

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 seven directors (one of whom is an outside director) and four statutory auditors (hereafter, "corporate auditors"), of whom two are outside auditors.

The term of office of directors is one year, and we have adopted the corporate officer system and separated the decision-making and oversight functions from the executive functions performed by the corporate officers. In this way, we have taken steps to speed up management decision-making and enhance the performance of both oversight and executive functions.

In principle, the Board of Directors' meeting is convened once a month. At the meeting, decisions and reports are made on matters of importance to the management of the Company, including basic management policies and matters stipulated by legal statute. Meetings are also attended by senior corporate officers and those of higher rank. The Board of Directors is also positioned as an oversight body with respect to the performance of their duties by the directors and corporate officers.

In addition, a Strategy Council composed of three representative directors and other officers designated by the President, including one outside director and one auditor (chosen by rotation) meets once each week to discuss and make decisions on matters of management importance and other matters of importance to the performance of their duties by the directors and

corporate officers, as well as to discuss, report, and monitor matters relating to overall management of the Company.

In addition to these bodies, the Management Council, consisting of directors, auditors, the heads of operating divisions, plant general managers and managers at corporate headquarters, and other persons with executive responsibility, convenes once a month in principle. 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 and is reflected in their decisions and that risk management and compliance are rigorously observed.

The Board of Corporate Auditors consists of four corporate auditors, of which two are outside corporate auditors with one serving full-time. The Company's 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 Group subsidiaries once during each half of the fiscal year, as a general rule. They exercise strict oversight with regard to the execution of Company directors' duties, such as by receiving important reports when needed from the aforementioned divisions and exchanging views with directors and key employees. Based on this, they express their views to management from an objective and neutral point of view.

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 resolved at the meetings of the Board of Directors, in addition to the Regulations Regarding the Promotion of Internal Control Activities (one of the Company's internal regulations). In addition, we will respond to social changes and work to achieve a more appropriate and efficient system by properly reviewing internal control issues and responses. 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 on an ad hoc basis, 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. The key to success for compliance activities lies in having directors and corporate officers take the initiative in setting an example and practicing truthfulness, while raising employee awareness on compliance issues through education and training and promoting this in an integrated manner with risk management.

JSW has established a department responsible for internal audits to ensure that the Company's overall operations observe all laws and regulations, as well as in-house rules. In addition to periodic

audits, this department conducts spot audits, as deemed necessary. The results of these audits are reported to the president and relevant parties including, as appropriate, the Board of Directors, the Executive Board, the Management Council and the Board of Corporate Auditors.

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, corporate officers or staff, will be punished accordingly, and measures will be taken swiftly to prevent any recurrence.

The Company has clarified in its Corporate Code of Conduct its policy of strict opposition to the activities of criminal organizations or individuals and it takes firm action to eliminate these anti-social forces through the establishment of a single dedicated office for the communication of relevant information and the management of countermeasures.

3. Safeguarding and management of information

The Company appoints a director or corporate officer to be the chief information security officer (CISO) to ensure the safeguarding and management of information. In accordance with rules and regulations governing the management of documents and information, the Company stores and manages important information related to the execution of directors' and corporate officers' duties including the minutes of important meetings and written requests for management decision approval (*ringisho*), and other important documents as written documents or as electronic records held in safekeeping. Further, directors and corporate auditors are able to access and view or copy this information as needed.

The Company also discloses financial and important management information in a timely and appropriate manner.

4. Risk management

At JSW, directors, who concurrently serve as the

managers at corporate headquarters, corporate officers, and employees understand and evaluate the risks involved in carrying out their duties in their divisions, and within the scope of their authority, as stipulated by regulations and the system for management decision approval (*ringisho*), they ensure that they execute their duties efficiently and respond to risks in an integrated manner. Important matters pertaining to risk management are discussed at meetings of the Board of Directors or of the Executive Board.

The Company has established regulations for risk management and defined a Companywide risk management system. With respect to risk based on functions such as safety and hygiene, environmental management, information security, and security export controls, the relevant division in charge of those risks sets up committees or creates regulations for managing each of those risks across division boundaries and then appropriately manages them. A director or corporate officer of the Company has been placed in charge of CSR and risk management who monitors these risk management conditions in collaboration with the department responsible for internal audits and reports to the Board of Directors or the Executive Board.

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

To ensure rapid decision-making and the flexible and efficient performance of management duties, the president has been made the chief executive officer, and directors have been put in charge of the performance of duties in key departments within headquarters and business units. Under their leadership and supervision, the corporate officers

appointed by the Board of Directors perform the duties delegated to them. Moreover, the directors and corporate officers perform their duties integrated with risk management and also discuss, decide and report on important matters at the Board of Directors' meeting and the Executive Board.

At JSW, Companywide goals that are to be shared by directors, corporate officers and employees are established at the Board of Directors' meeting, which are incorporated in the Company's Medium-Term Management Plan and the business plans for each business unit. Each director and corporate officer develops specific measures for achieving these goals. A division of duties is undertaken in line with in-house regulations, and the specific measures are planned and implemented. Each director and corporate officer conducts a review of the results and provides periodic progress reports, as well as impromptu reports at meetings of the Board of Directors, the Executive Board and the Management Council. All members of the JSW management are working to ensure impartial personnel evaluations.

6. Ensuring appropriate management conduct at Group companies

The Company encourages its subsidiaries to follow its Vision, Management Philosophy and Corporate Code of Conduct, 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 and has clarified the system of management responsibility and leadership for them. 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. However, as listed subsidiaries, the Company is careful to ensure a certain amount of management independence.

At JSW, directors and corporate auditors are assigned to JSW subsidiaries. Also, 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, upon request. 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

At JSW, corporate auditors attend the Board of Directors, the Executive Board, the Management Council, and other managerial meetings where important matters are discussed, decided and reported. Corporate auditors are guaranteed these opportunities.

In keeping with the ringi system, corporate auditors are also shown the records of management decision approval (*ringisho*) for their perusal. Moreover, the auditors may request reports from directors, corporate officers 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, corporate officers or employees.

9. Ensuring effective performance of audits by the corporate auditors

We provide an environment in which directors, corporate officers and employees of the Company can recognize the importance and benefits of audits performed by corporate auditors, and can give the highest priority to cooperating with auditors in their

duties as far as possible. The corporate auditors can request the collaboration and cooperation of the Company's Internal Audit Division, other head office divisions, and all other divisions of the Company in the performance of audits.

We provide an environment that ensures corporate auditors collaborate closely with accounting auditors and the Internal Audit Division.

We also provide an environment that allows corporate auditors to employ the services of legal advisors and other outside experts at their own discretion.

10. System for ensuring the reliability of financial reports

The Company follows basic internal control policies for financial reports and evaluates the effectiveness of internal controls for financial reports. The Board of Directors and the Executive Board discuss and report on the results of those evaluations.

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 the 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, a partial amendment of these measures was presented at the Company's 82nd Regular General Meeting of Shareholders held on June 27, 2008, and the agenda item was approved and updated. After that, necessary amendments were made and then approved by shareholders at the Company's 85th Regular General Meeting of Shareholders held on June 24, 2011.