

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

Kobe Steel, Ltd. 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 the Project for Restoring Trust in April 2018. Various subcommittees and task forces were formed to implement the preventive measures, and concrete actions are currently being carried out. These activities have been and will continue to be monitored by the Quality Management Committee established in April 2019 as an advisory body to the Board of Directors.

This update provides the latest progress of the measures to prevent recurrence of the misconduct following the previous update announced on May 9, 2019. We plan to announce the progress of the measures biannually via our website.

- This document is a summary of the progress of the measures to prevent recurrence of the misconduct.
- Additional details are available in the supplementary material.
- The underlined portions below have been updated from the August 9, 2019 announcement.

### 1. Governance – Building the Quality Governance System

- (1) Penetration of the Corporate Philosophy: Dialogue sessions by the President with employees continue to be implemented in fiscal 2019. To date, a cumulative total of 96 sessions at 63 locations have been held as of the end of October 2019. The Company established a facility called KOBELCO Core Values Place in Kobe, Hyogo Prefecture in June 2019 to raise awareness of the need for quality and the initiatives being undertaken to prevent recurrence. KOBELCO Core Values Awards were also newly established. The awards commend activities that reflect the corporate philosophy and permeate it throughout the Group.
- (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.

- (4) Reformation of the Organization: We plan to reorganize the Iron & Steel Business and Aluminum & Copper Business in April 2020.
- (5) Restructuring of Group Companies: We are currently carrying out the restructuring of Group companies to strengthen Group governance and strengthen our business.
- (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: Continuing on from fiscal 2018, we conducted an employee awareness survey together with a compliance awareness survey in fiscal 2019. Over the next two years starting from fiscal 2019, the Quality Caravan Team plans to visit a total of 117 locations (69 locations in fiscal 2019) and collect problems at worksites. In fiscal 2019, it has visited 41 locations as of the end of October 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 of our organization: the head office, business divisions, and works and plants. We will expand the system to our 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 in 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 Group Quality Leaders Conferences in Japan, China, Southeast Asia and the United States. We are continuing this initiative this year, too. In fiscal 2019, we have already held three conferences (April, July and October).
- (2) Rotation and Development of Quality Assurance Personnel: We are currently reviewing and systemizing our quality education programs. In July 2019, we held the Quality Exchange Meeting with personnel in charge of quality assurance at our Group companies in China.
- (3) Employee Education Programs on Quality: The Company completed a round of quality and compliance training for heads of departments and sections (approximately 600 individuals) at Kobe Steel and domestic Group Companies. We also began to host similar training at our overseas Group Companies.

- (4) Quality Audits by the Head Office: In fiscal 2019, we plan to conduct on-site audits at 85 locations and document reviews at 124 locations. We have already completed audits at 52 locations.

### 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 Standards: Due to the lag in system development and other factors, there are concerns over slight delays. However, we plan to automate approximately 75% of our quality control processes by the end of fiscal 2019 (March 2020) and expect to achieve 100% automation by the end of fiscal 2020 (March 2021).
- (2) Understanding of Process Capabilities and Utilization (with respect to the materials businesses): We are assessing our manufacturing processes 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 began execution/trials of a new framework 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 other business locations have initiated a process to make quality-related capital investment decisions by carrying out quantitative assessment of such factors as impact, frequency and detection rate. The Company has started utilizing quality risk assessment in decisions for key capital investments beginning in fiscal 2019.

Improvements at each location will be continually monitored, and we will confirm the on-site application of the Guidelines through quality audits at each location.