

Preventive Measures for the Non-Conforming Product Shipment Issue at Minoshima Works

February 20, 2018

Mitsubishi Cable Industries, Ltd.

1. Introduction

We express sincere apology for the difficulties that we have caused to all concerned parties, including our customers and business contacts, in connection with certain misconduct.

A quality audit performed by Mitsubishi Materials Corporation (the “Parent Company”) led Mitsubishi Cable Industries, Ltd. (“MCI”) to become aware in its internal investigation of the fact that the inspection departments at Minoshima Works (the “Works”) were engaged in inappropriate conducts such as rewriting of measurements for dimensions and material properties of seal products and the omission of testing of certain inspection items. MCI has worked, through an internal project team, to confirm the underlying facts, identify non-conforming products and consider ways to ensure safety.

Given the limitation on the internal investigation to determine the causes and background circumstances of the present matter, on November 13, 2017, MCI established an investigation committee, including an external lawyer, with the goal of investigating the underlying facts.

Additionally, in the process of the subsequent internal investigation, MCI discovered that certain misconducts, including rewriting of data, also existed with respect to rectangular magnet wire (at MCI, the product name is “MEXCEL”).

This report summarizes (i) our preventive measures for recurrence to be undertaken based on the investigation report (“Investigation Report”) prepared by external lawyers and submitted to the investigation committee and (ii) the outcome of the internal investigation.

2. Occurrence Factors of Issues

Based on the contents of the Investigation Report and the outcome of our internal investigation, we classified the occurrence factors of the issues pertaining to the Works and our headquarters (“Headquarters”) respectively and compiled as follows.

(1) Occurrence Factors at the Works

- A) Insufficient consideration of the product development, production and inspection processes when receiving orders
- B) Insufficient allocation of the human and material resources for the quality assurance departments, resulting in its organizational vulnerability
- C) Insufficient system for conducting appropriate inspections
- D) Insufficient system to ensure appropriateness of the inspection operations
- E) Lack of compliance awareness with respect to specifications and standards agreed with customers
- F) Insufficient structure for raising issues with regard to material information in the Works and resolving such issues

(2) Occurrence Factors at the Headquarters

- A) Insufficient framework for quality control at the Headquarters
- B) Insufficient communication between the Headquarters and the Works
- C) Insufficient quality audit from an independent position

3. Preventive Measures for Recurrence

Measures at the Works

- (1) Strengthening of front-loading (corresponding to 2. Occurrence Factors of Issues (1) A))
 - A) Establishment of a framework for discussions on an organizational basis from the design and development stage
 - Make the involvement of production departments, quality assurance departments and production administration departments from the design development stage mandatory, and also make the sales departments be involved as necessary
 - Have the quality assurance departments conduct the final inspections for the transition to the mass production process and have the General Manager of the Works make the approval
 - Review the rules and regulations (e.g. rules and regulations, statements, standards, manuals, and forms) related to the design and development in accordance with the above

- B) Establishment of a framework to understand and share the process capability
 - Establish a framework that enables understanding, analyzing and sharing of the process capability (e.g., understanding the levels of quality by utilizing a production control system and inspection data) in a timely and appropriate manner at the stages of order intake, design and development, transition to mass production and thereafter, and as a result appropriately address a lack of process capability

- (2) Automation of the inspection system (corresponding to 2. Occurrence Factors of Issues (1) B) and C))
 - A) Introduction of the automatic inspection system
 - With respect to product inspection data, establish a system which prevents data rewriting and other misconducts and accurately and promptly confirms the conformance of the inspection data to the specifications required by customers. In connection with the promotion of the automation, introduce necessary inspection equipment and provide necessary system support

- (3) Strengthening the quality assurance departments at the Works (corresponding to 2. Occurrence Factors of Issues (1) B) and D))
 - Strengthen the structures of the Quality Assurance Section and the Inspection Section in the quality assurance departments at the Works

 - A) Strengthening of the structure of the Quality Assurance Section
 - Review and revise the quality control-related regulations of the Works to match the company-wide quality control-related regulations, and clarify the roles, responsibilities, authorities and rules of the Quality Assurance Section
 - Increase the number of staff of the Quality Assurance Section

 - B) Strengthening of the structure of the Inspection Section
 - Increase the number of staff of the Inspection Section (specific number of staff to be increased will be determined in light of the introduction of inspection equipment)
 - Additionally introduce necessary equipment (e.g. automatic dimension measurement instruments) to increase inspection efficiency
 - Conduct periodic rotation of the Inspection Section members

 - C) Review of regulations related to product inspections
 - Review the product inspection-related regulations in order to ensure appropriate inspections. In addition to the revisions to the regulations, develop an inspection process based on

appropriate inspection items and inspection methods, and consistently hold briefing sessions for all inspectors to ensure thorough implementation of the inspection process

- (4) Enhancement of the technology and quality improvement activities (corresponding to 2. Occurrence Factors of Issues (1) A))
- In addition to the enhancement of front-loading, enhance the activities to fundamentally improve technology and quality issues, personnel development and other initiatives

Measures at the Headquarters

- (5) Restructuring of the quality assurance framework (corresponding to 2. Occurrence Factors of Issues (2) A))
- A) Ensuring of independence of the quality assurance departments
- Establish the Quality Assurance Department in the Headquarters, which is to promote and oversee quality control on a company-wide basis
 - Establish a quality control framework that ensures independence from the Works and Amagasaki Works (collectively, the “Two Works”) by having their quality assurance departments directly report to the Quality Assurance Department of the Headquarters.
 - Clarify the roles of the quality assurance departments of the Headquarters and the Two Works, and assign personnel who can enable the Headquarters to effectively fulfill its role toward the Two Works in the quality assurance departments of the Headquarters and the Two Works
 - Enhance the rotation and communication of the quality control-related personnel between the Parent Company and MCI
- (6) Enhancement of governance of the manufacturing site (corresponding to 2. Occurrence Factors of Issues (1) A) and F), and (2) A) and B))
- A) Strengthening of the company-wide quality control framework
- Review the company-wide quality control-related regulations (clarification of roles, responsibilities, authorities and rules)
 - Redesign the company-wide quality management system to establish a framework that can effectively and efficiently exert a control function against the Two Works (A cycle of policy management, operation, audit, management review and improvement will be redesigned into a company-wide PDCA cycle, rather than a cycle closed within each of the Two Works)
 - Conduct monitoring of the status of compliance with the quality control regulations at the Two Works as well as their inspection data by the quality assurance departments of the Headquarters

- B) Formulate rules regarding the reporting of risk information related to quality at the Two Works
 - Restructure and integrate committees and other similar organizations related to quality, and clarify the routes, contents and responsibilities of reporting within each of the Two Works and to the quality assurance departments of the Headquarters and the Parent Company

- C) Confirmation of appropriateness of the quality control rules at the Two Works
 - Have the quality assurance departments of the Headquarters confirm that the rules (e.g. rules and regulations, statements, standards, manuals and forms) of each of the Two Works match the company-wide quality control rules, and issue directives to correct any inconsistency as necessary

- D) Review of risk management
 - Have the quality assurance departments of the Headquarters review the risk management process, including risk identification and assessment, formulation and implementation of countermeasures, progress confirmation and formulation and implementation of corrective measures, establish a specific operation method, and familiarize all employees with such process
 - Provide education aimed at improving and maintaining risk sensitivity under the initiative of the Headquarters

- (7) Awareness reform for quality compliance (corresponding to 2. Occurrence Factors of Issues (1) D) and E), and (2) B))
 - A) Changes in corporate culture
 - In order to change the mindset of prioritizing delivery deadlines, productivity and profits, promote awareness reform based on the code of conduct of the Mitsubishi Material Group that manifests a quality-oriented mindset
 - In order to promote employees' awareness reform, provide education and training that lead employees to understand the formulated code of conduct and the quality control rules and think for themselves how they make use of them in the course of their daily activities

 - B) Enhancement of compliance training by job level
 - Revise the contents of the compliance training that has been provided to date so as to raise awareness of each employee by adding this incident and its factors to the contents as a specific example

- C) Confirmation of employees' comprehension and penetration of compliance
 - Consistently conduct employee compliance awareness surveys to monitor the comprehension and penetration, and consider additional countermeasures for any organization that shows a possible lack of comprehension and penetration

- D) Reflection of the participation in personnel evaluation
 - Introduce a framework to proactively recognize the participation in compliance training and compliance awareness surveys, and consider measures to create a culture that places value on compliance and to reflect the degree of participation in personnel evaluation
 - Introduce a framework in which when an individual raises a question or make a report to his or her superior or via whistleblower hotline with respect to an issue that he or she has learned in the course of business, the reporter will not suffer a disadvantage but rather be positively recognized, and by doing so create a culture that encourages "speaking up"

- E) Encourage active communication
 - Implement personnel rotation between the Headquarters and the Two Works and within the Two Works so as to prevent entrenched personnel deployment within organizations and ensure new staff are constantly assigned, and eventually aim for the realization of (i) discovery of new issues from a new perspective and (ii) elimination of the culture of holding back in the organization.
 - Encourage active company-wide communication beyond the vertical and horizontal relationships, including relationships of departments and job titles

- (8) Strengthening of internal audit (corresponding to 2. Occurrence Factors of Issues (2) C))
 - A) Strengthening of quality audit
 - Conduct objective quality audit by the audit departments of the Headquarters
 - Enhance development of human resources in charge of quality audit

 - B) Strengthening of the audit system
 - Review the system, roles, audit items, and other similar matters of the audit departments of the Headquarters (Recheck whether the company-wide governance and check-and-balance system is working with respect to not only quality but also, among other things, safety and environment)
 - Increase the number of staff of the internal audit departments

4. Other

We take it very seriously that we have caused difficulties to all concerned parties, including our customers and business contacts, in connection with our recent misconduct, and have decided that the President, General Manager of the Minoshima Works, and other Directors will voluntarily return some of their monthly remunerations by 30% for March 2018, 30% for March to May 2018, and 10% for March 2018, respectively.

Moreover, the former President will resign as director, and under the initiative of the President who assumed the office on December 1, 2017, the Company 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.

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