

## **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. and its group companies.

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. As a permanent measure, Kobe Steel has so far decided to invest approximately 4 billion yen in capital investments relating to quality, such as automating the recording of test and inspection data, and is carrying them out sequentially.

In order to monitor the progress of the preventive measures from an external, objective standpoint, Kobe Steel established an Independent Quality Supervision Committee comprised of only members from outside the company as an advisory body to Kobe Steel’s board of directors. The Committee continuously reviews the progress of the preventive measures. The Committee has seen certain results achieved in carrying out the various measures to strengthen Kobe Steel’s quality compliance system and has made a variety of proposals for further improvements.

Kobe Steel will continue to adequately reflect the recommendations from the Independent Quality Supervision Committee and strive to make viable improvements in the preventive measures.

The Independent Quality Supervision Committee and the board of directors continue to confirm the status of the measures, and we will continue to make public the progress of the measures on our website.

## **Outline of Measures to Prevent Recurrence of the Misconduct**

### **1. Governance - Building the Quality Governance System**

- (1) Penetration of the Corporate Philosophy: The President has engaged in dialogue with employees at 20 business locations and sites as of the end of July 2018 for a total of 24 times.

- (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 “Group”).
- (4) Reformation of the Organization: We have started 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 started personnel transfers among the divisions and are considering a new personnel rotation system for human resources development, invigoration of the organization, and further mutual cooperation. We plan to implement the changes in April 2019.
- (7) Understanding of Issues Occurring at Worksites: We conducted an awareness survey among employees in July 2018. We began collecting problems at our worksites through the “Quality Caravan Team,” which has visited 26 out of 132 locations as of the end of July 2018.
- (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 are restructuring current management indicators from the standpoint of economics, customer satisfaction, employee awareness, safety, sustainable quality, environmental friendliness, and legal and contractual compliance. We plan to introduce changes in April 2019.

## **2. Management - Ensuring Quality Control**

- (1) Measures for Quality Management: We established the Quality Management Department and newly established “KOBELCO Quality Guidelines.” The Guidelines went into effect in May 2018.
- (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: We plan to provide education and training for quality compliance to all employees. (To begin from August 2018)
- (4) Support by the Head Office: The Quality Audit Section of the Quality Management Department has conducted quality audits at 27 out of 118 locations as of the end of July 2018.

### **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
- (2) Understanding of Process Capabilities and Their Utilization (with respect to the materials businesses)
- (3) Review of the Approval Process for Accepting New Purchase Orders
- (4) Review of the Approval Process when Changing the Manufacturing Process
- (5) Promotion of Quality Risk Assessment in Capital Investments

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.

#### **< Improvements in Progress >**

- (i) We are conducting a survey on testing and inspection equipment at each location and plans for automating the equipment.
- (ii) We have started supervising the progress of capital investments relating to quality, including the automatic recording of the test and inspection data and improvements in process capabilities.
- (iii) The Aluminum & Copper Business has started constructing an approval process for accepting new orders using the current scheme of the Iron & Steel Business as a reference.