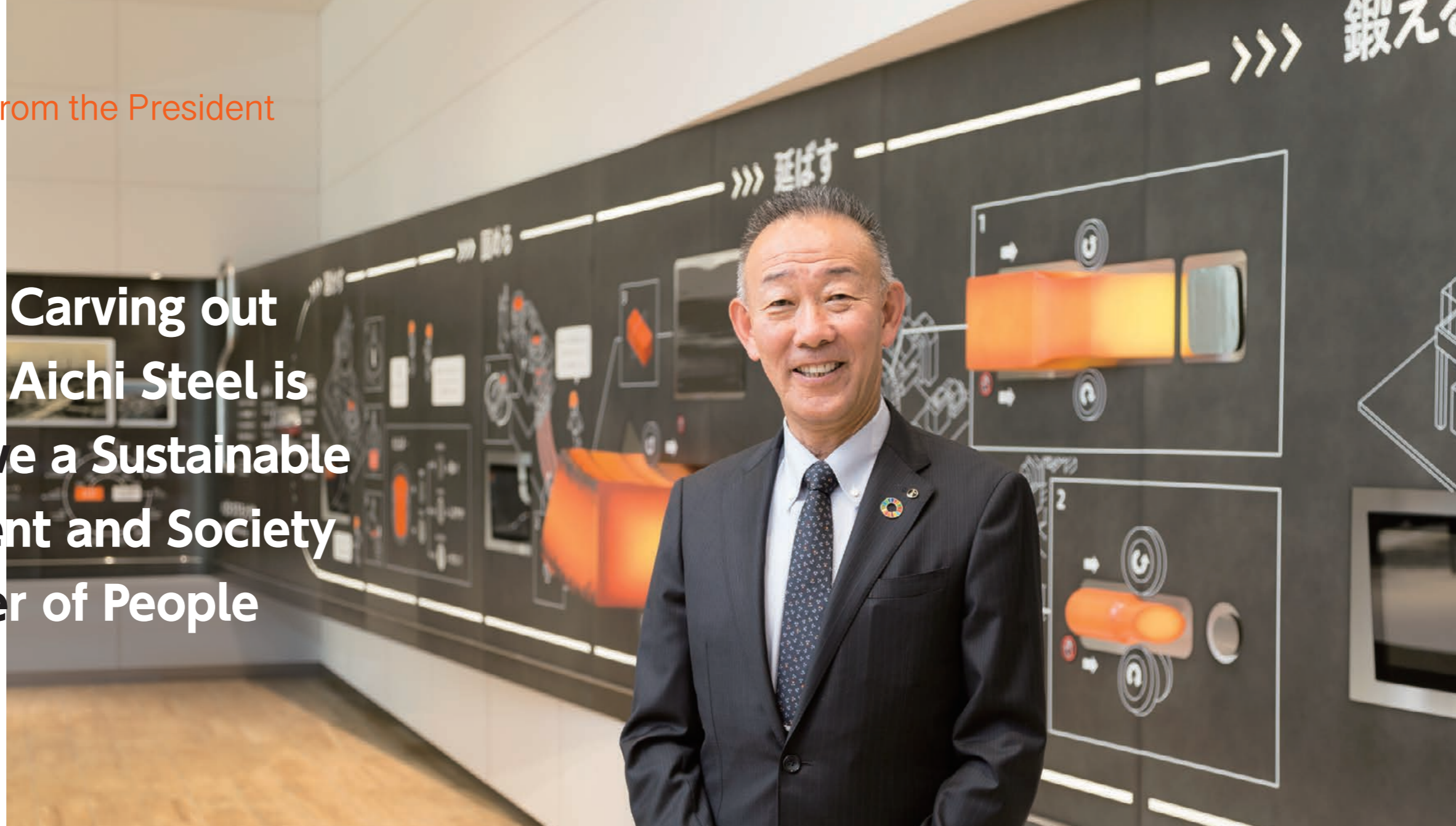


Message of Commitment from the President

With a History of Carving out Uncharted Paths, Aichi Steel is Working to Achieve a Sustainable Global Environment and Society Through the Power of People

Takahiro Fujioka

President



| Looking Back at Fiscal 2021

Despite production recovering after the downturn during COVID-19, we have faced strong headwinds during fiscal 2021, including sudden fluctuations in demand due to semiconductor shortages and steep increases in the cost of raw materials and energy, which have made it difficult to see the future. Within this environment, we were able to thoroughly implement Genryou Management* (managing with limited order quantities), and tackle a difficult situation with flexible production systems, to keep operating profit and profit attributable to owners of the parent company in the black. However, both of these indicators were lower when compared to the same period

in the last year due to resource inflation caused by the entanglement of a number of social trends in response to the pandemic, geopolitical risks, and climate change. With these issues having grown to a level where the power of manufacturing alone can no longer address them, the tide has completely turned. Therefore, I believe our sales pricing structures must be reformed if we are to continue providing our customers with high quality specialty steel. As these difficult business conditions continue, we will work to reflect any costs, that we are unable to absorb ourselves, in prices at an appropriate time.

* Genryou Management (managing with limited order quantities) means building structures that are profitable even with small production volumes by lowering costs and break-even points, and maintaining those levels.

| Supporting Japanese Industry and Sustainable Society with the Best of Technologies

Aichi Steel set out on the uncharted path of manufacturing specialty steels for automobiles in the early years of the automobile industry. Over time, specialty steels have become the final stronghold for Japanese industry and the best of Japanese technologies. To meet the demands of automobile and parts manufacturers and others for specialty steel characteristics and performance, we have developed products that make use of optimizing technologies. In other words, the strength of Japan's specialty steel industry lies in its ability to meticulously support the requirements of customers through involvement with automobile and parts manufacturers from their product development stage.

As a specialty steel manufacturer supporting Japanese industry, Aichi Steel is working to further improve its manufacturing capabilities to meet the increasingly sophisticated expectations of its customers, and to raise its presence in the specialty steel industry.

Aichi Steel and other specialty steel manufacturers have contributed to society from the beginning as resource-recycling companies. For instance, we use steel scrap as a raw material when producing the high quality materials used in automobiles and other products, and when those automobiles themselves are scrapped, we reuse that steel scrap as a resource when producing new specialty steels. We are the true pioneers of the

circular economy. Aichi Steel's production also has a minimal impact on the environment, with the electric furnaces that we use during production emitting about one quarter of the CO₂ emissions of the blast furnaces that use coal as the reducing agent. As a company that practices environmentally friendly manufacturing, "a sense of purpose for the future" and "a willingness to pioneer new frontiers" is in our DNA. This history informs our efforts in developing new materials and products that meet the expectations of society. The changing business environment, in response to the pandemic, climate change, and geopolitical risks, has had significant impacts on our company and on the entire specialty steel industry.

In the middle of a dramatically changing environment, it is essential that business activities help address social issues in order to provide the materials that meet society's expectations and achieve sustainable growth. Therefore, at Aichi Steel, we have revised our priority issues (materiality) and have set KPIs. We have done this in line with the 169 targets of the Sustainable Development Goals, as a more meticulous response to social issues, and while incorporating the latest environmental changes. We have also tied these priority issues and KPIs to our Vision 2030 and Medium-term Management Plan, while our management team is working to understand their current status and progress, and will review them and follow them up as necessary.

Three Axes of the Aichi Steel Management Philosophy

As the head of our management team, I have always maintained three important values as the basis for management. This is our management philosophy, the core of Aichi Steel and something from which we should not deviate. Our employees must share this philosophy and put it to use in their daily work. To ensure we follow this management philosophy in our work, we need

concrete frameworks that we can show and share rather than thinking of the management philosophy as a concept only. Therefore, we have established five separate frameworks. Based on these frameworks, we will continue efforts to improve the power of manufacturing as a specialty steel manufacturer supporting Japanese industry.

Three Axes of Our Management Philosophy

1. **History:** Inheriting our founding spirit (DNA) and company history, and evolving technical capabilities
2. **People:** Managing the power of people so that it becomes the power of the company
3. **Global Environment:** Contributing to a sustainable global environment and society

Five Frameworks that Shape Our Management Philosophy

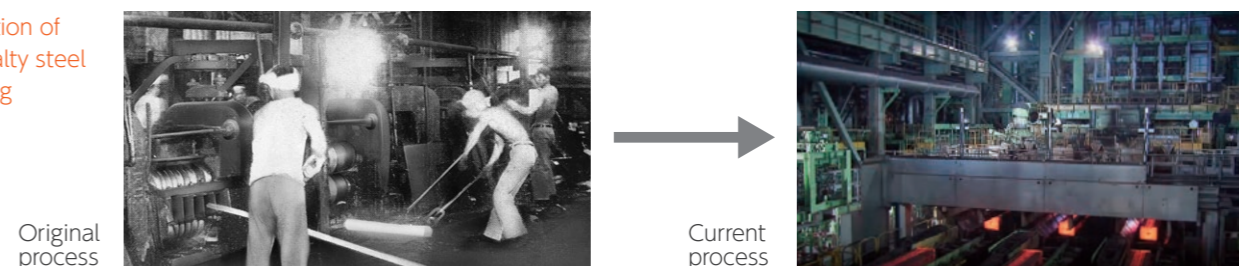
- (1) Formulation of Vision 2030: Clarifying the vision of the company as the "Company of Choice Globally"
- (2) Adoption of an in-house company system: Establishing a management structure with a sense of ownership (business and function)
- (3) Establishment of the Aichi Way: Sharing inspiration based on history
- (4) Brand slogan: Contributing to a bright future through manufacturing
- (5) Declaration on Labor-Management Cooperation: Aiming to create a happy, smiling workplace through unity between workers and managers

1. History: Inheriting our founding spirit (DNA) and company history, and evolving technical capabilities

Based on the belief of our founder that "Great cars are made with great steel," Aichi Steel started from scratch when manufacturing the specialty steel that underpins the automotive industry in Japan. Our predecessors, who built Aichi Steel into the company it is today, followed a path of high aspiration, technologies, and wisdom, which we have inherited over the generations. We established the Aichi Way as a set of action guidelines that enable us to continue

passing on these traditions and that will inspire future generations of employees. Based on the technologies and wisdom acquired throughout the history of steel making, and on the high aspiration passed down since we were founded, we will evolve our technical capabilities in a wide range of fields so that we can contribute to the future of our company and society as Toyota Group's only materials manufacturer.

Evolution of specialty steel making



2. People: Managing the power of people so that it becomes the power of the company

As per the expression "a company is its people," it is needless to say but it is our employees who will create the future of our company. I think it is more important that 100 of our employees can take one step forward, than for one of them to take 100 steps, which is why we are putting our efforts into developing human resources. For example, Toyota Motor Corporation and other group companies are implementing the Toyota Production System (TPS), Total Quality Management (TQM), and many other different activities to address issues, but at Aichi Steel, we are focusing on a program of education about these activities while continuing efforts to maximize the strength of our

organization. Even if faced with major difficulties or crises after accidents or other incidents, our whole company will work as one to address the issues while developing mechanisms that utilize these lessons and improve our problem-solving capabilities. When each of our employees moves forward step by step, the power of individuals becomes the power of the organization so that we can continue to grow as a company. In this way, we will continue pursuing ongoing steady growth, even if it is little by little, like the rings of a tree that continue to be formed regardless of environmental change.

3. Global Environment: Contributing to a sustainable global environment and society

As a resource-recycling company that manufactures products using steel scrap as a raw material, we do not find it difficult to understand initiatives to realize a sustainable global environment and society. By evolving our ESG management and power of manufacturing through value creation, we will work to address social issues, achieve a balance between a sustainable global environment and society and the growth of our company, and contribute to prosperous and enjoyable lives for all.



I Realizing Our Vision Through “Ambidextrous Management” that Transforms Our Business

In fiscal 2021, we launched a new Medium-term Management Plan. As our action plan under Vision 2030, which is one of our frameworks, this new plan is based on three management guidelines. During the first year of

the plan, the management philosophy that we put into practice produced results that helped us realize our ability to continue delivering outcomes.

Working to Address Carbon Neutrality and Achieve Growth as a Company

Two of our goals at Aichi Steel are to reduce CO₂ emissions by 35% by 2030 (compared to fiscal 2013), and to achieve carbon neutrality by 2050. As a heavy user of electric energy, becoming carbon neutral will place a heavy burden on us in terms of energy costs and development costs in manufacturing. On the other hand, development of technologies and products for protecting the global environment is essential, and this is where we see business opportunities. Our policy is to approach carbon neutrality from both of these angles to achieve growth as a company. We have designated four of our production sites as “carbon neutral model plants.” They are the Kariya Plant (stainless steel production), Gifu Plant (electronic component production), Seki Plant (magnetic powder production), and Higashiura Plant (magnet and magnet attachment production). In fiscal 2021, we achieved carbon neutrality at three plants (Gifu, Seki, and Higashiura) through procurement of electricity from renewable energies using a Feed-in Tariff (FIT) scheme. At the Kariya Plant, we plan to start using carbon neutral city

gas* during fiscal 2022. We are also developing energy-saving technologies that achieve thorough energy savings and reduce electricity consumption. In our products business, in addition to developing products for electrified vehicles, we are also developing a range of new products like heat storage systems.

In December 2021, we declared our support of recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Then in June 2022, we made disclosures in four areas (governance, strategy, risk management, and metrics and targets) according to the TCFD recommendations. With society becoming increasingly aware of the importance of climate change-related risks, we feel a need to put even more effort into related initiatives with a sense of urgency. Going forward, we aim to create a low carbon society by driving a number of initiatives, including considering the introduction of innovative electric furnaces, developing heating technologies based on hydrogen and ammonia, and using vehicles within our facilities that run on biofuels.

* Carbon neutral city gas is produced using liquefied natural gas (LNG) that offsets CO₂ emitted throughout the process from natural gas extraction to combustion by reducing and absorbing the CO₂ through forest conservation and other projects (carbon offsetting).

Always Anticipating Changing Times and Considering Measures in Response

Realization of a low carbon society will create changes in social structures and bring about business transformations in companies. At Aichi Steel, we will not only extend the power of manufacturing in existing businesses, but utilize it in the creation of new businesses as well. We will also put ambidextrous management into practice to both maintain and grow our profitability. At these times, it is important that we always anticipate changing times and consider measures in response.

While accelerating the development of products for automobiles that are becoming electrified, we started a new production line in January 2022 to produce new output shafts for the electric axles at the heart of electrified vehicles, and we are creating products optimized for electrification. Then in February 2022, we announced the world's first successful

verification of technologies for next-generation electric axles that are compact, lightweight, high speed, and fast deceleration. Until now, the issues the development and mass production of electric axles faced were resource risks and improving power efficiency. Next-generation electric axle technologies, however, have eliminated these issues and have achieved a balance between environmental performance and product quality. We aim to further refine these technologies going forward and achieve commercialization as early as possible. In the past, we always provided individual materials and parts, whereas electric axle products combine multiple technologies and parts that we specialize in. Therefore, they are truly epoch-making products that leverage the strengths of our integrated forging and steel making processes in the electrification of vehicles.

Simultaneously, we are also aiming to create new markets going forward by developing new stainless steel products as new businesses for the company, as support for the future hydrogen society and for rebuilding aging infrastructure. In addition to stainless steel, we are also working on functional products for the next generation, including electronic components, magnets, and sensors. These are new fields that

bring our DNA to life, from our start as a steel maker, and where we can make full use of the technologies and knowledge we have inherited from the past. In both existing businesses and new businesses, we will leverage our founding spirit and the power of manufacturing that has been passed down to us as we work to achieve sustainable growth through ambidextrous management.

Human Resource Development that Supports Future-Focused Change

To develop human resources capable of supporting ambidextrous management, it is important to focus on education, including about TPS and TQM above. It is also important that employees can feel personal and company growth through their work while also feeling that they are contributing to the company and to their future security. We also need to provide an active work environment with an open atmosphere, so we have established a Workplace Culture Reform Project led by executive officers to accelerate these initiatives. We are aiming to create a corporate culture where the organization and people are able to naturally grow together. We are also focusing on development of the

working environment, with more comfortable factory rest facilities, employee canteens, new dormitories for single employees, and parking lots. We will continue to apply this human capital policy going forward in expectation of more and more independent and autonomous employees. The five frameworks that we are currently formulating are not intended to remain fixed into the future. Flexible amendments and additions will be required as the situation changes. As such, we will also consider a sixth framework in the future to focus on human resource development to support changes in our business portfolio.

I A Sense of Purpose for the Future and a Willingness to Pioneer New Frontiers

Steep rises in the costs of raw materials and energy, and increasing popularity of electrified vehicles, have dramatic impacts on our existing business operations. However, what I am always telling our employees is that while it is necessary to maintain a realistic sense of crisis, the future is certainly not bleak. I want them to focus on that light in the distance, put ambidextrous management into practice, and put their efforts into what they need to do today. Let's aim to become

the Company of Choice Globally, which is our Vision 2030, while putting our minds together and continuing to take on the challenges of an age where the answers are not always evident. By investing the high aspiration of our founding spirit and our evolved manufacturing technologies, and by creating value that is unique to Aichi Steel, we will achieve sustainable development of both society and our company.

