



ものづくり Monozukuri

Manufacturing for the brighter future

AICHI STEEL REPORT 2008

AICHI STEEL

This report presents an overview of Aichi Steel, and its activities as a good corporate citizen.

Introduction

The objective of any company is to grow its business and earn profits. But the growth of a company also depends on Corporate Social Responsibility (CSR) – that is, maintaining the trust of all stakeholders: local communities, shareholders, investors, customers, suppliers, our employees and their families, and others as well.

Aichi Steel Corporation (Aichi Steel) started major CSR activities in 2005 in order to become an even more trustworthy company contributing to social development and environmental protection on a global scale. A major part of our operations involves recycling, and to record those activities we changed the Environmental Report that we began issuing in 1998 into the “Aichi Steel CSR Report”, which we released in 2006 and 2007.

It is now accepted that CSR is a major factor in global investment decisions. Aichi Steel believes that to present an overall view of our company, when describing our business activities and results we must also report our CSR activities.

This is why we merged our “Annual Report” for overseas investors with our “CSR Report”, making this new “Aichi Steel Report”. This is the first year we have issued the report in this format, and we look forward to your feedback.

Structure of this report

- Financial highlights from 2007
- Business description
- Message from the President
- Corporate governance

The report also has a 3-part accounts of the highlights that is notable CSR activities during 2007. Our progress in other areas is described in the Social, Environmental and Financial Sections.

Editorial policy

We have tried to make this report easy to understand. Footnotes have been added to explain specialized terminology, and we have included URLs to help locate relevant sections on our website.

Intended readership

This report is intended for our shareholders, investors, customers, suppliers, employees and affiliates.

Reporting period

This report covers the fiscal year 2007, from April 1, 2007 to March 31, 2008. The performance of companies in the Aichi Steel Group (including consolidated subsidiaries) is included where necessary. Some of the activities described may have taken place before or after fiscal 2007.

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Financial Highlights

AICHI STEEL CORPORATION and Consolidated Subsidiaries "Year ended March 31, 2006, 2007 and 2008"

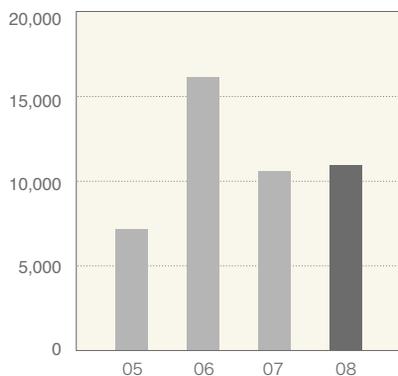
Fiscal year	2006	2007	2008	Percent Change	2008
Operation Results for the Year	Millions of yen (Note 1)		Millions of yen	%	Thousands of U.S.dollars (note 2)
Net sales	¥ 224,954	¥ 235,637	¥ 253,462	7.6	\$ 2,534,623
Operating income	16,051	10,611	10,884	2.6	108,844
Ordinary income	15,774	10,109	9,332	(7.7)	93,322
Income before income taxes and minority interests	13,784	9,037	9,055	0.2	90,551
Net income	8,152	4,922	5,693	15.7	56,929
Capital expenditure	21,373	28,359	13,165	(53.6)	131,652
Depreciation	8,983	12,000	14,754	23.0	147,544
Per share data	Yen		Yen	%	U.S.dollars
Net income	¥ 40.23	¥ 24.97	¥ 29.00	16.1	\$ 0.29
Cash dividends	9.00	10.00	10.00	-	0.10
Information at Year-End	Millions of yen		Millions of yen	%	Thousands of U.S.dollars (note 2)
Total Net Assets	¥ 119,784	¥ 127,329	¥ 128,155	0.6	\$ 1,281,555
Total Assets	269,606	274,608	264,048	(3.8)	2,640,484
For Reference					
Number of employees	4,724	4,637	4,539	(2.1)	

Notes:

- Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.5 "Accounting Standards for Presentation of Net Assets in the Balance Sheet" and its Implementation Guidance No.8 "Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheets" issued on December 9, 2005" by the Accounting Standards Board of Japan.
- The U.S. dollar amounts above represents translations of yen, for convenience only, at the rate of ¥100=U.S.\$1.

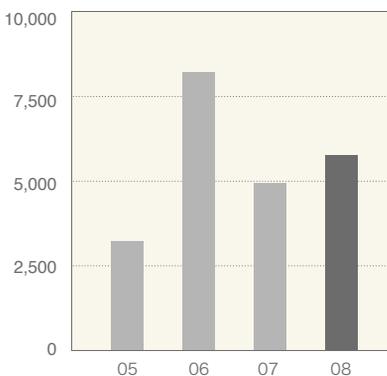
Operating income

(Million ¥)



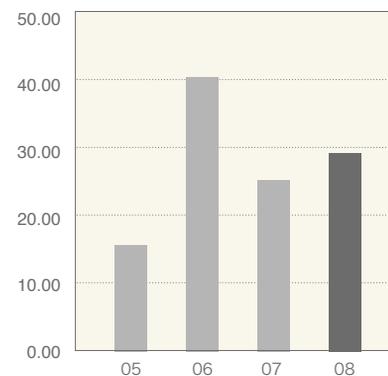
Net income

(Million ¥)



Net income per share

(Million ¥)



Outline of Aichi Steel

[Established] March 8, 1940

[Capital] 25,016 million yen (as of March 31, 2008)

[President] Shokichi Yasukawa

[Employees] 2,328 (as of March 31, 2008)

[Business Description] Production and sales of specialty steel products, forgings and electro-magnetic products

[Offices]

Head Office: Tokai-shi, Aichi, Japan

Sales Offices: Tokyo / Osaka / Hiroshima / Fukuoka

Overseas Offices: Shanghai / Seoul

Plants: Chita / Kariya / Forging / Higashiura / Gifu

[Customers and Suppliers]

Major Customers: Toyota Tsusho Corporation / Toyota Motor Corporation / Aisin AW Co., Ltd.

Major Suppliers: Toyota Tsusho Corporation / Mitsui & Co., Ltd.

[Net Sales] 202,859 million yen (fiscal 2007)

[Gross Profit] 6,087 million yen (fiscal 2007)

The birth of Aichi Steel

In 1926 Sakichi Toyoda, recognized today as one of Japan's foremost inventors, founded Toyoda Automatic Loom Works, Ltd. (currently Toyota Industries Corporation). His oldest son, Kiichiro Toyoda, saw the need for promoting Japan's automobile industry, and set up a research center in the Steel Production Department to develop specialty steel for automobiles. In 1940, this Department developed into Toyota Steel Works, Ltd., known today as Aichi Steel Corporation. Kiichiro believed that manufacturing and materials technology were of equal importance in automobile manufacturing. Realizing the necessity of supplying high-quality materials that are right for the job, he came up with the R&D principle, "Great cars are made with great steel". Aichi Steel continues to adhere to this principle, supplying the automobile industry with high-quality specialty steel and forgings.

Aichi Steel Group

Domestic subsidiaries (9 companies)

- Aiko Corporation (Tokai-shi, Aichi, Japan; Processing and sales of steel)
- Aichi Ceratec Corporation (Nishio-shi, Aichi, Japan; Manufacture and sales of refractory materials)
- Omi Mining Co., Ltd. (Maibara-shi, Shiga, Japan; Mining, processing, and sales of limestone)
- Aichi Techno Metal Fukaumi Company (Tsubame-shi, Niigata, Japan; Processing and sales of steel)
- Aichi Steel Logistics Co., Ltd. (Tokai-shi, Aichi, Japan; Transportation, handling, and storage of cargo)
- Aichi Information System Company (Kariya-shi, Aichi, Japan; Sales and development of software)
- Aiko Service Co., Ltd. (Tokai-shi, Aichi, Japan; Various services including sale of general merchandise, operation of restaurants, lunch catering, etc.)
- Aichi Micro Intelligent Corporation (Tokai-shi, Aichi, Japan; Research and development of electronic components)
- Asdex Corporation (Kariya-shi, Aichi, Japan; Development, designing, and manufacture of forging dies)

Overseas subsidiaries (9 companies)

- Aichi Forging Company of Asia, Inc. [AFC] (Philippines; Manufacture and sales of hot forgings and automotive parts)
- Aichi USA, Inc. (USA; North American holding company)
- Louisville Forge and Gear Works, LLC [LFG] (USA; Manufacture and sales of forgings)
- Aichi Europe GmbH [AE] (Germany; Import and sales of steel)
- Aichi International (Thailand) Co., Ltd. [AIT] (Thailand; Manufacture and sales of automotive parts)
- Shanghai Aichi Forging Co., Ltd. (China; Manufacture and sales of forgings)
- P.T. Aichi Forging Indonesia [AFI] (Indonesia; Manufacture and sales of automotive parts)
- Aichi Magfine Czech s.r.o. (Czech Republic; Production of magnets for small motors)
- Aiwang Keji Gufen Youxian Gongsi (Taiwan; Sales of electronic components)

Affiliates

- Tokai Special Steel Co., Ltd. (Tokai-shi, Aichi, Japan; Manufacture and sales of specialty steel and crude steel)

(Information current as of March 2008)

High-quality formed products*¹ will play a major role in the We are strengthening our integrated steelmaking and forging

Aichi Steel has continued our founder Kiichiro Toyoda's passion for research and creativity, and we create high-quality products used by a wide variety of industries including the automobile industry, and the fields of industrial machinery, electronics, construction, medicine, and agriculture.

Through the creation of one and only technologies, we are working to become an international enterprise with existence value that will help society and the world develop sustainably and that will help the future become a better place. We will continue to use our integrated strengths – our engineering prowess, reliability, and R&D strengths – to create useful formed products.

Specialty steel

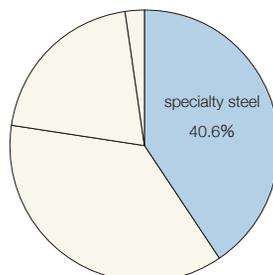
Specialty steel is manufactured by adding alloys and metallic elements to iron and using fine constituent control to improve material properties such as strength, hardness, toughness, wear resistance, heat resistance, and corrosion resistance. These steels can be used in environments that regular steel cannot take, and properties can be improved for a wide variety of requirements and applications. In particular, these steels are indispensable for automotive parts, which are exposed to extreme environmental conditions. It could be said that without high-quality specialty steel, Japan's automotive industry would not have developed. Based on the skills and experience since we were established, we manufacture a vast array of specialty steel that are well-suited to our customer's needs, and the quality of these products continues to evolve.

Primary products

- Structural steel (automotive parts, mechanical parts, etc.)
- Free-cutting steel (automotive parts, mechanical parts, etc.)
- Spring steel (automotive springs, coil springs, etc.)
- Bearing steel (bearings for automobiles, machines, etc.)
- Tool steel (dies, etc.)
- High-strength steel (automotive parts, etc.)



Steel Round bars



※Pie chart: Sales breakdown (based on sales volume – nonconsolidated)

Forgings

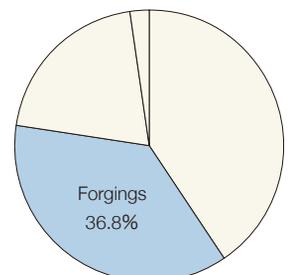
Forging is a technology that involves heating specialty steel (sometimes there is no heating step) and forging it in a machine such as a forging press, upsetter, or rolling mill. Through the heat treatments and secondary processing that follow, the forging is given properties such as additional strength or toughness. In recent years, technologies that make it possible to achieve the same properties without heat treatment have been developed. Forgings are widely used in critical parts for which safety is paramount, including powertrain parts such as engines and transmission as well as for vehicle chassis assemblies. To meet the demand for improved vehicle power and reduced vehicle weight, we continue to take on new monozukuri challenges that involve unparalleled attention to quality in every step from the raw materials to the end product.

Primary products

- Crankshaft
- Differential ring gear
- Rear axle shaft
- Transmission gear



Crankshaft



*¹ Formed products: The products necessary for our standard of living and industries are made of materials such as metal, wood, rubber, or plastic. Formed products are those products that have been shaped by applying heat and/or force to such materials.

automobile of the future. capabilities, are creating new areas of business.

Outline of an integrated steel forging process



Stainless steel

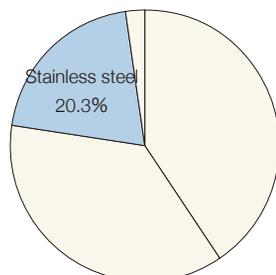
Tough and corrosion-resistant, stainless steel is used in applications related to water such as dams, sluices, and ships. They are also used in chemical and nuclear plants as well as in the utensils that we all use every day. In recent years, the use of stainless steels as structural materials for construction has been authorized, so there are a widening variety of applications that capitalize on their function and beauty. In addition, there is an increasing demand for our Suscon stainless rebar as a replacement for regular steel rebar in concrete structures that require a long life, and their use in highway-related applications such as tunnels is increasing as is their applications in equipment for manufacturing food and pharmaceuticals

Primary products

- Shaped stainless steels (chemical engineering equipment, ships, structural materials, etc.)
- Round bar and wire rod (utensils, bolts, nuts, etc.)
- Stainless rebar



Shaped stainless steels



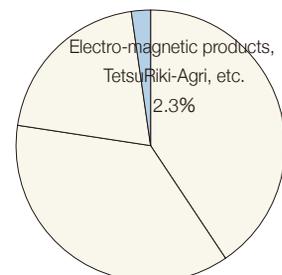
Electro-magnetic products / TetsuRiki-Agri

Using our knowhow in manufacturing specialty steels, Aichi Steel's newest area of business is in electromagnetic materials. This area of business started in 1992 with the development of a dental magnetic attachment for securing false teeth. In addition, our Magfine bonded neodymium magnet has allowed the weight of small motors used in automobiles and electric tools to be greatly reduced, and a world-wide increase in demand is expected. In addition to magnets, our MI (magneto-impedance) sensors, which are able to precisely measure minute magnetic fields, are being used in geomagnetic positioning devices and for finding foreign matter in food.

Another novel product is TestuRiki-Agri, which was developed to bring out a latent ability of iron. This product allows iron ions to enhance plant photosynthesis and enhance plant growth, and is loved by farmers and gardeners alike. It is expected to help contribute on a world-wide scale to make the deserts greener and improve agricultural yields.



Magfine



Implementing CSR activities in our actual business to

Q&A with our new President, Shokichi Yasukawa

Our CSR awareness is complete, and we're moving from fundamental CSR to proactive CSR.



Shokichi Yasukawa, President

You've taken over as President at a time when the business environment is in a state of great change. What did you think of the fiscal year ending March 2008 and what do you expect in the coming term?

The unprecedented price for steel scrap and nickel, the raw materials that we need to produce steel and forgings - our core business - is having a large impact, and I think that business conditions will continue to be severe in 2008. In our core businesses, however, we are actively carrying out structural reforms and cost reduction activities related to our production systems, and in our new areas of business such as electromagnetic products, we have finished our initial

investments and we are moving into our commercialization phase. Even in this severe environment, our net sales for the fiscal year ending March 2008 was 253.4 billion yen, a 7.6% increase over last year. Our operating income was 10.8 billion yen, an increase of 2.6% over last year. Our target for next fiscal year is 298.0 billion yen, and we are serious about working that much harder to improve our profitability

promote continuous and sustainable growth

What are your thoughts on dividend policies and other issues related to shareholder returns?

We are here today as a company because of our stakeholders – our customers, local communities, the companies that we deal with, our employees, and our shareholders and investors. Thus it is a given that we contribute to the interests of all of our stakeholders in a well-balanced manner. I believe that continuous growth is an enterprise's most important mission, and I believe that the mission of the president is to continue to create the ability to make continuous growth

possible. However, for the enterprise to grow continuously, facility investments are unquestionably necessary. Thus, we will secure the retained earnings necessary for our business operations, but we will look at our overall performance and finances and work to meet the expectations of our shareholders and investors. Currently, our standard dividend payout is 30% (consolidated) and we are looking at a value between 20 and 40%.

What are the strengths of Aichi Steel that support its growth? How do you plan to leverage these strengths?

We produce about 100,000 tons of steel a month. We forge about 30,000 tons of it in-house and deliver about 70,000 tons of it to customers. Our integrated steelmaking and forging operations, which are done at the same site, are our strength. Also, for our new areas of business, we have one and only products such as bonded neodymium magnets that contribute to smaller automotive motors and improved fuel economy, high-sensitivity magnetic sensors that are expected to have a wider range of applications going forward, as well as TetsuRiki-

Agri, which gives iron ions to plant life. These are also our strengths. I would like to use these strengths for humanity and for society and to help realize a low-carbon society. There are two ways to do this – one is to contribute by supply products to improve automobile fuel economy, and the other is to reduce the CO₂ emissions from our production processes. We will eventually be carrying out routine replacements of our production facilities, but we believe that these replacements are a chance to improve our energy efficiency and reduce CO₂ emissions.

With society becoming increasingly interested in corporate social responsibility, Aichi Steel started putting out a Midium-term CSR Plan in 2005. What did that achieve and what are your plans going forward?

That an enterprise has to be a useful part of society is a given. I believe that growing a business in a healthy manner is in itself CSR. The reason that we amalgamated the annual report and the CSR report is because CSR is the foundation of our business, and one facet of this foundation is our financial report. Our Midium-term CSR Plan started in 2005 and ended in 2007. In these three years, I believe that awareness of CSR issues became fairly well-established in the company. If we

borrow a baseball metaphor, CSR has two facets – one is being in the outfield and the other is being in the batter's box. Obeying the law and preparing for risks corresponds to outfield. Making sure we have a solid outfield is what we did for three years. I think it's time to work to further strengthen our outfield, but at the same time, to take our CSR to a more active and strategic level.

Facility investment plan (improving competitiveness and creating a system that can handle increases in demand)

	Stage I (2005-2007)	Stage II (2008-2010)
Steel	Streamlined production (eliminating bottlenecks) • Installing an advanced new furnace • Improving the finishing process	Improving the steelmaking and blooming processes
Forgings	Improving quality and turnaround time • Building a new forging plant • Improving heat treatment and finishing process	Carrying out rationalization and performance improvements

I'd like to see people think based on their "body, heart, and mind" to

What kind of plans do you have for the second stage of CSR?

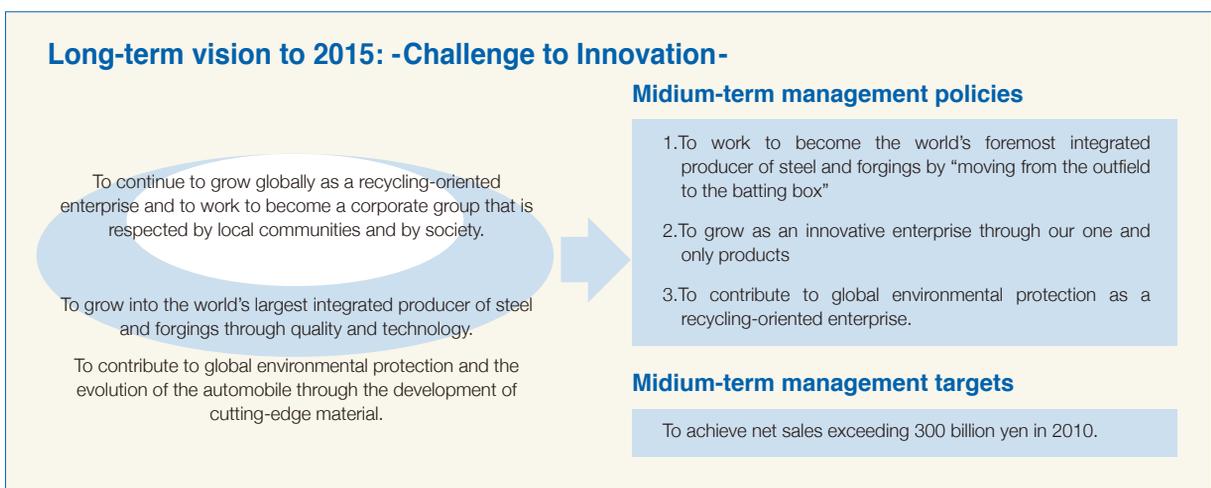
We are currently implementing our 2010 Midium-term CSR Plan, but for our outfield, we plan to further strengthen our efforts to date and expand them to include the group as a whole. On top of that, I'd like to see Aichi Steel being useful to society in a more noticeable way. What we do is to take something worthless – steel scrap – and turn it into specialty steel, a value-added product. We are inherently a resource-recycling enterprise. This is something to be proud of, and based on this, we can of course contribute to local communities, reduce CO₂ emissions from our production processes, create processes that are better for the environment, and do

what we can through monozukuri. Also, as I mentioned before, the opportunities for this are here. Another thing that I value is the development of the human resources that makes all these products and processes possible. My motto is "think of work as your life, not your job." What I mean by this is that there's life, and there's also work. Recently, we hear a lot about work-life balance. I think that work and life should not be thought of as separately, but that work is that something that exists in your life. I'd like to create a corporate culture that lets employees appreciate life while excelling at work.

Aichi Steel's business and environmental measures are two sides of the same coin. What are our environmental priorities in terms of our CSR activities?

I'd like to keep the issue of safety front and center. An important part of labor safety is Heinrich's Law, which says that for every potential accident, it is important to establish counter-measures for close calls. Even for environmental measures, I would like to raise our awareness of environmental close calls.

Another issue is that I would like to set numerical reduction targets for our CO₂ emissions, and we are currently preparing these targets.



improve as individuals and to improve the company.

Lastly, do you have anything to say to our stakeholders as the new President?

Since I was in my 30s, I've treasured the phrase "body, heart, and mind". The essence of our lives and work is about the never-ending improvement and renewal of our body, heart, and mind. "Body" means the energy for getting things done and making good on your promises. "Heart" means constantly thinking about your own objectives, ideals, and fundamentals. "Mind" means thinking about things using rules and principles, finding problems or new directions, and the ability to learn. I believe that improving these aspects will always open up new opportunities. If you think about the company as being an extension of one's body, the same applies.

If each one of us improves themselves, the company will also

improve by the total sum of improvements. I truly believe this. As it happens, this way of thinking is consistent with the concept of "ambition, learning, and achievement" that was a part of "AICHI Spirit" that we put together in 2006 as well as with the concept of "learning, thinking, and action" proposed by the Confucianist Heishu Hosoi, who was from Tokai City. By improving "body, heart, and mind" both at an individual level and at the company level, Aichi Steel can grow continuously as a "global enterprise that is small but that has existence value."

This is my hope.



AICHI Spirit: An additional corporate gene for implementing CSR activities based on our Mission Statement.

AICHI Spirit is made up of the values that will help us to realize our Mission Statement. If our Action Guidelines defines our day-to-day conduct, AICHI Spirit defines who we are on a deeper level. In 2007, we worked to more thoroughly establish AICHI Spirit as part of our CSR activities.

Distilling our corporate culture

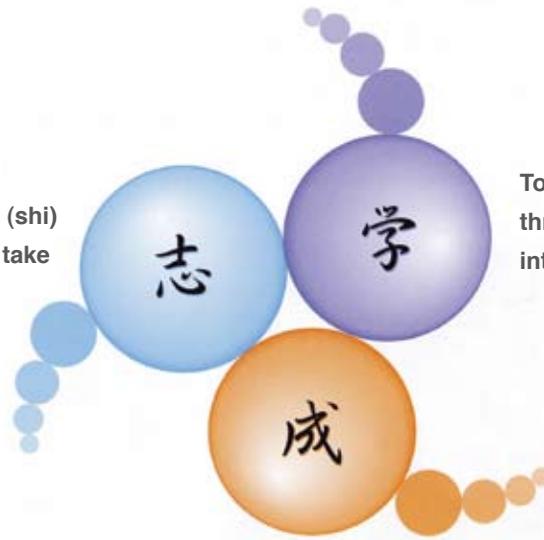
AICHI Spirit is a distillation of the values that have been built up by our predecessors – in effect, an easy-to-understand blueprint of Aichi Steel’s corporate genes. Creating AICHI Spirit started in 2005. It involved an analysis of the organization and of current issues as well as a review of what our founders and past presidents have said, and the corporate orientation slowly came together. In the process of putting AICHI Spirit together, we came across our founder’s philosophy: “good cars come from good steel.” Based on this, we found parts of our corporate culture that made a contribution through steelmaking, a culture that encouraged employees to improve themselves and to work together to achieve a shared objective.

Improving “human power”

“Ambition, learning, and achievement.” These are the three keywords that we were left with when we thought about how we wanted to treat the teachings of our predecessors with respect while extending and enhancing the distilled values and characteristics. These keywords reflect the ideal of having each employee be ambitious and learning together with humility while achieving great things. This is what AICHI Spirit calls on each of us to do. What we have done is to put what has been passed down into writing as AICHI Spirit to improve the professionalism of all those who support our *monozukuri* and to strengthen our “human power”.

The three keywords of AICHI Spirit

To have noble ambitious (shi) as a professional and to take on new challenges.



To learn (gaku) and train through work and interaction with coworkers.

To take action quickly by coming together to persevere and to achieve (sei) your goals.

This figure represents how we cherish the uniqueness of each of our employees and our desire to see them interact, grow, and work together.

Establishing AICHI Spirit and increasing awareness

Since 2006, we have created a pamphlet and card that explained these keywords, and we have distributed these to all employees including temporary employees. In addition, we have held presentations for managers and supervisors, study sessions in every department, and we constantly work to establish AICHI Spirit and increase awareness. We are carrying out similar initiatives at our group companies and we have started distributing this information at our overseas subsidiaries.

Mission Statement

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

CSR Policy

We will contribute to the sustainable progress of society and the Earth through our sound corporate activities.

CSR Vision

1. As an environmentally recycling-oriented enterprise with positive earnings, our Company will earn the unshakable trust of and provide satisfaction to external stakeholders. At the same time, our Company will develop a close relationship with regional governments and people in the community.
2. Our employees will feel confident and proud of working for Aichi Steel and Aichi Steel group companies and will work to create a corporate culture as an "exciting" enterprise.

Aichi Steel Group's Action Guidelines (revised in January 2007)

To establish a reliable corporate culture based on a global perspective and to extensively contribute to society, we will respect human rights and comply with the letter and the spirit of domestic and overseas laws and regulations, and will conduct ourselves independently with the common sense expected of us from society with a view to the creation of a sustainable society.

1. We will develop and supply products and services that are useful to society by taking safety, quality, protection of personal and customer information fully into consideration to earn the satisfaction and trust of our customers and society.
2. We will make every effort to develop fair, transparent, and open business activities as well as to conduct them in a dignified manner.
3. We will openly disclose corporate information to a wide range of parties in society including shareholders in a proactive and fair manner.
4. We will respect the diversity, personalities and individual characteristics of employees and at the same time, we will secure a safe and pleasant working environment that will allow employees to enjoy comfort and prosperity in their daily lives.
5. We recognize the vital importance of the environment and we will engage in environmental preservation activities voluntarily and proactively.
6. As a good corporate citizen, we will positively participate in social contribution activities.
7. We will deal with any organizations and individuals that may pose a threat to the good order and safety of civil society in a resolute manner, and we will never become involved with any of them.
8. In global management, we will comply with international and local laws and respect local practices, customs, and cultures.

A new Midium-term CSR Plan

Through discussions by the CSR Working Group, we found that though the awareness of CSR issues had increased over three years of CSR activities, there were variations in the activities and in awareness, making it hard to consider them call company-wide activities. Thus we identified more thoroughly entrenching and establishing our CSR policies and raising awareness of CSR issues across the entire enterprise as an issue going forward. We also established the 2010 Midium-term CSR Plan to take our CSR activities to the next level.

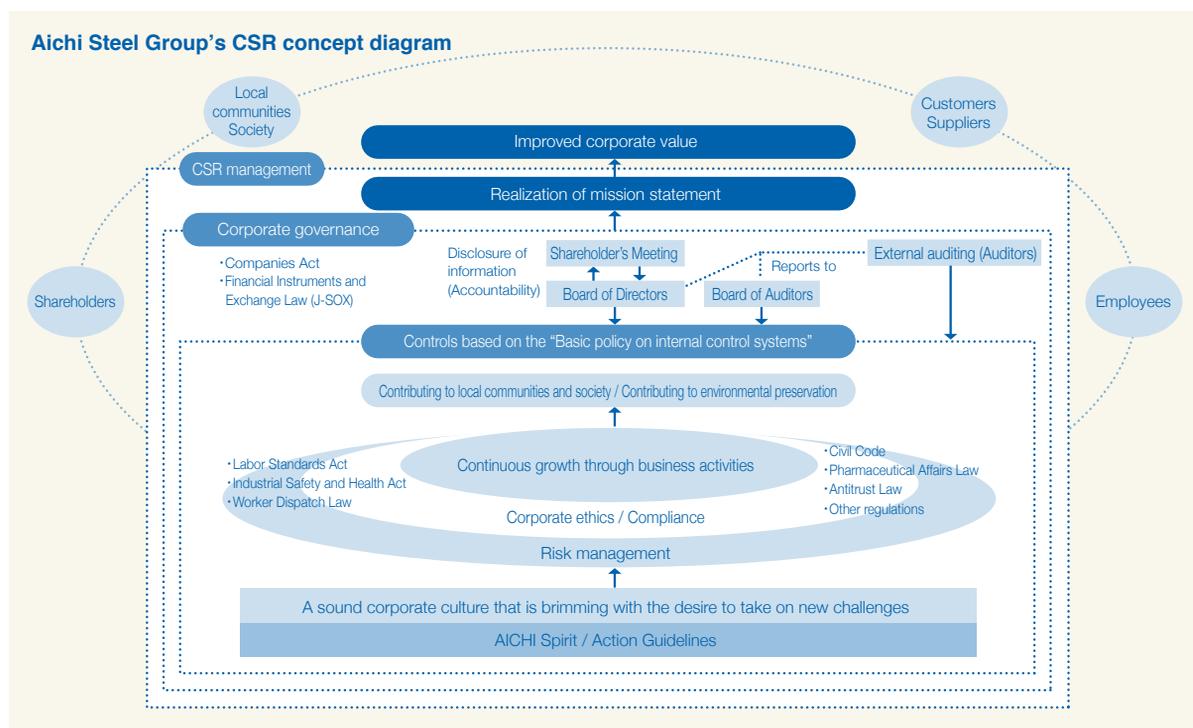
Conformance to the Financial Instruments and Exchange Law

We started preparing for the Financial Instruments and Exchange Law (J-SOX*4) in 2006. This law makes it mandatory to submit reports of internal controls and for auditing companies to do checks starting the fiscal year ending March 2009. Currently, the Aichi Steel Group is going into the implementation stage of these requirements.

Promoting internal controls

To continue being a listed enterprise that is trusted because of its sound and efficient business activities that are free of illegal or inappropriate acts and mistakes, we are working to create an internal control system to manage and monitor all activities for everything from R&D to sales, purchasing, and production.

As part of this effort, we have reviewed the standards related to the approval of decisions in the course of business operations and we have centralized these standards. Also, to improve consistency and internal controls in the Aichi Steel Group's management policies, we hold periodic meetings with the presidents of subsidiaries and we dispatch directors and managing directors to check on business operations at our subsidiaries. We have also standardized the guidelines for reports from our subsidiaries to strengthen our relationship.



*4 J-SOX : This is a Japanese corporate reform law modeled after the Sarbanes-Oxley Act (SOX). It seeks to strengthen accounting auditing systems and internal controls.

*5 Internal controls : A part of corporate governance, these involve the management, monitoring, and guaranteeing of each area of business to make sure that the proper standards are being followed to ensure that business operations are carried out soundly and efficiently. In particular, they involve creating standards and systems that prevent improper accounting maneuvers and to monitor and certify that these systems are running correctly.

We are identifying the critical risks at the Aichi Steel Group so that they can be managed.

We believe that clarifying the latent risks in our business operations and minimizing any effects of these risks on our stakeholders are part of corporate social responsibility. We are clarifying our risk management priorities by identifying and assessing the risks associated with our business operations, i.e. risks that are changing as society changes.

Risk management is a major management priority

We thoroughly manage risk based on our Risk Management Standard so that our business operations can go on even if some risk were to occur. These critical risks include natural disasters, fires, civil disturbances, riots, terrorism, critical product claims and other issues relating to manufacturing responsibility, loss of trust, lawsuits, and corporate wrongdoing. This type of emergency situation will be handled as needed by setting up a task force.

Promoting risk management throughout the entire group

In fiscal 2007, we worked to mitigate the critical risks identified up to that point. Also, we finished identifying risks in our domestic and overseas group companies, and we are working to create a group-wide risk management system. As part of this effort, we have top management at our group companies receive risk management training sessions, and we hold consultations related to priority items.

Risk management at the department level

Based on the critical company-wide risks identified up to this point, each department has selected what the critical risks are within their departments. As needed, they are incorporating these risks into their departmental policies and methodically carrying out countermeasures.

The principal departments in charge of each risk send out a request to all related departments to do a self-check once a year to gauge the progress of these countermeasures. The principal departments then hold consultations to find out what the issues are.

By discussing risks face-to-face, it is sometimes possible to shift attention to the issues and make new discoveries, raising the overall level of risk management.

Identifying and assessing risks

●Risk classification

Risk type	Internal factors			External factors
	Risks to avoid		Risks to take	
	(1) Compliance risk	(2) Risks related to business operations	(3) Investment-related risks	(4) External risks
Effect of the risk				
① Safety of employees and local residents				
② Loss of trust from stakeholders				
③ Responsibility to provide products (long-term shutdown)				
④ Continued existence of enterprise				

●Risk map

		Likelihood / frequency of occurrence		
		Major	Moderate	Minor
Effect on management	Major			
	Moderate			
	Minor			

Earthquake preparations

To prepare for the Tokai and Tohankai earthquakes, which are thought to be the most significant risk to us right now, all of our departments are working on creating a disaster response system based on our Earthquake Response Standard.

We also distribute an Earthquake Response Manual to all of our directors and employees. This manual sets out what to do if an earthquake of 5 or more on the Richter scale were to occur; we also distribute an Earthquake Response Procedure, which is in the form of a wallet-sized card.

Risk awareness activities

We carry out activities to improve mutual awareness within the Aichi Steel Group.

Presentation on responding to earthquakes

No one knows when the next Tokai or Tohankai earthquake will hit. In April 2008, the Aichi Steel Engineer's Association*2 held a presentation to explore earthquake issues. They invited Nobuo Fukuwa from the Graduate School of Environmental Studies at Nagoya University to talk about the latest efforts in earthquake science and to present damage estimates based on earthquake simulations. He also talked about predicting earthquake damage and responding to earthquakes.



Presentation on preventing disasters in the workplace

In February 2008, we invited Fire Chief Hasegawa from the Tokai City Fire Department to discuss two subjects: "Fires and accident trends: What you can do" and "Preventing fire in the home".

During this presentation, he drew on examples from his time spent fighting fires to explain measures we could take and lessons we can learn based on an analysis of fires and leakages at hazardous materials facilities. He also gave us advice on Aichi Steel's management system.



Large-scale disaster training

In November 2007, we carried out our "Company-wide disaster response training" concurrently with the "Joint disaster training" held by the Safety Association*1, which is made up by the 44 companies in Tokai City's coastal area. Approximately 130 individuals took part in the training, which involved nine fire trucks and ambulances. In this training scenario, a forecast of a Tokai earthquake was received, a task force was set up, damage was inspected, an on-site headquarters was set up, an oil spill was contained, and the injured were rescued and evacuated.



Disaster training (spraying water)



Disaster training (A Tokai City firefighter at work)

*1 Safety Association : The Tokai City Seaside Industrial Zone Safety Association

*2 Aichi Steel Engineer's Association : This is an independent organization made up primarily of engineering staff; everyone from directors to new employees can join. Its aims are to have members working with each other to improve their skills and to increase workplace vitality.

We are working to creating an open corporate culture and to improve awareness of compliance issues.

We want to continue being an open and fair enterprise. Based on this simple desire and in addition to the self-regulating systems being created by our employees, we are revitalizing our communication and creating an open workplace environment to create a corporate culture in which it is difficult for wrongdoing and illegal acts to take place.

Improving awareness of compliance issues

Aichi Steel's compliance activities are based on the Aichi Steel Group's Action Guidelines, which was established in 1998. This document, along with another document called Code of Conduct, were summarized on a wallet-sized card and distributed to all employees to make sure corporate ethics have been thoroughly established. Another document that was distributed was an explanation of prohibited actions and applicable laws entitled "Compliance Do's and Don'ts". In 2007, we worked to expand our compliance activities and raise awareness across the entire Aichi Steel Group as well as at our on-site contractors. We plan to continue this in 2008.

Enriching ongoing awareness activities

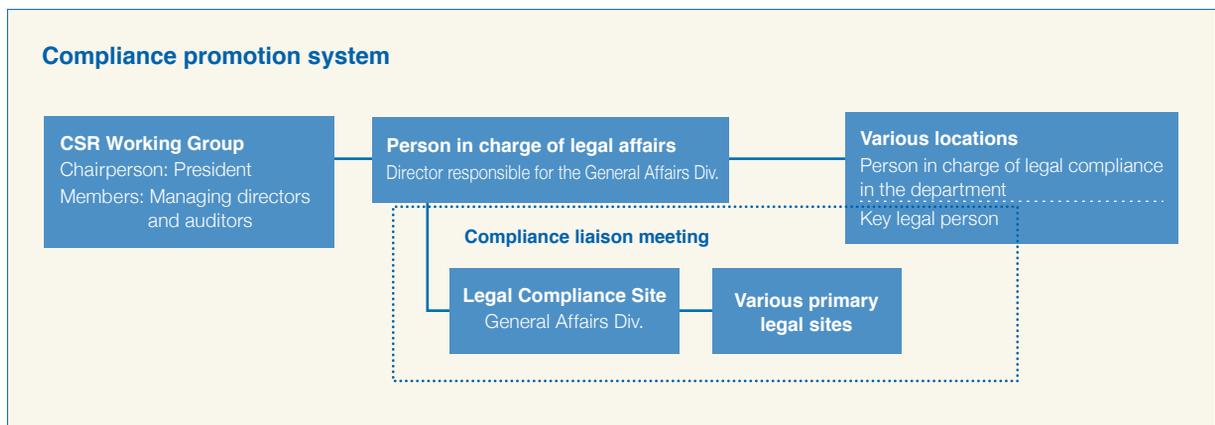
Our compliance awareness efforts focus on the education and training of employees in every position including new employees, newly appointed officers, and department managers. It involves issuing a publication called Legal News, as well as a column in the company bulletin called CSR Corner. Legal News is issued once or twice a month, and covers compliance issues related to work as well as general ethical and legal issues. We also plan to start featuring compliance-related efforts at other companies.

Compliance promotion system

In 2007, we pushed full legal compliance throughout the entire company, and to strengthen our legal capabilities, we established a Legal Department in the General Affairs Division. We also created "primary legal sites" for various relevant laws; the "key legal persons" from each workplace who have been selected meet every other month or as needed to hold a "compliance liaison meeting". At this meeting, legal trends,

social issues, and case studies are covered in order to increase our sensitivity to compliance issues.

Also, each legal site completes a prescribed compliance checklist at the end of each fiscal year; they also discuss various issues in meetings with the Legal Dept., devise improvements, and implement them.



Creating an open and transparent environment

Proactively preventing wrongdoing and illegal acts, and promoting compliance depends on creating an open corporate culture in which it is easy for employees to discuss problems. Thus we are putting an emphasis on clarifying our work and decision-making systems as well as to enhance communication between managers, supervisors, and employees.

Also, as part of a system to strengthen self-purification measures, we created the Aichi Steel “Hotto Line”, a hotline that lets people discuss and report wrongdoing and illegal acts by the company or by employees as well as other issues on their minds. The hotline is operated by the Legal Affairs Dept. in the General Affairs Div., auditors who are independent from Aichi Steel, and our corporation lawyer. It is available not only to employees but also to subsidiaries, contractors operating on-site, and suppliers. In 2007, five calls were made to this hotline.

Compliance activities in the technical departments

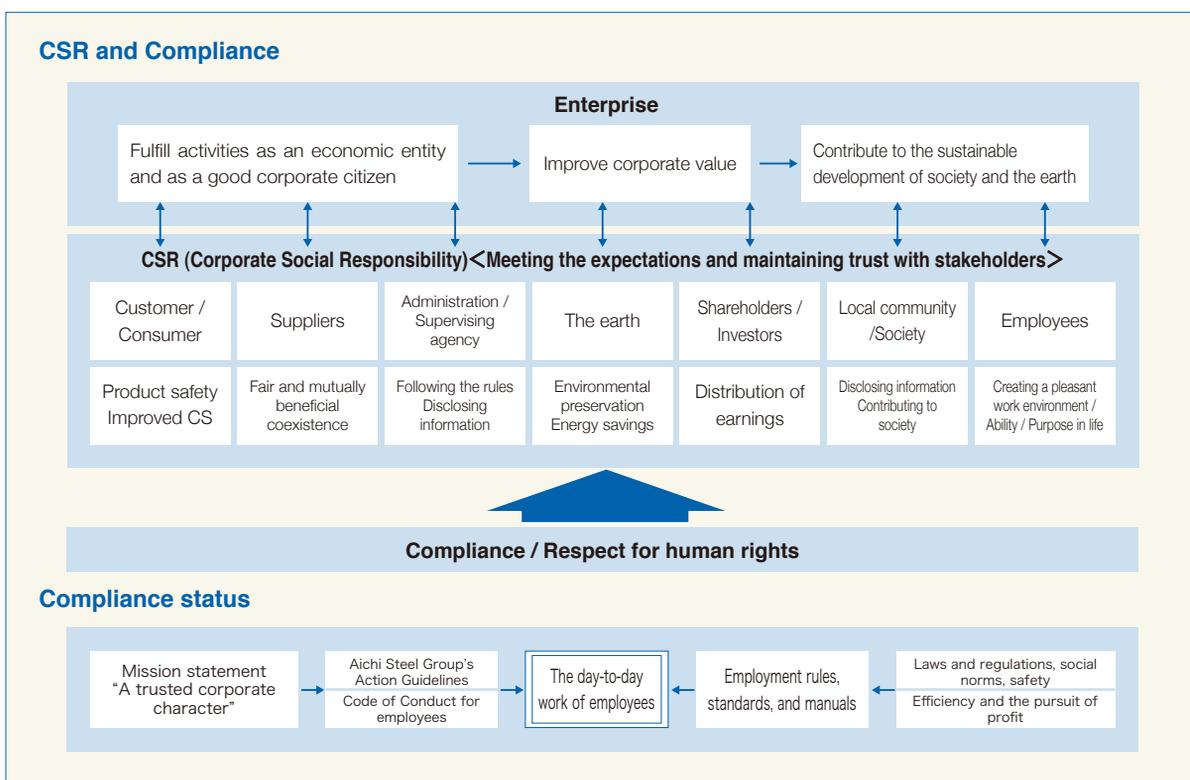
The Technical Planning Div. worked with Technical Development Div. to launch “technical department compliance liaison meetings” where compliance issues relevant to technical departments are discussed. Since 2006, the two divisions have held joint morning meeting once a month where the employees give “compliance declarations” in which they present their views of compliance as well as about important topics. We are continuing these efforts slowly and steadily.



An employee giving a compliance declaration

Calls to the “Hotto Line”

Fiscal year	'04	'05	'06	'07
Number of calls	5	2	11	5



(Excerpt from employee training material)

The monozukuri capabilities of Aichi Steel – finding new possibilities from “Fe(ferrum)” and meeting the needs of society

Aichi Steel is an integrated producer of steel and forgings, and this is our strength. Our “Monozukuri Revolution” that we started in 2004 and our massive facility investments are bearing fruit. In our forging business, we have made great progress toward establishing a high-profit revenue base both in Japan and overseas. In our steel business, we have looked at numerous issues including adopting direct-delivery logistics in our quality assurance lines. We plan to expand these efforts to include our source of steel – our steelmaking and blooming processes.

In new areas of business, we have started the mass production of our Magfine bonded anisotropic neodymium magnet, and we have increased the range of applications for both our magnetic sensors and our TetsuRiki-Agri; our one and only products are on track to success. I believe that Aichi Steel’s mission is to use its engineering capabilities and monozukuri capabilities to find new possibilities in materials in order to contribute to society.



Hiroaki Asano
Managing Director and
General Manager of Technical Headquarters

New lines at No. 7 Forging Shop

In January 2008, construction of our Rolling Mill Line No. 8, a line that will produce ring gears, was completed. This is one of the world’s fastest lines, and it will enable us to reduce costs significantly over the existing Lines No. 6 and No. 7. This facility has everything from forging to shipping in one plant to improve customer satisfaction by assuring on-time delivery. This is how we are working to achieve zero defects to fully meet the quality expectations of our customers.



Rolling Mill Line No. 8

Magfine – a product that contributes to better fuel economy

One of the primary products in Aichi Steel’s electromagnetic products division is our Magfine bonded anisotropic neodymium magnet. There is a demand for magnets with excellent formability and magnetic power to make it possible to reduce the size and weight of motors and to improve performance. What we did was to focus on the development of a bonded anisotropic neodymium magnet early on. We discovered the manufacturing principles for anisotropic magnetic powder in 1996, and we established a mass-production system for magnetic powder in 2001. In 2003, we were successful in commercializing the Magfine bonded anisotropic neodymium magnet, which had the best magnetic properties in the world.

The use of this product in home electronics and electric tools in 2004 was the beginning of a new opportunity. Since 2005, Magfine magnets have been used in car seat motors in the Crown, Estima, and Lexus, and their use is on the rise. Through this product, we are able to contribute to lighter vehicles, better fuel economy, and lower CO₂ emissions.

A production system that can handle increased demand

2007 was the year that our electromagnetic products business finally took off. Demand for Magfine magnets has increased worldwide, and we have started production in the Czech Republic for the European market, and we have started building a new production facility in Seki City, Gifu. We plan to use our environmental knowhow related to production processes that we have been accumulating in our Chita and Higashiura plants.

Starting mass production of Magfine in Europe

In September 2007, we established Aichi Magfine Czech s.r.o., a subsidiary of Aichi Steel that started production of Magfine magnets in February 2008. We supply a certain German company that is working to make motors smaller and lighter to reduce CO₂ emissions. In 2010, we plan to increase our monthly production volume of 200,000 pieces to 2 million pieces a month.

A new production facility in Gifu Prefecture

In August 2008, construction started on our new Seki Plant, which will produce products for our electromagnetic products business in Seki City, Gifu Prefecture. It is expected to be complete in May 2009. In the first year of operation, it is expected to produce 2 million pieces per month.

Electromagnetic products full of possibility

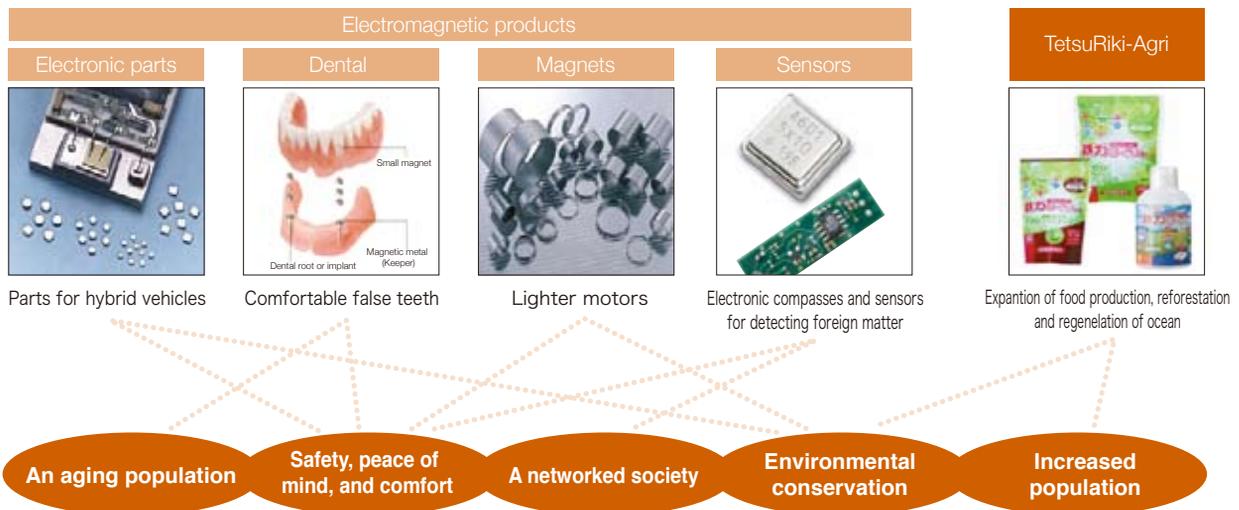
Our dental attachment for securing false teeth is the size of a grain of rice and has a powerful 600gf (gram force) magnetic force. As of March 2008, 2 million of these have been used around the world, and as populations around the world age, we hope to continue to contribute to enhanced safety and quality of life.

In addition to magnets, we are expanding into other products with our MI (magneto-impedance) sensor, which is able to precisely measure minute magnetic fields.

In 2006, we developed an MI sensor capable of detecting a minute 0.5 nanotesla (one 50,000th of the earth's magnetic field), and we were able to successfully apply it in a device for detecting metal particles in foodstuffs. Currently, we are developing an even more sensitive sensor that works at the picotesla level. This technology is expected to have medical applications among others.

Our electromagnetic products business is another aspect of Aichi Steel's efforts to develop monozukuri that is better for people, cars, and the environment. Expect to see more growth in this area of business.

Efforts in new areas of business



The new areas of business that will contribute to the sustainable society of the future

Motivating the people that power monozukuri depends on improving the ability to communicate.

Monozukuri is powered by individuals. It's important to organize them and make sure they are provided with an environment in which they can contribute to their fullest. To do this, you need to have everyone communicating properly, but when I saw the results of our workplace assessment survey, I became painfully aware that there was much room for improvement. Based on talks with new Senior Advisor, we started the "Ikiiki Aichi Team" and in January 2008, we put together an action plan that started with thoroughly establishing basic etiquette in the company and trying to get our senior people take the initiative and break the ice with their fellow employees to establish get more warmth and interaction. If you can revitalize the atmosphere in your plant with an easy-to-understand message, this will make employees understand their role a bit better. This will lead to better teamwork and higher work efficiency. Going forward, we plan to have employee events and sports tournaments as well as presentations related to etiquette and morals in order to improve overall workplace vitality.



Tetsuo Suzuki
Executive officer and
General Manager of Forging Plant

Creating an atmosphere where people can say what's on their minds

In 2005, we started carrying out a workplace assessment survey once a year in order to better understand what our workplace was like and to analyze the strengths and weaknesses of the organization. In 2006, we used the survey to do a group discussion to identify what we should be working on to improve the workplace and to establish a format where each individual gives a declaration to address these issues.

In 2007, we gauged our workplace with another survey and we continued our group discussion to improve communication; our efforts to have everyone taking a problem-solving approach to stimulate our workplace developed greatly. In our Chita and forging plants, these activities have been thoroughly established, and we are currently in the process of expanding them to cover our head office departments.

Creating an environment where people can teach and be taught

In fiscal 2007, we realized that our horizontal organizational system was not effective from the standpoint of human resources development, and we brought back our "senior employee system" for passing on knowhow from senior employees to junior employees. This is a change that will enhance communication by reconsidering the advantages to teaching and being taught.

Even in our QC circles, which have stimulated our workplace through creative workplace and quality control proposals, we have focused our gaze on revitalizing small-group activities to make it easier for people to be creative. It has been over 40 years since QC circles were introduced at Aichi Steel, and currently we have over 140 circles throughout the company. These changes will only increase their importance as a foundation of our business.

Multifaceted human resources development

At Aichi Steel, we reemploy retired employees under specific conditions, and we welcome those skilled retirees as “senior meisters”. Their mission is to pass on the knowhow and skills they accumulated over long years to the next generation, and they play in role in creating an environment where people can teach and be taught.

We want to create a process where people can enter the company, become mainstays and veterans and where employees can learn the knowledge they need for whatever work they are involved in, inside and outside the workplace and regardless of whether where one is in a superior-subordinate relationship.

Aichi Steel is working to create a multi-faceted human resources development through this type of education, job-specific training, on-the-job training, and off-the-job training.



On-site education

Veterans pass on their knowledge to the next generation

Tamio Hayakawa, a Senior Meister with the Equipment Engineering Div., is involved in employee training and other education related to equipment maintenance. He also independently started show-and-tell sessions at each plant. His teaching materials? Sheets on which he has summarized tricks and tips related to his work. His material is then placed on our internal network.

Initially, there were time and space restrictions and the turnout was spotty. Turnout has increased since 2006, however, when we set up a system that lets Mr. Hayakawa and our other senior meisters go to the conference rooms of various workplaces to give “on-site” education to employees coming off their shifts. “I’m happiest when people ask questions,” says Mr. Hayakawa. “It means that they’re proactive and engaged. To me, education means learning together to grow together.”

Worksite employees have said that on-site education has taught them teamwork and made them willing to consult others. They have also said that they would like to use what they have learned to create an open and respectful workplace where they can look others in the eye and tackle problems head-on in an atmosphere of respect.

Human resources development is critical for producing good products. Part of this is our on-site education for the generation that will be responsible for the Aichi Steel of tomorrow, and it is producing real results.

We are carrying out environmental investments to further reduce our CO₂ emissions and we are also introducing eco-friendly products.

We have been aggressively working to reduce our energy consumption in our various manufacturing processes from steelmaking to rolling and forging. In our steelmaking process, which is particularly energy-intensive, we increased the capacity of our electric furnaces and we purchased burners with high thermal efficiency and heat recovery systems. In terms of solidifying steel, we started continuous casting to improve yields. Recently, we have been putting an emphasis on production technology and product R&D that will reduce the CO₂ emissions while producing products for customers. Going forward we will be intensifying all of these efforts; we will also establish a “Process Energy Reform Committee” to review our production technology at a fundamental level and a “Eco-life Committee” that promotes individual energy-saving activities by each of our employees so that we can achieve further reductions in CO₂ emissions and help stop global warming.

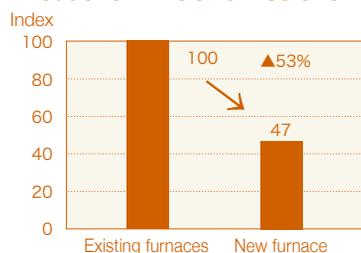


Hiromi Sato
Director in charge of
Safety & Environmental Div.

Conserving energy by building a new heat treatment furnace

We built NH Furnace No. 8 in our No. 6 Forging Shop in order to address the issues with our existing heat treatment furnaces. Parts were put into our existing furnaces in piles, making them heat up unevenly. A large amount of time (and energy) was needed to heat up the entire pile. Also, when the products were loaded into heat treatment trays, they became dented because of the impact. Thus in the new furnace, the heat treatment trays were optimally designed to reduce weight, and changes such as robot stacking were made to the loading method to improve heat distribution and to eliminate dents. This reduced the amount of time needed for heat treatment by approx. 40%. Through additional improvements such as shortening the time required to reach the set temperature and changing the fuel from fuel oil to municipal gas, the new furnace emits 53% less CO₂ than existing furnaces. We can say with confidence that we improved quality and that we helped the environment.

Reduction in CO₂ emissions



Existing furnaces

- Large variation in heating times because parts were piled into heat treatment trays
- Dents from parts being dropped when they were being loaded into the heat treatment tray



New furnace

- Improved heating times because parts are stacked in heat treatment trays
- Stacking and de-stacking by robots has eliminated dents



Harnessing the power of iron for plants

As we researched the possibilities of iron, we came upon the relationship between iron and plant life.

Iron is an element that is indispensable to photosynthesis. Plants struggle to absorb the iron in soil. This is where it occurred to us that we could help plants by making it easier for them to absorb iron. This is where the idea for TetsuRiki-Agri came from.

This product gives plants iron in the form of ferrous (Fe^{2+}) ions to increase chlorophyll and to stimulate photosynthesis. As a result, sugar content in fruit, promotion of flowering, and raise agricultural yields are expected. It has gradually been gaining acceptance among gardeners and farmers, and this market continues to increase.

Possible environmental contribution

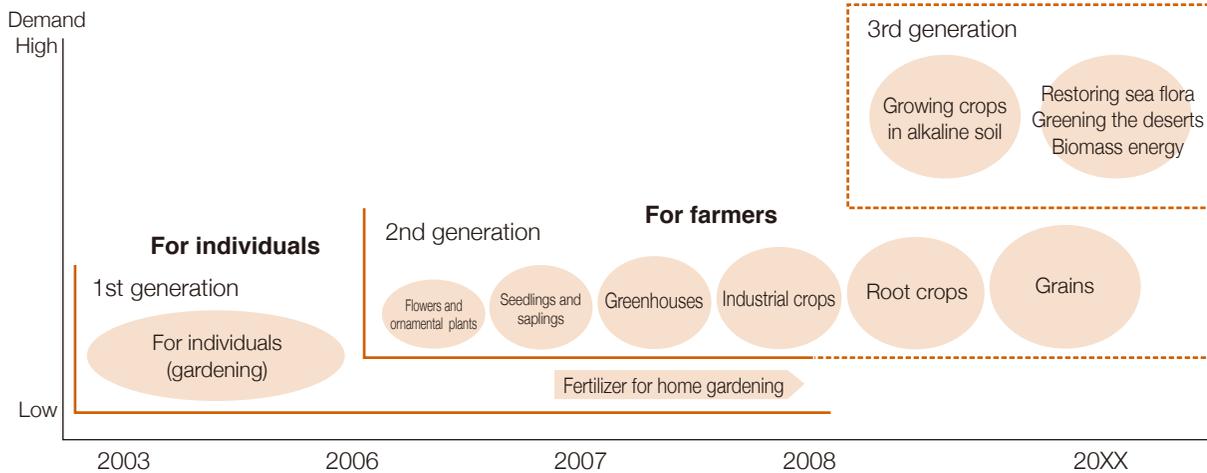
Because TetsuRiki-Agri can supply ferrous ions in a stable manner even in soil, it may be used to help grow plants in extreme environments such as alkaline soils and used to help on a world-wide scale by greening of deserts and to increase crop yields. It has a huge potential for someday contributing preserve the environment. We are currently only in the starting stages, but we will be putting more effort into PR activities to convey the possibilities of this product.

In 2007, we also introduced new versions of this product – TetsuRiki-Agri Super and TetsuRiki-Agri Great. They work in the same way as the original product, but they have fertilizer component to meet the needs of different market segments.



TetsuRiki-Agri Super

Development of TetsuRiki-Agri



Aichi Steel awarded the Chunichi Newspaper Prize

The Chunichi Industrial Technology Awards recognize excellence in production technology and product R&D. In 2007, Aichi Steel was awarded the Chunichi Newspaper Prize portion of the 21st Chunichi Industrial Technology Awards for TetsuRiki-Agri. Aichi Steel also received the same prize in 1994 for its magnetic dental attachment.



Looking back at the Midium-term CSR Plan

In 2005, we had a “Midium-term CSR Plan” for three years, which focused on building our foundations. The result of this is that each one of our employees recognizes the importance of CSR, and is working to act with awareness. Going forward, we will work to further develop efforts relevant to our actual business activities – activities that involve developing products and technology that are better for the environment and that involve reforming of our manufacturing processes to make them more environmentally sound. We will also work to spread these efforts across the entire Aichi Steel Group.

Classification	Priority items	Primary activities for each year (Please refer to individual yearly reports for details on ongoing activities or other efforts)	
		2005	2006
I Activity management	1. Thoroughly establishing our CSR Policy	<ul style="list-style-type: none"> ●Established the CSR Policy, CSR Vision, and Midium-term CSR Plan ●Established the 2010 Environmental Action Plan 	<ul style="list-style-type: none"> ●Put AICHI Spirit in writing ●Changed the Aichi Steel Corporate Action Guidelines to the Aichi Steel Group's Action Guidelines ●Issued the “Aichi Steel CSR Report 2006”
	2. Creating a CSR promotion system	<ul style="list-style-type: none"> ●Established the CSR committee*1 	<ul style="list-style-type: none"> ●Established the Aichi Steel Hotto Line, a reporting and consultation desk that has grown to include an advisory legal office.
II CSR Activities	3. Increasing PR efforts highlighting our recycling-oriented nature and contributing to local communities in order to increase corporate value	<ul style="list-style-type: none"> ●Sponsored to greenery project in Tokai-shi with the “TetsuRiki-Agri” brand 	<ul style="list-style-type: none"> ●Developed new versions of TetsuRiki-Agri B10 and C10 ●Developed in-house recycling technologies: Nickel briquetting, ANRP, and AS shot ●Participated in the 2006 Messe Nagoya exhibition titled “Eco-Industrial Revolution”
	4. Improving our corporate brand image so that local communities and employees can take pride in Aichi Steel	<ul style="list-style-type: none"> ●Overhauled our web page (Japanese version) ●Donated a monument for the traffic circle in Tokai City's Shurakuen Park 	<ul style="list-style-type: none"> ●Held a meeting with the press to discuss CS, ES, and the environment. ●Invited people from the local neighborhood association to have a meeting on local CSR issues ●Formalized our matching gift program that supports the Aichi Steel Volunteer's fund ●Held the Clean Aichi Day
	5. Strengthening internal controls across the entire Aichi Steel Group	<ul style="list-style-type: none"> ●Carried out a corporate ethics compliance survey to gauge awareness of compliance issues in the company ●Established the Aichi Steel Personal Information Protection Policy in addition to the Personal Information Protection Standard 	<ul style="list-style-type: none"> ●Changed the auditors that check the work of directors to a system with two standing auditors and three part-time auditors ●Narrowed down the critical company-wide risks out of all the risks the company is facing; started implementing this method at domestic and overseas subsidiaries
	6. Anticipating environmental preservation measures	<ul style="list-style-type: none"> ●Took action together with automakers to conform to the ELV Recycling Law (ASR recycling) ●Met our reduction targets for landfilled waste by thoroughly sorting industrial byproducts generated internally 	<ul style="list-style-type: none"> ●Installed a tire washing area to counteract dust on internal vehicles ●Installed fluorine-removing equipment at our Kariya Plant
III Respecting employees and human resources development	7. Promoting a diverse range of work styles for a better work-life balance		<ul style="list-style-type: none"> ●Recognized as a Aichi Prefecture Certified Family Friendly Corporation for our Nice Family System ●Introduced the New Nice Senior's System
	8. Introducing various systems to support the growth of our employees and creating an exciting and challengeable workplace culture	<ul style="list-style-type: none"> ●Carried out a workplace assessment survey for all employees to create an even better workplace culture and to get feedback about our strengths and weaknesses. 	<ul style="list-style-type: none"> ●Held our 1st Women's Conference so that our female employees can actively exchange views to revitalize the workplace ●Strengthened our leadership training in areas such as nurturing and training the leaders of the next generation
	9. Creating a comfortable and safe work environment		<ul style="list-style-type: none"> ●Created a new Comprehensive Safety and Health Management System based on the passage of the revised Industrial Safety and Health Act

*1 CSR committee: In January 2006, we amalgamated the Corporate Ethics Working Group, Risk Management Working Committee, and Social Contribution Committee into the CSR Working Group as a forum to discuss CSR activities such as compliance, risk management, and contributing to society.

http://www.aichi-steel.co.jp/envi_rep/index.html 2007	Evaluation	Direction heading toward 2010
<ul style="list-style-type: none"> ● Issued the "Aichi Steel CSR Report 2007" 	△ Weak at the Aichi Steel Group level and at the business level	We will implement activities from both the functional and business sides
<ul style="list-style-type: none"> ● Made the Legal Affairs Dept. independent to promote compliance 	○	We will establish a CSR Month and concentrate on raising awareness
<ul style="list-style-type: none"> ● Started actively promoting TetsuRiki-Agri as a product that contributes to the environment; received one of the Chunichi Industrial Technology Awards ● Had a booth at the 2007 Messe Nagoya exhibition, which had the theme "Safety, Security, and Comfort" 	○	We will promote environmental activities through our actual business activities
<ul style="list-style-type: none"> ● Improved the events we hold to contribute to local communities ● Together with local residents, organized a tour to go cheer for the Nagoya Grampus soccer team. ● New uniforms completely 	△ We are not reaching out enough to stakeholders outside the company	We will actively work together with local communities and release information
<ul style="list-style-type: none"> ● Carried out risk management training for top directors for the Aichi Steel Group ● Prepared for the Financial Instruments and Exchange Law (J-SOX) 	○	We will collect more information and respond rapidly.
<ul style="list-style-type: none"> ● Reached the target reductions in CO₂ emissions set by the Japan Iron and Steel Federation, reduced the amount of landfill, and reduced our COD values 	○	We will challenge ourselves with ever-higher voluntary targets
<ul style="list-style-type: none"> ● Had all assistant managers go through time management training to shorten time spent working. 	○	We will increase awareness in employees related to improving labor productivity and life planning
<ul style="list-style-type: none"> ● Carried out a workplace assessment survey and expanded our group discussions 	○	We will promote communications to create an exciting place to work
<ul style="list-style-type: none"> ● Established a 5-year plan as a Designated Workplace for Comprehensive Safety and Health Management Activities 	△ There were lost-worktime accidents	We will review our safety practices to work toward the total elimination of accidents.

We are thoroughly establishing the practice of “Built-in Aichi Steel Group to further improve our quality assurance

There are three types of product quality: quality that is merely up to specification, quality goes one step further than the specification but that is only at the expected level (expected quality), and quality that is above and beyond expectations (“wow” quality). Putting the customer first and quality first are part of our basic policies, and to this end we are creating a quality assurance system where quality is built into the process and where defects do not make it into the next step of the process by having a philosophy of “assuring one’s own process”.

Our basic policy regarding quality

●Basic Quality Policy

Based on the idea that quality comes before everything else, we have created a trustworthy system based on ISO 9001 in order to meet customer needs and expectations with attractive products.

One of our targets in our 2010 Global Quality Midium-term Plan is to eliminate customer complaints by 2010, and we are working to achieve an even more competitive level of quality. We are maintaining and improving quality with the practice of “built-in quality”, carrying out facility improvements to raise quality, and developing quality-conscious people with training to strengthen our systems. In January 2008, we combined the Quality Assurance Division and the Engineering Service Division so that we can provide our customer with even more detailed service.

Increasing quality through facility improvements

In 2007, we carried out the following facility improvements to improve quality.

●Improvements at billet finishing facility

In November 2007, we started a billet finishing reengineering project in the billet plant, which inspects billets produced by the steelmaking and blooming processes and for scratches and internal flaws. This project is the first step to realize the concept of “built-in quality” through a facility improvement that will improve productivity and yields. In the future, we will work to augment our quality assurance devices and realize 100% same-day inspections through logistics reforms in order to further improve our quality assurance.

●Improved efficiency of rolling line at Kariya Plant

In October 2007, we completed our amalgamation of rolling lines at Kariya Plant. We built a new heating furnace to achieve significant increases in energy efficiency and quality, and we transferred rolling units from the old plant and installed a new crop shear to configure our rolling line as efficiently as possible. We are also optimizing equipment operation rate, improving our work environment, and reducing our environmental impact.

Developing quality-conscious individuals

●Enhancing our monozukuri capabilities

Since 2006, we have been pushing reforms in our monozukuri capabilities as part of AMS-Innovation*1. Our top management has instructed that in terms of improving quality, customer-first activities based on improving the practice of “built-in quality” and improving operational availability need to be thoroughly established. As part of our human resources development for supporting good monozukuri, we have introduced unique initiatives such as on-site education carried out by senior meisters (see p. 21) and regular personnel rotations to prevent imbalances in human resources and skills (see p. 28).

●Engineering workshops

For some time now, we have carried out training sessions such as Specialty Steel Workshops for young sales staff from our suppliers so that we can meet the requests of our customers at a high level. These unique efforts have fostered our ability to give our customers more options. We carried out a Specialty Steel Workshop in March 2008.

quality” across the entire process.

Expanded third-party certification

In response to the 2004 revision of the Industrial Standardization Act, Chita Plant, Kariya Plant, and four affiliates received a certification audit from JIC Quality Assurance Ltd. in August 2008. They were successfully certified to use the new JIS symbol. (The change to the new JIS symbol was completed in May 2008.)

In September 2007, the Technical Development Division's Material evaluation Dept. received laboratory accreditation for testing and analyzing steel from the Japan Accreditation Board for Conformity Assessment. This allows test results from this department to be regarded as coming from a publicly recognized laboratory.

ISO 9001 certification status at Aichi Steel

Product	Date certified	Auditing body
Shaped stainless steel	April 1993	JICQA
Specialty steel	December 1995	JICQA
Forgings	November 1997	JICQA
Electro-magnetic products	March 1998	BSI Japan

Certification status of consolidated subsidiaries

Country	Company and primary product	Certification standard
Japan	Aiko (Steel)	ISO9001
	Omi Mining (Raw materials for steel)	ISO9001
USA	LFG (Forgings)	ISO9001
Philippines	AFC (Forgings)	ISO9001
China	Shanghai Aichi (Forgings)	ISO/TS16949
Indonesia	AFI (Forgings)	Certification expected in 2008
Thailand	AIT (Forgings)	ISO9001

Giving and receiving suggestions to improve business

● Procurement policy

With our AVI-21*2 initiative ongoing, our procurement departments are carrying out this initiative as AVIP-21*3. We have informed all of our suppliers of our new procurement policy. In 2007, the procurement market changed drastically because of the high cost of resources and materials, and we are rethinking our procurement structure in the 2010 Medium-term Plan to reduce the risks associated with resource procurement, rearrange our supply sources, and to create an even more mutually beneficial relationship with our suppliers. Currently, our suppliers are actively giving us suggestions related to costs and other suggestions, and we are working to create a solid foundation on which we can work together to improve quality.

● VA Conference

The “Aichi Steel Hoko-kai” is a group made up of suppliers. This group holds a VA*4 Conference every year to share examples of kaizen and technical ideas. The 15th VA Conference, which had as its theme “*Monozukuri*: Let's improve it with VA”, was held in May 2007. In addition to evaluating different kaizen and recognizing good examples of kaizen, we also had a special booth called “The unit cost challenge (AVIP-21) corner” where we introduced our initiative and collected VA ideas.

One example of a VA idea

One of the top domestic manufacturers of ferronickel, an ingredient in stainless steel, gave us the following suggestion related to the delivery of ferronickel. This suggestion has allowing us to make an environmental improvement.

- Change the way the material is delivered
Instead of using the cargo containers used in ship transport, pile the material in a truck so that empty containers do not have to be collected.
- Change the final finishing methods for the product
Instead of using a dried product, use a non-dried product that is cheaper because no energy is needed to dry it.

*1 AMS-Innovation: An initiative started in 2006 to reform AMS

(Aichi Management System), which is an effort started in 1996 to find the best sales, development, and production methods for Aichi Steel.

*2 AVI-21: AVI is an acronym for AICHI Value Innovation. The purpose of this initiative is not just to reduce costs but to maximize the effectiveness and value of work in everything from manufacturing to clerical and management departments.

*3 AVIP-21: As part of AVI-21, the purpose of this initiative is to rationalize procurement.

*4 VA: An acronym for Value Analysis. This means getting an understanding of your strengths as a company in everything from R&D to after-sales service and to create ideas that have value for the customers that cannot be imitated by other companies.

We are carrying out human resources development that take on new challenges, and become leaders.

People who are filled with the desire to try new things, who want to take on new challenges, and who are conscientious when it comes to society and the environment. This is what we want Aichi Steel employees to be like. Aichi Steel values each employee as an individual and is putting together a system that will develop the leaders of tomorrow.

Our policy and initiatives for 2007

With the overall goal of “creating a flexible labor structure and utilizing a diverse workforce,” our specific priorities for 2007 were to improve our hiring capabilities, use a diverse workforce, and improve our workplace culture. To accomplish these goals, we carried out measures to further increase employee awareness and motivation such as clarifying the role of management to increase awareness of their role and creating a system that lets more employees guide and nurture more junior employees.

●Creating leaders

To create leaders that are filled with the desire to experiment and be creative in addition to a high degree of professionalism, we have defined performance requirements for each job classification, and we have put an efficient training system in place. We have also changed our employee evaluations to put an increased emphasis on team management. To nurture the leaders that will steer the company in the future, we have a monthly leadership training program that takes place over 9 months called the Aichi Steel Business College (ABC) that emphasizes the executive management perspective.

●Human resource development in the engineering departments

After reviewing the human resources development in our engineering departments, we established a Medium- to Long-term Technical Development Plan to think of a more organizationally relevant human resources development system. In addition to developing specialists, this system will have personnel rotations so that the same people are not in the same type of job for too long so that we can focus on efficiently transmitting skills and finding the ideal human resources for a given job. Going forward, we will be working to put this system in place.

Creating a more pleasant work environment

In addition, we are carrying out various measures to help employees strike a good balance between work and life and live life to the fullest to further improve their motivation. Our primary efforts in 2007 are shown below.

●Improving work-life balance

We established a Work-life Balance Improvement Committee together with the labor union. Under this committee, all assistant managers went through time management training in order to shorten overall time worked by 2,100 hours per year by 2010 and to raise awareness of the importance of work efficiency improvements. We are talking with the labor union to define what labor is, to get an understanding of time worked, and what a work-life balance should look like at Aichi Steel.

●Expanding the Family Care System

Our Family Care System helps employees with their child care as well as with senior care. In this system, employees are able to choose 4, 5, or 6-hour shifts. Until now, this system only applied to children up until they enter elementary school, but we have changed the applicable age to the end of 2nd grade.

Family Care System utilization

(People)

	2003	2004	2005	2006	2007
Family care leave	9	4	6	9	8
Short workdays to care for family	10	5	1	7	13

The values shown above are not cumulative.

motivates employees to pursue new things,

●More thorough establishment of the Senior Expert System

The purpose of the Senior Expert System is to use retired employees directly or on a temporary basis in order to harness their skills and knowhow. We are attempting to develop the next generation with Senior Expert Staff (Administration), Senior Expert Engineers (Engineering skills) and Senior Meisters (Practical skills).

Senior Expert System

(People)

	2003	2004	2005	2006	2007
Participants	7	10	15	25	50

These are the number of participants at the end of each year.

●Retirement Strategy Seminars

Working with the labor union, we are carrying out Retirement Strategy Seminars for employees who have reached the age of 55 as well as their spouses to look at life after retirement together. This seminar raises awareness of issues related to health and finances, and also introduces the Retirement Strategy Seminars. In each workplace, employees have face-to-face meetings with their superiors at ages 55, 57, and 59 about participating in this system.



2007 Retirement Strategy Seminar

●Responding to workplace harassment

In April 2007, the Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment was revised. We took this opportunity to review our rules of employment and to strengthen our response to sexual harassment, and to inform the entire company of this change. We have also worked to make managers and supervisors more aware of this issue and to improve awareness as part of educational programs for each job classification. In addition, we hold related presentations for our affiliates.

Workforce statistics

		2003	2004	2005	2006	2007
No. of employee	Total	2,416	2,359	2,340	2,327	2,328
	Managers and supervisors	215	227	238	241	247
	Men	2,309	2,258	2,245	2,233	2,224
	Women	107	101	95	94	104
Average age		38.7	39.2	39.2	39.2	39.3
Average number of years employed		19.2	19.7	19.6	19.7	19.8
Turnover (%)		0.8	0.8	0.5	0.4	0.8
No. of employees leaving the company		18	17	13	10	18

●Change to cafeteria menu

We listened to our employees and made significant changes to our cafeteria menu. We created a Women's Corner in the cafeteria and we started posting the menus on our internal network.

●Continuation of our Women's Conference

To better include the views of our female employees to create a more comfortable workplace, Women's Conference was held in 2007. This conference was started in 2006, and this year's conference included a plant tour and an active discussion, and 20 female employees participated.

A workplace environment that is safe and has peace of mind that is focused on monozukuri - this is the foundation for good quality.

People make *monozukuri* possible. Creating a system that maintains and improves each person's mind, body, and health and maintaining a safe and comfortable space to work in lead to improved *monozukuri* quality. Aichi Steel is taking step-by-step action to create a workplace environment in which people can excel.

Labor safety and health policy and system

We are developing improvements in education, training, and equipment in addition to standardizing inspections and working to create an accident-free workplace that is safe in terms of people, equipment, and work.

The mainstay of this effort is our Comprehensive Safety and Health Management System, which we created in 2006 with affiliates and on-site contractors. To attain the objects set out in this system, we have periodic Comprehensive Safety and Health Discussions.

Labor safety and health support system

We have a key person in each workplace that assesses the workplace and supports health and safety management. 173 people have gone through the Safety Assessor System, which develops key people, and these people contribute to an improved level of management. Additionally, to reinforce the weak points in the safety and health activities in each workplace, we also carry out Workplace Health and Safety Assessments that we are expanding across the entire group.

Key initiatives in 2007

We established a 5-year spiral-up plan that spirals up every year for our Comprehensive Safety and Health Management Activities for Designated Workplaces*1; 2007 was the starting year for this. This includes risk assessments to prevent serious accidents and ways to prevent pinch-point and dragging accidents – efforts that are a key part of our OSHMS*2 – that we have been putting in place together with our subsidiaries.

Introduction and standardization of lockout systems

A lockout system is a set of rules that requires workers to use locks to make sure that equipment stays off to prevent catastrophic accidents caused by someone accidentally operating this equipment. In 2007, this was adopted as a company-wide standard.

Accidents and lost-time rate (For fiscal year)



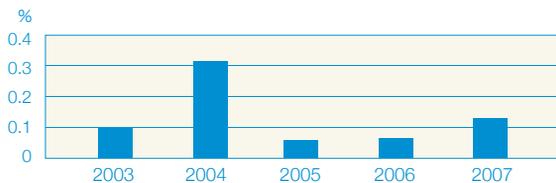
*1 Comprehensive Safety and Health Management Activities for Designated Workplaces: These are activities promoting comprehensive health and safety management, and are primarily for the manufacturing industry. These activities include a company and its related contractors.

*2 OSHMS: Occupational Safety & Health Management System

Promoting physical and mental health

Since 2006, we have been continuing our efforts to enhance workplace communication in order to promote mental health. In 2007, we made it a priority for people to share the issues facing their individual workplaces in the group discussions held as part of our workplace vitality assessment. This has increased awareness of mental health management issues in the workplace, making all of us more sensitive to employees who may have something troubling them. Our sick day rate*3 for mental health issues was 0.13% in 2007, a favorable level. In terms of physical health, we carry out a Lifestyle Habits Improvement Seminar for all 35-year-old employees in order to make them aware of ways to prevent disease and to help them make better choices in terms of nutrition, relaxation, and exercise. Our sick day rate for lifestyle diseases is currently steady at 0.06%.

Sick day rate for mental-health issues



Helping to revitalize our employees

In addition to a massage room in the Aichi Steel Gymnasium (ASCOM), we have people on call going to the factory to give massages in order to help employees rejuvenate their bodies and minds. We use massages to support those on sick leave for mental health issues as well.

Eliminating traffic accidents

To promote traffic safety and accident prevention inside and outside the company, our cross-organizational Traffic Safety Promotion Committee holds a Central Safety and Health Conference twice a year, and it works to reflect on past errors and set targets. To promote more environmentally friendly driving, in 2007, we devised the "123 initiative". This initiative promotes driving 10% slower, maintaining twice the vehicle-to-vehicle distance, and leaving 3 minutes early. By having everyone participate by writing a collective document, we improved awareness.



Susumu Niwa, Manager, Planning Dept., Human Resources Div.

We are in the automotive business, and we do not want any of our employees, their families, or local residents to ever be involved in a car accident. This is particularly true in Aichi Prefecture, which has had the worst record for traffic fatalities in Japan for three years in a row. We are working to make sure anyone connected to the Aichi Steel Group does not cause a traffic accident through activities such as standing at street corners to ensure traffic safety as well as through safe driving competitions. We will also actively make employees more aware of driving habits that are better for the environment and other activities related to cars and the environment.

*3 Sick day rate (%): This is calculated by the following formula: Number of sick days taken ÷ Total number of days worked x 100

We are working to ensure prosperous coexistence with local communities through a variety of social contribution activities.

We cannot exist without the support of local communities. Thus doing everything we can for local communities is a given. Our social contribution activities are divided into four categories – “Clean”, “Green”, “Creative”, and “Volunteering” – and our efforts in each of these categories is multi-faceted.

“Clean”: Local beautification activities

We actively participate in the beautification of local communities through activities such as the following:

●Clean Aichi Day

This is a volunteer event started in 2006 where our employees use their lunch break to clean the area around Meitetsu Shurakuen Station, where our head office is located. In 2007, this event was held in June and November. 120 people participated in the first event and 110 in the second.

●Cleanup of West Chita Industrial Road

In this cleanup, which is carried out every two months, volunteers from each department and students from Aichi Steel Technical School (where new employees who have just graduated from high school undergo work training for one year) clean up the area around the Arao interchange, an area that sees a great deal of use. In 2007, approximately 60 people participated each time. In October, students from the Technical School took the initiative to beautify the area around Shurakuen Station.



Cleanup of industrial road

“Green” – Helping to maintain forests

Forests require periodic thinning to maintain their function. The headwaters of the Kiso River are in Kiso Village, Kiso County, Nagano Prefecture. Recognizing that this is the source of the industrial water used by our Chita, Forging, and Higashiura Plants, we have been engaged in tree-thinning work there since 2006. In May and September 2007, our employees, their families, and employees from affiliated group companies participated.



Forest care volunteers

“Creative” – Passing on skills

Every November, we have a papermaking booth for children at the local Momiji Festival using the kenaf plants grown on our company grounds. In addition, in February 2007, we received a request from Tokai City to participate in a *monozukuri* event so that children could again try their hand at making their own paper. We sent students from our technical school to Tokai City's Inventor's Club for Boys and Girls to interact with the community through *monozukuri*.



Papermaking booth

Effectively using our Volunteer's Fund

●Volunteer's fund

We ask employees to refrain from the reciprocal gift-giving that takes place with marriages and funerals at Aichi Steel and its group companies. In place of this practice, we devised a way for employees to contribute to the Aichi Steel Volunteer's Fund, and we also created a Matching Gift Program where the company matches the donation. These programs enable our Volunteer's Fund Committee to promote volunteer activities and gives donations and gifts to local social welfare agencies.

In 2007, we started giving gifts to volunteer associations that our employees participate in, and we plan to continue this practice.

Volunteer's fund donations and gifts

Donated to	Gift
Chubu Guide Dog Association	Plasma TVs and DVD recorders
Akatsuki Gakuen	Washing machines, vacuum cleaners, and bicycles
Fureai (Nonprofit organization)	Helped with purchase of a vehicle for the disabled
Yuinokai (Nonprofit organization)	Helped with purchase of AED
Kizuna (Nonprofit organization)	Wheelchairs
Satsuki Welfare Society	LCD color TV
Chita Welfare Society (Nagomi-en)	Keyboards and anti-slide mats
Chita Welfare Society (Yamamomo Work Center)	Tillers for home gardens
Kusunoki Work Center	Stacking trays, sewing machines, and carafes
Japan Tennis Association for the Visually Handicapped	Balls for visually handicapped tennis
12 elementary schools in Tokai City	Books related to <i>monozukuri</i>
Oumei 4-za	Portable drums
Businesses Supporting the Tokai City Kid's Care Network	Traffic safety vests and arm bands
Chita City Junior Brass Band	Musical instruments

Support for employee volunteers

Donated to	Gift
Tokai City Mini-basketball Club	Foul display board and numbers
Tokai City Junior Basketball Club	Timer remote controllers and numbers
Chita City Junior Basketball Club	Helped with purchase of uniforms
Tokai Boy Scout Troop No. 1	Helped with purchase of uniforms
Tokai Boy Scout Troop No. 2	Collapsible flag sets and dome tents

●Increasing awareness

We created a Volunteer Center in the General Affairs Div. to issue information and give advice related to volunteer activities. During new employee training, the center informs new employees about volunteer efforts in the company and in Tokai City, and informs retired employees twice a year of opportunities where they can volunteer. In this way, we are working to raise volunteer awareness.

●Looking out for kids

As part of the Businesses Supporting the Tokai City Kid's Care Network, we have volunteers making sure that the streets are safe for kids going to school.

In 2007, we donated vests and armbands to this effort, which contribute to peace of mind and safety in the local community where the company is located.

Support for sporting events

●Supporting the Tokai City Marathon

The 23rd Tokai City Marathon, a longstanding event in the city, was held in 2007. We supported this event by donating vests and helping along the race route.

●Supporting the Nagoya Grampus

Aichi Steel sponsors the Nagoya Grampus J-League soccer team. In August 2007, we worked with Tokai City to invite members of a local soccer club (for elementary school children) and their families to a bus tour of the soccer match.

Other initiatives

- Supported the Japan Tennis Association for the Visually Handicapped
- Provided the trophy at the Tokai City Junior High School Soft Indoor Tennis Tournament
- Aichi Steel volunteers participated in local nighttime crime prevention patrols
- Our employees participated in the Hand-up Intersection Campaign that works to improve traffic safety
- Donated 3 million yen toward aid efforts for the Niigata Prefecture Chuetsu Earthquake, which occurred in July 2007.

We are working to further improve communication with our stakeholders through a wide variety of channels.

We have a wide range of communication activities to inform all of our stakeholders of our business activities and obtain their understanding. Also, we use our web page, exhibitions, and various reports to work to establish two-way communication.

Reporting our CSR activities for local residents

In October 2007, we invited representatives of local neighborhood associations for the neighborhoods adjoining the Head Office and held a Community CSR Meeting to introduce Aichi Steel's CSR activities. Started in 2006, this meeting presents efforts such as our environmental preservation activities and gathers feedback and requests from the neighborhood associations. This is done based on the "Aichi Steel CSR Report 2007".



Community CSR Meeting

Plant tours

We hold plant tours to help people better understand our business by giving them an opportunity to look at *monozukuri* in action.

In December 2007, 21 7th-grade students from Nawa Junior High School in Tokai City toured our plant as part of their Comprehensive Studies class. They discussed the subject of work with our employees.

Plant tours in fiscal 2007 including outside observers were as follows:

- Dubai Aluminum Quality Management Investigation Team (February)
- ASEAN trainees – Forging technology training (February)
- Representatives of Finland's Ministry of Trade and Industry (May)
- JICA Welding Technology Group (May)
- Meijo University Senior High School (July)
- Forging Plant family plant tour (September)
- Shikoku Stainless Steel Distributor's Association (October)
- Nawa Junior High School, Tokai City (December)

Shareholders and investors

In addition to explaining our business to shareholders, investors, and investment analysts, we hold regular shareholder meetings and IR presentations as part of our IR*1 in order to provide information helpful to make investment decisions. We also have booths at events like the ones shown below.

- Nagoya Stock Exchange IR Expo 2007 (July)
- 10th Nomura Money Fair (November)
- Tokai Tri-prefectural Nomura Money Fair 2007 (December)

Participating in exhibitions

Aichi Steel also participates in many different exhibitions to showcase our technology and products, and we use the feedback we get from these exhibitions to improve our *monozukuri*.

- Automotive Engineering Exposition 2007 (May)
- 16th Hoko-kai VA Conference (May)
- 2007 Messe Nagoya (September)
- Nagoya Karakuri Kaizen and Creativity Fair (October)
- Shiawase Village Social Welfare Festival 2007 (October)
- Tokai TV Festival (November)

Efforts of the Forging Technology Museum

Since its inception in March 2000, our Forging Technology Museum has had a total of 15,000 visitors (as of June 2007). This museum has exhibits of the local Ohno Forging tradition as well as our forging technology. In September, we published a pamphlet to highlight the importance of *monozukuri* titled "Ohno Forging: The Traditional Skills of Chita", and we gave it to local schools and to members of the community.

Proper information management is vital because information is vital to an enterprise.

In this age where the exchange of information through the internet and using electronic media is commonplace, the need to handle information appropriately is more important than ever. We have devised and are implementing a variety of measures to protect valuable information such as our customer information.

Information management initiatives

We protect personal information and other confidential information based on our Confidentiality Management Standard.

In addition to informing and educating employees about handling confidential information on an as-needed basis to raise their awareness, we hold an Information Security Meeting every other month to discuss measures to attain the objectives of this standard from an IT standpoint.

In 2007, we introduced a system that requires users to log into PCs in the company before they can use them as well, we installed cables to prevent theft, and we introduced a system to save and audit all e-mail going outside the company.

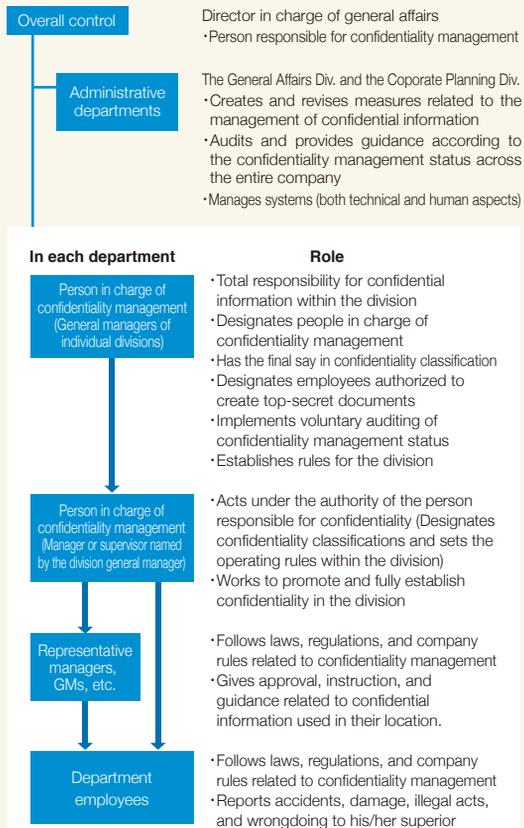
Enhanced information security

To further restrict people from carrying confidential documents, information devices, and electronic media in and out of the company, we carried out periodic inspections of personal belongings in 2006. In 2007, we carried this out in March, August, September, and November. We require all visitors to fill out a permission form related to information devices and confidential information, and we will be working to increase understanding and to more thoroughly implement these steps.



A search of personal belongings

Management system and roles of each department



Protecting personal information

We do not just recognize how important it is to protect personal information - we regard it as a duty. This is why we established the Personal Information Protection Policy. We have also fully informed our employees of this policy. Please consult the website below for details.

"http://www.aichi-steel.co.jp/p_pol.html"

We are making steady progress toward achieving several ambitious goals.

To further step up our activities to accomplish our Environmental Mission, we created a 2010 Environmental Action Plan that outlines the activities we should engage in between 2006 and 2010. Based on this plan, we have established specific targets related to preventing global warming, recycling, and reducing our environmental impact, and we are steadily working to meet these targets.

Aichi Steel's Environmental Charter (Established June 5, 1996)

Mission

Aichi Steel is committed to environmental preservation in all phases of its business operations based on the recognition that preserving the global environment is essential for the survival of mankind, as well as for the sustainable development of business.

Basic Policy

All divisions will cooperate to voluntarily establish action plans, clarify objectives, and work to continuously improve their environmental protection activities.

1. All divisions will work together to keep our environmental management system up-to-date, and implement environmental protection activities.
2. We will strictly conform to environmental regulations and implement voluntary management and auditing to improve the level of environmental management in all of our business activities.
3. We will take environmental protection into account from the planning, development, and design stages for our products and facilities.
4. We will work to conserve resources and energy, increase recycling, and reduce industrial waste in all of our business activities.
5. We will contribute to society and to local communities by supporting environmental protection and participating in cooperative activities.
6. We will raise awareness of environmental protection in all of our employees through educational and publicity activities.
7. We will contribute to environmental preservation by publicly releasing information on policies related to our environmental efforts and on technologies and methods we develop.

Highlights from our 2010 Environmental Action Plan

The priorities for our 2010 Environmental Action Plan that we established in March 2006 are shown below.

Please refer to the page shown for details on our 2007 efforts.

- Environmental management (see pp. 38-39, 44-46)
 - Expanded and implemented environmental activities that spanned the entire Aichi Steel Group including consolidated subsidiaries
 - Increased our facility capabilities to the maximum and promoted environmental preservation
 - Conformed to regulatory requirements and implemented measures that anticipate future regulatory changes to the entire company
- Preventing global warming (see p. 42)
 - Carried out kaizen of facilities, operational methods, and production processes to save energy
 - Put in new facilities, new technology, and clean energy sources
 - Collected data to better understand logistics
- Resources recycling (see p.43)
 - Zero fill promotion of landfilled waste
 - Through going recycling and reuse
- Reducing the environmental impact of products (see p. 47)
 - Publicized product technology and R&D that contributes to reducing environmental impact
- Social contribution activities (see pp. 32-34)
 - Disclosed environmental information and increased our communication of risks

Results of 2007 efforts related to the 2010 Environmental Action Plan

Item	Primary initiatives	2010 target	2010 target	2007 results	Evaluation
Environmental management	<ul style="list-style-type: none"> ●Spiral-up of environmental activities ·Establishment of common check items (manifests) for improved internal auditing ·Our Gifu Plant and Asdex Corp. were both certified ·Enhanced environmental efforts at consolidated subsidiaries (Implementation of an Aichi-Steel-wide environmental policy started in the first half of '07) 	100% ISO 14001 certification at consolidated companies (manufacturing)	Passed the Environmental ISO surveillance audit (Major non-conformances: 0 Minor non-conformances: one or less for each site)	Major non-conformances: 0 Minor non-conformances: 1	○
	<ul style="list-style-type: none"> ●Environmental preservation ·Carried out kaizen of facilities and work that is important from an environmental standpoint ·Reduced our environmental impact and contributed to environmental preservation ·Carried out environmental regulatory compliance activities ·Worked to keep emissions values at 80% of the legal limit and improved high-risk facilities 		Complaints from outside the company Problems pointed out, administrative guidance given, and complaints (0 incidents/year)	2 incidents	×
Preventing global warming	<ul style="list-style-type: none"> ●Energy conservation activities to reduce the amount of emissions ·New facilities displayed their full potential 	Reduce CO ₂ emissions from our manufacturing departments to 10% below the 1990 level	CO ₂ emissions: 717,000 tons/year	678,000 tons/year	○
	<ul style="list-style-type: none"> ●Worked to reduce emissions by increasing logistics efficiency 	Reduce energy usage intensity at logistics departments by an average of 1% from the 2006 level	Logistics CO ₂ : Reduction of 466 tons/year	Reduction of 863 tons/year	○
Recycling resources	<ul style="list-style-type: none"> ●Used Al2O3-Mg-C brick waste as ladle furnace slag ●Investigated the recycling of vacuumed sludge using dry suction ●Activities were carried out by a team tasked to address fluorine in slag 	Reduced landfilled amount to 2% below the 1990 level (1990 level: 58,000 tons/year) Achieve a total landfilled amount of 1,160 tons/year or less.	Direct landfilling: 300 tons/year Indirect landfilling: 2,100 tons/year	300 tons/year 2,160 tons/year	○ △
Reducing the environmental impact of products	<ul style="list-style-type: none"> ●Currently creating product evaluation sheets (completed for the 1GR model) 		LCA analysis of R&D theme	1 case	○
	<ul style="list-style-type: none"> ●Review of suggested green purchasing proposals 		Expand green purchasing	Increased the number of registered suppliers	○
Social contribution	<ul style="list-style-type: none"> ●Disclosed environmental information to stakeholders (5,500 copies sent out) ●Carried out community meetings (October: Local neighborhood associations; December: Kariya region) 		Disclose environmental information	Released a CSR Report	○
	<ul style="list-style-type: none"> ●Employees volunteered in tree thinning events sponsored by Green Challenger, a nonprofit organization 		Contribute to local society	Twice	○

We created an Environmental Working Group with several subcommittees and we are implementing multifaceted initiative in a variety of areas.

Our 4th 2010 Environmental Action Plan is being implemented by our Environmental Working Group and our Environmental ISO Review Committee. The former has six subcommittees and is headed by the President, while the latter manages the efforts of our plants based on the ISO 14001 environmental management system.

Environmental management promotion system

Our Environmental Working Group is made up of six subcommittees including the Environmental Preservation Subcommittee, which works to implement and improve environmental management systems as well as to increase the number of certified group companies. These six subcommittees also include the Product and Environment Subcommittee, which is establishing environmental impact assessment methods through life cycle assessments*1 of products.

Reinforcing environmental education and internal audits

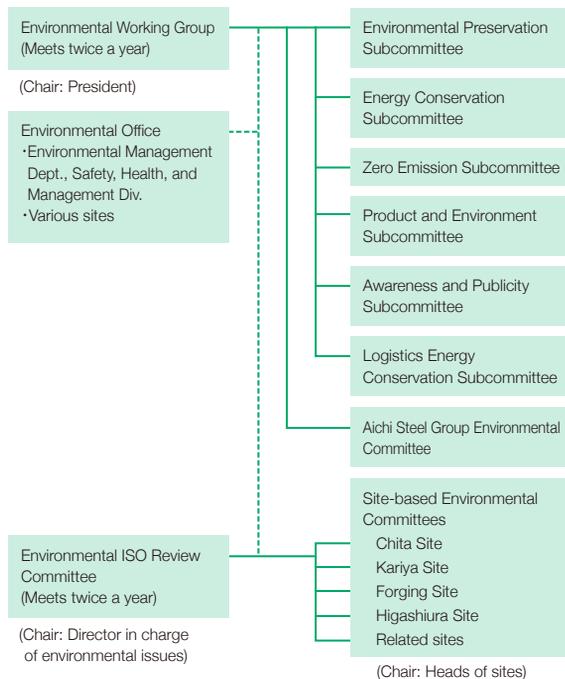
The training for both new employees and assistant managers includes environmental education. We do this to ensure that there is full awareness that environmental activities are important parts of corporate management and CSR.

The number of internal auditors who do internal checks to make sure our environmental management system is functioning correctly increased to 147 in 2007, and at our consolidated domestic affiliates with manufacturing work sites, internal auditors lead environmental activities.

Increasing our ISO 14001 certification

We are working to have 100% ISO 14001 certification of our consolidated affiliates with manufacturing work sites. In 2007, Asdex Corp., which manufactures forging dies, was certified (see p. 3), raising the number of certified domestic manufacturing companies to four.

Environmental management implementation organization chart



Our Environmental Close Call initiative

In 2007, we started an Environmental Close Call initiative that collects and analyzes minor issues that employees observe to proactively prevent complaints about our plants. This new effort also aims to increase awareness of environmental preservation issues.

Conforming to regulatory requirements

In 2007, Aichi Steel conformed to all environmental laws and regulations.

However, we did receive two complaints.

The first complaint concerned how industrial waste handling was contracted out. The contractor identified deficiencies in the control tickets and contract. We addressed these deficiencies and we voluntarily made a report to the authorities. Because the waste handling was done appropriately, we were given no administrative guidance, but we would like to ensure that this will never happen again by ensuring our education is more thorough.

The second complaint concerned dust from work being done outdoors that ended up on the products in a neighboring company. We will work to better manage our dust control equipment to prevent this from happening again.

Results of 2007 audits

The results of our internal audits and surveillance audits in 2007 are shown below. There were no major non-conformances. We will take these results and continue internal audits that focus down on a narrowed-down set of priorities. Regardless of their severity of the non-conformances, we will work to find the actual cause and deal with it appropriately. We will continue to work to further establish ISO 14001 and to continue using our spiral-up activities.

Results of internal audits

Classification	2004	2005	2006	2007
Major non-conformance (incidents)	4	2	0	0
Minor non-conformance (incidents/department)	0.9	1.0	0.9	0.7

Surveillance audit results

Classification	2004	2005	2006	2007
Minor non-conformance (incidents)	1	1	1	1
Opportunities for improvement and other observances (incidents/department)	11 (0.7)	18 (1.0)	21 (0.5)	12 (0.3)

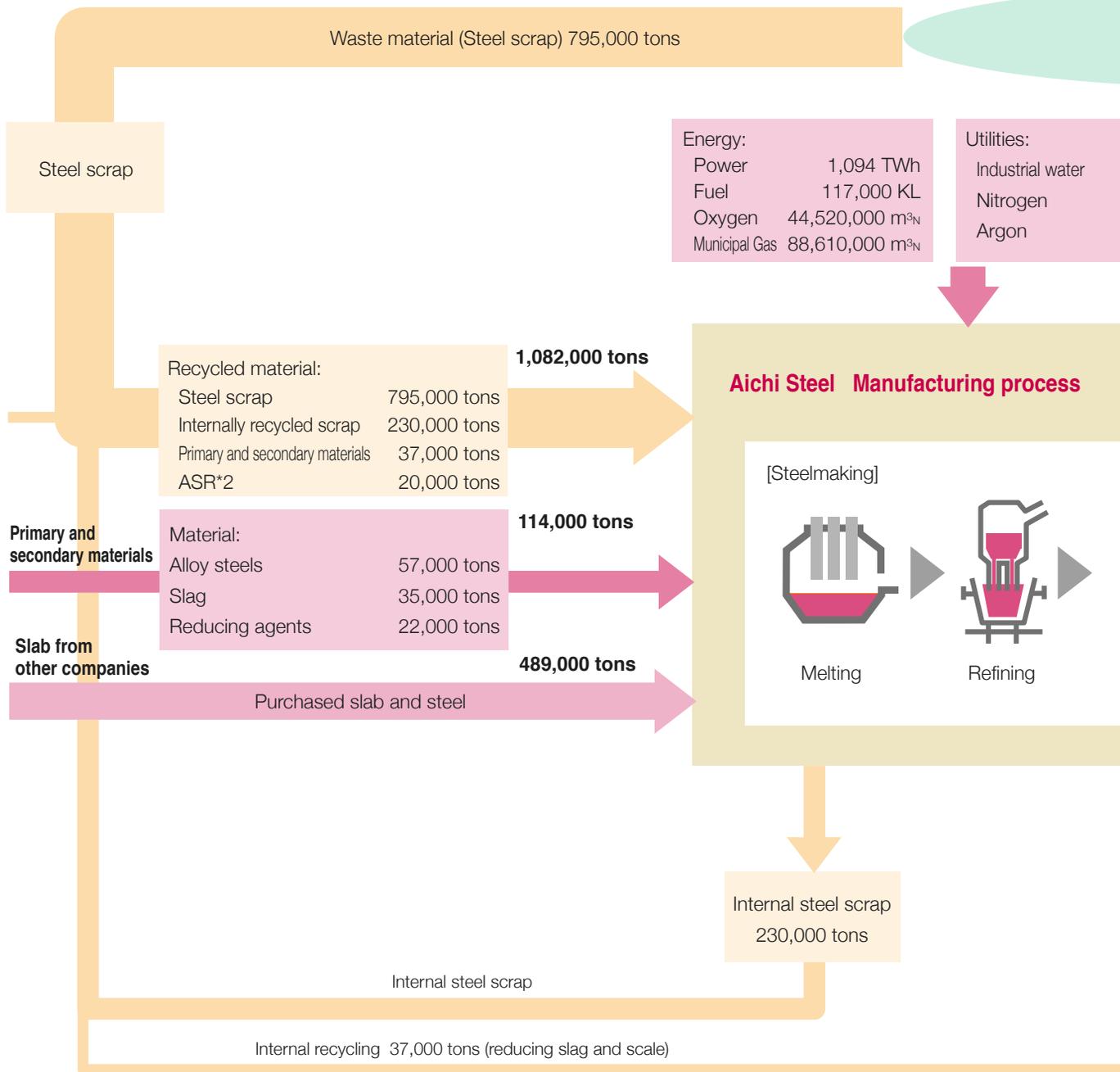


Yoichi Kuno, Assistant Manager, Machine Facilities Maintenance Dept., Facility Engineering Div.

Our mission is to reduce the environmental impact of our manufacturing operations. In other words, we want to clean up what's dirty. As people get used to their work, it is easy to become numb to potential environmental risks and not to notice abnormalities as much. We are reducing environmental impact that cannot be seen with the eyes, so it's hard, and it's hard to maintain your motivation. But to create a sustainable society, we have to keep CSR in mind by remembering it's not someone else's responsibility - it's ours. It's also important to find abnormalities the instant we notice something's not right, and to visually control environmental close calls to improve our ability to detect problems.

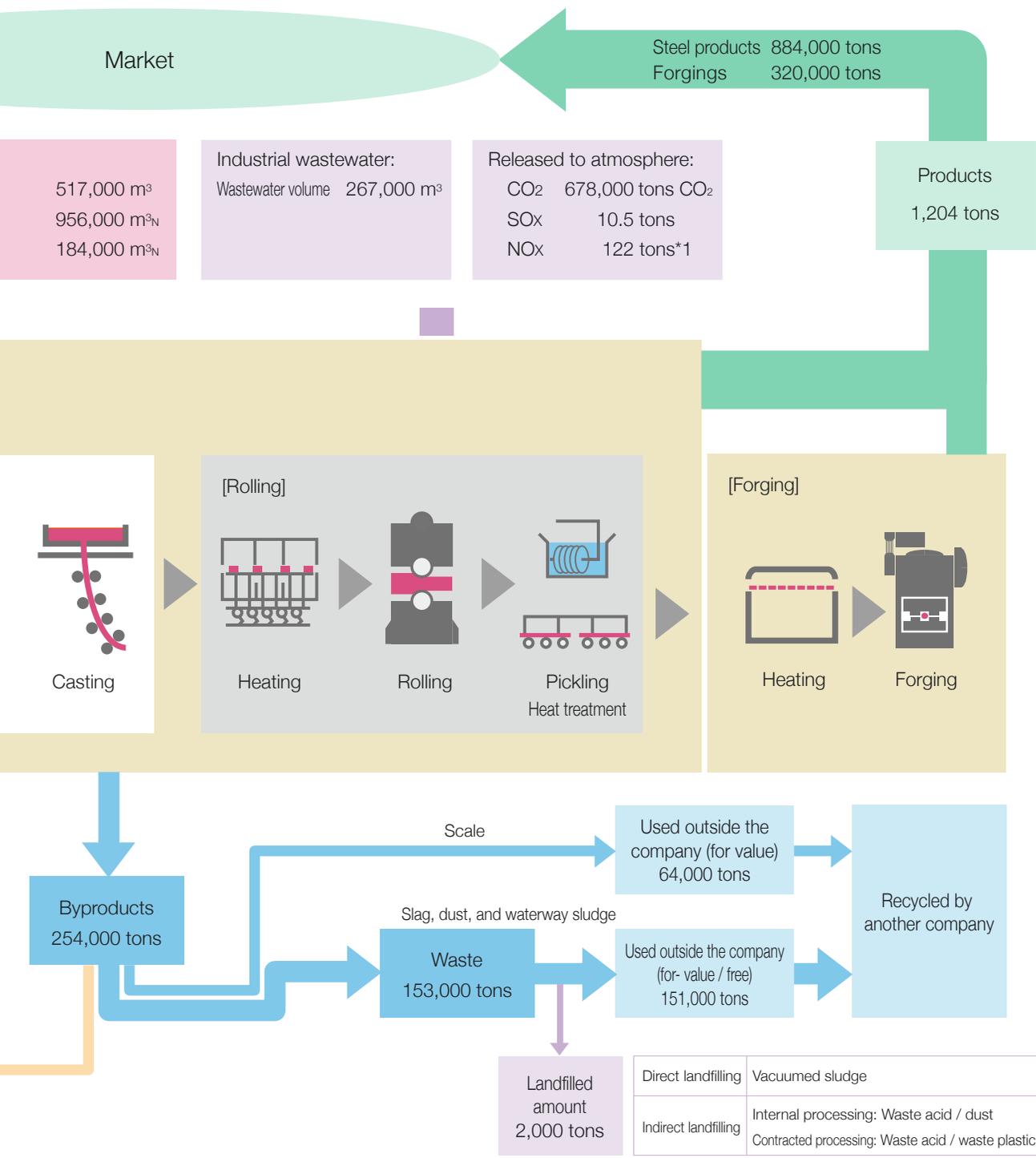
This is our environmental material flow for 2007.

We make steel out of steel scrap from the market, and forge it to create our products. This process includes a recycling network with thorough recycling measures to reduce the amount of waste.



*1 Emitted between January and December 2007.

*2 ASR: Automobile shredder residue. This is what is left after metal is removed from shredded end-of-life vehicles. It contains materials such as plastic, rubber, and glass.



We are working to reduce our CO₂ emissions by actively investing in new facilities and steadily continuing improvements.

Our target is to reduce CO₂ emissions by 10% from the 1990 level by 2010. To this end, we are steadily working to reduce energy losses due to inefficient operation, to improve energy efficiency through new facilities, and to reduce CO₂ emissions by changing to different fuels.

2007 targets and results

Item	2007 target	Results
CO ₂ emissions	717,000 tons/year	678,000 tons/year

In 2007, factors such as increased production raised our CO₂ emissions, but our high-efficiency heating furnaces and increased productivity allowed us to reduce our CO₂ emissions by 14 to 15% from the 1990 level.

A change to the way CO₂ emissions are measure

In 2007, we changed the way we measure CO₂ emissions from one that measures our regular energy sources to the method specified in the Japan Iron and Steel Federation's voluntary action plan.

Achieving energy savings in our shipping operations

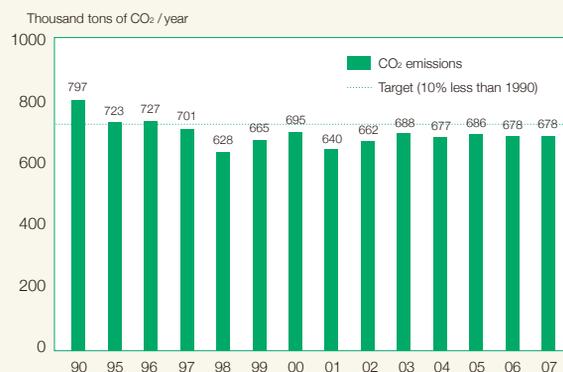
Aichi Steel ships 157 million ton-km*1 of cargo a year, and thus is a Specified Consigner according to the Act on the Rational Use of Energy.

In 2007, we changed our shipping practices to incorporate ideas such as modal shift and consolidated loading. These changes resulted in a 9% reduction in CO₂ emissions over the previous year, a significant decrease.

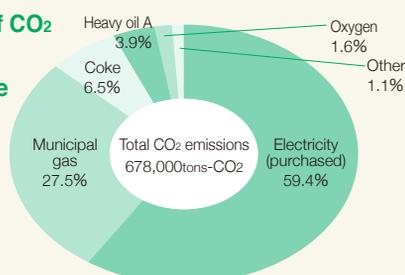
Product life cycle assessments

In 2007, we carried out a thorough life cycle assessment of selected product models to gauge the environmental impact at every manufacturing stage from steelmaking to forging. Going forward, we will increase the range of products that are assessed in order to bring additional environmental considerations in at the design stage.

CO₂ emissions



Breakdown of CO₂ emissions by energy source



CO₂ Breakdown (2007)

Factors decreasing CO₂ emissions

- Achieved energy savings in slab heating furnace – Chita Plant13,000 tons CO₂
 - Other energy intensity improvements1,000 tons CO₂
 - Achieved energy savings with a new heating furnace - Kariya Plant2,000 tons CO₂
 - Improved forging productivity8,000 tons CO₂
- Total24,000 tons CO₂**

Factors increasing CO₂ emissions

- Increased production20,000 tons CO₂
 - Changes to steelmaking procedures1,000 tons CO₂
 - Environmental measures taken for steelmaking3,000 tons CO₂
- Total24,000 tons CO₂**

Controlling the amount of byproducts and recycling as much as possible – this is just part of doing business.

We are a recycling-oriented enterprise that uses steel scrap to make steel. Byproducts of producing specialty steel such as slag add up to 254,000 tons a year. We believe that controlling and using this effectively is part of doing business, and we are working to develop technology and to reduce the amount of that goes into the landfill.

2007 targets and results

Item	2007 target	Performance
Direct landfilling	300 tons/year	300 tons/year
Indirect landfilling	2,100 tons/year	2,160 tons/year

In 2007, we met our target for reducing direct landfilled waste. We came very close to meeting our target for indirect landfilled waste. Next year, we plan to focus on the recycling of vacuumed sludge.

Efforts to develop new recycling technologies bearing fruit

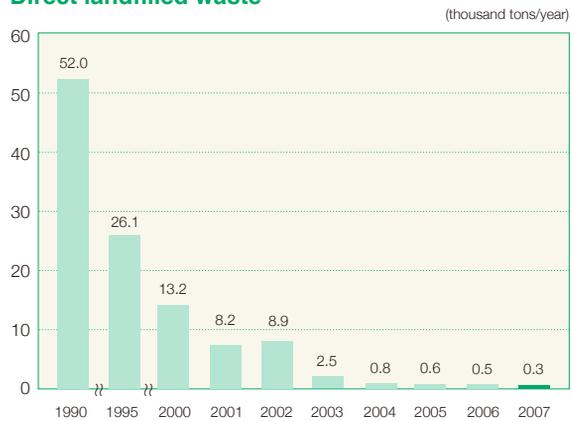
In past years, we developed technology to make abrasives from slag, the ANRP method*2 for reusing reducing slag in electrical arc furnaces, as well as a briquetting machine to collect nickel from the byproducts of the stainless steel manufacturing process.

We have also been working to reduce direct landfilled waste by recycling brick waste and conveyor dust, to have outside contractors accept electric arc furnace dust to recover zinc, and to increase production of nickel-bearing briquettes out of our waste acid sludge to reduce the amount of indirect landfilled waste. In 2007, we recycled the equivalent of 87 tons of pure nickel

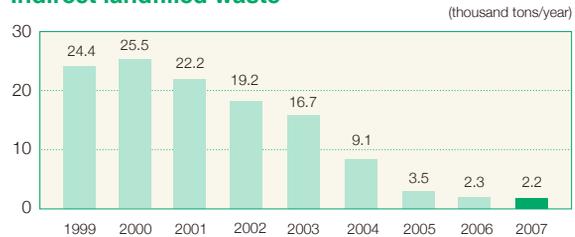
Nickel recycling



Direct landfilled waste



Indirect landfilled waste



*2 ANRP: The Aichi New Hot Slag Recycling Process

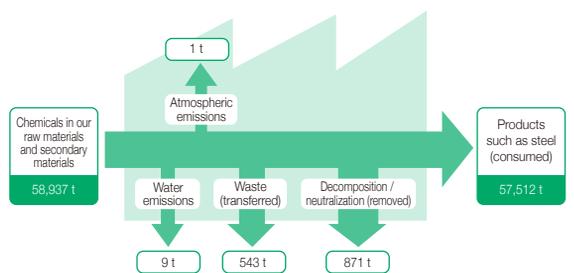
Appropriately managing chemicals and restricting their emission is how we reduce the risk to the environment.

Our business requires a wide variety of chemical substances, so it is very important to manage them properly and restrict their emission. Each plant knows the amounts of different substances it is permitted to handle and transfer based on the PRTR*1 system which is in turn based on the Chemical Substance Act*2, and each plant is working hard to reduce risk.

Appropriate management of PRTR chemicals

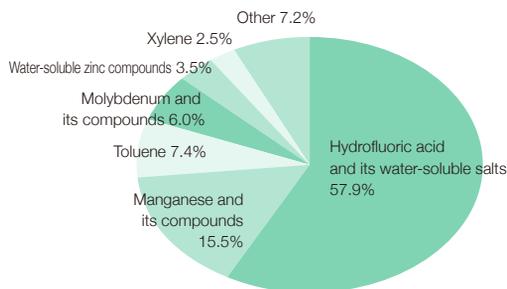
We are continuing to manage PRTR substances appropriately to work toward the target in the 2010 Environmental Action Plan, which was established to strengthen the management of substances of environmental concern in our manufacturing processes and to reduce the associated environmental risk.

Material balance (2007) for PRTR substances



* Units for diagram: tons

Emissions of PRTR substances (2007): a breakdown



PRTR Data

	Substances	Handled	Emitted		Transferred Outside of premises (as waste, etc.)
			Atmo- sphere	Water	
Chita Plant (inc. Forging)	Water-soluble zinc compounds	1.3	—	0.4	0.3
	Ethylbenzene	2.1	0.1	—	—
	Xylene	11	0.3	—	—
	Chrome and trivalent chrome compounds	26000	0.0	0.0	110.0
	Cobalt and its compounds	160	—	0.0	0.4
	Dioxins	0.09	0.09	—	—
	Toluene	14	0.8	—	—
	Lead and its compounds	330	0.0	0.2	120.0
	Nickel	6600	—	—	—
	Nickel compounds	950	0.0	0.1	19.0
	Hydrofluoric acid and its water-soluble salts	9	0.0	5.3	1.5
	Benzene	1.3	0.0	—	—
	Boron and its compounds	69	—	0.1	0.7
Kariya Plant	Manganese and its compounds	14000	0.0	1.6	120.0
	Molybdenum and its compounds	8900	—	0.4	0.6
	Chrome and trivalent chrome compounds	1200	—	0.0	38.0
	Nickel compounds	570	—	0.0	20.0
Gifu Plant	Hydrofluoric acid and its water-soluble salts	150	0.1	0.7	110.0
	Molybdenum and its compounds	19	—	0.2	1.3

Higashiura Plant: None reportable

Gifu Plant: None reportable

● A hyphen (“-”) indicates a quantity of zero. The amounts were calculated according to the PRTR system.

● The units shown are tons/year (except for 179. Dioxins, which are g-TEQ/year)

*1 PRTR: Pollutant Release and Transfer Register

*2 Chemical Substances Act: Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof

It's our responsibility to control dust and soot and to protect the atmosphere.

Minimizing the effect of the gases that are released into the atmosphere in the course of business operations on the natural environment – the environment that we all live in – is an important corporate responsibility. We are actively investing in new facilities to reduce our environmental impact and we are changing to materials that do not contain substances of environmental concern.

Finished environmental improvements to the No. 3 Electric Arc Furnace

In March 2007, we started work on the No. 3 Electric Arc Furnace to decrease its environmental impact. This work was finished in August 2007, and has allowed us to suction particulate matter efficiently and to reduce it by 50%. The work environment in front of the furnace was also improved. The concentration of dioxin in the gas emitted from the dust collector was reduced to 0.09g-TEQ/year, a significant decrease.



No. 3 Electric Arc Furnace

Expanding our measures to control particulates

Areas within our plant grounds where there may be airborne particulate matter are sprayed with water, and we are paving roads and slab yards. In 2007, we expanded these activities.

Atmospheric data (Limits from the Air Pollution Control Law and Prefectural regulations)

	Substance	Facility	Limit	Actual levels (max)
Chita Plant (Inc. Forging)	NOx	Boiler	130	75.3
			150	25.5
			180	59.7
			250	33.5
		Heating furnace	130	69.4
			150	46.0
			170	51.5
			180	62.9
	Soot	Boiler	0.15	0.00
			0.30	0.00
		Heating furnace	0.08	0.00
			0.10	0.00
			0.20	0.00
0.25			0.00	
Electrical arc furnace	0.05	0.00		
	0.08	0.00		
	0.10	0.00		
SOx	(Total limit)	34.35	3.79	
Kariya Plant	NOx	Boiler	180	70.7
			150	48.4
		Heating furnace	130	63.0
			170	65.1
			200	61.0
	Soot	Boiler	0.30	0.00
		Heating furnace	0.20	0.00
			0.25	0.00
	SOx	(Total limit)	11.62	7.333
	Gitu Plant	NOx	Boiler	150

Higashiura plant: No reportable facilities

- The actual levels for NOx and soot show the maximum recorded value for the facility in question.
- Units are as follows in brackets: NOx (ppm); Soot (g/m³N); SOx (m³/h) (Total limit set out in the Air Pollution Control Law)

A rapid and accurate data management system makes our water quality control stringent and thorough.

In order to reduce the effect of plant waste water on the natural environment, we are working to put in systems to help us rapidly and accurately grasp water quality data and we are carrying out facility improvements. We are managing our water quality using voluntary targets even more stringent than those required by law.

Using the power of IT for our data collection to manage water quality

We use measurement devices to continuously monitor COD and the levels of nitrogen and phosphorous in our plant wastewater, and as a rule, our voluntary limits are 80% of the legal and regulatory limits. We also continuously treat our wastewater.

In 2007, we upgraded our water quality data collection to make it part of our IT network, and we are improving our water quality management based on even more accurate data collection. We are also preparing to upgrade the collection of our atmospheric emissions data to make it part of our IT network as well.

Water quality data (Limits from the Water Pollution Control Law and Prefectural regulations)

	Item	Limit	Max.	Min.	Average
Ohta Plant (Includes Forging Plant)	pH	5~9	7.3	6.5	6.8
	COD	25 (20)	10.8	5.0	7.4
	SS	40 (30)	15.5	0.1	2.7
	Nitrogen	120 (60)	2.2	0.8	1.5
	Phosphorus	16 (8)	0.2	Less than 0.1	0.10
Kanya Plant	pH	5.8~8.6	7.7	6.2	6.8
	BOD	25 (20)	2.6	0.7	1.3
	SS	40 (30)	18.0	0.5	5.1
	Nitrogen	120 (60)	12.7	6.3	8.9
	Phosphorus	16 (8)	1.1	0.1	0.50
Higashitama Plant	pH	5.8~8.6	6.9	6.0	6.6
	BOD	25 (20)	7.2	4.0	5.6
	SS	40 (30)	7.5	0.1	1.6
	Nitrogen	120 (60)	8.5	3.1	4.9
	Phosphorus	16 (8)	0.9	0.4	0.60
Gifu Plant	pH	5.8~8.6	7.4	6.0	6.9
	BOD	30 (20)	3.2	1.9	2.6
	SS	60 (50)	8.0	0.1	1.5
	Nitrogen	120 (60)	6.0	1.3	4.0
	Phosphorus	16 (8)	0.4	Less than 0.1	0.16

- Units: mg/ℓ (except for pH)
- Not all restricted substances are shown, but those that are not shown were also below the limit, were below the lower limit of quantitation, or were not detected.
- pH: hydrogen ion concentration; COD: Chemical oxygen demand; BOD: Biological oxygen demand; SS: Suspended solids
- The values shown in brackets are average daily values



Atsushi Kinugawa, Manager, Environmental Management Dept., Safety and Environmental Div.

The water quality management system lets us see trends and make rapid decisions before an abnormality even happens, and it has made data collection much less labor-intensive. We are working on putting a similar monitoring system in place for our atmospheric emissions, but the observation conditions are difficult, and it is a trial-and-error process. We would first like to put a PC-based monitoring system for monitoring particulates, soot, and NOx on a vehicle that we can use to carry out environmental measurements to make it easier for worksite employees. In the future, we would like to design a system to get a grasp of the CO₂ we produce on a daily basis based on our energy consumption.

We are actively working on well-structured CO₂ reduction activities and green purchasing initiatives in the office.

There are many things that Aichi Steel can and should be doing for the environment such as energy conservation and green purchasing initiatives in the office. We will be expanding the scope of these initiatives to include both domestic and overseas group companies and developing them further.

Environmental activities in the office

Even in our offices, we are steadily working to reduce our electrical consumption and create less waste.

We created an Office Energy Conservation Team in 2007, and we are working steadily to raise employee awareness and to reduce our energy consumption.

- Thorough establishment of Cool Biz and Warm Biz
Cool Biz and Warm Biz practices, which include setting air-conditioners to 28°C and heaters to 20°C, are ongoing.
- Waste reduction and recycling activities
We thoroughly sort the garbage generated within the office.

Green purchasing initiatives

We have been working to carry out green purchasing - purchasing materials with the least possible environmental impact - based on our own guidelines. At the beginning of each year, our suppliers meet in the general meeting of the Hoko-kai. At this meeting, we inform our suppliers of our purchasing policy, asking them not only to raise quality and value, but also to provide products that are more environmentally friendly based on a suggestion system.

In 2007, we started laying the groundwork for a review of our guidelines to make them more realistic. By supporting the environmental management efforts at our suppliers, we are working on a system that will make it easier to develop environmentally friendly products

Getting a grasp of environmental costs

Effective environmental preservation and the effective use of management resources require quantitatively understanding and assessing the cost and effectiveness of environmental initiatives. To do this, we discuss the best ways to track our environmental costs and use guidelines from the Ministry of the Environment, among other sources, to calculate and publicize our environmental costs every year.

Costs of environmental initiatives in 2007

(Unit: million yen)

Operational costs	Highlights	Investment/cost
● Environmental preservation costs associated with controlling the environmental impact of production and service activities carried out in our operational area	Expenses for electrical power and repairs to dust collectors Investment in energy conservation measures for our wastewater processing facilities and related maintenance expenses Processing and recycling costs associated with industrial waste and regular waste	1,648
● Upstream and downstream costs Costs associated with controlling the environmental impact of processes upstream and downstream of our production and service activities	Simplifying packaging (less packaging material / shorter time)	2
● Management costs Environmental preservation costs associated with management activities	Cost of environmental education for employees; Expenses associated with obtaining ISO certification and running the environmental management system; labor and other expenses for environmental departments and committees	420
● R&D costs Environmental preservation costs associated with R&D activities	R&D expenses associated with environmental preservation	15
● Social contribution costs Environmental preservation costs associated with social contribution activities	Greening company grounds and cleaning up the industrial road	32
Total		2,118

Overview

At the beginning of fiscal year 2007, the Japanese economy showed signs of a gradual recovery backed by the steady growth in corporate income; however, the skyrocketing price of oil, a slower U.S. economy, and the high value of the Japanese yen during the latter half of the year increased the uncertainty in Japan's economic prospects.

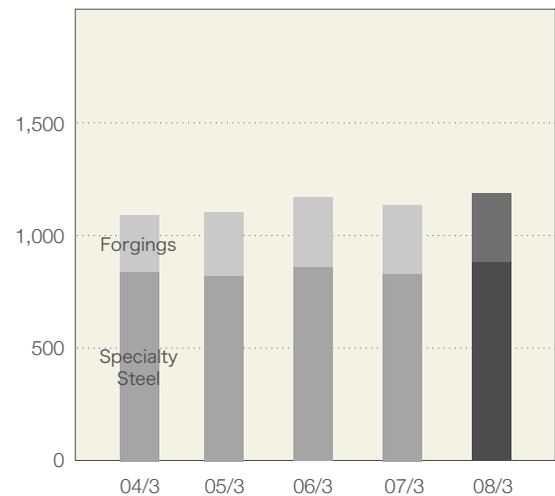
We expect increased demand for our products in the medium term from the automotive industry, which is our primary customer base; sales of steel and forgings for automotive applications was higher during the year compared to the previous year. On the other hand, prices for raw materials as scrap iron and nickel remained high; in particular, scrap steel prices, rose to a level significantly higher than the price we estimated at the beginning of the year.

These are the conditions that we found ourselves in, and the Aichi Steel Group worked to create an optimized production system that fully utilizes our investment in facilities and that satisfies our customers; we also worked to improve productivity and lower unit costs. As a result, net sales for the year amounted to 253,462 million yen, a 7.6% increase over net sales in the previous year, which amounted to 235,637 million yen.

In terms of profit, despite higher raw material costs, we have achieved better sales prices, decreased unit costs, and increased profit from our overseas subsidiaries, resulting in an operating income of 10,884 million yen, an increase of 274 million yen (2.6%) over the previous year. However, the foreign exchange loss from the abrupt appreciation of the yen and depreciation of the dollar was included as a non-operating expenditure, resulting in ordinary income of 9,332 million yen, a decrease of 777 million yen (7.7%) from the previous year. Net income for the year was 5,693 million yen, a 771 million yen (15.7%) increase over the previous year.

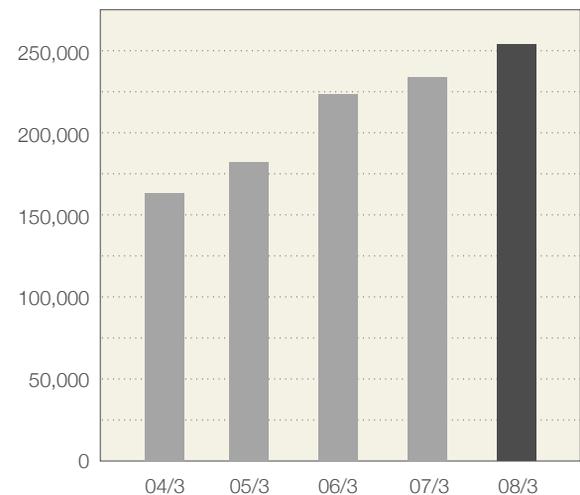
Sales Volume(Non-Consolidated)

thousand tons



Sales

(Millions of Yen)



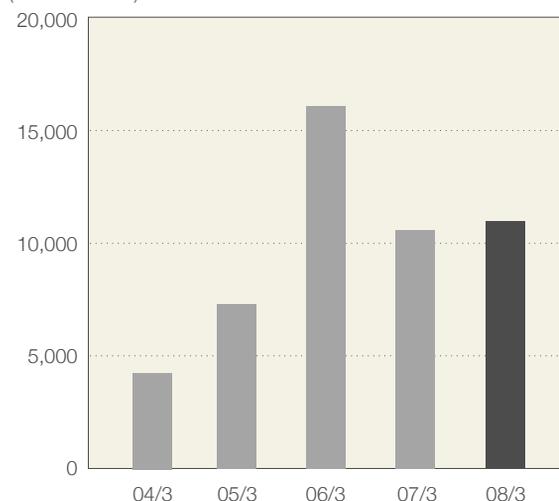
Net income

Net sales for the year stood at 253,462 million yen, a 7.6% increase over the previous year. Cost of sales was 220,662 million yen, and the cost-to-sales ratio rose to 87.1% from 86.1% a year earlier. Selling, general and administrative expenses totaled 21,916 million yen, which was 8.6% of net sales (compared to 9.4% in the previous year).

As a result, operating income came to 10,884 million yen, a 2.6% increase over the previous year. Net income was 5,693 million yen, with an ROE of 4.7%.

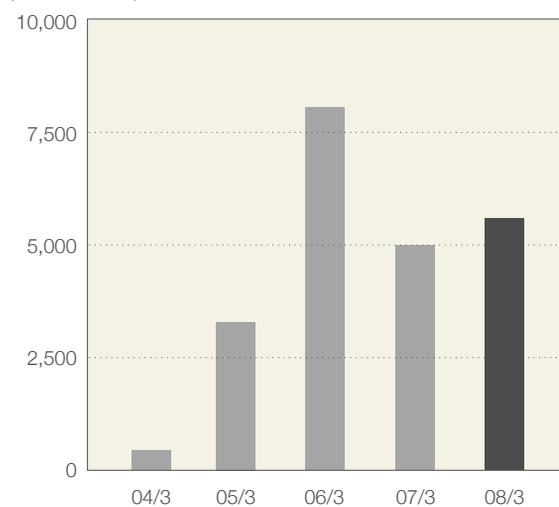
Operating Income

(Millions of Yen)



Net Income

(Millions of Yen)



Sales by Business Segment

● Specialty steel

As our primary product category, net sales in this segment increased 9.5% to 140,282 million yen from 128,079 million yen a year earlier.

● Forgings

Closed-die forgings for automobiles are a major part of this segment. In order to respond to the need of our major customers to increase automobile production, we have been working to build an optimized production system. Through improved sales prices, net sales in this segment for the year increased 4.2% to 104,324 million yen from 100,164 million yen a year earlier.

● Electro-magnetic components

This segment utilizes the company's one and only technology and we are working to make this a core business. Because of increased net sales of our Magfine bonded NdFeB magnet, net sales in this segment increased 48.5% to 4,417 million yen from 2,975 million yen a year earlier.

● Other Businesses

Some of our subsidiaries are involved in services and computer software development. Net sales in this segment increased 0.5% to 4,439 million yen from 4,419 million yen a year earlier.

Financial Position

As of the end of the fiscal year in March 2008, our group's financial position was as follows.

Total assets decreased by 10,559 million yen from the previous year to 264,048 million yen. Current assets decreased by 2,793 million yen to 138,153 million yen. This decrease is mainly attributable to the fact that the end of the previous year fell on a non-working day, so notes and accounts receivable amounting to 4,235 million yen that otherwise would have been included in the previous year were carried over.

Investments and other assets decreased by 4,783 million yen to 32,803 million yen.

Property, plant and equipment decreased by 2,984 million yen from the previous year. A total of 13,165 million yen was invested during the year for facility improvements. The total depreciation amounted to 14,754 million yen.

Current liabilities increased by 11,406 million yen over the previous year, which is mainly attributable to a 20,147 million yen increase in current portion of long-term debt.

Long-term liabilities decreased by 22,792 million yen from the previous year, which is mainly attributable to a 20,278 million yen decrease in long-term debt.

Net assets at the end of the fiscal year stood at 128,155 million yen, which is 826 million yen more than the previous year. Net assets per share stood at 624.49 yen (compared to 618.99 yen a year earlier) and our equity ratio was 46.4% (compared to 44.4% a year earlier).

Consolidated Cash Flows

Income before income taxes and minority interests was 9,055 million yen, and the depreciation was 14,754 million yen, resulting in a total of 16,079 million yen for cash flows from operating activities.

Net cash used in investing activities totaled 18,191 million yen, including 18,665 million yen for the acquisition of property, plant and equipment.

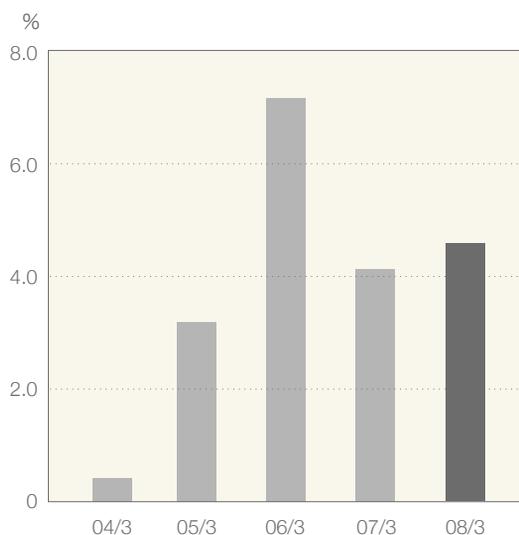
Cash flow from financial activities included 1,964 million yen for dividend payments and 693 million yen for purchasing our own shares, leading to a decrease of 3,072 million yen in capital.

The balance of cash and cash equivalents as of the end of the fiscal year stood at 30,492 million yen, a decrease of 5,137 million yen from the end of the previous fiscal year.

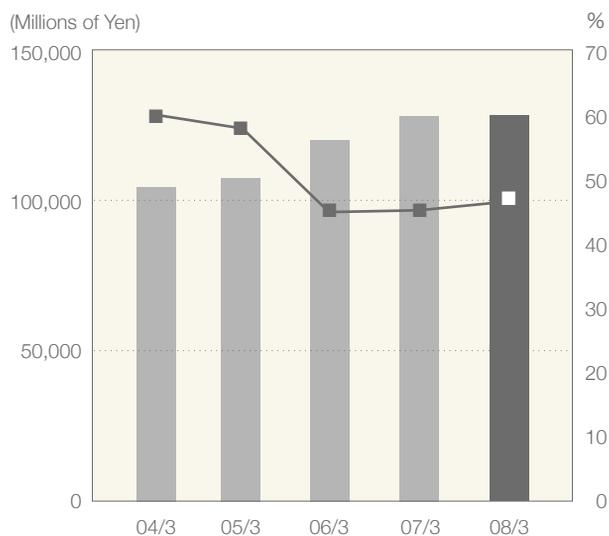
Marketable Securities

Of the total marketable securities held by Aichi Steel and its consolidated subsidiaries, those reported on our consolidated balance sheet at fair market value stood at 2,363 million yen, while the amount reported on our non-consolidated balance sheet stood at 12,684 million yen.

ROE



Net Assets & Equity ratio



Five –year Summary (Non-Consolidated)

	Millions of Yen					Thousands of U.S. Dollars
	2008	2007	2006	2005	2004	2008
Net sales	¥ 202,860	¥ 187,076	¥ 178,621	¥ 149,479	¥ 134,008	\$ 2,028,597
Operating income	6,559	7,012	15,051	7,543	3,001	65,594
Income before income taxes	5,811	6,929	11,532	7,235	1,303	58,107
Net income	3,838	4,017	5,478	4,345	777	38,377
Property, plant and equipment	77,539	79,575	64,779	54,847	56,515	775,393
Total assets	236,098	250,844	246,287	175,234	163,402	2,360,979
Net assets	115,615	117,709	116,770	108,686	105,559	1,156,145
Per share data						
Net income:						
Basic	¥ 19.55	¥ 20.38	¥ 27.08	¥ 21.34	¥ 3.54	\$ 0.2
Diluted	17.68	18.42	26.59	21.33	–	0.2
Dividends	10.00	10.00	9.00	6.00	5.00	0.1
Number of employees	2,328	2,327	2,340	2,359	2,407	

Notes:

1. Net sales are presented exclusive of consumption taxes.
2. Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.5 “Accounting Standards for Presentation of Net Assets in the Balance Sheet” and its Implementation Guidance No.8 “Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheets” issued on December 9, 2005 by the Accounting Standards Board of Japan.
3. Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years.
4. Diluted net income per share of the fiscal year ended 2004 has not been presented, because potential common stock to be issued had not been applicable for the fiscal year.
5. Each fiscal year ends March 31.
6. The U.S. dollar amounts above represents translations of yen, for convenience only, at the rate of ¥100=U.S.\$1.

Five –year Summary (Consolidated)

	Millions of Yen					Thousands of U.S. Dollars
	2008	2007	2006	2005	2004	2008
Net sales	¥ 253,462	¥ 235,637	¥ 224,954	¥ 184,425	¥ 163,836	\$ 2,534,623
Operating income	10,884	10,611	16,051	7,065	4,188	108,844
Income before income taxes and minority interests	9,055	9,037	13,784	6,381	1,281	90,551
Net income	5,693	4,922	8,152	3,289	519	56,929
Property, plant and equipment	93,092	96,076	80,301	67,261	68,275	930,924
Total assets	264,048	274,608	269,606	192,771	177,888	2,640,484
Net assets	128,155	127,329	119,784	108,103	106,331	1,281,555
Per share data						
Net income:						
Basic	¥ 29.00	¥ 24.97	¥ 40.23	¥ 15.74	¥ 2.00	\$ 0.2
Diluted	26.23	22.56	39.49	15.74	–	0.2

Notes:

- Net sales are presented exclusive of consumption taxes.
- Scope of Consolidation:
All subsidiaries are consolidated. Names of subsidiaries at March 31, 2008 are as follows:
Aiko Corporation, Aichi Ceratec Corporation, Omi Mining Co., Ltd., Aichi Techno Metal Fukaumi Company, Aichi Steel Logistics Co., Ltd., Aichi Information System Company, Aiko Service Co., Ltd., Aichi Micro Intelligent Corporation, Asdex Corporation, Aichi Forging Company of Asia, Inc., Aichi USA, Inc., Louisville Forge and Gear Works, LLC, Aichi Europe GmbH, Aichi International (Thailand) Co., LTD., Shanghai Aichi Forging Co., Ltd., PT. Aichi Forging Indonesia, Aichi Magfine Czech s.r.o., and AMIT, Inc.
- Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.5 “Accounting Standards for Presentation of Net Assets in the Balance Sheet” and its Implementation Guidance No.8 “Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheets” issued on December 9, 2005 by the Accounting Standards Board of Japan.
- Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years.
- Diluted net income per share of the fiscal year ended 2004 has not been presented, because potential common stock to be issued had not been applicable for the fiscal year.
- Each fiscal year ends March 31.
- The U.S. dollar amounts above represents translations of yen, for convenience only, at the rate of ¥100=U.S.\$1.

Consolidated Balance Sheets

As at March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Assets			
Current assets:			
Cash and deposit	¥ 30,408	¥ 35,536	\$ 304,081
Notes and accounts receivable (Note 7, 18):	53,859	58,094	538,589
Short-term investments (Note 4)	245	244	2,445
Inventories	41,957	37,719	419,575
Deferred tax assets (Note 17)	4,207	4,109	42,070
Other assets	7,636	5,439	76,358
Allowance for doubtful receivables	(159)	(195)	(1,587)
Total current assets	138,153	140,946	1,381,531
Property, plant and equipment: (Note 6)			
Buildings and structures	56,485	55,169	564,851
Less: accumulated depreciation	(35,266)	(33,640)	(352,663)
Machinery, equipment and vehicles	242,459	235,439	2,424,595
Less: accumulated depreciation	(188,455)	(182,213)	(1,884,550)
Equipment	13,118	12,827	131,180
Less: accumulated depreciation	(10,807)	(10,153)	(108,067)
Land	12,521	12,364	125,208
Construction in progress	3,037	6,283	30,370
Net property, plant and equipment	93,092	96,076	930,924
Intangible fixed assets:			
Right of telephone	12	12	118
Other assets	28	58	279
Total intangible fixed assets	40	70	397
Investments and other assets:			
Investments securities (Note 4)	16,484	22,091	164,844
Long-term loans	1,314	1,423	13,136
Prepaid pension cost (Note 15)	13,922	12,918	139,225
Deferred tax assets (Note 17)	273	286	2,731
Other assets	795	825	7,947
Allowance for doubtful receivables	(25)	(27)	(251)
Total investments and other assets	32,763	37,516	327,632
Total fixed assets	125,895	133,662	1,258,953
Total Assets	¥ 264,048	¥ 274,608	\$ 2,640,484

The accompanying notes are an integral part of these financial statements.

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	¥ 31,866	¥ 33,474	\$ 318,656
Short-term borrowings (Note 5)	1,664	1,969	16,639
Current portion of long-term debt (Note 5)	20,978	830	209,775
Income taxes payable	2,008	2,581	20,081
Allowance for bonuses to directors and corporate auditors	244	295	2,443
Deferred tax liabilities (Note 17)	2	–	18
Other liabilities	14,451	20,658	144,519
Total current liabilities	71,213	59,807	712,131
Long-term liabilities:			
Convertible bond-type bond with stock acquisition rights	30,000	30,000	300,000
Long-term debt (Note 5)	21,641	41,919	216,415
Long-term payables	1,386	1,817	13,858
Deferred tax liabilities (Note 17)	1,365	3,295	13,648
Employees' retirement benefit liabilities (Note 15)	9,008	9,073	90,081
Reserve for retirement benefits of directors and corporate auditors	1,198	1,360	11,981
Other liabilities	82	8	815
Total long-term liabilities	64,680	87,472	646,798
Total liabilities	135,893	147,279	1,358,929
Net Assets			
Shareholders' equity (Note 8):			
Common stock, no par value:			
Authorized: 476,000,000 shares;	25,017	25,017	250,167
Issued: 198,866,751 shares in 2008 and 2007			
Capital surplus	27,899	27,899	278,988
Retained earnings	63,162	59,410	631,619
Less, treasury stock, at cost			
2,666,097 shares in 2008 and 1,798,010 shares in 2007	(1,612)	(1,001)	(16,117)
Total shareholders' equity	114,466	111,325	1,144,657
Valuation and translation adjustments			
Net unrealized gains on available-for-sale securities, net of taxes	6,171	9,597	61,716
Foreign currency translation adjustments	1,889	1,061	18,887
Total valuation and translation adjustments	8,060	10,658	80,603
Subscription rights to shares (Note 16)	99	31	993
Minority interests in subsidiaries	5,530	5,315	55,302
Total Net assets	128,155	127,329	1,281,555
Commitments and contingent liabilities (Note 7)			
Total Liabilities and Net assets	¥ 264,048	¥ 274,608	\$ 2,640,484

Consolidated Statements of Income

For the years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Net sales (Notes 18 and 19)	¥ 253,462	¥ 235,637	\$ 2,534,623
Cost of sales (Note 9)	220,662	202,798	2,206,617
Gross profit	32,800	32,839	328,006
Selling, general and administrative expenses (Note 9)			
Freight expenses	3,265	2,645	32,650
Sales commission	1,205	1,370	12,051
Salaries and allowances and welfare expenses	8,381	9,138	83,814
Retirement benefit expenses	276	299	2,759
Provision of reserve for directors' bonuses	241	295	2,413
Provision of reserve for directors' retirement benefits	255	277	2,548
Depreciation	601	496	6,013
Research and development expenses	2,001	2,446	20,013
Others	5,691	5,262	56,901
Total selling, general and administrative expenses	21,916	22,228	219,162
Operating income (Note 19)	10,884	10,611	108,844
Non-operating income:			
Interest income	324	218	3,245
Dividends income	290	214	2,903
Rent income	80	75	796
Gain on sales of articles	187	128	1,865
Gain on valuation of derivatives	329	–	3,289
Foreign exchange gain	–	221	–
Amortization of negative goodwill	–	174	–
Others	617	395	6,175
Total non-operating income	1,827	1,425	18,273
Non-operating expenses:			
Interest expenses	635	619	6,347
Loss on disposal of property, plant and equipment, net	674	770	6,746
Loss on derivatives	–	47	–
Foreign exchange loss	1,250	–	12,501
Others	820	491	8,201
Total other expenses	3,379	1,927	33,795
Ordinary income	9,332	10,109	93,322

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Extraordinary income :			
Gain on sale of investment securities	–	177	–
Total extraordinary income	–	177	–
Extraordinary expenses :			
Impairment loss on fixed assets	277	69	2,771
Impairment loss on goodwill (Note 10)	–	1,180	–
Total extraordinary expenses:	277	1,249	2,771
Income before income taxes and minority interests	9,055	9,037	90,551
Income taxes:			
Current	2,792	3,380	27,925
Deferred	278	373	2,780
Total income taxes	3,070	3,753	30,705
Minority interests in net income of subsidiaries	292	362	2,917
Net income	¥ 5,693	¥ 4,922	\$ 56,929
	Yen		U.S. Dollars
Per share (Note20)			
Net income:			
Basic	¥ 29.00	¥ 24.97	\$ 0.2
Diluted	26.23	22.56	0.2
Cash dividends	10.00	10.00	0.1

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2007

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2006	¥ 25,017	¥ 27,899	¥ 56,700	¥ (1,015)
Change of items during the period				
Net income for the year	-	-	4,922	-
Cash dividends (Note11)	-	-	(1,971)	-
Bonuses to directors and corporate auditors	-	-	(232)	-
Purchase of treasury stock and fractional shares	-	-	-	(236)
Disposal of treasury stock due to exercise of stock options	-	-	(9)	250
Net changes of items other than shareholders' equity	-	-	-	-
Total changes of items during the period	-	-	2,710	14
Balance at March 31, 2007	¥ 25,017	¥ 27,899	¥ 59,410	¥ (1,001)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2007	¥ 25,017	¥ 27,899	¥ 59,410	¥ (1,001)
Change of items during the period				
Net income for the year	-	-	5,693	-
Cash dividends (Note11)	-	-	(1,966)	-
Purchase of treasury stock and fractional shares	-	-	-	(693)
Disposal of treasury stock due to exercise of stock options	-	-	(7)	82
Increase due to decrease in consolidated subsidiaries	-	-	32	-
Net changes of items other than shareholders' equity	-	-	-	-
Total changes of items during the period	-	-	3,752	(611)
Balance at March 31, 2008	¥ 25,017	¥ 27,899	¥ 63,162	¥ (1,612)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2007	\$ 250,167	\$ 278,988	\$ 594,103	\$ (10,008)
Change of items during the period				
Net income for the year	-	-	56,929	-
Cash dividends (Note11)	-	-	(19,662)	-
Purchase of treasury stock and fractional shares	-	-	-	(6,927)
Disposal of treasury stock due to exercise of stock options	-	-	(75)	818
Increase due to decrease in consolidated subsidiaries	-	-	324	-
Net changes of items other than shareholders' equity	-	-	-	-
Total changes of items during the period	-	-	37,516	(6,109)
Balance at March 31, 2008	\$ 250,167	\$ 278,988	\$ 631,619	\$ (16,117)

The accompanying notes are an integral part of these financial statements.

(Millions of yen)						
Total shareholders' equity	Valuation and translation adjustments			Subscription rights to shares	Minority interests in subsidiaries	Total net assets
	Net unrealized gains on available-for-sale securities, net of taxes	Foreign currency translation adjustments	Total valuation and translation adjustments			
¥ 108,601	¥ 10,606	¥ 577	¥ 11,183	¥ -	¥ 4,998	¥ 124,782
4,922	-	-	-	-	-	4,922
(1,971)	-	-	-	-	-	(1,971)
(232)	-	-	-	-	-	(232)
(236)	-	-	-	-	-	(236)
241	-	-	-	-	-	241
-	(1,009)	484	(525)	31	317	(177)
2,724	(1,009)	484	(525)	31	317	2,547
¥ 111,325	¥ 9,597	¥ 1,061	¥ 10,658	¥ 31	¥ 5,315	¥ 127,329

(Millions of yen)						
Total shareholders' equity	Valuation and translation adjustments			Subscription rights to shares	Minority interests in subsidiaries	Total net assets
	Net unrealized gains on available-for-sale securities, net of taxes	Foreign currency translation adjustments	Total valuation and translation adjustments			
¥ 111,325	¥ 9,597	¥ 1,061	¥ 10,658	¥ 31	¥ 5,315	¥ 127,329
5,693	-	-	-	-	-	5,693
(1,966)	-	-	-	-	-	(1,966)
(693)	-	-	-	-	-	(693)
75	-	-	-	-	-	75
32	-	-	-	-	-	32
-	(3,426)	828	(2,598)	68	215	(2,315)
3,141	(3,426)	828	(2,598)	68	215	826
¥ 114,466	¥ 6,171	¥ 1,889	¥ 8,060	¥ 99	¥ 5,530	¥ 128,155

(Thousands of U.S.dollars)						
Total shareholders' equity	Valuation and translation adjustments			Subscription rights to shares	Minority interests in subsidiaries	Total net assets
	Net unrealized gains on available-for-sale securities, net of taxes	Foreign currency translation adjustments	Total valuation and translation adjustments			
\$ 1,113,250	\$ 95,968	\$ 10,608	\$ 106,576	\$ 310	\$ 53,155	\$ 1,273,291
56,929	-	-	-	-	-	56,929
(19,662)	-	-	-	-	-	(19,662)
(6,927)	-	-	-	-	-	(6,927)
743	-	-	-	-	-	743
324	-	-	-	-	-	324
-	(34,252)	8,279	(25,973)	683	2,147	(23,143)
31,407	(34,252)	8,279	(25,973)	683	2,147	8,264
\$ 1,144,657	\$ 61,716	\$ 18,887	\$ 80,603	\$ 993	\$ 55,302	\$ 1,281,555

Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,055	¥ 9,037	\$ 90,551
Adjustments for depreciation	14,754	12,001	147,544
Adjustments for impairment loss on fixed assets	277	69	2,771
Adjustments for impairment loss on goodwill	-	1,181	-
Adjustments for gain on sales of investment securities	-	(177)	-
Increase of prepaid pension cost	(1,004)	(1,390)	(10,044)
(Decrease) increase of employees' retirement benefit liabilities	(72)	93	(724)
Decrease in defined contribution pension payable	(395)	(392)	(3,947)
(Decrease) increase of allowance for doubtful receivables	(36)	64	(362)
Interest and dividend income	(615)	(432)	(6,148)
Interest expenses	635	619	6,347
Foreign exchange loss (gain)	685	(85)	6,850
Loss on sale of property, plant and equipment, net	172	(16)	1,724
Loss on disposal of property, plant and equipment	370	434	3,704
Increase/Decrease in operating assets and liabilities:			
Notes and accounts receivable	4,339	(12,440)	43,386
Inventories	(4,539)	(2,526)	(45,386)
Notes and accounts payable	(3,940)	6,789	(39,399)
Other, net	(206)	92	(2,070)
Subtotal	19,480	12,921	194,797
Interest and dividend received	617	432	6,169
Interest paid	(634)	(619)	(6,337)
Income taxes paid	(3,384)	(6,614)	(33,842)
Net cash provided by operating activities	16,079	6,120	160,787
Cash flows from investing activities:			
Net increase in time deposits	(10)	(49)	(100)
Payments for purchase of property, plant and equipment	(18,665)	(28,500)	(186,646)
Proceeds from sales of property, plant and equipment	140	315	1,398
Payments for purchase of investment securities	(5)	(1,486)	(49)
Proceeds from sales of investment securities	-	234	-
Proceeds from acquisition of shares of newly consolidated subsidiaries (Note12)	-	16	-
Proceeds from sales of shares of former consolidated subsidiaries (Note12)	233	-	2,330
Payments for acquisition of subsidiary's shares	(6)	(129)	(60)
Payments for loans	(68)	(68)	(675)
Collections of loans	177	219	1,769
Others, net	13	32	127
Net cash used in investing activities	(18,191)	(29,416)	(181,906)

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Cash flows from financing activities:			
Net decrease in short-term borrowings	(332)	(152)	(3,314)
Proceeds from long-term debt	651	945	6,506
Repayments of long-term debt	(843)	(1,838)	(8,434)
Proceeds from minority shareholders of subsidiary	110	-	1,099
Payments for acquisitions of treasury stock	(693)	(236)	(6,928)
Proceeds from disposal of treasury stock	1	3	8
Proceeds from exercise of stock options	73	238	735
Cash dividends paid	(1,964)	(1,968)	(19,641)
Cash dividends paid for minority shareholders	(75)	(51)	(751)
Net cash used in financing activities	(3,072)	(3,059)	(30,720)
Effect of exchange rate changes on cash and cash equivalents	47	263	467
Net decrease in cash and cash equivalents	(5,137)	(26,092)	(51,372)
Cash and cash equivalents at beginning of year	35,629	61,721	356,288
Cash and cash equivalents at end of year	¥ 30,492	¥ 35,629	\$ 304,916

The accompanying notes are an integral part of these financial statements.

1. Basis of Presenting Consolidated Financial Statements

(a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of AICHI STEEL CORPORATION ("the Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Financial Instruments and Exchange Law and submitted to the Director of Kanto Finance Bureau in Japan.

On the accompanying consolidated financial statements, amounts less than ¥1 million are rounded to the nearest million yen; therefore, some accounts and notes are not consistent with those on the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan, on which amounts less than ¥1 million are omitted.

(b) U.S. dollar amounts

The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen into U.S. dollars at the rate of ¥100 to \$1, the approximate rate of exchange at March 31, 2008. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in U.S. dollars at ¥100 to \$1 or at any other rates. Amounts less than US\$ 1 thousand are rounded to the nearest US\$ 1 thousand.

(c) Reclassification

In preparing the accompanying consolidated financial statement, certain comparative figures have been reclassified to conform to the current year's presentations.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries (18 and 17 companies in 2008 and 2007, respectively). Investments in affiliates (3 and 2 companies in 2008 and 2007, respectively) are carried at cost, since the equities in retained earnings and net income of affiliates are not material. Significant intercompany transactions and accounts have been eliminated. Assets and liabilities of subsidiaries are revalued at their fair value as of the date of acquisition of control based on the full fair value method.

(a-i) Scope of consolidation

Subsidiaries at March 31, 2008 are as follows:

Domestic subsidiaries (9 companies):

- Aiko Corporation
- Aichi Ceratec Corporation
- Omi Mining Co., Ltd.
- Aichi Techno Metal Fukuami Company

- Aichi Steel Logistics Co., Ltd.
- Aichi Information System Company
- Aiko Service Co., Ltd.
- Aichi Micro Intelligent Corporation
- Asdex Corporation

Overseas subsidiaries (9 companies):

- Aichi Forging Company of Asia, Inc.
- Aichi USA, Inc.
- Louisville Forge and Gear Works, LLC
- Aichi Europe GmbH
- Aichi International (Thailand) Co., Ltd.
- Shanghai Aichi Forging Co., Ltd.
- PT. Aichi Forging Indonesia
- Aichi Magfine Czech s.r.o.
- AMIT, Inc.

Aichi Magfine Czech s.r.o. and AMIT, Inc. are established during the year ended March 31, 2008 and newly consolidated.

Kentucky Advanced Forge, LLC, which used to be one of overseas subsidiaries, is eliminated from subsidiaries because of sale of its stock. Overseas subsidiaries adopt accounting principles generally accepted in their respective countries, and no adjustments have been made to their financial statements on consolidation as allowed under accounting principles and practice generally accepted in Japan.

(a-ii) Fiscal year of subsidiaries

The Company's overseas subsidiaries use fiscal year ending on December 31, three months earlier than the Company. The Company consolidates such subsidiaries' financial statements as of the year-end. Significant transactions for the period between subsidiaries' year-end and the Company's year-end are adjusted on consolidation.

(b) Cash and cash equivalents

The Company and its subsidiaries consider short-term highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

(c) Valuation of securities

The accounting standard for financial instruments requires that securities to be classified into three categories: trading, held-to-maturity or available-for-sale, whose classification determines the respective accounting method. According to the Company's investment policies, the securities portfolio of the Company and its subsidiaries are classified as available-for-sale securities. The accounting standard requires that available-for-sale securities with available market quotations are valued at fair value, and net unrealized gains or losses on such securities are reported as a separate component of shareholders' equity, net of applicable income taxes. Gains and losses on disposition of marketable securities are computed by the moving average method. Non-marketable available-for-sale securities without marketable quotations are carried at cost determined by the moving average method. Adjustments in carrying values of individual investment securities are charged to income through write-downs, when a significant decline in value is deemed other than temporary.

(d) Derivatives and Hedge Accounting

Derivatives are valued at fair value, if hedge accounting is not appropriate or where there is no hedging designation, and gains or losses on derivatives are recognized in current earnings. In addition, when interest rate swaps that meet certain required conditions have critical terms matching exactly with those of financial assets or liabilities that are being hedged, such interest rate swaps are not recognized in the balance sheet, and net interest paid or received on the swaps is recognized as adjustment to the interest income or expense on the financial assets or liabilities that are being hedged.

The Company uses the interest rate swap contract for the borrowing from a bank to reduce its own exposure to fluctuations in interest rate. The Company does not perform the evaluation of effectiveness of the hedging items because the interest rate swap contract meets the required condition above.

(e) Inventories

Finished goods and work in process are mainly stated at cost determined by the periodic average method. Iron scraps and ferroalloy in raw materials are stated at the lower of cost or market, cost being determined by the moving average method. Raw materials, excluding iron scraps and ferroalloy, and supplies are mainly stated at cost determined by the moving average method, except for rolls and molds included in supplies, which are depreciated over useful life and recorded after depreciation value.

(Accounting Change)

Effective from the year ended March 31, 2007, the Company has adopted the lower of cost or market method, based on the moving average method for ferroalloy in raw materials. The Company made this change in order to present its financial position more accurately. Market prices for ferroalloy have recently been fluctuant, and those fluctuations have resulted in large discrepancies between the book value and market value of the inventories. In addition, management expects that market prices will continue to fluctuate widely in future. As a result of adoption, ordinary income and income before income taxes and minority interests decreased by ¥52 million.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost, and have been depreciated by the declining balance method, except that the No.2 Bar and Wire Rod Mill Shop of the Company have been depreciated by the straight-line method.

Expenditures on maintenance and repairs are charged to income as incurred. Upon the disposal of property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is recorded as income or expenses.

(Accounting Change)

Effective from the year ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation methods for the property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporate Tax Law of Japan. As a result of the change, operating income, ordinary income and income before income taxes and minority interests decreased by ¥292 million (\$2,921 thousand), respectively.

(Additional information)

Effective from the year ended March 31, 2008, the Company and its domestic subsidiaries depreciate the property, plant and equipment acquired before April 1, 2007 from 5% of their cost to ¥1 by the straight-line method for 5 years from the following year the property, plant and equipment reach 5% of their cost calculated by pre-revised depreciation method, in accordance with the revised Corporate Tax Law of Japan. As a result of the change, operational income decreased by ¥1,087 million (\$10,865 thousand) and ordinary income and income before income taxes and minority interests decreased by ¥1,087 million (\$10,866 thousand), respectively.

(g) Goodwill and Negative Goodwill

The differences between the cost of investments in subsidiaries and the underlying equity in their net asset are recorded as goodwill or negative goodwill in the consolidated balance sheets and amortized using the straight-line method over the period within 20 years. If the amount is immaterial, it is fully recognized as expenses as incurred.

For the year ended March 31, 2007, a certain U.S. subsidiary, Aichi USA, Inc., has recorded goodwill under the accounting method prescribed in U.S. Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Asset". Under SFAS No. 142, goodwill which has undefined useful life will be tested for impairment on an annual basis and between annual test if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount.

(h) Accounting for finance leases

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the Company and its domestic subsidiaries are not capitalized and the relating rental and lease expenses are charged to income as incurred.

(i) Allowance for doubtful receivables

Allowance for doubtful receivables are provided based on the historical loss expenses during a certain reference period plus the estimated non-collectable amount based on the analysis of certain individual accounts in accordance with the accounting standard.

(j) Allowance for bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors are recorded on an accrual basis with a related charge to income.

(Accounting Change)

Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.4 "Accounting Standard for Directors' Bonus" issued on November 29, 2005 by the Accounting Standards Board of Japan. As a result of adoption, operating income, ordinary income and income before income taxes and minority interests decreased by ¥295 million.

For the year ended March 31, 2006, bonuses paid to directors and corporate auditors were recorded as a part of the appropriation of retained earnings, instead of being charged to income, as permitted by the Japanese accounting standard.

(k) Employees' retirement benefit liabilities

The Company and its subsidiaries have recognized the retirement benefits including pension cost and related liabilities based on actuarial present value of projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the respective year-ends. Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions is to be amortized by a straight-line method over 15 years, within remaining service lives of employees, from the next year in which they arise. Prior service cost is amortized by straight-line method over 15 years.

Employees' retirement benefit liabilities includes reserve for retirement benefits of executive officers calculated based on the method similar to reserve for retirement benefits of directors and corporate auditors.

(l) Reserve for retirement benefits of directors and corporate auditors

The Company and its domestic subsidiaries pay severance indemnities to directors and corporate auditors, which are subject to the approval of the shareholders. The Company and its domestic subsidiaries have provided for the full amount of the liabilities of directors' and corporate auditors' retirement benefits which would be required for payments of retirement benefits for directors and corporate auditors in accordance with internal regulations at the respective balance sheet dates.

(m) Income taxes

Income taxes are accounted for in accordance with the accounting standard for income taxes, which require recognizing the deferred taxes under the asset and liability method. Under the accounting standard, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases, and measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(n) Consumption taxes

Consumption taxes are excluded from the revenue and expense accounts which are subject to such taxes.

(o) Accounting for foreign currency translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates. Resulting unrealized gain and loss are charged to income of each year. As for the method of translating foreign currency financial statements of overseas subsidiaries into Japanese yen, assets and liabilities are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates. The shareholders' equity in Net Assets is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the

average exchange rates during the respective years. Differences in yen amounts arising from use of different rates have been presented as "Foreign currency translation adjustments" in Net Assets or included in "Minority interests in subsidiaries" in Net Assets.

(p) Per share data

Basic net income per share of common stock is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period. Diluted net income per share of common stock is calculated based on the assumption for the possible dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or result in the issuance of common stock.

As described Note 16, the Company granted the stock option to its directors, executive officers and selected employees for purchase its common stock. In addition, the Company issued ¥30-billion convertible bond-type bond with stock acquisition rights during the year ended March 31, 2006. Diluted net income per share of common stock for the year ended March 31, 2008 and 2007 reflects possible dilution of the stock option and the convertible bond-type bond with stock acquisition rights to shares.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

3. Accounting Changes

(a) Presentation of Net Assets in the Balance Sheets

Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.5 "Accounting Standards for Presentation of Net Assets in the Balance Sheet" and its Implementation Guidance No.8 "Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheets" issued on December 9, 2005 by the Accounting Standards Board of Japan. As a result, minority interests in subsidiaries which were disclosed between Liabilities and Net Assets in the prior year are disclosed as a line item in Net Assets in the current year.

If the previous accounting policy were to be adopted, Net assets at March 31, 2007 were ¥121,983 million.

(b) Share-based Payment

Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.8 "Accounting Standard for Share-based Payment" issued on December 27, 2005 by the Accounting Standards Board of Japan and its Implementation Guidance No.11 "Guidance on Accounting Standards for Share-based Payment" issued on May 31, 2006 by the Accounting Standards Board of Japan. As a result of adoption, operating income, ordinary income and income before income taxes and minority interests decreased by ¥31 million, as compared with the previous accounting method.

4. Investments

(a) Investment securities

All marketable securities are classified as available-for-sale and are valued at fair value with unrealized gains and losses excluded from the current earnings and reported a net amount within the shareholders' equity account until realized. At March 31, 2008 and 2007, gross unrealized gains and losses for marketable securities are summarized as follows:

	Millions of Yen		
	Acquisition cost	Fair and carrying value	Difference
At March 31, 2008:			
Securities with exceeding acquisition cost			
Marketable securities:			
Equity securities	¥ 2,326	¥ 12,653	¥ 10,327
Bonds	-	-	-
Others	-	-	-
Subtotal	¥ 2,326	¥ 12,653	¥ 10,327
Securities with not exceeding acquisition cost			
Marketable securities:			
Equity securities	¥ 37	¥ 31	¥ (6)
Bonds	-	-	-
Others	-	-	-
Subtotal	¥ 37	¥ 31	¥ (6)
Total	¥ 2,363	¥ 12,684	¥ 10,321
At March 31, 2007:			
Securities with exceeding acquisition cost			
Marketable securities:			
Equity securities	¥ 2,352	¥ 18,389	¥ 16,037
Bonds	-	-	-
Others	-	-	-
Subtotal	¥ 2,352	¥ 18,389	¥ 16,037
Securities with not exceeding acquisition cost			
Marketable securities:			
Equity securities	¥ 10	¥ 9	¥ (1)
Bonds	-	-	-
Others	-	-	-
Subtotal	¥ 10	¥ 9	¥ (1)
Total	¥ 2,362	¥ 18,398	¥ 16,036

	Thousands of U.S. Dollars		
	Acquisition cost	Fair and carrying value	Difference
At March 31, 2008:			
Securities with exceeding acquisition cost			
Marketable securities:			
Equity securities	\$ 23,259	\$ 126,528	\$ 103,269
Bonds	-	-	-
Others	-	-	-
Subtotal	\$ 23,259	\$ 126,528	\$ 103,269
Securities with not exceeding acquisition cost			
Marketable securities:			
Equity securities	\$ 370	\$ 316	\$ (54)
Bonds	-	-	-
Others	-	-	-
Subtotal	\$ 370	\$ 316	\$ (54)
Total	\$ 23,629	\$ 126,844	\$ 103,215

Sales of investment securities are as follows;

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Proceeds from sales	¥ -	¥ 234	\$ -
Gain on sales	-	177	-
Loss on sales	-	-	-

Book value of investment securities carried at cost at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Non-marketable securities	¥ 3,652	¥ 3,548	\$ 36,522
Securities investment trusts (Included in Cash and cash equivalents)	244	244	2,445

The Company and its subsidiaries do not have any held-to-maturity bonds or available-for-sale debt securities.

(b) Investments in affiliates

Investments in affiliates at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Investments as stated at cost in affiliates	¥ 148	¥ 146	\$ 1,478

5. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Unsecured bank loans with interest at rates ranging from 0.75% to 5.83% per annum at March 31, 2008	¥ 1,664	¥ 1,969	\$ 16,639

Long-term debt at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Unsecured convertible bond-type bond with stock acquisition rights due March 2011 with no interest	¥ 30,000	¥ 30,000	\$ 300,000
Unsecured bank loans due through 2012 with interest at rate ranging from 0.42% to 6.72% at March 31, 2008	42,619	42,749	426,190
Subtotal	72,619	72,749	726,190
Less, current portion	(20,978)	(830)	(209,775)
Total	¥ 51,641	¥ 71,919	\$ 516,415

The current conversion price of convertible bond-type bond with stock acquisition rights due March 2011 is ¥1,440 per share and is subject to adjustment in certain circumstances, including in the event of a stock split. At March 31, 2008, the number of shares of common stock necessary for conversion of all convertible bond-type bond with stock acquisition rights outstanding was approximately 21 million.

The aggregate annual maturities of long-term debt at March 31, 2008 are as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 20,978	\$ 209,775
2010	5,740	57,401
2011	30,776	307,757
2012	71	715
2013	15,054	150,542
Total	¥ 72,619	\$ 726,190

6. Advanced Depreciation of Fixed Assets

Advanced depreciation of fixed assets is permitted by the accounting principles and practices generally accepted in Japan. For the year ended March 31, 2008, the amount of ¥181 million (\$1,812 thousand) was directly reduced from the acquisition cost of machinery and equipment newly acquired with government subsidies. At March 31, 2008, its total amount is ¥681 million (\$6,812 thousand). For the year ended March 31, 2007, the amount of ¥500 million was directly reduced from the acquisition cost of machinery and equipment newly acquired with government subsidies.

7. Contingent Liabilities

Notes receivable endorsed at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Notes receivable endorsed	¥ 48	¥ 84	\$ 480

Guarantees against bank loans of an affiliate and other company at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Chita Medias Corporation	¥ 402	¥ 473	\$ 4,023
Kentucky Advanced Forge, LLC	1	-	10
Total	¥ 403	¥ 473	\$ 4,033

8. Shareholders' Equity in Net Assets

At March 31, 2008 and 2007, respectively, capital surplus consisted of additional paid-in capital. The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of cash dividend and other distributions from retained earnings paid by the Company is appropriate as a legal reserve until the total amount of additional paid-in capital and legal reserve equals to 25% of stated capital. When the total amount of additional paid-in capital and legal reserve exceeds 25% of stated capital, such excess can be transferred to retained earnings by resolution of shareholders, which may be available for dividends. Legal reserve was included in retained earnings and amounted to ¥6,254 million (\$62,542 thousand) at March 31, 2008 and 2007, respectively.

Effective July 30, 2003, the Code permits to repurchase its stock by resolution of the Board of Directors, if authorized by the Article of Incorporation. The Company established a new article on repurchase of its stock authorized by the resolution of shareholders at the general shareholders' meeting held on June 22, 2004. During the year ended March 31, 2007, the Company repurchased 330,000 shares for the aggregate amount of ¥233 million by the resolution of the Board of Directors held at February 1, 2007.

During the year ended March 31, 2008, the Company repurchased 1,000,000 shares for the aggregate amount of ¥691 million (\$6,906 thousand) by the resolution of the Board of Directors held at May 18, 2007.

Dividends are approved by the shareholders at a meeting held after the close of the fiscal year to which the dividends are applicable. In addition, interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code.

9. Research and Development Expenses

Expenses related research and development activities are charged to income as incurred. Research and development expenses were included in general and administrative expenses, and manufacturing costs and amounted to ¥2,001 million (\$20,013 thousand) and ¥2,446 million for the years ended March 31, 2008 and 2007, respectively.

10. Impairment

(a) Impairment of Fixed Assets

“Impairment loss on fixed assets” recorded in the consolidated statements of income for the year ended March 31, 2008 was as follows:

Item	Description	Location	Millions of Yen	Thousand of U.S. Dollars
Machinery and equipment	Idle assets	Aichi prefecture	¥ 148	\$ 1,480
Machinery and equipment	Idle assets	Gifu prefecture	3	30
Construction in progress	Idle assets	Aichi prefecture	80	799
Land	Idle assets	Aichi prefecture	20	197
Land	Idle assets	Gifu prefecture	0	1
Buildings and structures and other assets	Idle assets	Aichi prefecture	26	264
			¥ 277	\$ 2,771

Fixed assets are principally grouped into cash-generating units based on the production units, other than assets for rents and idle assets. An impairment loss on these assets is based on the expected net selling prices. The impairment loss was recognized for the year ended March 31, 2008 because the forecast of future cash flow has changed due to the renewal plan of the machinery and equipment and the fair value of the land diminished significantly due to recent decline in land price. The machinery, equipment, construction in progress and other assets is devalued to ¥1 because net selling prices of the machinery, equipment, construction in progress and other assets are expected essentially nothing and the lands are devalued to expected net selling prices of the lands based on the valuations for property tax bases for land, and the salvage values for tax purposes for other properties.

“Impairment loss on fixed assets” recorded in the consolidated statements of income for the year ended March 31, 2007 was as follows:

Item	Description	Location	Millions of Yen
Machinery and equipment	Idle assets	Aichi prefecture	¥ 44
Land	Idle assets	Aichi prefecture	23
Land	Idle assets	Gifu prefecture	2
			¥ 69

Fixed assets are principally grouped into cash-generating units based on the production units, other than assets for rents and idle assets. An impairment loss on these assets is based on the expected net selling prices. The impairment loss was recognized for the year ended March 31, 2007 because the forecast of future cash flow has changed due to the renewal plan of the machinery and equipment and the fair value of the land diminished significantly due to recent decline in land price. The machinery and equipment is devalued to ¥1 because net selling prices of the machinery and equipment are expected essentially nothing and the lands are devalued to expected net selling prices of the lands based on the valuations for property tax bases for land, and the salvage values for tax purposes for other properties.

(b) Impairment of Goodwill

For the year ended March 31, 2007, SFAS No. 142 is applied to the U.S. subsidiary as described Note 2(g), and the impairment loss is recorded.

11. Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2008

(a) Type and number of shares outstanding and treasury stock

	Thousands of Unit	
	Shares outstanding	Treasury stock
Type	Common stock	Common stock
Number of shares at the end of the previous fiscal year	198,867	1,798
Number of increase during the year ended March 31, 2008	-	1,004
Number of decrease during the year ended March 31, 2008	-	136
Number of shares at the end of the fiscal year	198,867	2,666

Increase in the number of shares was due to purchase of 1,000 thousand shares based on Article 459, Paragraph 1, item 1 of the Corporation Law and purchase of 4 thousand less-than-one-unit shares. Decrease in the number of shares was sales of 134 thousand shares by exercises of stock options and sales of 2 thousand less-than-one-unit shares.

(b) Matters related to the subscription rights to shares

Class	Details	Millions of Yen	Thousands of U.S. Dollars
		Balance	
the Company	Stock option	¥ 99	\$ 993

Exercise period of the rights has yet to arrive.

(c) Matters related to dividends

(1) Dividend payment

Approvals by ordinary general meeting of shareholders held on June 21, 2007 are as follows:

Dividends on common stock		
Total amount of dividends	¥ 985 million	\$ 9,853 thousand
Dividends per share	¥ 5.00	\$ 0.05
Record date	March 31, 2007	
Effective date	June 22, 2007	

Approvals by the Board of Directors meeting held on October 31, 2007 are as follows;

Dividends on common stock		
Total amount of dividends	¥ 981 million	\$ 9,808 thousand
Dividends per share	¥ 5.00	\$ 0.05
Record date	September 30, 2007	
Effective date	November 20, 2007	

(2) Dividend whose record date is attributable to the year ended March 31, 2008 but to be effective after the said fiscal year.

The Company resolved approval at the general meeting of shareholders to be held on June 20, 2008 as follows:

Dividends on common stock		
Total amount of dividends	¥ 981 million	\$ 9,810 thousand
Dividends per share	¥ 5.00	\$ 0.05
Record date	March 31, 2008	
Effective date	June 23, 2008	

Fiscal year ended March 31, 2007

(a) Type and number of shares outstanding and treasury stock

	Thousands of Unit	
	Shares outstanding	Treasury stock
Type	Common stock	Common stock
Number of shares at the end of the previous fiscal year	198,867	1,941
Number of increase during the year ended March 31, 2007	-	335
Number of decrease during the year ended March 31, 2007	-	478
Number of shares at the end of the fiscal year	198,867	1,798

Increase in the number of shares was due to purchase of 330 thousand shares based on Article 459, Paragraph 1, item 1 of the Corporation Law and purchase of 5 thousand less-than-one-unit shares. Decrease in the number of shares was sales of 474 thousand shares by exercises of stock options and sales of 4 thousand less-than-one-unit shares.

(b) Matters related to the subscription rights to shares

Class	Details	Millions of Yen
		Balance
the Company	Stock option	¥ 31

Exercise period of the rights has yet to arrive.

(c) Matters related to dividends

(1) Dividend payment

Approvals by ordinary general meeting of shareholders held on June 22, 2006 are as follows:

Dividends on common stock	
Total amount of dividends	¥ 985 million
Dividends per share	¥ 5.00
Record date	March 31, 2006
Effective date	June 23, 2006

Approvals by the Board of Directors meeting held on October 31, 2006 are as follows:

Dividends on common stock	
Total amount of dividends	¥ 986 million
Dividends per share	¥ 5.00
Record date	September 30, 2006
Effective date	November 20, 2006

(2) Dividend whose record date is attributable to the year ended March 31, 2007 but to be effective after the said fiscal year.

The Company resolved approval at the general meeting of shareholders to be held on June 21, 2007 as follows:

Dividends on common stock	
Total amount of dividends	¥ 985 million
Dividends per share	¥ 5.00
Record date	March 31, 2007
Effective date	June 22, 2007

12. Consolidated Statements of Cash flows

Fiscal year ended March 31, 2008

Assets and liabilities of Kentucky Advanced Forge LLC, and relationship with the sales price and net cash inflow of such sales, which are included in "Proceeds from sale of shares of former consolidated subsidiaries" for the year ended March 31, 2008 are as follows;

	Millions of Yen	Thousands of U.S. Dollars
	2008	2008
Current assets	¥ 516	\$ 5,158
Non current assets	291	2,909
Current liabilities	(185)	(1,847)
Minority interests	(379)	(3,794)
Sales price of the company	243	2,426
Cash and cash equivalents of the company	(10)	(96)
Net cash provided by sales of the company	¥ 233	\$ 2,330

Reconciliation between 'Cash and deposit' on the Consolidated Balance Sheets and 'Cash and cash equivalents' on the Consolidated Statements of Cash Flows is as follows;

	Millions of Yen	Thousands of U.S. Dollars
	2008	2008
Cash and deposit	¥ 30,408	\$ 304,081
Short-term investment	245	2,445
Total	30,653	306,526
Time deposit more than 3 months	(161)	(1,610)
Cash and cash equivalents of the company	¥ 30,492	\$ 304,916

Fiscal year ended March 31, 2007

Assets and liabilities of Aichi Techno Metal Fukaumi Company and relationship with the acquisition cost and net cash inflow of such acquisition, which are included in "Proceeds from acquisition of shares of newly consolidated subsidiaries" for the year ended March 31, 2007 are as follows;

	Millions of Yen
	2007
Current assets	¥ 345
Non current assets	410
Negative goodwill	(145)
Current liabilities	(232)
Non current liabilities	(142)
Minority interests	(76)
Acquisition cost of the company	160
Acquisition cost before consolidation	(46)
Cash and cash equivalents of the company	(130)
Net cash provided by acquisition of the company	¥ 16

Reconciliation between 'Cash and deposit' on the balance sheet and 'Cash and cash equivalents' on the statement of cash flows is as follows;

	Millions of Yen
	2007
Cash and deposit	¥ 35,536
Short-term investment	244
Total	35,780
Time deposit more than 3 months	(151)
Cash and cash equivalents of the company	¥ 35,629

13. Lease Transactions

The Company and its subsidiaries use certain machinery and equipment by finance lease contracts.

Pro forma information regarding the leased property such as acquisition cost, accumulated depreciation and future minimum lease payments under finance leases that do not transfer the ownership of the leased property to the lessee at March 31, 2008 and 2007 are as follows:

	Millions of Yen		
	Acquisition Costs	Accumulated Depreciation	Balance
At March 31, 2008:			
Machinery	¥ 803	¥ 414	¥ 389
Equipment	549	357	192
Total	¥ 1,352	¥ 771	¥ 581
At March 31, 2007:			
Machinery	¥ 667	¥ 248	¥ 419
Equipment	1,844	1,451	393
Total	¥ 2,511	¥ 1,699	¥ 812

	Thousands of U.S. Dollars		
	Acquisition Costs	Accumulated Depreciation	Balance
At March 31, 2008:			
Machinery	\$ 8,032	\$ 4,146	\$ 3,886
Equipment	5,492	3,571	1,921
Total	\$ 13,524	\$ 7,717	\$ 5,807

Acquisition costs include the imputed interest expense portion because the percentage which is computed by dividing future minimum lease payments by total balance of machinery and equipment at year-end is immaterial.

Aggregate minimum future lease obligations at March 31, 2008 and 2007 and lease expenses for the year then ended are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 202	¥ 348	\$ 2,015
Due over one year	379	464	3,792
Total	581	812	5,807
Lease expenses for the year	¥ 365	¥ 541	\$ 3,652

Pro forma amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion. Pro forma depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method, would be ¥365 million (\$3,652 thousand) and ¥541 million for the years ended March 31, 2008 and 2007, respectively.

14. Derivative Financial Instruments

The Company and its subsidiaries have entered into foreign currency swap contracts and foreign exchange forward contracts. The Company uses foreign currency swap contracts for its long-term loan to one overseas subsidiary denominated in U.S. Dollar, to reduce its own exposure to fluctuations in exchange rate principally for hedge purposes and its subsidiaries use foreign exchange forward contracts to manage its exposure to foreign currency exchange rate fluctuations for their import.

A summary of foreign currency swap contracts and foreign exchange forward contracts outstanding, excluding those for a hedge of assets recognized on accompanying consolidated balance sheets, at March 31, 2008 and 2007 are as follows:

	Millions of Yen		
	Contract amounts	Fair value	Net unrealized gain
At March 31, 2008:			
Receiving Japanese Yen, paying U.S. Dollar	¥ 3,636	¥ 556	¥ 556
Foreign exchange forward contracts	168	168	(0)
	¥ 3,804	¥ 724	¥ 556
At March 31, 2007:			
Receiving Japanese Yen, paying U.S. Dollar	¥ 4,576	¥ 227	¥ 227
Foreign exchange forward contracts	634	629	(5)
	¥ 5,210	¥ 856	¥ 222

	Thousands of U.S. Dollars		
	Contract amounts	Fair value	Net unrealized gain
At March 31, 2008:			
Receiving Japanese Yen, paying U.S. Dollar	\$ 36,359	\$ 5,566	\$ 5,566
Foreign exchange forward contracts	1,679	1,675	(4)
	\$ 38,038	\$ 7,241	\$ 5,562

Notes:

Fair value of foreign currency swap contracts is calculated based on the market price. Fair value of foreign exchange forward contracts is calculated based on the price provided by a bank.

15. Employees' Retirement Benefit Liabilities

(a) Overview of retirement benefit plans

The Company operates two non-contributory defined benefit retirement plans and a defined contribution pension plan. Defined benefit retirement plans consist of lump-sum retirement plan and enterprise pension plan. The Company established an employee retirement benefit trust for defined benefit retirement plans. The enterprise pension benefits are payable as pension payment or lump-sum payment at the option of terminated employees. Domestic subsidiaries and an overseas subsidiary operate non-contributory tax qualified pension plan and lump-sum retirement plan.

(b) Projected benefit obligation at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
(1) Projected benefit obligation	¥ (28,988)	¥ (29,464)	\$ (289,884)
(2) Fair value of pension plan assets (include retirement benefit trust)	35,282	44,783	352,825
(3) Subtotal [(1)+(2)]	6,294	15,319	62,941
(4) Unrecognized actuarial (gains)losses	39	(9,920)	389
(5) Unrecognized prior service cost	(1,419)	(1,554)	(14,186)
(6) Prepaid pension cost	13,922	12,918	139,225
Employees' retirement benefit liabilities [(3)+(4)+(5)-(6)]	¥ (9,008)	¥ (9,073)	\$ (90,081)

Note:

Subsidiaries have adopted the simplified method in calculation of the projected benefit obligations, based on the amount which would be required if all eligible employees voluntarily terminated their employment, less pension plan assets as of the year-end.

(c) The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
(1) Service cost (Notes)	¥ 970	¥ 980	\$ 9,695
(2) Interest cost	578	563	5,781
(3) Expected return on pension plan assets	(325)	(308)	(3,246)
(4) Amortization of unrecognized actuarial losses	(539)	(274)	(5,385)
(5) Amortization of unrecognized prior service cost	(135)	(125)	(1,355)
(6) Retirement benefit expenses [(1)+(2)+(3)+(4)+(5)]	549	836	5,490
(7) Contribution payments to the defined contribution retirement benefit plans	200	196	2,002
(8) Total [(6)+(7)]	¥ 749	¥ 1,032	\$ 7,492

Notes:

1. The retirement benefit expenses of subsidiaries are included in "(1) Service cost".
2. Retirement benefit obligations for executive officers are included in "(1) Service cost".

(d) Major assumptions used in calculation of above information for the years ended March 31, 2008 and 2007 are as follows:

	2008	2007
Discount rate	2.0%	2.0%
Expected rate of return on pension plan assets	2.0%	2.0%
Period allocation method for estimated retirement benefits	Straight-line method	Straight-line method
Amortization period of unrecognized actuarial gains or losses	15 years (Expenses from next fiscal year)	16 years (Expenses from next fiscal year)
Amortization period of prior service cost	15 years	16years

16. Share-based Payment

(a) Stock option expenses recorded during the year ended March 31, 2008

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Salaries and allowances and welfare expenses	¥ 37	¥ 31	\$ 371
Other selling, general and administrative expenses	31	-	312
Personnel expenses	¥ 68	¥ 31	\$ 683

(b) Details, number and state of fluctuation of stock options

(1) Details of stock option

For the year ended March 31, 2008

Year of issue	2008	2007	2006	2005
Position and number of grantees	Directors: 15 Executive officers: 12 Selected employees 29	Directors: 15 Executive officers: 12 Selected employees 29	Directors: 15 Executive officers: 11 Selected employees 26	Directors: 15 Executive officers: 10 Selected employees 25
Class and number of stock	Common stock: 470,000	Common stock: 490,000	Common stock: 450,000	Common stock: 870,000
Date of issue	August 1, 2007	August 1, 2006	August 1, 2005	August 2, 2004
Condition of settlement of the stock options	Grantee must be a director, executive officer or employee of the Company at the time of exercise of the stock options. However, grantee can exercise the stock options for 12 months after retirement or resignation from the Company.	Same as left	Same as left	Same as left
Periods that grantees must provide service in return for the stock options	From August 1, 2007 to July 31, 2009	From August 1, 2006 to July 31, 2008	From August 1, 2005 to July 31, 2007	From August 2, 2004 to July 31, 2006
Exercise period of the stock options	From August 1, 2009 to July 31, 2014	From August 1, 2008 to July 31, 2013	From August 1, 2007 to July 31, 2012	From August 1, 2006 to July 31, 2011

For the year ended March 31, 2007

Year of issue	2007	2006	2005
Position and number of grantees	Directors: 15 Executive officers: 12 Selected employees 29	Directors: 15 Executive officers: 11 Selected employees 26	Directors: 15 Executive officers: 10 Selected employees 25
Class and number of stock	Common stock: 490,000	Common stock: 450,000	Common stock: 870,000
Date of issue	August 1, 2006	August 1, 2005	August 2, 2004
Condition of settlement of the stock options	Grantee must be a director, executive officer or employee of the Company at the time of exercise of the stock options. However, grantee can exercise the stock options for 12 months after retirement or resignation from the Company.	Same as left	Same as left
Periods that grantees must provide service in return for the stock options	From August 1, 2006 to July 31, 2008	From August 1, 2005 to July 31, 2007	From August 2, 2004 to July 31, 2006
Exercise period of the stock options	From August 1, 2008 to July 31, 2013	From August 1, 2007 to July 31, 2012	From August 1, 2006 to July 31, 2011

(2) Number of stock options and state of fluctuation

Stock options outstanding at the end of the year are listed as the number of shares.

① Number of stock options
For the year ended March 31, 2008

Year of issue	2008	2007	2006	2005
Non-exercisable stock options				
Stock options outstanding at the end of the previous fiscal year	-	490,000	450,000	-
Stock options granted	470,000	-	-	-
Forfeitures	-	5,000	-	-
Conversion to exercisable stock options	-	-	450,000	-
Stock options outstanding at the end of the fiscal year	470,000	485,000	-	-
Exercisable stock options				
Stock options outstanding at the end of the previous fiscal year	-	-	-	396,000
Conversion from non-exercisable stock options	-	-	450,000	-
Stock options exercised	-	-	48,000	86,000
Forfeitures	-	-	-	-
Stock options outstanding at the end of the fiscal year	-	-	402,000	310,000

For the year ended March 31, 2007

Year of issue	2007	2006	2005
Non-exercisable stock options			
Stock options outstanding at the end of the previous fiscal year	-	450,000	870,000
Stock options granted	490,000	-	-
Forfeitures	-	-	-
Conversion to exercisable stock options	-	-	870,000
Stock options outstanding at the end of the fiscal year	490,000	450,000	-
Exercisable stock options			
Stock options outstanding at the end of the previous fiscal year	-	-	-
Conversion from non-exercisable stock options	-	-	870,000
Stock options exercised	-	-	474,000
Forfeitures	-	-	-
Stock options outstanding at the end of the fiscal year	-	-	396,000

② Unit price of options
For the year ended 31 March, 2008

Year of issue	Yen			
	2008	2007	2006	2005
Exercise price	¥ 698	¥ 800	¥ 630	¥ 503
Average market price of the stock at the time of exercise	-	-	619	610
Fair value of stock options on the grant date	143	189	-	-

For the year ended 31 March, 2007

Year of issue	Yen		
	2007	2006	2005
Exercise price	¥ 800	¥ 630	¥ 503
Average market price of the stock at the time of exercise	-	-	805
Fair value of stock options on the grant date	189	-	-

(c) Method for estimating fair value of stock options

The method for estimating fair value of stock options during the year ended March 31, 2008 and 2007 are as follows;

① Valuation method used	Black-Scholes model	
② Principal basic values and estimation methods		
Year of issue	2008	2007
Share price fluctuations (Note 1)	32.86%	34.01%
Projected remaining period (Note 2)	4 years 6 month	4 years 6 month
Projected dividend (Note 3)	¥10 per share	¥10 per share
Non-risk interest rate (Note 4)	1.561%	1.484%

Notes:

1. Computed based on actual share prices during a four-year and six-month period (from February 2003 to July 2007 for the year ended March 31, 2008 and from February 2002 to July 2006 for the year ended March 31, 2007).
2. Because of a lack of accumulated data and difficulty in making rational estimates, it is assumed the stock options are exercised at the middle of the exercise period.
3. Based on the estimated dividend for the year ended March 31, 2008 and 2007 on the grant date.
4. Yields on government bonds for the period corresponding to the projected remaining period.

(d) Method for estimating the number of confirmed stock options

A method that reflects actual past expirations has been basically adopted, because it is difficult to rationally estimate the number of expired rights in the future.

17. Deferred Tax

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Supplies adjustments	¥ 2,433	¥ 2,256	\$ 24,330
Tax losses carry forward in subsidiaries	2,246	2,330	22,458
Provision for employees' bonuses	1,438	1,369	14,382
Inventories	745	578	7,449
Software and other assets	733	811	7,332
Goodwill	667	780	6,665
Reserve for retirement benefits of directors and corporate auditors	480	546	4,804
Write-down on investment securities	314	312	3,137
Impairment loss on fixed assets	291	181	2,913
Depreciation	275	228	2,755
Accrued enterprise taxes	161	296	1,613
Loss on disposal of property, plant and equipment	125	147	1,248
Loss on derivatives	70	32	701
Other	583	1,115	5,825
	10,561	10,981	105,612
Less, valuation allowance	(2,516)	(2,634)	(25,159)
Deferred tax assets	8,045	8,347	80,453
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(4,129)	(6,415)	(41,292)
Depreciation of property in overseas subsidiaries	(575)	(566)	(5,751)
Reserve for advanced depreciation	(97)	(98)	(972)
Reserve for special depreciation	(1)	(3)	(8)
Other	(130)	(165)	(1,295)
Deferred tax liabilities	(4,932)	(7,247)	(49,318)
Net deferred tax assets	¥ 3,113	¥ 1,100	\$ 31,135

The differences between the Japanese statutory tax rate and the actual effective income tax rate in pretax income for the year ended March 31, 2008 are as follows:

	2008
Japanese statutory tax rate	40.0 %
Increase(decrease) due to:	
Tax credit of R&D expenses and other	(3.0)
Differences of tax rates on foreign subsidiaries	(1.8)
Others	(1.3)
Actual effective income tax rate	33.9

The differences between the statutory tax rate and the actual effective income tax rate in pretax income for the year ended March 31, 2007 are immaterial and the reconciliation of those rates is not disclosed.

18. Related Party Transactions

The following transactions were carried out with related parties:

(a) Transactions with Toyota Motor Corporation for the years ended or at March 31, 2008 and 2007 are as follows;

	Millions of Yen		Thousand of U.S. Dollars
	2008	2007	2008
For the year : Sales of goods	¥ 30,054	¥ 27,754	\$ 300,538
At the year-end : Accounts receivable	¥ 4,090	¥ 3,686	\$ 40,901

Notes:

1. Toyota Motor Corporation directly and indirectly held 24.6% of the Company's equity interests at March 31, 2008. The above transactions were carried out on commercial term and conditions.
2. Every year, the Company present their favorable sales price and negotiate it with Toyota Motor Corporation. The procedure is the same as other common transactions.

(b) Purchase of service with Aichi Steel Health Insurance Society for the years ended March 31, 2008 and 2007 are as follows;

	Millions of Yen		Thousand of U.S. Dollars
	2008	2007	2008
Purchase of service	¥ 9	¥ 9	\$ 86

Notes:

1. The Company pays a portion of a claim of medical fee from Aichi Steel Health Insurance Society by the approval by the Board of Directors meeting held on May 30, 2006.
2. Chairmen of Aichi Steel Health Insurance Society were Takayuki Ito, directors of the Company and holds 0.0% to the Company's shares at March 31, 2008 and Kikuo Kito, managing directors of the Company and holds 0.0% to the Company's shares at March 31, 2007.

19. Segment Information

(1) Business segment information

The operations of the Company and its subsidiaries are primarily engaged in manufacturer and sales of specialty steel business, forging business, electro-magnetic components business and other business. Special steel segment is consisted of specialty iron steel, stainless steel and tool steel. Forging segment is consisted closed die forging for automobile parts and free forging products. A part of materials of this segment are used production goods of specialty steel segment. Electro-magnetic components segment is consisted of material of electronics parts, dental-use magnetic attachments, magnetic powder and magneto-impedance sensor. Other segment is consisted of information processing, service, nursing care service and other service business.

The table below summarizes the business segment information for the years ended March 31, 2008 and 2007 are as follows:

	Millions of Yen						
	Specialty steel	Forgings	Electro-magnetic components	Other	Total	Corporate or elimination	Consolidated
For the year 2008:							
Net sales:							
External customers	¥ 140,282	¥ 104,324	¥ 4,417	¥ 4,439	¥ 253,462	¥ -	¥ 253,462
Inter-segment sales	31,691	-	-	3,420	35,111	(35,111)	-
Total net sales	171,973	104,324	4,417	7,859	288,573	(35,111)	253,462
Operating costs and expenses	163,507	100,137	6,321	7,737	277,702	(35,124)	242,578
Operating income (loss)	¥ 8,466	¥ 4,187	¥ (1,904)	¥ 122	¥ 10,871	¥ 13	¥ 10,884
Identifiable assets	¥ 131,144	¥ 84,479	¥ 9,991	¥ 3,940	¥ 229,554	¥ 34,494	¥ 264,048
Depreciation	6,394	7,310	984	66	14,754	-	14,754
Impairment loss on fixed assets	67	80	3	-	150	127	277
Capital expenditures	6,289	5,432	1,239	205	13,165	-	13,165
For the year 2007:							
Net sales:							
External customers	¥ 128,079	¥ 100,164	¥ 2,975	¥ 4,419	¥ 235,637	¥ -	¥ 235,637
Inter-segment sales	27,789	-	-	3,808	31,597	(31,597)	-
Total net sales	155,868	100,164	2,975	8,227	267,234	(31,597)	235,637
Operating costs and expenses	143,033	100,774	4,892	8,062	256,761	(31,735)	225,026
Operating income (loss)	¥ 12,835	¥ (610)	¥ (1,917)	¥ 165	¥ 10,473	¥ 138	¥ 10,611
Identifiable assets	¥ 132,096	¥ 83,110	¥ 9,155	¥ 3,888	¥ 228,249	¥ 46,359	¥ 274,608
Depreciation	4,930	6,019	991	61	12,001	-	12,001
Impairment loss on fixed assets	44	-	-	-	44	25	69
Capital expenditures	8,433	17,303	2,571	53	28,360	-	28,360
For the year 2008:	Thousands of U.S. Dollars						
Net sales:							
External customers	\$1,402,823	\$1,043,238	\$ 44,172	\$ 44,390	\$2,534,623	\$ -	\$2,534,623
Inter-segment sales	316,909	-	-	34,203	351,112	(351,112)	-
Total net sales	1,719,732	1,043,238	44,172	78,593	2,885,735	(351,112)	2,534,623
Operating costs and expenses	1,635,068	1,001,371	63,215	77,371	2,777,025	(351,246)	2,425,779
Operating income (loss)	\$ 84,664	\$ 41,867	\$ (19,043)	\$ 1,222	\$ 108,710	\$ 134	\$ 108,844
Identifiable assets	\$1,311,441	\$ 844,796	\$ 99,908	\$ 39,401	\$2,295,546	\$ 344,938	\$2,640,484
Depreciation	63,948	73,099	9,839	658	147,544	-	147,544
Impairment loss on fixed assets	666	799	30	-	1,495	1,276	2,771
Capital expenditures	62,891	54,320	12,391	2,049	131,652	-	131,652

Notes:

1. Corporate assets in corporate or elimination consist mainly of cash and deposit and investment securities held by the Company. Corporate assets are ¥35,531 million (\$355,307 thousand) and ¥47,371 million at March 31, 2008 and 2007, respectively.

2. As described in Note 2(f) (Accounting change), effective from the year ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation methods for the property, plant and equipment acquired on or after April 1, 2007. As a result of the change, operating income of specialty steel business segment, forging business segment, electro-magnetic component business segment and other business segment decreased by ¥120 million (\$1,201 thousand), by ¥128 million (\$1,286 thousand), by ¥42 million (\$418 thousand) and by ¥2 million (\$16 thousand) , respectively, as compared with the previous accounting method.

As described in Note 2(f) (Additional information), effective from the year ended March 31, 2008, the Company and its domestic subsidiaries depreciate the property, plant and equipment acquired before April 1, 2007 from 5% of their cost to ¥1 by the straight-line method for 5 years from the following year the property, plant and equipment reach 5% of their cost calculated by pre-revised depreciation method. As a result of the change, operating income of specialty steel business segment, forging business segment, electro-magnetic component business segment and other business segment decreased by ¥868 million (\$8,677 thousand), by ¥200 million (\$2,001 thousand), by ¥18 million (\$178 thousand) and by ¥1 million (\$9 thousand) , respectively, as compared with the previous accounting method.

3. As described in Note 2(j) (Accounting change), effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.4 “Accounting Standard for Directors’ Bonus” issued on November 29, 2005 by the Accounting Standards Board of Japan. As a result of adoption, operating income of specialty steel business segment, forging business segment, electro-magnetic component business segment and other business segment decreased by ¥194 million, by ¥56 million, by ¥2million and by ¥43 million , respectively, as compared with the previous accounting method.

As described in Note 3(b) (Accounting change), effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.8 “Accounting Standard for Share-based Payment” issued on December 27, 2005 by the Accounting Standards Board of Japan and its Implementation Guidance No.11 “Guidance on Accounting Standards for Share-based Payment ” issued on May 31, 2006 by the Accounting Standards Board of Japan. As a result of adoption, operating income of specialty steel business segment, forging business segment, electro-magnetic component business segment and other business segment decreased by ¥20 million, by ¥11 million, by ¥0million and by ¥0 million, respectively, as compared with the previous accounting method.

(2) Geographic segment information

The table below summarizes the geographic segment information for the years ended March 31, 2008 and 2007 are as follows:

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	Corporate or elimination	Consolidated
For the year 2008:							
Net sales:							
External customers	¥ 220,095	¥ 14,090	¥ 1,708	¥ 17,569	¥ 253,462	¥ -	¥ 253,462
Inter-segment sales	6,879	-	-	-	6,879	(6,879)	-
Total net sales	226,974	14,090	1,708	17,569	260,341	(6,879)	253,462
Operating costs and expenses	218,787	13,392	1,671	15,624	249,474	(6,896)	242,578
Operating income (loss)	¥ 8,187	¥ 698	¥ 37	¥ 1,945	¥ 10,867	¥ 17	¥ 10,884
Identifiable assets	¥ 214,090	¥ 8,743	¥ 1,170	¥ 19,209	¥ 243,212	¥ 20,836	¥ 264,048
For the year 2007:							
Net sales:							
External customers	¥ 203,539	¥ 16,040	¥ 1,114	¥ 14,944	¥ 235,637	¥ -	¥ 235,637
Inter-segment sales	6,068	-	-	-	6,068	(6,068)	-
Total net sales	209,607	16,040	1,114	14,944	241,705	(6,068)	235,637
Operating costs and expenses	200,795	15,636	1,089	13,664	231,184	(6,158)	225,026
Operating income (loss)	¥ 8,812	¥ 404	¥ 25	¥ 1,280	¥ 10,521	¥ 90	¥ 10,611
Identifiable assets	¥ 216,836	¥ 11,008	¥ 603	¥ 15,620	¥ 244,067	¥ 30,541	¥ 274,608
For the year 2008:							
Net sales:	Thousands of U.S. Dollars						
External customers	\$ 2,200,946	\$ 140,904	\$ 17,085	\$ 175,688	\$ 2,534,623	\$ -	\$ 2,534,623
Inter-segment sales	68,791	-	-	-	68,791	(68,791)	-
Total net sales	2,269,737	140,904	17,085	175,688	2,603,414	(68,791)	2,534,623
Operating costs and expenses	2,187,867	133,918	16,710	156,243	2,494,738	(68,959)	2,425,779
Operating income (loss)	\$ 81,870	\$ 6,986	\$ 375	\$ 19,445	\$ 108,676	\$ 168	\$ 108,844
Identifiable assets	\$ 2,140,902	\$ 87,428	\$ 11,703	\$ 192,087	\$ 2,432,120	\$ 208,364	\$ 2,640,484

Notes:

1. Corporate assets in corporate or elimination consist mainly of cash and deposit and investment securities held by the Company. Corporate assets are ¥35,531 million (\$355,307 thousand) and ¥47,371 million at March 31, 2008 and 2007, respectively.

2. Countries or areas belonging to each segment are as follows;

	2007	2008
North America	U.S.A.	U.S.A.
Europe	Germany	Germany, Czech Republic
Asia	Philippine, Thailand, China, Indonesia	Philippine, Thailand, China, Indonesia, Taiwan

3. As described in Note 2(f) (Accounting change), effective from the year ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation methods for the property, plant and equipment acquired on or after April 1, 2007. As a result of the change, operating income of Japan region decreased by ¥292 million (\$2,921 thousand) as compared with the previous accounting method.

As described in Note 2(f) (Additional information), effective from the year ended March 31, 2008, the Company and its domestic subsidiaries depreciate the property, plant and equipment acquired before April 1, 2007 from 5% of their cost to ¥1 by the straight-line method for 5 years from the following year the property, plant and equipment reach 5% of their cost calculated by pre-revised depreciation method.. As a result of the change, operating income of Japan region decreased by ¥1,087 million (\$10,865 thousand) as compared with the previous accounting method.

4. As described in Note 2(j) (Accounting change), effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.4 "Accounting Standard for Directors' Bonus" issued on November 29, 2005 by the Accounting Standards Board of Japan. As a result of adoption, operating income of Japan region decreased by ¥295 million. As described in Note 3(b) (Accounting change), effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.8 "Accounting Standard for Share-based Payment" issued on December 27, 2005 by the Accounting Standards Board of Japan and its Implementation Guidance No.11 "Guidance on Accounting Standards for Share-based Payment" issued on May 31, 2006 by the Accounting Standards Board of Japan. As a result of adoption, operating income of Japan region decreased by ¥31 million.

(3) Sales to overseas customers

For the years ended March 31, 2008 and 2007, overseas sales which included export sales from Japan and net sales of overseas consolidated subsidiaries other than Japan were summarized as follows;

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
North America	¥ 14,928	¥ 16,885	\$ 149,281
Europe	2,148	1,166	21,484
Asia	27,858	20,826	278,580
Other area	354	341	3,538
	¥ 45,288	¥ 39,218	\$ 452,883
Total consolidated net sales	¥ 253,462	¥ 235,637	\$ 2,534,623
Percentage of overseas sales to total consolidated net sales	17.9%	16.6%	17.9%

Note:

Significant countries or areas belonging to each segment are as follows;

	2008 and 2007
North America	U.S.A.
Europe	Germany, Netherlands, Switzerland
Asia	Thailand, Philippines, Indonesia
Others	Oceania

20. Per Share Data

Per share data for the years ended March 31, 2008 and 2007 are as follows:

	Yen		U.S. Dollars
	2008	2007	2008
Net assets per share	¥ 624.49	¥ 618.99	\$ 6.2
Basic net income per share	29.00	24.97	0.3
Diluted net income per share	26.23	22.56	0.3

Basics used in calculation

(a) Net assets per share

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Net assets	¥ 128,155	¥ 127,329	\$ 1,281,555
Deduction from net assets	5,629	5,346	56,295
Subscription rights to shares	99	31	993
Minority interests	5,530	5,315	55,302
Net assets attributable to common stock	122,526	121,983	1,225,260
Number of common stock at the end of the fiscal year used for the calculation of net assets per share (Thousands of shares)	196,201	197,069	

(b) Basic net income per share and diluted net income per share

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Basic net income per share			
Net income	¥ 5,693	¥ 4,922	\$ 56,929
Net income not attributable to common stock	-	-	-
Net income attributable to common stock	5,693	4,922	56,929
Average number of common stock during the fiscal year (Thousands of shares)	196,310	197,119	
Diluted net income per share			
Adjustment for net income (After tax deduction)	4	4	36
Management fee for convertible bonds	4	4	36
Effect of dilutive Securities (Thousands of shares)	20,903	21,179	
Convertible bonds with subscription rights to shares (Thousands of shares)	20,833	20,833	
Stock option (Thousands of shares)	70	346	
Outline of dilutive Securities not included in the calculation of diluted net income per share because they do not have any dilutive effect	Stock option issued on August 1, 2005, 2006 and 2007: 1,362 units	Stock option issued on August 1, 2006: 490 units	

21. Subsequent Event

On June 20, 2008, shareholders of the Company approved the payment of year-end cash dividends to shareholders of record as of March 31, 2008, of ¥5.0 (\$0.05) per share, or a total of ¥981 million (\$9,810 thousand), and payments of bonuses to directors and corporate auditors of ¥129 million (\$1,294 thousand). As the result, cash dividends for the year totaled ¥10.0 (\$0.10) per share, including interim dividend of ¥5.0 (\$0.05).

Report of Independent Auditors

To the Board of Directors of AICHI STEEL CORPORATION

We have audited the accompanying consolidated balance sheet of AICHI STEEL CORPORATION (“the Company”) and its subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note2(f) to the consolidated financial statements, effective from the year ended March 31, 2008, the Company and its domestic subsidiaries depreciate the property, plant and equipment acquired before April 1, 2007 from 5% of their cost to ¥1 by the straight-line method for 5 years from the following year the property, plant and equipment reach 5% of their cost calculated by pre-revised depreciation method, in accordance with the revised Corporate Tax Law of Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note1(b) to the consolidated financial statements.

PricewaterhouseCoopers Aarata

July 22, 2008

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