

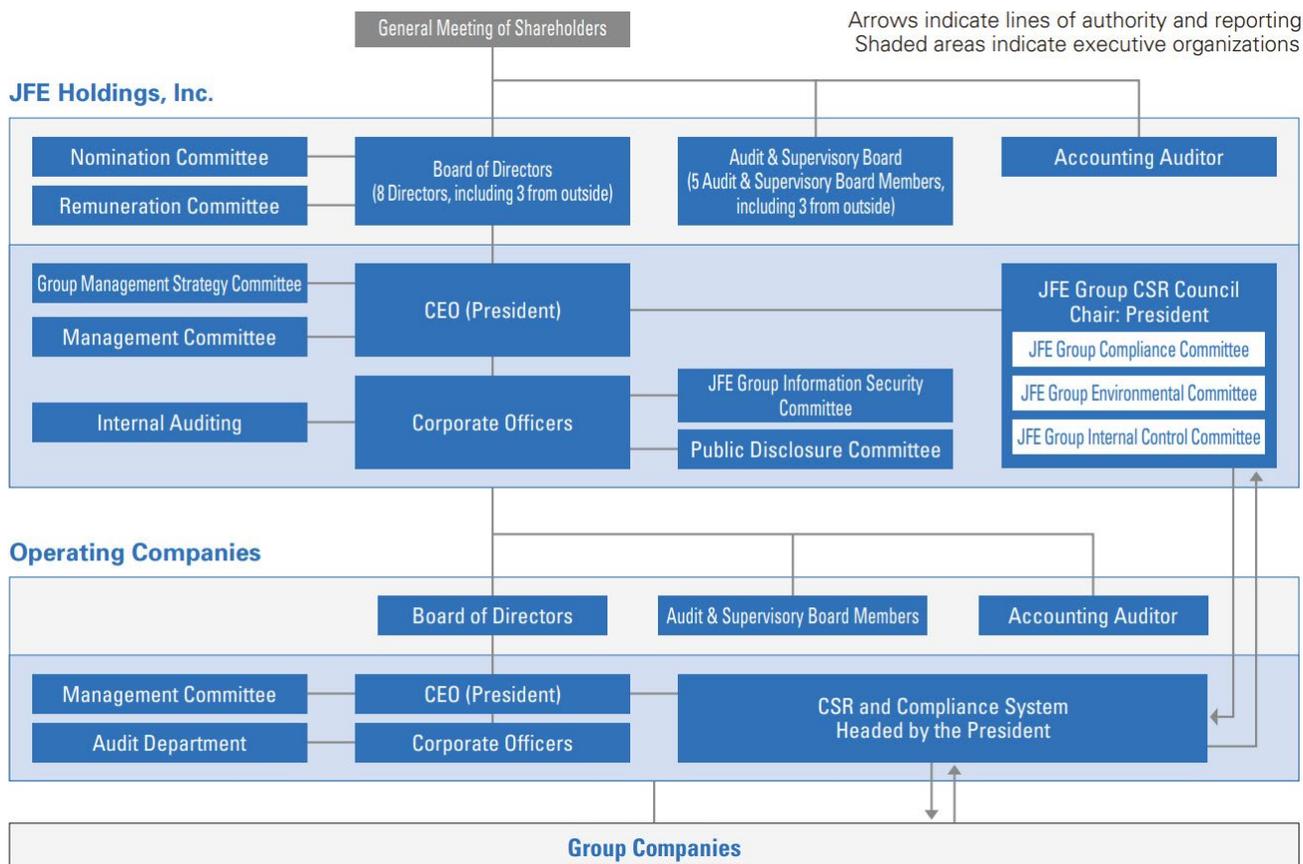
Corporate Governance

Basic Policy

With the steel business, engineering business and trading business at its core, the JFE Group develops a broad range of businesses in a wide range of areas together with many group companies and partners. Establishing a proper governance system is essential towards improving independence and raising efficiency in each operating company, along with the optimal management of risks, which include those related to the environment, safety and disaster prevention in the Group. It is also necessary for the sustainable growth of the Group and the medium-to long-term improvement of its corporate value.

We have also established the JFE Holdings, Inc. Basic Policy on Corporate Governance to express concretely the JFE Group’s Corporate Vision of pursuing best practices in corporate governance and achieving further development in this area.

- [JFE Holdings, Inc. Basic Policy on Corporate Governance](https://www.jfe-holdings.co.jp/en/company/info/pdf/basic-policy.pdf)
(<https://www.jfe-holdings.co.jp/en/company/info/pdf/basic-policy.pdf>)
- [Corporate Governance Report](https://www.jfe-holdings.co.jp/en/company/info/pdf/corporate-governance.pdf)
(<https://www.jfe-holdings.co.jp/en/company/info/pdf/corporate-governance.pdf>)



Part of the governance data is also disclosed under “[Governance Data](#) (P. 192)” in the ESG Data.

Corporate Governance System

Group Governance System

The JFE Group comprises a holding company and three operating companies JFE Steel, JFE Engineering and JFE Shoji.

JFE Holdings, a pure holding company at the core of the Group's integrated governance system, guides Group-wide strategy, risk management and public accountability.

Each operating company has developed its own system suited to its respective industry, ensuring the best course of action for competitiveness and profitability.

▶ [ESG Data: Corporate Governance System](#) (P. 192)

Major Topics Discussed at the FY2019 Board of Directors Meeting

- M&A projects (e.g., acquisition of Cogent Power Inc. in Canada, acquisition of Mitsui E&S Plant Engineering Inc.)
- Investments in overseas business (e.g., specialty bar steel joint venture in China)
- Large-scale capital expenditures (e.g., revamping of the No. 4 blast furnace at West Japan Works(Kurashiki))
- JFE Steel's structural reform and long-term strategy
- ESG initiatives (e.g., assessment and review of KPIs for material CSR issues)

Governance System

JFE Holdings and each operating company have their respective Audit & Supervisory Board Members. The companies are crosschecked by the Directors, who supervise operational execution, and the Audit & Supervisory Board members, who conduct audits. Also, a Corporate Officer system separates decision making and execution to clarify authority and responsibility, as well as to accelerate execution. JFE Holdings' Board of Directors is responsible for maintaining and enhancing management efficiency and passing resolutions as legally required, laying down key management policies and strategies and supervising operational execution. The Audit & Supervisory Board oversees management for the purpose of strengthening its soundness.

■ Major Initiatives to Strengthen the Governance System



Independent Outside Directors

We elect Independent Outside directors with the aim of ensuring one-third or more of the Directors are Independent Outside Directors. Independent Outside Directors will be elected from persons who are appropriate to bear the responsibility of strengthening governance such as those who possess abundant experience as management in global enterprises or experts who possess profound knowledge and satisfy our independence standards. Currently, of the eight Directors, three are Independent Outside Directors.

Independent Outside Audit & Supervisory Board Members

More than half of the Audit & Supervisory Board Members are from outside. Independent Outside Audit & Supervisory Board Members will be elected from persons who are appropriate to bear the role of enhancing the auditing function such as those who possess abundant experience as management in global enterprises or experts who possess profound knowledge and satisfy our independence standards. Currently, of the five Audit & Supervisory Board members, three are Independent Outside Audit & Supervisory Board Members.

- [Standards for Independence of Outside Directors/Audit & Supervisory Board Members of JFE Holdings, Inc.](https://www.jfe-holdings.co.jp/en/company/info/pdf/independence.pdf) (https://www.jfe-holdings.co.jp/en/company/info/pdf/independence.pdf)
- [ESG Data: Directors and Audit & Supervisory Board Members](#) (P. 192)

Approach to Diversity in the Board of Directors

With regard to the composition of the Board of Directors, the company elects officers following deliberations by the Nomination Committee by focusing on the enhancement of diversity of the Board members, such as their expertise, knowledge and experience in various fields, while balancing with the appropriate size of the Board. One female Audit & Supervisory Board Member was appointed in June 2019, and one female Director was appointed in June 2020. The company is also working to enhance gender and global diversity mainly by electing Directors and Audit & Supervisory Board Members who possess a wealth of knowledge and experience as management in global enterprises. The company will continue to systematically engage in initiatives to foster such human resources suitable for candidates for Directors and Audit & Supervisory Board Members by setting specific targets.

Nomination Committee and Remuneration Committee

In October 2015, JFE Holdings set up the Nomination Committee and the Remuneration Committee as advisory bodies to the Board of Directors to secure fairness, objectivity and transparency in the appointment of and remuneration for Directors and Audit & Supervisory Board Members. For both committees, the majority of committee members are Outside Directors/Audit & Supervisory Board Members and the chairs are chosen from among these people.

The Nomination Committee deliberates and reports to the Board of Directors on matters pertaining to the basic stance on the election and dismissal of the President of the company, proposals for the election of candidates for the President of the company, succession plans of the President of the company, and the nomination of candidates for Outside Directors and Outside Audit & Supervisory Board Members. Four meetings were held in FY2019. The Remuneration Committee deliberates matters pertaining to the basic stance on the remuneration of directors, etc., of the company and each operating company and reports to the Board of Directors. Three meetings were held in FY2019.

▶ [ESG Data: Nomination Committee and Remuneration Committee](#) (P. 195)

Support for Directors and Audit & Supervisory Board Members

Directors and Audit & Supervisory Board Members are provided with opportunities and funding to receive training in legal matters, corporate governance, risk management and other subjects that help them fulfill their roles and duties.

In addition, a briefing is held for Outside Directors and outside Audit & Supervisory Board Members prior to Board of Directors meetings.

Furthermore, Outside Directors and Outside Audit & Supervisory Board Members are provided with relevant information and opportunities to exchange opinions with the president and other top managers, attend key hearings on the operational status of individual departments, and inspect business sites and Group companies inside and outside Japan.

Analysis and Evaluation of the Board's Effectiveness

Since FY2015, JFE Holdings has worked to improve the overall effectiveness of its Board of Directors by analyzing and evaluating it every year.

In FY2019, third-party questionnaires were sent to all Directors and Audit & Supervisory Board Members. Based on the discussions by the Board of Directors in light of the survey results and evaluation by the third-party organization, the Board of Directors determined that its overall effectiveness has been ensured through vigorous discussions among members, including Outside Directors, based on a preliminary briefing session attended by all Outside Directors/Audit & Supervisory Board Members and appropriately facilitated by the chairperson. In addition, the appointments of a female Audit & Supervisory Board member in June 2019 and a female Director in June 2020 have helped further diversify the composition of Directors and Audit & Supervisory Board Members, thereby enabling more fruitful discussions.

(Continued from the previous page.)

Furthermore, in addition to accurate and fair audits performed by the Audit & Supervisory Board Members, the members also express opinions and actively ask questions at Board of Directors meetings on management decisions and reports to further invigorate deliberations. Such outcomes support the conclusion that JFE functions more efficiently as a company with an Audit & Supervisory Board.

Meanwhile, we are implementing measures to further improve the effectiveness of the Board of Directors, including enhancing the Board's response to drastic changes in the business environment as they relate to the Business Plan and promoting concrete initiatives on ESG issues essential for sustainable growth.

Operating System

Key Decision Making

JFE companies are responsible for business decisions in accordance with their respective rules and procedures, whereas JFE Holdings makes decisions about Group-wide matters. Each operating company determines key matters through a deliberative process by its own Management Committee and Board of Directors. In April 2017, JFE Holdings changed the operating structure of key committees. Management strategies involving the entire group are now deliberated by the Group Management Strategy Committee and core issues of JFE holdings, the operating companies and the Group are deliberated by the Management Committee before they are submitted to the Board of Directors for resolution.

► [ESG Data: Operating System](#) (P. 195)

Executive Remuneration

Executive remuneration is based on the basic policies founded on discussions and reports by the Remuneration Committee, and it is decided through either a resolution of the Board of Directors or deliberations by the Audit & Supervisory Board Members, for an amount within the total limit approved at the General Meeting of Shareholders.

Basic Stance on Determination of Remuneration for Directors and Audit & Supervisory Board Members and Corporate Officers

- The Board of Directors shall determine remuneration system for Directors and Corporate Officers based on deliberations regarding its appropriateness by the Remuneration Committee to ensure fairness, objectiveness and transparency.
- The remuneration level for Directors and corporate Officers shall be determined to secure excellent human resources who are able to put the Group's corporate vision into practice, taking into consideration the business environment of the Group and remuneration levels at other companies in the same industry or of the same scale.
- The ratio between basic remuneration and performance-linked remuneration (annual bonus and stock remuneration) shall be properly established according to the roles and responsibilities, etc., of each Director and Corporate Officer so as to function as sound incentives toward the sustainable growth of the Group.

The company pays only basic remuneration to Outside Directors and Audit & Supervisory Board Members, given their respective roles of supervising and auditing management from an independent and objective standpoint.

Composition of Remuneration for Directors and Audit & Supervisory Board Members and Corporate Officers

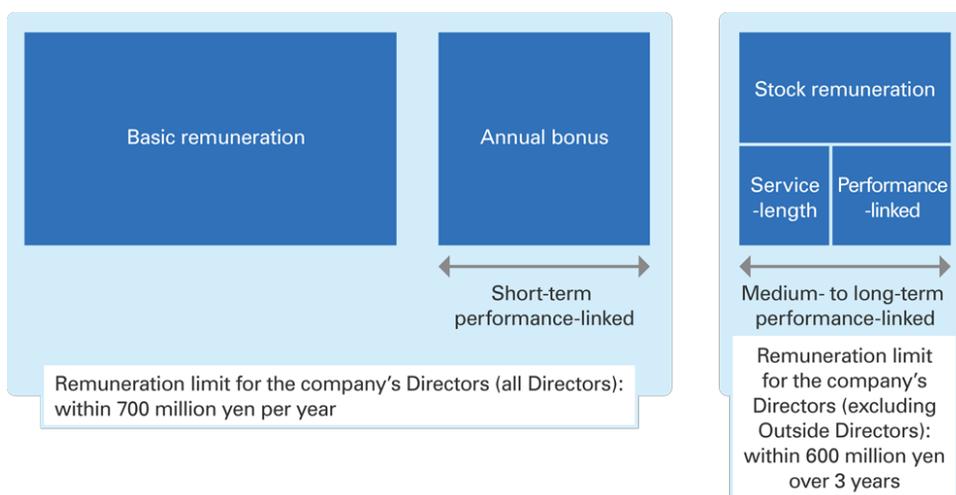
Medium- to long-term performance-linked remuneration system for Directors and Audit & Supervisory Board Members has been introduced from FY2018. Remuneration for Directors and Audit & Supervisory Board Members after the introduction of this system is as follows.

- **Basic Remuneration**
A fixed amount is paid every month according to positions and other factors.
- **Annual Bonus**
Directors and Corporate Officers, excluding Outside Directors, receive cash bonuses once a year, based on a standard determined according to single-year consolidated results. From FY2018 to FY2020, the “total amount of segment profit” will be used as a performance indicator.
- **Medium- to long-term Performance-linked Remuneration**
The stock remuneration plan is a plan that provides the company’s shares and an amount of cash equivalent to the market price of the company’s shares to Directors (excluding Outside Directors) and Corporate Officers. Remuneration based on this system is paid based on the payment level, which is determined in accordance with the performance targets, etc., in the Group’s medium-term business plan, and as a rule, it is provided at retirement through a trust in the form of the company’s shares or cash.

From FY2018 to FY2020, the payment level is determined according to the level of achievement of the target profit attributable to owners of the parent company of 200 billion yen per year, set under the Sixth Medium-term Business Plan. Furthermore, 5% or more ROE is the minimal requirement for the payment.

Remuneration for the company president when the target goals have been attained is set so that the ratio of basic remuneration (fixed remuneration), annual bonus (short-term performance-linked) and stock remuneration (medium- to long-business performance-linked) roughly stands at 6:2:2.

■ Composition of Remuneration for the Company’s Directors and Part-time Audit & Supervisory Board Members



➤ [ESG Data: Executive Remuneration](#) (P. 195)

Internal Control

The JFE Group's internal control system, in accordance with the Basic Stance for Building an Internal Control System, is maintained through various committee regulations including the Rules of the Board of Directors, Regulations for Group Management Strategy Committee, Regulations for Management Committee, Regulations for the JFE Group CSR Council, Regulations for Organization and Operations, Regulations for Document Management, Regulations for Addressing Violence Directed at Companies, and the installation of Corporate Ethics Hotline. The Basic Stance for Building Internal Control Systems is revised and improved from time to time to boost sustainable corporate value.

▶ [Basic Stance for Building an Internal Control System \(Japanese only\)](#)

(<https://www.jfe-holdings.co.jp/company/info/pdf/naibutousei.pdf>)

Strengthening Internal Control

Internal Audits

JFE Holdings, its operating companies and key Group companies had internal audit organizations comprising 164 people as of April 1, 2020. These organizations share information to enhance overall auditing within the Group.

Audits by Audit & Supervisory Board Members

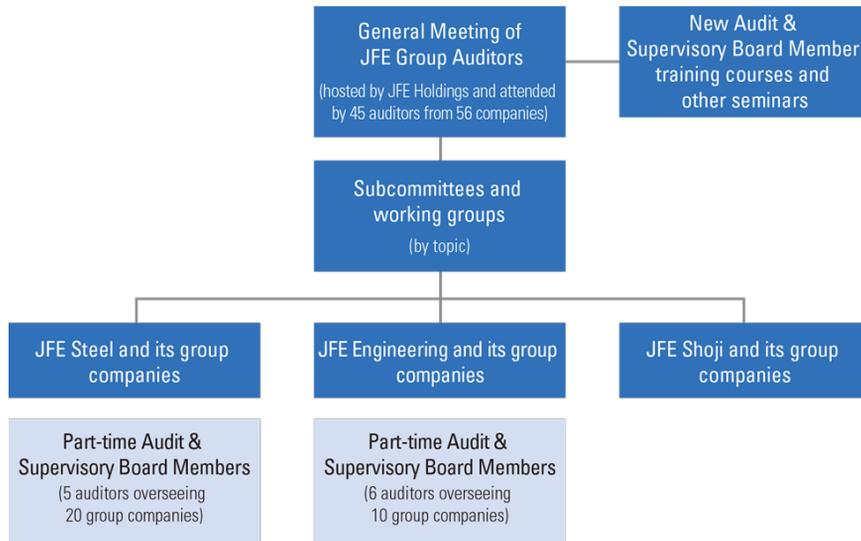
Audit & Supervisory Board Members attend meetings of the Board of Directors, Group Management Strategy Committee and Management Committee as well as other important meetings. To audit how Directors execute their responsibilities, they conduct hearings with Directors and corporate officers regarding operational status and receive operational reports from subsidiaries. In addition to undergoing statutory audits, JFE companies take the following initiatives to ensure the effectiveness of internal auditing by the Audit & Supervisory Board Members and to strengthen coordination among the Members.

A total of 34 full-time Audit & Supervisory Board Members have been appointed to 28 companies, including JFE Holdings. Operating company personnel are dispatched to Group companies as part-time Outside Audit & Supervisory Board Members. Each absentee Audit & Supervisory Board Member serves one to four subsidiaries to raise the quality of the audits by their Audit & Supervisory Board Members and enhance Group governance. Eleven absentee Audit & Supervisory Board Members served 30 companies in total.

The JFE Group Board of Auditors includes both full-time Audit & Supervisory Board Members of each Group company and part-time Audit & Supervisory Board Members. Subcommittees and working groups created to address specific issues meet autonomously to share information, investigate issues and enhance understanding. The findings of the year's activities are presented at the general meeting of JFE Group Auditors and used for audits.

▶ [ESG Data: Operating System](#) (P. 195)

■ Structure of JFE Group Board of Auditors



Cooperation between Audit & Supervisory Board Members and Accounting Auditor

In FY2019, the Audit & Supervisory Board Members held eight scheduled or unscheduled meetings with Ernst & Young ShinNihon, JFE’s outside accounting auditor, in which the latter presented its audit plan, completed work and detailed results. The firm also presented a detailed explanation of its quality management system to confirm its validity. In turn, the Audit & Supervisory Board Members explained their own audit plans and other matters to the firm. The two sides also shared opinions on related matters.

Cooperation between Audit & Supervisory Board Members and Internal Auditing Department

In FY2019, the Audit & Supervisory Board Members held six scheduled or unscheduled meetings with the internal auditing department, in which the latter presented its internal audit plan, work status and detailed results. During the meetings, the Audit & Supervisory Board Members also shared opinions with the department.

Operating Company Governance

Some Directors, Corporate Officers and Audit & Supervisory Board Members of JFE Holdings serve concurrently as the Directors or Audit & Supervisory Board Members of operating companies to strengthen governance and information sharing across the Group. To strengthen governance, JFE Holdings’ managers attend each operating company’s General Meeting of Shareholders and Management Planning Briefing, receive reports on their activities and discuss the managerial policies of subsidiaries.

Policy on Listed Subsidiaries

To realize sustainable growth and enhancement of medium to long-term corporate value, the JFE Group forms a corporate group comprising companies with high expertise, divides business functions within the Group and conducts businesses development outside of the Group. Among the Group companies, Gecoss Corporation, JFE Container Co., Ltd. and JFE Systems, Inc., which are subsidiaries of JFE Steel Corporation, maintain their listed status as a means to enhance their competitiveness from the perspectives of their specialized business areas as well as to secure market recognition and credibility in funding, sales and marketing, and hiring. The aforementioned 3 companies are subject to rules different from those applicable to other consolidated subsidiaries, and other measures are also taken so as to ensure that each of the companies conducts autonomous corporate activities exercising autonomy and flexibility, secure management independence as listed companies, and make sure that the interest of the said subsidiaries' shareholders other than the said subsidiaries and the Company will not be unfairly impaired. In addition, with respect to matters necessary for the Group's risk management, prior consultation and reporting are required from the 3 companies while securing their independent decision making, so as to implement risk management as a member of the Group companies.

Furthermore, the Company shall regularly verify the significance of maintaining the listing of the listed subsidiaries and take necessary measures upon confirmation at its Board of Directors.

Basic Policies for Strategic Shareholdings and Exercise of Related Voting Rights

All shares held by the company are the shares of subsidiaries or affiliates. In principle, the company's wholly owned subsidiaries and operating companies, JFE Steel Corporation, JFE Engineering Corporation and JFE Shoji Corporation (hereinafter the "Operating Companies"), do not hold stocks as strategic shareholdings. Strategic shareholdings, however, are allowed as an exception when holding the stocks of a company is determined to be necessary for maintaining and achieving growth for the Group.

The Board of Directors meetings regularly confirm the significance of the strategic shareholdings and whether the benefits and risks of such holdings are commensurate with their capital cost, and sell strategic shareholdings if there is no significance of such shareholdings or there is a risk of damage to shareholders' interest. In April 2016, the Company decided to reduce its strategic shareholdings by approximately 100 billion yen and sold its strategic shareholdings in the amount of approximately 140 billion yen (on a market value basis) by FY2018. In November 2019, the Company decided on a policy to further sell its strategic shareholdings in the amount of 100 billion yen and sold all or part of 45 stocks in FY2019. (Total sales amount: approximately 23.2 billion yen (on a market value basis).)

Furthermore, in FY2019 the Board of Directors at a meeting held in August 2019 examined the significance of its strategic holdings and the return on investment. The exercise of voting rights of strategic shareholdings is decided upon reviews by Operating Companies on the content of the proposal and is appropriately implemented in a way that will maximize shareholder interest. To be specific, the content of the proposal is to be checked by the investment application department and the investment control department, and approval will be given to proposals which are considered not to pose any threat to the maximization of interest of these Operating Companies as shareholders. Of the shares for investment purposes held by JFE Steel, which has the largest balance sheet amount and account for the majority of the shares for investment purposes posted in the consolidated financial statements of the company, those shares of JFE Steel that are held for purposes other than pure investments are shown below.

■ Number of Issues and Amount Reported in the Balance Sheet

	End of 2017	End of 2018	End of 2019
Number of issues	242	238	219
Total balance sheet amount (billion yen)	259.1	241.0	166.1