

May 11, 2021
Kobe Steel, Ltd.

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

Kobe Steel, Ltd. has worked to restore customer trust damaged by the quality misconduct, announced in October 2017, through measures such as verifying the safety of our customers' products, implementing measures to prevent recurrence and disclosing the progress made, reforming our corporate culture/organizational management structure, and establishing a solid quality assurance system.

Our Company made public a report entitled *Report on Misconduct in Kobe Steel Group* (the "Report") dated March 6, 2018 on the facts revealed through an investigation by the Independent Investigation Committee and the analysis results of the causes of the misconduct. In view of these, we formulated measures to prevent recurrence from the aspects of governance, management, and processes.

For prevention of recurrence, Kobe Steel launched the Trust Rebuilding Project in April 2018 with the President as the leader and formed subcommittees and task forces to carry out the preventive measures. In addition, we established the Independent Quality Supervision Committee as an advisory body to the Board of Directors and have incorporated quality assurance recommendations from outside experts into our preventive measures. In April 2019, the committee was replaced by the Quality Management Committee, which is tasked to monitor and make recommendations from an objective perspective, as was done by its predecessor.

Under this framework, we have promoted concrete activities for three years and have now completed the measures to prevent recurrence of the misconduct focused on governance, management, and processes. We will continue to implement some of the measures that are assumed to be constantly carried out.

In addition, in fiscal 2020, our Company launched an initiative for Total Quality Management (TQM) to prevent the quality misconduct from being forgotten and move forward to the next stage with the aim of achieving sustainable growth and realizing our Group Corporate Philosophy. In April 2021, we reorganized the Project for Restoring Trust into the Trust Improvement Project, which will continue to be led by the President. The Trust Improvement Project is composed of KOBELCO TQM Promotion Meeting and Customer Trust Improvement Meeting and will continue to have the Quality Management Committee to monitor and make recommendations on the quality-related issues. The action principles of KOBELCO TQM set forth "customer perspective" "participation of all members" and "constant improvement" in accordance with the Core Values of KOBELCO in the Group Corporate Philosophy.

With a renewed recognition that reliable quality is "the starting point of monozukuri" and the key to building customer trust, our Company will continue to strengthen the management of each business division and focus on improving quality through KOBELCO TQM activities. In order to become a company indispensable to customers and society, we continue to provide products

and services that meet the needs of our customers, while taking initiatives to identify social issues from the perspective of our customers and other stakeholders and work together to resolve them with all Group employees.

The progress of the Trust Improvement Project will be reported through the Integrated Report or other forms.

A summary of the progress of the measures to prevent recurrence of the misconduct is provided below. For details, please refer to the Progress of the Measures Promoted by the Kobe Steel Group to Prevent Recurrence of the Misconduct.

- The underlined portions indicate the changes that have been made from the previous announcement as of November 5, 2020.

1. Governance – Building the Quality Governance System

- (1) Penetration of the Corporate Philosophy: Dialogue sessions by the President with employees continue in fiscal 2021. To date, a total of 141 sessions at 79 locations have been held as of the end of March 2021. Kobe Steel established a new corporate philosophy in May 2020 that integrates KOBELCO's View of the Future and KOBELCO's Mission with the Core Values of KOBELCO and the Six Pledges of KOBELCO. Promotion activities to increase the recognition of the new corporate philosophy have been currently underway through presentations, posters, videos, etc.
- (2) Restructuring 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 structure. In fiscal 2021, the Company reviewed its Board of Directors structure and has shifted to a new management structure focused on monitoring.
- (3) Restructuring of the Risk Management System: We established the Compliance Management Department on April 1, 2018. Risk management tasks were transferred to the Corporate Planning Department in April 2019 in order to further strengthen risk management. In April 2021, we established the Risk Management Committee as an auxiliary body to assist the Executive Council in improving the effectiveness of the Group's risk management activities. In addition, the Internal Control and Audit Department was established to unify the operations related to risk management, development, operation, and assessment and audit of internal controls including compliance that had been handled separately by the Audit Department, the Compliance Management Department, and the Corporate Planning Department. The Internal Control and Audit Department aims to improve the efficiency and effectiveness of risk management activities as the secretariat of the Risk Management Committee. In fiscal 2020, Kobe Steel Group's Compliance Program began to promote compliance under a common framework throughout the Group. In April 2020, we reorganized our current initiatives into five categories with the aim of identifying areas to be strengthened. Based on this, we will make plans and implement compliance promotion activities.

- (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 Across Divisions: We have implemented necessary personnel transfers across business 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. 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.
- (7) Understanding of Issues Occurring at Worksites: Continuing on from fiscal 2018, we have been conducting an employee awareness survey together with a compliance awareness survey, including Group companies in Japan, every July from fiscal 2019. Over the two years from fiscal 2019, the Quality Caravan Team has completed its planned visit to a total of 107 locations (45 locations in fiscal 2020) for collecting problems at worksites.
- (8) Establishment of the Quality Charter: Established in February 2018.
- (9) Restructuring of the Quality Assurance System: We have completed the restructuring of the quality assurance system for each level of our organization in the head office, business divisions, and works and plants. We will expand the new system to our Group Companies.
- (10) Restructuring of Business Management Indicators: We established business management indicators from the standpoint of economics, customer satisfaction, employee awareness, safety, sustainable quality, environmental friendliness, and legal and contractual compliance. We began to utilize the business management indicators in our operations from April 2019.

2. Management – Ensuring Quality Control

- (1) Measures for Quality Management: We established the Quality Management Department and newly formulated the KOBELCO Quality Guidelines. The Guidelines went into effect in May 2018. The Quality Management Department hosted the Group Quality Leaders Meetings in Japan, China, Southeast Asia and the United States. In fiscal 2020, the meetings were held online both in Japan (in December) and overseas. The Quality Management Committee was established in April 2019. The committee met a total of four times at the Tokyo Head Office and manufacturing locations in fiscal 2019 and also four times in fiscal 2020. 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). 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 have initiated activities at some business sites.

- (2) Rotation and Development of Quality Assurance Personnel: In fiscal 2019, we reviewed and systemized our quality education programs. From 2019, we started the Quality Exchange Meeting with personnel in charge of quality assurance of our Chinese Group companies and held the meeting at a production site in fiscal 2020. We are improving the program with on-site tour of improvement activities.
- (3) Employee Education Programs on Quality: The Company completed quality and compliance training sessions for heads of departments and sections (approximately 600 individuals) of Kobe Steel and domestic Group Companies. We also began to hold similar training sessions at our overseas Group Companies. In order to promote TQM activities, we are planning to provide basic TQM training and TQM management training throughout the Group.
- (4) Quality Audits by the Head Office: We conducted on-site audits at 81 locations in fiscal 2019. We completed on-site audits at 60 locations in fiscal 2020.

3. Process – Strengthening of Quality Control Processes

In order to promote the activities below, we established the KOBELCO Quality Guidelines for the entire Group. The Guidelines went into effect on May 1, 2018.

- (1) Elimination of Possible Mishandling of Test/Inspection Data and Unification of Shipping Standards: Approximately 1500 automation projects, started from fiscal 2018, have been almost completed as planned. There are two remaining projects, which are expected to be completed in the first half of fiscal 2021.
- (2) Monitoring and Utilization of Process Capabilities (in materials businesses): To ensure the conformity to the required standards, we are monitoring manufacturing processes with regard to the degree of variation in quality. In the former Aluminum and Copper Business division, visualization of inspection data (through graphing/indexing) is being promoted.
- (3) Review of the Approval Process for Receiving New Orders: The former Aluminum & Copper Business division began implementation/trials of a new system in the second half of fiscal 2018.
- (4) Review of the Approval Process for Changes in 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 based on quantitative assessment of quality risk factors such as impact, frequency of occurrence and detection rate. Our Company started utilizing quality risk assessment in decisions for key capital investments from fiscal 2019.

We will continue to monitor improvements at each location and conduct on-site inspections of the implementation of quality control processes through quality audits at each location.