

Business Report

(From April 1, 2022 to March 31, 2023)

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 2022, the Japanese economy saw progress in normalization of economic activity and continued a recovery trend, mainly in consumer spending and corporate activities, despite price increases due to the sharp rise in raw material and energy prices and the weaker yen. In overseas economies, the pace of recovery slowed as economic activity was restrained due to inflation and monetary tightening in the United States and Europe. In China, a full-fledged recovery has yet to come due to the restrictions on activities under the zero-COVID policy. In addition, semiconductor shortages and supply chain disruptions delayed the recovery of automobile production, which made the business environment surrounding the Company continue to be challenging.

Under these circumstances, the Company has steadily implemented key measures aimed at “establishing a stable earnings base,” as set out in the Kobelco Group Medium-Term Management Plan (Fiscal 2021–2023), while continuing to strengthen its manufacturing capabilities and improve selling prices.

As a result, the Company’s consolidated financial results for fiscal 2022 are as follows: Net sales increased by 389.9 billion yen year on year to 2,472.5 billion yen; operating profit decreased by 1.2 billion yen year on year to 86.3 billion yen due to a decline in sales volume in the raw materials businesses and construction machinery business, cost increases centered on fixed costs, and a decrease in inventory valuation gains despite a significant improvement in steel metal spreads, ordinary profit increased by 13.6 billion yen year on year to 106.8 billion yen, due to an increase in compensation income related to the engine certification problem. Extraordinary losses amounted to a loss of 8.7 billion yen, mainly due to a loss on liquidation of a construction machinery business in China and an impairment loss on fixed assets, and profit attributable to owners of parent increased by 12.4 billion yen year on year to 72.5 billion yen.

Kobe Steel 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, Kobe Steel has decided to pay a year-end dividend of 25 yen per share for fiscal 2022. As a result, the annual dividend, including the interim dividend paid earlier, amounts to 40 yen per share.

Progress and results of the Group's business operations by segment are as follows.

Steel & Aluminum

(Steel)

Sales volume of steel products declined year on year due in part to lower demand for automobiles. Selling prices were higher than the previous fiscal year due to factors such as an increase in the steel market prices and the resolution of the gap between rising raw material prices and selling prices.

As a result, net sales increased by 21.1% year on year to 909.7 billion yen. Ordinary profit increased by 14.4 billion yen year on year to 49 billion yen due to significant improvement in selling prices, despite negative factors such as a decrease in sales volume, cost increases centered on fixed costs, and a decrease in inventory valuation gains.

(Aluminum)

Sales volume of aluminum flat rolled products declined year on year due to sluggish demand for beverage can materials. Selling prices were higher than the previous fiscal year due in part to higher ingot prices being passed on to selling prices.

As a result, net sales increased by 19.3% to 195.4 billion yen. Ordinary profit decreased by 9.9 billion yen year on year to a loss of 7 billion yen, mainly due to a decline in sales volume and a delay in passing on higher procurement costs to selling prices.

Overall, net sales of steel & aluminum increased by 20.8% to 1,105.1 billion yen, and ordinary profit increased by 4.4 billion yen to 41.9 billion yen.

● Production Volume (In thousands of tons)

Category	169th Business Term (Fiscal year 2021)	170th Business Term (Fiscal year 2022)
Crude steel	6,667	6,248
Aluminum flat-rolled products	356	349

Note: The above amount of crude steel includes the quantity produced with electric arc furnaces at Takasago Works.

Advanced Materials

Sales volume of advanced materials increased year on year in steel casting and forgings, which captured demand for shipbuilding, and in titanium, which saw a recovery in demand in the general industrial sector. On the other hand, sales volume of aluminum extrusions, copper flat rolled products and steel powder declined year on year due to lower demand for automobiles.

As a result, net sales decreased by 16.7% year on year to 277.7 billion yen, due in part to the transfer of the copper tube business in the previous fiscal year, and ordinary profit decreased by 4.2 billion yen year on year to 0.9 billion yen, due in part to cost increases centered on fixed costs, and a decrease in inventory valuation gains in the copper tube business.

● Production Volume (In thousands of tons)

Category	169th Business Term (Fiscal year 2021)	170th Business Term (Fiscal year 2022)
Aluminum extrusions	41	40
Copper rolled products	60	55
Copper tubes	76	–

Note: Due to the exclusion of Kobelco & Materials Copper Tube, Ltd. from the scope of the Company's consolidated subsidiaries on March 31, 2022, the production record of copper tubes is not presented in fiscal 2022.

Welding

Sales volume of welding materials declined year on year due to lower demand in Southeast Asia. Selling prices were higher than the previous fiscal year, mainly due to higher procurement costs being passed on to selling prices.

As a result, net sales increased by 15.0% to 88.4 billion yen and ordinary profit increased by 0.0 billion yen to 2.8 billion yen.

Machinery

Orders increased by 20.7% year on year to 249.3 billion yen, with a backlog of 214.7 billion yen, mainly due to strong performance in the petrochemical and energy sectors.

Net sales increased by 12.0% year on year to 186.9 billion yen, and ordinary profit increased by 1.7 billion yen year on year to 14.3 billion yen, mainly due to an increase in net sales and improvements in profitability of orders, driven by strong demand.

● Orders (Billions of yen)

Category		169th Business Term (Fiscal year 2021)	170th Business Term (Fiscal year 2022)
Orders	Domestic	73.1	82.6
	Overseas	133.4	166.6
	Total	206.6	249.3
Backlog of Orders	Domestic	34.8	48.9
	Overseas	122.1	165.7
	Total	157.0	214.7

Engineering

Orders decreased by 24.4% to 157.5 billion yen, compared to fiscal 2021 that saw an increase in orders with several large projects in the DRI-related business and waste treatment-related business, resulting in an order backlog of 371.1 billion yen.

Net sales increased by 7.0% year on year to 145.2 billion yen, while ordinary profit decreased by 3.5 billion yen from the previous fiscal year to 4.1 billion yen, mainly due to changes in the project composition, particularly in the DRI-related business.

● Orders (Billions of yen)

Category		169th Business Term (Fiscal year 2021)	170th Business Term (Fiscal year 2022)
Orders	Domestic	151.7	120.8
	Overseas	56.8	36.6
	Total	208.5	157.5
Backlog of Orders	Domestic	269.5	283.0
	Overseas	73.5	88.0
	Total	343.0	371.1

Construction Machinery

Unit sales of hydraulic excavators declined year on year due to a decline in demand in China, faced with flagging infrastructure investment, as well as in Japan, Europe and North America, affected by shortages of procured parts. Unit sales of crawler cranes declined year on year due to a decline in North America, affected by the engine certification problem. Selling prices were higher than the previous fiscal year due to the increase in procurement costs being passed on to selling prices and the weaker yen against the US dollar and the euro.

As a result, net sales increased by 2.7% year on year to 381.7 billion yen, and ordinary profit increased by 0.2 billion yen year on year to 12.3 billion yen due to an improvement in export profitability along with the weaker yen and an increase in compensation income for the engine certification problem, despite negative factors such as a decline in unit sales and a delay in passing on higher procurement costs to selling prices.

Electric Power

Electricity sales increased year on year due to the operation of the Kobe Power Plant No. 3 unit (which began operation in February 2022) and No. 4 unit (which began operation in February 2023). The unit price of electric power increased year on year due to the increase in thermal coal market prices.

As a result, net sales increased by 195.2% year on year to 324.3 billion yen, and ordinary profit increased by 11.3 billion yen year on year to 24.5 billion yen, mainly due to the operation of the Kobe Power Plant No. 3 and No. 4 units.

Other Businesses

Net sales decreased by 4.5% year on year to 27.5 billion yen, and ordinary profit decreased by 0.7 billion yen year on year to 6.3 billion yen.

Note 1: Orders and backlog of orders include orders placed with Group companies.

Note 2: Consolidated net sales include adjustments of (64.6) billion yen. The ratio of each component to consolidated net sales is calculated based on the total net sales of each business segment, excluding adjustments.

Definition of Ordinary Profit (Loss)*

Ordinary profit under accounting principles generally accepted in Japan (Japanese GAAP) is a category of profit (loss) that comes after operating profit (expense) and non-operating profit (expense), but before extraordinary income and loss. It is also called “pretax recurring profit” or simply “pretax profit.”

(b) Issues to Be Addressed

The business environment surrounding the Group

The business environment surrounding the Group is expected to continue to involve changes in the industrial structure triggered by COVID-19, social transformation toward the realization of carbon neutrality, and progress in digital transformation (hereinafter “DX”) when examined in the medium to long term, despite changes related to current geopolitical risks and other developments. The Group must proactively address each situation and see it as an opportunity for reforming the business structure and gaining new earnings.

The Fiscal 2021–2023 Kobelco Group Medium-Term Management Plan

In the 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.

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

As the first step, 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 a return on invested capital (ROIC) of 5% or higher in fiscal 2023 when the startup of new electric power projects is scheduled to be completed, with the assumption that it contributes to earnings throughout the fiscal year. Furthermore, as a future vision, the Group will aim to transform into a corporate group with sustainable growth and maintain a ROIC of 8% or higher 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.

Establishing a stable earnings base

In order to secure earnings with a ROIC of 5% or higher in fiscal 2023 and establish a stable profit base with an aim of achieving a ROIC of 8% or higher in the future, the Company is making steady efforts. Five key measures are envisioned in the medium-term management plan, 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. In addition, since costs are on the rise, including fixed costs such as labor costs as well as variable costs such as prices of raw and other materials and energy, we will continue to steadily pass on the increased costs to selling prices.

To strengthen 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 crude steel production of 6.3 million tons per year at Kakogawa Works, and to continue turning a profit even with 6.0 million tons by working steadily to improve steel metal spreads. The Group will continue to endeavor to further reduce fixed and variable costs, shift to high-value-added products such as special steel wire rods and high-tensile strength steel (improve product mix), and have overseas businesses contribute to earnings. 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 Kobe Power Plant No. 3 and No. 4 units started commercial operations in February 2022 and in February 2023 respectively as scheduled. Through continued efforts to ensure stable operations of these units, the Company expects an annual contribution of approximately 40.0 billion yen to earnings in the electric power business.

For strategic investment projects in the materials businesses, which the Group has been promoting as part of the strategies to reduce automobile weight, the Group's capability to produce earnings has declined considerably due to factors such as delays in passing on rising cost to selling prices. This has happened mainly in the aluminum businesses, as costs are on the rise including variable costs such as prices of raw and other materials and energy and fixed costs such as labor costs, along with slow demand recovery and remaining monozukuri capability issues. The Company will steadily implement initiatives to pass on increased costs to selling prices to achieve an early contribution to earnings.

For the restructuring of unprofitable businesses, the Company proceeded with withdrawals from unprofitable products and streamlining including staff reductions as scheduled in the steel casting and forging business and the titanium business, for which the demand environment and industrial structure are changing, as well as the crane business, which continues to face intensifying competition in Japan and overseas. As a result, the Company successfully made these businesses return to profitability with a certain level of profitability secured.

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 turned Kobelco Eco-Solutions Co., Ltd. into a wholly owned subsidiary in November 2021 and entered into the capital and business alliance concerning the standard compressor business in January 2022 with the acquisition of shares of Kobelco Compressors Corporation by Miura Co., Ltd. The Company strives to realize the benefits of these measures in an early period and actively work to win orders while promoting intra-Group cooperation. In addition, the Company will promote the development of its distinctive technologies related to hydrogen/renewable energy, waste treatment, and other environmental contribution menus.

Regarding the construction machinery business, the Company will steadily restructure the global production/supply system with the aim of developing an optimal supply system from a global perspective in light of changes in the market environment in China, to achieve stable earnings and reduced production costs. The Company will also strive to turn profits from 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.

Despite the Company's effort to pass on increased costs to selling prices, there has been a significant increase in costs centered on the materials business and the construction machinery business. This has occurred as costs are on the rise including variable costs such as prices of raw and other materials and energy and fixed costs such as labor costs. The Company will continue efforts to improve earnings and ensure stable production through cost reductions and other measures while steadily implementing initiatives to pass on increased costs to selling prices to establish a stable earnings base.

Taking on the challenge of realizing carbon neutrality

As the global trend is clearly moving toward the transition to carbon neutrality and social transformation, the Group faces both risks and opportunities in the internal and external environment. Under these circumstances, the Group believes that its vision for the future is to take on the challenge of realizing carbon neutrality by 2050 and aim to improve corporate value along with this transition.

In minimizing risks, the Group will boldly take on efforts to reduce CO₂ emissions by promoting development of its own unique technologies and utilizing external innovative technology to realize carbon neutrality by 2050. In maximizing opportunities, the Group will leverage its strengths that enable the integration of diverse technologies and diverse menus that contribute to reduction of CO₂ emissions, such as MIDREX® and the supply of materials for lightweighting and vehicle electrification and respond to growing demand for these menus as new business opportunities.

As the initial step, the Group will reduce CO₂ emissions in the production process by 30–40% by 2030 from fiscal 2013 levels and take on the challenge of achieving carbon neutrality by 2050.

Regarding the ironmaking process in particular, the Group strives to lead the industry in the field of CO₂ emission reduction and differentiate itself from other companies by utilizing its unique 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-based blast furnace operation technology, etc.) as well as other innovative technologies. The Company also started selling Japan's first low-CO₂ blast furnace steel "Kobenable Steel" as announced in May 2022. The Group will promote efforts to further increase the recognition of green steel and expand its market.

The Company announced that a contract was signed in October 2022 by its Group company Midrex Technologies to supply the world's first MIDREX H2™ direct reduction plant that uses 100% hydrogen as reducing gas and another contract was signed by the same company in March 2023 to supply the world's first MIDREX Flex™ direct reduction plant that will be initially operated on reformed natural gas and transitioned to up to 100% H₂ operation. The Group will contribute to the realization of global carbon neutrality through diverse technologies such as the Group's MIDREX® technology and through the 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 the 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 is also proceeding to study practical application of initiatives for co-firing of ammonia. In addition, while the Kobe Power Plant will increase the ratio of co-firing of ammonia, and ultimately will take on the challenge of single-fuel firing, the Moka Power Plant will work on maximizing the use of carbon neutral city gas with the aim of achieving carbon neutrality by 2050.

Strengthening the business foundation area

To achieve the two priority goals of establishing a stable earnings base, and taking on the challenge of realizing carbon neutrality, the Company continues to strengthen its business foundation by reviewing its management system, advancing DX strategies, and promoting active participation of diverse human resources, etc. through activities such as Kobelco TQM that span across its business divisions.

Since April 2021, the Company has been reviewing its management system through measures such as strengthening the monitoring function of the Board of Directors by reviewing the composition of the Board of Directors and its advisory bodies and strengthening the organizational structure on the executive side by reviewing the committee structure and executive officer system and reorganizing departments at the head office. The Company is making steady efforts to improve effectiveness under the new structure.

For the promotion of the Company's DX strategy, the Company established the Digital Innovation Technology Center in April 2021 to strengthen and accelerate technological development and business application in the ICT/AI field. Also, the Company has set up the DX Strategy Committee to comprehensively formulate and execute the Group's strategy. Furthermore, in December 2021, the Group announced its Digital Transformation (DX) Strategy, and in January 2022, acquired certification as a "DX-certified operator" under the DX Certification program, established by the Ministry of Economy, Trade and Industry. In the construction machinery business, the Company started offering K-DIVE® service in December 2022. This service will enable DX at construction sites by leveraging heavy machinery remote operation systems, data on operational records and remotely controlled heavy machinery and connecting people, heavy machinery and construction sites at all times. In April 2023, the Company also started selling to the general public K-D2 PLANNER®, add-in software that assists the development of an installation plan of cranes. The Company will continue to strengthen and accelerate DX initiatives more systematically and strategically.

While leveraging its diverse technologies, the Company will promote the 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 so that its diverse human resources can fully demonstrate their abilities and play an active role in a wide range of business areas of materials, machinery, and electric power, which are the strengths of the Group

In addition, the Company reorganized the Trust Rebuilding Project, which began in fiscal 2018, into the Trust Improvement Project in April 2021 and continues to improve its quality governance and customer trust. Through the Kobelco TQM activities under this project, the Company will continue to work on the improvement not only in the quality of its products and services, but also in the overall quality of business activities, including operations, organizations, and management.

As announced on February 28, 2023, the Company discovered improper claims for reimbursement of travel expenses by a director who was an Audit & Supervisory Committee member of the Company and accepted the resignation of the said director on the same date. Regarding this matter, as announced on March 30, 2023, the Audit & Supervisory Committee formulated measures to prevent recurrence of misconduct and reported to the Board of Directors. The Company will work to promote compliance by making the rules for payment and reimbursement of expenses known to all directors, executive officers, advisors and employees thoroughly once again.

Kobelco Group's materiality (Medium- to long-term important issues)

The Group has been promoting sustainability management under the Group 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, the Company has identified important medium- to long-term issues (materiality) for which management resources are intensively invested among various social issues.

The initiatives of the Kobelco Group under its Medium-Term Management plan aim to address the Group's priority issues with a view to the future beyond the medium-term period. By boldly addressing these key issues, the Group will strive to continue to be indispensable to all stakeholders of the Group and increase its corporate value.

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

(2) Assets and Results of Operations**Assets and Results of Operations of the Group**

Category		167th Business Term (Fiscal year 2019)	168th Business Term (Fiscal year 2020)	169th Business Term (Fiscal year 2021)	170th Business Term (Fiscal year 2022)
Net sales	(Millions of yen)	1,869,835	1,705,566	2,082,582	2,472,508
[Overseas sales of the above]		653,853	573,685	722,559	783,480
Operating profit (loss)	(Millions of yen)	9,863	30,398	87,622	86,365
Ordinary profit (loss)	(Millions of yen)	(8,079)	16,188	93,233	106,837
Profit (loss) attributable to owners of the parent	(Millions of yen)	(68,008)	23,234	60,083	72,566
Profit (loss) per share	(yen)	(187.55)	64.05	160.23	183.80
Total assets	(Millions of yen)	2,411,191	2,582,873	2,728,745	2,874,751
Net assets	(Millions of yen)	716,369	769,375	872,346	977,653
Net assets per share	(yen)	1,811.10	1,958.57	2,066.48	2,314.31

(3) Major Businesses (As of March 31, 2023)

The major businesses undertaken by the 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, Steel plates	Heavy plates, medium plates, steel sheets (hot-rolled, cold-rolled, surface treated)
	Aluminum flat rolled products	Aluminum can stock, aluminum sheets for automotive panels, 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 rolling stock, etc.)
	Copper rolled products	Copper strips for semiconductors, copper strips for terminals, leadframes
	Steel powder	Steel powder
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, 2023)

Head offices	KOBE (Registered Head Office), TOKYO	
Domestic branch offices	OSAKA, NAGOYA	
Domestic sales offices	HOKKAIDO (Sapporo), TOHOKU (Sendai), HOKURIKU (Toyama), CHUGOKU and SHIKOKU (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)

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.”

(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]	12,721 million yen	51.83	Manufacture and sale of special steel
Kobelco Wire Company, Ltd. [Amagasaki, Hyogo] *1	8,062 million yen	43.62	Manufacture and sale of secondary wire rod products Contracting construction work of structures
Kobelco Logistics, Ltd. [Kobe]	2,479 million yen	97.68	Harbor transportation, coastal shipping, customs clearance, truck transportation, warehousing and contracting plant work
Kobelco Bolt, Ltd. [Ichikawa, Chiba]	465 million yen	100.00	Manufacture and sale of bolts for construction and bridges
Kobelco E&M Co., Ltd. [Kobe]	150 million yen	100.00	Design, manufacture, installation, piping and maintenance of plants and equipment
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd. [China] *1	884,000 thousand yuan	100.00	Manufacture and sale of aluminum sheets for automotive panels
Kobelco Precision Technology Sdn. Bhd. [Malaysia]	19,000 thousand Malaysian ringgit	100.00	Manufacture and sale of aluminum disk material for HDDs
Kobelco Millcon Steel Co., Ltd. [Thailand]	2,830 million Thai baht	75.00	Manufacture and sale of special steel and ordinary steel wire
Kobe Aluminum Automotive Products (China) Co., Ltd. [China]	239,681 thousand yuan	60.00	Manufacture and sale of aluminum forgings for automotive suspensions
Kobe Aluminum Automotive Products, LLC [United States] *1	154,000 thousand U.S. dollars	97.66	Manufacture and sale of aluminum forgings for automotive suspensions
Kobelco Aluminum Products & Extrusions Inc. [United States] *1	24,000 thousand U.S. dollars	100.00	Manufacture and sale of bumper materials and frame materials for automotive bumpers
Kobelco Welding of Qingdao Co., Ltd. [China]	211,526 thousand yuan	90.00	Manufacture and sale of welding materials, sales of welding robot systems and its parts
Kobelco Welding of Korea Co., Ltd. [Korea]	6,554 million won	87.74	Manufacture and sale of welding materials
Kobelco Compressors Corporation [Tokyo]	7,400 million yen	51.00	Manufacture, sale, and service of air compressors
Kobelco Machinery Engineering Co., Ltd. [Ogaki, Gifu] *1	388 million yen	100.00	Manufacture and sale of internal combustion engines, transmissions, and testing machines, etc.
Shinko Wuxi Compressor Co., Ltd. [China] *1	150,000 thousand yuan	70.00	Manufacture and sale of compressors
Kobelco Compressors Manufacturing (Shanghai) Corporation [China] *1	87,796 thousand yuan	100.00	Development and manufacture of compressors and related products Sale and service of products of the Company
Kobelco Industrial Machinery India Pvt. Ltd. [India] *1	863 million Indian rupees	100.00	Manufacture and sale of rubber mixers and twin-screw roller head extruder
Quintus Technologies AB [Sweden] *1	10 million Swedish krona	100.00	Design, manufacture, sale, and service 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 sale of compressor systems for process gas, refrigeration compressor systems and parts, etc.

Company Name [Location of Head Offices]	Common Stock	Ratio of Voting Rights (%)	Major Businesses
Kobelco Eco-Solutions Co., Ltd. [Kobe]	6,020 million yen	100.00	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 sale of MIDREX® Process (direct-reduction ironmaking process) plants
Kobelco Construction Machinery Co., Ltd. [Tokyo]	16,000 million yen	100.00	Manufacture and sale of construction machinery
Kobelco Construction Machinery Japan Co., Ltd. [Ichikawa, Chiba] *1	490 million yen	100.00	Sale and service of construction machinery
Toyosugie Co., Ltd. [Takamatsu] *1	350 million yen	100.00	Sale, rental, repair and installation service of construction machinery and industrial machinery
Kobelco Construction Machinery (China) Co., Ltd. [China] *1	2,522,314 thousand yuan	100.00	Sale and service 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 sale of construction machinery
Kobelco Construction Machinery Southeast Asia Co., Ltd. [Thailand] *1	2,279 million Thai baht	100.00	Manufacture and sale of construction machinery
Kobelco Construction Equipment India Pvt. Ltd. [India] *1	4,512 million Indian rupees	100.00	Manufacture, sale, and service of construction machinery
Kobelco Construction Machinery Europe B.V. [Netherlands] *1	8,800 thousand euro	100.00	Sale and service of construction machinery
Kobelco International (S) Co., Pte. Ltd. [Singapore] *1	1,058 million yen	100.00	Sale and service of construction machinery
Pt. Daya Kobelco Construction Machinery Indonesia [Indonesia] *1	1,312,592 million Indonesia rupiah	100.00	Sale and service of construction machinery
Kobelco Construction Machinery U.S.A. Inc. [United States] *1	2 thousand U.S. dollars	100.00	Sale and service 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 sale 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 sale of coke and other chemical products
Nippon Steel Kobelco Metal Products Co., Ltd. [Tokyo]	300 million yen	35.00	Manufacture and sale of products for civil engineering and construction
Kobelco Angang Auto Steel Co., Ltd. [China] *1	700,000 thousand yuan	49.00	Manufacture and sale of cold-rolled, high-tensile strength steel
Ulsan Aluminum, Ltd. [Korea]	618,361 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 sale of galvanized steel sheet and cold-rolled, high-tensile strength steel
Japan Aeroforge, Ltd. [Kurashiki, Okayama]	1,850 million yen	40.54	Manufacture and sale of large forgings
Hokuto Co., Ltd. (Hachinohe, Aomori) *1	30 million yen	34.00	Manufacture, sale, repair and leasing of civil engineering, construction, work, mining, transportation, electrical machinery, etc.
Shinsho Corporation [Osaka] *1 *2	5,650 million yen	36.17	Import/export and trading of iron & steel and nonferrous metal products and machinery, etc.
Shinsei Kobelco Leasing Co., Ltd. [Kobe]	3,243 million yen	20.00	Leasing and installment sale of construction machinery, industrial equipment, office equipment, and other moveable property
TC Kobelco Real Estate Co., Ltd. [Kobe]	3,037 million yen	25.00	Real estate sale 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: An absorption-type merger for Tesac Shinko Wire Rope Co., Ltd. that was listed in fiscal 2021 was executed with Shinko Wire Company, Ltd. as the surviving company as of April 1, 2022. As a result, it is not listed from fiscal 2022.

Note 4: Shinko Engineering & Maintenance Co., Ltd. changed its name to Kobelco E&M Co., Ltd. as of April 1, 2022.

Note 5: During fiscal 2022, the Company acquired additional shares of Kobelco Millcon Steel Co., Ltd., making it the Company's major subsidiary and increasing the Group's ratio of voting rights in it from 50.00% to 75.00%.

Note 6: During fiscal 2022, Kobelco Construction Equipment India Pvt. Ltd. reduced its capital to 4,512 million Indian rupees due to a capital reduction.

Note 7: During fiscal 2022, Ulsan Aluminum, Ltd. increased its capital to 618,361 million won due to a capital increase.

Note 8: Shinko Lease Co., Ltd. changed its name to Shinsei Kobelco Leasing Co., Ltd. as of April 1, 2022.

Note 9: Shinko Real Estate Co., Ltd. changed its name to TC Kobelco Real Estate Co., Ltd. as of April 1, 2022.

(6) Capital Investments

Total capital investment in fiscal 2022 on a construction (inspection and acceptance) basis is 97.3 billion yen.

The major capital investments completed in fiscal 2022 are as follows:

Category	Facility Name
Completed	Kobelco Power Kobe No. 2, Inc. Kobe Power Plant No. 4 unit in Kobe, Hyogo Prefecture (Electric Power)

(7) Financing Activities

There have been no particular items to note, including the issuance of bonds, during fiscal 2022.

(8) Major Lenders and Amount of Borrowings (As of March 31, 2023)

Main Lenders	Balance of Loans (Millions of yen)
Mizuho Bank, Ltd.	130,289
Development Bank of Japan Inc.	98,218
MUFG Bank, Ltd.	95,319
Sumitomo Mitsui Banking Corporation	81,641
The Yamaguchi Bank, Ltd.	46,807

Note: In addition to the amounts stated above, there was a syndicate loan amounting to a total of 56,100 million yen with Mizuho Bank, Ltd., MUFG Bank, Ltd. and Sumitomo Mitsui Banking Corporation as agent banks, which is not included in the balance of loans of the respective lenders.

(9) Employees (As of March 31, 2023)

(a) Employees of the Group (Persons)

Category	Number of Employees
Steel & Aluminum	12,268
Advanced Materials	4,489
Welding	2,384
Machinery	4,881
Engineering	3,772
Construction Machinery	7,550
Electric Power	287
Other or companywide	2,857
Total	38,488

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

(b) Employees of the Company

Number of Employees	11,368 persons
Increase/Decrease from the Previous Fiscal Year-End	72 persons
Average Age	39.5 years old
Average Years of Service	15.3 years

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

Note 2: The number of employees stated above does not include 809 seconded employees.

2. Shares of the Company (As of March 31, 2022)

(1) Total number of shares authorized to be issued	600,000,000 shares
(2) The aggregate number of issued shares	396,345,963 shares
(3) Total number of shareholders	174,580
(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)	Number of Shares Held (Thousands of shares)
The Master Trust Bank of Japan, Ltd. (Trust Account)	62,777	15.85	–	–
Custody Bank of Japan, Ltd. (Trust Account)	17,876	4.51	–	–
Nippon Steel Corporation	10,735	2.71	6,744	0.71
J.P. MORGAN SECURITIES PLC FOR AND ON BEHALF OF ITS CLIENTS JPMSP RE CLIENT ASSETS-SETT ACCT	7,572	1.91	–	–
BNYM AS AGT/CLTS NON TREATY JASDEC	6,634	1.67	–	–
Nippon Life Insurance Company	5,447	1.38	–	–
Kobelco Employee Stock Ownership Plan	4,891	1.23	–	–
BNYM SA/NV FOR BNYM FOR BNYM GCM CLIENT ACCTS M ILM FE	4,584	1.16	–	–
STATE STREET BANK WEST CLIENT - TREATY 505234	4,545	1.15	–	–
SHIMABUN Corporation	4,420	1.12	–	–

Note 1: The Company holds 265,237 shares in treasury stock. Treasury stock is excluded in the calculation of the major shareholders' ratio of shareholding in the Company.

Note 2: The shares acquired by the Company through the purchase of shares less than one unit during fiscal 2022 is 8,224 shares (total acquisition price is 5,641,100 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 1,146 shares (total disposal price is 795,642 yen).

Note 3: 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 2022, through the Board Benefit Trust, is as follows. Shares are paid on a fixed date every three years during the trust period and at the time of leaving the director's position (except where the said person continues to serve as executive officer), and there was a due date for the share benefits in fiscal 2022. Accordingly, the number of shares delivered to the persons who served as directors during the period from fiscal 2019 to fiscal 2021 is stated. As executive officers of the Company are also eligible under the Plan, the number of shares delivered to persons who left the director's position during the relevant period of three fiscal years and continued to serve as executive officer and those who newly took office as director from executive officer during the period is calculated. The calculation is performed by summing the number of points granted in accordance with the term of office as director and that granted in accordance with the term of office as executive officer and then multiplying the resulting sum by a certain coefficient to determine the number of shares, with any fractional number rounded. However, the table below presents the number of shares calculated by multiplying the number of points granted in accordance with the term of office as director by a certain coefficient, with any fractional number rounded, for the sake of convenience. Additionally, the outside directors and directors who are Audit and Supervisory Committee members are not covered by a medium- to long-term incentive compensation considering their responsibilities. Please refer to "3. Directors, Audit & Supervisory Committee Members and Executive Officers" for the Company's remuneration system for Directors and Executive Officers.

	Number of shares	Number of recipients
Directors (excluding outside directors and directors who are Audit & Supervisory Committee members)	93,100	8

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

(1) Directors (As of March 31, 2023)

Positions	Name	Duties & Significant concurrent positions
President (Representative Director)	Mitsugu Yamaguchi	
Executive Vice President (Representative Director)	Fusaki Koshiishi	Oversees the Environment and Safety Department and the Quality Management Department. Oversees companywide safety and health. 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.
Director, Executive Officer	Yoshihiko Katsukawa	Oversees the Corporate Planning Department, the Finance and Accounting Department, and overseas locations (under the Head Office).
Director, Executive Officer	Hajime Nagara	Oversees the Internal Control and Audit Department, the Legal Department, the General Administration and CSR Department, the Human Resources Department, the Civil Engineering & Construction Technology Department, the Machinery & Materials Procurement Department, the Rugby Center, domestic branch offices and sales offices, and Takasago Works (departments under its direct supervision). Oversees companywide compliance.
Director	Hiroyuki Bamba	Chairman of the Company's Board of Directors
Director	Yumiko Ito	Representative of Ito Law Office, Outside Corporate Auditor of Santen Pharmaceutical Co., Ltd., Outside Director of Nippon Express Holdings, Inc.
Director	Shinsuke Kitagawa	Senior Executive Managing Officer of MITSUI & CO., LTD., President & CEO of Mitsui & Co. Global Strategic Studies Institute
Director (Audit & Supervisory Committee Member, full time)	Hiroshi Ishikawa	
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 Director (Audit and Supervisory Committee Member) of Sumitomo Seika Chemicals Company Limited.
Director (Audit & Supervisory Committee Member)	Nobuko Sekiguchi	Outside Director of DUSKIN CO., LTD., Outside Director (Audit and Supervisory Committee Member) of H2O RETAILING CORPORATION

Note 1: Directors Hiroyuki Bamba, Yumiko Ito, Shinsuke Kitagawa, Masaaki Kono, Kunio Miura and Nobuko Sekiguchi are outside directors under Article 2, Item 15 of the Companies Act.

Note 2: The Company has registered directors Hiroyuki Bamba, Yumiko Ito, Shinsuke Kitagawa, Masaaki Kono, Kunio Miura and Nobuko Sekiguchi as independent directors with the financial instruments exchange.

Note 3: Directors Masaaki Kono and Nobuko Sekiguchi have considerable financial and accounting knowledge.

- Director Masaaki Kono has engaged in banking operations for many years.
- Director Nobuko Sekiguchi has engaged in operations at finance and accounting departments at business enterprises for many years.

Note 4: The Company appoints full-time Audit & Supervisory Committee members at the Audit & Supervisory Committee. Full-time Audit & Supervisory Committee members are appointed to improve the audit environment, gather internal information, and conduct regular audits of the readiness of the internal

governance system for the Audit & Supervisory Committee to facilitate the smoother execution of duties.

Note 5: There are no special relationships that require disclosure in the ongoing business relationships between the Company and MITSUI & CO., LTD. and DUSKIN CO., LTD.

Note 6: There are no special relationships that require disclosure between the Company and entities in which outside directors concurrently served.

Note 7: The directors who left the director's position during fiscal 2022 are as follows:

Position	Name	Reason for leaving the position	Date of leaving
Director	Takao Kitabata	Expiration	June 22, 2022
Director (Audit & Supervisory Committee Member)	Yoshiiku Miyata	Expiration	June 22, 2022
Director (Audit & Supervisory Committee Member, full time)	Yasushi Tsushima	Resignation	February 28, 2023

Note 8: Duties/positions or significant concurrent positions of directors whose duties/positions or significant concurrent positions changed effective April 1, 2023 are as follows.

Positions	Name	Duties & significant concurrent positions
Executive Vice President (Representative Director)	Yoshihiko Katsukawa	Oversees the Corporate Planning Department, the Finance and Accounting Department, and overseas locations (under the Head Office).
Executive Vice President (Representative Director)	Hajime Nagara	Oversees the Internal Control and Audit Department, the Legal Department, the General Administration and CSR Department, the Human Resources Department, the Civil Engineering & Construction Technology Department, the Machinery & Materials Procurement Department, the Rugby Center, domestic branch offices and sales offices, and Takasago Works (departments under its direct supervision). Oversees companywide compliance.
Director	Fusaki Koshiishi	
Director	Koichiro Shibata	
Director	Shinsuke Kitagawa	Advisor of MITSUI & CO., LTD.

Reference: The Company's Executive Officer System

The Company has implemented an executive officer system. The names and duties of executive officers as of April 1, 2023 are as follows.

Positions	Name	Duties
Executive Vice President	Masamichi Takeuchi	Head of the Machinery Business, General Manager of the Management Division in the Machinery Business
	Makoto Mizuguchi	Head of the Steel & Aluminum Business
Executive Officer	Kazuo Iritani	General Manager of the Engineering Division in the Machinery Business, General Manager of the Compressor & Static Equipment Engineering Department of the Engineering Division in the Machinery Business, Deputy General Manager of the Management Division in the Machinery Business
	Yasushi Okano	Responsible for the Environment and Safety Department, the Legal Department, the Human Resources Department, the Civil Engineering & Construction Technology Department, the Machinery & Materials Procurement Department, and Takasago Works (departments under its direct supervision). Responsible for companywide safety and health. Responsible for companywide environmental protection and disaster prevention
	Hideki Okumura	Responsible for the Project Control Management and Procurement Center, the Project Center, and the CWD Project Center in the Engineering Business
	Yoichi Kageki	General Manager of the New Business Development Division in the Machinery Business, General Manager of the Marketing Department of the New Business Development Division in the Machinery Business. Deputy General Manager of the Management Division in the Machinery Business
	Takeharu Kato	Responsible for the Steel Casting & Forging Unit, Aluminum Casting & Forging Unit, and the Titanium Unit in the Advanced Materials Business
	Ryosaku Kadowaki	Responsible for the Planning & Management Department, Business Transformation Department, Takasago Management Department (excluding the Plant Safety & Environmental Control Section) in the Advanced Materials Business. Responsible for Chofu Works (excluding the Quality Assurance Department and the Safety & Environment Management Section of the General Administration Department), and Daian Works (excluding Quality Assurance Section, Casting & Forging Research & Development Section, Safety & Environment Management Section of the General Administration Department) in the Advanced Materials Business
	Yoichi Kamiyauchi	Responsible for the SQE System Management Department, New Business Promotion Section, Nuclear Project Department, and Infrastructure Project Department in the Engineering Business
	Kazuaki Kawahara	Responsible for the Finance and Accounting Department
	Jiro Kitagawa	Head of the Electric Power Business
	Toshihide Kinoshita	Responsible for the IT Management Department in the Steel & Aluminum Business. Responsible for the special assignments from the Head of the Steel & Aluminum Business. General Manager of the Technology Planning Department in the Steel & Aluminum Business
	Kazuhiko Kimoto	Responsible for the Business Development Department in the Steel & Aluminum Business, General Manager of the Steel Plate Products Unit in the Steel & Aluminum Business
	Yoshinori Kurioka	General Manager of the Production Division in the Machinery Business, Deputy General Manager of the Management Division in the Machinery Business
	Yuichiro Goto	Head of the Technical Development Group
	Koichi Sakamoto	Oversees the Environment and Safety Department, the Quality Management Department, and the Intellectual Property Department. Oversees the Technical Development Group. Oversees companywide safety and health. Oversees companywide environmental protection and disaster prevention. Oversees companywide quality. Oversees companywide TQM activities

Positions	Name	Duties
Executive Officer	Shogo Sarumaru	Responsible for the New Business Development Division and the Sales & Marketing Division in the Machinery Business. Deputy General Manager of the Management Division in the Machinery Business
	Kazuyuki Suenaga	Head of the Welding Business
	Yasufumi Takada	Responsible for the Aluminum Extrusion & Suspension Unit, Copper Rolled Products Unit, and the Steel Powder Unit in the Advanced Materials Business
	Masaki Tanigawa	Responsible for Moka Works in the Steel & Aluminum Business, General Manager of the Aluminum Flat Rolled Products Unit in the Steel & Aluminum Business
	Hajime Nakanishi	Responsible for the Automotive Materials Planning Section, the Automotive Sheet Sales Department, and Nagoya Steel & Aluminum Sheet Sales Department in the Steel & Aluminum Business. General Manager of the Steel Sheet Products Unit in the Steel & Aluminum Business. Responsible for companywide automotive projects
	Shoji Nakamura	General Manager of Kakogawa Works in the Steel & Aluminum Business
	Keitaro Nakamori	Responsible for the Internal Control and Audit Department, the General Administration and CSR Department, the Rugby Center, and domestic branch offices and sales offices. Responsible for companywide compliance
	Akihiro Nishiguchi	Responsible for the Technology Management Department, Quality Assurance Department, Takasago Management Department (Plant Safety & Environmental Control Section), and Takasago Quality Assurance Department in the Advanced Materials Business. Responsible for Chofu Works (the Quality Assurance Department and the Safety & Environment Management Section of the General Administration Department) and Daian Works (the Quality Assurance Section, the Casting & Forging Research & Development Section, and the Safety & Environment Management Section of the General Administration Department) in the Advanced Materials Business
	Sumikazu Hoda	Responsible for the Raw Materials Procurement Department in the Steel & Aluminum Business. General Manager of the Planning & Management Department in the Steel & Aluminum Business
	Yuji Mihara	General Manager of the Wire Rod & Bar Products Unit in the Steel & Aluminum Business
	Shinji Miyaoka	Oversees the Business Development Department and the IT Planning Department. Oversees companywide information systems
	Yoshihiro Miyake	Responsible for the Automotive Sheet Products Technical Marketing Department and the Research & Development Laboratory in the Steel & Aluminum Business. Responsible for overall automotive sheet products in the Steel & Aluminum Business. Responsible for overall technical development of steel products in the Steel & Aluminum Business
	Shoji Miyazaki	Head of the Advanced Materials Business
	Masahiro Motoyuki	Head of the Engineering Business. Responsible for the companywide construction business
Daizo Morita	Responsible for overseas locations (under the Head Office). General Manager of the Corporate Planning Department	
Kunihiko Yoshitake	Vice Head of the Electric Power Business	

(2) Overview of the Agreement 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 that are listed in “(1) Directors” as stipulated in Article 423, Paragraph 1 of the Companies Act, pursuant to Article 427, Paragraph 1 of the provisions of the Companies Act and the Company’s Articles of Incorporation. Limits on liability for damages under these agreements shall be the amount set forth by laws and regulations.

(3) Overview of the Compensation Agreement

In order to secure superior talent and prevent directors from being intimidated in the performance of their duties, the Company has entered into a compensation agreement as stipulated in Article 430-2, Paragraph 1 of the Companies Act with all directors (including those who are Audit & Supervisory Committee members) listed in “(1) Directors,” to compensate expenses stipulated in Item 1 of the same Paragraph and the losses stipulated in Item 2 of the same Paragraph to the extent provided by laws and regulations. Under the relevant agreement, the following measures are taken to ensure that the appropriateness of the execution of duties by directors is not impaired.

- (a) In order to compensate the losses mentioned in Item 2 of the same Paragraph, the agreement shall be subject to a binding judgment or reconciliation which the Company deems appropriate.
- (b) If it is found that director’s execution of duties was intended for promoting improper interests or inflicting damage on the Company, or director’s explanation to the Company regarding the claim for compensation was false in any material respect, the Company may determine the said director is not eligible for compensation and demand the return of the amount of compensation already received by the director.

(4) Overview of the Directors and Executive Officers Liability Insurance Contract

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 by a resolution of the Board of Directors as the insured to secure superior talent and prevent them from being intimidated in the performance of their duties.

To enable appropriate risk-taking by top management, 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.

(5) Total Amount of Remuneration for Directors

Category	Number of Payees (Persons)	Amount (Millions of yen)	Breakdown of total amount by type of remuneration (Millions of yen)			Remarks
			Basic remuneration	Performance-based compensation	Medium- to long-term incentive compensation	
Directors (excluding Audit & Supervisory Committee members) (of which, outside directors)	9 (4)	459 (40)	312 (40)	82 (-)	65 (-)	Number of Payees and Amount include one outside director (excluding Audit & Supervisory Committee members), one internal director (who is Audit & Supervisory Committee member) and one outside director (who is Audit & Supervisory Committee member) who left the positions in fiscal 2022.
Directors (Audit & Supervisory Committee members) (of which, outside directors)	6 (4)	107 (44)	107 (44)	- (-)	- (-)	
Total	15	567	419	82	65	

- Note 1: Regarding the total amount of remuneration for directors (excluding directors who are Audit and Supervisory Committee members), the 169th Ordinary General Meeting of Shareholders held on June 22, 2022 passed a resolution that the maximum amount of basic remuneration shall be within a total of 460 million yen per fiscal year and that the maximum amount of performance-based compensation shall be within a total of 240 million yen per fiscal year. As of the conclusion of said General Meeting of Shareholders, the number of directors (excluding directors who were Audit & Supervisory Committee members) eligible for basic remuneration was eight (8) (of which, three (3) were outside directors), and the number of directors (excluding directors who were Audit & Supervisory Committee members) eligible for performance-based compensation was five (5). In addition, the 169th Ordinary General Meeting of Shareholders held on June 22, 2022 passed a resolution that the maximum amount to be contributed as funds for acquiring the Company's shares to the Board Benefit Trust (BBT), which has been introduced as a medium- to long-term incentive compensation for directors (excluding outside directors and directors who are Audit & Supervisory Committee members), shall be within 360 million yen for a three-fiscal year period and the number of points granted per fiscal year shall be within 424,100 points. 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 was five (5). In addition, regarding the total amount of remuneration for directors who are Audit and Supervisory Committee members, the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016 passed a resolution that the maximum amount of basic remuneration shall be within a total of 132 million yen per fiscal year. As of the conclusion of said General Meeting of Shareholders, the number of directors who were Audit and Supervisory Committee members eligible for basic remuneration was five (5) (of which, three (3) were outside directors).
- Note 2: The Company does not pay bonuses to directors.
- Note 3: The total amount of performance-based compensation is the estimated amount of payment, and the total amount of medium- to long-term incentive compensation is the amount of expenses posted for points awarded.
- Note 4: The detailed calculation method of the remuneration and other benefits for individual directors of the Company is specified in the internal regulations as approved by the Nomination & Compensation Committee, based on the Company's Basic Policy on Remuneration for Directors and Executive Officers resolved at a meeting of the Board of Directors, and relevant details are determined in accordance with those internal regulations. The remuneration and compensation for individual directors for fiscal 2022 have been determined based on the said internal regulations, and the Board of Directors deems that this is in line with the Company's policy on determination. The Company's Basic Policy on Remuneration for Directors and Executive Officers is as follows.

Basic Policy on Remuneration for Directors and Executive Officers

- 1) Basic Approach to Remuneration for Directors and Executive Officers
 - A) The system aims to secure talented human resources who can contribute to the Company's sustainable development, and appropriately compensate for such efforts.
 - B) The system aims to share values widely with stakeholders and promote not only short-term growth but also medium- to long-term growth.
 - C) In offering the incentive for accomplishing consolidated business result targets, the system must be devised with due consideration of the characteristics of each business so that directors and executive officers can fully carry out their roles.
 - D) In ensuring the objectivity and transparency of judgments regarding remuneration decisions, the Nomination & Compensation Committee deliberates 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 the Remuneration Regulations for Directors and Executive Officers, Detailed Rules on Remuneration Regulations for Directors and Executive Officers, Performance-Based Compensation Regulations for Directors and Executive Officers, and Stock Benefit Regulations for Directors and Executive Officers, which include the remuneration calculation methods for individual director/executive officer.
 - B) Remuneration for the Company's directors and executive officers 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 aim of sharing interest in corporate value enhancement with shareholders. Taking into consideration their duties, outside 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 25–30% 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 25–30% of basic remuneration for each rank and remuneration rank.
 - D) Limits of remuneration and other benefits 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 460 million yen per fiscal year
The limit of performance-based compensation	Within a total of 240 million yen per fiscal year
Maximum points to be granted for medium- to long-term incentive compensation	Within a total of 424,100 points 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: Composition of Remuneration for Directors and Executive Officers

The composition of remuneration for directors and executive officers is as follows. The percentages of the performance-based compensation and medium- to long-term incentive compensation are higher for the positions that require a higher level of performance and responsibility.

Rank	Basic remuneration	Performance-based compensation	Medium- to long-term incentive compensation
President, CEO and Representative Director	Approx. 63%	Approx. 19%	Approx. 19%
Executive Vice President and Representative Director	Approx. 63%	Approx. 19%	Approx. 19%
Director, Executive Officer	Approx. 67%	Approx. 17%	Approx. 17%
Director who is an Audit & Supervisory Committee Member	100%	–	–
Outside Director	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 standard pay amount for the portion linked to division performance of performance-based compensation and 0–100% of the standard pay 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 show the case where respective payments are made at 100% of the standard pay 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 Executive directors and executive officers are 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.

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 executive 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.

Note: The individual evaluation reflects the status of ESG-related initiatives in the work entrusted to each director and executive officer.

C) The calculation methods for the standard pay amount for each rank and remuneration rank are set forth in the Detailed Rules on Executive Remuneration Regulations for Directors and Executive Officers and the Performance-Based Compensation Regulations for Directors and Executive Officers.

D) Business management indices are disclosed in the Business Report.

Note: From fiscal 2021, ROIC is used as an evaluation indicator to promote the efficiency of management resources with an awareness of capital cost and strengthening of the business foundation. The base value in the calculation is set at a ROIC of 5%, based on the targets set forth in the Medium-Term Management Plan.

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 the number of points determined by multiplying the base point number by 0–100% according to profit attributable to owners of parent and the state of dividend payment for each fiscal year will be granted. On a fixed date during each trust period of three years, the Company's shares will be provided according to the number of points granted.

Note: Since the Company considers the return of profits to shareholders as one of its most important management issues, the Company uses profit attributable to owners of parent (hereinafter, "profit") as an evaluation indicator of the Company's performance. The base

value for the calculation is profit of 79.4 billion yen, which reflects the dividend payout ratio as stated in the Company's dividend policy.

- B) The calculation methods for the base point number for each rank and remuneration rank and coefficients are set forth in the Detailed Rules on Remuneration Regulations for Directors and Executive Officers and the Performance-based Compensation Regulations for Directors and Executive Officers.
- C) As funds for acquiring shares through 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 date 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.
- 5) The Timing of the Determination and the Payment of Remuneration Amount
- A) Basic remuneration will be paid every month from the month of appointment to the position 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 together with the portion linked to division performance in the amount determined based on the calculation formula according to the results of individual evaluation after the end of each fiscal year.
- 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
Remuneration standards are determined based on the survey data, collected by an external specialized agency, concerning the remuneration for directors and executive officers so that the standards are commensurate with the Company's corporate scale and the duties expected of directors and executive officers.
- 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 among 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:

Base value and actual value of indicators for each compensation

Compensation item	Performance-based compensation	Medium- to long-term incentive compensation
Indicator	ROIC	Profit attributable to owners of parent
Base value for fiscal 2022	5.0%	79.4 billion yen
Actual value for fiscal 2022	4.9%	72.5 billion yen

Activities of the Board of Directors and the Nomination & Compensation Committee during the most recent fiscal year

The following matters regarding remuneration for directors and executive officers for fiscal 2022 were discussed and reported to the Board of Directors by the Nomination & Compensation Committee and then resolved by the Board of Directors.

Meeting period	Deliberations and resolutions
April–May 2022	Submission of the proposal on revision to the maximum amount of remuneration for directors and executive officers to the General Meeting of Shareholders
June 2022	Revision of the Basic Policy on Remuneration for Directors and Executive Officers (revision to the maximum amount of remuneration for directors and executive officers)
May 2023	Amount of performance-based compensation and amount of medium- to long-term incentive compensation for fiscal 2022

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

$$\text{Performance-based compensation (portion linked to division performance)} = \text{Standard pay amount for each rank and remuneration rank*1} \times \text{Coefficient based on evaluation index*2}$$

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

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

*2 Coefficient based on evaluation index:

The coefficient is calculated based on the following formula using the ROIC over the given period as the evaluation index.

The applicable business division for the portion linked to division performance shall be determined for respective prospective recipients based on their commissioned work. In addition, in the case where the assigned duties to a director are performed in the head office divisions (including the Technical Development Group) or the electric power business division, the said director's performance-based compensation shall not include the portion of compensation linked to division performance and shall be calculated by multiplying the portion linked to Companywide performance by a factor of 1.0 [Portion linked to Companywide performance × 1.0] regardless of the following formula.

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

$$\text{(A) Portion linked to Companywide performance (\%)} = \left(\frac{100}{3} \times \text{Companywide Consolidated ROIC} - \frac{2}{3} \right) \times 100$$

$$\text{(B) Portion linked to division performance (\%)} = \left(\frac{100}{3} \times \text{Consolidated ROIC by business division} - \frac{2}{3} \right) \times 100$$

*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%, it will be defined as 0%. In the event that the value goes above 200%, it will be defined as 200%.

(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 on Remuneration Regulations for Directors and Executive Officers.

*2 Coefficient based on evaluation index:

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

(6) Major Activities of Outside Directors During Fiscal 2022

	Board of Directors Meetings Attended (Attendance Rate)	Audit & Supervisory Committee Meetings Attended (Attendance Rate)	Summary of Advice Received at Meetings of the Board of Directors and the Audit & Supervisory Committee, and Duties Performed in Relation to Expected Roles
Director Hiroyuki Bamba	16/16 meetings held (100%)	—	Provided advice and suggestions concerning corporate management based on his abundant experience in different business fields from ours in the world of industry and deep insight as a corporate executive. At Meetings of Independent Directors, he received information from executives and provided various kinds of advice and suggestions on business execution from an objective standpoint based on active discussion on related matters among independent directors, as a person responsible for monitoring the management of the Company. In addition, as Chairman of the Board of Directors, Committee Chair of the Nomination & Compensation Committee, and a member of the Corporate Governance Committee, he contributed to the enhancement of the monitoring functions of the management of the Company.
Director Yumiko Ito	16/16 meetings held (100%)	—	Provided advice and suggestions concerning corporate management based on her experience in the legal profession as an Attorney at Law, and abundant experience as a corporate executive centered on legal affairs in a different business field from ours in the world of industry. At Meetings of Independent Directors, she received information from executives and provided various kinds of advice and suggestions on business execution from an objective standpoint based on active discussion on related matters among independent directors, as a person responsible for monitoring the management of the Company. In addition, as Committee Chair of the Corporate Governance Committee, she contributed to the enhancement of the monitoring function of the management of the Company.

	Board of Directors Meetings Attended (Attendance Rate)	Audit & Supervisory Committee Meetings Attended (Attendance Rate)	Summary of Advice Received at Meetings of the Board of Directors and the Audit & Supervisory Committee, and Duties Performed in Relation to Expected Roles
Director Shinsuke Kitagawa	11/11 meetings held (100%)	—	Provided advice and suggestions concerning corporate management based on deep insight for the world of industry overall based on his abundant experience in economic and industrial policies, primarily in natural resources domain, and experiences in different business fields from ours. At Meetings of Independent Directors, he received information from executives and provided various kinds of advice and suggestions on business execution from an objective standpoint based on active discussion on related matters among independent directors, as a person responsible for monitoring the management of the Company. In addition, he contributed to the enhancement of the monitoring function of the management of the Company as a member of the Corporate Governance Committee.
Director (Audit & Supervisory Committee Member) Masaaki Kono	16/16 meetings held (100%)	18/18 meetings held (100%)	Provided advice and suggestions concerning corporate management based on 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. At Meetings of Independent Directors, he received information from executives and provided various kinds of advice and suggestions on business execution from an objective standpoint, based on active discussion on related matters among independent directors, as a person responsible for monitoring the management of the Company. In addition, as Committee Chair of the Audit & Supervisory Committee, member of the Nomination & Compensation Committee, and a member of the Corporate Governance Committee, he contributed to the enhancement of the monitoring functions of the management of the Company, while actively visiting and auditing business locations as Audit & Supervisory Committee Member.

	Board of Directors Meetings Attended (Attendance Rate)	Audit & Supervisory Committee Meetings Attended (Attendance Rate)	Summary of Advice Received at Meetings of the Board of Directors and the Audit & Supervisory Committee, and Duties Performed in Relation to Expected Roles
Director (Audit & Supervisory Committee Member) Kunio Miura	16/16 meetings held (100%)	17/18 meetings held (94%)	Provided advice and suggestions concerning corporate management based on 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. At Meetings of Independent Directors, he received information from executives and provided various kinds of advice and suggestions on business execution from an objective standpoint based on active discussion on related matters among independent directors, as a person responsible for monitoring the management of the Company. In addition, 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.
Director (Audit & Supervisory Committee Member) Nobuko Sekiguchi	11/11 meetings held (100%)	13/13 meetings held (100%)	Provided advice and suggestions concerning corporate management based on deep insight underpinned by her abundant experience in finance, accounting and business management in different business fields from ours in the world of industry and extensive knowledge as outside officers at listed companies. She also actively shared her thoughts on matters related to compliance. At Meetings of Independent Directors, she received information from executives and provided various kinds of advice and suggestions on business execution from an objective standpoint based on active discussion on related matters among independent directors, as a person responsible for monitoring the management of the Company. In addition, as Audit & Supervisory Committee Member, she actively visited and audited business locations.

Note: Since June 22, 2022 on which Directors Shinsuke Kitagawa and Nobuko Sekiguchi took office as Director, the Board of Directors and the Audit & Supervisory Committee met 11 and 13 times, respectively.

4. Accounting Auditor

(1) Name of Accounting Auditor
KPMG AZSA LLC

(2) Remuneration and Other Amounts Paid to Accounting Auditor

	Category	Amount (Millions of yen)
(a)	Remuneration and other amounts paid to Accounting Auditor by the Company	169
(b)	Total amount of money and other financial interests paid by the Company and its subsidiaries	475

Note 1: In the audit agreement between the Accounting Auditor and the Company, the amount of remuneration for audit based on the Companies Act and for audit based on the Financial Instruments and Exchange Act is not classified and cannot be classified in substance. Hence, the amount in the item (a) above indicates the total of these amounts.

Note 2: The Audit & Supervisory Committee determined that the amount of remuneration and other amounts paid to the Accounting Auditor was appropriate and gave its consent under Article 399, Paragraph 1 of the Companies Act as a result of the review of the details of the audit plan for fiscal 2022 and the basis for calculation of remuneration, while also taking into consideration the audit results of the Accounting Auditor for the previous fiscal year.

Note 3: Among 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 the Accounting Auditor with advisory and other services relating to internal control, 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 Accounting Auditor is found to fall under any of the provisions of Article 340, Paragraph 1 of the Companies Act, the Company's Audit & Supervisory Committee shall dismiss the Accounting Auditor. Such dismissal shall require the consent of all the Audit & Supervisory Committee members.

In addition, if the Company deems that the Accounting Auditor is unable to perform an accounting audit appropriately, or if the Company deems it necessary to dismiss the said auditor for other reasons, the Audit & Supervisory Committee shall determine the details of a proposal for the dismissal or non-reappointment of the said 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 Structures and Policies

(1) Structures for Ensuring the Propriety of Business Operations

The Company's basic policy concerning the structure for ensuring the propriety of business operations (Internal Control System Basic Policy) is as follows:

(a) Structures for ensuring compliance with laws and regulations and the Company's Articles of Incorporation in the performance of duties by Directors and employees

Under the Group Corporate Philosophy, the Company shall establish Compliance Regulations that set forth basic matters regarding compliance systems and their operation, etc.

The Company shall plan and implement Group's compliance promotion activities based on the Kobelco Group's Compliance Program.

The Company and major Group companies shall build a structure to ensure compliance with laws, regulations, social norms, etc., that incorporates inspections by outside experts, including the establishment of a Compliance Committee—an advisory body to the Board of Directors with 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 structures 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 Concerning Financial Reporting."

(c) Structures regarding the retention and management of information relating to the performance of duties by Directors

The Company shall establish Regulations for Retention and Control of Information Concerning Performance of Duties by Directors, and properly store and manage information concerning the performance of duties by directors in accordance with it.

(d) Rules and structures for the management of risk of loss

The Company shall establish a Risk Management Committee as an auxiliary body to the Executive Council. The Committee shall plan and evaluate basic policies on overall risk management, develop specific policies on important risk management issues, evaluate risk countermeasure implementation plans for highest priority and important risks, and plan and evaluate companywide risk management plans.

In addition, the Company shall establish Risk Management Regulations and, in accordance with them, develop risk management activities 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) Structures for ensuring the efficient performance of duties by directors

The Company's Board of Directors shall focus on determining important management directions and monitoring, including risk management. Executive directors include the president and directors who oversee key specific companywide functions.

To realize a management structure for which transparency and fairness are ensured, the Company shall appoint outside directors who are Audit & Supervisory Committee members and outside directors who are not Audit & Supervisory Committee members.

In order to enhance the effectiveness of the monitoring function of the Board of Directors, the Company shall establish a Compliance Committee, Nomination & Compensation Committee, Quality Management Committee, and Corporate Governance Committee as advisory bodies.

The Company shall adopt the Business Unit System to promote prompt decision-making and fully demonstrate the Group's collective strengths, through information sharing and cooperation across business divisions.

The Company shall hold meetings of the Executive Council as a forum for executive officers, who are appointed by the Board of Directors, to execute the operations of each business division and to deliberate important management matters and matters to be presented to the Board of Directors meetings.

In order to enhance the effectiveness of the deliberations at the Executive Council, the Company shall establish various committees as auxiliary bodies to the Executive Council to address important matters related to companywide strategies such as sustainability management, risk management, business portfolio management, and investment and loan. In addition, the Company shall also establish an Executive Liaison Committee, comprised of directors, executive officers, and fellows who execute business operations of the Company, 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) Structures for ensuring the proper operation of the Group, consisting of the Company and its subsidiaries

The Company shall set Group Company Management Regulations and oblige its subsidiaries 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 shall also require 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.

The Company shall set Group Standards that set forth the minimum rules to be established by Group companies. All subsidiaries of the Company shall establish their own rules and procedures in accordance with these Standards in order to promote the risk management through providing training, raising awareness, and facilitating implementation. Each subsidiary of the Company shall formulate its own appropriate preventive maintenance measures in accordance with the Risk Management Regulations.

The Company shall dispatch its employees to its subsidiaries as directors and/or corporate auditors of such subsidiaries and oversee the management of these subsidiaries.

In addition, the Company shall require its subsidiaries to share the Group Corporate Philosophy, establish a compliance committee and undertake other initiatives, such as establishing an internal reporting (whistleblowing) system, based on the Kobelco Group's Compliance Program in order to build a system to ensure compliance with laws and regulations.

However, for listed companies, the Company shall take care not to bind the independent judgment of the managers of such companies, in order to ensure certain managerial independence of listed companies from the Company.

(g) Matters regarding directors and employees who assist in the duties of the Audit & Supervisory Committee, matters regarding the independence of both said directors and employees from directors who are not Audit & Supervisory Committee members, and matters regarding ensuring the effectiveness of instructions given by the Audit & Supervisory Committee to the said directors and employees

The Company shall organize an Audit & Supervisory Committee Members' Office to support the duties of the Audit & Supervisory Committee and assign dedicated staff. Personnel changes, performance appraisal, and other issues relating to the employees of the Audit & Supervisory Committee Members' Office 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 Members' Office shall support the audits by the Audit & Supervisory Committee based on instructions by the Audit & Supervisory Committee in accordance with the Rules 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 Members' Office and cooperate to ensure the effectiveness of the audits by the Audit & Supervisory Committee.

(h) Structures for reporting to the Audit & Supervisory Committee by directors (excluding directors who are Audit & Supervisory Committee members) and employees and other structures regarding reporting to the Audit & Supervisory Committee; structures for reporting to the Audit & Supervisory Committee by directors and employees of the Company's subsidiaries; and structures 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 to the Audit & Supervisory Committee on the status of performance of duties, important committees, and other matters, in addition to matters designated by law. They shall also report each time material risks that occur in business activities and the status of response to them, as well as the development and operation of structures for ensuring proper financial reporting.

Additionally, they shall report the current circumstances of subsidiaries to the Audit & Supervisory Committee depending on the necessity to do so. The Internal Control and Audit Department shall report the status of risk management activities and compliance of the entire Group to the Audit & Supervisory Committee.

Under the Compliance Regulations, the Company shall prohibit retaliation to whistleblowers who inform through the internal reporting system and to employees who make reports to the Audit & Supervisory Committee and ensure that this information is known to employees.

(i) Matters concerning the policies on procedures for advance payment or reimbursement of expenses arising from the execution of the duties of the Audit and Supervisory Committee and the treatment of other expenses or debts arising from the execution of said duties

If an Audit & Supervisory Committee member requests payment for expenses arising from the execution of duties based on the Companies Act, the Company shall pay for such expenses or debts, except when the Company confirms that the execution of such duties is not necessary. For the expenses necessary for the Audit & Supervisory Committee to execute its duties, the Company shall budget a certain amount in advance every year for expenses that the Audit & Supervisory Committee deems necessary for its duties.

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

To ensure the effectiveness of audits by the Audit & Supervisory Committee, the Company shall require the Audit & Supervisory Committee to provide explanations of its annual audit policies and plans 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: Any subsidiary directly or indirectly owned by the Company is considered as a Group company and subject to the Company's management.

(2) Operational Status of the Structure for Ensuring the Propriety of Business Operations

The Company is taking measures to develop the Structure for Ensuring the Propriety of Business Operations, and ensure its proper operation, in line with its basic policy on this structure. A summary of the operational status of the structure in fiscal 2022 is as follows.

(a) Compliance measures

• Meetings of the Compliance Committee

The Compliance Committee, an advisory body to the Board of Directors, met three (3) times and its activities include reports on the results of activities in the previous fiscal year and the formulation and approval of the annual plan.

• Implementation of the Kobelco Group's Compliance Program

Based on the Kobelco Group's Compliance Program, the Company implemented initiatives on top management commitment, training and others. In addition, domestic Group companies also steadily introduced this program and conducted diagnoses of the status of activities related to compliance systems, competition laws, bribery and corruption prevention, and security trade control, etc.

• Implementation of compliance training

The Company classified its compliance training programs by job grade, applicable laws and regulations, and roles, and implemented them as planned, while making use of online training and e-learning.

• Monitoring activities and usage status of internal reporting (whistleblowing) system

Compliance with competition laws and security trade control laws was regularly monitored. The internal reporting system received 111 reports, including those from domestic and overseas Group companies, and responded to them appropriately. The status of response to the cases were reported to the Compliance Committee.

• Implementation of compliance awareness surveys

The Company and its domestic Group companies conducted compliance awareness surveys this fiscal year, continuing from previous years, and based on the survey results, it planned compliance promotion activities for fiscal 2023.

(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

The Company have been promoting risk management activities for high-priority potential risks that are likely to have a significant impact on the entire Group under the direction of risk owners (relevant executive officers). The activity plan and implementation status of activities are reported to the Board of Directors, and top management confirms the status of 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 → monitoring → reviewing for improvement for the next fiscal year. The results of these activities are incorporated in plans for the next fiscal year and subsequent fiscal years after top management has verified them. This system has been proactively deployed at all Group companies. In addition, the Risk Management Committee, which has been established as an auxiliary body to the Executive Council, formulates and evaluates basic policies concerning risk management in general and specific policies concerning important issues of risk management and works to improve the effectiveness of risk management.

(c) Measures for ensuring the efficiency of execution of duties by directors

In order to enhance the effectiveness of the monitoring function of the Board of Directors, the Company convened various committees, which have been established as advisory bodies to the Board of Directors. The Company conducted 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. After discussions at meetings of the Board of Directors, the Company disclosed the results on the Company's website, and the Board of Directors Secretariat took the initiative in responding to the issues identified.

The Executive Council met 23 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. In order to enhance the effectiveness of the Executive Council, the Company convened various committees, which have been established as auxiliary bodies to the Board of Directors. In addition, the Company is working to enhance supervisory functions by holding Meetings of Independent Directors for information sharing.

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

The Audit & Supervisory Committee conducted interviews with executive directors including the president, heads of business divisions, and executive officers, exchanged views with outside directors, and implemented on-site audits at domestic and overseas locations.

By making use of the internal control system, the Committee held monthly meetings with the Internal Control and Audit Department in an effort to promote information-sharing and cooperation and conducted interviews with planning and administration departments in business divisions and audits of companies overseeing operations overseas. The Committee also conducted interviews with the corporate auditors of subsidiaries concerning the status of their activities.

In addition, the Committee is working to maintain close cooperation with the Accounting Auditor through periodic exchange of opinions at quarterly reviews and other activities on issues including evaluation results of internal control concerning financial reporting.

(3) Basic Policy for Parties who Have Control Over Decisions of the Company Financial and Business Policies (Basic Policy on Corporate Control)

(a) Description of the Basic Policy

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 create unique synergies. These businesses are supported by a wide range of stakeholders, including the Company's employees who take on bold challenges in the fields of research and development and manufacturing, business partners and customers in Japan and abroad—mainly in the transportation equipment, energy and infrastructure sectors—with whom the Company has nurtured relationships of trust over many years. For a wide range of customers, the Company supplies unique and diverse product lineups, including materials and components that are difficult to substitute in the materials businesses, and energy-efficient and eco-friendly products in the machinery businesses, and it also provides highly public services such as the supply of electricity—a crucial component of social infrastructure—in the electric power business. The Company recognizes its significant responsibility to society to continue to provide these products and services. The Company believes that its corporate value relies on the sources that originated from: the synergies created through the exchange and fusion of technologies across business divisions; the provision of unique and high-value-added products; relationships of trust built with stakeholders through these activities: the responsibility to provide social infrastructure; and the trust of society.

The Company, as a listed company, deems that there may be a situation where it must approve even a large-scale purchase of the Company's shares involving a change of its corporate control, as long as such purchase contributes to the securing and enhancement of its corporate value generated from the sources described above, and, ultimately, to the common interests of its shareholders in the course of open stock trading. However, for this to happen, the party who has control over decisions on the Company's financial and business policies must fully understand the sources of the Company's corporate value, such as the Company's management philosophy and the relationship of mutual trust with its stakeholders who support the Company, which are essential for the enhancement of corporate value and, ultimately, the common interests of its shareholders. With this understanding, such a party must secure and enhance the Company's corporate value and, ultimately, the common interests of its shareholders.

Taking this into consideration, the Company will strive to secure its corporate value and the common interests of its shareholders by taking appropriate measures against the one who makes or intends to make a large-scale purchase of the Company's shares within the scope permitted by relevant laws and regulations.

(b) Special initiatives that contribute to the realization of basic policies concerning the effective utilization of the Company's assets, the formation of an appropriate corporate group, and other corporate control matters

(i) Initiatives to enhance corporate value by developing management strategies

The Company is working to realize the Kobelco Group Medium-Term Management Plan (FY2021-FY2023), in order to enhance its corporate value by demonstrating its competitive advantages through solving social issues utilizing the Group's distinctive technologies, including contributing to the realization of a green society and ensuring safety and security in community development and manufacturing, and by pursuing corporate governance to support these efforts.

The Company will strive to enhance its corporate value through providing solutions to the needs of society, by making the best use of the talents of its employees and its technologies, based on the three core business areas of the materials businesses, machinery businesses, and the electric power business, with the aim of realizing "a world in which people, now and in the future, can fulfill their hopes and dreams while enjoying safe, secure, and prosperous lives."

* For the details of the 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 by strengthening corporate governance

The Company believes that it is necessary to strengthen corporate governance in order to continuously improve corporate value.

The Company has made various efforts to strengthen its corporate governance system, including the transition to a company with an Audit & Supervisory Committee, the review of the members of the Board of Directors, the enhancement of supervisory functions through the establishment of advisory bodies such as the Nomination & Compensation Committee and the Corporate Governance Committee, both of which consist of a majority of members from outside the Company, and the review of the remuneration system for directors and executive officers.

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

(c) Initiatives to prevent inappropriate parties from having control over decisions on the Company's financial and business policies in light of its Basic Policy on Corporate Control

From the perspective of securing the Company's corporate value and the common interests of its shareholders, the Company will request that a party who makes or intends to make a large-scale purchase provide necessary and sufficient information to enable the shareholders to make an appropriate decision on whether or not to have them make such large-scale purchase in accordance with relevant laws and regulations and disclose the opinions of the Board of Directors of the Company and other information so as to secure the necessary time and information for the shareholders.

If it is reasonably assumed that the Company's corporate value and the common interests of shareholders may be harmed unless prompt defensive measures are taken, the Board of Directors 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 on the details of specific measures deemed most appropriate at the time and implementing them within the scope permitted by the relevant laws and regulations.

The initiatives stipulated in the Items (b) and (c) above are in line with the Company's corporate value and the common interests of its shareholders, based on the policy stipulated in the Item (a) above, and are not intended to maintain the status of directors of the Company.

(4) Policy on Decisions Concerning Dividends of Surplus, etc.

The Company positions the return of profits to shareholders as a key issue for management and works to improve the corporate value of the entire Group by promoting business development from a medium- to long-term perspective.

For the distribution of dividends, the Company takes its financial condition, business performance, future capital needs and other factors into overall consideration. In determining dividend amounts, the Company will look 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 will strive to improve profitability and improve and strengthen its financial position by allocating the retained earnings to investments necessary for future growth.

For the time being, the Company will aim for a dividend payout ratio of 15–25% of consolidated profit in consideration of the distribution of profits commensurate with business performance.

The Company's Articles of Incorporation stipulate that dividend of surplus shall be determined by resolution at the Board of Directors in accordance with Article 459, Paragraph 1 and Article 460, Paragraph 1 of the Companies Act.

Based on this, the Company's basic policy is to pay dividends twice a year by resolution at the Board of Directors at the end of the interim period and at the end of the fiscal year, which are the record dates stipulated in the Articles of Incorporation. If the dividends are to be paid on any other record date, the record date shall be separately set by the Board of Directors.



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