



More enthusiastically, strongly and straightforwardly
AICHI STEEL REPORT 2014

 **AICHI STEEL CORPORATION**

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AICHI STEEL

Mission Statement

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

1. We will strive to make a positive contribution to society with safe, appealing, and useful technology and products.
2. We will 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 our stakeholders.

We will develop employees who are open and fair, developing a corporate culture characterized by a challenging spirit.

1S Culture

To be and to remain a globally valued enterprise, we will promote our "1S" culture with top priority on the three Ss:

Shojiki (Honesty)

Seiso (Cleanliness)

Safety



Editorial Policy

Aichi Steel Report 2014 states efforts and initiatives implemented by Aichi Steel and Aichi Steel Group in fiscal 2013 incorporating specific examples while describing causes and future measures for unachieved items as much as possible. This fiscal year's Report makes considerations to report on topics, including the revision of GRI guidelines with higher social demand, by reviewing contents to better deal with global trends. As in the past issues, the Report uses universal design¹ typeface UD font² to ensure visibility and readability for many readers.

1. A design approach that maximizes the usability of products, service, homes and facilities for everyone, regardless of age, gender or disability.
2. A typeface design based on the principles of Universal Design.

Readers

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

Report Period and Scope

The Report covers activities conducted by the Aichi Steel Group during fiscal 2013 (April 2013 to March 2014). However, some activities conducted before or after fiscal 2013 are also explained where necessary.

Reference Guidelines

The Global Reporting Initiative (GRI) "Sustainability Reporting Guidelines" (versions 3.1 & 4)
ISO26000 (Corporate Social Responsibility)

Information Available on Our Website

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

http://www.aichi-steel.co.jp/envi_rep/report.html

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Corporate Profile

Establishment	March 8, 1940	Offices	Head Office: Tokai City, Aichi Pref., Japan
Capital	25,016 million yen (as of March 31, 2014)	Sales Offices:	Tokyo/Osaka/Fukuoka
Representative	Takahiro Fujioka, President	Overseas Offices:	Shanghai/Silicon Valley
Employees	2,391 (as of March 31, 2014)	Plants:	Chita/Kariya/Forging/Higashiura/Gifu/Seki
Business Description	Production and sale of specialty steel products, forgings and electromagnetic products		

Major Products

WEB For details, please see : http://http://www.aichi-steel.co.jp/ENGLISH/pro_info/index.html

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, and 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.



Aichi Steel Group

WEB For details, please see : http://www.aichi-steel.co.jp/ENGLISH/com_info/a_group.html

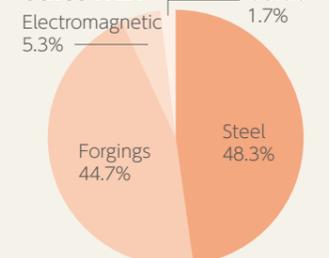
9 companies in Japan

- 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

10 companies in overseas

- 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)
- Aichi Magfine Technology (Pinghu) Co., Ltd. (AMT)

Sales Mix



Pursuing Aichi Steel's strengths and achieving sustainable growth with the unwavering approach of "I will/ rebuilding our business by changing ourselves" and "Return to the Basic."



President
Takahiro Fujioka

Riding through sever changes in the business environment with a focus on "integrated forging and steelmaking solutions"

Under the severe business environment, what made you reemphasize the slogan of "I will: rebuilding our business by changing ourselves" in fiscal 2013?

Looking back at the last fiscal year, the depreciation of the yen had a major impact in terms of our business environment. This caused losses from fluctuation of the exchange rate while the hike in materials and energy costs affected our electricity cost which accounts for large portions of a special steel electric furnace manufacture's costs. Automakers, our main customers, are increasingly establishing production bases overseas, accelerating their trend of increased local procurement. The volume of special steel used for a single car is on the decline as more and more people now drive eco-cars.

In such a business environment, I have repeatedly said that "such a challenging time makes it even more important for each of us to have a sense of ownership and healthy sense of crisis and have an attitude to think what to do on his or her own with a sense of speed."

Could you elaborate on how Aichi Steel has been dealing with severe business environmental changes based on your "integrated forging and steelmaking solution" system?

One of our approaches to the severe changes in the business environment is our "integrated forging and steelmaking solution." For example, our manufacturing is based on this "integrated forging and steelmaking" approach that allows us to participate in our customers development stages through development of materials and tailor our forgings to their needs. For TNGA¹ projects, in particular, we engage in the entire process from development of steel products to forgings engineering through close cooperation among our engineering, technology and production divisions.

Local procurement is increasingly becoming a common practice as Japanese automakers increase overseas production. This makes it extremely important for us to deliver products that satisfy our customers in terms of "quality, delivery time and price" to survive the severe global competition. We are working to be a company that

1. TNGA.....(Acronym for Toyota New Global Architecture) A new development method launched by Toyota in April 2014 that aims to achieve both stronger product development power and reduced development cost by using common parts and units for different models of cars from development stages.

is capable of offering "integrated forging and steelmaking" solutions not only in Japan but also globally.

Where are we heading?

In fiscal 2014, we put out a slogan "Return to the Basic with Innovative Manner." This means "returning to our roots" with whole new ideas and working on creating new values more aggressively. With a modern mission of "Great societies are made with great materials," which comes from the founding principle established by our founder Kiichiro Toyoda, "Great cars are made with great steel". we have been pursuing to "maximize Aichi Steel's strengths" through our focus on the return to our roots. One of the results achieved through such an approach is new materials such as molybdenum-saving steel, which is used for ring gears and CVT shafts and is highly valued by our customers.

We will forge ahead with "What Aichi Steel Group strives to be (Vision 2020)" at the core of our business agenda

What exactly is the Aichi Steel that the Vision 2020 envis-ages?

Incorporating the Group's common vision "Company of Choice Globally," Vision 2020 strives to deliver new and underlying value which gives our customers "sense of assurance globally as long as they are using products of Aichi Steel Group." The products we make are directly linked to the movements of cars including "running, turning and stopping" and ensuring security and lives of people. This calls for trust in absolute quality.

We are also under pressure to strengthen our competitiveness on a global scale in terms of not only quality but also delivery time and price.

We are also working to establish BCP and BAP (backup action plan)² systems to ensure earthquakes, heavy rains and other natural disasters will not affect our production activities. I think it is important to provide this added value of security to ensure steady supply of our products by producing them in other parts of the world even when our production facilities have stopped operating in a disaster.

To achieve this, we are creating a mother plant system that allows us to support our customers' overseas businesses as they expand and globalize their businesses. This system is intended to systematically help overseas manufacturing sites become more semi self-reliance through transfer of mature technologies to overseas subsidiaries and dispatch of trainers from domestic manufacturing sites to suit the

autonomous operation of overseas sites. For example, we periodically around 10 trainees from our Thai subsidiary where, we have recently installed a 1,600-ton forging machine, to our headquarters to give them an opportunity to train using the actual machinery at our mother plant and so that they can take mature technologies, skills and craftsmanship in a standardized format of procedure manuals home with them.

We are also looking to launch a framework called "ASEAN Global" that allows us to utilize local steelmakers in India and China to ensure stable supply of steel products made with Aichi technologies to forging sites in ASEAN countries based on our "integrated forging and steelmaking" system. One example of such approach is our signing of a technical partnership with Usha Martin Ltd. (UML) of India last year. We are currently helping them with special steel manufacturing technologies. If supplying steel materials from India becomes possible through this partnership, this will allow us to supply steel materials to forging sites in Thailand, Philippines and other ASEAN countries.

2. BCP.....(Acronym for Business Continuity Planning) Plans and procedures prescribed to ensure critical operations are not stalled during disaster and other occurrence of risks. It also refers to a plan strategically prepared to ensure business continuity to restore critical functions within the target restoration time and minimize risks associated with disruption of business operations in case they are interrupted.
- BAP.....(Acronym for Backup Action Plan) Securing facilities, procedures and spare parts to allow for production at alternative facilities in case production becomes impossible due to failure of particular facilities, in order to fulfill supplier's responsibilities.

■ Vision 2020



Could you tell us how the company is doing in non-automotive businesses?

In terms of achievements, we have turned our electro-magnetic business profitable. While our founder Kiichiro Toyoda took on the new business of cars, we are working on this new electromagnetic business while maintaining the ambition and pride as a material maker passed down to us. This is significant in the sense that we have managed to make profits from our new business by returning to our roots and our approach to pursue materials.

Let me also mention our focus on hydrogen society. As there is increasing attention paid to next-generation cars, FCV³, in particular, the key to their permeation to society is hydrogen stations. Normally, metals get damaged when in contact with hydrogen. However, we have developed AUS316L-H2 whose hydrogen embrittlement resistance characteristics allows it to be used for pipe joints and valves and therefore has great growth potential. The accumulated sales of our stainless reinforced concrete bar SUSCON which is made taking advantage of stainless' qualities of corrosion resistance and non-magnetism has reached 2,500 tons. As these examples show, we expect production and sales of stainless steel products to grow around electromagnetic products and hydrogen society.

3. FCV..... (Acronym for Fuel Cell Vehicle)

and "Safety" as values to be shared by all employees of Aichi Steel. We are an "environment/sustainable society-oriented company" that has established a recycling-oriented business model where we use advanced steelmaking technologies to recycle automotive scrap into specialty steel and then turn it into high-precision and high-functionality automotive components.

We manage our manufacturing processes with extreme care not to cause problems to surrounding communities. Based on our "1S Culture" that encourages us to respond in a sincere manner should problems occur, I think this is an important part of our corporate culture in terms of both environment and corporate compliance.

To achieve this, I believe it is important that each one of us has more interest in and sense of ownership of social challenges and understands that we can make contributions through our work and puts it into action, which will eventually lead to the creation of true CSR management. In 2013, we revised the "Action Guidebook for Directors" and the "Aichi Steel Group Action Guidelines" and distributed them to our employees together with a CSR Card that briefly explains these concepts. Through such consistent activities, we have achieved near-100% recognition among our employees.

We will strive to become a company that enjoys social and global trust and demand through consistent promo-

Volunteers" project. Since fiscal 2013, we have started participating in the "Forestation to Create a Forest for Beetles" project in a cooperative framework among industry, government and academia. We will be making continuous social contributions both in Japan and overseas to promote bonds and coexistence with local communities.

What kinds of efforts are under way in terms of diversity management?

One of our diversity management initiatives is "Aichi Global Meeting" which revolves around the concept of developing global human resources.

By taking this opportunity where all our overseas subsidiaries get together, share each other's ideas and efforts and engage in active communication, they have become more familiar with each other. And this has started to have a positive impact on the sense of globalism of the Group. We invite young employees who are in their third year at Aichi Steel to this meeting as observers. We do this because we want our young employees who will be leading our company in the future to communicate, ask questions and discuss in English and be more global. I think that getting inspiration in global settings allows us to see how it is important for companies to expand globally and what kinds of issues we need to tackle.



2nd Aichi Global Meeting

We think that "many of our factory workers will likely want to continue working in factories till they reach retirement." We are planning to create production lines tailored for aged employees so they will find it easy to work in manufacturing, in addition to the existing "Nice Senior System" that allows to choose one's style of working to suit his/her lifestyle.

I think it is very important for the future of Aichi Steel to provide a working environment friendly to aged employees including the use of larger fonts in printed paper and the creation of manufacturing lines designed to reduce



To become a "global company with value to society"

Special Content 01

How are you working on the reform of the production process (reengineering)?

We plan to invest tens of billions of yen in reengineering by 2020. Our capital investment will evolve around the concept of "4S," an acronym for simple, slim, short and straight to enhance our productivity and create integrated production lines that are highly efficient. We will be ensuring improvement in heat efficiency, yield and productivity through capital investment planned until 2020.

4. Re-engineering.....Drastically reviewing contents and methods of operation based on new ideas.

With a focus on maximizing Aichi Steel's strengths, we will be fulfilling our social responsibility as a company that cares about environment/sustainable society.

Please explain about CSR management based on the "1S Culture."

Since fiscal 2008, our company has been positioning and nurturing the concepts of "1S Culture" that puts the highest priority on "Shojiki (honesty)," "Seiso (cleanliness)"

tion of development of "1S Culture" and by ensuring it is carried through, and strengthen our management foundation as a sustainably growing company.

What do you think is important to achieve better CSR management?

What we should keep in mind above all else is the question of what a company has a social responsibility toward. Corporate social responsibility lies in making social contributions through products we make. And I think the basis of Aichi Steel's original CSR consists of making various efforts by raising a sense of ownership of all our employees based on the concepts of "1S Culture" and "I will: rebuilding our business by changing ourselves."

I also think that continuous efforts will lead to solving social problems and creation of good relationships with local communities, and therefore, contribution to the creation of a prosperous society.

For this reason, we focus on continuity in our social contribution activities. Our outreach workshop "Lesson about Iron" launched as part of our company's 70th anniversary activities was held for the fourth time this year.

Our continuous efforts also include awareness-raising activities and consultancies through the Volunteer Center and participation in the "Forest-Developing

What efforts are you making to promote more opportunities for women playing a more active role?

I believe that women are an indispensable part of our diversity management-based growth strategy. When I was working for the Toyota corporation in the US, over half the office staff were women and around 12% of manufacturing staff consisted of women. As the number of female employees in our company is not even on par with the level in those days in the US, we hope to continue employing more women actively and I think, for that, there is an urgent need to create a working environment that encourages utilization of women. We already have a system supporting childcare in place, with all female workers who have given birth to children taking childcare leave.

We have also established a system that allows female employees to perform their roles with high level of motivation by revising the human resources system for clerical staff the majority of which are accounted for by female employees, to one that puts more emphasis on the performance.

What is your view on utilization of retired human resources?

Another big challenge we face is how to deal with the reemployment issue. This is an issue that we cannot ignore and urgent measures need to be taken.

burdens on their bodies while ensuring their skills and know-how are passed on to younger employees and allowing them to continue working on manufacturing sites until the day of their retirement.

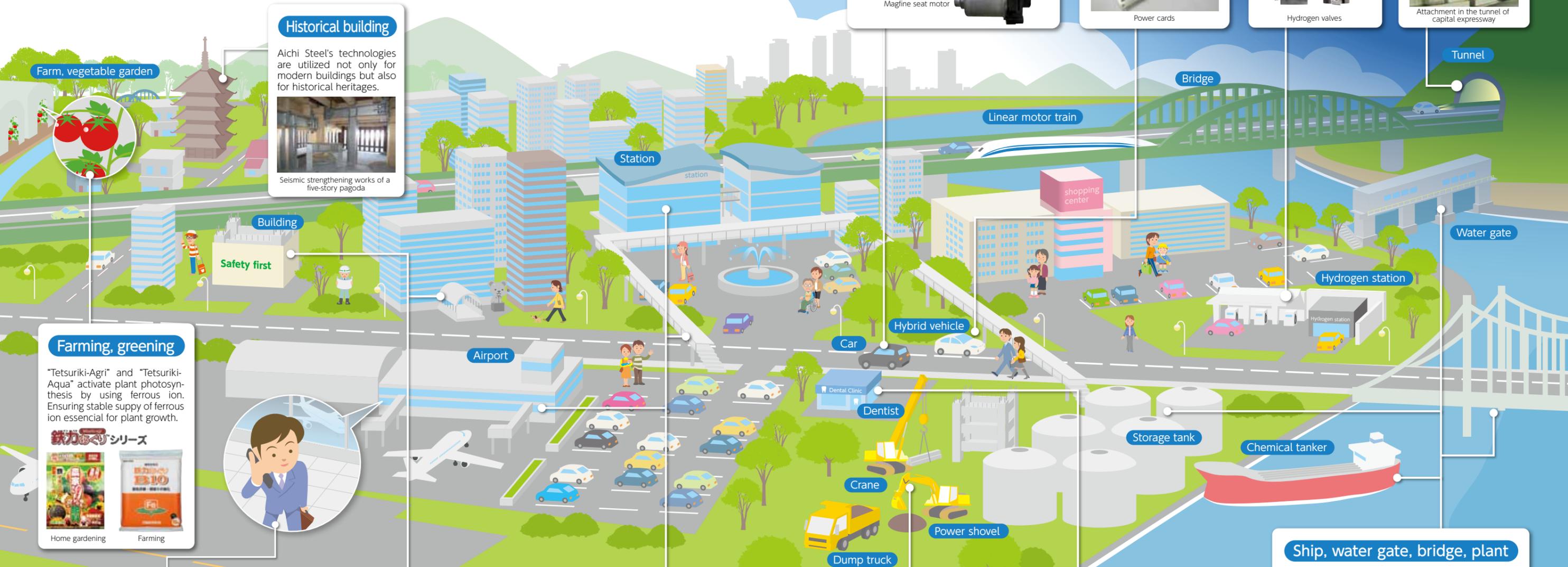
Before concluding the interview, please tell us how you are going to address CSR management.

For a company to grow sustainably, it needs to be willing to solve social challenges through active communication with society. For this, it is necessary to provide information actively and make contributions while maintaining harmony with all our stakeholders and it is also important that each employee carries these out with the concept of "I will/ rebuilding our business by changing ourselves" in mind.

As each one of us becomes aware of the need for social contributions and starts taking actions with due consideration, this will evolve into contribution to creation of prosperous society. We will continue to take steady steps forward toward the achievement of our goal of becoming a "Company of Choice Globally."

Aichi Steel Group is committed to pursuing the infinite possibilities of materials and creating new values.

We are contributing to various aspects of society by providing products that match the needs of our customers to ensure a comfortable life for people.



Farm, vegetable garden



Historical building

Aichi Steel's technologies are utilized not only for modern buildings but also for historical heritages.



Seismic strengthening works of a five-story pagoda

Building

Safety first

Farming, greening

"Tetsuriki-Agri" and "Tetsuriki-Aqua" activate plant photosynthesis by using ferrous ion. Ensuring stable supply of ferrous ion essential for plant growth.

鉄力アグリシリーズ



Home gardening



Farming

PC, smart phone

We are supporting the evolution of information terminals that are increasingly becoming more compact with higher performance.



High-sensitive MI sensor

Building, store

Stainless steel is used for diverse applications for its design and corrosion resistance, contributing to extended life of building appearances and concrete structures.



Stainless steel concrete bar "SUSCON"



entrance eave, curtain wall

Station, airport

Our stainless steel is also used in stations and airports used by thousands of people everyday.



Station Skywalk



Handrail

Car



We are contributing to lower fuel consumption and higher performance.

[Forging]



Crank shaft



Input shaft



Counter driven gear

[Electromagnetic]

Magnify seat motor



Hybrid vehicle

We are supporting the electrification of environmentally friendly vehicles.



Cold plate



Power cards

Hydrogen station

We are contributing to the safety and reliability of hydrogen station equipment for shift to hydrogen society.



Hydrogen valves

Tunnel

Stainless steel is also used for interior structures of tunnels for which durability and high-temperature properties are critical.



Attachment in the tunnel of capital expressway

Bridge

Linear motor train

Tunnel

Water gate

Hydrogen station

Hybrid vehicle

Car

Dentist

Crane

Power shovel

Dump truck

Storage tank

Chemical tanker

Ship, water gate, bridge, plant

Wide application for its rust-resistant properties, including dams, water gates and plant.



Propeller shaft for ship



Water gate



Bridge

Construction machinery

Stainless steel is also used for construction machinery that requires strength and durability.



Boss

Front idler

Propeller shaft

Dentistry

Small magnet developed by Aichi Steel and used worldwide to affix false teeth.



Dental magnetic attachment



To become a "Company of Choice Globally"

Holding "Great society is made with great materials" as Aichi Steel's modern mission, employees of different divisions and ages have gathered to exchange views on what the strengths of Aichi Steel in pursuing to become a valued manufacturing company are as well as challenges in achieving this.

Dealing with changing business environments with "Integrated forging and steelmaking solutions"

Facilitator: Aichi Steel holds "Integrated forging and steelmaking solutions" as a key to dealing with challenging business environments associated with materials and energy costs, rapid exchange rate fluctuations and other social situations as well as changes in automotive mechanism. What are your views on promoting this "integrated forging and steelmaking solution"?

Tsubone: I feel that "Integrated forging and steelmaking solution" is very important in terms of both production processes and development. I think the biggest strength of Aichi Steel is to be able to handle both material development and component development for forgings and steels internally.

Iizuka: I feel that we are increasingly expected to deliver higher standards from our customers in the developmental stage. They expect us to design more lightweight automotive components to help increase fuel efficiency. It used to be easier to get our customers' approvals in the past. Now, we are increasingly required to make and propose something even better out of what our customers have designed. Otherwise, our proposals are rejected.

Niimi: I think Mr. Iizuka is referring to TNGA*. Traditionally, when a new car project was launched, we normally came up with the best possible proposal by collecting extensive information. In the new TNGA system, we are expected to provide integrated proposals (system engineering) that cover steel materials, forging to product forms to help them solve their problems. These are the type of projects where we can maximize our

biggest strength, that is, integrated forging and steelmaking system. I expect orders to increase as we make the best of our strength.

Kato: Aichi Steel is one of the few companies that are capable of developing and manufacturing both steels and forgings internally. I believe this is our biggest strength and we can create great solutions through close collaboration with our customers while maximizing our position as a member of Toyota Group. In this regard, "integrated forging and steelmaking system" and TNGA are inseparable. The concept of "integrated forging and steelmaking solution" is a significant factor that can turn our company's strength into our biggest advantage.

Yoshimura: I would like to see more opinions and ideas coming from our internal forging plants on our products. I think we can truly pursue our strength of "integrated forging and steelmaking system" if there are opportunities where those actually working on the manufacturing sites can closely work together by sharing and discussing information.

Taguchi: I also think that, in terms of "integrated forging and steelmaking system," there is still some room for improvement in strengthening cooperation between the

*TNGA (Acronym for Toyota New Global Architecture): A new development method launched by Toyota in April 2012 that aims to achieve both stronger product development power and reduced development cost by using common parts and units for different models of cars from development stages.



Facilitator
Sun Messe Co., Ltd.
Director of IR/CSR Planning
and Promotion Office
Senior Consultant
Nobuyasu Tanaka



Corporate Planning Div.
Corporate Strategy Dept.
Senior Chief Of Staff
Takamasa Kato



Production Engineering Div. No.1
Resource-Recycling Technologies Dept.
Representative Manager
Akira Tsubone

steel segment and the forging segment. For example, we would be able to make better products by providing information of failures occurred during forging processes to the steel segment. As for TNGA, while competition will likely intensify as the number of "grouping development" and "bundled order" increases, it has some advantages for our company. As dies are more standardized, for example, it will be possible to use common facilities for different types of cars, reduce tools and jigs and cut down on programming processes. For this, we will need to obtain TNGA-related information more quickly and take speedier actions.

Harrison: When I visited the showroom of an EV manufacturer during a trip to the US, a chassis was displayed in the center of the room. As I looked closely, I realized that so motors were used in many parts of the chassis. I

think that if this trend accelerates in the future, there will be more demand for "electromagnetic products". There is a lot of research and development going on in the the EV field and I think electromagnetic products will be indispensable in the automotive industry in the near future.

Takatsu: Let me also point out the possibility that, as work associated with assisting overseas technological assistance and facility introduction increases, managers may be required to be out of office more frequently. I think it will be important that the remaining staff help each other to substitute for them to fulfill Aichi Steel's function as a mother plant. Smart use of human resources is essential as we need to further boost already launched businesses while at the same time continuing to enhance our strengths.

Practicing "1S Culture" is the biggest strength of Aichi Steel

Facilitator: Since 2008, Aichi Steel has been positioning the "1S Culture", with "Shojiki (honesty)," "Seiso (cleanliness)" and "Safety" as a set of values of top priority, which should be shared by all employees in the corporate activities. What kinds of changes do you think have been taking place in this regard?

Tsubone: I think that the value that had the biggest impact was "honesty." I think that the 1S Culture taking root in the company is best demonstrated by the principle that nothing should be left ambiguous. The fact that we were able to carry out our tasks based on the policy of placing top priority on proper disposal when dealing with

resource recycling and wastes has clearly helped change our awareness and marked a big turning point toward improvements.

Kato: I personally interpreted "honesty" as consistently "making all things visible." I think that we can see what should be improved by making quality, production activities and costs visible and then this leads to "honesty" business activities which will eventually result in improving and solving those issues. I think we have a good cycle where we look at issues impartially and take steps for improvements.

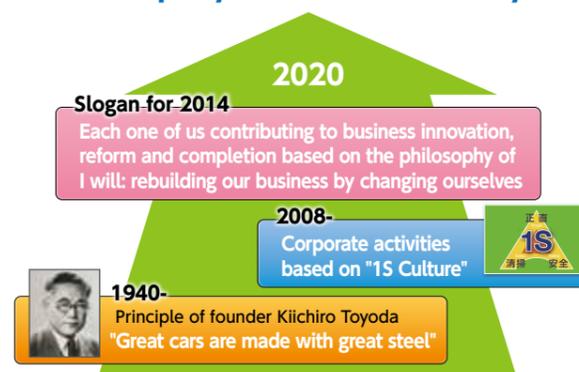
Taguchi: On the manufacturing sites, I think more and more people are conscious of "safety." I feel that everyone is paying more attention to "safety" to avoid violating rules.

Niimi: I have had customers commenting that our slogan sounds very much like Aichi Steel because our catch phrase had been "Honesty is the best of all". As we already have a corporate image of being "scrupulous and honest," I think the concept is effective also in having our customers understand our company better.

Harrison: If we look overseas, there are different ideas and ways of thinking in different countries. It's hard to say as there are varying reactions, but I can say that CSR audits are becoming increasingly strict with respect to issues including labor law, child labor and human rights issues.

Ensuring reform in awareness/ way of thinking

"Company of Choice Globally"





Electro-Magnetic Products, Management Div.
Global Business Management group
Chief Of Staff

Harrison Dereck



Chita Plant
Engineering Service Dept.

Shinji Yoshimura



Production Engineering Div. No.2
Process Technology Development Dept.

Naoya Taguchi



Technical Development Div.
Development Dept. No.1

Mitsuhsa Iizuka



Human Resources Div.
Global Human Resources Dept.
Planning Group

Chie Takatsu



Toyota Sales Div.
Sales Dept. No.1
Chief Of Staff

Yoshiaki Niimi

For example, we could even be asked where materials for this electromagnetic product come from. I am often asked about our company's CSR system myself. I feel that "15 Culture" is in tune with the times in terms of appropriate information disclosure and achievement of accountability and this is something we should continue promoting.

Takatsu: The concept of "15" already existed when I joined the company. I feel that "15" is implemented in a more natural way in my section, including "15 Time" when we clean our desks or when I realized I had made a mistake and reported it to my boss and the boss said "do not repeat mistakes but I am glad you were able to perform "15" (reporting honestly)."

Toward Achieving Vision 2020

Facilitator: Aichi Steel has come up with "Vision 2020." What are the things that each of you is doing or considers important in achieving this vision?

Tsubone: I think our approach as a recycling-oriented or resource-recycling company is our strength. And we don't just recycle. Our strength lies in our ability to not only use our advanced steelmaking technology to recycle scrap iron that occurs while processing scrap cars but also produce high-quality steelmaking in use of nonmetal materials created in car recycling processes including shredder dust.

To achieve this, we are aiming for 100% yield rate for raw materials while adding technical factors to by-products to create something that is as close to procured materials as possible. Through these efforts, I think we can play a pivotal role in recycling cars and other metal resources by creating high-quality automotive components out of scrap cars.

Yoshimura: In the steelmaking process where I work, I think there are two kinds of perspectives that we need to keep in mind. One is how we can operate efficiently because this is the process that consumes the most energy by turning solid steel into liquid. The other is to

develop our plant into the world's best steelmaking mother plant in terms of quality and safety and ensure our facilities, standards, human resources and products represent our technological capabilities. These require us to pursue both cost performance and put the No.1 priority on quality and safety.

Kato: Although the Vision 2020 sets some numerical targets, we should not focus on just achieving the figures, but should also see good work and performance as contributing factors to our profits. Being reliable in terms of quality, cost and products is of course important but I hope we can deliver comprehensive values globally by creating solid foundations that satisfy our customers in terms of service, BAP and other "non-price competitiveness."

I also think it important to create a system that provides working environments women and elderly workers find comfortable working in to deal with the expected "ageing of employees." This applies to both women and men and will improve the company's overall productivity significantly.

Takatsu: We can only become a truly global company when employees with diverse backgrounds and ideas are allowed to use their abilities in various fields. One of the examples is women. While our company has made quite a lot of progress in assisting their "continuous employment," there is still a lot to be done in terms of promoting women's employment and the career advancement that follow. As it is increasingly becoming a natural course of choice for women to keep working after marriage and child birth, I feel that women need to enhance their own awareness while at the same time men should be involved in their private life more actively to improve their work-life

balance. This is a challenge deeply related with the issue of declining birthrates.

Iizuka: I am proud of the fact that products we have designed and developed based on the principle of "Company of Choice Globally" are being used in cars around the world. And I believe what we are doing is good for both our company and the world. I think it is important for the development team to listen to the engineering team, work with the sales team in gathering information and engage in discussion.

Future Aichi Steel that we aspire to be

Facilitator: Before closing this dialogue, please tell us about your own aspirations and goals.

Iizuka: I want to first focus on "presenting the world's most lightweight designs and proposals" in the current TNGA project I am working on. I would also like to expand my scope of work by gearing up for process development.

Niimi: As a sales representative, I value my customers. While employees cooperate with each other, we would like to present good sides of our company to our customers as a liaison section. I believe that working with a principle of "winning as many Aichi Steel fans and my own fans as possible!" will eventually lead to increasing fans of Aichi Steel.

Yoshimura: As a steelmaking staff, I want to be able to handle the entire process improvement from planning to implementation and management. And in the end, I want to achieve the goal of quality No.1 set out during the launch of No.3 BL/CC and contribute to reliable and stable supply of steel to our global customers.

Taguchi: I have mainly been in charge of development and improvement of die machining and forgings and facility planning in the production engineering division. In the future, I hope to get involved in the company's core business of forging design and production preparation and become an engineer who can handle the entire process from material/die to forging and secondary processing.

Kato: I have always thought it important to improve our total productivity. As the same time, we need to improve the quality of our work. I hope to use the time made available as a result of "speedy improvement of productiv-

ity" to future-oriented work including planning and creation.

Harrison: As I am involved with selling magnets and sensors in the electromagnetic department, I want to see more overseas companies using our magnets and sensors. We have the world's strongest bonded magnet in Magfine and the most sensitive magnetic sensors with our MI sensor and I want to understand them more deeply so I can communicate their benefits more clearly.

Takatsu: I work with many male employees including my boss. I want to have more sense of ownership for the success of our company and communicate my own ideas from the perspectives of women.

Tsubone: Personally, I like the word "policy." I see each of you here today has your own "will" and identity in your work. I like having my own policy and do my work through candid discussion with those with their own policies so we can elevate each other.



(Held in Aichi Steel Headquarters meeting room on July 23, 2014)

Governance

Striving to contribute to sustainable development of society and the Earth through healthy corporate activities



CSR Management

Basic policy

We at Aichi Steel strive to pursue a business that places value on social morality and relations with local communities in order to fulfill our obligations in compliance with laws and regulations, as a good global corporate citizen. We practice CSR management to gain trust from all our stakeholders through the establishment of our Long-term CSR Vision and the implementation of our Medium-term CSR Plan

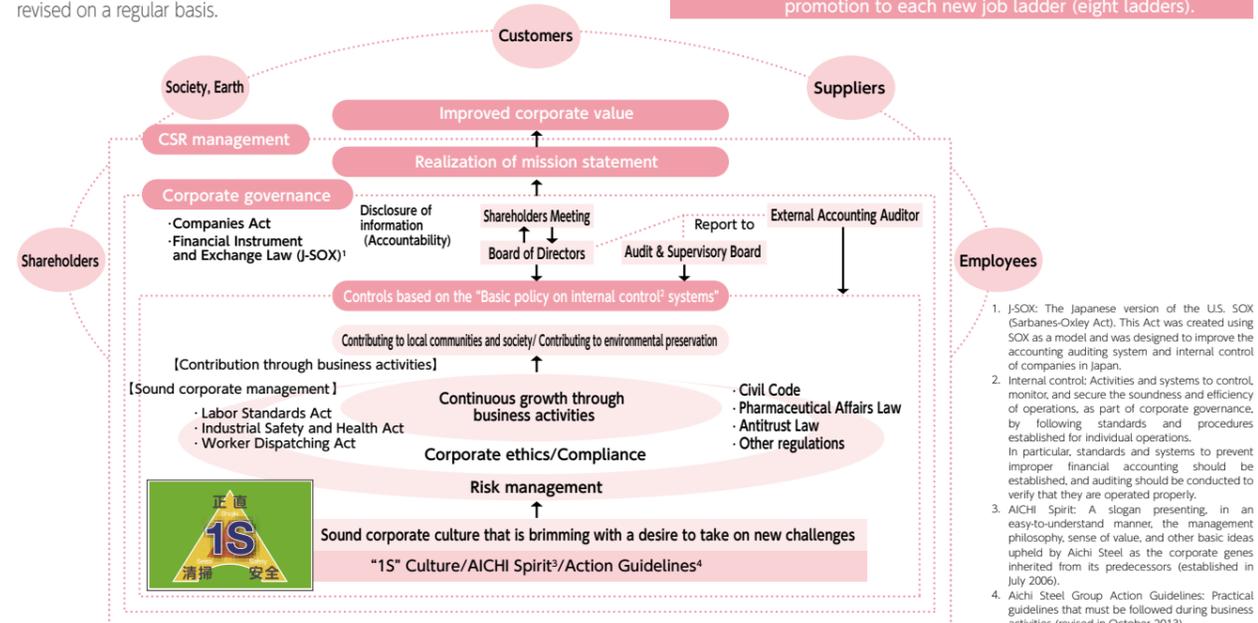
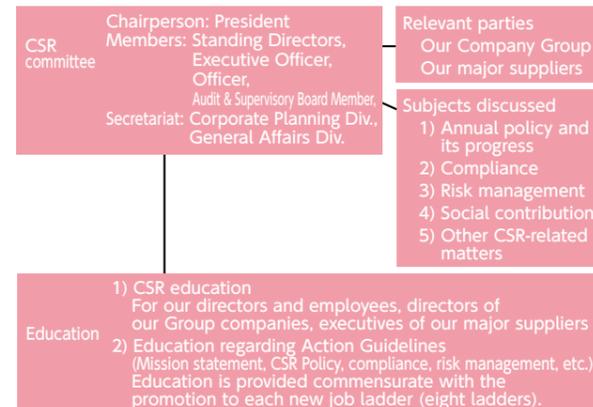
CSR guidelines

In 2007, we revised the "Aichi Steel Action Guidelines" established in 1998 into the "Aichi Group Action Guidelines," which are practical guidelines that must be followed whenever global business activities are conducted. (See WEB.) The Guidelines have served as a basis for the CSR management of the Aichi Steel Group as a whole. We have also established the Basic Management Rules (4 items in 2 categories), the Rules of Employment (15 items in 2 categories), the Organization Rules (8 items in 2 categories), and the Business Administration Rules (293 items in 10 categories). These rules are revised whenever any changes are made to related laws and regulations or environmental conditions, and they are also checked, audited and revised on a regular basis.

CSR system

With our president as the chairperson, the CSR Committee meets once a year (in March) to report on and check the progress of our CSR management efforts. Including those of the Aichi Steel Group companies.

CSR committee



Mid-term CSR Plan Achievements

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

	Priority items	Actions taken for priority issues	Targets	Achievements/challenges	Assessment
Social contribution/business activities	1. Community activities resulting in environmental/social contribution	◇ Continuous assistance for reconstruction and recovery from the Great East Japan Earthquake ◇ Increasing the number of participants in donations of 100 yen from the payroll ◇ Participation in activities by the Toyota Group Disaster Volunteer Net ◇ Sales of products from the Tohoku region by Aichi Group ◇ Participating in activities to preserve bio-diversity in the Chita Peninsula ◇ Continuing to hold the workshop "Lesson about Iron" for children in Tokai City ◇ Taking measures to improve corporate value for stakeholders	Individual implementation plan Individual implementation plan November 2013 November 2013 Individual implementation plan Individual implementation plan	• 400 participants/ all money donated to Kamaishi City • One person participated in October (Rikuzen-takata City) • Held as part of internal events (Fureai Festival, Momiji Matsuri) • Tree-planting ceremony for "Forestation to Create a Forest for Beetles" in Nakashinden (200 participants) • Held at all 12 elementary schools in Tokai City • 16 press releases issued	○
	2. Development and provision of products/ technologies that can satisfy eco-minded customers	◇ Development and sales of SUS steel for application in high pressure hydrogen equipment at hydrogen stations	November 2013	• Development and sales of SUS steel for high pressure hydrogen AUS316L-H2 launched	○
	3. Contribution through shift to eco-friendly manufacturing and resource recycling	◇ Developing high-value added technologies by slug reform team individual implementation plan	Individual implementation plan	• Installation of manufacturing equipment of slug grinder "AS Shot" • Implementation of efforts toward establishing mass production system	○
Risk Management/Compliance	4. Ensuring CSR policy is understood and followed in the entire Group including affiliates and business partners	◇ Fundamental review of risk map ◇ Implementation of debt collection workshop to deal with risk of bankruptcy of business partners ◇ Implementation of employee satisfaction survey subsidiaries	Individual implementation plan December 2013 October 2013	• Risk map for each domestic subsidiary created • Implemented with participation of sales, procurement and domestic subsidiaries • Survey conducted for domestic subsidiaries	○
	5. Response to risk factors beyond the company's control, such as natural disasters and changes in the external environment	◇ Updating disaster BCM policy and creating early recovery framework	Individual implementation plan	• Storing food, water and relief items • Designating evacuation areas and installing evacuation route poles • Removing or strengthening dangerous funnels, frames, etc. • Promoting household disaster measures • Specifying issues for individual products and supply chains • Implementing company-wide disaster drill and headquarters operation drill (Twice a year, in September and March)	○
	6. Response to risk factors controllable by the company	◇ Response to risk incidents ◇ Permeation of 1S Culture and compliance promoting activities	As needed basis September 2013 October 2013 March 2013 Individual implementation plan	• O-CA/PD analysis of risk incidents (investigating the cause and prevention of recurrence) • Media relations training for serious incidents (simulated press conference held assuming plant explosion has occurred) • Revised versions of Action Guidebook for Directors and Aichi Steel Group Action Guidelines distributed and briefing held • Compliance workshop for directors held • 1S workshop held (four times)	△
Human resources development/corporate culture	7. Creating a safe and comfortable workplace environment	◇ Declaration of safety priority by plant directors (Ensuring safety O- CA/PD) All employee participation to ensure prevention of recurrence and horizontal deployment Enhancing crisis and problem awareness of supervisors	Accident: 0 Serious accidents/accidents resulting in work time losses	• Serious accident: 1 • Semi-serious accidents: 2 • Activities aiming to eliminate serious accidents launched (ensuring basic safety rules are followed in manufacturing)	×
	8. Human resources development to improve job quality and in response to global business activities	◇ Opportunities to develop global human resources and making one's vision • Establishing system to dispatch young personnel for training at overseas locations • Assisting in the improvement of language skills : radio course + continuous lessons ◇ Taking measures at individual divisions based on results of employee satisfaction surveys ◇ Promoting QCC activities at overseas locations	Once a year Individual implementation plan April 2013 February 2014	• One employee sent to AFC and AFU each (for six months) • Around 80 participants • Each department reported at inter-departmental policy meeting • QCC cases reported by AIT	○

Review of CSR activities in fiscal 2013 and identifying issues

6. Response to risk factors controllable by the company

Enhancing Group-wide risk management capabilities

Follow up of identified risk cases and reducing potential risks to improve response capabilities

7. Creating a safe and comfortable workplace environment

Strengthening efforts to eliminate serious accidents

- Implementing KY*1 at the beginning and end of work to protect the lives of staff
- Creating a culture to follow and help each other follow rules.
- Creating a safe workplace environment

*1 KY...short for "kiken yochi," or risk prediction

Corporate Governance

Basic policy

With a basic CSR policy of "striving to contribute to sustainable development of society and the Earth through sound corporate activities," we are managing our company in a way that enjoys extensive trust of society by establishing and maintaining an organization capable of responding swiftly to changes in business environments and a fair and transparent management system.

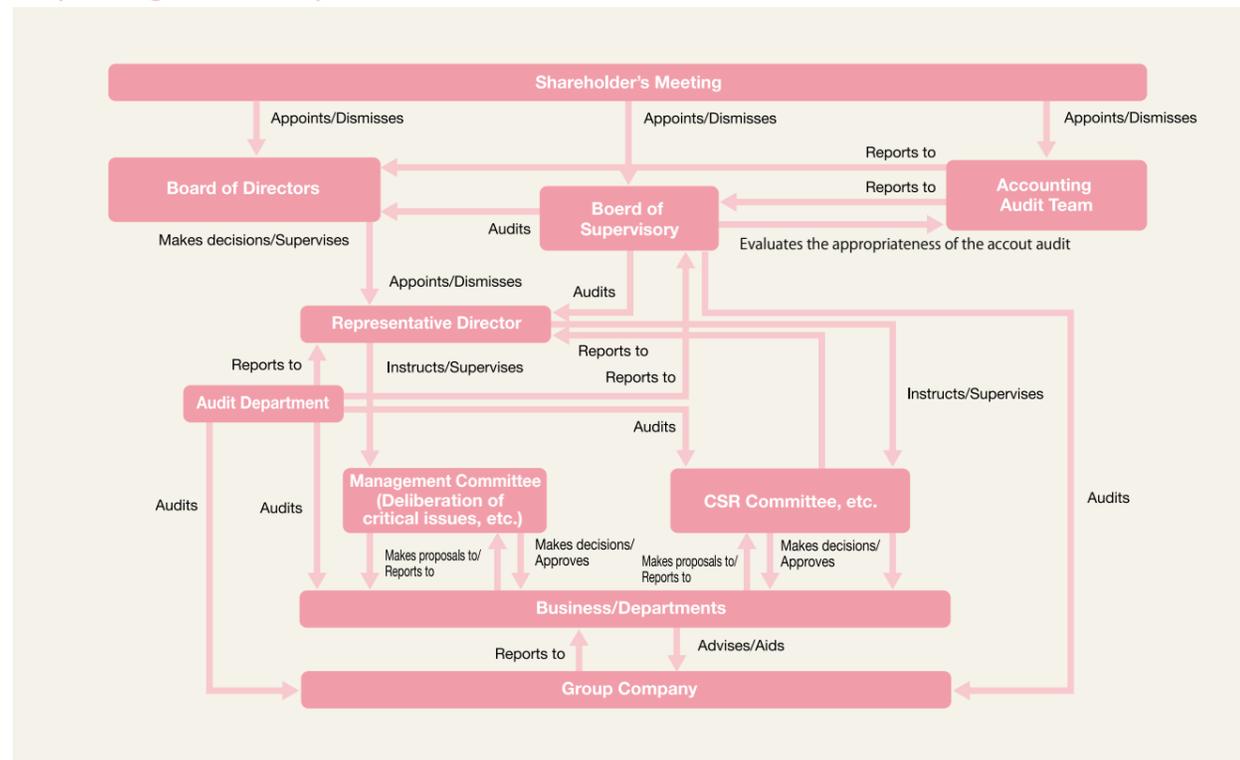
We also have "1S Culture" in place as part of our corporate culture that puts first priority on and acts on the principles of 3 Ss, namely Shojiki (honesty), Seiso (cleanliness) and Safety.

Corporate governance guidelines

We have published two types of codes of conduct: the "Action Guidebook for Directors and Audit & Supervisory Board Members" and the "Aichi Steel Group Action Guidelines," for directors and employees, respectively. We review and revise them to match changes in the law.

In fiscal 2013, we revised the "Action Guidebook for Directors" and the "Aichi Steel Group Action Guidelines" and distributed them to all our directors and employees while providing related training to freshman employees and those promoted to new job levels.

Corporate governance system



Meetings of the Board of Directors and the Audit & Supervisory Board

The Board of Directors, consisting of Directors appointed by shareholders, makes decisions concerning the Company's critical issues from the viewpoints of necessity, legality, efficiency, etc., after engaging in discussions and mutual monitoring. Audit & Supervisory Board Members, consisting of Audit & Supervisory Shareholders examine whether such decisions involve any violations of laws/regulations.

Attendance rates in fiscal 2013

	Meetings	Director attendance rate	Audit & Supervisory Board Members attendance rate	
			Full-time standing Audit & Supervisory Board Members	Outside Audit & Supervisory Board Members
Board of directors	13times	99%	100%	97%
Audit & Supervisory Board	11times		100%	100%

Internal control system

Whether the Basic Policy for internal control system requires revision is reviewed every year, and operation status is report to the Board of Directors.

The shareholders' meeting held in June 2013 passed a resolution introducing a new board of directors system, in order to separate the management's decision-making function and business executing function, promote rapid decision-making and strengthening the function of business execution.

Compliance

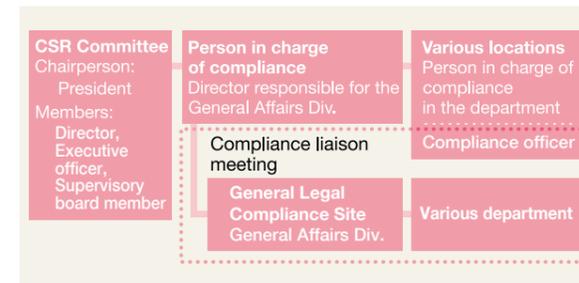
Basic policy

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

Compliance guidelines

We strive to improve our compliance with laws and regulations as well as our social commonsense, based on the Aichi Steel Group Action Guidelines. To enhance employees' awareness of compliance, various workshops and training sessions have been held at every opportunity, using compliance manuals, the Aichi Steel Group Action Guidelines, and the 1S Guidebook.

Compliance promotion system



Compliance education program

To enhance the compliance awareness of employees, we provide education on compliance to all employees. Compliance education is also covered in the Action Guidelines workshop held for those promoted to each new job ladder. Moreover, we issue "Legal Affairs News" to deliver information about compliance issues closely related to our daily lives, which enables employees to check such information on our intranet.

Stratified training	316 participants
Seminars for newly appointed directors	September
Compliance workshop for directors	March
CSR lecture	October
1S workshop	4 times (April, July, October, February)
Compliance Liaison Meeting	4 times (July, October, December, March)
Legal Affairs News	4 times (April, July, October, February) Theme: Learning from other companies' law violation cases (2 times) Legal changes (2 time)

Whistle-blowing system

In fiscal 2013, a total of 6 cases were reported to the Aichi Steel Group Compliance Hotline, the company's whistle-blowing system.

We will continue promoting recognition and awareness of our whistle-blowing system to further improve our internal ability to govern ourselves. Necessary measures will be taken for improper actions reported, and the president will be informed to the president for confirmation while said measures are carried out. We will also lay out how the system is operated and protection of whistle-blowers to ensure whistle-blowers are protected.

Fiscal year	2009	2010	2011	2012	2013
Number of calls	9	9	6	3	6

Promotion of CSR activities throughout the supply chain

As part of efforts to support our suppliers' compliance activities, we have developed a CSR program for our supply chain. (See page 24.) In fiscal 2013, CSR seminars for suppliers were held (in October) to raise their awareness of our compliance. We will make continuous efforts to promote CSR throughout our supply chain.

Compliance workshop

A compliance workshop with a prominent lawyer as guest speaker was held for directors, officers, executive advisory engineers and division general managers to heighten their awareness and understanding of prevent compliance deviations and how to respond if such a case happens. We will actively and continuously promote compliance activities to further ensure employees' compliance and prevent the occurrence of compliance deviations.



Intellectual property protection

In fiscal 2013, there were no complaints or comments concerning intellectual property.

Number of applications

	Japan	Overseas
Number of our patent applications in fiscal 2013	28	11

Risk Management System

Basic policy

We have established a risk management system led by the CSR Committee, so that in the case that we face/predict a serious risk, we can take prompt and appropriate action and ensure sound business operation.

Risk management guidelines

We have established risk management rules and other various rules that set forth the responses to be taken depending on the type/level of risk. To secure a reliable risk management system, these rules are reviewed on a regular basis and revised whenever necessary to respond to changes in the business environment and new potential risks.

Disaster prevention measures

Following the Great East Japan Earthquake, we established the Earthquake Preparedness Committee, under which three subcommittees—the Human Safety, Facility Safety, and Production Recovery Subcommittees—were set up to enhance our earthquake preparedness. We are also working to improve our BCM (Business Continuity Management) plans. In fiscal 2013, following measures were taken by each subcommittee.

Human Safety Subcommittee

With the goal of allowing for safer evacuation, measures were taken including:

- 1) Laying and simulating the usage of equipment emergency supplies introduced in fiscal 2012 to secure the safety of employees.
- 2) Installing speakers to ensure emergency earthquake warnings reach those working outside.
- 3) Taking shatter-proof measures for windows to prevent injuries while evacuating.
- 4) Evacuation guidance sign pole with flashing lights that are visible at night to indicate primary and secondary evacuation areas.

Facility Safety Subcommittee

With the goal of preventing injury due to the shaking of buildings during tremors and other structures, measures were taken including:

- 1) Removing and shortening funnels with primary concern given to earthquake resistance.
- 2) Enhancing the strengths of in-plant piping racks.

Production Recovery Subcommittee

With the goal of ensuring early delivery of our products to our customers, measures were taken including:

- 1) Strengthening the facilities to prevent fatalities due to earthquake and liquefaction and making sure alternative facilities and equipment are available.
- 2) Identifying weaknesses in the entire supply chain.
- 3) Considering extensive cooperation in securing production including use of alternative facilities within the Group and those owned by suppliers and competitors.
- 4) Developing elemental technologies and key personnel to allow operation of essential production with a minimum number of employees.

Risk management promotion system

Risk management issues are delivered and discussed by the CSR Committee. We have prepared a risk map, in which risk items for each job ladder are organized according to the degree of importance and urgency. The development of a disaster prevention/reduction scheme that enables a quick response to emergencies is underway, including the setup of emergency Company headquarters in the case of earthquakes or other disasters.

Education/awareness-raising

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

Disaster Prevention System



Evacuation guidance sign pole

Information Security

Basic policy

Confidential materials shall mean any and all information, products and facilities that may cause a disadvantage to the Company or benefit a third party if made known to the public or if leaked out, and the use and disclosure of which is controlled by people in charge of confidentiality management, who are designated under the information security promotion system. Confidential materials also include other companies' confidential materials obtained by fair means.

Information security guidelines

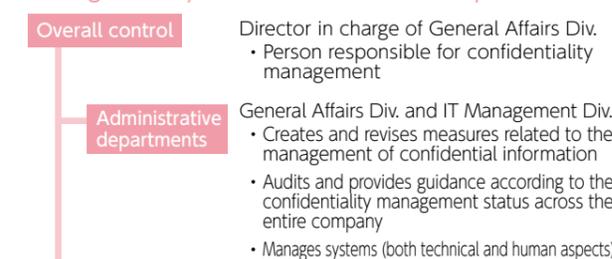
We have established the following rules to control confidentiality and prevent leakages of private information.

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

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

Information security promotion system

Management system and roles of each department



Information security

Recognizing the importance of information security control, we have provided education on information control, and raised employees' awareness of relevant rules and reviewed them, in compliance with the All Toyota Security Guidelines (ATSG). The Risk Management Department conducts strict audits of e-mails and baggage inspections to check whether internal information has been carelessly leaked outside.

Information audit results

Auditing of e-mails	Cases detected: 15	Failure to set a password for a file Inclusion of a password in an e-mail message E-mailing to a terminal unit for private use
Baggage inspection	Cases detected: 15	Incomplete permit application

Education on information security

The management was updated on the current information security management of our Group as well as issues and efforts that are underway.

We also reported on information leakage incidents and risks of using social media to raise their awareness of information security.

"Information security incidents" were introduced as part of the legal news distributed to the entire Group to raise employees' awareness for preventing similar incidents.

Introducing information security incidents

	Malicious conduct	Violation of rule	Negligence
External factor	Unauthorized access (hacking) Computer virus infection Theft	—	Negligence by clients to which information has been disclosed
	Spying Corrupt practice	—	Home PC virus infection Theft during business trip
Internal factor	Illegal acquisition Information trading	—	Loss and misplacement Erroneous transmission

Human Rights and Working Practices

We respect the rights of each one of our employees so that diverse ranges of people can maximize their capabilities in their work, regardless of their nationality, age and sex.



Respecting human rights

Basic policy

Aichi Steel is working to promote measures designed to raise employees' motivation and morale to encourage the creation of a workplace environment that enables employees to get fulfillment from their work and bring out their individual abilities to the utmost through the planning, development and implementation of various measures aimed to secure and develop human resources who can contribute to the global management of our company and ensure they are allocated in the right positions and utilized effectively.

Employment guidelines

Basic matters concerning employment are set out in the Company's Rules of Employment, as well as in laws and regulations or a collective agreement, to establish fair labor conditions, to promote and maintain order in the workplace, and to enhance the productivity of the Company. We clarify and implement our recruitment standards in conformity with the Equal Employment Opportunity Law, the Corporate Code of Conduct set forth by the Japan Economic Federation, and the Aichi Steel Group Action Guidelines.

Labor composition (fiscal year)

Fiscal year	2009	2010	2011	2012	2013
Total workers (persons)	2,330	2,360	2,367	2,369	2,383
Managers (persons)	263	269	268	286	279
Male (persons)	2,221	2,244	2,243	2,236	2,239
Female (persons)	109	116	124	133	144
Foreign workers (female) (persons)	9(3)	9(3)	10(3)	10(3)	10(3)
Average age (years)	39.5	39.7	39.9	39.8	39.7
Average service (years)	20.0	20.1	20.3	20.1	19.7
Turnover rate (%)	0.3	0.3	0.8	0.4	0.8
Voluntary resignation for personal reasons (persons)	10	8	10	12	20
New graduates employed (female) (persons)	78(5)	53(3)	61(5)	66(5)	66(10)

Respecting human rights/ Prohibition of discrimination

The Aichi Steel Group announced in the "Aichi Steel Group Action Guidelines" and the "Guidebook of Corporate Action Guidelines" that it will comply with laws and regulations both in letter and spirit, and that it will 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 (hot)" line is in place, ready for use by employees for consultation concerning human rights.

Efforts to reduce total working hours

Dialogue and cooperation have been promoted between labor and management to create a working environment that is friendlier to workers and helps enrich their lives. In labor-management negotiations conducted in fiscal 2013, it was agreed to work to increase the usage rate of paid holidays among employees.

Changes in total working hours (hours worked per person per year)

Fiscal year	2008	2009	2010	2011	2012	2013
Hours	2,190	1,973	1,948	2,124	2,145	2,180

Usage of annual paid vacations

Fiscal year	2008	2009	2010	2011	2012	2013
Usage rate (%)	69.0	54.0	46.0	48.5	48.8	47.0

Usage rate against the standard 20 days granted

Efforts for diversity

Promoting opportunities for women to play more active roles in the workplace

With the goal of improving working environments for women, Aichi Steel has been working to improve its work environments into those that are friendlier to female workers, including increasing the number of female workers assigned to professional positions, so they will find it more comfortable and fulfilling to work in an environment normally consisting mainly of men.

Usage of the Nice Family System

Fiscal year	2009	2010	2011	2012	2013
Child care leave (male) (persons)	11	4(1)	5	9	10
Shorter work hours (male) (persons)	6	10(1)	5	4	5

Number of persons who started using the system per year



Post-retirement reemployment system

We have in place a Nice Senior System, an employment system that allows our employees who are willing to work after retirement to continue working at Aichi Steel until they start receiving their pensions. As of the end of March 2013, a total of 101 reemployed staff are working at Aichi Steel contributing their skills in various sections while working to pass on their skills to and help improve younger employees. We will further improve working conditions for reemployed persons and also encourage our employees to keep healthy throughout their lives.

Registrants for the Nice Senior System

Fiscal year	2009	2010	2011	2012	2013
Nice Seniors (persons)	55	51	49	47	101

Those who are reemployed between the ages of 60 and 64 (as of the end of each fiscal year)



Promoting the employment of the disabled

We have employees with disabilities working in various positions in the manufacturing and administrative divisions. To ensure they are assigned to the right workplaces that suit their individual capabilities, we encourage more workplaces to be open to employing disabled persons and welcome them to visit prospective workplaces.

Starting this year, we invite graduates of special needs schools who are joining Aichi Steel to attend our welcoming ceremony so that both sides have increased awareness about working together as members of Aichi Steel.

We have achieved the statutory employment rate for the disabled of 2.0% in fiscal 2013 and will continue our efforts to develop a system capable of hiring more disabled persons.

Employment of persons with disabilities

Fiscal year	2009	2010	2011	2012	2013
Employees with disabilities (persons)	34	35	40	50	44
Employment rate (%)	1.8	1.6*	1.8	2.1	2.3
Achievement status of the statutory employment rate (%)	100	92.1	100	100	100

* The employment rate decreased in fiscal 2010 following the lowering of the exclusion rate by 10%.

Human resources development

Efforts for global human resources development

Aichi Steel focuses on the development of human resources capable of playing active roles globally as well as development of local staff overseas where Aichi Steel operates. We encourage mainly young employees to improve their language skills, through such initiatives as dispatching 2-3 young employees to our overseas subsidiaries as part of our Overseas Trainee (OT) program. In fiscal 2013, we offered three types of OT courses

with different durations—6 months, 3 months and 2 weeks—through which a total of 2 of them are overseas subsidiaries others are language schools. We will continue to seek more participants from wider job areas for the overseas program for young employees.

VOICE

Voice from OT participant (who had training at AFC)

During my training in the Philippines, I had the opportunity to experience the culture, not only through daily work, but also by taking part in their company trip and sports events. My English skills have improved and it has made me confident about working overseas.



Production Engineering Div. No.2
Kazuya Fujisawa



At AFC factory (Fujisawa, second from the left in the back row)

Global seminar (April, October, January)

To help our employees understand necessary abilities to play active roles overseas, we hold Global Seminar sessions, in which some of the executives/employees who have experienced working overseas give lectures. By communicating what they should keep in mind and learn in order to become a global player, the Global Seminar aims to encourage each employee to voluntarily improve his/her abilities to address global issues.



Global meeting

Since Fiscal 2012, Aichi Steel Group has been holding Aichi Global Meetings with an aim to promote our relationship with domestic and overseas companies in our Group and help them become more self-sustaining. The meeting is designed to bring presidents of domestic and overseas companies in the Aichi Steel Group and their local employees together to exchange their opinions to achieve further globalization of our group in terms of both our system and personnel. In Fiscal 2013, participants gained deeper understanding of each other by updating themselves on self-sustaining efforts at our overseas sites and having discussions on quality assurance.

We hope such occasions will be opportunities to boost the solidarity of our Group and further promote the development and exchange of global human resources, resulting in enhancement of our consolidated management.



Employee health & safety

Basic policy

Basic labor safety/ health concept

1. Strengthening of "heart, mind, and body"

- Heart: Strong belief in and awareness of pursuing safety
- Mind: Careful observation and thorough investigation of true causes
- Body: Powerful actions, dedicated efforts

2. Clarification

- Clarifying problems (negative issues, poor conditions)
- Clarifying good points (improvement cases, knowledge, experiences)
- Clarifying standards, changes, or other status

Basis of activities

Consistently focusing on comprehensive safety and health management, aiming to achieve "zero accidents in all workplaces throughout Aichi."

Health-promoting efforts

With a slogan "strengthening of heart, mind and body," Aichi Steel Group is focused on maintaining and promoting the health of the entire Group workforce with concerted efforts by industrial physicians, public health nurses, nurses and health management staff. In Fiscal 2013, we promoted systematic efforts with priority on mental health, lifestyle-related disease prevention and health management support for employees dispatched overseas.

Mental health activities (Promotion of communication skill improvement measures)

Mental health risk is growing as our work becomes more and more sophisticated and detailed. To deal with such a situation, Aichi Steel Group has been providing various educational programs as well as mental health care, to individual employees based on the results of their stress check to maintain their mental health and prevent them from developing mental issues. In Fiscal 2013, a communication skill improvement training was provided by inviting an external trainer to help improve our employees' listening and assertion skills, along with trainings for all individual job ladders. We also cooperate with mental health consultants to offer on-site consultations at various sites of Aichi Steel in a continuous basis to ensure early detection and care of employees with mental issues. We will continue working with mental health managers to promote the creation of open and candid workplace environments and ensure prevention of mental health issues and early detection and care.

Follow-up meetings by top-level safety managers

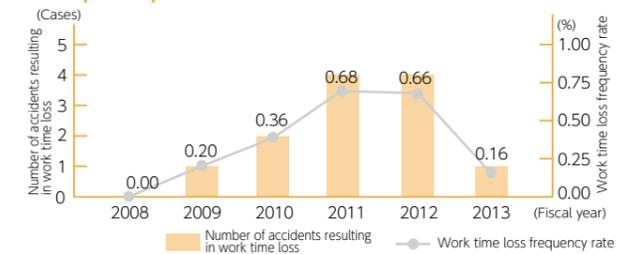
We are taking actions to enhance our workplace safety, to eliminate serious accidents and accidents resulting in work time losses, by reviewing and improving the "safety declaration" activities by top-level safety managers.



Frequency of accidents and work time loss

Following two serious accidents that occurred in our plants in March and April, all-out special safety efforts are underway. Managers are required to implement KY (short for "kikenyoichi," or risk prediction) (plus instructions) at the beginning and end of work to protect the lives of staff. We will continue our company-wide efforts to improve the human resource development environments of our subsidiaries and raise the awareness of and knowledge about safety of workers to eradicate "unacceptable accidents."

Frequency of accidents and work time loss



Creation of safe worksites

We have been promoting efforts to create safe worksites, with higher priority given to work areas with higher levels of danger. For example, equipment with the potential risk of trapping or catching parts of an employee's body is ranked on a scale of A to D. In this way we manage our manufacturing processes with extreme care to prevent any accident. We will continue to improve our facilities to realize an ideal working environment. To prevent electric shocks, exposed charging equipment is removed from the facility under three time frames of I to III. For the "separation of people and vehicles," danger zones are indicated in three levels. We have developed a three-year plan for these major safety improvement areas and are steadily implementing the plan.

Development of safety-conscious human resources through hands-on training

As part of our efforts to enhance employees' awareness of labor safety, we have created a facility for simulating danger, in which employees can get some firsthand experience on the potential risks in day-to-day operations. We continuously take improvement actions to create safer worksites and prevent accidents in all workplaces by enhancing employee's awareness and understanding of labor safety.

Quality Improvement

Aiming to be an integrated forging and steelmaking company that provides the world's best quality, Aichi Steel works closely with its business partners to pursue high quality and gain our clients' trust in our products globally.

Quality management system (QMS)

Basic stance

<Basic Policy>
In accordance with our policy of "Quality First," we will strive to maintain a business structure based on ISO 9001 that gains customer trust and enables us to deliver attractive products that meet expectations and needs.

Under our long-term Quality Vision 2016, we will strive for a united company-wide effort to maintain a quality assurance system that keeps us in the lead over other companies in quality competition.

Long-term Quality Vision 2016

Being an integrated forging and steelmaking company that provides the world's best quality customer trust on a global scale

- 1) Further reform and drive for quality assurance
- 2) Global quality assurance system
- 3) Facilitating TQM (Total Quality Management) to strengthen personnel with awareness of quality

Quality Assurance System



Certification by third-party organizations

In addition to ISO 9001 certification, we have obtained various third-party labeling certifications for production quality based on our QMS. We are assessed on an annual or three-year basis for renewal of these certifications.

- New JIS mark (by JICQA)
- Marks issued by shipping classification societies: NK, LR, GL, DNV, KR, CCS, CR
- Marks issued by TÜV (Technical Inspection Association in Germany)

ISO quality certification acquisition

1. The 6th renewal of steel materials and forgings (June)
2. Renewal of ISO 9001 certification for electromagnetic products (February)

ISO certification acquisition

Kariya Plant	ISO9001	April 1993
Chita Plant	ISO9001	December 1995
Forging Plant	ISO9001	November 1997
Electromagnetic products	ISO9001	March 1998
Dental materials	ISO13485	July 1999
Dental materials	EC Directive	July 1999
Analysis & Testing Dept.	ISO17025	September 2007

Consolidated subsidiaries

Omi Mining	ISO9001	May 2002
Aiko	ISO9001	April 2005
Asdex	ISO9001	June 2008
Aichi Techno Metal Fukaumi	ISO9001	March 2013
AFC	ISO9001	April 2003
SAFC	ISO/TS16949	August 2006
AIT	ISO/TS16949	March 2008
AFI	ISO9001	November 2008
AFU	ISO/TS16949	September 2009

Quality month activities

November in Japan has been designated Quality Month. To deliver outstanding quality to customers at the next process, we have established a Quality Rally (to share quality cases among departments), events and exhibitions. We also have a QC Circle Convention to nurture quality consciousness.

Global quality assurance activities

Auditors specializing in quality assurance are sent to five overseas subsidiaries to strengthen the quality assurance system in overseas locations. The auditors provide support for the establishment of assurance systems in new facilities, 2S activities for product storage, the self-check system for special process equipment, and share the quality improvement system employed by group companies in Japan.

AFI (Indonesia) received Best Supplier Award

AFI (Aichi Forging Indonesia: Aichi Steel's local subsidiary in Indonesia) received the Best Supplier Award in the Forging Division in the first IGP* (Inti Ganda Perdana supplier award that commenced in Fiscal 2013). The Best Supplier Award is given to the supplier exhibiting the highest performance in quality and delivery to IGP. The result was achieved due to improved AFI management through the combined efforts of our global quality assurance activities and the training program provided to local staff. We intend to upgrade our management level on the global level through continued steady and simple support activities from the head office.

*IGP: Automobile-related company in Indonesia



IGP Supplier Award (Our company staff is second from the left)

Gathering voice of customers

We have kept and managed a database in which product defects reports or requests from customers, investigation status and feedback to related customers are stored.

Since 2012, we have been elucidating real cause of each arising complains (defined as trouble arising from products which meet customers' specifications) and addressing prevention of recurrence to meet customer demands.

Training program for sales staffs

In order to enhance the sales skills for customers, we have enriched the contents of introductory education program for newly assigned staffs. Moreover, we have invited external lecturers to improve negotiation skills and process management skills in sales activities. Through the training, each staffs acquired fundamental knowledge more efficiently, and it also improved their operational efficiency and quality of work.



Aichi Steel purchasing policy

Sound corporate activities

- Selection of suppliers based on an open-door policy*
- Co-existence and co-prosperity based on mutual trust
- Creation of environmentally friendly products through the promotion of "Green Purchasing"

*Fair and just attitude in the selection of suppliers

Fair transactions

We have not conducted direct transactions with many suppliers from developing countries. We usually purchase products from abroad via trading companies and resources/raw material suppliers.

To promote fair and proper transactions and ensure stable supply, we will strive to proactively make improvements using internal and external audit systems. We purchase mineral resources after investigating whether they are target conflict minerals, and confirm that our purchases do not include conflict minerals.

Green purchasing

We actively pursue green purchasing by employing our own Green Purchasing Guidelines to purchase environmentally-friendly products and services from suppliers who pay attention to global environmental protection. We have recently promoted green purchasing with a special emphasis on the 3Rs (reduce, reuse and recycle) of resources and the reduction of CO₂ emissions.

Supply chain CSR

We have been promoting CSR activities with our suppliers, using the "supplier diagnosis sheet" program launched in Fiscal 2009. Our suppliers conduct self-diagnosis concerning the items below.

1. Compliance (legal compliance, confidentiality, personal information protection, etc.)
2. Safety/quality (provision of product information, product safety, quality assurance, etc.)
3. Human rights of workers (affirmative action, respect for human rights, prohibition of the use of forced labor/child labor, etc.)
4. Environmental protection (establishment/operation of EMS [Environmental Management System], greenhouse gas reduction, etc.)
5. Social action (contribution to the local community)
6. Information disclosure (provision of information/dialogue)
7. Risk management (establishment/operation of a risk management system, BCP, etc.)

Based on the diagnosis results, we will continue to identify issues to be tackled by each supplier and promote information exchange to enhance supplier CSR activities.

With Community and Society

Being conscious of our role as a "good corporate citizen," we will positively participate in social contribution activities and continue to place increasing emphasis on interacting with local communities.

Social contribution policy

Basic policy

Aiming to pursue harmonious coexistence and co-prosperity, we promote community-oriented social activities. For this purpose, we have set the four keywords of "Clean," "Green," "Creative," and "Volunteer" as our focuses for social contribution.

Promotion system

The Volunteer Center, placed in the General Affairs Division, provides information and promotes educational activities, with the aim of encouraging corporate/individual volunteer activities.

Clean

Nearby roads clean-up campaign

The "Nearby roads clean-up campaign," a social contribution activity to clean neighborhoods, is held every two months. In fiscal 2013, the campaign was conducted six times. A total of 402 people from every worksite and in-plant business operators participated in the cleaning.



Clean Aichi Day

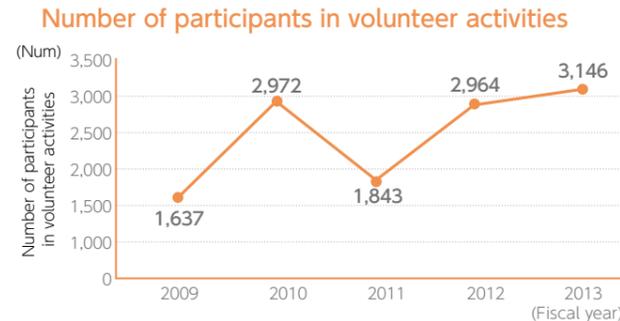
In line with the annual Aichi Steel Group CSR Enhancement Month in October, we conducted the "Clean Aichi Day" program, in which a total of 800 people, including employees from our subsidiaries in Japan and abroad, cleaned the neighborhoods of their operation bases.



Disaster Support

Assistance for restoration in China and the Philippines

The Aichi Steel Group donated 1 million yen to support restoration from the extensive damage experienced during the earthquake that hit Sichuan on April 20, 2013. The Group also donated 3 million yen for restoration after extensive damage from Typhoon No. 30 that hit the central Philippines on November 8th the same year.



*In Fiscal 2010, single-year charity events were held.

Green

Planting flowers in front of Meitetsu Shurakuen Station

In June and November every year, students of the Aichi Steel Technical Training Institute plant flowers in front of Meitetsu Shurakuen Station, the closest station to our offices. In addition to our voluntary clean-up activities carried out in the neighborhoods of our worksites, seasonal flowers help local people feel refreshed and relaxed.



Volunteer

Volunteer work to assist victims of the Great East Japan Earthquake

Since Fiscal 2011, at the request of Kyohokai, an association consisting of suppliers of the Toyota Group and Toyota Group companies, we have been collecting articles that could be easily converted into cash as a volunteer activity to assist victims of the Great East Japan Earthquake. The collected articles, including disused cellular phones and spoiled postcards, will be converted into money to be donated to disaster areas.

From the Aichi Steel Group, 60 employees worked together and collected 157 disused cellular phones, 10,149 spoiled postcards, postage stamps worth ¥3,229, prepaid phone cards worth ¥63,000, and Bellmarks worth 616 points.



Activities of the Aichi Steel Volunteer Fund

In Fiscal 2013, the Aichi Steel Volunteer Fund established in 1993, donated charity gifts worth about 2.15 million yen, including those contributed through our Matching Gifts Program, under which we donate an amount equal to the amount already collected for the Volunteer Fund.

Charity Gifts and Donation Organizations (Fiscal 2013)

Organization	Charity gifts
"Akatsuki Gakuen" Children's Foster Home (the city of Tokai)	3 washing machines, 1 dryer, 1 thermos bottle, 1 vacuum cleaner
Chita Social Welfare Organization (Chita City) Nagomien Welfare Activity Center Yamamoto No. 1, 2 (2 times in fiscal 2009.)	1 freezer, 1 silk ice extractor 1 set of uniforms for the bakery, 1 weight scale for wheelchairs
Satsuki Social Welfare Organization (Tokai City)	Equipment for paper pressing
Kusunoki Workshop for the Handicapped (Higashiura-cho)	1 tractor
Japan Blind Tennis Federation (Nagoya City)	Tennis balls for blind tennis
Oumei Yonza (Tokai City)	20 costumes for choir performances
Tokai Social Welfare Council	Electric fans and heaters as emergency equipment for use during disasters
NPO Daikon-no-Hana (Chita City)	Dryer machine, food warmer box
Kamaishi Social Welfare Council	1 tent

Creative

"Lesson about Iron"

In 2010, we launched a project to visit local schools to give a "lesson about iron" to children, marking the 70th anniversary of our founding. In Fiscal 2013, the lesson was provided to all the elementary schools (37 classes of 12 schools) in the city of Tokai, Aichi Prefecture. (Sep./Jan.) The "lesson about iron" given to fifth graders provided local children with an opportunity to learn about the local industry of Tokai, a city of iron, and to find pleasure in "monozukuri" (manufacturing) through our lessons.



"One-coin" donation

In response to calls by employees who are interested in volunteer activities but have no time or chance to join them, we introduced a "one-coin" donation program, which enables employees to participate in activities that benefit society voluntarily and continuously.

Participants in the "one-coin" donation program can contribute one or more shares (¥100 a share), which are collected from the payroll, to the Aichi Steel Volunteer Fund, from which donations are made to organizations that we support.

A total of 460 directors and employees who supported the program's purpose have participated in this donation program (as of March 31, 2014).

Interaction with the community

Community meetings

Community meetings are held every year in the cities of Tokai and Kariya (in April and September, respectively), to promote exchange with residents of the local communities and proactively participate in local volunteer activities.



Monthly	Events
January	New Year Festival: participate in the annual event to celebrate the New Year at local shrine at a local residents
April	Opinion exchange session with new officers of neighborhood associations
May	Participate and interact in the neighborhood association workshops
July	Participate in the local Bon festival dance and interact with local residents
September	Participate in the local Autumn Festival
October	Participate in the local Autumn Festival
November	Cooperate in the execution of local events
December	Join the year-end party with neighborhood association officers for opinion exchange and interaction

Environment

As a resource-recycling corporation that effectively uses limited resources, our entire company participates in environmental activities to make the most efficient use of limited resources.

Environment Management

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.

Environment management promotion organization

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. We aim for 100% ISO 14001 certification for consolidated subsidiaries with manufacturing sites. The Philippine AFC acquired the certification in January 2012. With this, all target subsidiaries have now been certified.

Educating internal environment auditors

Fiscal year 2013 saw the certification of 17 new internal environment auditors who support the efficient operation of the environmental management system, making a total of 210. We also conduct internal environmental auditor education for employees scheduled for overseas dispatch on an as-needed basis.

Environmental guidelines

To promote its environmental management activities, Aichi Steel has set up the "Environmental Management Rules." These Rules provide for matters concerning; 1) systems to promote environmental management; 2) compliance/management of the Basic Environment Act and other environment-related regulations; 3) advance assessments of the environmental impacts of products, raw materials, secondary materials and equipment; and 4) support and cooperation for environmental protection in society and communities.

Audit results

The results of the FY 2013 internal audit and the surveillance audit of the environment management system were as follows. There were no major non-conformance issues.

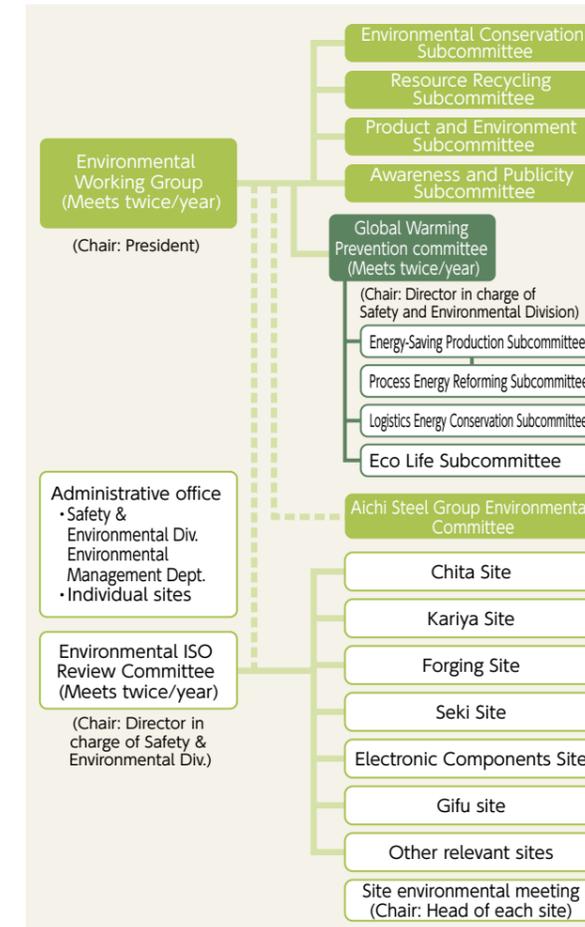
Results of internal audits

Classification	2009	2010	2011	2012	2013
Major non-conformance (incidents)	0	0	0	0	0
Minor non-conformance (incidents/department)	0.7	0.63	0.47	0.38	0.28

Results of audits by external auditors

Classification	2009	2010	2011	2012	2013
Minor non-conformance (incidents)	1	0	1	1	0
Opportunities for improvement and incident classifications (incidents/department)	31 (0.8)	14 (0.58)	23 (1.10)	32 (0.8)	24 (1.04)

Environmental management promotion organizations (FY2013)



ISO certification status

Region	Company	Year
Japan	Aichi Steel	January 1997
	Aichi Ceratec	March 2003
	Aiko	January 2004
	Omi Mining	October 2004
	Aiko Service	January 2005
	Aichi Steel Logistics	March 2005
	Asdex	May 2007
	Aichi Techno Metal Fukuami	December 2010
Overseas	AFU	April 2003
	AIT	November 2006
	SAFC	December 2009
	AFI	May 2010
	AFC	January 2012
	AMC	Under consideration

Environmental conservation costs

(Unit: Million yen)

Classification	Major efforts and their effects	Cost
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	3,671
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	302
Environmental conservation costs arising from our R&D activities (R&D costs)	Research costs for environmental conservation	28
Environmental conservation costs arising from our social-relation activities (Social-relation costs)	Site greening and industrial road cleaning activities	26
		Total 4,027

Environmental Action Plan 2015

The Environmental Action Plan 2015, our plan highlighting our environmental efforts from FY2011 to 2015, was established in March 2011, with the basic philosophy "to contribute to the sustainable development of society and the global community" through manufacturing.

To this end, placing "environmental management" as the basis of all environmental activities, we promote continuous social contributions and enhance

management from a global viewpoint involving consolidated subsidiaries.

Specifically, the three pillars of implementation will be "reduction of environmental burdens," "promotion of a 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.

Environmental Action Plan 2015 – Action Items and Results

Theme	Action item	Target(s)	Major efforts	Results	Results		
Three Pillars	Reduction of environmental burdens	-	1. Promotion of environmental activities in coordination with business partners	• Promote and adopt proposals for green purchasing. (Promotion and adoption of CO ₂ reduction/3R proposals)	• 3R + CO ₂ reduction activities were thoroughly implemented intensively. (Reuse, lifetime improvement, and logistic improvement) • 8 proposals/month	○	
			2. Development of technologies to reduce substances of environmental concern	• Promote environment-related themes in the medium-term plan for engineering departments.	• Follow-up on theme progress	○	
			3. Enhanced control of environmental burdens for each product	• At the time of renewal of the procurement system, add a checking function when purchasing.	• In renewal of the procurement system, a function was added for the safety/environment check of substances of environmental concern. (Operation start scheduled in autumn 2013)	○	
			4. Development of eco-friendly products that reduce CO ₂ emissions by our customers	• Promotion of eco-friendly related themes in the medium-term plans	• Follow-up on theme progress	○	
	Promotion of a low-carbon society	Based on internal goals in fiscal 2013	5. Thorough implementation of energy conservation practices in production activities	• Accumulate and execute energy conservation improvement activities • Promote improvement in the departments using large amounts of energy	1,000 t-CO ₂ /year CO ₂ emissions ↓ Good 	○	
			6. Seeking better transportation efficiency in logistics	7% reduction of emission volume per transportation unit in 2013 from the 2006 level	• Additional measures to reduce traffic lines • Elimination of midway depots • Activity aiming for modal shift	kg-CO ₂ /t Unit CO ₂ emissions in logistics ↓ Good 	○
	Improvement of resource recycling	-	7. Reduction of by-products during production and further effective utilization of resources	Landfill volume in correspondence with fluorine-containing slag regulations in 2013: Zero • Internal goal (Based on direct and indirect landfill)	• Zero landfill volume in correspondence with fluorine-containing slag regulations in 2013 • Find new user to commission disposal of hard-to-sort bricks, etc. • Promote recycling of acid sludge.	1,000 t/year Landfill volume in correspondence with fluorine-containing slag regulations ↓ Good 	○
			8. Promotion of projects that benefit resource-recycling corporations	-	• Develop technologies to recover valuable metals (dust, acid sludge cleaning)		○
Environmental management	9. Promotion of activities for "zero abnormalities/complaints" • Zero abnormalities/complaints	Abnormalities/complaints: 0/year	• Implement strict management to achieve 80% or below of regulation values set by environment-related laws. • Promote preventive activities (enhance GK).	• "Environment Close Call" was adopted.	○		
	10. Enhancement of consolidated environmental management	-	• Promote on-site monitoring through Brush-Up Seminars. • Environment audit of domestic affiliates by safety/environment manager	• Regularize brainstorming sessions with manufacturers in Japan • Continue with environment audits	○		
	11. Promotion of global CO ₂ management	-	• Require all group subsidiaries to report their energy consumption volume.	• Measurement incomplete at some overseas offices	△		
	Social contribution	12. Promotion of biodiversity	-	• Participate in NPO-led forest preservation activities and the city of Tokai forestation project. • Promote the "Forestation to Create a Forest for Beetles"	• Participate in forest preservation activities (June, February) • Tree-planting ceremony for the "Forestation to Create a Forest for Beetles" (November)	○	
		13. Enhancement and promotion of environmental education activities	-	• Enhance education programs. • Increase environmental consciousness through environmental news, etc.	• Classified education continued and internal auditors increased. • Environmental seminars were held. (2 times)	○	
	14. Active disclosure of environmental information and enhanced communication activities	-	• Demonstrate environmental contributions through participation in Messe Nagoya, Industrial Festival, etc. • Make the Aichi Steel Report available on the Web. • Hold media meetings, head Office area meetings, and Kariya regional meetings.	• Exhibiting at the "Automotive Engineering Exposition" (May) • English version of Aichi Steel Report: issued in Nov. • (Disclosed publicly in PDF (on the web)) • Round-table conferences with the press (4 times) • Head office (May) · Kariya (December)	○		
	15. Revitalization of regional contribution activities	-	• Increase participants in Clean Aichi Day. • Demonstrate environmental activities through in-house publications and News a la carte.	• Participants in Expanded Clean Aichi Day: 800 • Environment-related information was provided through in-house publications and News a la carte.	○		

* Some overseas offices could not measure their electricity consumption. We will consider other countermeasures.

Prevention of Global Warming

FY2013 targets and results

Based on Environmental Action Plan 2015, we pursued a 10% reduction compared to 1990 levels until fiscal 2012, a figure higher than the Kyoto Protocol target. From Fiscal 2013, the internal goal was set at 1% reduced emission per production volume from the previous year.

Item	FY 2013 target (internal)	Result
CO ₂ emissions	655,000 t-CO ₂ /year	643,000 t-CO ₂ /year

Energy conservation in offices

We have promoted energy conservation activities in our offices since 2008. In fiscal 2013, the following activities were conducted.

1. Summer/winter measures to reduce electricity consumption

- Promoting Cool Biz activities (Temperature set to 28°C)
- Promoting Warm Biz activities (Temperature set to 19°C)
- Replacing lighting with LEDs in the offices on the 2nd floor and 3rd floor of the main office



Electricity consumption has halved and 3.6 tons of CO₂ reduction per year is expected.

2. Making electricity use visible

- Introducing a system that displays electricity use in real time in the main office

3. Other

- Joint energy-conservation patrol by all members of the eco-life promotion committee (July, February)
- In-house publications for Environment Month (June) and Energy Conservation Month (February)

Working with customers to improve logistics and distribution process

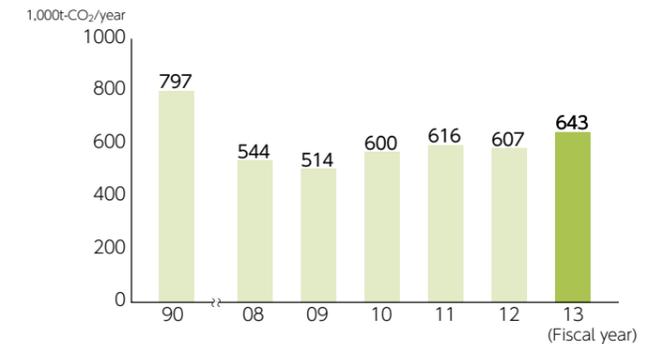
In accordance with the Energy Saving Act revised in April 2006¹, we have been working on environmental improvement activities through the structuring of an efficient environmentally-friendly logistics system after understanding the flow of distribution and reviewing issues. Aichi Steel has established an internal goal of a 15% reduction in specific CO₂ emissions during logistics from 2006 to 2015.

In "M3 Shipping Cost Activity²," the flow of products after shipment is visualized to achieve the goal by promoting logistics reform from the perspective of "reverse flow," "double storage" and "two-dimensional distribution."

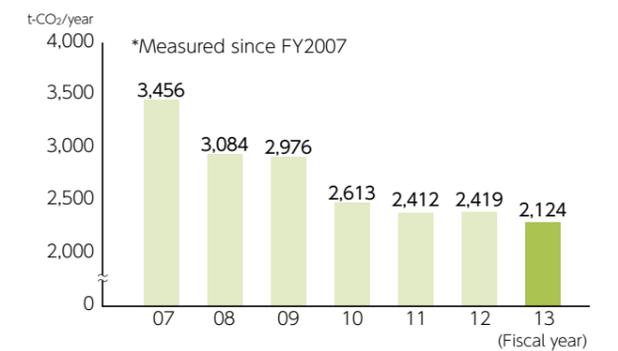
In fiscal 2013, we achieved a 2% reduction in specific CO₂ emissions from the previous year.

1. Revised Energy Saving Act: Shippers are obligated to establish plans for a 1% reduction in specific CO₂ emissions and the reporting of specific output level on a regular basis
2. M3 shipping cost activity: Visualization of product shipping routes and costs to reduce distribution cost

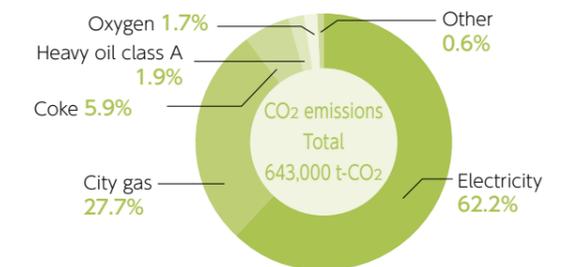
Total CO₂ emissions



CO₂ emissions from administrative divisions



Breakdown of energy used in FY2013 (CO₂ emissions)



CO₂ Balance

FY2012 emissions	607,000 t-CO ₂ /year
FY2013 emissions	643,000 t-CO ₂ /year

Breakdown

Increase due to more production	(-) 42,000 t-CO ₂ /year
Improvements (A) – Aggravations (B)	6,000 t-CO ₂ /year
Total	(-) 36,000 t-CO ₂ /year

Improvements (A)

1. Improved energy efficiency of electric furnaces	3,000 t-CO ₂ /year
2. Energy conservation of hot rolling furnaces	3,000 t-CO ₂ /year
3. Energy conservation in forging process	3,000 t-CO ₂ /year
Total	9,000 t-CO ₂ /year

Aggravations (B)

1. Increase in air-conditioning energy use due to heat waves	(-) 1,000 t-CO ₂ /year
2. Change in steelmaking processes	(-) 2,000 t-CO ₂ /year
Total	(-) 3,000 t-CO ₂ /year

3R (Resource Recycling)

Basic approach

As a law-abiding member of society, the Company actively promotes 3R activities (reduce, reuse, recycle) for efficient use of resources with the aim of achieving "zero emissions," or reducing the waste generated from the Company to as close to zero as possible.

FY2013 targets and results

In fiscal 2013, we complied with Aichi Prefecture guidelines for the appropriate use of recyclable resources; however, despite efforts to reduce waste and increase recycling, we were not able to reach the goal due to an increase in production from fiscal 2012 and a decrease in recycling volume due to recycling company circumstances.

We intend to pursue this endeavor by further sorting and separating by-products at the point of generation, moving forward with the development of recycling technology and continuing to make effective use of resources.

Item	FY2013 target	Results
Direct landfill	3,893t or less/year	5,338t or less/year
Indirect landfill	2,397t or less/year	5,002t or less/year

High-strength abrasives from internal by-products: Construction of an AS Shot production facility

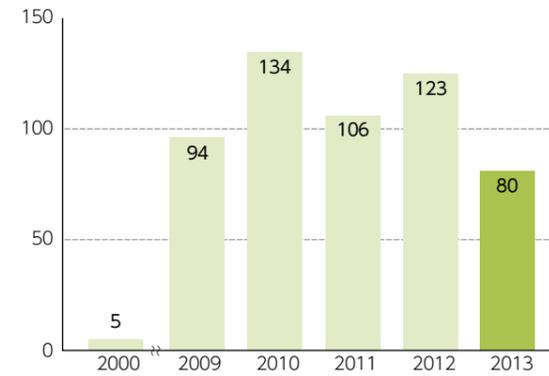
AS Shot is an environmentally-friendly abrasive made from electric furnace slag, a by-product generated by the company. Compared to conventional products, it generates less dust and it can be used repeatedly. As a high value added product made from slag, it is used in the foundation process for coating, removal of rust and die washing, and it has received a positive response.

In fiscal 2013, the use of this abrasive will be extended to areas that require large amounts of abrasives such as bridge construction, coating, electrical work, automobile production and shipbuilding; and in order to move forward with the technology for mass production, an AS Shot production facility was established.

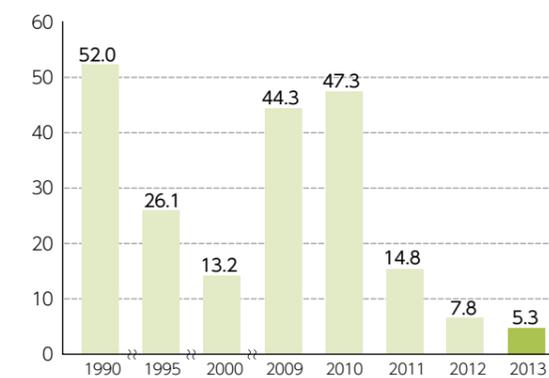
We will aim to expand sales as a result of our recycling technology.



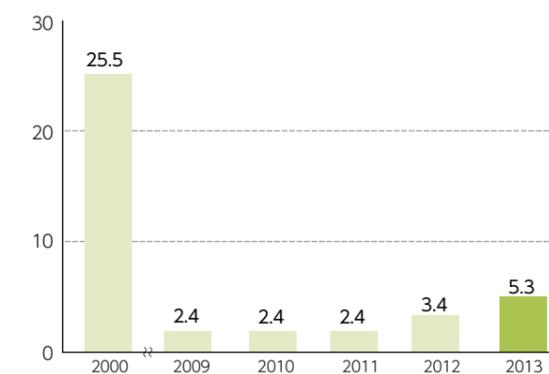
Volume of recycled nickel (t/FY)



Volume of direct landfilled waste (1,000 t/FY)



Volume of indirect landfilled waste (1,000t/FY)



Biodiversity

Basic policy

We think that preservation of biodiversity, along with the prevention of global warming, is an important environmental issue that needs to be addressed to realize a sustainable society.

We understand the concept of COP10 (10th Conference of Parties of United Nations Conventions, Convention on Biological Diversity) and participate in activities to preserve biodiversity by promoting the structuring of an ecosystem network through

public and private sector cooperation, and fostering next-generation individuals capable of working to preserve the earth's environment. We have been working on forestation and volunteer employee activities, and will continue with projects to protect the ecosystem.

Forestation to create a forest for beetles

As an activity for sustainable biodiversity, we have established a goal to create an environment in which beetles and other creatures can live in a natural cycle by forming a deciduous broadleaf forest, and have been continuing with this "Forestation to Create a Forest for Beetles" project since 2012.

In fiscal 2013, we held a tree-planting ceremony in which we planted acorn seedlings. Approximately 200 people, Aichi Steel Group employees and their families, gathered to plant 1,200 young trees.



Forest of Toyota development volunteers

The "Forest of Toyota Development Volunteers," an event for forestation experience hosted by the All-Toyota Social Contribution Activities Liaison Committee, was held in Toyota City (Aichi). 19 members of the Aichi Steel Group participated in the event and experienced forest thinning (May). Through efforts to improve the environment and preserve the biodiversity of forests and satoyama (managed woodlands near human settlements), we will continue to help improve our nearby forests and cultivate employees' eco-conscious minds.

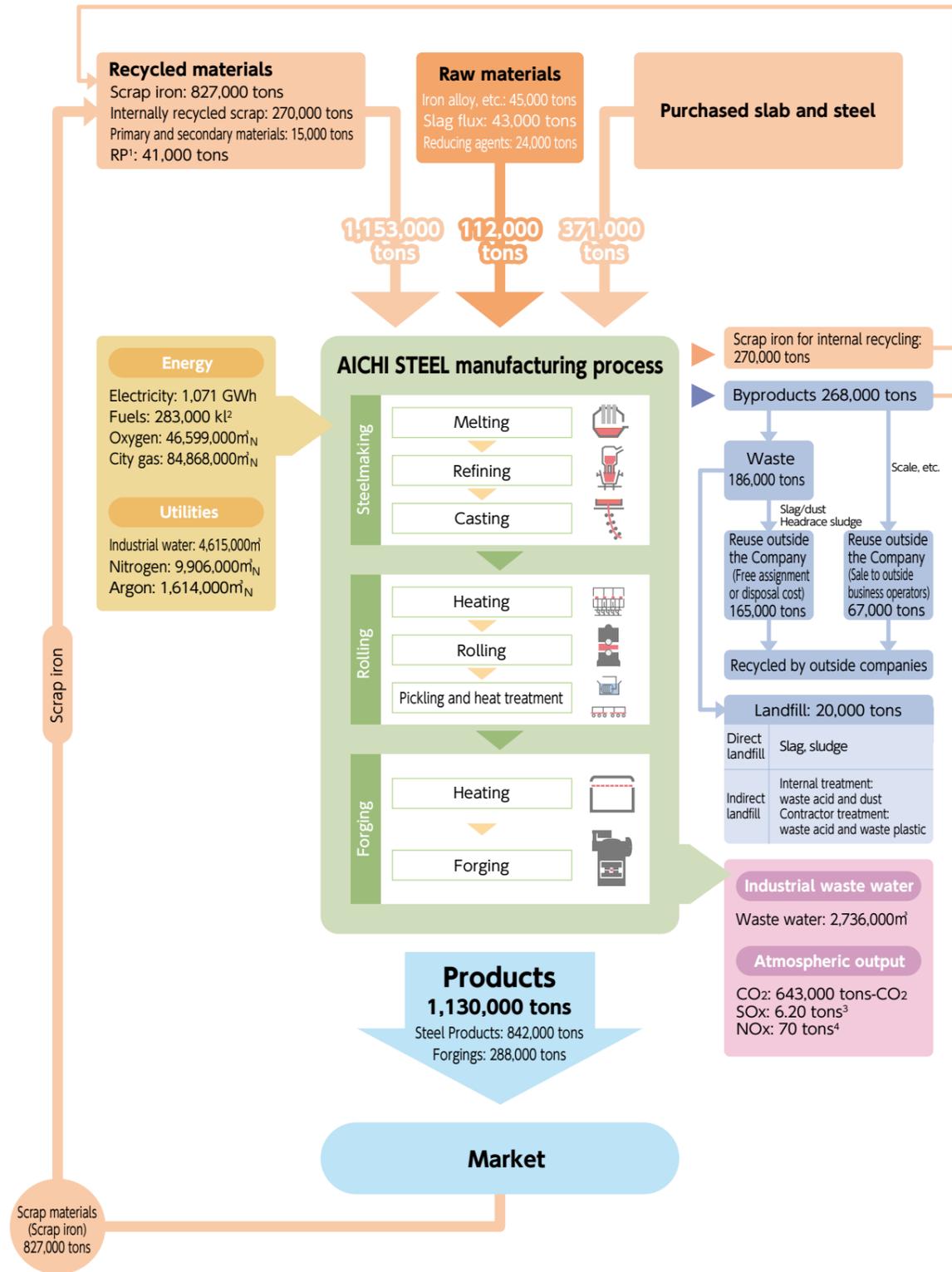


Forest-developing volunteers (Kiso Village, Nagano Prefecture)

Our company uses a large volume of water in the production of steel and supports the NPO "Green Challenger," which works to develop forests in Kiso Village in Nagano, where the headwater for Aichi water originates. Volunteers have been recruited among employees to work side-by-side with local residents in cutting and thinning work for forest cultivation twice per year since 2006.



Material Flow



1. RP: Recycled plastics
 2. Heavy oil equivalent
 3. Emissions from January to December 2013
 4. Emissions from April 2012 to March 2013

PRTR Data

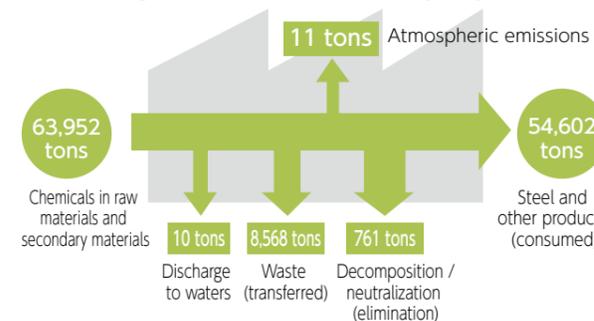
Results for Fiscal 2013

(Unit: tons)

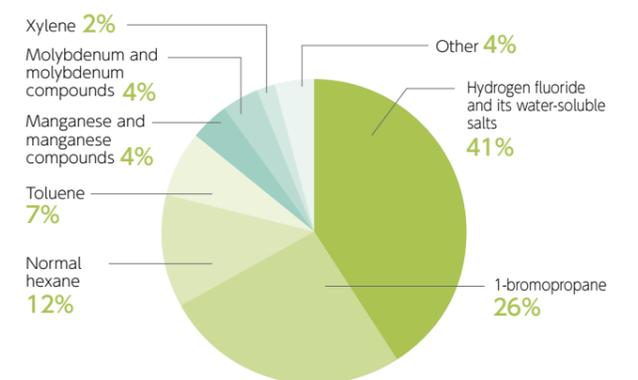
	Govt. ordinance No	Substance name	Amount handled	Discharged		Transferred
				Atmosphere	Water	Outside of premises (as waste, etc)
Chita and Forging Plants	1	Water-soluble zinc compound	1.8	-	0.190	0.480
	31	Antimony and its compounds	10.0	-	0.002	0.690
	80	Xylene	3.1	0.410	-	-
	87	Chromium and trivalent chromium compounds	27,000.0	0.110	0.001	2500.000
	132	Cobalt and cobalt compounds	180.0	-	0.003	3.200
	243	Dioxins	17.0	17.000	-	-
	300	Toluene	5.1	1.300	-	-
	304	Lead	98.0	-	-	-
	305	Lead compounds	310.0	0.240	0.004	240.000
	308	Nickel	5700.0	-	-	-
	309	Nickel compounds	820.0	0.023	0.050	42.000
	374	Hydrogen fluoride and its water-soluble salts	7.2	0.001	7.000	0.210
	384	1-bromopropane	7.4	5.300	-	2.100
	405	Boron and boron compounds	110.0	-	0.076	21.000
Kariya Plant	412	Manganese and manganese compounds	20,000.0	0.420	0.440	5600.000
	453	Molybdenum and molybdenum compounds	8500.0	0.005	0.550	0.400
	87	Chromium and trivalent chromium compounds	860	-	0.016	66.000
	309	Nickel compounds	420	-	0.014	36.000
Seki Plant	374	Hydrogen fluoride and its water-soluble salts	100	0.036	1.200	58.000
	453	Molybdenum and molybdenum compounds	15	-	0.270	2.300
	392	Normal hexane	2.5	2.500	-	-

● 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

Chita and Forging Plants (Air Pollution Control Act/ local regulations)

Substance	Facility	Limit	Actual level (max)	
NOx	Boiler	130	86.0	
		150	20.5	
		180	72.4	
	Heating furnace	130	73.5	
		150	61.8	
		170	60.6	
Soot	Boiler	0.15	0.002	
		Heating furnace	0.08	0.003
			0.10	0.003
	Heating furnace	0.20	0.003	
		0.25	0.003	
		0.30	0.005	
Electric furnace	0.05	0.001		
	0.08	0.001		
	0.10	0.001		
SOx	(Total limit)	34.35	3.57	

Kariya Plant (Air Pollution Control Act/ local regulations)

Substance	Facility	Limit	Actual level (max)
NOx	Heating furnace	130	82.8
		150	91.5
		170	98.2
		200	47.2
SOx	(Total limit)	11.622	2.620

Higashiura Plant (Air Pollution Control Act/ local regulations): No regulated facility

Gifu Plant (Air Pollution Control Act/ local regulations)

Substance	Facility	Limit	Actual level (max)
NOx	Boiler	150	88.0

Seki Plant (Air Pollution Control Act/local regulations): 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

Chita and Forging Plants(Water Quality Pollution Control Act /local regulations)

Item	Limit	Max.	Min.	Average
pH	5-9	7.6	6.6	7.0
COD	25(20)	8.2	3.4	5.5
SS	40(30)	4.0	0.3	1.0
Nitrogen	120(60)	4.0	1.0	2.3
Phosphorus	16(8)	0.1	Less than 0.1	0.10

Kariya Plant (Water Quality Pollution Control Act /local regulations)

Item	Limit	Max.	Min.	Average
pH	5.8-8.6	7.2	6.6	6.7
BOD	25(20)	5.7	Less than 0.5	2.2
SS	40(30)	15.0	0.5	5.1
Nitrogen	120(60)	9.6	0.9	4.0
Phosphorus	16(8)	0.3	Less than 0.1	0.10

Higashiura Plant (Water Quality Pollution Control Act /local regulations)

Item	Limit	Max.	Min.	Average
pH	5.8-8.6	7.2	6.7	6.9
BOD	25(20)	6.4	4.2	5.3
SS	30(20)	4.0	Less than 0.5	1.8
Nitrogen	120(60)	4.2	1.3	2.3
Phosphorus	16(8)	0.4	0.1	0.30

Gifu Plant (Water Quality Pollution Control Act /local regulations)

Item	Limit	Max.	Min.	Average
pH	5.8-8.6	7.5	6.7	7.0
BOD	30(20)	3.2	2.4	2.8
SS	60(50)	8.5	Less than 0.5	1.2
Nitrogen	120(60)	10.9	0.8	4.6
Phosphorus	16(8)	0.7	Less than 0.1	0.25

- 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

Management's Discussion, Analysis of Financial Conditions, and Results of Operations

Summary

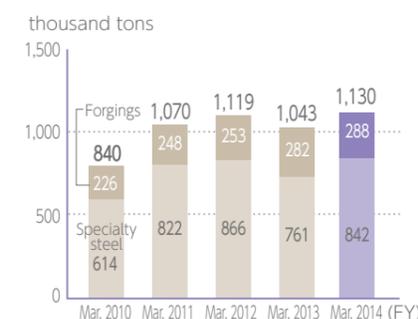
During the consolidated fiscal year under review, the Japanese economy was faced with persistent uncertainty, primarily because of soaring resource and energy prices as a result of the sustained weakness in the yen, as well as the slowdown in the global economy, including the economies of emerging countries, while corporate earnings picked up due to the improvement in the export environment. Aichi Steel Group's production and sales volumes of forgings and specialty steel, which are our mainstay products, increased from the previous fiscal year. This was supported by the healthy demand for automobiles, as well as the pickup in specialty steel demand from sources other than autos from the fourth quarter of the previous fiscal year.

Under these circumstances, the Group engaged in company-wide efforts to improve profitability, by working on corporate-wide cost reduction, as well as promoting a shift to a new business model in the electromagnetic components business, leveraging on the characteristics of each area of business. These initiatives are centered

around the "ZZ100" activities, which aim at strengthening corporate profitability to be able to generate 10 billion yen in annual profits by the end of fiscal 2014. These efforts resulted in consolidated net sales of 237,421 million yen, a 9.3% increase from the previous fiscal year (217,279 million yen).

A decline in sales prices in the second half year of the fiscal 2013 and further weakening in yen had a negative impact on our sales activities. However, due to the effects of cost reductions and an increase in sales volume, as well as a rise in profits of our subsidiary companies, the Aichi Steel Group posted operating income of 9,627 million yen, a 31.3% increase from the previous fiscal year (7,332 million yen). Ordinary income was 9,810 million yen, a 23.7% increase from the previous fiscal year (7,929 million yen.) Net income was 5,503 million yen, a 12.3% increase from the previous fiscal year (4,899 million yen).

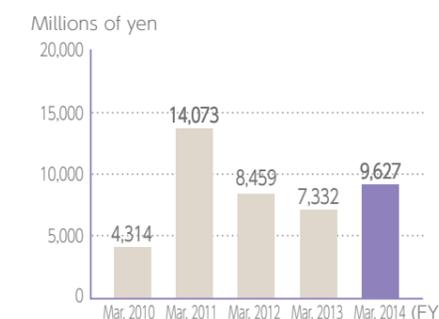
■ Sales volume (Non-consolidated basis)



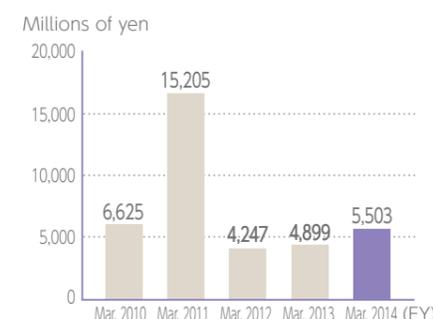
■ Net sales



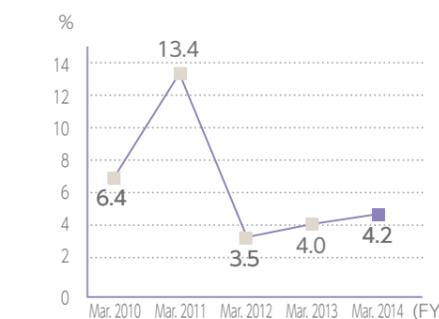
■ Operating income



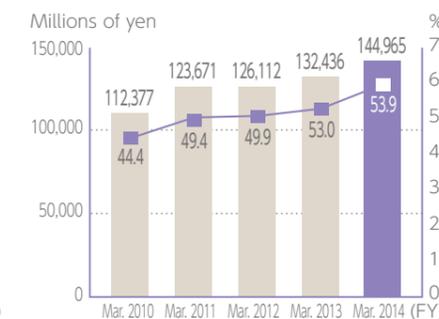
■ Net income



■ ROE



■ Net assets, capital adequacy ratio



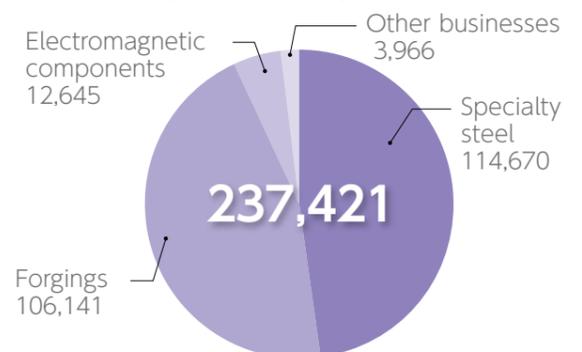
Operating Income and Net Income

Net sales for the consolidated fiscal year under review saw a 9.3% increase from the previous fiscal year to 237,421 million yen. The cost of sales was 207,243 million yen and cost-to-sales ratio was 87.3% (87.3% for the previous fiscal year), which remained flat over the previous fiscal year. Selling, general and administrative expenses totaled 20,551 million yen, accounting for 8.7% (9.3% for the previous fiscal year) of net sales.

As a result, operating income for the fiscal year under review was 9,627 million yen. Net income was 5,503 million yen, and return on equity (ROE) was 4.2%.

Sales by Business Segment

Net Sales (Consolidated)



Specialty steel (Millions of yen)
Specialty steel is the mainstay product of the Aichi Steel Group. Due to the increased sales volume, net sales in this segment saw a 10.0% increase to 114,670 million yen for this consolidated fiscal year (104,224 million yen for the previous year).

Forgings

Closed-die forgings for automobiles account for a major part of this segment. Due to the increased sales volume, net sales in this segment saw an 8.3% increase to 106,141 million yen for this consolidated fiscal year (98,031 million yen for the previous year).

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 including sensors and magnetic products. Due to an increase in the sales volume of MAGFINE magnets and electronic components, net sales in this segment saw a 12.5% increase to 12,645 million yen for this consolidated fiscal year (11,242 million yen for the previous year).

Other businesses

Aichi Steel's subsidiary companies are involved in such activities as providing various services, engage in software development, etc. Net sales in this segment saw a 4.8% increase to 3,966 million yen for this consolidated fiscal year (3,783 million yen for the previous year).

Financial Position

The Aichi Steel Group's financial position as of March 31, 2014 was as follows:

Total assets were 255,259 million yen, an increase of 17,094 million yen from the end of the previous fiscal year.

Current assets increased by 6,252 million yen from the previous fiscal year to 125,913 million yen.

Property, The value of property, plants and equipment increased by 2,223 million yen from the previous fiscal year. Investments in plants and equipment for this fiscal year totaled 12,930 million yen. Depreciation and amortization amounted to 12,355 million yen.

Current liabilities increased by 10,319 million yen from the previous fiscal year. This is mainly due to an increase of 10,571 million yen in the current portion of long-term debt.

Non-current liabilities decreased by 5,754 million yen from the previous fiscal year, mainly due to a decrease of 9,568 million yen in long-term debt.

Net assets as of March 31, 2014 totaled 144,965 million yen, an increase of 12,529 million yen from the end of the previous fiscal year. Net assets per share were 699.58 yen (643.05 yen in the previous fiscal year), and capital adequacy ratio was 53.9% (53.0% in the previous fiscal year).

Consolidated Cash Flows

Net cash provided by operating activities decreased by 12,766 million yen from the previous year to 14,992 million yen. This resulted from a 10,314 million yen increase in cash outflow due to an increase in notes and accounts receivable and a 4,127 million yen increase in cash outflow due to an increase in inventory, despite a 2,010 million yen increase in income before income taxes and minority interests.

Net cash used in investment activities increased by 126 million yen from the previous year to 11,993 million yen. This is mainly due to an increase of 2,690 million yen in property, plant and equipment purchases despite a decrease of 2,782 million yen in acquisition of investment securities.

Net cash used in financing activities was 1,911 million yen, an 8,287 million yen decrease from the previous year. This was mainly due to a decrease of 13,947 million yen in cash outflow for the repayment of long-term debt despite a decrease of 5,417 million yen from the previous year in proceeds from long-term debt. Consequently, cash and cash equivalents as of March 31, 2014 amounted to 36,035 million yen, an increase of 2,215 million yen from the end of March 2013 (33,820 million yen).

Available-for-sale securities

Of the total 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 2,612 million yen and the fair market value of these securities reported on the consolidated balance sheet was 12,974 million yen.

Five -year Summary (Consolidated & Non-Consolidated)

Five-year Summary (Consolidated)

	Millions of Yen					Thousands of U.S. Dollars
	Mar. 2014	Mar. 2013	Mar. 2012	Mar. 2011	Mar. 2010	Mar. 2014
Net sales	¥237,421	¥217,279	¥227,478	¥215,454	¥174,279	\$2,374,209
Operating income	9,627	7,332	8,459	14,073	4,314	96,274
Income before income taxes and minority interests	9,779	7,769	7,885	11,949	3,730	97,791
Net income	5,503	4,899	4,247	15,205	6,625	55,031
Property, plant and equipment	85,841	83,618	85,528	89,761	82,906	858,414
Total assets	255,259	238,165	241,952	240,218	242,350	2,552,593
Net assets	144,965	132,436	126,112	123,671	112,377	1,449,652
Per share data	(yen)					U.S. Dollars
Net income:Basic	¥27.99	¥24.94	¥21.62	¥77.49	¥33.77	\$0.3
Net income:Diluted	27.98	-	21.61	77.45	30.54	0.3
Number of employees (Persons)	4,613	4,504	4,406	4,351	4,282	

Notes:

- Net sales are presented exclusive of consumption taxes.
- Scope of Consolidation:
All subsidiaries are consolidated. The 19 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, Aichi Magfine Czech s.r.o., AMIT, Inc. ,
Aichi Korea Corporation and Aichi Magfine Technology(Pinghu)Co., Ltd.
- 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.
- Diluted net income per share for 2013 is not written because no dilutive shares exist.
- Each fiscal year end date is March 31.
- The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥100=U.S.\$1.

Five-year Summary (Non-Consolidated)

	Millions of Yen					Thousands of U.S. Dollars
	Mar. 2014	Mar. 2013	Mar. 2012	Mar. 2011	Mar. 2010	Mar. 2014
Net sales	¥185,764	¥173,208	¥190,096	¥179,183	¥141,093	\$1,857,643
Operating income	6,171	4,600	5,481	11,441	3,153	61,715
Income before income taxes	6,915	4,810	5,117	10,048	2,351	69,153
Net income	4,738	3,841	2,714	13,181	5,967	47,375
Property, plant and equipment	65,462	67,983	72,685	78,200	69,809	654,616
Total assets	213,245	210,113	217,473	218,974	222,210	2,132,448
Net assets	121,414	117,248	114,371	113,097	102,593	1,214,145
Per share data	(yen)					U.S. Dollars
Net income:Basic	¥24.10	¥19.55	¥13.82	¥67.17	¥30.41	\$0.2
Net income:Diluted	24.09	-	13.81	67.14	27.51	-
Net income:Cash dividends	10.00	10.00	10.00	10.00	8.50	0.1
Number of employees (Persons)	2,383	2,369	2,367	2,360	2,330	

Notes:

- Net sales are presented exclusive of consumption taxes.
- 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.
- Diluted net income per share for 2013 is not written because no dilutive shares exist.
- Each fiscal year end date is March 31.
- The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥100=U.S.\$1.

Consolidated Balance Sheets

As of March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars
	Mar. 2014	Mar. 2013	Mar. 2014
Assets			
Current assets:			
Cash and deposit	¥36,194	¥33,909	\$361,940
Notes and accounts receivable	48,080	46,605	480,799
Short-term investments	155	185	1,548
Finished goods	7,048	6,755	70,475
Work in process	19,682	18,341	196,821
Raw materials and supplies	8,875	8,328	88,746
Deferred tax assets	3,735	3,849	37,353
Other assets	2,305	1,806	23,055
Less: allowance for doubtful receivables	(161)	(117)	(1,610)
Total current assets	125,913	119,661	1,259,127
Fixed Assets:			
Property, plant and equipment:			
Building and structures	64,859	62,482	648,584
Less: accumulated depreciation	(44,901)	(43,029)	(449,011)
Machinery, equipment and vehicles	273,244	264,411	2,732,442
Less: accumulated depreciation	(230,227)	(221,239)	(2,302,267)
Equipment	12,829	12,676	128,292
Less: accumulated depreciation	(11,383)	(11,249)	(113,827)
Land	14,120	14,261	141,194
Lease assets	374	324	3,743
Less: accumulated depreciation	(167)	(134)	(1,667)
Construction in progress	7,093	5,115	70,931
Net property, plant and equipment	85,841	83,618	858,414
Intangible fixed assets:			
Telephone rights	12	12	123
Other assets	250	222	2,503
Total intangible fixed assets	262	234	2,626
Investments and other assets:			
Investment securities	20,467	18,286	204,673
Long-term loans	536	702	5,360
Prepaid pension cost	-	14,335	-
Net defined benefit asset	21,149	-	211,486
Deferred tax assets	366	658	3,656
Other assets	786	760	7,862
Less: allowance for doubtful receivables	(61)	(89)	(611)
Total investments and other assets	43,243	34,652	432,426
Total fixed assets	129,346	118,504	1,293,466
Total Assets	¥255,259	¥238,165	\$2,552,593

Consolidated Balance Sheets

As of March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars
	Mar. 2014	Mar. 2013	Mar. 2014
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Notes and accounts payable	¥25,852	¥27,323	\$258,518
Short-term borrowings	1,522	1,723	15,217
Current portion of long-term debt	11,551	980	115,513
Lease obligations	68	60	680
Income taxes payable	2,339	1,388	23,391
Accrued bonuses for directors and corporate auditors	175	177	1,750
Other liabilities	13,023	12,560	130,236
Total current liabilities	54,530	44,211	545,305
Long-term liabilities:			
Long-term debt	38,973	48,541	389,734
Lease obligations	151	140	1,508
Deferred tax liabilities	2,389	25	23,887
Employees' retirement benefit liabilities	-	10,987	-
Net defined benefit liability	12,733	-	127,328
Retirement benefit obligation for directors and corporate auditors	805	1,106	8,053
Asset retirement obligations	648	653	6,484
Other liabilities	65	66	642
Total long-term liabilities	55,764	61,518	557,636
Total liabilities	110,294	105,729	1,102,941
Net Assets			
Shareholders' equity:			
Common stock, no par value			
Authorized: 476,000,000 shares;	25,017	25,017	250,168
Issued: 198,866,751 shares in 2014 and 2013			
Capital surplus	27,899	27,899	278,988
Retained earnings	74,494	70,987	744,943
treasury stock	(1,321)	(1,462)	(13,212)
2,189,898 shares in 2014 and 2,423,114 shares in 2013			
Total shareholders' equity	126,089	122,441	1,260,887
Valuation and translation adjustments			
Net unrealized gains on available-for-sale securities, net of tax	6,881	5,501	68,813
Foreign currency translation adjustments	1,149	(1,619)	11,489
Remeasurements of defined benefit plans	3,473	-	34,731
Total valuation and translation adjustments	11,503	3,882	115,033
Subscription rights to shares	77	169	766
Minority interests in subsidiaries	7,296	5,944	72,966
Total Net assets	144,965	132,436	1,449,652
Total Liabilities and Net assets	¥255,259	¥238,165	\$2,552,593

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2014 and 2013(Consolidated Statements of Income)

	Millions of Yen		Thousands of U.S. Dollars
	Mar. 2014	Mar. 2013	Mar. 2014
Net sales	¥237,421	¥217,279	\$2,374,209
Cost of sales	207,243	189,735	2,072,427
Gross profit	30,178	27,544	301,782
Selling, general and administrative expenses			
Freight expenses	2,605	2,911	26,054
Sales commission	1,323	834	13,234
Salaries and allowances and welfare expenses	7,432	6,978	74,316
Retirement benefit expenses	478	518	4,777
Provision of allowance for directors' bonuses	178	177	1,784
Provision of allowance for directors' retirement benefits	103	292	1,035
Provision of allowance for doubtful receivables	42	5	422
Depreciation	436	508	4,356
Research and development expenses	2,914	3,598	29,139
Others	5,040	4,391	50,391
Total selling, general and administrative expenses	20,551	20,212	205,508
Operating income	9,627	7,332	96,274
Non-operating income:			
Interest income	112	104	1,116
Dividend income	363	293	3,633
Gain on sales of goods	105	256	1,048
Foreign exchange gain	358	803	3,577
Others	507	360	5,074
Total non-operating income	1,445	1,816	14,448
Non-operating expenses:			
Interest expenses	684	618	6,842
Loss on disposal of property, plant and equipment, net	323	271	3,225
Loss on valuation of derivatives	61	116	612
Others	194	214	1,940
Total non-operating expenses	1,262	1,219	12,619
Ordinary income	9,810	7,929	98,103
Extraordinary expenses:			
Impairment loss on fixed assets	31	160	312
Total extraordinary expenses	31	160	312
Income before income taxes and minority interests	9,779	7,769	97,791
Income taxes:			
Current	3,400	2,469	34,004
Deferred	217	(79)	2,165
Total income taxes	3,617	2,390	36,169
Minority interests in net income of subsidiaries	659	480	6,591
Net income	5,503	4,899	55,031
		(yen)	U.S. Dollars
Per share	2014	2013	2014
Net income			
Basic	¥27.99	¥24.94	\$0.3
Diluted	27.98	-	-
Cash dividends	10.00	10.00	0.1

For the Years Ended March 31, 2014 and 2013(Consolidated Statements of Comprehensive Income)

	Millions of Yen		Thousands of U.S. Dollars
	Mar. 2014	Mar. 2013	Mar. 2014
Net income before minority interests	¥6,162	¥5,379	\$61,622
Other comprehensive income			
Valuation difference on available-for-sale securities	1,383	1,020	13,825
Foreign currency translation adjustment	3,520	1,966	35,198
Total of other comprehensive income	4,903	2,986	49,023
Comprehensive income	11,065	8,365	110,645
(Breakdown)			
Comprehensive income attributable to owners of the parent	9,651	7,502	96,512
Comprehensive income attributable to minority interests	1,414	863	14,133

Consolidated Statements of Changes in Net Assets

For the Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars
	Mar. 2014	Mar. 2013	Mar. 2014
Shareholders' equity			
Common stock			
Balance at the beginning of year	¥25,017	¥25,017	\$250,168
Balance at the end of year	25,017	25,017	250,168
Capital surplus			
Balance at the beginning of year	27,899	27,899	278,988
Balance at the end of year	27,899	27,899	278,988
Retained earnings			
Balance at the beginning of year	70,987	68,053	709,875
Change of items during the period			
Cash dividends	(1,965)	(1,965)	(19,654)
Net income for the year	5,503	4,899	55,031
Disposal of treasury stock due to exercise of stock options	(31)	-	(309)
Total changes of items during the period	3,507	2,934	35,068
Balance at the end of year	74,494	70,987	744,943
Treasury stock			
Balance at the beginning of year	(1,462)	(1,462)	(14,621)
Change of items during the period			
Purchase of treasury stock and fractional shares	(1)	(0)	(9)
Disposal of treasury stock due to exercise of stock options	142	-	1,418
Total changes of items during the period	141	(0)	1,409
Balance at the end of year	(1,321)	(1,462)	(13,212)
Total shareholders' equity			
Balance at the beginning of year	122,441	119,507	1,224,410
Change of items during the period			
Cash dividends	(1,965)	(1,965)	(19,654)
Net income for the year	5,503	4,899	55,031
Purchase of treasury stock and fractional shares	(1)	(0)	(9)
Disposal of treasury stock due to exercise of stock options	111	-	1,109
Total changes of items during the period	3,648	2,934	36,477
Balance at the end of year	¥126,089	¥122,441	\$1,260,887

Consolidated Statements of Changes in Net Assets

For the Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars
	Mar. 2014	Mar. 2013	Mar. 2014
Accumulated other comprehensive income			
Net unrealized gains on available-for-sale securities, net of tax			
Balance at the beginning of year	¥5,501	¥4,485	\$55,014
Change of items during the period			
Net changes of items other than shareholders' equity	1,380	1,016	13,799
Total changes of items during the period	1,380	1,016	13,799
Balance at the end of year	6,881	5,501	68,813
Foreign currency translation adjustments			
Balance at the beginning of year	(1,619)	(3,206)	(16,194)
Change of items during the period			
Net changes of items other than shareholders' equity	2,768	1,587	27,683
Total changes of items during the period	2,768	1,587	27,683
Balance at the end of year	1,149	(1,619)	11,489
Remeasurements of defined benefit plans			
Balance at the beginning of year	-	-	-
Change of items during the period			
Net changes of items other than shareholders' equity	3,473	-	34,371
Total changes of items during the period	3,473	-	34,371
Balance at the end of year	3,473	-	34,371
Total accumulated other comprehensive income			
Balance at the beginning of year	3,882	1,279	38,820
Change of items during the period			
Net changes of items other than shareholders' equity	7,621	2,603	76,213
Total changes of items during the period	7,621	2,603	76,213
Balance at the end of year	11,503	3,882	115,033
Subscription rights to shares			
Balance at the beginning of year	169	177	1,686
Change of items during the period			
Net changes of items other than shareholders' equity	(92)	(8)	(920)
Total changes of items during the period	(92)	(8)	(920)
Balance at the end of year	77	169	766
Minority interests in subsidiaries			
Balance at the beginning of year	5,944	5,149	59,446
Change of items during the period			
Net changes of items other than shareholders' equity	1,352	795	13,520
Total changes of items during the period	1,352	795	13,520
Balance at the end of year	7,296	5,944	72,966
Total net assets			
Balance at the beginning of year	132,436	126,112	1,324,362
Change of items during the period			
Cash dividends	(1,965)	(1,965)	(19,654)
Net income for the year	5,503	4,899	55,031
Purchase of treasury stock and fractional shares	(1)	(0)	(9)
Disposal of treasury stock due to exercise of stock options	111	-	1,109
Net changes of items other than shareholders' equity	8,881	3,390	88,813
Total changes of items during the period	12,529	6,324	125,290
Balance at the end of year	¥144,965	¥132,436	\$1,449,652

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars
	Mar. 2014	Mar. 2013	Mar. 2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥9,779	¥7,769	\$97,791
Adjustments for depreciation	12,355	12,840	123,550
Adjustments for impairment loss on fixed assets	31	160	312
Decrease (increase) of prepaid pension cost	-	(26)	-
Increase of employees' retirement benefit obligation	-	407	-
Increase (decrease) of allowance for doubtful receivables	10	(7)	98
Decrease (increase) in net defined benefit asset	(208)	-	(2,082)
Increase (decrease) in net defined benefit liability	444	-	4,444
Interest and dividend income	(475)	(397)	(4,749)
Interest expense	684	618	6,842
Foreign exchange (gain) loss	(265)	(519)	(2,653)
Loss (gain) on sale of property, plant and equipment, net	(25)	(68)	(245)
Loss (gain) on disposal of property, plant and equipment	298	143	2,975
Notes and accounts receivable	(368)	9,946	(3,679)
Inventories	(1,060)	3,067	(10,600)
Notes and accounts payable	(2,355)	(1,813)	(23,551)
Other, net	(948)	(906)	(9,479)
Subtotal	17,897	31,214	178,974
Interest and dividend received	475	397	4,752
Interest paid	(684)	(689)	(6,845)
Income taxes paid	(2,696)	(3,164)	(26,957)
Net cash provided by operating activities	14,992	27,758	149,924
Cash flows from investing activities:			
Net decrease (increase) in time deposits	(36)	(20)	(363)
Payments for purchase of property, plant and equipment	(12,209)	(9,519)	(122,090)
Proceeds from sales of property, plant and equipment	311	290	3,108
Payments for purchase of investment securities	(75)	(2,857)	(745)
Proceeds from sales of investment securities	-	14	-
Proceeds from redemption of investment securities	-	100	-
Payments for loans receivable	(4)	(6)	(41)
Collections of loans	170	122	1,703
Other, net	(150)	9	(1,506)
Net cash used in investing activities	(11,993)	(11,867)	(119,934)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(386)	(54)	(3,861)
Proceeds from long-term debt	1,583	7,000	15,830
Repayments of long-term debt	(1,112)	(15,060)	(11,124)
Payments for refund of lease obligations	(65)	(64)	(647)
Proceeds from minority shareholders of subsidiary	74	-	744
Proceeds from exercise of stock options	89	-	887
Cash dividends paid	(1,966)	(1,964)	(19,662)
Cash dividends paid to minority shareholders	(122)	(52)	(1,220)
Others	(6)	(5)	(61)
Net cash used in financing activities	(1,911)	(10,199)	(19,114)
Effect of exchange rate changes on cash and cash equivalents	1,127	950	11,273
Net decrease in cash and cash equivalents	2,215	6,642	22,149
Cash and cash equivalents at beginning of year	33,820	27,178	338,201
Cash and cash equivalents at end of year	¥36,035	¥33,820	\$360,350

Third-Party View

The report for this fiscal year emphasizes the Company's stance of once again asking itself what the value of its existence is under Vision 2020. As stated in the TOP Interview, "For a company to grow sustainably, it needs to be willing to solve social challenges through active communication with society," the report is written with strong consciousness for the company's social value.



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

Clear management policy based on Vision 2020 (pp. 3-6)

Aichi Steel's vision is to become a "Company of Choice Globally," and clearly express its corporate value, a value that sees Aichi Steel Group delivering reassurance to the world. Under the policy for its "integrated forging and steelmaking system," from development to production, the company delivers products to ASEAN and global markets. The mission also emphasizes Aichi Steel's effort for global collaboration and cooperation, including personnel training, to strengthen the value of its existence in society.

Furthermore, 1S Culture is positioned as a value to be shared among all employees and its further promotion is an important principle theme for CSR management.

Social responsibility as an environment circulating industry (pp. 7-8)

From the perspective of consumers, products delivered by Aichi Steel are not seen as being directly connected to their lives. Special content pages show how products are used and how they are a part of life in the city.

Clarifying social responsibility while creating value for its products and visualizing the multiplexing and multitier involvement of the company in society can be assessed as important activities.

Evaluation of the Medium-Term CSR Plan (p. 14)

Similar to the previous fiscal year, activities undertaken, methods employed, targets, results, and evaluation based on CSR Vision 2015 are well-organized and presented in an explicit manner. Targets have been reached for most items; however, some items show lower performance compared to fiscal 2012. I expect that these will be analyzed and improvements planned so that these challenges can be overcome in the next financial term.

Content with consciousness of diversity (pp. 19-22)

"Human Rights and Working Practices" are issues that have come increasingly into focus. Here, respecting human rights corresponding to global management and personnel development are clearly noted. Efforts for diversity have been strengthened, particularly through our support for improved working

conditions for women and senior employees, as well as promoting the employment of the disabled, can be evaluated highly.

Environmental Action Plan 2015 (p. 29)

Of items targeted in the Environmental Action Plan 2015 with "contribution to the sustainable progress of society and the Earth" as its basic concept, the biggest achievement seen is reduction of landfill volume brought about by regulations in 2013 that placed restrictions on fluorine-containing slag, a pollutant which has shown a significant increase over the past years, to zero for the first time since 2007. Continuing from the previous year, CO₂ emissions per export volume were below the target level, which indicates that the overall plan is moving along well. Social contribution is considered a part of environmental management, and the company's active measures for environmental communication can be evaluated highly.

On the other hand, green procurement, environmental load control by product and global CO₂ management through a tie-up with business partners still require improvement. Particularly in the area of global CO₂ management, the difficulty is understandable due to different laws in different countries, but it is disappointing that the 2013 report approach is "Continue review including substitute measures for actual measurements," although the issue related to electricity use at overseas offices had already been pointed out in the 2012 Report. Aichi Steel's efforts to achieve target levels for all items should continue.

Conclusion

Next year marks the 75th anniversary of the establishment of Aichi Steel. Recently, CSV (Creating Shared Value) is being seen as an important activity, the idea that corporations should contribute to solutions for local and global problems through their products and services, which will strengthen their business foundation and fulfill social responsibility. From this perspective, I hope to see relevant active corporate activities into the next generation through the continuous reevaluation of its business activities and its employees participation in volunteer activities.

*This Third-Party View is based on interviews with relevant parties.

Response to the Third-Party View



Ichiro Murakami
Executive Officer and
General Manager,
General Affairs Div.

I would like to express my appreciation to Professor Chikami of Nihon Fukushi University for providing us with valuable comments since fiscal 2010. His comments and suggestions regarding the promotion of strategic CSR management, our involvement with society, measures for diversity and environmental management are considered valuable in moving forward with CSR activity.

In regard to his evaluation of "Vision 2020," "Social responsibility as an environment circulating industry," "Diversity measures," and "Environmental Action Plan 2015," we will continue to improve our

measures and activities. His comments on "Green procurement," "Environmental load control," and "Global CO₂ management" will be shared among all departments, and measures that can be taken company-wide will be considered. The entire Aichi Steel Group will move toward the goal of becoming a "Company of Choice Globally" and the entire company will move forward with CSR activities, strengthening CSV (Creating Shared Value) with the aim of becoming a global company as we continue to improve stakeholder trust.