



March 28, 2018

To: All

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Formulation of the MMC Group Governance Framework Enhancement Measures

Mitsubishi Materials Corporation (“MMC”) sincerely apologizes for the difficulties that we have caused to all concerned parties, including our customers and shareholders, in connection with Mitsubishi Cable Industries, Ltd.’s (“MCI”), Mitsubishi Shindoh Co., Ltd.’s (“MSC”), Mitsubishi Aluminum Co., Ltd.’s (“MAC”), Tachibana Metal Mfg Co., Ltd.’s (“TKC”), and Diamet Corporation’s (“DM”) delivery of products that deviated from customer or internal specifications (“Non-Conforming Products”) due to misconduct, including the rewriting of data. MCI, MSC, MAC, TKC, and DM are consolidated subsidiaries of MMC.

We would like to announce the MMC Group governance framework enhancement measures as follows, which are formulated with respect to these issues at the Board of Directors meeting held today. We would also like to announce the progress that has been made to date in addressing these issues.

1. MMC Group Governance Framework Enhancement Measures

MMC instituted the Restructuring Measures of the Governance Framework for Quality Control in the MMC Group as measures to address the current quality issues on December 28, 2017, and is currently proceeding with specific initiatives based on such measures.

Meanwhile, in the course of the investigation into the current quality issues by the Special Investigation Committee (the “Investigation”), it has been revealed that multiple MMC subsidiaries continued misconduct over a long period of time and identified as the background and root causes the facts that there were issues with awareness of quality and corporate culture, risk information was not grasped and reported in a timely and appropriate manner, and the issues were not discovered in the internal audit.

The MMC Group has always endeavored to develop the CSR and compliance framework, but from the perspective of preventing recurrence of the issues attributable to the same type of background and root cause in the future, MMC believes it is necessary to implement drastic measures at the subsidiaries which caused the current quality issues and in addition further enhance corporate governance framework of the entire MMC Group.

To this end, after repeated considerations of improvement measures in light of the issues that have been clarified at present, MMC formulated governance framework enhancement measures as set forth below, and hereby announce as follows. The Special Investigation Committee has also deliberated and is of the opinion that these enhancement initiatives are appropriate.

* The Interim Report released on December 28, 2017, the Interim Report (2) released on February 20, 2018 and the Final Report released today

1) Recognition of Group Governance Issues

The following have been recognized as the main issues with the MMC Group governance framework.

(i) Communication

The Investigation has pointed out the harmful effects of the vertically-segmented organizations and insufficient control over subsidiaries.

In order to address these issues, it is necessary to improve quality and quantity of communication within each MMC Group company and between MMC Group companies.

In the existing communication in particular, the focus have been placed on results and management strategies, but the MMC Group also needs to ensure information regarding governance-related matters (meaning CSR, occupational safety & health, accident prevention and security, environmental management, quality control, management audits, etc. Same hereinafter.) is shared and communicated.

The MMC Group also needs to work to further deepen communication and eliminate walls between organizations by promoting personnel exchanges between various levels.

(ii) Compliance Framework and Awareness

The Investigation has pointed out the fact that in some of the subsidiaries compliance awareness is insufficient at each level, necessary knowledge has not been acquired, the awareness of our responsibilities as an organization and business is shallow, and in addition the MMC Group does not have sufficient capacity to discover misconducts, take initiatives to resolve issues, and make timely reports.

The MMC Group has always endeavored to maintain a proper compliance framework and foster an awareness of compliance, but we need to promote awareness reform through measures such as enhanced education.

(iii) Resource Allocation

The Investigation has indicated that some businesses do not have sufficient process capabilities that are adequate for received orders or a sufficient inspection and quality assurance framework. The Investigation has also pointed out that the background leading up to such situation is that some subsidiaries gave priority to earnings and postponed necessary capital investment, and this resulted in resources not being suitably allocated.

With regard to governance-related measures that are essential to soundly operate business on a long-term basis, such as safety, quality and environment, the MMC Group needs to establish a framework and a system to ensure that they are implemented regardless of the short-term profit-and-loss status of the business.

2) Initiatives to Enhance MMC Group Governance

The MMC Group will undertake the following initiatives as measures in response to the issues discussed above.

(i) Enhancement of Framework for Discussion, Reporting and Follow-up of Governance-Related Matters

The MMC Group will manage and promote the policies, annual plans, response status and other efforts for governance-related matters in the entire group (including MMC's business establishments and subsidiaries). These policies, plans and other efforts will be made more effective by discussing and sharing them in the Governance Deliberative Council, which is to be newly established.

At the same time, the group's internal reporting framework will be restructured with respect to initiatives for governance-related matters, and reporting obligations (such as reports from business establishments and subsidiaries to the responsible department at MMC, and reports from the responsible departments at MMC to the Corporate Strategy Committee and Board of Directors) for matters such as the progress status of annual plans will be clearly stipulated. The Corporate Strategy Committee will be tasked with monitoring the execution of business by operating divisions and sharing information on material matters such as governance and compliance.

Operating divisions will also aim to improve communication through efforts to, for instance, ensure that meetings conducted at headquarters and business establishments of MMC are actively engaged with and that reporting matters (all types of business reports and information regarding accidents or misconducts, etc.) and discussion matters at meetings of the boards of directors, etc. of subsidiaries are substantial.

The MMC Group will implement a framework for reducing risks and preventing problem occurrences by adequately identifying, and gaining an understanding of, risks throughout the entire group, through these initiatives.

(ii) Improvement of Functions of Management Divisions and Its Collaboration with Operating Divisions

In order to improve administrative division's control and support functions for governance-related matters, MMC will reorganize its structure as of April 1, 2018 and launch the Governance Division (comprising the CSR Dept., Safety & Environment Dept., Quality Management Dept., and Internal Audit Dept.). The Governance Division will require operating divisions to provide necessary information regarding governance-related matters, and based on

the information provided, it will propose improvements and measures to that should be implemented to operating divisions.

In addition, MMC will specify departments and persons responsible for the promotion of governance-related matters in each department within operating divisions, each business establishment, and each subsidiary to act as a contact point for the Governance Division, with the aim of facilitating the communication of information and to enhance the promotion framework.

(iii) Improvement of Personnel Training and Encouragement of Active Interaction Between Personnel

In order to strongly promote governance-related matters at all levels of the MMC Group, we will improve training using case studies and training courses for executives before they assume office, including at subsidiaries, in order to expand education of the MMC Group's management regarding governance-related matters. We will also carry out education about, and ensure thorough knowledge of, risk management and the report system for risk information for all other employees.

In addition to promoting interactions, and endeavoring to deepen communication, between personnel from different divisions, between personnel at parent and subsidiary companies and within each subsidiary, MMC plans to provide personnel training throughout the group by developing the wide range of different knowledge and experience in various different divisions.

(iv) Internal Audit Strengthening

With respect to MMC's internal audit of business establishments and subsidiaries, including occupational safety and health, accident prevention and security, environmental management, and quality control, the frequency and content of audits will be enhanced through cooperation with each department within the Governance Division discussed above. As part of that initiative, MMC will strive to strengthen its various auditing capabilities with the use of external resources as an option. MMC will also strengthen cooperation such as by conducting joint audits with MMC's Audit & Supervisory Board Members.

(v) Studies with a Business Optimization Focus

When considering the MMC Group's business optimization, whether the governance framework can sufficiently function is also one of the important decision-making criteria. On that basis, we will seek to achieve an appropriate business portfolio and management framework that match the MMC Group's governance capabilities.

We also announce that MMC's Audit & Supervisory Board has reported to the Board of Directors that it will work to supervise the implementation and operation status of MMC Group's governance framework enhancement measures and implement the following measures for improving the effectiveness of audits by Audit & Supervisory Board Members, and that MMC will make a necessary response to such efforts.

(i) The personnel working in the Audit & Supervisory Board Member Assistance Dept. – who

support the duties of MMC's Audit & Supervisory Board Members – will serve concurrently as part-time audit & supervisory board members at major subsidiaries with full-time audit & supervisory board members, whereby coordination between MMC's Audit & Supervisory Board Members and the standing audit & supervisory board members of subsidiaries will be improved.

- (ii) The subsidiaries that only have part-time audit & supervisory board members will be requested to submit monthly activity status reports by such part-time audit & supervisory board members, and MMC's Audit & Supervisory Board will work to obtain and act on information in a timely manner.
- (iii) MMC's Standing Audit & Supervisory Board Members will newly establish a new consultation contact method liaising directly with the Standing Audit & Supervisory Board Members, in addition to the current whistleblower hotline.
- (iv) Cooperation with the Internal Audit Dept. of the Governance Division, which conducts internal audits, will be strengthened, including the expansion of the scope of joint audits.

2. Safety Confirmation Status

Each of the relevant companies is proceeding with safety confirmation with the cooperation of their customers. The progress as of March 27, 2018 is as follows. The figures in parenthesis in the tables are the figures as of February 8, 2018.

The categories, reflecting the status of the relevant company's progress in evaluating the safety of affected products, are as follows:

- A. The customer has completed its confirmation that there are no safety concerns.
- B. The customer has determined that there are no immediate safety concerns, but is conducting further review.
- C. The relevant company (MCI, MSC, MAC, TKC or DM) has communicated to the customers its opinion that, from a technical perspective, there is a high probability that the affected products can be assumed to be safe.
- D. The relevant company has provided notification that Non-Conforming Products were delivered to the customer.

1) MCI

Product	Number of Customers	A	B	C	D
Seal Products	218	110 (35)	108 (92)	0 (91)	0 (0)
MEXCEL	5	1 (1)	4 (4)	0 (0)	0 (0)

2) MSC

Product	Number of Customers	A	B	C	D
Brass-Strip and Copper-Strip Products	30	21 (12)	9 (18)	0 (0)	0 (0)

3) MAC

MAC's internal investigation, which commenced on February 8, 2018, discovered additional Non-Conforming Products, and the total number of affected customers increased by five (one customer for rolled products and four customers for extruded products) as set forth below.

Product	Number of Customers (120)	A	B	C	D
Rolled Products	8	7 (3)	1 (0)	0 (4)	0 (0)
Extruded Products	114	35 (6)	67 (30)	12 (36)	0 (35)

(Note) There are 2 overlapping customers in the number of customers for rolled products and for extruded products.

4) TKC

TKC's internal investigation, which commenced on February 8, 2018, discovered additional Non-Conforming Products, and the total number of affected customers increased by 32.

Product	Number of Customers	A	B	C	D
Extruded Products	339	85	165	89	0

5) DM

DM's internal investigation, which commenced on February 8, 2018, discovered an increased scope of Non-Conforming Products shipped without some necessary inspections, and the total number of affected customers increased by 40.

Product	Number of Customers	A	B	C	D
Sintered Machinery parts, etc.	113	0	26	61	26

3. Recurrence Preventive Measures of MAC and DM

MAC released “Preventive Measures for the Misconduct at MAC” (Attachment 1) today and DM released “Preventive Measures for the Misconduct at DM” (Attachment 2) today, respectively.

MMC will provide direction and supervision to MAC and DM to ensure their recurrence preventive measures are promptly implemented.

4. Extraordinary Quality Audit

In response to the occurrence of the current quality issues, since February 2018, the MMC Group has been conducting an extraordinary quality audit of 119 manufacturing facilities of MMC and its Group companies. The audit will cover the period between January 1, 2017 and December 31, 2017, and currently, auditing of 91 locations has been completed.

The audit to date has identified some incidents of which quality control method was problematic, but the remediation has already been completed. No incident with product quality issues has been identified.

5. Policy for Handling the Issues Going Forward

MMC plans to newly establish the Group Governance Enhancement and Promotion Division (General Manager: Managing Executive Officer Shibata (General Manager, Governance Division) on April 1, 2018 as a cross-sectional organization to work to steadily carry out the MMC Group governance framework enhancement measures and confirm the progress of such measures.

The entire MMC Group will work as a whole with respect to the MMC Group governance framework enhancement measures together with its Restructuring Measures of the Governance Framework for Quality Control.

Under the direction and supervision of MMC, the relevant subsidiaries will continue to swiftly move forward with measures such as working with customers to confirm safety and implementing preventive measures.

6. Outlook on Financial Results

The impact of these issues on MMC’s consolidated results of operations for the current fiscal year has already been incorporated, based on certain assumptions, into MMC’s forecast of consolidated results of operations for the fiscal year ending March 31, 2018 that was announced on February 13, 2018. Going forward we will make a separate announcement if it becomes necessary to revise the forecast again.

(Reference) Forecast of consolidated results of operations for the fiscal year ending March 31, 2018 (announced on February 13, 2018) and consolidated results of operations for the previous fiscal year (million yen)

	Net Sales	Operating Profit	Ordinary Income	Net Income Attributable to Owners of Parent
Forecast of consolidated results of operations for the current fiscal year (fiscal year ending March 31, 2018)	1,580,000	70,000	78,000	35,000
Consolidated results of operations for the previous fiscal year (fiscal year ended March 31, 2017)	1,304,068	59,761	63,925	28,352

END

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March 28, 2018
Mitsubishi Aluminum Co., Ltd.

Preventive Measures for the Misconduct at Mitsubishi Aluminum Co., Ltd.
(“MAC”)

We once again sincerely apologize for the difficulties we have caused to all concerned parties, including our customers and business partners, with respect to the misconduct at our company.

With respect to rewriting of data based on unofficial internal rules of MAC, which was discovered in November 2016 in connection with a quality audit of MAC conducted by Mitsubishi Materials Corporation (“MMC”), MAC immediately abolished the internal rules and had its all customers that had purchased the products subject to rewriting of data confirm safety of such products.

However, a special quality audit conducted by MMC from December 25, 2017 to January 28, 2018 led to the discovery of the fact that certain products that deviated from customer specifications (“Non-Conforming Products”) were shipped due to misconduct. This misconduct included rewriting of data entered in the Test Results Reports, inspection using inappropriate measuring methods and omission to perform some inspections.

Moreover, special audits by MMC and MAC from January 15 to 22, 2018 also discovered the fact that Tachibana Metal Mfg Co., Ltd. (“TKC”), a subsidiary of MAC, shipped Non-Conforming Products due to similar misconduct. This report sets forth a compilation of recurrence preventive measures based on the investigation report of outside counsels submitted to the Special Investigation Committee of MMC (“Investigation Report”) and the results of the internal investigations conducted by MAC and TKC.

Section 1 Root Causes of Misconduct at MAC

MAC had the members of its internal team formulating measures for quality related issues (note) analyze the root causes of the misconduct based on the Investigation Report and the results of the interviews with and questionnaires to MAC employees, and recognizes that the root causes of misconduct are as follows.

(Note: MAC’s internal team formulating measures for quality related issues consists of the President, executives for quality control, quality control divisions and relevant division general managers.)

1) Root causes relating to quality control framework and awareness of quality

- ① The awareness of compliance with contracts and specifications was reduced, and the employees were not thoroughly familiarized with necessary knowledge.
- ② A quality control framework covering the entire MAC Group, including the subsidiaries, was not yet established.
- ③ The human resources of the quality assurance divisions were insufficient.
- ④ There was a quality-related information system which allowed data to be entered manually in the Test Results Report.

2) Root causes relating to business operations

- ① MAC accepted orders beyond its process, inspection and production capabilities, and had the mindset of prioritizing to satisfy delivery dates.
- ② Interactions among divisions, such as sales, manufacturing, inspection, and products research and development, were insufficient.
- ③ A manpower shortage led to work being dependent on individual skills, human resources being fixed and information being personalized.
- ④ Visualization of work was insufficient.
- ⑤ There was a lack of confidence in effectiveness and confidentiality of a whistleblower hotline.

Section 2 Measures to Prevent Recurrence of Misconduct at MAC

In light of the abovementioned causes, MAC will implement the following recurrence preventive measures at MAC and also expand it to the entire MAC Group immediately.

1) Enhancement of front loading (corresponding to Section 1. 2) ① and ②)

- ① Endeavors to enhance its operations based on the front loading methodology under which when a new or continual order is received, various internal meeting bodies, etc. that consist of the products research and development, manufacturing, quality assurance and sales departments, comprehensively consider such factors as the process capability, inspection capability and production capability, and specifically identify the quality assurance capability to the relevant product, and the order is accepted only within such quality assurance capability.
- ② It is believed that the enhancement of the operations based on the front loading methodology will have the effect of activating the exchange of opinions and information among the manufacturing, sales, and products research and development departments through various internal meeting bodies, etc. at various operational

stages.

2) Enhancement of IT control (corresponding to Section 1. 1) ② and ④)

- ① Automatic collection of measured data
Establish a system that does not allow rewriting of measured data entered in the Test Results Reports
- ② Improvement of the Test Results Report issuance system
Establish a system that automatically issues Test Results Reports based on measured data and unify the items displayed in the Test Results Reports
- ③ Development of a database of delivery specifications
Develop a database of customer specifications and establish a system that enables the production-to-inspection system to always operate based on the latest customer specifications

3) Promotion of sharing of quality risk related information (corresponding to Section 1. 2) ②, ③ and ④)

- ① Ensure transparency of information relating to quality control at MAC, endeavor to share information, aim to ensure a high degree of freedom in information communication from lower-ranking employees to higher-ranking employees in the organization, and establish a rule on reporting serious quality risks
- ② Establish a system to share information on Non-Conforming Products data with people up to managers level
- ③ Establish the abovementioned framework that promote information sharing with MAC's Group companies as well

4) Enhancement of the framework and authority of the quality control departments (corresponding to Section 1. 1) ①, ② and ③ and 2) ① and ③)

- ① MAC newly established the Quality Supervisory Department that is responsible for the following functions in July 2017, and the department will be further enhanced going forward.
 - A) Formulate the plans on conducting quality audits in the MAC Group and conduct audits in collaboration with the Internal Audit Department
 - B) Improve quality audits through measures such as increasing the number of days and personnel for quality audits
 - C) Planning and formulating measures, etc. to enhance the quality assurance framework of the MAC Group
- ② Enhance the collaboration with the departments responsible for quality in MMC and

the MAC Group companies through information sharing in a closer manner

- ③ Enhance the independence of the Quality Assurance Department as follows
 - A) End the concurrent serving of manufacturing departments and Quality Assurance Department
 - B) Spin off the Quality Assurance Department from the Manufacturing Engineering Division as from April 2018
 - C) Fully grant the shipment authority to the Quality Assurance Department to ensure that no other departments may be involved in the judgment of whether products may be shipped
- ④ Increase the number of members of the quality control departments through measures such as transfers from other department within the company

5) Clarification of the responsibilities of the on-site managers and necessary knowledge that responsible personnel should have, and ensure that employees are familiarized with such responsibilities and information (corresponding to Section 1. 1) ③ and 2) ④)

Clarify the responsibilities born by on-site managers and the requirements for knowledge and skills that responsible personnel should have, and ensure that employees are familiarized with such responsibilities and information

6) Promotion of personnel rotation (corresponding to Section 1. 2) ③)

Prevent the operations from becoming a black box through personnel exchanges between departments, divisions and MAC Group companies and eliminate walls between divisions

7) Reform of the whistleblower system (corresponding to Section 1. 2) ⑤)

- ① Reform the whistleblower system through measures such as establishing MAC's own whistleblower hotline under the direct control of the President, separately from the whistleblower system established in the MMC Group, and placing a third party such as a law firm as a contact point
- ② Once such whistleblower system is introduced, it will be informed to the MAC Group companies.

8) Utilization of outside consultants (corresponding to Section 1. 1) ① and ③)

Retain an outside consultant to have it provide guidance and advice on the quality control, quality assurance and quality audit work

9) Reform of employees' awareness and corporate culture (corresponding to

Section 1. 1) ①)

Compliance education will be provided as follows as measures to ensure that quality is prioritized and the specifications and contracts are complied with in light of the misconduct at issue.

- A) Provide compliance education regarding quality control in general that includes the examples of how to respond to customers in connection with the misconduct
- B) Endeavor to raise the employees' awareness of quality by ensuring that such compliance education will give employees a realization that the securing of safety and trust and thorough compliance with contracts are essential

Section 3 Causes of Misconduct at TKC

Based on its internal investigation, the Investigation Report and the results of the interviews with and questionnaires to its employees, TKC recognizes that the causes of misconduct are as follows.

1) Root causes relating to quality control

- ① The awareness of compliance with customer specifications was reduced.
- ② The employees were not thoroughly familiarized with necessary knowledge.

2) Root causes relating to quality assurance system

- ① TKC was lagging behind in upgrading quality assurance related equipment.
- ② Personnel and human resources who can conduct testing were insufficient.
- ③ There was no department that specializes in production technologies.

3) Root causes relating to customer response

- ① The process capability was not sufficiently considered when accepting orders.
- ② The product inspection flow was defective in that it allowed the products that had not undergone inspection to be transferred to the shipping procedures.

4) Root causes relating to awareness

The long-lasting misconduct led employees to be dependent on the existing practices without careful consideration.

Section 4 Measures to Prevent Recurrence of Misconduct at TKC

In light of the abovementioned causes, TKC will implement the following recurrence preventive measures with support of MAC.

1) Enhancement of front loading (corresponding to Section 3. 1) ① and 3) ①)

- ① Prepare standard specifications per product (criteria of whether to accept the order) based on TKC's process capability (particularly inspection process capability)
- ② Design a process of determining whether to accept the order at the time of deviation from the standard specifications
- ③ Clarify the framework of relevant departments (e.g. sales, manufacturing, technology and quality assurance) as to the consideration of whether to accept the order
- ④ Clarify the decision-making authority in the process of determining whether to accept the order, and secure decision-making trails
- ⑤ Ensure that delivery specifications are executed and specifications and drawings are maintained and managed

2) Improvement of quality and technology and sharing of necessary knowledge (corresponding to Section 3. 1) ②)

Endeavor to enhance collaboration with MAC, improve the level of quality and technology and share necessary information

3) Enhancement of Human Resources Development Strategy (corresponding to Section 3. 2)② and ③)

Endeavors to enhance the personnel and human resources of the Quality Control Division and the Manufacturing Engineering Division with support of MAC

4) Development of work procedures and familiarization of employees therewith (corresponding to Section 3. 1) ① and ② and 4))

Familiarize employees with on-site work procedures and ensure they strictly follow such work procedures

5) Restructuring of the quality control framework (corresponding to Section 3. 2) ① and ③ and 3) ②)

- ① Spin off the quality assurance division from the current Quality Engineering Department of the Yoro Plant to enhance its authority
- ② Clarify the framework, roles, responsibilities, and authorities pertaining to quality control
- ③ Optimize the product inspection flow
- ④ Fully grant the shipment authority to the quality assurance division to ensure that no other departments may be involved in the judgment of whether products may be shipped
- ⑤ Familiarize employees with the revisions to specifications and standards, clarify the

responsibilities for implementing the revised manuals and revised specifications in the course of on-site work, and enhance the supervision over the implementation status

- ⑥ Formulate and implement an investment plan for necessary upgrading of equipment to maintain quality
- ⑦ Enhance collaboration with the departments responsible for quality in MAC and the MAC Group companies through information sharing in a closer manner
- ⑧ Retain an outside consultant to have it provide guidance and advice on the quality control, quality assurance and quality audit work
- ⑨ Consider a system without human involvement by automating the Test Results Report creation process to the extent possible
- ⑩ Consider centralized management of inspection data using a system

6) Enhancement of quality control education (corresponding to Section 3. 1) ① and ②, 2) ② and 4))

- ① Provide compliance training regarding quality control tailored to the roles, responsibilities and authorities of each level of officers and employees
- ② Conduct an awareness survey to confirm employees' awareness of quality during the training
- ③ Penetrate the importance of quality control, including compliance with specifications and contracts

7) Enhancement of quality risk management (corresponding to Section 3. 3) ① and ② and 4))

- ① Ensure transparency of information relating to quality control at TKC, endeavor to share information, aim to ensure a high degree of freedom in information communication from lower grade people to higher grade people in the organization and establish a rule on reporting serious quality risks
- ② Introduce MAC's system to promote information sharing on Non-Conforming Products data and have such information shared with people up to managers
- ⑤ Promote the use of MAC's whistleblower system

Section 5 Other

We take it very seriously that we have caused the difficulties to all concerned parties, including our customers and business partners, in connection with our recent misconduct, and have decided that the President will voluntarily relinquish 30% of his monthly remuneration for one month in March 2018, and so will the three Managing Director and Managing Executive Officers, for 20% of their respective monthly

remuneration, for one month in March 2018.

Similarly, TKC has decided that the President will voluntarily relinquish 30% of his monthly remuneration in March 2018, and so will the Managing Director and Yoro Plant General Manager, for 20% of their respective monthly remuneration, for one month in March 2018.

The MAC Group as a whole will steadily implement the abovementioned recurrence preventive measures going forward and strive to resolve the present matter at an early date and restore the trust.

END

March 28, 2018

Diamet Corporation

Preventive Measures for the Misconduct at DM

We once again sincerely apologize for the difficulties we have caused to all concerned parties, including our customers and business partners, with respect to the misconduct at Diamet Corporation (“DM”).

There was a notice to the whistleblower hotline of Mitsubishi Materials Corporation (“MMC”), our parent company, which led to the discovery of misconduct at DM during the period from February 2015 to March 2016, such as changes to production and delivery process without obtaining approvals from customers and the shipping of products that did not conform to specifications agreed between DM and customers. All customers who had purchased products affected by the misconduct have confirmed the safety of such products.

On January 24, 2018, however, another notice was made to MMC’s whistleblower hotline, informing of the possibility of incorrect recording of inspection data at DM, and factual investigations were commenced by the Special Investigation Committee of MMC. As a result, it was confirmed that, with respect to sintered machinery parts for automobiles and others, products that deviated from customer specifications (“Non-Conforming Products”) were shipped due to misconduct, including rewriting of inspection data. In addition, we discovered through subsequent special quality audits by MMC and our own internal investigations that additional Non-Conforming Products had been shipped.

We would like to report that we have summarized preventive measures as set forth below after reassessing the root causes, taking into account the investigation report of outside counsel retained by the Special Investigation Committee of MMC (the “Investigation Report”) and the results of our investigations.

1. Root Causes of the Incidents

We have taken into account the root cause analysis in the Investigation Report and our investigations, and reassessed the root causes of the misconduct through interviews and discussions with our employees, and have classified and organized the root causes of the misconduct into root causes relating to volumes and delivery dates, root causes relating to quality control, and root causes relating to management foundation and corporate culture.

(1) Root Causes Relating to Volumes and Delivery Dates

(Please refer to the root causes (1), (2) and (5) in the Investigation Report)

- a. Acceptance of orders with specifications that were incommensurate with our production capacity through a disrespect for the importance of process design, including the lack of understanding of production capacity and inspection capacity, at the time of order acceptance
- b. A vicious cycle resulting from accepting orders in excess of capacity so as to compensate for cost increases and deterioration in earnings brought on by deteriorating yield caused by obsolescence of production facilities

- c. Insufficiency of overall processes management due to the lack of personnel responsible for process planning and management
- d. R&D and manufacturing departments exerting pressure on inspection departments

(2) Root Causes Relating to Quality Control

(Please refer to the root cause analysis (1), (2), (3) and (4) in the Investigation Report)

- a. Agreed with customers on specifications that were difficult to mass-produce due to the lack of accumulation of technical information
- b. Elaborations at trial production phase were insufficient (mass production of products that were difficult to satisfy specifications)
- c. Quality improvement activities were insufficient due to the lack of technical personnel
- d. Insufficient defective product production-prevention mechanisms in each process, and insufficient in-process inspection mechanisms
- e. Quality control departments were not functioning properly and had insufficient authority
- f. An institutionalization of conducting inspections that had to be conducted before product shipment after product shipment due to the lack of inspection personnel and equipment, and rooted in a culture of disrespect for quality assurance

(3) Root Causes Relating to Management Foundation and Corporate Culture

(Please refer to the root cause analysis (2), (5) and (6) in the Investigation Report)

- a. Insufficient quality and frequency of communication
 - Penetration of company policy was insufficient (including the preventive measures regarding the first discovered incidents)
 - The role, authority and responsibility of departments and positions were obscure
 - Human resource mobility was low, and each organization was inward-looking and did not collaborate with each other
 - There were invisible barriers between levels and departments
- b. Corporate culture disrespecting quality assurance
- c. Lack of capital investment to improve production capacity and process capacity

2. Preventive Measures at DM

Since January 30, 2018, DM has taken the following provisional, emergency remedial measures in order to avoid further shipments of the Non-Conforming Products:

- Change the process to have products be packed and shipped after conducting delivery inspection
- Improve the computer system so that inspection certificates shall be issued only for the products that are confirmed to have passed delivery inspection, and only such products shall be regarded as eligible for shipping, in order to ensure that packing and shipping processes are conducted consistently after delivery inspection
- Strengthen the inspection system (i.e. increase human resource and introduce a two-shift system)

Based on the root cause analysis above, DM plans to implement the following permanent preventive measures:

- a. Change the process of receiving orders (thorough production elaborations for customers' satisfaction)
 - Enhance the front-loading
 - Accumulate data through remediation of defects that occurs on site and conduct the visualization of the technology (the prerequisite condition for the enhancement of the front-loading)
 - The internal meeting bodies that consists of those departments responsible for R&D, production, quality control, and sales, will consider the process capacity, inspection capacity, and production capacity, etc. comprehensively, and orders will only be accepted within the scope of quality assurance capacity after evaluating the quality assurance capacity for the products
 - Enhance the devotion of resources into the trial production process, which is the most important for the elaboration of the products
- b. Improve the production capacity and process capacity
 - Make necessary investment in plant and equipment
 - Enhance the lineup of the production engineering departments by estimating and grasping the proper numbers of personnel to improve the production capacity and securing the numbers of personnel if necessary
 - Utilize the inspection findings by the inspectors responsible for in-process inspections and final inspections, etc. for the improvement of the quality
 - Prevent the release of defective products to the next process by enhancing in-process inspection in each process
 - Organize the framework for timely feedback from the inspection departments to the production engineering departments

- Promote the improvement activities and enhance the framework thereof by utilizing former employees (former technical personnel), etc.
- c. Restructuring of the quality assurance framework
 - Strengthen the authority and line-up of the Quality Assurance Division
 - Review and stipulate the quality assurance framework
 - Increase the number of inspection personnel and augment inspection capacity
 - Understand and secure the number of appropriate inspection personnel
 - Improve inspection capacity of inspection departments by augmenting line-up of inspectors
 - Establish the basic principles by regularly conducting company-wide internal education regarding quality control
 - Build a system where the measurement data in inspection reports cannot be rewritten
 - Note that, before the completion of building such system, the rewriting of inspection reports is prevented by restricting server access and converting the files of the inspection data to PDF, etc.
 - Monitor preventive measures by the Board of Directors
 - Reviewing the implementation status of preventive measures
 - Verifying that implemented preventive measures are effective for quality control
- d. Penetration of a company-wide management policy, including an emphasis on quality
 - Redefine our approach to an emphasis on quality, which should be a core value of DM, and ensure that it permeates the company by thoroughly familiarizing all employees with our values
 - Clarify objectives by formulating a clear medium-term company management policy while taking into account dialogue between our management and employees
 - Formulate and implement the execution strategy (including investment in plant and equipment) to realize the objectives
- e. Clarify the locus of the role, authority and responsibility (clarification about the decision-making)

- Streamline the organizational structure to the extent possible at minimum level required for manufacturing and promote the dissolution of holding several posts concurrently
 - Clarify the responsibility of the management staff on site and the requirements of the knowledge and skills that each person in charge must acquire and make them widely known
- f. Promote communication, and incorporate outside perspectives
- Promote activities where opinions from the site are properly reflected in the managements' decision-making
 - o Take various concerns on site up through measures that the management and executives stand close to the site, show up at the site in person and speak to employees affirmatively
 - o Collect employees' frank opinions by placing comment boxes and continuing employee surveys
 - Continue and strengthen the effort in sending the messages to employees continuously
 - Actively adopt external views from quality consultants, etc.
- g. Raise the level of human resources
- Ensure skilled higher-ranking workers pass on their skills to lower-ranking workers through the visualization of each operation
 - Prevent the black boxing of operations, and train employees to become versatile workers through personnel rotation (within departments, between departments, and between our group companies)
 - Promote the appointment of talented young personnel

3. Other

DM takes it very seriously that we have caused the difficulties to all concerned parties, including our customers and business partners, in connection with our recent misconduct, and has decided that that remuneration will be partially relinquished by executives as follows:

President: 30% of monthly remuneration for 1 month;

Former President: 50% of monthly remuneration for 3 months; and

Three other Full-time Directors: 20% of monthly remuneration for 3 months.

Moreover, as the Former President and the three full-time directors at the time of the announcement of this matter will be resigning as of March 31, 2018, under the new directors'

system from this April, DM is determined to work together to resolve the present matter at an early date and implement the recurrence preventive measures so as to restore trust.

END