

KOBELCO is an international unified trademark established in 1979 to represent the Kobe Steel Group (KOBELCO Group) with the aim of giving form to the Group Corporate Philosophy, and thereby fostering a sense of solidarity within the Group, while building greater recognition and trust among stakeholders.

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

May 11, 2021

**KOBE STEEL, LTD.**

Updates from the previous announcement (November 5, 2020)\* are shown in **bold green text**. \*Available only in Japanese.

**Causal Analysis**

①

**Management style that overemphasized profitability and inadequate corporate governance**

②

**Imbalanced operation of plants that resulted in the reduced awareness of quality compliance among employees**

③

**Insufficient quality control procedures that allowed the Misconduct to take place**



## I . Governance – Building a Quality Governance System

- 1. Penetration of the Corporate Philosophy
- 2. Restructuring of the Board of Directors
- 3. Restructuring of the Risk Management System
- 4. Reorganization of Business Divisions
- 5. Restructuring of Group Companies

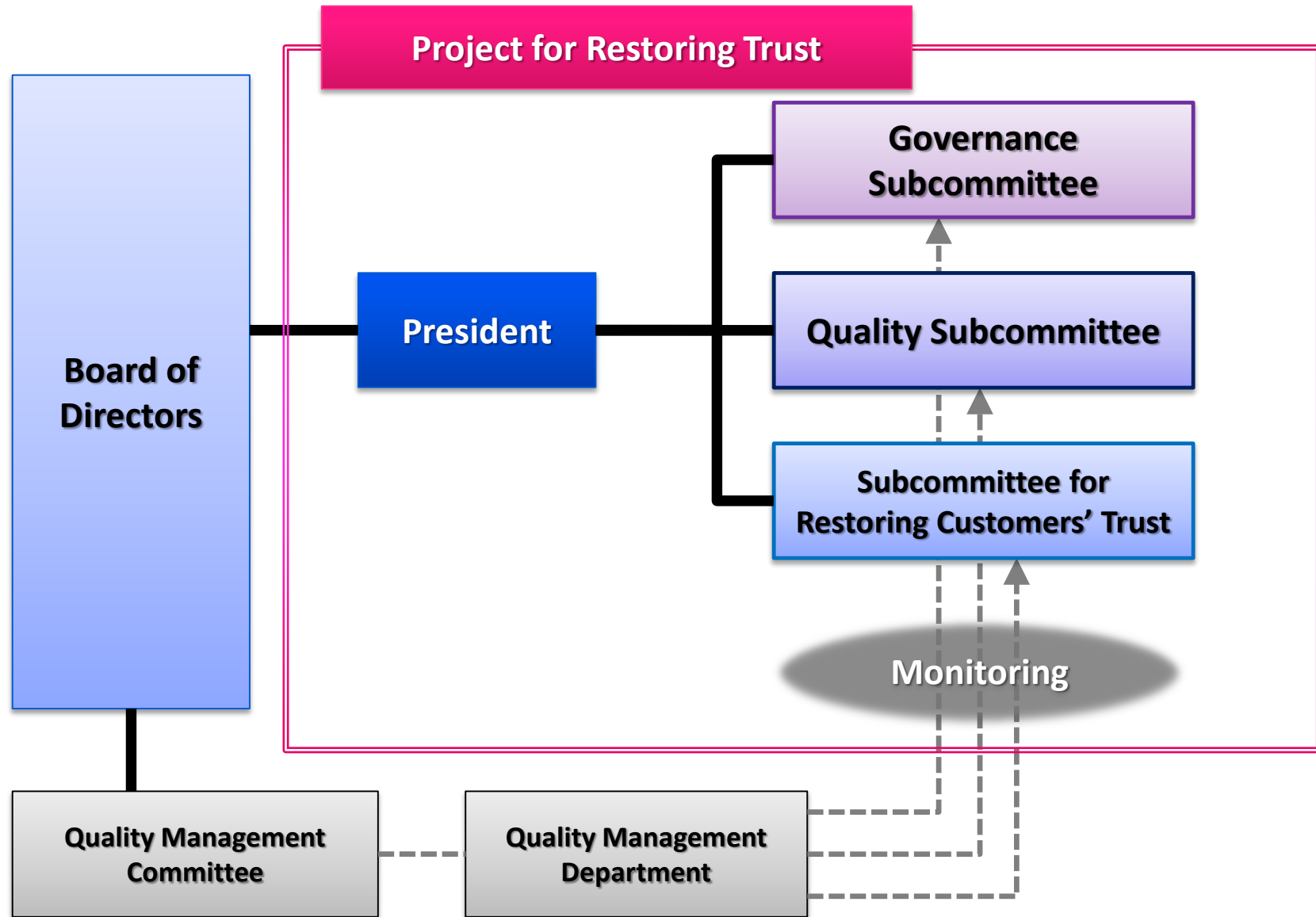
- 6. Rotation of Personnel Across Divisions
- 7. Understanding of Issues Occurring at Worksites
- 8. Establishment of the Quality Charter
- 9. Restructuring of the Quality Assurance System
- 10. Restructuring of Management Indicators

## II . Management – Ensuring Quality Control

- 1. Measures for Quality Management
- 2. Rotation and Development of Quality Assurance Personnel
- 3. Employee Education Programs on Quality
- 4. Quality Audits by the Head Office

## III . Process – Strengthening of Quality Control Processes

- 1. Elimination of Possible Mishandling of Test /Inspection Data and Unification of Shipping Standards
- 2. Monitoring and Utilization of Process Capabilities (in the materials businesses)
- 3. Review of the Approval Process (a) for Receiving New Purchase Orders, and (b) for Changes in Manufacturing Process
- 4. Promotion of Quality Risk Assessment in Capital Investments



## Measures to Prevent Reoccurrence of the Misconduct

## Status

### I Governance – Building a Quality Governance System

1	Penetration of the Corporate Philosophy	Ongoing
2	Restructuring of the Board of Directors	Completed
3	Restructuring of the Risk Management System	Completed
4	Reorganization of Business Divisions	Completed
5	Restructuring of Group Companies	Ongoing
6	Rotation of Personnel Across Divisions	Ongoing
7	Understanding of Issues Occurring at Worksites	Ongoing
8	Establishment of the Quality Charter	Completed
9	Restructuring of the Quality Assurance System	Completed
10	Restructuring of Management Indicators	Completed

### II Management – Ensuring Quality Control

1	Measures for Quality Management	Ongoing
2	Rotation and Development of Quality Assurance Personnel	Ongoing
3	Employee Education Programs on Quality	Ongoing
4	Quality Audits by the Head Office	Ongoing

### III Process – Strengthening of Quality Control Processes

1	Elimination of Possible Mishandling of Test/Inspection Data and Unification of Shipping Standards	KOBELCO Quality Guidelines already established	Correction and improvements under review by quality audit
2	Monitoring and Utilization of Process Capabilities and Their Utilization (in materials businesses)		
3	Review of the Approval Process (a) for Receiving New Purchase Orders, and (b) for Changes in the Manufacturing Process		
4	Promotion of Quality Risk Assessment in Capital Investments		

## I . Governance – Building a Quality Governance System

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- 10. Restructuring of Management Indicators**

This report is centered on four items where progress and changes have been made since the previous announcement on November 6, 2019.

## Further Promotion of the Next 100 Project

- Dialogue sessions by the President with employees (Since April 2018):**  
 Dialogue sessions continue to be held with **Group** employees at our domestic and overseas business locations and sites (**held online in fiscal 2020 due to the impact of the novel coronavirus**). To date, dialogues have been held **141 times at 79 locations (as of the end of March 2021)**. **Live streaming KOBELCO Gathering — Ask President Yamaguchi 2020 was held in July as in 2019.**
- Promotion of the New Group Corporate Philosophy :**  
 In May 2020, the new Group Corporate Philosophy was established by incorporating KOBELCO's View of the Future and KOBELCO's Mission with the the Core Values of KOBELCO and Six Pledges of KOBELCO. Activities to increase the recognition of the corporate philosophy have been currently underway through presentations, posters, **videos** and other PR activities.
- We established the KOBELCO Core Values Place at our training center in Kobe, Hyogo Prefecture in June 2019 to raise awareness of the importance of quality and the initiatives being undertaken to prevent recurrence. About 5,200 people have visited so far, including online visits started from July 2020, and visits to satellite venues located at some of our business sites. (as of the end of March 2021).**
- From FY2019, we started the KOBELCO Core Values Awards. which gives awards to the activities that exemplify our Corporate Philosophy. For FY2020, applications were closed in December, and the award ceremony is scheduled to be held online in May 2021. In order to expand the circle of activities in each workplace, detailed information on each activity is being disseminated.**

## 2. New Group Corporate Philosophy

**グループ企業理念**

**KOBELCOが実現したい未来**  
 「KOBELCOの使命・存在意義」の履行を通じて実現したい社会・未来  
 安全・安心で豊かな暮らしの中で、  
 今と未来の人々が夢や希望を叶えられる世界。

**KOBELCOの使命・存在意義**  
 KOBELCOグループの社会的存在意義であり、果たすべき使命  
 個性と技術を活かし合い、  
 社会課題の解決に挑みつづける。

**KOBELCOの3つの約束**  
 KOBELCOグループが社会に提供する約束であり、グループで共有する約束  
 1. 信頼される技術、製品、サービスを提供します  
 2. 社員一人ひとりを大切に、グループの力を合わせます  
 3. たりまめ実業により、新たな価値を創出します

**KOBELCOの6つの誓い**  
 「KOBELCOの3つの約束」を基に、品質と安全と社会に責任を全うする  
 1. 高い品質とプロフェッショナルの態度 2. 最先端の環境技術の実現  
 3. 優れた製品・サービスの提供 4. 地域社会との共生  
 5. 人材への育成 6. ステークホルダーの尊重

**KOBELCOが実現したい未来**  
 「KOBELCOの使命・存在意義」の履行を通じて実現したい社会・未来

機械系  
 研究  
 エンジニアリング  
 建設機械

電力

素材系  
 製造プロセス  
 再生材  
 油圧

**KOBELCOの使命・存在意義**  
 社会的存在意義であり、  
 果たすべき使命

**KOBELCOの3つの約束** **KOBELCOの6つの誓い**

**KOBELCO**

## 3. KOBELCO Core Values Place on Teams at Satellite locations (July 2020)



## 1. Online dialogue session with the President (Dec. 2020)



## 4. The 2nd KOBELCO Core Values Awards

**KOBELCO**

Core Values Awards

KOBELCOの約束賞とは、「グループ企業理念」を  
 実践し促進する活動です。

**KOBELCOの約束賞 募集**

応募期間 10月1日(金)～12月18日(金)

「KOBELCOの3つの約束」に基づき優れた取り組みの中から  
 グランプリ、準グランプリ、特別賞を決定し、表彰します。  
 ※受賞は全従業員に共有されます。

皆様のご応募お待ちしております。



- The following changes were made in accordance with the resolution of the General Meeting of Shareholders on June 21, 2018.
- The Company reviewed its Board of Directors structure and has shifted to a new management structure from fiscal 2021 (see p. 31 for details).

## **Review of the composition of independent outside directors**

Increased the proportion of independent outside directors to 1/3 or more

## **Review of the Board of Directors' Advisory Bodies**

Established the Nomination & Compensation Committee

## **Abolition of the position of Chairman and election of the Chairman of the Board**

Abolished the position of Chairman; Elects Chairman of the Board from Independent Outside Directors

## **Review of the appointment of all business division managers as directors**

## **Appointment of Director Overseeing Risk Management**

Appoints a director overseeing and undertaking a responsibility for a wide range of risk management activities, including compliance

## **Appointment of Director Overseeing Quality**

Appoints a director overseeing and undertaking the responsibility for companywide quality management

## **Establishment of Independent Quality Supervision Committee**

Establishment of an advisory body composed of outside experts specializing in quality assurance  
➔ The Independent Quality Supervision Committee was terminated at the end of March 2019. Its mission was transferred to the Quality Management Committee in April 2019.

## Establish the Risk Management Committee

- The Risk Management Committee was established in April 2021 to assist the Executive Council in improving the effectiveness of our Group's risk management activities. (see p. 32 for details). The committee undertakes the formulation and evaluation of basic policies on overall risk management and formulation of specific policies on important issues.

## Establish the Internal Control and Audit Department

- In April 2021, the Internal Control and Audit Department was established to unify the operations related to risk management, development, operation, assessment, audit of internal controls including compliance, which had been handled separately by the Audit Department, the Compliance Control Department, and the Corporate Planning Department. The department aims to improve the efficiency and effectiveness of risk management activities as the secretariat of the Risk Management Committee.

## Strengthen the Risk Management of Group Companies

- Created the **Standard Practices for the Group** as ground rules of the KOBELCO Group. The Planning & Administration Department of each business division (regional headquarters in overseas operations) plays a central role to support the implementation of the Standard Practices for the Group at each Group Company.

## Introduce Compliance Program

- Started the KOBELCO Group Compliance Program from FY2020 under a common framework of the Group. Classified the current initiatives into 5 items to identify the points to be strengthened for efficient planning and implementation of compliance promoting activities.



## Conduct the Compliance Awareness Survey on a Regular Basis

- The Compliance Awareness Survey for all employees has been conducted since FY2017 with the aim of understanding and raising employee awareness of compliance. The target was extended to Group companies since FY2019. The results of the survey have been reported to all employees via the company's intranet and leaflets.



## I-4. Business Divisions

On April 1, 2020, we reorganized two business divisions the Iron & Steel Business and the Aluminum & Copper Business into the Steel & Aluminum Business and the Advanced Materials Business.



## Aims of the Reorganization

### Strengthen Strategies by Demand Field

- ✓ Reorganize along **materials** (steel products, aluminum sheets) and **parts** (automotive/aluminum castings, forgings, extrusions; aircraft/titanium and aluminum castings/forgings)
- ✓ **Integrate automotive steel sheet and aluminum sheet sales departments and product marketing/technical services departments**  
⇒ To strengthen automotive weight reduction strategies

### Strengthen Monozukuri Capabilities

- ✓ Link common elemental technologies and quality management across business divisions  
**[Materials]** Rolling, continuous annealing, etc.  
**[Parts]** Forging, extrusion, assembly, etc.

### Reinforce Corporate Governance

- ✓ Strengthen management functions of business segments

### Strengthen Common Functions

- ✓ Combine the raw materials purchasing departments and IT management departments of both business divisions and place them in the Steel & Aluminum Business
- ✓ Combine the development organizations into the Technical Development Group to improve solution technology and strengthen *monozukuri* capabilities

## I-5. Group Companies

- In order to strengthen Group governance, we are strengthening risk management and restructuring business at each group company. For the enhancement of governance, we are restructuring our businesses by establishing overseas headquarters, turning affiliates into group companies, and merging subsidiaries into parent companies.

### I-6. Rotation of Personnel Across Divisions

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#### Pursuing an organizational style that allows the flow of human resources across divisions

- New personnel rotation rules were established and put into effect from April 2019 for the purpose of (1) fostering human resources that have a wide range of perspectives, (2) revitalizing the organization through the mobilization of human resources, and (3) strengthening mutual cooperation to realize business strategies. and was put into operation in April 2019.
- **We are working to increase the mobility of human resources by systematically executing the rotation across business divisions, job categories and different fields of business.**

### I-7. Understanding of Issues Occurring at Worksites

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#### Dialogue between Management and Employees

- Through promoting activities of the Next 100 Project, we have been concurrently conducting dialogues not only by the President, but also by other members of management and the heads of each business division.

#### Employee Awareness Survey

- Along with the Compliance Awareness Survey, we have been conducting the Employee Awareness Survey since fiscal 2018. From fiscal 2019, the survey are carried out every July with the extended target that covers domestic Group companies.

#### The Quality Caravan Team

- The Quality Caravan Team is comprised of Head Office departments such as the MONODZUKURI (Production System Innovation) Planning and Promoting Department, the IT Planning Department, and the Technical Development Group. The Quality Caravan Team is tasked to provide consultation to business divisions on their issues.
- The Team visits production sites to hear about issues related to quality assurance and visualization and improvement of process capability and propose solutions through technical surveys and technological development. In fiscal 2018, the Team completed the visit to all the business sites. Over a period of two years from fiscal 2019, the Team visited a total of **107** sites and **45** sites in fiscal 2020 as planned.

# I -8. to I -10. Quality Charter / Quality Assurance Structure/ Management Indicator

## I -8. Establishment of the Quality Charter

- Established on February 6, 2018.

## I -9. Restructuring of the Quality Assurance System

### Quality Assurance System at Each Level

- Quality assurance systems have been established for each of the following levels. (The Quality Management Department also supports the development of systems at Group companies.)
- ✓ Tier 1: Each Works/plant: Separate quality control and quality assurance functions (to establish independent quality assurance functions)
- ✓ Tier 2: Each Business division: Established as an organization reporting directly to the Business division
- ✓ Tier 3: Head Offices: Establishment of the Quality Management Department

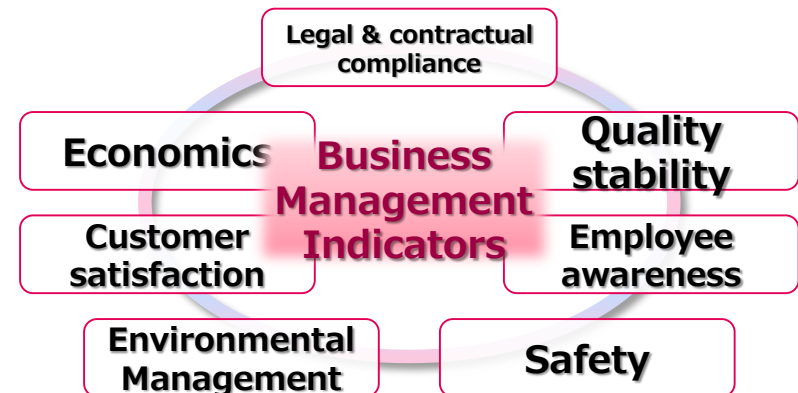
### Appointment of Executive Officer Responsible for the Quality Management Department

- Appointed on April 1, 2018.

## I -10. Restructuring of Business Management Indicators

### Business Management Indicators

- Established business management indicators for economics, customer satisfaction, employee awareness, safety, quality stability, environmental friendliness, and legal and contractual compliance. In fiscal 2019, we set specific targets for management indicators in our management plan and began implementing them in stages.
- In addition to being used as an internal management indicator, it is actively disclosed outside the company, such as being included in the Integrated Report as an effort to build a management foundation.



### II . Management – Ensuring Quality Management

1. Measures for Quality Management
2. Rotation and Development of Quality Assurance Personnel
3. Employee Education Programs on Quality
4. Quality Audits by the Head Office

Updates from the previous announcement (November 6, 2019) are shown in **green bold text** or indicated as “Updated” in the header.

### Establishment of the Quality Management Department (January 1, 2018)

- The Quality Management Department conducts quality-related audits while overseeing quality assurance departments of each Business division.
- The Quality Management Department gathers information and oversees issues concerning quality assurance in each Business division (e.g., quality management indicators, complaints, etc.), reports these issues to the management on a regular basis, and creates company-wide measures to improve the overall quality assurance practice.

### Establishment of Quality Assurance Departments Dedicated to Respective Business Divisions (completed by January 1, 2018)

- Established quality assurance departments dedicated to respective business divisions. Staff members of the Quality Management Department are concurrently appointed to these quality assurance departments under the respective Business divisions and promote companywide measures.

### Enhancement of Quality Assurance Management at Manufacturing Sites

- Formulated the guidelines for securing independence of quality assurance departments from manufacturing/processing departments in order to enable them to make proper judgments on product shipments and prevent nonconforming products from being shipped without being affected by the progress of manufacturing or processing schedule.
- By the end of fiscal 2019, official certifications previously canceled or suspended were restored, and required corrective measures have been completed (excluding one case where recertification is not planned).

### Group Quality Leaders Meetings

- Quality assurance leaders from Kobe Steel and Group Companies meet and review the implementation status of various measures and share information related to quality control activities. In fiscal 2018 and 2019, the meetings were held twice in Japan (Tokyo and Kobe), as well as in China, Southeast Asia and the United States. **In fiscal 2020, the meetings were held online both in Japan (in December) and overseas.**

### Establishment of the Quality Management Committee (April 2019)

- The Independent Quality Supervision Committee completed its mission as an advisory body to the Board of Directors and was terminated on March 31, 2019, by submitting final opinion.
- As a new advisory body to the Board of Directors, Kobe Steel established the Quality Management Committee, comprised of 3 external experts and 2 internal executives, which is tasked to monitor and advise whether the Company's efforts to reinforce quality management and the measures to prevent recurrence are functioning properly. The Committee met four times at the Tokyo Head Office and manufacturing locations in fiscal 2019. The meetings were held four times in fiscal 2020.

### Start of the Total Quality Management (TQM) Activities (from April 2020)

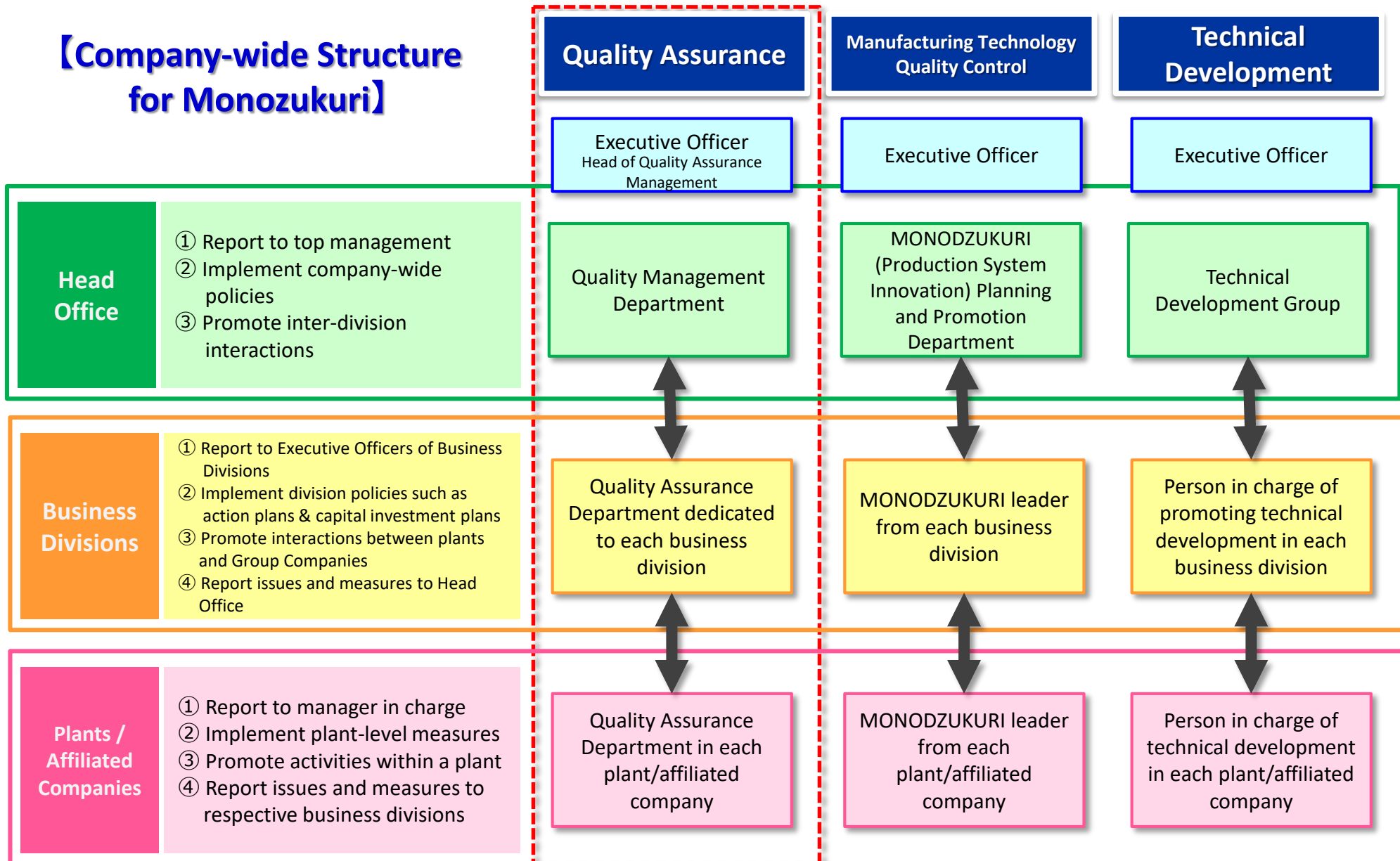
- We have been working to promote Total Quality Management (TQM)\* activities in order to complete the measures to prevent recurrence of the misconduct, continue to remember the lessons learned, and move forward to the next stage with the aim of achieving sustainable growth and realizing our Group Corporate Philosophy. We positioned fiscal 2020 as a preparatory period for TQM activities to promote understanding of executives, unit managers, general managers, and others and initiate activities at some business sites.
- In order to provide products and services that satisfy customers, we are working to improve the quality of the KOBELCO brand by identifying issues from the perspective of customers and other stakeholders and uniting the efforts of all employees to resolve them. By the end of fiscal 2022, we aim to implement the TQM activities throughout the KOBELCO Group.

\* Total Quality Management (TQM) is a business management method that systemized the concepts, initiatives, methods, mechanisms, and methodologies for maintaining and improving overall quality in corporate activities.  
(Referred to the website of the Union of Japanese Scientists and Engineers <http://www.juse.or.jp>)



# II-1. Measures for Quality Management (2)

## 【Company-wide Structure for Monozukuri】



Note: The functions of the MONODZUKURI Planning and Promotion Department were integrated into the Quality Management Department in fiscal 2021.

## Roles of the Quality Management Department

	Head Office	Steel & Aluminum	Advanced Materials	Welding	Machinery	...
<b>Quality Assurance Management as a Head Office Department</b>	① Secretariat of the Quality Management Committee	●				
	② Report to the management on the operational status regarding company-level quality control	●				
	③ Centrally manage public certifications across the company	●				
	④ Head Office contact point for certification bodies and governments	●				
	⑤ Report the results of audits to the Independent Quality Supervision Committee [Quality Audit Section]	●				
<b>Function to Manage Laterally between Business Divisions</b>	⑥ Create an annual plan for quality assurance, and announce quality compliance policy	●	●	●	●	
	⑦ Gather information and understand issues related to quality from each business division	●	●	●	●	
	⑧ Create an education and training plan	●	●	●	●	
	⑨ Review and propose personnel assignments	●	●	●	●	
	⑩ Gather and provide information related to quality (e.g., revision of JIS and ISO)	●	●	●	●	
	⑪ Gather and provide information related to quality from industry organizations	●	●	●	●	
	⑫ Conduct relevant quality-related audits [Quality Audit Section]	●	●	●	●	
	⑬ Follow up on audit results [Quality Audit Section]	●	●	●	●	

**【Roles of Quality Management Department】**

- Conducts quality-related audits while overseeing quality assurance departments of each business division
- Gathers information and understands issues concerning quality assurance in each business division (e.g., quality management indicators, complaints, etc.), reports these issues to the management on a regular basis, and creates company-level measures to improve the overall quality assurance practice.
- **Gathers information and understands issues relating to company-wide TQM activities, and plans and implements measures for the entire group.**

# II-2,3. Rotation and Development of Quality Assurance Personnel/In-house Education Programs Regarding Quality

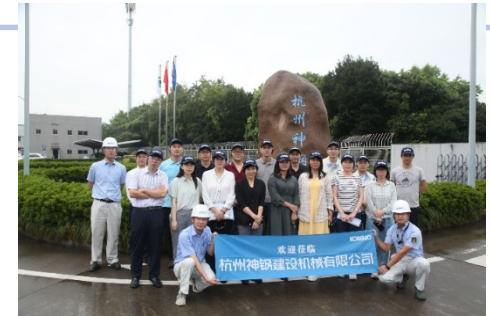
## II-2. Rotation and Development of Quality Assurance Personnel

### Rotation of Quality Assurance Personnel

- We started a new personnel rotation practice across Kobe Steel's business divisions and group companies from fiscal 2019, by assigning staff from the Quality Management Department to each business division.

### Development of Quality Assurance Personnel

- Defined skills required for company-wide quality assurance staff and established the evaluation method of their skill levels. Systematic human resource development is being promoted.
- In fiscal 2019, Quality Exchange Meetings were held with quality assurance staff from affiliated companies in China. In FY 2020, the meetings were held at manufacturing sites with improved contents of program such as on-site tour of improvement activities.



The 2nd Quality Exchange Meeting in China

## II-3. In-house Quality Education Programs

### Quality and Compliance Training

- We implemented quality and compliance training targeting heads of departments/sections (approximately 600 individuals) of Kobe Steel and its domestic Group Companies. The training has been expanded to all employees through the Dialogue Platforms. We also hosted the training sessions in our overseas Group Companies (fiscal 2018).
- Sharing and penetration of the Quality Charter among all employees of the Kobe Steel Group (through training sessions stratified by job levels, Quality-related websites, e-learning, etc.).

### Promotion of Other Quality Education Programs

- Started systematic efforts to promote quality education in an organized manner.
- ✓ In order to promote Total Quality Management (TQM) activities, we are planning to expand TQM basic training and **TQM management training throughout the company.**
- ✓ We plan to introduce basic quality training for new employees in fiscal 2021 as part of training on quality stratified by job level. **Plans are in progress to expand the training to higher positions.**
- ✓ In October 2018, we began providing FMEA (Failure Mode and Effect Analysis), FTA (Fault Tree Analysis), and DR (Design Review) education for some engineers as part of our quality risk and prevention measures. In fiscal 2019, we included this education into the company-wide training program.
- ✓ A new Quality website was created on Kobe Steel's intranet in September 2018. The progress report on the Project for Restoring Trust is shared.
- ✓ Quality education has been offered via e-learning (since November 2018) and relevant information is shared via internal newsletters (starting in December 2018). We will continue these activities.

### Audit by Quality Audit Section of the Quality Management Department

Audit Item		Schedule
<b>i) Review of compliance status (audit focused on actual data/records)</b> <ul style="list-style-type: none"> <li>Audit comparing actual inspection data of products with relevant legal and customer specification requirements</li> <li>Review of treatment status of suspended or nonconforming products</li> </ul>		<b>On-site audits were carried out at all 117 locations in FY2018 and at 81 locations in FY2019.</b>  <b>In FY2020, on-site audits were scheduled at 76 locations, but the plan was changed due to the impact of the novel coronavirus, and on-site audits were completed at 60 locations.</b>
<b>ii) Review of quality management systems from the perspective of preventing misconduct</b> <ul style="list-style-type: none"> <li>Review of how the applicable laws, regulations, and customer specifications related to quality are identified and which department or section is in charge</li> <li>Assess consistency between instructions given to manufacturing divisions and how they are implemented</li> </ul>		
<b>iii) Assessment of compliance awareness</b> <ul style="list-style-type: none"> <li>Assess, through interviews, the level of awareness of top management and employees in terms of preventing misconduct</li> <li>Check whether training on quality compliance is properly provided</li> </ul>		
<b>iv) Review of progress and implementation status of preventive measures</b>		
<ul style="list-style-type: none"> <li>Business locations where misconduct was identified:</li> </ul>	Review the progress status and effectiveness of implementation of the preventive measures	
<ul style="list-style-type: none"> <li>Business locations where no misconduct was identified:</li> </ul>	Review the progress status and effectiveness of risk countermeasures recommended by the quality audits	

**Special notes:** The first edition of the quality guidelines was issued in May 2018 and revised in November 2019. In April 2020, the KOBELCO Group distributed its evaluation criteria for the Head Office Quality Audit throughout the Group. These evaluation criteria were incorporated into the Quality Guidelines and revised in January 2021. In order to prevent misconduct and nonconformities from being overlooked, we will increase and maintain quality awareness throughout the Group with the revised Quality Guidelines.

Note: In addition to the items specified in the previous edition of the Quality Guidelines, the Head Office Quality Audit assesses (1) basic functions of implementation (compliance with laws and customer specifications, etc.), (2) mechanisms to prevent misconduct (handling of nonconforming products, outsourcing management, etc.), and (3) corporate structure (quality compliance education, awareness of general managers at respective business locations and employees, etc.). The revised edition covers all of these.

### III. Process – Strengthening of Quality Control Processes

1. Elimination of Possible Mishandling of Test/Inspection Data and Unification of Shipping Standards
2. Monitoring and Utilization of Process Capability (in materials businesses)
3. Review of Approval Processes (a) for Receiving New Orders, and (b) Changes in Manufacturing Process
4. Promotion of Quality Risk Assessment in Capital Investments

#### Notes

- In order to promote the items above, we established the KOBELCO Quality Guidelines on May 1, 2018, and applied it throughout the Group. We are working to promote the implementation.
- We will monitor the implementation and progress of the above through quality audits.

Updates from the previous announcement (November 6, 2019) are shown in **green bold text**.

#### III-1. Elimination of Possible Mishandling of Test/Inspection Data and Unification of Shipping Standards

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##### Automation of Testing/Inspection Records and Elimination of Manual Data Entry by One Person

- Automation of testing and inspection equipment was almost completed as planned for about 1500 automation items from FY2018 to FY2020. The remaining two items are expected to be completed by the end of the first half of FY2021. For tests and inspections that are not automated, we will continue to examine items that should be automated in order to further improve quality reliability while ensuring reliability by continuously checking work logs and double-checking.
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##### Unification of Shipping Standards

- We are in the process of eliminating possible mishandling caused by the existence of double standards (customer specifications and internal standards).
    - ⇒ Under the new rule, customer specifications are used as a default standard for shipment approval, instead of internal standards.
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#### III-2. Monitoring and Utilization of Process Capabilities (in materials businesses)

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##### Application and Utilization of Process Capability Index

- Monitoring the Process Capability Index: Monitor how quality properties deviate from the required standards in manufacturing processes by production lines, product types, tests/inspections, and customers.
- Utilizing the Process Capability Index: Utilize the degree of variation in quality characteristics, such as the process capability index, to determine whether orders are accepted or rejected.

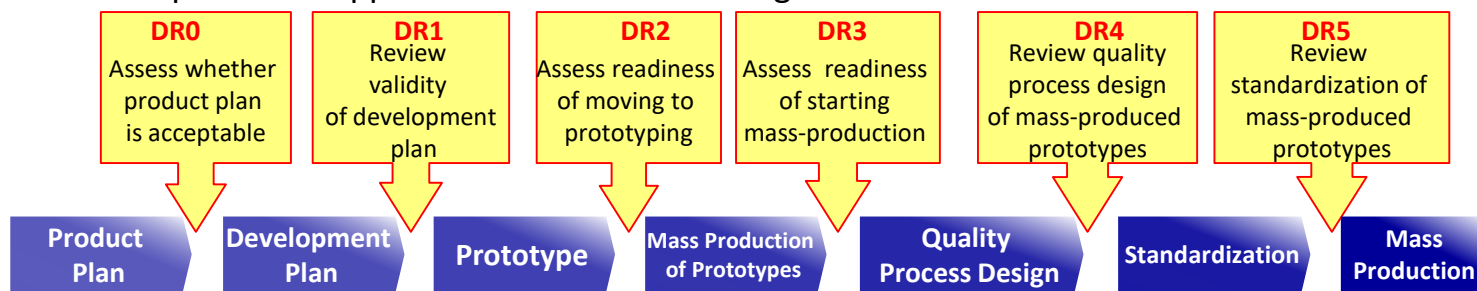


### III-3. Review of Approval Processes for Receiving New Orders and Changes in Manufacturing Process

#### Review of Approval Process for Receiving New Orders

While monitoring the process capability for each order, we are promoting the introduction/reconstruction and implementation of Design Review (DR) as defined in JIS and ISO 9000. The implementation of DR started at domestic locations from FY2019.

Example: DR of Approval Process for Receiving New Orders



Relevant departments from sales, technology, manufacturing, quality assurance and R&D participate in the DR meeting and assess whether a product can move to the next phase in the DR process.

#### Review of Approval Process for Changes in Manufacturing Process

- Assesses the impact on quality and on consistency with customer specifications when changes are made to 4Ms (men, machine, material, method) in order to prevent potential defects.
- Specifically, we will assess risks and clarify the approval process when changes are made to 4Ms in manufacturing process.

### III-4. Promotion of Quality Risk Assessment in Capital Investments

#### Introduction of Investment Standards in Consideration of Mitigating Quality Risks

- At some sites, quality risk is assessed quantitatively based on factors such as impact, frequency of occurrence, and detection rate before making quality-related capital investment decisions. Since fiscal 2019, we have been using quality risk assessments to make investment decisions for important capital investments.

Note: As stated in I-4. Reorganization of Business Divisions, former Iron & Steel Business and former Aluminum & Copper Business, were reorganized into Steel & Aluminum Business and Advanced Materials Business on April 1, 2020. In this section, we use the term of “former Aluminum and Copper Business” as it was called.

## II . Management - Ensuring Quality Control

1. Management Structure
2. Education
3. Audit and Support

## III . Process - Strengthening of Quality Control Processes

1. Emergency Measures
2. Permanent Measures

## Implementation Schedule for Preventive Measures and Progress

## II- 1. Management Structure

- Established Quality Assurance Department under the former Aluminum & Copper Business in November 2017.
- With a 3-layered management structure, quality-related plans and audits are being implemented in cooperation with the Quality Management Dept.
- Progress of measures and issues are shared at business locations in quarterly quality conferences with business divisions.
  - Attended by all executives and sales departments to share customers' voices
  - Progress of automation, process capability improvement and DR operation is shared with business locations
- Completed transfer to the new quality assurance system after the reorganization of business divisions (April 1, 2020)
- Official certifications previously canceled or suspended were restored in fiscal 2019 (excluding one case where recertification is not planned due to demand trends and other factors).

## II- 2. Education

- Planning and promoting education program to increase awareness and knowledge related to quality and quality compliance.
  - Dialogues with the management and heads of plants are underway to raise awareness for quality compliance
  - Education activities are being implemented from the customers' perspective (invite customers to speak about quality safety, etc.)
  - Progress of the quality assurance efforts are shared with sales departments
  - Promotion of quality-related education (encourage to acquire third-party certificate)

## II- 3. Audits and Support

- |        |  |
|--------|--|
| FY2018 | Completed 『Comparison Audit (Step 1)』 and 『Audit on Quality Management Scheme (Step 2)』  |
| FY2019 | <ul style="list-style-type: none"> <li>• 『Technical Development Support (Step 3)』 (Followed up on process capability improvement by quality KPI management)</li> <li>• Conducted the audit of the scheme (Confirmed effectiveness of DR and internal audit)</li> </ul> |
| FY2020 | <ul style="list-style-type: none"> <li>• Continue the audit of the scheme and technical development support</li> <li>• Improve and assist issues/challenges identified in FY2019 audits</li> </ul>   |



## Emergency Measures in the Former Aluminum & Copper Business

### i) Compare Test/Inspection Data and Mill Sheets

(To be continued until permanent measures have been completed)

### ii) Review Manually-Entered Test/Inspection Results

(To be continued until permanent measures have been completed)

### iii) Restrict Access to Databases, Manage Data Logs

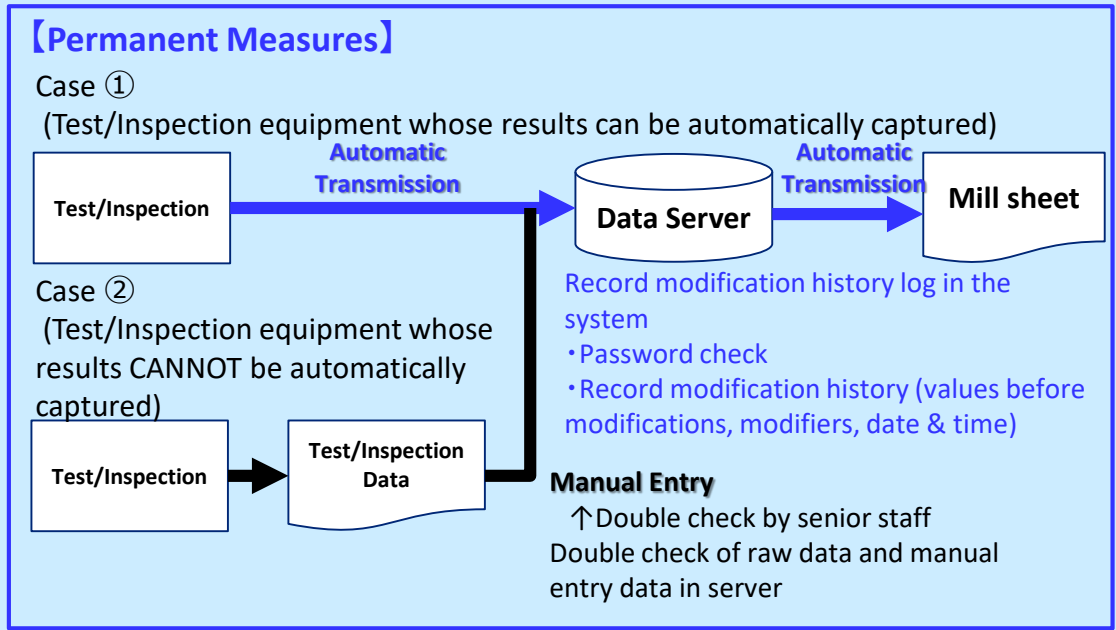
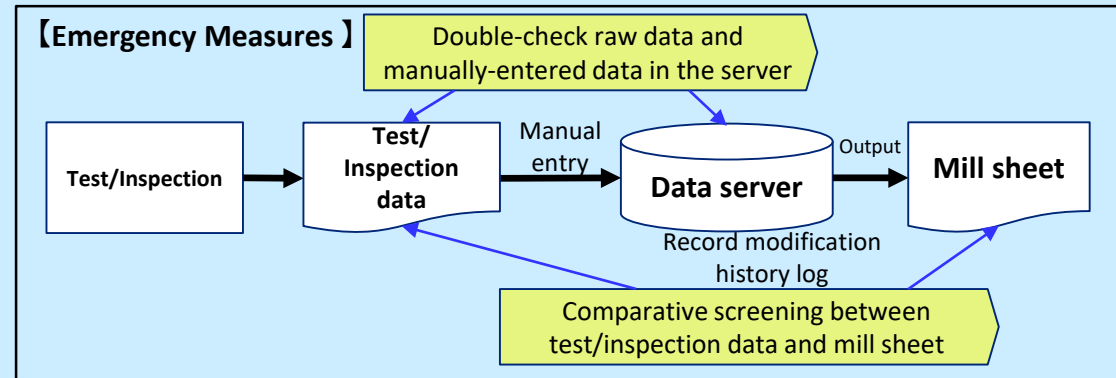
### iv) Unify Shipment Standards [operational] (completed)

### v) Compare Customer Specifications and Manufacturing Standards (Completed in Self-Inspection)

### vi) Enforce Rules for Handling Nonconforming Products (in progress)

## 《Emergency Measures ⇒ Permanent Measures》

- Transfer to permanent measures starts from locations where effectiveness of data protection has been confirmed by automation of testing, inspection recording, etc. (Transfers have been completed at some locations.)
- Emergency measures continue until transfers to permanent measures have been completed.



### **【Permanent Measures】**

#### **i) Elimination of possible mishandling of test/inspection data**

- Create a system environment where data falsification is impossible.  
⇒ Automation of targeted testing/inspection recording is in progress.

#### **ii) Unification of shipping standards [system implementation]**

- Improvement of the system: Change the system settings so that customer specifications are applied as the shipping standard. ⇒ Completed

#### **iii, iv) Monitoring/Improvement of Process Capabilities and Improvement of Inspection Capability**

- ⇒ Measures are underway. Started quality KPI management. Following up on process capability improvement.

#### **v, vi) Review of Approval Processes for Receiving New Orders and Changes in Manufacturing Process**

- ⇒ Completed review of approval processes. The new processes will be effective from now on.

#### **vii) Promote Quality Risk Assessment in Capital Investments**

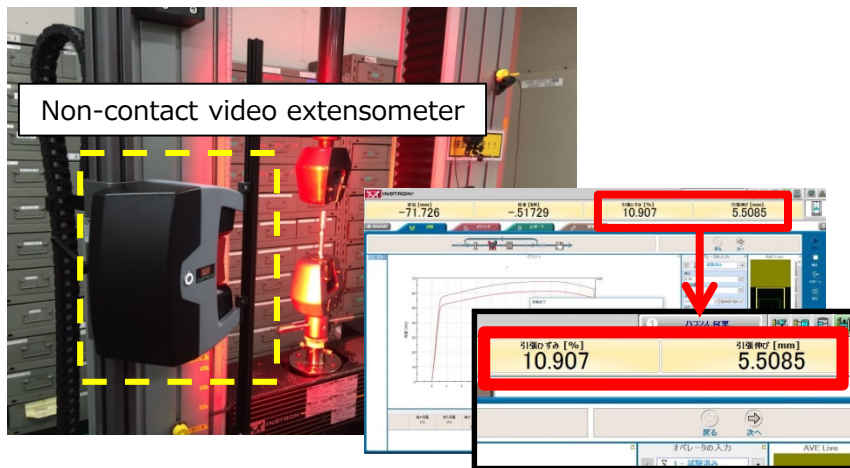
- ⇒ Preparing to apply for low-return quality-related investments.

## [Permanent Measures]

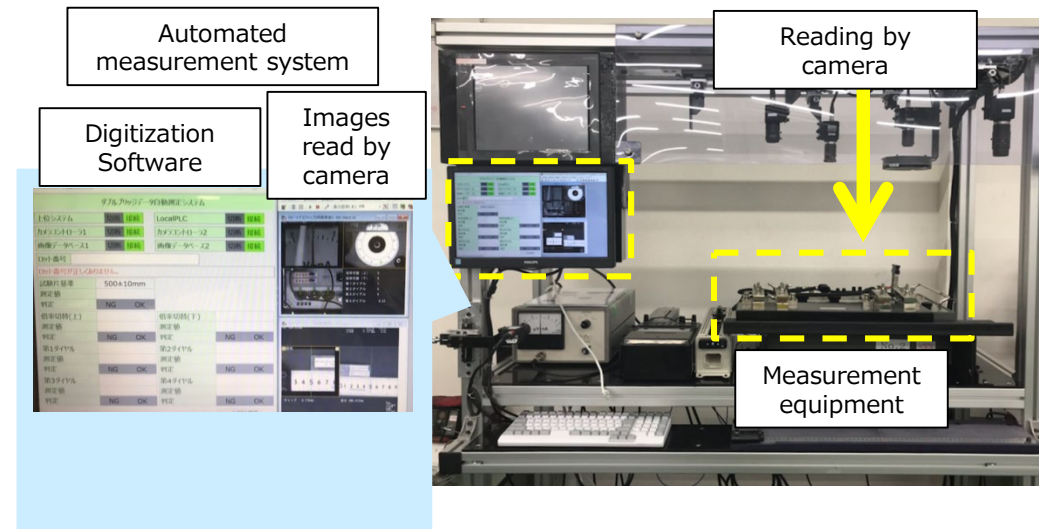
### Automation of Test/Inspection Recording and Elimination of Manual Data Entry by One Person

#### Examples of Automation by Former Aluminum & Copper Business Division

##### ① Tensile Test (elongation)



##### ② Conductivity Measurement Test



#### Introduction of non-contact video extensometer

Automatically measures breaking elongation and transmits the results to a PC.

- Eliminated possible mishandling of measurement data and values when measuring and rewriting

#### Digitization of analog scales by image processing

Read the scale of measurement equipment with camera and digitize it. The measured value is transmitted to a PC.

- Eliminated possible mishandling of measurement results



## 【Permanent Measures】

### Monitoring Process Capability

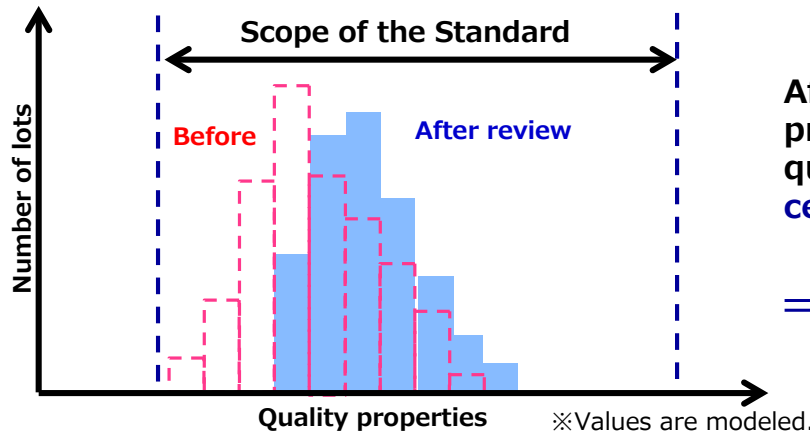
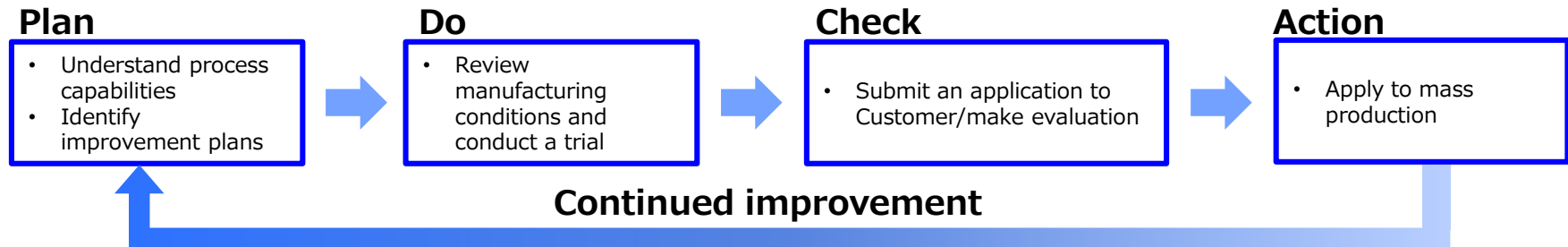
#### ➤ Promoting Visualization of Process Capability

Visualize inspection data (through graphs/indexing) and correctly understand our process capability.

Visualize with Histogram, Process Capability Index (Cpk), Inspection Items (Quality Properties) – Correlation Diagram of Manufacturing Conditions ➔ Utilize the results for determining whether an order can be accepted making improvements.  
※Visualization tools are utilized at some locations.

### Improving Process Capability

#### ➤ An example of improvement activities



After reviewing the manufacturing conditions (e.g. processing conditions, thermal treatment conditions, etc.), quality properties have shifted from **the lower limit** to **the central part** of the scope of the standard.

⇒ **Achieving stability in *monozukuri***

# Summary of Preventive Measures Implemented by the Former Aluminum & Copper Business by the End of FY2019

Except for some delays such as automation and systematization of test and inspection data acquisition, preventive measures have been completed or going on. Ongoing measures will be further improved.

Former Aluminum & Copper Business	FY2018		FY2019		Progress by the end of FY2019/Plans
	1H	2H	1H	2H	
<b>Management</b>					
Organizational Restructure ※Established Quality Assurance Department in November 2017		Education		Education	Completed
Education	Comparison & scheme audit	Comparison & scheme audit	Scheme audit & confirmation of effectiveness of DR & internal audit		Ongoing
Audit (comparison, mechanism)			Technical development support		Ongoing
Technical Development Support					Continuing to follow up on technological development to improve process capabilities
<b>Processes</b>					
<b>Emergency Measures</b>					
Compare test/inspection data and mill sheet	Completed				Ongoing
Review manually-entered test/inspection results	Completed				Ongoing
Restrict access to databases	Completed				Completed
Adjust shipment standards (in operations)	Completed				Completed
Compare customer specifications and standard values	Completed				Ongoing
<b>Permanent Measures</b>					
Eliminate possible mishandling of test/inspection data	Automatic sequential loading of each inspection item				Automation is underway (to complete in FY2020)
Unify shipping standards (in system response)	Operation started (Some sites require additional time to set up the system)				Systemization is underway for remaining items
Understanding of process capabilities	Study of PDCA cycle scheme				Completed. Monitoring and Improvement started.
Improve process and test/inspection capabilities	Implement sequentially		Follow up the improvement of process capabilities		Ongoing. In the phase of improvement.
Review approval process for receiving new orders	Establishment of rules, trial operation, refinement		Full operation		Completed and operations started. Ongoing.
Review approval process for changes in manufacturing	Establishment of rules, trial operation, refinement		Full operation		Completed and operations started. Ongoing.

## **1) Strengthening governance**

- **Changes in the Structure of the Board of Directors (P. 30)  
(Shift to a body focused on monitoring)**
- **Restructuring of advisory bodies to the Board of Directors  
and of the advisory body to the Executive Council (P. 31)**

## **2) Strengthening quality management and processes**

- **Launch of the Trust Improvement Project (P. 32)**

## Changes in the Structure of the Board of Directors (Shifting to a body focused on monitoring )

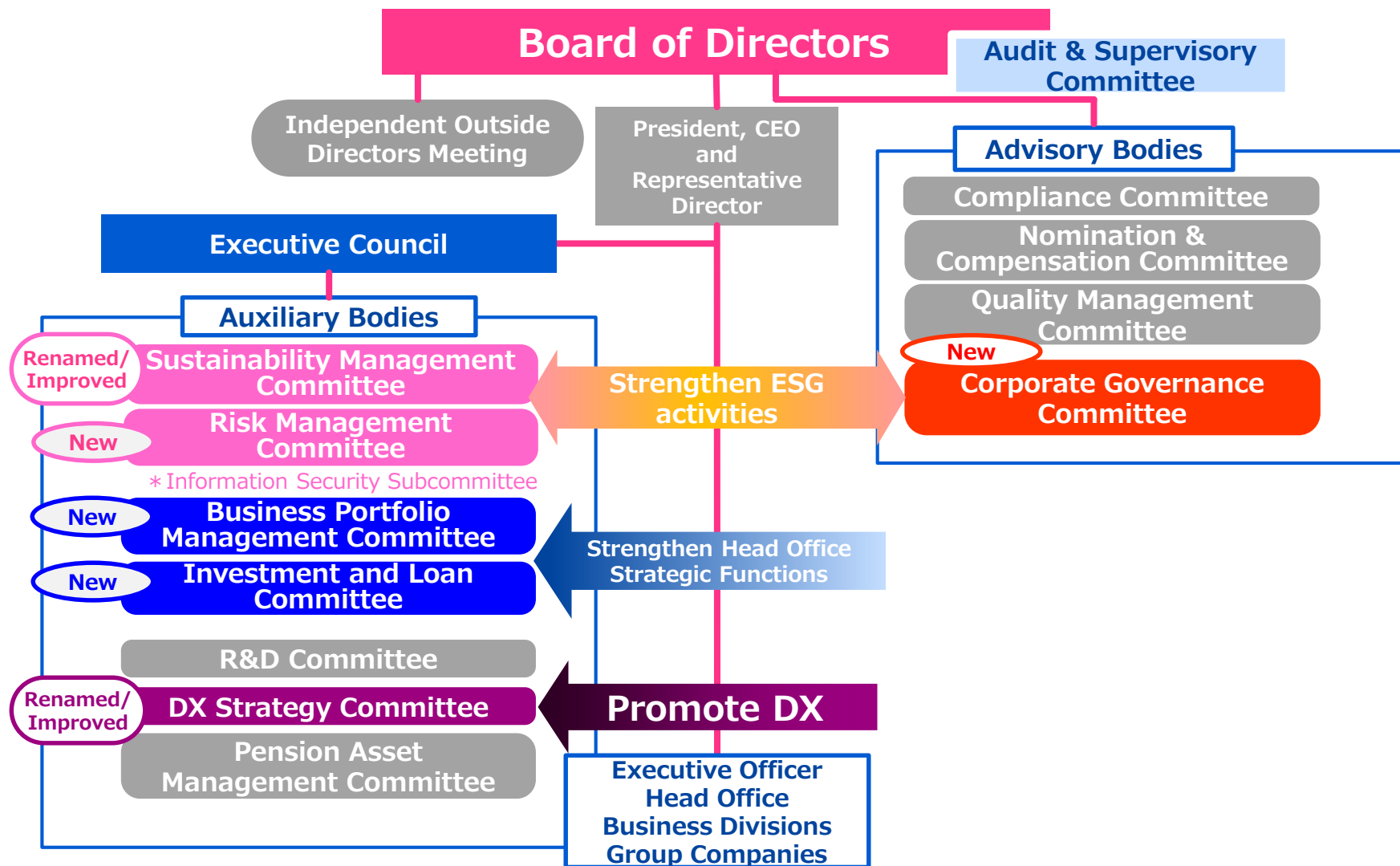
### Functional improvements

- The Board of Directors will shift to a body that focuses on determining important management directions and monitoring management activities, including risk management, with the aim of achieving sustainable growth and enhancing corporate value.
- Non-executive directors, including the Audit and Supervisory committee members, will form a majority (with 8 non-executive directors among 13 directors)

Changes in the Board of Directors composition		
Members	Current	From FY2021
President and CEO	1	1
Materials, machinery, and electric power businesses	3	0
Companywide corporate planning	1	1
Companywide governance	1	1
Companywide safety, quality management, and environmental control	1	1
Companywide R&D	1	1
Outside Directors	3	3
Audit & Supervisory Committee members	External	3
	Internal	2
Total	16	13
The number of Independent Outside Directors	6	6

# Changes in Management Structure in the Current Medium-Term Management Plan

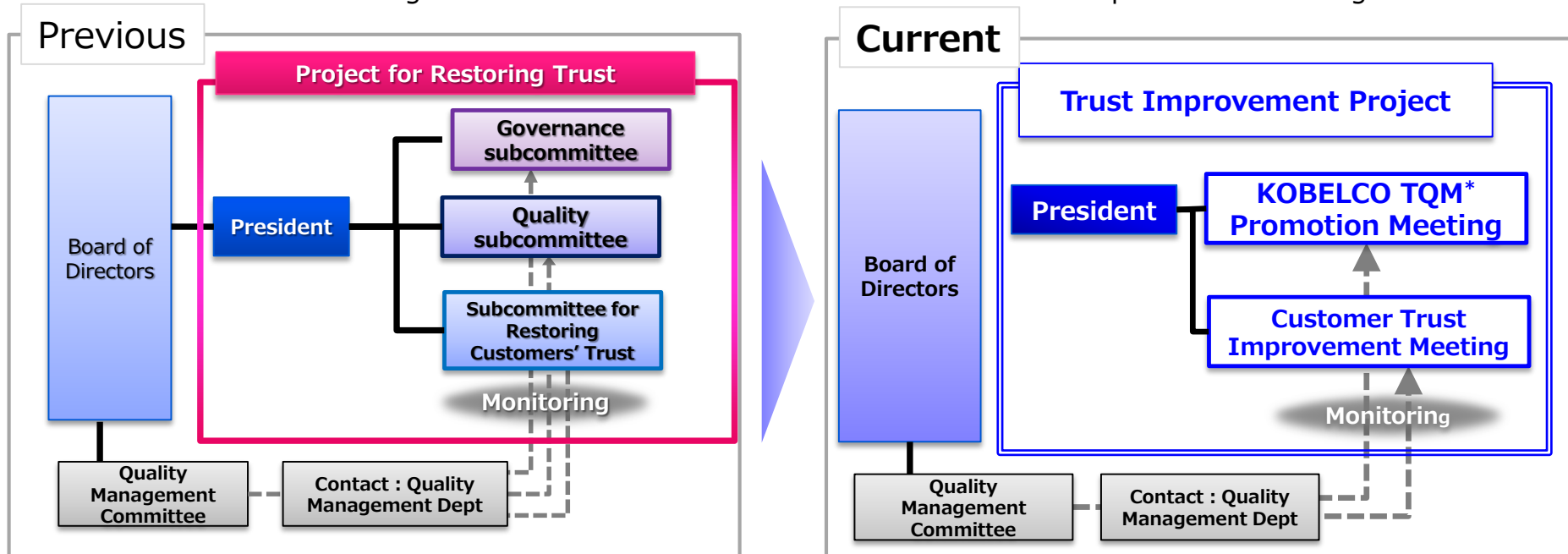
## Review of advisory bodies to the Board of Directors and auxiliary bodies to the Executive Council



# Changes in Management Structure in the Current Medium-Term Management Plan

## Strengthen Quality Management/Processes – Launch of the Trust Improvement Project

- Kobe Steel launched the Trust Rebuilding Project under the leadership of the President with the aim of steadily implementing measures to prevent recurrence of the misconduct, announced on March 6, 2018, and recovering the trust of stakeholders. (See the diagram on the left below.)
- On April 1, 2021, our Company reorganized this project structure and established the Trust Improvement Project reporting to the President for the purpose of further restoring and improving customer trust and preventing the quality misconduct from being forgotten.
  - Governance subcommittee ⇒ Incorporated into the Corporate Governance Committee
  - Quality subcommittee ⇒ Reorganized into the KOBELCO TQM Promotion Meeting
  - Subcommittee for Restoring Customers' Trust ⇒ Renamed as Customer Trust Improvement Meeting



\*KOBELCO TQM...TQM stands for Total Quality Management, which is one of the quality management methods. As the next step after the completion of measures to prevent recurrence, KOBELCO TQM aims to strengthen the management of each business, while identifying issues that serve the needs of customers and society and addressing them with the participation of all employees.