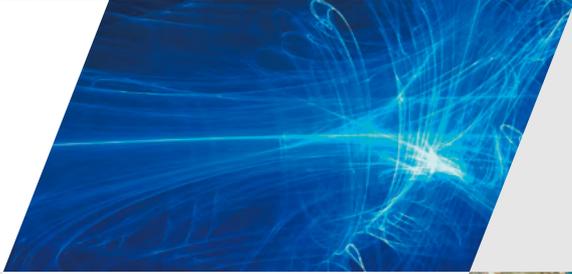




AICHI STEEL

INTEGRATED REPORT 2023



*Innovate Materials.
Create Tomorrow.*

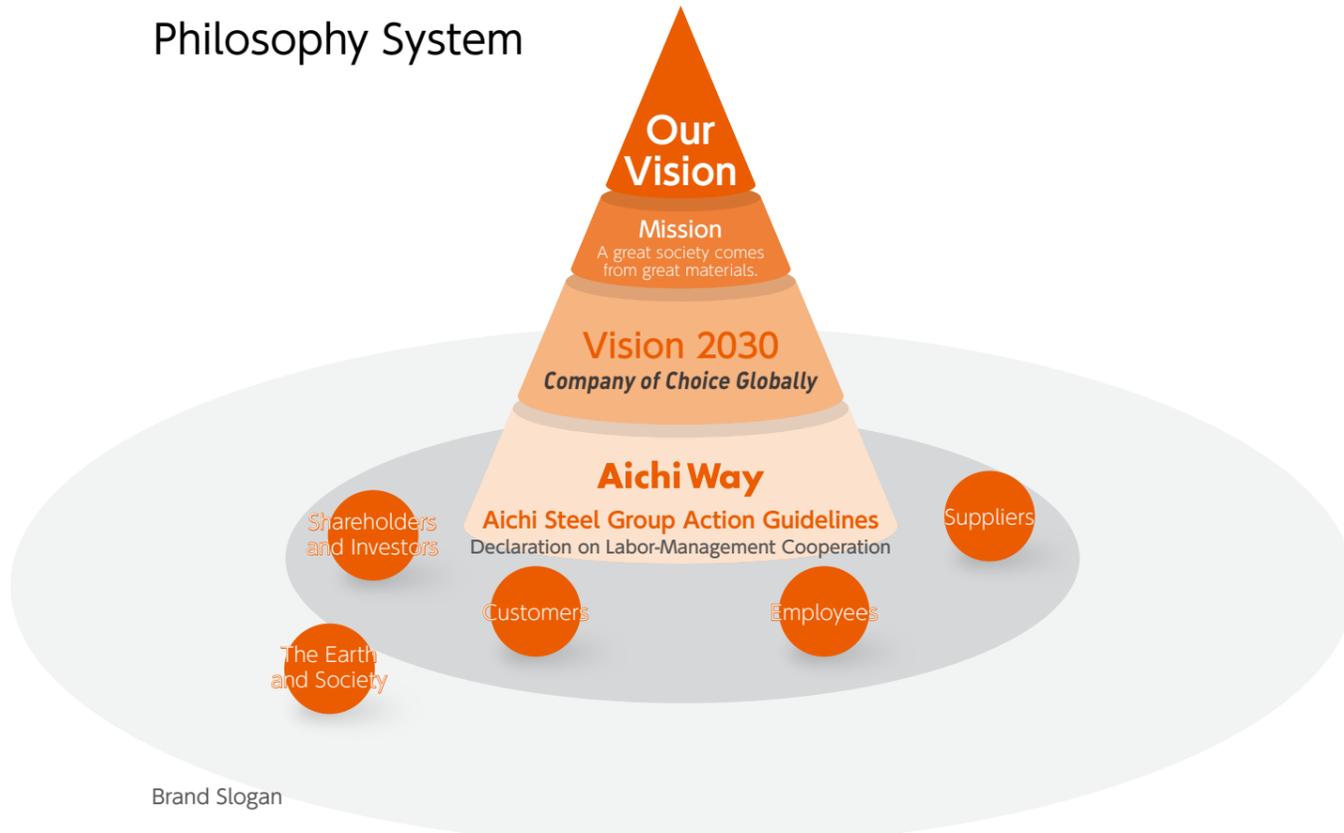
AICHI STEEL

Our Vision

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

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

Philosophy System



Brand Slogan

**Innovate Materials.
Create Tomorrow.**

This is our declaration to society that we intend to become a company that expands the possibilities of manufacturing by adding value to materials, as the starting point, to evolve them into products and systems.

The orange dots in the logo symbolize our commitment to using materials to support the future.



Brand website
(Japanese only)

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Editorial Policy

The Aichi Steel Integrated Report aims to promote an understanding of the growth potential of the Aichi Steel Group over the medium to long term. It aims to present, in an easy-to-understand manner, financial information such as business performance and management strategy, and the invisible assets of non-financial information that underpin growth, to convey what the group aims to do, what issues it perceives, and what initiatives it is implementing to address social issues and improve sustainable corporate value, even when the future is uncertain, through business activities of the group.

Accounting Standard

This Report complied with Japanese accounting standards until FY2020, and with International Financial Reporting Standards (IFRS) from FY2021.

Readers

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

Report Period and Scope

The Report mainly covers activities conducted by the Aichi Steel Group during FY2022 (April 2022 to March 2023). However, some activities conducted before or after FY2022 are also explained where necessary.

Reports and Structure



Reference Guidelines

- GRI Standards
- International Integrated Reporting Framework (published by IIRC)
- ISO 26000 (Guidance on social responsibility)

[Important Note about Forecasts]

The financial results forecasts in this report are based on judgments and assumptions from currently available information. Actual business results may differ greatly from targets, in light of their inherent uncertainty and the potential of revision due to future business operation or changes to information inside or outside the company.

Net sales (Billion yen)

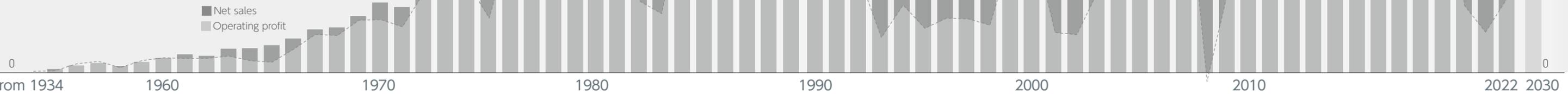
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DNA of Aichi Steel, Creating the Future Through Materials

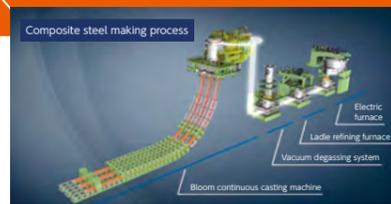
“Great cars are made with great steel.”



Throughout its history, Aichi Steel has contributed to society with the passion of its founder, Kiichiro Toyoda, by addressing social issues and expanding the potential of manufacturing through materials. Over time, this founding spirit has evolved into a belief that “A great society comes from great materials.” Having inherited this DNA as the source of its continuous value creation, Aichi Steel will continue efforts to realize a sustainable society through materials and parts created from years of accumulated technologies and skills.



Foundation



FOUNDATIONS Major investment as a decisive response to expansion of the automotive industry in Japan

- Adopted large electric furnaces and the latest steel rolling equipment, etc., and expanded production capacity by 2.5 times, to achieve international competitiveness in terms of quality and price
- Developed mass production systems, and started integrated forging with steel making processes, to meet the increased demand for forged products and need for high quality in an increasingly motorized society

ORIGINS Independent production of essential materials for automobiles

- Established as the steel making division of Toyoda Automatic Loom Works to enable the company to manufacture its own outstanding steel with durability and machinability suited to use as a material for automobiles



A1 prototype passenger car equipped with parts manufactured in the Steel Making Division

Growth

CHALLENGES Developed composite steel making process

- Adopted the world's first composite steel making process, which combined cutting-edge basic steel making technologies, to improve energy efficiency and achieve dramatic improvements in quality, cost, and delivery

Large autonomous BRT bus equipped with the GMP5 autonomous driving support system
Photograph provided by: East Japan Railway Company



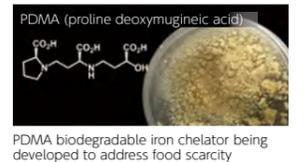
DNA evolution (expanding the potential of manufacturing)

EVOLUTION Using the power of materials to address social issues

- Evolved founding spirit into a belief that “A great society comes from great materials,” and opened up a wide range of business fields, including environment, safety, medicine, and food with a focus on mobility, to contribute to the SDGs

CIRCULATION Consideration for the global environment

- Developed and implemented recycling technologies for end-of-life cars, and reuse technologies for the byproduct slag, and accelerated activities toward establishing a circular economy



PDMA biodegradable iron chelator being developed to address food scarcity

EXPANSION Globalization and new businesses

- Established Aichi Steel's first overseas forging production site, built stable overseas supply systems, and contributed to globalization of the automotive industry
- Started full-scale production of electronic and magnetic parts, and started working toward a smart society



1939-1945
World War II

1960s-1970s
Rapid economic growth in Japan

1985
Plaza Accord

2008
Global financial crisis

2015
Paris Agreement, 2030 Agenda for Sustainable Development

2020
Japanese government declaration of carbon neutrality by 2050
Spread of COVID-19

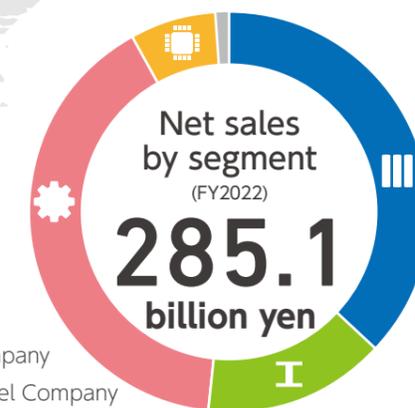
Aichi Steel Group Overview



Aichi Steel Corporation (Japan)

Company name	Location
AIKO CORPORATION	Aichi Prefecture
AICHI CERATEC CORPORATION	Aichi Prefecture
OMI MINING CO., LTD.	Shiga Prefecture
Aichi Techno Metal Fukami Co., Ltd.	Niigata Prefecture
Aichi Steel Logistics Co., Ltd.	Aichi Prefecture
Aichi Information System Corporation	Aichi Prefecture
AIKO SERVICE CO., LTD.	Aichi Prefecture
Asdex Corporation	Aichi Prefecture

Aichi Forge USA, INC. (USA)



- Hagane Company
- Stainless Steel Company
- Kitaeru Company
- Smart Company
- Other businesses



- Japan
- Asia
- North America and Europe

Hagane Company

Based on our experience and technical capabilities in manufacturing specialty steels for over half a century, the Aichi Steel Group continues to evolve in pursuit of being number one in quality.



Net sales (FY2022) **105.6 billion yen**

Main products Carbon steels and alloys for machine structural use, steel with guaranteed hardenability for structural use, microalloyed steel, boron steel, spring steel, high carbon chrome bearing steel, etc.

Developed technologies

- Capabilities that have evolved with the accumulation of years of experience since foundation
- High quality that contributes to automobile safety, refined through the belief that "Great cars are made with great steel."

Japanese production share of hot-rolled steel bars (alloys for structural use) **No. 1 (26%)**

Stainless Steel Company

As the leading manufacturer of stainless steel shapes in Japan, the Aichi Steel Group meets the various needs of the customers through large variety and small quantity production of over 4,000 products of different shapes and types.



Net sales (FY2022) **42.2 billion yen**

Main products Stainless steel shapes, round bars, deformed bars and titanium bars, and engineering of stainless steel construction

Developed technologies

- Hot-rolling technologies of various shapes and dimensions accumulated over the years since producing Japan's first hot-rolled stainless steel angle bar in 1958
- Stainless steel building structure engineering technologies, including design cooperation, factory manufacture, and onsite construction

Japanese production share of stainless steel shapes and hot rolled flat bars **No. 1 (76%)**

Kitaeru Company

Leveraging the strengths of integrated forging with steel making process, which enables in-house production of everything from steel material to forged products, the Aichi Steel Group is producing high value-added components that contribute to lighter, higher-performance automobiles.



Net sales (FY2022) **114.4 billion yen**

Main products Hot-cold-forged products and machined products (engine, chassis and drivetrain components, etc.)

Developed technologies

- Ability to offer solutions using high quality products that leverage the strengths of integrated forging with steel making processes
- World-class forging technologies that create highly functional, highly accurate products

Production volume in Japan as a single forging plant **No. 1 (No. 3 globally)**

Smart Company

The Aichi Steel Group is creating new businesses across five fields, from electronic components, magnets, dentistry and sensors, to iron fertilizers developed through knowledge of specialty steel manufacturing.



Net sales (FY2022) **20.2 billion yen**

Main products Electronic materials and components, anisotropic Nd-Fe-B bonded magnets (MAGFINE®), dental magnetic attachments, ultra-compact ultra-sensitive magnetic sensors (MI Sensors), iron fertilizers, etc.

Developed technologies

- Practical ability to expand the possibilities of a smart society through new products that leverage the DNA of material technologies
- Unique technical capabilities able to contribute to a diverse range of customers

Global production share of anisotropic Nd-Fe-B bonded magnets **No. 1*** Japanese production share of lead frames for electric vehicle inverter cooling **No. 1***

* Aichi Steel research



Naohide Goto President

As a Professional Group that Serves the World and People, We Support the Automobile Industry with New Value Together with Our Colleagues

Our Aim Is to Be a Group of Professionals That Thinks about “What Can We Do to Serve?”

My name is Naohide Goto, and I was appointed to the role of president in June 2023. I joined Aichi Steel in 1989 and started my career in the Finance & Accounting Division. While attached to that division, I studied in the United States and formed the foundations of a career that led to my first placement in what was then our U.S. Representative Office. After a survey of demand for forged products, there was talk of a merger with Louisville Forge and Gearworks LLC (currently Aichi Forge USA, Inc. (AFU)), which was providing technical support. I was in charge of subsequent negotiations, incorporation, and operations. Since then, I have accumulated extensive experience with a focus on sales and planning both in Japan and overseas.

There are two things that I learned from this experience

that I will continue to cherish. The first is to serve the world and people, which is related to the founding spirit of Aichi Steel. I think that we have been able to survive as a business for over 80 years precisely because we were founded on this philosophy. Even if we attempt to change the way we serve customers in a changing world, we will always maintain this philosophy together with the Aichi Way, which is our spiritual guide and set of values to cherish in our work. We must also remember the correct order of things; that we start by serving the world and people, and only then do we receive compensation. Again, I aim to fully adhere to this spirit of our founder.

The second thing I learned is to do my best for my colleagues. In 2016, I was assigned the task of reorganizing management at AFU. With the business

situation terrible at the time, I was worried for a while about what I personally could do. One day, when I went to the company on my day off, I found our local staff had given up their day off and were hard at work as usual. I happened to meet one of them in the staff room and, rather than looking unhappy, that person greeted me with a big smile. At that moment, a switch was flipped in my head and ever since then, I have worked as hard as I could to do everything that I could. Like me, more and more employees stepped up to help as they started to notice the hard work of their colleagues. The company quickly became cleaner, quality improved, and finally after a year and a half, we were no longer in the red. That was an invaluable experience for me, seeing how we can dramatically change a difficult situation when we think and act for our colleagues. From experiences such as these, I have come to cherish the ability to do my best for the world, for people, and for my colleagues. To help and serve someone, you need specialist knowledge, technologies, and skills. And I think that someone with

those characteristics is a professional with top-class abilities. I want Aichi Steel to continue to be that group of professionals. As the automotive industry, our customers, goes through a major transformation, we cannot serve those customers by just continuing to do what we have done in the past. With a sense of urgency, each and every employee must think and act on the question of "What can we do to serve?" in terms of their own profession. Professionals are people who can demonstrate their abilities and produce results in any situation, and then diligently work to pass on their abilities to the next generation. When you do your best for the world, for people, and for your colleagues, in other words, for someone other than yourself, you can achieve results beyond your own limits, and that also leads to personal growth. I hope to produce results for the organization from the efforts of our colleagues doing their best for the world, for people, and for their own colleagues, and to pass this ability on to the next generation as part of our corporate culture.

Looking Back at Fiscal 2022

Looking at our financial results for the fiscal year ended March 31, 2023, we increased both net sales and operating profit year-on-year, which exceeded our earnings forecasts. We did struggle over this year, though, to respond to issues like dramatic rises in the cost of energy, and reduced sales volumes due to instability within the automotive industry on the back of semiconductor shortages. Now in fiscal 2023, I believe that the impact of these issues on our core businesses of specialty steels and forged products is mostly gone. However, global economic trends continue to be unstable due to concerns about the situation in Ukraine, global inflation, and an economic slowdown in China. To ensure we can achieve the profits we promised, we will quickly identify information and changes in each country and implement our responses at speed.

In dramatically changing business environments where the future is unclear, we are implementing Genryou Management (managing with limited order quantities) to deliver profits even with small production volumes. In our Hagane Company and Kitaeru Company, we will focus even more on our existing activities to lower our break-even points. In terms of production systems, we are adopting the power of digital technology to reduce

production lead times while restructuring things to respond quickly to change. And for procurement costs, what is important is how we shift cost increases to sales prices with the shortest lag. To do this, we aim to change the rules for setting sales prices with the agreement of our customers. In our Stainless Steel Company and Smart Company, we aim to pursue new possibilities for our materials, and develop and propose products that are compatible with CASE technologies (Connected, Autonomous, Shared & Services, and Electric) and a carbon neutral society to increase sales. With demand rapidly increasing for power card lead frames, which are an essential part of every electrified vehicle, our Gifu Plant added a new production line and started mass production in 2022. With demand expected to continue growing from here, we have also started investigating the possibility of another new line. In the Stainless Steel Company, we are working to strengthen our supply systems in anticipation of a future increase in demand for upgrading society's aging infrastructure. With reform of our manufacturing processes, we plan to enhance supply capacity of stainless steel materials, by fiscal 2026, by 40% compared to fiscal 2019.

Creating New Value with a Focus on Integrated Forging with Steel Making Processes

As a materials manufacturer, Aichi Steel operates a series of businesses that support industries through products and technologies that benefit its customers, including automakers. While this will not change, our customers' needs are certainly changing together with changes in society. We will continue to provide beneficial materials to our customers by leveraging our strengths in developing materials and the technology to turn them into products.

At Aichi Steel, we aim to achieve steady growth through "ambidextrous management," which aims to maintain and improve profits in existing businesses while expanding profits through growth in new businesses. However, our existing businesses of steel materials (specialty steels) and forged products are said to be tapering in response to transformation of the automotive industry. While the amount of materials required for each automobile may certainly reduce, the number of automobiles produced globally is forecast to increase, with increases in emerging and developing countries in particular. Japan's world-class specialty steels still offer many technical and intangible benefits. For example, we are currently considering increasing cooperation with Vardhman Special Steels Limited, a company that we have already invested in, for the Aichi Steel Group to take advantage of growing demand in the India market, which is forecast to continue to grow. We also see benefits of our accumulated technologies in terms of the drivetrain-related high-strength steels and parts required by battery electric vehicles (BEVs). We will therefore continue to refine our Hagane Company and Kitaeru Company businesses as mainstays of our business profitability.

In terms of new businesses, we are putting effort into developing new products and services as we also continue our work to expand fields where we can serve. For example, the electric axles being developed for BEVs. By combining our specialized technologies and parts to create actual electric axle units ourselves, we are developing the technologies and products that will

support speeds of up to previously unknown levels of 34,000 rpm. Another example is our Global Magnetic Positioning System (GMPS), which supports vehicle control for uses such as autonomous driving. This has been adopted by East Japan Railway Company (JR East) for use in the autonomous buses it started operating in Miyagi Prefecture in 2022. This technology enables positional information, which has a direct impact on the safety of vehicles when traveling, to be detected at a high level of accuracy in tunnels where GPS signals do not reach, and under difficult conditions such as snow-covered roads where detection by normal sensors is difficult. As a result, it is proving beneficial for realizing safe and secure autonomous driving. Efforts like this to take on challenges in new business fields are slowly but surely bearing fruit.

Until now, we have ensured our manufacturing operations thoroughly meet customer requirements. However, the concept of automobiles is changing and we talk about mobility instead these days, so these requirements are also changing. I expect that we will also see a gradual increase in the use of a business model where our professional colleagues identify demand and challenges, of which the customers are unaware, and then think and act by themselves to make proposals, or enter into joint development, armed with new technologies and products. By focusing on onsite development, while leveraging our strengths in products tailored to our customers, including specialty steels and forged products, I think we can provide value in new fields as well and continue to serve the world.

To this end, we will continue to follow the framework implemented at the core of our management by now-Chairperson Takahiro Fujioka, while making reforms to evolve that framework into something even better. For example, our in-house company system will need enhanced collaboration and investment of resources across the companies, so we plan to enhance cross-company functions going forward.

Five Frameworks

- (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

I Promoting Sustainability for the Future

To ensure that we can continue to serve the world, people, and our colleagues, we will provide value through our business activities while also putting effort into sustainability management as typified by the Sustainable Development Goals (SDGs).

Accelerating Initiatives for Decarbonization

The steel industry is one industry that emits large volumes of CO₂, which is an issue that manufacturers all around the world must address with national governments by developing equipment and technologies that reduce CO₂ emissions. At Aichi Steel, we have set ourselves a CO₂ emission reduction target to reach by 2030 and we aim to achieve carbon neutrality by 2050. In March 2023, we lifted our 35% CO₂ emission reduction target (compared to 2013) to 50%, which is higher than the Nationally Determined Contribution (NDC)*¹ level. Five of our seven plants have already achieved carbon neutrality, while we are considering bringing forward this target for the other two plants as well. We are currently developing innovative electric furnaces that combine the steel industry's latest technologies with our own technologies, and we are working to achieve a fundamental reduction in CO₂ emissions from equipment as well. We are also eliminating unnecessary CO₂ emissions through greater efficiency in manufacturing and reduced defect products. Starting in fiscal 2023, we are participating in the GX League*², led by the Ministry of Economy, Trade and Industry. As a member of the forum's working group, we are not only working on initiatives to reduce CO₂ emissions, but also considering new value and market rules for decarbonization.

*¹ Japan has set a target of reducing greenhouse gas emissions by 46% by fiscal 2030 (compared to fiscal 2013), while also declaring a challenge of 50%.
*² The GX League is a forum for companies actively working on Green Transformation (GX), providing opportunities for discussion around transformation of the entire economic and social systems, and for practical implementation to create new markets. It was established by the Ministry of Economy, Trade and Industry in March 2022.

Initiatives for Human Resources Development

Rather than applying a simple top-down approach, I personally want to realize two-way communication with our employees so that they can inherit the founding spirit and strengths that we cherish when they lead the company. Whether it is developing policies or gaining knowledge, I want to achieve consensus in discussions regardless of an individual's position within the company. Through such a process, our employees can take ownership of each decision. By participating in this way, they can also learn ways of viewing and thinking about things that would not normally be possible for their position, so they would have the opportunity to expand their own thinking and actions. We will implement this process as part of our human resources development plan. I also want Aichi Steel to continue rewarding the efforts of its employees. When AFU operations were running in deficit, even if we wanted to, we were unable to provide a level of salary and bonuses commensurate with the hard work of our employees. I do not want our colleagues to experience such a situation again. Hard work will be rewarded. For this purpose, we will make it easier to see employee efforts and outcomes for evaluation, and in the process, create an environment where our hard workers can work even harder going forward.

Promoting Essential DX

In a rapidly changing world, digital transformation (DX), which improves the quality of information and supports faster responses based on that information, is essential for creation of a prosperous society through business reform. As president, one of my jobs is to lead initiatives for promoting DX. We have started by establishing five themes—manufacturing, smart factories, digital solutions, workstyle reform, and Group IT governance—as an overview of what we want to achieve as a company. As part of that, I will follow up with each in-house company and headquarters to ensure they implement digital technologies themselves while solidifying the general framework of things to do.

I A Message to Our Stakeholders

The future of society and the economy is hard to predict in these uncertain times. The key to success is therefore how quickly we can identify and respond to changes. In terms of manufacturing, it is also important to respond on the spot and with a sense of urgency. Since Aichi Steel was founded, we have always made and boldly implemented major decisions tailored to the changing business environment to create the Aichi Steel Group that

we are today. I am confident that we will continue to provide new value into the future by fully demonstrating the DNA handed down from our predecessors and driving initiatives at an even higher level. Going forward, we aim to continue serving the world, people, and our colleagues. We look forward to your continuing support in this endeavor.



Value Creation Process

Aichi Steel's Business Environment

- Mitigation/transition of climate change
- Automobile industry transition
- Dwindling workforce
- Development of digital transformation technologies
- Biodiversity
- Resource recycling
- Increasing geopolitical risks
- Diversification of values
- Business and human rights

Three Management Guidelines to Realize Vision 2030

- Contribution to a sustainable global environment
- Creation of a prosperous society through business reform
- Employee happiness and corporate development



Note: All figures are accurate as of March 31, 2023.

Priority Issues (Materiality)

I Basic approach

In line with Our Vision, "We will strive to make positive contributions to society by providing appealing products from global perspectives and based on our vibrant and trustworthy corporate qualities." Aichi Steel considers that contributing to the realization of a sustainable society through our businesses activities will lead to improved medium to long-term corporate value. To achieve this, we established "Enhance earnings capacity by reforming business and manufacturing while putting ESG management into practice" as our basic policy in Vision 2030, while identifying priority issues to address and setting KPIs as specific targets. Through these initiatives, we aim to realize our Vision 2030 and address social issues.

I Promotion structures

Aichi Steel brings together the leadership of its management team, cross-division functions of administrative divisions, and business focus of in-house companies to drive sustainability initiatives. The business promotion councils manage action plans and progress to ensure KPIs are achieved, and regularly report to the Top Management Meeting and Board of Directors. The Top Management Meeting carries out regular reviews based on progress of each initiative, social trends, and changes in the business environment. After revising priority issues (materiality) and KPIs, and discussing and considering how to reflect the changes in management policy, planning, and strategy, the Top Management Meeting decides important matters through discussion with the Board of Directors.

I Identification of priority issues



I Identification of priority issues



I Priority issues, main KPIs, target years, and targets

Priority issues	Main KPIs	Target years	Targets
Climate Change	CO ₂ emission reduction rate (compared to FY2013)	2030	-50%
Resource Recycling	Byproducts sent to landfill	2030	2,000 t
Procurement	Green Procurement Guidelines dissemination rate	Yearly	100%
Technology Innovation	Number of patent applications	Yearly	50 or more
Cybersecurity	Number of serious incidents due to cyberattacks	Yearly	None
Quality and Production	Reduction of quality-related loss (compared to FY2018)	2030	-80%
Safety and Health	Overall accident frequency rate	2030	0.0
Workstyles and Human Resources Development	Employee engagement	2030	4.0 pts
Diversity	Number of female managers	2030	10 or more
Coexistence with Community	Nakashinden green space bioindicator species	2030	35 species
Human Rights	Human rights education in position-specific education	Yearly	100%
Legal Compliance	Serious violations of laws and regulations	Yearly	None



Climate Change

Related SDGs



I Main initiatives

- Promoting thorough energy saving activities by streamlining manufacturing processes, etc.
- Promoting utilization of clean energy from solar power generation, including in-house power generation, etc.
- Developing innovative technologies, including use of high-efficiency electric furnaces, and hydrogen and ammonia

KPIs	Targets	FY2022 results
CO ₂ emission reduction rate	2030: 50% reduction (compared to FY2013) 2050: Carbon neutrality	22%
Adoption of renewable energy	2030: 100% adoption of renewable energy by 1 plant	100% adoption of renewable energy by 5 plants



Resource Recycling

Related SDGs



I Main initiatives

- Promoting recycling of byproducts (slag, dust, scale, etc.)
- Promoting initiatives to maintain low levels of SO_x and NO_x emissions

KPIs	FY2022 targets	Achievements
Byproducts sent to landfill	2,500 t/year	2,507 t/year (Byproduct recycling rate: 99.0%)
Atmospheric pollutant emissions (NO _x , SO _x)	80% or higher emissions than regulation level 0	0 (Total emissions: NO _x 118 t/yr; SO _x 1.85 t/yr)
Industrial wastewater pollution load (COD, nitrogen, phosphorus)	80% or higher emissions than regulation level 0	0 (COD: 9.80 t/yr; nitrogen: 4.98 t/yr; phosphorus: 0.54 t/yr)



Procurement

Related SDGs



I Main initiatives

- Promoting environmental conservation activities based on the Green Procurement Guidelines in collaboration with suppliers (priority purchase of environmentally friendly products, etc.)

KPIs	FY2022 targets	Achievements
Green Procurement Guidelines dissemination rate	100%	100%
Number of breaches of the Subcontracting Act	0	0



Technology Innovation

Related SDGs



I Main initiatives

- Promoting research and development integrated with business strategies to realize the management guideline of "Creation of a prosperous society through business reform"
- Strengthening development infrastructure through advanced IT and analysis technologies (AI, etc.) and strategic patent applications

KPIs	Achievements
R&D expenses	¥4.40 billion (previous fiscal year: ¥4.34 billion)

KPIs	FY2022 targets	Achievements
Number of patent applications	50	64



Cybersecurity

Related SDGs



I Main initiatives

- Enhancing security through establishment of internal structures, and communication, education, and inspection of rules, in compliance with the All Toyota Security Guidelines (ATSG) shared by Toyota Group companies, etc.

KPIs	FY2022 targets	Achievements
Serious incidents due to cyberattacks	0	0
ATSG (Ver. 8) compliance (Aichi Steel unconsolidated)	90%	90%
ATSG (Ver. 2) compliance (Aichi Steel unconsolidated)	79%	79%



Priority Issues (Materiality)

Quality and Production

Related SDGs 

Main initiatives

- Further strengthening the quality management system through acquisition of IATF 16949 certification
- Fully implementing measures to prevent recurring complaints by strengthening efforts to pursue their true causes
- Building TPS-based production infrastructure that enables on-time stable supply of products



Electronic component line No. 3 completed in October 2022 in response to high demand accompanying an increase in electrified vehicles



In-house education on ISO 9001 (quality management systems) for internal auditors

KPIs	FY2022 targets	Achievements
Total number of complaints (release of defects to customers)	8	19
Number of recurring complaints (release of defects to customers)	3	0
Reduction of quality-related loss (compared to FY2018)	-35%	-38%

Production	Achievements
Crude steel production	891,000 t (previous fiscal year: 884,000 t)
Forged product production	225,000 t (previous fiscal year: 261,000 t)
Electronic component production	39,800,000 sets (previous fiscal year: 36,900,000 sets)

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Safety and Health

Related SDGs  

Main initiatives

- Creating workplaces without accidents through safety risk assessments
- Promoting recurrence prevention to eliminate similar accidents
- Promoting health and productivity management to maintain and improve mental and physical health



Conducting training at the Denshinkan safety education facility



Maternity uniform developed with safety, function, and comfort in mind through discussions with female employees

KPIs	FY2022 targets	Achievements
Number of serious accidents	0	0
Overall accident frequency rate	0.60%	0.93%
Number of fires and explosions	0	1

KPIs	FY2022 targets	Achievements
Lost worktime rate due to injury or sickness	0.50%	1.44%
Lost worktime rate due to mental health	0.17%	0.38%
Rate of employees over appropriate weight (BMI of 25 and higher)	27%	32%

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Workstyles and Human Resources Development

Related SDGs 

Main initiatives

- Developing flexible working systems for balancing work with important life events
- Developing and adopting workplace environments and human resources systems that enable diverse employees to be highly motivated while playing active roles
- Enhancing off-the-job training using job-specific and position-specific education systems, and promoting investment in skill and capability development in connection with management strategies

Workstyles

KPIs	FY2022 targets	Achievements
Days of annual paid leave taken	20 days	17.4 days
Monthly overtime (per person, office)	11.4 hours	13.4 hours
Employee satisfaction (out of 5)	N/A	N/A
Office workplace management survey (positive response rate)	79.0%	80.7%
Workplace capability survey (positive response rate)	71.0%	71.0%

Human resources development

	Achievements
Investment in education (per person)	24,000 yen (previous fiscal year: 21,000 yen)
Time invested in education (per person)	10.9 hrs (previous fiscal year: 14.9 hours)

p.27

Diversity

Related SDGs 

Main initiatives As above

KPIs	FY2022 targets	Achievements
Number of female managers	4	4
Employee satisfaction (aged 60 and above, out of 5)	N/A	N/A*
Employees with disabilities	2.3%	3.0%

p.27

Human Rights

Related SDGs 

Main initiatives

- Conducting business activities that respect human rights in line with the Aichi Steel Group Action Guidelines
- Fostering a high level of ethics and awareness of human rights through employee education
- Developing and strengthening human rights protection structures such as the whistle-blowing system

KPIs	FY2022 targets	Achievements
Human rights education in job-specific training	100%	100%

p.21

* Survey conducted once every two years, so no targets or achievements for FY2022

Coexistence with Community

Related SDGs 

Main initiatives

- Promoting biodiversity preservation and activities to achieve harmony with nature through efforts such as creating a natural ecosystem in part of the Nakashinden green space around our plant (about 20,000 m²)
- Promoting communication activities with local communities through social contribution activities

KPIs	FY2022 targets	Achievements
Nakashinden indicator species	23 species	19 species
Number of volunteers (total)	10,000	6,581

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Legal Compliance

Related SDGs 

Main initiatives

- Sharing a high level of ethics, improving awareness and knowledge through training and seminars, etc., and continuing to strengthen internal structures that eliminate violations, in line with the Aichi Steel Group Action Guidelines

KPIs	FY2022 targets	Achievements
Serious violations of laws and regulations	0	0
Serious failings of internal control systems	0	0

p.62

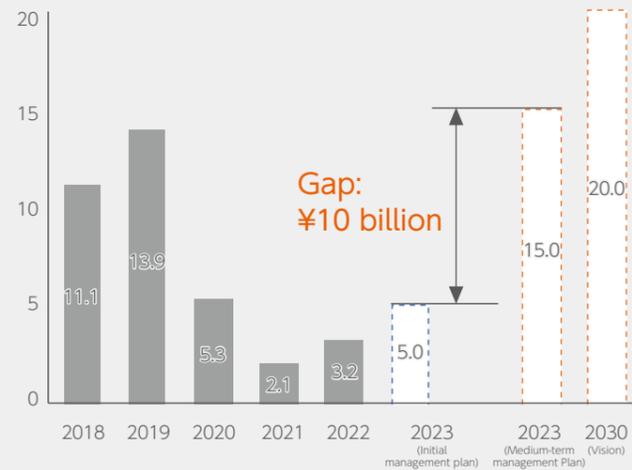
Feature 1 Enhancement of the Earnings Base

As a materials manufacturer expanding the potential of manufacturing through innovative materials and parts, Aichi Steel aims to achieve sustainable improvement of corporate value and medium- to long-term growth by helping to tackle social issues. In these uncertain times where the future is hard to see, we are working to establish a robust earnings base that can sustainably achieve sufficient profitability to respond to any changes.

Structural Changes in the Business Environment

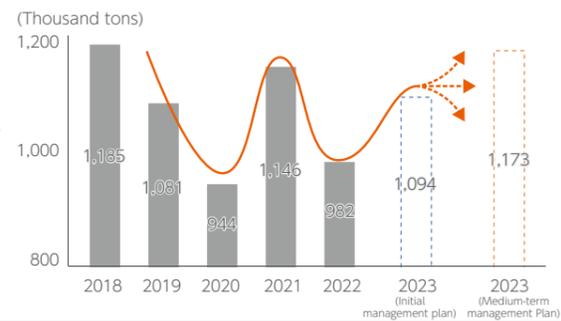
Since the spread of COVID-19, a number of issues have materialized due to structural changes in the business environment. They include persistently high costs of steel scrap metal—Aichi Steel's main raw material—and energy, dramatic short-term fluctuations in demand due to disruptions in the supply chains of the automotive industry, where our major customers are, and a shift to electrification.

Changes in operating profit

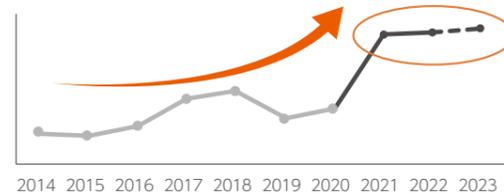


Category	Structural change	
Demand	Unstable Downturn	<ul style="list-style-type: none"> Unstable production in the automotive industry (major customers) Reduced usage of specialty steel per automobile (changes in model composition, including more compact automobiles, and a shift to electrification, etc.)
Costs	Increased burden	<ul style="list-style-type: none"> Increased and persistently high costs of steel scrap (main raw material) and energy

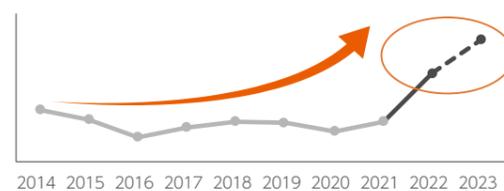
Changes in sales volumes of specialty steel materials



Steel scrap prices (illustration)



Electricity prices (illustration)



Progress of Initiatives

Low-cost stable procurement and reduced raw material costs through expansion of steel scrap storage and processing capacity

Steel scrap, which is the main raw material of the specialty steel that Aichi Steel manufactures, is a market commodity that fluctuates dramatically in price in response to supply and demand conditions. These price fluctuations have a significant impact on our business performance. With the trend toward decarbonization over recent years, there has been a shift from the use of blast furnaces to the use of electric furnaces not only in Japan but in China and the rest of the world. This and other changes have created a tight supply and demand situation that has resulted in persistently high prices. We are working to expand our storage capacity for steel scrap and build flexibility into our receiving structures to secure stable supplies of raw materials, reduce the costs of raw materials, and minimize impacts from price fluctuations.

Initiatives	Effects
• Increase purchase volumes when prices are low	Reduced procurement costs
• Reduce reliance on high-priced scrap by improving grade-level management of steel scrap	Reduced material costs
• Increase backup capacity for times of low supply	Stable reserves of raw materials

Full lowering of break-even points

In the past, Aichi Steel's focus was on maintaining and improving stable supply systems to be able to respond quickly and surely to customer needs even in unstable demand environments. To do this, we conducted a range of initiatives, including building upward flexibility into our production capacity and upgrading/repairing aging equipment. This enabled us to supply our customers without interruption even when demand rose rapidly after the pandemic. Demand for specialty steel and forged products is expected to remain steady into the future. To ensure we have the earnings needed to sustain business by responding flexibly and quickly even in periods of lower production volumes, we are focusing on fully lowering break-even points. To reduce fixed expenses, we are working on things such as selection and concentration of investment through consolidation and capacity maximization for current equipment. In terms of reducing variable expenses, our initiatives include developing minimum-cost operating structures through activities to reduce specific consumption, which is not affected by production volume, and achieving efficient cross-business employee management by multi-skilling our workforce. Over the medium to long term, we



will adopt innovative electric furnaces that combine our own technologies with the industry's latest technologies to reduce costs by dramatically improving energy efficiency. We will also work to develop new processes that include small-section continuous casting technologies and high-mix, low-volume production lines for forged products.

Raised demand through increased sales of strategic products

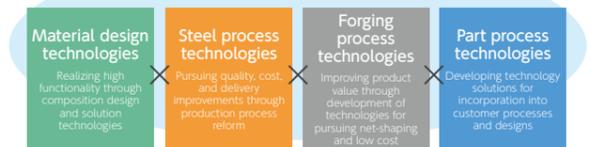
Electrification is progressing rapidly in the automotive industry, where Aichi Steel's major customers are, so use of steel material and forged products for traditional internal combustion engine automobiles is expected to decline. On the other hand, the need for steel materials and parts with advanced functionality is increasing. To maintain sales volumes of steel material and forged parts, we are working to expand sales of strategic products like steel materials and parts for electrified vehicles. We are building a second line to handle increased demand for output shafts for electric axles. We are also making steady progress with development of new products, using the technical capabilities of our integrated forging with steel making processes, such as resource-saving high-strength gear steel. By making maximum use of our own technologies and partnerships with automakers and parts manufacturers, we are driving development and sales of steel materials and parts for electrified vehicles.



Left: Output shaft for electric axles

Right: Next-generation electric axle being developed to save resources, reduce size and weight, and handle high-speed rotation

Development based on integrated forging with steel making processes



Revision of sales prices

With the burden of increasing costs, including the costs of raw materials, secondary materials, and energy, Aichi Steel is working to improve sales prices while also implementing complete cost structure reforms and improving productivity. In the past, we have set our prices using such things as a sliding scale linked to the price of the raw materials, but lags in the reflection of price changes, non-application of the sliding scale to some costs, and other issues have had the effect of suppressing earnings. For this reason, we are increasing the frequency of sales price revisions, expanding the scope of application for our sliding price scale, and otherwise revising our rules for setting sales prices.

Issues to address	Priority measures
(1) Downturn in sales volumes of specialty steel and forged products	(1) Purchases: Low-cost stable procurement and reduced raw material costs through expansion of steel scrap storage and processing capacity
(2) Increased and persistently high costs of raw materials and energy	(2) Production: Full lowering of break-even points
	(3) Sales: Raised demand through increased sales of strategic products Revision of sales prices

Feature 2 Evolution of Sustainability Management

Initiatives to Respect Human Rights

I Basic approach

Due to the increasing importance of respect for human rights in business globally, plus other factors such as diverse values and globalization of supply chains, there are strong expectations that companies will consider human rights in their corporate activities. To realize sustainable society, the Aichi Steel Group will provide value to society and remain a company of choice that is trusted by society at large. We will promote efforts to respect the human rights of all people involved in our corporate activities by dealing with each and every one of our stakeholders with sincerity.

I Human rights policy

Through the Aichi Way, which is the Aichi Steel Group's set of common values, and the Aichi Steel Group's Action Guidelines, the Group has always demonstrated the importance of human rights and managed its business in a way that values people. In March 2023, however, we created the Aichi Steel Group's Human Rights Policy with the approval of the Board of Directors to clarify our human rights policy, promote understanding outside the Group, and raise awareness among our employees. In accordance with the United Nations "Guiding Principles on Business and Human Rights," it is positioned as the Aichi Steel Group's highest policy regarding human rights that all officers and employees should comply with. We have also advised all of our business partners, including suppliers, of this policy to gain their understanding and support.

See the following link for the Aichi Steel Group's Human Rights Policy.
https://www.aichi-steel.co.jp/sustainability/policy_humanrights.pdf (Japanese only)



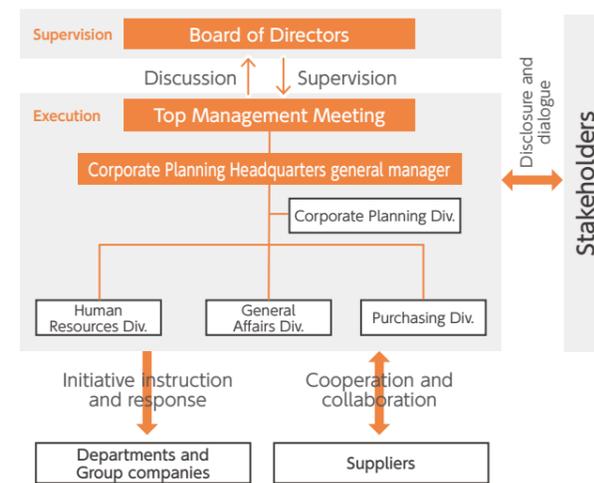
I Initiative scheme

The following is a representation of development of the Aichi Steel Group's Human Rights Policy, based on the United Nations "Guiding Principles on Business and Human Rights."



I Promotion structures

Initiatives to respect human rights are discussed by members of the executive in the Top Management Meeting and regularly reported to the Board of Directors.



Roles of each meeting

Meetings	Composition	Respect for human rights roles
Board of Directors	Chair: Chairperson of the Board - Outside directors (2) - Inside directors (4)	· Discuss formulation and revision of human rights policy · Receive and supervise reports from the executive on status of initiatives to respect human rights, etc.
Top Management Meeting	Chair: President - Chairperson, president, executive vice president - In-house company presidents (4) - Headquarters general managers (4)	· Discuss policy and planning related to respect for human rights - Corporate action guidelines, procurement policies, etc. - Human rights issue evaluation/identification and prevention/mitigation measures, etc.

Roles of each division

Divisions	Roles
Human Resources Div.	· Human rights awareness and education, etc. · Support for participation of diverse human resources, etc. · Human rights due diligence (internal and Group companies)
General Affairs Div.	· Development and operation of the grievance remedy mechanisms
Purchasing Div.	· Human rights due diligence (suppliers) · Collaboration and cooperation activities with suppliers
Corporate Planning Div.	· Planning and implementation of initiatives to respect human rights · Information disclosure

I Employee awareness and understanding

Aichi Steel is conducting activities to promote employee understanding of human rights to encourage them to act in line with its human rights policy. We have previously provided education on respect for human rights at various times, including when joining the company and receiving promotions, but we took the opportunity of our new human rights policy to update this education. In addition to new online human rights education videos for all Group employees, and briefings on the human rights policy for general managers, we are conducting other activities to promote awareness and understanding of human rights.

I Human rights due diligence

Aichi Steel started conducting human rights due diligence in April 2023 in response to human rights risks to society through its corporate activities. We are developing due diligence structures for Aichi Steel and domestic Group companies while interviewing relevant parties and conducting written surveys. Going forward, we will identify and evaluate important risks and confirm the management status of specific expected human rights risks, and we will implement prevention and mitigation measures if necessary, and verify their impact. In addition to reporting progress of these activities to the Board of Directors, we also publish them when appropriate through our website and the Integrated Report.

Respect for human rights roadmap

Elements of human rights due diligence	FY2023	FY2024	FY2025 and onward
1. Develop, operate, and improve structures for implementation	Reporting to companywide meetings and Board of Directors		
	Operation and improvement of internal promotion structures		
2. Raise awareness and understanding of human rights, and conduct education and training	Aichi Steel	Policy dissemination and briefing → Reflection in position-specific education	Revision of content as required
	Aichi Steel Group	Revision of Aichi Steel Group's Action Guidelines	Activities to raise awareness and understanding of the guidebook
	Suppliers	Policy dissemination and briefing to Group companies	Human rights training at Group companies (policy, guidebook, etc.)
3. Identify and evaluate human rights risks, and implement prevention, mitigation, and correction measures	Aichi Steel	Formulation of supplier guidelines	Collaborative activities through dialogue with suppliers, etc.
	Aichi Steel Group	Investigation and evaluation within the Group	Implementation, monitoring, and additional investigation of prevention, mitigation, and correction measures according to results of the evaluation
	Suppliers	Identification of human rights risks in supply chains	Investigation and evaluation of suppliers
	Stakeholder engagement	Information disclosure and enhancement through website and Integrated Report	Continuation and improvement
4. Develop grievance remedy mechanisms	Aichi Steel Group	Confirmation and consideration of the status of the implementation of grievance remedy mechanisms	Evaluation and improvement to improve usability and trustworthiness
	External	Improvement of human rights understanding among consultation contact point staff	Consideration of expanding contact points for suppliers, or establishing an external whistle-blowing system

I Consultation contact point

In addition to establishing an internal whistle-blowing system for the Aichi Steel Group and suppliers in Japan, Aichi Steel has also established a contact point for all consultations on topics including harassment, childcare and nursing care, and mental health at the company. Including the human rights consultation contact point that we established in fiscal 2023 for all stakeholders, both internal and external, we are developing grievance remedy mechanisms.

Going forward, we will continue to improve the level of our human rights activities, from improved structures for respect for human rights due diligence and the grievance remedy mechanisms to a steady improvement in understanding of our human rights policy.



Human rights policy briefing for general managers



Briefing materials (Japanese only)

Climate Change Response

I Basic approach

Aichi Steel emits CO₂ both directly and indirectly through the manufacturing processes of its various products, such as heating of steel materials, and melting of steel scrap, which is the raw material of its main product, specialty steel. For this reason, our response to climate change is a serious management issue from the perspectives of risks and opportunities. In September 2021, we made a commitment to take on the challenge of carbon neutrality by 2050, so we are accelerating initiatives for decarbonization.

As a resource-recycling company that uses steel scrap as a raw material in manufacturing, we will utilize our strengths, which have contributed to sustainable manufacturing through materials and parts, to help realize a decarbonized society. To this end, we will also continue to develop and provide products and services that contribute to reduced CO₂ emissions across the entire supply chain.

I Information disclosure and support of TCFD recommendations

In December 2021, Aichi Steel declared its support of recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We are analyzing various scenarios based on the impacts, and associated risks and opportunities, that climate change may have on our business, and we are considering how to reflect the results in management strategy to achieve sustainable growth. We detail our climate-related initiatives here in line with the framework (governance, strategy, risk management, and metrics and targets) recommended by the TCFD.

See the following link for our disclosures based on TCFD recommendations.
<https://www.aichi-steel.co.jp/ENGLISH/sustainability/environment/tcfd/>



Governance

We have identified climate change as a priority issue (materiality) for management, so we are setting KPIs and working to accomplish our targets. As the organization responsible for considering important business management-related matters, the Top Management Meeting discusses and considers response policies, business strategies, and the status of initiatives related to risks and opportunities that can severely impact business management, such as climate change. The Board of Directors performs its supervisory function by receiving subsequent reports and considering matters that are particularly important.

We have also established an Environmental Working Group to execute strategies, set targets, and manage progress related to



climate change. It comprises six subcommittees, each with clear areas of responsibility, to conduct efficient and targeted activities.

FY2022 achievements

Meetings	Agenda items
Board of Directors	<ul style="list-style-type: none"> Revision of CO₂ emission reduction targets (discussion) Disclosures based on TCFD recommendations (reporting) Carbon neutral trends and Aichi Steel progress (discussion of special topics)
Top Management Meeting	<ul style="list-style-type: none"> Consideration of adoption of solar power generation (Seki Plant and Gifu Plant) Disclosures based on TCFD recommendations (discussion) GX League endorsement and participation Actual CO₂ emissions (monthly)

Risk management

We follow the process below to identify, evaluate, and supervise all risks. We also discuss and report climate change-related risks in the Environmental Working Group and Top Management Meeting to clarify impacts and our responses.



Strategies

While referencing reports of the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC), we developed two scenarios (1.5°C scenario and 4°C scenario) of what society would look like in 2030 assuming a global average temperature rise of 1.5°C and 4°C by the end of this century (compared to pre-industrial levels), and analyzed the risks and opportunities.

Analysis results by scenario

Scenarios	Analysis results
1.5°C	<ul style="list-style-type: none"> While risks include expansion of CASE applications in the automotive industry where our major customers are, and demands for decarbonization in the steel industry, we are confident that addressing climate change will lead to the creation of new business opportunities.
4°C	<ul style="list-style-type: none"> We reconfirmed the potential for natural disaster risks, which are increasing on a yearly basis, to impact our company and the rest of the supply chain. We will continue efforts to adapt to natural disasters, revise our business continuity plan (BCP), strengthen the supply chain by enhancing information gathering, and improve communication.

Main risks and opportunities, and response policies (excerpt)

Scenarios	Climate-related matters	Impact on Aichi Steel	Response policies
1.5°C	Major transition in the automotive industry · Electrification · Autonomous driving	Risks · Reduced demand for specialty steel and parts (forged products, etc.) due to increased electrification	<ul style="list-style-type: none"> Maintain business by capturing demand for specialty steel and forged products for electrified vehicles
		Opportunities · Increased demand for materials and products for electrified vehicles · Expansion of the autonomous driving market	<ul style="list-style-type: none"> Develop highly functional, high value-added materials and products (next-generation electric axles, etc.) Expand use of the GMPS autonomous driving support system
	Increased demand for decarbonization in society · Demand for electric furnace steel, etc.	Opportunities · Increased demand for electric furnace steel with low CO ₂ emissions and outstanding recycling properties	<ul style="list-style-type: none"> Develop high-quality, highly functional products that meet the diverse needs of users, and build stable supply systems
		Risks · Increased operation costs associated with use of fossil fuels, etc. · Increased operation costs associated with increased prices for renewable energy	<ul style="list-style-type: none"> Develop energy-saving production technologies and consider adoption of highly efficient equipment Expand adoption of renewable energy, including through in-house energy generation
4°C	Adoption of carbon pricing (carbon taxes, etc.)	Risks · Supply shortages, reduced quality, and increased costs associated with increased demand for steel scrap · Unstable procurement of rare metals and rare earth materials	<ul style="list-style-type: none"> Strengthen and expand recirculating schemes in collaboration with users, and establish technologies for using low-grade scrap Enhance supply chain management by adopting a multi-source procurement policy, etc.
		Risks · Restricted supply of raw materials and other resources	<ul style="list-style-type: none"> Minimize impacts through ongoing BCP measures and supply chain resilience
4°C	Natural disasters (increased intensity and frequency, etc.)	Risks · Damage to own facilities, and operation stoppages due to supply chain disruptions	<ul style="list-style-type: none"> Minimize impacts through ongoing BCP measures and supply chain resilience
		Risks · Increased operation costs associated with use of fossil fuels, etc. · Increased operation costs associated with increased prices for renewable energy	<ul style="list-style-type: none"> Develop energy-saving production technologies and consider adoption of highly efficient equipment Expand adoption of renewable energy, including through in-house energy generation

Metrics and targets

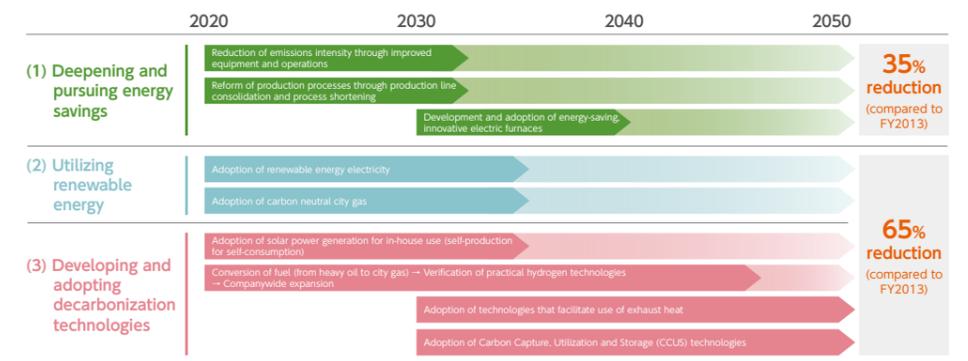
We set ourselves a target to reduce CO₂ emissions from our corporate activities by fiscal 2030, but we have now lifted that 35% target to 50% (compared to fiscal 2013). We have been actively implementing initiatives for this purpose, including thorough promotion of energy savings in our production processes and adoption of non-fossil energy sources, such as solar power generation. With the appearance and increasingly serious nature of climate change risks, and an urgent need to shift to a decarbonized society, we considered more active efforts to achieve carbon neutrality and decided to raise our target as a result.



Scope of calculations: Total of Scope 1 and 2 emissions from Aichi Steel on a non-consolidated basis
 Calculation method: Calculations based on the Act on Rationalizing Energy Use and Shifting to Non-fossil Energy (Agency for Natural Resources and Energy) and emissions coefficients from contracted power companies for each fiscal year

I Roadmap to carbon neutrality by 2050

Aichi Steel has formulated and is systematically implementing a roadmap for achieving its targets. We also created plant-specific roadmaps, and we are systematically conducting activities focused on (1) deepening and pursuing energy savings, (2) utilizing renewable energy, and (3) developing and adopting decarbonization technologies.



Climate Change Response

I Specific initiatives

Use of renewable energy

The large amounts of electricity used in Aichi Steel's specialty steel manufacturing processes have made it essential for the company to shift to electricity derived from renewable energy. Therefore, in addition to thorough efforts to conserve energy and improve efficiency, we are actively promoting adoption of such electricity. In fiscal 2022, five of our seven plants (Seki Plant, Gifu Plant, Higashiura Plant, Electronic Components Plant, and Kariya Plant) effectively achieved carbon neutrality through the purchase of FIT non-fossil certificates with tracking*1 and adoption of carbon neutral city gas*2. In fiscal 2023, we also plan to start operating in-house solar power generation facilities at two of our plants (Seki Plant and Gifu Plant). Going forward, we will continue expanding use of renewable energy.



Solar panels installed on the roof of Gifu Plant (in operation from 2023)

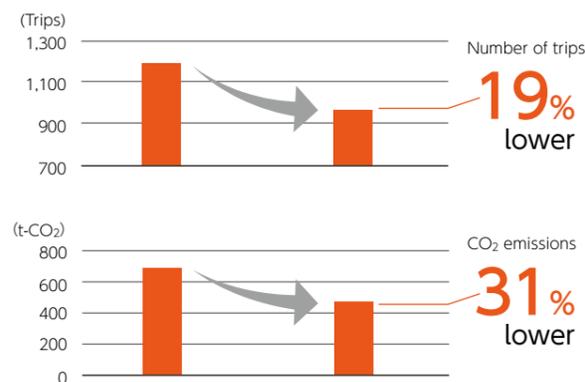
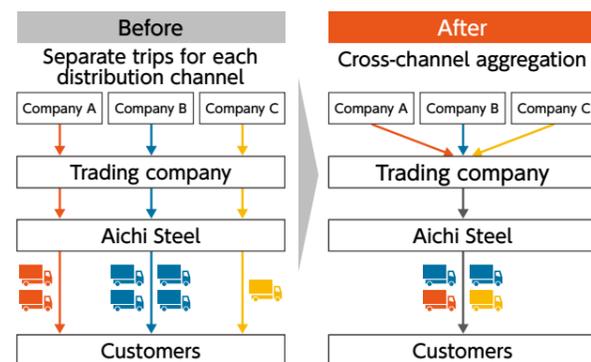
Toward hydrogen adoption

We have already begun working toward use of hydrogen, which carries many hopes as a next-generation clean energy that does not emit CO₂ during combustion. We have traditionally used city gas as a burner fuel in the industrial furnaces we use in the heat treatment process of steel materials. However, in fiscal 2022, we started using burners that can operate on hydrogen as well. Going forward, we will conduct verification trials to determine things like the impact of hydrogen combustion on steel materials, and work to achieve practical application of this technology.

Supply chains that ensure stability of supply must be developed to expand the use of hydrogen, and we are helping to achieve this goal through participation in the Chubu Region Hydrogen Utilization Council. This organization was launched as Japan's first initiative that brings together private sector companies to create cross-regional demand and supply chains for hydrogen. As a member of the council, we aim to reduce our CO₂ emissions by converting our plants to hydrogen from city gas and other energy sources. Consequently, we are considering use of at least 1,000 tons of hydrogen in fiscal 2030. Going forward, we will contribute toward realizing a decarbonized society by continuing to take on the challenge of shifting to various clean energies.

Supply chain initiatives

To realize a decarbonized society, it is essential that the entire value chain participate, not just Aichi Steel. For this reason, we are working in collaboration with suppliers and logistics operators to reduce CO₂ emissions. Two logistics issues that we have traditionally faced are how to improve truck loading rates and reduce the number of trips required. To address these issues, we have been asking for the cooperation of all suppliers while aggregating logistics across distribution channels through visualization of routes with low loading rates. As a result, we have succeeded in reducing annual logistics-related CO₂ emissions by 31% year-on-year. In recognition of this activity, Aichi Steel and Group company Aichi Steel Logistics Co., Ltd. received a Special Award under the Excellent Green Logistics Commendation Program operated by the FY2021 Green Logistics Partnership Conference. In light of workstyle reform law that the logistics industry is facing, known as the "2024 Problem," we will continue to work towards ongoing improvements in this area.



Collaboration with society

Having endorsed the GX League Basic Concept in September 2022, we began participating in the GX League*3, led by the Ministry of Economy, Trade and Industry, in fiscal 2023. We are currently a member of a working group for considering adding value to green products*4, which is one of the GX League's initiatives around drafting rules for market creation. In cooperation with fellow member companies, we are formulating recommendations about the creation of common rules for disparate industries on the value of green products and low-carbon products, which are expected to grow in demand going forward.

Through these activities, we seek to expand the use of products and services that contribute to decarbonization, and to maintain and strengthen competitiveness in the specialty steel industry in Japan.



*3 The GX League is a forum for companies actively working on Green Transformation (GX), providing opportunities for discussion around transformation of the entire economic and social systems, and for practical implementation to create new markets. It was established by the Ministry of Economy, Trade and Industry in March 2022.

*4 A consultative working group of companies that have endorsed the GX League. It is working to formulate recommendations about common rules for value creation in green products and low-carbon products

I Actual CO₂ emissions by Scope

Management indices	CO ₂ emissions (1,000 t-CO ₂)				Calculation methods
	FY2013 (Base year)	FY2020	FY2021	FY2022	
Scope 1	239	217	258	220	• Refer to Scope 1 and 2 calculation method below
Scope 2	556	345	379	397	
Scope 1 + Scope 2 (reduction compared to FY2013)	795	562	637	617 (-22%)	
Emissions intensity of production (kg-CO ₂ /t)	546.4	470.0	441.5	456.0 (-16%)	
Scope 3					
1. Purchased goods and services	N/A	718	948	793	• Calculated by multiplying purchased amounts of raw materials and other resources (purchase price) by the emissions intensity
2. Capital goods	N/A	44	30	37	• Calculated by multiplying capital expenditures by the emissions intensity
3. Fuel- and energy-related activities (not included in Scope 1 or 2)	N/A	111	126	121	• Calculated by multiplying usage amounts of purchased electricity and fuel by the emissions intensity
4. Upstream transportation and distribution	N/A	28	34	29	• Calculated by multiplying transportation distances, and transportation means and distances for Category 1 purchases, according to the Energy Saving Act report, by the emissions intensity
5. Waste generated in operations	N/A	11	11	10	• Calculated by multiplying the emissions intensity for each type of waste
6. Business travel	N/A	0	0	0	• Calculated by multiplying payment amounts for each travel means by the emissions intensity
7. Employee commuting	N/A	3	4	4	• Calculated by multiplying payment amounts for each travel means by the emissions intensity

Figures in the above table are rounded to the nearest thousand tons, with "0" representing "less than 500 tons."

<Scope of calculations> Scope 1 and 2: Aichi Steel alone; Scope 3: Aichi Steel alone in relevant categories

<Scope 1 and 2 calculation method> Calculations are based on the Act on Promotion of Global Warming Countermeasures, Act on Rationalizing Energy Use, and Standard Calorific Value and Carbon Emission Factors by Energy Source (Agency for Natural Resources and Energy), and emissions coefficients from contracted power companies for each fiscal year

<Scope 3 emissions intensity> According to the "Database on Emissions Unit Values for Accounting of Greenhouse Gas Emissions, etc." by Organizations Throughout the Supply Chain" (Ver. 3.2, March 2022) from the Ministry of the Environment; and the "IDEA LCI Database" (Ver. 2.3) created by the Advanced LCA Research Group at the Research Institute of Science for Safety and Sustainability of the National Institute of Advanced Industrial Science and Technology (AIST), and Sustainable Management Promotion Organization (SuMPO)

*1 Certificates of the environmentally friendly value of electricity generated by non-fossil power sources (power sources that generate electricity without using fossil fuels such as coal and oil), which are subject to the FIT program established to promote the spread of renewable energy

*2 City gas produced using carbon neutral LNG, in which CO₂ generated in the processes from mining to the combustion of natural gas is offset by CO₂ credits (carbon offsetting)



Capital to create value

Human Capital

Aichi Steel considers that the pursuit of a valuable working life that brings happiness to employees will lead to company growth. As such, we have defined "Employee happiness and corporate development" as one of our management guidelines in Vision 2030, and we are actively investing in our human resources in the following ways to achieve this goal.

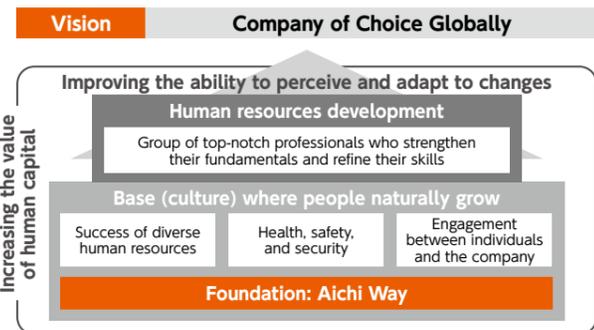
- (1) Creating opportunities for women and older employees to play active roles, and promoting diversity and inclusion to provide diverse workstyles
- (2) Implementing health and productivity management and promoting the creation of safe and secure workplaces
- (3) Improving employee engagement to achieve both individual and company growth
- (4) Developing human resources able to perceive social and company changes and meet those changes with flexibility



Strengthening of Human Capital Management

Aichi Steel believes that its mission is to accurately identify the changing needs of society and continue to provide new value as a materials manufacturer, amidst highly uncertain circumstances such as the rapid progress of decarbonization. We also consider our human capital to be the source of our success in this mission.

We are working to strengthen our human capital management to achieve corporate growth. In these efforts, we leverage the Aichi Way, which has been passed down through generations as a set of values to be cherished in our work, and the technologies and skills we have cultivated as a materials manufacturer, to help each and every employee maximize their potential by acquiring skills corresponding to changing roles and taking on new challenges with enthusiasm. Our human resources development aims to create a group of top-notch professionals who strengthen their fundamentals and refine their skills. More specifically, at the foundation of this effort is the creation of opportunities and systems that enable the success of diverse human resources, improvement of engagement between individuals and the company, and the development of the base where people naturally grow, all in workplace environments ensuring good health, safety, and security.



Diversity and inclusion

Aichi Steel believes that employees with diverse values, potentials, and experiences understanding each other, enhancing each other's potential, and demonstrating it will lead to the creation of new value. This is why we are committed to the employment of diverse human resources and the development of systems and environments that enable them to demonstrate their abilities.

Promotion of more active roles for women in the workplace

Aichi Steel is committed to creating an environment in which women can choose flexible workstyles to pursue their goals. We support career development through training and other measures, and have introduced and developed systems to help women balance work and life events. These include the Nice Family System, which is centered on childcare and nursing care support systems, as well as flextime system without a core period and working from home system. We are also focusing on efforts to raise awareness, such as providing e-learning on childcare support systems to all managers to promote understanding among superiors and other employees in the workplace, and to create an environment that facilitates the use of childcare leave regardless of gender. In fiscal 2022, 22 male employees, double the number of the previous year, took childcare leave, indicating the positive effects of our efforts. We will continue to respect diverse values, promote the creation of an environment in which everyone can play an active role regardless of gender, and work to create an environment in which all employees can balance work with their personal lives.

Overview of the Nice Family System

Childbirth and childcare						Nursing	Other
Birth	Until 1 year old	Until 2 years old	Until 3 years old	Until entry into elementary school	Until 3rd grade at elementary school		
Pre/post birth leave						Nursing care leave	Flextime system
Childcare leave	Extended leave					Nursing care special leave	Working from home system
Overtime exemption						Shortened working hours for nursing care	
Overtime restriction (24 hours/month and 150 hours/year)						Overtime restriction (24 hours/month and 150 hours/year)	
Nighttime work restriction						Welfare leave	
Childcare special leave (5 days/year for 1 child or 10 days/year for 2 or more children)						Reemployment system	
Sick/injured childcare leave (5 days/year for 1 child or 10 days/year for 2 or more children)							
Shortened working hours for childcare							

		FY2022
Rate (and number) of female managers*1		1.0% (4)
Rate (and number) of male employees taking childcare leave*2		33.3% (22)
Wage difference between male and female employees*1, *3 (%)	All employees	66.5%
	Full-time employees	68.2%
	Part-time/temporary employees	68.7%

*1 Calculated based on the provisions of the Act on Promotion of Women's Participation and Advancement in the Workplace
 *2 The percentage of employees taking childcare and other leaves under Article 71-4, Item 1 of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members is calculated based on the provisions of the ordinance.
 *3 Aichi Steel's salary and evaluation systems do not vary by gender, and the factors that contribute to differences in wages between men and women are the length of service, the ratio of women in manager positions, and the ratio of men and women in different job categories with different salary levels.

Expansion of active workplaces for people with disabilities

Aichi Steel is implementing a variety of measures to enable employees with disabilities to play an active role in a wide range of workplaces, including manufacturing sites and administrative divisions. With a focus on motivation, individual characteristics, and suitability for the operations, we determine assignments based on a series of practical workplace training and interviews. We are also implementing measures to fully utilize the potential of employees with disabilities after assignment, such as regular meetings with the employee concerned, follow-up with their workplaces, and other support and consideration led by the Vocational Life Consultants for Persons with Disabilities. In addition, to eliminate obstacles making it difficult for employees with disabilities to work, we are also committed to expanding the number of workplaces available to them through the introduction of barrier-free facilities, support for career advancement, and initiatives to raise employees' awareness and improve understanding.

Mid-career recruitment

In today's increasingly complex society, Aichi Steel believes that solving social issues through our business requires more advanced knowledge, diverse experience, and abilities than ever before. For this reason, we are focusing on mid-career recruitment, especially in our priority areas.

In fiscal 2022, we hired 16 employees in general positions. (Rate of mid-career recruitment: 44.8%)



Success of older employees

The number of older employees (aged 60 and above) is expected to increase in the future due to the future decline in the labor force, increase in the age at which pension benefits begin to be paid, and retention and improvement of workplace capabilities. Aichi Steel has established the Nice Senior System, which allows all employees who wish to continue working beyond the age of retirement until the start of pension benefits. Through discussions between labor and management, we have created comfortable work environments and revised employee benefits to ensure that older employees can continue to work with joy. In addition, to provide an opportunity to review their plans for post-retirement life, we are also implementing initiatives for the autonomous career development of older employees, such as holding seminars for those who have reached the age of 55 on themes such as how to work, retirement benefits and pensions, and health and dietary habits.

Person in charge of promotion



Haruna Nakata
 Labor Management Department,
 Human Resources Division

I am working every day toward the expansion of workplaces where employees with disabilities can play an active role and enjoy it. Each employee has different needs and difficulties, and it is sometimes difficult to provide the right support, but it is very rewarding when I see them succeeding in the workplace. I will continue to provide support in cooperation with related parties so that employees can continue to work with stability for a long time.

Human Resources Development

Aichi Steel is committed to developing human resources who can improve their basic skills, which are indispensable regardless of the times, and their expertise necessary to adapt to changes, and are able to think and act independently, while practicing the Aichi Way, a set of shared values that must be held by all employees of the Aichi Steel Group whose key words are "Sustain," "Appreciate," and "Create."

Implementation of the Aichi Way

Aichi Steel's human resources development is based on the concept of the Aichi Way, which is to "sustain" the skills and spirit established by our predecessors, to "appreciate" the colleagues, and to continue to "create" for the benefit of society, people, and colleagues.



Strengthening of basic skills and expertise

To strengthen the basic skills required for our operations, Aichi Steel is focusing on three areas: problem-solving capabilities, which are the foundation of work, skills for strong workplace capabilities, and digital literacy, which has been newly added. Our basic approach is to acquire problem-solving capabilities and skills through on-the-job training based on the principle of "Genchi-Genbutsu,"* and to enhance their effectiveness through off-the-job training (group education and training, etc.). For digital literacy education, we provide a flexible training program centered on e-learning, offering an educational curriculum suited to each individual's level of proficiency. In addition, to support self-development efforts, we provide correspondence courses, study assistance, and certification incentive programs to strengthen expertise.

*"Genchi" is actual place (Gemba) and "Genbutsu" is actual stuff or goods, something you can physically touch



Person in charge of promotion



Aya Tsuchiya
Human Resources Development Department, Human Resources Division

Education often does not produce immediate results, but I believe that by improving the basic skills of employees, we can contribute to enhancing their own sense of reward and to providing value to our customers. Especially when it comes to DX education, it is exciting to think of how it can help expand the company's potential, as things that were previously difficult or impossible to do can now be accomplished easily, quickly, and with good quality.

On-the-job and off-the-job training

Aichi Steel is actively and systematically practicing on-the-job training from the viewpoint that experience in and learning from onsite inspections are the key to developing human resources. We have established a system in which each employee reviews their future career plan and regularly discusses with their superior their work assignments and goals for acquiring the skills and knowledge necessary to realize the plan and for developing competencies. In training programs, various efforts are made to enhance the effectiveness of training, such as senior employees taking charge of instructing junior employees to achieve a synergistic effect between on-the-job training and off-the-job training, and top management providing messages based on their own experiences to raise participants' motivation.

Digital literacy education

To adapt to the rapidly changing business environment and maintain and improve competitiveness, it is necessary to promote DX for the transformation of the operations, organizations, and corporate culture, in addition to initiatives at manufacturing sites, such as smart factories. To achieve this, Aichi Steel has introduced a new education program to accelerate efforts to develop DX human resources. In fiscal 2022, we conducted digital knowledge training, mainly through e-learning, for all employees in general positions. From fiscal 2023, we are focusing on the selection and training of DX leaders who will drive DX promotion.

DX human resources	Necessary DX human resources	Training target for 2026 (number of employees)
DX leaders	Have the ability to lead digital human resources to promote DX	125
DX members	Possess digital technology and have the ability to promote operational transformation	515
All employees	Have the ability to use digital technology to promote operations	900

Efforts to develop human resources for executives

To systematically develop human resources who will be responsible for future management, Aichi Steel provides education programs to acquire managerial leadership skills that allow them to see and think from the perspective of the entire company to create management ideas, and to hone their boldness, vision, sense of speed, and other qualities necessary for assuming higher responsibilities. Having the managing executive officers serve as instructors, the programs are designed to make the participants aware that they are core human resources, with an emphasis on their mindset to fulfill their roles. By continuously striving to develop human resources for management, we will ensure that we have the human resources to support the management of the company.

Health and Safety Initiatives

Basic approach

Since its foundation, Aichi Steel has practiced people-oriented management. People-oriented management refers to management that enables employees to lead healthy and active lives, both physically and mentally, to realize valuable lives and the happiness of employees and their families, and provides value to society. Based on the basic philosophy that health and safety take priority over all, we position employee health and safety as priority issues, work to maintain and improve their mental and physical health, and create people-friendly, safe, and secure workplaces.

Implementation of health and productivity management

Aichi Steel believes that efforts to maintain and improve employee health bring a range of benefits, including vitality and productivity improvements for the organization. Based on this belief, we are committed to implementing health and productivity management for sustainable growth. In the Medium-term Management Plan, we have established quantitative targets for employee health and have been working on continuous improvement through PDCA cycles. With mental health and the prevention of lifestyle-related diseases as our priority issues, we are working to enhance various measures by promoting "collaborative health"* through collaboration among the company, Health Insurance Society, and labor union. In recognition of these initiatives, we were recognized for the sixth consecutive year in 2023 as a Certified Health & Productivity Management Outstanding Organization.

* Efficient and effective implementation of disease prevention and health promotion for insured individuals through active collaboration between the insurer and the business with clearly assigned roles and favorable workplace environments



Promotion structures



Prevention of lifestyle-related diseases

With the aim of improving lifestyle habits for better health, Aichi Steel is promoting Health Challenge 8 initiatives to raise employees' health awareness and encourage behavioral changes. Employees and workplaces voluntarily engage in health promotion activities in a fun and creative way by holding inter-office events to encourage the implementation of healthy habits related to the eight categories: maintaining appropriate weight, eating breakfast, drinking alcohol, snacking between meals, giving up smoking, doing exercise, sleeping, and reducing stress.

Person in charge of promotion



Tomoyo Sanada
Health Promotion Department, Human Resources Division

We are working to improve mental health, which is the foundation for employees to play an active role in their work. In fiscal 2022, we engaged in activities focusing on detailed follow-up and post-return-to-work care for employees with mental health issues. From fiscal 2023, we are strengthening self-care and care involving their supervisors with the aim of preventing the occurrence of problems.

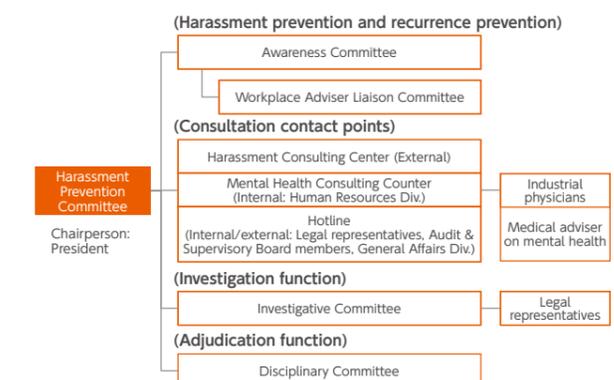
Mental health

Aichi Steel is working to prevent the occurrence of mental health issues and ensure their early detection and care by establishing a Mental Health Consulting Counter, providing education to both regular employees and supervisors, and providing consultations with a medical adviser on mental health for employees with mental health issues. In addition, we conduct stress checks once a year for all employees, and promote mental health by providing care for high-stress individuals and high-risk workplaces.

Harassment

Harassment is not only an assault to personal dignity and a disturbance of the peace in workplaces, but it is a problem that severely impacts business management as well. This is why labor and management are working together to create harassment-free workplaces. Aichi Steel established the Aichi Steel Harassment Prevention Guidelines, which defined measures for preventing harassment and rules for the company and employees to observe, and provide education to all executive officers and employees. We have also established dedicated consultation contact points internally and externally to address harassment issues, and we are allocating consultants in each workplace to systematically suppress harassment while achieving early detection and resolution. Consultations, reports, and issues uncovered are quickly examined, and facts are confirmed, in the Investigative Committee made up of members of labor and management who work to prevent recurrence through strict measures, education of supervisors, and other actions. In fiscal 2022, we increased the number of Workplace Advisers in remote areas and workplaces with rotating shifts for the purpose of increasing the convenience and effectiveness of these advisers, who are set up to support and serve as guides for workplace development. We are also working to raise awareness about harassment by regularly publishing a Labor Affairs News on harassment.

Basic conceptual diagram of harassment prevention structures



Safety

Basic approach

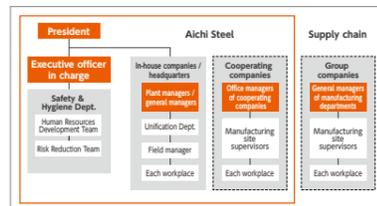
The Aichi Steel Group recognizes that safety takes priority over all. With this approach in mind, in accordance with the Basic Philosophy for Safety and Health, we aim to create safe and secure workplace environments for our employees and everyone else on our premises and to transform into a company with a safety culture.

Basic Philosophy for Safety and Health

Safe work, Reliable work, Skilled work. Safe work is "the gate" to all work. Let us pass through this gate.

Promotion structures

Led by the Safety & Environmental Division which is directly supervised by the president, the Aichi Steel Group is working on reducing and preventing occupational accidents, fostering safety-conscious human resources, and conducting inspections and audits. Based on the belief that all accidents and injuries can be eliminated, we are working to create safe and healthy workplace environments for all workers on our premises by sharing companywide policies not only with the in-house companies, headquarters, and Group companies, but also with cooperating companies.



Activity policy

To prevent accidents, the Aichi Steel Group is developing safety activities based on the three pillars: safety management, fundamentally safe designs, and the development of safety-conscious human resources.

Safety management: Risk assessment able to reliably identify sources of danger

Fundamentally safe designs: Facilities with zero points of contact between people and sources of danger

Development of safety-conscious human resources: Development of human resources that can promote mutual awareness

Transform into a company recognized by society as having a safety culture



* Occupational Safety and Health Management System

Person in charge of promotion



Yuji Yoshida
Safety & Hygiene Department,
Safety & Environmental Division

Based on the concept that safety takes priority over all, we are working to create accident-free workplaces by eliminating all serious risks by 2027, to transform into a company recognized by society as having a safety culture. Safety activities are like rowing a boat continuously on a river; if you do not keep rowing, you will fall back. We will build a solid foundation based on the three pillars of safety, and maintain and sustain this foundation to create safe workplaces.

Fiscal 2022 initiatives

Safety management

Safety Convention

The Safety Convention is held in conjunction with National Safety Week to share information on occupational accidents and to establish common policies for activities.



All Aichi Safety Convention

Onsite support

This initiative promotes accident prevention activities by supporting the activities of all workers on our premises by proposing better work practices and improving problems.



Accompanied Safety Patrol

Fundamentally safe designs

Management Safety Inspection Meeting

This initiative promotes the horizontal implementation of safety initiatives through guidance on and sharing of measures to eliminate hazardous sources specific to the workplace based on onsite inspections by top management.



Management Safety Inspection Meeting

Learning and sharing of past accidents

This initiative aims to prevent the recurrence of similar accidents by inspecting the status of countermeasures for accidents that occurred in the past.



Onsite Disaster Inspections

Development of safety-conscious human resources

Skill competition

This competition is designed to raise the level of our daily safety awareness and skill training by confirming and improving this level through competition.



Forklift Safe Operation Competition

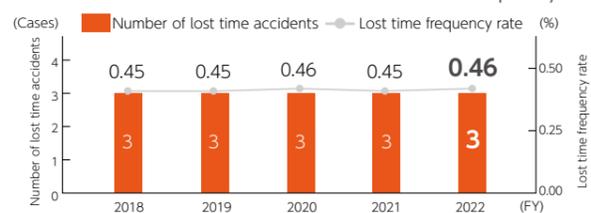
Prevention of disasters and accidents from being forgotten

This initiative strives to develop autonomous human resources by learning about the true causes of accidents and sustaining the mindset to be applied to autonomous actions.



Education at Denshinkan

Number of lost time accidents and lost time frequency rate



Creation of a Comfortable Work Culture

Basic approach

For the company and employees to share goals, grow together, and for each employee to demonstrate their full potential, a high level of engagement and a comfortable workplace culture are necessary. To achieve this, Aichi Steel conducts regular employee engagement surveys and implements necessary measures to ensure that employees feel a sense of growth through their work, remain motivated to work, and feel more fulfilled in their jobs. We are also working to enhance safe and comfortable work environments, such as by improving office environments, cafeteria, and restrooms.

Examples of activities

Category	Examples
Communication	<ul style="list-style-type: none"> Campaigns to greet others and to call them without honorific titles I-Time system for supervisors to communicate and discuss management information in workplaces
Workplace environments	<ul style="list-style-type: none"> Improvement of rest areas in workplaces (expansion of area, enhancement of facilities, etc.) Expansion of women's locker room space
Benefits and welfare	<ul style="list-style-type: none"> Construction of new dormitory for single employees Introduction of cafeteria plan*

* A system that allows employees to select their favorite benefits from a menu of benefits within the points allotted to them

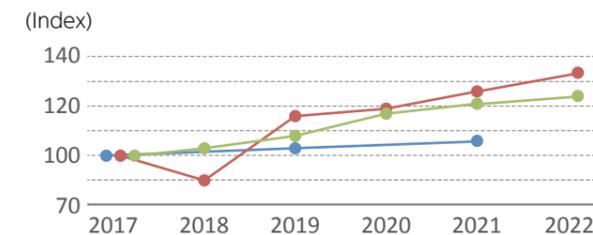


Exterior view of new dormitory for single employees, Hakusen Dormitory

Cafeteria plan menu (excerpts)

- Lifestyle support**
 - Subsidies for cafeteria use
 - Subsidies for purchase of working and office wear
 - Subsidies for highway commuting expenses
 - Subsidies for scholarship repayment
 - Subsidies for car inspection
- Health support**
 - Subsidies for use of various health checkups and medical examinations
 - Subsidies for use of sports facilities
- Asset building and insurance support**
 - Subsidies for contribution to My Savings Pension Plan
 - Subsidies for premiums for Happy Life Insurance
- Housing support**
 - Subsidies for private housing rent
 - Subsidies for mortgage repayment
- Diverse workstyle support**
 - Subsidies for purchase of computer equipment for working from home
 - Subsidies for use of housekeeping services
- Childcare and nursing care support**
 - Subsidies for use of childcare facilities and services
 - Subsidies for use of nursing care facilities and services
- Self-development support**
 - Subsidies for TOEIC examination fee
- Refreshment support**
 - Subsidies for travel expenses
 - Subsidies for use of relaxation facilities

Changes in engagement evaluation



- Morale survey:** Survey of employee attitudes to company management and policies, motivation for work (once every two years)
- Office workplace management survey:** Survey of attitudes of employees in general positions to workplace management performance, relationships with superiors and colleagues, etc. (once every year)
- Workplace capability survey:** Survey of attitudes of specialized employees to workplace management performance, relationships with superiors and colleagues, etc. (once every year)

Initiatives to improve engagement

Aichi Steel conducts an annual engagement survey of all employees. Based on the results of the analysis from various perspectives, such as motivation toward work, sense of growth through work, support from superiors, and workplace culture, we are working to develop various personnel measures and improve management in each workplace. In addition, for managers, who play an important role in workplace development, we are working to improve their management skills through lectures by experts and leadership training. In fiscal 2023, to gain a deeper understanding of the analysis of each workplace and clarify the direction of improvement, we are working to create a better workplace culture aimed at employee happiness and growth by starting to improve the engagement survey.

Person in charge of promotion



Toshihiro Asaoka
Human Resources Division

I feel that there are things that I have taken for granted in my long career at the company that, on second thought, could have been done a little better. To make junior employees and future employees feel comfortable and want to continue working at the company, we will continue to engage in our activities while constantly asking ourselves what is a good workplace culture.



Capital to create value

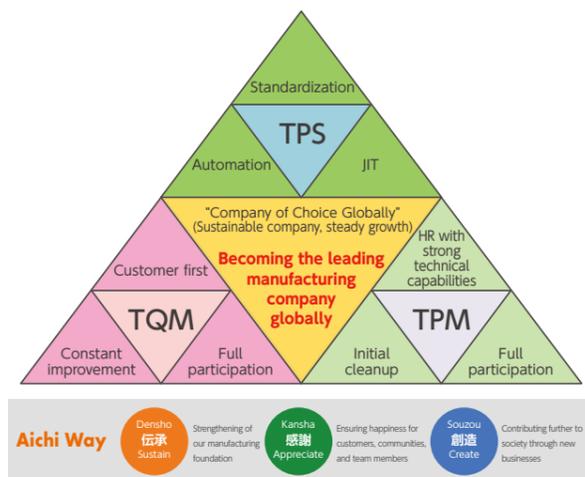
Manufactured Capital

With its high strength, heat resistance, and a range of other functions and characteristics, specialty steel is one of Aichi Steel's main products, and it merges many cutting-edge technologies of the steel industry and underpins customer manufacturing and society as a material used in the core components of automotive and industrial machines. The source of this success is our manufacturing capabilities focused on high quality and low cost, fostered since the company was founded, and our production systems that enable stable, on-time delivery of products to customers around the world.



Implementation of Quality Management and Improvement of the Underlying Manufacturing Capabilities

Aichi Steel has always focused on the manufacturing capabilities of integrated forging with steel making processes, which cover everything from material design to production of steel, forged products, and electronic components. We have continued to provide our customers with highly functional and high-quality materials and parts with high strength, durability, and machinability, which are indispensable in the automotive and other industries. This stable supply of high-quality, low-cost products has been supported by the implementation of quality management and the evolution of manufacturing capabilities through the Toyota Production System (TPS), Total Quality Management (TQM), and Total Productive Maintenance (TPM). Using this as a foundation, we are working to build production systems that are resilient to changes as we face increasing uncertainty, including geopolitical risks and sharp price fluctuations.

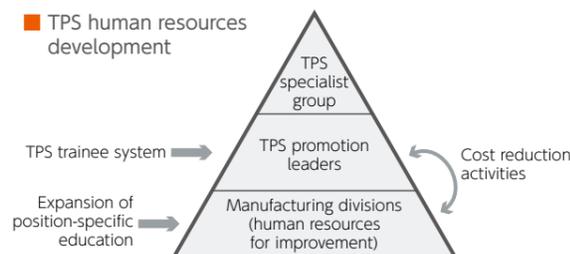


Improvement themes

Category	Outline of initiatives
Labor-saving	Improvement of single-person productivity per day, consolidation of equipment
Shortening of lead time	Reduction of production quantity, streamlining of production
Enhancement of production capacity	Reduction of downtime, improvement of specific consumption
Reduction of man-hours	Reduction of downtime, shortening of MCT*

* The time required to machine and assemble a single component

TPS human resources development



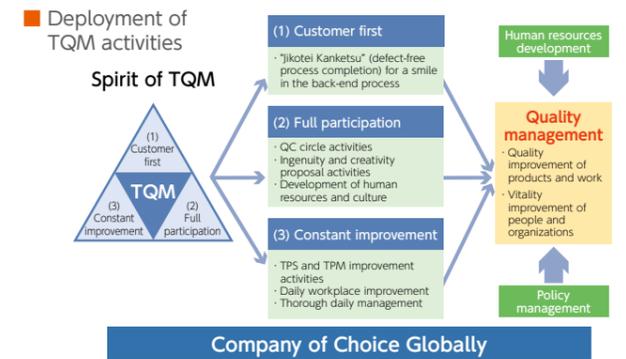
TPS Activities

Aichi Steel is striving to improve its lean manufacturing capabilities by promoting cost reduction through thorough elimination of waste based on the two pillars of TPS: just in time and automation. Each in-house company is systematically carrying out this effort by identifying specific issues and improvement themes for cost reductions from the perspective of TPS, and incorporating these activities into the Medium-term Management Plan. We are also focusing on human resources development to put TPS into practice. Selected employees serve as TPS promotion leaders, and under the TPS trainee system, they not only learn knowledge through theoretical lectures but also conduct practical studies such as case studies to apply TPS in their workplaces. Furthermore, to develop human resources for improvement necessary for the smooth introduction of TPS to actual manufacturing sites, we are expanding position-specific education for a wider range of employees and promoting the acquisition of TPS methods required according to their roles. With these cost reduction and human resources development activities as two key elements, we are building production systems that can respond flexibly to times of rapid change.

TQM activities

Implementation of quality management based on TQM

Based on the basic TQM principles of "customer first," "full participation," and "constant improvement," the Aichi Steel Group is working as one to build a flexible and resilient corporate structure through quality improvement of products and work and vitality improvement of people and organizations.



"Jikotei Kanketsu" with customer first

Based on the concept that quality is built in the process, which was born from Toyota Motor Corporation's manufacturing site, Aichi Steel is promoting "Jikotei Kanketsu" activities to ensure that no defective products are passed on to customers, including those in back-end processes, and that products are always delivered on time to satisfy customers. In addition to manufacturing sites, we are also expanding our activities to our administrative divisions with the aim of strengthening our competitiveness.

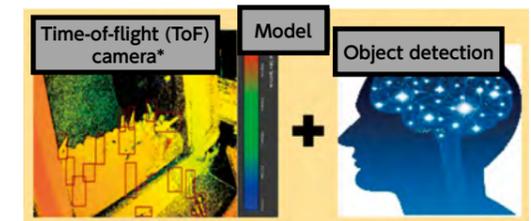
QC circle activities with full participation

Aichi Steel is working to establish and expand small-group QC circle activities as a means of improving operations in workplaces. We strive to develop human resources and revitalize organizations by encouraging activity teams to identify problems, clarify issues, and propose the implementation of countermeasures. In fiscal 2022, 163 teams were active in QC circle activities, and 14 cases received external awards. In addition, we are actively engaged in efforts by individuals to propose creative and innovative ideas, and in fiscal 2022, we received approximately 3,000 proposals companywide.



Constant improvement toward technological advancement

The automotive industry is undergoing a once-in-a-century revolutionary change, and the quality requirements are changing along with the shift to electrification and other changes. Aichi Steel is working to develop expert human resources capable of utilizing technologies such as IoT, big data, and AI to maintain and strengthen competitiveness while continuing to adapt to changes in quality. We are working on constant improvement by applying the results of these efforts to equipment error detection, automated inspection using image analysis, and automatic calculation of the grain shape of steel materials.



AI practice example: Remaining material detection

* A camera that measures and visualizes three-dimensional information using the time-of-flight of light

TPM Activities

With the goal of efficiently producing high-quality products, Aichi Steel is engaged in TPM activities in which all members working onsite participate in maintenance and perform planned maintenance. We aim to achieve zero failures and zero defects by analyzing production facilities, taking countermeasures, and making improvements before failures occur to transform human behavior and onsite facilities. In 2020, we relaunched TPM activities with the aim of raising the level of activities, and restarted activities involving everyone from top management to operators of manufacturing sites, with the three keywords of "full participation," "initial cleanup," and "human resources with strong technical capabilities." With operator self-maintenance as the most important activity, we have set quantitative targets for activities such as zero failures of production facilities, zero quality defects, zero occupational accidents, and productivity improvement through reduction of production losses, leading to the fostering of comfortable workplace environments. We are implementing the activities in line with the TPM Activity Master Plan formulated at the time of the relaunch, and achieving steady results, with 233 employees having acquired level 1 (top grade) self-maintenance personnel certification (acquisition rate: 17.8%) and a 15% reduction in total facility failures (compared to fiscal 2021) in fiscal 2022. Going forward, we aim to further improve our competitiveness by promoting the newly established Aichi-style TPM (data analysis, visualization, and failure reduction by making full use of DX).

TPM Activity Master Plan

Action Items	Targets for 2023	2020	2023	2024	2025	2026	2030
Basic plan	Establishment of self-maintenance activities at all in-house companies	Relaunch	Subsidiaries	Onsite offices	All in-house companies	Establishment of All Aichi self-maintenance activities	Establishment of All Aichi self-maintenance activities
1. Development of a system	Development of a system completed in 2021	Reporting meetings, inspections	Manual development	Ongoing operation of the system from 2021			Reinforcement of promotion, organization
2. Implementation of self-maintenance	20% reduction in failures				Step 7: Self-management		Reduction of failures by half
Number of blocks (QC circles) implementing self-maintenance: 131 Number of facilities: 647	Gold Level: 2 facilities				Step 6: Standardization		Gold Level: 45 facilities
	Silver Level: 4 facilities				Step 5: Self-inspection		Silver Level: 295 facilities
	Bronze Level: 307 facilities				Step 4: Total inspection		Bronze Level: All facilities
					Step 3: Preparation of tentative standards		
					Step 2: Detection and correction of defects		
					Step 1: Initial cleanup with full participation		
					Establishment of Aichi-style TPM		
					Contribution to marginal management		
					Bringing of old facilities back into service		
3. Human resources development	Level 1 self-maintenance personnel: 7% or more	Environmental improvement, curriculums, promotion requirements, etc.	Ongoing operation of the system from 2021	Ongoing implementation (each plant)			Level 1 self-maintenance personnel: 25% or more



Capital to create value

Natural Capital

Aichi Steel is deeply involved with natural capital as it uses a large amount of electricity, fuel, and water in the manufacturing processes of its products, including the melting of steel scrap and heating and cooling of materials. Any deterioration of the natural environment can therefore have a serious impact on our business activities. On the other hand, we are also a resource-recycling company that manufactures specialty steel mainly from steel scrap, which is a waste product that has completed its role in society. We believe that we can contribute to the preservation of the global environment by applying and developing the technical capabilities we have accumulated. To this end, we are promoting activities that lead to the restoration of natural capital, in addition to the efficient use of resources and the reduction of our environmental impact.



Environmental Management

To achieve the Vision 2030 management guideline of "Contribution to a sustainable global environment," Aichi Steel formulated the Aichi 2025 Environmental Action Plan to chart a course of action through to 2025. We defined targets to accomplish by 2025, and we are currently working to achieve these targets, focusing on the three pillars: eco-energy, eco-production, and eco-management.

Eco-energy	<ul style="list-style-type: none"> Pursue energy efficiency Reform manufacturing processes Adopt clean energy
Eco-production	<ul style="list-style-type: none"> Develop environmentally friendly products and technologies Contribute to next-generation infrastructure Pursue resource circulation
Eco-management	<ul style="list-style-type: none"> Ensure fulfill environmental responsibilities Conserve nature and biodiversity Communicate and disclose environmental information

Conceptual diagram of environmental policies

Eco-program for a happy, smiling and prosperous future

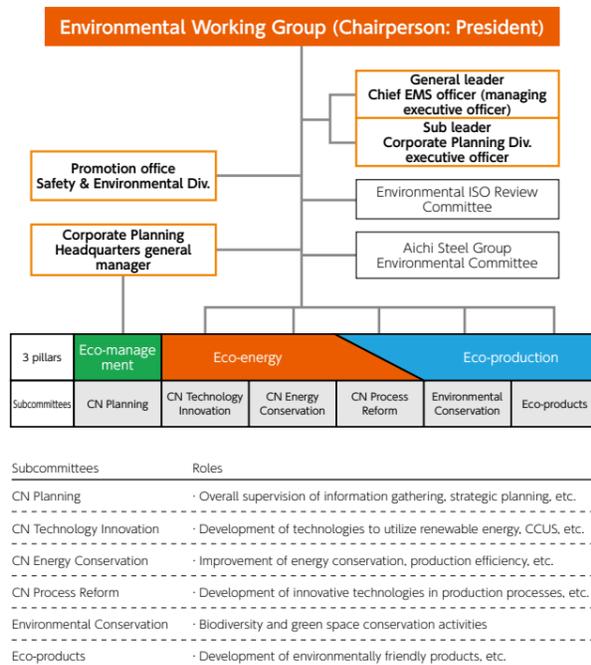


Pursue the potential of materials and create new value

Aichi Way 伝承 (Inheritance) 感謝 (Gratitude) 創造 (Creation)

Promotion Structures

Aichi Steel is working to implement environmental management through effective employment of the PDCA cycle mainly through the Environmental Working Group, which operates under the supervision of its Board of Directors with the president as chairperson. The Environmental Working Group is in charge of executing strategy, establishing targets, and checking progress in accordance with company policies and the Aichi Environmental Action Plan. Six subcommittees have been established under the Environmental Working Group with clear areas of responsibility to promote efficient and targeted activities based on specialized perspectives. In addition, the Aichi Steel Group Environmental Committee was established to share information and successful case studies to promote Groupwide activities.

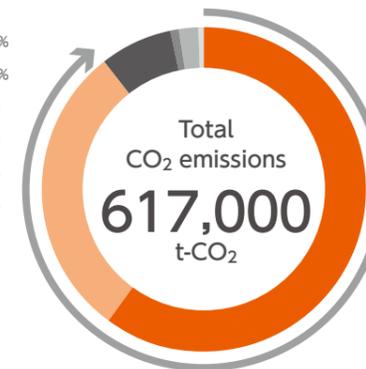


Eco-energy

Approximately 90% of Aichi Steel's CO₂ emissions come from the use of electricity to melt steel scrap in the steel making process, and from the use of city gas to heat steel materials. Based on the roadmap formulated toward achieving carbon neutrality by 2050, we are promoting the reduction of energy consumption through efforts to deepen the energy-saving technologies that we have cultivated, the elimination of waste in our daily operations, and drastic improvements in manufacturing processes. In fiscal 2022, in addition to ongoing energy-saving activities and the introduction of solar power generation facilities, we began exploring the use of future decarbonization technologies such as hydrogen and Carbon Capture, Utilization, and Storage (CCUS).

Breakdown of CO₂ emissions in FY2022 (Scope 1 + Scope 2 emissions from Aichi Steel on a non-consolidated basis)

- Electricity: 60.2%
- City gas: 29.4%
- Coke: 7.1%
- Heavy oil class A: 0.9%
- Oxygen: 2.0%
- Other sources: 0.4%



Pursuit of eco-energy

Aichi Steel's energy conservation activities are being promoted through working groups that engage in activities from three perspectives: thorough horizontal deployment of effective measures to maximize energy efficiency and minimize energy loss in manufacturing processes, visualization of energy consumption by building an IoT infrastructure (visualization of waste), and the fostering of awareness among employees of energy conservation.

(1) Reduction of heat loss by applying low-emissivity coating to steel heating furnaces

We are working to reduce heat loss due to radiated heat by applying low-emissivity coating to steel heating furnaces. After conducting verification using a model facility, we were able to reduce heat loss due to dissipation to less than half that of the conventional method. In the future, we plan to expand the target facilities to include in-house steel heating furnaces to further reduce heat loss. In addition, we are minimizing standby operation loss by improving compressor control and reducing the amount of energy used by improving facilities.

Person in charge of promotion



Yuki Nakashima
Environmental Management Group,
Safety & Environmental Division

I am in charge of promoting plant-specific roadmaps for achieving carbon neutrality, the secretariat for related capital investment, and evaluation/follow-up of energy-saving improvements. Carbon neutrality is a matter of social concern and an important issue for Aichi Steel that is also technically challenging. For this reason, I feel a lot of pressure, but I also find it very rewarding because I can contribute to the environment. I will continue to work together with our members to realize a decarbonized society as soon as possible.

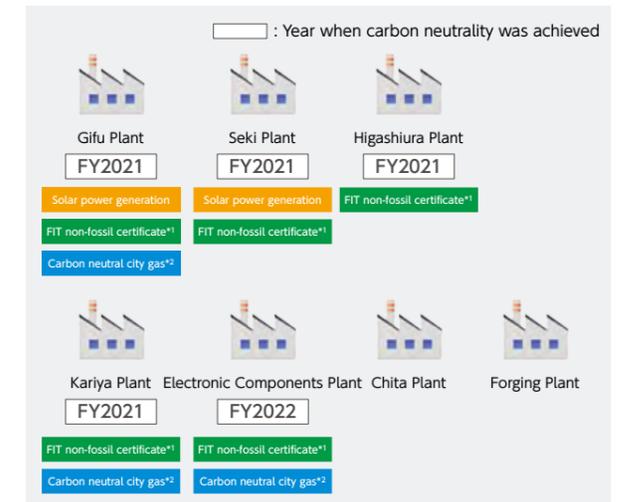
(2) Visualization of energy usage status

We are building a system that enables us to collect and analyze real-time and precise energy usage status by utilizing IoT. In the future, we will link operational data to the system and analyze data on a line-by-line and facility-by-facility basis, thereby enhancing energy management, such as the improvement of energy efficiency and flexible adjustment to demand response.

Adoption of clean energy

Aichi Steel is working to expand the introduction of solar power generation and the adoption of clean energy for the utilization of hydrogen in the future. By purchasing feed-in tariff (FIT) non-fossil certificates*1 with tracking in fiscal 2021, the power used at four plants (Gifu Plant, Seki Plant, Higashiura Plant, and Kariya Plant) was virtually converted to renewable energy. In fiscal 2022, solar power generation facilities were installed at two plants (Seki Plant and Gifu Plant), which began operation in fiscal 2023. In anticipation of future hydrogen utilization, we have also introduced gas burners that can use both hydrogen and city gas as fuel. Going forward, we will develop technologies and conduct verification trials.

Achievement of carbon neutrality by plant



*1 Certificates of the environmentally friendly value of electricity generated by non-fossil power sources (power sources that generate electricity without using fossil fuels such as coal and oil), which are subject to the FIT program established to promote the spread of renewable energy
*2 City gas produced using carbon neutral LNG, in which CO₂ generated in the processes from mining to the combustion of natural gas is offset by CO₂ credits (carbon offsetting)

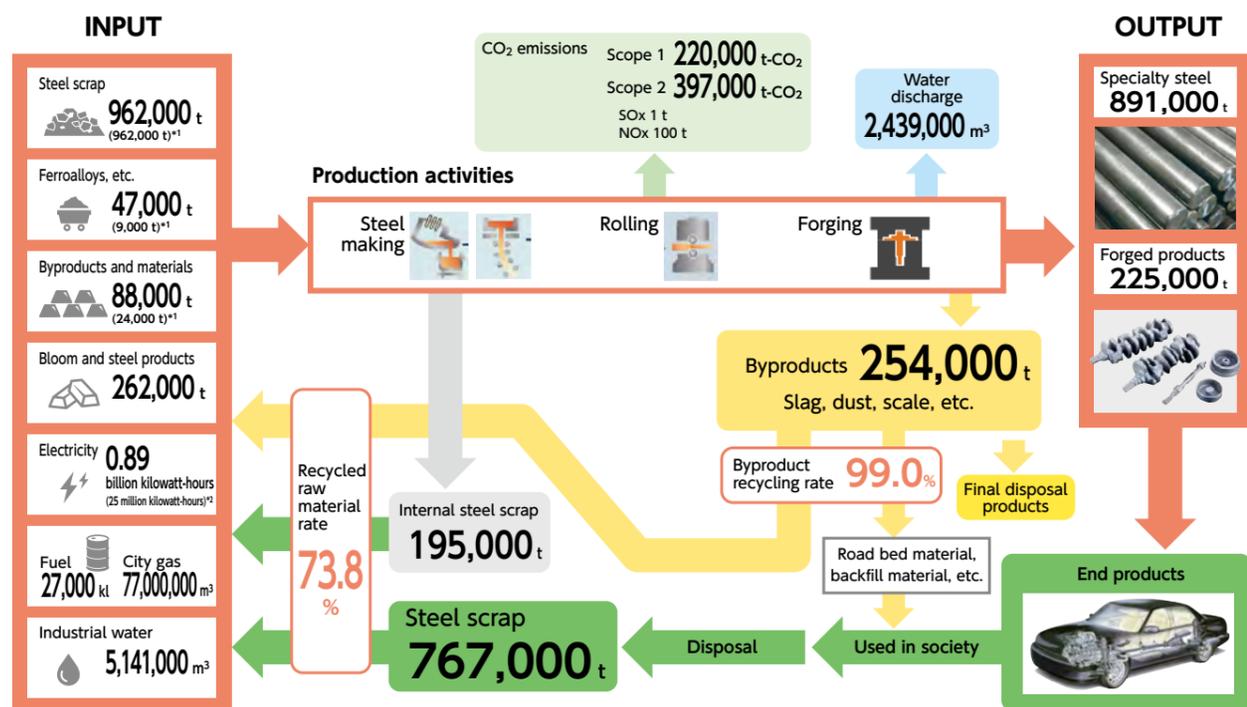
Eco-production

Aichi Steel is a resource-recycling company that realizes both the recycling of steel resources and economic value by turning steel scrap generated from the dismantling of automobiles and infrastructure into high-quality specialty steel products, automotive components, and other products. We aim to transition to a circular economy by further accelerating our efforts to reuse products and parts and recycle waste and raw materials while reducing resource input and consumption through the efficient use of resources and energy.

Pursuit of resource circulation

Aichi Steel is conducting 4R activities (Reduce, Reuse, Recycle, Renewable) to effectively use limited resources and energy without waste.

4Rs	Examples of our initiatives	
Reduce	<ul style="list-style-type: none"> Reduce the amount of resources and energy used in manufacturing, and reduce waste 	<ul style="list-style-type: none"> Minimize energy consumption and maximize efficiency in manufacturing processes Develop high-performance materials such as magnets with less use of scarce resources Reduce waste by expanding the reuse of by-products such as slag
Reuse	<ul style="list-style-type: none"> Reuse materials that have been used repeatedly 	<ul style="list-style-type: none"> Reuse heat used in electric furnaces as energy for steam boilers, etc. Develop heat storage systems that can use plant waste heat at temperatures of 400°C or higher
Recycle	<ul style="list-style-type: none"> Use waste and other materials effectively as raw materials and energy sources 	<ul style="list-style-type: none"> Expand use of low-grade steel scrap
Renewable	<ul style="list-style-type: none"> Use renewable resources and energy 	<ul style="list-style-type: none"> Expand the use of in-house solar power generation facilities Expand the use of electricity derived from renewable energy sources



*1 Amount of raw materials, *2 Amount derived from recycled energy

Eco-management

Based on the belief that symbiosis with local communities and nature is necessary for its sustainable growth, Aichi Steel is working on local environmental conservation activities in collaboration with related organizations.

Biodiversity conservation efforts

As part of its conservation activities, Aichi Steel has been working since fiscal 2012 to create an environment where 50 indicator species that have traditionally inhabited the area can gather, under the slogan of "creating a forest where beetles live" in the Nakashinden green space, which covers an area of approximately 20,000 m² adjacent to the Chita Plant. In addition to forestation through tree planting and biotope maintenance, we use this initiative to foster environmental awareness through employee volunteer activities such as rice planting and harvesting to interact with nature. The indicator species are regularly monitored to provide reference for future maintenance. Currently, 19 indicator species have been identified, and a variety of organisms have started settling in the area. In 2019, we obtained Business Location in Harmony with Nature certification (ABINC certification) from the Association for Business Innovation in Harmony with Nature and Community (ABINC)*4. In 2023, we also received the 3rd ABINC Award Special Prize in recognition of our efforts as an outstanding example of corporate activities for biodiversity conservation.

*4 An association established to promote symbiosis between nature and people in corporate activities



Conceptual image of the corporate green space, Nakashinden green space



Species observed in Nakashinden green space (left: blue heron; middle: spot-billed duck; right: chestnut tiger)

Forestation for water sources

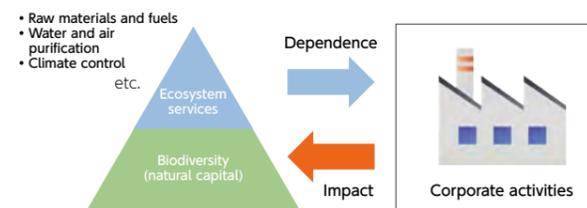
Aichi Steel uses water from the Aichi waterworks, which has its source in Otaki Village, Nagano Prefecture, for the operation. As part of our activities to protect this water source, we have been engaging in water source forest cultivation activities since 2006. In 2019, we concluded a "foster parent of forest" agreement with Otaki Village. We have designated approximately 12 hectares of forest as FOREST of AICHI STEEL GROUP, where our employees and their families regularly conduct thinning and pruning work in cooperation with Otaki Village and local residents to promote the creation of a rich forest.



Collaborative activities with related organizations

Aichi Steel also focuses on environmental conservation activities in collaboration with related organizations. One of these organizations is the Chita Peninsula Ecosystem Network Council, in which local governments, universities, NPOs and other private organizations, and companies participate to promote activities to form an ecosystem network through the vision for the nature in the region and efforts to achieve it. We conduct collaborative activities and information sharing with the aim of having corporate green spaces owned by participating companies certified as Natural Symbiosis Sites*5 promoted by the Ministry of the Environment. Through these efforts, we will actively work toward the realization of "nature positivity," which will halt the loss of biodiversity and restore nature.

*5 Sites recognized by the Ministry of the Environment as areas where biodiversity is being conserved through private sector efforts and other measures



Person in charge of promotion



Yuki Hattori
CSR Promotion Department,
General Affairs Division

Nakashinden green space is positioned as a hub for coexistence with nature, and through monitoring of indicator species and tree planting, we are developing it as a place to consider the ecosystem from the three perspectives of research, nurture, and feel. In addition, we have been promoting the forestation in Otaki Village to create a place of interaction where people can connect with nature and local communities. We will continue to engage in activities to promote such connections, using the green space as a place for environmental learning in collaboration with employees and their families, Group companies, and local residents through various activities in harmony with nature.

Person in charge of promotion



Tatsuya Mori
Environmental Management Group,
Safety & Environmental Division

To transition to a circular economy, it is important to eliminate waste one by one. We have been promoting the recycling of waste generated within the company toward the goal of zero emissions, and are currently working toward 100% recycling of battery electric vehicles (BEVs) and fuel cell electric vehicles (FCEVs). We will continue to work daily toward the realization of a sustainable society, as well as environmental management system (EMS)*3 activities, which are the foundation of this transition.

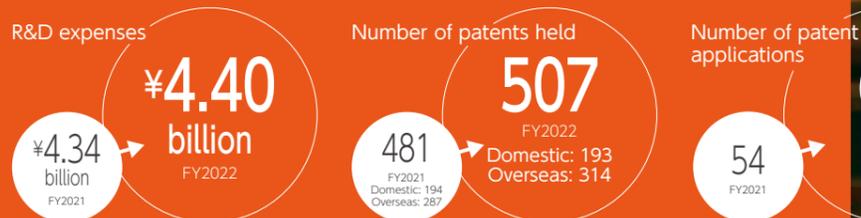
*3 A system for reducing the environmental impact of corporate activities



Capital to create value

Intellectual Capital

To achieve the Vision 2030 management guideline of "Creation of a prosperous society through business reform," Aichi Steel believes that conducting research and development in line with our business strategy, and helping to address social issues by reforming existing businesses and creating new businesses, will lead to sustainable growth for the company. For this reason, we are focusing on development in the five priority areas stipulated in Vision 2030 while implementing initiatives for effective utilization of our intellectual property.

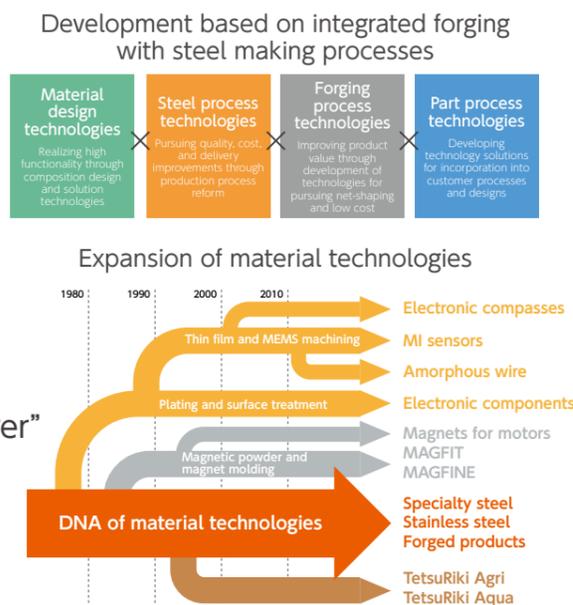


I Areas of contribution through research and development

Based on Vision 2030, Aichi Steel is committed to developing functional products for the next generation to contribute to renewable energy, healthy living, food security, and safe public and transportation systems, with the aim of solving social issues through its business. In our development vision 2030, we have designated autonomous driving, electrification of automobiles, energy, food, and health and safety as our five priority areas, and we are focusing on the development of next-generation mobility and development that enriches people's lives.

I Strengths of "integrated forging with steel making processes" and "materials manufacturer"

Aichi Steel utilizes the strengths of its integrated forging with steel making processes, in which a wide variety of components are added to raw steel scrap to create specialty steel with properties and functions such as strength and heat resistance, and then finished into forged products, and the knowledge it has accumulated as a materials manufacturer since its founding, to develop products that address to changes in society and meet the needs of society.



Standardization Promotion Committee



I Initiatives in standardization activities

Aichi Steel is focusing on standardization activities as efforts to widely share the results of research and development with society. Establishing standards and specifications for new products and technologies is essential for ensuring quality and reliability, leading to greater customer satisfaction and smoother market introduction. We have established internal structures to promote standardization activities.

I Promotion structures for standardization

Aichi Steel is promoting standardization activities through the Standardization Promotion Committee. The committee is chaired by the Research and Development Headquarters general manager, who is in charge of research and development, as the chief standardization officer (CSO), with general managers of the Business Management Departments of each in-house company and general managers of each Development Division as persons in charge of each division, and the representative managers of each department in charge as members of the committee. Going forward, the committee will focus on promoting strategic standardization activities, as well as raising awareness within the company and fostering standardization personnel.

Intellectual Property-related Initiatives

I Basic policy

Aichi Steel has established proactive intellectual property (business expansion and challenges), defensive intellectual property (business stability), and basic activities (human resources development and structure building) as its priority policies, setting targets for each and working to promote intellectual property activities that lead to steady growth.

I Promotion structures

Aichi Steel has established an Intellectual Property Committee to promote intellectual property activities. The committee is chaired by the Research and Development Headquarters general manager, with general managers of each in-house company, headquarters, and technology division as members.

Intellectual Property Committee



I Enhancement of new business patents

In the past, Aichi Steel focused on protecting intellectual property that is the result of research and development. In recent years, however, our development and intellectual property divisions have also been strengthening their collaboration and working to improve the quality of our patent applications through strategic patent applications that lead to the creation of new value. In particular, we are focusing on new business-related fields and increasing the number of high-quality patents we hold. We will continue to promote activities aimed at building a patent portfolio that helps us to secure our superiority as a company and expand new businesses.

Changes in the number of patents held



Person in charge of promotion



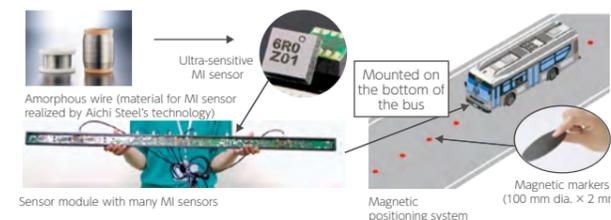
Ryota Takatsu
Intellectual Property Department, Development Planning Division

We work daily based on the belief that the utilization of intellectual property is indispensable for the steady growth of a company. In particular, because patented intellectual property is more important for new businesses than for existing businesses, we are working to strengthen collaboration with development divisions to ensure that the results of our development efforts are granted rights and utilized to the fullest extent possible. We will continue to focus on encouraging inventions and other fundamental activities to further foster intellectual property activities within the company.

New Business Creation Initiatives

I Autonomous driving made possible by GMPS

Aichi Steel is working toward the development and early commercialization of the Global Magnetic Positioning System (GMPS), an autonomous driving support system that uses our proprietary magneto-impedance (MI) sensors to detect magnetic markers placed on roads, enabling the estimation of automotive positions with high accuracy on the millimeter scale even in harsh environments. Since 2017, we have conducted verification trials in various locations and environments with national and local governments, private companies, and organizations, and have received high ratings in terms of performance and reliability. In December 2022, as the first example of social implementation, GMPS was adopted for use in an autonomous driving bus operating between Yanaizu Station and Rikuzen-Yokoyama Station on JR East's Kesennuma Line bus rapid transit (BRT). Other applications include the autonomous driving of towing vehicles on plant premises, and many more are expected in the future. We will continue our efforts to realize a safe and secure mobility society by taking advantage of our advanced technical capabilities that have realized ultra-sensitive MI sensors, high-quality and low-cost magnetic markers with the weak magnetic force, and our unique magnetic field noise elimination system.



I Next-generation iron fertilizer PDMA to increase food production in poor soil

One solution that is attracting attention is to increase food production in poor alkaline soils, which account for about one-third of the world's land area. Aichi Steel has succeeded in developing a next-generation biodegradable iron fertilizer, PDMA, that makes it possible. PDMA has been shown to be effective in promoting the growth of gramineous plants such as corn and rice, as well as non-gramineous plants such as pumpkins and beans. Currently, artificial chelated iron materials are commonly used, but there are concerns about their environmental impact because they remain in the soil. On the other hand, our next-generation iron fertilizer PDMA is biodegradable and decomposes in the soil, resulting in a smaller environmental impact. We are currently conducting cultivation experiments in North America and other parts of the world with the aim of commercialization, as well as working on process development for commercialization.



Experiments on outdoor cultivation of rice in poor alkaline soil (left: without PDMA; right: with PDMA)



Capital to create value

Social and Relationship Capital

Aichi Steel conducts its business activities through relationships with various stakeholders, so building positive relationships with those stakeholders is important for improving corporate value. Through proactive dialogue with stakeholders, we are able to incorporate the needs of society and expectations for us into our business activities, and encourage them to feel a sense of closeness with Aichi Steel. In this way, we are able to grow alongside all of our stakeholders, including customers, shareholders and investors, employees, suppliers, and local communities.



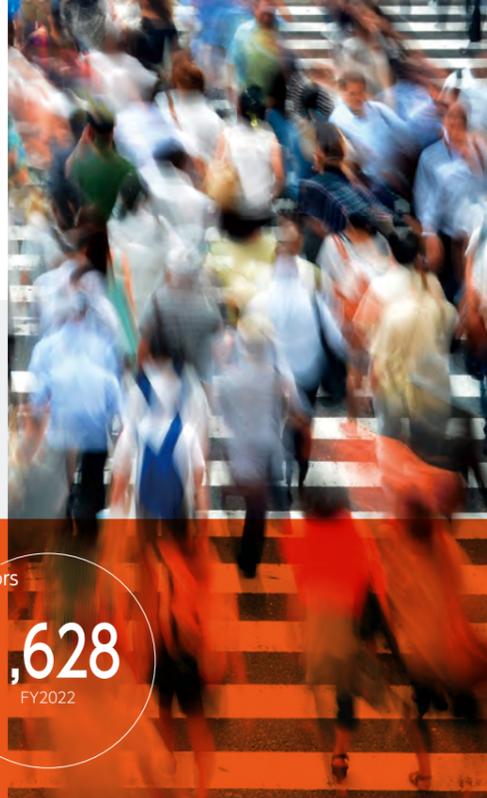
Promotion of Dialogue with Stakeholders

Stakeholders	Initiatives to promote dialogue	FY2022 achievements
Customers	• Customer consultation service Improvements by responding to customer comments and providing feedback internally	Number of inquiries 1,399
Shareholders and investors	• General Meeting of Shareholders Business reports, discussions and resolutions on financial account items, and Q&As with shareholders • Dialogue with investors Dialogue through financial account and future strategy briefings, individual meetings, etc.	Number of dialogues with institutional investors (total) 21
Employees	• Regular meetings of the Labor-Management Committee Mutual understanding between labor and management, discussions and negotiations, and exchange of opinions • Attitude surveys Surveys on organizational and workplace culture, working lives, etc.	Number of meetings between labor and management 17
Suppliers	• Suppliers Convention Sharing of procurement policy, mutual learning opportunities, strengthening of partnerships	Number of participating companies 113
Local communities	• Collaboration and volunteer activities with NPOs, etc. Communication through proactive participation in social contribution activities and community volunteering activities • Collaboration with industry groups Proposals concerning common industry issues and facilitation of information sharing through the Japan Iron and Steel Federation, etc.	Number of volunteers (total) 6,581

Promotion of Dialogue with Employees

To provide value to society and achieve sustainable growth, it is essential for Aichi Steel to ensure a high level of employee engagement, which is the source of value creation. We are promoting initiatives to increase employee engagement by building dialogues with our employees, creating comfortable workplaces, and improving human resources systems. In 2020, the 80th anniversary of our founding, we signed the Declaration on Labor-management Cooperation, in which labor and management mutually confirm and share the goal of overcoming any difficulties through mutual trust between labor and management and aiming for a company full of smiles with everyone involved. In addition, labor-management meetings were reviewed and new labor-management roundtables were newly established at the in-house company and headquarters levels to allow the two parties to more frankly exchange opinions and accelerate reform.

We are making efforts to have labor and management honestly exchange opinions, deepen understanding, and cooperate with each other on familiar issues and countermeasures at the in-house company and headquarters levels. As one of the initiatives for fiscal 2023, labor and management are working on a greeting campaign to revitalize communication after the COVID-19 pandemic. From the perspective of creating diverse, open, and comfortable workplaces, we are also focusing on improving workplace environments for employees to work with peace of mind by conducting a morale survey on all employees, improving rest areas at workplaces, and constructing a multi-story parking garage and new dormitory for single employees.



Strengthening of Relationships with Suppliers

Superior raw materials, parts, and technologies supplied by our suppliers are essential for manufacturing Aichi Steel's products, including specialty steels. We also need to collaborate with our suppliers in addressing various sustainability issues such as carbon neutrality and human rights. We are working to build a relationship of trust with our suppliers through close communication, and to establish and strengthen a sustainable supply chain that allows us to grow together and share our achievements.

See the following link for Aichi Steel's procurement policy.
<https://www.aichi-steel.co.jp/ENGLISH/about/procurement/>



Strengthening of partnerships with suppliers

Every year in April, Aichi Steel holds the Hokokai* General Meeting to explain the business environment and company policies to major suppliers in Japan, and shares information on initiatives and goals regarding safety, compliance, and sustainability. We also provide support activities to each company by offering advice on safety, quality, and other issues according to their circumstances, and engage in improvement activities throughout the supply chain, such as mutual improvement through improvement case study meetings and the VA Exhibition as well as the horizontal development of good practices. To achieve carbon neutrality, in addition to study meetings with suppliers, our technical staff provides specific advice on energy saving initiatives at each company, and we work to advance our activities together with our suppliers.

* An organization consisting of suppliers aiming for mutual development based on partnership and mutual trust with Aichi Steel

Enhancement of supply chain resilience

Amidst rising geopolitical risks in addition to natural disasters and accidents, Aichi Steel is focusing on the stable procurement of raw materials and resources. By gaining information on the location, source of materials, and processes of our suppliers' manufacturing sites and quantifying the risks, we are taking necessary measures such as multi-sourcing and securing of inventories, while building structures that enable prompt initial response and recovery actions.

Strengthening of Relationships with Local Communities

Sustainable coexistence and co-prosperity with local communities

Aichi Steel aims for sustainable coexistence and co-prosperity with local communities. Recognizing our role as a good corporate citizen, we value communication through social contribution activities and other means to gain understanding and trust in our business activities, and work toward becoming a company that people want to remain in the area forever. Specifically, we are developing activities based on the four pillars: clean, green, creative, and volunteer support. Our ongoing initiatives include Cleanup Campaign, a community cleanup activity; flowerbed maintenance to maintain and improve the beauty of the rotary in front of Shurakuen Station; and the Lesson about Iron, held in cooperation with Tokai City, to encourage local children to learn about the potential and role of steel and foster their creativity. We also operate the Aichi Steel Volunteer Fund, encouraging employees and related parties to cooperate in fund-raising activities, and supporting volunteer activities by welfare organizations and facilities. These activities not only strengthen relationships with local communities, but also help employees to develop a mindset of solving social issues and provide feedback to our business activities. We will continue to expand the scope of our activities so that each and every employee can contribute to the realization of sustainable local communities.



Plant tours for children conducted as part of the Monozukuri Dojo manufacturing program held by Tokai City

Person in charge of promotion



Hiroyuki Sakakibara

CSR Promotion Department,
General Affairs Division

Participation in community events is an important opportunity to interact with local residents. Although these events were suspended for some time due to the COVID-19 pandemic, we are finally seeing signs of their resumption. Some of the events that we participate in include traditional festivals that have been held for hundreds of years. We will continue to cherish these events as a way to build a relationship of trust with local residents and as a valuable opportunity to experience local history. As the person in charge, I hope to further strengthen our ties with local communities through participation in and support for local events.



Capital to create value

Financial Capital

Aichi Steel believes that it is important to grow sustainably and continue to provide value to its stakeholders in any business environment. This is why we aim to balance investment in growth with shareholder returns by maintaining and improving stability, profitability, and efficiency while ensuring a solid financial foundation by procuring optimal financing as required based on operating cash flow.

Ratio of equity attributable to owners of the parent



ROE



Consolidated payout ratio



Maintenance of Financial Health

Using ratio attributable to owners of the parent, debt-equity ratio, and other indicators, Aichi Steel maintains appropriate levels for future sustainable business operations, for which it has received an "A" rating from Japan Credit Rating Agency, Ltd. While maintaining our financial health, we will continue to target improved profitability and steady growth through optimal distribution of resources, including research and development and capital investment for sustainable growth.

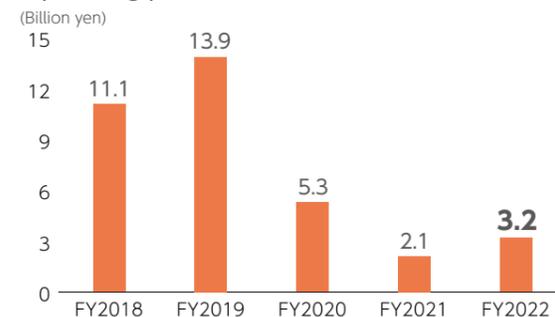
"A" rating

Japan Credit Rating Agency (JCR)

Profitability Improvement Initiatives

In fiscal 2022, Aichi Steel's operating profit increased year-on-year due to the spread of selling price hikes and increased profits at subsidiaries, despite the major factor of decreased profits due to the decline in sales volume (-14% year-on-year). In the past few years, we have been facing a very difficult business environment due to sharp fluctuations in demand and also soaring and high remaining prices of raw materials and secondary materials. However, we are striving to improve profitability by building production systems that are resistant to fluctuations, reflecting increased costs in selling prices in a timely manner, and thoroughly reducing costs.

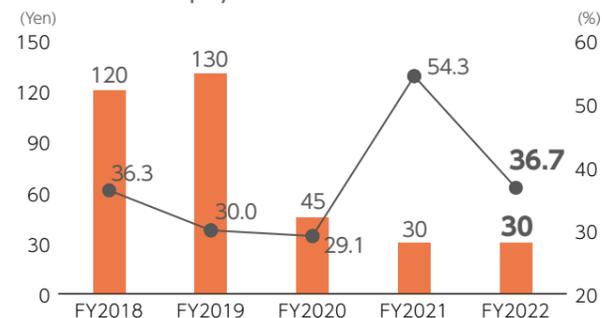
Operating profit



Shareholder Returns

Aichi Steel considers respect for shareholder profits to be an important management policy. To this end, we strive to achieve long-term, stable shareholder returns. We aim to deliver a consolidated payout ratio of 30% for dividends, which we decided in consideration of our business performance and financial situation while maintaining the internal reserves required for sustainable growth. We distributed 30 yen per share as our full-year dividend for the fiscal year ended March 31, 2023.

Dividend and payout ratio



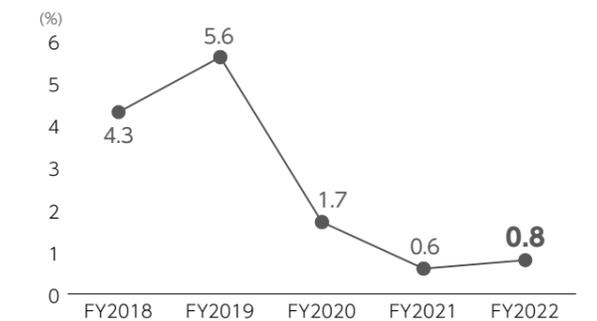
Implement Management that is Conscious of Cost of Capital and Stock Price

Aichi Steel's price to book ratio (PBR) was below 1x as of March 31, 2023. We therefore recognize that we are under harsh evaluation in the stock market. Going forward, we will strive to increase our corporate value even more than before, with the goal of achieving a PBR of over 1x.

I Strengthening of the earnings structure

Aichi Steel's return on capital is significantly lower than its cost of capital. The main reason for this is weak net profit, and we believe that improving profitability is an urgent priority. We are working to improve operating profit through ambidextrous management, including "Sales, Production, and Purchasing structural reform through Genryou Management (managing with limited order quantities) in existing businesses, such as specialty steel and forged products, and sales expansion in stainless steel and Smart company growth businesses.

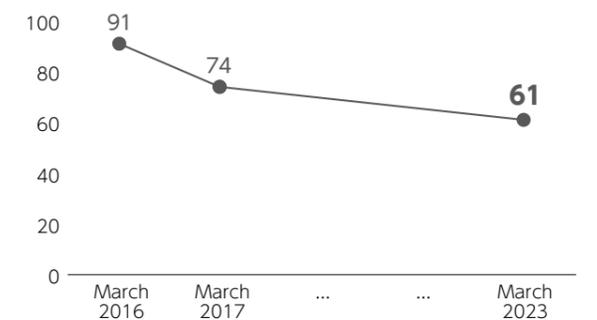
ROE



I Streamlining of assets

Aichi Steel is working to streamline its assets by optimizing inventory, carefully selecting capital investments, selling cross shareholdings, and other measures. In particular, we have been reducing our cross shareholdings, however, going forward, we will consider the option of going one step further, and will sell any stock that is deemed to be unreasonable to hold, after comprehensively considering the impact on the market and the financial strategy of the issuer. The cash generated from these sales will be effectively utilized as a source of sustainable growth to enhance corporate value.

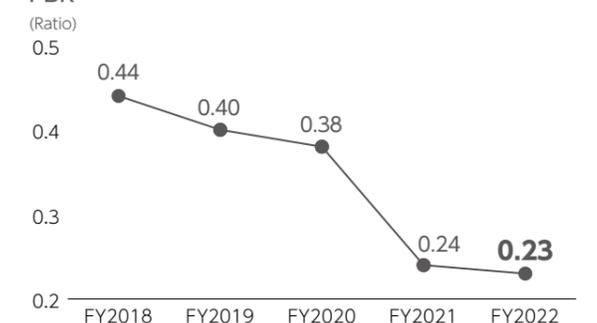
Cross shareholdings (number of shares)



I Improvement of capital efficiency

In addition to strengthening its earnings structure and streamlining its assets, Aichi Steel will improve the capital efficiency by considering self-owned capital reduction through changes in its dividend policy and share buybacks, while maintaining its financial health.

PBR



Status of Dialogue with Shareholders and Investors

Aichi Steel believes that highly transparent information disclosure and constructive dialogue with shareholders and investors are important for sustainable growth and medium- to long-term improvement of corporate value, and is actively engaged in such activities. In addition to regular briefings for institutional investors by directors and managing executive officers, in principle, we respond to all requests for dialogue from individual shareholders and investors, which are usually attended by the accounting officer. The themes of the most recent dialogue with them were related to current business performance and centered on the environment surrounding the company, measures to deal with it, and the progress being made. To enhance information disclosure to support constructive dialogue, we are making efforts to disseminate information in a timely and appropriate manner through the Integrated Report and the website, expand disclosure in English, and so on.

Hagane

Hagane Company

Contributing to these SDGs



Toshio Ito

Managing Executive Officer and Hagane Company President

Profile

Toshio Ito took on the role of Hagane Company President in April 2022.



Value for society

As a resource-recycling company using steel scrap as a raw material, the Hagane Company leverages its technical strengths, and integrated forging with steel making processes, to evolve by adapting to society's needs. In this way, it always provides outstanding specialty steel and contributes to the development of an environmentally friendly, safe and secure mobility society.

Specialty steel materials



Business fields

- Main products: Carbon steels and alloys for machine structural use, microalloyed steel, boron steel, spring steel, high carbon chrome bearing steel
- Main applications: Automobile engine components, drivetrain components (gears, drive shafts, and transmissions)

Company strengths

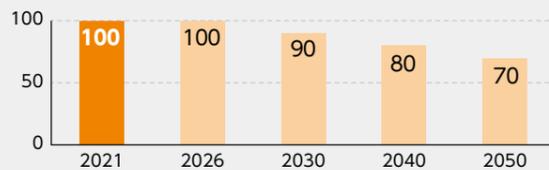
- Ability to develop highly functional materials using the integrated forging with steel making processes developed since its foundation as the leading manufacturer of specialty steels
- Strong partnerships with automakers and parts manufacturers
- Specialty steel manufacturing technologies using the low-CO₂ emission electric furnace steelmaking method*

* CO₂ emissions during manufacturing when using the electric furnace method are said to be approximately one quarter the emissions when using the blast furnace method.

Business environment

Automobile production in the automotive industry, where Aichi Steel's major customers are, is expected to grow steadily into the future, primarily in China and India. In Japan, with the progress of automobile electrification, demand for specialty steels for gasoline-powered vehicles is expected to decline. On the other hand, new demand is being created for specialty steel for electrified vehicles, including high-strength gear steel. In terms of manufacturing costs, the prices of steel scrap and electricity are forecast to further increase as the trend toward decarbonization continues. To stabilize profitability of the Hagane Company business, a mainstay of our businesses, we will continue working to minimize reductions in demand for our main products and to improve competitiveness in quality, cost, and delivery, as we focus on environmental initiatives such as reducing CO₂ emissions.

Domestic demand for specialty steel (Aichi Steel predictions)



* Percentage compared to FY2018

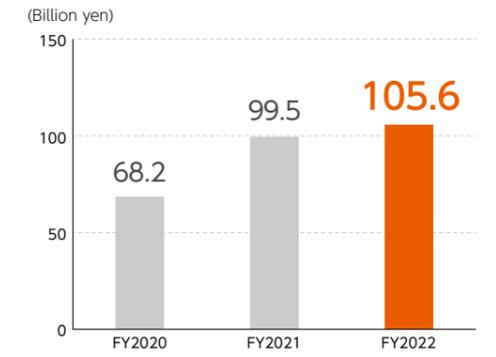
Medium- to long-term growth strategies

Aichi Steel's aim is to become the leading manufacturer of specialty steels to contribute to the development of a mobility society. The Hagane Company aims to achieve steady growth by rebuilding its existing businesses and expanding new businesses. In these existing businesses, we will work to raise demand by enhancing our solutions capabilities through joint development with customers and leveraging the technical capabilities of our integrated forging with steel making processes. We will also shift to strategic products to secure sales volumes by developing and expanding sales of new steel varieties, including the highly functional steels needed for electrified vehicles and a decarbonized society. Overseas, we will work through India's Vardhman Special Steels Limited, a company that we have invested in, to expand our steel materials business globally. On the cost front, we will lower our break-even points through careful selection of capital investments and development of production structures for responding flexibly to rapid fluctuations in production requirements. We will also improve competitiveness in quality, cost, and delivery by realizing small-section continuous casting and other technologies. At the same time, we will work to appropriately pass on the increasing costs of raw materials and energy as we pursue a sustainable business foundation.

Fiscal 2022 Business Performance

Despite reduced sales volumes due to instability within the automotive industry on the back of semiconductor shortages, the Hagane Company managed to a certain degree to pass on the costs of raw materials and energy in sales prices, which helped it achieve record net sales for the period. Business profit, on the other hand, was negative due to a lag in passing on the increased costs of ferroalloys and other materials in the sales prices, and an increase in our cost burden due to things like reduced production efficiency when lines had to stop operating as a result of a decline in sales.

Net sales



Achievements and Future Initiatives

Initiatives for recovering earnings capacity

To create a more robust business foundation, the Hagane Company is working to reform its earnings structure by fundamentally lowering break-even points to achieve profits even in times of limited production volumes. We are launching special projects to conduct activities in all aspects of purchases, production, and sales, and to achieve stable profitability.

Purchases	<ul style="list-style-type: none"> Expand steel scrap storage capacity to increase the ratio of low-cost scrap used and reduce raw material costs
Production	<ul style="list-style-type: none"> Improve yields through overall optimization of manufacturing processes Develop operation structures with minimal excess of total cost and upward flexibility in production structures and capacity Reduce costs through activities to reduce specific consumption, which is not affected by production volume variability Reduce equipment costs through optimization of equipment maintenance frequency and careful selection of capital investments
Sales	<ul style="list-style-type: none"> Improve rules for sales prices <ol style="list-style-type: none"> Increase frequency of reflecting manufacturing costs in sales prices Add surcharges to reflect energy costs Increase base prices to reflect product value

Globalization of the steel materials business

In 2019, Aichi Steel made a capital participation in India's Vardhman Special Steels, a specialty steel manufacturer, as part of efforts to capture overseas demand, which is expected to grow going forward. Partly due to improved quality and production capacity achieved through technical guidance from us, the company is growing steadily in terms of both business and profit. We signed a new support agreement in 2022 as well, and we are strengthening collaborations to achieve even further growth.

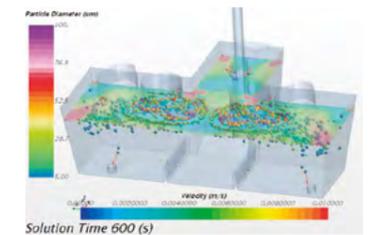
We further expanded our overseas business network in 2023 when we started supplying steel materials to our forged product production sites that supplies the Toyota Group in the ASEAN region. Going forward, we will continue expanding our integrated forging with steel making processes business globally by increasing the number of products we supply and the number of areas in which we collaborate.



Vardhman Special Steels has started supplying steel materials to our forged product production sites in the ASEAN region

Small-section continuous casting technology development

We are working on the development of small-section continuous casting technologies for steel products for automobiles, which eliminates the need for the steel material reheating process, to reduce CO₂ emissions in manufacturing processes. We are developing these technologies by leveraging basic technologies and equipment know-how, through digital transformation, in addition to the operational technologies we have developed over the years. We are currently in the customer evaluation stage for relevant products, with the aim of achieving practical application and mass production in 2024.



Group company initiatives

Aichi Steel Group companies are also actively working toward carbon neutrality.

AICHI CERATEC CORPORATION	Refractory manufacturing Industrial furnace engineering	<ul style="list-style-type: none"> Save resources by extending the useful life of refractory materials Improve thermal energy efficiency of industrial furnaces
OMI MINING CO., LTD.	Mining and processing of limestone and other minerals	<ul style="list-style-type: none"> Shift from fossil fuels in manufacturing processes
Aichi Steel Logistics Co., Ltd.	Transportation of steel material and forged products	<ul style="list-style-type: none"> Improve transportation efficiency by aggregating logistics across distribution channels (Special Award received from Green Logistics Partnership Conference)

Stainless Steel Company

Contributing to these SDGs



Kazuya Fukatsu

Managing Executive Officer and Stainless Steel Company President

Profile

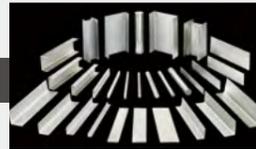
Kazuya Fukatsu took on the role of Stainless Steel Company President in April 2020.



Value for society

The Stainless Steel Company supplies stainless steel materials (formed steel, flat steels, round bars, and deformed bars) and enhanced stainless steel building structure engineering functions (design partnership, plant manufacture, and onsite construction) through which it helps customers to shorten processes and reduce costs. It is also contributing to the realization of the hydrogen society and rebuilding of infrastructure.

Wide variety of stainless steel materials



Business fields

- Main products: Stainless steel materials (formed steel, flat steels, round bars, and deformed bars), wrought titanium materials (round bars, flat bars, and angle bars), stainless steel building structure engineering (design partnership, plant manufacture, and onsite construction)
- Main applications: Construction components for the civil engineering field (road bridges, tunnels, etc.), plants, and energy

Company strengths

- Product range (approximately 2,000 varieties) with shapes and dimensions for a range of applications and needs enabled by technology development capabilities that include Japan's first hot-rolled stainless steel angle bar production
- Stainless steel building structure engineering technologies for design partnership, plant manufacture, and onsite construction

Business environment

Demand for stainless steel in the civil engineering field is expected to increase in Japan and overseas as aging infrastructure (roads, bridges, rivers, dams, sewerage systems, etc.) is upgraded and due to increasingly intense climate change-related natural disasters. Greater demand is also expected due to demand for plant construction in growth fields (pharmaceuticals, foods, semiconductors, etc.) and for construction components in energy-related fields (hydrogen, LNG, biomass).

Percentage of various types of domestic infrastructure that is 50 years or older

Types and numbers	FY2017	FY2022	FY2032	
Road bridges	Approx. 730,000	Approx. 25%	Approx. 39%	Approx. 63%
Tunnels	Approx. 10,000	Approx. 20%	Approx. 27%	Approx. 42%
River management facilities	Approx. 10,000	Approx. 32%	Approx. 42%	Approx. 62%
Sewerage culverts	Approx. 470,000 km	Approx. 4%	Approx. 8%	Approx. 21%
Harbor and port quays	Approx. 5,000	Approx. 17%	Approx. 32%	Approx. 58%

Medium- to long-term growth strategies

1. Enhancing capacity through production improvements and process reform

We are enhancing supply capacity, including by improving manufacturing equipment capacity, to meet greater demand in growth fields.



2. Expanding components and parts business functions

We are working to expand the potential of design partnership, plant manufacture, and onsite construction, and to grow our business into the parts field.

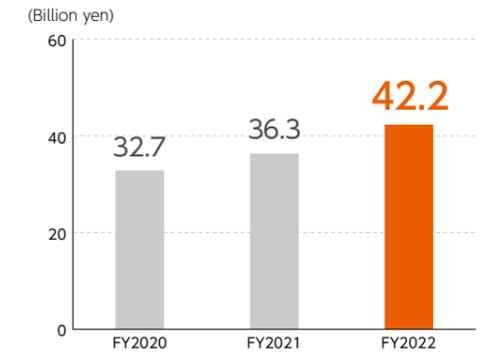
7 projects

Project	Project Description	Objective
Project 1	Restructuring product strategies	Optimize the product range and manufacturing processes
Project 2	Planning alliances	Investigate external ties rather than being closed to them
Project 3	Expanding material and components and parts business functions	Enhance steel building structure engineering functions
Project 4	Enhancing ties with consolidated subsidiaries	Expand collaborations with Aiko Corporation and Aichi Techno Metal Fukuami Co., Ltd., etc.
Project 5	Improving production and reforming processes	Improve productivity while enhancing production capacity
Project 6	Creating new markets	Strengthen businesses related to hydrogen, deformed bars, water treatment, and blades
Project 7	Achieving carbon neutrality at Kariya Plant	Create sustainable, attractive plants

Fiscal 2022 Business Performance

There was a noticeable downturn in the global stainless steel market, and in high demand countries like China in particular, which led to an inventory adjustment phase as sales volumes declined year-on-year. Increased manufacturing costs, due to sharp increases in energy costs and price rises for raw materials such as nickel and chromium, also suppressed earnings. Despite such a business environment, the Stainless Steel Company was able to increase both net sales and operating profit through efforts to reduce manufacturing costs and improve sales prices.

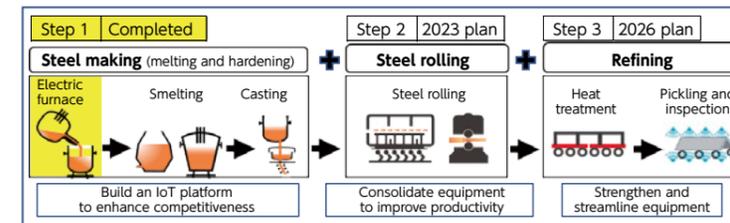
Net sales



Achievements and Future Initiatives

Project 5. Improving production and reforming processes

To meet forecast expansion in demand and enhance market competitiveness, the Stainless Steel Company is working to improve productivity and enhance production capacity by reforming its integrated manufacturing process, from steel making through to refining. Comprising three steps, the reform will be completed by 2026. We have already completed the first step, which entailed improving the steel making process underpinning our capacity enhancement. Initiatives included stabilizing crude steel supply capacity by upgrading the stainless steel electric furnaces, building an IoT platform for reducing manufacturing costs by visualizing and optimizing production, and reducing CO₂ emissions by improving energy usage efficiency.



Upgraded 50 ton electric furnace

Project 7. Achieving carbon neutrality at Kariya Plant (from April 2023)

In addition to thorough efforts to save energy, we effectively achieved carbon neutrality at our Kariya Plant, which is our manufacturing site for stainless steel materials, through the purchase of FIT non-fossil certificates with tracking and adoption of carbon neutral city gas. With the aim of utilizing hydrogen fuel in the future, we will begin developing, and conducting verification trials for, hydrogen fuel combustion technologies in cooperation with Toho Gas Co., Ltd. We will make use of burners that can operate on both hydrogen and city gas, which we installed in a steel heat treatment furnace.



Dual-fuel burner (hydrogen and city gas) adopted at Kariya Plant
Photograph provided by: Toho Gas Co., Ltd. and Nippon Furnace Co., Ltd.



Steel heat treatment furnace with burners installed

Group company initiatives

Aiko Corporation

The Kinuura Plant, which is the primary plant of Aiko Corporation, has been certified as a Stainless Steel Building Structure Manufacturing Plant by the Organization for Building Steel Structure Qualification, a part of the Japanese Society of Steel Construction. By expanding its business to include the manufacture of stainless steel building structures, and strengthening its ability to meet customer needs, Aiko aims to achieve further growth by capturing high demand from new plant construction not only in the traditional civil and water treatment fields, but also in the pharmaceuticals, food, and beverage industries. The company plans to obtain a steel structure construction business license as an ordinary construction business in 2024, enabling it to provide onsite construction, so it is working to also become a site for plant manufacture for the stainless steel components and parts business.



KITAERU

Kitaeru Company

Contributing to these SDGs



Tetsuo Kondo

Managing Executive Officer and Kitaeru Company President

Profile

Tetsuo Kondo took on the role of Kitaeru Company President in April 2021.



Value for society

The Kitaeru Company is contributing to a diverse mobility society in the low-carbon age through the evolution of highly efficient manufacturing processes integrating steel materials, forging and machining while focusing on the basic performance requirements of cars, which are running, turning and stopping.

Examples of Aichi Steel's forged products



Business fields

- Main products: Hot/warm/cold-forged specialty steel products, machined products, etc.
- Main applications: Automobile engine components, gear, transmission, and driveline components, BEV electric axle components, etc.

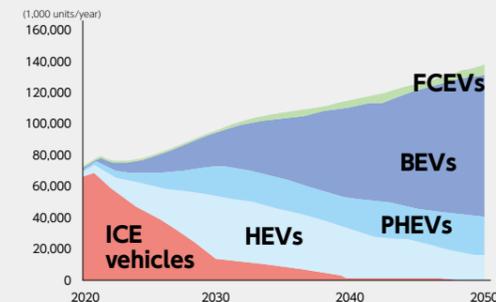
Company strengths

- Outstanding technical capabilities in steel type development, steel material manufacturing, and forging, refined through integrated forging with steel making processes
- Extensive collective strengths in everything from steel materials to forging and machining, offering a total solution to meet the increasingly diverse needs of customers
- Strong partnerships with automakers

Business environment

In the automotive industry, where Aichi Steel's major customers are, there is a serious shift toward electrified vehicles, in Europe, North America, and China in particular, due to an acceleration of the transition toward a decarbonized society. On the other hand, various issues are materializing with this shift, including development of the electric power infrastructure and restrictions on the supply of scarce resources required for batteries. For this reason, the Kitaeru Company expects decarbonization of automobiles to proceed according to a multi-pathway strategy tailored to the particular needs and circumstances of each region, with choices including not only BEVs, but internal combustion engine options (internal combustion engine (ICE)-only, hybrid electric vehicles (HEVs), plug-in hybrid electric vehicles (PHEVs), etc.) and FCEVs. With demand for automobiles expected to gradually expand in emerging countries in particular, we expect demand for forged products to also be maintained or to grow moderately.

Global sales composition of new automobile sales (passenger vehicles)



Medium- to long-term growth strategies

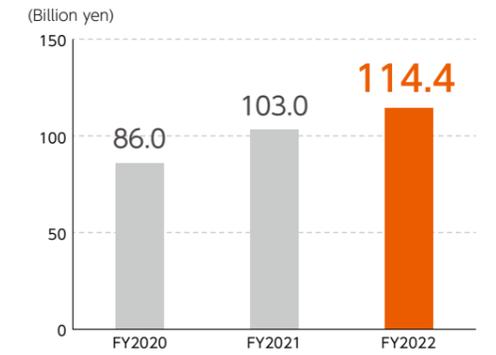
To respond flexibly to a continually changing business environment, we are implementing the following four priority issues of our medium- to long-term strategy, with a focus on electrification and a low-carbon society.

Priority issues	Initiatives
Evolution into a finished product manufacturer	Directly reflect in products the changes in vehicle performance requirements associated with electrification, and provide high-precision machined products designed for the future mobility society
New product development	Focus on product development for a low-carbon society, and develop and expand sales of more environment-friendly products for electrified vehicles
Building of small lot multi-product production structures	Strengthen earnings capacity, by establishing production technologies and developing production structures that are not tied to the past, to address the diversity of an ever-expanding mobility society
Enhancement of global consolidation	Transfer technologies from Japan, developed alongside electrification, to overseas subsidiaries, and expand sales and business overseas by leveraging competitiveness in quality, cost, and delivery

Fiscal 2022 Business Performance

Despite some regions still being impacted by issues such as production restrictions due to the COVID-19 pandemic and unstable automobile production due to semiconductor shortages, steady demand supported an increase in sales volumes of forged products for the Kitaeru Company. Increased sales overseas in particular contributed to growth in net sales. Steep rises in the price of materials and energy had the effect of suppressing earnings, and while profits were lower year-on-year, we managed to achieve profitability.

Net sales

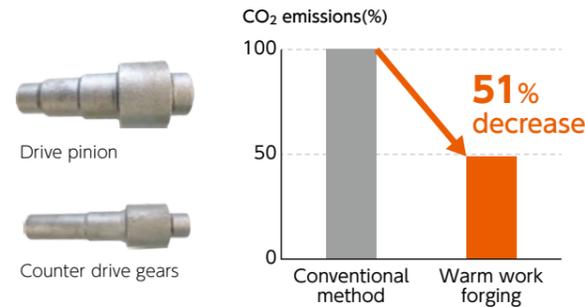


Achievements and Future Initiatives

Domestic business

Working to achieve a low-carbon society

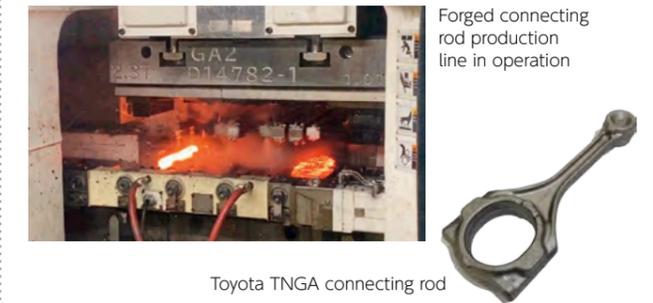
As one of the Kitaeru Company's activities to achieve a low-carbon society, it is changing its manufacturing method from hot work forging to warm work forging. Lowering the heating temperature and eliminating the need for the heat treatment process has enabled us to reduce energy consumption and reduce CO₂ emissions by 51% compared to the conventional method. In fiscal 2022, we adopted this manufacturing method in the production process of HEV drive pinions, one of our main products. We are gradually expanding the scope of products manufactured through warm work forging to increase product competitiveness through improved environmental performance. As an example, we are currently working to apply the method to electric axle components (drive pinions and counter drive gears), for which we expect demand will grow in the future.



Overseas business

Contributing to ever-better cars and passing on skills

With the trend toward more compact engines, the Kitaeru Company needed to reduce the weight and increase the strength of connecting rods, one of its main products. To meet these needs, we are replacing conventional sintered products with forged products. In 2022, we launched a forging production line at our subsidiary Aichi Forge USA, Inc. (AFU), which is the only supplier of forged products to the Toyota Group in North America. By transferring Toyota manufacturing technologies and merging the knowledge and skills developed through the manufacture of sintered connecting rods, we are not only contributing to reduced weight and increased strength of these products, but to higher production efficiency and increased profits for our overseas business as well.

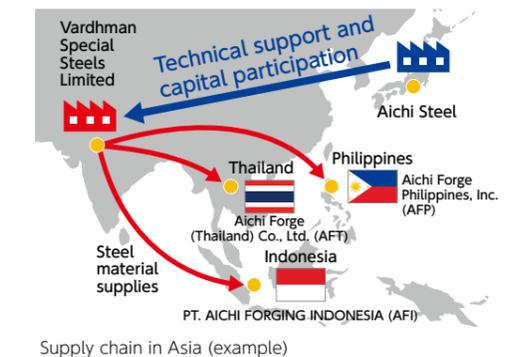


Group company initiatives

Enhanced global competitiveness of forged products

With growth of the automotive industry and increased demand for specialty steel in the ASEAN region, Aichi Steel made a capital participation in India's Vardhman Special Steels as part of efforts to increase profits for its overseas business. In the past, each of our forging sites in the ASEAN region used steel material manufactured by our plants in Japan. However, to strengthen our competitiveness, we are building and switching to supply structures from India to expand our overseas forged product business. Going forward, we will continue to enhance our supply structures to lift earnings capacity and become more resilient.

Enhancing competitiveness of forged products in the ASEAN region



Smart

Smart Company

Contributing to these SDGs



Hironari Mitarai

Smart Company President

Profile

Hironari Mitarai took on the role of Smart Company President in April 2022.



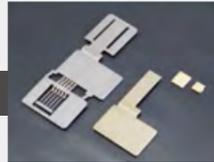
Value for society

The Smart Company is contributing to sustainable global society and the creation of a prosperous society through advanced functional materials and their applicable products in the four value-creation fields of energy, safe and secure social infrastructure, healthy lifestyles, and food supplies.

Business fields

- Main products: Electronic materials and components (inverter components for electrified vehicles, etc.), anisotropic bonded magnets (low-neodymium magnets, etc.), dental magnetic attachments, GMPS autonomous driving support systems, ultra-sensitive magnetic sensors, iron fertilizers

Power card lead frames (inverter parts for electric vehicles)



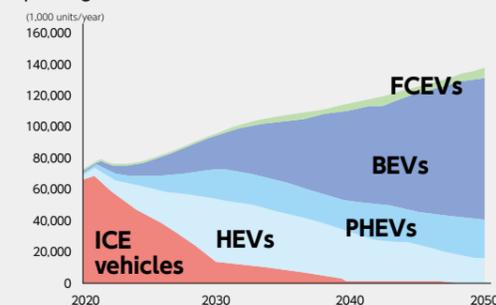
Company strengths

- Diverse range of advanced functional materials created through manufacturing capabilities that combine material technologies of materials, magnetism, and surface treatment
- Technologies that draw out the performance of advanced functional materials, and unique applied products

Business environment

With expansion of CASE technologies in the automotive industry, markets are expected to grow strongly for components for electrified vehicles and autonomous driving support systems, which are business fields in which Aichi Steel operates. We see this as a great opportunity for our growth. As efforts are made to address social issues that are materializing, including aging societies in advanced countries and food scarcity, we expect business expansion in the denture and iron fertilizer markets, which are expected to grow. We will achieve this expansion through popularization of the dental magnetic attachments that we have already commercialized and the next-generation PDMA fertilizer that we are currently developing.

Global sales composition of new automobile sales (passenger vehicles)



Medium- to long-term growth strategies

1. Electronic components business

- Sustainable growth through steady capture of demand for electrified vehicle components, which is expected to expand going forward
- Enhanced competitiveness through a strengthened production base focused on quality, the source of differentiation
- New product development and market launch in anticipation of social needs and in collaboration with customers

2. Magnets business

- Expanded sales through proposal of solutions for more compact, high efficiency motors, including electric axles
- Increased supply chain resilience and rebuilt business models to ensure stability of raw material supplies (rare earths)

3. Dental business

- Expanded market share with MAGFIT dental magnetic attachments, one of our main products, through coverage by health insurance
- Expanded sales through market launch of new products able to support diverse dental techniques
- Development of supply chains that also factor in overseas expansion

4. Sensor and metallic fiber business

- Expanded sales of GMPS autonomous driving support systems through provision of solutions for streamlining logistics in plants
- Development of markets in security and medical fields that can utilize the properties of MI sensors (ultra-high sensitivity, small size, power saving)

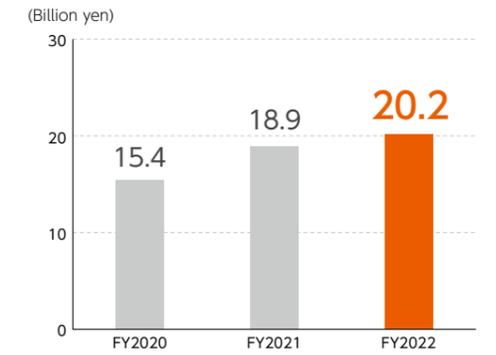
5. Iron fertilizer business

- Establishment of mass production technologies and development of a global sales network to achieve profitability

Fiscal 2022 Business Performance

Despite reduced sales in the magnets business, the Smart Company achieved increased revenues thanks to increased sales volumes of inverter components for electrified vehicles due to increased demand for electrified vehicles. Business profit, on the other hand, was negative due to the effect of things like an increased cost burden due to increased costs of raw materials and energy.

Net sales

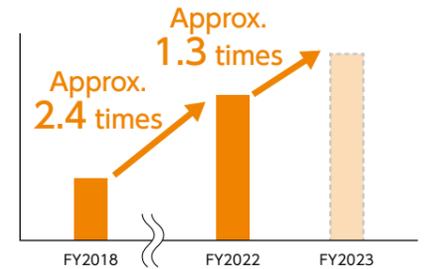


Achievements and Future Initiatives

Electronic components business: Further growth due to rapidly accelerating shift to electrification

With the shift toward electrification of automobiles, the Smart Company is working to enhance its production capacity for power card lead frames, for which demand is expected to continue growing. In fiscal 2022, we expanded and started operating new production lines at the Gifu Plant, one of our key plants. In fiscal 2023, we started preparations to increase production capacity by 30% to capture further growth in the market for electrified vehicle components.

Sales volumes for power card lead frames



Iron fertilizer business: Overseas expansion

We are focusing on expanding our next-generation PDMA fertilizer business, which is expected to contribute to increased food production in poor alkaline soils. While working to develop technologies for industrialization of this product, we are actively conducting performance evaluations through large-scale field tests overseas, and promoting the product through presentations of research results at various international conferences, to open sales channels overseas as well.

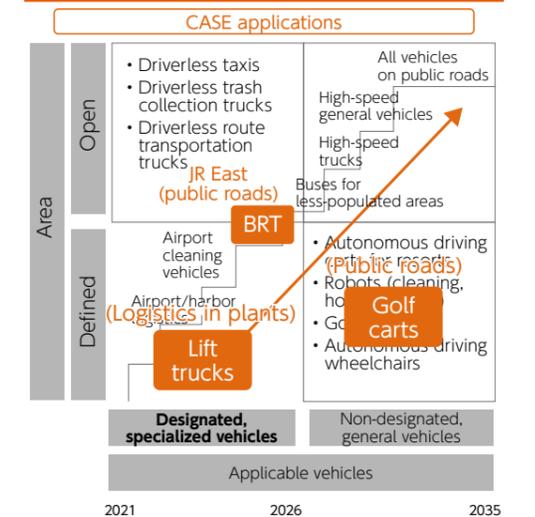
Sensor business: GMPS transitioning to the social implementation phase

Aichi Steel's GMPS autonomous driving support system has been adopted for use with autonomous buses operating on the JR East Kesennuma Line BRT. As the first example of social implementation of this technology, operation began between Yanaizu Station and Rikuzen-Yokoyama Station, Miyagi Prefecture, in December 2022. With its ability to always identify vehicle position to a high level of accuracy, the GMPS is essential for ensuring safety for public transportation systems. It was adopted because GPS signals are unstable in tunnels, and cameras and other optical devices have trouble in poor weather conditions. We will continue to further increase adoption cases as we work toward expanding sales by expanding the scope of application to include logistics in plants and other uses.



Large autonomous BRT bus Photograph provided by: East Japan Railway Company

Social implementation: Creating the de facto standard



Corporate Governance

Basic approach

The Aichi Steel Group believes in the importance of realizing a sustainable society through business activities in order to achieve sustainable growth and improve medium- to long-term corporate value. Based on this belief, we work to enhance corporate governance so that we can manage our businesses with a high level of fairness, transparency, and efficiency in accordance with Our Vision, and build strong relationships with our shareholders, customers, and all other stakeholders.

Initiatives for enhancing corporate governance

We are working to enhance corporate governance with the understanding that addressing management issues with a sense of urgency, while anticipating coming changes, is necessary for sustainably improving corporate value even in a dramatically changing business environment. We implement all principles of the Corporate Governance Code, which was revised in June 2021, and make disclosures in the Corporate Governance Report, including sustainability initiatives and constructive dialogue with shareholders and investors. We also conduct management in a way that improves return on capital, including strengthening our intellectual and human capital and reviewing our portfolio.

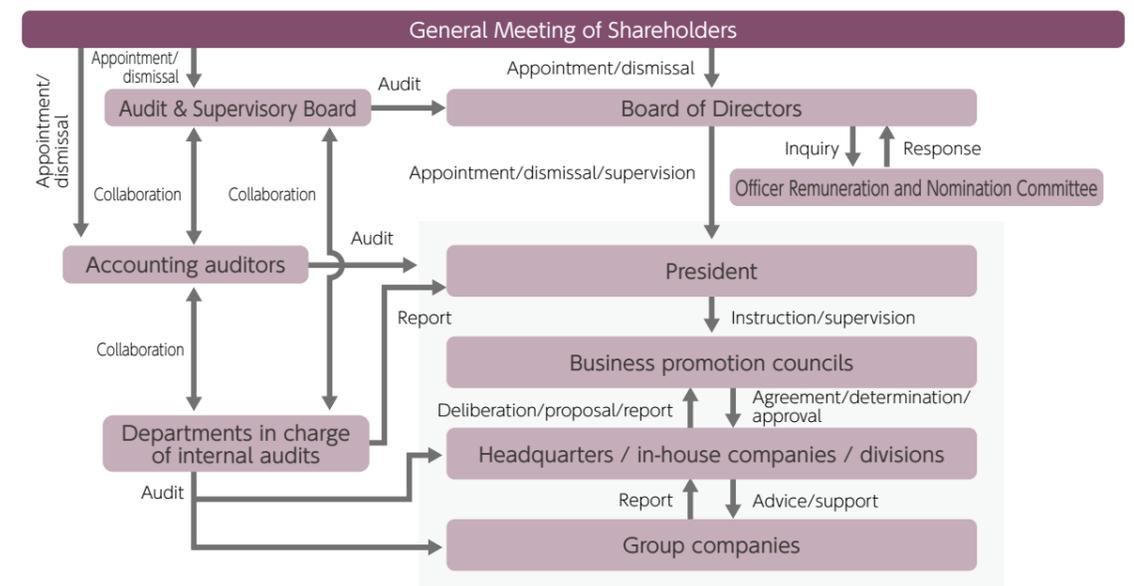
Changes in the corporate governance structures

	2015 and earlier	2016	2017	2018	2019	2020	2021	2022	2023
Number of officers		25	26	26	25	27	16	14	16
Number of directors and percentage of independent outside directors		10 20%		6 33%					6 33%
Number and percentage of female directors		1 10%		1 16%					1 16%
Number and percentage of Audit & Supervisory Board members		5 60%		4 50%					4 50%
Separation of management and execution functions	June 2013 Clarified roles of management (decision-making and supervision) and business execution, and adopted an executive officer system to increase the speed of management				April 2020 Consolidated managing executive officer and senior managing executive officer positions into a single managing executive officer role		April 2021 Integrated officer and executive officer positions, and established a new executive officer position, to increase the speed of management		
	June 2018 Established Officer Remuneration and Nomination Committee as a voluntary committee equivalent to a nomination and remuneration committee								
	June 2015 Appointed outside directors								
Improvement of effectiveness	March 2017 Started evaluating effectiveness of Board of Directors				April 2018 Introduced systemic reporting and discussion of medium- to long-term priority issues as a special topic for the Board of Directors		June 2020 Revised director remuneration system (introduced Restricted Stock Remuneration Plan)		

Corporate Governance Structures

Aichi Steel uses an Audit & Supervisory Board member system, with a General Meeting of Shareholders, Board of Directors, Audit & Supervisory Board, and accounting auditors, to ensure the transparency and health of management. We also use a managing executive officer and executive officer system to reduce the number of directors, and improve the efficiency and speed of business execution. We enhance the function and improve the quality of the Board of Directors by ensuring at least one third of directors are independent outside directors. The Officer Remuneration and Nomination Committee is in charge of nomination and remuneration of directors and managing executive officers. It helps to improve independence, objectivity, and transparency by considering and discussing these matters before consulting the Board of Directors.

To conduct our business, we have established a structure comprising in-house companies (four virtual companies built around our main businesses), a Corporate Office (four headquarters built around functions that support our business), and directly reporting divisions (management functions for safety, quality, auditing, and production in particular). Managing executive officers fulfill the role of chief executive officer of each in-house company and headquarters as presidents and general managers respectively, and support the Aichi Steel president from a companywide perspective. Executive officers lead frontline business practices as officers, and are responsible for executing business functions by making prompt decisions with a sense of urgency.



Board of Directors

The Board of Directors makes decisions concerning legal matters, and important matters for the management of Aichi Steel, and supervises business execution. Having one or more meetings a month, it comprises ten members in total; six directors (including two outside directors), two inside Audit & Supervisory Board members, and two outside Audit & Supervisory Board members. The two outside directors selected as independent officers meet the independence criteria set by securities exchanges. We have created support structures that enable our outside directors to adequately fulfill their management advisory and supervisory functions.

Main agenda items in FY2022 for the Board of Directors

Topics	Main agenda items
Management and business strategy	<ul style="list-style-type: none"> Formulation and progress checks of management plans and in-house company business strategies Conclusion of alliance agreements Business execution reports (performance, production, quality, safety, development, risks, etc.)
Governance	<ul style="list-style-type: none"> Internal control systems Director and officer nominations Officer remuneration matters Meeting reorganization Board of Directors effectiveness evaluation Shareholder matters Accounting matters Auditing matters
Other	<ul style="list-style-type: none"> Sustainability measures (climate change, human rights, cybersecurity, etc.)

Corporate Governance

Board of Directors effectiveness evaluation

We evaluate the effectiveness of the Board of Directors every year to maintain and improve the effectiveness of corporate governance. We specifically interview and survey all members of the Board of Directors, analyze and evaluate their performance, and report effectiveness-related results, issues, and responses to the Board of Directors.

Main issues and responses

Issue (1)	<ul style="list-style-type: none"> Allocation of management resources Management of business portfolio Enhancement of supervisory function concerning human capital management
Response	<ul style="list-style-type: none"> Free and open exchange of opinions Additional time to consider special topic reports to enable discussion
Issue (2)	<ul style="list-style-type: none"> Timely communication of information on industry trends and important management issues
Response	<ul style="list-style-type: none"> Greater opportunities for inside and outside officers to provide information

Support structures for outside officers

To eliminate differences in access to information compared to internal officers, and to maximize their performance, we give outside officers briefings on agenda items before meetings, provide onsite inspections, and hold meetings on special topics to enable free and open discussion outside of meetings of the Board of Directors. In addition to members of the Board of Directors, presidents and general managers related to the special topics also attend the meetings, where they can all participate in more profound discussions that include medium- to long-term strategies.

Audit & Supervisory Board

Comprising four Audit & Supervisory Board members, which includes two outside Audit & Supervisory Board members, the Audit & Supervisory Board audits the execution of duties of directors and other officers, as well as business and financial performance. In addition to attending meetings of the Board of Directors and other important meetings, Audit & Supervisory Board members coordinate with accounting auditors and departments in charge of internal audits to provide oversight of management.

Officer Remuneration and Nomination Committee

We have established a voluntary Officer Remuneration and Nomination Committee as an advisory body to the Board of Directors on matters related to nomination and remuneration of directors, managing executive officers, and other officers. Comprising two independent outside directors and one inside director, the committee is chaired by an independent outside director to ensure objectivity and transparency.

Main agenda items for the Officer Remuneration and Nomination Committee

Topics	Agenda items
Officer remuneration	<ul style="list-style-type: none"> Basic policies related to the remuneration system and remuneration decisions Remuneration structure and payment levels for each position Individual remuneration amounts
Officer nomination	<ul style="list-style-type: none"> Basic policies related to the officer system and structure Proposed appointments and dismissals of directors and Audit & Supervisory Board members Succession planning for officers and executives

Approach to balance and diversity among directors and Audit & Supervisory Board members

To enable accurate and prompt decision-making and appropriate risk management that delivers sustainable growth and improved medium- to long-term corporate value, our Board of Directors is composed of members with expertise in all business and function areas, and diverse knowledge, experience, and skills. We take particular care to appoint outside officers, with management experience at other companies, who are expected to supervise management at Aichi Steel.

Procedure for appointment of directors and Audit & Supervisory Board members

- (1) The Officer Remuneration and Nomination Committee regularly and as required evaluates and carefully considers experience, knowledge, performance, and other factors, and then reports its nomination candidates to the Board of Directors.
- (2) The Board of Directors makes tentative decisions on nomination candidates with reference to the reports of the Officer Remuneration and Nomination Committee, and then makes final decisions through discussions at the General Meeting of Shareholders, and after prior approval of the Audit & Supervisory Board in the case of nominations for members of the Audit & Supervisory Board.

Skill matrix for directors and managing executive officers

We have defined the experience and expertise that we will need to achieve Vision 2030, and created the following matrix of particular expectations of each person below.

Note: This is not meant to represent the only experience and expertise possessed by each person listed.

	Name	Officer Remuneration and Nomination Committee	Corporate Management	Risk Management	Contribution to a Sustainable Global Environment (E)		Creation of a Prosperous Society through Business Reform (S)		Employee Happiness and Corporate Development (G)		Production & Quality	Sales & Procurement	Financial Affairs	Overseas	
					Environment	Energy	Technology & Development	IT & Digital	Legal Affairs and Compliance	Human Resource Development and Diversity					
Director	Inside	Takahiro Fujjoka	✓	✓				✓	✓	✓	✓		✓	✓	
		Naohide Goto	*	✓	✓				✓	✓	✓	✓	✓	✓	✓
		Motoshi Nakamura		✓	✓		✓	✓			✓				
		Naohiro Yasunaga		✓	✓	✓	✓	✓			✓	✓			
	Outside	Koichi Yasui	**	✓	✓	✓	✓		✓	✓	✓		✓	✓	
		Yuko Arai	*	✓						✓		✓			✓
Managing Executive Officer	Toshiyuki Yamanaka		✓									✓			
	Toshio Ito		✓		✓						✓			✓	
	Ichie Nomura		✓				✓	✓			✓				
	Tetsuo Kondo		✓		✓						✓			✓	
	Naoki Ishii		✓	✓	✓			✓	✓	✓			✓		
	Kazuya Fukatsu		✓								✓	✓			

Officer Remuneration

Basic approach

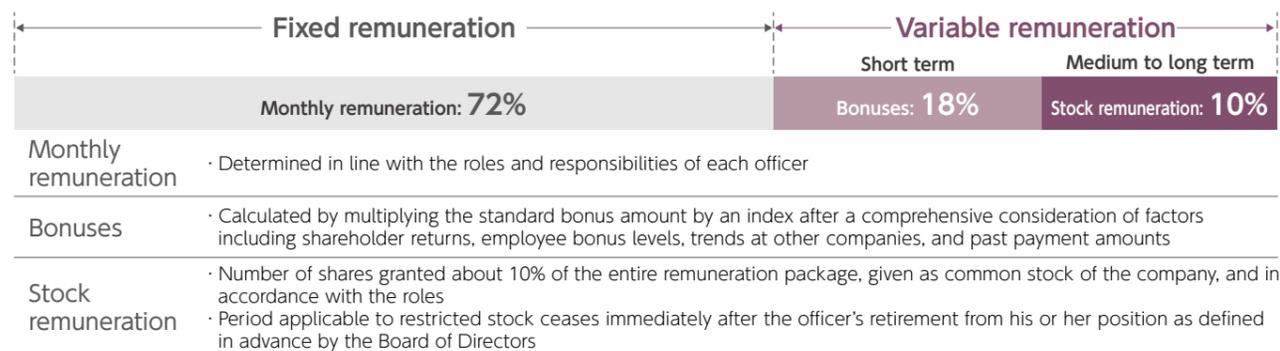
1. Remuneration for each director shall be in accordance with the roles and responsibilities required of him or her.
2. Remuneration shall be consistent with Aichi Steel business strategies and shall encourage directors to work toward sustainable improvement of corporate value.
3. Remuneration shall motivate officers to have an even greater sense of responsibility as a member of management and to promote management from the same perspective as shareholders.
4. Remuneration shall be set at a level that takes into account the business environment, market trends, and payment levels of other companies.
5. The remuneration system decision process shall be objective and highly transparent.

Decision processes

Aichi Steel established the Officer Remuneration and Nomination Committee, with the chair being an independent outside director and the majority of members also being independent outside directors, to ensure objectivity, fairness, and transparency in decisions such as remuneration for directors. The committee discusses director remuneration structures, levels, decision-making policies and procedures, and individual levels of remuneration based on the decision-making policies. Based on the results of those discussions, the Board of Directors determines policies for director remuneration, individual levels of remuneration, and other matters. From the perspective of maintaining independence, remuneration for outside directors is at a fixed rate.

Corporate Governance

Remuneration structure



Remuneration and other payments to directors and Audit & Supervisory Board members

Officer classification	Total remuneration (million yen)	Total remuneration by type (million yen)			Number of applicable officers (persons)
		Fixed	Performance-based		
		Monthly remuneration	Bonuses	Stock remuneration	
Directors (excluding outside directors)	237	189	24	24	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	73	73	N/A	N/A	2
Outside officers	36	36	N/A	N/A	4

Notes: 1. Performance-based remuneration includes bonus amounts determined by resolution at the meeting of the Board of Directors on May 16, 2023.
 2. Stock remuneration includes amounts related to restricted stock granted to directors (excluding outside directors) and expensed during the current fiscal year.
 3. The above includes one director who retired at the close of the 118th General Meeting of Shareholders held on June 22, 2022.

Cross Shareholdings

Basic approach

Maintaining and strengthening of trade and collaborative relationships with a range of companies are needed to ensure sustainable growth in a rapidly changing business environment. For this reason, Aichi Steel engages in cross holdings with other companies, but only if it deems them to be effective in improving corporate value from a medium- to long-term perspective in a comprehensive evaluation that considers its business strategy, future relationships with suppliers and affiliated companies, and other factors.

Verification of cross shareholding suitability

Each year, at a meeting of the Board of Directors, we make comprehensive verifications and assessments of the suitability of each cross shareholding based on quantitative factors, including whether dividends, business profits, and other figures exceed our weighted average cost of capital, as well as qualitative factors, including trading status and business-level collaborations. If a shareholding is determined to be unsuitable according to the verification, we decide on what course of action to take, including disposing of the shares.

Standard for exercising voting rights

Rather than applying uniform decisions from typical and short-term criteria, we make decisions on each agenda item separately. We consider them from various perspectives, including corporate value improvement and shareholder returns over the medium to long term, while fully respecting the management policy, business strategies, and other decisions of the companies in which we invest. When exercising our voting rights, we make comprehensive decisions on whether to approve agenda items after closely investigating factors such as business performance, governance, and capital policy that would represent a conflict of interest with us, or would change or dilute our shareholdings.

Changes in volume of cross shareholdings



Outside Director Interview

2023 was an important year for Aichi Steel, with the appointment of a new president for the first time in 12 years. At this juncture, we interviewed Koichi Yasui and Yuko Arai, two people with extensive experience and deep insight who continue to serve as outside directors, for their honest thoughts on issues related to improving corporate value and expectations for the future.



Koichi Yasui
Outside Director

Yuko Arai
Outside Director

Evaluation and issues for improving corporate value

Arai: Investing in sustainability issues, such as decarbonization, human capital, and intellectual capital, will become even more important going forward, and Aichi Steel has already built a solid financial foundation for this purpose. What is important now is how to specifically refine our methods for using this foundation.

Yasui: That is my belief, too. We have to figure out how to effectively use the capital we have and maximize our earning power. Two ways are structural reform of earnings for our core businesses of steel materials and forged products, which we are already implementing, and expansion of high-performance products, such as stainless steel and electronic components, in growth markets. And what is important is whether we can incorporate these initiatives into a concrete annual plan, and implement them with a sense of urgency.

Arai: Another issue is appropriate communication of information to shareholders and investors. We have to carefully explain our current situation and management strategies, engage in constructive dialogue, and expand their understanding of the industry and Aichi Steel. At the same time, we need to increase the number of Aichi Steel fans through a range of activities, including branding strategy and measures to improve brand recognition.

Arai: Social issues are becoming more and more complex these days, so we are limited to what we can achieve as a company working alone. In that respect, I also hope to contribute in areas like always keeping an eye out for social trends and needs, searching for potential new business ties between Aichi Steel and other lines of business, and providing internal feedback.

Expectations for new President Naohide Goto

Arai: Looking at the company to date, I see the gradual development of a culture of boldly taking on challenges without fear of unfavorable conditions. I expect President Goto to lead our employees by building on this culture to accelerate growth of not only our core businesses, but smart business and other new businesses as well, with the superior technical capabilities of a materials manufacturer, and in doing so to show them our future beyond 2030.

Yasui: It is extremely difficult to steer management in this period of transition, with moves toward a decarbonized society and revolutionary change within the automotive industry. For this reason, we need fresh sensibilities and leadership to guide us through this wild current so that we can continue contributing to industrial and social development and to the global environment. On our part, we will also fulfill our management supervisory function while supporting President Goto in improving corporate value for Aichi Steel.

*Practical Guidelines for Independent Directors (June 2020)
 Eight Points on Utilizing Training for Outside Directors (June 2023)
 Case Studies for Outside Directors (June 2023)

The role of outside directors

Arai: With the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange formulating, publishing, and distributing a series of documents on the responsibilities and role of outside directors*, the importance of outside directors has been greater than ever. We have to fulfill our responsibilities properly as well.

Yasui: Collaboration between a business-savvy management team and outside Directors like us, who can offer different perspectives, is essential for achieving sustainable growth in a rapidly changing world. Of course, I provide management oversight and ensure objectivity, but I am also personally focused on discussion based on accumulated knowledge and diverse outside perspectives without influence from internal company norms. I intend to contribute more actively than ever to the issue of energy and the environment, which is a particular priority issue for us, through discussion and decision-making in meetings of the Board of Directors.

Directors and Audit & Supervisory Board Members



Takahiro Fujioka
Chairman

Attendance at Board of Directors meetings

14 of 14 (100%)



Naohide Goto
President

Attendance at Board of Directors meetings

N/A



Motoshi Nakamura
Executive Vice President

Attendance at Board of Directors meetings

14 of 14 (100%)



Naohiro Yasunaga
Director and Managing Executive Officer
General Manager, Manufacturing
Innovation Headquarters

Attendance at Board of Directors meetings

14 of 14 (100%)



Koichi Yasui
Outside Director

Attendance at Board of Directors meetings

14 of 14 (100%)



Yuko Arai
Outside Director

Attendance at Board of Directors meetings

14 of 14 (100%)



Hiroaki Chino
Audit & Supervisory Board Member

Attendance at Board of Directors meetings

14 of 14 (100%)



Hirofumi Yokota
Audit & Supervisory Board Member

Attendance at Board of Directors meetings

14 of 14 (100%)



Katsuyuki Ogura
Outside Audit &
Supervisory Board Member

Attendance at Board of Directors meetings

13 of 14 (93%)



Sotaro Kumazawa
Outside Audit &
Supervisory Board Member

Attendance at Board of Directors meetings

N/A

Risk Management

Basic approach

Business environments are becoming increasingly diverse and are experiencing major changes, including climate change, resource depletion, tension in international affairs, large-scale disasters and spread of the pandemic, supply chain disruptions and other issues impacting business activities, and instability of society due to growing divides. These social and environmental challenges are having a severe impact on companies' value creation and business models. Such conditions have made risk management one of the most important challenges for business management, so Aichi Steel is working to minimize risks by both enriching and enhancing risk management. Specifically, we classify potential impacts on business management as either "risks" (matters yet to materialize) or "crises" (emergencies that have materialized). We then focus on preventive measures that eliminate risks before they become crises, and on prompt and accurate initial and recovery responses that minimize damage in the event of a crisis occurring.

Examples of specific initiatives

Twice a year, at the midpoint and at the end of the fiscal year, the Executive Committee discusses and approves the risk management progress review, annual policy, and approach going forward.

1. Reevaluation of major risks and consideration of countermeasures

After acquiring IATF 16949* certification in fiscal 2022, we took the opportunity to reevaluate our major risks, and to start verifying and improving the effectiveness of companywide business continuity plans as measures to take if the risks materialize.

*An international standard for quality management systems specialized for the automotive industry and used by many of the world's automakers as their global procurement standard for automotive parts

2. Disaster management

(1) Awareness raising

We revised the content of our Guide to Emergency Disaster Management and re-familiarized all employees with the basic actions to take in the event of an earthquake or other disaster.

(2) Measures against heavy rains and storm surges

As a measure against flood damage from heavy rains, we installed new water barriers at service entrances and other places within the Chita Plant. We are also working on measures against storm surges that accompany large typhoons, and we are conducting internal investigations toward incorporating those measures into our next Medium-term Management Plan.

(3) Emergency drills

We conduct companywide emergency drills twice a year. In fiscal 2022, we conducted training for the first time in collaboration with the Tokai City Fire Department, from initial efforts to extinguish a fire to use of fire hoses. To improve crisis response and judgment capabilities in emergencies, we also conducted a new role-playing and map-based simulation as a practical training for an earthquake in the Nankai Trough. By keeping the scenario secret until the training, we were able to raise awareness of disasters while helping participants to understand the importance of appropriate and prompt responses in a constantly changing situation.



Map-based simulation of a large earthquake in the Nankai Trough



Water barriers installed as a measure against flood damage from heavy rains, etc.

Strengthening of risk responses

We are working to strengthen risk management to enable rapid responses in an increasingly complex business environment that includes a heightening of geopolitical risks and increasingly problematic cyberattacks and climate change. In addition to re-verifying the effectiveness of our countermeasures to individual risks that have materialized, we are gathering more information than ever, on a global scale, about risks that could materialize in the future (potential risks). While risk responses were previously conducted mainly by our functional divisions, we intend to strengthen collaboration with the business divisions going forward as we work to develop mechanisms for better identifying risks and taking appropriate action. By continuing to strengthen our risk response capabilities and reduce loss when risks materialize, we are striving to sustainably improve corporate value.

Corporate Governance

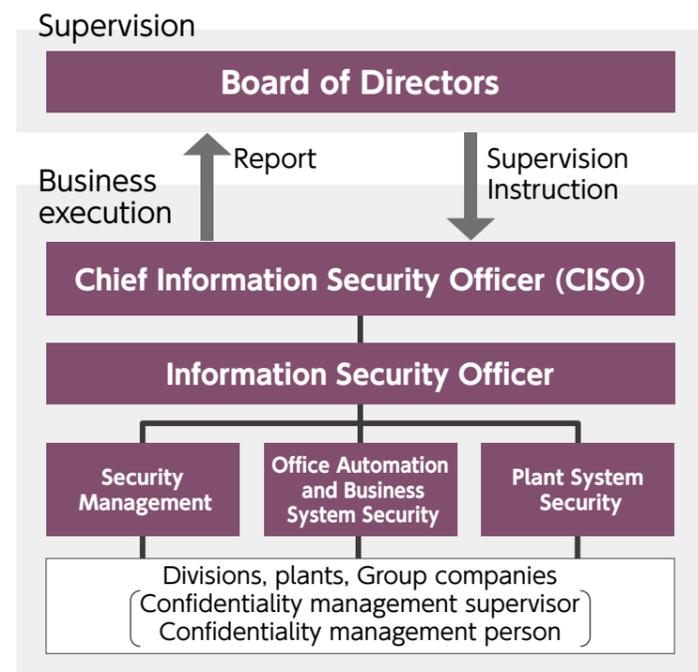
Information Security

Basic approach

In addition to holding important information assets, including entrusted customer and supplier information and proprietary trade secrets, Aichi Steel has been adopting remote operations and networking plant equipment over recent years. We are implementing information security measures in recognition that stability of product supply is a company responsibility and an important management issue. We are doing this by protecting information assets from cyberattacks and other threats, data leaks, and other issues that have been increasing on a yearly basis, and by maintaining continuity of normal business activities.

Promotion structures

We have established Groupwide structures, based on the All Toyota Security Guidelines (ATSG) shared within the Toyota Group and led by the Chief Information Security Officer (CISO), for maintaining and improving information security on a systematic and ongoing basis. We are also working to ensure the same level of security can be maintained on a global level. The CISO oversees all information security and information asset protection for the Group as a whole, while the Security Management, Office Automation and Business System Security, and Plant System Security organizations are in charge of planning, promotion, auditing, and support. Twice a year, the Board of Directors receives progress, issue, and other reports from the CISO as part of its supervisory function.



Examples of specific initiatives

Security inspections and audits based on the ATSG

We continually inspect the status of information security measures across the Group, and continually maintain and improve our information security. This fiscal year, we are working with Group companies to strengthen measures to comply with version 8.1 of the ATSG.

Email-based cyberattacks

Cyberattacks are becoming increasingly complex and sophisticated these days, and with many of them coming via email viruses, there is an urgent need to strengthen countermeasures. We are also working to prevent such cyber incidents through technical measures, including adoption of defense systems against suspicious emails from outside, and through people-centered measures, including employee training and education on targeted email attacks.

Security incident training

We conduct security incident training to minimize damage and impacts on our operations in the event of a security incident occurring. We start by formulating specific risk scenarios so that participants can experience an actual incident in chronological order. We can then verify and improve the effectiveness of handling in the event of a cyberattack, procedures for early recovery of systems, and a division of roles that enables our operations to continue even without the usual systems. In this way, we are improving our systematic incident response capabilities and our ability to handle unexpected events.

Compliance

Basic approach

Based on the belief that commitment to compliance underpins a company's continued existence and is the foundation for its corporate activities, Aichi Steel established the Aichi Steel Group Action Guidelines and it ensures awareness of the guidelines among all officers and employees. In addition to laws and regulations, we also comply with social norms and decency, and internal company rules. To this end, we always strive to raise awareness of compliance, to prevent misconduct, and to fulfill the social responsibilities of the company.

Promotion structures

To maintain and strengthen compliance levels across the Group as a whole, we report on progress reviews and initiative policies in the Executive Committee, which is chaired by the president. This system enables us to share, with all employees, the determined initiative policies and activity plans via the persons in charge of compliance in each division and domestic subsidiary, and to reflect them in activities being conducted in each workplace. Group companies are working to ensure compliance through establishment of promotion structures in line with their own size and circumstances. The Compliance Liaison Meeting also holds four regular meetings each year to share things like revisions to laws and regulations and points of concern regarding legal compliance, and to promote Groupwide compliance activities.



Examples of specific initiatives

Education and awareness-raising activities

The persons in charge of compliance in each division and domestic subsidiary attend meetings of the Compliance Liaison Meeting and lead compliance activities in each workplace. A range of awareness-raising activities are also conducted in each workplace through Compliance Close Call activities (inspections of events in daily operations that could lead to violations of laws and regulations). In addition, compliance education is conducted for people at all levels in accordance with the roles that they have to play. From fiscal 2021, in addition to education on what not to do, which has been the norm until now, we have been providing ethical compliance education, through videos and other methods, to encourage employees to act as members of the Aichi Steel Group should.

Awareness surveys

We conduct compliance surveys of all employees once a year to understand the current state of compliance and any related issues. In fiscal 2022, over 98% of employees responded to the survey. By quantifying and visualizing such things as compliance awareness and activity penetration within the company, we are able to identify priority issues and implement effective improvements. Providing relevant feedback to divisions through the Compliance Liaison Meeting and other channels is also helping us to improve the level of workplace activities.

Aichi Steel Groupwide compliance activities

In fiscal 2022, we started a program to support self-driven improvement of compliance levels at Group companies. During the first year, we conducted separate interviews with every company in the Group to understand the compliance status of each company. During fiscal 2023, we have been following up with the companies to ensure they have achieved the basics for legal compliance.

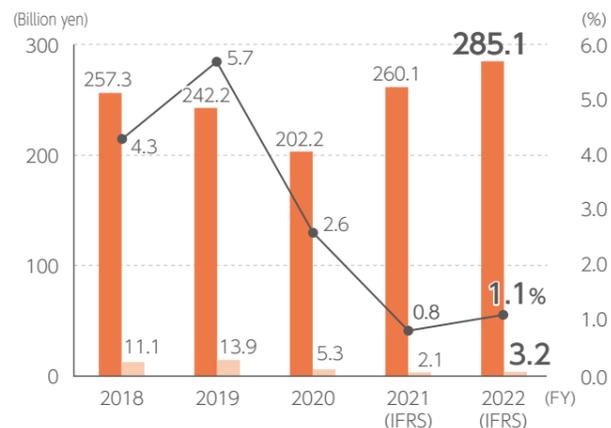
Whistle-blowing system

We have established an internal whistle-blowing system to promote early detection of violations of laws and regulations, and misconduct, within the company and to self-govern through appropriate measures. Called the Aichi Steel Compliance Hotline, we have established three contact points operated separately by external legal representatives, internal Audit & Supervisory Board members, and the General Affairs Division. Information on whistle-blowing incidents is shared among the three contact points and appropriate measures are taken while fully considering privacy protections and ensuring no disadvantageous treatment.

Financial Highlights

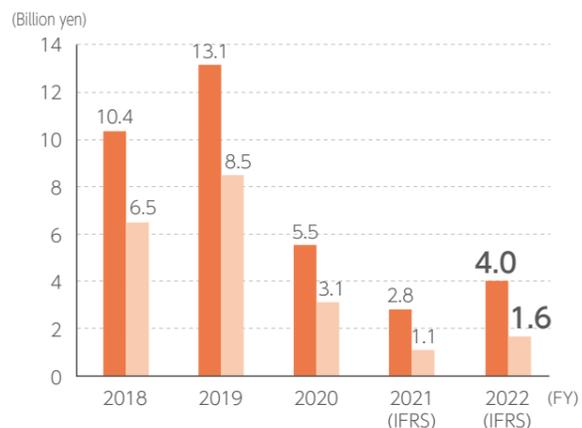
Net sales, operating profit, and operating profit margin

■ Net sales ■ Operating profit ◆ Operating profit margin



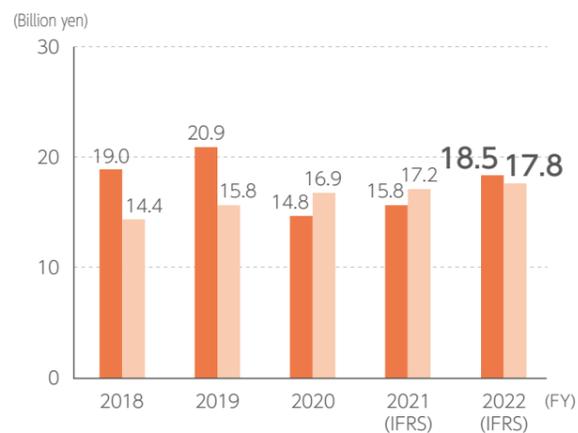
Profit before income taxes and profit attributable to owners of the parent

■ Profit before income taxes ■ Profit attributable to owners of the parent



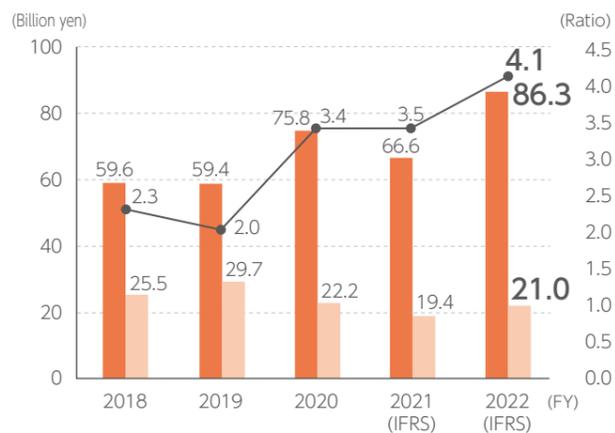
Capital investment and depreciation

■ Capital investment ■ Depreciation



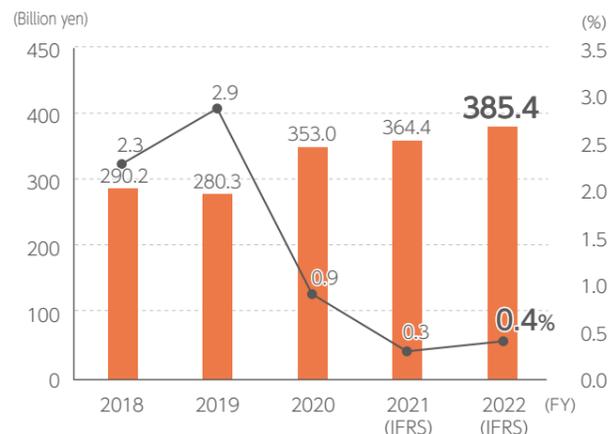
Interest bearing debt, EBITDA, and EBITDA interest bearing debt ratio

■ Interest bearing debt ■ EBITDA ◆ EBITDA interest bearing debt ratio



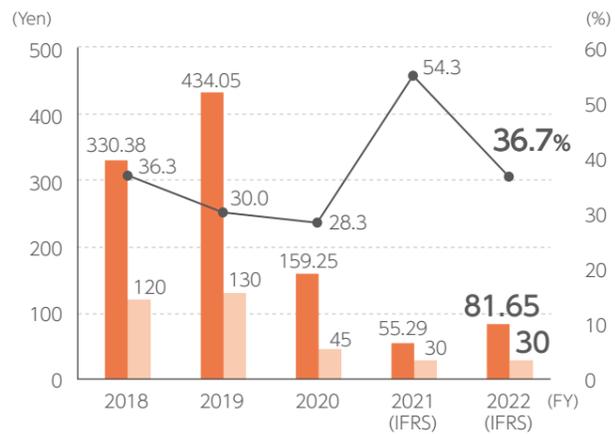
Total assets and ROA

■ Total assets ◆ ROA



Profit per share, dividends per share, and payout ratio

■ Profit per share ■ Dividends per share ◆ Payout ratio



Non-financial Highlights

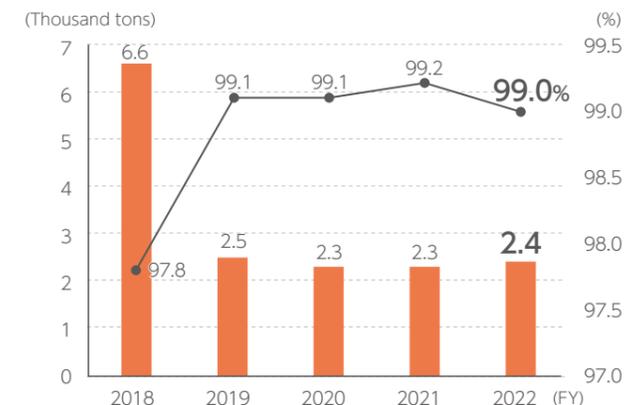
Total CO₂ emissions and emissions intensity (non-consolidated)

■ Total CO₂ emissions ◆ Emissions intensity



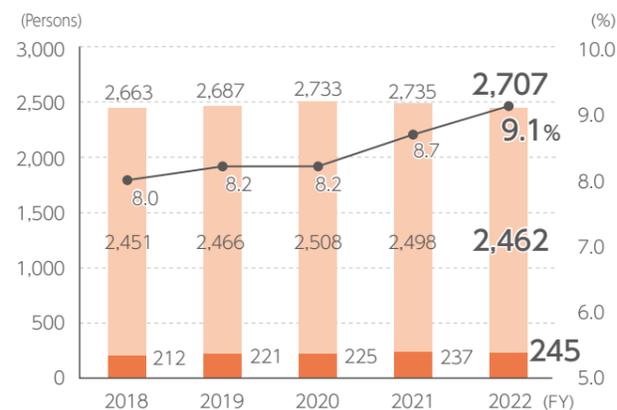
Byproducts sent to landfill and byproduct recycling rate

■ Byproducts sent to landfill ◆ Byproduct recycling rate



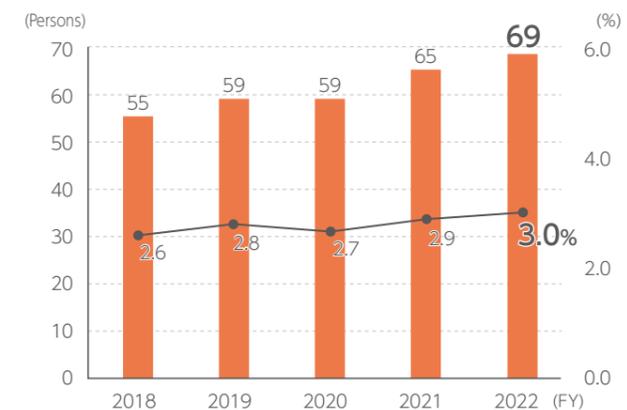
Number of employees and number of female employees included in total (non-consolidated)

■ Female employees ■ Male employees ◆ Percentage of female employees



Employees with disabilities (non-consolidated)

■ Persons employed ◆ Percentage of employees



Number of work-related accidents resulting in lost time and lost time frequency rate (non-consolidated)

■ Number of lost time accidents ◆ Lost time frequency rate



Positive response rate to surveys (non-consolidated)

■ Office workplace management survey ■ Workplace capability survey ◆ Morale survey



Key Financial Data (11-year summary)

(Million yen)

	Japanese accounting standards										IFRS	
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2020	FY2021	FY2022
Profit and loss												
Net sales	217,279	237,420	240,647	214,120	212,837	236,237	257,315	242,262	204,908	202,247	260,117	285,141
Segment:												
Hagane Company	-	-	-	-	96,225	110,974	130,180	121,899	68,216	67,888	99,556	105,687
Stainless Steel Company	-	-	-	-	-	-	-	-	32,757	30,749	36,322	42,244
Kitaeru Company	-	-	-	-	99,599	107,352	109,217	102,018	86,012	85,993	103,037	114,463
Smart Company	-	-	-	-	13,820	14,786	14,627	14,865	15,476	15,171	18,970	20,233
Other businesses	-	-	-	-	3,191	3,123	3,290	3,477	2,444	2,444	2,230	2,502
Operating profit	7,332	9,627	10,616	5,883	7,218	11,813	11,119	13,901	3,563	5,317	2,139	3,260
Segment:												
Hagane Company	-	-	-	-	5,653	8,006	9,245	8,970	-2,294	-1,587	-7,238	-3,374
Stainless Steel Company	-	-	-	-	-	-	-	-	2,467	2,740	2,536	2,741
Kitaeru Company	-	-	-	-	845	2,747	1,057	3,329	1,909	2,387	4,311	1,713
Smart Company	-	-	-	-	237	348	-39	606	673	974	1,773	1,261
Other businesses	-	-	-	-	482	710	856	993	807	782	889	928
Operating profit margin (%)	3.37	4.05	4.41	2.75	3.39	5.00	4.32	5.74	1.74	2.60	0.82	1.1
Profit before tax	7,768	9,779	10,693	1,409	8,045	12,371	10,455	13,158	4,717	5,552	2,895	4,099
Profit attributable to owners of parent	4,898	5,503	6,023	20	5,084	8,182	6,503	8,543	3,049	3,136	1,089	1,610
Capital expenditures and R&D expenses												
Capital expenditures	10,272	12,930	12,752	15,408	20,831	19,020	20,914	20,068	14,194	14,868	15,874	18,595
Depreciation expenses	12,840	12,355	11,833	12,692	12,353	13,818	14,423	15,884	16,963	16,903	17,276	17,821
R&D expenses	3,597	3,471	3,538	3,282	3,304	3,777	3,992	3,758	4,054	3,962	4,252	4,404
Profitability												
Profit margin attributable to owners of parent (ROE) (%)	3.96	4.17	4.14	0.01	3.60	5.55	4.27	5.56	1.88	1.71	0.55	0.8
Total assets attributable to owners of parent (ROA) (%)	2.04	2.23	2.33	0.01	1.95	2.99	2.30	2.99	1.03	0.95	0.30	0.4
Assets, liabilities and capital												
Total assets	238,165	255,259	264,694	251,078	271,763	275,315	290,294	280,380	314,040	353,043	364,400	385,449
Total equity (Net assets)	132,436	144,965	161,669	147,534	151,273	160,806	161,889	163,691	179,716	202,883	212,475	214,322
Equity attributable to owners of parent (Capital adequacy)	126,323	137,592	153,316	139,344	143,024	151,891	152,638	154,647	169,811	192,953	201,548	203,759
Ratio of equity attributable to owners of the parent (%)	53.04	53.90	57.92	55.50	52.63	55.17	52.58	55.16	54.1	54.7	55.3	52.9
Interest bearing debt	51,243	52,046	44,915	37,447	54,598	47,317	59,618	59,445	75,878	75,864	66,668	86,395
Debt-equity ratio (Ratio)	0.41	0.38	0.29	0.27	0.38	0.31	0.39	0.38	0.45	0.39	0.33	0.42
Cash flows												
Cash flows from operating activities	27,757	14,992	19,336	25,193	13,350	13,164	13,580	36,308	14,793	15,896	5,210	13,028
Cash flows from investing activities	-11,867	-11,993	-13,565	-12,122	-19,677	-20,954	-19,765	-24,517	-13,834	-14,247	-15,542	-15,958
Cash flows from financing activities	-10,198	-1,911	-10,158	-9,466	15,231	-9,509	9,035	-3,290	14,168	13,479	-11,987	16,998
Investment indicators												
Basic net profit per share (Yen)	249.37	279.94	306.25	1.02	258.34	415.71	330.38	434.05	154.82	159.25	55.29	81.65
Net assets per share attributable to owners of parent (Yen)	6,430.50	6,995.84	7,794.08	7,080.24	7,266.42	7,716.77	7,754.80	7,857.00	8,619.39	9,794.01	10,224.55	10,328.55
Dividends per share (Yen)	100	100	100	100	100	120	120	130	45	45	30	30
Payout ratio (%)	40.1	35.7	32.7	-	38.7	28.9	36.3	30.0	29.1	28.3	54.3	36.7
Employees (Persons)	4,504	4,613	4,617	4,654	4,773	4,847	4,957	4,912	4,826	4,826	4,740	4,650

Notes: 1. Every 10 shares in the Company were consolidated into one share effective of October 1, 2016. Net profit per share, net assets per share, and dividends per share were calculated in anticipation of this share consolidation at the beginning of FY2009.

2. The ASBJ Statement No. 28, Partial Amendments to Accounting Standard for Tax Effect Accounting (February 16, 2018) came into force at the beginning of FY2018. The key management indicators for FY2014, FY2015, FY2016 and FY2017 represent retrospective application of this accounting standard. Indicators and other information for FY2012 and FY2013 remain as they were prior to application of this accounting standard.

3. International Financial Reporting Standards (IFRS) were applied from FY2021.

Company and Share Information (as of March 31, 2023)

Company Profile

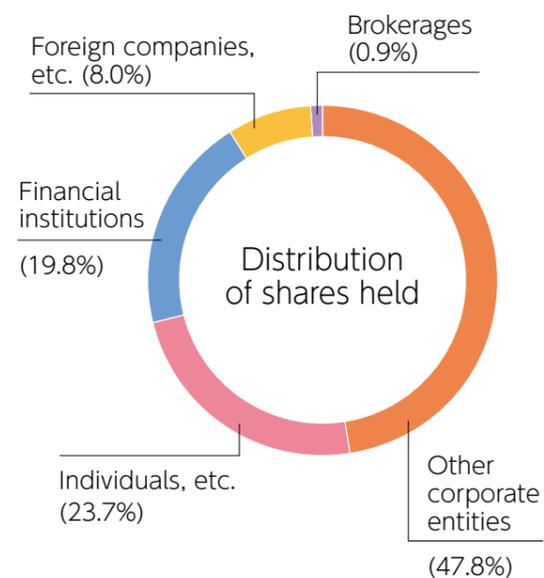
Company name	Aichi Steel Corporation	General Meeting of Shareholders	June
Established	March 8, 1940	Shares per unit	100
Capital	25,016 million yen	Total number of shares outstanding	19,886,675 (excluding 158,902 treasury shares)
Head office	1, Wanowari, Arao-machi, Tokai-shi, Aichi 476-8666, Japan	Number of shareholders	9,799 (including Aichi Steel as holder of treasury shares)
Employees	Consolidated: 4,650; non-consolidated: 2,707	Ticker symbol	5482
Number of consolidated subsidiaries	18	Listed exchanges	Prime Market of Tokyo Stock Exchange Premier Market of Nagoya Stock Exchange
Accounting year	From April 1 to March 31 the following year		

Aichi Steel Group

Production sites	Sales offices	Domestic Group companies	Overseas Group companies
[Chita area] · Chita Plant · Forging Plant · Electronic Components Plant Kariya Plant Higashiura Plant Gifu Plant Seki Plant	Tokyo Office Osaka Office Fukuoka Sales Office Overseas offices Shanghai Representative Office Silicon Valley Office	AIKO CORPORATION AICHI CERATEC CORPORATION OMI MINING CO., LTD. Aichi Techno Metal Fukaumi Co., Ltd. Aichi Steel Logistics Co., Ltd. Aichi Information System Corporation AIKO SERVICE CO., LTD. Asdex Corporation	[Asia] AICHI FORGE PHILIPPINES, INC. AICHI FORGE (THAILAND) CO., LTD. Shanghai Aichi Forging Co., Ltd. PT. AICHI FORGING INDONESIA Aichi Korea Corporation Aichi Magfine Technology (Pinghu) Co., Ltd. Zhejiang Aichi Mechanical & Electrical CO., LTD. [USA] Aichi Forge USA, INC. [Europe] Aichi Europe GmbH Aichi Magfine Czech s.r.o

Major Shareholders (Top 10)

Name	Equity in Aichi Steel	
	Stake (thousand shares)	Equity participation (%)
Toyota Motor Corporation	4,715	23.90
The Master Trust Bank of Japan, Ltd. (Trust account)	1,555	7.88
Nippon Steel Corporation	1,531	7.76
Toyota Industries Corporation	1,360	6.90
Sumitomo Mitsui Banking Corporation	491	2.49
MUFG Bank, Ltd.	474	2.40
Toyota Fudosan Co., Ltd.	461	2.34
Employees' Stockholding	410	2.08
Custody Bank of Japan, Ltd. (Trust account)	383	1.94
Hokokai's Stockholding	329	1.67



External Evaluations and Certifications



Rating Information

Japan Credit Rating Agency

Long-term

A

AICHI STEEL

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