

Last Update: March 23, 2018  
Nippon Steel & Sumitomo Metal Corporation  
Representative Director and President  
Kosei Shindo  
Contact: General Administration Dept.  
Securities code: 5401  
<http://www.nssmc.com/en>

The corporate governance of Nippon Steel & Sumitomo Metal Corporation (“NSSMC”) is described below.

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

### 1. Basic Views

=====  
Major updates made in the Corporate Governance Report, as of March 23, 2018, are as follows.

#### I-1. Basic Views

- NSSMC’s Board composition upon conclusion of the General Meeting of Shareholders (to be held in late June 2018) has been indicated in (2).
- [Principle 1.4] (Strategic Shareholdings (So-called “Cross-Shareholdings” in the Corporate Governance Code)): The number and total value of stocks held as strategic shareholdings have been indicated.
- [Principle 3.1] (Full Disclosure)
  - (1) Corporate Philosophy, Management Strategies, and Management Plans: Group Employee Action Guidelines have been indicated.
  - (3) Board Policies and Procedures in Determining the Compensation of Directors: The status of the operation of the Nomination and Compensation Advisory Committee and the related information have been indicated.
- [Principle 4.11.3] (Analysis and Evaluation of the Effectiveness of the Board of Directors as a Whole): The status of responses to the major observations and findings from the evaluation of the effectiveness of the entire Board of Directors.
- [Principle 4.14.2] (Training Policy for Directors and Audit & Supervisory Board Members): The fact that NSSMC provides Directors and Audit & Supervisory Board Members with the opportunities to attend exchanges of opinion, lectures, and seminars and other facilitation has been indicated.

#### II-1. Organizational Composition and Operation

- [Audit & Supervisory Board Members]: More description has been given to Cooperation among Audit & Supervisory Board Members, the Accounting Auditor, and the Internal Audit Department.

- [Director Compensation]: The limits on the amounts of compensation for Directors and Audit & Supervisory Board Members approved by past General Meetings of Shareholders have been indicated.
- [Status of persons who resigned from Representative Director and President or other position]: The number, the roles, the compensation and other matters of former presidents who have been appointed as Senior Advisor, Advisor or other position have been indicated.

### III. Implementation of Measures for Shareholders and Other Stakeholders

More description has been given to “1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights,” “2. IR Activities,” and “3. Measures to Ensure Due Respect for Stakeholders.”

### IV. Matters Related to the Internal Control System

In addition to the Basic Policy on Internal Control System, an overview of the status of the operation of the Internal Control System has been indicated.

=====

(1) For the Group’s sound and sustainable growth, and improvement of its corporate value in the mid-to long-term, in response to the delegation of responsibilities by and trust from all stakeholders, including shareholders and business partners, NSSMC has established a corporate governance structure appropriate for the Group’s business.

(2) The basic structure of NSSMC’s corporate governance is as follows.

- a. NSSMC, with its core business being steelmaking, has adopted a company structure with an Audit & Supervisory Board, because NSSMC believes that the following structure is effective in ensuring management efficiency and soundness: the Board of Directors, which consists mainly of Directors familiar with the business of NSSMC, makes decisions on basic management policies and the execution of important business matters; and the Audit & Supervisory Board Members, with considerable legal authority, independently supervise the performance of responsibilities by Directors.

Currently, in addition to eleven (11) Executive Directors, two (2) Outside Directors and seven (7) Audit & Supervisory Board Members (four (4) of which are Outside Audit & Supervisory Board Members) who do not engage in the execution of business, attend meetings of NSSMC’s Board of Directors to ensure multifaceted and sufficient deliberations, and objective decision-making. (Non-executive Directors and Audit & Supervisory Board Members account for 45% and Outside Directors and Outside Audit & Supervisory Board Members account for 30% of all attendees of the Board of Directors.)

Furthermore, as announced on March 2, 2018, the number of Outside Directors will increase by one upon the conclusion of the General Meeting of Shareholders to be held in late June 2018, to have eleven (11) Executive Directors, three (3) Outside Directors, and seven (7) Audit & Supervisory Board Members including four (4) Outside Audit & Supervisory Board Members. (Non-executive Directors and Audit & Supervisory Board Members will account for 48% and Outside Directors and Outside Audit & Supervisory Board Members will account for 33% of all attendees of the Board of Directors.) The three (3) Outside Directors stated above include one (1) female Director.

- b. To ensure management soundness, full-time Audit & Supervisory Board Members, who are familiar with the business of NSSMC, and two or more Outside Audit & Supervisory Board Members, who have deep insights into respective professional fields, attend meetings of the Board of Directors, and supervise daily, among other things, the performance of responsibilities by Directors and the status of NSSMC's assets in collaboration with NSSMC's accounting auditor, the Internal Control & Audit Division and others. Further, in order for the Board of Directors to make decisions from diverse perspectives and enhance its function of supervising management, NSSMC has several Outside Directors who have deep insights into corporate management, or other matters.

At NSSMC, in order for all Outside Directors and Outside Audit & Supervisory Board Members to obtain the necessary information and sufficiently fulfill their roles, the Chairman, the President, other senior management, and Senior Audit & Supervisory Board Members regularly hold meetings with those Outside Directors and Outside Audit & Supervisory Board Members to share the management challenges, and exchange opinions.

- c. To enhance management transparency and advance a correct understanding by stakeholders on the management situation of the Group, NSSMC not only seeks to disclose information in accordance with applicable laws and regulations and the rules of financial instruments exchanges, but also seeks to disclose financial and non-financial information at an appropriate timing, in an easily understandable manner, and accurately.
- d. To comply with applicable laws and regulations, and ensure the integrity of financial reports and the effectiveness and efficiency of business and affairs, NSSMC establishes and appropriately operates an internal control system, and strives to continually improve it. To create a sound and open organization, NSSMC establishes the internal control environment by emphasizing dialogue in and outside the workplace, regularly conducting attitude surveys with all employees, and establishing a whistleblower system to receive consultation and reports not only from employees of NSSMC and the Group companies, but also from temporary workers and employees of contractors and suppliers, and their families.
- e. NSSMC regularly examines and reviews, at the Board of Directors, the corporate governance structure, its operating situation, and other relevant facts and circumstances, including the analysis and evaluation of the effectiveness of the Board of Directors as a whole so that NSSMC will be able to make improvements autonomously, considering the opinions of Outside Directors and Outside Audit & Supervisory Board Members.
- f. For the specific initiatives and situations regarding the NSSMC's corporate governance, please see each item of this report.

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

NSSMC conducts all matters related to every principle of the Code.

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

**[Principle 1.4] (Strategic Shareholdings (So-called "Cross-Shareholdings" in the Corporate Governance Code))**

- (1) Policy on Strategic Shareholdings

NSSMC holds strategic shareholdings (all shares except shares of NSSMC's affiliates) to improve NSSMC's corporate value in the mid- to long-term through maintaining and

strengthening business transaction relationships, maintaining and developing alliance, and smoothly promoting business activities, among other things. In addition, regarding these strategic shareholdings, NSSMC examines the economic rationale of the holding at the Board of Directors, regularly every year, by quantitatively evaluating the significance of holding them, and the performance and financial conditions, among others, of investee companies.

As of March 31, 2017, NSSMC, on a consolidated basis, held 390 stocks as strategic shareholdings, and their total value on the balance sheet was 688.2 billion yen (419 stocks amounting to 534.3 billion yen as of March 31, 2016).

(2) Basic Policy on Exercise of Voting Rights Concerning Strategic Shareholdings

Regarding the exercise of voting rights concerning strategic shareholdings, each responsible division of NSSMC carefully examines the contents of the agenda of the General Meeting of Shareholders of an investee company, comprehensively evaluates the contribution to improvement of the corporate value of NSSMC and the investee company, and thereby exercises its voting rights appropriately.

**[Principle 1.7] (Related Party Transactions)**

Regarding transactions (including indirect transactions) between NSSMC and Directors, NSSMC verifies the contents of each transaction. If the transactions fall under conflict-of-interest transactions, in accordance with applicable laws and regulations and NSSMC's rules, the "Rules for Board of Directors," NSSMC seeks approval at, and reports to, the Board of Directors, and confirms that all those transactions will not harm NSSMC.

Also, regarding the transactions between NSSMC, on the one hand, and the Audit & Supervisory Board Members and other related parties, on the other hand, NSSMC verifies the contents of each transaction; subject to applicable laws and regulations, it discloses the transactions appropriately, depending on their importance and nature.

**[Principle 3.1] (Full Disclosure)**

(1) Corporate Philosophy, Management Strategies, and Management Plans

◆ Corporate Philosophy

As a fundamental philosophy, the Group will pursue world-leading technologies and manufacturing capabilities, and contribute to society by providing excellent products and services. In order to achieve this, the Group has the following management principles:

- (i) We continue to emphasize the importance of integrity and reliability in our actions.
- (ii) We provide products and services that benefit society, and grow in partnership with our customers.
- (iii) We pursue world-leading technologies and manufacturing capabilities.
- (iv) We continually anticipate and address future changes, innovate from within, and pursue unending progress.
- (v) We develop and bring out the best in our people to make our Group rich with energy and enthusiasm.

◆ Employee Action Guidelines

In order to realize the above Corporate Philosophy, NSSMC has established the following "NIPPON STEEL & SUMITOMO METAL CORPORATION GROUP Employee Action Guidelines" that express the daily attitude and frame of mind of its employees.

What we strive for:

**Creativity, Innovation and Growth**

We constantly seek self-improvement, pursue ambitious goals with enthusiasm, and continuously challenge ourselves to do better.

What we value most:

**Self-empowerment, Workplace and Essentiality**

We observe rules, keep our promises and pierce to the heart of matters by actively investigating the facts.

What we encourage:

**Dialogue, Collaboration and Sharing of Knowledge**

We build mutual trust through dialogue and collaboration, and seek to pass on our spirit and skills to the next generation.

We will be guided by these principles, and act fairly and equitably throughout the world.

- ◆ Management Strategies and Management Plans  
By addressing the megatrends of changes in society and industry, further improving its capabilities in terms of “technology,” “cost,” and “being global,” continuing to strengthen the manufacturing capabilities of domestic mother mills and “creating the value of steel,” NSSMC will seek to advance towards “the best steelmaker with world-leading capabilities.” To this end, NSSMC has developed its 2020 Mid-Term Management Plan (consisting of a three-year plan for fiscal years 2018 through 2020 and longer term measures beyond fiscal year 2021 to be formulated and set into motion).

Please refer to the details provided on NSSMC’s website (URL: <http://www.nssmc.com/en/ir/library/strategy.html>).

By implementing the series of measures of this Mid-Term Management Plan, NSSMC aims at a medium- to long-term growth in profit and an expansion of its cash flow generating ability with a target ROS of about 10% and ROE of about 10% in fiscal year 2020.

(2) Basic Views and Guidelines on Corporate Governance

Please refer to I-1 “Basic Views” of this report.

(3) Board Policies and Procedures in Determining the Compensation of Directors

a. Policies on Determining the Compensation

NSSMC has determined the “Policies regarding the Decision on the Amount of Remuneration for Directors and Audit & Supervisory Board Members” at the Board of Directors, and discloses these in the “Business Report.”

Directors’ compensation consists only of monthly compensation in cash, and is all based upon performance of NSSMC, in order to provide incentives for the Group’s sustainable growth and improvement of its corporate value.

Specifically, NSSMC sets the base amount of compensation for each Director’s rank taking into consideration each Director’s required skills and responsibilities, and this base amount varies within a specific range, based on NSSMC’s consolidated net profit or loss and the ordinary profit or loss of the

steelmaking segment in the previous fiscal year, in view of the connection with the mid-term management plan, and the amount of each Director's compensation is determined within the limits approved by the General Meeting of Shareholders.

Regarding Audit & Supervisory Board Members' compensation, NSSMC determines the monthly compensation for each Audit & Supervisory Board Member, within the limits approved by the General Meeting of Shareholders, by considering the Audit & Supervisory Board Member's responsibilities, depending on its rank and whether the Audit & Supervisory Board Member is full- or part-time.

NSSMC abolished its retirement benefits for Directors and Audit & Supervisory Board Members in 2006. Furthermore, the policies relating to bonuses was deleted from the "Policies regarding the Decision on the Amount of Remuneration for Directors and Audit & Supervisory Board Members" in 2013, and bonuses have not been paid to the Directors and Audit & Supervisory Board Members since then.

b. Procedures for Determining the Compensation

Each Director's compensation is resolved at the Board of Directors after discussion at the "Nomination and Compensation Advisory Committee," comprised of the Chairman, the President, and three members designated by the President from among the Outside Directors and Outside Audit & Supervisory Board Members.

The Nomination and Compensation Advisory Committee conducts discussions and deliberations on a wide-range of topics including the system of Directors' compensation and the appropriateness of the compensation levels by position, taking into account the survey results of directors' compensation levels of other companies obtained from third-party research organizations.

Each Audit & Supervisory Board Member's compensation is determined by discussions of the Audit & Supervisory Board Members.

(4) Policies on and Procedures in the Nomination of Director Candidates and Audit & Supervisory Board Member Candidates and the Appointment of Senior Management

a. Policies on the Nomination of Director Candidates and Audit & Supervisory Board Member Candidates and the Appointment of Senior Management

For the nomination of Director candidates and Audit & Supervisory Board Member candidates, and the appointment of senior management, NSSMC'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 Audit & Supervisory Board as a whole, and the balance of candidates comprising these respective boards (including the number of Outside Directors and Outside Audit & Supervisory Board Members) so that NSSMC will establish an optimum board composition in which each individual is able to appropriately fulfill its role and responsibilities and properly respond to the management challenges of the Group's business.

b. Procedures in the Nomination of Director Candidates and Audit & Supervisory Board Member Candidates and the Appointment of Senior Management

The nomination of Director candidates and Audit & Supervisory Board

Member candidates, and the appointment of senior management, are resolved at the Board of Directors after discussion at the “Nomination and Compensation Advisory Committee,” comprised of the Chairman, the President, and three members designated by the President from among the Outside Directors and Outside Audit & Supervisory Board Members.

The Nomination and Compensation Advisory Committee conducts discussions and deliberations from various perspectives, in accordance with the policies stated in a. above, taking into account, among others, the sizes of the entire Board of Directors and the Audit & Supervisory Board the balance among the candidates who will comprise the members.

The nomination of Audit & Supervisory Board Member candidates will be submitted to the Board of Directors for deliberation, after the approval at the Audit & Supervisory Board.

(5) Explanations for the Nomination of Director Candidates and Audit & Supervisory Board Member Candidates and the Appointment of Senior Management

NSSMC explains the nomination of each individual in nominating Director candidates and Audit & Supervisory Board Member candidates and the appointment of senior management, by indicating NSSMC’s management system, including the allocation of each individual’s responsibilities, the designation of managerial positions, and other related matters, and each individual’s brief personal history in reference materials attached to the “Notice of the General Meeting of Shareholders”, the “Securities Report” and press releases related to managerial personnel matters.

In addition, the reasons for appointment and independence of Outside Directors and Outside Audit & Supervisory Board Members are explained in reference materials attached to the “Notice of the General Meeting of Shareholders” and also indicated in [Directors] and [Audit & Supervisory Board Members] of “Organizational Composition and Operation” of II-1 of this report for your reference.

**[Supplementary Principle 4.1.1] (Brief Summary of the Scope of Matters Delegated to the Management)**

NSSMC’s rules, “the Rules for the Board of Directors,” specify that the following matters shall be resolved at the Board of Directors: the matters to be resolved at the Board of Directors as set forth under applicable laws and regulations and in the Articles of Incorporation, such as the disposal and acquisition of material assets (including investments and provision of loans), decisions on financial plans, the appointment of important employees, and the important organizational reforms. The decision-making regarding matters except for those matters above is delegated to each of the President and other Executive Directors.

NSSMC has introduced an Executive Officer system for setting clear responsibilities and improving management efficiency by more prompt decision-making.

**[Principle 4.9] (Independence Standards of Independent Directors and Audit & Supervisory Board Members)**

NSSMC decides the independence of Outside Directors and Outside Audit & Supervisory Board Members in accordance with the independence standards set by financial instruments exchanges in Japan (e.g. Tokyo Stock Exchange), considering each individual’s personal relationship, capital relationship, transaction relationship, and other interests with NSSMC. For the interests between the Outside Directors and Outside Audit & Supervisory Board Members, on the one hand, and the NSSMC, on the other hand, on which the NSSMC bases its decisions, please refer to [Directors] and [Audit & Supervisory Board Members] of “Organizational Composition and Operation” of II-1

of this report.

**[Supplementary Principle 4.11.1] (View on the Balance between Knowledge, Experience, and Skills of the Board of Directors as a Whole, and on Diversity and Board Size)**

To enable a prompt decision-making and to establish an effective corporate governance structure corresponding to changes in the management environment, the Board of Directors will be an appropriate size for the Group's business lineup and management challenges, and be comprised of members, considering the balance among experience, insights, and expertise of the Board of Directors as a whole and its diversity.

The Articles of Incorporation provide that the number of Directors will be twenty (20) or less, and the number of Audit & Supervisory Board Members will be seven (7) or less. Currently, in addition to eleven (11) Executive Directors, two (2) Outside Directors and seven (7) Audit & Supervisory Board Members (four (4) of which are Outside Audit & Supervisory Board Members) who do not engage in the execution of business, attend meetings of NSSMC's Board of Directors to ensure multifaceted and sufficient deliberations, and objective decision-making. (Non-executive Directors and Audit & Supervisory Board Members account for 45% and Outside Directors and Outside Audit & Supervisory Board Members account for 30% of all attendees of the Board of Directors.)

For the balance of the Board of Directors as a whole and its diversity, please see "(i) Supervision by the Board of Directors" and "(ii) Supervision by Audit & Supervisory Board Members" of II-2, (2) of this report.

**[Supplementary Principle 4.11.2] (Directors and Audit & Supervisory Board Members Serving Concurrently as Directors, Audit and Supervisory Board Members, or Management at Other Listed Companies)**

When deciding Director candidates and Audit & Supervisory Board Member candidates, NSSMC confirms that each candidate is able to appropriately fulfill its role and responsibilities, including confirming whether the candidate concurrently serves as a director, an audit and supervisory board member, or the management at other listed companies. Whether Directors and Audit & Supervisory Board Members serve concurrently as directors, audit and supervisory board members or management at other listed companies are disclosed every year in reference materials attached to "Notice of Convocation for the General Meeting of Shareholders," and in "Business Report" and "Securities Report," among others. They are all posted on NSSMC's website. Please see the site for details.

(Notice of the 93rd General Meeting of Shareholders,

URL: <http://www.nssmc.com/en/ir/individual/meeting.html>, pp. 37-41)

(The 92nd Term Securities Report (available only in Japanese),

URL: <http://www.nssmc.com/ir/library/securityreport.html>, pp. 50-53)

**[Supplementary Principle 4.11.3] (Analysis and Evaluation of the Effectiveness of the Board of Directors as a Whole)**

At NSSMC, the office of the Board of Directors (General Administration Division) conducts quantitative analysis through comparison of the number of the agenda items submitted for deliberation or reported to the Board of Directors and the number of hours of deliberation, as well as the attendance rate and the number of opinions expressed by each Director and Audit & Supervisory Board Member with these of prior years; and the Board of Directors, taking into account each Director's and Audit & Supervisory Board Member's self-assessments and opinions on the operation of the Board of Directors obtained through individual interviews with them, annually analyzes and evaluates the effectiveness of the entire Board of Directors and utilizes such analysis and evaluation to improve the future operation and administration of the Board of Directors.

The Board of Directors, at its meeting held in April 2017, analyzed and evaluated the effectiveness

of the Board of Directors for fiscal year 2016, confirming that the Board of Directors functions effectively because, among other reasons, all of the matters submitted for deliberation or reported to the Board of Directors pursuant to the Companies Act or NSSMC's rules were resolved or confirmed, after discussion among Directors and Audit & Supervisory Board Members, from the point of view of improvement of NSSMC's corporate value in the mid- to long-term or other various perspectives, with relevant information being provided in advance. In addition, from the standpoint of further enhancing the effectiveness of the Board of Directors, NSSMC has decided to spend further time on the deliberations of mid- to long-term management policies and the status reports on the implementation of important management issues, based on the opinions voiced by each Director and Audit & Supervisory Board Member in the effectiveness evaluation for fiscal year 2016.

**[Supplementary Principle 4.14.2] (Training Policy for Directors and Audit & Supervisory Board Members)**

NSSMC, via relevant officers, explains its corporate philosophy and the Group business lineups, among others, to each Outside Director and Outside Audit & Supervisory Board Member individually once they assume their positions. In addition, after the assumption, NSSMC proactively provides opportunities for them to visit steelworks, research laboratories, and to have dialogue with the Chairman, the President, and the Vice Presidents. NSSMC also explains anew to Executive Directors and Audit & Supervisory Board Members, both of whom were employees of NSSMC, their responsibilities under important applicable laws and regulations such as the Companies Act, and NSSMC's rules, upon the assumption of their positions.

Moreover, NSSMC provides opportunities for Directors and Audit & Supervisory Board Members to attend exchanges of opinions with outside experts and executives of other companies, as well as lectures and seminars.

**[Principle 5.1] (Policy for Dialogue with Shareholders)**

With a view to achieving sustainable growth and improvement of NSSMC's corporate value in the mid- to long-term, NSSMC takes various measures to enhance constructive dialogue with the shareholders. The dialogue with the shareholders and investors is generally supervised by the Director responsible for General Administration and the Director responsible for Accounting and Finance, and the General Administration Division and the Accounting & Finance Division work in conjunction with other divisions of NSSMC to enhance the measures.

Specifically, for shareholders, 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, NSSMC seeks to promote understanding of its management situation, and enhance dialogue through holding management business briefings and plant tours, regularly in various locations, and issuing information booklets. On the other hand, for institutional investors, NSSMC not only explains its management strategies, business lineups, business performance and other related matters, by means of briefings on financial results in each quarter, briefings on the mid-term management plan, steelworks/research laboratory tours, and other opportunities, but also seeks to enhance dialogue by means of, among others, small meetings for investors, various conferences, and visit to overseas institutional investors. Senior management and an officer in charge of IR attend these dialogues, as necessary. The opinions and other comments received from the shareholders and investors through the above-listed initiatives are reported and fed back to the Board of Directors and others responsible for the dialogue with the shareholders and investors on a regular basis.

Insider information (undisclosed material facts) is appropriately managed in accordance with NSSMC's rules, "Rules on Insider Information Management and Insider Trading Regulations."

"NSSMC Corporate Disclosure and Dialogue Policy" is posted on the NSSMC's website. Please see that site for reference (URL : <http://www.nssmc.com/en/ir/management/disclosure.html>) .

## 2. Capital Structure

Foreign Shareholding Ratio	From 20% to less than 30%
----------------------------	---------------------------

### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	42,701,500	4.49
The Master Trust Bank of Japan, Ltd. (Trust Account)	35,739,400	3.76
Nippon Life Insurance Company	24,532,498	2.58
Sumitomo Corporation	18,269,011	1.92
Japan Trustee Services Bank, Ltd. (Trust Account 5)	16,711,900	1.76
Mizuho Bank, Ltd.	16,299,898	1.72
Sumitomo Mitsui Banking Corporation	14,647,067	1.54
Meiji Yasuda Life Insurance Company	13,960,774	1.47
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,655,401	1.44
Japan Trustee Services Bank, Ltd. (Trust Account 1)	12,973,300	1.37

Controlling Shareholder (except for Parent Company)	-----
Parent Company	None

### Supplementary Explanation

1. In addition to the above, Mizuho Bank, Ltd. has established retirement benefit trusts holding 2,235 thousand shares in NSSMC (shareholding ratio: 0.24%).
2. In addition to the above, Sumitomo Mitsui Banking Corporation has established retirement benefit trusts holding 6,638 thousand shares in NSSMC (shareholding ratio: 0.70%).
3. In addition to the above, there are 66,413 thousand treasury shares owned by NSSMC (shareholding ratio: 6.99%).

## 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section, Nagoya Stock Exchange First Section, Fukuoka Stock Exchange Main Board, Sapporo Stock Exchange Main Board
Fiscal Year-End	March
Type of Business	Iron & Steel
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	More than 300

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

-----
-------

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

<p>NSSMC has four listed subsidiaries.</p> <p>While sharing business strategies with NSSMC, each subsidiary conducts its corporate management autonomously, at its own responsibility and on its own authority.</p>
---

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

**1. Organizational Composition and Operation**

Organization Form	Company with Audit & Supervisory Board
-------------------	--

**[Directors]**

Maximum Number of Directors Stipulated in Articles of Incorporation	20
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	13
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

Outside Directors' Relationship with NSSMC (1)

Name	Attribute	Relationship with NSSMC*										
		a	b	c	d	e	f	g	h	i	j	k
Mutsutake Otsuka	From another company									Δ		
Ichiro Fujisaki	Academic									○		○

\* Categories for "Relationship with NSSMC"

\* "○" when the director presently falls or recently fell under the category;

"Δ" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or recently fell under the category;

"▲" when a close relative of the director fell under the category in the past

- Executive of NSSMC or its subsidiaries
- Non-executive director or executive of a parent company of NSSMC
- Executive of a fellow subsidiary of NSSMC
- A person whose major client or supplier is NSSMC or an executive of such person
- Major client or supplier of NSSMC or an executive of such client or supplier
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from NSSMC besides compensation as a director/audit & supervisory board member
- Major shareholder of NSSMC (or an executive of the said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier of NSSMC (which does not fall under any of d, e, or f) (the director himself/herself only)
- Executive of a company with which NSSMC mutually appoints outside directors/audit & supervisory board members (the director himself/herself only)
- Executive of a company or organization that receives donations from NSSMC (the director himself/herself only)
- Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Mutsutake Otsuka	Yes	Although Mr. Otsuka engaged in the execution of business of East Japan Railway Company which has a business relationship with NSSMC for transactions of steel and other products / services until March 2012, he does not currently engage in the execution of business of the said company. Since the amount of transactions with the said company accounted for less than 1% of the consolidated net sales of NSSMC, the said company is not a specified associated service provider of NSSMC.	<p><b>[Reasons for Appointment as an Outside Director]</b> NSSMC believes that Mr. Otsuka is well-qualified for the position by his deep insights and vast experience as a company executive.</p> <p><b>[Reasons for Designation as an Independent Director]</b> Although he engaged in the execution of business of East Japan Railway Company which has a business relationship with NSSMC for transactions of steel and other products /services until March 2012, he does not currently engage in the execution of business of the said company. Since the amount of transactions with the said company accounted for less than 1% of the consolidated net sales of NSSMC, the said company is not a specified associated service provider of NSSMC. In addition, his other material concurrent positions are only as an outside director and</p>

			<p>outside audit &amp; supervisory board member at other companies, and he does not engage in the execution of business of the said companies. He does not conflict with the independence standards as set by each financial instruments exchange on which NSSMC is listed (e.g. Tokyo Stock Exchange), and does not have any special interests with NSSMC. Because NSSMC believes that there is no possibility of a conflict of interest between him and the general shareholders as stated above, NSSMC has designated him as an Independent Director.</p>
Ichiro Fujisaki	Yes	<p>Although Mr. Fujisaki serves as President of the America-Japan Society, Inc., to which NSSMC pays the membership fee as a corporate member, the said society is not a specified associated service provider of NSSMC. The annual membership fee paid to the said society by NSSMC is 180,000 yen. In addition, NSSMC made a donation of 3,000,000 yen for the 100th anniversary of the said society in July 2016.</p>	<p><b>[Reasons for Appointment as an Outside Director]</b> NSSMC believes that Mr. Fujisaki is well-qualified for the position by his deep insights into international affairs, economies, cultures and other matters that he accumulated at the Ministry of Foreign Affairs of Japan, and his vast experience serving as the Ambassador and other key positions.</p> <p><b>[Reasons for Designation as an Independent Director]</b> Although he serves as President of the America-Japan Society, Inc., to which NSSMC pays the membership fee as a corporate member, the said society is not a specified associated service provider of NSSMC. The annual membership fee paid to the said society by NSSMC is 180,000 yen. In addition, NSSMC made a donation of 3,000,000 yen for the 100th anniversary of the said society in July 2016. In addition, his other material concurrent position is only as an outside director at the other company, and he does not engage in the execution of business of the said company. He does not conflict with the independence standards as set by each financial instruments exchange on which NSSMC is listed (e.g. Tokyo Stock Exchange), and does not have any special interests with NSSMC. Because NSSMC believes that there is no possibility of a conflict of interest between him and the general shareholders as stated above, NSSMC has designated him as an Independent Director.</p>

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

Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Compensation Committee
Committee's Name	Nomination and Compensation Advisory Committee	Nomination and Compensation Advisory Committee
All Committee Members	5	5
Full-time Members	0	0
Inside Directors	2	2
Outside Directors	2	2
Outside Experts	1	1
Other	0	0
Chairperson	An Executive Director	An Executive Director

Supplementary Explanation

The "Nomination and Compensation Advisory Committee", comprising a total of five members, including the Chairman, the President, and three members designated by the President from among the Outside Directors and Outside Audit & Supervisory Board Members, has been established to conduct discussions and deliberations on a wide range of topics relating to the nomination and compensation of the Directors and Audit & Supervisory Board Members in general, including the compositions of the entire Board of Directors and the Audit & Supervisory Board, the system and levels of the Directors' compensation, and other topics.

A member who falls under the category of Outside Experts in the table above is an Outside Audit & Supervisory Board Member, who, together with two Outside Directors, is designated as a member of the Nomination and Compensation Advisory Committee by the Representative Director and President. The Chairperson of the Committee in the table above is the Representative Director and President.

The Nomination and Compensation Advisory Committee, as a general rule, is held twice a year in February and in July.

**[Audit & Supervisory Board Members]**

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	7
Number of Audit & Supervisory Board Members	7

**Cooperation among Audit & Supervisory Board Members, Accounting Auditors, and Internal Audit Departments**

- Cooperation between Audit & Supervisory Board Members and the Accounting Auditor**  
 At the beginning of a fiscal year, the Audit & Supervisory Board Members and the Accounting Auditor exchange opinions on matters of concern from the previous fiscal year, items of focus in the audit and other matters, based on the audit plan drafted by the Accounting Auditor, which outlines scope of the audit, the audit structure, and priority audit items for the period, among others, so that an effective accounting audit will be executed.

Moreover, at each quarter, the Audit & Supervisory Board Members receive a report on the progress and the results of the quarterly review from the Accounting Auditor and exchange opinions regarding matters stated in the quarterly report including non-financial information.

Furthermore, at the end of a fiscal year, the Audit & Supervisory Board Members receive the Auditor’s Report and a report on the audit results including the priority audit items for the period from the Accounting Auditor, and use such reports for the basis of the Audit Report, which is subsequently prepared by the Audit & Supervisory Board.

In addition, the Audit & Supervisory Board Members and the Accounting Auditor cooperate and mutually contribute to forming their respective audit opinions by exchanging opinions on audit activities at monthly liaison conferences.
- Cooperation between Audit & Supervisory Board Members and Internal Audit Departments**  
 The Audit & Supervisory Board Members attend quarterly meetings of the Risk Management Committee, receive reports from and exchange opinions with the Internal Control & Audit Division, and regularly interview functional divisions relating to safety, environment, disaster prevention, quality assurance, risk management and other matters, on the status of their respective activities, to enhance the effectiveness of audit activities. In addition, the Audit & Supervisory Board Members hold liaison conferences with the Legal Division and the corporate attorneys to share information on litigation.
- Cooperation between the Accounting Auditor and Internal Audit Departments**  
 The internal audit department reports quarterly to the Accounting Auditor with respect to the contents and related matters of the discussions at the Risk Management Committee, and discusses appropriately with the Accounting Auditor the development and operation of the internal control system relating to financial reports, to pursue its continuous improvement.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	4
Number of Independent Audit & Supervisory Board Members	4

Outside Audit & Supervisory Board Members' Relationship with NSSMC (1)

Name	Attribute	Relationship with NSSMC*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Katsunori Nagayasu	From another company											Δ		
Hiroshi Obayashi	Lawyer													
Jiro Makino	Other													
Seiichiro Azuma	CPA													

\* Categories for "Relationship with NSSMC"

\* "○" when the director presently falls or recently fell under the category;

"Δ" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or recently fell under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of NSSMC or its subsidiary

b. Non-executive director or accounting advisor of NSSMC or its subsidiaries

c. Non-executive director or executive of a parent company of NSSMC

d. Audit & supervisory board member of a parent company of NSSMC

e. Executive of a fellow subsidiary of NSSMC

f. A person whose major client or supplier is NSSMC or an executive of such a person

g. Major client or supplier of NSSMC or an executive of such client or supplier

h. Consultant, accountant, or legal professional who receives a large amount of monetary consideration or other property from NSSMC besides compensation as a director/audit & supervisory board member

i. Major shareholder of NSSMC (or an executive of the said major shareholder if the shareholder is a legal entity)

j. Executive of a client or supplier of NSSMC (which does not fall under any of f, g, or h) (the Audit & Supervisory Board Member himself/herself only)

k. Executive of a company with which NSSMC mutually appoints outside directors/audit & supervisory board members (the audit & supervisory board member himself/herself only)

l. Executive of a company or organization that receives donations from NSSMC (the audit & supervisory board member himself/herself only)

m. Others

Outside Audit & Supervisory Board Members' Relationship with NSSMC (2)

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
Katsunori Nagayasu	Yes	Although Mr.Nagayasu engaged until March 2016 in the execution of business of The Bank of Tokyo-Mitsubishi UFJ, Ltd., which is one of the lenders for NSSMC, he does not currently engage in the execution of business of the said bank. Since NSSMC has	<b>[Reasons for Appointment as an Outside Audit &amp; Supervisory Board Member]</b> NSSMC believes that Mr. Nagayasu is well-qualified for the position by his deep insights and vast experience as a company executive.  <b>[Reasons for Designation as an Independent Audit &amp; Supervisory Board Member]</b>

		procured capital not only from the said bank but from several financial institutions, the said bank is not a specified associated service provider of NSSMC.	Although he engaged until March 2016 in the execution of business of The Bank of Tokyo-Mitsubishi UFJ, Ltd., which is one of the lenders for NSSMC, he does not currently engage in the execution of business of the said bank. Since NSSMC has procured capital not only from the said bank but from several financial institutions, the said bank is not a specified associated service provider of NSSMC. In addition, his other material concurrent positions are only as an outside director and outside audit & supervisory board member, etc. at other companies, and he does not engage in the execution of business of the said companies. He does not conflict with the independence standards as set by each financial instruments exchange on which NSSMC is listed (e.g. Tokyo Stock Exchange), and does not have any special interests with NSSMC. Because NSSMC believes that there is no possibility of a conflict of interest between him and the general shareholders as stated above, NSSMC has designated him as an Independent Audit & Supervisory Board Member.
Hiroshi Obayashi	Yes	Not applicable	<p><b>[Reasons for Appointment as an Outside Audit &amp; Supervisory Board Member]</b> NSSMC believes that Mr. Obayashi is well-qualified for the position by his deep insights as a legal professional and vast experience that he accumulated as Prosecutor-General and other key positions.</p> <p><b>[Reasons for Designation as an Independent Audit &amp; Supervisory Board Member]</b> His material concurrent positions are only as an outside director and outside audit &amp; supervisory board member at other companies, and he does not engage in the execution of business of the said companies. He does not conflict with either the independence standards or attribute information as set by each financial instruments exchange on which NSSMC is listed (e.g. the Tokyo Stock Exchange), and does not have any special interests in NSSMC. Because NSSMC believes that there is no possibility of a conflict of interest between him and the general</p>

			shareholders as stated above, NSSMC has designated him as an Independent Audit & Supervisory Board Member.
Jiro Makino	Yes	Not applicable	<p><b>[Reasons for Appointment as an Outside Audit &amp; Supervisory Board Member]</b>  NSSMC believes that Mr. Makino is well-qualified for the position by his deep insights into national finances in general that he accumulated at the Ministry of Finance, and vast experience serving as a National Tax Agency Commissioner, and other key positions.</p> <p><b>[Reasons for Designation as an Independent Audit &amp; Supervisory Board Member]</b>  He does not conflict with either the independence standards or attribute information as set by each financial instruments exchange on which NSSMC is listed (e.g. the Tokyo Stock Exchange), and does not have any special interests in NSSMC. Because NSSMC believes that there is no possibility of a conflict of interest between him and the general shareholders as stated above, NSSMC has designated him as an Independent Audit &amp; Supervisory Board Member.</p>
Seiichiro Azuma	Yes	Not applicable	<p><b>[Reasons for Appointment as an Outside Audit &amp; Supervisory Board Member]</b>  NSSMC believes that Mr. Azuma is well-qualified for the position by his deep insights and vast experience as a certified public accountant who is familiar with corporate accounting.</p> <p><b>[Reasons for Designation as an Independent Audit &amp; Supervisory Board Member]</b>  He does not conflict with either the independence standards or attribute information as set by each financial instruments exchange on which NSSMC is listed (e.g. the Tokyo Stock Exchange), and does not have any special interests in NSSMC. Because NSSMC believes that there is no possibility of a conflict of interest between him and the general shareholders as stated above, NSSMC has designated him as an Independent Audit &amp; Supervisory Board Member.</p>

**[Independent Directors/ Audit & Supervisory Board Members]**

Number of Independent Directors/ Audit & Supervisory Board Members	6
--	---

**Matters relating to Independent Directors/ Audit & Supervisory Board Members**

NSSMC decides the independence of Outside Directors and Outside Audit & Supervisory Board Members in accordance with the independence standards set by the financial instruments exchanges in Japan (e.g. Tokyo Stock Exchange), considering each individual's personal relationship, capital relationship, business relationship, and other interests with NSSMC.

As stated above, since NSSMC believes that each of the Outside Directors and Outside Audit & Supervisory Board Members is independent, NSSMC has reported all of them as Independent Directors or Audit & Supervisory Board Members to each financial instruments exchange in Japan (e.g. Tokyo Stock Exchange).

**[Incentives]**

Incentive Policies for Directors	Performance-linked Compensation
----------------------------------	---------------------------------

**Supplementary Explanation**

Directors' compensation consists only of monthly compensation in cash, and is all based upon performance of NSSMC, in order to provide incentives for the Group's sustainable growth and improvement of its corporate value.

Specifically, NSSMC sets the base amount of compensation for each Director's rank, taking into consideration each Director's required skills and responsibilities, and this base amount varies within a specific range, based on NSSMC's consolidated net profit or loss and the ordinary profit or loss of the steelmaking segment in the previous fiscal year, in view of the connection with the mid-term management plan, and the amount of each Director's compensation is determined within the limits approved by the General Meeting of Shareholders.

Recipients of Stock Options	
-----------------------------	--

**Supplementary Explanation**

-----
-------

**[Director Compensation]**

Disclosure of Individual Directors' Compensation	Selected Directors
--	--------------------

**Supplementary Explanation**

The total amounts for all the Directors, all the Outside Directors, all the Audit & Supervisory Board Members, and all the Outside Audit & Supervisory Board Members, respectively, are disclosed in the Securities Report and the Business Report. In addition, when the total amount of consolidated compensation and other consideration for an individual Director is one hundred million (100,000,000) yen or more, such total amount is disclosed in the Securities Report.

In fiscal year 2016, total monthly compensation amounts of 964,901,000 yen were paid to nineteen (19) directors (including monthly compensation of 28,800,000 yen to two Outside Directors) and 207,510,000 yen paid to ten (10) Audit & Supervisory Board Members (including monthly compensation of 57,600,000 yen to five (5) Outside Audit & Supervisory Board Members).

- \* The amounts stated above include the compensation paid to five Directors and three Audit & Supervisory Board Members both of whom resigned at the conclusion of the 92nd General Meeting of Shareholders held on June 24, 2016.
- \* Limits on the amount of compensation for Directors and Audit & Supervisory Board Members are as follows.
  - (1) Limit on the amount of compensation for Directors  
Monthly compensation of 180 million yen (approved at the 88th General Meeting of Shareholders held on June 26, 2012)
  - (2) Limit on the amount of compensation for Audit & Supervisory Board Members  
Monthly compensation of 22 million yen (approved at the 82nd General Meeting of Shareholders held on June 28, 2006)

Policy on Determining Compensation Amounts and Calculation Methods	Established
--	-------------

**Disclosure of Policy on Determining Compensation Amounts and Calculation Methods**

This is indicated in (3) “Board Policies and Procedures in Determining the Compensation of Directors” of [Principle 3.1] (Full Disclosure), I-1 [Disclosure Based on the Principles of the Corporate Governance Code] of this report for reference.

**[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]**

NSSMC supports the performance of responsibilities by Outside Directors and Outside Audit & Supervisory Board Members by assigning a sufficient number of staff members in the General Administration Division and the Audit & Supervisory Board Members' Office, and timely and appropriately providing company information such as offering prior explanations about the matters to be submitted for deliberation or reported to meetings of the Board of Directors and other important meetings. The Audit & Supervisory Board Members' Office has dedicated staff members that support Audit & Supervisory Board Members, in order to ensure their independence from the Directors. Under the direction of all Audit & Supervisory Board Members, including Outside Audit & Supervisory Board Members, such staff members support supervisory activities and otherwise engage in work relating to supervision.

**[Status of persons who resigned from Representative Director and President or other position]**

Name	Position / title	Description of duties	Working arrangements/terms (full-time/part-time with/without compensation)	Date of resignation from office of President	Term of office
Takashi Imai	Senior Advisor, Honorary Chairman	Expresses opinions upon the request of management. Also serves as executives of some outside organizations. [Major public office] Chief Director, The Industry	Part-time without compensation	March 31, 1998	None

		Club of Japan Chairman, Japan Atomic Industrial Forum, Inc. Former Chairman, KEIDANREN (Japan Business Federation)			
Akio Mimura	Senior Advisor, Honorary Chairman	Expresses opinions upon the request of management. Also serves as executives of some outside organizations. [Major public office] Chairman, The Japan Chamber of Commerce and Industry Chairman, The Tokyo Chamber of Commerce and Industry Former Vice Chair, KEIDANREN (Japan Business Federation)	full-time with compensation	March 31, 2008	5 years or less
Hiroshi Tomono	Senior Advisor	Expresses opinions upon the request of management. Also serves as executives of some outside organizations. [Major public office] President, Japanese Industrial Standards Committee Former Vice Chair, KEIDANREN (Japan Business Federation)	full-time with compensation	March 31, 2014	5 years or less

Number of Senior Advisors/Honorary Chairmans who served as Representative Director and President or other equivalent positions	3
---	---

## 2. Matters on Functions of Business Execution, Supervision, Nomination, and Compensation Decisions (Overview of Current Corporate Governance System)

A summary of and views on the current corporate governance system are indicated in the I-1 “Basic Views” of this report.

Please also see I-1 “Basic Views” of this report, in addition, the following supplementary explanations about business execution, auditing and supervision, nomination, and compensation decisions, among others, and the chart at the end.

### (1) Business Execution

The execution of important matters concerning the management of NSSMC and the Group is determined at the “Board of Directors” (held once or twice per month) after deliberations in the “Corporate Policy Committee” (held once a week, in principle) comprised of the Chairman, President, Executive Vice Presidents, and other members, pursuant to NSSMC’s rules. As corporate committees engaging in deliberations before the Corporate Policy Committee and the Board of Directors, there are 23 company-wide committees, depending on their respective purposes and areas.

The business execution under the resolution at the Board of Directors, the Corporate Policy Committee and other corporate organizations is performed promptly by the Executive Directors, Executive

Officers, and General Managers, including the General Managers of the business units, under the supervision of the Representative Director and President.

(2) Supervision

(i) Supervision by the Board of Directors

The Board of Directors is comprised of eleven (11) Executive Directors who are familiar with the business of NSSMC and two Outside Directors who are independent. The Board appropriately and promptly decides on the execution of important business, and supervises the performance of the responsibilities of Directors, Executive Officers, and other officers.

Of the above, the Outside Directors contribute to the Board of Directors' decision-making from diverse perspectives and its enhancement of the function of supervising management by, among others, expressing their respective opinions independently, at the Board of Directors and other opportunities, and exercising their voting rights, based on their vast experience in, and deep insights into, such areas as corporate management and international affairs and economies. In addition, Outside Directors strive to share information and understanding about NSSMC's management issues with the Chairman, President and Outside Audit & Supervisory Board Members through liaison meetings and other means, as well as opportunities for exchanging opinions exclusively among Outside Directors and Outside Audit & Supervisory Board Members.

To secure capable Outside Directors and allow them to adequately carry out their expected roles, NSSMC has concluded an agreement with each of the Outside Directors that limits his liability under Article 423, paragraph 1 of the Companies Act to the greater of twenty (20) million yen or the Minimum Liability Amount, as defined in Article 425, paragraph 1 of the Companies Act, so long as he acts in good faith and without gross negligence in performing his responsibilities.

(ii) Supervision by Audit & Supervisory Board Members

NSSMC's Audit & Supervisory Board Members are comprised of three (3) full-time Audit & Supervisory Board Members who are familiar with business of NSSMC and four (4) Outside Audit & Supervisory Board Members who are independent. The Audit & Supervisory Board Members act with the obligation of contributing to the establishment of a high-quality corporate governance system that enables the Group's sound and sustainable growth, by supervising the performance of responsibilities by Directors, and other matters, as an independent organ fulfilling its roles and responsibilities that are recently expected, in response to the delegation of responsibilities by the shareholders, and social trust.

Specifically, the Audit & Supervisory Board Members cooperate with each other and proceed with daily supervisory activities in a planned way, with a focus on the development and operation of the internal control system and the progress of various measures for management plans, in accordance with, among others, the audit and supervisory standards, and the policies and plans of audit and supervision as set forth by the Audit & Supervisory Board. In addition, the Audit & Supervisory Board Members attend important meetings, such as meetings of the Board of Directors, and conduct onsite audits of steelworks and other facilities. Further, the Audit & Supervisory Board Members ask Directors and employees, among others, to explain the performance of their responsibilities, and other related matters, and actively express opinions.

For the Group companies, the Audit & Supervisory Board Members of NSSMC exchange opinions and information with the Directors of such Group companies, and as necessary, receive business reports from them and ask them for explanations. Further, the Audit &

Supervisory Board Members of NSSMC seek to improve the quality of the supervisory activities as the whole Group, by establishing close cooperation with the Group companies' audit & supervisory board members, through liaison conferences and other opportunities. In addition, five members are assigned as staff dedicated to assisting the Audit & Supervisory Board Members of NSSMC.

The Outside Audit & Supervisory Board Members contribute to NSSMC's sound and fair management, by, among other tasks, expressing their respective opinions independently at the Board of Directors, the Audit & Supervisory Board, and other opportunities, and performing supervisory activities, including auditing the business and affairs and the status of assets, based on their vast experience in, and deep insights into, such areas as corporate management, laws, public administration, public finances and corporate accounting. In addition, Outside Audit & Supervisory Board Members strive to share information and understanding about NSSMC's management issues with the Chairman, President and Outside Directors through liaison meetings and other means, as well as opportunities for exchanging opinions exclusively among Outside Directors and Outside Audit & Supervisory Board Members.

To contribute to further improvement in supervisory conditions that allows the Audit & Supervisory Board Members to independently perform more enriching supervisory activities, NSSMC has concluded an agreement with each of the Outside Audit & Supervisory Board Members that limits his liability under Article 423, paragraph 1 of the Companies Act to the greater of twenty (20) million yen, or the Minimum Liability Amount as defined in Article 425, paragraph 1 of the Companies Act, so long as he acts in good faith and without gross negligence in performing his responsibilities.

(iii) Accounting Audits

NSSMC has appointed KPMG AZSA LLC as its accounting auditor. The names of the certified public accountants who have executed the accounting audit activities at NSSMC under the Companies Act and the Financial Instruments and Exchange Act, and the composition of the assistants for such audit activities, are as follows.

**KPMG AZSA LLC**

- Names of the Certified Public Accountants who Have Executed the Activities (Designated Limited Liability Partner)

Mr. Toshiya Mori, certified public accountant; Mr. Satoshi Yokosawa, certified public accountant; and Mr. Takashi Hasumi, certified public accountant.

The number of years that Mr. Toshiya Mori, Mr. Satoshi Yokosawa, and Mr. Takashi Hasumi have continuously conducted NSSMC's audits is seven or less.

- Composition of the Assistants Involved in Accounting Audit Activities

The composition of the assistants involved in accounting audit activities is decided under KPMG AZSA's appointment standards. Specifically, certified public accountants are the principal members, and assistants, such as system specialists, are also included.

In addition, KPMG AZSA and its executive partners in charge of NSSMC's audits have no special interests with NSSMC.

(iv) Internal Control and Audit

NSSMC has determined its basic policy on the internal control system at the Board of

Directors, as indicated in “IV. Matters Related to the Internal Control System” of this report, and is operating it under such policy.

- (3) Decision on Directors’ Compensation and the Nomination of Director Candidates and Audit & Supervisory Board Member Candidates

This is indicated in (3) “Board Policies and Procedures in Determining the Compensation of Directors” and (4) “Policies on and Procedures in the Nomination of Director Candidates and Audit & Supervisory Board Member Candidates and the Appointment of Senior Management” of [Principle 3.1] (Full Disclosure) of I-1 of this report for reference.

### 3. Reasons for Adoption of Current Corporate Governance System

This is indicated in (2) of I-1 “Basic Views” of this report, for reference.

## 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	A notice of the General Meeting of Shareholders is sent three weeks prior to the General Meeting of Shareholders (one week prior to the statutory deadline). From the viewpoint of early disclosure of information, the notice of the General Meeting of Shareholders, with its English translation, is posted on the websites of NSSMC and Tokyo Stock Exchange four weeks prior to the General Meeting of Shareholders (in 2017, posted on May 29).
Scheduling AGMs Avoiding the Peak Day	The ordinary General Meeting of Shareholders is held by avoiding the peak day.
Allowing Electronic Exercise of Voting Rights	Implemented.
Participation in Electronic Voting Platform	NSSMC is registered at the electronic voting platform operated by ICJ, Inc.
Providing Convocation Notice in English	English translation of the notice of the General Meeting of Shareholders (full text including Reference Documents for the General Meeting of Shareholders) is posted on the websites of NSSMC and Tokyo Stock Exchange four weeks prior to the General Meeting of Shareholders (in 2017, sent on June 5).
Other	<p>[Disclosure of supplementary explanation materials of the items on the agenda of the General Meeting of Shareholders]</p> <p>Based on the questions from shareholders about the items on the agenda of the General Meeting of Shareholders, supplementary information is disclosed and posted on the websites of NSSMC and Tokyo Stock Exchange, as necessary (in 2017, posted on June 8).</p> <p>[Explanations and summary of Q&amp;A at the General Meeting of Shareholders]</p> <p>As the General Meeting of Shareholders NSSNC makes every effort to clearly explain the business report and the major management issues to shareholders using slides and other audiovisual materials throughout the presentation, and politely answer questions from shareholders.</p> <p>[Analysis of the results of the exercise of voting rights]</p> <p>Items on the agenda that received a considerable number of opposing votes are analyzed each year at subsequent meetings of the Board of Directors</p>

	based on the proportions of votes “for” and “against” by shareholder composition and by shareholder category, and the information disclosed by the institutional investors on the results of the exercise of voting rights. NSSMC utilizes these results in its SR and IR activities.
--	---

## 2. IR Activities

	Supplementary Explanations	Explanation by a representative
Preparation and Publication of Disclosure Policy	NSSMC aims to realize its sustainable growth and the medium- to long-term enhancement of corporate value by gaining shareholders’ and investors’ understanding and trust as to its management policies and business activities through timely, appropriate and fair disclosure of information and constructive dialogue. To this end, “NSSMC Corporate Disclosure and Dialogue Policy” has been established and is available on NSSMC’s website. (URL: <a href="http://www.nssmc.com/en/ir/management/disclosure.html">http://www.nssmc.com/en/ir/management/disclosure.html</a> )	
Regular Investor Briefings for Individual Investors	Management performance briefings are held for individual shareholders who hold ten units of shares or more. In the briefing, NSSMC Directors or officers explains on business performance, the Mid-Term Management Plan, NSSMC’s contribution to regional communities, and initiatives towards the environmental preservation and other topics, while questions from shareholders are also answered. In fiscal year 2017, NSSMC held a total of ten briefings in Tokyo, Osaka, Sendai, and Nagoya.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	At the time of announcing the performance four times a year, an officer in charge of IR holds briefings in Japan to explain the performance overview and other topics. Subsequently, the materials used in the briefing and a summary of Q&A are posted both in Japanese and English on NSSMC’s website. When important matters arise regarding the management strategies, briefings are organized as necessary.  Furthermore, as part of constructive dialogue to enhance corporate value, NSSMC regularly holds small meetings between the analysts, institutional investors and the President. NSSMC also invites the analysts and institutional investors to plant tours as necessary to deepen their understanding of NSSMC’s business.	Yes
Regular Investor Briefings for Overseas Investors	NSSMC’s senior management, an officer in charge of IR, and the IR department conduct dialogue with overseas investors through face-to-face meetings and securities conferences held in Japan and overseas.	Yes
Posting of IR Materials on Website	Financial results materials (IR Briefings, Summaries of Q&A, Financial Results, Securities Reports, Quarterly Reports and others) and publications for shareholders and investors (Annual Reports, Fact Books, Business Reports, Interim Reports, Shareholder Letters and others) are posted in “IR Library” on NSSMC’s website.	

	<p>(Japanese)  <a href="http://www.nssmc.com/ir/library/index.html">http://www.nssmc.com/ir/library/index.html</a>  (English)  <a href="http://www.nssmc.com/en/ir/library/index.html">http://www.nssmc.com/en/ir/library/index.html</a></p> <p>Documents relating to the General Meeting of Shareholders (Notices of the General Meeting of Shareholders, Notices of Resolutions of the General Meeting of Shareholders and others) are posted on the General Meeting of Shareholders page.</p> <p>(Japanese)  <a href="http://www.nssmc.com/ir/individual/meeting.html">http://www.nssmc.com/ir/individual/meeting.html</a>  (English)  <a href="http://www.nssmc.com/en/ir/individual/meeting.html">http://www.nssmc.com/en/ir/individual/meeting.html</a></p> <p>English translations are provided for all documents excluding Securities Reports.</p>	
Establishment of Department and/or Manager in Charge of IR	The Investor Relations Department in the Accounting & Finance Division is established.	
Others	In addition to the above initiatives, in fiscal year 2017, to deepen shareholders' understanding of the Group's business performance and others, NSSMC sent out the Interim Report in November and the Shareholder Letter in February to shareholders. Furthermore, eight of NSSMC's steelworks and factories gave tours in fiscal year 2017 for shareholders who held ten units of shares or more (chosen by lottery) to view the actual manufacturing sites.	

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The "Corporate Philosophy of the Nippon Steel & Sumitomo Metal Corporation Group" provides that the Group continues to emphasize the importance of integrity and reliability, and the "Code of Conduct of the Nippon Steel Sumitomo Metal Corporation Group" requires that the Group act with a strong sense of ethical values and in compliance with applicable laws and regulations, and respect the positions of various stakeholders.
Implementation of Environmental Activities, CSR Activities etc.	<p>[Sustainability Report 2017 — In Step with Progress toward SDGs]  Since NSSMC (former Nippon Steel Corporation) became the first in the Japanese steel industry to issue an environmental report in 1998, it has presented in the sustainability reports its progress in environmental management and various initiatives in environmental preservation activities and CSR activities.</p> <p>The Sustainability Report 2017 — In Step with Progress towards SDGs, which was published in 2017, presents in an organized manner various specific initiatives taken by the Group, including environmental initiatives, relating to the 17 goals stated in Sustainable Development Goals (SDGs) that were adopted at the United Nations Summit in September 2015.</p> <p>In the Report, pages contain links (URL, QR code) to the relevant websites for those who wish to view more detailed information. Additionally, NSSMC accepts a request for postal delivery from those who wish a hard</p>

copy of the Report on NSSMC's website.  
(Sustainability Report 2017, URL: <http://www.nssmc.com/en/csr/report/>)

[Environmental Activities]

Having identified environmental activities as critical for our corporate management, under the principle of Ecological Management, NSSMC is commented in the Basic Environmental Policy established in October 2012, to contribute to the creation of a society oriented toward environmental preservation with lower environmental impact. We have been actively engaged in various environmental measures, which encompass some at the local community level and others of global scale. These efforts include the maintenance and improvement of good living environments, the promotion of reduction and recycling of waste, addressing global warming issues, and the maintenance and improvement of biological diversity.

(URL: <http://www.nssmc.com/en/csr/env/policy/index.html>)

NSSMC is committed to solving the issues involved in creating a sustainable society through innovative technology development and by promoting "three ecos," namely, Eco Process (The way we manufacture is eco-friendly: We manufacture steel products with world's highest-level energy efficiency and low CO2 emission), Eco Products (What we produce is eco-friendly: We contribute energy saving and lowering CO2 emission by reducing the weight of products, improving energy efficiency, and utilizing by-products), and Eco Solution (Sharing our eco-solutions: We contribute to environmental preservation on a global level by providing environment and energy-efficient technology to countries around the world.

[CSR Activities]

As CSR activities to support art and culture, NSSMC opened the Kioi Hall in 1990 with halls dedicated to both classical music and traditional Japanese music, and has been focused on music sponsorship through the operation of the Hall and support for the activities of the Nippon Steel & Sumitomo Metal Arts Foundation, including the awarding of the Nippon Steel & Sumitomo Metal Music Awards each year to promising young musicians and to those who have made contributions to the development of the culture of music in Japan.

NSSMC also supports community-based sports teams for soccer, volleyball, rugby, judo, baseball and other sports, and develops junior sports teams, gives sports classes for children, and makes its sport facilities available for them nationwide.

NSSMC is also involved in the creation of forests and community clean-ups in the areas of its steelworks. In 2015, Kashima Works and Naoetsu Works received the "Marine Day Excellent Contribution to Maritime Affairs Minister of Land, Infrastructure, Transport and Tourism Award" as their continuing efforts to beautify the environment through clean-ups of the seashores were highly appreciated.

As educational activities, NSSMC supports environmental education and conducts lectures mainly at its steelworks and nearby elementary and junior high schools, in order to foster interest and better understanding of the steel industry among young people and to have them know the joy of manufacturing and the depth of science technology.

Over the years, NSSMC has accepted school teachers each year under the Training Programs for Educators at Private Companies sponsored by the

	<p>Japan Institute for Social and Economic Affairs and the Japan Iron and Steel Federation, offering tours of its steelworks for the teachers to gain better understanding of the industry, as well as an experience-based safety education program.</p> <p>Going forward, NSSMC will continue to promote these activities and, together with local communities, contribute to regional development.</p>
<p>Development of Policies on Information Provision to Stakeholders</p>	<p>(1) The “Code of Conduct of the Nippon Steel Sumitomo Metal Corporation Group” provides that NSSMC discloses its corporate information in a fair and proactive manner.</p> <p>(2) The “Basic Policy on Internal Control System” of NSSMC provides that NSSMC seeks timely and accurate disclosure of important corporate information such as management plans and financial information, in compliance with applicable laws and regulations, and other requirements.</p> <p>(3) The “Rules on Insider Information Management and Insider Trading Regulations” provide that after corporate decision that falls under “insider information” is made by or reported to the Board of Directors, NSSMC will release it promptly to multiple news media organizations, and disclose it in accordance with the rules of each financial instruments exchange on which NSSMC is listed (e.g. Tokyo Stock Exchange).</p> <p>(4) The “NSSMC Corporate Disclosure and Dialogue Policy” provides that NSSMC will disclose information in compliance with applicable laws and regulations and the rules of each financial instruments exchange, and that with respect to financial and non-financial information other than that stated above, NSSMC will also disclose the information that is considered to be likely to affect investment decision in a timely, appropriate, and fair manner.</p>
<p>Others</p>	<p>In addition to the above, NSSMC is engaged in a wide-range of initiatives.</p> <p>[Initiatives towards the empowerment of women]  NSSMC, given the advance of the aging society with low birthrate, is promoting various measures to realize a work environment, in both offices and operational worksites, in which diverse personnel such as the elderly and women can be active, and also proactively hire women for manufacturing worksites. Three worksites have 24-hour in-house nurseries (established at Oita Works in April 2016, and at Kimitsu Works and Yawata Works in April 2017) in order to support early return of female workers in shift work-places from maternity and baby care leave.</p> <p>[Quality Assurance Structure]  Under the principle of “Quality always prevails production,” NSSMC has persistently carried out measures for quality management in line with the “Guidelines for Reinforcement of the Quality Assurance Structure” issued by the Japan Iron and Steel Federation in July 2008.</p> <p>Specifically, NSSMC, through continuous education of employees, thoroughly raises awareness of “compliance with laws and regulations” and “quality assurance.” Furthermore, to prevent quality problems, NSSMC has separated the Quality Control Department from the manufacturing departments at all steelworks, and has them receive certifications from JIS, API and other certification authorities, and periodically undergo third-party audits, and so on. In addition, to detect nonconformity before they occur, NSSMC performs regular quality audits internally as well as in Group companies.</p>

## IV. Matters Related to the Internal Control System

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

(1) Basic policy on internal control system

The resolutions made to ensure appropriateness of its business are as follows.

NSSMC is aiming at continuous improvement of its corporate value and winning the trust of society under the “Corporate Philosophy of the Nippon Steel & Sumitomo Metal Corporation Group.” In addition, NSSMC will establish and appropriately manage an internal control system as follows to comply with applicable laws and regulations, and ensure integrity of financial reporting, and effectiveness and efficiency of business, and will continue to improve such system in view of further enhancement of corporate governance.

(i) System to Ensure that Performance of Responsibilities by the Directors of NSSMC Complies with Applicable Laws and Regulations and the Articles of Incorporation.

The Board of Directors will make decisions or receive reports on important matters of management in accordance with the Rules of the Board of Directors and other relevant internal rules.

In accordance with the resolution at the Board of Directors, each of the Executive Directors will, in his/her assigned area, perform his/her responsibilities and supervise the performance of responsibilities of employees, and report such supervisory status to the Board of Directors.

(ii) System for the Preservation and Management of Information in relation to the Performance of Responsibilities by the Directors of NSSMC

NSSMC will appropriately preserve various information in relation to the performance of responsibilities, including minutes of Meetings of the Board of Directors, by, among others, specifying managers in charge of information preservation and management, and classifying each information by security level, in accordance with the internal rules for information management.

NSSMC will seek to make timely and accurate disclosure of important corporate information, such as its management plan and financial information, in addition to such disclosure as required by applicable laws and regulations.

(iii) Rules and Other Systems with respect to Loss-related Risk Management of NSSMC

The General Manager of each division will identify and evaluate risks associated with business in his/her division, and carry out his/her duties in accordance with the authority and responsibilities set out in internal rules for organization and operation.

With respect to risks related to areas such as safety and health, environment and disaster prevention, information management, intellectual properties, quality control, and integrity of financial reporting, the division in charge of each specific area (each functional division) will establish rules and other systems from a company-wide perspective, inform other divisions of such rules and systems, identify and evaluate the status of risk management at other divisions through monitoring and other methods, and provide guidance and advice to such divisions.

Upon the occurrence of an accident, disaster, compliance issue, or other event which causes a material effect on the management, the Executive Directors will immediately convene “Emergency Control Headquarters” and other meetings, and take necessary actions in order to minimize the damage, impact, and other effects.

(iv) System to Ensure Efficiency in the Performance of Responsibilities by Directors of

NSSMC

The Board of Directors will make decisions on the execution of management plans and business strategies, as well as important business executions such as capital expenditure, and investments and provision of loans, after such matters are deliberated by companywide Committees for relevant areas such as ordinary budget, plant and equipment investment budget, investment and financing, and technology development, and the Corporate Policy Committee.

The business execution under the resolution at the Board of Directors and other corporate organizations is performed promptly by the Executive Directors, Executive Officers, and General Managers.

- (v) System to Ensure that Performance of Responsibilities by Employees of NSSMC Complies with Applicable Laws and Regulations and the Articles of Incorporation

NSSMC will build and maintain an internal control system based on autonomous internal controls.

Each General Manager will develop an autonomous internal control system in his/her Division, and strive to ensure thorough compliance with applicable laws and regulations and internal rules, and prevent any violation of applicable laws and regulations in business and affairs. NSSMC will also develop and enhance an employee-education system that includes regular seminars, and the creation and distribution of manuals for the purpose of ensuring compliance with applicable laws and regulations and internal rules. When each General Manager becomes aware of any potentially illegal acts or facts, he or she will immediately report such matters to the General Manager for the Internal Control & the Audit Division.

The General Manager of the Internal Control & Audit Division will confirm the status of developing and operating company-wide internal control systems, and identify and evaluate each Division's situation of compliance with applicable laws and regulations and internal rules, and take necessary measures such as preventing violations of applicable laws and regulations and internal rules. Moreover, the General Manager will report on such matters to the Risk Management Committee, and further report on important items among such matters to the Corporate Policy Committee and the Board of Directors. The General Manager will also establish and operate a whistleblower system that provides consultations and takes reports regarding risks in the operation of business.

Employees are obligated to comply with applicable laws and regulations and internal rules and to appropriately perform their responsibilities. Employees who violate applicable laws and regulations and internal rules will be subject to disciplinary action under the Rules of Employment.

- (vi) System to Ensure Appropriateness of Operation in the Corporate Group Consisting of NSSMC and its Subsidiaries

Under the "Corporate Philosophy of the Nippon Steel & Sumitomo Metal Corporation Group," NSSMC and each Group company will share business strategy and conduct their business in a unified manner, taking into account each company's business characteristics, and will familiarize their respective employees with their respective business operation policies and other related matters. With respect to control of the Group companies, NSSMC will set forth basic rules in the Rules for Control of group companies, and ensure their appropriate application.

Each Group company will build and maintain its internal control system based on autonomous internal controls, and seek to improve measures relating to internal control through, among other measures, information sharing with NSSMC. Each responsible

division of NSSMC will confirm the status of internal controls at each Group company, and provide assistance in its improvements, where necessary.

The General Manager of the Internal Control & Audit Division will coordinate with each functional division, and identify and evaluate the situation of internal control of the Group companies as a whole, and provide guidance and advice to each responsible division and each Group company.

The specific systems under the views above are as follows.

i) System for Reporting to NSSMC in relation to the Performance of Responsibilities by the Group Companies' Directors

The responsible divisions of NSSMC will request that each Group company report on important management matters in relation to NSSMC's consolidated management or each Group company's management, including business plans, significant business policies, and financial results, and give advice and other guidance.

ii) Rules and Other Systems with respect to Group Companies' Loss-related Risk Management

The responsible divisions of NSSMC will request that each Group company report on the situation of risk management in each Group company, and give advice and other guidance.

iii) System to Ensure Efficiency in the Performance of Responsibilities by the Group Companies' Directors

The responsible divisions of NSSMC will evaluate the business performance of each Group company, and give support for the management.

iv) System to Ensure that the Performance of Responsibilities by Group Companies' Directors and Employees Complies with Applicable Laws and Regulations and the Articles of Incorporation

The responsible divisions of NSSMC will request that Group companies report on their respective situation on compliance with applicable laws and regulations, and the development and operation of internal control systems, and give necessary support, advice, and other guidance. Additionally, such divisions will request that each Group company report on any actions and facts in such Group company that may violate applicable laws and regulations, and promptly report to the General Manager of the Internal Control & Audit Division.

(vii) Matters concerning Supervision by Audit & Supervisory Board Members

The Directors, Executive Officers, General Managers, and other employees of NSSMC will timely and appropriately report important matters, such as the situation of the performance of responsibilities and facts that cause a material effect on the management, to the Audit & Supervisory Board Members or the Audit & Supervisory Board, directly or through the related divisions such as the Internal Control & Audit Division. They will also report important management matters such as the situation of operation of the internal control system to the Board of Directors, the Corporate Policy Committees and the Risk Management Committees, and other corporate committees, and thereby share such information with Audit & Supervisory Board Members.

The directors, audit & supervisory board members, and employees of each Group company will timely and appropriately report important matters in such Group company, such as the situation of the performance of responsibilities, and facts that cause a material effect on the management, to the Audit & Supervisory Board Members or the Audit & Supervisory Board of NSSMC, directly or through the related Divisions such as the Internal Control & Audit Division.

NSSMC will not unfavorably treat a person who has reported as stated above, for reasons of such report, in accordance with the Rules for the Whistleblower System.

The General Manager of the Internal Control & Audit Division will act as a liaison and cooperate with the Audit & Supervisory Board Members by, among others, exchanging opinions on the situation of operations of internal control systems, both regularly and as needed. The General Manager will also report on the situation of operating the Whistleblower Systems to the Audit & Supervisory Board Members.

NSSMC will establish the Audit & Supervisory Board Members' Office, and assign dedicated staff members, in order to support the performance of responsibilities by Audit & Supervisory Board Members. To ensure independence from the Directors, dedicated staff members necessary for supervisory work will be assigned and will engage in such work under the direction of Audit & Supervisory Board Members. The General Manager of the Human Resources Division will discuss personnel matters relating to such staff members, including transfers and evaluations, with the Audit & Supervisory Board Members.

NSSMC will budget costs that it deems necessary for Audit & Supervisory Board Members to perform their responsibilities. In addition, NSSMC will reimburse costs incurred by Audit & Supervisory Board Members after Audit & Supervisory Board Members pay costs in an urgent or temporary situation.

(2) Outline of status of operation

(i) Operational organization

NSSMC has established an operational organization for its internal control systems. This organization consists of the Internal Control & Audit Division (14 full-time and 21 concurrently with their other posts), which is responsible for the internal control plan and internal audits, and functional divisions responsible for managing risk in each field (about 670 staffs). NSSMC has also designated a person in charge of risk management (about 150 for NSSMC) and a person responsible for risk management (about 550 in group companies) who are engaged in planning and promoting autonomous internal-control activities in each division and Group company.

This organization operates the internal control system as follows.

(ii) Specific status of operation

i) Internal control plan

In March of each year, NSSMC develops an annual plan on internal control for NSSMC Group as a whole based on changes in the related laws and the business circumstances. This plan includes a basic policy, separate plans for each function, including safety, environment, plant safety, and quality, an internal audit plan, and an education plan. Each division and Group company creates its own plan for the fiscal year based on such annual plan developed by NSSMC.

ii) Autonomous internal control activities

In accordance with the annual plan, each division and Group company autonomously performs internal control activities based on the characteristics of each business and its inherent risks. Specifically, such activities include establishment, education and voluntary inspections of operational rules, manuals and other documentation; third-party monitoring; and improvements to operations based on the results thereof.

Such divisions and Group companies immediately report any accidents, disasters, facts that may violate applicable laws and regulations, etc. to the Internal Control & Audit Division, and coordinate with the relevant divisions to take corrective measures, such as measures to prevent recurrence. The Internal Control & Audit Division compiles case studies of such incidents and shares them within the NSSMC Group. Each division and Group company then performs inspections for similar risks.

iii) Internal audits, etc.

Internal audits confirm the status of internal controls via internal-control checklists and other documents. Additionally, the Internal Control & Audit Division and each functional division monitor each division and group company.

As measures to complement NSSMC's internal controls, NSSMC also operates a hotline for internal reporting and consultation hotlines, which are open to employees of NSSMC and group companies and their families, as well as employees of NSSMC's suppliers and others, and NSSMC and its major group companies conduct employee awareness surveys regarding internal controls.

iv) Assessment and improvement

The Internal Control & Audit Division reports the status of operation of the internal control system at the quarterly meeting of the Risk Management Committee. It is also reported at meetings of the Corporate Policy Committee and Board of Directors. Such status is also shared with each division and Group company at the meeting of the persons in charge of risk management and the meeting of the persons responsive for risk management.

The Internal Control & Audit Division also assesses the effectiveness of its internal control system as of the end of each fiscal year, and compiles a report of its assessment based on the status of internal-control activities, internal audits, etc. This assessment is then reported to the Risk Management Committee, Corporate Policy Committee, and Board of Directors.

Based on the results of these assessments, NSSMC establishes measures to improve the effectiveness of its internal control system, and incorporates them into the next fiscal year's internal control plan.

v) Education and awareness raising

The Company educates employees and officers of NSSMC and those of its group companies through sessions on internal controls prepared by NSSMC. The sessions include position-specific training, and are given to everyone from new hires to executive management. The Company also works actively to raise awareness of its approach to internal controls, establishment of better workplace culture, and other topics through a dialog between the Internal Control & Audit Division, and each division of NSSMC, and its group

companies.

vi) Coordination with Audit and Supervisory Board Members and Accounting Auditor

The Internal Control & Audit Division reports the status of internal controls to the Audit and Supervisory Board each quarter. It also reports and discusses the status of internal controls with the Risk Management Committee with the attendance of Audit and Supervisory Board Members. The Internal Control & Audit Division is also committed to sharing information and coordinating, including holding monthly liaison meetings with the Audit & Supervisory Board Members' Office. It reports and discusses such matters as the results of assessments of internal controls relating to the status of operation of the Risk Management Committee and reporting of financial statements to the Accounting Auditor periodically.

## 2. Basic Views on Eliminating Anti-Social Forces

NSSMC provides, in “Corporate Philosophy of the Nippon Steel & Sumitomo Metal Corporation Group,” that the Group continues to emphasize the importance of integrity and reliability, and provides in the “Code of Conduct of the Nippon Steel Sumitomo Metal Corporation Group” that the Group will not have any relationships of any kind with anti-social forces or organizations that threaten order and safety in the civil society, and will take firm action against all unreasonable demands. NSSMC has established “Rules that Prohibit any Relationships with Anti-social Forces and Prevent Damage Caused by Them,” and internal systems thereunder.

Specifically, NSSMC defines the role of each relevant division and communication systems between them by establishing a division, a General manager, and a personnel in charge of public relations, maintains regular contacts with police departments and other relevant authorities, and seeks to promote educational activities through information sharing within the Group and internal seminars.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Adopted
------------------------------------	---------

#### Supplementary Explanation

(1) The Basic Policy on the Composition of Persons to Control the Decision-Making over the Financial and Business Policies of NSSMC

Under the corporate philosophy that the NSSMC group will pursue world-leading technologies and manufacturing capabilities, and contribute to society by providing excellent products and services, the NSSMC group aims to improve its corporate value, and further the common interests of its shareholders, by enhancing its competitiveness and profitability through the planning and execution of management strategies.

NSSMC has decided to take necessary action to prepare for the acquisition of substantial shareholdings in NSSMC or other related activities that could disturb such corporate philosophy and management strategies and cause damage to NSSMC's corporate value by, among other reasons, threatening obstruction of the existence and development of NSSMC, and which could result in harm to the common interests of NSSMC's shareholders.

NSSMC believes that in the event a third party proposes the acquisition of substantial shareholdings

in NSSMC (a “Takeover Proposal”), the ultimate decision as to whether or not to accept the Takeover Proposal should be made by the then shareholders of NSSMC. On the other hand, NSSMC believes that such Takeover Proposals could include those with the potential to cause clear damage to the corporate value of NSSMC or the common interests of the shareholders of NSSMC or those with the potential to practically coerce shareholders into selling their shares of NSSMC.

Consequently, NSSMC implemented the “Fair Rules for the Acquisition of Substantial Shareholdings” (the “Plan”) because NSSMC believes it is the Board’s responsibility to put in place clear and transparent rules in order to prepare for such disadvantages to the shareholders of NSSMC in the event a Takeover Proposal is made by a third party, and, for the occasions where a Takeover Proposal is actually made, to create an environment in which the shareholders of NSSMC can make an appropriate informed judgment based on sufficient information and with a reasonable time period to consider the Takeover Proposal.

(2) Outline of Measures to Keep the Control over Decision-Making on Financial and Business Policies out of the Hands of Inappropriate Persons in light of the Basic Policy

NSSMC adopted the Plan in order to protect and enhance common interests of the shareholders of NSSMC by the resolution of the Board of Directors in March 2006. Subsequently in March 2016, after 10 years had passed since the adoption of the Plan, NSSMC reconsidered the necessity of the Plan, while at the same time determined to change the system to the one in which prior approval of shareholders is required to adopt or renew the Plan in an effort to further enhance its reliability and legal stability. At the 92nd General Meeting of Shareholders held on June 24 of that year, NSSMC received approval by the shareholders of the Plan that reflects such changes. A summary of the Plan approved by the shareholders is indicated in paragraphs (i) through (iii) below.

(i) Provision of the Required Information by the Bidder and examinations at a meeting of the Board

When the Board of Directors has received all of the information as stipulated in the Plan (the “Required Information”) from any person who has an intention to hold 15% or more of the voting rights ratio of the shares, etc. of NSSMC (a “Bidder”), the Board shall review as to whether or not the Takeover Proposal made by the Bidder is in the best interests of the corporate value and the common interests of shareholders. (The review period, as a general rule, is 12 weeks.)

(ii) Procedures to ascertain shareholders’ will

In order to have shareholders determine whether or not to accept a Takeover Proposal, the Board, as a general principle, after the review period, holds a shareholders vote to ascertain shareholders’ will (a “Shareholders Vote”) regarding whether or not the issuance of the stock acquisition rights (the “Rights”) by way of a gratis allotment (implementation of measures to a Bidder) will be implemented and the necessity thereof, through a written ballot or at a a meeting held to confirm the shareholders’ will.

However, after examinations of the Required Information by the Board, in such case the Board determines that the Takeover Proposal is in the best interests of the corporate value of NSSMC and the common interests of shareholders of NSSMC, a Shareholders Vote will not be held and the issuance of the Rights by way of a gratis allotment will also not be implemented.

(iii) In the event the Rights are issued by way of a gratis allotment

The implementation of issuance of the Rights by way of a gratis allotment under the Plan is only limited to such cases in which (i) the shareholders of NSSMC vote in favor of the implementation of measures to a Bidder at the Shareholders Vote, (ii) the Bidder fits within one of the four categories including so-called green mailer specified as harmful and abusive according to the judicial precedents, and the Board determines the Takeover Proposal may cause clear damage to the common interests of the shareholders of NSSMC and (iii) the Board determines the Bidder failed to comply with the procedures set forth in the Plan.

Furthermore, when judging (ii) or (iii) above, the Board shall obtain an opinion of the Independent Committee beforehand, which consists of three members appointed from outside Directors and outside Audit & Supervisory Board Members, respecting such opinion as much as possible. For the members of the Independent Committee.

The currently effective Plan is posted on NSSMC's website.

(Fair Rules, URL: [http://www.nssmc.com/en/ir/management/fair\\_rule.html](http://www.nssmc.com/en/ir/management/fair_rule.html))

(3) Judgment of the Board of Directors on the Measures above and the Grounds for such Judgment

The Plan sets forth the rules and procedures that enable the shareholders to make a judgment on the necessity of the issuance of the Rights by way of a gratis allotment) based on sufficient information and with reasonable time period of consideration. The Plan is designed to improve NSSMC's corporate value as well as to protect and enhance the common interests of the shareholders by leaving ultimate decision as to whether or not to accept the Takeover Proposal to the shareholders of NSSMC and, therefore, it is not detrimental to the common interests of shareholders of NSSMC or it is not intended to maintain the status held by the Directors of NSSMC.

In view of the above, the Board judges that the Plan is in compliance with "Basic Policy on the Composition of Persons to Control Decision-Making over the Financial and Business Policies of NSSMC" mentioned above.

## 2. Other Matters Concerning to Corporate Governance System

(1) The Corporate Governance System, including an Overview of the Internal Control System

Please see the chart indicated below.

(2) Overview of the Timely Disclosure System

NSSMC's internal system for ensuring the timely disclosure of its corporate information as described below.

(i) Information Disclosure Concerning Corporate Decisions

Corporate Decisions by NSSMC and its subsidiaries that are subject to timely disclosure are submitted for deliberation by or reported to the Board of Directors, or reported to the General Manager of the General Administration Division in accordance with the internal rules, and then disclosed in accordance with the rules of each financial instruments exchange on which NSSMC is listed (e.g. Tokyo Stock Exchange).

(ii) Information Disclosure Concerning the Occurrence of Facts

Occurrence of Facts regarding NSSMC and its subsidiaries that are subject to timely disclosure are reported to the Board of Directors or the General Manager of the General Administration Division in accordance with the internal rules, and then disclosed in accordance with the rules of each financial instruments exchange on which NSSMC is listed (e.g. Tokyo Stock Exchange).

(iii) Information Disclosure Concerning Financial Results

Information concerning financial results is submitted for deliberation by and reported to the Board of Directors, and then disclosed in accordance with the rules of each financial instruments exchange on which NSSMC is listed (e.g. Tokyo Stock Exchange).

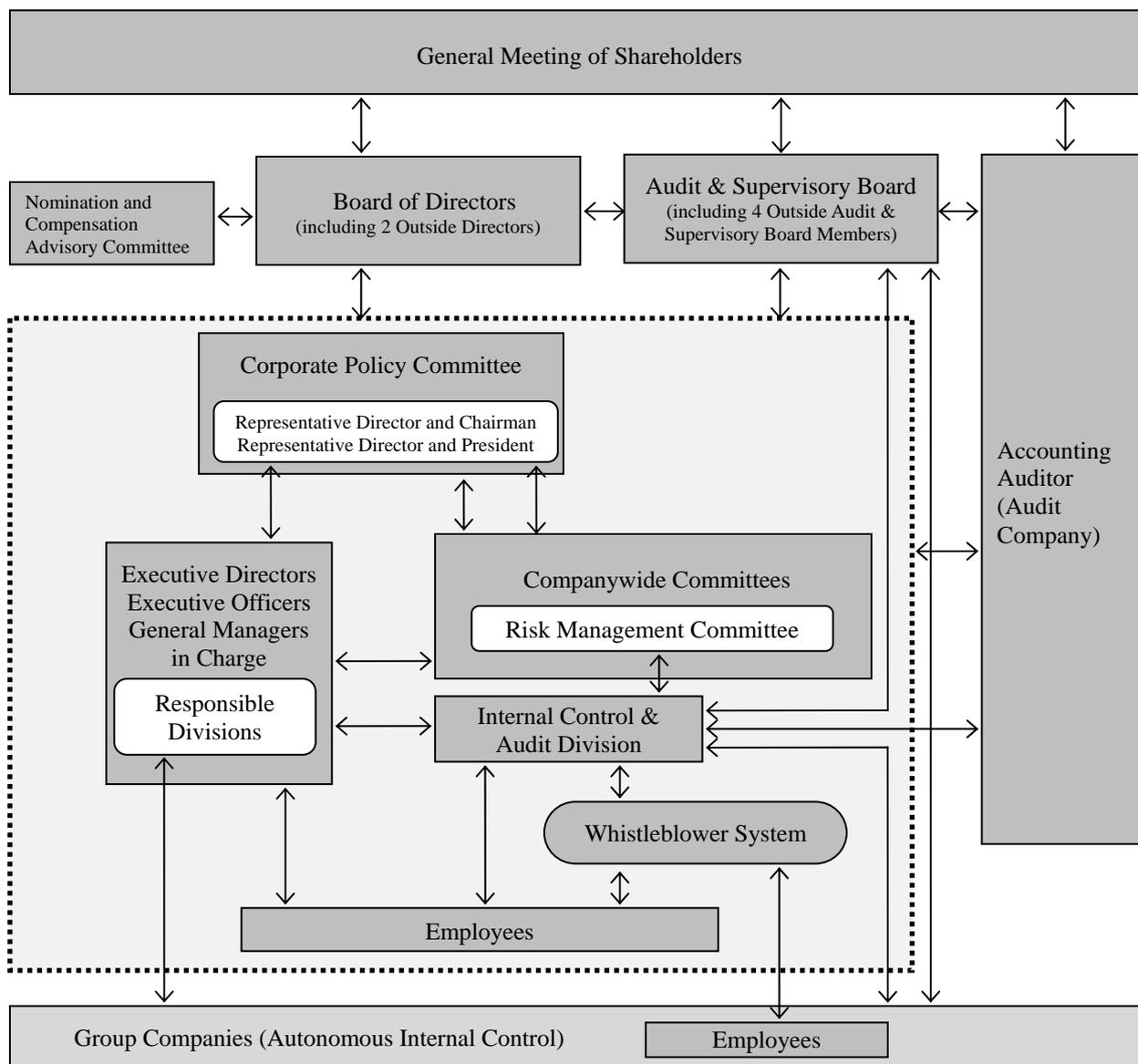
(iv) Others

All of the information mentioned above is disclosed by the Senior Manager of the General Administration Department of the General Administration Division (the responsible person for handling information), in a timely manner. Furthermore, when such information is disclosed, it is posted on NSSMC's website.

(Translation)

<Reference: Relationship Diagram regarding NSSMC's Organization and Internal Control>

The following is a diagram illustrating the relationship regarding NSSMC's organization and internal control.



(Note)

- 1: The execution of important matters concerning the management of NSSMC and NSSMC Group is determined at the Board of Directors (held once or twice per month) after deliberations in the Corporate Policy Committee (held once a week, in principle) comprised of the Chairman, President, Executive Vice Presidents, and other members, pursuant to NSSMC's rules.
- 2: As corporate organizations engaging in deliberations before the Corporate Policy Committee and the Board of Directors, there are 23 company-wide committees in total, including the Ordinary Budget Committee, the Plant and Equipment Investment Budget Committee, the Investment and Financing Committee, the Fund Management Committee, the Technology Development Committee, the Environment Management Committee, and the Risk Management Committee, depending on each purpose.
- 3: NSSMC has established an operational organization for its internal control systems. This organization consists of the Internal Control & Audit Division (14 full-time and 21 concurrently with their other posts), which is responsible for the internal control plan and internal audits, and functional divisions responsible for managing risk in each field (about 670 staffs). NSSMC has also designated a person in charge of risk management (about 150 for NSSMC) and a person responsible for risk management (about 550 in group companies) who are engaged in planning and promoting autonomous internal-control activities in each division and Group company.
- 4: As far as the Group companies are concerned, each company establishes and develops an internal control system based on its autonomous internal control, and the responsible divisions of NSSMC provide assistance in their improvement, where necessary. Furthermore, the General Manager for the Internal Control & Audit Division of NSSMC identifies and evaluates the situation of internal control of NSSMC Group as a whole, and gives guidance and advice to each responsible division and each Group company.