

May 9<sup>th</sup>, 2022

The Japan Steel Works, Ltd.

**The discovery of inappropriate conduct in quality inspections on some of our subsidiaries' products and establishment of the Special Investigating Committee**

Recently, an internal investigation revealed that regarding some of the products manufactured by our subsidiary, Japan Steel Works M&E, Inc. (hereinafter referred to as "M&E"), there were inappropriate conduct in some of the inspections that should be conducted in the manufacturing process, including using such inspection values as fall within the scope of the required specification of customers instead of using actual inspection values which have deviated from them (hereinafter referred to as "Inappropriate Conduct").

This is a serious act that violates contracts with its customers and significantly impairs their trust. We sincerely apologize for the great inconvenience and concerns that may cause our customers, our shareholders, and other stakeholders.

Currently, we are continuing to contact and provide explanations to customers related to such products on which Inappropriate Conduct has already discovered. At the same time, we are verifying the impact on quality or performance of those products. We will continue ongoing surveys and to simultaneously respond to you concerned in good faith and proceed with discussions.

In the internal investigation and verification conducted so far, we have not confirmed any specific problems caused by Inappropriate Conduct which may affect the quality or performance of its products.

At the same time, in response to the recent occurrence of Inappropriate Conduct at M&E, we have decided to establish a special investigating committee composed of external lawyers to investigate the true causes and thoroughly implement preventive measures, and to verify the quality assurance system of not only M&E but also of our group and further strengthen compliance. We will fully cooperate in the investigation of the Special Investigating Committee and make every effort to restore the trust of our group.

1. Summary of Inappropriate Conduct

(1) Beginning and Progress of Discovery

In late February 2022, we received an internal report on M&E's product inspections, and

we conducted an internal survey of M&E without advance notice. In late March of the same year, we confirmed the fact that there was Inappropriate Conduct in quality inspections of some products manufactured by M&E. Subsequently, we continued to conduct internal surveys with the cooperation of external lawyers, and confirmed to date that Inappropriate Conduct have been taken with respect to the products described in (2) below.

(2) Products that have been found to be Inappropriate Conduct to date

Rotor shafts forging for turbines and generators and retaining rings forging for generators

(3) Content of Inappropriate Conduct

A) Major inspections and others for which Inappropriate Conduct has been confirmed

- ① Change and shortage of measuring position of residual stress test \*1, and rewriting of measured value
- ② Rewriting and omitting Gas Analysis Value \*2 by Ladle Analysis
- ③ Change and shortage of measurement position of hardness measurement test \*3, and rewriting of measured values

\*Note 1: Inspections to measure multiple locations with distortion gauges, with the aim of confirming the level and uniformity of residual strengths in products.

\*Note 2: Analysis of gas components (oxide, nitrogen, and hydrogen) to be performed on demand in a Ladle Analysis (analysis of the component of melted steel after smelting and refining).

\*Note 3: Inspection to measure multiple places by hardness meter for the purpose of confirming the homogeneity of products.

B) Structure and cause of Inappropriate Conduct

In M&E's products described in (2) above, while M&E's Engineering Department discuss and agree the required specifications with its customers, it also determines how to report to its customers when the inspection figures which deviate from the required specifications are reported by M&E's Inspection Group. The Engineering Department also assumes the quality assurance function.

In doing so, it is confirmed that M&E's Engineering Department instructed M&E's Inspection Group to prepare the inspection results that differ from the actual inspection

values by showing concrete figures, etc. in documents, etc. so that they are within the scope of the required specifications, depending on the degree of deviations from the numerical values, etc.

M&E's Engineering Department instructed its Inspection Group to rewrite inspection values for those which the Engineering Department assessed not to affect the quality based on the past performance and experience, to prevent delays in delivery.

In addition, in the Inspection Group, the division of duties or the check-and-balance function was lost, for example, by formalizing instructions in writing, etc. and following the instructions of the Engineering Department without modification. The combination of these factors is considered to be the main cause of this Inappropriate Conduct.

We have also confirmed that Inappropriate Conduct have been repeated on an ongoing basis since 1998 at the latest.

## 2. Establishment of Special Investigating Committee

### (1) Purpose of establishing Special Investigating Committee

Special Investigating Committee is established to perform further detailed investigation on facts and causes of Inappropriate Conduct at M&E, to give an advice on the formulation of measures to prevent recurrence. Special Investigating Committee will also provide JSW with recommendation based on the investigation and verification on expanded scope as well as on the verification of JSW Group's quality assurance system.

### (2) Member of Special Investigating Committee (Honorifics omitted)

Member of Committee: Katsuyuki Miyakawa, Partner of Attorney of Tokyo-Marunouchi Law Office

Member of Committee: Kaoru Takamatsu, Partner of Attorney of Hayabusa Aska Law Offices

Each member has no direct interest in us or M&E, and there are no factors that hinder the independence and neutrality of the Special Investigating Committee. The chairperson will be elected by the committee from among its members.

### (3) Survey Results

We plan to complete the survey by the end of October this year and publish the investigation results.

### 3. Impact on Financial Performance

The impact of Inappropriate Conduct on our financial performance is unknown at this time, but we will promptly announce any matters that need to be disclosed in the future.

### 【About nuclear products】

We have not identified any Inappropriate Conduct regarding products specific to nuclear power plants, such as reactor pressure vessel forgings, steam generator forgings, cask forgings for spent fuel transport and storage, and primary cooling system piping materials manufactured by M&E (hereinafter referred to as "nuclear power products").

With regard to these nuclear power products, the Engineering Department does not have a quality assurance function, and a dedicated quality control department has been established with quality assurance functions independent from the relevant Engineering Department. For this reason, the division of duties and a check-and-balance function are strictly maintained, and therefore appropriate internal controls are in place.

In addition, the Quality Control Department has such strong authority to halt or proceed with manufacturing of nuclear power products, and to give shipping approval from quality control point of view, without any pressure from delayed delivery. This means there is an extremely low risk to motivate Inappropriate Conduct may occur.