

October 26, 2017

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Improper conduct in the Kobe Steel Group (Report on “Verification Status of Safety” and “Establishment of Independent Investigation Committee”)

At this time, we deeply apologize for the enormous amount of trouble we have caused to customers, suppliers, shareholders and many others concerning the improper conduct in Kobe Steel, Ltd. and its group companies,

The Kobe Steel Group discovered improper conduct in its Aluminum & Copper Business at the end of August (announced on October 8, 2017). In September 2017, Kobe Steel undertook self-investigations in its business units and an emergency audit by the head office for the one-year period covering September 2016 to August 2017. Excluding four additional cases of possible improper conduct (coating service in the Machinery Business of Kobe Steel; castings and speed reducers in the Shinko Engineering Co., Ltd.; outside sales of a prototype alloy in the Target Division of Kobelco Research Institute, Inc.; and one item that needs confirmation on whether improper conduct took place) found on October 25, we have largely completed the self-investigations. (Supplement 1).

In parallel with the subject self-investigations and emergency audit, Kobe Steel, with the cooperation of its customers, conducted investigations on the safety of customers' products that used the nonconforming products. Today, Kobe Steel reports on the verification status of safety and the establishment of an independent investigation committee.

1. Verification status of safety concerning customers' products using nonconforming products

(1) Kobe Steel's initiatives for customers' safety verification

- For all customers to whom Kobe Steel has supplied nonconforming products, Kobe Steel has contacted customers of this noncompliance.
- Kobe Steel has explained to customers the discovered extent of deviations from the specifications with specific data, including target details, nonconforming inspection items, original inspection data in the case of falsification, and other details. Kobe Steel has asked customers to confirm the impact on the customers' products and safety.
- To confirm safety, Kobe Steel has supplied data, provided its technical opinion on the impact of its nonconforming products on customers' products, undertaken explanations to parties beyond customers upon request and taken other steps, making its utmost effort to confirm safety.

(2) Customers' responses at present (October 26)

- For customers to whom nonconforming products, which Kobe Steel found in its self-investigation over the past one year, were shipped and for products other than those delivered directly to

customers, the use of these products have been stopped. In addition, at this time Kobe Steel has not confirmed cases which would require immediate product recall.

(3) Classification of safety verification status

- However for the confirmation of safety and to carefully check the impact on customers that are ultimate customers, safety verification is currently proceeding. As the supply chain base is wide, there are cases where time is required to pursue the supply chain of nonconforming products supplied by Kobe Steel. To confirm product safety, the verification of the safety of all products has not yet been completed.

- Accordingly, safety confirmation has been classified into the following levels below.

A: Customers have completed safety verification.

B: Customers have concluded that no problems exist at this time, but continue further verification.

C: Kobe Steel has concluded that safety can be assumed with a high degree of certainty from its technical opinion and has informed customers to this effect.

- The classification of safety verification is presented in Table 1 below. Of the 525 companies to which nonconforming products were delivered, safety confirmation has proceeded with levels A to C.

Table 1

Improper part	Company name	Material	Main use	No. of customers	A	B	C	Total (A-C)
Aluminum & Copper	Kobe Steel, Ltd. Aluminum & Copper Business (October 8, 2017)	Aluminum sheets	Can stock Cars	57	28	6	0	34
		Aluminum cast & forged parts	Aircraft Rolling stock	67	0	66	0	66
		Aluminum extrusions	Cars Rolling stock	34	14	0	0	14
		Copper sheets	Semiconductors Terminals	38	3	0	0	3
	Kobelco & Materials Copper Tube Co., Ltd. (October 8, 2017)	Copper tubes	Air conditioning	23	12	7	0	19
	Shinko Metal Products Co., Ltd. (October 13, 2017)	Copper alloy tubes, Molds	Electrical machinery Steelmaking equipment	176	61	7	103	171
	Domestic subsidiary: 1 Overseas subsidiaries: 3 ¹ (October 13, 2017)	Copper tubes Copper strips Aluminum wires	Air conditioning Terminals	36	19	3	14	36
	Kobelco Research Institute, Inc. (October 11, 2017)	Target materials	FPD optical disks	70	70	0	0	70
Other	Steel Powder Division, Iron & Steel Business, Kobe Steel, Ltd. (October 11, 2017)	Steel powder	Sintered parts	1	0	1	0	1
	Domestic subsidiaries, etc.: 2 Overseas subsidiaries, etc.: 2 ² (October 13, 2017)	Steel wire Stainless steel wire	Bearings, springs	22	22	0	0	22
	Shinko Kohan Kako, Ltd. (October 20, 2017)	Heavy plate processing	Heavy plate processed products	1	0	1	0	1
Total				525	229	91	117	437

*Total number of customers

1. Shinko Aluminum Wire Co., Ltd., Kobelco & Materials Copper Tube (M) Sdn. Bhd., Kobelco & Materials Copper Tube (Thailand) Co., Ltd., Suzhou Kobe Copper Technology Co., Ltd.
2. Nippon Koshuha Steel Co., Ltd., Shinko Wire Stainless Company, Ltd., Jiangyin Sugita Fasten Spring Wire Co., Ltd., Kobelco Spring Wire (Foshan) Co., Ltd.

In order to complete the safety verification at an early time, Kobe Steel will whole-heartedly devote itself to cooperating with its customers in the verification.

2. Establishment of independent investigation committee

(1) Reason behind the establishment

After the occurrence of the improper conduct in the Kobe Steel Group, Kobe Steel established the Quality Investigation Committee (with Kobe Steel's Chairman, President and CEO Hiroya Kawasaki as the Chairman of the Committee) within the company. Self-investigation, an emergency audit by the head office, and an investigation of the facts pertaining to the improper conduct by an outside law firm were undertaken.

The self-investigation, emergency audit and investigation of the facts were nearly completed on October 25. In the future, considerations will begin on the appropriateness of the methods, content and other factors in the self-investigation and audit undertaken to date and the suitability of reverification; a thorough investigation of the causes of the improper conduct; and measures to prevent recurrence. (Although not a direct cause, this includes such reasons as corporate culture, compliance, and issues of the organizational management system.)

In proceeding with reverification and other issues, due to the non-compliance with reporting directives during the self-investigation process, from the standpoint of the need to maintain objectivity and independence, Kobe Steel established on October 26 an independent investigation committee consisting only of outside members.

The members of the independent investigation committee have had no involvement with the investigation to date, and by selecting lawyers that have no interests with Kobe Steel, objectivity and independence of the investigation are maintained.

(2) Purpose of the independent investigation committee

- Re-verify the appropriateness and suitability of the self-investigation and emergency audit in the investigation of the facts and discover the causes of the chain of improper conduct.
- Investigate the cause on the background of corporate culture, compliance and the organizational management system, in addition to the direct cause of the improper conduct, as well as prevent recurrence, and propose improvement plans.
- Investigate items that the independent investigation committee deems necessary.

(3) Structure of the independent investigation committee

- Committee chairman: Gan Matsui, former Superintending Prosecutor
Fukuoka Public High Prosecutors Office, lawyer
- Member: Hisashi Yamazaki, former President of the High Court, former member of
the Fair Trade Commission, lawyer
- Member: Mamoru Wada, former public prosecutor, lawyer

(4) Investigation period, investigation method, etc.

- The independent investigation committee shall aim to complete the investigation by the end of the year.
- The independent investigation committee shall decide the method of investigation.
- After the completion of the investigation, the independent investigation committee shall make a report in an appropriate form to Kobe Steel's board of directors.

Supplement 1. Self-investigation and emergency audit

(1) Outline of self-investigation and emergency audit

- Purpose of self-investigation: Determine the presence of improper conduct in the Kobe Steel Group
- Subject of self-investigation: Manufacturing locations and major locations that provide inspection and testing services. Includes 21 locations in Kobe Steel; 45 locations in domestic group companies; and 34 locations in overseas group companies, for a total of 100 locations.
- Period of self-investigation: 1 year from September 2016 to August 2017
- Details on methods of self-investigation
 - Collation of inspection reports and inspection performance data (confirmation by matching actual data)
 - Collation of specifications requested by customers and contents of inspection instructions at Kobe Steel
 - Divisions responsible for inspection and shipping decisions, to the greatest degree possible, were not involved in the self-investigation. In cases when they had to be involved, other divisions participated in order to maintain objectivity.
 - Advice from JMA Consultants Inc. (JMAC) to evaluate the suitability of the inspection methods
- Emergency audit: Emergency audit by the head office in order to confirm whether self-investigations have been undertaken correctly.

(2) Results of the self-investigation and emergency audit

- Including the improper conduct in the Aluminum & Copper Business where self-investigation began in August 2017, Kobe Steel confirmed multiple cases of improper conduct during self-investigation and has already made public announcements. (The Welding Business, Engineering Business, Electric Power Business and Kobelco Construction Machinery were found to have no problems.)

In addition to this, Kobe Steel has uncovered four additional cases of possible improper conduct (coating service in the Machinery Business of Kobe Steel (1 customer); castings (1 customer: Kobe Steel) and speed reducers (1 customer) in Shinko Engineering Co., Ltd.; outside sales of a prototype alloy in the Target Division of Kobelco Research Institute, Inc. (8 customers including Kobe Steel); and one item that needs confirmation on whether improper conduct took place. At

this time, no problems involving safety have been found. These items will be reported to the newly established independent investigation committee and additional inspection and investigation are planned to be carried out.

Supplement 2. Announcements made to date

* Items discovered in self-investigations • Items discovered outside of self-investigations

1. October 8, 2017: Improper conduct concerning a portion of the aluminum and copper products manufactured by Kobe Steel

* Aluminum products	About 19,300 tons	Kobe Steel's Moka Plant: flat-rolled products, Chofu Works: extrusions
* Copper products	About 2,200 tons	Kobe Steel's Chofu Works: Copper strips, Kobelco & Materials Copper Tube Co., Ltd.: copper tubes
* Aluminum castings & forgings	About 19,400 tons	Kobe Steel's Daian Plant

2. October 11, 2017: Report on improper conduct: the case of steel powder and an inspection company

* Steel powder for powder metallurgy (sintering)	No. of customers: 1	Quantity shipped: 140 tons (Kobe Steel's Iron & Steel Business, Takasago Works)
• Sputtering target materials	No. of customers: 70	Number of pieces shipped: 6,611 (Sputtering Target Business, Kobelco Research Institute, Inc.)

3. October 13, 2017: Report on improper conduct concerning Kobe Steel and its group companies

* Copper alloy tubes	No. of customers: 42	Quantity shipped: About 700 tons (Shinko Metal Products Co., Ltd.)
* Molds	No. of customers: 137	Quantity shipped: About 5,300 pieces (Shinko Metal Products Co., Ltd.)
* Copper tubes	No. of customers: 28	Quantity shipped: About 750 tons (Kobelco & Materials Copper Tube (M) Sdn. Bhd.)
* Copper tubes	No. of customers: 5	Quantity shipped: about 1,140 tons (Kobelco & Materials Copper Tube (Thailand) Co., Ltd.)
* Aluminum alloy wires & aluminum alloy bars	No. of customers: 2	Quantity shipped: 12.5 tons (Shinko Aluminum Wire Co., Ltd.)
* Copper strips	No. of customers: 2	Quantity shipped: 31 tons (Suzhou Kobe Copper Technology Co., Ltd.)
• Steel wires	No. of customers: 1	Quantity shipped: 3,525 tons (Jiangyin Sugita Fasten Spring Wire Co., Ltd.)
• Steel wires	No. of customers: 1	Quantity shipped: 306 tons (Kobelco Spring Wire (Foshan) Co., Ltd.)
• Special steel	No. of customers: 19	Quantity shipped: 3,990 tons (Nippon Koshuha Steel Co., Ltd.)
• Stainless steel wires	No. of customers: 1	Quantity shipped: 553 tons (Shinko Wire Stainless Company, Ltd.)

4. October 17, 2017: The receipt of a request for document production from the U.S. judicial administrative authority

5. October 20, 2017:

1) Improper conduct in the Kobe Steel Group (Improper conduct concerning products with JIS marks, new improper conduct confirmed in self-investigation)

* Heavy plate processed products (excluding the fields of steel frames, bridges and vehicles)	No. of customers: 1	Quantity shipped: 3793 tons (Shinko Kohan Kako, Ltd.)
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2) Non-compliance with reporting directives in quality self-investigation in the Kobe Steel Group