Business Report

(April 1, 2017, to March 31, 2018)

1. Matters concerning the State of the Corporate Group

(1) The Progress and Outcomes of Business Operations

During the current consolidated fiscal year, the world economy showed signs of modest growth, with steady economic recovery in the U.S. and continued economic growth in China and other emerging countries. As for Japan, the country continued on a path of modest recovery, with favorable employment conditions and active capital investments underpinned by improved corporate earnings. There were also signs of improvement in manufacturing and other industrial activities.

Against this backdrop, the Group expanded its foundation for developing business globally. In Mexico, manufacturer and retailer of cold heading (CH) steel wire, Kobelco CH Wire Mexicana, S.A. de C.V., commenced mass production. In South Korea, aluminum sheet cutter, processor, and wholesaler, KTN Co., Ltd., expanded and relocated its facilities to accommodate increased local demand for liquid crystal displays and semiconductor equipment. As for Japan, we made efforts to strengthen the Group's sales structure. For example, we made MORIMOTO KOSAN Co., Ltd. (a cutter, processor, and wholesaler of steel-plate and sheet materials) a consolidated subsidiary after acquiring stocks therein. We also purchased additional stocks in Nakayama Corporation (a wholesaler and processor of nonferrous metals), making it a wholly owned subsidiary. In this way, we aggressively promoted business to showcase our strengths as a trading enterprise.

Regarding the Group's financial results for the current consolidated fiscal year, sales were ¥929,467 million (up 20.8% year-on-year), operating income was ¥8,119 million (up 68.5% year-on-year), and ordinary income was ¥8,624 million (up 64.3% year-on-year). Net income attributable to shareholders of parent came to ¥5,449 million (up 83.5% year-on-year).

An outline of the performance in each of the business segments is provided below.

Iron & Steel Segment

Domestic sales volume of steel-plate and sheet materials increased thanks to strong demand among manufacturers, while sales prices were also up due to positive market conditions. As for exports to overseas markets, while sales volume declined, sales prices rose. Regarding wire rod products, sales volume rose in Japan while declining overseas, and sales prices increased both in Japan and overseas following an upturn in automotive equipment prices.

Consequently, the Iron & Steel Segment saw sales of ¥338,632 million (up 19.5% year-on-year), and segment income of ¥4,048 million (up 53.1%).

Ferrous Raw Materials Segment

Regarding ferrous raw material imports, both sales volume and sales prices increased. The same was true for cold iron materials. The sales volume of alloy steel and titanium materials also increased.

Consequently, the Ferrous Raw Materials Segment saw sales of ¥303,069 million (up 33.1%), and segment income of ¥1,394 million (up 33.8%).

Nonferrous Metals Segment

Regarding copper products, the segment saw higher sales volume in copper tubes for air conditioning units, copper sheets and strips for automotive terminals, and copper sheets and strips for semiconductors. Regarding aluminum products, the segment saw increased sales volume in aluminum sheets/strips and extruded aluminum for automobiles and in aluminum-processed products for liquid crystal displays and semiconductor equipment. As for nonferrous raw materials, the sales volume of copper scrap material increased.

Consequently, the Nonferrous Metals Segment saw sales of ¥242,656 million (up 21.3%), and segment income of ¥2,175 million (up 52.6%).

Machinery & Electronics Segment

Regarding machinery products, the segment saw lower sales volume in large-scale equipment orders for ironworks and compressor plants, and higher sales volume in standard compressors, heat-treating furnaces, testing equipment, and battery-related materials. As for information-related products, volume of sales in solar battery-related materials declined, but that in PC components increased.

Consequently, the Machinery & Electronics Segment saw sales of ¥66,933 million (down1.8%), but segment income was ¥967 million (up 758.5%).

Welding Segment

Regarding welding materials, the segment recorded a strong domestic sales volume for distribution-related materials such as materials for construction machinery, particularly those for steel-frame building construction. However, materials for shipbuilding remained at the same level as the previous year, while those for chemical engineering declined. Sales volume for exports declined too. Sales volume was strong in welding-related equipment—specifically, in general-purpose welding equipment, and steel frame welding robot systems. Shipbuilding equipment performed well in terms of exports, but it significantly declined in terms of domestic sales. Materials for production were negatively affected to a great extent by a decline in titanium materials.

Consequently, the Welding Segment saw sales of ¥42,080 million (down 1.1%), and segment income of ¥94 million (down 65.3%)

Sales and Income by Segment

Segment	99th Term		100th Term		Year-on-year change	
	Sales	Segment income	Sales	Segment income	Sales	Segment income
	Million yen	Million yen	Million yen	Million yen	%	%
Iron & Steel	283,364	2,644	338,632	4,048	19.5	53.1
Ferrous Raw Materials	227,707	1,042	303,069	1,394	33.1	33.8
Nonferrous Metals	200,061	1,425	242,656	2,175	21.3	52.6
Machinery & Electronics	68,170	112	66,933	967	(1.8)	758.5
Welding	42,542	271	42,080	94	(1.1)	(65.3)
Other	395	(31)	356	(31)	(10.0)	-
Adjusted amount	(52,760)	(216)	(64,260)	(25)	(21.8)	-
Total	769,481	5,248	929,467	8,624	20.8	64.3

Note: "Other" refers to business segments such as real-estate leasing that are not reported separately herein.

(2) Capital Investment

In the current fiscal year, there was approximately ¥900 million of capital investment (including capital investment in intangible fixed assets). Much of the investment was directed toward the facilities and equipment of U.S.-based subsidiary Grand Blanc Processing, L.L.C., and the Mexico-based subsidiary Kobelco CH Wire Mexicana, S.A. de C.V. There was also investment in system development, primarily in administrative headquarter.

(3) Ongoing Challenges

Regarding the outlook for Japan's economy, there are some encouraging signs, including vigorous exports and manufacturing and a surge in domestic demand for infrastructure in the run-up to Tokyo 2020. However, the overall picture remains cloudy amid various causes for concern, including U.S. trade policies, the high yen, and the North Korea situation.

Against this backdrop, the Company is pursuing various strategies for reaching the targets set out in the medium-term business plan (FY2016–2020) and ultimately achieving the long-term vision of growing into a global trading enterprise at the center of the Kobe Steel Group. To this end, the Company has identified the following as ongoing challenges.

1) Accelerating Global Business Development

(i) Strengthening Global Locations

The Company is further enhancing the Group's business in the three global locations (United States, Thailand, and China). Despite uncertainties about the Trump administration, the Company is expanding business in the region by promoting the sales activities of Kobelco CH Wire Mexicana, S.A. de C.V., a cold heading (CH) steel wire manufacturer and retailer with close connections to the base of operations in the U.S. In Thailand, the Company is further expanding business by enhancing its supply of billets to Kobelco Millcon Steel Co., Ltd., Kobe Steel's joint

venture of steel wire rod business, and improving the way it supports the joint venture's sales activities. The Company is also stepping up efforts in China. For example, it is enhancing the downstream distribution and processing capacity of Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd., a producer of aluminum sheets materials for automotive panels managed by Kobe Steel. As for the ASEAN and India region, the Company is enhancing the regional management function as part of an effort to strengthen the regional support function.

(ii) Improving the Ratio of Overseas Transactions

The Company aims to raise the ratio of overseas transactions to 50% in the long term.

2) Strengthening the Trading Function

The Company will support Ulsan Aluminum Ltd., Kobe Steel's aluminum sheet rolling joint venture in South Korea. To get the business up and running as soon as possible, we will provide logistical and financial assistance to supply the company and facilitate its sales efforts. In Japan, we acquired MORIMOTO KOSAN Co., Ltd. as a consolidated subsidiary and made an existing subsidiary, Nakayama Corporation, a wholly owned consolidated subsidiary. MORIMOTO KOSAN Co., Ltd. became a wholly owned consolidated subsidiary on April 1, 2018.

The Company will continue efforts to increase the profitability of the businesses in which it has invested, engage in M&A transactions, and thus further expand business. It also proactively promotes its services as a trading enterprise and venture into growing business fields.

3) Create a Sound Business Foundation

(i) Secure, deploy, and train human resources

With a view to developing business globally, the Company is securing, deploying, and training human resources in a forward-thinking manner. For example, it recruits a diverse workforce, dispatches young employees overseas to train, and arranges training in Japan for overseas staff. The Company is also working to reform workstyles. We are developing a working environment that accommodates a diverse range of working practices, encouraging the use of paid leave, and cutting back on overtime.

(ii) Stronger financial base

With a view to expanding investment activities, the Company is working to strengthen its fund-raising capacity and improve the efficiency of the Group's fund operations. It is also making efforts to further improve equity capital.

(iii) Enhance management system

The Company is taking steps to ensure thoroughgoing compliance and risk management in terms of safety, quality assurance, and eco-sustainability, and it is strengthening systems of corporate governance.

We sincerely ask for your continued support and encouragement as we pursue these efforts.

(4) Assets and Income

1) Assets and Income of the Corporate Group

Category		97th term (FY2014)	98th term (FY2015)	99th term (FY2016)	100th term (FY2017) (current consolidated fiscal year)
Sales	(millions of yen)	870,407	791,342	769,481	929,467
Ordinary income	(millions of yen)	6,575	5,918	5,248	8,624
Net income attributable to shareholders of parent	(millions of yen)	3,974	3,480	2,970	5,449
Earnings per share	(yen)	448.84	393.04	335.43	615.47
Total assets	(millions of yen)	259,786	245,594	257,510	284,291
Total equity	(millions of yen)	45,692	45,250	47,682	53,725

2) Assets and Income of the Company

Category		97th term (FY2014)	98th term (FY2015)	99th term (FY2016)	100th term (FY2017) (current fiscal year)
Sales	(millions of yen)	768,816	681,273	646,959	780,047
Ordinary income	(millions of yen)	5,658	4,452	3,974	4,994
Net profit attributable to owners of parent	(millions of yen)	3,422	2,733	2,120	2,899
Earnings per share	(yen)	386.45	308.57	239.36	327.44
Total assets	(millions of yen)	208,944	191,285	200,577	212,372
Total equity	(millions of yen)	32,042	32,103	34,905	37,514

(Note) Effective October 1, 2016, the Company changed the number of shares constituting one share unit (from 1,000 shares to 100 shares) and consolidated shares (at a ratio of 10 shares to 1 share). The earnings per share have been calculated on the premise that the share consolidation was implemented at the beginning of the 97th term.

(5) Parent Company and Significant Consolidated Subsidiaries

1) Significant Consolidated Subsidiaries

Company Name	Paid-in Capital	Investment ratio	Main business lines
		%	
Shinsho Steel Products Corporation	90 million JPY	100	Trading of construction materials and wire rod products
MORIMOTO KOSAN Co., Ltd	30 million JPY	40	Trading of steel products; cutting, processing, and trading of steel-plate and sheet materials
Shinsho Non-Ferrous Metals Corp.	90 million JPY	100	Cutting, processing, and trading of aluminum and copper products
Nakayama Corporation	30 million JPY	100	Trading of raw nonferrous metals and processed products
Kobelco Tsutsunaka Trading Co., Ltd.	30 million JPY	70	Trading of nonferrous metals and processed products
Matsubo Corporation	465 million JPY	100	Import, export, and trading (in Japan) of industrial machinery and plants; contracted installation of machinery
Asia Chemical Engineering Co., Ltd.	90 million JPY	50	Design and construction of plants
SC Welding Corporation	44 million JPY	80	Trading of welding materials, welding equipment, and welding robot systems
Shinsho Business Support Co., Ltd.	10 million JPY	100	Contracted personnel operations; temporary staffing
Shinsho American Corp.	19 million USD	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, and information industry
Grand Blanc Processing, L.L.C.	18 million USD	*70	Processing of wire rod products
Aiken Wire Processing, L.L.C.	2.617 million USD	*100	Wire drawings for steel wire
Shinsho Mexico S.A. de C.V.	1.5 million USD	*100	Import, export, and trading of iron & steel products
Kobelco CH Wire Mexicana, S.A. de C.V.	11.941 million USD	40	Manufacture and trading of cold heading (CH) steel wire
SC Tech de Mexico, S.A. de C.V.	1 million USD	*100	Manufacture and trading of automotive equipment production facilities and processed products
Shinsho Europe GmbH	1 million EUR	100	Import, export, and trading of products related to iron & steel, nonferrous metals, machinery, information industry, and welding
Kobelco Trading Australia Pty. Ltd.	1.7 million AUD	100	Investment in mineral rights
Kobelco Trading (Shanghai) Co., Ltd.	13 million USD	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding

Company Name	Paid-in Capital	Investment ratio	Main business lines
		%	
Suzhou Shinko-Shoji Material Co., Ltd.	8.820 million USD	100	Slitting, shirring, processing, and trading of aluminum rolling materials
Kobelco Precision Parts (Suzhou) Co., Ltd.	450 million JPY	80	Precision-processing of products for liquid crystal displays and semiconductor equipment; bonding-processing of target materials
Shinsho Osaka Seiko (Nantong) Corp.	5 million USD	55	Manufacture, processing, and trading of automotive parts
Shanghai Shinsho Trading Co., Ltd.	0.2 million USD	100	Import, export, and trading of products related to iron & steel, nonferrous metals, machinery, information industry, and welding
Thai Escorp Ltd.	300 million THB	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding
Shinko Shoji Singapore Pte. Ltd.	2.4 million SGD	100	Import, export, and trading of products related to ferrous raw materials, nonferrous metals, and welding
PT. Kobelco Trading Indonesia	1.750 million USD	*100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding
Kobelco Trading Vietnam Co., Ltd.	1.5 million USD	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, and information industry
Kobelco Trading India Private Limited	45 million INR	*100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding
Kobelco Plate Processing India Private Limited	621.724 million INR	51	Manufacture and trading of cutting steel plates and parts for can manufacture
Shinsho Korea Co., Ltd.	400 million KRW	100	Import, export, and trading of products related to iron & steel, ferrous raw materials, nonferrous metals, machinery, information industry, and welding
Shinsho (Philippines) Corp.	15 million PHP	100	Import, export, and trading of products related to nonferrous metals and welding
Shinsho (Malaysia) Sdn. Bhd.	1 million MYR	*100	Import, export, and trading of products related to nonferrous metals and welding
Taiwan Shinsho Corp.	5 million TWD	100	Import, export, and trading of products related to nonferrous metals, machinery, information industry, and welding

(Notes) 1. * indicates that the shares include indirect investment.
2. The Company acquired MORIMOTO KOSAN Co., Ltd. as a consolidated subsidiary after acquiring a 40% share therein in April 1, 2017. In April 1, 2018, the Company acquired a further 60% share and thus made the subsidiary a wholly owned consolidated subsidiary.
3. The Company made Nakayama Corporation a wholly owned subsidiary after acquiring an additional 20% share therein on March 9, 2018.

2) Other

Company Name	Paid-in Capital	Main business lines
Kobe Steel, Ltd.	250,930 million JPY	Manufacture and trading of iron & steel, aluminum & copper products, and machinery, etc.

(Note) Kobe Steel, Ltd. is a major shareholder with 3,085,000 shares of the Company's stock (investment ratio of 34.81%), which includes contributions to the retirement benefit trust. It is also a major supplier and customer of the Company.

(6) Main Business Lines

The Group primarily engages in the import, export and trading of products related to iron and steel, ferrous raw materials, nonferrous metals, machinery, information industry and welding.

Segment	Main business lines
Iron & Steel	Pig iron, semi-worked iron & steel products, carbon steel products, special steel products, secondary and tertiary iron & steel products, construction materials and processed products, titanium products, stainless products, steel powders, steel castings, and forgings
Ferrous Raw Materials	Iron ore, coal, coke, coke breeze, iron scrap, pig iron for steelmaking, hot briquetted iron (HBI), alloy steel, auxiliary materials for pig iron and steel production, titanium materials, petroleum products, slag products, chemical products, and coal-alternatives (RPF, PKS, sawdust)
Nonferrous Metals	Copper products, aluminum products, nonferrous metal ingot and scrap, copper and aluminum processed products, and aluminum/magnesium castings and forgings
Machinery & Electronics	Tire and rubber machinery, manufacturing machinery for iron and nonferrous metals, chemical machinery, vacuum deposition apparatus, furnaces, compressors, steam devices, environmental equipment, all other kinds of industrial machinery, metallic materials for panel wiring and electronic equipment and parts.
Welding	Welding materials, welding equipment, welding robot systems, electrode drying ovens, all other kinds of welding equipment, high-pressure gas cylinders, welding raw materials, auxiliary materials, raw materials for processing

(7) Main Business Offices and Worksites

1) The Company

Name	Location	Name	Location
Osaka Head Office	Osaka, Japan	Tohoku Branch	Miyagi, Japan
Tokyo Head Office	Tokyo, Japan	Sapporo Branch	Hokkaido, Japan
Nagoya Branch Office	Aichi, Japan	Kumamoto Office	Kumamoto, Japan
Kobe Branch Office	Hyogo, Japan	Tokuyama Office	Yamaguchi, Japan
Kyushu Branch Office	Fukuoka, Japan	Gifu Office	Gifu, Japan
Chugoku Branch	Hiroshima, Japan	Yangon Branch	Myanmar
Kakogawa Branch	Hyogo, Japan	Beijing Representative Office	China
Shizuoka Branch	Shizuoka, Japan	Dubai Representative Office	United Arab Emirates
Hokuriku Branch	Toyama, Japan	Sydney Representative Office	Australia

2) Consolidated Subsidiaries

Name	Location	Name	Location
Shinsho Steel Products Corporation	Osaka and Tokyo, Japan	Kobelco Trading Australia Pty. Ltd.	Australia
MORIMOTO KOSAN Co., Ltd.	Osaka, Japan	Kobelco Trading (Shanghai) Co., Ltd.	China
Shinsho Non-Ferrous Metals Corp.	Osaka and Tokyo, Japan	Suzhou Shinko-Shoji Material Co., Ltd.	China
Nakayama Corporation	Tokyo, Japan	Kobelco Precision Parts (Suzhou) Co., Ltd.	China
Kobelco Tsutsunaka Trading Co., Ltd.	Tokyo, Japan	Shinsho Osaka Seiko (Nantong) Corporation	China
Matsubo Corporation	Tokyo and Osaka, Japan	Shanghai Shinsho Trading Co., Ltd.	China
Asia Chemical Engineering Co., Ltd.	Osaka and Tokyo, Japan	Thai Escorp Ltd.	Thailand
SC Welding Corporation	Osaka, Japan	Shinko Shoji Singapore Pte. Ltd.	Singapore
Shinsho Business Support Co., Ltd..	Osaka, Japan	PT. Kobelco Trading Indonesia	Indonesia
Shinsho American Corp.	United States	Kobelco Trading Vietnam Co., Ltd.	Vietnam
Grand Blanc Processing, L.L.C.	United States	Kobelco Trading India Private Limited	India
Aiken Wire Processing, L.L.C.	United States	Kobelco Plate Processing India Private Limited	India
Shinsho Mexico S.A. de C.V.	Mexico	Shinsho Korea Co., Ltd.	South Korea
Kobelco CH Wire Mexicana, S.A. de C.V.	Mexico	Shinsho (Philippines) Corp.	Philippines
SC Tech de Mexico, S.A. de C.V.	Mexico	Shinsho (Malaysia) Sdn. Bhd.	Malaysia
Shinsho Europe GmbH	Germany	Taiwan Shinsho Corporation	Taiwan

(8) Employees

1) Employees of the Corporate Group

Number of employees	Change from previous fiscal year
1,543	+70

(Note) The number of employees does not include the 84 temporary employees.

2) Employees of the Company

Employees	Change from previous fiscal year	Average age	Average years of service
577	+14	39 years and 3 months	14 years and 1 month

(Notes) 1. The number of employees includes the 101 seconded employees.
2. The number of employees does not include the 57 temporary employees.

(9) Major Lenders

Lender	Amount borrowed
Mizuho Bank, Ltd.	¥11,498 million
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	¥8,821 million
Sumitomo Mitsui Banking Corporation	¥8,435 million
Mitsubishi UFJ Trust and Banking Corporation	¥5,138 million

(Note) On April 1, 2018, the Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its trading name to MUFG Bank, Ltd.

2. Notes on the Company's Shares

(1) Total number of authorized shares 27,000,000

(2) Total number of shares outstanding 8,855,956 (excluding the 4,606 shares of treasury stock)

(3) Number of shareholders 3,421 (decrease of 994 from the previous fiscal year)

(4) Major Shareholders (top ten shareholders)

Major shareholder	Number of shares held (thousand)	Ownership ratio (%)
Mizuho Trust & Banking Co., Ltd. (account for Kobe Steel's retirement benefit trust)	1,906	21.52
Kobe Steel, Ltd.	1,179	13.31
Shinsho Client Shareholding Association	718	8.12
Japan Trustee Services Bank, Ltd. (trust account)	265	2.99
Shinsho Employees' Shareholding Association	161	1.82
SINFONIA TECHNOLOGY CO., LTD.	150	1.69
The Master Trust Bank of Japan, Ltd. (trust account)	143	1.62
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	109	1.23
Morgan Stanley MUFG Securities Co., Ltd.	103	1.17
Sumitomo Mitsui Banking Corporation	103	1.17

(Notes) 1. Treasury stock has been excluded from the calculation of the ownership ratio.
2. On April 1, 2018, the Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its trading name to MUFG Bank, Ltd.

3. Notes on the Company's Executive Officers

(1) Process for Appointing Directors and Audit & Supervisory Board Members

All candidates for the office of director are nominated with one-year terms of office by resolution of the Board of Directors, and then appointed by resolution of the Ordinary General Meeting of Shareholders. Candidates for the position of Audit & Supervisory Board member or substitute Audit & Supervisory Board member are nominated by resolution of the Board of Directors upon the approval of the Audit & Supervisory Board, and then appointed by resolution of the Ordinary General Meeting of Shareholders. To ensure that the Board of Directors' decision-making process for nominations is transparent and fair, the Board of Directors first seeks the opinion of the Advisory Committee on Appointments, in which outside directors and Audit & Supervisory Board members make up the majority.

(2) Names of Directors and Audit & Supervisory Board Members

Position in the Company	Name	Responsibilities and significant concurrent positions
President and CEO	Takafumi Morichi	
Representative Director	Hiroyoshi Tsumura	General manager of the Iron & Steel Division Responsible for the Kobe Branch Office
Representative Director	Kenji Onishi （大西健司）	General Manager of the Machinery & Electronics Division
Director	Toshikazu Okamoto	Supervisor of the Corporate Planning Department, Personnel Department, General Affairs Department, Credit and Legal Department, Finance Department, and Overseas Regions Responsible for the Auditing Department
Director	Takashi Goto	General manager of the Ferrous Raw Materials Division
Director	Hiroshi Kato	General manager of the Nonferrous Metals Division
Director	Hiroshi Watanabe	Responsible for Corporate Planning Department, Personnel Department, Kyushu Branch Office, and Chugoku Branch
Director	Kenji Onishi （大西健児）	General Manager of the Welding Division
Director	Tsukasa Komiyama	Certified public accountant Representative Partner of Kyobashi & Co. President of GMA TAX Corporation Komiyama Office Auditor of KT Group Co., Ltd. (part-time)
Director	Kiyoshi Sakamoto	Attorney-at-law Non-standing Auditor of The Asahi Shinkin Bank (part-time) Auditor of ZEN-NOH BUSINESS SUPPORT CO., LTD. (part-time) Auditor of Kyodo Housing Loan Co., Ltd. (part-time)
Audit & Supervisory Board member (standing)	Seiichi Oshiro	

Position in the Company	Name	Responsibilities and significant concurrent positions
Audit & Supervisory Board member (standing)	Masaki Kaneko	
Audit & Supervisory Board member	Hironobu Yoshida	
Audit & Supervisory Board member	Akihiko Jogu	

(Notes) 1. The following personnel changes were implemented on June 28, 2017.

Appointments

Takafumi Morichi, Hiroshi Kato, Hiroshi Watanabe, and Kenji Onishi（大西健児） assumed the office of director after being newly appointed thereto.

Resignations

Ikuhiro Yamaguchi, Kiyofumi Kobayashi, and Yasuo Hirono resigned from the office of director upon the expiration of their terms.

2. Tsukasa Komiyama and Kiyoshi Sakamoto are outside directors as provided for in Article 2, Paragraph 15 of the Companies Act. The Company has designated them as independent officers as prescribed by the TSE Securities Listing Regulations and registered them with the TSE.
3. Hironobu Yoshida and Akihiko Jogu are outside Audit & Supervisory Board members as provided for in Article 2, Paragraph 16 of the Companies Act.
4. Seiichi Oshiro has formidable insight into accounting and finance having served as an accounting manager in the Corporate Planning Department and as an officer responsible for the Corporate Planning Department.
5. The Company has entered into agreements with its outside directors and Audit & Supervisory Board members limiting their liability under Article 423, Paragraph 1 of the Companies Act. Based on these agreements, the amount of liability is limited to the extent stipulated in Article 425, Paragraph 1 of the said Act.
6. The names of the officers and their responsibilities as of March 31, 2018, are shown below.

Position in Company	Name	Responsibilities
*President and CEO	Takafumi Morichi	
*Senior Executive Officer	Hiroyoshi Tsumura	General manager of the Iron & Steel Division Responsible for the Kobe Branch Office
*Senior Executive Officer	Kenji Onishi	General manager of the Machinery & Electronics Division
*Senior Executive Officer	Toshikazu Okamoto	Supervisor of the Corporate Planning Department, Personnel Department, General Affairs Department, Credit and Legal Department, Finance Department, and Overseas Regions Responsible for the Auditing Department
Senior Executive Officer	Akio Matsuda	Deputy general manager of the Machinery & Electronics Division
*Senior Executive Officer	Takashi Goto	General manager of the Ferrous Raw Materials Division
*Senior Executive Officer	Hiroshi Kato	General manager of the Nonferrous Metals Division
Executive Officer	Shutoku Ota	Responsible for the China region Head of the Beijing Representative Office Chairman of Kobelco Trading (Shanghai) Co., Ltd.
*Executive Officer	Hiroshi Watanabe	Responsible for the Corporate Planning Department, Personnel Department, the Kyushu Branch Office, and the Chugoku Branch

Position in Company	Name	Responsibilities
Executive Officer	Yoshihiro Matsubara	Deputy general manager of the Machinery & Electronics Division
Executive Officer	Michio Nakai	Responsible for North America & Europe region Deputy general manager of the Iron & Steel Division President and CEO of Shinsho American Corp.
*Executive Officer	Kenji Onishi	General manager of the Welding Division
Executive Officer	Satoshi Muta	Responsible for ASEAN and India & Middle East region
Officer	Kyoya Mukai	Deputy general manager of the Iron & Steel Division
Officer	Yoshihiro Maeda	Responsible for the General Affairs Department, Credit and Legal Department, and the Finance Department Head of the Osaka Head Office Responsible for the Nagoya Branch Office
Officer	Masahito Adachi	Deputy general manager of the Nonferrous Metals Division
Officer	Masato Matsubayashi	Deputy general manager of the Nonferrous Metals Division Head of Aluminum & Copper Products Department

(Note) * indicates that the officer is also a director.

(3) Amounts of Remuneration for Directors and Audit & Supervisory Board Members

Category	Recipients	Payment amount
	Number of persons	Millions of yen
Director	13	281
(Outside director)	(2)	(13)
Audit & Supervisory Board member	4	65
(Outside Audit & Supervisory Board member)	(2)	(13)
Total	17	346

(Notes)
1. At the 99th Ordinary General Meeting of Shareholders held on June 28, 2017, the maximum amount of annual remuneration for directors was approved at ¥352 million (¥29 million of which is for outside directors).
2. At the 99th Ordinary General Meeting of Shareholders held on June 28, 2017, the maximum amount of annual remuneration for Audit & Supervisory Board members was approved at ¥75 million (¥22 million of which is for outside Audit & Supervisory Board members).
3. Remuneration for directors includes a performance-linked portion, which is based on certain standards established by the Company. The purpose of this performance-linked portion is to incentivize directors to contribute toward the Company's corporate value. To ensure that the Board of Directors' decision-making process for remuneration is transparent and fair, the Board of Directors first seeks the opinion of the Advisory Committee on Remuneration, in which outside directors and Audit & Supervisory Board members make up the majority.

(4) Notes on Outside Directors and Audit & Supervisory Board Members

1) Company's Relationship with the Organizations in which Directors and Audit & Supervisory Board Members Hold Significant Concurrent Positions

Tsukasa Komiyama (director) holds concurrent positions in Kyobashi & Co., GMA Tax Corporation Komiyama Office, and KT Group Co., Ltd. The Company does not have any significant transactional or other relationship with these organizations.

Kiyoshi Sakamoto (director) holds concurrent positions in Asahi Shinkin Bank, ZEN-NOH BUSINESS SUPPORT CO., LTD., and Kyodo Housing Loan Co., Ltd. The Company does not have any significant transactional or other relationship with these organizations.

2) Major Activities during the Current Fiscal Year

(i) Attendance at the Board of Directors and the Audit & Supervisory Board

	Board of Directors	Audit & Supervisory Board
	Attendance frequency	Attendance frequency
Tsukasa Komiyama (director)	All 19 meetings	-
Kiyoshi Sakamoto (director)	All 19 meetings	-
Hironobu Yoshida (Audit & Supervisory Board member)	All 19 meetings	All 14 meetings
Akihiko Jogu (Audit & Supervisory Board member)	All 19 meetings	All 14 meetings

(ii) Participation during Meetings of the Board of Directors and Audit & Supervisory Board

During meetings of the Board of Directors, Tsukasa Komiyama (director) offered advice and suggestions from an independent perspective on ensuring reasonable and appropriate decision-making, drawing primarily on his abundant experience and insight as a certified public accountant and certified tax accountant.

Kiyoshi Sakamoto (director) offered advice and suggestions from an independent perspective on ensuring reasonable and appropriate decision-making, drawing primarily on his abundant experience and insight as an attorney.

Hironobu Yoshida (Audit & Supervisory Board member) offered advice and suggestions on ensuring reasonable and appropriate decision-making, drawing primarily on his business management knowledge. He also attended regular opinion-exchange sessions with the top executives and assessed the execution of business operations.

Akihiko Jogu (Audit & Supervisory Board member) offered advice and suggestions on ensuring reasonable and appropriate decision-making, drawing primarily on his engineering and business management knowledge. He also attended regular opinion-exchange sessions with the top executives and assessed the execution of business operations.

During meetings of the Audit & Supervisory Board, Hironobu Yoshida and Akihiko Jogu (both Audit & Supervisory Board members) exchanged opinions regarding audit results and discussed important audit-related matters.

Hironobu Yoshida (Audit & Supervisory Board member) additionally attended all meetings of the Compliance Committee held during the current fiscal year as a member of the Committee. During these meetings, he expressed his opinion on the fairness and transparency of the Company's efforts to comply with laws and regulations.

4. Accounting Auditor

(1) Name: KPMG AZSA LLC

(2) Amount of Remuneration

	Payment amount
Amount of remuneration for accounting auditor with respect to the current fiscal year	¥64 million
Total amount of cash and other economic benefits to be paid to the accounting auditor by the Company and subsidiaries	¥64 million

(Notes) 1. In the audit contract between the Company and its accounting auditor, there is no distinction between the amount of remuneration paid for audits under the Companies Act and that paid for audits under the Financial Instruments and Exchange Act, and no such distinction can be made in actuality. Accordingly, the amount of remuneration with respect to the current fiscal year represents the total amount thereof.

2. Certain subsidiaries of the Company, including Shinsho American Corp., Thai Escorp Ltd., and Kobelco Trading (Shanghai) Co., Ltd., receive audits (meaning only audits that accord with the provisions of the Companies Act, the Financial Instruments and Exchange Act, or equivalent overseas laws) from a certified public accountant or incorporated auditing firm (including equivalent overseas qualifications or organizations to such) other than the Company's accounting auditor.

(3) Basis for Audit & Supervisory Board Members' Consent toward the Remuneration of the Accounting Auditor

Referring to the Japan Audit & Supervisory Board Members Association's "Practical Guidelines for Cooperation with Accounting Auditors," the Audit & Supervisory Board ascertained the auditing timeframe as stated in the accounting auditor's audit plans, trends in the remuneration for the accounting auditor, and the accounting auditor's audit plans and performance in the previous fiscal year. It then reviewed whether the estimated remuneration for the accounting auditor is appropriate in light of these matters. As a result of this review, the Audit & Supervisory Board provided its consent toward the remuneration of the accounting auditor as provided for in Article 399, Paragraph 1 of the Companies Act.

(4) Policy for Determining the Dismissal or Non-reappointment of the Accounting Auditor

If the accounting auditor becomes unable to perform its duties or it is otherwise deemed necessary, the Audit & Supervisory Board will determine the contents of a proposal for submission to the General Meeting of Shareholders concerning the dismissal or non-reappointment of the accounting auditor pursuant to the Audit & Supervisory Board's Criteria for the Appointment, Dismissal, or Non-reappointment of the Accounting Auditor, which were formulated in accordance with the provisions of Article 344 of the Companies Act.

The Audit & Supervisory Board will, by the unanimous consent of all members thereof, dismiss the accounting auditor if the accounting auditor is deemed to fall under any of the items listed in Article 340, Paragraph 1 of the Companies Act. In such case, the Audit & Supervisory Board will designate one of its members to report the dismissal and the reasons thereof at the first General Meeting of Shareholders to be convened following the dismissal.

5. Company's System and Policy

(1) Systems for ensuring that directors execute their duties in compliance with laws, regulations, and the Company's Articles of Incorporation, and other systems for ensuring that the Company executes operations appropriately

Regarding the systems mentioned above, the Company's Board of Directors has resolved to adopt the following:

1) System for ensuring that directors and employees of the Company and its "Affiliates" (as defined in the Rules on Managing Related Companies; the Company and affiliates are hereinafter collectively referred to as the "Group") execute their duties in compliance with laws, regulations, and the Company's Articles of Incorporation

(i) The Company maintains a high standard of corporate ethics, and the Code of Corporate Ethics of Shinsho Group proclaims the importance of complying with laws, regulations, social norms and any rules of the Company. Under the Code, the Company has also prescribed specific behavioral standards that all officers and employees are expected to uphold.

(ii) For the purpose of achieving the above item, the Company disseminates and inculcates compliance consciousness across the Group as a whole, and establishes systems for monitoring and preventing compliance violations in the Group by preparing and distributing the Compliance Practice Manual, providing training with regard to the Manual, and operating the Compliance Committee and the Shinsho Group Internal Reporting System.

(iii) The Company has proclaimed in the Code of Corporate Ethics of Shinsho Group that it will take a resolute stance against crime syndicates (meaning groups that threaten public order and safety, interfere in civil disputes, or engage in racketeering or other types of organized crime).

The Company develops internal systems across the Group and takes all other steps necessary to ensure that the Group does not engage with crime syndicates in any way whatsoever.

2) Developing systems to ensure the reliability of the Group's financial reporting

To comply with the Financial Instruments and Exchange Act's requirements concerning internal control reporting, the Company develops and operates internal systems for ensuring the reliability of financial reporting across the Group in accordance with Basic Rules concerning Aspects of the Internal Control System that concern Financial Reporting.

3) Systems for storing and managing information related to the execution of duties by directors

The Company records and stores information that is necessary for identifying the directors' decision-making as well as the process and outcomes of execution of duties. The Company has established a thoroughgoing information management system. For example, it has established internal rules concerning information that must be stored (including written and electronic records), the departments that are responsible for managing said information, and the period for retention of records. It also periodically confirms the storage status of the information to prevent loss or unauthorized disclosure.

4) Rules and systems for managing risks of loss among the Group

(i) The Company identifies various risks (risks of loss) associated with its business operations, formulates separate regulations for each risk category (investment and lending, credit, derivative transactions, security trade control, and other major areas of risk), and provides clear stipulations concerning where management responsibility lies, where decision-making authority lies, the method of internal audits, the obligation to report to the Board of Directors, and other matters.

(ii) The Company revises the abovementioned risk management regulations as necessary to reflect changes in the business environment and legislative changes in a timely manner, and it has also developed all-encompassing Company-wide risk management regulations and established an integrated Group-wide risk management system.

(iii) The Company endeavors to establish a system for minimizing damage and ensuring business continuity following adverse events. Specifically, the Company first identifies the kinds of scenarios that could potentially cause substantial harm to the Group's operations, including accidents, natural disasters, and system failure, and then clarifies how to respond to such events, ready itself for such events, and transmit information in such events.

5) Systems for ensuring that the directors of the Group execute their duties efficiently

(i) The Company endeavors to improve the speed and efficiency of its business operations. To this end, it has adopted an officer system that clearly defines decision-making authority and duties.

Under this system, the Board of Directors appoints officers (including those who concurrently serve as representative director or director) and delegates certain business matters to them. With the supervision of the Board of Directors, these officers make decisions on these matters pursuant to the Rules on the Delegation of Duties.

Furthermore, executive directors and officers issue quarterly reports to the Board of Directors concerning the execution of duties at the Group company for which they are responsible.

(ii) The Company formulates medium-term business plans and annual budgets for the Group and periodically reviews the progress made so as to clarify business strategies and challenges, streamline business processes, and implement policies that reflect changes in circumstances.

6) Systems for ensuring that the Group executes operations appropriately and systems for reporting to the Company concerning the execution of duties by directors of Affiliates

(i) The Company endeavors to ensure that the Group conducts business operations in a proper and wholesome manner. To this end, the Company ascertains the state of legal compliance and risk management among its Affiliates, and supports, guides, and cooperates with each Affiliate in developing and operating internal control systems that are tailored to the particular circumstances of the Affiliate concerned while also according with Group-wide policies.

(ii) In accordance with its internal rules, the Company has clarified the departments responsible for overseeing Affiliates, matters in which the Company will discuss with Affiliates, matters that Affiliates are required to report in advance, and the protocol for intra-group transactions. Based on this approach, the Company regularly monitors the business conditions of each Affiliate and, where necessary, dispatches staff from administrative headquarter or responsible department to perform audits or other investigations.

(iii) The internal reporting system is accessible to all officers and employees of the Group, and Affiliates can report information through the system.

7) Matters concerning employees who are assigned to assist in the duties of Audit & Supervisory Board members when Audit & Supervisory Board members request such assistance, matters related to the independence of the said employees from directors, and matters for ensuring the effectiveness of the direction to said employees

In response to the Audit & Supervisory Board members' request for such, the Company appoints employees on a full-time basis to assist the Audit & Supervisory Board members in their duties and manage the Audit & Supervisory Board Office. Decisions on appointments, dismissals, and performance evaluations of these assistants require the prior consent of the Audit & Supervisory Board members. The assistants perform their duties under the direction of Audit & Supervisory Board members only; they do not act under the direction of the directors.

8) Systems that enable directors, Audit & Supervisory Board members, employees of the Group, or other persons who received a report from them to report to an Audit & Supervisory Board member of the Company, and systems concerning the handling of said reporting and other systems for ensuring that Audit & Supervisory Board members conduct audits effectively

(i) The Company has established a system whereby directors, Audit & Supervisory Board members, and employees of the Group can promptly notify an Audit & Supervisory Board member if they discover any circumstances that could potentially cause substantial harm to the Company.

Furthermore, to ensure that Audit & Supervisory Board members can appropriately ascertain the Company's decision-making processes and the execution of duties, directors, Audit & Supervisory Board members, and employees of the Group, as requested by Audit & Supervisory Board members, issue reports at the Management Committee, Investment and Loan Committee, Compliance Committee, meetings of representatives from all departments responsible for export control, and other important committees and meetings, and give explanations on documents that inform important business decisions and other important documents related to the execution of duties.

(ii) To ensure that they perform audits efficiently, Audit & Supervisory Board members report to the Board of Directors concerning their annual audit policy, important items to be audited, and other relevant matters. They also hold regular meetings with directors, the accounting auditor, and Audit & Supervisory Board members of the Affiliates, exchange business information, and liaise in various other ways.

(iii) The Company prohibits disadvantageous treatment against directors, Audit & Supervisory Board members, employees of the Group, or other persons who received a report from them by reason of their reporting to an Audit & Supervisory Board member and it has established measures for ensuring that no such treatment occurs in practice.

(iv) If an Audit & Supervisory Board member, pursuant to the provisions of Article 388 of the Companies Act, requests payment in advance for expenses associated with their duties, the Company will, after the relevant personnel have reviewed the matter, promptly pay or indemnify the expenses, except in cases where it deems that the expenses or debt related to such request is not necessary for the execution of the duties of the member concerned.

(2) Summary of the Operational Status of Systems for Ensuring the Appropriateness of Operations

(Systems concerning compliance)

To inculcate the principles outlined in the Code of Corporate Ethics of Shinsho Group, the Company distributes the Compliance Practice Manual to all of its employees and those of its domestic

affiliates. In addition, the Company has provided various types of training tailored to each level, and it has even organized training in related companies where appropriate. The Company has established an internal reporting system, which it operates in accordance with the Rules on the Internal Reporting System.

(Internal controls concerning financial reporting)

The Board of Directors has determined a basic policy titled Basic Policy concerning Aspects of the Internal Control System that concern Financial Reporting. In accordance with this policy, the Company prepared audit plans and implemented internal audits throughout each year.

(Systems concerning the management of documents)

In accordance with the Rules concerning the Storage and Management of Information related to the Execution of Duties by Directors, the Company conducted an internal audit, which confirmed that there are no problems related to the storage and management of such in February 2018.

(Risk management system)

In accordance with its Risk Management Rules the Company made efforts to achieve apposite risk management, including practical measures thereof, with respect to risks affecting the Group. Regarding the implementation of such, the Budget Review Council (March 2017 in Japan, December 2016 overseas) and the Revised Budget Review Council (September 2017 in Japan, June 2017 overseas) formulated Group risk management action plans, reviewed said plans, and reported their findings to the meetings of the Board of Directors held on July 2017 and February 2018, respectively. Corporate ethics-related risks were given particular attention during the meetings of the Compliance Committee held in September 2017 and March 2018. During these meetings, the committee discussed the Company’s management of such risks. The practical measures for other types of risk that are considered important by the Company are outlined below.

1) Investment Risks

The Investment and Loan Committee highlighted risks associated with prospective investments of the Group, and advised on measures to minimize said risks. The committee then reviewed the investments after their implementation, devised countermeasures in cases where they identified problems, and reported their findings to the meeting of the Board of Directors held in March 2018.

2) Risk of Leakage of Corporate Secrets

Each company of the Group pursued measures to ensure the security of Group information (physical security, human security, and IT infrastructure security) in accordance with the Corporate Secrets Management Rules.

3) Credit Risk

Group companies in Japan thoroughly managed credit risks pursuant to the Credit Limit Control Rules and the equivalent rules of the affiliates concerned, and the overseas affiliates did so pursuant to the Credit Limit Control Rules for Overseas Affiliates.

4) Insider Trading Risk

In July 2017, the Company updated its Rules for Managing the Prevention of Insider Trading to accommodate recent legislative reforms. Under these new rules, the Company thoroughly educated employees and managed their purchases of the Company's stock through the employee shareholding association.

5) Large-scale Disaster Risk

In accordance with the Rules concerning Countermeasures against Large-scale Disasters, the Company developed its emergency contact network, held disaster drills, and managed the emergency reserve stocks.

(Operational efficiency and performance management systems)

The Company manages the performance of the Group by having its directors and officers issue quarterly reports on the execution of operations to the Board of Directors in accordance with the Rules of the Board of Directors. Regarding the specific method, in accordance with the Rules on Managing Related Companies, the directors determine matters such as the scope of the Group, the divisions that have jurisdiction over Affiliates' operations, the personnel responsible for managing Affiliates' operations, and the matters that require prior discussion. Then, in accordance with the Rules of the Board of Directors and the Rules on the Delegation of Duties, the Board of Directors makes resolutions and reports, and discusses how to ascertain Group performance and problems and how these problems should be dealt with. The Revised Budget Review Council (September 2017 in Japan, June 2017 overseas) reviewed the progress in the first half of FY2017 and the outlook for the second half, while the Budget Review Council (March 2018 in Japan, December 2017 overseas) reviewed the progress in the second half, the budget for the forthcoming period, and the medium-term business plan. Both meetings reported their findings to the meetings of the Board of Directors held in September 2017 and March 2018, respectively, and the Board of Directors approved the findings.

(Systems for reporting to Audit & Supervisory Board members and the execution of duties by Audit & Supervisory Board members)

The system of reporting to Audit & Supervisory Board members is operating appropriately. Whenever there arises any important matter constituting information that must be included in Group reports, the personnel executing duties promptly report the matter to the Audit & Supervisory Board in accordance with the Basic Policy on Constructing an Internal Control System and the Audit & Supervisory Board Members' Auditing Standards.

Audit & Supervisory Board members, for their part, attended important meetings such as those of the Board of Directors, Management Committee, Investment and Loan Committee, Compliance Committee, Budget Review Committee, and meetings of representatives from all departments responsible for export control. In some cases, all the members attended, while in other cases, certain members were selected to attend. Each Audit & Supervisory Board member expressed their opinion as necessary at these meetings, and monitored the directors' execution of their duties. Audit & Supervisory Board members also held quarterly meetings with the outside directors, president, and accounting auditor, during which they exchanged opinions. They also held semiannual liaison conferences with the Audit & Supervisory Board members of Group companies, during which they ascertained the Group companies' performance and problems and exchanged opinions.

In July, the Audit & Supervisory Board formulated the Audit & Supervisory Board Members' Audit Plan for the year (July to June) and reported the plan to the Board of Directors. In this way, the Audit & Supervisory Board members obtained each director's understanding and support toward the system of auditing directors' execution of duties.

(3) Policy for Determining Distribution of Surplus

The Company regards the return of profits to shareholders in the form of dividends as a key management priority. Its basic policy is to continue paying dividends commensurate with business performance in the period concerned while considering factors such as the need to maintain an internal reserve necessary for strengthening the corporate constitution and preparing for future business development. Guided by this policy, the Company resolved to pay a year-end dividend ¥65 per share for the current consolidated fiscal year.

Accordingly, when combined with the interim dividend of ¥45, the annual dividend amounts to ¥110 per share.

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Remarks: The following have been applied in the preparation of this business report:

(1) Amounts displayed in units of one million are rounded down to the nearest million yen.

(2) Amounts displayed in units of one thousand shares are rounded down to the nearest thousand shares.
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