

CORPORATE GOVERNANCE

JSW recognizes that it must earn the trust of shareholders, customers, employees, and other stakeholders to aim to enhance enterprise value and thereby contribute to the economy and society as a whole.

We therefore created a corporate governance setup that encompasses a management organization and framework to implement essential measures and pursues fair disclosure to ensure business transparency.

On November 18, 2015, we formulated “Corporate Governance Policy of The Japan Steel Works, Ltd.” based resolution of the Board of Directors. The aim of the Policy is to clarify our basic stance, initiatives, and approach with respect to corporate governance. The Policy can be found at the following website: <http://www.jsw.co.jp/en/guide/governance.html>

Overview of Corporate Governance Structure

We employ a statutory auditor system comprising eight directors, two of whom are independent, and four statutory auditors (hereafter, “corporate auditors”), two of whom are external.

The term of office of directors is one year. We maintain a corporate officer system and separate decision-making and oversight from the executive functions of corporate officers. The goal is to accelerate decision-making and enhance oversight and execution.

In principle, the Board of Directors convenes once monthly to decide and report on important management issues, including basic operational policies and legally stipulated matters. Managing executive officers and above attend these meetings, positioning the Board as a vehicle for mutual oversight of directors and corporate officers.

The Strategy Council—consisting of two representative directors and other directors with executive responsibilities nominated by the president, two outside directors, and a corporate auditor (chosen by rotation)—meets once a week to deliberate and decide on important management matters and important business execution decisions made by directors and executive officers. The Strategy Council also discusses, reports on, and monitors overall operational matters.

Our Management Council also convenes once monthly, in principle. Members include directors, corporate auditors, divisional heads, plant general managers, headquarters managers, and others with executive responsibilities. This body’s tasks include assessing the business environment and monitoring the progress of the Company’s business plan. Its goals are to share such knowledge throughout management and reflect it in their decisions as well as to ensure risk management and compliance.

The Board of Corporate Auditors comprises four corporate auditors, two of whom are external as part-time. These auditors attend meetings of the Board of Directors, the Executive Board, the Management Council, and other important gatherings. In principle, they visit the Company’s plants and offices and major subsidiaries once every six months. The auditors receive divisional reports as necessary and exchange opinions with directors and key employees. Based on these efforts, the auditors express their views to management from an objective and neutral perspective, and exercise strict oversight with regard to the execution of directors’ duties.

Seeking to ensure fairness and transparency of decision-making processes related to executive nomination and remuneration, the Company established the Nomination Advisory Committee and the Remuneration Advisory Committee. Consisting of five members, including

several outside executives, the committees serve as advisory bodies to the Board of Directors.

Status of Internal Control System

The Company recognizes the importance of its management responsibilities with respect to establishing and properly managing the necessary systems to ensure appropriate business operations. Based on this recognition, it has set up a specialist unit to supervise internal controls, and its Internal Control Committee also meets as necessary. The Company is working to improve its internal control system in line with its Basic Policy on Internal Control Systems, adopted by the Board of Directors, as described below.

1. Adhering to laws and regulations and the Articles of Incorporation relating to execution of duties by directors and employees

- At the Company, compliance extends beyond preventing fraud and adhering to laws and regulations and in-house rules. It also encompasses the fulfillment of broad social responsibilities and establishment of various compliance-related rules. The essence of its compliance activities centers on directors and corporate officers taking the lead and practicing integrity and raising employee awareness of compliance issues through education and training.
- The Company established the Internal Audit Division to ensure that all of its corporate operations comply with all laws and regulations and in-house rules. The Division conducts regular and spot audits and submits the results of its audits to the president, and to other relevant parties as appropriate, including the Board of Directors, the Executive Board, the Management Council, and corporate auditors.

- The Company has created multiple ways, including internal and external channels, for reporting and discussing compliance-related problems uncovered by employees, based on a guarantee of protection for whistleblowers.
- In addition to its Corporate Code of Conduct, which opposes anti-social forces, the Company maintains an office to share relevant information and spearhead tough measures to eliminate anti-social forces.

2. Safeguarding and managing information relating to execution of duties by directors

- The Company appoints a director or corporate officer as the person responsible for safeguarding and managing information. Adhering to document and information management rules and regulations, the Company stores and manages important information relating to the execution of duties by directors and corporate officers as printed or digital records. This information includes the minutes of important meetings and written requests for approvals. Further, directors and corporate auditors may review or copy this information as needed.
- The Company discloses financial and important management information in an appropriate and timely manner.

3. Rules on managing risk of losses

- Directors, corporate officers, and employees concurrently serving as general managers identify and evaluate risks arising in the course of business. They address these risks in keeping with regulations and the management approval system. The Board of Directors and the Executive Board deliberate on key risks.
- The Company maintains risk management rules and a Companywide risk management system. Divisions overseeing risks in such areas as safety and hygiene, environmental

management, information security, and export safety controls set up committees and create and administer rules for properly managing such risks throughout the Company. The Company also appoints a director or corporate officer as the person responsible for risk management. In collaboration with the Internal Audit Division, that person monitors the progress of risk management and reports to the Board of Directors or the Executive Board as appropriate.

- At all divisional headquarters, business units, and plants, the Company has risk managers who evaluate measures and identify daily risks. It also has a crisis management headquarters to handle critical situations. Accordingly, the Company is prepared for both ordinary and emergency situations.

4. Ensuring efficient execution of duties by directors

- The Company ensures rapid decision-making and flexible and efficient business execution by having the president act as chief executive officer, with directors overseeing key headquarters divisions and business units. Under this command and management structure, corporate officers appointed by the Board of Directors perform the duties assigned to them. Directors and corporate officers deliberate, decide, and report on important matters in meetings of the Board of Directors and the Executive Board.
- The Board of Directors formulates the medium-term management plan and annual business plans as Companywide objectives for directors, corporate officers, and employees. Directors and corporate officers plan and implement specific policies for reaching goals, segregating tasks in line with in-house rules. They also evaluate the results, review progress and submit periodic and spot reports to the Board of Directors, the Executive Board, and the Management Council.

5. Ensuring appropriate conduct at Group companies

- The Company encourages Group subsidiaries to work to establish and build Companywide internal controls according to JSW's Vision, Management Philosophy, and Corporate Code of Conduct. The Company also supports Group subsidiaries to strive for efficient business execution and autonomous management by ensuring proper division of duties and clarification of decision-making authority based on their own in-house rules.
- The Company has formulated operational and management rules for subsidiaries and defined the related management responsibilities and leadership structures. The Company maintains a system for reporting, notifying, and gathering information about subsidiary decisions on important matters and important facts. At the same time, the Company ensures that listed subsidiaries retain a degree of management autonomy.
- In addition to dispatching directors and corporate auditors to Group subsidiaries, the Company ensures that subsidiaries comply with all laws and regulations and in-house rules by mandating periodic and spot internal audits through relevant departments or the Internal Audit Division. It also audits operations directly and instructs subsidiaries on internal control improvements.
- The Company supports the efforts of Group subsidiaries to establish systems to identify and evaluate risks according to division of duties determined independently based on rules concerning risk management.

6. Appointing corporate auditor assistants, securing their independence from directors, and ensuring effectiveness of instructions given to them

- On request from corporate auditors, the Company offers employees as assistants. The Company seeks the

opinions and consent of these auditors for appointments, dismissals, evaluations, and other personnel treatment regarding these assistants to secure their independence from directors and corporate officers.

- The Company ensures that employees assigned as assistants can perform their duties according to the directions and instructions of corporate auditors.

7. Reporting to corporate auditors by directors and employees and preventing unfavorable treatment based on its content

- Corporate auditors are guaranteed the opportunity to attend meetings of the Board of Directors, the Executive Board, the Management Council, and other managerial meetings that deliberate, decide, and report on important matters.
- Based on its management approval system, the Company presents approval records to corporate auditors. Corporate auditors can at any time request reports from directors, corporate officers, and employees of the Company and Group subsidiaries. Also, persons who have received reports from directors, corporate officers, and employees of the Company and Group subsidiaries can convey such reports to corporate auditors.
- The Company guarantees that persons making reports to corporate auditors are not subject to unfavorable treatment based on the content of such reports.

8. Policies on advance payment and compensation pertaining to costs and obligations incurred in execution of duties by corporate auditors

- The Company assumes responsibility for any necessary costs incurred in the execution of duties by corporate auditors.

9. Ensuring effectiveness of audits conducted by corporate auditors

- The Company encourages directors, corporate officers, and employees to recognize the importance and value of audits conducted by corporate auditors and to accord them their fullest cooperation. These auditors can request assistance from the Internal Audit Division, other headquarters divisions, and all other divisions for auditing tasks.
- The Company enables corporate auditors to collaborate closely with the accounting auditor and the Internal Audit Division.
- Corporate auditors have the discretion to employ the services of legal advisors and other outside experts.

10. Ensuring reliable financial reporting

- The Company evaluates the effectiveness of internal controls for financial reports in keeping with basic policies for such controls. The Board of Directors and the Executive Board deliberate and report on the findings of such evaluations.

Policy Regarding Large-Scale Purchase of Company Shares

On May 7, 2014, the Board of Directors resolved to amend Measures against Large-Scale Share Acquisitions (takeover defense measures), a set of rules and procedures for parties seeking to purchase our shares (namely, holders of Company-issued shares seeking to increase their stakes to more than 20% through purchases, or those making a tender offer to boost their combined shareholding ratio with the inclusion of the holdings of special parties to more than 20% through a tender offer). The amendment was approved at the 88th Regular General Meeting of Shareholders on June 25, 2014.