

# AICHI STEEL

## INTEGRATED REPORT 2021



*Innovate Materials.  
Create Tomorrow.*



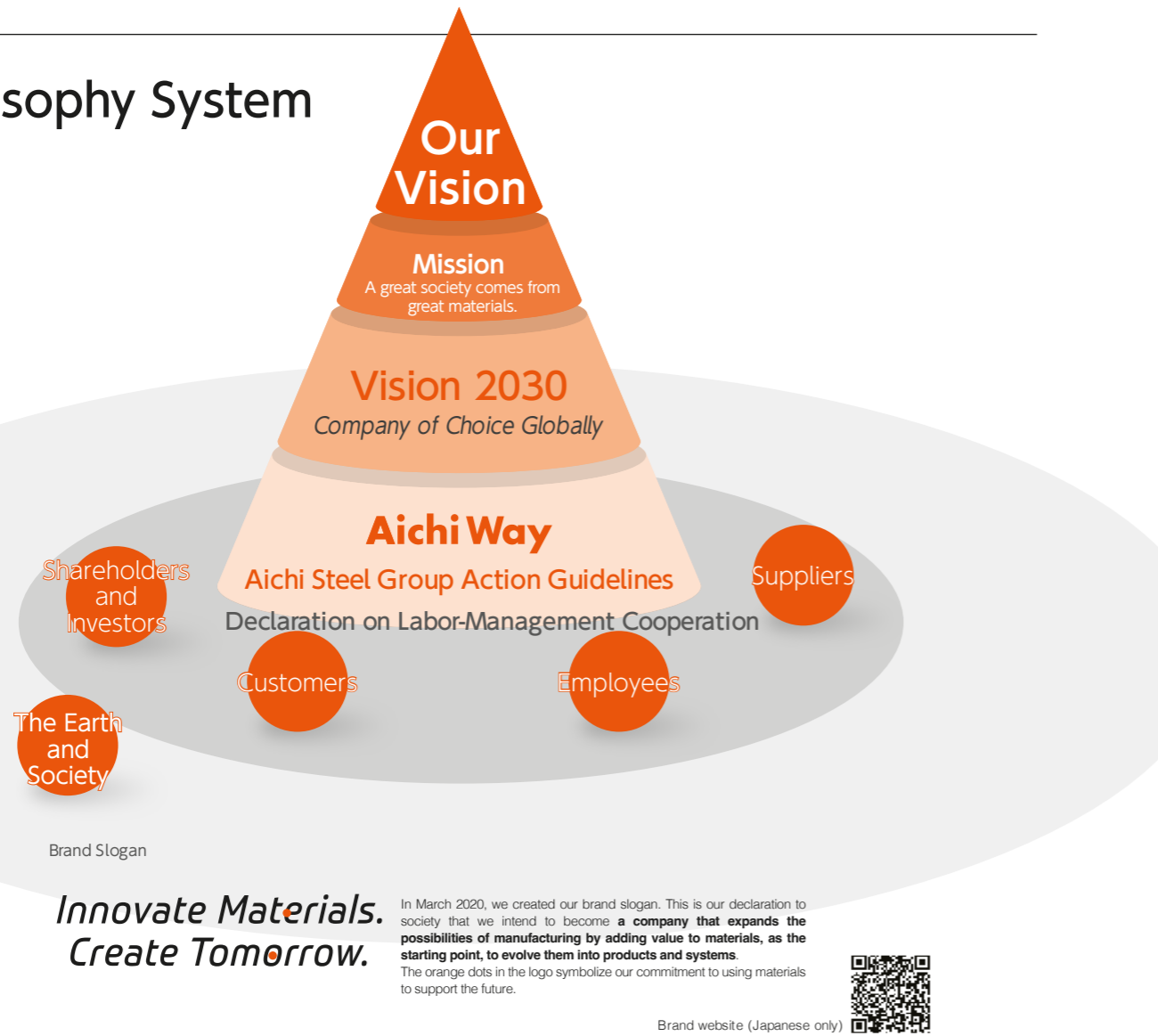
**AICHI STEEL**

# Our Vision

We will strive to make positive contributions to society by providing appealing products from global perspectives and based on our vibrant and trustworthy corporate qualities.

- 1** We will strive to make a positive contribution to society with safe, appealing, and useful technology and products.
- 2** We will pull together culture based on trust, reliability and the pursuit of excellence.
- 3** We will be a good corporate citizen, ever mindful of our environmental responsibilities.

## Philosophy System



### About the Cover

This report uses colors representing the elements of ESG while expressing the steady progress of activities for each and demonstrating a management approach that focuses on steady growth to achieve the Aichi Steel Vision 2030.

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### Editorial Policy

The Aichi Steel Integrated Report 2021 follows an integrated reporting format that combines financial and non-financial information, and presents fiscal 2020 initiatives along with specific examples, to increase understanding of the Aichi Steel Group among our stakeholders.

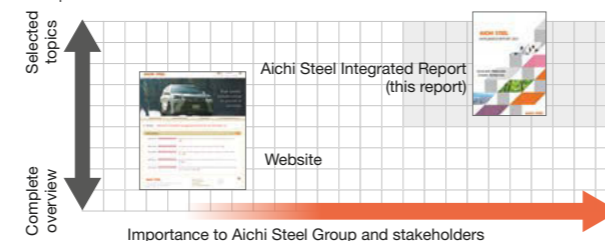
The report primarily aims to inform, in an easy-to-understand manner, our initiatives toward creating medium- to long-term corporate value as we implement ESG\*1 management and contribute to the SDGs\*2 in the middle of a rapidly changing business environment.

Use of color, volume of text, text size and other factors were taken into consideration to create a more easily readable report.

\*1 ESG: Environmental, social and governance  
\*2 SDGs: Sustainable Development Goals

### Reporting Media

Our reporting via print and the web takes advantages of the characteristics of each medium. The print version narrows down the content to those items of significant importance and those of greatest interest to the public, presented in an easy-to-read and easy-to-understand format. The web version offers a more complete overview of our ESG initiatives.



### Readers

This Report is mainly intended for our shareholders and investors, customers, suppliers, other business partners, affiliated companies and our employees.

### Report Period and Scope

The Report covers activities conducted by the Aichi Steel Group during fiscal 2020 (April 2020 to March 2021). However, some activities conducted before or after fiscal 2020 are also explained where necessary.

### Reference Guidelines

- GRI Standards
- International Integrated Reporting Framework (published by IIRC)
- ISO 26000 (Guidance on social responsibility)

### Information Available on Our Website

Website For topics with the "Web" mark, please refer to our website for further details including figures.

[https://www.aichi-steel.co.jp/ENGLISH/csr/csr\\_report/index.html](https://www.aichi-steel.co.jp/ENGLISH/csr/csr_report/index.html)

Please use the web survey to provide feedback (opinions and requests) on this Integrated Report (Japanese only).

<https://forms.office.com/r/JD78kfS35V>

QR code link to form:

### [Important note about forecasts]

The financial results forecasts in this report are based on judgments and assumptions from currently available information. Actual business results may differ greatly from targets, in light of their inherent uncertainty and the potential of revision due to future business operation or changes to information inside or outside the company.

# For an Earth, Society and Company that Continue to Survive and Prosper

Message of Commitment from the President

President **Takahiro Fujioka**

## | Looking Back at FY2020

Aichi Steel celebrated its 80th anniversary in 2020. In the words of Kiichiro Toyoda, who started a business that led to establishment of our company, "Great cars are made with great steel." Based on this belief, while still in the early years of the automotive industry, we set out on the uncharted path of manufacturing specialty steels for automobiles.

What we have inherited from 80 years ago is the **DNA of "a sense of purpose for the future" and "willingness to pioneer new frontiers."** Over the 11 years since I became president, the whole of society, as well as the steel and automotive industries, have faced a time of tremendous change. **We have experienced a series of ordeals,** including the explosion at our Chita Plant on January 8, 2016, which we must never forget, **but have still managed to transform the strength of individuals into a strong organization while achieving steady growth\*1** over this time. Thanks to the January 8 accident, we were able to apply the knowledge gained and systems developed in our response to COVID-19 in fiscal 2020.

With prompt management decisions to establish a

COVID-19 headquarters and support center, and expand the use of teleworking, we were able to create an environment for business continuity without loss of productivity while maintaining safety. We have **organized our lessons from the pandemic into five themes to create a "new business style"** that we are incorporating into our new Medium-term Management Plan and workstyle reform.

During fiscal 2020, COVID-19 created an extremely difficult business environment, resulting in dramatic reductions in sales volumes and increased prices for scrap metal, our main raw material. Production fell by 30% and operating profits were 2.7 billion yen in the red during the first half of the year. However, with a recovery of demand and the strengthening of Genryou Management (managing with limited order quantity) in the second half, we were in the black again after absorbing our first half losses and rapid rises in the cost of raw materials to achieve full-year net sales of 204.9 billion yen, operating profits of 3.5 billion yen, and profit attributable to owners of the parent company of 3.0 billion yen.

With the pervasive sense of despair surrounding the pandemic, I felt that **we needed to commit to a positive financial result in order to maintain and improve employee morale**. While we were unable to control the external environment, including demand and the price of raw materials, we were **determined to implement Genryou Management**, which was something we could do as a company. Genryou Management means building structures that are profitable even with small production volumes by lowering costs and break-even points, and maintaining those levels. Although our activities were only modest, such as determining and carefully managing fixed and variable

expenses, and consolidating our equipment\*2, each of our companies committed themselves to their implementation. It is important to maintain these practices as they provide fertile soil for maximizing profits when sales volumes finally recover. This time, we have seen positive results and I also feel that these efforts have had a positive impact on employee motivation as well. For Aichi Steel, as the price of raw materials has a significant impact on profits, we will continue to focus on implementing Genryou Management to become **a company that remains profitable through production systems that are resilient to change**.

\*1 Steady growth: Growth that is ongoing, even little by little, like the rings of a tree that continue to be formed regardless of environmental change  
 \*2 Consolidating equipment: Aggregation of multiple production lines and equipment, and effective use of excess equipment, line space and labor, to improve utilization rates

## Formulating Vision 2030 for the Aichi Steel Group

On top of the pandemic, society is currently undergoing a paradigm shift based on ideas such as sustainability and SDGs. For us to continue achieving steady growth in this environment, we have to respond to social changes from a long-term perspective. To achieve this goal, **it is essential that Aichi Steel has a core philosophy and framework**.

For this reason, we have **formulated wide-ranging frameworks** that include the in-house company system that we introduced in 2017, the Aichi Way that we formulated in

2018 as a set of universal values and codes for everyone in the Aichi Steel Group to follow, and our brand slogan and Declaration on Labor-Management Cooperation, reinforcing unity between workers and managers, that we established in 2020. While facing an uncertain future, we have also established Vision 2030 in line with our renewed understanding of the need to work backward from an ideal future and incorporate ESG management into our business initiatives.

Vision 2030: Company of Choice Globally	
Basic Policy	Enhance earnings capacity by reforming business and manufacturing capabilities while putting ESG management into practice
Management Guidelines	(1) Contribution to a sustainable global environment (2) Creation of a prosperous society through business reform (3) Employee happiness and corporate development

Clarifying directions for the company will change the perspective of employees and lead to forward-looking decisions about business and investment options rather than being short-sighted. With Vision 2030 launching in fiscal 2020, each in-house company and headquarters has

collaborated on activities to promote greater understanding and penetration of the vision among all group employees. In just over a year since it was formulated, **there has been a visible change in employee awareness, and we are starting to see the results in their thinking, words, and decisions**.

## Confronting a Dramatically Changing Business Environment

In establishing a range of frameworks and clarifying the core philosophy and framework of Aichi Steel, we now understand where we need to be headed as an organization. This means using CASE technologies, carbon neutrality, and digital transformation (DX) to strengthen the company's foundations and accelerate implementation of more essential initiatives.

**CASE (connected, autonomous, shared & services, and electric)**  
 To survive the once-in-a-century transition that the automotive industry is undergoing, we have to offer products that contribute toward the A (autonomous driving) and E (electric) elements of CASE technologies. Going forward, we will continue to accelerate our existing initiatives while driving further reinforcement and implementation.

**Carbon neutrality**  
 The Japanese government's Carbon Neutral by 2050 initiative will have a significant impact on companies like Aichi Steel that are heavy users of electric energy. However, because this is a core mission for us, we believe that **it also offers opportunities for our company**, despite the difficulties it brings, such as considerable increases in energy and development costs. While collaborating with the government, other industries and competitor companies, we have established a task force, which I am leading, **that aims to reduce CO<sub>2</sub> emissions by 35% by 2030 (compared to 2013 levels) and work toward carbon neutrality by 2050**.

To achieve these targets, we will develop innovative technologies for reducing CO<sub>2</sub> emissions while maintaining focus on full implementation of initiatives we have been conducting in the past and initiatives we can conduct now. If each organization determines how to reduce energy consumption in each and every process of their production activities, and how to develop energy-saving technologies, and then establishes targets that they put into practice, then it will demonstrate the likelihood of success and encourage employees to move forward. I am confident that the unique Kaizen capabilities developed over the years by the Toyota Group can be applied to decarbonization as well. By expanding our capabilities, used in the past to overcome many ordeals, with a sense of urgency, we will work on achieving carbon neutrality going forward.

**Digital transformation (DX)**  
 Digital transformation has the power to improve the quality of information and increase the speed of management. It will **help our businesses reform and support the "creation of a prosperous society through business reform," which is a management guideline in Vision 2030**. In April 2021, we established a cross-company organization with leaders assigned to each of the five themes to clarify directions and deadlines. Initiatives have been launched to create a resilient framework for manufacturing and developing talent. The reason that we chose the cross-company format was to maintain a bird's eye view of the initiatives. Tasks that concern the company as a whole are connected because departments and organizations cannot complete them on their own. They have to understand the whole picture, including how the different things they have to do are connected, and what they ultimately want to achieve.

Under this organization, we will work to digitize data on tasks that previously relied on skills, intuition and tacit knowledge, and streamline partially optimized data from each process to create explicit knowledge. This



GMPS autonomous driving support system



Electric furnace exhaust heat recovery system completed in 2020



will not only lead to faster management decisions but will also improve intellectual productivity as well to improve employee motivation.

In the middle of a business environment that continues to rapidly change, I realize that **I must take command by demonstrating directions for the company and then determining whether we are going in the right direction or**

**whether the methods we are using to get there are appropriate.** I believe the proper course of action in a changing environment is to start afresh and proceed from there, so Vision 2030 will not remain unchanged. This is because **it is important at this time to move quickly but with an eye on the future.**

Refer to [pp. 9-10](#) for details. ↘

## I Positioning and Key Points About the New Medium-term Management Plan

In April 2021, we launched a new Medium-term Management Plan to run for three years. This is an action plan under Vision 2030, as a concrete demonstration of the priority issues and roadmap for the first three years of initiatives to realize Vision 2030. With detailed information on what each of us should be doing in our daily jobs, the plan enables all employees to share the same directions and move forward to bring Vision 2030 to fruition.

It is clear that a vision cannot be realized if only supported by management, and **it is more important for 100 people to take one step forward, than for one person to take 100 steps, so that we all advance as one.** The idea of the new Medium-term Management Plan is that every employee must be able to feel themselves moving slowly but surely forward over the three years of the plan. For this reason, I am taking the lead myself to disseminate information through channels such as the internal newsletter, where I can speak my mind, in order to promote further understanding and penetration of the plan within the company.

There are four key points to the new plan that I want to focus on. The first is **putting “ambidextrous management” into practice.** It is only a matter of time before our steel and forging businesses start to decline if we do nothing, which is why we have to create products that add value and maintain profitability. On the other hand, in the areas of stainless steel and smart technologies, there are opportunities to create new businesses. This is why, under the new plan, we will put ambidextrous management into practice **to both maintain and expand profitability.**

The second key point is **establishing specific three-year targets for carbon neutrality, CASE technologies and digital transformation, and ensuring steady implementation of systems to promote them.** We will create a solid foundation over this time to support initiatives for realizing our vision for fiscal 2024 and beyond. Designated in April 2021 as a Digital Transformation Certified Company by Japan’s Ministry of Economy, Trade and Industry, we will continue to enhance these initiatives going forward.

The third key point is **putting Genryou Management into practice and thoroughly implementing our “Jikotei Kanketsu”**

**(defect-free process completion) approach,** which are two ongoing initiatives for creating underlying strengths for the company. In terms of Genryou Management, we will continue to **maintain profitability with resilience to upward and downward movements** in response to change, and to achieve this we will ensure implementation of companywide efforts toward building a stronger company.

“Jikotei Kanketsu” is an overall approach to good work practices, rather than a localized approach, that clarifies the work that each of us should be doing. Through this approach, employees review and continually improve their own work to enable downstream employees to smoothly complete their tasks without defects. In other words, the basic approach is to have confidence and pride in your own work no matter what that work may be, whether at Headquarters or elsewhere, not just at production facilities. Since 2018, we have been conducting “Jikotei Kanketsu” training for employees promoted to team leader positions, and we have been developing environments that enable instruction and practice of this approach in the workplace. We also continue to develop educational curricula, such as problem solving and the Toyota Production System (TPS), and through such efforts to develop our employees, **we will improve the strength of our organization by improving the individual capabilities of each of our employees.**

The fourth key point is incorporating **a new business style** into our new Medium-term Management Plan with the aim of using the lessons of COVID-19 to achieve growth for the company. The new business style comprises (1) safe and reassuring work environments, (2) contribution to all stakeholders, (3) enhanced work life balance (4) development of autonomous human resources, and (5) promotion of cost reductions in line with the TPS. I want to respond properly to the many different social and attitudinal changes that the pandemic has brought.

As one of the ways that we will achieve these goals, **we have completely reformed our executive management structure.** To achieve faster decision-making and speedier business execution that can meet drastic changes in the business environment, we have revised the format to focus

on roles instead of titles, while bringing all management into one structure that we have simplified by reducing ranks and numbers. Under this new structure, I want to focus on the above four key points to help realize the new plan.

## I Overview of the New Medium-term Management Plan

Measures under the new Medium-term Management Plan will embody the three management guidelines of Vision 2030.

Under the **“contribution to a sustainable global environment”** guideline, we will develop and improve innovative technologies toward carbon neutrality from the 4R perspective of reduce, reuse, recycle, and renewable. I am leading the Task Force for Promoting Carbon Neutrality where we are implementing companywide initiatives under the three pillars of eco-management, eco-energy, and eco-production. The task force comprises six subcommittees in the areas of planning, technology innovation, energy conservation, process reforming, environmental conservation, and eco-products.

Under the **“creation of a prosperous society through business reform”** guideline, we will accelerate the creation of value-added products by reforming our existing

## I The Challenge for Survival in the Future

Aichi Steel is a company that started from the determination to produce steel from scratch. This **high aspiration, and innovation and creativity, are our DNA and our strengths,** which have been passed down to us as assets. In the Aichi Way, we have embodied them in the form of action guidelines. As the only materials company within the Toyota Group, we have an obligation to supply high quality, low cost products to contribute to the growth of the group. As such, we have applied this awareness and practice to create specialty steel technologies that produce high quality products. Contributing to the businesses of all our customers, these technologies are appreciated not only by the Toyota Group but by other companies as well.

Within the steel industry of Japan, specialty steels are also considered to be the final stronghold against overseas offensives due to the outstanding quality and superior productivity they provide, and their excellent technical capabilities and competitiveness based on proprietary know-how. From the social dimension, the steel industry is situated in an extremely difficult situation. However, Aichi Steel **is determined to tackle carbon neutrality and other difficult challenges, and to raise its corporate value, as the developer of specialty steels in Japan and as a company that underpins the growth of the Toyota Group.**

Because of these difficult times we live in, I would like to



businesses, and accelerate development in next-generation areas such as CASE technologies. Finally, we will pursue these efforts through the **“employee happiness and corporate development”** guideline as we continue building environments where diverse human resources can play active roles and where our employees can work with vigor and enthusiasm.

Refer to [pp. 13-14](#) and [pp. 25-32](#) for details. ↘

raise **“Survival”** as my thesis (an assertion of intent). By formulating, sharing, and continually implementing a clear framework, we have been able to learn from our many past difficulties, including the January 8 accident. I feel that we have acquired considerable experience and knowledge, and as a result have dramatically improved our ability to survive. But **this ability to survive is really “the power of people.”** Going forward, I will continue focusing on developing human resources and, as per part of our company vision, create a corporate culture where every employee has a sense of “making a positive contribution to society” while creating an underlying strength for responding to any change in the business environment with a forward-looking, can-do attitude. Changes in our surrounding environment are intensifying, but we have to work together to survive these difficult times. I aim to continue leading the way and taking the initiative **so that every employee can share the collective consciousness, and take on the challenges, of “Survival.”**

I have been given the responsibility of ensuring that Aichi Steel **continues to survive and develop as a company for decades to come, and that it remains a company of happy, smiling employees into the future,** and I promise to do my best to achieve this goal.

# Business Environment Changes

As the social environment continues to change at a dramatic pace, Aichi Steel needs to address a series of new challenges, including CASE technologies and carbon neutrality. In addition to analyzing risks and opportunities throughout society, we turn the spotlight onto carbon neutrality in this report as a particularly fast-changing topic and introduce related initiatives and long-term strategies of our company.

Environmental Analysis	Category	Risks and Opportunities	Measures (Current)
Changes in the global environment	<ul style="list-style-type: none"> <li>Global warming</li> <li>Biodiversity</li> </ul>	<ul style="list-style-type: none"> <li><b>Response to carbon neutrality</b> <ul style="list-style-type: none"> <li>Increasing burden of energy costs</li> <li>Increasing burden associated with developing innovative technologies and utilizing renewable energy</li> <li>Increasing trust in companies working to achieve carbon neutrality</li> <li>Increasing demand for eco-products</li> <li>Improving competitiveness of technologies through development of innovative technologies</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><b>Aichi Environmental Action Plan (renewed every five years)</b></li> <li><b>Development and adoption of technologies to reduce CO<sub>2</sub> emissions</b> <ul style="list-style-type: none"> <li>Development and in-plant trials of heat storage system able to recover exhaust heat from plants (2019)</li> <li>Exhaust heat recovery system able to convert exhaust heat from electric furnaces into steam energy and use it (2020)</li> </ul> </li> <li><b>Environmental preservation activities</b> <ul style="list-style-type: none"> <li>Local and social contributions, including development of Nakashinden green spaces and maintenance of biodiversity (from 2013)</li> </ul> </li> </ul>
Changes in existing market environments	<ul style="list-style-type: none"> <li>Social infrastructure lifespan</li> <li>Iron and steel demand trends</li> </ul>	<ul style="list-style-type: none"> <li>Rebuilding of social infrastructure</li> <li>Growth of overseas manufacturers and structural reform of iron and steel companies</li> </ul>	<ul style="list-style-type: none"> <li>Development of materials and products that can help with updating of social infrastructure</li> <li>Improved competitiveness of integrated forging with steel making processes</li> </ul>
Arrival of the smart society	<ul style="list-style-type: none"> <li>CASE (automobile structural changes, autonomous driving)</li> <li>Digital transformation</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of the EV market (expansion of demand for materials and components for BEVs)</li> <li>Reduction in use of specialty steels due to electrification of vehicles</li> <li>Expansion of markets for new technologies and materials</li> </ul>	<ul style="list-style-type: none"> <li>Development of materials and components for BEVs and FCEVs</li> <li>Expansion of business into new fields</li> <li>Improvement of productivity through digital transformation</li> </ul>
Changes in social environment	<ul style="list-style-type: none"> <li>Aging and diversity</li> <li>Safety and health</li> <li>Spread of new infectious diseases</li> </ul>	<ul style="list-style-type: none"> <li>Dwindling workforce due to declining birthrates</li> <li>Driving workstyle reform</li> <li>Impacts of pandemic on business</li> </ul>	<ul style="list-style-type: none"> <li>Enhancement of diversity</li> <li>Improvement of work environments</li> <li>Health promotion activities</li> <li>Building of flexible production systems and promotion of diverse workstyles</li> </ul>

## Working to Achieve Carbon Neutrality

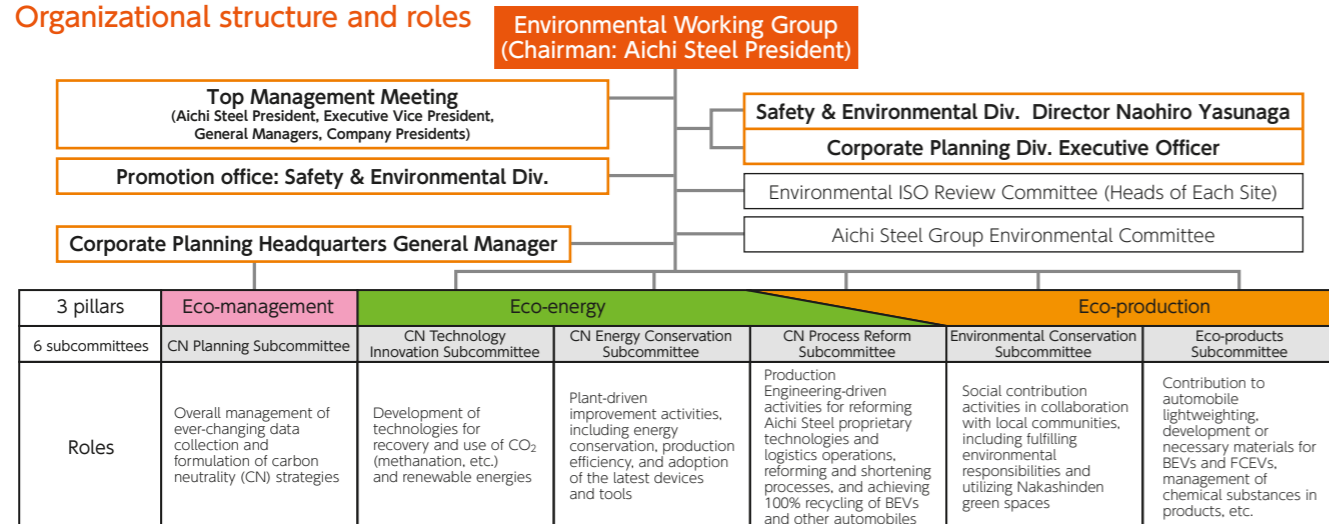
The Japanese government's Carbon Neutral by 2050 initiative\*, launched in 2021, will have an enormously significant operational impact on manufacturers using electric furnaces like Aichi Steel, a heavy user of electric energy. This includes increases in the cost of energy and expenses associated with developing completely new technologies. Rather than wavering between whether or not to adopt this initiative, we accepted carbon neutrality as a necessary challenge and focused on what we needed to do to reach the target. We are now working hard to achieve carbon neutrality.

\* The Japanese government first launched the Carbon Neutral by 2050 initiative in 2020, and revised its CO<sub>2</sub> reduction target for 2030 upward to 46% in 2021.

### New initiatives in progress: Establishment and operation of the Task Force for Promoting Carbon Neutrality

Within the Environmental Working Group, chaired by President Fujioka, we have been working on initiatives such as building a low-carbon society, building a resource-recycling society, and preventing environment abnormalities. To enhance these activities, we have reorganized and have commenced activities under three pillars. We have also designated two of our seven plants in Japan as "carbon neutral model plants" where we are taking the lead and implementing two initiatives: (1) Utilization of solar power to achieve in-house power generation at Seki Plant, and (2) Promotion of CO<sub>2</sub> reduction through use of renewable energy at Kariya Plant.

#### Organizational structure and roles



## Interview

# Carbon Neutrality through Perseverance and Innovation

Aichi Steel is a resource-recycling company, using steel scrap from automobile and infrastructure dismantling as our main raw material in manufacturing. The Aichi Environmental Action Plan sets out plans and targets for reducing CO<sub>2</sub> emissions and addressing environmental issues in local communities. In addition to adopting new technologies for improving heat efficiency and recovering exhaust heat, we have continued activities to achieve harmony with nature under the plan, including installation of LED lighting and other efforts to conserve energy, and creation of biotopes from Nakashinden green spaces. One important guideline for promoting ESG management under Vision 2030 is **"contribution to a sustainable global environment,"** and I am proud of the way our company has surely and steadily implemented such initiatives over many years.

Last year, the government launched its Carbon Neutral by 2050 initiative, which represents a huge challenge for us because our existing initiatives and pace of implementation alone will not be enough. To reach this target, we need a massive change of policy that does not just concern us but includes the establishment of significant guidelines and measures by the government, the cooperation of energy, transport and all other industries, and the development of innovative technologies. We perceive **this situation as offering new business opportunities rather than risks. We feel that it is important to utilize the know-how built up over many years of improvement activities in developing innovative technologies and new products that anticipate future global needs.**

Over the years since joining Aichi Steel, I have acquired most of my experience in the hot rolling mill at Chita Plant and in Production Engineering. I have worked as Plant Manager of Chita Plant, General Manager of Production Engineering Headquarters, and Hagane Company President. As an operator of electric furnaces and other heating furnaces that use large amounts of electric power and fuels, Aichi Steel is a heavy user of energy. Therefore, in working toward carbon neutrality, the increase in energy costs will be an unavoidable challenge for us. In the past, we faced many changes in the social environment that were out of our control, from oil shocks and appreciation of the yen to the global financial crisis and the current COVID-19 pandemic. At each of these times, we have worked together to confront the issue, grown stronger as a company, and overcome the difficulties. Going forward, **we will continue turning difficulties into opportunities by developing innovative technologies that demonstrate our leadership in the steel industry, developing eco-products for the automotive industry, using solar power and other renewable energies, reusing CO<sub>2</sub> (methanation, etc.), and using hydrogen and ammonia.** By driving these innovative initiatives, we will contribute toward realizing a green society.

### Driving appropriate, timely and efficient initiatives through the Task Force for Promoting Carbon Neutrality

After **establishing the Task Force for Promoting Carbon Neutrality, led by the president with myself as general leader,** we commenced operations from June. Each subcommittee has a leader and support officer assigned to promote specific topics in a timely manner through speedy and reliable business decisions.

The CN Planning Subcommittee has an important role in determining overall directions with an added focus on the business environment. With dramatic changes already occurring in the short time since the government launched this initiative, **it is important that we gather accurate and up-to-date information to set up the most appropriate response quickly.** With the necessity of also moving ahead with a shared understanding of the targets, this subcommittee is gathering information from a wide range of sources, not just steel companies. In addition to individual efforts, use of renewable energy is essential, so it is also developing collaborative structures with energy companies.

Through this task force, we will **start by working to reduce CO<sub>2</sub> emissions by 35% by 2030 (compared to 2013 levels) while also investigating how to achieve carbon neutrality even earlier than 2050.**

#### Important long-term perspectives

This initiative will not produce results immediately. Rather, it will be a long battle that we will persevere with in order to realize carbon neutrality by 2050 at the latest. This is why we have recruited many young people in their 20s and 30s as members of the task force, while building experience in ways to drive these initiatives **and developing talented people who will ensure efforts continue until we reach carbon neutrality.** I understand that my role **is to create the roadmap and foundations to reach that goal, and then pass the reins to the younger generation as future leaders.** I will strive to ensure Aichi Steel survives well into the future.



**Naohiro Yasunaga**  
Safety & Environmental Officer  
Director and Managing Executive Officer

# Initiatives to Realize Vision 2030 (Medium-term Management Plan and Aichi Steel Priority Issues)

Vision 2030 clarifies what we want to achieve by 2030, and it presents a basic policy to enhance earnings capacity by reforming business and manufacturing while putting ESG management into practice. As a concrete plan and targets to realize this vision in respect to the FY2021–23 Medium-term Management Plan formulated in May 2021 and the five priority issues of ESG Management that we have been continually working on, we will strengthen the foundations of our company through digital transformation (DX) and accelerate initiatives, and use this to achieve steady growth.

## Three Management Guidelines to Realize Vision 2030

### Contribution to a sustainable global environment

- 1 Fulfill environmental responsibilities
- 2 Contribute to a low-carbon society
- 3 Harmony with nature

### Employee happiness and corporate development

- 1 Safe and reassuring work environments
- 2 Enhance work life
- 3 Produce autonomous human resources

### Creation of a prosperous society through business reform

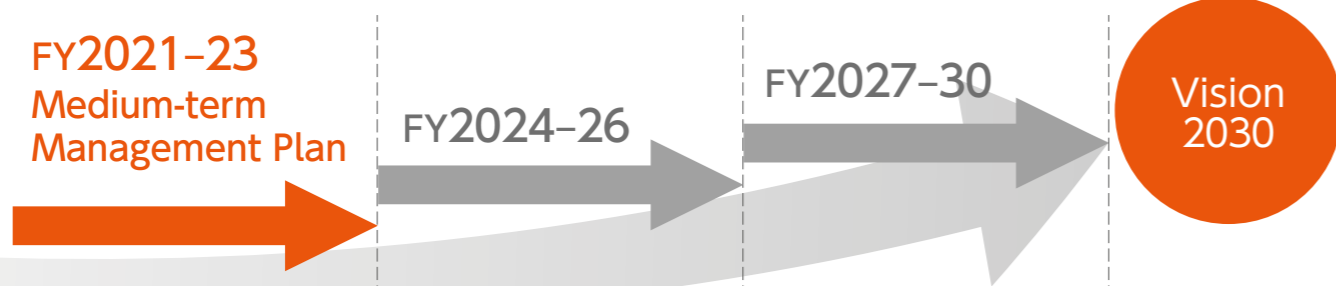
- 1 Reform existing business
- 2 Develop business in new (smart) fields
- 3 Shift from manufacturing to building value-added service systems



## Driving DX to Accelerate Solutions for Priority Issues (examples)

- Digitization of data on tasks that previously relied on skills, intuition and tacit knowledge
- Creation of explicit knowledge from streamlined data
- Improvement of intellectual productivity to increase employees' motivation

## Positioning of Vision 2030 and the New Medium-term Management Plan



## Aichi Steel Priority Issues

Priority issues	Components	Key performance indicator (KPIs)	Applicable section
<b>1</b> Contribute to a sustainable global environment Environmental	Environmental responsibility CO <sub>2</sub> emission reductions Harmony with nature	Volume of direct and indirect landfill waste Breakdown of energy use (CO <sub>2</sub> emissions) Status of efforts to preserve biodiversity (number of Nakashinden indicator species, number of volunteer activities, etc.)	p. 46 (Volume of direct and indirect landfill waste) p. 19, p. 46 (Total CO <sub>2</sub> emissions) p. 20 (Harmony with nature)
<b>2</b> Encourage the creation of workplaces that are safe and comfortable to improve employee happiness Social	Safe and reassuring work environments Work-life balance enhancement Autonomous human resources production	Status of facilities improvements based on safety evaluations, status of safety measures and efforts to strengthen safety awareness, and frequency of lost time accidents Assistance and programs for supporting diverse work styles, and their status of use Status of efforts to improve employee productivity	p. 22 (Frequency rate and number of lost time accidents) p. 21 (Initiatives toward diversity) p. 22 (Human resources development)
<b>3</b> Create a prosperous society through business reform and provide extremely competitive products Social	Existing business reform Development of business in new fields Shift from manufacturing to building value-added service systems Quality-improvement initiatives	Initiative status and growth strategies of each Company Status of quality improvement efforts (number of recognitions received and description) Sales staff training, quality improvement activities (number of times held, number of participants, etc.) Collection of customer evaluations (number collected and percentage of improvements, resolutions, etc.)	pp. 25-32 p. 24 (Awards for Group companies) Website (Training programs for sales staff) Website (Collection of customer evaluations)
<b>4</b> Strengthen relationships with local communities, and actively contribute to society Social	Presence in the local community Local communities	Status of social contribution activities selected under in-house criteria (number of participants) Status of local community development programs (plans and achievements against those plans)	p. 33, p. 46 (Annual number of volunteers) p. 34 (Interaction with the local community)
<b>5</b> Increase compliance awareness globally, and strengthen corporate sustainability Governance	Compliance (environment) Compliance (society) Compliance (product responsibility) Governance system	Results of environmental management system audit Status of various efforts to strengthen compliance (number of lectures and internal audits; held as a percentage of those planned) Certification and review by a third-party organization	Website (Environmental audit results) p. 37 (Compliance promotion activities) Website (Third-party certifications)

# Aichi Steel Group FY2021-23 Medium-term Management Plan

Vision 2030: Medium-term Management Plans of each department that are closely associated with the three management guidelines

The Medium-term Management Plans for each department and company function are closely tied to the three management guidelines in Vision 2030. They are also an important step toward realizing that vision. The whole company will work together on activities to ensure steady implementation of the Medium-term Management Plans as we move toward the overarching goal of realizing Vision 2030.

## Quality

**Aims** Master manufacturing with a focus on quality  
**Priority Issues** Strengthen the foundations of Jikotei Kanketsu for office and plant workers by promoting the three pillars of quality

- Three pillars of quality**
- (1) Quality management: Reforming QMS based on IATF 16949
  - (2) Development of quality-conscious human resources: Developing and utilizing talent able to put Jikotei Kanketsu into practice
  - (3) Fundamentally high quality design:
    - Strengthening quality assurance for existing products
    - Building a quality assurance system for new products

## Production Management

**Aims** Drive manufacturing innovation: Strengthen the foundations of TPS to help with Genryou Management  
**Priority Issues**

- Drive business process reform: Consistency and digital transformation
- Genryou Management and optimized overall direct control: Personnel management and assignments, etc.
- Develop TPS-conscious human resources: Driving force behind manufacturing innovation

## Marketing & Sales Headquarters

**Aims** Maintain volume while improving profitability  
**Priority Issues** Fulfill sales responsibilities
 

1. Secure order volumes up to the limits of production capacity
2. Improve profitability by refilling orders

## Research and Development Headquarters

**Aims** Dramatically increase the speed of R&D to become an innovation creator  
**Priority Issues** Drive innovation through manufacturing that creates a sustainable and smart society

## Manufacturing Innovation Headquarters

**Aims** Manufacturing with the best quality, delivery and cost to achieve steady growth  
 Create workplaces that can utilize individuality and an overall optimized perspective  
**Priority Issues** Realize Vision 2030 and Genryou Management

## Companies

Details of the Medium-term Management Plan for Hagane, Stainless Steel, Kitaeru, and Smart companies:  
 → Refer to Priority Issue 3 on pp. 25-32



## Environment

**Aims** Eco-program for a happy, smiling and prosperous future  
**Priority Issues** Contribute toward a sustainable global environment by implementing three pillars of the basic environmental policy

- Three pillars of the basic environmental policy**
- (1) Eco-energy: Contribute toward a low-carbon society by reducing CO<sub>2</sub> emissions
  - (2) Eco-production: Contribute toward a resource-recycling society by recycling automobiles
  - (3) Eco-management: Fulfill environmental responsibilities and grow together with local communities

## Safety

**Aims** Transform into a company recognized by society as having a safety culture  
**Priority Issues** Strengthen foundations through reform of management, human resources and workplaces

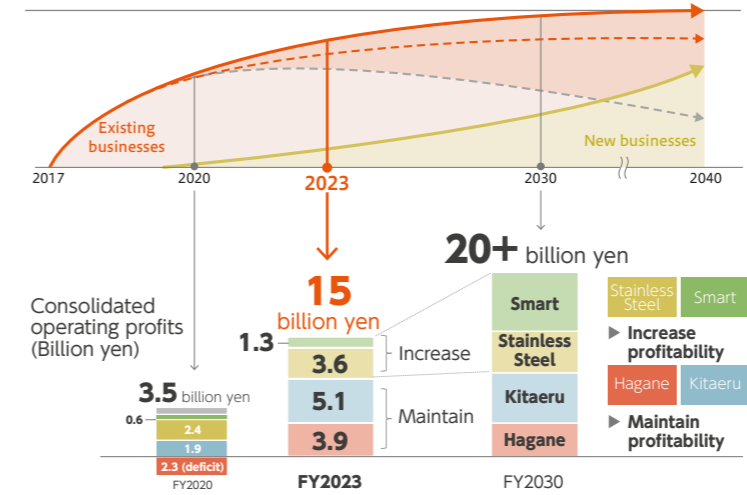
- Priority Safety Measures**
- (1) Safety management: Culture of safety with mutual awareness
  - (2) Development of safety-conscious human resources: Teaching company traditions and developing autonomous human resources
  - (3) Fundamentally safe design: Improving disaster mitigation efforts
  - (4) Health management: Creating workplaces with an open culture where employees can work with vitality

## Corporate Planning Headquarters

**Aims** Individual self transformation, with all Headquarters uniting to quickly and boldly work toward employee happiness and corporate development  
**Priority Issues**

- Manage progress of Vision 2030, medium-term and annual management plans, and effectively invest resources
- Quickly and strongly implement ESG- and stakeholder-oriented measures
- Develop strategies for subsidiaries to help improve corporate value for the Aichi Steel Group

## Profit Targets



## Key Management Targets

	FY2020 (Actual)	FY2023 (Forecast)
Net sales	204.9 billion yen	250.8 billion yen
Operating profit margin	1.7%	6.0%
Payout ratio	29.1%	30.0%
ROE	1.9%	5.5%
Capital expenditures*	12.8 billion yen	51.2 billion yen
Interest bearing debt*	75.7 billion yen	62.7 billion yen
Depreciation expenses*	14.4 billion yen	16.9 billion yen

\* Non-consolidated



Message from the Finance Director

# Tackling Manufacturing Head-on as We Continue to Build on Our Collective Strengths

I would like to start by thanking everyone for their continued support of Aichi Steel.

To ensure all our stakeholders, including shareholders, continue to feel good about their support for our company, in addition to the assurance and stability we always provide, we aim to be ready for any change in the business environment. I am confident that we already have enough base and assets that will enable us to do that.

Ever since our company was founded, we have worked hard for the betterment of society using our traditional manufacturing capabilities. President Fujioka's management style **focuses on being thorough, and working to evolve and improve Aichi Steel, while protecting the DNA of the company and valuing the basics of manufacturing.**

For example, with this new challenge of carbon neutrality, the whole company is working hard together. We are sharing the challenge and doing everything we can to deliver solutions. During the process, we struggle, we think, we maintain our resolve, and we push through to the end. By doing so, team members grow and can respond at a higher level. We will spiral up by continuing such a cycle. **By clarifying directions through the Company Vision and Medium-term Management Plans, everyone at the company is able to learn about the TPS, TQM, and problem-solving skills, and provide honest input to improve them. This system of ongoing improvement has the overwhelming ability to strengthen our individuals and organizations while always producing the right answers.** One concrete example of this is Genyou Management (managing with limited order quantity), which enabled us to show good profitability in our full-year results by adjusting the production system in line with volumes when production took a massive downturn, followed by a massive upturn, as the pandemic spread. By strengthening the capabilities of our individuals and organizations, we are ensuring improvements to the underlying strengths of manufacturing.



In the 167 QC Circle teams, knowledge is shared to solve problems [Image: administrative department]

We have also managed to **maintain a rating of "A"** for our financial rating. In discussions with shareholders and investors, I sense a feeling of trust **in our ability to maintain strong financial health.** The share market has evaluated positively as well, with Aichi Steel judged as meeting the criteria for listing on the TSE Prime Market Index in the new market segments from April 2022.

I also think that being part of the Toyota Group will become more and more significant for us going forward. Obviously, it means that we have a stable customer base, but more importantly, **it means that we have responsibilities and missions to fulfill as part of the Toyota Group, one of the world's leading groups of companies.**

As a member of the Toyota Group, we are always directly involved in the latest and greatest social challenges and have to tackle these difficult targets head-on. This gives us the opportunity to apply ourselves tirelessly to these challenges, and by remaining resolute in our efforts, we can hone our capabilities and improve our competitiveness.



Participation in the National Skills Competition from 2019 to create a culture that values technical skills

Going forward, **we will use these comprehensive assets—traditional manufacturing capabilities, ability to continue strengthening our individuals and organizations, stable financial base, and Toyota Group strengths—to respond flexibly to changes in the environment while increasing the pace of "kaizen" and reform.** We will also not hesitate to invest in reviews of our portfolio as well as the new technologies and facilities required to survive difficult business environments. We understand that it will take time to achieve our targets, such as return on assets, but we will monitor our progress as appropriate. Above all, you can trust in our collective strengths.

At Aichi Steel, every day is spent building on our collective strengths so that we can become the Company of Choice Globally.



Active companywide participation in TPS self-study meetings to promote use of the TPS [Image: Joint workshop held at Aichi Steel in 2019]



President Fujioka providing guidance directly to managers in a problem solving lecture



**Naoki Ishii**  
General Manager,  
Corporate Planning Headquarters  
Managing Executive Officer

# Contribute to a sustainable global environment

Priority Issue 1

The Aichi Steel Group has established medium- to long-term targets around three environmental issues—"building a low-carbon society," "building a resource-recycling society" and "achieving harmony with nature"—and is working to achieve those targets. Through these efforts, we are achieving efficient use of energy and resources and, through harmony between the global environment and manufacturing and by providing products and services with low environmental impact, we are contributing to a sustainable global environment.

SDGs relevance



## Environmental management

### Environmental activity promotion system

We formulated the "Environmental Action Plan" in June 1993, and the "Aichi Steel Environmental Charter" in June 1996. In order to achieve our goals, we are actively rolling out new initiatives. In light of the increasing global trend to ban, restrict, and control certain chemical substances contained in products, we revised the "Aichi Steel Environmental Charter" and management system in February 2017 to strengthen our management of chemical substances. In

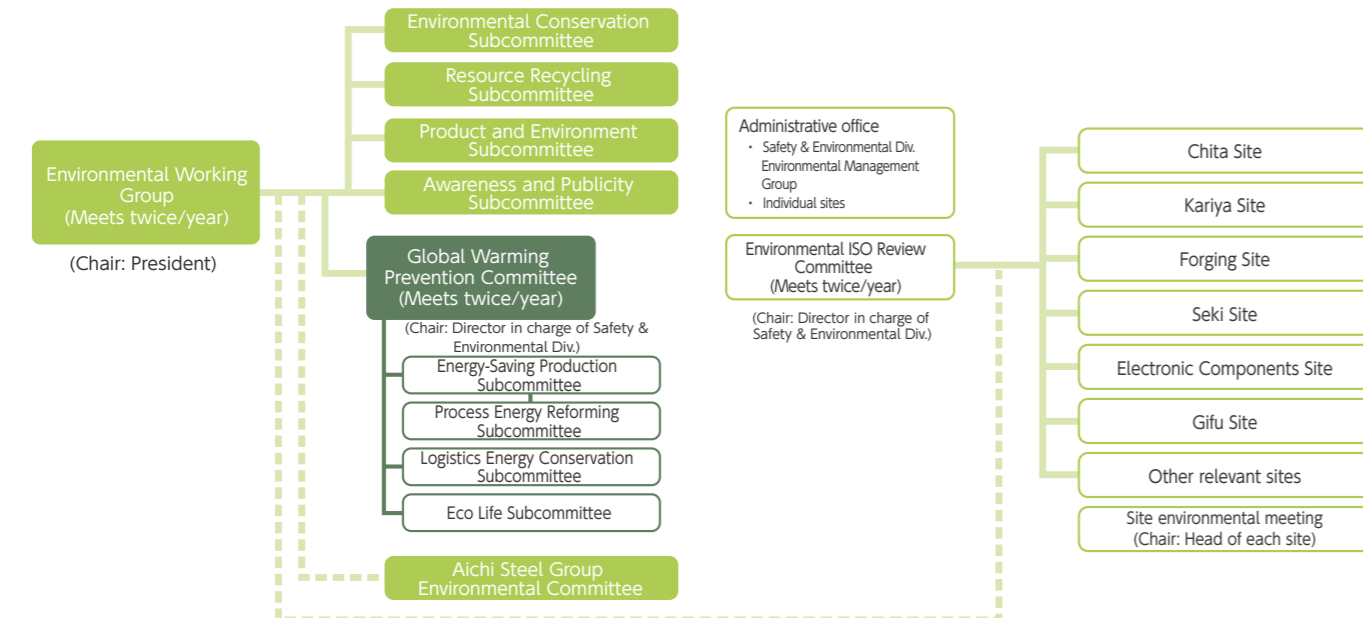
order to promote these revisions, we have established a new organizational system. The Environmental Working Group now oversees four subcommittees, the Global Warming Prevention Committee, the Aichi Steel Group Environmental Committee, and promotes a variety of activities aimed at environmental conservation. In addition, we are currently working to ensure that all consolidated subsidiaries that operate production sites are ISO 14001-certified.

### Environmental guidelines

In order to promote environmental management activities, we have drawn up a set of Environmental Management Regulations. Its content can be broadly divided into the following four parts: 1) Items related to promoting environmental management; 2) Items related to compliance with and management of environmental regulations (laws,

ordinances, agreements, etc.) such as the Basic Environment Law; 3) Items related to the advance evaluation of the environmental impact of our products, raw materials, sub-materials, and facilities and; 4) Items related to supporting and cooperating with societal and local environmental conservation activities.

### Environment management promotion organization (as of March 31, 2020)



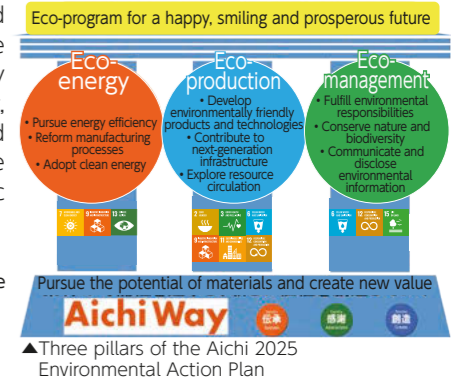
## Aichi Environmental Action Plan

As a statement of policies and plans for environmental actions from fiscal 2016 to fiscal 2020, the Aichi 2020 Environmental Action Plan adopts three core themes for the direction of our environmental action based on environmental management: "building a low-carbon society," "building a resource-recycling society" and "achieving harmony with nature." By reinforcing management from a global perspective that extends to consolidated subsidiaries, we have been contributing, as a sustainable company, to society and the global environment, and have achieved a number of successes.

One of the management guidelines included in Vision 2030 for the Aichi Steel Group, which we formulated last year, is "Contribution to a sustainable global environment," which comprises three elements: "Fulfill environmental responsibilities," "Contribute to a low-carbon society," and

"Harmony with nature." As our five-year action plan for these important tasks, and as our commitment to society, we also established the Aichi 2025 Environmental Action Plan in March 2021. Under the slogan "Eco-program for a happy, smiling and prosperous future," we will also actively promote eco-energy, eco-production, and eco-management as the three pillars of our basic environmental policy.

(Refer to the company website for details on the Aichi 2025 Environmental Action Plan.)



### FY2020 Action Items and Results (Aichi 2020 Environmental Action Plan)

Theme	Action item	Target	Major efforts	Results	Evaluation		
Three Core Themes	Building a low-carbon society	1. Undertake development of eco-products and technologies	—	• Development of products that reduce the environmental impact	• Next-generation energies and technologies that reduce environmental burdens • Identified ongoing topics for development and followed progress	✓	
		2. Reduce CO <sub>2</sub> emissions through innovative improvements in energy efficiency	Compliance with Japan Iron and Steel Federation's Low-carbon Society Plan (Phase 1)	• Planning and implementing CO <sub>2</sub> reduction activities at each plant • Promoting energy savings in production On-site inspections to improve energy efficiency through joint patrols between each site and EMS*1 top management		× (Note 1)	
		3. Thorough implementation of energy saving activities in production	—	—	—	—	—
		4. Seek better transportation efficiency in logistics	13% reduction of emission volume per transportation unit from the 2006 level	• Streamlining routes • Modal shift*2 • Improve loading rates Consolidation and shipment of cargo by destination vehicle Review of the number of scheduled routes to suite cargo volume		✓	
	Building a resource-recycling society	5. Reduce by-products during production and continue to utilize resources effectively	220 kg/t or less emission volume per crude steel unit	• Internal reuse of dust from electric furnaces • Internal recycling of electric furnace refractories • External recycling of waste acid and sludge • External recycling of cleaned sludge		× (Note 1)	
		6. Promote projects that benefit resource-recycling corporations	—	• AS Shot*3 technology PR and promotion • Creation of topics for technologies for 100% recycling of automobiles	—	—	
		7. Reduce and effectively use packaging materials in logistics operations	—	• Monitor for new packaging	• None found	✓	
	Harmony with nature	8. Reduce water use in production activities	—	• Continue managing water use	• Managed specific consumption at Forging Plant and Gifu Plant	✓	
9. Promote activities for preservation of nature and biodiversity		—	• Promotion of "connected" initiatives	• Expanding network of groups making efforts to achieve harmony with nature • Maintained biodiversity-model green spaces • Enhanced PR of activities to achieve harmony with nature	× (Note 2)		
Environment Management	10. Promote activities for zero abnormalities and complaints	Abnormalities/complaints: 0/year	• Implement strict management to achieve 80% or below of regulation values set by environment-related laws • Promote prevention activities	• Ongoing measures to prevent environmental near misses • Conducted inspections by Chief EMS Officer	✓		
	11. Enhance consolidated environmental management	—	• On-site inspections of domestic subsidiaries at "Aichi Steel Group Environmental Study Group" • Environmental audits of domestic subsidiaries by the General Manager of the Safety & Environmental Division • Enhance chemical substance management system	• Ongoing "Aichi Steel Group Environmental Study Group" with domestic subsidiaries • Ongoing environmental audits • Established regulations for managing chemical substances in products	✓		
	12. Reduce emissions to contribute to improvement of urban air quality in each country and region	—	• Monitor the adoption of low-emission vehicles	• Continue monitoring activities	✓		
	13. Promote environmental activities in coordination with business partners	—	• Obtain information on product chemical substances	• Obtain information on product chemical substances from contract processors	✓		
	14. Further reinforce global employee environmental education and awareness activities	—	• Trial environmental risk prediction training tools	• Expanded use of environmental risk prediction training tools	✓		
	15. Ensure active disclosure of environmental information and enhanced communication activities	—	• Continuous publication of environmental reports and enhancement of content • Enhancing environmental communication activities	• Enhanced information disclosure surrounding ESG and SDGs • Permanent product displays at administration building Visitor Center	✓		

Note 1. Energy loss will be improved and stabilized as the new equipment comes into full effect.  
Note 2. Events could not be held due to the COVID-19 pandemic.  
\*1 Environment Management System \*2 Changing truck transport to rail and sea transport with low-environmental impacts  
\*3 Recycled abrasives made from by-products of the steel making process

## Initiatives for building a low-carbon society

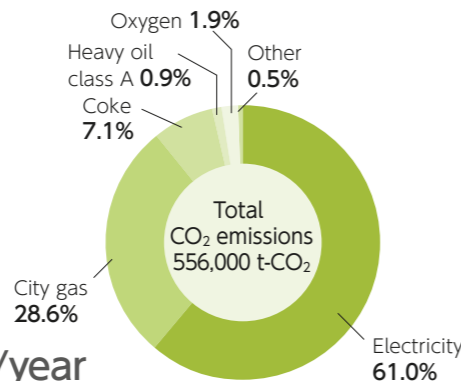
Website 

### Fiscal 2020 targets and results

Based on the "Aichi 2020 Environmental Action Plan," we pursued reductions in CO<sub>2</sub> to achieve the targets of the Japan Iron and Steel Federation's "Commitment to a Low Carbon Society" (Phase 1). We reduced total CO<sub>2</sub> emissions through a combination of reduced production and improved operations.

Total CO<sub>2</sub> emissions  
**556,000 t-CO<sub>2</sub>/year**  
(-76,000 tons year-over-year)

#### Breakdown of energy used in fiscal 2020 (CO<sub>2</sub> emissions)



#### Factors behind changes since last fiscal year

Improvement factors	
1. Reduced energy consumption due to reduced production	59,500 t-CO <sub>2</sub> /year
2. Reduced energy consumption due to improved operations through optimization of steel making materials	9,900 t-CO <sub>2</sub> /year
<b>Total</b>	<b>69,400 t-CO<sub>2</sub>/year</b>

Hindrance factors	
1. Increased energy consumption due to reduced production and the resulting drop in steel making efficiency, etc.	7,500 t-CO <sub>2</sub> /year
2. Increased energy consumption due to reduced production and the resulting drop in rolling operation efficiency	1,600 t-CO <sub>2</sub> /year
<b>Total</b>	<b>9,100 t-CO<sub>2</sub>/year</b>

### Energy saving through logistics optimization

In accordance with the Energy Saving Act revised in April 2006, we have been working on efficient environmentally-friendly logistics optimization activities after understanding the flow of distribution and reviewing issues.

More specifically, we are visualizing off-premise logistics routes and volumes, and promoting logistics improvements from the perspective of streamlining routes, modal shifts (from

land transport to sea transport), and improving loading rates.

From fiscal 2006 to 2020, we achieved a 14% reduction in CO<sub>2</sub> emissions per unit from logistics.

\* Modal shift: Changing truck transport to rail and sea transport with low-environmental impacts

## Measures to develop a resource recycling-based society

Website 

### Contributions to end-of-life car recycling

In line with the End-of-Life Vehicle Recycling Law, which came into force in 2005, the Toyota Group is working to achieve complete recycling.

Aichi Steel is working with Toyota Metal Co., Ltd. to improve

recycling, and we are recycling automobile shredder residue (ASR)\* by melting "dallied solids" and "solid balers" in the electric furnace as raw material.

\* Automobile shredder residue (ASR): All remaining waste after crushing end-of-life vehicles in an industrial shredder and removing ferrous and non-ferrous metals.



**Dallied solids**  
Material comprising a mix of steel scrap (chips) from automobile plants and ASR (re-sorted and treated) that has been melted, solidified and formed.



**Solid balers**  
Compressed mixture of automotive plant steel scrap (scrap material) and molten solidified material.

\* Photo courtesy of Toyota Metal Co., Ltd.

## Measures to promote harmony with nature

Website 

### Participation in "All-Toyota Green Wave Project" activities

Aichi Steel is participating in the "All-Toyota Green Wave Project" activities being implemented by the Toyota Group and other affiliated companies as part of efforts to coexist with nature. This project includes a range of activities to "connect communities toward harmony with nature." We are undertaking activities that contribute to restoration of ecosystems by connecting people with other people and activities and linking habitats.



▶ Participation in All-Toyota activities (maintenance of Izu-numa, a wetland area registered under the Ramsar Convention)

### Forestation to create a forest for beetles

Since fiscal 2012, we have been creating a forest for beetles. We have been planting a broadleaf forest in about 20,000 m<sup>2</sup> of Nakashinden green spaces around our plant and creating an environment in which beetles and other creatures can live their natural life cycles. We have been working with the Chita Peninsula Ecosystem Network Council and members of the Student Action Committee NPO to grow the trees. In fall every year, we also hold a large harmony-with-nature event called "Mori Mori event" where employees and their families participate in various activities, including programs held in collaboration with other organizations and companies, tree cultivation activities, release of rare medaka (Japanese rice fish), and planting of wheat.

We have also started new initiatives in addition to the Nakashinden green spaces. We are currently developing

an ecosystem network across the entire Chita Peninsula, cultivating trees using bamboo charcoal from bamboo groves we are maintaining at the town of Mihama, and an initiative in collaboration with the Higashiura Natural Environment Learning Forest to jointly research the beetles and foxes that are attracted to, and symbolic of, Nakashinden green spaces.

Although we were unable to hold events in the Nakashinden green spaces during fiscal 2020 because of the pandemic, we started a new initiative using goats as a method of weed eradication and were able to establish an efficient management and maintenance system that is friendly to people and nature. We also conducted other limited activities as much as possible, including maintaining bamboo groves at the Higashiura Natural Environment Learning Forest and study tours of Toyota Motor Corporation's Forest of Toyota.

Number of Nakashinden indicator species

**22**



▲ Study tour of Forest of Toyota



▲ Weed eradication using goats at Nakashinden green space

### Forest-developing volunteers

As we use large amounts of water in our steel production, we have carried out twice-yearly forest cultivation activities in Nagano Prefecture since 2006, which is the source of Aichi Prefecture's service water. We recruit volunteer employees to take part in improvement cutting and thinning activities aimed at creating healthy forests, and in the process deepen our interactions with local residents. In 2019, we signed an Adopt-A-Forest Promotion Program agreement with Otaki Village in Nagano Prefecture to develop a broad area of about 12 hectares of forest into the FOREST of AICHI STEEL GROUP.

During fiscal 2020, we conducted forest thinning activities with a limited number of volunteers in consideration of the pandemic and to help stop the spread of infection.



▲ Limited number of people participating in activities in Otaki Village, Nagano Prefecture



▲ Forest thinning work

# Social 2 Encourage the creation of workplaces that are safe and comfortable to improve employee happiness

The Aichi Steel Group is working to create a strong organization by maximizing the potential of individuals through the creation of environments in which diverse human resources can play an active role. This includes not only consideration of a wide variety of anti-discrimination human rights involving nationality, language, culture, age and gender, but also encompasses women, seniors, people with disabilities, and those combining work with child-raising or care-giving.

SDGs relevance



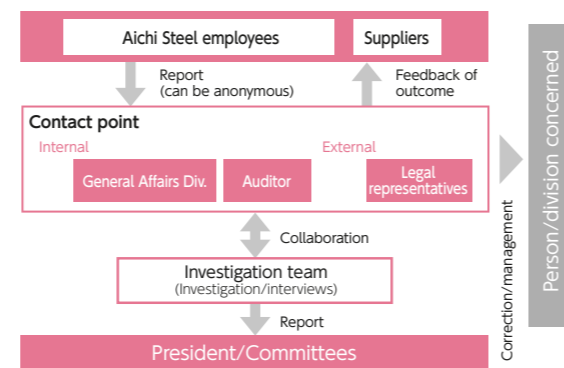
## Respect for human rights and creation of comfortable workplaces

### Initiatives toward respect for human rights

The Aichi Steel Group states in the Aichi Steel Group Action Guidelines that it will comply with domestic and foreign laws and regulations both in letter and in spirit, and that it will respect human rights, and sets out behavioral standards for this.

Through level-based training and other educational opportunities, we cultivate a corporate culture in which the diversity of each employee is respected. In addition to the prevention of workplace harassment and implementation of appropriate measures by our Harassment Prevention Committee, we also hold workplace study sessions. The Aichi Steel Compliance Hotline is also in place for use by employees with issues regarding human rights. This system enables employees to consult directly with advising legal representatives.

#### Aichi Steel Compliance Hotline flowchart



### Initiatives toward diversity

#### Promotion of more active roles for women in the workplace

Aichi Steel considers the promotion of diversity to be an important part of its management strategy, and as part of that is strengthening measures to promote more active roles for women. We continue to proactively hire more female employees, setting goals for the percentage of female hires among regular university hires. We have also developed working from home and career design training for female employees to consider their careers. In this way, we are advancing initiatives to support women in developing their skills. As part of our culture and awareness reform, we are providing education to our managers on the prevention of harassment, while operating our Harassment Consulting Center, to help create an environment where employees can balance work with family-life and child-raising duties.

#### Post-retirement reemployment system

We have in place a Manager Reemployment System and a Nice Senior System, which in principle allow all employees who wish to work after retirement to continue working until they begin receiving their pensions. To make work more enjoyable for our older employees, we are also creating workplaces that are easier to work in and we are reassessing employee benefits.

#### Promotion of employment for people with disabilities

We have employees with disabilities working in a range of workplaces, from our manufacturing sites to administrative divisions. To enable them to remain at work, it is important to not only provide the appropriate work support but to provide them with work that suits their individual abilities, so at the time of recruitment, we follow a program of practical training and interviews to decide where to assign them.

With the majority of people with disabilities working at Aichi Steel being those with intellectual impairments, we hold seminars aimed at developing their capabilities and workshops aimed at helping them acquire internal qualifications as part of continued support to provide them with rewarding careers.

We are also systematically training and allocating Vocational Life Consultants for Persons with Disabilities and Job Coaches to provide work-related coaching to develop workplaces where all employees can enjoy working together.



▲ Workshops for employees with intellectual impairments are held four times per year. Study sessions and leisure activities not only enable these employees to acquire the knowledge required to work, but also provide them with the opportunity to network with fellow employees.

## Human resources development

### “Jikotei Kanketsu” training

To improve employee productivity, as part of our efforts to maximize potential and performance, we hold “Jikotei Kanketsu” training for team leaders. “Jikotei Kanketsu” is a work approach that emphasizes high-quality work with an efficient arrangement of steps to prevent errors and avoid

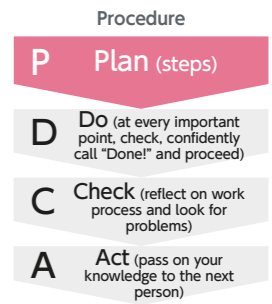
redos. Through training, we are able to teach the appropriate approach and concrete steps. We have also developed an e-learning program on the basics of “Jikotei Kanketsu” that all employees can access anytime. We will continue efforts to teach the “Jikotei Kanketsu” approach going forward.

### Specialized technical training

Since August 2016, we have been providing specialized technical training for all skilled workers in forging plants to provide systematic training on the knowledge and skills needed at those plants. To raise understanding of the purpose and necessity of each task, and lead to “Kaizen,” the roles of skilled workers, from the fundamentals of manufacturing to the essentials for dealing with abnormalities, are divided into three ranks and the training is organized so that workers learn in steps. (The ranks are Rank C for up to five years after joining the company, Rank B for up to 10 years after joining the company, and Rank A for first-level supervisors.)

The hands-on training combines knowledge learning and practical skills acquisition. Trainee proficiency is confirmed through written tests, and determinations of whether trainees have reached a level that can be used in practical work are confirmed through presentations on examples of improvements and on-site monitoring. Trainees who pass receive ranked certification. With Rank C training starting in fiscal 2016, Rank B in fiscal 2017, and Rank A in fiscal 2020, we are continuing to expand training activities. By having all skilled workers undergo this training, a culture of asking “why?” will be created and the handing down of technology and skills to successors will be encouraged.

Website



Number of times held (total)

61

Number of participants (total)

321

## Employee health and safety

### Efforts to eliminate lost time accidents

Although we have seen fewer accidents over recent years compared to 10 years ago, one regret that remains an issue is that the number of accidents resulting in lost work time is not changing. For this reason, under the slogan “Transform into a company recognized by society as having a culture of safety” in Vision 2030, we are conducting activities based on three pillars of safety with the aim of achieving zero accidents for three years in a row.

### Health promotion efforts

We prioritize mental health and lifestyle-related disease prevention, and systematically implement relevant initiatives. As a result, we were recognized for the fourth consecutive year as a Health and Productivity Management Outstanding Organization, in a program adopted by METI and Nippon Kenko Kaigi. We continue to maintain and promote the health of our employees, which is a priority issue for the company.

Specifically, we are actively implementing health promotion activities with all employees to reach our KPIs for rates of lost worktime, obesity and smokers.

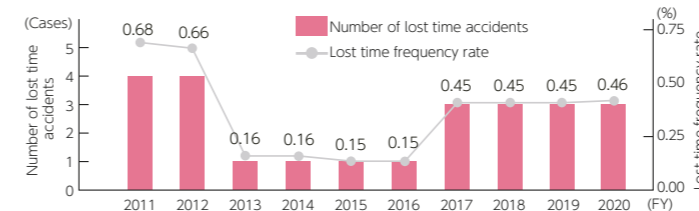


#### FY2021 policy looking ahead to 2030 (activities based on three pillars of safety)

- (1) Safety management:** Conducting disaster mitigation efforts by sharing information on near misses and promoting mutually beneficial communication
- (2) Development of safety-conscious human resource:** Training to improve awareness through an “anzen dojo training” program, and teaching traditions of safe work through competitions
- (3) Fundamentally safe designs:** Conducting risk reduction activities by promoting fundamentally safe designs

To help stop the spread of COVID-19, respond to increasingly strict rules and regulations around industrial safety and health, and prevent fires, we are also improving communication with operators in the factory, listening to problems related to work issues, and implementing “Kaizen” improvements through a safety support system of scheduled improvements.

#### Number of lost time accidents and lost time frequency rate



**S** Social **3** Priority Issue **3** Create a prosperous society through business reform and provide extremely competitive products

Products provided by the Aichi Steel Group are important parts directly related to automobile running, turning and stopping. To offer customers greater peace of mind in using our products, it is essential that we provide a stable supply of high quality products. To ensure our products gain the trust of our customers around the world, we are aiming to become an integrated forging with steel making process company that provides the world's finest quality, and we are working as one to build a globally competitive, leading quality assurance system.

SDGs relevance



**Quality Management System (QMS)**

Website

**Activity promotion system**

In accordance with our policy of "Quality First," we will strive to maintain a business structure, based on ISO 9001, ISO 13485 and other standards, that gains customer trust and enables us to deliver attractive products that meet

expectations and needs. In line with our Medium-term Quality Vision 2030, we are working as one to build a globally competitive, leading quality assurance system.

**Medium-term Quality Vision 2030**

**Master manufacturing with a focus on quality!**

1. Quality management
2. Development of quality-conscious human resources
3. Fundamentally high quality design

**Quality Control Basic Policy**

We have formulated a Quality Control Basic Policy as part of our efforts to promote quality assurance initiatives.

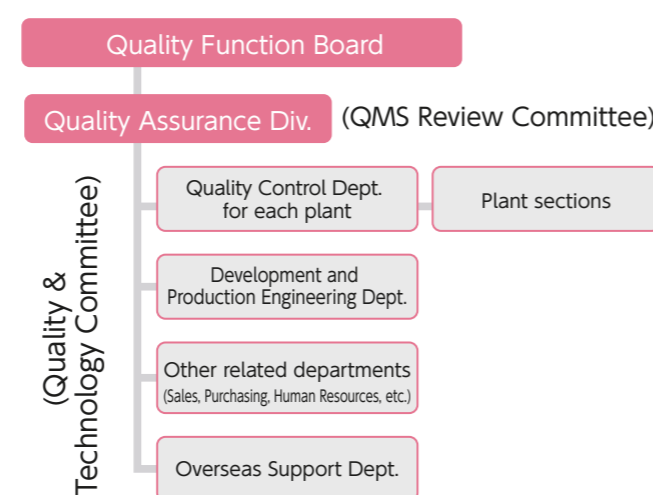
**Quality Control Basic Policy**

We will establish a reliable corporate structure, based on the concept of "quality first," to provide products that meet the requirements and needs of customers.

**Third-party certifications and compliance with international standards**

In addition to ISO 9001 certification, we have also obtained other third-party certifications and public institution accreditations based on our QMS. We are also audited every one to five years for review and renewal of these certifications and accreditations.

**Quality assurance system**



**Acquisition status of quality ISO certification**

- 1. Steel products and forged products**  
Passed renewal audit for ISO 9001 (October 2020)
- 2. Electro-magnetic products**  
Passed surveillance audit for ISO 9001 (December 2020)  
Passed surveillance audit for ISO 13485 (January 2021)
- 3. Laboratory accreditation**  
Passed renewal audit for ISO/IEC 17025 (December 2020)

**Initiatives for improving quality (TQM)**

Website

**Quality awareness activities**

November has been designated Quality Month. With a focus on the concepts of "Customer First" and "Quality First," we are working to raise awareness of quality among our employees by holding site inspections by the president, quality exhibitions displaying quality mottos and posters, and implementing other initiatives.

We have also worked to improve awareness of quality among our employees, regardless of the pandemic, by holding improvement case study meetings online so that employees could participate from the office or home, and by holding a groupwide TQM conference with Shinichi Sasaki, as an authority on "Jikotei Kanketsu," as special guest.



▲Site inspection by the president (Forging Plant)



▶Guest lecture by Shinichi Sasaki, Former Executive Vice President at Toyota Motor Corp.



◀Special Contribution Award received by SAFC from Kubota Engine (Wuxi) Co., Ltd.

**Customer recognition of quality**

Aichi Steel Group initiatives to improve quality are being recognized by customers.

In March 2020, our Electronic Components Plant received an Excellence Award for supplier contributions to quality improvement, for the eighth year in a row, from the Hirose Plant of Toyota Motor Corporation. Shanghai Aichi Forging Co., Ltd. (SAFC) also received a Special Contribution Award from Kubota Engine (Wuxi) Co., Ltd. in December 2020, and the Forging Plant received a Quality Excellence Award from Daihatsu Motor Co., Ltd. in April 2021.

**Promotion of CSR procurement**

Website

**Global, open and fair transactions**

We strive to provide all of our suppliers, at home and abroad, with procurement information and the opportunity for open, fair transactions.

Actual transactions are determined based on a comprehensive review of quality, technology, cost and delivery times, as well as soundness of management, approach to and structures for ongoing improvement, and other factors.

**Mutual growth based on mutual trust**

Our relationships with our suppliers based on building and maintaining relationships of trust through close communication, and a basic approach that calls for us to grow together with our business partners and share the fruits of our mutual efforts.

**Legal compliance**

We comply with all relevant laws and regulations related to our purchasing activities, and also carefully control the confidential information of our suppliers in accordance with our company rules.

**Green procurement efforts**

Since formulating the Aichi Steel Environmental Charter in 1996, we consider environmental conservation in all phases of our business activities, and work to achieve continuous improvements.

In August 2020, we announced Vision 2030 for the Aichi Steel Group. Then in March 2021, we created the Aichi 2025 Environmental Action Plan as a five-year action plan for implementing ESG management under the vision. To drive eco-energy, eco-production, and eco-management, which are the three pillars of our basic environmental policy that form the basis of this plan, we revised our Green Procurement Guidelines in April 2021. Our aim was to prioritize purchases from suppliers engaged in efforts to reduce environmental burdens, such as reducing CO<sub>2</sub> emissions, recycling resources, reducing environmentally hazardous substances, and conserving biodiversity.

In line with customer demands and regulations for managing chemical substances in products, we classify controlled substances as banned substances, conditionally banned substances, or restricted substances, and we advise our suppliers of the classifications.

When entering a new transaction, making changes to compositions or manufacturing methods, or adding relevant environmentally hazardous substances, we also request that suppliers submit a Report on Presence of Environmentally Hazardous Substances, we confirm they are not included and use alternative substances when necessary, and ensure they are not used.

# Hagane Company

Business Overview	Manufacture of steel products and development of related production technologies	Specialty Steel Business Management Div., Hagane Production Engineering Div., Chita Plant ◆Subsidiaries AICHI CERATEC CORPORATION, OMI MINING CO., LTD., Aichi Steel Logistics co., ltd.
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**Takashi Ishigami**  
Managing Executive Officer and Hagane Company President

## Becoming the leading manufacturer of specialty steels to contribute to the development of a mobility society

Changes in the structure of vehicles is creating new opportunities for the Hagane Company to tackle and contribute to electrification components and overseas markets. Leveraging our technical strengths, and integrated forging with steel making processes, we will adapt to these changes and evolve in order to create new value.

- |                       |   |           |  |
|-----------------------|---|-----------|--|
| Risks & Opportunities | <ul style="list-style-type: none"> <li>● Accelerated shift toward electric vehicles</li> <li>● Expansion of global automobile production</li> <li>● Intensified competition through aggregation and reorganization of competitor bases</li> <li>● Moves toward carbon neutrality by 2050</li> </ul> | Strengths | <ul style="list-style-type: none"> <li>● Development capabilities through integrated forging with steel making processes that can contribute to electrification components</li> <li>● High quality of choice globally</li> <li>● Shortened manufacturing processes that leverage integrated forging with steel making processes, and energy-saving technologies such as exhaust heat recovery</li> </ul> |
|-----------------------|---|-----------|--|

### Profile

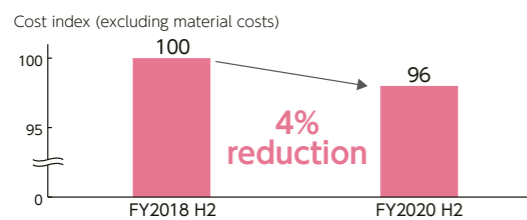
After working as Smart Company President, Takashi Ishigami took on the role of Hagane Company President in April 2019.

### FY2020 Initiatives: Results (Achievements)

Due to COVID-19, we had a massive downturn in production during the first half, followed by an upturn in production due to a recovery of demand during the second half. With such major changes in the status of production, **we have expanded our ongoing efforts to further deepen Genryou Management** and have produced strong results in each phase as a result.

During the first half downturn, we applied a "volume-matched costs" approach that enabled us to produce the necessary volumes at appropriate manufacturing costs, and we focused on lowering our break-even points. During the second half recovery, we were able to ramp up production through forward-looking operations based on frequent data collection while maintaining break-even points and not reversing our efforts of the first half. **This enabled us to reap the benefits of Genryou Management in the form of earnings.**

Also, because of the pandemic, we have only managed to provide limited remote technical support from Japanese staff to India's Vardhman Special Steels Limited, a company with which we entered a business capital tie-up in 2019. Despite this, we have continued improving quality through online guidance and other channels, and have proceeded according to plan, including **completion of steel production for evaluation** to get customer approvals.



## TOPICS

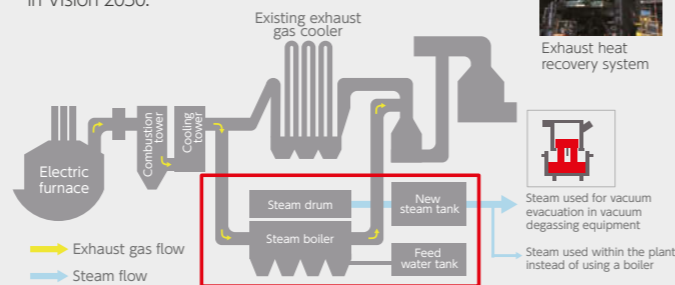
### Contributing toward a carbon neutral, sustainable global environment by reducing CO<sub>2</sub> emissions through conversion and use of steam energy from exhaust heat of electric furnaces (Japan-first)

Aichi Steel has adopted a **system for passing exhaust heat from electric furnaces, which was previously cooled down as waste, through a boiler and collecting it as steam energy for effective utilization in other steel making facilities.**

Electric furnaces used in the process of steel making are unavoidably large consumers of energy. With the Japanese government's commitment to carbon neutrality by 2050, we also have to do everything within our means to follow suit, and these furnaces are an important element of that solution. Using this new system, **we are able to reduce CO<sub>2</sub> emissions by the equivalent of about 4,200 tons per year.** In addition to reducing CO<sub>2</sub> emissions from the steel making process, those emissions can be utilized to power other facilities, which enables us to save energy across the entire plant.

As this initiative is a first for the electric furnace industry, we plan to fully implement the system to become the leading company in the industry for CO<sub>2</sub> reductions.

We will continue to meet the challenges of carbon neutrality and of "contributing to a sustainable global environment," which is one of the management guidelines in Vision 2030.



Exhaust heat recovery system

## Strategies for the Medium-term Management Plan



### Priority Issue 1 Product and sales strategies

With increasing social momentum within Japan toward carbon neutrality, the demand for electric vehicles is expected to grow. At the Hagane Company, we will leverage the product development capabilities of our integrated forging with steel making processes to develop steel products with a focus on in-house processing. We will also **promote commercialization of high value-added parts for electric vehicles.**

Overseas, we will continue efforts to gain market share in the India and ASEAN regions where the engine-powered vehicle market continues to grow. Firstly, we will continue to provide technical guidance to India's Vardhman Special Steels Limited to lift the quality of their products to a level that allows stable use in automotive parts. We expect quality and cost competitiveness to be sufficiently high in fiscal 2022 for them to take over our steel product supply to our ASEAN forging subsidiaries, **so we are pushing ahead with the development of a global supply system.**

This will enable us to redirect our ASEAN supply volumes to Japan to give us resilience to upward movements. Using this supply system as a stepping stone, we will not only be able to capture demand from Japanese manufacturers in India, but also expand our capabilities with a view to future orders for parts in collaboration with Indian forging and processing companies.



Using online tools and other methods to provide ongoing technical support to India's Vardhman Special Steels Limited

### Priority Issue 2 Manufacturing strategies



One heat process shortens the casting process

We will start with the first stage of steel making process reform, which consists of three steps. In this stage, we aim to **secure upward elasticity in the steel making process and develop and implement business continuity planning (BCP).** We will implement the following initiatives.

- (1) We will drive the development of basic technologies for efficient production by shortening the manufacturing process, including the use of a one heat process for shortening the steel billet rolling line.
- (2) We will expand the supply chain, and drive development of technologies for making steel from scrap of different qualities, to strengthen our capacity for collecting cheap scrap.

From the perspectives of quality improvement and preventive maintenance, we will use AI and IoT to improve the visibility of optimal manufacturing conditions and develop infrastructure as the base for digital transformation.

### Priority Issue 3 Subsidiary strategies

The three subsidiaries of the Hagane Company (AICHI CERATEC CORPORATION, OMI MINING CO., LTD., Aichi Steel Logistics co., ltd.) each have their own unique business strengths. We will continue to **provide them with appropriate support to draw on these strengths through close cooperation,** as we target even greater consolidated profitability.

# Stainless Steel Company

Business Overview	Manufacture of stainless steel shapes, round bars and deformed bars, and engineering	Stainless Steel Business Management Div., Stainless Steel Production Engineering Div. Kariya Plant ◆Subsidiaries AIKO CORPORATION, Aichi Techno Metal Fukaumi CO. LTD.
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**Kazuya Fukatsu**  
Stainless Steel Company President

Profile

Kazuya Fukatsu took on the role of Stainless Steel Company President in April 2020.

## Contributing to creating a sustainable society through stainless steels and engineering

To further improve the presence of Aichi Steel in the domestic markets for hot rolled flat bars and steel shapes, the Stainless Steel Company is driving market creation activities through Value Analysis proposals, that help shorten the processes for customers, by rebuilding production facilities and expanding its engineering business.

- |   |  |
|---|--|
| <p><b>Risks &amp; Opportunities</b></p> <ul style="list-style-type: none"> <li>Concerns about an influx of foreign materials into Japan</li> <li>Deterioration of production facilities for hot rolled flat bars and steel shapes</li> <li>Increasing need to realize a hydrogen-based society</li> <li>Momentum surrounding rebuilding of domestic infrastructure</li> </ul> | <p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Range of developed steels for contributing to a hydrogen-based society</li> <li>Lineup of hot rolled flat bars and steel shapes (domestic share of over 70%)</li> <li>Capital investment for further expanding production capabilities for hot rolled flat bars and steel shapes</li> <li>Integrated engineering business, from design cooperation through to installation</li> </ul> |
|---|--|

### FY2020 Initiatives: Results (Achievements)

- Developed systems and changed mindsets within the Company**  
We created workplaces where everyone can contribute, and we changed mindsets to one of **fostering a sense of unity and growth as a United Stainless Steel Team.**
- Strengthened manufacturing capabilities**  
We worked on **Genryou Management**, including minimizing quality-related loss and consolidating heat treatment equipment, to build production systems for lower production volumes.
- Strengthened production capabilities ahead of 2030**  
We invested in pickling equipment to increase production ahead of 2030. We also made the decision to roughly double investment in line with the **capital investment plan** outlined in the FY2021-23 Medium-term Management Plan.
- Enhanced activities to develop new markets**  
Hydrogen: We **developed AUS305-H2, a resource-saving, high-strength stainless steel for high-pressure hydrogen applications**, that does not use molybdenum, an expensive rare metal.  
Deformed bars: We **reached a cumulative shipped total of 5,000 tons of deformed bars** as a result of proactive market development activities that increased their use in multiple projects.
- Expanded engineering business**  
We expanded and developed our workforce, and through design cooperation, factory manufacture, and onsite installation, we accomplished **37 engineering projects** in medicine, foods and other plants.

## TOPICS

### Vertical Greening Cylinders (Vertical Forest®) Using Stainless Steel from Aichi Steel Receives Best Development Award (Bronze Award) at 25th International Stainless Steel Forum (ISSF)

Aichi Steel entered a design cooperation with Takenaka Corporation to develop vertical greening cylinders and engaged in factory manufacture and on-site construction as the stainless steel building structure engineer. We will continue to deliver high value-added products through **integrated solutions capabilities, from design cooperation through to factory manufacture and on-site construction**, while helping to become an environmentally friendly society.

Details	
1. Location:	Aichi International Convention & Exhibition Center
2. Specifications:	Hang 45 vertical greening cylinders (Vertical Forest®) with a length of 9 m from the large approach eaves with a length of 200 m and a height of 11.5 m, constituting the main gate
3. Steel products:	Stainless steel (about 70 tons) SUS316A stainless steel pipe (for mandrel) SUS316 steel shapes (for ring that supports the greening panels)
4. Design and on-site construction:	Takenaka Corporation



Main entrance



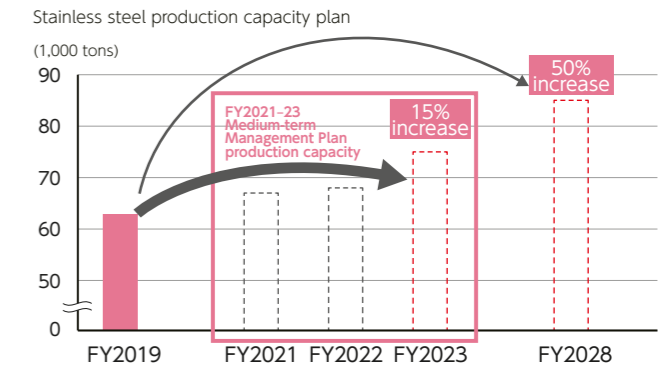
Vertical greening cylinder

### Strategies for the Medium-term Management Plan



#### Enhanced production capacity

By the end of fiscal 2023, we will improve and re-engineer our existing production facilities **to enhance production capacity to 73,000 tons (15% higher than fiscal 2019)**, which is our planned sales volume for fiscal 2026.



#### Approach to markets

We will **further expand use of our hot rolled flat bars and steel shapes** through design cooperation with general contractors and others.

### Priority Issue 1 Strengthening our business foundation (achieving healthy growth with safe, growing, and vibrant workplaces)

#### [Safety] Maintain accident-free workplaces

We are committed to creating workplaces that prioritize safety. We will also **develop a consolidated safety system** through mutual learning mainly with Kariya Plant, and including subsidiaries.

#### [Environment] Create energy-efficient plants to reduce CO<sub>2</sub> emissions

We will steadily improve the energy efficiency of Kariya Plant and contribute toward a low carbon society through efforts including **switching to future new energies.**

#### [Quality] Aim for zero customer complaints

We aim to reduce customer complaints to zero by eliminating the causes of quality defects **through the Jikotei Kanketsu approach by establishing and implementing conditions that ensure product quality.**

#### [Maintenance] Enhance preventive maintenance

**We will ensure fulfillment of our responsibility to supply customers** by completing scheduled repairs and upgrades of deteriorating facilities.

### Priority Issue 2 Growth strategies (increasing profits through six projects)

- Project 1 Restructuring product strategies**  
Reviewing large variety and small quantity production of over 4,000 products of different shapes and types.
- Project 2 Planning alliances**  
Investigating external ties rather than being closed to them
- Project 3 Expanding stainless steel parts, structures and constructure businesses**  
Utilizing engineering functions and obtaining early project information to make Value Analysis proposals to customers
- Project 4 Enhancing ties with consolidated subsidiaries**  
Optimizing consolidated management capabilities by expanding collaborations with Aiko Corporation and Aichi Techno Metal Fukaumi Co., Ltd.
- Project 5 Visualizing manufacturing processes and improving workmanship**  
Planning and implementing plant layouts that enable Genryou Management, and enhanced production capabilities in line with the Medium-term Management Plan
- Project 6 Creating new markets (contributing to the hydrogen society and rebuilding of infrastructure)**  
Hydrogen: Delivering an omni-directional response to the hydrogen energy chain and establishing facilities for testing and evaluating steels under high-pressure gaseous hydrogen  
Deformed bars: Creating domestic markets and establishing production systems for stainless deformed bars

Aichi Steel stainless steel used in a variety of applications



Internal stairs inside LNG tank (low ductility in low temperatures)

Replacement of prestressed concrete slabs on Chuo Expressway (corrosion resistance)

Testing apparatus used to test high-pressure hydrogen environments



Uniaxial load hydraulic servo apparatus for tensile and fatigue tests (installed 2019)

Rotating bending fatigue test apparatus (world's first, installed 2021)

# Kitaeru Company

Business Overview	Manufacture of forged products and development of related production technologies	Kitaeru Business Management Div., Forging Production Engineering Div., Forging Plant ◆Subsidiaries Asdex Corporation, AICHI FORGE PHILIPPINES, INC. (AFP), Aichi Forge USA, INC. (AFU), AICHI FORGE (THAILAND) CO., LTD. (AFT), Shanghai Aichi Forging Co., Ltd. (SAFC), PT. AICHI FORGING INDONESIA (AFI)
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Profile

Tetsuo Kondo took on the role of Kitaeru Company President in April 2021.

## Aiming to become a global forging company leader to contribute to the Toyota Group

As a global forging company leader for the Toyota Group, the Kitaeru Company needs to evolve further. To achieve this, we will ensure steady implementation of Vision 2030 and the Medium-term Management Plan within Japan, and expand these efforts to global sites, to improve the competitiveness of forging across the group as a whole.

- |  |  |
|--|--|
| <p>Risks &amp; Opportunities</p> <ul style="list-style-type: none"> <li>● Decline in the use of forged products as the world shifts to BEVs</li> <li>● Supply concerns and restructuring of forging companies due to the above</li> <li>● Change to high-quality, low-cost and flexible manufacturing</li> </ul> | <p>Strengths</p> <ul style="list-style-type: none"> <li>● Optimal materials and process design that merge steel and forged products through integrated forging with steel making processes</li> <li>● Optimal product yield process design throughout forging and machine processing</li> <li>● Information gathering from five global sites and mutually complementary systems</li> </ul> |
|--|--|

### FY2020 Initiatives: Results (Achievements)

Although we had a massive downturn in production during the first half due to the impact of the spread of COVID-19, we further evolved our efforts with **Genyou Management** to improve profitability even within a difficult business environment.

Specifically, by (1) breaking down our major management KPIs into smaller units, and (2) checking the results in short intervals, we established more granular targets and checked progress on a daily basis. In this way, we were able to more clearly and accurately understand the current state of our manufacturing capabilities and achieve immediate improvements.

This enabled us to thoroughly share our “volume-matched costs” approach that we have been sharing with our workplaces since fiscal 2019, and our workplaces now feel more resilient to change.



Confirming achievement and difficulties of Genyou Management through on-site inspections

## TOPICS

### Installation of Global Standard Production Line with a View to Overseas Expansion (Contributing to enhanced competitiveness on the global stage)

While increasing local procurement at global sites, there is a need for large variety and small quantity production because of the differing needs of environments and customers at each site. Therefore, we decided to install a **global standard production line**, which we eventually started running in May 2020.

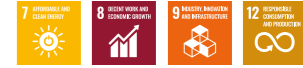
This forging line produces the toothed GEAR, COUNTER DRIVEN DRIVE used in automatic transmissions and HEVs. It enables efficient large variety and small quantity production through faster setups, while **improving precision and reducing production lead times. Incorporating environmental friendly ideas at every turn**, it minimizes CO<sub>2</sub> emissions as well.

With this production line and a product range that flexibly meets the needs of overseas environments and customers, and with our ability to expand technologies and skills globally as the mother company, we aim to improve the competitiveness of our overseas subsidiaries and become the Company of Choice Globally.



Global standard production line: Integrated line from material heating, to forging, to forging isothermal annealing

## Strategies for the Medium- to Long-term Management Plan with a Focus on Vision 2030



### Priority Issue 1 Evolution into a finished product manufacturer (to become the company of choice through new added value)

To enable our automaker customers to focus on the development of advanced technologies in their role as mobility companies, we take **broad responsibility for the manufacturing processes of existing parts and extend our engagement to machining processes as well.**

Because of our integrated production systems, handling everything from steel products to forging and machining, we can reduce logistics costs and shorten manufacturing processes, and deliver high value-added finished products to contribute to the success of our customers. We accelerate these efforts with new parts in particular.



Newly ordered parts for BEV electric axles

### Priority Issue 2 New product development (to become the company of choice for appealing new products)



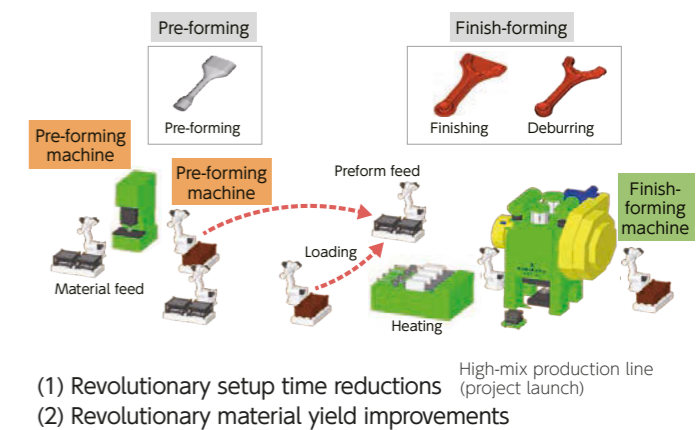
Electric Axle unit

In developing new products for electric vehicles, we leverage the **strengths of our integrated forging with steel making processes to realize synergies of steel product development, forging techniques and process development.** This enables us to create new products with functionality and quality that further exceed customer expectations.

In addition to electric axles for BEVs and mounted components for HEVs, which are both expected to increase in demand going forward, we are looking ahead of that to the next generation and strengthening our development efforts with a focus on parts made from new materials. Through the development of new techniques and processes, we will also proactively propose **cost reductions through such things as eliminating heat treatment processes and CO<sub>2</sub> emission reductions that can contribute to a low-carbon society.**

### Priority Issue 3 Building a large variety production system (to become the company for everyone during industry restructuring)

With the number of suppliers supposed to decrease through industry restructuring, we are starting to plan **large variety and small quantity lines** that are able to produce many different products even at low volumes, at the same cost and quality as for production of current models, to contribute to stability of supply to customers as the Toyota Group's leading forging company. On these lines, we will divide press molding into the separate processes of pre-forming and finish-forming, with the pre-forming process achieving **revolutionary (1) setup time reductions and (2) material yield improvements.**



### Priority Issue 4 Strengthening company connectivity on global sites (to remain the company of choice globally)

Due to the global pandemic, the whole of the Philippines (where we have a subsidiary) was placed in lockdown, so we implemented a **global back up production.** Based on this example, we conducted an exhaustive verification of BAP/BCP support for our global sites and shared the results with each of our sites.

Going forward, **as the mother company, head office will continue conducting activities in close cooperation with our subsidiaries** to enhance connectivity with overseas subsidiaries.



# Smart Company

Business Overview	Sale and manufacture of electronic components, magnetic materials and other functional products for the next generation and development of related production technologies	Smart Business Management Div., Sensor Business Dept., Magnet Business Dept., Electronic Components Business Dept., Smart Production Engineering Div., Higashiura Plant, Gifu Plant, Seki Plant, Magnetic Material & Parts Plant, Electronic Components Plant ◆Subsidiaries Zhejiang Aichi Mechanical & Electrical Co., Ltd. (AME), Aichi Magfine Czech s.r.o. (AMC), Aichi Magfine Technology (Pinghu) Co., Ltd. (AMT), Aichi Europe GmbH (Ae)
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**Katsunori Kojima**  
Director and Managing Executive Officer and Smart Company President

## Providing safety and security to people around the world through materials and technologies

With the enormous advantage of a wide range of solutions, the Smart Company is able to quickly respond to changes around the world as we fulfill our responsibility as a member of the global community. We are contributing through energy, healthy lifestyles, food supplies, and building safe public transport systems as fields for value creation that we have identified to help realize Vision 2030 and achieve the SDGs and carbon neutral targets.

- |  |   |
|--|---|
| <p><b>Risks &amp; Opportunities</b></p> <ul style="list-style-type: none"> <li>Major structural changes in electric vehicle components and changes in demand for existing products</li> <li>Market changes due to such things as recognition of products for health insurance coverage and revisions to the Road Traffic Act</li> <li>Further increases in SDG-related needs in the medical and agricultural fields</li> </ul> | <p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Wide range of solutions businesses related to the SDGs</li> <li>Unique technical capabilities originating from steel making</li> <li>High levels of expertise and quality among each of the five businesses</li> </ul> |
|--|---|

### Profile

After working as Kitaeru Company President, Katsunori Kojima took on the role of Smart Company President in April 2019.

## FY2020 Initiatives: Results (Achievements)

In our daily production operations, we have worked honestly to promote Genryou Management and strengthen our business foundation, through which we have increased sales and profits, and achieved record profitability, despite the pandemic.

We have also proactively worked on SDG-related topics and have taken on the challenge of creating new value as a member of the global community.

For example, MAGFINE® Dy-free bonded magnets that do not use heavy rare earth materials can potentially be used for the electric water pumps used to cool electric vehicles, which would contribute to SDGs 7. Affordable and Clean Energy, and 12. Responsible Consumption and Production. To meet increasing demand in a timely manner, we are gearing up for mass production and developing customer supply channels.



MAGFINE® Dy-free bonded magnets also help avoid resource risk

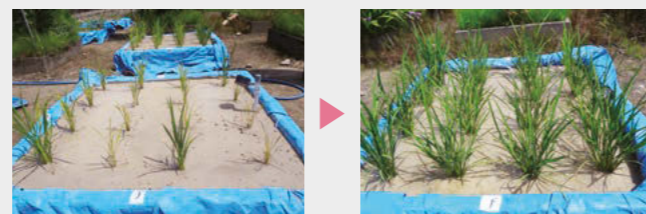
## TOPICS

### Next-Generation Fertilizer "PDMA" Developed to Enable Agriculture in Poor Soil (Helping to solve global food shortages)

Thirty percent of cultivated land globally is alkaline, which tends to be iron-deficient and makes growing crops difficult. Working in collaboration with Tokushima University to find a solution, we have successfully developed proline deoxymugineic acid (PDMA), which is an environmentally friendly next-generation fertilizer with modified mugineic acid, a natural substance derived from Gramineae. PDMA is biodegradable\* and can be effective on crops other than Gramineae as well. We are currently working to lower costs with a focus on commercialization.

With food production currently unable to keep up with population growth, and severe food shortages certain to occur, this product is expected to increase food production and contribute to SDGs 2. Zero Hunger by enabling use of land that is currently unsuitable for agriculture.

The results of this research were published in the electronic version of the British scientific journal "Nature Communications" on March 10.



Crop growth confirmed in alkaline soil (four weeks after PDMA application)

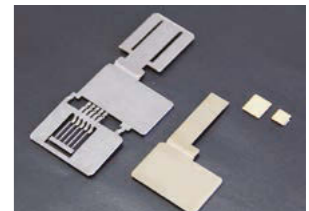
\* Biodegradable: Quality of a substance capable of decomposition by microorganisms or other living organisms

## Strategies for the Medium-term Management Plan

### Electronic components business



With demand for electronic components expected to increase as take-up of electric vehicles grows, we are going to need flexible production support to meet that demand. In putting Genryou Management into practice, we will maximize utilization of existing facilities and improve both productivity and quality assurance through AI. In this way, we will dramatically expand our earnings capacity while contributing predominantly to the field of energy. Specifically, we will work together with customers to develop products with a focus on value-added through such things as technologies that differentiate us from other companies, and to develop products for the next generation.



### Magnets business



Our magnets business is focused on electric water pumps, which are increasingly in demand as cooling components of electric vehicles. We are collaborating with the Frontier Research and Development Division to develop such things as coating technologies for magnetic powder, and together we are promoting sales.

As part of our development of electric axles for BEVs, we are merging MAGFINE® Dy-free bonded magnets with high strength materials developed by leveraging the strengths of our integrated forging with steel making processes. We have successfully verified high-speed rotation at speeds of up to 34,000 r.p.m., and size and weight reductions of 40% compared to conventional axles. We will continue development with a view to practical application as we make contributions to the field of energy. We are focusing on Genryou Management and delivering efficient production support, primarily to our Chinese subsidiary, which is responsible for producing magnets globally.

In support of carbon neutrality, we will also adopt solar power generation at our Seki Plant, as a model plant for the company, as we also make contributions to the environment.



Illustration of electric axle

### Dental business



In Japan, Ministry of Health, Labor and Welfare has expressed its intention to recognize, by September 2021, dental treatment using precision dental magnetic attachments as a healthcare service covered by health insurance. It means that our devices have more opportunities to contribute citizen's health. Restoration of oral function will improve overall health improved nutrition, which will also contribute to healthy lifestyles. Going forwards, we will focus on expanding its use from Japan to China and other countries where populations are aging.



Precision dental magnetic attachments

### Sensor and metallic fiber business



We will develop markets for sensors and metallic fibers in three main fields: magnetic marker-based GMPS (Global Magnetic Positioning System), security, and medicine.

With revisions to the Road Traffic Act in 2020, embedding of magnetic markers gained approval, so we are now actively promoting actual sales of the GMPS. In the field of security, we aim to actively promote understanding by customers and build safe public transport systems to increase use of security gates, based on ultra-sensitive magnetic MI Sensors, in public areas. In the field of medicine, we will continue promoting the use of amorphous wire metallic fiber products, and enhance related sales activities as part of our contribution to healthy lifestyles.



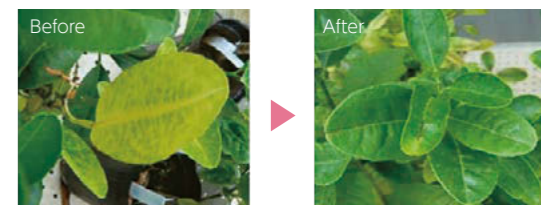
▲MI sensor

▶Magnetic marker

### Iron fertilizer business



TetsuRiki Agri and TetsuRiki Aqua are existing products that provide ferrous ions continuously, necessary for crop growth. We are achieving consistent sales of these products through the BtoB channel, and we aim to keep profitability going forward. In addition, we have confirmed the efficacy of TetsuRiki Aqua for recovering Fe deficiency in crops affected by citrus greening disease, which is a citrus-specific disease spreading globally. Through a series of field trials and accumulation of the results, we are developing a global sales network to contribute to stable food supplies.



Yellowed leaves, affected by citrus greening disease, have changed into health leaves by applying of TetsuRiki Aqua.

**S** Social  
 Priority Issue **4**  
**Strengthen Relationships with Local Communities, and Actively Contribute to Society**

The Aichi Steel Group seeks prosperous coexistence with surrounding communities, is conscious of its role as a "good corporate citizen," and is actively involved with the local community. We place importance on communication through our social contribution activities and other efforts, and by gaining the trust of communities and understanding of our business activities, we strive to be a company that is continually welcomed in the community.

SDGs relevance



**Social contribution activities**

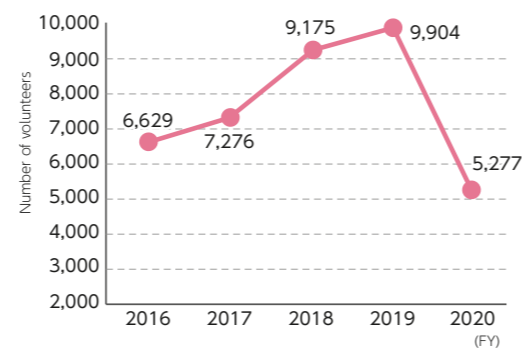
**Activity promotion system**

In pursuit of harmonious coexistence and co-prosperity, Aichi Steel promotes community-oriented activities focused around four key words: "clean," "green," "creative" and "volunteerism."

The Volunteer Center, located in the General Affairs Division, provides information and promotes educational activities with the aim of supporting employee volunteer activities. It also offers a consultation service and plans smaller-scale volunteer activities in which employees and others can easily participate, and it encourages them to experience volunteering for themselves.

During fiscal 2020, we had to dramatically reduce the number of activities that we held for achieving harmony with nature, and volunteer activities, because of the pandemic. For this reason, there were far fewer participants than normal even though we were able to hold limited volunteer activities, such as selling bakery goods from welfare facilities and offering a cafe with foods that support disaster recovery, and local cleanup activities like Clean Aichi Day.

Changes in the number of volunteers in social contribution activities (cumulative)



Number of volunteers in FY2020 **5,277**  
 (reduction due to COVID-19)

**Clean (beautification, safety, security)**

In addition to holding the "Nearby roads clean-up campaign" every two months to help clean our neighborhoods, we have been holding Clean Aichi Day every October since 2009, together with employees of domestic and overseas subsidiaries, as one of Aichi Steel's

CSR Enhancement Month activities.

We also conduct traffic safety awareness activities as a responsible manufacturer in the automobile industry. One of those activities is "Zero Day" safety patrols that each site continues to conduct.



Nearby roads clean-up campaign  
**3** events, **69** volunteers



Clean Aichi Day  
**1,307** volunteers



Traffic safety awareness  
**370** volunteers

**Green (planting and environmental conservation)**

Twice a year, students of the Aichi Steel Technical Training Institute plant flowers in the roundabout in front of Meitetsu Shurakuen Station, the station nearest our offices, as one of our activities to clean the neighborhood.



▲Aichi Steel Technical Training Institute students planting greenery on the roundabout in front of Shurakuen Station

**Creative (education, culture)**

Launched in 2010 to mark the 70th anniversary of our founding, we visit schools to present a "Lesson about Iron" to students every year. The project, which we have held for 10 years, aims to teach elementary school fifth graders about the local industry of Tokai City, the largest iron-producing region in central Japan. Through a lesson called "Making Magnets," we have been offering a fun way for local elementary school students to experience manufacturing, but we were unable to hold the lesson during fiscal 2020 because of the pandemic. For this reason, we have considered other options to promote further use of virtual factory tours and other activities for people to use regardless of the conditions.



Participating in "Lesson about Iron" (photo from fiscal 2019)

**Volunteer support**

Established in 1993, the Aichi Steel Volunteer Fund continued to donate to local social welfare organizations and volunteer groups near our company, and to provide ongoing support after the Kumamoto Earthquake. Another voluntary and ongoing program that employees can participate in is the "one-coin" donation program,

where they donate 100 yen from their pays every month.

During fiscal 2020, although we had to dramatically reduce the number of volunteer activities that we held because of the pandemic, we did hold activities where possible.

"One-coin" donation **653** volunteers

■ Aichi Steel Volunteer Fund



▲Japan Blind Tennis Federation



▲OISCA International

■ Volunteering and Welfare Hands-on Trial



▲Potato harvesting experience in Nakashinden green space

**Interaction with the community**

**Events and participation**

We hold community meetings in the cities of Tokai (February) and Kariya (December), where we promote exchanges with residents of the local communities and actively participate in a variety of local volunteer activities. We also support activities involving festivals, sports days and other local events in the communities surrounding our sites, and dispatch employees to assist with the operation of those events.

We also invite local residents to events held at our headquarters and plants, and work to encourage interaction with our employees. We had to postpone our community meeting in Tokai City in fiscal 2020 because of the pandemic, but we were finally able to hold it when the state of emergency was lifted in April 2021. To help prevent the spread of COVID-19, we conducted our factory tour with participants remaining on the bus to minimize contact with our employees.

**Governance** | Priority Issue **5** | **Increase Compliance Awareness Globally, and Strengthen Corporate Sustainability**

The Aichi Steel Group is undertaking measures to further ensure governance and compliance, enhance awareness of legal compliance, and conduct sound business activities worldwide. We are also revising our management structure and conducting thorough employee training to quickly address risks.



**Basic approach to corporate governance**

The Aichi Steel Group believes in the importance of realizing a sustainable society through business activities in order to achieve sustainable growth and improve medium- to long-term corporate value. Based on this belief, we work to enhance corporate governance so that we can manage our

businesses with a high level of fairness, transparency, and efficiency in accordance with our vision, and build strong relationships with our shareholders, customers, and all other stakeholders.

**Executive management structure changed to strengthen governance**

To create a governance system that can handle difficult competitive environments, we changed our executive management structure to focus on "roles" that can achieve faster decision-making and speedier business execution.

We started by eliminating the original Officer and Executive Officer positions, establishing a new Executive Officer position that sits above Senior Chief as an employee position, and

reducing executive ranks and numbers from 34 to 12 to simplify the structure. In addition to the roles of General Manager and Company President, we established a new Officer position, instead of the previous person in charge of a division, in order to further accelerate decision-making and business execution.

**Roles of each position**

<b>Managing Executive Officer</b>	Supports the President from a management perspective while fulfilling the roles of General Manager and Company President
<b>Executive Officer</b>	Executes business functions on the spot through prompt management decisions, and shares information with the management team
<b>Officer</b>	Oversees and takes responsibility for all operations within a department as the chief officer in charge of the department

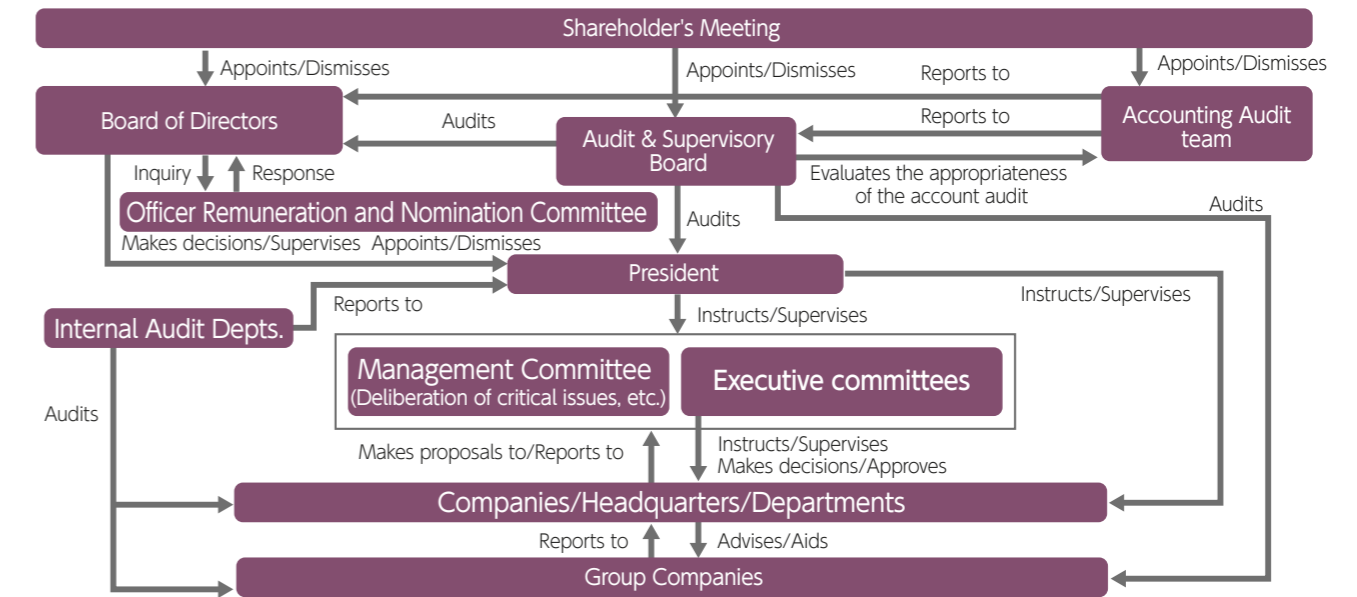
**Corporate governance structure**

Aichi Steel uses an Audit & Supervisory Board. This system concentrates authority and responsibility for business execution to the Board of Directors, as the ultimate body for management decision making, and assigns the role of audit and supervision of the Board of Directors to the Audit & Supervisory Board and Audit & Supervisory Board Members, which are independent of the Board of Directors and business execution. We believe this system achieves appropriate management decisions and execution of duties while providing sufficient organizational checks and balances.

We employ two independent outside Directors and two outside Audit and Supervisory Board Members, with extensive experience and broad insights as managers, who supervise and audit the execution of duties of the directors, and we develop systems that function effectively to ensure objectivity and neutrality of management oversight.

Internally, we also develop and properly operate systems to ensure the appropriateness of our operations in line with the Internal Control System Basic Policy.

**Corporate governance system diagram**



**Evolution of corporate governance**

Over the years, Aichi Steel's corporate governance structure has constantly evolved to improve the effectiveness of the directors and strengthen governance to manage businesses with a high level of fairness, transparency, and efficiency. With the rapidly changing business environment of recent years, from the once-in-a-century transition of the automotive industry to efforts toward carbon neutrality, we have implemented further reforms, including simplification of the executive management structure and adoption of a new Executive system, to accelerate decision-making and business execution. Going forward, we will continue these efforts to accurately understand the business environment and strengthen governance.

	Earlier	2005	2010	2015	2020
<b>Board of Directors and Audit &amp; Supervisory Board</b>	<ul style="list-style-type: none"> <li>Appointment of outside Audit &amp; Supervisory Board Members</li> </ul>	<ul style="list-style-type: none"> <li>Tenure of Directors reduced to one year (2006)</li> </ul>	<ul style="list-style-type: none"> <li>Number of Directors reduced through introduction of an Executive Officer system (2013)</li> </ul>	<ul style="list-style-type: none"> <li>Appointment of outside Directors (2015)</li> <li>Number of outside Directors increased (2016)</li> <li>Started evaluating effectiveness of Board of Directors (2016)</li> <li>Established Director Remuneration and Personnel Planning Committee (2018)</li> </ul>	<ul style="list-style-type: none"> <li>Introduced Restricted Stock Remuneration Plan (2020)</li> </ul>
<b>Other Committee and Executive Systems</b>		<ul style="list-style-type: none"> <li>Established CSR Committee (2006)</li> </ul>	<ul style="list-style-type: none"> <li>Introduced Executive Officer system (2013)</li> </ul>	<ul style="list-style-type: none"> <li>Established Corporate Planning Committee (2017)</li> <li>Disbanded CSR Committee (2018)</li> </ul>	<ul style="list-style-type: none"> <li>Managing Executive Officer and Senior Managing Executive Officer consolidated into a single Managing Executive Officer role (2020)</li> <li>Introduced Executive system to simplify executive management structure and accelerate business execution (2021)</li> </ul>

## Compliance

### Compliance promotion system

We aim to be a trusted company through the protection of human rights and compliance with laws and regulations, and by respecting public decency. To enhance the overall compliance of our Group, the Corporate Planning Committee—headed by the Corporate Planning Headquarters General Manager—sets and reviews compliance policies on a regular basis.

Based on our internal rules and the Aichi Steel Group Action Guidelines, we strive to improve our compliance with laws and regulations as well as our social common sense. We enhance employee awareness by distributing the Aichi Steel Group Action Guidelines, and compliance manuals.

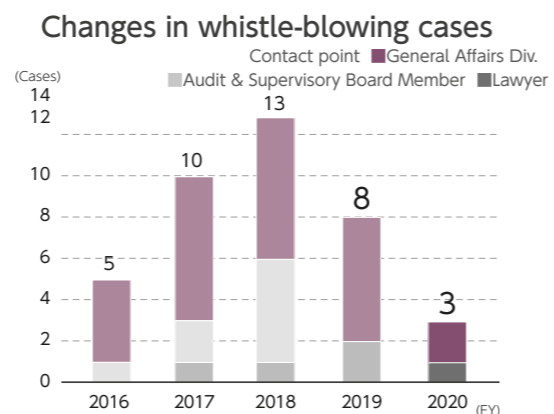
### Compliance promotion system



### Whistle-blowing system

In fiscal 2020, a total of 3 cases were reported to the Aichi Steel Compliance Hotline, the company's whistle-blowing system. We will continue taking corrective measures when necessary and inform the president of important matters for confirmation. We will also specify in the Code of Corporate Ethics how the system is operated and rules on the protection of whistle-blowers to ensure that whistle-blowers are protected. We will also continue promoting recognition and awareness of our whistle-blowing system among employees to further improve our internal ability to govern ourselves.

**3 cases**



### Compliance promotion activities

To enhance the compliance awareness of employees, we provide education on compliance to all employees. The importance of compliance is also covered in the Action Guidelines workshop held for those promoted to each level within the organization. In addition, other corporate scandal case studies are reported to the Compliance Liaison Meeting to help prevent the recurrence of similar compliance incidents.

We also hold CSR seminars on preventing harassment, and on-site compliance training and e-learning across the company for the purpose of preventing crime and harassment.

#### Level-based training

**299 participants** (7 levels)

#### CSR Seminar

**1 time** (Jan)

#### Compliance Liaison Meeting

**4 times** (Apr, Jul, Oct, Dec)

On-site compliance training (crime and harassment prevention)  
Companywide e-learning

**1 time**

### Fair transactions with suppliers

We periodically hold Business Regulations, Procurement Edition seminars to improve compliance with the Subcontracting Act, which is closely connected to our procurement transactions, and to avoid breaches of the act that is easy to fall foul of.

## Risk Management

### Risk management system

We have established internal rules, such as risk management rules and disaster prevention rules, and have established a risk management system, so that if we face or predict a serious risk, we can take prompt and appropriate action and ensure sound business operation.

### Risk management education

We have newly developed a curriculum for "risk management" designed for training of all job classes, where we explain how risk management is positioned and emphasized in CSR, and we include actual cases of crisis at Aichi Steel to heighten employees' risk awareness and ensure they understand what to do to prevent crisis occurrence/recurrence and what initial response to take when a crisis occurs.

As a result of the accident on January 8, 2016, we have declared January 8 to be Start Over Day at Aichi Steel to raise

awareness of our commitment, confirmed by everyone at Aichi Steel, to preventing such an accident from recurring. We have also established a permanent Denshinkan Education Center to teach and pass on to the next generation the lessons learned from the accident and our other failures, and we provided special safety training to all employees. We also implement measures to improve awareness, such as the January 8 Remembrance Declaration that we ask all executives and employees to make each year.

### Disaster prevention and risk mitigation measures

We established the Earthquake Preparedness Promotion Committee through which we are developing disaster prevention measures in the event of an earthquake in the Nankai Trough. From February 2020, we have been dealing with the novel coronavirus disease (COVID-19).

The main actions implemented to mitigate risk during fiscal 2020 are detailed below.

#### Earthquake Preparedness Promotion Committee (General Administration Office: General Affairs Div.)

Human Safety Subcommittee  
(Office: Human Resources Div.)

Role Mission: Specify actions to protect lives

Facility Safety Subcommittee  
(Office: Facility Engineering Div.)

Role Mission: Maintain building and facilities to protect lives

#### Companywide disaster drills

We plan and conduct companywide disaster drills twice a year. In fiscal 2020, we conducted the following drills in November. (The drills in May were canceled due to the spread of COVID-19.)

1. Evacuation drills for all employees (assuming a large tsunami warning after an earthquake)
2. Simulation training by members of the companywide Emergency Control Headquarters (assuming a large-scale earthquake and then establishing an emergency control headquarters, confirming the status of damage, and formulating a recovery plan, etc.)

#### Inspections of disaster preparedness of plants by chairman and president

The president has implemented a program of local disaster preparedness inspections with the aim of improving disaster preparedness in each plant. (Forging Plant)

#### Nighttime emergency drills

Evacuation drills have been held assuming the absence of many key executives and employees at such times as during the night. (Forging Plant Office)

#### Response to novel coronavirus disease (COVID-19)

To respond appropriately to this constantly changing situation, we launched an Emergency Control Headquarters as soon as COVID-19 started spreading in Japan. This cross-company organization continually collected information from inside and outside the company, reviewed internal operations, adjusted production, and worked to maintain business continuity. Having finished establishing the operational system, the organization was disbanded at the end of fiscal 2020. Going forward, we will use the knowledge gained through the Emergency Control Headquarters as we implement efforts to establish a new business style across the company.

We have also established a Support Center to support employees when they experience difficulties. It is continuing to implement the following measures and provide support to prevent the spread of the disease among employees. (These are just some examples.)

- Changing workstyles to prevent infection (changing means of commuting, working from home, reducing business trips, etc.)
- Issuing initial instructions and collecting information in the event of an infection occurring
- Procuring supplies of personal protective equipment (hand sanitizer, masks, protective gowns, etc.)

## Information security

### Information security promotion system

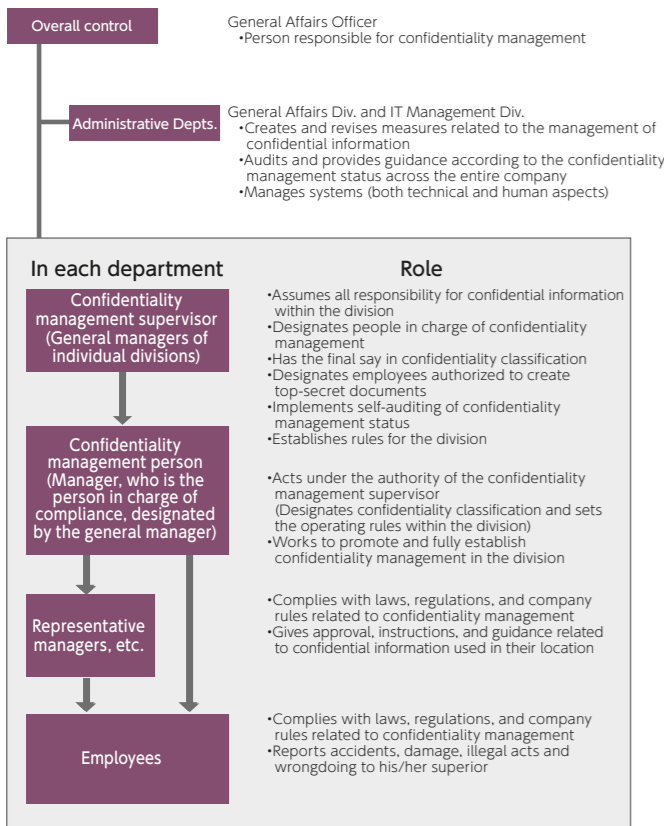
Recognizing the importance of information security management, in order to ensure that information management is conducted appropriately, we have established internal structures, provided employees with information and education on rules and regulations, and conduct inspections and so on in compliance with the All Toyota Security Guidelines (ATSG).

The Risk Management Department conducts security inspections to ensure that there are no issues with external email, that employees do not carelessly take internal information outside the office, or that USB memory, cameras, and other devices are handled properly. Along with enhanced checking functionality in the system, we are further enhancing our confidentiality management structure to also provide advice from experts.

We have applied the ATSGs at all Group companies, and are enhancing information security across the entire Aichi Steel Group.

### Information security promotion system

#### Management system and roles of each department



### Information security guidelines

We, for security controls and to prevent leakages of personal information, have established rules regarding the procedures for handling documents and data, sending and receipt of email, and management standards and procedures for computers and peripheral devices.

Examples of rules:

- Document control rules
- Information security control rules
- Information disclosure rules
- Private information protection rules, etc.

We carefully handle and strictly control any information held by the Company or by any Group company, and any information obtained from our customers, suppliers or employees, etc., in accordance with our internal rules.

### Definition of Confidential Information

All information, products, and facilities, regardless of form, that would disadvantage the Company if disclosed or leaked, or that would benefit a third party, and that have been designated as subject to restrictions on disclosure by the confidentiality management supervisor specified under the information security system. Confidential information regarding other companies obtained through proper means is also included.

### Information security awareness and education

Through our CSR meetings, management receives updates on current Group information security management levels, as well as issues and ongoing efforts, ensuring a common awareness of information security as a management issue. For employees, a check is conducted using an "information security checklist" for every employee using a personal computer in their day-to-day work, regarding handling of information devices and various related rules. Based on those results, staff responsible for education in each department, along with department heads, provide individual instruction.

We also present public incidents of information leaks in a news format, and issue company-wide alerts when a computer virus or another malicious program is discovered in the Company, in order to raise awareness of security controls.

Number of times security training held **10**

## Messages from Outside Directors



### Q1. What do you think of your own role as an outside Director? Also, how would you rate the Aichi Steel Board of Directors?

**Yasui:** As a member of management in the past, I always try to personally visit the front lines of gas supply and sales to see and confirm situations with my own eyes. Even as an outside Director, I think it is important to visit those sites as much as possible to get direct access to the ideas and thoughts of the people working there (although it was mostly not possible this past year because of the pandemic).

**Arai:** I also try to consider lessons and approaches from my own industry when making recommendations. Vision 2030 sets out many of the same ESG management and action guidelines followed by the aviation industry, so I can introduce or propose any initiatives that might be helpful while actively questioning things from the perspective of another industry.

**Yasui:** I believe my role is to apply my past experiences and expertise to continually question the Board of Directors, to discuss any concerns I might have, and to provide support at all other times. I feel that the Aichi Steel Board of Directors lets me perform my role and exchange opinions freely across the boundaries of the company.

**Arai:** In terms of a free exchange of opinions, the Board of Directors sets aside some time before meetings to explain any technical subject that will be discussed, which makes the discussions more meaningful. I am also impressed with the way they make improvements or otherwise address any of our proposals with a sense of urgency.

### Q2. How would you rate Aichi Steel's response to significant changes in the social environment?

**Yasui:** The entire industry is being severely impacted by the pandemic, so I thought it was quite impressive that the company quickly moved to establish a new business style and showed that they were applying their lessons and discoveries to the future.

**Arai:** Speaking of rapid response, the company also did well to respond quickly to the CASE trend, including developing the GMPS (Global Magnetic Positioning System), and materials and parts for electric vehicles. The company has a strong awareness of its role in contributing to the SDGs. It is actively applying its technical capabilities, that other companies cannot match,

toward the expansion of businesses in new fields like security, medicine, and agriculture.

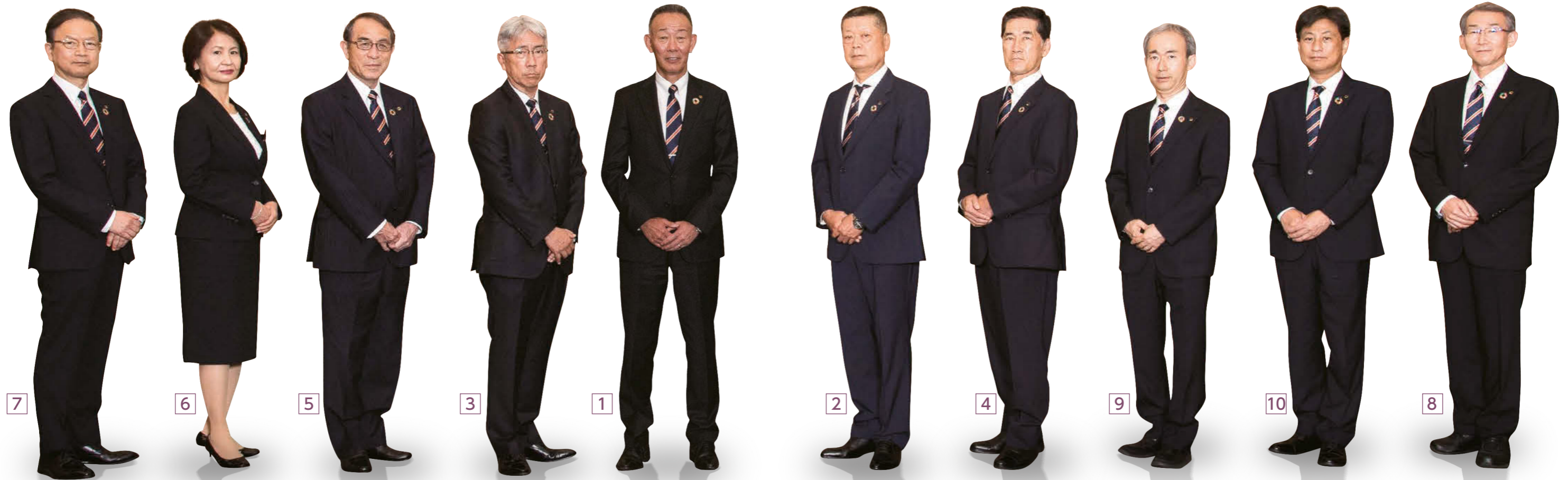
**Yasui:** Recently, the hot topic of carbon neutrality has surfaced, representing a major change in the business environment that is an inevitable management risk for Aichi Steel, but they have expressed their determination to tackle this topic through technology development and new market creation. The company has a well-established culture of taking on challenges, so I look forward very much to seeing everyone work together to conquer this new challenge.

### Q3. What issues and other important points do you see with Aichi Steel's medium- to long-term growth strategies?

**Yasui:** With increasing complexity of initiatives and multi-directional expansion of business fields, I really think Aichi Steel needs to focus on depth and breadth when developing its human resources, including both specialized personnel and personnel with a wider perspective who can provide oversight of the entire company. Because it has a culture of taking on challenges, I expect to see the company overflowing with talent who can achieve self-growth as the company grows within an environment that allows them to continue taking on challenges.

**Arai:** It is important that the management team and employees share the same vision of what the company should be, and what they want it to be, in the future. I strongly commend Aichi Steel for formulating Vision 2030 and announcing it through a president's press release. By doing so, they shared the details and the company's determination among employees, not just outside the company, which has created a stronger unifying force for realizing the vision. I look forward to further efforts by the company to create safe and secure workplaces, and achieve workstyle reform, that enables all its employees to work happily and with vitality, and to growth together with the company.

## Directors and Audit & Supervisory Board Members



**1** Takahiro Fujioka

President

Attendance at Board of Directors meetings

14 of 14 (100%)

**2** Motoshi Nakamura

Executive Vice President

Attendance at Board of Directors meetings

14 of 14 (100%)

**7** Hiroaki Chino

Audit & Supervisory Board Member

Attendance at Board of Directors meetings

14 of 14 (100%)

**8** Hirofumi Yokota

Audit & Supervisory Board Member

New

**3** Naohiro Yasunaga

Director and Managing Executive Officer  
General Manager, Manufacturing Innovation  
Headquarters  
Safety and Environmental Officer

Attendance at Board of Directors meetings

14 of 14 (100%)

**4** Katsunori Kojima

Director and Managing Executive Officer  
Smart Company President

Attendance at Board of Directors meetings

11 of 11 (100%)

**9** Koichi Ito

Outside Audit & Supervisory Board Member

Attendance at Board of Directors meetings

14 of 14 (100%)

**10** Katsuyuki Ogura

Outside Audit & Supervisory Board Member

Attendance at Board of Directors meetings

14 of 14 (100%)

**5** Koichi Yasui

Outside Director

Attendance at Board of Directors meetings

13 of 14 (93%)

**6** Yuko Arai

Outside Director

Attendance at Board of Directors meetings

13 of 14 (93%)

Number of Directors

**6**

Percentage of outside  
Directors (number of  
female directors)

**33% (1)**

Number of meetings of the  
Board of Director

**14**

Attendance rate at Board  
of Directors meetings

**97.6%**

## Key Financial Data (11-year summary)

(Million yen)

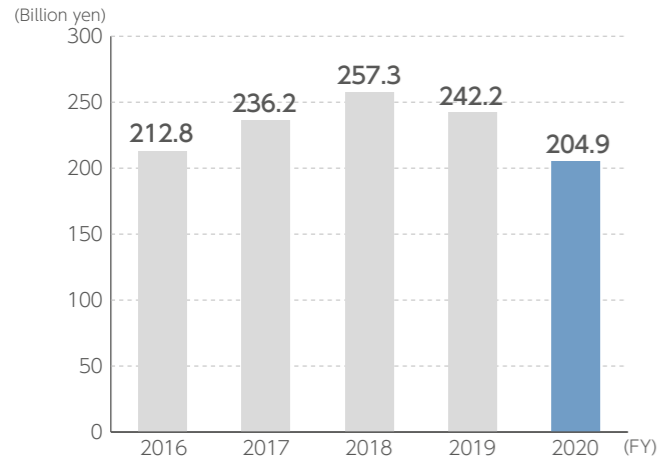
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
<b>Profit and loss</b>											
Net sales	215,453	227,478	217,279	237,420	240,647	214,120	212,837	236,237	257,315	242,262	204,908
Segment:											
Hagane Company							96,225	110,974	130,180	121,899	68,216
Stainless Steel Company											32,757
Kitaeru Company							99,599	107,352	109,217	102,018	86,012
Smart Company							13,820	14,786	14,627	14,865	15,476
Other businesses							3,191	3,123	3,290	3,477	2,444
Operating profit	14,072	8,458	7,332	9,627	10,616	5,883	7,218	11,813	11,119	13,901	3,563
Segment:											
Hagane Company							5,653	8,006	9,245	8,970	-2,294
Stainless Steel Company											2,467
Kitaeru Company							845	2,747	1,057	3,329	1,909
Smart Company							237	348	-39	606	673
Other businesses							482	710	856	993	807
Operating profit margin (%)	6.53	3.72	3.37	4.05	4.41	2.75	3.39	5.00	4.32	5.74	1.74
Ordinary profit	12,873	7,925	7,929	9,810	11,141	5,835	6,863	11,774	11,324	13,776	4,248
Profit before income taxes	11,948	7,884	7,768	9,779	10,693	1,409	8,045	12,371	10,455	13,158	4,717
Profit attributable to owners of parent	15,205	4,246	4,898	5,503	6,023	20	5,084	8,182	6,503	8,543	3,049
Profit margin attributable to owners of parent (%)	7.06	1.87	2.25	2.32	2.50	0.01	2.39	3.46	2.53	3.53	1.49
<b>Capital expenditures and R&amp;D expenses</b>											
Capital expenditures	20,528	10,649	10,272	12,930	12,752	15,408	20,831	19,020	20,914	20,068	14,194
Depreciation expenses	12,475	14,447	12,840	12,355	11,833	12,692	12,353	13,818	14,423	15,884	16,963
R&D expenses	2,776	3,337	3,597	3,471	3,538	3,282	3,304	3,777	3,992	3,758	4,054
<b>Profitability</b>											
Return on equity (ROE) (%)	13.45	3.55	3.96	4.17	4.14	0.01	3.60	5.55	4.27	5.56	1.88
Return on assets (ROA) (%)	6.30	1.76	2.04	2.23	2.33	0.01	1.95	2.99	2.30	2.99	1.03
<b>Assets, liabilities and capital</b>											
Total assets	240,217	241,951	238,165	255,259	264,694	251,078	271,763	275,315	290,294	280,380	314,040
Net assets	123,671	126,111	132,436	144,965	161,669	147,534	151,273	160,806	161,889	163,691	179,716
Capital adequacy	118,682	120,786	126,323	137,592	153,316	139,344	143,024	151,891	152,638	154,647	169,811
Capital adequacy ratio (%)	49.41	49.92	53.04	53.90	57.92	55.50	52.63	55.17	52.58	55.16	54.07
Interest bearing debt	57,773	58,983	51,243	52,046	44,915	37,447	54,598	47,317	59,618	59,445	75,878
Debt-equity ratio (Ratio)	0.49	0.49	0.41	0.38	0.29	0.27	0.38	0.31	0.39	0.38	0.45
<b>Cash flows</b>											
Cash flows from operating activities	19,787	11,164	27,757	14,992	19,336	25,193	13,350	13,164	13,580	36,308	14,793
Cash flows from investing activities	-17,445	-14,067	-11,867	-11,993	-13,565	-12,122	-19,677	-20,954	-19,765	-24,517	-13,834
Cash flows from financing activities	-22,848	-741	-10,198	-1,911	-10,158	-9,466	15,231	-9,509	9,035	-3,290	14,168
<b>Investment indicators</b>											
Net profit per share (Yen)	774.89	216.21	249.37	279.94	306.25	1.02	258.34	415.71	330.38	434.05	154.82
Net assets per share (Yen)	6,044.28	6,148.61	6,430.50	6,995.84	7,794.08	7,080.24	7,266.42	7,716.77	7,754.80	7,857.00	8,619.39
Dividends per share (Yen)	100	100	100	100	100	100	100	120	120	130	45
Payout ratio (%)	12.9	46.3	40.1	35.7	32.7	—	38.7	28.9	36.3	30.0	29.1
<b>Non-financial information</b>											
Employees (Persons)	4,351	4,406	4,504	4,613	4,617	4,654	4,773	4,847	4,957	4,912	4,826

1 Every 10 shares in the Company were consolidated into one share effective of October 1, 2016. Net profit per share, net assets per share, and dividends per share were calculated in anticipation of this share consolidation at the beginning of fiscal 2009.

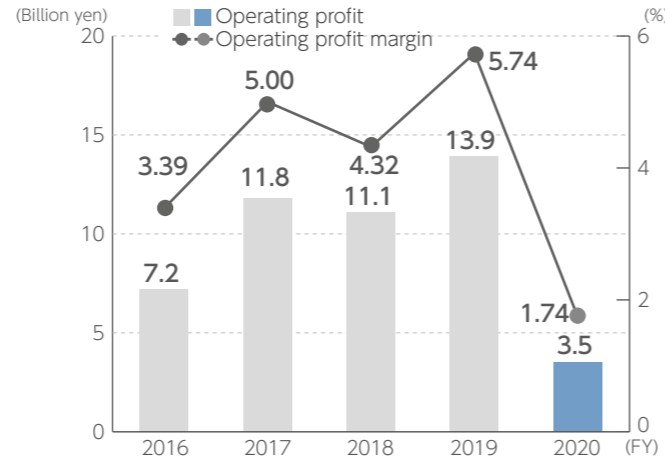
2 The ASBJ Statement No. 28, Partial Amendments to Accounting Standard for Tax Effect Accounting (February 16, 2018) came into force at the beginning of fiscal 2018. The key management indicators for FY2014, FY2015, FY2016 and FY2017 represent retrospective application of this accounting standard. Indicators and other information for FY2009, FY2010, FY2011, FY2012 and FY2013 remain as they were prior to application of this accounting standard.

# Financial Highlights

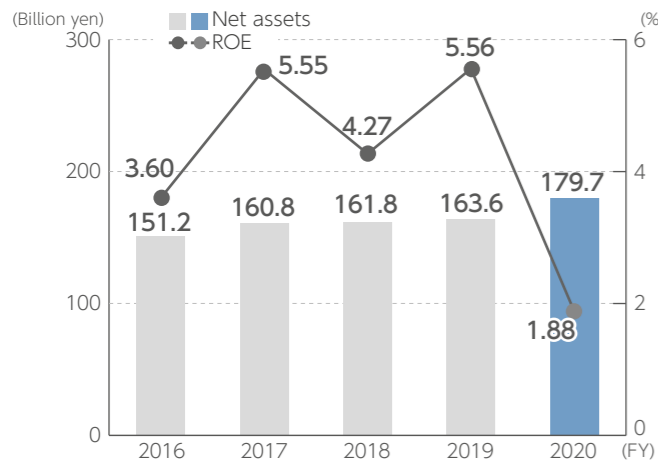
## Net sales



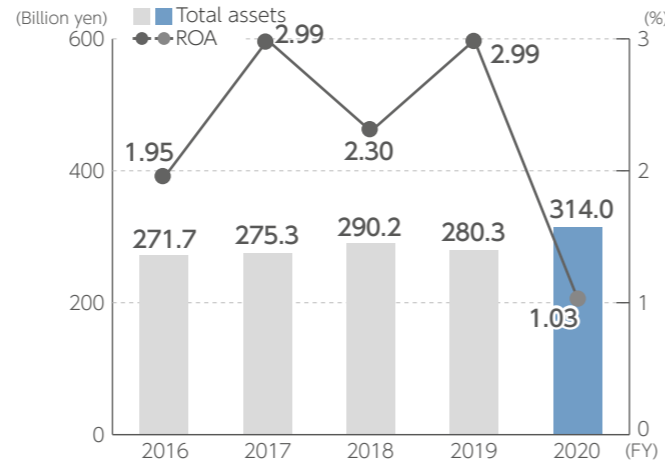
## Operating profit and operating profit margin



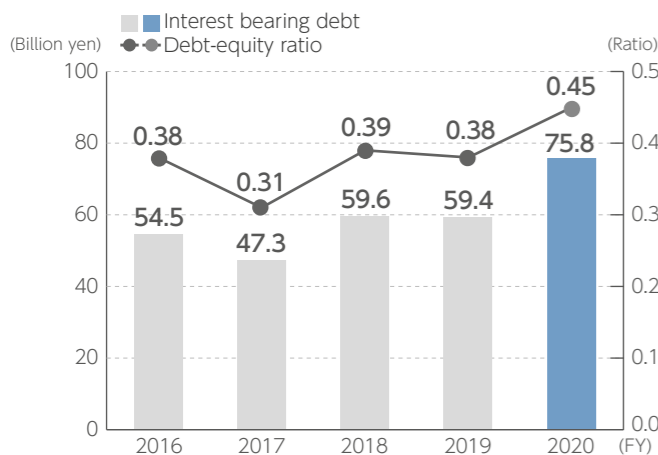
## Net assets and ROE



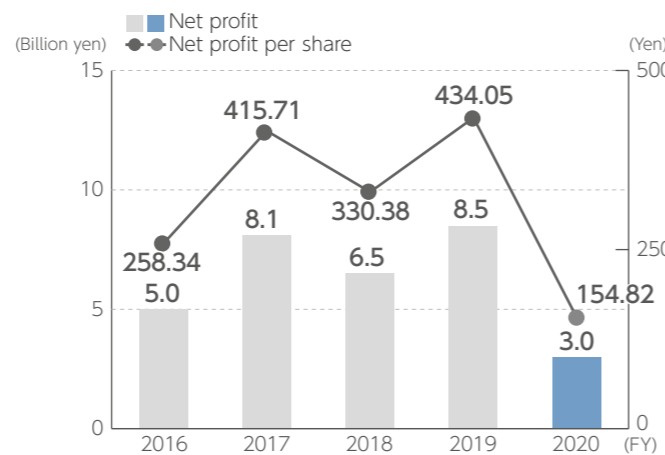
## Total assets and ROA



## Interest bearing debt and debt-equity ratio



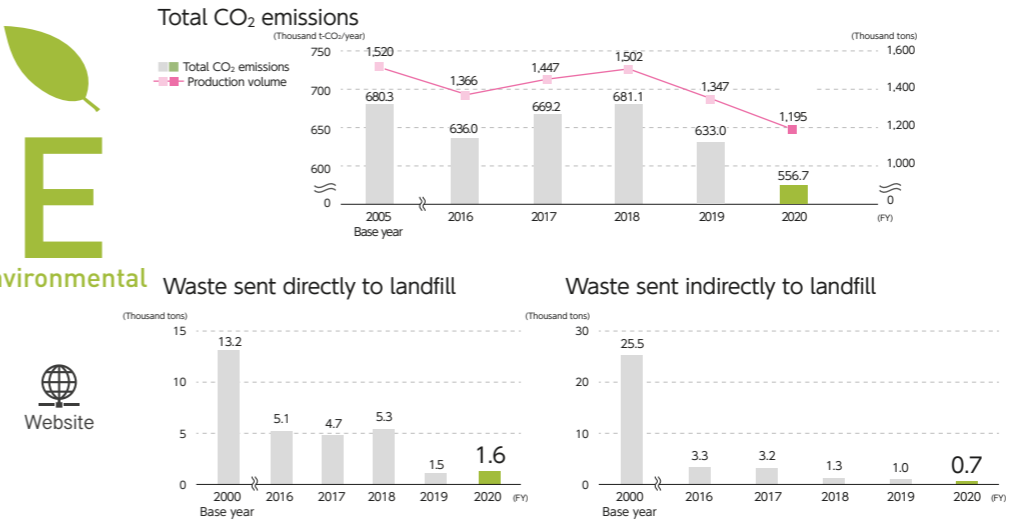
## Net profit and net profit per share



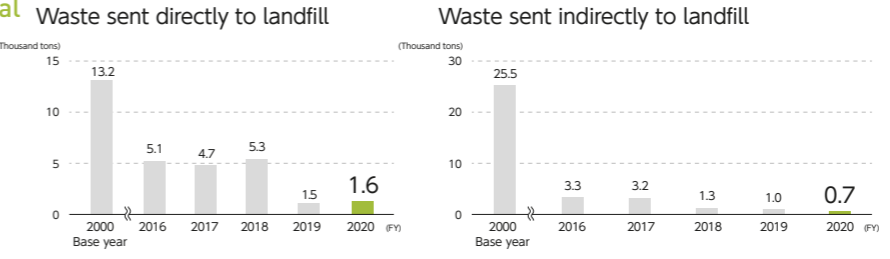
# Non-financial Highlights



Environmental



Website

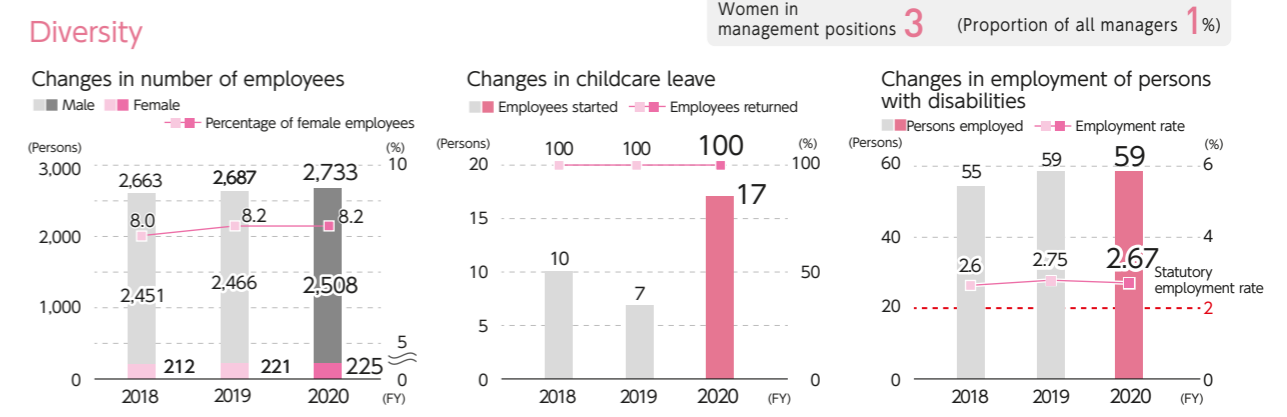


Waste recycling rate  
**99.1%**

Percentage of ISO 14001-certified subsidiaries  
**91%**

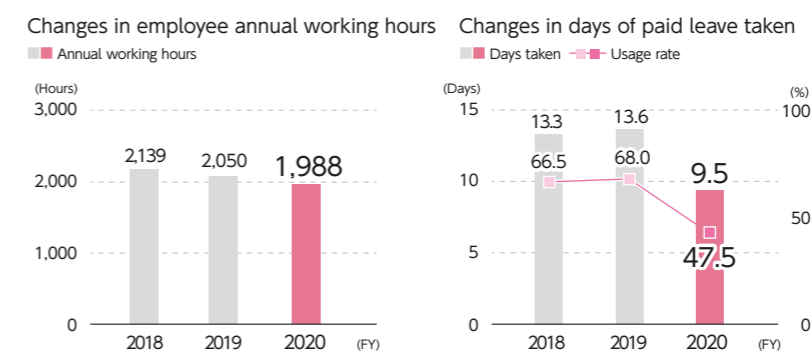


Social

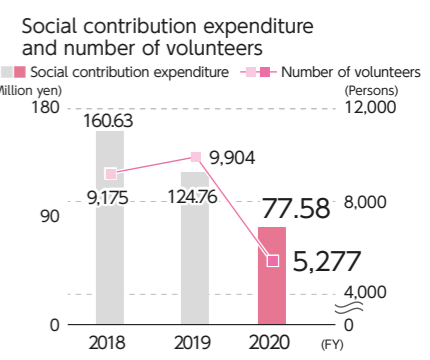


Women in management positions **3** (Proportion of all managers **1%**)

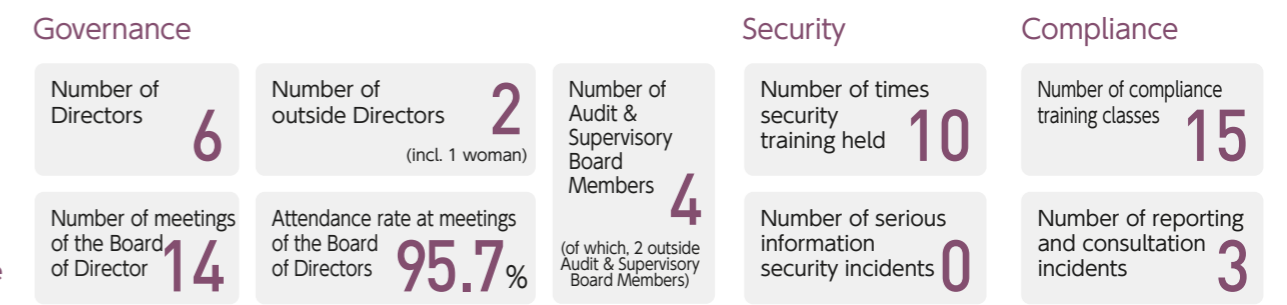
## Workstyles



## Social contribution



Governance



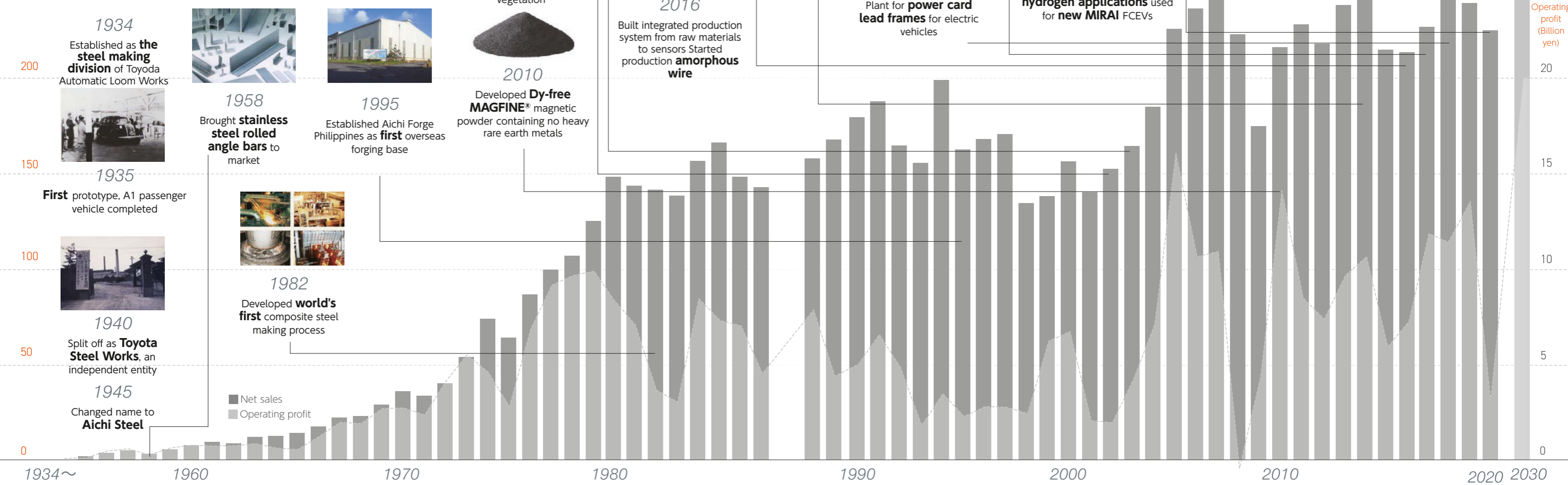


# DNA of Aichi Steel

Aichi Steel Corporation was originally established in 1934 as the steel making division of Toyoda Automatic Loom Works (currently Toyota Industries Corporation). It split off to become an independent entity in 1940, operating as Toyota Steel Works. The history of Aichi Steel shows our efforts to contribute to society by carrying forward the spirit of our founder Kiichiro Toyoda and his belief that "Great cars are made with great steel."

## History of the Business

Net sales (Billion yen)  
250



**1934**  
Established as the **steel making division** of Toyoda Automatic Loom Works

**1935**  
First prototype, A1 passenger vehicle completed

**1940**  
Split off as **Toyota Steel Works**, an independent entity

**1945**  
Changed name to **Aichi Steel**

**1958**  
Brought **stainless steel rolled angle bars** to market

**1982**  
Developed **world's first composite steel making process**

**1995**  
Established Aichi Forge Philippines as **first overseas forging base**

**2002**  
Successfully developed and produced MI **highly sensitive magnetic sensor elements**

**2003**  
Developed **TetsuRiki Agri** to promote photosynthesis in vegetation

**2010**  
Developed **Dy-free MAGFINE®** magnetic powder containing no heavy rare earth metals

**2014**  
Used **stainless steel in the high-pressure hydrogen system** of MIRAI FCEVs

**2016**  
Built integrated production system from raw materials to sensors Started production **amorphous wire**

**2017**  
Started autonomous driving trials with autonomous driving support system using **GMPS** (Global Magnetic Positioning System)

**2020**  
Completed construction of electric furnace **exhaust heat recovery system**

**2020**  
Resource-saving, high-strength stainless steel for high-pressure hydrogen applications used for new MIRAI FCEVs

**2021**  
Successfully developed **next-generation PDMA fertilizer** for poor soils

**Jan 2021**  
Developed 34,000 rpm, 40%\* downsized **Electric Axle for BEVs**

**Mar 2021**  
Successfully developed **next-generation PDMA fertilizer** for poor soils

**May 2021**  
Developed **rotating bending fatigue test apparatus** for high-pressure hydrogen environments

## Philosophy Evolution

**1940**  
Five Main Principles of Toyota established as management philosophy

**1985**  
Our Vision established

**1998**  
Action Guidelines established

**2018**  
Aichi Way established

**2020**  
Brand slogan created

Looking forward to our 90th, 100th and other future anniversaries

\* Consolidated since 1995  
\* The standards for posting sales were changed in 1998 (the portion of sales from steel making base material are excluded from sales of steel products)

# Aichi Steel Today

Manufacturing at Aichi Steel had its beginnings in specialty steel production. While carrying on this founding DNA, it has evolved into a wide range of businesses.

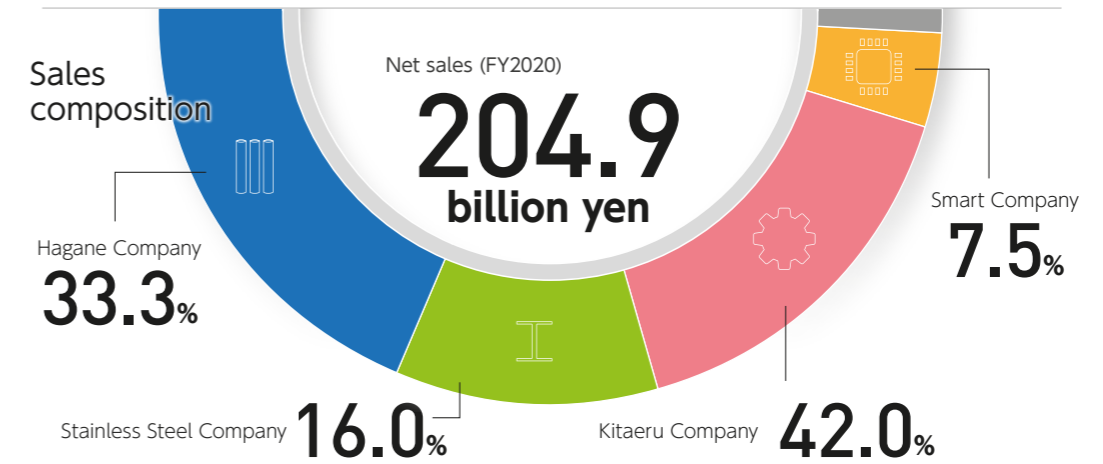
Taking advantage of the technical capabilities we have cultivated, we are creating the products of choice for our customers.

## Company Profile

Establishment: March 8, 1940  
 Capital: 25,016 million yen (as of March 31, 2021)  
 Representative: Takahiro Fujioka, President

Employees: 4,826 (Consolidated)  
 2,733 (Non-consolidated) (as of March 31, 2021)  
 Business Description: Production and sale of specialty steel products, forgings and electromagnetic products  
 Head Office: Tokai City, Aichi Pref., Japan

Sales Offices: Tokyo / Osaka / Fukuoka  
 Overseas Offices: Shanghai / Silicon Valley  
 Plants: Chita / Kariya / Forging / Higashiura / Gifu / Seki / Electronic Components



### Hagane Company

Based on our experience and technical capabilities in manufacturing specialty steels for over half a century, the Aichi Steel Group continues to evolve in pursuit of being number one in quality.



**68.2 billion yen**  
 Net sales (FY2020)

<b>Main products</b>	Carbon steels and alloys for machine structural use, steel with guaranteed hardenability for structural use, microalloyed steel, boron steel, spring steel, high carbon chrome bearing steel, etc.
<b>Developed technologies</b>	<ul style="list-style-type: none"> <li>Capabilities that have evolved with the accumulation of years of experience since foundation</li> <li>High quality that contributes to automobile safety, refined through the belief that "Great cars are made with great steel."</li> </ul>

**Market presence**

Hot-rolled steel bars (alloys for structural use)  
 Share of Japanese production **No. 1 (26%)**



### Stainless Steel Company

As the leading manufacturer of stainless steel shapes in Japan, the Aichi Steel Group meets the various needs of the customers through large variety and small quantity production of over 4,000 products of different shapes and types.



**32.7 billion yen**  
 Net sales (FY2020)

<b>Main products</b>	Stainless steel shapes, round bars, deformed bars and titanium bars, and engineering of stainless steel construction
<b>Developed technologies</b>	<ul style="list-style-type: none"> <li>Hot-rolling technologies of various shapes and dimensions accumulated over the years since producing Japan's first hot-rolled stainless steel angle bar in 1958</li> <li>Stainless steel building structure engineering technologies, including design cooperation, factory manufacture, and on-site construction</li> </ul>

**Market presence**

Stainless steel shapes and flat steel  
 Share of Japanese production **No. 1 (70%)**



### Kitaeru Company

Leveraging the strengths of integrated forging with steel making process, which enables in-house production of everything from steel material to forged products, the Aichi Steel Group is producing high value-added components that contribute to lighter, higher-performance automobiles.



**86.0 billion yen**  
 Net sales (FY2020)

<b>Main products</b>	Hot-cold-forged products and machined products (engine, chassis and drivetrain components, etc.)
<b>Developed technologies</b>	<ul style="list-style-type: none"> <li>Ability to offer solutions using high quality products that leverage the strengths of integrated forging with steel making processes</li> <li>World-class forging technologies that create highly functional, highly accurate products</li> </ul>


**Market presence**

Production volume in Japan as a single forging plant **No. 1 (No. 3 globally)**



### Smart Company

The Aichi Steel Group is creating new businesses across five fields, from electronic components, magnets, dentistry and sensors, to iron fertilizers developed through knowledge of specialty steel manufacturing.



**15.4 billion yen**  
 Net sales (FY2020)

<b>Main products</b>	Electronic materials and components, anisotropic Nd-Fe-B bonded magnets (MAGFINE®), dental magnetic attachments, ultra-compact ultra-sensitive magnetic sensors (MI Sensors), iron fertilizers, etc.
<b>Developed technologies</b>	<ul style="list-style-type: none"> <li>Practical ability to expand the possibilities of a smart society through new products that leverage steel making technologies</li> <li>Unique technical capabilities able to contribute to a diverse range of customers</li> </ul>

**Market presence**

Anisotropic Nd-Fe-B bonded magnets Share of global production **No. 1 (40%)**  
 Lead frames for electric vehicles Share of Japanese production **No. 1**



# Value Creation Model

Even as our environment undergoes drastic changes, we will address social challenges through our business activities and achieve steady growth, supported by the spirit of our founder and his belief that "Great cars are made with great steel." Aichi Steel employees, who all share the Aichi Way mindset, will continue to provide value to society with the belief that "A great society comes from great materials." by leveraging the strengths of materials developed since foundation in each of our business domains.



## About the Sustainable Development Goals

The Sustainable Development Goals (SDGs) were adopted at a United Nations summit in September 2015 as a number of goals for creating a sustainable world. The global community is working together to achieve the goals. Aichi Steel is also committed to the achievement of the SDGs through its businesses.



### Roots/DNA of Aichi Steel

- Established to manufacture the specialty steels required for automobiles
- Toyota Group's only materials manufacturer, supporting the basic performance of automobiles

### Mission

At foundation:  
"Great cars are made with great steel."

Now:  
"A great society comes from great materials."

### Changes in society and the environment

- Global warming and air pollution
- Urbanization and aging populations
- Information technologies and intelligent technologies
- Changes in automobiles
- Automation and driverless technologies

### Systems and people

- Business organization comprising Companies and a Corporate office
- HR diversity and HR development systems to support sustainable growth

### Development and manufacturing capabilities

- Material development capabilities handed down since foundation
- Magnet and sensor technologies derived from steel manufacturing
- High quality, stable manufacturing capabilities developed by the Toyota Group

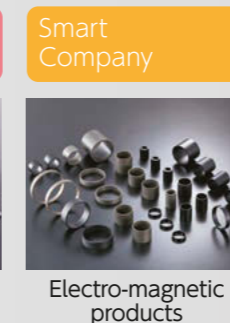
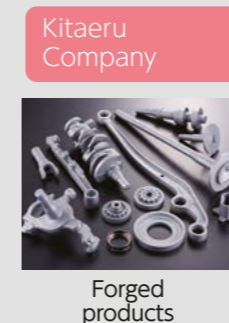
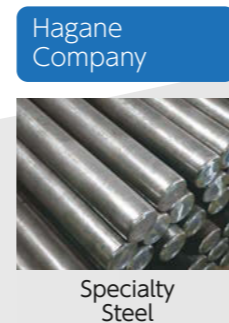
### Networks and cooperation

- Global production and sales sites
- Robust supply chains
- Future-focused business and technical collaborations

### Financial foundation

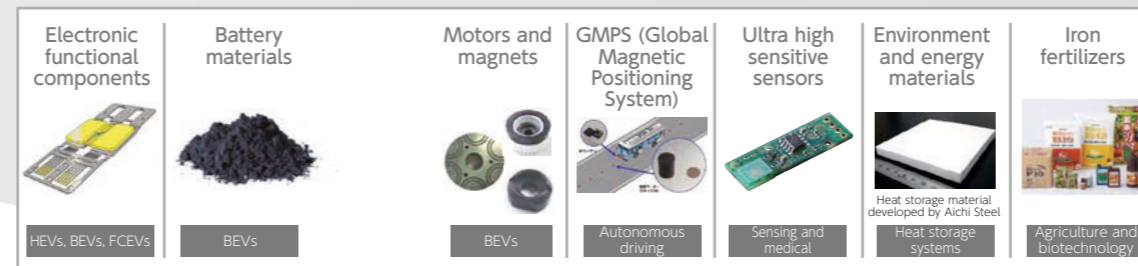
- Healthy and robust financial foundation
- Varied financing channels
- Cash flows with highly efficient capital

### Existing businesses



Expanded value through creativity and further leveraging of existing strengths

Laying the foundation for new businesses



New value focused on social changes and needs

Business foundation that supports steady growth

- ESG management (Environmental, Social and Governance)
- Risk management and compliance
- Prioritization (safety, quality, production, costs)
- Employee contentedness and growth

### Maintaining human and global health

- CO<sub>2</sub> reductions through high strength, high performance materials for lightweighting vehicles
- CO<sub>2</sub> reductions through waste heat recovery and heat storage units
- Soil improvement and greening through iron fertilizers
- Safer and more secure healthcare provision through medical equipment using sensing technologies
- Food safety through detection of foreign matter in food
- Safe and secure workplaces and richer work lives



### Supporting safe, secure and convenient mobility

- Accident reductions and help for mobility-impaired people through autonomous driving support
- High strength, high performance materials to support vehicle running, turning and stopping
- Highly functional components for electric vehicles (BEVs and FCEVs)



### Creating an exciting future

- Creating clean and safe cities through superior design and maintenance-free stainless steel
- Developing materials that make our dreams come true (Aerospace, oceanic and underground development etc.)



# Aichi Way



# AICHI STEEL

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