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.

Aichi Way
Common values and codes of conduct to be followed by all employees of the Aichi Steel Group.

We established the Aichi Way as common values and codes of conduct for every Aichi Steel Group employee to follow in order to help us continue growing as a global company and improve our corporate value. As a universal spiritual guide for our employees to use when making decisions and implementing actions at work, the Aichi Way is the foundation for every initiative we pursue, from raising awareness of compliance and contributing to local communities to providing our many competitive products. Now and forever, we aim to remain a trusted company by following the spirit of the Aichi Way and continuing to contribute to the sustainable development of society and the global environment.

Aichi Way   Working together to be an even better company!

Noble ambitions
Make the spirit of our foundation (Genri Gensoku) and reality (Genba-ism) help us to manufacture Japan's first domestic motor vehicle.

Sincerity
Feel all things with sincerity, being open and honest, and approach your work with an attitude of "I will..."

Genba-ism
Go to the workplace and see for yourself (Genchi Genbutsu), then resolve problems by reducing the gap between the fundamental principle (Genri Gensoku) and reality.

Customers and team members
Contribute to society by producing products that are chosen by customers, and compete in a company where teamwork is our greatest strength.

Happiness for everyone
Always anticipate the future, use our knowledge and curiosity to maintain creativity, and "always satisfy others from our heart," and从来に、未来を予測し、知識と好奇心を用いることで創造性を維持し、"心から他人を満足させよう"とすることによって、自分自身の最大の強みであるチームワークを目指す。

Good thinking
Always think positively about the future, use our knowledge and curiosity to maintain creativity, and "always satisfy others from our heart, and from strength to strength".

Good products
Provide high-quality products that are chosen by customers and are used in the automobile, shipbuilding, and other industries.

Heading to a bright future
The Aichi Steel Group is committed to pursuing the infinite possibilities of materials and creating new value.

We contribute to society by providing products that match the needs of our customers, thus ensuring a more comfortable life for people.
Even as our environment undergoes drastic changes, we will address social challenges through our business activities and realize our vision, supported by the spirit of our founder and his belief that “Great cars are made with great steel.”

Aichi Steel employees, who all carry the spirit of the Aichi Way, will continue to provide value to society, and work to achieve the goal of co-creating a new smart society through materials, by leveraging the strengths of materials developed since foundation in each of our business domains.

### Value Creation Model

#### Identity

**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”
- Next: “Co-creating a new smart society through materials”

#### Strengths

**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

#### Businesses

**Existing businesses**
- Hagane Company
- Kitaeru Company
- Smart Company

**Expanded further**
- Value through creativity and leveraging of existing strengths

**New value**
- Focused on social changes and needs

#### Value for Society

**Supporting safe and convenient mobility**
- Autonomous driving support
- High strength, high performance materials to support running, turning and stopping
- Support for vehicle electrification (EVs/FCVs)

**Maintaining human and global health**
- Medical equipment
- CO₂ reductions through support for vehicle electrification (EVs/FCVs)
- CO₂ reductions through high strength, high performance materials for lightweighting vehicles
- Soil improvement and greening

**Creating an exciting future**
- Superior design and maintenance-free stainless steel
- Aerospace, oceanic and underground development: Developing materials that make our dreams come true

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### 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.

**About the Sustainable Development Goals**

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**The Sustainable Development Goals (SDGs)**

- **Global environment, agriculture and biotechnology**
- **Global warming and air pollution**
- **Urbanization and aging populations**
- **Information technologies and intelligent technologies**
- **Changes in automobiles and automation and driverless technologies**
Major Transition in the Business Environment

Taking a hard look at materials

The business environment is continuing to undergo rapid change as the automotive industry, where our major customers are, faces a major once-in-a-century transition. Electri/fication of vehicles in particular has an enormous impact on our company and brings with it a serious sense of urgency. However, new businesses never develop without a healthy sense of urgency. We are also currently tackling the new CASE* era. At the core of this challenge is the DNA of Aichi Steel. Our founder had a belief that “Great cars are made with great steel,” but going forward, we will contribute to society through materials with the conviction that “A great society comes from great materials.”

Transformation (FY2019 goal) and the Aichi Way

During fiscal 2018, we surpassed our plan for consolidated net sales by a wide margin. I believe we achieved these results because we were able to supply products that met our customers’ needs in a timely manner. On the other hand, operating profit fell short of the plan because our purchase costs rose sharply and exceeded any benefit we received from reduced cost of sales and increased prices. This means that our earning power is still insufficient.

The reason we chose “transformation” as our goal for fiscal 2019 is because without changing awareness and systems, and without reform, we will not be able to survive this major transition. Established in 2018 as a set of universal values for all our employees to share, the Aichi Way acts as a support for our company as it works together to meet this turbulent period head-on.

Targeting steady growth

To fulfill our mission of delivering high-value products to every customer, it is important that our production systems are able to flexibly, quickly and accurately respond to fluctuations in demand. We are currently building those systems while minimizing costs. Another thing we are working on is improving consolidated profitability by leveraging the capabilities of Aichi Steel Group companies. Our Group companies are active in various areas of demand, where we are aiming to maximize profits on a consolidated basis.

Our existing businesses are currently focused on four different areas. They are (1) enhancing our stainless steel business, (2) driving product development by leveraging our integrated forging and steel making, (3) filling orders for electronic components, and (4) enhancing our magnet business. By implementing these efforts while sowing seeds for new businesses, we are achieving steady growth.

Contributing to the resolution of social issues, and ESG initiatives

Over recent years, a number of social issues are materializing, such as environmental issues and aging societies. With the adoption of the SDGs by the UN and increasing interest in ESG investment, it is expected that efforts be made to achieve sustainable growth for society as a whole and for companies individually. I believe that we should achieve corporate growth by helping to solve social issues. In addition to improving financial value, we must also improve social value before we can achieve sustainable corporate growth and improve corporate value.

For this reason, we are incorporating ESG perspectives in our management approach. We focused on governance in particular this year and made changes to our Board of Directors. In addition to reducing the number of directors to six and increasing the ratio of independent outside directors, we are also providing opportunities for them to discuss special topics, such as current issues and medium- to long-term business strategies. We also established a voluntary Director Remuneration and Personnel Planning Committee, which has an independent outside director as chairman and consists of the majority of other Board members. The Committee discusses nomination of director and auditor candidates, selection and removal of senior management, and remuneration for directors and senior management, and then reports to the Board. Through this process, we are working to increase activity on the Board of Directors, and improve its transparency and objectivity.

Message of Commitment from the President

Swinging the Pendulum Higher and Accomplishing Transformation as a Group

President Takahiro Fujioka
Swinging the pendulum higher

Going forward, we will continue contributing to a smart society as typified by CASE and MaaS technologies, by leveraging our development capabilities and providing even higher value-added materials. I always talk about “Swinging the pendulum higher,” which means looking at things from a completely new perspective and breaking through the status quo with bold ideas and actions. We will broaden our perspectives to include areas such as infrastructure and medicine, and will continue making steady progress with initiatives focused on the smart society of the future.

Developing autonomous driving support systems

In response to CASE, we are currently developing a magnetic marker system as an autonomous driving support system. Developed independently by Aichi Steel, this system employs MI sensor modules on vehicles to detect very weak magnetism from magnetic markers laid in the road, from which it can estimate vehicle position with a high degree of precision. The system provides support in places where GPS- and camera-based autonomous driving is difficult. In December 2018, we joined partner enterprises to conduct joint trials of a bus rapid transit (BRT) system in Rikuzentakata City, one of the areas affected by the Great East Japan Earthquake. To quickly bring this to market, we are preparing to conduct more trials under a range of conditions and develop these technologies into a system package that we can offer.

We are also working to increase our competitiveness in automotive-related technologies. We are doing this by expanding our stainless steel business, developed for hydrogen stations and fuel cell vehicles (FCVs), and by adopting the latest forging machines to manufacture drivetrain components, where demand is high despite electrification being well advanced, to generate the high yields* and high productivity that are our strength.

* Yield: The ratio of product weight against the weight of materials required for production of those products.

Making the most out of every situation

Third is this year that we adopted our in-house company system. I feel that as a result, compared to when we operated with a divisional business structure, we now have a stronger sense of ownership and solidarity in taking responsibility for all manner of things. The “Step Up Plan” activities we launched after the accident of January 8, 2016* have now come to an end. In light of the enormous trouble this caused to society and customers, we have spent the three years of this plan thoroughly identifying the causes of the accident, making improvements, and strengthening our corporate structures. Of course, we will not stop there. In the future, we will ensure the lessons learned over these three years are fully entrenched within the company and we will face new issues as they arise. We will continue to show society our commitment to making the most out of every situation and becoming stronger as a result.

* On January 8, 2016, an explosion occurred in the No. 2 Bar Mill Shop at Aichi Steel’s Chita Plant.

Driving workstyle reform

One of the goals of our Medium-term Management Plan is the strengthening of our business foundation. Essential for achieving this are active people and organizations, and a shared happiness in aligning growth of individual employees with growth of the company.

With these thoughts in mind, we are driving workstyle reform at Aichi Steel. As a tangible initiative, we completed construction of our new administration building in March 2018. With a range of ideas to encourage communication and the latest energy-efficient design, the new building has not only increased employee satisfaction but has resulted in Aichi Steel receiving the New Office Promotion Award and the Chief of Chubu Bureau of Economy, Trade and Industry Ministry Award, at the 31st Nikkei New Office Awards sponsored by the New Office Promotion Association and Nikkei Inc.

As an intangible initiative, I took the lead in establishing and following a set of action guidelines for managers that will serve as a model for the workers. We are also promoting the use of teleworking systems and use of parental leave by men as ways to help women play even more active roles.

In November 2019, we will open our new recreation hall. This new facility will be a direct result of the hard work of our employees and when they use it, I believe they will feel even happier to be working at Aichi Steel.

Becoming a company that the community needs

Communication with people in the local community is extremely important. Since January 2019, we have been using display rooms in the administration building to hold plant tours for the general public and elementary school students. We also plan to open up to the public the convenience store and restaurant located within the new recreation hall.

In 2020, we will celebrate our 80th anniversary. We strive to be an attractive company that is continually welcomed by everyone in the community, and to that extent we will continue creating great products and working to create ties with the community.
Creating a next-generation smart society

Contributing to Autonomous Driving Evolution Through Materials

Using smart technologies to resolve social issues

Right now, people all around the world are researching and developing autonomous driving technologies. The majority of development is focused on using GPS and camera image recognition technologies, but those alone are unable to cover all driving scenarios. For example, GPS does not reach some hilly and mountainous areas or in tunnels. In areas of heavy snowfall as well, there is a risk that the road dividing lines will be covered by snow and the camera image recognition reliability will drop. In many of these areas as well, communities are facing the urgent challenge of securing local transportation options because of reduced or canceled rail and bus services due to labor shortages resulting from aging and declining populations.

Since 2017, we have been collaborating with national and local governments, and East Japan Railway Company, to trial an autonomous driving system in various regions. This magnetic marker system, developed independently by Aichi Steel, is able to support GPS and camera image recognition technologies.

**TOPICS**

**Frontier Research and Development Div.**

In preparation for the arrival of a smart society, this division was established in 2018 for the purpose of creating new businesses. The division is driving research and development in a total of six fields—Smart Transportation Systems, Batteries, Electronic components, Motors and Magnets, Advanced materials, and Environment and energy.

**Autonomous driving business areas for Aichi Steel**

To quickly respond to urgent social challenges, we are conducting autonomous driving trials of designated, specialized vehicles in enclosed areas, which we expect can be achieved in the near-term. In the future, we will look into the potential of these technologies in open areas and non-designated, general vehicles as part of efforts to achieve autonomous driving of non-designated, general vehicles on public roads.

**CASE 1**

**Autonomous Bus Trials on JR Ofunato Line BRT**

*Joint seven-company project with East Japan Railway Company and others*

**Period:** December 2018 to March 2019

**Area:** Vicinity of Takekoma Station on JR Ofunato Line BRT

Having sustained considerable damage in the Great East Japan Earthquake, the JR Ofunato Line is in the process of recovery as a BRT system*. However, the area serviced by the rail line is still facing labor shortages resulting from aging and declining populations. In hope of addressing this issue with autonomous driving technologies, trials of a BRT system, using a magnetic marker system that functions even on snow-covered roads, were conducted on dedicated roads in the vicinity of Takekoma Station.

* Bus rapid transit system: A bus system, combining articulated buses, dedicated bus roads, bus lanes and other elements, with advanced features that ensure rapid, on-time performance and enable increases in transit capacity. (Translation of MLIT definition)

**POINT**

- Model case for restoration support
- Safe transportation within unique BRT alternating traffic zones (controlled by traffic signals via wireless exchange of bus locations)

**CASE 2**

**Autonomous Driving Service Trials at the “Cosmall Taiki” Michi-no-Eki (Roadside Rest Area)**

*Joint project with MLIT*

**Period:** May to June 2019

**Area:** Two routes centered on Cosmall Taiki roadside rest area (Level 2 trial of buses with up to 17 passengers traveling at speeds of up to 40 km/h)

In the village of Taiki in Hiroo District, Hokkaido, there are areas at night and when there is snow cover where image recognition reliability is poor. Trials have been conducted of a service that uses a magnetic marker system to follow two routes from the Cosmall Taiki roadside rest area, with fares actually collected from passengers.

**POINT**

- 15 services each day, with maximum of 17 passengers, and speeds of up to 40 km/h
- Used by residents for a variety of reasons, including as daily transport and for transporting agricultural products to the roadside rest area
- Planned for commercial operation by 2023

**TOPICS**

**Magnetic marker system**

The magnetic marker system is a unique Aichi Steel technology that enables vehicle position to be estimated with a high degree of precision. Magnetic sensors (MI sensor modules) are attached to the underside of buses or other vehicles to detect the very weak magnetism from magnets (magnetic markers) laid along travel routes. In this way, the system enables stable autonomous driving in bad weather, snow and tunnels where GPS- and camera-based autonomous driving may be difficult.
The main building of the new administration building was completed in January 2017, and the hall was completed in March 2018, as tangible support for employee transformation. In use now for about two-and-a-half years, the main building is receiving positive reviews from outside the company as well. One example is the 31st Nikkei New Office Awards*, where the building received the New Office Promotion Award and the Chief of Chubu Bureau of Economy, Trade and Industry Ministry Award. It has brought a range of benefits from the four perspectives below—enhancing business continuity systems, supporting new work styles, halving energy usage, and coexisting with the community. Going forward, in combination with intangible initiatives, it will help drive further employee activity and provide support during this period of transformation.

* Sponsored by the New Office Promotion Association and Nikkei Inc., these awards recognize originality and invention in creating advanced office spaces.

The new administration building was developed as a model for our future offices for the purposes of improving intellectual productivity and supporting diversity of our staff. A range of ideas were incorporated into construction, including our “Communication Stairs” that encourage lively communication between employees, work areas that respond flexibly to organizational changes, and an IT environment that enables people to work from anywhere inside the building.

### Work

**Supporting new work styles**

The new administration building was developed as a model for our future offices for the purposes of improving intellectual productivity and supporting diversity of our staff. A range of ideas were incorporated into construction, including our “Communication Stairs” that encourage lively communication between employees, work areas that respond flexibly to organizational changes, and an IT environment that enables people to work from anywhere inside the building.

### Energy

**Halving energy usage**

The building uses an all-surface radiant air conditioning system (ceiling, windows, and floors), high efficiency LED light fittings, and other technologies to achieve energy efficiency, and incorporates specifications that create a comfortable lighting, noise and air environment.

### Community

**Coexisting with the community**

A Visitor Center has been established with easy-to-understand displays depicting the founding of Aichi Steel, its steel making business and its contributions to the future. From this fiscal year, we rearranged our plant tours to start from this Visitor Center so that people in the local community can also enjoy visiting the company.

### BCP

**Enhancing business continuity systems**

The new building has a seismically isolated structure able to withstand a large earthquake of intensity 7, and an emergency power generator able to run for 72 hours. With the ability to provide an Emergency Control Headquarters and evacuation area during emergencies, it acts as the business continuity center for the whole company.

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**Employee satisfaction survey**

- **Intellectual productivity**
  - 60% of respondents answered “intellectual productivity has improved”

(Results of internal survey)

**Employee comfort survey**

- **Power consumption per unit area**
  - 50.5% less (compared to last year)

**Overall evaluation**

- **Comfort improved for all indicators**

**Visitor Center**

- **Visitor Center visitors**
  - 2,500 people approx. (FY2018)

**New recreation hall**

Built on the basic concepts of Sustain, Appreciate, Create, from the Aichi Way, which was established as common values and codes of conduct for Aichi Steel, the recreation hall is designed to blend in with the administration building. Its facilities include a convenience store, restaurant, communication lounge and multipurpose hall. It will be opened in November 2019.

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**New recreation hall (illustration only)**

**Aichi Steel**

Aichi Steel manufactures many products apart from automotive components.

---

**Aichi Steel manufactures many products apart from automotive components.**

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**New recreation hall (illustration only)**

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**Aichi Steel**

I learned about the origins of Japan’s automotive industry.

Now I understand the links between Aichi Steel and TOYOTA.

---

**Aichi Steel**

Aichi Steel manufactures many products apart from automotive components.
Anticipation of a Paradigm Change in the Automotive Industry
“Reinforcing Business Foundations & Creating New Businesses”

Right now, Aichi Steel needs to reinforce its business foundations and create new businesses in anticipation of a paradigm change in the automotive industry. To achieve these goals, we have established our 2020 Medium-term Management Plan based on compliance and governance and with the priority measures of enhancing profit-earning, strengthening business foundation, and laying the foundation for a smart society. We are implementing this plan with our three in-house companies playing a central role.

1. Current business environment and risks

In fiscal 2018, we increased production to meet high demand by running our production lines at full capacity. We actually achieved our target net sales for fiscal 2020 but as the impact of a recent slowdown in the Chinese economy becomes clear, the future for steel demand is uncertain. There is also a risk of steep price rises for resources, such as the steel scrap used as raw materials, and for secondary materials such as the electrodes used for melting steel. Therefore, we have to achieve greater efficiencies and reduced costs if we want to achieve our profit targets.

2. Initiatives for fiscal 2020

We are implementing a range of initiatives in preparation for this risk of decreased profits, including reducing loss through all production processes (steel making, rolling and refining), reducing purchase costs through such measures as using imported products and purchasing from multiple companies, and improving specific consumption by extending the life of refractory materials. In this way, we are striving for “true profit-earning improvements” to help us achieve our fiscal 2020 profit targets.

As part of these profit-earning improvements, we established a separate Stainless Steel Business Management Division and created systems able to meet high demand for stainless steel products. In addition to the automotive market, we also plan to accelerate business expansion in the highly profitable stainless steel market in the future.

Leveraging the mobility revolution as an opportunity, we will accelerate an even broader business expansion going forward.

Takashi Ishigami
Managing Executive Officer and Hagane Company President

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

1. Current business environment and risks

In the short term, the Chinese economy will slow down, while in the medium to long term, we will see engine downsizing and greater electrification. Due to the impact of these changes in the business environment, we are experiencing declines in order volumes for our forged products. On the other hand, because we are not doing enough about reducing quality-related losses, and appropriately responding to reduced production volumes by allocating people, things and finances without waste, we are experiencing increased costs in manufacturing that are putting pressure on profits.

2. Initiatives for fiscal 2020

With manufacturing, we believe there are two areas where we need to continue our efforts: adding value and reducing costs. This year, we are focusing our efforts in particular on reducing costs to build the foundations of our response to the above unfavorable conditions. As a measure to tackle quality defects at the source, we are pouring resources into improving vector and steel making processes, and pursuing better quality, lower cost production. At the same time, we will manufacture products with greater value and evolve from simple manufacturers of forged products into manufacturers of components.

3. Growth vision for a smart society

The automotive industry is experiencing a major once-in-a-century transformation. In this changing environment, we expect to see reduced total demand in the forging industry and a shakeout of inefficient companies, but the survivors will definitely see increased order volumes. We will be able to survive this period by leveraging the great strength of Aichi Steel, a unique system with material produced by the in-house Hagane Company, and achieving financial strength to ensure long-term sustainability. To enable our electronic components business to meet future demand increases, we have extended lead frame production lines at our Gifu Plant. At the same time however, we are also focused on increasing capacity of existing production lines. In our magnet business, we have been developing magnets aimed at smaller and lighter products, and as a result they are starting to be used in drone motors and other new fields. While increasing the competitiveness of our production lines, we are currently also diversifying them for nonautomotive fields as well and developing the framework for stable business operations. In addition to these core businesses, we are implementing a wide range of initiatives, including application of Aichi Steel’s unique amorphous wire products to the medical field and use of its TetsuRiki Agri products in agriculture.

We will continue to leverage our ability to develop products from materials, and create products that no other company can match.

Motoshi Nakamura

Senior Managing Executive Officer and Kitaeru Company President

After working as Assistant General Manager, Manufacturing and Future Planning Headquarters, Motoshi Nakamura took on the role of Kitaeru Company President in April 2019.

Katsunori Kojima

Managing Executive Officer and Smart Company President

After working as Kitaeru Company President, Katsunori Kojima took on the role of Smart Company President in April 2019.
To make an even greater contribution to achieving a sustainable society, in 2016, the Aichi Steel Group analyzed its impact on society, particularly with regards to certain important aspects, and identified six issues, which we refer to as the "Priority Issues (Materiality) for the Aichi Steel Group," as issues we should address through our business activities. We are now working to establish CSR objectives and plans that will help resolve these issues.

### Items selected as priority issues

<table>
<thead>
<tr>
<th>Items selected as priority issues</th>
<th>Component identified in the analysis map</th>
<th>Key performance indicators (KPIs)</th>
<th>Applicable section</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Increase compliance awareness globally, and strengthen corporate sustainability</td>
<td>Compliance (environment)</td>
<td>Results of environmental management system audit</td>
<td>Web Environmental audit results p. 22</td>
</tr>
<tr>
<td>2 Encourage the creation of workplaces that are safe and comfortable for all employees</td>
<td>Compliance (society)</td>
<td>Status of various efforts to strengthen compliance (number of actions and internal audits held as a percentage of those planned)</td>
<td>Compliance promotion system p. 27, Third-party certification</td>
</tr>
<tr>
<td>3 Provide highly competitive products that are safe and secure and offer new value globally</td>
<td>Occupational health and safety</td>
<td>Certification and review by a third-party organization</td>
<td></td>
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<tr>
<td>4 Strengthen relationships with local communities, and actively contribute to society</td>
<td>Mechanism for handling grievances regarding labor practices</td>
<td>Certification and review by a third-party organization</td>
<td></td>
</tr>
<tr>
<td>5 Strengthen initiatives toward manufacturing in harmony with the global environment</td>
<td>Diversity and equal opportunity</td>
<td>Assistance and programs for supporting diverse work styles, and their status of use</td>
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<tr>
<td>6 Establish a Solid Financial Foundation to Support Stable and Sustainable Growth</td>
<td>Products and services</td>
<td>Status of quality improvement efforts (number of recognitions received and descriptions)</td>
<td>Awards for Group companies p. 28</td>
</tr>
<tr>
<td></td>
<td>Training and education</td>
<td>Sales staff training, quality improvement activities (number of times held, number of participants, etc.)</td>
<td>Training programs for sales staff p. 28</td>
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<tr>
<td></td>
<td>Marketing and communications</td>
<td>Gathering of customer evaluations (number collected and percentage of improvements, resolutions, etc.)</td>
<td>Collection of customer evaluations p. 28</td>
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<td></td>
<td>Presence in the community</td>
<td>Status of social contribution activities (number of groups in local communities, number of activities, number of participants, etc.)</td>
<td>Status of various efforts to strengthen compliance (number of actions and internal audits held as a percentage of those planned)</td>
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<tr>
<td></td>
<td>Local communities</td>
<td>Status of social contribution activities (number of groups in local communities, number of activities, number of participants, etc.)</td>
<td>Status of various efforts to strengthen compliance (number of actions and internal audits held as a percentage of those planned)</td>
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<td>Status of local community development programs (plans and achievements against those plans)</td>
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<td></td>
<td></td>
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<td></td>
<td>Energy consumption</td>
<td>Breakdown of energy use (CO2 emissions)</td>
<td></td>
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<tr>
<td></td>
<td>Atmospheric emissions</td>
<td>Volume of direct and indirect landfill waste</td>
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<tr>
<td></td>
<td>Wastewater and waste</td>
<td>Volume of direct and indirect landfill waste</td>
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<td></td>
<td>Biodiversity</td>
<td>Status of efforts to preserve biodiversity (percentage of number of volunteer activities, etc.)</td>
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<td></td>
<td>Financial performance</td>
<td>Probability (operating profit, ROE, etc.)</td>
<td></td>
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<td></td>
<td></td>
<td>Soundness, capital efficiency (net worth, interest-bearing debt balances, capital ratio, etc.)</td>
<td>Financial Information for fiscal 2016 p. 33–36</td>
</tr>
</tbody>
</table>

### Governance

<table>
<thead>
<tr>
<th>Governance</th>
<th>Number of directors</th>
<th>Attendance rate at meetings of the Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of outside directors (incl. 1 woman)</td>
<td>6</td>
<td>96%</td>
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</table>

### Diversity

<table>
<thead>
<tr>
<th>Diversity</th>
<th>Changes in number of employees</th>
<th>Changes in childcare leave</th>
<th>Changes in days of paid leave taken</th>
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<tbody>
<tr>
<td>Male</td>
<td>Female</td>
<td>Percentage of female employees</td>
<td>Employees who took childcare leave</td>
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### Social

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<thead>
<tr>
<th>Social</th>
<th>Workstyles</th>
<th>Changes in employee annual working hours</th>
<th>Changes in days of paid leave taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee annual working hours</td>
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</table>

### Environment

<table>
<thead>
<tr>
<th>Environment</th>
<th>Total CO2 emissions</th>
<th>Waste sent directly to landfill</th>
<th>Waste sent indirectly to landfill</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

### Compliance

<table>
<thead>
<tr>
<th>Compliance</th>
<th>Women in management positions</th>
<th>Changes in employment of persons with disabilities</th>
<th>Social contributions and number of volunteers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of all managers</td>
<td>Proportion of all managers</td>
<td>Proportion of all managers</td>
<td>Proportion of all managers</td>
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<td></td>
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</table>

### Companywide material balance of PRTR substances

| | Companywide material balance of PRTR substances | | |
| | | | |

### Waste recycling rate

<table>
<thead>
<tr>
<th>Waste recycling rate</th>
<th>Percentage of ISO 14001-certified subsidiaries</th>
</tr>
</thead>
<tbody>
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</table>

### To the Stakeholder

We are now working to establish CSR objectives and plans that will help resolve these issues.
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.

Corporate governance

- Basic approach to corporate governance
  The basic CSR policy of the Aichi Steel Group is "striving to contribute to sustainable development of society and the Earth through sound corporate activities." With this in mind, we aim to manage our company in a way that always enjoys extensive trust of our shareholders and society by establishing and maintaining an organization capable of responding swiftly to changes in business environments and a fair and transparent management system.
  We also fully comply with the Corporate Governance Code, and submit a report regarding disclosure to the Tokyo Stock Exchange. We review our compliance status once a year and make amendments or changes as required.

- 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, who 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.

- Corporate governance system diagram

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 compliance manuals, and the Aichi Steel Group Action Guidelines.

- 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 at each plant for the purpose of preventing crime and harassment.

- 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.

Whistle-blowing system

In fiscal 2018, a total of 13 cases were reported to the Aichi Steel Compliance Hotline, the company's whistle-blowing system. We will continue promoting recognition and awareness of our whistle-blowing system among employees to further improve our internal ability to govern ourselves. The president will be informed and confirmation will be made that such measures are carried out. 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.

Changes in whistle-blowing cases

- 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.

Level-based training

248 participants (10 times)

CSR workshops

4 times (Feb, Apr, Jul, Oct)

On-site compliance training

10 locations (Oct, Nov)
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 promote 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 risk 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 Education Center to teach and pass on to the next generation the lessons learned from the accident and our other failures, and have started providing special safety training to all employees.

I “Step Up Plan” initiatives and outcomes

In February 2019, we held a “Step Up Plan Review Meeting” where all employees were able to share the outcomes of their activities. Based on lessons learned from the January 8 accident, the “Step Up Plan” is a three-year project designed to raise the bar for manufacturing across the whole company. With activities conducted on four themes since 2016 now complete, we confirmed the outcomes and shared challenges for further activities.

Examples of companywide initiatives on four themes

1. Safety and security
   - Safeguard functions based on safety/security evaluations
   - Safety function updates
   - Production work manufacturing management systems
   - Centralized management from systems to shipment
   - Product code network
   - Building integrated management systems from steel to forging

2. BCP/BAP mechanisms
   - Building alternative production mechanisms
   - Damage prevention

3. Culture, awareness and branding reform
   - Enhancing compliance, management capabilities, and business foundations
   - Improving quality, corporate value, and brand image
   - Enhancing CSR

Disaster prevention measures

We established the Earthquake Preparedness Promotion Committee through which we are developing disaster prevention measures in the event of an earthquake in the Nanki Trough. Including responding to warnings from the government (information issued instead of official warnings when an earthquake cannot be predicted), we have also started collecting information from the government and related companies, we can take action alone. In preparation for an earthquake in the Nanki Trough, which has a high degree of probability in the future, we are aiming to achieve damage minimization through self-help. The main actions implemented during fiscal 2018 are detailed below.

Review of earthquake preparedness promotion committee

The Production Recovery Subcommittee, operated up until fiscal 2017, was disbanded and its activities were consolidated into another committee. Responsibility for remaining issues was absorbed by the Human Safety Subcommittee and Facility Safety Subcommittee.

Disaster prevention measures

1. Improvement of disaster prevention capabilities
   - Proficiency in use of disaster prevention equipment and materials
   - Emergency rice cooker training during dormitory disaster drills
   - Course training and joint demonstrations with manufacturers of manual water purification systems

2. Measures to minimize damage to buildings and equipment, etc.
   - Liquefaction measures
   - Completed elevated construction of Aichi irrigation system (industrial use) water pipes, Chita Plant
   - Additional measures after Kumamoto earthquakes (April 2016)
   - Derailment prevention of cranes, Kariya Plant, Forging Plant
   - Installation of emergency gas shut-off valves, Chita Plant

Information security

Information security promotion system

Recognizing the importance of information security management, and in compliance with the All Toyota Security Guidelines (ATSGs), we have established internal structures, provided employees with information and education on rules and regulations, and conduct inspections and so on. 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, including the adoption of a system of alerts to persons in charge of confidentiality management in each department in the event of unauthorized access to confidential information, we are further enhancing our confidentiality management structure to also provide advice from experts.

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, 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 these 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 other malicious program is discovered in the Company, in order to raise awareness of security controls.

Number of times security training held

12
Encourage the Creation of Workplaces That Are Safe and Comfortable for All Employees

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 Initiatives toward respect for human rights and creation of comfortable workplaces. This includes not only consideration of a wide variety of 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.

- Initiatives toward diversity
  - 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 proactively hire more female employees, setting goals for the percentage of female hires among regular university hires. We also run seminars aimed to spread understanding of how to promote active roles for women. We proactively hire more female employees, important part of its management strategy, and as part of that we are reassessing employee benefits.

- Promotion of more active roles for women in the workplace
  - Aichi Steel 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 that 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 an expanded range for those with disabilities. In particular, the Aichi Steel Group is making a strong effort to nurture active roles for women.

- 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 that 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 an expanded range for those with disabilities. In particular, the Aichi Steel Group is making a strong effort to nurture active roles for women.

- Post-retirement reemployment system
  - We have in place a Nice Senior System, which in principle allows 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.

- Efforts to eliminate risks that lead to occupational accidents
  - We are changing our safety culture, creating safe workplaces, eliminating accidents leading to occupational accidents, and never forgetting the lessons learned from the January 8 explosion. We are restructuring our workplace safety by preventing recurrence of fires and explosions, and improving workplaces that have high risk of serious accidents. We are also improving safety management by improving communication with operators in the factory and listening to their opinions and ideas. We are changing our safety culture, creating safe workplaces, eliminating accidents leading to occupational accidents, and never forgetting the lessons learned from the January 8 explosion. We are restructuring our workplace safety by preventing recurrence of fires and explosions, and improving workplaces that have high risk of serious accidents. We are also improving safety management by improving communication with operators in the factory and listening to their opinions and ideas.

- Number of lost-time accidents and lost-time injury frequency rate
  - The number of lost-time accidents and lost-time injury frequency rate have decreased from 2012 to 2018. The lost-time injury frequency rate has decreased from 2012 to 2018.

- Global human resources development
  - In April 2017, we re-launched our Overseas Trainee (OT) program, and stationed one young employee in Thailand from April 2017 to September 2018. In this new program, we are focusing on providing real work experiences at overseas affiliates, and on language studies to enable trainees to work alongside local employees using the local language. The trainee in Thailand attended language school to learn Thai while working on specific training topics. We believe this system will improve understanding of the local languages and cultures, and enhance relationships with local staff.

- Health promotion efforts
  - We prioritize mental health, lifestyle-related disease prevention and health management support for employees assigned overseas, and systematically implement relevant initiatives. As a result, we were recognized for the second consecutive year as a Health and Productivity Management Outstanding Organization (White 500 category), in a program adopted by the Ministry of Economy, Trade and Industry and Nippon Kenko Kogyo. We work to maintain and promote the health of our employees, which is a priority issue for the company.

- Mental health activities
  - The Aichi Steel Group is working to maintain the mental health of its employees and prevent the development of mental issues, through various educational programs and individualized mental health care based on psychological check tests. We have also provided advice to workplaces that were determined to be at high risk for mental health based on analysis of these results.

Employee health and safety

- Feedback of outcome
  - We monitor the feedback of outcome to make sure our efforts are effective and continue to improve.

- Correction/management
  - We monitor the feedback of outcome to make sure our efforts are effective and continue to improve.

- Number of lost-time accidents and lost-time injury frequency rate
  - The number of lost-time accidents and lost-time injury frequency rate have decreased from 2012 to 2018. The lost-time injury frequency rate has decreased from 2012 to 2018.
Provide Highly Competitive Products That Are Safe and Secure and Offer New Value Globally

Quality management system (QMS)

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 products that meet expectations and needs. In line with our Medium-term Quality Vision, we are working as one to build a globally competitive, leading quality assurance system. In addition to domestic efforts, head office regularly sends support people to overseas plants to provide training to quality officers at each site and provide appropriate assistance regarding quality issues to strengthen their quality assurance systems. We are always working to improve our level of quality assurance.

Medium-term Quality Vision 2020
Becoming an integrated forging and steel making company that provides the world's best quality—Gaining customer's trusts on a global scale

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, and we are assessed every one to five years for review of these certifications and accreditations. After the 2015 revision of ISO 9001, we passed the revision approval for Steel products, forged products, and electromagnetic products.

Acquisition status of Quality ISO certification
1. Steel products and forged products
   - Passed surveillance audit for ISO 9001 (October 2018)
2. Electro-magnetic products
   - Passed surveillance audit for ISO 9001 (December 2018)
   - Passed revision approval and surveillance audit for ISO 13485 (November 2018)
3. Analysis and testing
   - Passed surveillance audit for ISO/IEC 17025 (February 2018)

Third-party certifications excluding ISO certification
- JIS Certification (JCGA)
- Certifications issued by classification societies (ABS, CCS, DNV GL, KR, LR, NK)
- European Pressure Equipment Directive (PED), European Construction Products Regulation (CPD)
- European Medical Devices Directive (MDD Annex v.3.2)

Quality assurance system

Quality Function Board
(ISO Review Committee)

Quality Control Dept. for each plant
Development and Production Engineering Dept.
Other related departments (Sales, Purchasing, Human Resources etc.)
Oversea Support Dept.

Quality Assurance Div.

Survey of customer evaluations
Every year, we collect customer evaluations of Aichi Steel through a survey rating quality, delivery and service on a five-level scale. If any areas drop below standard, we implement initiatives the following year to improve those areas and improve customer satisfaction.

Number of customers surveyed 85
(All customers who were supplied with above a certain amount of steel materials and forged products)

Promotion of CSR procurement

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 communications, 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.
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 supported welcomed in the community.

Social contribution policy

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 plans smaller-scale volunteer activities, which employees can participate in, and encourages them to experience volunteering for themselves. During fiscal 2018, we increased participation in activities through efforts such as an increased number of activities, to promote harmony with nature, and starting the sale of bakery goods and lunchtime volunteering activities in the area around Head Office. We set a record with a total of 9,175 volunteers, which was 1,899 more people than last year.

Number of volunteers in FY2018 9,175 (1,899 person increase year-on-year)

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 6 events, 152 volunteers
Clean Aichi Day 1,468 volunteers
Traffic safety awareness 2,381 volunteers

Green (planting and environmental conservation)

Twice every 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.

Established in 1993, the Aichi Steel Volunteer Fund continued this fiscal year to donate to local social welfare organizations and others near our company, and to provide support after the Kumamoto Earthquake. It also provided ongoing support to areas affected by the heavy rains in July 2018. Another voluntary and ongoing program that employees can participate in is the “one-coin” donation program, where they donate 100 yen from their pay each month.

In fiscal 2018, we launched a new initiative to support welfare facilities by starting the sale of bakery goods at new locations. We also called for the donation of old ties and children’s books, and started lunchtime volunteering activities where employees cleaned up the collected books and separated the fabric from collected ties.

Creative (education, culture)

Launching in 2010 to mark the 70th anniversary of our founding, every year we visit schools to present a “lesson about iron” to students. The project, which is in its ninth year, 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 offer a fun way for all elementary school students to experience manufacturing.

We hold community meetings in the cities of Tokai (February) and Kaniya (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.
## Environmental management

### 2020 Environmental Action Plan

We formulated the Aichi 2020 Environmental Action Plan, a statement of policies and plans for environmental actions from fiscal 2016 to fiscal 2020. The 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 are contributing, as a sustainable company, to society and the global environment.

<table>
<thead>
<tr>
<th>Theme</th>
<th>Action item</th>
<th>Major efforts</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>Undertake development of eco-products and technologies</td>
<td>Development of products that reduce the environmental burden</td>
<td>✔</td>
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<tr>
<td></td>
<td>Reduce CO2 emissions through innovative improvements in energy efficiency</td>
<td>Planning and implementing CO2 reduction activities at each plant</td>
<td>✔</td>
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<tr>
<td></td>
<td>Achieve a 15% reduction in CO2 emissions from electricity use</td>
<td>Promoting energy-saving activities</td>
<td>✔</td>
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<td></td>
<td>Thorough implementation of energy-saving activities in production</td>
<td>On-site inspections to improve energy efficiency through joint patrols between each site and EES*2 top management</td>
<td>✔</td>
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<td></td>
<td>Seek better transportation efficiency in logistics</td>
<td>Reduce traffic lines</td>
<td>✔</td>
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<tr>
<td></td>
<td>Improve logistics management through joint patrols</td>
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<td>✔</td>
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<tr>
<td></td>
<td>Reduce by-products during production and continue to utilize resources effectively</td>
<td>Internal reuse of dust from electric furnaces</td>
<td>✔</td>
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<tr>
<td></td>
<td>Improve safety and efficiency of production</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td>Promote activities for preservation of nature and biodiversity</td>
<td>Participate in &quot;All-Toyota Green Wave Project&quot; activities</td>
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<tr>
<td></td>
<td>Promote activities for zero abnormalities and complaints</td>
<td>Implement strict management to achieve 80% or below of regulation violations set by environment-related laws</td>
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<tr>
<td></td>
<td>Enhance consolidated environmental management</td>
<td>On-site inspections of domestic subsidiaries at &quot;Aichi Steel Group Environmental Study Group&quot;</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td>Reduce emissions to contribute to improvement of urban air quality in each country and region</td>
<td>Monitor the adoption of low-emission vehicles</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td>Promote environmental activities in cooperation with business partners</td>
<td>Obtain information on product chemical substances and ensure compliance with regulation</td>
<td>✔</td>
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<tr>
<td></td>
<td>Further reinforce global employee environmental education and awareness activities</td>
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<td>✔</td>
</tr>
<tr>
<td></td>
<td>Ensuring active disclosure of environmental information and enhanced communication activities</td>
<td>Continuous publication of environmental reports and enhancement of content</td>
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</tbody>
</table>

### Initiatives for building a low-carbon society

- **Fiscal 2018 targets and results**
  - Based on the "Aichi 2020 Environmental Action Plan," we pursued reductions in carbon dioxide to achieve the targets of "The Japan Iron and Steel Federation's Commitment to a Low Carbon Society" (Phase 1). We attempted to improve CO2 specific consumption through energy saving practices, but total CO2 emissions increased due to increased production.

<table>
<thead>
<tr>
<th>Breakdown of energy used in fiscal 2018 (CO2 emissions)</th>
<th>Factors behind changes since last fiscal year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy oil class A 0.9%</td>
<td>Improvement factors</td>
</tr>
<tr>
<td>Coke 7%</td>
<td>- 1. Reduce energy consumption by improving productivity, etc.</td>
</tr>
<tr>
<td>City gas 29.9%</td>
<td>2. Reduce energy consumption by improving thermal efficiency of reheat treatment furnaces, etc.</td>
</tr>
<tr>
<td>Electricity 59.9%</td>
<td>Total: 6,790 t-CO2/year</td>
</tr>
</tbody>
</table>

### Measures to develop a recycling-based society

- **Contributions to end-of-life car recycling**
  - In accordance with the End-of-Life Car Recycling Act, which came into effect in 2005, the Toyota Group has been working towards total recycling. Aichi Steel is cooperating with Toyota Motor Corporation Ltd. to improve recycling and develop recycling technology for glass parts, which have been the most difficult. We introduced silica sand into steel making slag generated in electric furnaces as a molten slag cooling down material, but we focused on the similarities between silica sand and the glass components and made it possible to achieve the same effects by mixing silica sand with waste glass, and it is now possible to recycle waste glass as an electric furnace byproduct.

  - As a result, the end-of-life car recycling rate increased to 99.8%. Recycling will continue after fiscal 2019 as well.

  - Waste glass from cars was previously difficult to recycle due to its specialty components and color.

### Measures to promote harmony with nature

- **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 contributing to increased restoration of ecosystems by connecting people with other people and activities and linking habitats.

  - Mori event" where employees and their families participate in programs held in collaboration with other organizations and companies, nature craft activities, collecting acorns and growing seedings.

Establish a Solid Financial Foundation to Support Stable and Sustainable Growth

Materiality

Aichi Steel recognizes that the establishment of a solid financial foundation is critical for enhancing corporate value and supporting stable and sustainable returns to stakeholders. With the intention of establishing a solid financial foundation realizing an ROE of 8% or higher as a target for improved profitability, we will steadily and systematically promote effective capital measures and capital investments aimed at parent company growth.

Business performance for fiscal 2018

Business performance for fiscal 2018 was underpinned by robust demand for Aichi Steel Group’s main products, steel and forged products, with net sales increasing by 21 billion yen (8.9%) to 257.3 billion yen compared to the previous fiscal year. Of those net sales, the Hagane Company accounted for 130.1 billion yen, the Kitaeru Company for 109.2 billion yen, the Smart Company for 14.6 billion yen, and other businesses for 3.2 billion yen.

On the profit side, factors increasing Group profits included increased sales volumes, increased selling prices, and increased profits by overseas subsidiaries. Despite this, operating profits dropped by 694 million yen (5.9%) to 11,119 billion yen compared to the previous year due to increased costs of raw materials, secondary materials, energy and increased depreciation expenses. In addition, ordinary profit decreased by 450 million yen (3.6%) to 11,324 billion yen compared to the previous year, and profit attributable to owners of parent decreased by 1,679 billion yen (20.5%) to 11,324 billion yen compared to the previous fiscal year due to increased selling prices, increased sales volumes, and reduced strategic cross shareholdings.

To reach these targets, we will work to improve capital productivity and profitability of our businesses to both maintain and strengthen a solid financial foundation.

During fiscal 2018, we exceeded our net sales target due to the robust demand that our core products were experiencing. ROE during fiscal 2018 was 4.27%, which is still short of our fiscal 2020 target of 8%, but we will strive to increase the efficiency of capital and assets by increasing profits and streamlining our balance sheet.

Sales, purchasing, plant and various other divisions have been working on drastic measures to improve profitability, which we call breakthrough activities. To increase profits, we will further strengthen our efforts to “reform selling and buying practices and raise profitability through improved manufacturing capabilities,” and “reform fixed cost management from the planning stage in line with changing markets.”

Over the medium- to long-term, we will also accelerate efforts to “develop areas of expertise in ‘Home & Away’ from a global perspective and ‘create new businesses by enhanced planning through stronger ties between Headquarters and Companies’.”

Streamlining the balance sheet, on the other hand, will entail continued measures to achieve efficient capital expenditure, reduced inventories, effective capital utilization across the Group, and reduced strategic cross shareholdings.

Targeting improved corporate value

Business environment

Despite forecasts that the current steady demand for specialty steels will continue, the Aichi Steel Group’s business environment is going through a major once-in-a-century period of profound transformation, as represented by the advancement of vehicle electification and automated driving technologies. We expect the trend toward a smart society, which creates and offers new value, will accelerate going forward.

In such an environment, our aim is to always respond appropriately from the ESG perspective (environment, society and governance) and according to the Aichi Way (Aichi Steel Group’s universal values and codes of conduct), and to continue providing value to society through materials. As the second year of our Medium-term Management Plan (FY2017-FY2020), formulated to achieve these goals, the whole Group worked to improve profitability this fiscal year.

Initiatives to improve corporate value

Aichi Steel’s targets for fiscal 2020, the final year of our Medium-term Management Plan, are consolidated net sales of 250 billion yen or higher, consolidated operating profits of 20 billion yen or higher, and ROE of 8% or higher.

To reach these targets, we will work to improve capital productivity and profitability of our businesses to both maintain and strengthen a solid financial foundation.

During fiscal 2018, we exceeded our net sales target due to the robust demand that our core products were experiencing. ROE during fiscal 2018 was 4.27%, which is still short of our fiscal 2020 target of 8%, but we will strive to increase the efficiency of capital and assets by increasing profits and streamlining our balance sheet.

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Over the medium- to long-term, we will also accelerate efforts to “develop areas of expertise in ‘Home & Away’ from a global perspective and ‘create new businesses by enhanced planning through stronger ties between Headquarters and Companies’.”

Streamlining the balance sheet, on the other hand, will entail continued measures to achieve efficient capital expenditure, reduced inventories, effective capital utilization across the Group, and reduced strategic cross shareholdings.
We are systematically and efficiently expanding our strategic capital expenditure to help build solid manufacturing infrastructure and achieve a stable profit base, which are two of the objectives established by our Medium-term Management Plan. During fiscal 2018, we made capital expenditure totaling 209 billion yen, mainly for the purposes of increasing production capacity on forged and electro-magnetic product manufacturing equipment, and for streamlining, updating and functionally improving steel and forged product manufacturing equipment. We obtain the necessary funds for investment through funds on hand, loans and corporate bond issues. Going forward, while keeping an eye on our cash flows from sales and investing activities, we will continue sourcing external funding when necessary to maintain capital liquidity, and working to increase cash flows from operating activities to reduce interest bearing debt.

Aiming to develop and expand new applications and products for our existing businesses while leveraging the DNA of our materials business, and steadily fostering and strengthening next-generation businesses for the coming smart society, we proactively perform R&D activities to reduce interest bearing debt.

Shareholder returns

Shareholder returns are an important management policy at Aichi Steel. While striving to enrich and strengthen our corporate structures, we are working to increase corporate value and enhance our dividend policy by systematically expanding our businesses. Following this policy, we aim to deliver dividends that meet our shareholders’ expectations while maintaining the internal reserves necessary for future business expansion and taking full consideration of our business performance, financial condition and payout ratios. Our target consolidated payout ratio is 30%. In line with our policy detailed above, the annual dividend paid in fiscal 2018 was 120 yen per share.

Key financial data

<table>
<thead>
<tr>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
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<tbody>
<tr>
<td>Profit and loss</td>
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<tr>
<td>Net sales</td>
<td>240,647</td>
<td>214,120</td>
<td>212,837</td>
<td>236,237</td>
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<td>Segment: Hagane Company</td>
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<tr>
<td>Kitaeru Company</td>
<td>96,225</td>
<td>110,974</td>
<td>109,217</td>
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<tr>
<td>Smart Company</td>
<td>13,620</td>
<td>14,786</td>
<td>14,627</td>
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<tr>
<td>Other businesses</td>
<td>3,191</td>
<td>3,123</td>
<td>3,290</td>
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<tr>
<td>Operating profit</td>
<td>10,616</td>
<td>5,883</td>
<td>11,813</td>
<td>11,119</td>
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<tr>
<td>Segment: Hagane Company</td>
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<td>8,006</td>
<td>9,245</td>
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<tr>
<td>Kitaeru Company</td>
<td>845</td>
<td>2,747</td>
<td>1,057</td>
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<tr>
<td>Smart Company</td>
<td>237</td>
<td>348</td>
<td>39</td>
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<tr>
<td>Other businesses</td>
<td>482</td>
<td>710</td>
<td>856</td>
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<tr>
<td>Operating profit margin (%)</td>
<td>4.41</td>
<td>2.75</td>
<td>3.39</td>
<td>5.00</td>
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<tr>
<td>Ordinary profit</td>
<td>11,141</td>
<td>5,835</td>
<td>6,863</td>
<td>11,774</td>
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<td>Profit before income taxes</td>
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<td>1,409</td>
<td>8,045</td>
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<tr>
<td>Profit attributable to owners of parent</td>
<td>6,023</td>
<td>20</td>
<td>5,084</td>
<td>8,182</td>
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<tr>
<td>Profit margin attributable to owners of parent (%)</td>
<td>2.50</td>
<td>0.01</td>
<td>2.39</td>
<td>3.46</td>
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<tr>
<td>Capital expenditures and R&amp;D expenses</td>
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<tr>
<td>Capital Expenditures</td>
<td>12,752</td>
<td>15,408</td>
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<td>Depreciation Expenses</td>
<td>11,833</td>
<td>12,692</td>
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<td>Net assets</td>
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<td>3,304</td>
<td>3,777</td>
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<tr>
<td>Profitability</td>
<td></td>
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<td></td>
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<tr>
<td>Return on equity (ROE) (%)</td>
<td>4.14</td>
<td>0.01</td>
<td>3.60</td>
<td>5.55</td>
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<tr>
<td>Return on assets (ROA) (%)</td>
<td>2.33</td>
<td>0.01</td>
<td>1.95</td>
<td>2.99</td>
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<tr>
<td>Assets, liabilities and capital</td>
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<td></td>
<td></td>
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<tr>
<td>Total assets</td>
<td>264,694</td>
<td>251,078</td>
<td>271,763</td>
<td>275,315</td>
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<tr>
<td>Net assets</td>
<td>161,669</td>
<td>147,534</td>
<td>151,273</td>
<td>160,806</td>
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<tr>
<td>Capital adequacy</td>
<td>153,316</td>
<td>139,344</td>
<td>143,024</td>
<td>151,891</td>
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<tr>
<td>Capital adequacy ratio (%)</td>
<td>5.792</td>
<td>5.50</td>
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<tr>
<td>Interest bearing debt</td>
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<td>37,447</td>
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<td>Debt-equity ratio (Ratio)</td>
<td>0.29</td>
<td>0.27</td>
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<tr>
<td>Cash flows</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cash flows from operating activities</td>
<td>19,336</td>
<td>25,193</td>
<td>13,350</td>
<td>13,164</td>
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<tr>
<td>Cash flows from investing activities</td>
<td>−13,565</td>
<td>−12,122</td>
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<tr>
<td>Cash flows from financing activities</td>
<td>−10,158</td>
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<td>−9,509</td>
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<tr>
<td>Investment indicators</td>
<td></td>
<td></td>
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<tr>
<td>Net profit per share (yen)</td>
<td>306.25</td>
<td>1.02</td>
<td>258.34</td>
<td>415.71</td>
</tr>
<tr>
<td>Net assets per share (yen)</td>
<td>7,794.08</td>
<td>7,080.24</td>
<td>7,266.42</td>
<td>7,716.77</td>
</tr>
<tr>
<td>Dividends per share (yen)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>120</td>
</tr>
<tr>
<td>Payout ratio (%)</td>
<td>32.7</td>
<td>−</td>
<td>38.7</td>
<td>28.9</td>
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<tr>
<td>Non-financial information</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees (Persons)</td>
<td>4,617</td>
<td>4,654</td>
<td>4,773</td>
<td>4,847</td>
</tr>
</tbody>
</table>

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 2014.
This year’s Aichi Steel report again accurately describes the company’s stance toward strategic and proactive management for a smart society, based on the clear commitment of the president.

Mr. Satoshi Chikami
Executive Officer and Professor, Faculty of International Welfare Development, Nihon Fukushi University

Clear stance toward transformation for a smart society

The Message of Commitment from the President points toward development of autonomous driving support systems and research and development in the areas of healthcare and agriculture as new business fields where Aichi Steel is focusing its efforts for a smart society. Special Feature 1 also details the outcomes of autonomous driving support trials in Chirano and Taki areas.

These sections clearly communicate how Aichi Steel is tackling the smart society and expanding new businesses. The automotive industry is in the middle of a major transformation right now. Establishing a Frontier Research and Development Division and clearly demonstrating the proactive stance the whole company is taking is crucial not only for gaining the trust of society, shareholders and investors, which is a commendable approach.

Aichi Way demonstrates corporate governance (Pages 1-21)

This year’s report even more clearly explains that the Aichi Way, established in January 2018 as a set of values and codes of conduct for the Aichi Steel Group as a whole, is part of the Group’s corporate governance activities. The Aichi Way focuses on the three concepts of Sustain, Appreciate, and Create, which each form an important ethical foundation for companies and employees to share. From next fiscal year, I suggest the inclusion of a number of case studies of the Aichi Way in action to demonstrate the connection to these three keywords.

Future created by in-house company system (Pages 15-18)

Launched in April 2017, the Three-Company-in-House company system is now three years old. Compared to last fiscal year, this year’s report more clearly describes the business risks and challenges faced by each Company. The straightforward explanations of short-term strategies for 2020, and of medium-term strategies for Company growth in a smart society are commendable. From next fiscal year, providing more information on the outcomes being achieved by the in-house company system, while also linking them to priority issues, might demonstrate more conclusively the road to transformation in the Message of Commitment from the President that is mentioned above.

Easy-to-understand presentation of priority issue establishment and progress (Pages 19–26)

The compilation of six priority issues that Aichi Steel Group is working on to help realize a sustainable society requires special mention for the way it illustrates in an easy-to-understand manner the connections between the priority issues and the four perspectives of environment, social, governance and finance, and the progress being made. Clear and easy-to-understand presentation of the implementation and progress of initiatives in each area is important for responding proactively to ESG investment, and the page layout is commendable for the straightforward way it depicts connections to each of the priority issues.

What issues are in the middle of a major transformation right now? Establishing a Frontier Research and Development Division and clearly demonstrating the proactive stance the whole company is taking is crucial not only for gaining the trust of society, shareholders and investors, which is a commendable approach.

Significant enhancement to description of financial foundation (Pages 33–36)

Information on Priority Issue 6. Establish a Solid Financial Foundation to Support Stable and Sustainable Growth has been expanded considerably, and the way this section also expresses the Group’s positive stance with awareness of ESG investment is highly commendable. In addition to the easy-to-understand description of changes in consolidated operating profits compared to the previous fiscal year, the report proactively discloses financial indicators for investors, including ROE, ROA, capital investment, R&D expenses, debt-equity ratios and cash flows. I look forward to the continuation of this positive practice as a way to improve corporate value.

Conclusion

This fiscal year was the final year of a three-year effort, started in fiscal 2017, to integrate both financial and non-financial information (ESG information) into the report. This demonstrates another accomplishment toward creating a new investor-focused report. I look forward to continued efforts to create a report that all stakeholders need.

*This third-party view was written based on interviews with management and related parties.

Response to the Third-party View

Professor Chikami has provided us with valuable insights and proposals since fiscal 2010, and we are extremely grateful for his support.

This year, as we focus on the coming smart society, we have implemented a variety of initiatives under the banner of transformation, in line with our 2020 Medium-term Management Plan, so that we can surmount this major once-in-a-century transition and continue contributing to society as a company. When putting this report together, we have focused on the final year of a three-year effort, and also tried to make improvements that would deliver a report that is even more needed by our stakeholders.

The high praise we received for our initiatives here encourages us in our continuing efforts. To live up to these expectations, we will further enhance our initiatives as we strive to contribute to society and achieve steady growth for the company. In regard to the comments about including case studies of the Aichi Way in action and linking our discussion of the in-house company system to priority issues, we will share the advice with relevant divisions and use it to create reports that are even easier to understand from next fiscal year.

Aichi Steel celebrates its 85th anniversary in 2020. Going forward, we will continue to provide meaningful value to society and contribute to resolving social issues. At the same time, we will improve the flow of information to our stakeholders through such things as our new recreation hall and plant tours, as we strive to be a more open company that is a company whose presence is cherished by locals.
Waterless printing without the use of damping water containing harmful substances is employed.

100% vegetable oil non-VOC ink (not containing volatile organic compounds) is used.

Primary contact: Corporate Communications Div.

As a material manufacturer, we want to create paths to the prosperous society of the future and support the people who will live in it. It is with this desire that for three years starting 2017 the cover will tell stories of continuous development and growth of people, communities, and nature through the efforts of Aichi Steel. We hope that you will look forward to the changes made next year.

FSC-certified paper, with the proof of wood product from appropriately managed forests, is used.