

Kobe Steel, Ltd.

May 9, 2019

## **Progress of the Measures Promoted by the Kobe Steel Group to Prevent Recurrence of the Misconduct**

We once again deeply apologize for the considerable trouble we have caused to our customers, suppliers, shareholders and many others concerning the misconduct at Kobe Steel, Ltd. (“Kobe Steel,” “We,” or the “Company”) and its group companies (collectively, the “Kobe Steel Group” or the “Group”).

Kobe Steel made public a report entitled *Report on Misconduct in Kobe Steel Group* (the “Report”) dated March 6, 2018 on the facts revealed in the Independent Investigation Committee’s investigation, analyses of the causes of the misconduct, and measures to prevent recurrence. To implement the various measures raised in the Report, Kobe Steel’s President as the leader launched a Project for Restoring Trust in April 2018. Various subcommittees and task forces were formed to serve as implementation units for the preventive measures, and concrete actions are currently being carried out.

The Company established the Independent Quality Supervision Committee, which was comprised of external experts, as an advisory body to Kobe Steel’s board of directors to monitor the progress of the Company’s preventive measures. The Committee has reflected objective feedback in the preventative measures. The Independent Quality Supervision Committee concluded its duty upon submission of its final opinion on March 28, 2019, and the responsibility and duty have been succeeded by the newly-established Quality Management Committee.

We will maintain our commitment with a stance on “quality first” and continue our efforts to prevent the future reoccurrence of the misconduct under the Quality Management Committee.

This update provides the latest progress of the measures to prevent reoccurrence of the misconduct following the previous update announced on March 29, 2019.

We plan to announce the progress of the measures biannually via our website.

【Progress of the Measures to Prevent Recurrence of the Misconduct (Summary): Details are described in the supplementary material.】

【The underlined portions below are the updates from the March 29, 2019 announcement.】

## 1. Governance - Building the Quality Governance System

- (1) Penetration of the Corporate Philosophy: From November 2018, in addition to heads of departments/sections, the President initiated a round of dialogue sessions with assistant managers and general foremen at each business location, accounting for a total of 55 sessions at 42 locations as of the end of April 2019. The Company shared the results of the July 2018 Employee Awareness Survey with all employees in December 2018. Starting in October 2018, the Company launched the Dialogue Platform in every department to encourage and facilitate communication among employees. As a measure to uphold our commitment, we are instituting an education center (to be completed in June 2019). The Company designated March 6 – the publication date of the *Report on Misconduct in Kobe Steel Group* – as the Core Values of KOBELCO Day.
- (2) Desirable State of the Board of Directors: Following a resolution passed at the Ordinary General Meeting of Shareholders held on June 21, 2018, Kobe Steel has amended its corporate governance system.
- (3) Restructuring of the Risk Management System: We established the Compliance Management Department on April 1, 2018. We are carrying out a variety of measures to strengthen risk management throughout the Kobe Steel Group. The Company shared the results of the Compliance Awareness Survey with all employees in December 2018.
- (4) Reformation of the Organization: We are considering the form of our organization to strengthen the business.
- (5) Restructuring of the Group Companies: We have begun organizing the risk management and governance systems of each group company to strengthen Group governance. We have started considering specific restructuring measures for some Group Companies.

- (6) Rotation of Personnel among the Divisions: We have engaged in necessary personnel transfers among the divisions. In January 2019, we also developed a new personnel rotation system for human resources development, invigoration of the organization, and further mutual cooperation, which was implemented in April 2019.
- (7) Understanding of Issues Occurring at Worksites: We began collecting problems at our worksites through the “Quality Caravan Team,” which has visited 113 locations in fiscal 2018. The Team is continuing its activities in fiscal 2019.
- (8) Establishment of the Quality Charter: Already established in February 2018.
- (9) Restructuring of the Quality Assurance System: We have completed the restructuring of the quality assurance system with respect to each level: the head office, business divisions, and manufacturing sites and plants. We will disseminate the system among the Group Companies.
- (10) Restructuring of our Management Indicators: We established management indicators from the standpoint of economics, customer satisfaction, employee awareness, safety, sustainable quality, environmental friendliness, and legal and contractual compliance. We began implementing the changes on a rolling basis starting April 2019.

## 2. Management - Ensuring Quality Control

- (1) Measures for Quality Management: We established the Quality Management Department and newly established the “KOBELCO Quality Guidelines.” The Guidelines went into effect in May 2018. The Quality Management Department hosted the Group Quality Leader Conference in Japan, China, Southeast Asia and the United States. We plan to continue this effort into the next fiscal year and beyond.
- (2) Rotation and Development of Quality Assurance Personnel: We have started creating a diagram of our quality assurance personnel and organizing education programs relating to quality.
- (3) In-house Education Programs Regarding Quality: The Company completed a round of quality and compliance training for heads of departments/sections (approximately 600

individuals) at Kobe Steel and domestic Group Companies. We also began to host similar training in overseas Group Companies.

- (4) Quality Audit by the Head Office: The Quality Audit Section of the Quality Management Department has conducted quality audits at all 117 locations as of the end of March 2019. The quality audits will be continued in fiscal 2019.

### 3. Process - Strengthening of Quality Control Processes

In order to promote the points below, we established the KOBELCO Quality Guidelines of the Kobe Steel Group. The Guidelines went into effect on May 1, 2018.

- (1) Elimination of Opportunities for the Improper Handling of Test and Inspection Data and Unification of Shipping Standard: We are engaging in the automation of approximately 1,800 test/inspection machines by the end of March 2021. We completed automating 40 percent of the machines by the end of fiscal 2018, and we anticipate completing the automation of 80 percent by the end of fiscal 2019.
- (2) Understanding of Process Capabilities and Their Utilization (with respect to the materials businesses): We are undergoing assessment of our manufacturing process to understand the level of consistency in quality, in light of the required specifications. We are also promoting the visualization (i.e., through graphs, indexing) of inspection data in the Aluminum & Copper Business.
- (3) Review of the Approval Process for Accepting New Purchase Orders: The Aluminum & Copper Business built the framework in the first half of fiscal 2018 and began execution/trials in the second half of fiscal 2018.
- (4) Review of the Approval Process when Changing the Manufacturing Process
- (5) Promotion of Quality Risk Assessment in Capital Investments: Some plants and locations initiated a process to consider quality-related capital investment by evaluating quality risks from quantitative factors such as impact, frequency and detection rate. The Company has started utilizing the quality assessments in decisions for key capital investments going forward, beginning in fiscal 2019.

Corrections and improvements at each location will be continuously monitored, and we will confirm actual application of the Guidelines through quality audits at each location.

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