Corporate Governance Report

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NIPPON STEEL & SUMIKIN BUSSAN CORPORATION

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The corporate governance of NIPPON STEEL & SUMIKIN BUSSAN CORPORATION ("NSSB") is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

1. NSSB has established its "Corporate Philosophy," "Management Principles" and "Employee Code of Conduct" as follows, and its Directors, *Kansayaku* and employees strives to put them into practice in the daily management and business of NSSB.

"Corporate Philosophy"

1. Continuing to be a corporate group driven the aspiration of providing goods and services that offer new value to the larger society.
2. Putting trust and reliability first, and by doing so developing together with our customers.
3. Aiming to become the kind of organization that increasingly cultivates, utilizes, and values human resources and their talents.

"Management Principles"

1. Strengthening and expanding the four areas of business that make NIPPON STEEL & SUMIKIN BUSSAN CORPORATION the core trading company of the NIPPON STEEL & SUMITOMO METALS CORPORATION GROUP.
2. Accelerating global strategies.
3. Bringing to bear all of our strengths as a multiple specialty trading company.
4. Enforcing strict corporate compliance.

"Employee Code of Conduct"

We, NIPPON STEEL & SUMIKIN BUSSAN GROUP employee, shall realize the Group's corporate philosophy through the observation of the following code of conduct.

Growth "Realize corporate growth through personal growth."
We constantly stay ahead of the times with a sense of professionalism.
We study, conduct and take action proactively in order to achieve mutual growth.

Reliability "Be the one that can be trusted and relied upon constantly."
We invest time in daily communication.
We establish solid relationships of reliability through mutual respect.

Borderless "Achieve organizational strength through integration of individuality."
We maintain a flexible mind, breaking free of the confines of existing concepts.
We bring together individual abilities to demonstrate comprehensive strength in all fields.

Challenge "Advance to a higher stage with enthusiasm!"
We never fear failure and willingly take the first step forward with a positive attitude, enthusiasm, curiosity, and the desire to improve.
We are never satisfied with the status quo, have an awareness of potential and existing problems, and generate new value.

2. NSSB endeavors to enhance its corporate governance based on the principles of the Corporate Governance Code in order to continue to implement the Corporate Philosophy, etc.

3. NSSB endeavors to achieve sustainable growth and the increase of its corporate value over the mid- to long-term through the continuous improvement of corporate governance under consolidated management.

4. NSSB has already resolved a "Basic Policy about an Internal Control System" at the meeting of Board of Directors. By operating this policy appropriately, NSSB further enforces its corporate governance, ensures "compliance with laws and ordinances," "reliability of financial reporting" and "effectiveness and efficiency of operations," and aims to improve it continuously.

5. In NSSB, the Board of Directors, which is composed of Executive Directors with thorough knowledge about the business and management of NSSB and two or more Outside Directors with a wealth of experience and deep insight in the area of corporate management, makes decisions about the basic policy of management and important business executions, and also supervises the execution of duties by Directors. Furthermore, *Kansayaku* who have strong authority attend the meeting of the Board of Directors and audit the business executions of Directors, etc., from an independent

standpoint. NSSB judges that such structure is effective to ensure the efficiency and soundness of management, and adopts the governance system of a "Company with *Kansayaku* Board."

6. NSSB introduces the "Executive Officer System" and targets the efficient operation of the Board of Directors by separating the function of decision-making and supervision and the function of business execution, and adopts a system to promptly cope with changes in the management environment.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

(Principle 4-11 Preconditions for the Effective Functioning of the Board of Directors and the *Kansayaku* Board)

The Board of Directors consists of, among others, Directors who have a thorough knowledge of NSSB's main business (Steel, Industrial Supply & Infrastructure, Textiles, and Foodstuffs) and Corporate Planning & Administration Division, Independent Outside Directors who have extensive experience in serving as a corporate officer in other industries, and Independent Outside *Kansayaku*. The members of the Board of Directors include persons who have extensive experience in working overseas and/or international knowledge and experience and a lawyer. The *Kansayaku* Board members include a certified public accountant who has a thorough knowledge of finance and accounting.

Although there is currently no woman who is appointed as a Director, NSSB recognizes the appointment of one or more female directors as one of the important management issues from the perspective of diversity and will consider it going forward.

NSSB conducts annual analysis and evaluation of the effectiveness of the Board of Directors to improve its functions.

[Disclosure Based on the Principles of the Corporate Governance Code]

(Principle 1-4 Cross-Shareholdings)

It is NSSB's policy to acquires and holds shares of other companies as cross-shareholdings in order to increase corporate value sustainably for the purpose of the creation of business opportunities and the establishment, maintenance and strengthening of transactional relationships and to reduce the holdings of such shares if they no longer serve that purpose.

Every year, the Board of Directors specifically and carefully examines, among others, whether these cross-shareholdings (all shares except shares of NSSB Group companies) serve the holding purpose from the medium- to long-term perspective and whether the benefit and risk of holding them are appropriate for the cost of capital, on an individual company basis, to confirm that these shareholdings are appropriate and carry the holding significance.

Regarding voting rights concerning cross-shareholdings, on the assumption that said shares contribute to NSSB's financial performance, voting rights are exercised after each agenda item

is appropriately deliberated and judged by the responsible division based on, among others, the financial performance of each company and the votes are approved internally in accordance with the prescribed procedure, in order to contribute to sustainable growth and the increase of the mid- to long-term corporate value of the investee company.

(Principle 1-7 Related Party Transactions)

Regarding transactions (including indirect transactions) between NSSB and the Directors, NSSB verifies the contents of each transaction. If the transactions fall under conflict of interest transactions, in accordance with laws, regulations and the Regulations of the Board of Directors of NSSB, NSSB seeks approval from, and reports to, the Board of Directors, and confirms that all such transactions will not harm NSSB.

In addition, regarding transactions between NSSB, on the one hand, and *Kansayaku* and other related parties, on the other hand, NSSB verifies the contents of each transaction; subject to applicable laws and regulations, NSSB discloses the transactions appropriately, depending on their importance and nature.

(Principle 2-6 Exercise of Functions as an Asset Owner of a Corporate Pension Plan)

Decisions regarding asset management of the NSSB Corporate Pension Fund are made by the Board of Representatives based on deliberations by the Asset Management Committee for the purpose of stable asset building and appropriate management of conflict of interest transactions for beneficiaries. The members of the Asset Management Committee and the Board of Representatives include qualified employees, such as the General Managers of the Finance Department and the Human Resources Department of NSSB, as well as senior officers of the labor union and other employees as beneficiary representatives. Qualified employees have also been selected and assigned to the secretariat of the Corporate Pension Fund. NSSB regularly monitors the management status of the plan assets and will continue to make appropriate efforts to improve the environment for the management of money contributed to the Fund.

(Principle 3-1 Full Disclosure)

(i) Corporate Philosophy, Management Principles, Employee Code of Conduct and Medium-Term Management Plan

NSSB has established its “Corporate Philosophy,” “Management Principles” and “Employee Code of Conduct” as mentioned in “I-1. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information – Basic Views” of this report.

NSSB established the medium-term management plan which set forth the strategy and action plan designed to realize the NSSB's corporate philosophy and management policies; fulfill NSSB's corporate social responsibility as a trading company that provides products and services related to food, clothing and housing; strengthen NSSB's management foundation – including securing and training the people that will be responsible for the next generation – and ensure legal compliance; and achieve greater

growth. The management plan was posted on NSSB's website. Please access the following URL for reference.
(https://www.nssb.nssmc.com/en/corporate/management.html)

(ii) Basic Views and Guidelines on corporate governance

Please refer to "I-1. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information –Basic Views" in this report.

(iii) Board policies and procedures in determining the remuneration of Directors

1. Policies in determining the remuneration of Directors

NSSB has established the "Policies Regarding the Determination of the Amount of Remuneration for Directors, Etc." Each Director's remuneration consists only of monthly remuneration in cash, and is based entirely upon the performance of NSSB, in order to provide incentives for NSSB's group's sustainable growth and the improvement of its corporate value.

Specifically, NSSB sets the base amount of remuneration for each Director's rank taking into consideration each Director's required skills and responsibilities, and this base amount varies within a specific range, depending on NSSB's consolidated profit or loss (consolidated ordinary profit or loss, and profit or loss attributable to owners of parent) and each division's consolidated profit or loss, in view of the connection with the annual management plan and the medium-term management plan, and the amount of each Director's remuneration is determined within the limits approved by the general meeting of shareholders.

2. Procedures for determining the remuneration of Directors

Each Director's remuneration is resolved at the meeting of Board of Directors based on the above "Policies Regarding the Determination of the Amount of Remuneration for Directors, Etc." following the exchange of opinions in the "Personnel and Remuneration Committee."

(iv) Board policies and procedures in the appointment/removal of senior management and the nomination of Director and *Kansayaku* candidates

1. Policies in the appointment/removal of senior management and the nomination of Director and *Kansayaku* candidates

For the appointment of senior management and the nomination of Director and *Kansayaku* candidates, NSSB's policy is to consider not only each individual's experience, insight and expertise, but also the size of each of the Board of Directors and the *Kansayaku* board as a whole, and the balance of candidates comprising these respective boards so that NSSB will establish an optimum board composition in which each individual is able to appropriately fulfill his or her role and responsibilities and properly respond to the management challenges of NSSB Group's business.

It is NSSB's policy to remove an individual from the office of senior management if, for example,

he/she no longer has the required qualifications outlined above.

2. Procedures for the appointment/removal of senior management and the nomination of Director and *Kansayaku* candidates

The appointment/removal of senior management and the nomination of Director and *Kansayaku* candidates are resolved at the meeting of the Board of Directors following the exchange of opinions in the "Personnel and Remuneration Committee," a majority of which are Independent Outside Directors. Regarding *Kansayaku* candidates, prior approval by the *Kansayaku* Board shall be obtained.

(v) Explanations with respect to the individual appointments/removals and nominations based on iv)

NSSB explains each individual in the appointment/removal of senior management and in the nomination of Director and *Kansayaku* candidates, by, for example, indicating each individual's brief personal history and reasons for nomination in the reference documents attached to the convocation notice for the general meeting of shareholders and indicating NSSB's officer system, including the allocation of each Executive Officer's responsibilities, the designation of managerial positions, and other related matters, in press releases related to officers' personnel matters.

(Supplementary Principles 4-1-1 Roles and Responsibilities of the Board (1))

The Board of Directors decides important business execution matters stipulated in laws, regulations, the Articles of Incorporation, and internal regulations such as the "Regulations of the Board of Directors" and other important managerial matters such as the disposal and acceptance of the transfer of important assets (including investments and loans), the borrowing of a significant amount (including financial plans or guarantees of obligations), the appointment of an important employee, and the establishment or changes of important structures.

The Board of Directors delegates NSSB's general policy of business execution or the execution of important matters on business operations to the President and the Executive Officers.

Executive Directors, etc., report on the status of the execution of duties to the Board of Directors in accordance with the Regulations of the Board of Directors, and the Board of Directors supervises the status of execution through said report.

(Principle 4-9 Independence Standards and Qualification for Independent Outside Directors)

NSSB decides the independence of Outside Directors in accordance with the independence standards set by the Tokyo Stock Exchange, considering each individual's personal relationship, capital relationship, transactional relationship and other interests with NSSB.

(Supplementary Principles 4-11-1 Preconditions for Board and *Kansayaku* Board Effectiveness)

1. To enable prompt decision-making and to establish an effective corporate governance system responding to changes in the management environment, the size of the Board of Directors shall be set

appropriately for the NSSB Group's business lineup and management challenges, and when selecting its members, the composition of the Board of Directors as a whole in terms of experience, insight and expertise of the members, as well as diversity, shall be considered. The Articles of Incorporation provide that the number of Directors will be fifteen (15) or less, and the number of *Kansayaku* will be three (3) or more. Currently, twelve (12) Directors and four (4) *Kansayaku* have been elected.

2. NSSB operates the four core areas of Steel, Industrial Supply & Infrastructure, Textiles and Foodstuffs as an integrated business, and its Board of Directors consists of nine (9) Executive Directors who have thorough knowledge about the business and management of NSSB, two (2) Outside Directors who have a wealth of experience and deep insight in the area of corporate management and one (1) director and senior advisor.

   Two (2) persons among twelve (12) Directors are Outside Directors, and three (3) persons among four (4) *Kansayaku* are Outside *Kansayaku*. Therefore, five (5) persons, among sixteen (16) Directors and *Kansayaku* come from the outside. Lawyer, executive, certified public accountant, etc., are elected as Outside Directors and Outside *Kansayaku*.

   Thus the diversity of the perspectives in the discussion at the meetings of Board of Directors is ensured.

3. Regarding the procedure for electing Directors, please refer to Principle 3-1 (iv).

(Supplementary Principle 4-11-2 Preconditions for Board and *Kansayaku* Board Effectiveness)

When deciding Director and *Kansayaku* candidates, NSSB confirms that each candidate is able to appropriately fulfill his or her role and responsibilities, including confirming whether the candidate concurrently serves as an officer at other listed companies. Whether Directors and *Kansayaku* serve concurrently as officers at other listed companies is disclosed every year in the reference documents attached to the convocation notice for the general meeting of shareholders, the business report, the securities report, etc.

(Supplementary Principle 4-11-3 Analysis and Evaluation of the Effectiveness of Board of Directors)

The Board of Directors analyzed and evaluated the effectiveness of the Board of Directors in FY2017 based on a questionnaire and an interview of each Director and *Kansayaku*. Because the number, subject and discussion time of the proposals submitted to the Board of Directors are considered as appropriate and the discussions at the meeting of the Board of Directors are considered as sufficient and candid, the Board of Directors concluded that the effectiveness is fully secured. NSSB plans to utilize such annual analysis and evaluation to improve its future governance.

(Supplementary Principle 4-14-2 Director and *Kansayaku* Training)

NSSB explains its Corporate Philosophy, the details of NSSB Group businesses, etc., to each Outside Director and Outside *Kansayaku* at its assumption. NSSB also explains to Directors and *Kansayaku*, both of whom were employees of NSSB, their responsibilities and the policies and procedures related to the

business.

(Principle 5-1 Policy for Dialogue with Shareholders)
NSSB, to the extent reasonable, responds to the requests from shareholders to engage in dialogue so as to support its sustainable growth and increase corporate value over the mid- to long-term. The dialogue with shareholders is handled by the Director in charge of the Accounting Department. Related Executive Officers and internal departments including the General Affairs & Cooperate Communication Department and the General Affairs & Corporate Communication Department coordinate and cooperate with said Directors. In addition to striving to actively provide information to the shareholders and sincerely responding to their questions and comments in the general meeting of shareholders, NSSB holds IR meetings for institutional investors on a regular basis and responds to requests to hold individual meetings from institutional investors. The opinions and other comments received from the shareholders and investors through the aforementioned initiatives are reported back to the Board of Directors, etc.
Insider information (undisclosed material facts) is appropriately managed in engaging in dialogue with shareholders in accordance with the "Rules to Comply with Insider Trading Regulations."

2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Nippon Steel & Sumitomo Metal Corporation	11,141,529	34.53
Mitsui & Co., Ltd.	6,428,800	19.93
Japan Trustee Service Bank, Ltd. (Trust Account)	1,415,000	4.39
The Master Trust Bank of Japan, Ltd.	1,384,600	4.29
Japan Trustee Service Bank, Ltd. (Trust Account 9)	856,700	2.66
Employee Stock Ownership	379,569	1.18
DFA INTL SMALL CAP PORTFOLIO	353,380	1.10
Japan Trustee Service Bank, Ltd. (Trust Account 5)	299,800	0.93
STATE STREET BANK AND TRUST COMPANY 505223	238,265	0.74
Japan Trustee Service Bank, Ltd. (Trust Account 2)	233,300	0.72

Controlling Shareholder (except for Parent Company)	No
Parent Company	No

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Wholesale Trade
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	More than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 50 to less than 100

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

Not adopted

5. Other Special Circumstances which may have Material Impact on Corporate Governance

Nippon Steel & Sumitomo Metal Corporation is a company which has a continuous and close business relationship with NSSB, and NSSB is its equity method affiliated Company. However, NSSB independently makes and executes its management policy and business plan, and operates its daily business and transactions. Therefore, independency is secured.

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with *Kansayaku* Board

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	Not more than 15
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	12
Number of Outside Directors	2
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Yoshihiro Ogura	Lawyer											○
Keishiro Kinoshita	From another company								△			

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲"when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yoshihiro Ogura	○	Mr. Ogura is appointed as an Independent Director. Mr. Ogura concurrently serves as an outside director of Toshiba Machine Co., Ltd. NSSB has transactions with Toshiba Machine Co., Ltd. and the transaction value between NSSB and said company is less than 0.1% of NSSB's Cost of Sales.	<Reason for appointment as an Outside Director> Mr. Ogura assumed office as an Outside Director of the Company in June 2016. Based on his many years of experience and deep insight as an attorney-at-law, he has been expressing opinions about proposals etc. appropriately. NSSB judges that he is suitable for the position of Outside Director for the above reasons. <Reason for appointment as an Independent Director> NSSB has neither entered into a consulting agreement with Mr. Ogura nor his Hibiki law office, and has not entrusted him with individual legal services for NSSB. NSSB judges a conflict of interest with general shareholders will not arise.
Keishiro Kinoshita	○	Mr. Kinoshita is appointed as an Independent Director. Mr. Kinoshita was an employee or officer of The Industrial Bank of Japan, Ltd. (Currently Mizuho Bank, Ltd.), Mizuho Corporate Bank, Ltd. (Currently Mizuho Bank, Ltd.) and Sompo Japan Insurance Incorporation (Currently Sompo Japan Nipponkoa Insurance Incorporation). NSSB has loans for working capital from Mizuho Bank, Ltd. NSSB has transactions with Sompo Japan Nipponkoa Insurance Inc., and the transaction value between NSSB and said company is less than 0.1% of NSSB's	<Reason for appointment as an Outside Director> Mr. Kinoshita assumed office as an Outside Director of the Company in June 2016. Based on his knowledge and experience gained through many years of service at financial institutions and in the course of his career at listed companies, he has been expressing opinions about proposals etc. appropriately. The Company judges that he is suitable for the position of Outside Director for the above reasons. <Reason for appointment as an Independent Director> More than ten (10) years has passed since he retired from Mizuho Corporate Bank, Ltd. (currently Mizuho Bank, Ltd.) and NSSB judges a conflict of interest with general shareholders will not arise.

		selling, general and administrative expenses.	

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Personnel and Remuneration Committee	Personnel and Remuneration Committee
All Committee Members	3	3
Full-time Members	0	0
Inside Directors	1	1
Outside Directors	2	2
Outside Experts	0	0
Other	0	0
Chairperson	Inside Directors	Inside Directors

Supplementary Explanation

The president is the chairperson of this committee. The size and composition of the Board of Directors and the *Kansayaku* board, and the remuneration of Directors are discussed.

[*Kansayaku*]

Establishment of *Kansayaku* Board	Established
Maximum Number of *Kansayaku* Stipulated in Articles of Incorporation	Not stipulated
Number of *Kansayaku*	4

Cooperation among *Kansayaku*, Accounting Auditors and Internal Audit Departments

Kansayaku receives audit report from Accounting Auditor, and fulltime *Kansayaku* holds information exchange meetings with Accounting Auditor and Internal Auditing Department once every three months, thus mutual cooperation is enforced. *Kansayaku* attends Auditing Meetings and Audit Reporting Meetings at which the members are Directors, etc., and exchanges opinions regarding the yearly auditing plan, auditing results or improvement ideas, thus endeavoring to strengthen internal control functions for sound management.

Appointment of Outside *Kansayaku*	Appointed
Number of Outside *Kansayaku*	3
Number of Independent *Kansayaku*	2

Outside *Kansayaku*'s Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Nobuyuki Arayashiki	From another company						△	△		△				
Shigeji Sugimoto	CPA								△					
Akio Migita	From another company						○	○		○				

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. *Kansayaku* of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a *kansayaku*
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the *kansayaku* himself/herself only)
k. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the *kansayaku* himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the *kansayaku* himself/herself only)
m. Others

Outside *Kansayaku*'s Relationship with the Company (2)

Name	Designation as Independent *Kansayaku*	Supplementary Explanation of the Relationship	Reasons of Appointment
Nobuyuki Arayashiki	○	Mr. Arayashiki is a former member of Sumitomo Metal Industries, Ltd. (Currently, Nippon Steel & Sumitomo Metal	<Reason for appointment as an outside *Kansayaku*> Mr. Arayashiki has many years of rich experience in the steel business. He assumed office as an Outside Auditor of Sumikin Bussan Corporation in

		Corporation). NSSB and said company are in a major business relationship, and said company is a major shareholder of NSSB (1st place).	June 2007, and he has been serving as an Outside Audit & Supervisory Board Member of the Company since the merger of the Company with Sumikin Bussan Corporation in October 2013. The Company judges that he is capable of performing the duties as an Outside Audit & Supervisory Board Member appropriately by reflecting his many years of experience and deep insight about the steel industry and as an auditor in auditing of the Company. <Reason for appointment as an Independent *Kansayaku*> More than eight (8) years have passed since he retired from Sumitomo Metal Industries, Ltd. (currently Nippon Steel & Sumitomo Metal Corporation) and NSSB judges a conflict of interest with general shareholders will not arise.
Shigeji Sugimoto	○	Mr. Sugimoto was involved with financial audit as a certified public accountant in Deloitte Touche Tohmatsu LLC, the accounting auditor of NSSB, and retired from said LLC in December, 2015. Mr. Sugimoto has never been involved with a financial audit of NSSB.	<Reason for appointment as an outside *Kansayaku*> NSSB asks Mr. Sugimoto to reflect his professional perspective and experience as CPA in the audit engagements of NSSB. <Reason for appointment as an Independent *Kansayaku* > More than one (1) year has passed since he retired from Deloitte Touche Tohmatsu LLC and NSSB judges a conflict of interest with general shareholders will not arise.
Akio Migita		Mr. Migita is a managing executive officer of Nippon Steel & Sumitomo Metal Corporation. NSSB and said company are in a major business relationship, and said company is a major shareholder of NSSB (1st place).	<Reason for appointment as an outside *Kansayaku*> Mr. Migita has many years of rich experience in the steel business. NSSB judges that he is capable of performing the duties as an Outside Audit & Supervisory Board Member appropriately by reflecting his many years of experience and deep insight about the steel industry in auditing of the Company.

[Independent Directors/*Kansayaku*]

Number of Independent Directors/*Kansayaku*	4

Matters relating to Independent Directors/*Kansayaku*

NSSB appoints all Outside Directors/*Kansayaku* who have the qualifications of Independent Directors/*Kansayaku* as Independent Directors/*Kansayaku*.

[Incentives]

Incentive Policies for Directors	Performance-linked Remuneration

Supplementary Explanation

Each Director's remuneration consists only of monthly remuneration in cash, and is based entirely upon the performance of NSSB, in order to provide incentives for NSSB's group's sustainable growth and the improvement of its corporate value.

Specifically, NSSB sets the base amount of remuneration for each Director's rank taking into consideration each Director's required skills and responsibilities, and this base amount varies within a specific range, depending on NSSB's consolidated profit or loss (consolidated ordinary profit or loss, and profit or loss attributable to owners of parent) and each division's consolidated profit or loss, in view of the connection with annual management plan and medium-term management plan, and the amount of each Director's remuneration is determined within the limits approved by the general meeting of shareholders.

Recipients of Stock Options	No

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No Individual Disclosure

Supplementary Explanation

NSSB discloses the total amount of remuneration paid to Directors, *Kansayaku* and outside *Kansayaku* separately in securities reports and business reports. Director's remuneration for FY 2017 was noted as follows.

Amount of Directors' remuneration: 13 directors, 347 million yen

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Each Director's remuneration consists only of monthly remuneration in cash, and is based entirely upon the performance of NSSB, in order to provide incentives for NSSB's group's sustainable growth and the improvement of its corporate value.

Specifically, NSSB sets the base amount of remuneration for each Director's rank taking into consideration each Director's required skills and responsibilities, and this base amount varies within a

specific range, depending on NSSB's consolidated profit or loss (consolidated ordinary profit or loss, and profit or loss attributable to owners of parent) and each division's consolidated profit or loss, in view of the connection with annual management plan and medium-term management plan, and the amount of each Director's remuneration is determined within the limits approved by the general meeting of shareholders.

[Supporting System for Outside Directors and/or *Kansayaku*]

To support the duties of Outside Directors, the General Affairs & Corporate Communication Department serves as a contact point and supplies necessary information appropriately.

To support the duties of Outside *Kansayaku*, NSSB established the Office of the *Kansayaku* Board and assigns two employees.

The General Affairs & Corporate Communication Department also supplies Outside Directors and *Kansayaku* with necessary support such as providing the notice of the meetings of Board of Directors or of its change, sending the materials for the meetings of Board of Directors in advance, and explaining the resolution matters for the meetings of Board of Directors in advance.

[Retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)]

Information on retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)

Name	Job title/ position	Responsibilities	Employment terms (Full/part time, with/without compensation, etc.)	Date when former role as president/ CEO ended	Term
-	-	-	-	-	-

Number of retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)	0

Others

NSSB adopts Sodanyaku and Komon system, however, not any person was appointed as Sodanyaku nor Komon in 2018.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

NSSB adopts the governance system of a "Company with *Kansayaku* Board", and implements and operates the following internal corporate structure to ensure appropriate and efficient business execution.

NSSB introduces the "Executive Officer System" and targets the efficient operation of the Board of

Directors by separating the function of decision-making and supervision and the function of business execution, and adopts the management system to promptly cope with changes in the management environment.

(1) Board of Directors

The Board of Directors is organized by all Directors. Meeting of Board of Directors is held once every month. Important matters related to management are determined and the business execution of each Director is supervised.

(2) Personnel and Remuneration Committee (voluntary committee)

The appointment of senior management and the nomination of Director and *Kansayaku* candidates are resolved at the meeting of the Board of Directors following the exchange of opinion in the Personnel and Remuneration Committee which is composed of the President and two (2) Outside Directors. Each Director's remuneration is also resolved at the meeting of Board of Directors following the exchange of opinion in the Personnel and Remuneration Committee.

(3) Management Meeting

The Management Meeting is organized by Directors who serve as Executive Officers or Senior Advisors concurrently. It is held twice per month in principle. The policy of important business execution matters and other important matters related to management are discussed and the inquiries of the President are answered. *Kansayaku* have the right to attend the meeting and give his/her opinion.

(4) *Kansayaku*

Kansayaku attend important meetings such as meeting of Board of Director or Management Meeting to supervise the condition of business execution by Directors. *Kansayaku* has the right to inspect all draft plans and reports on the database, claim Directors report in case of necessity, and state opinion at the meeting.

(5) Internal Auditing

Internal Auditing Department (18 members) is established and it is managed by President directly. It audits regularly validity and efficiency of business execution by NSSB and group companies in Japan and foreign countries.

(6) Accounting Auditor

NSSB requests Deloitte Touche Tohmatsu LLC to execute financial audits in accordance with the Companies Act, and financial statements audits and internal control audits in accordance with the Financial Instruments and Exchange Act. The Accounting Auditor, *Kansayaku* and Internal Auditing Department exchange information regularly and in mutual cooperation.

(7) Establishment of various committees

NSSB establishes various committees to further strengthen corporate governance. Major committees and their roles are as follows.

(a) Compliance Crisis Committee

To cope with the occurrence of various matters related to compliance and crisis management.

(b) Information Security Committee

To realize, ensure and support the basic principles stipulated in the basic policy on information security.

(c) Environment Committee

To discuss and determine environmental policy for NSSB-wide promotion of environmental conservation activities.

(d) Investment and Loan Committee

To investigate and examine investment and loan matters before the Management Meeting.

(e) Credit Committee

To discuss the necessary matters to judge the authorization about applications for credit limits, and to answer inquiries by authorized persons.

(f) Safety Trade Control and Trade Business Control Committee

To implement internal corporate structure and operational standards related to the trading business

(8) Outline of Contract for Limitation of liability

NSSB concluded contracts for the limitation of liability for damages to the extent of the Minimum Liability Amount stipulated in Article 425, paragraph 1 of Companies Act with Directors (excluding Executive Director) and *Kansayaku* in accordance with Article 427, paragraph 1 of the Companies Act, and Article 27, paragraph 2 and Article 38, paragraph 2 of the Articles of Incorporation.

3. Reasons for Adoption of Current Corporate Governance System

In NSSB, the Board of Directors, which is composed of Executive Directors with thorough knowledge about the business and management of NSSB and two or more Outside Directors with a wealth of experience and deep insight in the area of corporate management, makes decisions about the basic policy

of management and important business executions, and also supervises the execution of duties by Directors. Furthermore, *Kansayaku* who have strong authority attend the meeting of the Board of Directors and audit the business executions of Directors, etc., from an independent standpoint. NSSB judges that such structure is effective to ensure the efficiency and soundness of management, and adopts the governance system of a "Company with *Kansayaku* Board."

Three (3) persons among four (4) *Kansayaku* are Outside *Kansayaku*. These Outside *Kansayaku* have a wealth experience and a broad perspective in various fields as CPA or in the operation of companies. NSSB strengthens the monitoring and supervising function of the Board of Directors, which has decision-making and supervising of business authority.

Each *Kansayaku* makes mutual cooperation to execute the daily audit engagements according to the schedule and makes decisions objectively about the legitimacy of the Directors' business execution and the validity and rationality of operational judgment with independent perspectives at meeting of Board of Directors or other important meetings. Thus, NSSB considers that the monitoring and supervising function in NSSB works thoroughly.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	In 2018, it was dispatched on June 6th, though the deadline stipulated in Company Act was June 13th.
Scheduling AGMs Avoiding the Peak Day	NSSB makes effort to schedule annual general meeting of shareholders avoiding the Peak Day, however, NSSB may schedule it on the Peak Day due to the reason of reserving a place.
Allowing Electronic Exercise of Voting Rights	From 2016, NSSB allowed Electronic Exercise of Voting Rights in order to improve the convenience of exercising shareholder rights.
Participation in Electronic Voting Platform	From 2016, NSSB participated in Electronic Voting Platform in order to improve the convenience of exercising shareholder rights.
Providing Convocation Notice in English	From 2015, the summarization of convocation notice in English was posted on NSSB's website.
Other	The convocation notice and resolution notice of general meeting of shareholders were posted on NSSB's website. NSSB is targeting visualization such as projecting the business reports on to a wide screen at the general meeting of shareholders.

2. IR Activities

	Supplementary Explanations
Regular Investor Briefings for Analysts and Institutional Investors	NSSB holds IR explanation meeting for analysts and institutional investors twice per year.
Posting of IR Materials on Website	Quarterly financial results, year-end financial results, supplementary documents, quarterly reports and securities reports were posted on NSSB's website. The convocation notice and resolution notice of the general meeting of shareholders and documents concerning timely disclosure to the Tokyo Stock Exchange are also posted on NSSB's website. English translation of the convocation notice (summarize) and resolution notice of the general meeting of shareholders, and financial results are posted on NSSB's website. English translation of main news releases also posted on NSSB's website.
Establishment of Department and/or Manager in Charge of IR	Some employees in the General Affairs & Corporate Communication Department are assigned as persons in charge of IR, and other departments in the Corporate Planning & Administration Division support them.
Other	Executive vice president is a responsible person of IR.

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Implementation of Environmental Activities, CSR Activities etc.	NSSB considers the issues related to sustainability including society and the environment as the most important issue and an essential part of company management. NSSB, in accordance with its environmental policy, establishes environmental committee to comply with environmental laws and regulations related to NSSB Group business and promote environmental conservation actions such as saving energy, and establishes the Environmental Management Section in the General Affairs & Corporate Communication Department to cope with environmental issues. NSSB establishes specialized departments to deal with safety and quality, and endeavors to operate factories safely, improve the quality of goods and ensure the safety of foods.
Development of Policies on Information Provision to Stakeholders	NSSB executes timely disclosure appropriately in accordance with laws and regulations such as the Companies Act and the Financial Instruments and Exchange Act, and securities listing regulations of stock exchanges. NSSB endeavors to supply information such as other press releases or various information on NSSB's website, which is different from the

	disclosure in accordance with laws and regulations. NSSB performs IR activities for investors and endeavors to fulfill and improve it.

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

"Basic Policy about an Internal Control System"

NSSB clarifies its basic attitude to regard compliance as important in accordance with the Corporate Philosophy, Management Principles and Employee Code of Conduct.

NSSB implements and operates internal control appropriately, further strengthens its corporate governance, endeavors to ensure "compliance with laws and ordinances," "reliability of financial reporting" and "effectiveness and efficiency of operations," and aims to improve it continuously.

1. System to ensure the compliance of Directors' business execution with laws, regulations and the Articles of Incorporation (In this chapter, hereinafter called "Laws, etc.")

The Board of Directors makes decisions and receives reports about important matters of management in accordance with the Regulations of Board of Directors, etc.

Executive Directors (Directors who serve as Executive Officers concurrently) perform business execution in accordance with the division of business responsibilities, supervise employees' business execution and reports to the Board of Directors in accordance with the resolution matters of the Board of Directors.

In case Directors find other Director's action in non-compliance with Laws, etc., he/she shall report to the *Kansayaku* and the Board of Directors immediately, and *Kansayaku* and the Board of Directors shall promptly take corrective action and thus the soundness of Directors' business execution shall be maintained.

2. System for storage and preservation of information related to Directors' business execution

Various information related to business execution such as the minutes of the Meeting of Board of Directors shall be preserved appropriately after the responsible person is clarified and the confidentiality level is set in accordance with the Information Management Regulations and Information Security Basic Regulations.

NSSB aims to disclose important information such as management plans or financial information appropriately in a timely manner, in addition to the method stipulated in laws and ordinances.

3. Regulations concerning the Risk of Loss Management and other Systems

Each Executive Director and Executive Officer shall understand and estimate business risk executed by the department which he/she manages or takes charge of, and take an action in accordance with the

regulations and the various committees.

The main risk management categories are as follows:

(1) Credit Risk

NSSB has already established “Credit Management Regulations,” and holds the “Credit Committee” in case of necessity, thus aiming to prevent the occurrence of loss due to bad debt.

(2) Investment and Loan Risk

NSSB has already established the “Investment and Loan Management Regulations,” and holds the “Investment and Loan Committee” and investigates and examines investment and loan matters.

(3) Market Risk

Regarding market risk such as exchange risk or country risk, NSSB has already established necessary regulations in accordance with the type of risk, and understands and estimates the risk appropriately.

(4) Risk related to the quality and safety of goods

NSSB has already established the “Regulations related to the Quality, Safety and Indication of Goods” to cope with accidents related to quality and safety, and ensures quality, safety and reliability for customers and end-users.

(5) Compliance Risk

NSSB has already established the “Compliance Manual” in accordance with the Management Principles and enforces compliance with laws and ordinances related to business activities.

(6) Industrial Safe and Health Risk

The special organization related to industrial safety and health in NSSB aims to instruct and support safety policy to prevent accidents and disasters.

(7) Contingency to affect NSSB's management seriously

In the case of contingency to affect NSSB's management seriously, NSSB holds the Compliance Crisis Committee immediately to minimize the loss and influence, and takes necessary measures promptly in accordance with the direction of the President.

NSSB has already established the “Crisis Management Manual” to prepare for the occurrence of accidents and incidents in NSSB and its subsidiaries, and implements the corporate structure to immediately report to top management.

NSSB executes activities to monitor NSSB-level risk in normal times and takes measures to decrease the extracted risk.

4. System to ensure efficient performance of Directors

Important individual execution matters such as management plans, business strategy and investment and loans shall be determined by the Board of Directors through discussion at the Management Meeting, etc.

The matters in accordance with the determination of the Board of Directors, etc., shall be executed by the Representative Director, each Executive Director, each Executive Officer and each general manager.

The division of business responsibilities, direction line or authorization process shall be prescribed by the "Regulations Concerning Organizational Structure and Division of Business Responsibilities" and "Table of Authorization Standards," and their authority and responsibilities are clarified.

5. System to ensure the compliance of employees' business execution with Laws, etc.

NSSB shall construct and implement the internal control system based on autonomous internal control, and each division shall manage the operation of internal control at its own initiative under the responsibility of each Executive Officer who supervises such division.

Each division shall comply with various laws and ordinances related to its business and enforce them, and aim to prevent non-compliance activities. In case a general manager discovers an activity or fact which may not comply with Laws, etc., he/she shall promptly report it to the Internal Control Department and other related departments.

After the receipt of a report, the Internal Control Department and other related departments shall cooperate with each other, correct the issue and aim to prevent its re-occurrence.

The general manager of the Internal Control Department shall, with the cooperation of the Internal Auditing Department and in accordance with the "Regulations on Internal Control," confirm and evaluate the structural and operational conditions of the internal control system of the entire NSSB Group, check and confirm the structural and operational conditions of the internal control system of each division and the Corporate Planning & Administration Division, and take necessary actions such as education and enlightenment.

The Internal Auditing Department shall perform internal audits in accordance with the "Internal Auditing Regulations," and aim to prevent a breach of rules or injustice, find such issues at an early stage and correct them.

These departments shall report important facts such as violations of laws and ordinances to the Management Meeting, etc.

Employees shall comply with laws, ordinance and regulations, and have the responsibility to do his/her work appropriately. NSSB shall establish regulations to comply with Laws, etc., and implement and operate employee education such as seminars or instructional manuals to comply with Laws, etc.

Employee who conducts non-compliance actions shall be reprimanded in accordance with the "Reward and Punishment Regulations."

6. System to ensure the appropriateness of business executed by NSSB and its subsidiaries

NSSB and each subsidiary shall establish internal regulations to ensure the appropriateness of business in accordance with the Corporate Philosophy, Management Principles and Employee Code of Conduct, and hold business strategy in common based on the business characteristics of each division and subsidiary. Thus, NSSB and each subsidiary shall operate as a single group.

Each Executive Director, Executive Officer and general manager in NSSB and the directors of each subsidiary shall have employees fully understand the Corporate Philosophy, Management Principles, Employee Code of Conduct and regulations, and perform self-check and monitoring.

The department in charge of the management of each subsidiary shall operate the subsidiary appropriately in accordance with the "Subsidiary Management Regulations," the "Subsidiary Management Standards," etc., under the responsibility of the Executive Officer who supervises such department.

NSSB shall dispatch its Executive Directors, Executive Officers or employees to subsidiaries as Directors or *Kansayaku* in case of necessity, and ensure the appropriateness of business execution.

The Internal Control Department shall cooperate with the related departments, instruct and support the internal control system of NSSB and its subsidiaries, hold information with the subsidiary in common, and aim to fulfill the internal control.

NSSB has already established the "Compliance Hotline System" as a reception point of Internal Reporting related to the risk of business operations, and keeps the confidentiality of reports strictly and never treats reporters unfavorably.

NSSB and its subsidiaries shall never have any relationship with anti-social forces. In case NSSB or subsidiaries receive unreasonable demands from anti-social forces, they shall take action in a resolute attitude.

The concrete system is as follows.

(1) System about reports on business execution by directors of subsidiaries to NSSB

Each subsidiary shall report important matters such as business plans, settlement, investment and loans to NSSB regularly and in case of necessity, and NSSB shall give said subsidiary instructions and advice.

(2) Regulations related to the risk management of loss of subsidiaries and other systems

Each subsidiary shall monitor the risk of business operations in normal times, and take measures to decrease the extracted risk.

NSSB has already established the "Emergency Report System" as a reporting method about the risk of loss in NSSB and its subsidiaries, and has already prepared the "Crisis Management Manual" for contingencies.

(3) System to ensure efficient performance of subsidiary's Directors

Each subsidiary shall establish regulations related to the organizational structure, the division of business responsibilities and authorities, and execute its business through the determination of important matters by the Board of Directors. NSSB shall evaluate subsidiaries with its achievements and operations, and support their management.

(4) System to ensure compliance of Directors' and employees' business execution of the subsidiaries with Laws, etc.

Each department in charge of the management of a subsidiary shall require the concerned subsidiary to report its implemental and operational conditions of compliance and internal control, and supply the subsidiary with necessary support, advice, etc. In addition, said department shall require the concerned subsidiary to report an activity or fact which may not be in compliance with Laws, etc., and promptly report the matter to the Internal Control Department and other related departments.

Each subsidiary shall implement and operate its regulations in compliance with Laws, etc. In case a Director or an employee discovers actions in non-compliance with Laws, etc., he/she shall report to the Board of Directors in his/her own company immediately and report to NSSB with Emergency Report system, and NSSB shall give said subsidiary instructions and advice.

7. Matters of audit by *Kansayaku*

Directors, Executive Officers and employees of NSSB, and Directors, Auditors and employees of the Subsidiaries shall report on the condition of the business execution of NSSB and said subsidiary, and important matters such as facts that influence the management of NSSB, to *Kansayaku* or *Kansayaku* Board appropriately in a timely manner, and directly or through the related departments such as the Internal Control Department. Directors shall report import matters such as the operating condition of internal control at the Board of Directors Meeting and the Management Meeting, and hold such information with *Kansayaku* in common.

NSSB shall not treat such reporters unfavorably for the reason of his/her report.

The general manager of Internal Auditing Department and the general manager of Internal Control Department shall cooperate with each other, by exchange of opinion about the operation condition of internal control system with *Kansayaku* regularly or in case of necessity.

To support audit engagements by *Kansayaku*, NSSB has already established Office of *Kansayaku* Board and arranges the employees necessary for audit engagements. To ensure the independence of Office members from Directors, these Office members work exclusively and execute audit engagements under *Kansayaku*.

The change and evaluation of Office members shall be discussed with *Kansayaku*.

NSSB shall include expenses necessary for the execution of audit engagements by *Kansayaku* in its budget. NSSB shall meet a request from *Kansayaku* for urgent and extraordinary expenses after the fact.

2. Basic Views on Eliminating Anti-Social Forces

NSSB aims to continue to be a company group relied upon by society, and has the policy never to have a relationship with Anti-Social Forces which threaten public order and social safety, and to never meet unreasonable demands.

NSSB has already established an internal corporate structure such as the Compliance Manual and the assignment of a responsible person for unreasonable demands.

NSSB belongs to the particular association managed by the Metropolitan Police Department and receives instructions and information, and cooperates with outside special organs such as the police or lawyers, etc., in normal times.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

2. Other Matters Concerning to Corporate Governance System

<Timely Disclosure Structure>

The internal corporate structure of Timely Disclosure shall be as follows.

1. Timely disclosure of Decisions by NSSB

A decision which becomes the object of timely disclosure about NSSB and its subsidiaries shall be determined and reported by the Board of Directors or the Management Meeting in accordance with the internal regulations, and disclosed in accordance with the Securities Listing Regulations of the Tokyo Stock Exchange.

2. Timely disclosure about the Facts which occurred for NSSB

Facts which occurred for NSSB or subsidiaries shall be disclosed in accordance with the Securities Listing Regulations of the Tokyo Stock Exchange promptly after the occurrence of said Fact.

3. Timely disclosure about NSSB's Earning information

Earning information shall be submitted and reported to the Board of Directors in accordance with NSSB's regulations and disclosed in accordance with the Securities Listing Regulations of the Tokyo Stock Exchange.

Each disclosure noted above shall be executed in a timely manner under the responsibility of the Executive Officer managing the General Affairs & Corporate Communication Department (Entity Responsible for the Handling of Information stipulated in the Securities Listing Regulations of the Tokyo Stock Exchange).

NSSB shall post it to NSSB's website at the same time of disclosure.