

More enthusiastically, strongly and straightforwardly

AICHI STEEL REPORT 2011

AICHI STEEL

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 2015

- We will gain the trust and confidence of and give satisfaction to our customers and all other stakeholders.
- We will develop employees who are open and fair, developing a corporate culture characterized by a challenging spirit.



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About Aichi Steel Report 2011

■ Editorial Policy

Aichi Steel Report 2011 focuses on disclosing as much as possible concerning the activities of Aichi Steel and the Aichi Steel Group during fiscal 2010, including specific examples. As regards unattained objectives, contributory factors are analyzed, and the measures to be taken are reported.

■ Mark/Design

To render new and ongoing activities easily recognizable, new activities are marked with .

■ Readers

This Report is intended for our customers, suppliers, other business partners, shareholders and investors, residents in neighboring communities, affiliated companies, and our employees.

■ Report Period and Scope

This Report covers activities conducted by the Aichi Steel Group during fiscal 2010 (April 2010 to March 2011). However, some activities conducted before or after fiscal 2010 are also explained, as necessary.

■ Reference Guidelines

The Global Reporting Initiative “Sustainability Reporting Guidelines” (Version 3.0)
ISO 26000

■ Release

October 2011



Growing as a group of companies committed to manufacturing, with human resources development as the basis of our business, we aim to be a “company of choice” for society.

Takahiro Fujioka

President

Profile

- 1979: **Joined Toyota Motor Co., Ltd. (currently Toyota Motor Corp.)**
Learned about the manufacturing of parts and vehicles at Tsutsumi Plant.
- 1987: **Posted to TMMK (Toyota Motor Manufacturing, Kentucky, Inc.) in the U.S.**
Worked with local employees as a quality control engineer for five years to form the basic foundation for Toyota’s independent vehicle production plant.
- 1997: **Posted to TMMK (2nd assignment abroad)**
Worked to enhance the autonomy of TMMK by promoting full-model change for cars and improving the plant’s mass-production system.
- 2002: **Learned about plant management as the head of Administration Div. at Tsutsumi Plant, Toyota Motor**
- 2004: **Posted to TMUK (Toyota Motor Manufacturing (UK) Ltd.) in Derbyshire, U.K. (3rd assignment abroad)**
As Senior Executive Director, he implemented breakthrough innovations in product management and quality control.
- 2006: **Appointed as a Managing Officer of Toyota Motor**
Served as the General Manager of Tsutsumi Plant and Takaoka Plant, and from 2008 he was responsible for TQM (Total Quality Management).
His efforts were focused on the enhancement of plant capabilities to create high-quality products at competitive prices.
- 2011: **Appointed as the President of Aichi Steel Corporation**

The impact of the Great East Japan Earthquake and the subsequent nuclear power plant accident, and the response of Aichi Steel and its Group companies to the unprecedented disaster

What effects did the Great East Japan Earthquake of March 11, 2011, have on Aichi Steel?

Firstly, let me say that Aichi Steel extends its deepest sympathies to the many victims of the massive earthquake and tsunami that devastated large areas of northern east Japan and took a heavy toll of lives. We sincerely pray for the health of all those affected by the disaster and for the speedy recovery of all regions.

There was no direct damage to our employees and their families, or to our operations and facilities. However, many of our customers who have automobile production bases in the Kanto and Tohoku region, as well as many of our steel suppliers, were affected by the disaster. Immediately after the earthquake, the Aichi Steel Group assessed the extent of the damage and began assistance activities. Our assistance efforts included monetary donations by the company for disaster victims; fund raising by employees; provision of everyday commodities to Kamaishi City (Iwate Pref.), a sister city of Tokai

City (Aichi Pref.), through the Tokai municipal government; participation in the Toyota Group’s disaster-relief volunteer activities; and the provision of seven Toyota vehicles (Vitz) to the affected areas through the Aichi prefectural government and the Tokai municipal government. We will continue to extend as much assistance as possible, according to the situation in the disaster areas.

Meanwhile, the massive earthquake and tsunami, which devastated many parts manufacturers, forced Japanese auto manufacturers to significantly reduce their production capacity. As a result, we saw a decrease in output by approximately 10,000 tons in the fiscal year ended March 2011. However, the industry’s restoration assistance brought about a quick recovery in automobile production in July, and our operating capacity has been returned to the level originally planned for the current fiscal year.

Please tell us about the effects that power supply shortages in the wake of the suspended operation of nuclear power plants have had on your business, and about the precautions the Group has taken against the massive earthquakes that are predicted to occur off the Pacific coast of central and western Japan.

In May, Chubu Electric Power Company, which supplies electricity to us, suspended the operation of the Hamaoka Nuclear Power Plant (in Shizuoka Pref.) until the necessary safety measures are completed. In the face of a possible electricity shortfall, Toyota Motor and other auto manufacturers have taken various efforts to curb electricity use from July to September, including switching their weekly days off to Thursday and Friday, and making further increases in electricity saving. In line with this move, we have shifted workdays at our major production bases and at the headquarters. We are also making Group-wide efforts to enhance energy and electricity conservation, although our steel works have conventionally tried to level off electricity consumption by operating during the night and on Saturdays and Sundays as well.

For risk management against large-scale natural disasters, we have in place an employee safety confirmation system and conduct emergency drills on a regular basis with cooperation from the Tokai City Fire Department, as part of our efforts to minimize

potential damage and ensure an early recovery from such an event. However, the March 11 earthquake and tsunami went far beyond any predicted worst-case scenario. Recognizing that it is urgent for us to improve our Business Continuity Plan (BCP) in response to the earthquake and tsunami that devastated northeastern Japan, we launched a committee in May to discuss preventive measures against earthquake disasters. With a particular focus on the Tokai and Tonankai earthquakes that have a high probability of occurrence, the committee is currently working on the analysis of risk factors and the preparation of a BCP with the safety of our employees as a top priority, while promoting information exchange with other companies and administrative organs. The committee consists of three working sessions, in which appropriate measures for recovery in software, hardware, and production in the event of a major earthquake are discussed. The committee will prepare a medium to long-term road map within the current fiscal year and adopt full countermeasures against natural disasters by 2015.

We will adhere to our corporate culture “1S” and “4S,” and develop them further.

You became the President of Aichi Steel with the business environment undergoing drastic change. How are you planning to manage your company?

I have only been here for a short time, but from my more than 30 years of experience engaged in manufacturing at Toyota Motor, I was impressed to learn that Aichi Steel has firmly established a “1S”-based corporate culture and a framework for manufacturing with “4S” as its core. The slogan “1S” represents our message that our first (1st) priority should be on the three Ss, that is, “Shojiki” (Sincerity), “Seisou” (Cleanliness), and “Safety.” “Sincerity” is an important element to prevent serious mistakes or accidents. “Cleanliness” is the basis for improving quality and productivity. “Safety” will ensure risk detection and strict compliance with rules. These are the responsibilities that individual employees should fulfill, and at the same time they serve as a foundation for our Company as a whole.

Of these 1S elements, I set “Safety” as the first task to be done. If we value safety first and improve product quality, it will lead to the improvement of production efficiency and costs. If these are placed in the wrong order, serious accidents or customer complaints may be allowed to arise. I believe that it is the most important element for us to create a “safety-first” culture, which enables employees to

point out to each other any minor violations of rules and encourage improvement. Fostering the “awareness, knowledge, and skills” that enable individuals to point out any danger aloud is the basis for our Company, which represents our corporate culture of “1S” itself.

The slogan “4S” represents Simple, Slim, Short, and Straight. The keywords “Simple” and “Slim” convey our message that the least required equipment be installed in light of necessary functions to prevent any unnecessary costs and redundancy. “Short” and “Straight” convey the idea that a smooth process flow, including the physical movement of goods and people, should be realized. The keywords “4S” embrace all the elements necessary to realize the reform of our production process by 2015.

We are currently working on reengineering* through united efforts across the Group, aiming to build a robust corporate structure that enables us to generate profits at a factory-operating rate of 70%. I believe that my task is to further develop and refine the corporate culture of “1S” and “4S” introduced by Shokichi Yasukawa, Chairman of Aichi Steel.

*Reengineering: In this case, it means to implement a fundamental review of production lines.

Could you explain what efforts were made during fiscal 2010 and what results were achieved?

In 2010, when Aichi Steel celebrated the 70th anniversary of its founding, the automobile industry saw an increase in overseas production, especially in Asia, and a solid growth in demand for construction machinery, despite the strong yen and rising resource prices. These positive results were brought about with the help of the economic measures taken by the Japanese government and the economic booms enjoyed by China and ASEAN countries.

Aichi Steel also significantly increased the sales volume of steel products and forgings. Moreover, we successfully increased both sales and profits, which can be largely attributed to the results of Project Z100, a Group-wide effort launched in 2008 to reduce production costs by 10 billion yen by thoroughly cutting waste.

As a corporate strategy toward sustainable growth, we have created “Doctrine 1-3-7.” This is based around the idea that in our core business, we create a financial structure that enables us to lower our break-even point and generate profits at a factory-operating rate of 70% by 2011 (3rd year of the strategy), with 2009 as the starting point (1st year). This strategy also has a long term goal of reforming our production processes and rebuilding our global sites by 2015 (7th year). In 2010 (2nd year of the strategy), we promoted radical reforms of our corporate structure, launched projects to develop new products

and create new markets, and commenced the operation of Seki Plant (Gifu Pref.), a new production site for “MAGFINE” for automobile use. Furthermore, we promoted the expansion of our global presence, including the opening of a Silicon Valley office and the establishment of an affiliated company in South Korea for our electromagnetic products business.

With regard to product development, we developed a high performance steel for auto gears and shafts, as well as MAGFINE magnetic powder. The former features high-strength steel without use of the rare metal, Molybdenum (Mo). The latter is characterized by heat resistance enhanced without using the rare-earth mineral, Dysprosium (Dy), for a magnetic material essential for auto motors. The development of these products will contribute to addressing the global issues of resource management and environmental conservation.

Our new businesses, especially those for magnetic sensors and magnetic materials that are expected to be the core business of Aichi Steel in the future, have experienced remarkable growth. In April 2011, we launched an ultra-small motion control sensor (electronic compass), which features the world’s first magnetic gyro, for use in smartphones. MAGFINE magnetic powder is a new high-value product, which is contributing to the further downsizing of motors.



We aim to become a globally valued company.

Development of business sites and human resources that respond to the global optimization of the automobile production system

Automobile manufacturers have recently accelerated overseas operations to ensure global optimization of their manufacturing operations. How are you responding to this trend?

Aichi Steel's affiliated companies overseas include a total of five plants in forging operations in the United States and the Asian region. We consider Thailand and the United States to be the most important for our global strategy. Thailand is growing significantly as a global base for automobile production, and is expected to see an increase in demand for forgings as a base for supplying auto parts to Asian countries. At present, Aichi International (Thailand) Co., Ltd. (AIT) machines the forgings purchased from our forging subsidiaries in Asia and ships approximately one million units per month for Toyota IMV engines and propeller shafts. In June 2012, AIT will start operating a new factory that enables integrated forging production. We will expand our business by establishing this new factory as a global production base, with cooperation from our plants in China, the Philippines, and Indonesia.

In the United States, Aichi Forge USA, Inc. (AFU) supplies forgings to the major production bases of Toyota Motor. AFU offers a broad product lineup, from large forgings (crankshafts etc.) to small and medium-sized forgings (gears etc.). With the sales of pickup trucks recovering recently, AFU has reinforced

its production system to supply quality products in a timely manner.

What is most important in overseas development is to ensure the stable supply of high value added and high-quality products at competitive prices by applying the manufacturing expertise at the mother plant in Japan to production sites in Asia and the United States. To this end, we have been bringing up people of subsidiary companies for proper quality control of forgings and supply chain development. At the same time, we have also been providing prospective leaders of subsidiary companies with well-developed, content-rich education and training, covering a wide range of areas – from our manufacturing philosophy to equipment and production engineering in Aichi Steel's plant. We have been making these efforts with the self-sufficiency and independence of local plants in view. We believe that only through such efforts, can we become a "true global company."

In June 2011, the construction of Chita Plant' No. 3 bloom continuous casting machine (No.3 CC) for specialty steel was completed.

We invested about 25 billion yen in the construction of a No.3CC for specialty steel, which was commenced in 2009. This is a production line with a casting capacity of one million tons per year, enabling improvements in product quality, increased productivity by realizing a smooth process flow and improving yield ratio, and a significant reduction in CO₂ emissions by achieving a proper balance of energy conservation and production capacity. This new high-efficiency continuous casting machine will also contribute to enhancing our

competitive edge in terms of quality, costs, and environmental conservation, marking a huge step forward for the reform of all our production processes, with 2015 as the target year. I attended the ceremony to celebrate the completion of the continuous casting machine, where I felt firsthand the strong enthusiasm of our employees for this machine and how great was their pleasure in operating it.

The Toyota Group considers "human resources development" essential to quality manufacturing. Could you tell us about the measures taken by the company?

Kiichiro Toyoda established the forerunner of Aichi Steel, based on the principle, "Great cars are made with great steel." He also emphasized the importance of developing human resources that are essential for developing high-quality products and offering them at competitive prices. Eiji Toyoda (Honorary Adviser of Toyota Motor) argues, "Because people make our automobiles, nothing gets started until we train and educate our people." I believe that our business management can be summed up in these words. This principle is also embodied in our "1S" corporate culture and in our philosophy "Rebuilding our business by changing ourselves."

We need to learn and think for ourselves with a high problem awareness, and act on our own initiative. To this end, we

should make constant efforts to keep our upward momentum. I want to create a company in which individuals, systems, and organizations make constant efforts to improve themselves, using the concept of the Plan, Do, Check, and Act (PDCA) cycle, and then everyone will see how their efforts contribute to the growth of their company. In this sense, I am very happy to learn that Aichi Steel has many highly professional employees with open minds. I hope that Aichi Steel's vision can be realized through the achievement of individual employees' self-fulfillment, by promoting deeper communications with individual employees and bringing the direction Aichi Steel is taking into closer alignment with the growth direction of individuals.

We aim to be a “company of choice” through a well-balanced combination of defensive and proactive CSR activities.

Please tell us about what approach you will take in promoting CSR management.

Our CSR direction is twofold: defensive and proactive approaches. Our defensive CSR is about ensuring adherence to our corporate culture of “1S.” “1S” represents our message that our first (1st) priority should be on the three Ss, that is, “Sincerity,” “Cleanliness,” and “Safety,” which are directly linked to compliance, honesty and an open mind, and risk management, respectively. In other words, “1S” also represents the essence of our CSR management. These factors are the basis for earning the trust of all stakeholders, including our customers, employees, local communities, shareholders, and suppliers. Our offensive CSR is about contributing to resolving the environmental challenges confronting our societies—reducing global warming and recycling resources—through our products and business activities. Aichi Steel is a recycling-oriented company, whose main business is to produce high value-added specialty steel from useless scrap iron. We are also making efforts to promote energy and resource saving by reforming our

production processes.

Our efforts in the area of product development include the improvement of fuel efficiency and the reduction of CO₂ emissions by promoting weight saving, and the reduction of the use of scarce resources by utilizing alternatives to rare metal and rare earth minerals, all of which contribute to improving the environmental performance of automobiles.

Commemorating the 70th anniversary of our founding, we launched a project to visit local schools to give a “lesson about iron” as part of our efforts to contribute to the local community. The aim is to teach children more about the superior raw material called “iron” and convey the pleasure and importance of manufacturing. We will continue to play an active role in the building of a sustainable society while facilitating both our defensive and proactive CSR activities, just like the two wheels of one cart.

What do you think about the relationship between Aichi Steel and its suppliers?

Our basic stance is to establish a win-win relationship with our suppliers and to work together for coexistence and co-prosperity. For that purpose, we need to work cooperatively with our Group companies and business partners to build a robust supply chain system through the reform of our production processes. We have held various events, including

CSR lecture meetings, to enhance our suppliers’ understanding of our basic stance towards them. I want to continue to make efforts to promote communications with our suppliers, such as regular visits to them, and work together to address the challenges facing us in terms of CSR, as well as manufacturing.



*Wagen Aigo:

a Buddhist term referring to “even if you are in moments of pain, always treat others with a gentle smile and kind words.”

Finally, please tell us about your aspirations for the future.

There are worries about the risk of an economic downturn in fiscal 2011 because of the Great East Japan Earthquake. We expect that due to rising interest in compact cars and eco-cars, the automobile industry will see a decrease in the quantity of specialty steel used per vehicle. For ensuring the sustainable growth of our company under these circumstances, it is essential to accelerate the Group-wide efforts of “reengineering,” developing new products, and creating new markets. The key to success is a “workplace capability” for which individual employees need to play an important role. I am confident that if this workplace capability can be used to maximize the effects of reengineering, we will have a bright future ahead of us.

In terms of manufacturing and CSR activities, we need to become a “company of choice” for our stakeholders, or we will not be able to survive in the future. If we can be a “globally-valued company,” which is continuously wanted and loved by local communities around the world, it will also be a source of pride for our employees. I truly hope that Aichi Steel will be such a company group. As the first step to achieving this goal, I want to create a workplace environment in which individual employees always treat others with a gentle smile and kind words, as in the saying, “Wagen Aigo.”*



Corporate Profile

[Establishment] March 8, 1940
[Capital] 25,016 million yen (as of March 31, 2011)
[Representative] Takahiro Fujioka, President
[Employees] 2,360 (as of March 31, 2011)
[Business Description]
 Production and sale of specialty steel products, forgings and electromagnetic products

[Offices]
 Head Office: Tokai City, Aichi Pref., Japan
 Sales Offices: Tokyo/Osaka/Fukuoka
 Overseas Offices: Shanghai/Silicon Valley
 Plants: Chita/Kariya/Forging/Higashiura/Gifu/Seki
[Customers and Suppliers]
 Major Customers: Toyota Tsusho Corporation/Toyota Motor Corporation/Aisin AW Co., Ltd.
 Major Suppliers: Toyota Tsusho Corporation/Mitsui & Co., Ltd.

Major Products

Specialty steel

Specialty steel is manufactured by adding alloys and metallic elements to iron to improve material properties, such as strength, hardness, toughness, wear resistance, corrosion resistance.
 [Example products] structural steel, free-cutting steel, spring steel, etc.



Stainless steel

Tough and corrosion-resistant stainless steel is used in applications relating to water, such as dams, sluices and ships. It is also used in chemical and nuclear power plants, as well as in construction materials and everyday utensils.
 [Example products] Stainless steel shapes, round bars, etc.



Forgings

Forgings, produced by pressing and forging specialty steel, are used in automobiles, construction machines and manufacturing machines that require strength and durability.
 [Example products] Crankshafts, differential ring gears, rear axle shafts, etc.



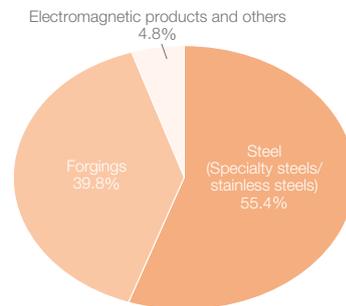
Electromagnetic products/ TetsuRiki-Agri

Using our know-how in specialty steel manufacturing, we develop electronic components, magnets and sensors. In addition, "TetsuRiki-Agri," which promotes plant growth through the latent power of iron, has also been developed.

[Example products] MAGFINE, MI sensors, TetsuRiki-Agri, TetsuRiki-Aqua, etc.



Sales Mix (Consolidated)



Results for Fiscal 2010
 Consolidated net sales: 215,454 million yen

Please refer to our Website

http://www.aichi-steel.co.jp/ENGLISH/pro_info/index.html

Aichi Steel Group

Subsidiaries in Japan (9 subsidiaries)

- 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

Overseas subsidiaries (9 subsidiaries)

- Aichi Forging Company of Asia, Inc. (AFC)
- Aichi Forge USA, Inc. (AFU)
- Aichi Europe GmbH (Ae)
- Aichi International (Thailand) Co., Ltd. (AIT)
- Shanghai Aichi Forging Co., Ltd. (SAFC)
- PT. Aichi Forging Indonesia (AFI)
- Aichi Magfine Czech s.r.o. (AMC)
- AMIT, Inc.
- Aichi Korea Corporation (AKC)

Please refer to our Website

http://www.aichi-steel.co.jp/ENGLISH/com_info/a_group.html



Responding to the Great East Japan Earthquake



Aichi Steel offers its heartfelt sympathies to everyone affected by the Great East Japan Earthquake that struck the northeast region of the country on March 11, 2011. We will provide every possible assistance toward a quick recovery of the disaster-stricken areas.

Our response to the outbreak of the crisis

Immediately after the earthquake hit on March 11, our Tokyo Office, which suffered a tremor with an intensity 5 on the Japanese seismic scale, operated its Safety Confirmation System. As a result, the safety of all our employees (including those away on business) and their families, as well as all the facilities, were confirmed.

Our assistance activities

We implemented various assistance activities, including the donation of money and resources, the provision of vehicles to the affected local governments, volunteer activities, and production support for affected companies. We have also provided continuing support by participating in disaster-relief volunteer activities organized by the Toyota Group Disaster Volunteer Net. Following this massive earthquake and tsunami, some employees used our welfare leave system* to raise money for helping disaster victims, sort clothing and other relief supplies, and engage in reconstruction assistance in affected areas.

*This is a system that allows employees to take a leave of absence when they are ill or injured, when they are affected by a disaster, or when they engage in volunteer activities.

Donations

Aichi Steel

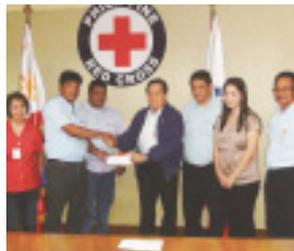
Monetary donations by the Company: 20 million yen
 Fund raising by employees: 2,759,606 yen
 Relief supplies (clothes, retort packed rice, hardtack, medical products, etc.)
 Vehicles (seven Toyota Vitz to Miyagi and Iwate pref.)

Group companies

Combined monetary donations by Group companies: 8,816,147 yen
 Fund raising by employees: 1,653,795 yen
 Relief supplies (masks, flashlights, drinking water, etc.)
 Others: Aichi Steel Logistics carried relief supplies provided by Tokai City (Aichi Pref.) to Kamaishi City (Iwate Pref.) on March 13.



Aichi Steel Logistics' drivers engaged in emergency transportation



Monetary donation to the Philippine Red Cross by Aichi Forging Company of Asia, Inc. (AFC)

Proposal for society – widespread use of stainless steel for the seismic strengthening of buildings

Recently, stainless steel, which is excellent in durability, corrosion resistance, and life cycle costs, has been widely used for the seismic strengthening of buildings. Our stainless steel shapes had been used to increase the earthquake resistance of the Kakuda Pumping Station (sewage treatment facility in Kakuda City, Miyagi Pref.), constructed in September 2009, so that the facility can withstand an earthquake with an intensity of upper-6. As a result, the facility survived the Great East Japan Earthquake, providing sewage disposal services to local people.



Earthquake-proof structure of Kakuda City's sewage treatment facility

Safe and reliable products

To prevent the mixing of radioactive materials into our products, we inspect all the iron scrap (raw materials) we receive and all the molten steel samples in the steel-making process. If radioactive materials exceeding standard levels are detected, they are dealt with according to the Company's regulations.

VOICE

We will provide all possible assistance to affected areas

Satoshi Nagiri, Chief of Staff

Human Resources Dept., Human Resources Div.

Thanks to the Company's understanding and cooperation, I used the welfare leave system to visit Ishinomaki City (Miyagi Pref.) and Kamaishi City (Iwate Pref.) between May 4 and 14, 2011 in order to help the earthquake victims. I decided that I had to "do something for the disaster victims," and I visited affected areas as a Boy Scout leader and helped with clearing and scraping out mud from houses damaged by the tsunami. To provide the assistance that meets the need of sufferers, we held discussions with those who need our help before starting work. Some local residents thanked us in tears, and I was very happy that we were able to be of some help to them. Most of the affected areas are still short of workers, and much of the work there can be done by anybody. I hope that more people can visit there and lend a helping hand. I'm also determined to visit again to engage in activities to help local people recover from the disaster.



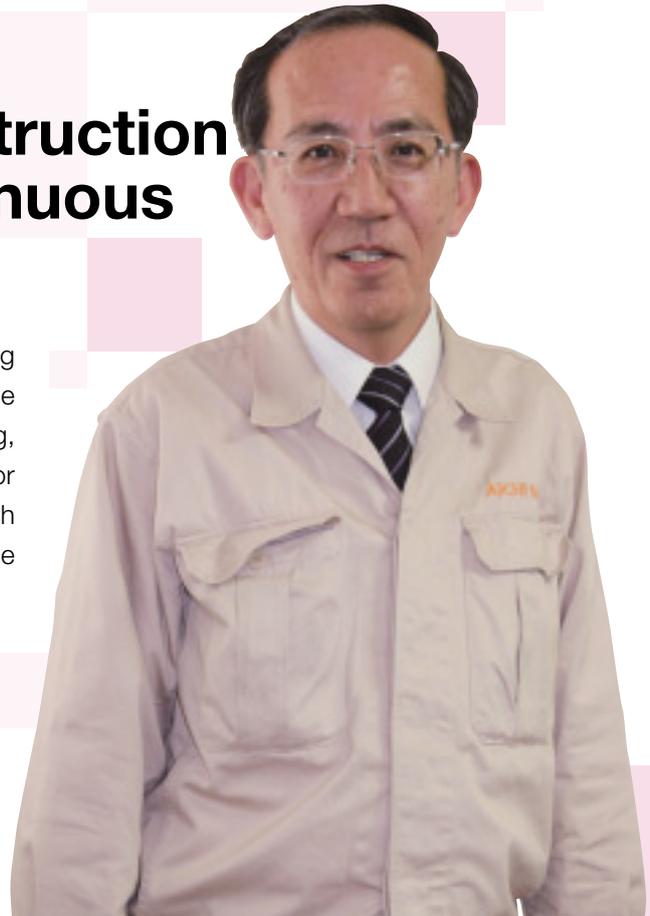
Visit to a disaster-stricken school (Mr. Nagiri on the right)

Passion for the Construction of No. 3 Bloom Continuous Casting Machine

The construction of No. 3 bloom continuous casting machine (known as “No. 3 CC”), which will become the centerpiece of Aichi Steel’s specialty steel manufacturing, was completed in June 2011. Mr. Yamaguchi, Director of Aichi Steel, talks about his passion for No. 3 CC which undergoes the large-scale updating in about 30 years (the second-time experience for him).

Kenzo Yamaguchi Director, Aichi Steel Corporation

Joined Aichi Steel in 1979, and engaged in the construction of No.1 CC in his second year at the company. Since then, he has been assigned to specialty steel production technology. In 2010, he was appointed as a Director of Aichi Steel.



Evolving Continuous Casting Machine

The construction of No. 3 CC for specialty steel is the first step in reforming the production processes into an integrated steel-making process. We are currently working on the reform of our production processes under the slogan “4S,” which represents Simple, Slim, Short, and Straight. With increasingly intensified global competition and due to the capacity limitation of the aging No. 1 CC, we launched a project to construct No. 3 CC, which will enable improvements in quality and productivity and a reduction in CO₂ emissions by integrating the upstream process of specialty steel making to directly connect the electric arc furnace/smelting process to the rolling process.

I had a chance to get involved in the construction of a continuous casting machine for the first time in some 30 years. My primary concern is “pursuing the world’s best quality” as a global manufacturer. In other words, we need to construct a facility that enables a perfect steel-making process that is free from quality-

related losses or downstream operations. To this end, the divisions responsible for production engineering, technical development, and facility engineering, and Chita Plant worked together from an early stage to create an easy-to-operate high precision facility, by carrying out research and development and repeatedly performing simulations using the existing No. 1 CC.

Our objective is not a one-off improvement of the facility. To achieve the world’s best quality products, we have introduced a significant amount of the latest equipment and measurement technologies that enable us to move ahead of the times and carry out continuing development and evolve steel making itself. In that sense, No. 3 CC is still under construction as an evolving CC, although the ceremony to celebrate the completion of the CC was held in June.

No. 3 CC will soon be put into full-fledged operation. I renew my resolve to work together with other staff to make optimal use of the facility, which is the fruit of many years of our concerted efforts.

Major feature of No. 3 CC

Three-strand machine with higher production capacity

A major feature of No. 3 CC is that it is a three-strand continuous casting machine, delivering higher productivity than the conventional two-strand type.



Visitor-friendly factory

No.3CC is visitor-friendly and safety-conscious. The factory has some sections from which helmet-less visitors can see working processes through windows. From the design phase of the facility, special consideration was given to the location and size of these windows, through which visitors can watch the steel-making process.



Development of young people by offering a chance at the job

I believe that the construction of No. 3 CC is a good chance for young engineers to develop themselves. It is an important task for them to set a high goal and try to develop the element technology necessary to achieve the goal. For engineers, it is a challenging and very meaningful task to incorporate the technologies developed by themselves into a new facility and achieve results. It also gives them a chance for further growth. That's why during the construction of the new facility, I maintained the basic policy stance of involving young engineers and respecting their ideas and opinions as much as possible. Of course, that does not mean everything is left to the young engineers. As one of the senior engineers, I participated in discussions about what equipment or functions they thought necessary and why they thought so, and we conducted thorough

deliberations to the satisfaction of all those involved.

The results of No. 3 CC, constructed through the enthusiastic and untiring efforts of the young engineers, have yet to be seen. If it proves to be a success, I will share the pleasure with everyone, and if it proves to be a failure, I will think about why it goes wrong on an equal footing with the young engineers. We will continue to work together until desirable results are brought about. I think that this approach will really help the development of our younger engineers. I believe that my mission as an engineer is to pursue the world's top quality, carry on development towards the goal, and also provide the younger generation with a place and an opportunity to also do the same.

Evolving eco-factory

I understand that it is the responsibility of those engaged in specialty steel making, which requires a large consumption of electricity, to pursue eco-friendly manufacturing activities and make our plants more environment friendly. Regarding the construction of No. 3 CC as a perfect opportunity to "go more green," we have introduced energy-saving technology-based equipment, and we will also make continued efforts to reduce CO₂ emissions by promoting the reforms of all production processes under the "4S" slogan—Simple, Slim, Short, and Straight. No. 3 CC is an eco-factory, and you will be able to see environment-friendly design in many places around the plant. Our efforts to create an ecologically sympathetic environment include the adoption of green parking and rooftop gardening, and energy saving by taking advantage of natural light and installing LED lighting in the main areas of the factory.

We have just started our activities at No. 3 CC. Realizing that it is a symbolic and high-profile factory for Aichi Steel, we will continuously strive to make it evolve into a more advanced eco-factory.



Better workplace environment

Various efforts have been made to improve the workplace environment. Wide glass windows provide such abundant bright natural light that employees can work without turning on the lights during the daytime. A special ventilating system has also been installed to release the heat inside.



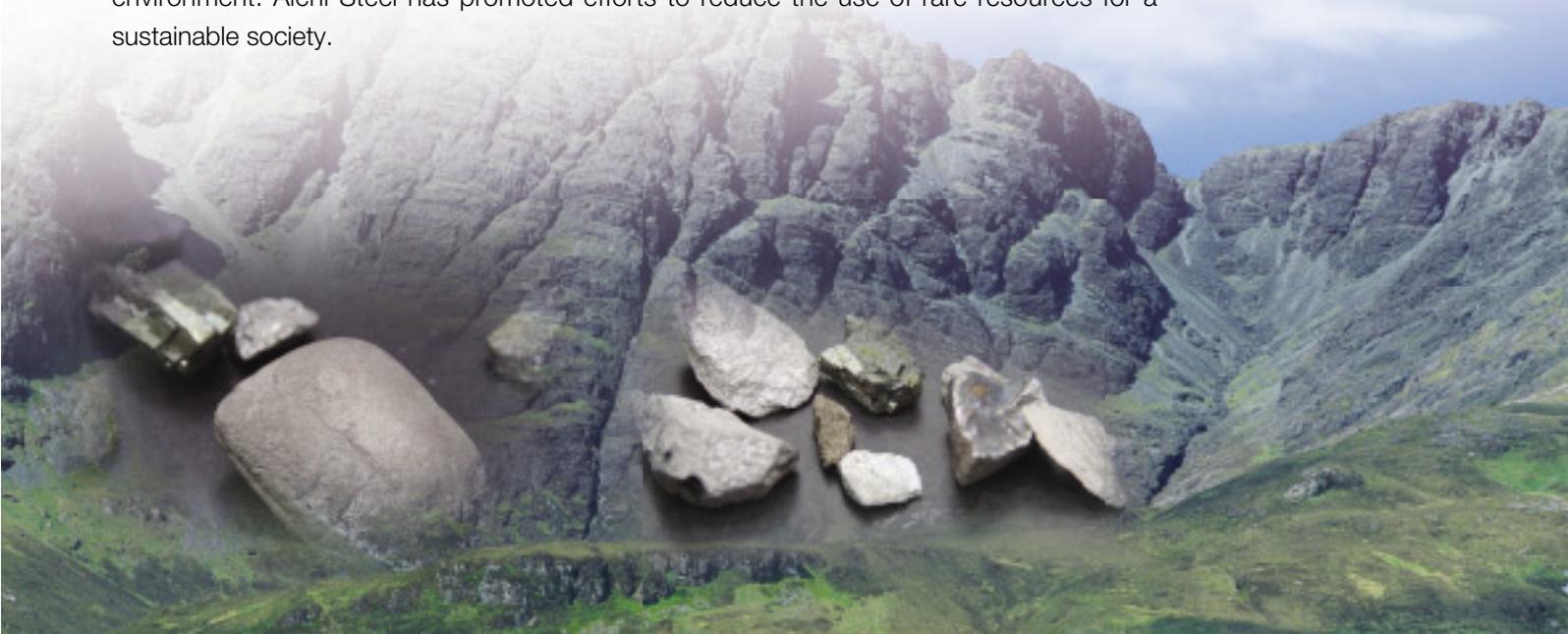
Rooftop gardening

As an eco-factory, we have promoted rooftop gardening. TetsuRiki-Agri, which encourages the growth of plants through the latent capability of iron, has been used to create a garden full of lush greenery.



Our Challenge to Save Rare Earth and Other Rare Metals

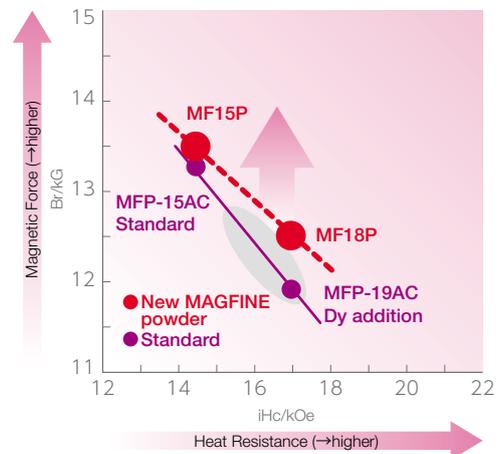
Mining and extracting rare earth and other rare metals place a great pressure on the environment. Aichi Steel has promoted efforts to reduce the use of rare resources for a sustainable society.



Dysprosium-free heat resistant magnetic powder

Our bonded magnet, "MAGFINE," contributes to the reduction of motors in size (50% less volume than conventional models) and weight (40% less mass than conventional models). In June 2010, we developed a neodymium-based anisotropic bonded magnet, a new alloy that can be used at temperatures of up to 150°C without use of the rare earth Dysprosium (Dy).* This magnetic powder, which ends the need for Dy (about 5% required at 150°C), is a groundbreaking invention, thereby making a significant contribution to resolving the issue of scarce resources management.

*Dysprosium is a rare earth element. At present, Japan totally depends on imports from China for this metal. Addition of a small amount of Dy is indispensable for ensuring high magnetic force of neodymium-based magnets at high temperatures.



The new Dy-free alloy has an equivalent heat resistance and a stronger magnetic force compared to the standard

VOICE

Chisato Mishima, Chief of Project (left) and Masao Yamazaki (right) Electro-Magnetic Products, Development Div.

The use of "MAGFINE" had been limited to car seat motors and motors for home electrical products at temperatures of up to 120°C. The heat resistance property of a neodymium magnet is determined by how high the coercive force of the magnetic power is. Magnetic coercivity is usually enhanced by adding Dysprosium (Dy). This time, however, we have found that the magnetic coercive force can be significantly improved by forming a uniformly-dense nonmagnetic grain boundary film in the grain boundary of the MAGFINE magnetic powder.

Now that this discovery has enabled the use of MAGFINE at temperatures of up to 150°C, MAGFINE can be applied to every type of automotive electronic control unit, including ABS (Antilock Brake System), EPS (Electric Power Steering), and fuel pumps. We expect that the magnet size reduction will eventually lead to the further downsizing and weight saving of in-car motors necessary for the future development of eco-cars.



High-performance gear steel without use of the rare metal Mo

Molybdenum* (Mo) is often used as a raw material of speciality steel for vehicle gears and shafts. However, we have developed Mo-free steel with high strength and machinability equal to conventional Mo-added steel. We are promoting environment-friendly manufacturing that facilitates the further development of automotive manufacturing by pursuing both alloy saving and higher component performance.

*Molybdenum (Mo): One of the rare metal elements, and used as a raw material of speciality steelmaking to enhance the performance of automotive gears and other components that require high strength and toughness.



Our newly-developed steel has a strength equal to SCM420 while reducing the quantity of Mo to the level of SCr420.

VOICE

Yuji Adachi, Senior Chief of Staff Development Dept. No.1, Technical Development Div.



Gears used for automobiles and industrial machinery are very important parts that require highly manufacturability and durability. While ensuring the required properties, however, we needed to promote the saving of natural resources consumed for gear steel.

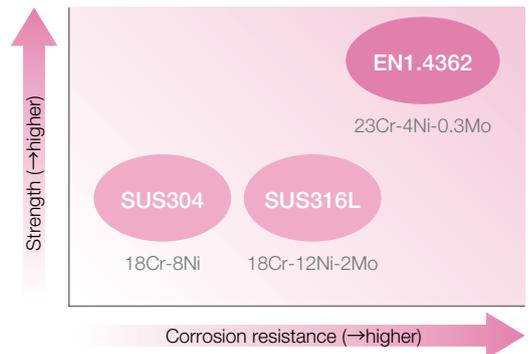
In developing this new steel, we took care to ensure that the product is versatile and can be used for various types of gears. As a result, we succeeded in developing a product that is adaptable to a wide range of applications.



Duplex Stainless Steel Shape

We have developed duplex stainless steel shape (EN1.4362), which has the characteristics of, compared to austenitic stainless steel for general-purpose applications, being low in the content of the rare metals Nickel* (Ni) and Molybdenum (Mo); being equal or high in terms of corrosion resistance; and being double in strength. The development of duplex stainless steel shape, which contributes to resource saving, is expected to be applied to offshore engineering and various types of factories, as an alternative to conventional SUS316L.

*Ni: one of the rare metals. Used in metallic plating and as a material for coins because of its high corrosion resistance.



Compared to general-purpose SUS304 and SUS316L, our newly-developed product is low in the content of Ni and Mo; is equal or high in corrosion resistance; and double in strength.

VOICE

Kazunori Goto, Representative Manager Development Dept. No.2, Technical Development Div.



Our mission for this development was to commercialize duplex stainless steel shape that is superior in strength and corrosion resistance while at the same time saving resources, ahead of our competitors across the world. In developing duplex stainless steel shape, we took care to ensure that it can be used in a wide range of applications. We expect that our unique duplex stainless steel shape will help create a new market.





Feature Story 4

“Lesson about Iron”

~ Learn, Discover, and Experience ~



Marking the 70th anniversary of our founding, Aichi Steel launched a project to visit local schools to give a “lesson about iron” to children who will support the next generation in Tokai, a city of iron. The aim is to encourage children’s interest in “iron” and “monozukuri” (manufacturing) through the experience of making something related to iron.

In October 2010, lessons about iron were given to fifth graders (a total of 308 pupils in nine classes) in three elementary schools in Tokai City, as part of a 90-minute curriculum. We visited schools and taught children about iron, a metal that plays such an important role in everyday life, and its potential through lectures and experiments in an enjoyable and easy-to-understand way.

In fiscal 2011, we will give a “lesson about iron” to all the elementary schools (12 schools) in Tokai City.

In cooperation with:

Tokai City Board of Education; Aichi University of Education, Department of Technology Education (Prof. Hideki Shimizu); The Japan Iron and Steel Federation; Nippon Steel Corporation, Nagoya Works; Daido Steel Co., Ltd., Chita Plant. (No special particular order)



Learn, discover, and experience

A “lesson about iron,” consisting of a lecture and a workshop to make a magnet, was offered with an emphasis on the concept “learn, discover, experience.”

To make a magnet, iron powder is mixed with an adhesive agent,

and after the adhesive dries, it is magnetized using a strong magnet. In this process, the children are so surprised to see how quickly iron is magnetized. We hope children can find pleasure and develop an interest in “manufacturing” through our lessons.



Learn

Learning about the roles played by iron in industry and the properties of iron



Discover

Discovering (watching and touching) iron



Experience

Gaining firsthand experience of “manufacturing” through an experiment or workshop

Lessons fully supported by our employees

To ensure every child can make his/her own magnet in a simple and safe manner, nine employees from our company were sent to each class as lecturers and assistants. After the lesson, children submitted reports (including questions), and our staff gave plenty of feedback about their reports in order to encourage children’s interest in “iron” and “manufacturing.”



The Voices of Participants

- I really enjoyed the lesson. I was surprised to see how quickly the iron is magnetized to become a magnet.
- It was good that our group’s instructor gave us an easy-to-understand explanation and that we were able to create our own magnets.
- I want to learn more about why magnetization occurs that quickly.
- I wondered why a magnet made of iron can attract iron.
- When I found that Tokay City is renowned for steel, I became interested in local industries and in “creating products.”
- I found that in Tokai City there are three steel-making plants. I wanted to learn more about what is being manufactured in those plants.
- The entire surface of a plate magnet attracts metal clips, but for a round-shaped magnet, only its north and south poles attract them. Why is that?

VOICE

Participating in a “lesson about iron” as an instructor

Noriaki Iwamoto, Chief of Staff Development Dept. No.3, Technical Development Div.

When we were thinking about the project to give a “lesson about iron,” we placed priority on an “experience-based” lesson, in which every child can participate in making things. This is our first attempt, and there were many hurdles to be overcome before implementing this project, such as ensuring children’s safety, arranging the teaching methods, and improving our teaching skills. So, I am very delighted to report that we gave lessons about iron to children as planned and were able to encourage their interest in “monozukuri”. The workshop to create a magnet — magnetized in particular — brought new discoveries and surprises to many children. As a project member, I was able to enjoy a great sense of fulfillment and satisfaction. I’m so happy to have the chance to bring iron closer to children and convey the pleasure of making things through these lessons.



Please provide more fresh and exciting experiences to children

Mr. Tatsuhiko Ono (right) Ms. Misaki Hanada (middle) Mr. Masahiro Yokoyama (left), Teachers Yokosuka Elementary School, Tokai City

The “lesson about iron” was a fresh, exciting, and meaningful experience for both children and teachers. This was our first experience to give such an experience-based lesson, but under the painstaking guidance of lecturers and assistants, all the children were able to finish creating their own magnets within a limited time, and shared the excitement of making one. After the lesson, they began to take an interest in iron and tried to find things that contained iron in the classroom. They came to have a very close feeling towards iron. In the lesson about iron next year, we would like you to give the children a more detailed explanation about the mechanism of magnetization to stimulate their curiosity about science. As children rarely have the chance to learn about iron through a workshop, we do hope you can come to our school again to give another exciting experiment-based lesson to children.



Feature Story 5 Projects Implemented as Part of Our 70th Anniversary Celebrations

To mark the 70th anniversary of our founding, we held various events for our stakeholders to convey our gratitude for their great support for us.



For our customers

Appreciation event for the Aikokai Association

In line with a meeting held by the National Aikokai Association in November 2010, we held an event in a Nagoya hotel to show our deep gratitude to our customers. At the event, a timeline showing the history of our company was displayed, a video was presented to review 70 years of our company's history, and panels of new products were also exhibited.



Aikokai Association: an association organized by the trading companies and distributors handling our products

For our suppliers

Appreciation event for the Hokokai Association

In line with a general meeting held by the Hokokai Association in a Nagoya hotel in May 2010, we held an event to show our deep gratitude to our suppliers. We also promised further cooperation to promote mutual prosperity.



Hokokai Association: an association organized by our major suppliers

For our shareholders

Dividends

In commemoration of our 70th anniversary and as a token of appreciation to our shareholders, we paid a dividend of one yen per share of our common stock, in addition to an ordinary year-end dividend (five yen) for the fiscal year ended March 2010.

For our employees and their families

Aichi Fureai Festa

In February 2011, we held the "Aichi Fureai Festa" jointly with our labor union to celebrate the 70th anniversary of the company's founding and the 65th anniversary of the labor union's formation. At the festival, various events were held to wish for the continued success of our company and the happiness and growth of our employees, and to thank our employees, and their families, as well as the local people who have provided support to us.



For local communities

Clock tower presented to Tokai City

In November 2010, we presented a clock tower to Tokai City, which was installed at the rotary in front of Meitetsu Shurakuen Station, to contribute to the beauty and revitalization of the local community. We hope that the clock tower will become a landmark in front of Shurakuen Station.



Unveiling ceremony with the participation of representatives from the local community, local government, and our company

“Lesson about iron”

See Feature Story 4.

Support of forest restoration

In March 2011, we made a donation to the C.W Nicol Afan Woodland Trust, a Japanese foundation working for forest restoration in the town of Shinano in Nagano Prefecture. As an official sponsor of the Trust, we will support its reforestation activities that contribute to ecological preservation.



Afan Woodland
(Photo by Kimio Kawasaki)

Others: PR design

“Aichi Steel Corporate Message” and “Symbol for the 70th Anniversary of Our Founding”

In March 2010, we invited message and design proposals from our employees and their families, and the following message and design were chosen.

熱く、強く、まっすぐに。愛知製鋼 ← Corporate message



Corporate PR design

Taking advantage of our 70th anniversary, we renewed our PR design. The new design conveys Aichi Steel's strong commitment to contributing to the realization of the dream of mankind to build a peaceful and prosperous society through the harmonious coexistence of nature and people.



VOICE

After the Completion of a Series of Anniversary Projects

Kiyoaki Kanamoto, General Manager General Affairs Div.



Prior to the planning of a series of projects to mark the 70th anniversary of our company's founding, we reviewed our conventional approaches to anniversary projects, and decided to hold separate events for different groups of stakeholders to thank them for their support. To increase the satisfaction of all stakeholders, we organized project teams for individual stakeholder groups to design, plan, and implement the anniversary events.

As a result, I believe that due to the good teamwork of employees, we were able to achieve success in all our anniversary projects, and that our events were enjoyed and appreciated by all the stakeholders. Through these projects, I have realized the fundamental strengths of our company, which are supported by the enthusiasm and commitment of individual employees. We, at the General Affairs Division, were very pleased to be a part of the anniversary projects, and would like to express our heartfelt appreciation to all those involved.

Basic policy

We practice CSR management to gain trust from all our stakeholders by implementing measures in accordance with the Medium-Term CSR Plan based on the 2015 CSR Vision.

CSR Enhancement Month

To disseminate and enhance CSR consciousness throughout the Group, we set October as the Aichi Steel Group CSR Enhancement Month and organize various events.

CSR lecture

As part of our CSR education, we invited Ms. Motomi Hashimoto of Nomura Securities Co., Ltd. to give a lecture for our directors, managers, and group company directors on the theme, "Market Expectation for CSR Activities."



NEW

"1S" workshop

We held a workshop to raise the awareness of directors and managers concerning matters requiring care associated with changes in society, so as to further promote the "1S" culture. Themes: "Worksite Management (creating healthy work environment, preventing sexual/power harassment)"; "Compliance with the Industrial Safety and Health Act."

Clean Aichi Day

A total of 515 employees at ten sites cleaned the neighborhoods of their worksites before work in the morning, at lunch breaks and after work. Our group companies also held a similar program, in which 265 people participated.

Cultivation of the "1S" culture

In line with CSR Enhancement Month, we issued the "1S Guidebook" to encourage every Aichi Steel employee to thoroughly understand the concept of "1S" and to promote cultivation and settlement of the "1S" culture. The 1S Guidebook is used to help employees' understanding and for workshops and training at worksites.

We also revised the Aichi Steel Action Guidelines/Aichi Steel Employee Action Guidebook into the "Guidebook of Corporate Action Guidelines" with the aim of making it more reader-friendly and to match changes in the law. We will strive to gain the trust of our stakeholders by undertaking CSR-oriented action to ensure thorough compliance.



Group Company Pickup

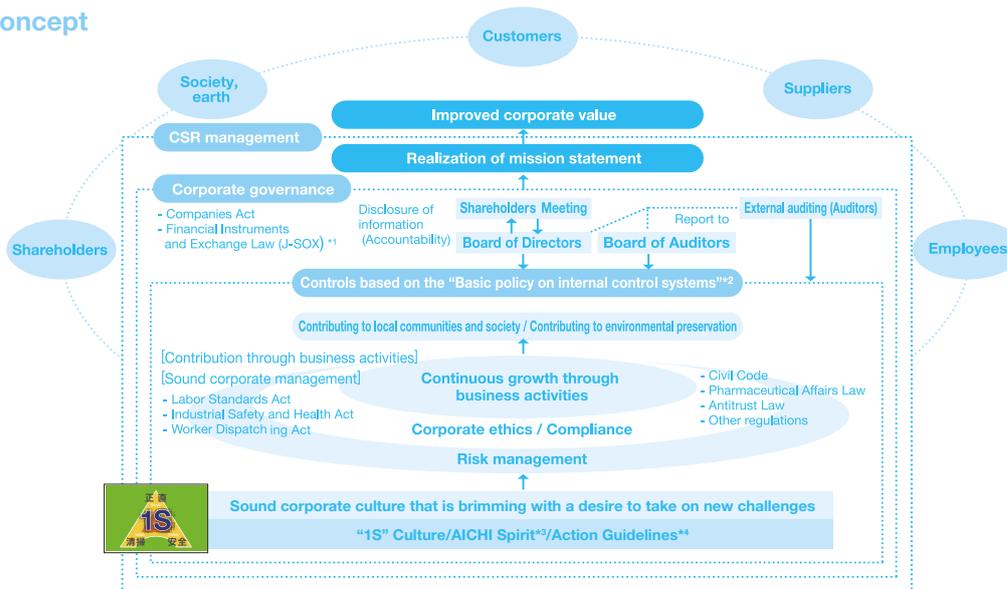
AIT (Thailand)

"1S" culture cultivation

In July 2010 AIT started inserting the 1S symbol in employee ID cards and also created a mobile card in Thai to help every employee understand the concept of "1S." The "1S" concept is repeatedly explained at morning meetings so as to promote its dissemination.



CSR concept



*1 J-SOX: The Japanese version of the U.S. SOX (Sarbanes-Oxley Act). This Act was created using SOX as a model and was designed to improve the accounting auditing system and internal control of companies in Japan.

*2 Internal control: Activities and systems to control, monitor, and secure the soundness and efficiency of operations, as part of corporate governance, by following standards and procedures established for individual operations.

In particular, standards and systems to prevent improper financial accounting should be established, and auditing should be conducted to verify that they are operated properly.

*3 AICHI Spirit: A slogan presenting, in an easy-to-understand manner, the management philosophy, sense of value, and other basic ideas upheld by Aichi Steel as its corporate "genes" inherited from predecessors (established in July 2006).

*4 Aichi Steel Group Action Guidelines: Practical guidelines that must be followed during business activities (revised in January 2007)

Please refer to our Website

http://www.aichi-steel.co.jp/ENGLISH/com_info/index.html (Aichi Steel Group Action Guidelines)

Medium-Term CSR Plan priority issues and major activities in fiscal 2010

○ : Target or significant result achieved
 △ : Target not achieved or poor activity result
 × : Serious problem or improvement suggested

Category	Priority items	Priority activities in fiscal 2010	Assessment	Future plan	Related the seven core subjects of ISO 26000
I Activity management	1. Diffusion of and strict adherence to CSR Policy among all relevant parties, including suppliers	◇ Promoting activities for diffusion of 1S: Distributed 1S Guidebook. ◇ 70th anniversary activities: Donated a clock tower, organized the "Aichi Fureai Festa". ◇ Organized CSR lectures.	○	Promote CSR more deeply and widely throughout the supply chain. (Secondary suppliers, overseas subsidiaries)	Organizational governance Fair operating practices
II Contribution through business activities	2. Development and provision of products/technologies that can satisfy eco-minded customers	◇ Development of materials/parts with advanced functions ahead of automobile evolution. • Increased sales of products for eco-cars and HVs. • Developed high-strength, light-weight products to contribute to the next-generation environmental vehicles.	○	Promote integrated sales expansion activities through sales/engineering cooperation. Promote development of high-strength steel (Con rods, gears)	Consumer issues
	3. Innovation for environment-conscious manufacturing and contribution through resources recycling	◇ Evolving into a recycling-oriented enterprise by pursuing the 3Rs. • Contributed to resources recycling within Toyota Gr. • Developed magnets containing no Dy, a rare earth.	○	Start all-Toyota Working Group activities. (Leader: Aichi Steel)	The environment
	4. Community activities resulting in environmental/social contribution	◇ Planning unique, attractive events and donations ◇ Enhancing regional contribution activities • Held a workshop "Lesson about Iron" for elementary school children. • Made donations concerning support for biodiversity.	○	Make donations to C.W. Nicol Afan Woodland Trust. Continue "Lesson about Iron" to communicate joy of manufacturing.	Community involvement and development The environment
III Sound corporate management	5. Prevention of risks pertaining to environmental changes	◇ Implementing thorough compliance according to social trends. • Revised the employees Action Guidebook. • Reviewed risk maps for the entire Company.	○	List up risks in departments and subsidiaries.	Fair operating practices
	6. Enhancement of internal control systems and improvement of compliance consciousness	◇ Sharing common goals throughout the Group • Hosted "1S" workshop. • Made compliance risks visible.	△ *1	Increase in compliance-related incidents is expected. → Prevent recurrence.	Fair operating practices Human rights
	7. Activities to preserve local and global environments	◇ Continuing activities to prevent global warming and preserve the environment • Reduced CO ₂ emissions by improving heat efficiency.	○	Improve efficiency mainly in furnaces and cooling water pumps.	The environment
IV Employees/corporate culture supporting growth	8. Human resources development and creation of motivating worksites to improve job quality	◇ Organizational management aiming to improve abilities and motivation • Message from senior management and culture of "learning from each other, developing each other, and correcting fundamental posture." • Communicated the message from the top and the concept of A3 Principle to young employees throughout the company.	○	Continue activities.	Labor practices Human rights
	9. Creation of a safe/comfortable workplace environment	◇ Promoting operation of OSHMS (Occupational Safety & Health Management System)	△ *2	Start re-education on basic matters. (Risk Prediction, OSHMS)	Labor practices

Reasons for judgments of "Target not achieved or poor activity results" concerning priority activities, and countermeasures

*1 Compliance-related incidents

Fiscal year	2006	2007	2008	2009	2010
Number of incidents related to company activities	5	3	2	3	5
Total	11	5	7	7	8

Causes

- 1) Lack of understanding of the contents of modifications in laws/regulations
- 2) Increase in the number of reports due to improved compliance awareness in each department
- 3) Improvement in problem-finding ability due to enhanced internal auditing

Measures

- 1) Timely discovery and proper interpretation of modifications in laws/regulations
- 2) Explaining interpretation/application of laws/regulations in internal auditing

Conclusion

Overall compliance level is judged to be improved.

*2 Creation of safe/comfortable workplace environment

Reason why the target of "Promoting operation of OSHMS" was judged unachieved: Effort to make worksite strengths/weaknesses visible was judged as "Target not achieved" in safety/health assessment of priority activities for both inside the Company and the General Safety Association.

Countermeasures

- 1) Since weaknesses are clarified in both inside the company and the General Safety Association, overcome the weaknesses.
- 2) Inside company: Teach the concept of OSHMS and provide ability improvement education.
- 3) General Safety Association: Provide instructions and support for 4 companies with lowest evaluations.

CSR system



Basic policy

Upholding the CSR basic policy “We will contribute to the sustainable progress of society and the Earth through our sound corporate activities,” we are striving to establish/maintain an organizational structure capable of responding promptly to changes in the business environment and a fair and transparent management system. By doing so, we hope to gain the trust of our shareholders. We aim to become a company with dignity by sharing the AICHI Spirit, which represents the values and code of conduct for our employees.

Meetings of the Board of Directors and the Board of Corporate Auditors

The Board of Directors, consisting of the Directors appointed by shareholders, makes decisions concerning the company’s critical issues from the viewpoints of necessity, legality, efficiency, etc., after having discussions and mutual monitoring. Corporate Auditors and the Board of Corporate Auditors then examine whether there is any violation of laws/regulations in such decisions.

A regular meeting of the Board of Directors is held every month, and special meetings are called as needed, where important decisions are made and the operating status of the Company is reported.

Attendance rates in fiscal 2010

	Meetings	Director attendance rate	Corporate auditor attendance rate	
			Standing corporate auditors	Outside corporate auditors
Board of Directors	16 times	97%	100%	71%
Board of Auditors	10 times		100%	93%

Note: In addition to the above, a written resolution by the Board of Directors was issued.

Internal control system

Whether the Basic Policy for the Internal Control System requires revision or not is determined every year, and the operation status is reported to the Board of Directors. With regard to compliance, risk management, and operational efficiency, improvement efforts in 2010 were confirmed to be properly maintained/improved, and it was therefore decided to maintain the current basic policy.

Effective auditing

To ensure effective auditing, corporate auditors meet the President and the Accounting Audit Team separately on a regular basis to exchange opinions.

To enhance the internal auditing function, the Audit Department is positioned to conduct internal auditing concerning mainly internal control system development. Corporate auditors receive reports on the results of the internal audits undertaken by the Audit Department.

The Accounting Audit Team conducts audits on internal control concerning financial reports in cooperation with the Audit Department, as necessary.

NEW

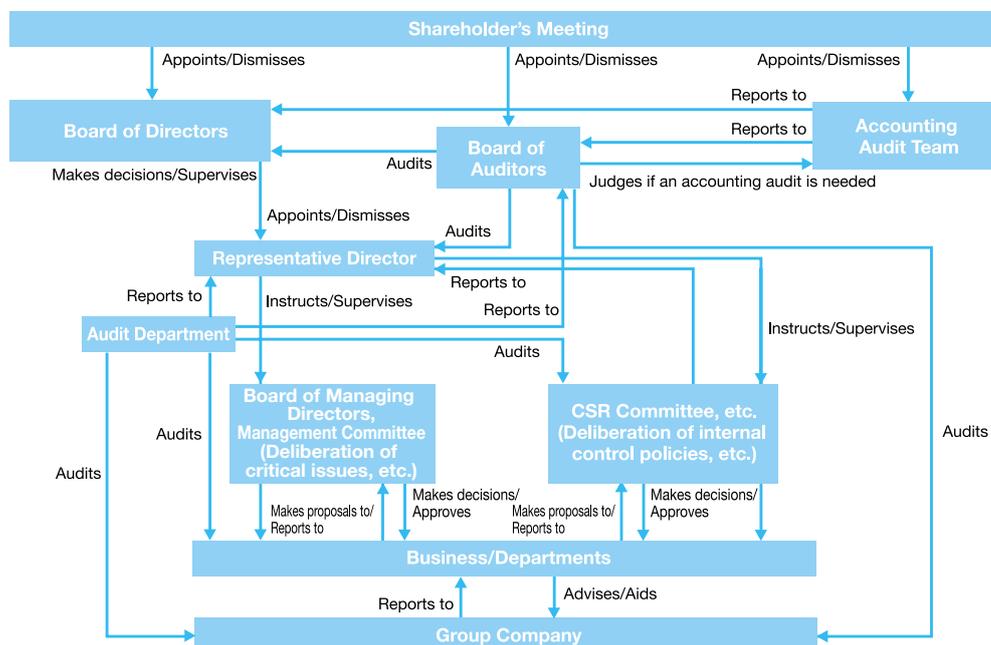
Revision of the “Action Guidebook for Directors”

In October 2010, we revised the “Action Guidebook for Directors” to respond to revisions in the law and changes in social trends. The revised guidebook was distributed to all our directors and executive officers, as well as the directors of our group companies, with the aim of helping them deepen their understanding of the importance of compliance by directors and the Company itself.

Moreover, newly appointed directors regularly participate in a special seminar organized by an outside institution.



Corporate governance system



Promotion system

We aim to be a reliable company through protection of human rights and compliance with laws and regulations, and by respecting public decency. To enhance the overall compliance of our Group, the CSR Committee — headed by the President — decides and reviews compliance policies on a regular basis.

Compliance promotion system



Compliance education program

To enhance the compliance awareness of employees, we provide education on compliance in the Action Guidelines Training for all job ladders of employees. We also issue “Legal Affairs News” to deliver information about compliance issues closely related to our daily lives.

Training sessions for each job ladder:

- eight ladders (303 participants ranging from freshman employees to managers)
- CSR lectures, 1S workshop (See p. 16.)

Issuance of Legal Affairs News:

- 6 times for employees (Themes: Information security control, actions against antisocial forces, internal approval procedures)
- 3 times for directors (Theme: Other companies’ cases of violation of laws involving directors)

NEW

Promotion activities for group companies

Aichi Group CSR/TQM Liaison Meeting was held in September 2010 and March 2011 to promote sharing of the status of CSR activities within the Aichi Group. In February, group companies filled in their second CSR self-assessment sheet to ascertain their current status. We will continuously offer follow-up support.



“Compliance Close Call” activities

Entire Company members were encouraged to report their experiences close to compliance violation and predicted risks, and a total of 414 cases were reported. These cases were presented as cases requiring caution at the Compliance Liaison Meetings (four times a year) to discuss specific advice for each case.

Classification of cases

Information security control	Traffic safety	Purchasing	Labor	Safety/environment	Other	Total
152	97	40	4	74	47	414

Operation status of the “Hotto” Line and whistle-blower protection

Aichi Steel “Hotto” Line is a hotline system to encourage internal reporting of improper actions. During fiscal 2010, the “Hotto” Line received nine internal reports. Reported facts were investigated and the necessary measures to correct the improper actions were taken. A notice was distributed throughout the Company to prevent recurrence.

Rules for operation of the Line and protection of the privacy of callers are provided in the Corporate Ethics Rules, and are also put on bulletin boards placed at employees’ restaurants, etcd., so that all employees are made aware of them.

Calls to “Hotto” Line

Fiscal year	2006	2007	2008	2009	2010
No. of calls	11	5	5	9	9

Group Company Pickup

Asdex

Compliance workshops

Asdex provides quarterly compliance workshops targeting all employees, separately for the head office and the Higashiura Plant. At the workshops, actual cases are presented under the themes of legal compliance and corporate violation, aiming to promote thorough understanding of the importance of complying with laws and regulations.



Progress status

We make efforts to develop a complete system to avoid risks pertaining to our businesses, in response to changes in the business environment. At the meeting of the CSR Committee in September 2010, the progress of risk management efforts was reported and follow-up actions to be taken were confirmed. The risk items for the entire Company were reassessed and the risk map was revised.

Emergency drills

To be prepared for the occurrence of an earthquake, simulation training for safety confirmation using mobile phones and e-mail was held in August and a company-wide emergency drill was held in September 2010. Led by the company emergency headquarters, an information communication simulation using radios after setting up a regional emergency headquarters, and a fire fighting drill were held in collaboration with the Tokai City Fire Department. Emergency drills are also held at our group companies.



AFC (Philippine)



Aichi Steel Logistics: Participated in a disaster transportation drill.

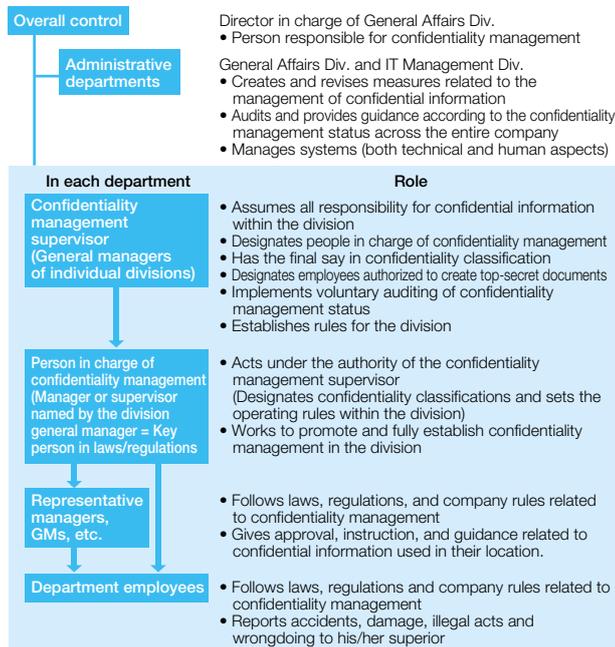
Information security promotion system

We have established the following rules to control confidentiality and prevent leakages of private information.

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

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

Management system and roles of each department



Education on information security

Recognizing the importance of information security control, we constantly promote notification, education, and inspection of rules. Particularly, we set May and October each year as “Information Security Control Enhancement Months,” during which intensive educational activities to improve employee awareness are conducted.

- “Clear Desk, Clear Screen” campaign
- Information security control educational programs for each job ladder (for 303 employees in 8 ladders)
- Notification/confirmation of procedures for bringing in and removing confidential information/information devices to and from the Company.
- Auditing of e-mails sent outside of the Company
- Presenting cases from both inside and outside the Company to draw attention

NEW

Promoting information security control in domestic group companies

In November 2010, a survey was conducted on our domestic group companies using a self-assessment sheet containing 114 questions in 15 categories concerning information security control. Based on the results of the survey, direct hearings were held for some companies. We gave feedback on the survey results to all companies in March, requesting the necessary improvements to be made.

Protection of personal information and education

We experienced no incidents of personal information leaks in fiscal 2010. Educational programs concerning personal information protection are integrated within “Information security control education” and provided through training sessions for each job ladder.

Please refer to our Website

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

Intellectual property protection Basic policy

Aichi Steel Group respects the intellectual property of all other companies, while also protecting its own intellectual property.

Education on intellectual property rights

We offer educational programs, mainly for engineers, in three stages according to their experience. The “Legal Affairs News” focuses on copyrights, which sound familiar to most of us, to raise awareness and caution.

Fiscal 2010

Introductory program: 1st-year engineers (9 trainees), Practical program: engineers with experience of 3 to 5 years (32 trainees)

Program for managers: provided at promotion to the management class (13 trainees)



Quality Management System (QMS)

Basic policy and quality assurance system

In accordance with our policy of "Quality First," we strive to establish a business structure trusted by customers on the basis of our ISO 9001 certification, and deliver attractive products that meet customers' expectations and needs.

Under our Medium-Term Global Quality Plan 2012, we will make company-wide united efforts to establish a quality assurance system that enables us to lead other companies in quality competition.

Quality assurance system



Quality assurance activities

In fiscal 2010, we experienced no serious problems related to quality defects, etc. Quality losses decreased by approx. 30% from the 2008 result. Based on a review of the results of quality activities and the Medium-Term Quality Plan policies, we will promote the actions listed below as our priority items for fiscal 2011 under the slogan, "Quality is the life of a company."

- Prevent occurrence of serious quality problems
- Take actions in response to major changes (great earthquakes, No. 3 CC, etc.)
- Address quality requests/complaints
- Tackle higher targets in reducing quality losses
- Enhance global quality control system

NEW

Quality education

Aiming to develop human resources with sufficient knowledge of quality management from the viewpoint of customers, we promote various quality-related educational activities, including lectures by our important customers for younger staff members, and held a meeting to explain past troubles/serious defects during Quality Month in November 2010. In addition, we provided job ladder-based quality education (for 215 employees in six ladders on the job ladder from freshmen to managers.)

In January 2011, the Process FMEA* Workshop was held for engineers, inviting contributions from external lecturers. About 50 people participated in the workshop to learn more about process control.



Quality lecture

*Failure Mode and Effect Analysis

NEW

Promoting quality improvement activities in group companies

To support the quality improvement activities of mainly overseas Group companies, a monthly TV conference is used to listen to their problems and provide follow-up advice.

At the AVI-21 Exhibition held in November 2010, quality improvement cases of five overseas group companies were presented in panels and prizes were awarded for their activities, thereby demonstrating the important activities of overseas Group companies to all members.



Exhibition of quality improvement cases at AVI-21

Presenting AIT (Thailand) with the Gold Prize

ISO 9001

Our group companies have been striving to acquire ISO certification. We will make continuous efforts to improve our QMS.

ISO certification acquisition

Kariya Plant	ISO 9001	Apr. 1993
Chita Plant	ISO 9001	Dec. 1995
Forging Plant	ISO 9001	Nov. 1997
Electromagnetic products	ISO 9001	Mar. 1998
Dental materials	ISO 13485	July 1999
Dental materials	EC Directive	July 1999
Analysis & Testing Dept.	ISO 17025	Sep. 2007

Consolidated subsidiaries

Omi Mining	ISO 9001	May 2002
Aiko	ISO 9001	Apr. 2005
Asdex	ISO 9001	June 2008
A F C	ISO 9001	Apr. 2003
S A F C	ISO/TS 16949	Aug. 2006
A I T	ISO/TS 16949	Mar. 2008
A F I	ISO 9001	Nov. 2008
A F U	ISO/TS16949	Sep. 2009
A M C	ISO/TS 16949	Scheduled to acquire in Sep. 2012

ISO/TS 16949 is a quality management system standard for automobile businesses.

Certification by third-party organizations

We have received various third-party labeling certifications for product quality based on our QMS.

- JIS mark
- Marks issued by shipping classification societies
- Marks issued by TÜV (Technical Inspection Association in Germany)



JIS mark certification maintenance audit



Gathering the opinions of major customers

A survey to gather our major customers' opinions and evaluations is conducted on a regular basis regarding the quality of our specialty steel, forgings, and stainless steel products. Based on this survey, we determine the quality issues that require improvement and take actions, so as to further improve customer satisfaction. The results of this program were also reported at the ISO Review Committee meeting held in March. We will make continuous efforts to pursue spiraling enhancement of customer satisfaction.

NEW

Communication with our customers

In January 2011, New Year parties were held for the first time in ten years in Tokyo, Osaka, and Nagoya, each of which had over 100 participants. Future outlook and strategies of our businesses were explained, and the participants pledged mutual development toward the realization of a sustainable society.



NEW

Issuance of "Action Guidelines for Salespersons" to improve sales skills

In June 2010, to further enhance customer satisfaction through improved sales skills, the "Action Guidelines for Salespersons" was issued. Actions that a sales person should take, which have been taught through OJT, are provided in the guidelines. To enable every salesperson to provide high-quality services, newly assigned sales persons are required to read the guidebook and ask questions during their training.



Providing educational opportunities and enhancing awareness

We offer various opportunities to help our customers correctly evaluate our products, such as workshops and plant tours.

- Workshop hosted by Tokyo Branch (Dec.)
- Stainless steel seminar in Okinawa and Hokkaido in cooperation with the Japanese Society of Steel Construction (July, Feb.)



Explaining application cases of reinforcing stainless steel

Access by customers

The various inquiries from customers are answered mainly through our sales representatives. For our close-to-consumer products, TetsuRiki-Agri/TetsuRiki-Aqua and dental magnetic attachments MAGFIT, special toll-free phone numbers and e-mail addresses are established for inquiries, to provide customers with easy access.

Plant tours during fiscal 2010

A total of 2,762 people from our major customers visited our plants in 357 tours. Our quality-related approaches were explained to them to deepen their understanding.

VOICE

Following the "Action Guidelines for Salespersons"

Naoki Sato Sales Dept. No.1, Toyota Sales Div.



The "Action Guidelines for Salespersons" contains only basic matters. Since we are seldom taught basics, it is useful to confirm and share what is primarily important. The Action Guidelines consist of ten basic attitudes for our sales activities including "meeting customers" and "making quick responses." All salespersons attended a workshop on the guidelines. Through the workshop, I found a problem in my way of gathering information and announced in "My Action Declaration"* that I would visit those customers with whom I was not able to make sufficient contact on a regular basis. During 2010, I had the implementation status of my announcement reviewed every month in the sales department.

*Activity in which each salesperson announces and implements his/her tasks.

Group Company Pickup

AFC (Philippines)

100% on-time delivery

In line with the commencement of operations of a new shipping site, AFC introduced a small-lot delivery system and reviewed its inspection system. As a result, 100% on-time delivery was achieved. Introduction of the small-lot delivery system has reduced man-hours required at our customers, contributing to improved customer satisfaction.



SAFC (China)

The 3rd Asia forge meeting Forging Association delegation visits SAFC

In September 2010 for the purpose of mutually improving forging technologies in Asia, the 3rd Asia Forge Meeting was held, and a forging association delegation consisting of 44 inspectors from seven countries visited SAFC. Though the preparation for accepting the delegation was not easy since their official languages were Chinese and English, it was a good opportunity to have our customers actually see our plant and help them deepen understanding of forging technologies.



Returning profits to shareholders and creation of corporate value

We believe that one of the most important actions in business is to return profits to shareholders.

To respond to the trust and expectations of shareholders, we will make efforts to create attractive corporate value for investors through establishing a high profit-earning foundation for key businesses and promoting business structure reform focusing on one and only products. We believe it is important to conduct business activities in accordance with our Mission Statement and CSR Policies, and to meet the expectations of all stakeholders.

Timely and proper disclosure

We strive to ensure timely and proper disclosure of our corporate information for investors and to enhance the internal system related to correct and fair information disclosure.

In fiscal 2010, to help deepen understanding of our management and business strategies, we actively disclosed timely information, taking the opportunities of the shareholders' meetings, financial results briefings, and press releases of the financial results. Independent meetings with analysts and institutional investors were also held.

Shareholders' meeting (June)
Financial results briefing (May, Nov. in Tokyo)
Press release of financial results (Apr., July, Oct., Feb. in Nagoya, Tokyo)

Disclosure

Information disclosure is handled under the system below, to ensure timely, complete and correct disclosure.

Information Disclosure Preliminary Review Committee





Aichi Steel Purchasing Policy

- Sound corporate activities
- Selection of suppliers based on the open-door policy*
- Co-existence and co-prosperity based on mutual trust
- Creation of environmentally friendly products through promotion of “Green Purchasing”

*Fair and just attitude of selecting suppliers

Supply chain CSR

We promote CSR activities together with our suppliers. After the first supplier self-diagnosis using the “supplier diagnosis sheet” prepared by Aichi Steel in 2009, various follow-up activities have been implemented.* In February 2011, we asked our suppliers to evaluate their CSR promotion status for the second time. Based on the results of this analysis, we will take follow-up actions to raise the level of all suppliers.

*Establishing and disseminating CSR policies for each supplier, clarifying the departments/persons in charge of CSR, listing up of documents to be submitted to government offices, etc.

Fair transactions

Internal purchasing audit

An internal audit was held in October 2010 to check the compliance status of the purchasing-related rules onsite. For departments with many problems found, follow-up activities, including intensive instructions, were undertaken.

Selection of suppliers based on the open-door policy

We promote policies within the purchasing departments and throughout the Company to ensure fair purchasing and to prevent excessive orders being placed on specific suppliers.

NEW

Compliance Seminar

In March 2011, a seminar to study laws and regulations relating to purchasing, such as the Subcontractors Act, was held for persons engaging in purchasing inside the Company. 78 staff members participated in the seminar.

Approach to ensure stable purchasing

To ensure stable operation of businesses through risk diversification, we promote ordering from several companies/suppliers on a global basis.

Green Purchasing

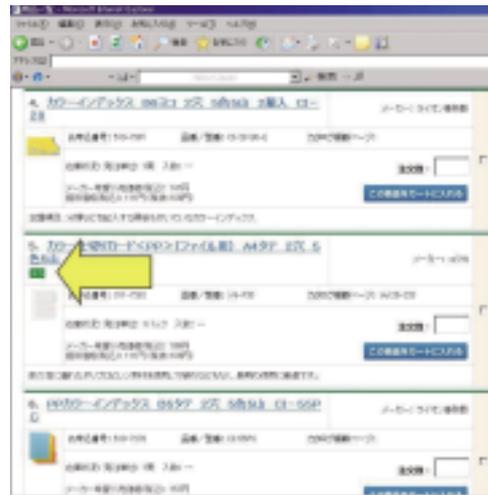
Aichi Steel actively exercises Green Purchasing by employing its own “Green Purchasing Guidelines” to purchase environment-friendly products and services from suppliers who are considerate of global environmental protection.

Introduction of bio-diesel fuel

To reduce CO₂ emissions, we are promoting the introduction of bio-diesel as fuel for forklifts.

Recommending products compliant with the Act on Promoting Green Purchasing

In the system for purchasing of office supplies, products compliant with the Act on Promoting Green Purchasing are indicated with a symbol so as to widen usage of such products.



 Please refer to our Website

http://www.aichi-steel.co.jp/ENGLISH/over_proc/index.html

Improving environmental awareness of suppliers

We ask our new suppliers to fill in a “Green Purchasing/Trading Survey Sheet” to assess their environmental attitudes. For suppliers with a low evaluation, we provide instructions and support for their further improvement.

Basic labor safety/health concept

(1) Strengthening of "heart, mind, and body"

Heart: Strong belief and tension to pursue safety
 Mind: Careful observation and thorough investigation of true causes
 Body: Powerful actions, dedicated efforts

(2) Visualization

Visualization of problems (negative issues, poor conditions)
 Visualization of good points (improvement cases, knowledge, experiences)
 Visualization of standards, changed points, or other status

Basis of activities

Focusing on comprehensive safety and health management, make straightforward efforts for improvement, aiming to achieve "zero accidents in all workplaces throughout Aichi."

Development of safety-conscious human resources

Small group activities

About 279 small groups, including in-plant associated business operators, are engaged in activities on their registered themes, such as risk prediction training and correction of dangerous points, with the aim of developing human resources capable of thinking seriously about safety and taking appropriate actions (as safety-conscious human resources).

NEW

Development of human resources capable of predicting risks through "safety dojo (training hall)" program

A person is certified as a "dan" belt earner if he/she identifies a certain number of unsafe conditions or problems within a limited period of time in six areas set up in the safety dojo.

The dan belt earners then engage in finding unsafe conditions or problems in their own worksites to promote improved safety while those who could not earn the dan certification retry the safety dojo course after undergoing training at their worksites. About 700 employees participated in the course, 20% of which have earned their dan belts.



Basic education training

Considering that the basic education on safety was insufficient, the Company restarted the 4-round Risk-prediction training course for young employees and the group training on OSHMS* concept and operation for management-level staff. A guidebook on the concept of risk assessment was also issued, and delivered to employees and associated business operators for education.

*OSHMS:Occupational Safety & Health Management System

Establishment of safe operation procedure manuals

While drawing up operational manuals focusing on the operator's movement lines of their eyes, hands, and legs, we also ask the actual operators to prepare manuals for operations without sufficient documentation, so as to completely eliminate operations without manuals.

Creation of safe worksites

We take improvement actions according to the annual plan concerning common targets for the entire Company, such as "reducing non-stop operations" and "eliminating crowbars and large hammers in operations." There are also targets for each department, such as "eliminating unevenness and cracks in surfaces" and "improvement of operations that the operators feel are difficult or dangerous," as well as giving attention to serious accidents in other companies, so as to reduce dangerous locations.

Prevention of accidents in affiliates

NEW

Safety and Health Brush-Up Seminar to prevent accidents resulting in work time losses

The "Safety and Health Brush-Up Seminar" was held separately for in-plant associated business operators and the Aichi Steel Group with the aim of preventing recurrence of accidents resulting in work time losses. The Safety and Health Brush-Up Seminar for in-plant associated business operators had 35 participants from 12 companies, discussing countermeasures to past accidents. The brush-up seminar for the Aichi Steel Group had 21 participants from 9 companies, conducting on-site monitoring of safety activities and accident prevention measures.

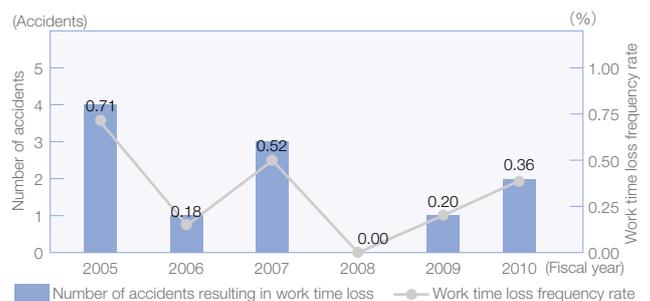


Safety and Health Brush-Up Seminar for in-plant associated business operators



Safety and Health Brush-Up Seminar for Aichi Steel Group operators

Frequency of accidents and work time losses





Efforts for improvement of traffic safety

As a company that plays a role in car-manufacturing, we promote activities to help prevent our employees from being involved in traffic accidents, and also activities to raise local residents' awareness of the importance of accident prevention.

- Traffic safety ladies' activities (four times annually)
- Aichi Steel safe driving competition (November, with 98 participants)
- Standing guard on 10th, 20th, and 30th every month (21 times annually, with 423 participants)



Standing guard

Safety driving competition

Health Guidance for lifestyle improvement

NEW

Personal guidance by health nurses

To prevent diseases resulting from lifestyle, we offer guidance by health nurses to improve daily living habits for the employees who marked values exceeding the standards (specified by the Company) in a medical checkup. In fiscal 2010, 138 employees received guidance and 54 achieved improvement.

35-Year-Old Lifestyle Seminar

The "35-Year-Old Lifestyle Seminar" is provided every year for employees who turn 35 during the year. The purpose of this seminar is to encourage employees to review their lifestyle habits from the early stage so as to prevent lifestyle-related diseases.

NEW

Recommending quitting smoking

Considering the impact of smoking on health, we set smoking areas outside the office to avoid the effects of second-hand smoke, while encouraging smokers to quit smoking. In fiscal 2010, activities such as lending of DVDs encouraging no smoking and introducing hospitals that support quitting smoking were implemented.

NEW

Mental health

To provide well-considered mental care, we appointed two full-time mental care staff members. Free mental health counseling by a psychiatrist is provided every month, and an industrial physician and mental health staff are dispatched to remote areas including overseas, so as to help prevent the occurrence of mental illness.

Rate of work time loss resulting from mental health problems



Group Company Pickup

Aichi Steel Logistics

Efforts for improvement of traffic safety

Aichi Steel Logistics, engaging mainly in transport, has been making particularly strengthened efforts to improve traffic safety, including installing tachographs in trucks, providing education for drivers on self-inspection of vehicles and driving skills (eco-driving), and participating in the standing guard campaign.



VOICE

Healthy life through health care advice



(Left) Health nurse Ms. Sahashi
(Right) Her supervisor, Mr. Furusato

Masako Sahashi, Health nurse Health Insurance Association

I give guidance concerning diet and exercise to employees based on the results of medical checkups. Since the family structures and life patterns vary among employees, I try to give advice appropriate for each person's lifestyle so that they can continue to take the recommended actions. Knowing it is difficult to change longtime habits, I find great pleasure in seeing employees make steady efforts and achieve the targets that they set. Besides the personal guidance, I am also engaged in personal counseling, the 35-Year-Old Lifestyle Seminar, and holding lifestyle-related diseases seminars (at Chita Plant) with my supervisor. I will go anywhere to listen to you. So why don't you strive to improve your health with me?

Respecting human rights/Prohibition of discrimination

The Aichi Steel Group announced in its “Aichi Steel Group Action Guidelines” and the “Guidebook of Corporate Action Guidelines” that it will comply with the laws and rules as well as their spirit, and respect human rights. The diversity, personality, and character of employees must be respected and discriminatory words and actions, harassment, and slander are strictly prohibited.

A “Hotto” line is in place ready for consultation with employees concerning human rights.

Human rights workshop

In our training sessions for each job ladder (for 7 ladders, 268 participants from freshmen to managers), a course on human rights is provided to cultivate awareness of the importance of respecting human rights. In fiscal 2010, a seminar was held in October targeting all managers to prevent any form of sexual and power harassment, which is considered as the most critical issue, based on cases occurring at other companies.

Eliminating child labor and forced labor in foreign subsidiaries

We investigate our subsidiaries in Indonesia and Thailand every year to confirm that there are no child labor or forced labor cases, and no problems were found in the investigation in fiscal 2010. To continue conducting periodical investigations in the future, we have set up a Global Human Resources Dept.

NEW

Respecting diversity

As a part of the efforts to promote diversity of age, sex, nationality, etc. in the workplace, which enables everyone to continue to work actively, we launched a 3-year project in March 2011 to improve the worksite environment for women, retirees, foreigners, the disabled, etc.

A working group—consisting mainly of women—has been established as the first step to disseminate the importance of diverse management among women.



Working group members

NEW

Balancing work and life

In January 2011, to achieve more value-added work by promoting efficient working styles, the Welfare & Labor Management (WLM) Department was established. The department engages in enhancing systems to support child-raising and nursing care, reviewing welfare systems, creating a worksite culture to allow easy access to such systems, and ensuring a worksite environment where diverse people can work in diverse ways with mutual support through teamwork, so as to reduce the total working hours.

Systems to enable diverse ways of working

We have established and operated the “Nice Family System” (to support child raising) and the “Nice Senior System” (concerning the re-employment of retirees) which enable employees to select the most appropriate way of working according to the various life stages of the employees themselves.

NEW

Realization of diversity and supporting a comfortable working environment for all domestic and overseas staff

To support global human resources development, including employment of foreigners, labor/recruitment of overseas group companies, and the life and health of dispatched employees, so as to realize an equally comfortable working environment at all worksites around the world, we have set up a Global Human Resources Dept.

NEW

Making the Company a comfortable place to work for the disabled

In December 2009, as a part of our approach to creating a comfortable working environment for the disabled, we drew a map of places where passage with a wheelchair was difficult, by actually checking the places using a wheelchair. Based on this map, we are now making plans to renovate these problematic locations, aiming to achieve completely barrier-free areas.



Supporting enhancement of private lives

As a person's life is said to be 80 years long, we have regularly offered the seminars below targeting employees in specific age groups as an opportunity to think seriously about their future plans and those of their family members, including after retirement. From fiscal 2010, a course to encourage young employees to think about their life plan has been added to all training sessions for each job ladder.

"Happy Life" Seminar (Jun., attended by 72 employees of the age of 55 and their spouses)
"Money Plan for Employees in Their 40s" Seminar (Nov., attended by 15 employees in their 40s and their spouses)

Diversification of employment

To enable workers to select diverse ways of working, we flexibly review the workers' employment opportunities. During fiscal 2010, we switched the status of 30 interested workers from temporary staff to contract employees with the aim of expanding their range of work.

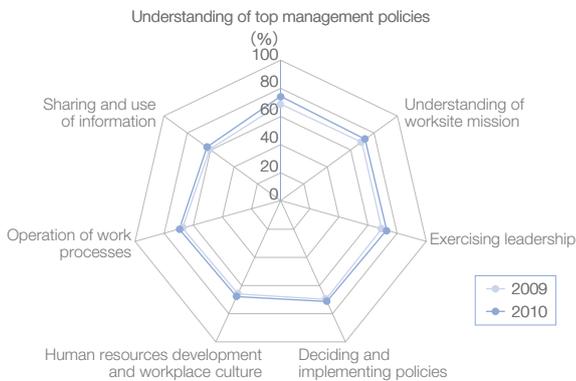
Thorough control of working hours

To avoid overwork of employees, we have established a system to thoroughly monitor working hours using IC cards. In addition to the system control, interview surveys on the working conditions in cooperation with the labor union and self-inspections by each department chief are also conducted to avoid voluntary overtime work.

Workplace management survey

To clarify the current management capacity and the problems of each workplace, a questionnaire survey on workplace management is conducted in April every year. The survey evaluates seven items below and the results of fiscal 2010 were about the same as or better than the results for fiscal 2009. We will continue this annual survey to promote improvements in our workplace culture.

Survey results



Response to each question was given as a percentage, from "Not affirmative: 0%" to "Affirmative: 100%".

Basic concept of human resources development

With the aim of contributing to the development of society and businesses under our mission statement and the Aichi Spirit, we promote human resources development for the purposes below:

- 1) To develop business people with a broad view and mature personality
- 2) To cultivate positive motivation, vitality, and creativity for work
- 3) To provide/improve knowledge and skills necessary to pursue jobs

Enhancing training activities at each worksite

To help freshman workers assigned to administrative departments to quickly become familiar with the Company and learn the job, some senior workers at each worksite are appointed "OJT trainers," who take responsibility for training the newcomers. During fiscal 2010, to make all members of each worksite aware of training issues, the OJT training program targeting even department managers was held, with the aim of improving the human resources development activities at worksites. For freshman engineers (graduating from Aichi Steel Technical Training Institute), consultants are appointed to support their early adjustment to changes in their working environment, including their daily life.

Group Company Pickup

Aichi Ceratec

Continued employment of those over 65

Respecting diverse working styles, Aichi Ceratec has established a system to allow employees over 65 to continue to work if they desire to do so. At present, seven workers are employed under this system. Even those who are 70 can be employed if they are healthy and motivated.



70-year-old Mr. Sugiura (center)

AFU (USA)

Harassment workshop

AFU offers workshops on harassment for employees every year. During fiscal 2010, three workshops were held with 182 participants. Points to be careful about in instructing subordinates and having proper communications within worksites were explained, with the aim of preventing all forms of harassment.

NEW

Promoting the "A3 Principle" throughout the Company

The "A3 Principle" project was launched throughout the Company, the purpose of which is to make visible and mutually examine each person's ideas about progressing the work, so as to deepen understanding of the key points of each task and to enable fundamental revision of the way of handling the job.

The name of this project, the "A3 Principle," comes from the single piece of A3-size paper used to summarize the overall processes for each job. We believe that by continuing to promote this project, we will be able to offer our customers services of even higher quality.



Management seminar

Aiming to develop management staff who will play important roles in the management of the Company, the management seminars are held targeting young directors and general managers. In fiscal 2010, three seminars were held inviting external lecturers to provide studies on themes such as "The Situation in Asia, including China, and the Challenges Facing Japanese Corporate Managers" and "The Relationship between Global Environmental Issues and Business Activities."



NEW

The Day of an Aichi Steel Engineer

In February 2011, an event titled, "The Day of an Aichi Steel Engineer" was held to encourage every one to think about the technology of Aichi Steel. Various activities, including a technology exhibition, a speech by the President, and commemorative lectures by external lecturers were held.



Technology exhibition

NEW

T-PK (Toyota Process Kaizen) education expanded to domestic group companies

The T-PK education program, which was implemented inside the Company from fiscal 2009 to improve business efficiency, was launched in September 2010 for domestic group companies. Through the united efforts within the Aichi Steel Group, we will strive to achieve improved business efficiency through a slim and robust corporate structure.

NEW

Problem-Solving Presentation

The "Problem-Solving Presentation" meeting is held once a month for engineers in the forging section. With the aim of acquiring the ability to think and proceed with problem-solving processes, participants present their technology reports, on which directors and managers then give advice, so as to improve the skills of engineers and help them accumulate new technology.



Enhancement of collaboration between the Company and the workers' union

Aichi Steel adopts the union shop system, under which periodical meetings are held in June, September, and December, to facilitate smooth communications between the Company and the workers' union. The current situation and problems in the Company are explained so as to be shared between both sides.

An extraordinary meeting may also be held in response to a rapid change in the economic environment.

Communication events

Various events are held to promote communications among employees and their family members.

- Various sport events (dodge ball competition, mini sport festival, etc.)
- Forging communication festival
- All-Chita Plant summer festival
- "Fureai Festa" through collaboration between the Company and the workers' union (See p.14)



All-Chita Plant summer festival



Forging communication festival

Group Company Pickup

Aichi Information System

Omi Mining

Meeting with the President

Aichi Information System and Omi Mining hold meetings between employees and the President to revitalize the workplaces with a frank and comfortable atmosphere.



Omi Mining dialogue meeting, "Fresh Talk"

Labor Data

Labor composition

	FY2006	FY2007	FY2008	FY2009	FY2010
Total workers (persons)	2,327	2,328	2,331	2,330	2,360
Managers (persons)	241	247	253	263	269
Male (persons)	2,233	2,224	2,227	2,221	2,244
Female (persons)	94	104	104	109	116
Average age (years)	39.2	39.3	39.4	39.5	39.7
Average service (years)	19.7	19.3	19.8	20.0	20.1
Turnover rate (%)	0.4	0.8	0.8	0.3	0.3
Voluntary resignation for personal reason (persons)	10	18	17	10	8
New graduates employed (female) (persons)	63(2)	58(2)	60(1)	78(5)	53(3)

Users of the Nice Family System

	FY2006	FY2007	FY2008	FY2009	FY2010
Child care leave (male) (persons)	9	8	8	11	4(1)
Shorter work hours (male) (Persons)	7	13	7	6	10(1)

Number of persons who started using the system in each year

Registrants to the Nice Senior* System

	FY2006	FY2007	FY2008	FY2009	FY2010
Nice Seniors (persons)	25	50	69	55	51

*Those who are re-employed between the ages of 60 and 64.
The figures above are the number of registrants in the Nice Senior System as of the end of each fiscal year.

Employment of persons with disabilities

	FY2006	FY2007	FY2008	FY2009	FY2010
Employees with disabilities (persons)	31	30	29	34	35
Employment rate (%)	1.6	1.6	1.5	1.8	1.65
Achievement status of the legal employment rate (%)	91.2	88.2	85.3	100	92.1

The employment rate decreased in fiscal 2010 because the redemption rate was lowered by 10%.

Usage rate of annual paid vacations

	FY2006	FY2007	FY2008	FY2009	FY2010
Usage rate (%)	50.5	48.0	69.0	54.0	46.0

Usage rate against 20 days granted

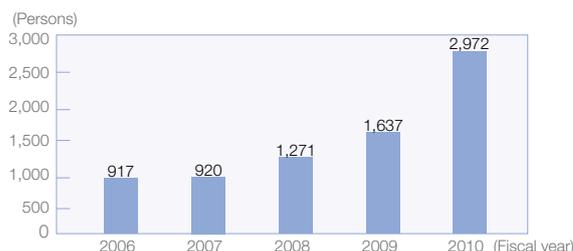
Social contribution policy

Setting the four keywords of "Clean," "Green," "Creative," and "Volunteer" as our focuses for social contribution activities, we promote community-oriented social activities.

Volunteer Center

The Volunteer Center is placed in the General Affairs Division to provide information and promote educational activities, with the aim of encouraging corporate/individual volunteer activities.

Number of participants in volunteer activities (cumulative total)



The number of participants increased due to the introduction of Charity Menu, a new program (See P32).

Volunteer education

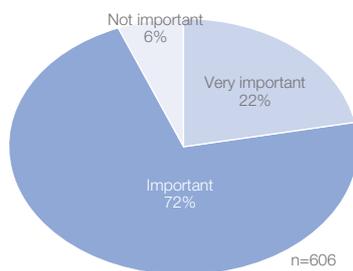
To enhance understanding of volunteer activities and promote active participation, a training session was held targeting freshman workers assigned to administrative departments (14 people) in September 2010.

NEW

Questionnaire survey on volunteer activities

In December 2010, a survey on awareness of volunteer activities was conducted, targeting mainly Company staff members. Based on the results of the survey, we will review the projects and plan new events to attract participation by more employees.

How employees see participation in social contribution



Over 90% of employees see participation in social contribution activities as important.

Clean

Nishi-Chita Industrial Road Clean-Up Campaigns (every two months)



Clean Aichi Day (See P16)



Seki Plant



Higashiura Plant



Aiko Corp.

Group Company Pickup

Cleaning volunteer

Aiko Service

We voluntarily clean the area around the company in early morning twice a month.



Aichi Ceratec

Every month, in addition to cleaning around our offices, we clean the prefectural road in front of the head office and sweep the side ditches.



Green

Participating in an NPO activity, "Forest Creating Volunteers"

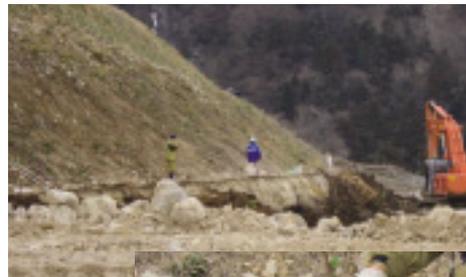
In May and September every year, we participate in a project of improvement cutting of trees to nurture the forests that will become water sources in Nagano Prefecture, in support of the NPO, "Green Challenger."

Planting flowers in front of Meitetsu Shurakuen Station

In June and December 2010, students of the Aichi Steel Technical Training Institute planted flowers in front of Meitetsu Shurakuen Station, the closest station to our offices.



Tree planting activities by group companies



Omi Mining (Planting trees on the slopes of Mt. Ibuki in May)



AFC (Philippines, July)



Creative

Support for Tokai City “Invention Club for Boys and Girls”

Every month, five students from the Aichi Steel Technical Training Institute participate as instructors at the Invention Club for Boys and Girls, a program sponsored by Tokai City targeting elementary school kids.



NEW

Track-and-Field Club volunteer in the 1st Tokai City Ekiden Relay Race

Aichi Steel Track-and-Field Club members and ex-members supported the 1st Tokai City Ekiden Relay Race held in Tokai City in March 2011. As a good opportunity for the club members, who have been supported by local community residents, they made some contribution to the community.



Volunteer activities

NEW

Charity Menu

In October 2010 in line with the Aichi Steel Group CSR Enhancement Month, the Charity Menu system was introduced on Company restaurant menus. The Charity Menu is a system in which 10 yen out of the price of each Charity Menu dish is donated to the Aichi Steel Volunteer Fund. During the Charity Menu period, 14,855 yen was donated.

Activities of the Aichi Steel Volunteer Fund

In fiscal 2010, the Fund donated charity gifts worth about 3.07 million yen, including those contributed through our Matching Gifts Program.*

*Under this program, we donate an amount equal to the amount already collected to the Volunteer Fund.

VOICE

Volunteer firefighting activities – supporting security and safety in the local community

Chieko Umeda New Business Planning Dept., Corporate Planning Div.

Keiko Hayashi General Affairs & Public Relations Dept., General Affairs Div.

From left: Ms. Umeda, Mr. Uto, and Mr. Fujita



Motohisa Fujita Forging Sect. No. 3, Forging Plant

Yoshikazu Uto Gifu Plant, Electro-Magnetic Production Div.

As local volunteer members, we participate in a firefighting team. Our activities include various roles, such as supporting official firefighters, organizing watering training and human life rescuing training, promoting local residents' awareness of the importance of disaster prevention, and teaching first-aid treatment.

Though the activity is sometimes very hard, once we listen to the local people saying to us “Thank you,” we forget about our tiredness and feel like working hard again. Keeping a pride in supporting the secure and safe life of the local community, we will continue to engage in this activity.

Ms. Hayashi (left)



Coexistence with the local community

Major donations by group companies

(donations for the Great East Japan Earthquake are excluded)

AFU (US)	Donated \$5,000 for Red Cross (Mar.)
SAFC (China)	Periodically donated clothes, etc. for earthquake-hit areas
AFI (Indonesia)	Donated meat equivalent to a whole cow (12.5 million rupiah) for local residents for 'Id al-Adha (Nov.) Provided scholarships worth 4.08 million rupiahs for local primary school and junior high school students (Jan., Nov.) Donated 611,000 rupiahs for victims of the Merapi volcano eruption (Nov.)



Aiko, Aichi Ceratec Donation for local festivals, donation through the red feather campaign, etc.

Omi Mining Donation to local government

Communication with the local community

Community Meeting is held every year in Tokai City (Apr.) and Kariya City (Dec.) to enhance communication with local residents.



Ongoing activities

Support for Nagoya Philharmonic Orchestra welfare concert (Sep.)

Blood donations (Sep., Mar.)

Support for the Japan Blind Tennis Tournament (Nov.)

Support for the Tokai City Marathon (Dec.)

Support for the Tokai Junior School Indoor Tennis Tournament (Feb.)

Facilities made open for community events

- ASCOM gymnasium: Always open for local residents

- Kariya Plant: Kariya Daimyo Procession, Float Festival (May), Kariya Mando Festival (Aug.), Kariya Citizens Dance Festival (Sep.)



Basic approach

We view environmental preservation activities as one of the top priority issues in corporate management. The Aichi Steel Environmental Charter was developed in June 1996 to clarify our sincere approach in environmental efforts. The Behavior Guidelines on Environmental Issues (current Environmental Action Plan) was established in June 1993, and we continuously and actively aim to achieve our goals.

Aichi Steel Environmental Charter

Please refer to our Website

http://www.aichi-steel.co.jp/ENGLISH/com_info/envi.html

Environmental Action Plan 2010: Results and evaluation

Overview and evaluation of the Environmental Action Plan 2010

The Environmental Action Plan 2010, our action plan regarding environmental efforts from FY2006 to 2010, was established in March 2006. With goals set high, we have been making steady, step-by-step efforts in order to achieve them, and in our final year of FY2010, our efforts were further intensified.

After five years of activities, we were able to achieve the CO₂ emissions reduction target for prevention of global warming, but three items remain unachieved. Please see the table below for details.

○ :Target achieved
 △ :Target achieved but improvement needed
 × :Target not achieved

Item	Action item	Target	Major efforts	Results	Evaluations
Environmental management	Spiraling increase in environmental activities	All consolidated manufacturing companies to acquire ISO 14001 certification	<ul style="list-style-type: none"> ● Support for certification acquisition for consolidated companies ● Continued internal audit with clear priority agenda 	Only AFC is uncertified	× *1
	Promotion of environmental preservation	Reporting/guidance/complaints from outside the company (None/year)	<ul style="list-style-type: none"> ● Improvement of material environmental aspects facilities/procedures ● Promotion of proactive efforts by anticipating the future movement of environment-related laws and regulations ● Promotion of activities for compliance with environment-related laws - Implement strict management and actions to achieve 80% or below regulation values set by environment-related laws - Practice "Environmental Near Miss" activities 	<p>Intensify inspection and make improvements regarding environmental incident</p>	○ × *2
Global warming prevention	Promotion of global warming prevention	CO ₂ emissions from manufacturing departments by 10% from 1990 levels	<ul style="list-style-type: none"> ● Promotion of CO₂ emissions reduction by energy-saving efforts ● Change to, or concentrate processes on, energy-efficient facilities and furnaces ● Implementation of new energy-efficient facilities ● Promotion of implementation of clean energy 		○
		CO ₂ emission levels of the Logistics Division Average of 1% reduction per year since 2006	<ul style="list-style-type: none"> ● Promotion of CO₂ emissions reduction by improving logistics efficiency - Modal shift - Improvement on loading ratio, promote direct delivery 		○
Recycling	Promotion of achievement of zero landfill waste	Landfill volume: 2% or less of FY1990 level (FY1990: 58,000 tons/year) Total landfill volume: 1,160 tons/year or less	<ul style="list-style-type: none"> ● Promotion of 3R activities ● Promotion of development of recycling technology - Recycle slag with ANRP - Establish method to recycle fluorine-containing slag 		× *3
Reduction of environmental burden	Promotion of product/technology development	-	● Creation of evaluation index at time of development/designing	- Evaluation and calculation of major products (CO ₂) - Development of evaluation index ideas to be used for DR	○
	Reduction of substances of environmental concern during manufacturing process	-	● Increase on green purchasing	- Review and systemization of green purchasing	○
Social contribution	Efforts toward biodiversity	-	● "Declaration of Biodiversity by Nippon Keidanren" Promotion Partners	Active participation in COP10 events	○
	Enhanced disclosure and communication of environmental information	-	<ul style="list-style-type: none"> ● Publication of Aichi Steel Report ● Holding CSR community meetings 	Approx. 5,000 copies published (once/year), and disclosed on Website Meeting with neighborhood associations (once/year)	○
	Environmental education/motivation activities	-	<ul style="list-style-type: none"> ● Enhancement of in-house environmental education ● Motivation through in-house publications and seminars 	Expansion of research targets, increase of internal auditors Education and motivation in every in-house publication, and implementation of environmental seminars (once/year)	○
	Contribution activities for society and local communities	-	<ul style="list-style-type: none"> ● Participation in local environment beautification activities ● Employee volunteers' participation in NPO tree cutting activity for forestation improvement (from 2007 and on) ● Employee volunteers' participation in Tokai Forestation for the 21st Century Campaign (from 2008 and on) 	Continued See P30 for transition of number of volunteer participants	○

*1 Improvements will be made to acquire certification in FY2011.

*2 Received one complaint in FY2007. There were flaws in the control manifest necessary for receiving waste and in the delegation of authority, which were pointed out by the client. These issues have been corrected, and we voluntarily reported and notified the administration of the matter. We are striving to prevent recurrence by thoroughly implementing in-house education concerning manifests, etc.

*3 In response to the Guideline for Proper Use of Recyclable Resources (Aishi Pref.), what had been recycled is now discarded as waste since FY2008, resulting in a sudden increase in the direct and indirect landfill volume. We will promote 3R activities so as to achieve 1,800t/month by FY2012. (See P35, 40.)

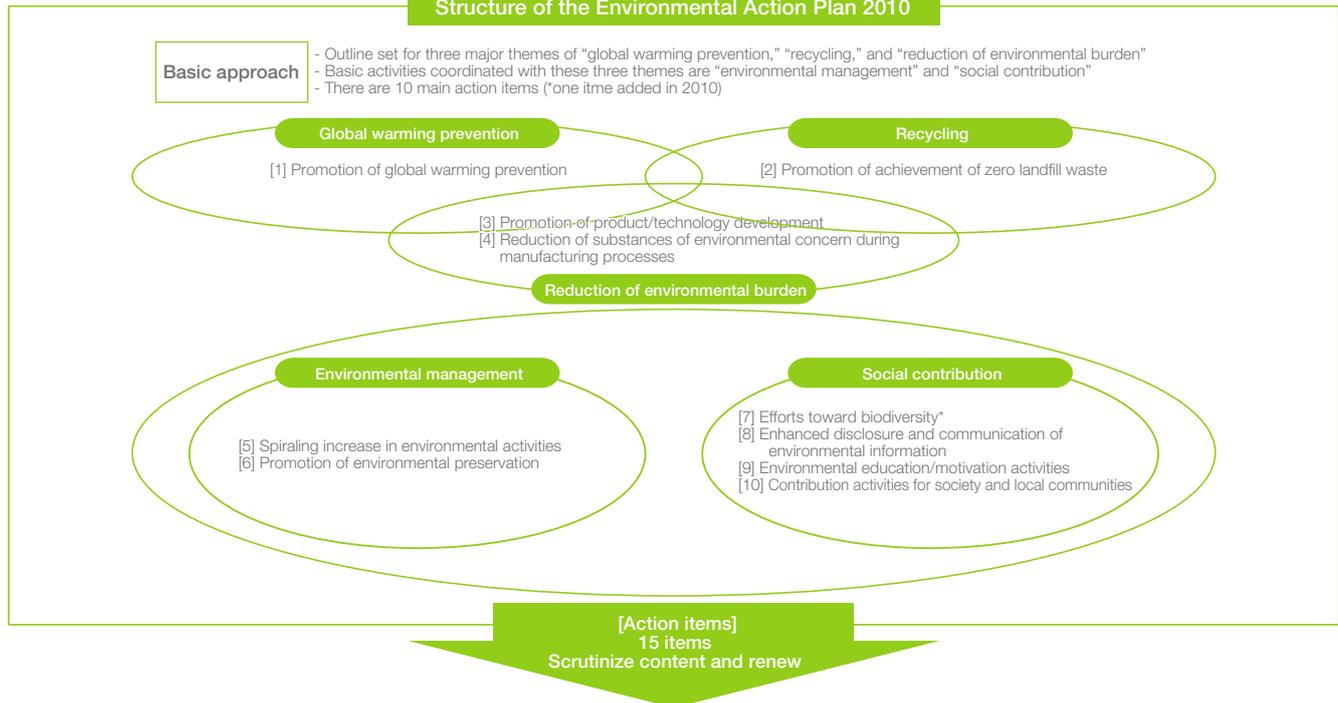


For the success of the Environmental Action Plan 2015

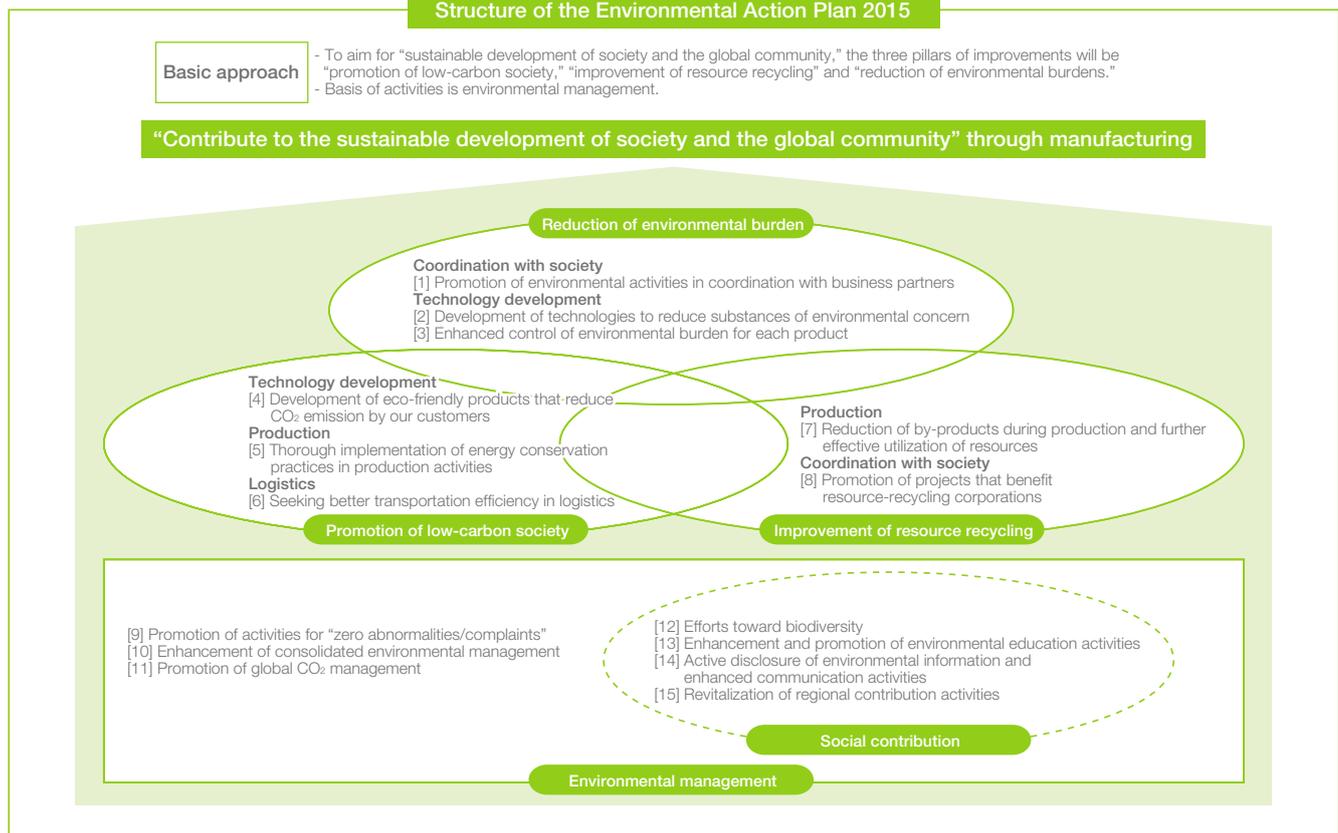
With the results of the Environmental Action Plan 2010, the Aichi Steel Group came together as one to develop the Environmental Action Plan 2015 towards realizing a sustainable society. Upon developing the Action Plan, the basic philosophy employed is “to contribute to the sustainable development of society and the global community” through manufacturing. To this end, we have placed “environmental management” involved in social contribution as the basis of all environmental activities.

Specifically, the three pillars of implementation will be “reduction of environmental burdens,” “promotion of low-carbon society,” and “improvement of resource recycling,” and our activities will be conducted from many different directions, including production, technology development, coordination with society, and logistics. Unachieved items from the Environmental Action Plan 2010 have been reviewed and included in the 2015 plan.

Structure of the Environmental Action Plan 2010



Structure of the Environmental Action Plan 2015



Environmental Action Plan 2015 Action items, items of implementation and targets

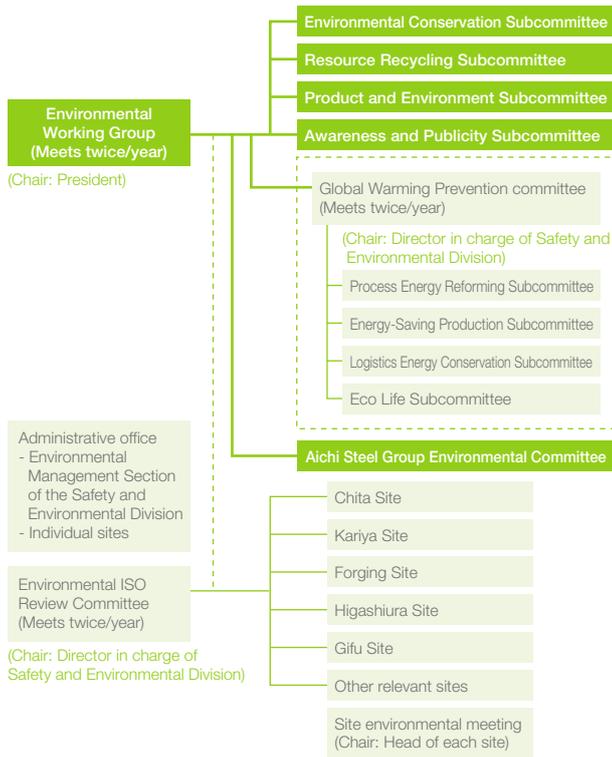
Theme	Action items	Specific items of implementation, targets, etc.	Involved organization*							
Three pillars	Reduction of environmental burden	[1] Promotion of environmental activities in coordination with business partners	- Request to suppliers regarding ensured compliance, enhanced control over substances of environmental concern contained in components, raw materials, and supplies, and voluntary activities to improve environmental performance	Product and Environment Subcommittee						
		[2] Development of technologies to reduce substances of environmental concern	- Promotion of technology development that leads to reduction of substances of environmental concern							
		[3] Enhanced control of environmental burden for each product	- Promotion of control for environmental burden for each product							
		[4] Development of eco-friendly products that reduce CO ₂ emission by our customers	- Reduction in CO ₂ emission by our customers through reducing weight, etc.							
	Promotion of low-carbon society	[5] Thorough implementation of energy conservation practices in production activities	- Promotion of efforts under the 3R principle • Reduce (higher efficiency, re-engineering) • Reuse (reusing exhaust heat) • Recycle (heat → energy conversion) <Energy-origin CO ₂ > <table border="1"> <thead> <tr> <th>Item</th> <th>Reference year</th> <th>Target (2012)</th> </tr> </thead> <tbody> <tr> <td>Total CO₂ emissions</td> <td>1990</td> <td>10% reduction*</td> </tr> </tbody> </table> * Average from 2008 to 2012 Based on the Japan Iron and Steel Federation Voluntary Action Plan	Item	Reference year	Target (2012)	Total CO ₂ emissions	1990	10% reduction*	Global Warming Prevention Committee
		Item	Reference year	Target (2012)						
	Total CO ₂ emissions	1990	10% reduction*							
	[6] Seeking better transportation efficiency in logistics	- Promotion of CO ₂ emission reduction activities with improved loading ratio <table border="1"> <thead> <tr> <th>Item</th> <th>Reference year</th> <th>Target (2012)</th> </tr> </thead> <tbody> <tr> <td>Emission volume per transportation amount</td> <td>2006</td> <td>6% reduction</td> </tr> </tbody> </table>	Item	Reference year	Target (2012)	Emission volume per transportation amount	2006	6% reduction		
	Item	Reference year	Target (2012)							
	Emission volume per transportation amount	2006	6% reduction							
	Improvement of resource recycling	[7] Reduction of by-products during production and further effective utilization of resources	- Promotion of efforts through 3R • Reduce (reduction of generated volume and resource losses) • Reuse (reusing within the process) • Recycle (reclaiming resources) <table border="1"> <thead> <tr> <th>Item</th> <th>Target (2012)</th> </tr> </thead> <tbody> <tr> <td>Landfill volume in correspondence with fluorine-containing slag regulations</td> <td>1,800 t/month</td> </tr> </tbody> </table>	Item	Target (2012)	Landfill volume in correspondence with fluorine-containing slag regulations	1,800 t/month	Resource Recycling Subcommittee		
		Item	Target (2012)							
		Landfill volume in correspondence with fluorine-containing slag regulations	1,800 t/month							
	[8] Promotion of projects that benefit resource-recycling corporations	- Promotion of technology development toward environmental improvement and building a recycling society								
	[9] Promotion of activities for "zero abnormalities/complaints" - Zero abnormalities/complaints	- Improvement of material environmental aspects facilities/procedures - Reduction of environmental burdens, promote environmental contribution - Promotion of activities for compliance with environmental-related laws								
Environmental management	[10] Enhancement of consolidated environmental management	- Enhancement of preventive measures to reduce environmental risks - Revitalization of environmental activities by non-manufacturing consolidated subsidiary	Environmental Conservation Subcommittee							
	[11] Promotion of global CO ₂ management	- Planning and promotion of total CO ₂ management								
	Social contribution	[12] Efforts toward biodiversity	- Participation in greening/forestry activities in coordination with NPOs, government, etc.	Awareness and Publicity Subcommittee						
		[13] Enhancement and promotion of environmental education activities	- Systemization and implementation of environmental education to enhance environmental awareness in employees							
		[14] Active disclosure of environmental information and enhanced communication activities	- Enhancement of provision of environmental technology information for products - Continued publication of Aichi Steel Report and further enhancement of its content - Enhancement of environmental communication activities							
		[15] Revitalization of regional contribution activities	- Expansion of contribution activities for society and local communities - Promotion of activities to heighten environmental awareness							

*See P36.

System for environmental management promotion

Our environmental management structure has been developed to carry out environmental preservation activities based on the Aichi Steel Environmental Charter. The Environmental Working Group strongly promotes all environmental preservation activities in an organized and systematic manner.

Environmental management promotion organizations (FY2010)



Environmental Working Group (March)

Certification status of Environmental ISO

We aim for 100% ISO 14001 certification for consolidated subsidiaries with manufacturing sites.

In FY2010, Aichi Techno Metal Fukuami and AFI were certified, and for the one remaining company, we will continue to provide support so as to realize certification in FY2011.

ISO certification status

Aichi Steel	ISO 14001	January 1997
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Consolidated subsidiary

Aichi Ceratec	ISO 14001	March 2003
Aiko	ISO 14001	January 2004
Omi Mining	ISO 14001	October 2004
Aiko Service	ISO 14001	January 2005
Aichi Steel Logistics	ISO 14001	March 2005
Asdex	ISO 14001	May 2007
Aichi Techno Metal Fukuami	ISO 14001	December 2010
A F U	ISO 14001	April 2003
A I T	ISO 14001	November 2006
SAFC	ISO 14001	December 2009
A F I	ISO 14001	May 2010
A F C	ISO 14001	(Planned certification in 2011)



AFI



Aichi Techno Metal Fukuami

Practicing "Environmental Near Miss" activities and compliance measures

We received no complaints from outside the company during FY2010. We will continue our "Environmental Near Miss" activities within the Company to enhance employees' awareness about preventing environment-related accidents.

Unit: Million yen

Classification	Major efforts	Amount
Environmental conservation costs necessary for controlling environmental burdens arising within our operational areas from production or service activities (Operational area costs)	Power for dust collectors/repair costs for dust collectors, wastewater treatment costs, investment and maintenance of energy-saving facilities, costs of disposal and recycling of industrial waste and general waste discharged from business operations	2,941
Costs necessary for controlling environmental burdens arising upstream or downstream of our operational areas in connection with production or service activities (Upstream/downstream costs)	Simplified packaging (reducing packing materials and reducing packing time)	0
Environmental conservation costs arising from our administrative activities (Administrative costs)	Costs for employee environmental education, and costs necessary to acquire and maintain ISO certification Labor costs and related costs of environmental action organizations	287
Environmental conservation costs arising from our R&D activities (R&D costs)	Research costs for environmental conservation	39
Environmental conservation costs arising from our social-relation activities (Social-relation costs)	Site greening and industrial road cleaning activities	28
		Total 3,295

Environmental communication

The Company undertakes environmental communications with society not only through CSR community meetings but also by accepting requests for site visits from the government. In FY2010, the Living and Environment Division of Chita City visited in August, and the Pollution Prevention Council of Tokai City visited in February.



Environmental Education

Environmental activities are one of the priorities in corporate management and CSR activities, and therefore, we take an active part in environmental education.

Environmental training

Held three times, targeting newly employed graduates assigned to administrative departments (April: 14 freshmen), Assistant managers (June: 20 Assistant managers), and newly-promoted Foremen (March: 19 Foremen).

Environmental law education

We invited an external lecturer (from Daiseki Eco. Solution Co., Ltd.) to give a seminar titled, "An Overview of and How to Comply with the Amended Soil Contamination Countermeasures Act," mainly targeting staff involved with central facility planning. (October, 32 participants)

Educating internal environmental auditors

Twenty new internal environmental auditors who support the efficient operation of the environmental management system were certified for FY2010, making a total of 179. Also, we conduct internal environmental auditor education for those scheduled for overseas dispatch on an as-needed basis.



Manifest education

For the purpose of increasing awareness concerning the importance of manifest control, we generally hold two education sessions per year for newly assigned manifest staff on how to issue manifests, etc. Passing the comprehension test given after the session gives the participant the qualifications to issue manifests.



Technical conference/Seminar

An external lecturer from Chunichi Shimbun, was invited in May 2010 to speak in a seminar titled, "Environmental Problems Seen from the Media Perspective," in 113 people participated.



Audit results

The results of the FY2010 internal audit and the surveillance audit of the environmental management system were as follows. There were no material non-conformances.

Results of internal audits

Classification	FY2006	FY2007	FY2008	FY2009	FY2010
Material non-conformance (incidents)	0	0	0	0	0
Minor non-conformance (incidents/department)	0.9	0.7	0.7	0.7	0.6

Results of audits by independent auditors

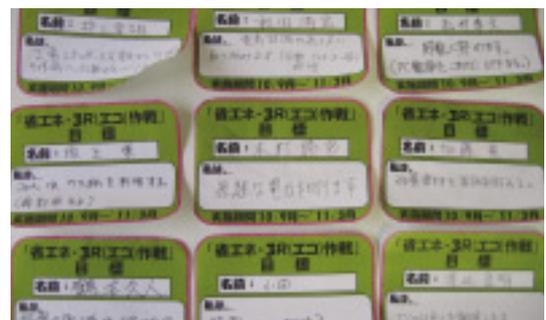
Classification	FY2006	FY2007	FY2008	FY2009	FY2010
Minor non-conformance (incidents)	1	1	1	1	0
Opportunity for improvement and other observations (incidents/department)	21 (0.5)	12 (0.3)	20 (1.0)	31 (0.8)	14 (0.6)

Group Company Pickup

Aichi Techno Metal Fukaumi

"I will _____" card

As part of environmental management, each and every Aichi Techno Metal Fukaumi employee declares that "I will _____" on a card and executes what he/she declared so that 5S, energy conservation, and 3R are firmly rooted in everyone. We aim to achieve in-house goals by having everyone participate in specific efforts. As an eco-friendly manufacturer, we see ISO 14001 certification as merely the starting point and will continue to strive towards "all-participatory improvement of management abilities."





Targets and results for FY2010

Based on the Environmental Action Plan 2010, we are currently striving for 10% reduction compared to 1990 levels, which is a figure better than the target of the Kyoto Protocol.

Energy efficiency improvement measures, among others, were taken in FY2010, but due to increases in production, we were unable to achieve our target for the fiscal year.

Item	FY2010 target	Results
CO ₂ emissions	527,000 tons/year	600,000 tons/year

Scope of CO₂ emissions and criteria

The scope of CO₂ emissions volume is “energy-origin CO₂ for the entire company (each site, headquarters, branches, sales offices), and energy use is based on the Energy Consumption Status Report submitted regularly to the Ministry of Economy, Trade and Industry. CO₂ emission coefficient is based on the Japan Iron and Steel Federation Voluntary Action Plan.

Energy conservation in the office

We promote energy conservation activities that can be carried out within the office.

NEW

Individual air-conditioning in the main building

The central-control air-conditioning of the administrative main building, which had used boilers, has been converted to individual air-conditioning. This enables temperature control by floor, and we are expecting approximately a 40% reduction of CO₂ emissions compared to the conventional method.



NEW

Technical Center: updating to energy-conserving equipment

Equipment within the Technical Center is being updated gradually to energy-conserving equipment. In FY2010, eco-lighting was installed in the quality control meeting room which should result in 41% reduction, and the air conditioning unit in the laboratory was changed to an energy-conserving one for 40% reduction.

NEW

Mottainai (That's a waste!) Card

In February 2011, we created the *Mottainai* Card to heighten interest towards eco-friendliness in our surroundings, and solicited comments from our employees. We will take the comments (55 comments) and analyze them so that they can be reflected onto the energy conservation plan by the Eco Life Subcommittee.

- Cool Biz (June to September)
- Warm Biz (December to March)
- Close laptops when leaving the desk
- Turn off lights whenever possible
- Reduce waste (recycle)
- Participate in light-down campaign (June 21 to July 7)

NEW

Eco factory

The Seki Plant, completed in May 2010, is operating as a true eco factory, with the factory itself—as well as facilities and manufacturing line—all designed to conserve energy.

- Line design with reduction in logistics energy
- Improved steel roof for better air conditioning efficiency
- Installed with energy-conserving air conditioning units

Also, conversion to energy conserving equipment, changing heating furnace to alternative energy (heavy oil → city gas), and other efforts are currently being made at the Chita Plant and the Forging Plant to transform them into eco-friendly plants.



Seki Plant

Life Cycle Assessment

To realize eco-friendly manufacturing, we are striving for energy conserving design that takes into consideration the entire life cycle of our products. We try to calculate and evaluate the CO₂ emissions volume of the product for its life cycle at the design/development stage using a Life Cycle Assessment (LCA) evaluation sheet, so as to make our CO₂ reduction activities more visible.

NEW

Energy Conservation Practices Class

Starting from February 2010, an Energy Conservation Practices Class is being held twice a month with the aim of reducing electricity/energy costs at the Chita Plant, and promoting human resource development for young engineers. Approximately ten young engineers learn the basic principles of energy conservation and receive guidance from senior members of the company, as well as external lecturers, so as to make daily improvements in their respective workplaces. The aim is not only installation of energy conserving equipment through construction work conducted during consecutive holidays, but also implementation of large-scale investment in energy conservation at the re-engineering level. Further, through the class, participants become qualified in energy management.



Energy conservation activities for logistics operations

In fiscal 2010, the total freightage of the Company reached approximately 150 million ton-kilometers*. Improvement activities resulted in 5% improvement y/y of the loading ratio, but because shipments to distant locations increased and transportation distance was elongated, CO₂ emission intensity saw an increase of 0.6% y/y (average reduction of 1% per year since 2006 is still being achieved). We will continue to strive for improved loading ratios and to promote modal shifts.

* Ton-kilometers (freightage volume) = Shipped quantities (tons) × Transportation distance (kilometers)

NEW

Forging Plant “Cargo Station” completed

In March 2011, the Cargo Station of the Forging Plant was completed. By consolidating the in-plant driving areas for shipment trucks, logistics within the premises has been better organized and streamlined, resulting in a 42-ton reduction in CO₂ emissions per year.

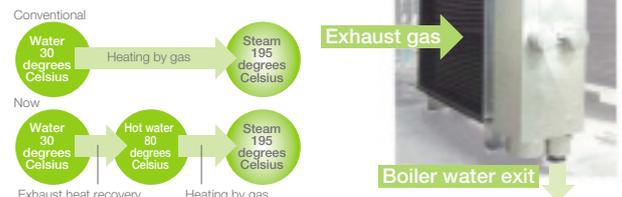


NEW

CO₂ reduction through use of exhaust heat from the hot rolling furnace

In August 2010, an exhaust heat recovery device was installed to reuse the high-temperature exhaust gas (approximately 300 degrees Celsius) from the hot rolling furnace. This device reuses the heat of the exhaust gas, which had been discarded until now, to raise the temperature of the boiler water from 30 degrees Celsius to 80 degrees Celsius and conserve energy. This resulted in a 4.4% reduction in boiler fuel, and a 230-ton reduction in CO₂ per year.

Exhaust heat recovery diagram



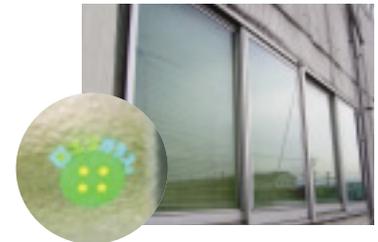
Group Company Pickup

Aiko

Eco-office activities

Aiko is promoting conversion to eco-offices. Office windows are now double-glazed to improve insulation, indirectly reducing CO₂ emissions.

In addition, air conditioning units are updated to energy-conserving ones, and ceiling fans are used to circulate the air in the room to improve the efficiency of the heating and air conditioning. We contribute to the achievement of a low-carbon society from many aspects, including office environment.



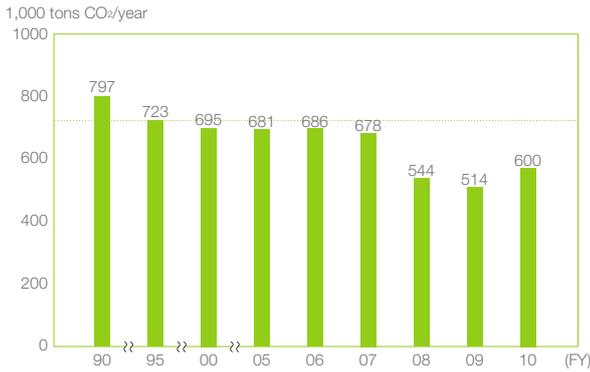
AIT (Thailand)

Conversion to eco-cars

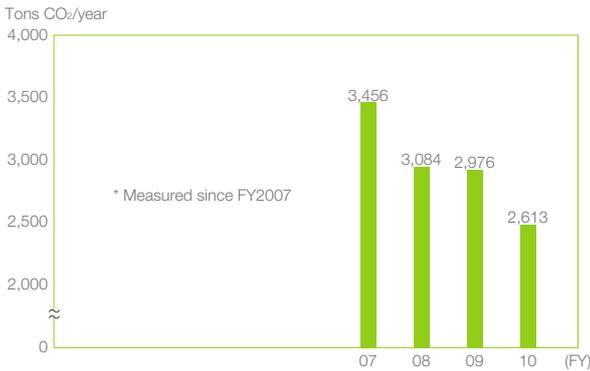
At AIT, company cars are being converted to eco-cars as they reach their maximum years of use. All three trucks have already been changed to CNG (gas) trucks, and some of the company cars have been adapted from gasoline to hybrid cars to reduce CO₂ output.



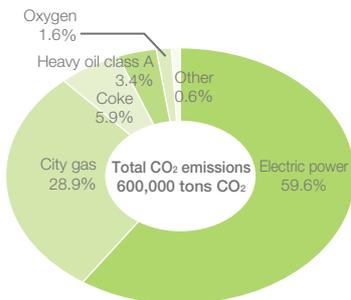
Change in CO₂ emissions



Change in CO₂ emissions from the Administrative Division



Breakdown of energy used in FY2010 (CO₂ emissions)



CO₂ balance

CO ₂ emissions for FY2009	514,000 tons CO ₂ /year
CO ₂ emissions for FY2010	600,000 tons CO ₂ /year
Difference	-86,000 tons CO ₂ /year

Breakdown

Increase due to greater production	-107,000 tons CO ₂ /year
Improvements (A) - Aggravations (B)	21,000 tons CO ₂ /year
Total	-86,000 tons CO ₂ /year

Improvements (A)

[1] Improved energy efficiency of the electric furnace	13,000 tons CO ₂ /year
[2] Energy conservation of hot rolling furnace	3,000 tons CO ₂ /year
[3] Loss reduction in induction heating forging furnace	2,000 tons CO ₂ /year
[4] Loss reduction through higher yield rate	4,000 tons CO ₂ /year
[5] Loss reduction during suspension of operations	1,000 tons CO ₂ /year
Total	23,000 tons CO ₂ /year

Aggravations (B)

[1] Changes in product composition	2,000 tons CO ₂ /year
Total	2,000 tons CO ₂ /year

Targets and results for fiscal 2010

As a law-abiding member of society, the company promotes 3R activities (reduce, reuse, recycle) to make efficient use of resources.

In FY2010, we complied with the Guideline for Proper Use of Recyclable Resources (Aichi Pref.) and promoted reduction of generated volume as well as recycling, but we were unable to achieve our targets.

Item	FY2010 target	Results
Direct landfill	37,900 t/year	47,316 t/year
Indirect landfill	1,780 t/year	2,442 t/year

Efforts to reduce landfills

In FY2010, which saw a drastic increase in production volume compared with FY2009, there was also a significant increase in the volume of generated by-products. To maintain quality of steels while decreasing landfill volumes, we have been increasing the rate of slag recycling using the ANRP method,* and promoting in-house usage.

Also, we have actively searched for slag recycling methods and recyclers outside of the company, and now have in place a plan to drastically reduce direct landfill volumes from FY2011.

*Aichi New Hot Slag Recycling Process

Recycling with the Toyota Group

The current 3R activities are promoted in coordination with companies of the Toyota Group.

We already make efforts such as reusing Automobile Shredder Residue (ASR), including iron scraps, and in addition to such existing activities, we are developing recycling technologies for nonferrous metals, glass, etc. Also, we are considering methods to exchange information within the Group to promote recycling, as well as the reuse of by-products as resources.

Continued recycling technologies

- Production of abrasives (AS shot)
- Recycling of electric arc furnace reducing slag (ANRP method)
- Recycling of nickel from by-products

NEW

3R Contest

Starting September 2010, each plant conducts a 3R Contest, where 3R activities at manufacturing sites are promoted and competitions on eco-friendly manufacturing take place. An exhibition of improvement cases, solicitation of slogans and catch-phrases, and many other diverse events are held at each plant, and superior examples are recognized with awards.



Don't discard, reuse!

As a part of the 3R activities of the administrative divisions, we have implemented the "Don't discard, reuse!" system. In this system, when there are goods—such as office supplies—that are needed/not needed by a particular division, that division announces such information so that these goods may be traded among them. The aim is to reduce waste from the office and to reduce new purchases.



Group Company Pickup

Aichi Steel Logistics

Reusing waste block lumber

Aichi Steel Logistics reuses old lumber (waste block lumber*) within the park facility of the Facility Management Association of Chita City, Aichi Prefecture. This activity began in December 2009, and in cooperation with the Association, the waste block lumber is reused in the sidewalks of parks within Chita City, among other places.



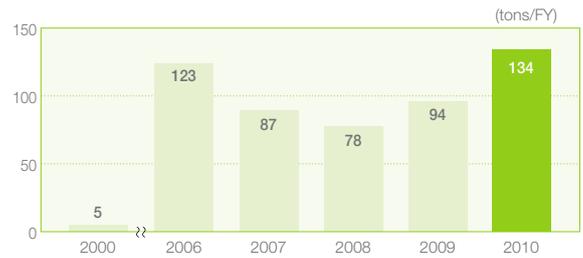
Loaded waste block lumber



Reused in sidewalks within a park

*Block lumber is used as cushioning material or spacing material when loading steel stock etc. onto a trailer deck or for storing in warehouses. After years of use, deteriorated or broken block lumber has conventionally been discarded as waste block lumber.

Recycled nickel

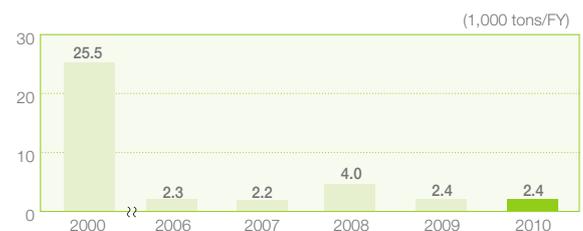


Change in direct landfilled waste



Corresponding with the Guideline for Proper Use of Recyclable Resources (Aichi Pref.), for FY2010, we tackled reduction of slag generation and especially focused on developing recycling methods and use for fluorine-containing slag, which has contributed to increased landfills. Recycling begins in FY2011, and we expect reduction in landfill volume.

Change in indirect landfill waste



Environment



NEW

Supporting COP 10

In agreement with the Tenth Meeting of the Conference of the Parties to the Convention on Biological Diversity (COP 10), we provided support in August 2010 as an Aichi-Nagoya COP 10 supporting company.



Exhibiting at Messe Nagoya 2010

In October 2010, we participated in Messe Nagoya 2010, an event related to COP 10 hosted, where we exhibited our products and efforts related to biodiversity.



NEW

Regeneration of *satoyama* (socio-ecological production landscapes) Donation of used refractory bricks for charcoal kiln

In April 2010, approximately 10 tons of refractory bricks previously used for steelmaking ladles were donated to the Nagoya Higashiyama Forest Conservation Group, a volunteer group involved in the conservation of forests in the Higashiyama Park green area. The donated bricks were used for a charcoal kiln located within the Higashiyama Park, as a part of the *satoyama* regeneration efforts.



NEW

Increased knowledge in biodiversity

In September 2010, we distributed to managers a book titled "Inochi no Tsunagari" (Circle of Life) by Associate Professor Ryo Kohsaka of Nagoya City University, who gave a lecture at our Company in June 2009, aiming to increase awareness and knowledge of biodiversity.

Forest Conservation Volunteering

→ See P31.

Supporting the C. W. Nicol Afan Woodland Trust

→ See P15.

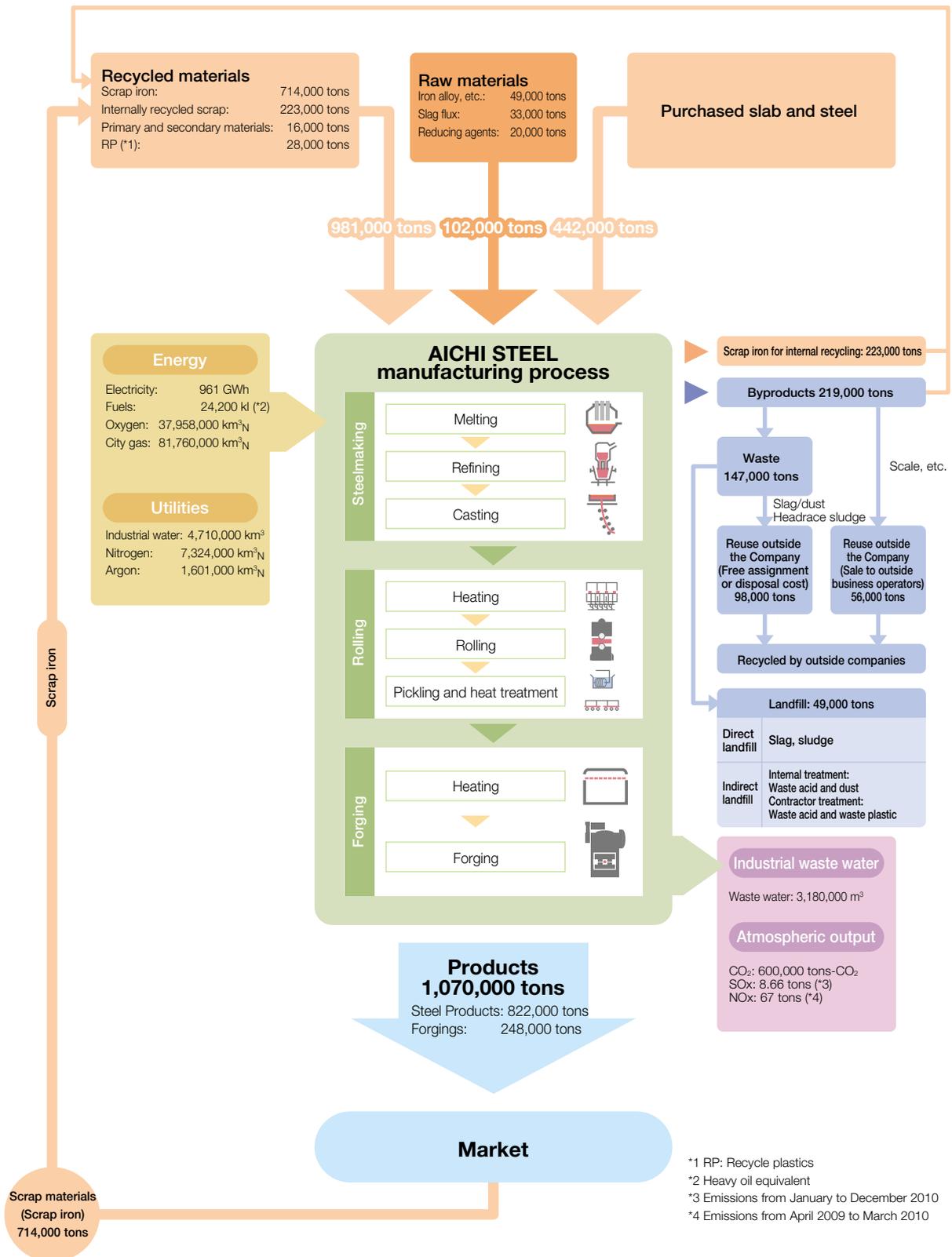
Group Company Pickup

Omi Mining

Sponsorship and support for the Amanogawa Firefly Festival

Omi Mining sponsors and supports the annual Amanogawa Firefly Festival (hosted by Maibara City) held every June in Maibara City, Shiga Prefecture. Fireflies are found only in an environment with very clean air, water, and soil, and the city is making efforts to maintain their habitat for future generations. We sympathize with this effort, and will continue our support. In 2010, we sponsored the event, and also hosted an environmental efforts exhibition booth during the event period as a PR activity in cooperation with TetsuRiki-Agri/Aqua which promotes greening, and slaked lime used for incineration exhaust neutralization, soil improvement, and fertilizer.





*1 RP: Recycle plastics
 *2 Heavy oil equivalent
 *3 Emissions from January to December 2010
 *4 Emissions from April 2009 to March 2010

PRTR Data

(Unit: tons)

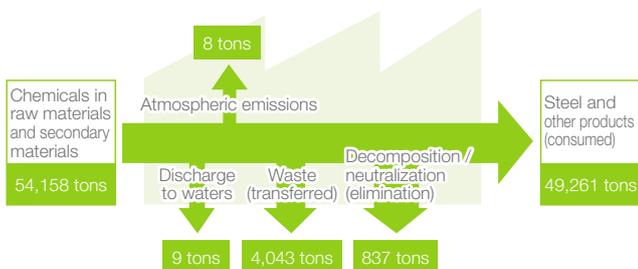
	Govt. Ordinance No.	Substance name	Amount handled	Discharged		Transferred
				Atmosphere	Water	Outside of premises (as waste, etc)
Chita and Forging Plants	1	Water-soluble zinc compound	1.2	-	0.180	0.310
	53	Ethyl benzene	1.0	0.040	-	-
	80	Xylene	4.7	0.240	-	-
	87	Chromium and trivalent chromium compounds	25000	0.070	0.011	2100.000
	132	Cobalt and cobalt compounds	150	-	-	2300.000
	243	Dioxins	44.00	44.000	-	-
	300	Toluene	6.7	0.420	-	-
	304	Lead	92	-	-	-
	305	Lead compounds	220	0.130	-	150.000
	308	Nickel	6300	-	-	-
	309	Nickel compounds	890	0.011	0.120	49.000
	374	Hydrogen fluoride and its water-soluble salts	6.5	0.001	6.300	0.180
	384	1-bromopropane	7.2	5.200	-	2.000
	400	Benzene	0.55	0.028	-	-
	405	Boron and boron compounds	71	-	-	17.000
	Kariya Plant	87	Chromium and trivalent chromium compounds	960	-	0.024
309		Nickel compounds	470	-	0.026	29.000
374		Hydrogen fluoride and its water-soluble salts	120	0.042	1.100	69.000
453		Molybdenum and molybdenum compounds	16	-	0.290	1.800
Gifu Plant	80	Xylene	1.1	0.230	-	0.900
Seki Plant	392	Normal hexane	1.1	1.100	-	-

Higashiura Plant: No regulated substances used

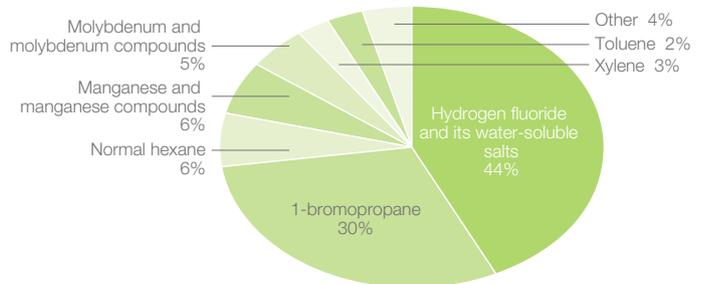
A hyphen (-) indicates a quantity of 0 (zero). The volumes were calculated according to the PRTR system.

Unit is tons/year (however, unit for Dioxins is mg-TEQ/year).

Material balance of PRTR substances in the entire organization of the Company



Breakdown of discharged PRTR substances



PCB control

Based on the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes, we keep a ledger of all transformers, condensers, waste oil, etc. that contain PCBs, and implement strict storage and control measures.

Atmospheric Quality Data

Regulated by the Air Pollution Control Act and Prefectural ordinances

Chita and Forging Plants

Substance	Facility	Limit	Actual level (max)	
NOx	Boiler	130	95.4	
		150	25.8	
		180	58.7	
	Heating furnace	130	65.7	
		150	43.4	
		170	55.2	
Soot	Boiler	180	61.6	
		200	42.0	
		0.05	0.001	
		0.15	0.001	
		Heating furnace	0.08	0.003
			0.10	0.003
	0.20		0.003	
	Electric furnace	0.25	0.002	
		0.30	0.005	
0.05		0.001		
SOx	(Total limit)	0.08	0.001	
		0.10	0.001	
		34.35	3.935	

Kariya Plant

Substance	Facility	Limit	Actual level (max)
NOx	Boiler	180	69.1
	Heating furnace	130	49.7
		150	41.2
		170	60.7
Soot	200	54.3	
	Boiler	0.30	0.003
	Heating furnace	0.20	0.003
0.25		0.003	
SOx	(Total limit)	11.622	4.941

Higashiura Plant : No regulated facility

Gifu Plant

Substance	Facility	Limit	Actual level (max)
NOx	Boiler	150	84.0

Seki Plant : No regulated facility

- The actual levels of NOx and soot indicate the maximum values actually measured for each regulated facility.
- Units used are as follows. NOx: ppm, soot: g/m³N, SOx: m³N/h (total volume control as stipulated by the Air Pollution Control Act)

Water Quality Data

Regulated by the Water Quality Pollution Control Act and Prefectural Ordinances

Chita and Forging Plants

Item	Limit	Max.	Min.	Average
pH	5-9	7.6	6.3	6.8
COD	25(20)	7.2	1.4	4.6
SS	40(30)	4.5	Less than 0.1	1.2
Nitrogen	120(60)	2.1	0.9	1.5
Phosphorus	16(8)	0.1	Less than 0.1	0.03

Kariya Plant

Item	Limit	Max.	Min.	Average
pH	5.8-8.6	7.3	6.3	6.7
BOD	25(20)	8.8	0.5	2.6
SS	40(30)	18.0	1.0	6.7
Nitrogen	120(60)	6.8	0.8	4.0
Phosphorus	16(8)	0.5	Less than 0.1	0.12

Higashiura Plant

Item	Limit	Max.	Min.	Average
pH	5.8-8.6	7.3	6.7	6.9
BOD	25(20)	3.5	1.0	2.3
SS	30(20)	3.0	Less than 0.1	0.7
Nitrogen	120(60)	2.3	0.4	1.5
Phosphorus	16(8)	0.2	Less than 0.1	0.15

Gifu Plant

Item	Limit	Max.	Min.	Average
pH	5.8-8.6	7.4	6.3	6.9
BOD	30(20)	2.5	1.3	1.9
SS	60(50)	7.0	Less than 0.1	1.2
Nitrogen	120(60)	5.1	0.4	3.5
Phosphorus	16(8)	0.2	Less than 0.1	0.18

- Unit: mg/liter (except for pH)
- Levels of other regulated substances not shown in these tables were all below the regulation limits or below the minimum measurable amounts (or not detected at all).
- Figures in parentheses () are daily averages.
- pH: Hydrogen-ion density
- COD: Chemical oxygen demand
- BOD: Biochemical oxygen demand
- SS: Suspended solids in water

Sales by business segment represent sales to outside customers.

Parenthesises represent negative figures.

Summary

During the consolidated fiscal year under review, the Japanese economy saw a continuous recovery in production and an improvement in corporate profits, partly due to the result of economic policies implemented by the government, and partly due to the strong economic expansion in China and other emerging nations. However, in the second half, a partial cutback in the economic stimulus package and prolonged yen appreciation, among other factors, resulted in stagnation. It was amidst such circumstances that the Great East Japan Earthquake occurred in March, causing extensive damage and resulting in the suspension of the supply chain function (supply network of materials and components) and electricity supply issues, which may result in further recession risks.

The Aichi Steel Group was helped by an increase in production in the automobile industry, our number one business, in Asia and other countries, as well as solid demand in fields outside of automobiles, such as construction machinery. The sales volume of steel materials and forgings, our main products, has greatly increased in comparison to the previous fiscal year.

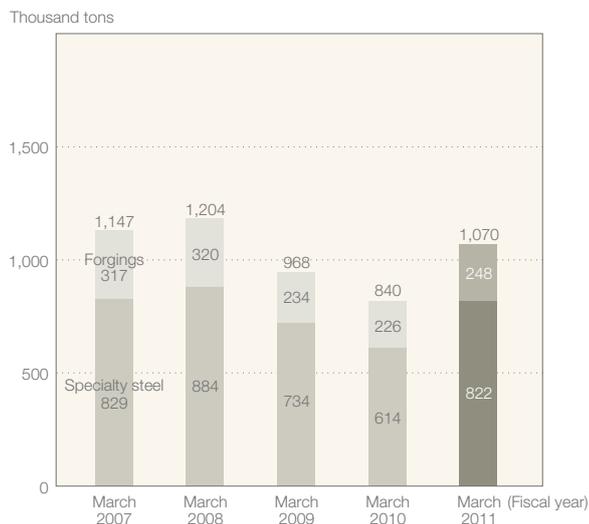
Against such circumstances, the Group has aimed to establish a structure that can yield profits even when the operating rate of our key business is at 70%, emphasizing an enhanced control of the break-even point with the two axes of reduction of fixed costs

in proportion to production volume and thorough cost-cutting—especially for variable expenses. Also, as the closing year of the Z100 Project, our profit structure reform, we dynamically promoted all-company activities to create profits—ranging from reducing quality losses and improving yield rates to revamping our procurement and logistics systems.

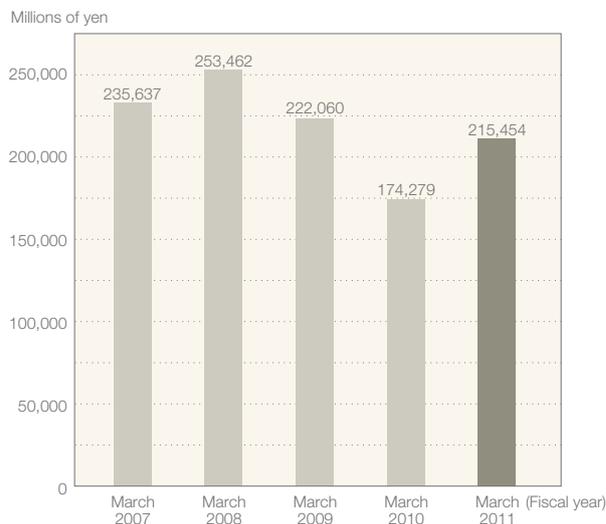
These efforts resulted in consolidated net sales of 215,454 million yen, a 23.6% increase from the previous fiscal year (174,279 million yen).

Even though raw material costs increased, Aichi Steel Group posted an operating income of 14,073 million yen (4,314 million yen in the previous fiscal year) and ordinary income of 12,873 million yen (3,906 million yen in the previous fiscal year), mainly boosted by increased sales volume and reduced costs. The Group fully reversed the deferred tax assets in the March term of FY2009, and with recovery of profits that occurred later on, rerecorded a portion during the first term. The Group decided that the schedulable future deductible temporary differences can be recorded in their entirety as deferred tax assets, and recorded (8,343) million yen as deferred income taxes for this fiscal year. This resulted in a net income of 15,205 million yen (6,625 million yen in the previous fiscal year).

■ Sales volume (non-consolidated basis)



■ Net sales



Operating Income and Net Income

Net sales for the consolidated fiscal year under review saw a 23.6% increase from the previous fiscal year to 215,454 million yen. Cost of sales was 182,191 million yen and the cost-to-sales ratio was 84.6% (87.7% for the previous fiscal year), showing improvement for both compared to the previous fiscal year. Selling, general and administrative expenses totaled 19,190 million yen, which accounted for 8.9% (9.9% for the previous fiscal year) of the net sales.

As the result, the operating income for the fiscal year under review was 14,073 million yen. Net income was 15,205 million yen, and return on equity (ROE) was 13.4%.

Sales by Business Segment

Specialty steel

Specialty steel is a mainstay product of the Aichi Steel Group. Due to increased sales volume and improved sales prices, net sales in this segment saw a 33.0% increase to 119,347 million yen for this consolidated fiscal year (89,706 million yen for the previous period).

Forgings

Closed-die forgings for automobiles account for a major part of this segment. Due to increased sales volume, net sales in this segment saw a 13.3% increase to 85,857 million yen for this consolidated fiscal year (75,754 million yen for the previous period).

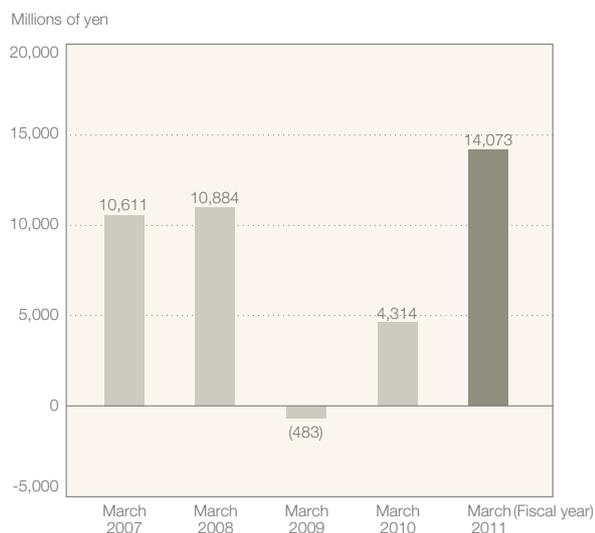
Electromagnetic components

Aiming to turn this segment into the Company's core business in the future, Aichi Steel has been nurturing and promoting new industrial fields for its sensors and magnetic products. Due to an increase in the sales volume of MI Sensors and MAGFINE magnets, net sales in this segment saw a 20.8% increase to 6,793 million yen for this consolidated fiscal year (5,623 million yen for the previous period).

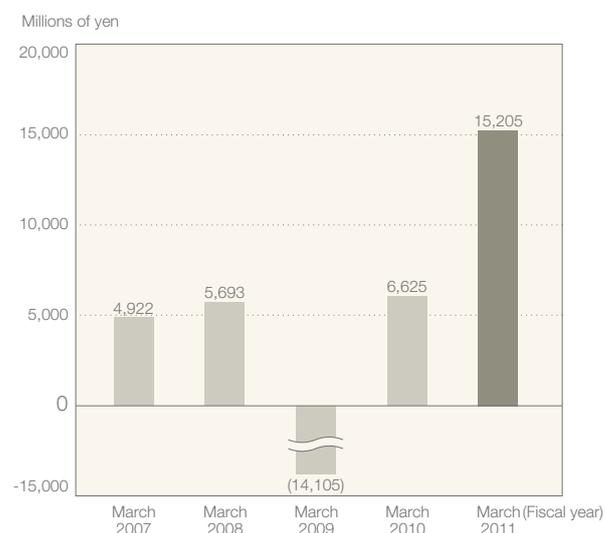
Other businesses

Aichi Steel's subsidiary companies provide various services and engage in software development, etc. Net sales in this segment saw an 8.2% increase to 3,457 million yen for this consolidated fiscal year (3,196 million yen for the previous period).

Operating income or operating loss



Net income or net loss



Financial Position

The Aichi Steel Group's financial position as of the end of March 2011 was as follows.

Total assets were 240,218 million yen, a decrease of 2,132 million yen from the end of the previous fiscal year.

Current assets decreased by 9,779 million yen to 119,437 million yen. This is mainly the result of decreased deposits due to redemption of convertible bonds with stock acquisition rights to a value of 30,000 million yen.

Property, plant and equipment increased by 6,854 million yen from the previous fiscal year. Investments for this fiscal year totaled 20,528 million yen. Depreciation and amortization amounted to 12,475 million yen.

Current liabilities decreased by 18,394 million yen from the previous fiscal year. This is mainly due to the redemption of the convertible bonds, as described above.

Non-current liabilities increased by 4,967 million yen from the previous fiscal year, mainly due to long-term debt totaling 10,000 million yen.

Net assets at the end of March 2011 totaled 123,671 million yen, an increase of 11,295 million yen from the end of the previous fiscal year. Net assets per share were 604.43 yen (547.85 yen in the previous fiscal year), and capital adequacy ratio was 49.4% (44.4% in the previous fiscal year).

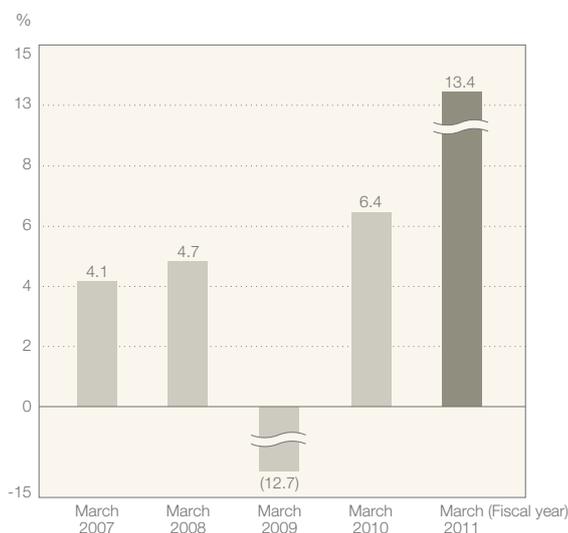
Consolidated Cash Flows

Despite increases in notes and accounts receivable-trade of 5,002 million yen, as well as in inventory of 6,034 million yen, net cash provided by operating activities amounted to 19,787 million yen due to net income before income tax of 11,948 million yen, depreciation and amortization of 12,475 million yen, notes and accounts payable-trade of 4,481 million yen, etc. Net cash used in investment activities saw a decrease of 17,445 million yen, mainly due to property, plant and equipment purchases of 16,351 million yen. Net cash provided by financing activities resulted in a decrease of 22,848 million yen, mainly due to expenses for redemption of convertible bonds with stock acquisition rights to a value of 30,000 million yen, and proceeds from long-term debt of 10,643 million yen. Consequently, cash and cash equivalents as of the end of March 2011 amounted to 31,137 million yen, a decrease of 21,212 million yen from the end of March 2010 (52,350 million yen).

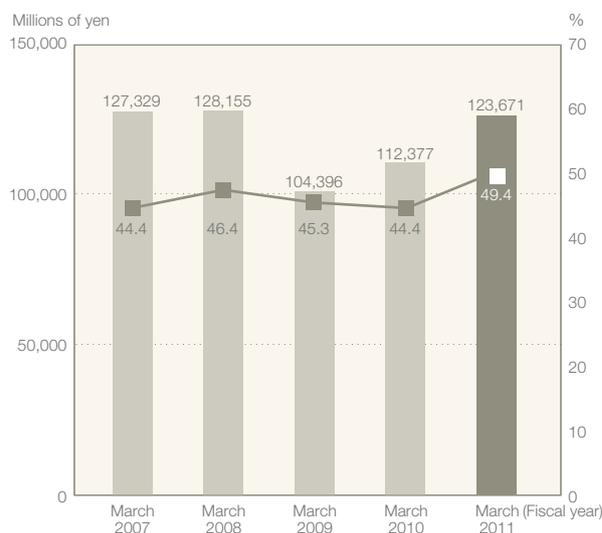
Available-for-Sales Securities

Of the total available-for-sales securities owned by the Company and its consolidated subsidiaries, the historical cost of those reported on the consolidated balance sheet at fair market value amounted to 2,590 million yen (the fair market value of these securities was 9,117 million yen).

ROE



Net assets, capital adequacy ratio



Five – year Summary (Consolidated & Non-Consolidated)

Five – year Summary (Consolidated)

	Millions of Yen					Thousands of U.S. Dollars
	2011	2010	2009	2008	2007	2011
Net sales	¥ 215,454	¥ 174,279	¥ 222,060	¥ 253,462	¥ 235,637	\$ 2,595,827
Operating income (loss)	14,073	4314	(483)	10,884	10,611	169,548
Income (loss) before income taxes and minority interests	11,949	3,730	(2,618)	9,055	9,037	143,960
Net income (loss)	15,205	6,625	(14,105)	5,693	4,922	183,196
Property, plant and equipment	89,761	82,906	88,796	93,092	96,076	1,081,453
Total assets	240,218	242,350	220,017	264,048	274,608	2,894,188
Net assets	123,671	112,377	104,396	128,155	127,329	1,490,018
Per share data	Yen					U.S. Dollars
Net income (loss):						
Basic	¥ 77.49	¥ 33.77	¥ (71.89)	¥ 29.00	¥ 24.97	\$ 0.9
Diluted	77.44	30.54	-	26.23	22.56	0.9
Number of employees (Persons)	4,351	4,282	4,467	4,539	4,637	

Notes:

1. Net sales are presented exclusive of consumption taxes.
2. Scope of Consolidation:
All subsidiaries are consolidated. The 18 subsidiaries are:
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 Forge USA, Inc., Aichi Europe GmbH, Aichi International (Thailand) Co., LTD., Shanghai Aichi Forging Co., Ltd., PT. Aichi Forging Indonesia, AichiMagfine Czech s.r.o., AMIT, Inc. and Aichi Korea Corporation. Of these, Aichi Korea Corporation is included in the scope of consolidation because it was newly established within this consolidated fiscal year.
3. Net income per share is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the respective years.
4. Each fiscal year end date is March 31.
5. The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥83=U.S.\$1.

Five – year Summary (Non-Consolidated)

	Millions of Yen					Thousands of U.S. Dollars
	2011	2010	2009	2008	2007	2011
Net sales	¥ 179,183	¥ 141,093	¥ 181,317	¥ 202,860	¥ 187,076	\$ 2,158,833
Operating income (loss)	11,441	3,153	(3,209)	6,559	7,012	137,849
Income (loss) before income taxes	10,048	2,351	(3,877)	5,811	6,929	121,061
Net income (loss)	13,181	5,967	(14,573)	3,838	4,017	158,808
Property, plant and equipment	78,200	69,809	75,250	77,539	79,575	942,173
Total assets	218,974	222,210	200,006	236,098	250,844	2,638,243
Net assets	113,097	102,593	95,919	115,615	117,709	1,362,614
Per share data	Yen					U.S. Dollars
Net income (loss):						
Basic	¥ 67.17	¥ 30.41	¥ (74.28)	¥ 19.55	¥ 20.38	\$ 0.8
Diluted	67.13	27.51	-	17.68	18.42	0.8
Cash dividends	10.00	8.50	7.50	10.00	10.00	0.1
Number of employees (Persons)	2,360	2,330	2,331	2,328	2,327	

Notes:

1. Net sales are presented exclusive of consumption taxes.
2. Net income per share is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the respective years.
3. Each fiscal year end date is March 31.
4. The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥83=U.S.\$1.

As at March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Assets			
Current assets:			
Cash and deposit	¥ 31,214	¥ 51,863	\$ 376,070
Notes and accounts receivable	46,877	42,211	564,777
Short-term investments	215	659	2,591
Finished goods	7,508	5,723	90,460
Work in process	18,431	15,259	222,072
Raw materials and supplies	8,466	7,811	102,005
Deferred tax assets	4,931	3,439	59,410
Other assets	1,937	2,386	23,335
Less: allowance for doubtful receivables	(142)	(135)	(1,720)
Total current assets	119,437	129,216	1,439,000
Fixed assets:			
Property, plant and equipment:			
Building and structures	58,107	57,108	700,084
Less: accumulated depreciation	(39,616)	(37,854)	(477,311)
Machinery, equipment and vehicles	242,335	243,396	2,919,699
Less: accumulated depreciation	(204,939)	(201,314)	(2,469,154)
Equipment	12,241	11,974	147,489
Less: accumulated depreciation	(10,855)	(10,520)	(130,785)
Land	14,268	14,242	171,904
Lease assets	130	97	1,574
Less: accumulated depreciation	(41)	(19)	(497)
Construction in progress	18,131	5,796	218,450
Net property, plant and equipment	89,761	82,906	1,081,453
Intangible fixed assets:			
Telephone rights	12	12	142
Other assets	208	230	2,514
Total intangible fixed assets	220	242	2,656
Investments and other assets:			
Investment securities	13,903	13,582	167,500
Long-term loans	945	1,146	11,390
Prepaid pension cost	14,327	14,255	172,612
Deferred tax assets	916	191	11,042
Other assets	741	887	8,916
Less: allowance for doubtful receivables	(32)	(75)	(381)
Total investments and other assets	30,800	29,986	371,079
Total fixed assets	120,781	113,134	1,455,188
Total assets	¥ 240,218	¥ 242,350	\$ 2,894,188

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Liabilities and net assets			
Liabilities			
Current liabilities:			
Notes and accounts payable	¥ 25,238	¥ 21,301	\$ 304,074
Short-term borrowings	1,556	2,393	18,750
Current portion of long-term debt	71	683	861
Current portion of convertible bond with stock acquisition rights	-	30,000	-
Lease obligations	27	21	324
Income taxes payable	4,525	311	54,522
Accrued bonuses for directors and corporate auditors	230	186	2,774
Other liabilities	16,408	11,554	197,668
Total current liabilities	48,055	66,449	578,973
Long-term liabilities:			
Long-term debt	56,146	45,647	676,461
Lease obligations	70	63	849
Long-term payables	7	633	83
Deferred tax liabilities	439	6,862	5,285
Employees' retirement benefit liabilities	9,857	9,200	118,757
Retirement benefit obligation for directors and corporate auditors	1,250	1,026	15,059
Asset retirement obligations	645	-	7,767
Other liabilities	77	93	936
Total long-term liabilities	68,491	63,524	825,197
Total liabilities	116,546	129,973	1,404,170
Net assets			
Shareholders' equity:			
Common stock, no par value:			
Authorized: 476,000,000 shares;	25,017	25,017	301,407
Issued: 198,866,751 shares in 2011 and 2010			
Capital surplus	27,899	27,899	336,130
Retained earnings	65,780	52,738	792,532
Less, treasury stock, at cost	(1,516)	(1,611)	(18,258)
2,511,020 shares in 2011 and 2,668,238 shares in 2010			
Total shareholders' equity	117,180	104,043	1,411,811
Valuation and translation adjustments			
Net unrealized gains on available-for-sale securities, net of taxes	3,993	4,607	48,113
Foreign currency translation adjustments	(2,490)	(1,162)	(30,009)
Total valuation and translation adjustments	1,503	3,445	18,104
Subscription rights to shares	183	180	2,201
Minority interests in subsidiaries	4,806	4,709	57,902
Total net assets	123,672	112,377	1,490,018
Total liabilities and net assets	¥ 240,218	¥ 242,350	\$ 2,894,188

Notes:

1. The Accounting Standards for Asset Retirement Obligation (ASBJ Statement No. 18, March 31, 2008) and the Guidance on Accounting Standards for Asset Retirement Obligation (ASBJ Statement No. 21, March 31, 2008) have been adopted from this consolidated fiscal year.
2. The Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, June 30, 2010) has been adopted from this consolidated fiscal year. However, the figures presented in the fields of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" for the previous fiscal year are taken from "Valuation and translation adjustment" and "Total valuation and translation adjustment" respectively.

For the Years Ended March 31, 2011 and 2010(Consolidated Statements of Income)

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Net sales	¥ 215,454	¥ 174,279	\$ 2,595,827
Cost of sales	182,191	152,793	2,195,074
Gross profit	33,263	21,486	400,753
Selling, general and administrative expenses:			
Freight expenses	3,055	2,390	36,809
Sales commission	982	853	11,836
Salaries and allowances and welfare expenses	6,454	6,051	77,755
Retirement benefit expenses	655	658	7,886
Provision of allowance for directors' bonuses	230	186	2,770
Provision of allowance for directors' retirement benefits	266	245	3,202
Provision of allowance for doubtful receivables	2	8	18
Depreciation	607	662	7,319
Research and development expenses	2,776	2,532	33,452
Others	4,163	3,587	50,158
Total selling, general and administrative expenses	19,190	17,172	231,205
Operating income	14,073	4,314	169,548
Non-operating income:			
Interest income	125	120	1,506
Dividend income	233	136	2,809
Gain on sales of goods	278	-	3,346
Foreign exchange gain	-	132	-
Earnings of subsidies	153	235	1,839
Others	363	618	4,384
Total non-operating income	1,152	1,241	13,884
Non-operating expenses:			
Interest expenses	655	727	7,888
Loss on disposal of property, plant and equipment, net	354	515	4,269
Foreign exchange loss	817	-	9,844
Loss on valuation of derivatives	36	115	438
Others	490	292	5,895
Total non-operating expenses	2,352	1,649	28,334
Ordinary income	12,873	3,906	155,098
Extraordinary income:			
Compensation for transference	-	744	-
Extraordinary expenses:			
Impairment loss on fixed assets	200	230	2,417
Loss on investment securities	88	-	1,070
Loss on valuation of subscription	-	60	-
Effect of adoption of accounting standard for asset retirement obligations	593	-	7,139
Loss from disasters	43	-	512
Removal cost of overseas subsidiary's factory	-	630	-
Total extraordinary expenses	924	920	11,138
Income before income taxes and minority interests	11,949	3,730	143,960
Income taxes:			
Current	4,711	416	56,761
For prior periods	-	(63)	-
Deferred	(8,343)	(3,372)	(100,524)
Total income taxes	(3,632)	(3,019)	(43,763)
Minority interests in net income of subsidiaries	376	124	4,527
Net income	¥ 15,205	¥ 6,625	\$ 183,196
	Yen		U.S. Dollars
Per share	2010	2010	2011
Net income:			
Basic	¥ 77.49	¥ 33.77	\$ 0.9
Diluted	77.44	30.54	0.9
Cash dividends	10.00	8.50	0.1

For the Years Ended March 31, 2011 and 2010(Consolidated Statement of Comprehensive Income)

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Net income before minority interests	¥ 15,581	-	\$ 187,723
Other comprehensive income			
Valuation difference on available-for-sale securities	(615)	-	(7,413)
Foreign currency translation adjustment	(1,573)	-	(18,960)
Total of other comprehensive income	2,188	-	26,373
Comprehensive income	13,392	-	161,351
(Breakdown)			
Comprehensive income attributable to owners of the parent	13,262	-	159,792
Comprehensive income attributable to minority interests	129	-	1,559

Note:

1. Indicated as "Net income before minority interests" starting from this consolidated fiscal year, due to the application of the Cabinet Office Ordinance of Partial Amendment to Regulations for Terminology, Forms and Preparation of Financial Statements (Cabinet Office Ordinance No. 5, March 24, 2009) based on the Accounting Standard for Consolidated Financial Statements (Accounting Standards No. 22, December 26, 2008).

Consolidated Statements of Changes in Net Assets

For the Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Shareholders' equity			
Common stock			
Balance at the beginning of year	¥ 25,017	¥ 25,017	\$ 301,407
Balance at the end of year	25,017	25,017	301,407
Capital surplus			
Balance at the beginning of year	27,899	27,899	336,130
Balance at the end of year	27,899	27,899	336,130
Retained earnings			
Balance at the beginning of year	52,738	47,093	635,393
Change of items during the period			
Cash dividends	(2,158)	(981)	(26,002)
Net income for the year	15,205	6,625	183,196
Disposal of treasury stock due to exercise of stock options	(5)	-	(55)
Total changes of items during the period	13,042	5,645	157,139
Balance at the end of year	65,780	52,738	792,532
Treasury stock			
Balance at the beginning of year	(1,611)	(1,610)	(19,404)
Change of items during the period			
Purchase of treasury stock and fractional shares	(0)	(1)	(10)
Disposal of treasury stock due to exercise of stock options	95	-	1,156
Total changes of items during the period	95	(1)	1,146
Balance at the end of year	(1,516)	(1,611)	(18,258)
Total shareholders' equity			
Balance at the beginning of year	104,043	98,399	1,253,526
Change of items during the period			
Cash dividends	(2,158)	(981)	(26,002)
Net income for the year	15,205	6,625	183,196
Purchase of treasury stock and fractional shares	(1)	(1)	(10)
Disposal of treasury stock due to exercise of stock options	91	-	1,101
Total changes of items during the period	13,137	5,644	158,285
Balance at the end of year	¥ 117,180	¥ 104,043	\$ 1,411,811

For the Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities, net of taxes			
Balance at the beginning of year	¥ 4,607	¥ 2,950	\$ 55,506
Change of items during the period			
Net changes of items other than shareholders' equity	(614)	1,657	(7,393)
Total changes of items during the period	(614)	1,657	(7,393)
Balance at the end of year	3,993	4,607	48,113
Foreign currency translation adjustments			
Balance at the beginning of year	(1,162)	(1,648)	(13,997)
Change of items during the period			
Net changes of items other than shareholders' equity	(1,329)	486	(16,012)
Total changes of items during the period	(1,329)	486	(16,012)
Balance at the end of year	(2,491)	(1,162)	(30,009)
Total accumulated other comprehensive income			
Balance at the beginning of year	3,445	1,302	41,509
Change of items during the period			
Net changes of items other than shareholders' equity	(1,943)	2,143	(23,405)
Total changes of items during the period	(1,943)	2,143	(23,405)
Balance at the end of year	1,502	3,445	18,104
Subscription rights to shares			
Balance at the beginning of year	180	149	2,163
Change of items during the period			
Net changes of items other than shareholders' equity	3	31	38
Total changes of items during the period	3	31	38
Balance at the end of year	183	180	2,201
Minority interests in subsidiaries			
Balance at the beginning of year	4,709	4,546	56,739
Change of items during the period			
Net changes of items other than shareholders' equity	97	163	1,163
Total changes of items during the period	97	163	1,163
Balance at the end of year	4,806	4,709	57,902
Total net assets			
Balance at the beginning of year	112,377	104,396	1,353,937
Change of items during the period			
Cash dividends	(2,158)	(981)	(26,002)
Net income for the year	15,205	6,625	183,196
Purchase of treasury stock and fractional shares	(0)	(1)	(10)
Disposal of treasury stock due to exercise of stock options	90	-	1,101
Net changes of items other than shareholders' equity	(1,843)	2,337	(22,204)
Total changes of items during the period	11,294	7,981	136,081
Balance at the end of year	¥ 123,671	¥ 112,377	\$ 1,490,018

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 11,949	¥ 3,730	\$ 143,960
Adjustments for depreciation	12,476	13,370	150,312
Adjustments for impairment loss on fixed assets	200	230	2,417
Income/Loss on investment securities	88	-	1,070
Loss on valuation of subscription	-	60	-
Effect of adoption of accounting standard for asset retirement obligations	593	-	7,139
Loss from disasters	43	-	512
Decrease (increase) of prepaid pension cost	(72)	103	(869)
Increase of employees' retirement benefit obligation	663	33	7,984
Decrease in defined contribution pension payable	(322)	(380)	(3,883)
Increase of allowance for doubtful receivables	(29)	11	(354)
Interest and dividend income	(358)	(256)	(4,315)
Interest expense	655	728	7,890
Foreign exchange (gain) loss	348	(107)	4,189
Gain on sale of property, plant and equipment, net	(35)	(2)	(421)
Loss on disposal of property, plant and equipment	221	430	2,659
Increase/ Decrease in operating assets and liabilities:			
Notes and accounts receivable	(5,002)	(15,185)	(60,268)
Inventories	(6,035)	6,562	(72,707)
Notes and accounts payable	4,481	9,415	53,991
Other, net	628	1,481	7,587
Subtotal	20,492	20,223	246,893
Interest and dividend received	361	258	4,345
Interest paid	(645)	(733)	(7,778)
Income taxes paid	(420)	(321)	(5,055)
Net cash provided by operating activities	19,788	19,427	238,405
Cash flows from investing activities:			
Net increase in time deposits	(120)	(10)	(1,445)
Proceeds from sales of Available-for-Sales Securities	0	-	0
Payments for purchase of property, plant and equipment	(16,352)	(8,157)	(197,012)
Proceeds from sales of property, plant and equipment	124	32	1,496
Payments for purchase of investment securities	(1,353)	(1)	(16,312)
Proceeds from sales of investment securities	5	-	60
Collection of subscriptions	50	-	607
Payments for loans	(1)	(300)	(9)
Collections of loans	202	159	2,437
Other, net	(0)	(11)	(6)
Net cash used in investing activities	(17,445)	(8,288)	(210,184)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(695)	(149)	(8,363)
Proceeds from long-term debt	10,644	10,000	128,240
Repayments of long-term debt	(663)	(5,131)	(7,990)
Payments for bond redemption	(30,000)	-	(361,446)
Payments for refund of lease obligations	(21)	(14)	(247)
Proceeds from minority shareholders of subsidiary	-	20	-
Payments for acquisitions of treasury stock	(0)	(1)	(10)
Proceeds from exercise of stock options	77	-	931
Cash dividends paid	(2,158)	(983)	(26,004)
Cash dividends paid to minority shareholders	(33)	(25)	(399)
Net cash provided by (used in) financing activities	(22,849)	3,717	(275,288)
Effect of exchange rate changes on cash and cash equivalents	(706)	98	(8,504)
Net increase in cash and cash equivalents	(21,212)	14,954	(255,571)
Cash and cash equivalents at beginning of year	52,350	37,396	630,727
Cash and cash equivalents at end of year	¥ 31,138	¥ 52,350	\$ 375,156



Mr. Satoshi Chikami
Professor, Faculty of International Welfare Development, Nihon Fukushi University
 Ad-hoc member, General Policy Planning Panel, Central Environmental Council
 Nagoya Environmental Council member
 Advisor, Tokai Basic Environment Plan Promotion Committee, etc.

Mr. Chikami conducts research on the ideal state for creating an ecological community, environmental learning, regional development, and environmental management in semi-mountainous regions, environmental conservation in reservoir areas, creating comfortable cities, forming independent actors for regional development etc., within Japan. Outside Japan, he conducts empirical investigation and research to realize the forestry regeneration, watershed management, improvement of living environment, creation of small-scale industry, and integration of social development in the swidden farming region of Laos.

The report for this fiscal year presents a clearer view of governance under new management through interviews with the President, rearrangement of the “CSR Management” and “Social Relations Section” from the previous report, and five feature articles.

Clear message from the top and workplace capabilities (P2 - 5, etc.)

Business policy, including environmental and CSR activities under the new top management is clearly presented from both offensive and defensive aspects. From the perspective of continuing healthy and solid corporate business activities and sustaining the company amidst connections with society and the local community, a clear indication of the will at the top of the corporation is very important, especially in a harsh business environment. In particular, the resolve to become a “company of choice” with the new concept of “workplace capabilities” of the employees is an attitude that greatly contributes to the fortification of operating foundations, such as further promoting the “1S” and “4S” corporate culture and realizing solid compliance, and influences CSR in a positive way. This already shows in the fact that the voices of employees and external third parties appear in various places in this year’s report.

Evaluation of emphasized efforts in the medium-term CSR plan (P17)

Activity results and evaluation based on the CSR Vision 2015 and future direction are summarized in an explicit manner. Specifying causes and future measures for unachieved targets, even though placed in the margins, should be credited as an indication of the Company’s serious attitude. Also, linking the CSR action agenda with the core subjects of ISO 26000 for the first time this fiscal year deserves special mention. Social interest for ISO 26000 is expected to heighten in the future, and I believe that efforts with this standard in mind are necessary.

Environmental Action Plan 2015 (P34 – 35)

The new Environmental Action Plan 2015 contains important matters in driving forward the Group’s corporate activities. The fundamental policy is to “contribute to the sustainable development of society and the global community,” and the Group’s resolve to achieve this through manufacturing is impressive in that it follows on from the prior management principle while demonstrating more active awareness towards corporate social responsibilities. Strengthening of the three pillars (“promotion of low-carbon society,” “improvement of resource recycling,” and “reduction of environmental burden”) and provision of information on efforts made by the company in connection with its relationship with society are important part of the Group’s commitment to realize its fundamental policy. Further, inclusion of “Social Contribution” into Environmental Management in a broad sense allows corporate activities themselves to answer questions like why social contribution is necessary and why society expects this from companies.

Enriched global perspective

In the aforementioned Environmental Action Plan 2015, promotion of global CO₂ management is professed. Also, fostering the 1S corporate culture at AIT (Thailand) (P16), CS improvement through deadline observation at AFC (the Philippines) (P23), thorough elimination of child labor etc. in overseas group companies (P27), and ISO 14001 certification of overseas consolidated subsidiaries (P36) are now included in the report. As a company active both domestically and internationally, this clear manifestation of its global perspective is important and must be commended.

Response to the Great East Japan Earthquake (P2–3, P7)

The Great East Japan Earthquake on March 11 brought extensive damage and repercussions to our lives and corporate activities. We, as a country, must pull together and make every effort for the earliest possible recovery. The report summarizes multi-faceted support activities conducted after the disaster by the company and its employees. Relief activities in the disaster area utilizing the welfare vacation system among other efforts show the high awareness of company employees. I hope the experience and lessons learned from this disaster will aid in countermeasures against any large-scale earthquake expected to hit the Tokai Region, such as drafting and improving BCP, and coordinating with the local community.

In conclusion

To make this report even better in the future, I would like to suggest enriching the content of the following points.

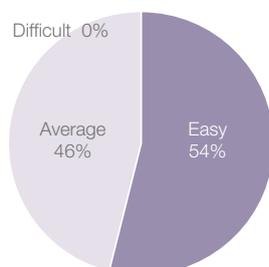
- How the “1S” corporate culture is disseminated throughout the entire company, and what results are being attained.
- Introduction of environmental data, environmental activities, and CSR activities on the Website in conjunction with the Aichi Steel Report.
- Enhancement and introduction of efforts in waste reduction and recycling in coordination with the entire Toyota Group.

This Third-Party View is based on interviews with relative parties, observation of production sites, etc.

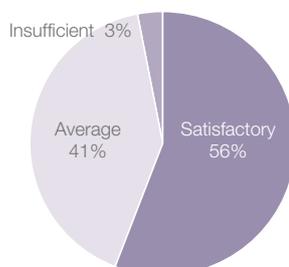
Comments from readers

Thank you for your cooperation in the questionnaire survey regarding the Aichi Steel Report 2010. We value your input and views and will put them to good use in our improvement activities in the future. Here, we would like to introduce some of the answers and comments we received.

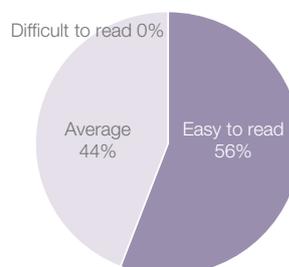
Understandability



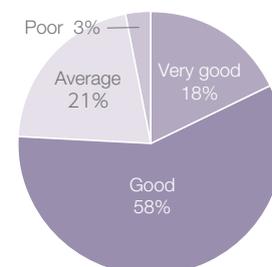
Content



Readability (design, etc.)



Understanding of our CSR activities



n=39

Comments and opinions

- Informative booklet on your company's efforts.
- Thank you for visiting our company to provide us with detailed explanations. Such careful responses must be reflected in your CSR activities as well.
- Difficult to understand the medium to long-term developments.
- I think your attitude towards the realization of sustainable operations should be better presented.

In response to the Third-Party View



Mr. Masao Ukai
Director, General Affairs Div.

I would first like to extend my deepest appreciation to Professor Chikami for providing us his valuable opinion for two consecutive years. His suggestions from the previous year were referenced in our activities and reviews of FY2010 and later, and we tried to make sure that such efforts and improvements were disclosed in a clear manner in this report. (Improvements in method of disclosure are indicated in the margins.)

Recognition on linking ISO 26000 with emphasized efforts of the medium-term CSR plan, Environmental Action Plan 2015, and CSR activities conducted with a global perspective is much appreciated, and we will strive for achievement of our vision with renewed commitment. Regarding countermeasures against major earthquakes, through solid BCPs and coordination with the local communities in response to the Great East Japan Earthquake, we have set out definite goals and implemented a PDCA cycle, and are currently putting forth our full efforts.

Lastly, we intend to take the content of this Third-Party View very seriously, and will tackle issues in an aggressive and continuous manner while maintaining communications with our stakeholders so as to become a company with ensured sustainable growth.

Matters pointed out by Professor Chikami in the Third-Party View from the previous report are disclosed below.

- Regarding the Medium-Term CSR Plan, attainment level assessment should provide reasons why some items were unattained, and how this can be remedied.
→ Reasons and measures regarding increase in compliance cases and creating a safe and comfortable environment are now provided. See P17.
- Promotion of environmental management and CSR activities, including the supply chain
→ Followed up on the CSR activities of our clients using the Client Diagnosis Sheet.
We asked new clients to fill in the "Green Purchasing/Trading Survey Sheet" to support their activities. See P24.
- Calculation basis and scope of CO₂ emissions
→ The scope of CO₂ emission volume is energy-origin CO₂ for the entire company ; and energy use is based on the Energy Consumption Status Report submitted regularly to the Ministry of Economy, Trade and Industry.
CO₂ emission coefficient is based on the Japan Iron and Steel Federation Voluntary Action Plan. See P38.
- Environmental preservation and CSR efforts by overseas consolidated subsidiaries
→ Group Company Pickup section has been added to introduce CSR activities by various subsidiaries. See P16, 23, 28, 39.

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Released: October 2011

Due to the effects of the Great East Japan Earthquake on March 11, 2011, the paper and ink used to print this Report has been switched from FSC certified paper and vegetable ink to fine paper and normal ink.