

## **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.

Official certifications previously canceled or temporarily suspended were restored in fiscal 2019 (excluding one case where recertification is not planned due to demand trends and other factors).

This update provides the latest progress of the measures to prevent recurrence of the misconduct following the previous update announced on November 6, 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 November 6, 2019 announcement.

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

- (1) Penetration of the Corporate Philosophy: Dialogue sessions by the President with employees continued to be implemented in fiscal 2019 and are ongoing. To date, a total of 105 sessions at 70 locations have been held as of the end of April 2020. The Company established a new corporate philosophy in May 2020 that integrates the Core Values of KOBELCO and the Six Pledges of KOBELCO Men and Women with KOBELCO’s View of the Future and KOBELCO’s Mission.
- (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 transferred risk management tasks to the Corporate Planning Department in April 2019 in order to further strengthen risk management. We are carrying out a variety of measures to strengthen risk management throughout the Kobe Steel Group. In addition, we will steadily promote compliance reinforcement activities under a common framework of the Kobe Steel Group Compliance Program from fiscal 2020. We reorganized current initiatives in five categories to specify the points to be strengthened. Planning and execution of promotion activities started in April 2020.
- (4) Reorganization of 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.
- (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 implemented necessary personnel transfers among the divisions. In January 2019, we also established new personnel rotation rules and procedures to strengthen human resources development, organizational activation, and further mutual cooperation, which were put into effect from 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. We will conduct the same surveys in fiscal 2020. Over the next two years from fiscal 2019, the Quality Caravan Team plans to visit a total of 110 locations (60 locations in fiscal 2019) and collect problems at worksites.
- (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 to steadily implement the changes 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, and plans to continue holding the conferences in the next year and beyond. We established the Quality

Management Committee in April 2019. The committee met a total of four times at the Tokyo Head Office and manufacturing locations in fiscal 2019 and plans to meet four times in fiscal 2020, too. Official certifications canceled or temporarily suspended were restored in fiscal 2019 (excluding one case where recertification is not planned due to demand trends and other factors).

- (2) **Rotation and Development of Quality Assurance Personnel:** In fiscal 2019, we reviewed and systemized 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:** We conducted on-site audits at 81 locations in fiscal 2019. We plan to conduct on-site audits at 76 locations in fiscal 2020.

### 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:** In addition to the lag in systems development, the impact of the novel coronavirus resulted in the rate of progress remaining at 60% as of the end of April 2020. Construction is underway generally as planned, and we aim to complete 100% of the work by the end of fiscal 2020...
- (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.

We will continuously monitor improvements at each location and confirm the on-site application of the Guidelines through quality audits at each location.