

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.

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