

Corporate Governance

Basic Stance on Corporate Governance

At JSW, we believe we must earn the trust of all our stakeholders, including our shareholders and employees, not merely to raise our enterprise value, which comprises both the Company's economic value and its value to society in the broader sense, but to make possible our very existence.

We have, therefore, designed a set of management structures to ensure an effective system of corporate governance, and have taken all necessary measures to facilitate the appropriate disclosure of corporate information so as to achieve the level of management transparency demanded by investors today.

An Outline of our Corporate Governance System

The Company employs the traditional statutory auditor system, comprising 13 directors and four statutory auditors, two of whom are outside auditors. One outside auditor works on a regular basis. The Board of Directors debates and passes resolutions on matters of importance to the management of the Company, including basic management policies and matters stipulated by legal statute. The Board is also responsible for overseeing the management of day-to-day operations by the heads of departments and plants, and other managers of similar rank.

Meetings are also held by the Executive Board, composed of the Company's chairman, president, executive vice presidents, senior directors, and any other person as shall be designated by the president. This committee, augmented when deemed necessary by the heads of operating divisions and general plant managers to form the Management Council, analyzes the business environment, monitors the progress of business plans, and ensures that knowledge is widely shared among the Company's management staff and that the opinions of specialists are heard and reflected in the final decisions made by the Company's top management. The activities of these bodies ensure that corporate governance is conducted effectively, and, in particular, that the principles of legal and ethical compliance are properly observed.

The Company's statutory auditors (hereafter "corporate auditors") attend meetings of the Board of Directors, the Executive Board, the Management

Council, and other important meetings. They also pay regular inspection visits to all the Company's plants and offices, and to its subsidiaries, and exercise strict oversight with regard to the execution of their duties by the Company's directors.

Our Internal Control and Risk Management System

JSW regards it as a management issue of crucial importance to have an effective internal control system in place to ensure the correct performance of business operations. We are, therefore, working to improve our system of internal control in line with our Basic Policy on Internal Control Systems as well as detailed measures decided each year for dealing with specific internal control issues. The points below delineate the fundamental stance adopted by the management of JSW toward the issue of internal control, and the progress achieved thus far in strengthening the Company's internal control system.

1. Improving the internal control system

In addition to setting up a specialist unit dedicated to supervising the Company's internal control system, the Internal Control Committee holds meetings both regularly and ad hoc as deemed necessary.

2. Observance of legal regulations and the Company's Articles of Incorporation

JSW does not limit compliance to the prevention of

illegal acts and the observance of legal regulations and the Company's Articles of Incorporation. It views compliance in the broader context of general social responsibilities and the upholding of a wide variety of rules and regulations, which include the Company's Vision, its Management Philosophy, and Action Guidelines. The key to success for compliance activities is that the directors take the initiative in setting an example and practicing truthfulness, while raising employee awareness on compliance issues through training sessions and other means.

The implementation of compliance activities is overseen by a director who has been appointed to supervise CSR activities. Committees have been formed to oversee internal controls, security and export controls, environmental management, safety and hygiene (hereafter collectively referred to as "the committees"). These committees undertake activities companywide.

Meanwhile, the planning and administration departments of each business unit closely collaborate with the corresponding departments of management planning, personnel training, accounting and financing, general affairs and legal affairs within the headquarters (hereafter, "headquarters departments") to carry out compliance duties. In this way, we have achieved a division of duties from the overall management control function, and through mutual cooperation, management controls are overseen in every area.

We have established a department responsible for internal controls to ensure that the Company's overall administrative operations observe all laws and regulations, as well as in-house rules. In addition to periodic audits, this department conducts spot audits at other times, as deemed necessary. The results of these audits are reported to the president.

We have also created a system of internal and external routes for reporting and discussing compliance violations when discovered. The person filing the report is guaranteed anonymity. Violators, regardless of whether they are directors or staff, will be punished accordingly, and measures will be taken swiftly to prevent any recurrence.

The Company has clarified in writing its policy of strict opposition to the activities of criminal organizations or individuals. As specific measures within its internal control system to ensure non-involvement with such criminal elements, the Company has mandated careful background checks on business partners, the inclusion in basic contracts drawn up with other companies of clauses specifying the exclusion of known criminal organizations or individuals, the requirement to report all contacts with such criminal elements, and the establishment of a single dedicated office for the investigation of such reports and the management of countermeasures.

3. Safeguarding and management of information

We have appointed a chief information security officer (CISO) to ensure the safeguarding and management of information. In accordance with in-house regulations governing the safeguarding of documents and other information and basic data security guidelines, the minutes of general shareholder meetings, meetings of the Board of Directors and Strategy Council meetings, as well as written requests for approval of managerial decisions (*rinshinsho*), and other important documents are stored in written form or in the Company's computer database, where they are held in safekeeping. We also store and manage information relating to our internal controls system, to ensure an adequate degree of disclosure of corporate information.

4. Risk management

The risk management system confirms that the president, the division chief, the general plant managers, the directors in charge of departments within headquarters, and other executives are carrying out their duties within the scope of their authority, as stipulated by job authority regulations and the system for managerial decisions (*ringisho*), and that they control the risks involved in the loss or damage to authority in the execution of duties. Important items pertaining to risk management are discussed at meetings of the Board of Directors or of the Strategy Council.

To manage the wide variety of risks to which the Company is exposed, a director of the Company has been placed in charge of overall risk management. Controls are being implemented across division boundaries by the Internal Controls Committee and other committees. Simultaneously, each business unit's planning and administration departments, as well as the plants' departments and headquarters departments work together with the departments responsible for overseeing every area of risk management. Reports are made on the status of risk management and the suitability of the measures in place at meetings of the Board of Directors and the Strategy Council.

Risk managers are assigned within each division at the headquarters, within each business unit, and at each plant. These risk managers ascertain the appropriateness of existing measures and work to eliminate everyday risks. In the case of critical risk situations, a crisis management headquarters is established to provide the appropriate response. In this way, we are responding to risks under both ordinary and extraordinary circumstances.

5. Ensuring efficient performance of duties

The president is the chief executive officer, and directors have been assigned to departments within the headquarters and our plants. In addition, directors have been put in charge of business units that are responsible for the profitability planning and budget controls of each product division. The directors must perform their duties in an efficient manner within the scope of their authority, as specified in the job authority regulations for the posts of president, director in charge, business unit chief, and general plant manager, or else indicated under the ringisho system for managerial decision-making. High-priority items are brought before the Board of Directors or the Strategy Council for discussion, approval and reporting.

At JSW, the management drafts a list of common goals to be shared companywide by directors and employees through incorporation in the Company's Medium-Term Management Plan, and the business plans for each business unit. Each director develops

specific measures for achieving these goals. A division of duties is undertaken in line with the in-house regulations, and the specific measures are planned and implemented. Each director conducts a review of the results and provides periodic progress reports, as well as impromptu reports at meetings of the Board of Directors, the Strategy Council and the Management Council. All members of the JSW management are working to ensure impartial personnel evaluations.

The Company has prepared an outline of duties to be executed by each director of the Board, and the order in which these duties are to be performed. Also indicated are the types of work experience, know-how, specialized skills, and technology required. These documents are revised on an ongoing basis to reflect the actual situation, taking into account all varieties of laws, regulations and risk countermeasures. In addition, the appropriate educational activities and training are recommended for each director and employee.

6. Ensuring appropriate management conduct at Group companies

The Company encourages its subsidiaries to follow its Vision, Management Philosophy and Action Guidelines, and also create their own systems of internal controls. In addition, the Company supports the autonomy of their management.

The Company has drafted regulations concerning the operation and management of its subsidiaries. The responsibilities of each division of the Company will be made clear with regard to the controls governing operations and the nurturing of operations of subsidiaries. At the same time, the Company is creating a system whereby reports and notifications can be made regarding subsidiaries' decisions on important issues and other matters of concern, and data can be collected.

Corporate governance system has been adopted whereby directors and statutory auditors can be assigned to JSW subsidiaries. To ensure our subsidiaries' strict adherence to all laws and regulations, as well as in-house company regulations, we request that these companies

conduct in-house audits, both periodic and spot audits, through the departments in charge of each subsidiary, and also by a department responsible for the internal auditing of subsidiaries. We will also directly audit operations and provide guidance for improving internal controls of subsidiaries.

7. Appointing staff to assist corporate auditors, and ensuring the independence thereof

The Company appoints staff from among its employees to assist the corporate auditors in the performance of their duties. The opinions of the auditors themselves are sought with respect to the appointment and dismissal of the said staff and all other personnel-related measures such as performance evaluation and bonuses, and no action is taken without the auditors' agreement, so as to ensure the independence of the auditors' assistants from the influence of the directors of the Company.

8. System for submission of reports to the auditors by the directors and employees of the Company

In addition to attending meetings of the Board of Directors, the Executive Board, and the Management Council, as well as other important managerial meetings, the corporate auditors also request memos and the minutes of decision-making meetings for their perusal, and hold regular meetings (as well as ad hoc meetings when deemed necessary) with the directors and managerial-level employees. The auditors may request reports from directors or employees at any time as they deem this necessary.

The timing of these reports and the method to be used are agreed beforehand through discussions between the auditors and the directors or employees.

The corporate auditors of the Company conduct audits of the Company's subsidiaries to ascertain the state of management of these companies. This is done through close liaison with the corporate auditors of the subsidiaries and the staff of the Company's divisions responsible for supervision of subsidiaries, as well as the Internal Audit Division and other head office divisions.

9. Ensuring effective performance of audits by the corporate auditors

The directors and employees of the Company are fully aware of the importance of audits performed by the corporate auditors, and wherever possible give priority to cooperating with the auditors in their duties.

The corporate auditors have the authority to request the cooperation of the Company's Internal Audit Division, other head office divisions, and all other divisions of the Company in the performance of audits.

The corporate auditors collaborate closely with the accounting auditors (an external accounting firm meeting).

The corporate auditors have the authority to employ the services of legal advisors and other outside experts as appropriate.

Policy Regarding Large-Scale Purchases of Company Shares

By resolution of a meeting of the Board of Directors of The Japan Steel Works, Ltd. held on September 10, 2007, the Company instituted a set of rules to be obeyed and procedures to be followed by any party seeking to make a tender offer for the purchase of 20% or more of the total shares issued and outstanding of the Company. These rules and procedures were adopted under the name of Measures Against Large-Scale Share Acquisitions (Measures to Prevent Takeover).

Subsequent to this resolution, an amended version of these measures (hereinafter "the present plan") was presented to the Company's 82nd Regular General Meeting of Shareholders held on June 27, 2008, and the agenda item was approved by vote of a majority of shareholders present.

The present plan is a preemptive measure to prevent a takeover which utilizes the gratis issue of share subscription rights, and is effective for a three-year period ending with the Regular General Meeting of Shareholders to be held in June 2011.