Company and its performance during the said period as well as external factors including recent Companies Act revisions and stock market conditions. By sharing knowledge and discussing the aforementioned topics, the Independent Committee members prepare for contingencies so that they are able to make recommendations to the Board of Directors that are fair, impartial and appropriate.

Structure of the Board of Corporate Auditors

In accordance with Japan's Companies Act, the Board of Corporate Auditors must consist of three or more corporate auditors, the majority of whom must be outside corporate auditors. The Company has appointed five corporate auditors, including three outside corporate auditors from legal, financial and industrial circles in order to ensure more transparent and fair business management as well as better supervisory functions.

With the appointment of two outside directors and three outside corporate auditors, the Company's Board of Directors consists of five individuals who are separated from business execution and hold fair and neutral positions. These changes have helped to improve Kobe Steel's governance system.

**Business Execution Structure
Directors and Corporate Officers**

Appointed by shareholders at the General Meeting of Stockholders, directors who have legal responsibilities to shareholders, business partners and other stakeholders play a central role in business execution and control the business operations of principal business divisions. Corporate officers, under the leadership of the directors, are responsible for conducting business affairs and, therefore, occupy an important position at Kobe Steel. Although not constituting a legal body, officers of the Company are elected by the Board of Directors and carry out duties that the president assigns to them.

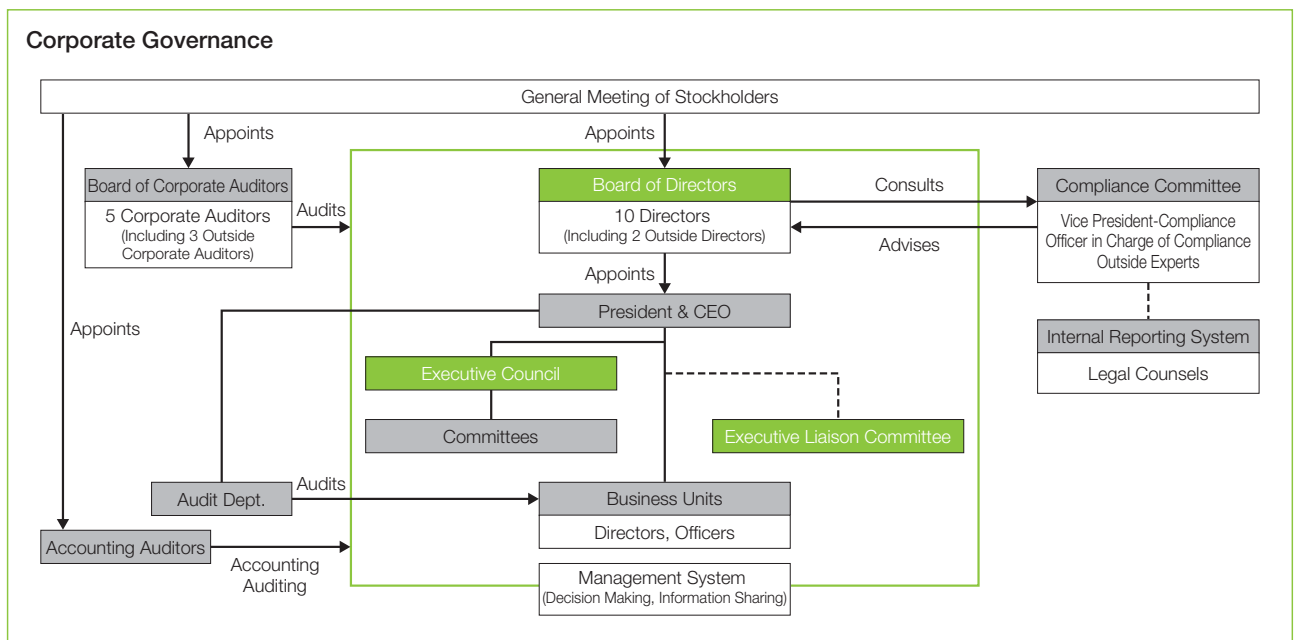
To enable the Company to quickly respond to a rapidly changing business environment, the term of office of both directors and officers has been set at one year.

Management System

Business unit, the Group Executive Council (held quarterly) and the Executive Council (held semimonthly) convene to discuss the business direction, including the business strategy of the Group, as well as to confer over matters deliberated on in the Board of Directors meetings.

The Executive Liaison Committee (held quarterly) is composed of directors responsible for business execution, corporate officers, executive technical advisors, and the presidents and directors of affiliates appointed by the president and shares information on important management issues.

Other committees may be set up as forums for relevant parties to consider the president's and senior executives' advice before deliberating on issues that have a material impact on the overall business of the Company.



▪ **Internal Audits, Corporate Auditors and Accounting Audit System**

Internal Audits

Kobe Steel established the Audit Department as an independent auditing body to conduct internal audits. Audits, especially those conducted in the head office departments for compliance, environment and information security, are carried out cooperatively or in partnership between the Audit Department and the respective administrative departments at headquarters.

Accounting Audits

Accounting audits are conducted by three certified public accountants (CPAs) from KPMG. Other CPAs and junior accountants from KPMG AZSA & Co. are responsible for assisting with the accounting audits.

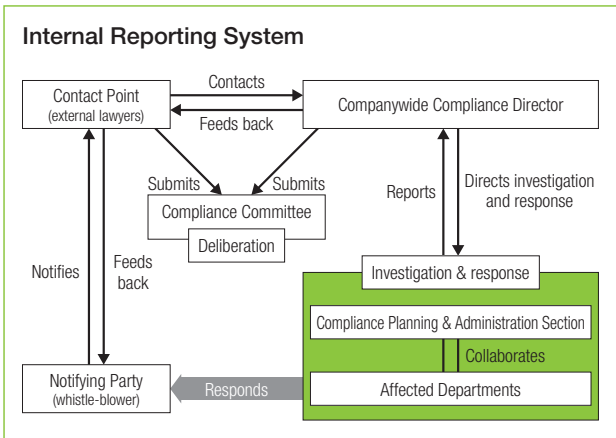
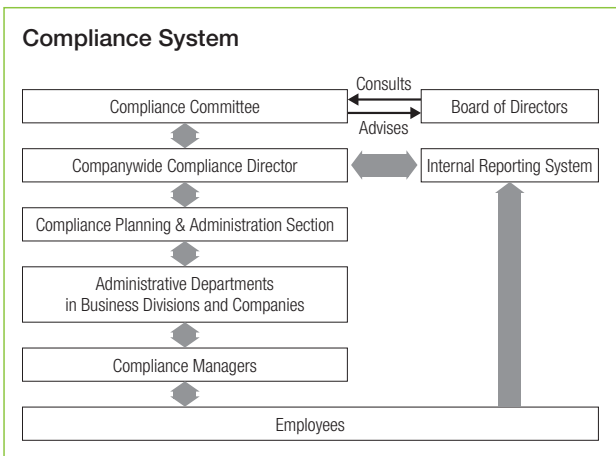
Coordination Between Internal Audits, Corporate Audits and Accounting Audits

Corporate auditors routinely meet with accounting auditors to closely collaborate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, corporate auditors accompany accounting auditors on their audits of business sites and receive timely reports about the progress of those audits. Furthermore, corporate auditors are routinely informed about audit policies and plans by the internal audit department. Corporate auditors also maintain close cooperation with others through reports they receive about the status of internal control system implementation, including compliance and risk management status, and the audit results, thereby enabling them to conduct efficient audits.

Compliance Initiatives

▪ **Compliance Committee**

The Compliance Committee was established as an advisory body to the Board of Directors and undertakes a wide range of initiatives. Specifically, the Compliance Committee works to raise the effectiveness of compliance management not only through the drafting of compliance programs and confirming their progress status, but also by submitting measures related to reports made through the Internal Reporting System for discussion at Board of Directors meetings.



▪ **Corporate Code of Ethics**

The Corporate Code of Ethics sets out principles and guidelines established to maintain legal compliance and make Kobe Steel a better company. The Corporate Code of Ethics consists of the Corporate Ethical Principles and Standards of Corporate Conduct. Major Group companies have also formulated similar policies.

The Corporate Ethical Principles set forth the standards by which Kobe Steel, its directors, officers and employees must comply in conducting the Company's various business activities and covers the following principles.

From Kobe Steel's Corporate Code of Ethics:

Kobe Steel will:

1. Operate business fairly and honestly and comply with applicable laws, rules and principles of society.
2. Contribute to society by offering excellent products and services. In particular, pay special attention to product safety and the protection of personal and customer information.
3. Create a safe, comfortable and productive workplace and respect the individuality and differences of employees.
4. Respect the interests of stakeholders. Maintain healthy, positive relations with society at large, including customers, partners, employees and shareholders.
5. Be a good corporate citizen that contributes to local communities.
6. Contribute to protecting the environment and creating a livable society.
7. Respect the culture and customs of other nations and contribute to the growth and development of their communities.

Standards of Corporate Conduct were specifically established as particularly important standards of behavior that allow the Corporate Ethical Principles to be put into practice in employees' daily work activities. An operational manual has been created to explain in greater detail each item set out in the Standards of Corporate Conduct so that employees are thoroughly trained.



▪ **Risk Management Activities**

Kobe Steel has been carrying out risk management activities with the goal of achieving an organizational culture that is highly sensitive to compliance issues.

This means that, in addition to compliance risks that are universal throughout the Company in light of legal and societal changes, after the divisions have identified and checked by themselves the risks within their individual businesses, they formulate an annual risk management plan while consulting internal Company rules, manuals and other documentation as necessary. Every year, each division implements the Plan, Do, Check, Action (PDCA) cycle by implementing the plan (Do), reviewing the results (Check) and reflecting any improvements in next year's risk management plan (Action).

In addition, staff, mainly from corporate headquarters, visit offices and plants to ensure that the PDCA cycle for Companywide risk management activities is being properly implemented. They verify what progress has been made while collaborating with each location's compliance department.

To ensure effectiveness, the results of the year's activities of each division are incorporated in plans for the next year and subsequent years after executive management has verified them.

Measures and policies are also adopted based on risk management activities with the goal of creating a corporate culture that is more highly sensitive to compliance issues.

▪ **Group Company Compliance System**

Each Kobe Steel Group company has established a Compliance Committee and a Corporate Code of Ethics and has introduced an Internal Reporting System. A Compliance Officer and Compliance Promotion Manager have been appointed in each company and pursue their efforts in coordination with Kobe Steel. Group companies also engage in risk management activities.