More enthusiastically,
strongly and straightforwardly

AICHI STEEL REPORT 2010

AICHI STEEL

AICHI STEEL 70th

Mission Statement

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

CSR Policy

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

CSR Vision 2015

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

Corporate Profile

[Establishment] March 8, 1940
[Capital] 25,016 million yen (as of March 31, 2010)
[Representative] Shokichi Yasukawa, President
[Employees] 2,330 (as of March 31, 2010)
[Business Description] Production and sale of specialty steel products, forgings and electromagnetic products
[Offices] Head Office: Tokai-shi, Aichi, Japan
Sales Offices: Tokyo/Osaka/Fukuoka
Overseas Offices: Shanghai/Seoul
Plants: Chita/Kariya/Forging/Higashiura/Gifu/Seki
[Customers and Suppliers]
Major Customers: Toyota Tsusho Corporation/Toyota Motor Corporation/Aisin AW Co., Ltd.
Major Suppliers: Toyota Tsusho Corporation/Mitsui & Co., Ltd.

Major Products

Please refer to our Website.

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

Specialty steel

Specialty steel is manufactured by adding alloys and metallic elements to iron to improve material properties such as strength, hardness, toughness, wear resistance, heat resistance and corrosion resistance.

Forgings

Forgings, produced by pressing and forging specialty steel, are used in automobiles, construction machines and manufacturing machines that require strength and durability.

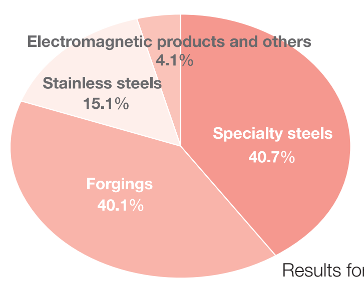
Stainless steel

Tough and corrosion-resistant, stainless steel is used in applications relating to water, such as dams, sluices and ships. It is also used in chemical and nuclear power plants, as well as in construction materials and everyday utensils.

Electromagnetic products / TetsuRiki-Agri

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

Sales Mix (in amount, non-consolidated basis)



Results for Fiscal 2009

Aichi Steel Group

Please refer to our Website.

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

Subsidiaries in Japan (9 subsidiaries)

- Aiko Corporation
- Aichi Ceratec Corporation
- Omi Mining Co., Ltd.
- Aichi Techno Metal Fukaumi Company
- Aichi Steel Logistics Co., Ltd.
- Aichi Information System Company
- Aiko Service Co., Ltd.
- Aichi Micro Intelligent Corporation
- Asdex Corporation

Affiliates

- Tokai Special Steel Co., Ltd.

Overseas subsidiaries (8 subsidiaries)

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

ABOUT AICHI STEEL REPORT 2010

Editorial Policy

Aichi Steel Report 2010 focuses on disclosing as much as possible concerning the activities of Aichi Steel and the Aichi Steel Group during fiscal 2009, including specific examples. As regards unattained objectives, contributory factors are analyzed and measures to be taken are reported. To enhance stakeholder understanding of and confidence in our business and social activities, the Company activity report is divided into Social Relations, Environmental and Financial sections (including the Annual Report).

Wording/Mark

Following revision of the Company's job classification system, the term "leaders," used until the previous year, has been changed to "managers."
To render new and ongoing activities easily recognizable, new activities are marked with NEW.

Readers

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

Report Period and Scope

This Report covers activities conducted by the Aichi Steel Group during fiscal 2009 (April 2009 to March 2010). However, some activities conducted before or after fiscal 2009 are also explained, as necessary.

Release

October 2010

Contents

Message from the President

We aim to be No. 1 in our core business, and one-and-only in our new business.

Shokichi Yasukawa, President

Successful in returning to profitability by viewing difficulties as opportunities for rebuilding ourselves

Was the Company able to shed the influence of the global financial crisis that occurred in the autumn of 2008?

The sharp decline in demand for our products in early 2009, soon after the outbreak of the global financial crisis, forced us to drastically decrease our production volume. Consequently, we reported red ink for fiscal 2008. In April 2009, however, the downward trend of our production volume began to reverse; in September of the same year we turned a single-month profit. Since then we have succeeded in meeting the in-house challenging target of returning the Company to profitability for the full year of fiscal 2009. There are two major external factors behind our return to profitability: the first was a slightly higher recovery of demand than initially expected; the second was the relatively stable prices of raw materials. Internal factors were our employees' improvement efforts, including cost reduction.

Fiscal 2009 was expected to be a tough year. Viewing difficulty as opportunity, however, I came up with the slogan "It's time to rebuild ourselves." It means that now is a good time to return to the very starting point of the Company and thoroughly review its business and financial structures, to get it back on a growth track. Under this slogan, all the employees have concerted their efforts to promote cost reduction by improving efficiency and eliminating unnecessary processes and expenditures that had been overlooked during the previous busy period. The achievement of such an early recovery of our business is due entirely to our employees' diligent efforts.

Work on developing next-generation products and new markets, with the target year set at 2015

Could you give us some examples of the Company's efforts and results during fiscal 2009?

What is most fundamental for improving a corporate structure is to eliminate waste. We launched Project Z100 (*) last year, with the goal of reducing production costs by 10 billion yen in two years. As the important first step in achieving this goal, we worked on changing our perception of costs. The new perception is that the real fixed costs are basic salaries paid to workers, and depreciation costs; all other costs are variable costs. Viewing things from this perspective, we can make an enormous difference in power consumption by promoting power saving in the workplace, because we are engaged in business in the process industry, in which large equipment and machinery are operated. We focused our efforts on minimizing energy waste and enhancing energy efficiency in facility operation and, in terms of the production line, reducing quality-related losses and improving yield rate. Furthermore, we exerted various efforts to reduce production costs, from the perspective of both operational and product failure. As a result, in the past year we have already gotten halfway to the goal of Project Z100. Under the project, I have given a directive to set targets and assess attainment levels by viewing each quarter (three months) as if it were a full year. During fiscal 2009, every employee met our expectations and performed tasks in a briskly efficient manner. Our challenge in fiscal 2010 is to further reduce waste and enhance productivity. On the production line, the first phase of loss reduction has been completed. Our efforts now should be focused on the next phase of loss reduction and productivity improvement.

*Project Z100: "Z100" stands for three Japanese keywords starting with "Z": "Zikkou-suru" (execute), "Zitsugen-suru" (realize), and "Zettai-yarinuku" (follow through with mission). It is also derived from the Japanese expression "Z Flag" (meaning to fight with all our effort and with our backs against the wall.)

What do you think are the strengths and weaknesses of Aichi Steel? How will you overcome its weaknesses?

Major strengths of the core business of Aichi Steel are that we are the world's leading integrated manufacturer of steel and forgings through quality and technology, and that as a member of the Toyota Group, we can work closely with other manufacturers to develop products. In the development of business activities, moreover, we can share the vision and objectives of the Toyota Group. At the same time, however, we rely heavily on the automobile industry, which is a weak point for us.

To overcome this weakness, I have come up with "Doctrine 1-3-7," a corporate strategy toward sustainable growth. The idea is that in our core business, we create a financial structure that enables us to generate profits at the factory-operating rate of 70% by 2011 (3rd year of the strategy), with 2009 as the starting point (1st year of the strategy). This strategy aims to lower our break-even point, an effort that is also consistent with the objectives of Project Z100. By 2015 (7th year of the strategy), we will have reformed our production process and rebuilt our global sites.

Other positive news we can report is that the electromagnetic product business, a new business of the Company, achieved its first single-month profit in March. We are currently making every effort to report profits for the full year of fiscal 2010 in our electromagnetic product business, and I want to make the business a de-facto standard for the industry and the "one and only" in the world by 2015.

I understand that both the core and new businesses of the Company will reach a turning point in a few years, undergoing drastic changes called a "new industrial revolution." To flexibly respond to such changes we will make strenuous efforts, armed with the project launched this year, to develop next-generation products and new markets, taking full advantage of our strengths.

Message from the President

Toward business development that enables sustainable growth.

Grow as a small but globally valued company, under the slogan "Rebuild our business by changing ourselves"

What kinds of managerial efforts will you make in fiscal 2010?

I consider fiscal 2010 to be an important year to commence reengineering. As the representative of the management that supports reforms, I have changed the Company's slogan from "It's the time to rebuild ourselves" to "Rebuild our business by changing ourselves." Under this new slogan, the Company and its employees will make efforts to change themselves in order to rebuild themselves. It means to enhance individuals' ability to learn and think for themselves, express their ideas in words, and live up to their own words. By repeating this cycle, they will develop the ability to think for themselves and act on their own initiative. The Company needs individual employees' thoughtful initiative. I also have high expectations of all the employees' initiatives.

A concrete example of our efforts is the drastic reform of the organization carried out in January 2010 to enhance our workplace skill in designing, planning, decision-making and effective problem solving. This is an attempt to consolidate the Company's foundation so as to ensure a well-balanced business structure in preparation for the future. In our core business, moreover, the construction of continuous casting machine No. 3 is going smoothly, with completion expected by next spring. In our new business, Seki Plant (Gifu Pref.), a new production site for "MAGFINE" for automobile use, was brought into operation in May 2010. So I want to make fiscal 2010 a year of preparation for the next stage of growth.

What vision of the future do you have for Aichi Steel?

I want to make Aichi Steel a company that can grow sustainably. Under our long-term Vision 2015, we aim to become the world's number-one integrated manufacturer of steel and forgings, through quality and technology; contribute to global environmental protection and automobile evolution through the development of cutting-edge materials; and

become symbolic of the local community by creating strong brand awareness. As the first step toward achieving our vision, we must build robust corporate and business structures that allow us to make steady profits. In the annual management plan for fiscal 2010, we will focus our efforts on establishing a solid revenue base to serve as the groundwork for such a robust corporate structure.

What we learned from the global financial crisis of 2008 is that with people's sense of values drastically changing and more emphasis placed on "a society friendly to humans and the earth," we are now standing at a turning point in history. In this era of a major paradigm shift, it is important to get ahead of the times and take on challenges so as to achieve sustainable growth in business. At the same time, I believe it is important to live up to the expectations of all stakeholders by fulfilling our corporate social responsibility.

Promote corporate culture "1S" with top priority on "Shojiki" (Sincerity), "Seisou" (Cleanliness) and "Safety"

How do you think Aichi Steel should promote CSR?

The most important corporate social responsibility (CSR) to be fulfilled by an enterprise is the permanent continuance of its business. Although it is engaged in the large-scale process industry, Aichi Steel itself is not large in terms of size. However, we aim to become a small but globally valued company. To accomplish our aim, we need to satisfy the expectations of our customers, employees, local communities, shareholders and all stakeholders in a totally balanced manner. From this perspective, this Report provides comprehensive information on our activities from the three aspects of social relations, environmental conservation and finance. As a nation founded on the principles of environmental protection, Japan seeks to form a recycling-oriented society. Aichi Steel is a recycling-oriented enterprise, whose main business is to reproduce high value-added specialty steel from useless scrap iron. To actively contribute to the prevention of global warming in response to social needs, we are planning to raise our CO_2 emissions reduction targets.

I believe that "Sincerity" is the most important element in all actions taken by an enterprise in tackling environmental, social and economic issues. Incorporating this concept of sincerity, Aichi Steel has promoted "1S" as its corporate culture. "1S" represents our message that our first (1st) priority should be on the three Ss, that is, "Shojiki" (Sincerity), "Seisou" (Cleanliness) and "Safety."

Could you tell us what the relationship is between the "1S" corporate culture and CSR?

The "1S" slogan conveys our message that our top priority should be the three Ss: "Shojiki" (Sincerity), "Seisou" (Cleanliness) and "Safety." "Sincerity" helps prevent serious mistakes or accidents in the future, "Seisou" or cleanliness is the basis for improving quality and productivity, and "Safety" will ensure risk detection and strict compliance with rules. This "1S" corporate culture should be promoted not only by individual employees, but also by the organization as a whole. For Aichi Steel, "Sincerity" is the basis for compliance with laws and regulations, "Seisou" or cleanliness represents being clean and open, and "Safety" ensures risk management, all essential elements for building sound corporate structure. On the basis of this belief, I decided to design a logotype for "1S" and create a flag to make sure that the slogan is disseminated and firmly established within the Company. Literally, I will be the chief flag waver and take a leadership role in fostering the "1S" corporate culture within Aichi Steel, its group companies and suppliers.

On a very fundamental level, there is something common among the all the principles I hold up: "1S," "Rebuild our business by changing ourselves" and "thoughtful initiative." Fulfilling CSR and pursuing a good job is the same in that better results can be brought about through better process. I also believe that these principles are essential in promoting human resources development.

In March 2010, Aichi Steel celebrated the 70th anniversary of its founding. I understand that when it was established, the Company experienced many hardships. Looking back on the difficulties overcome by our predecessors and returning to the starting point, I will renew my determination and make a fresh start, with the 70th anniversary as the "second founding of Aichi Steel." We are also committed to striving to become a long-trusted enterprise, no matter how times and society change.

Feature Story 1

Marking the 70th anniversary of Aichi Steel's founding

1940-2010

Contributing to Motorization

The birth of Aichi Steel

In 1926, Sakichi Toyoda, recognized today as one of Japan's foremost inventors, founded Toyoda Automatic Loom Works, Ltd. (currently Toyota Industries Corporation). His eldest son, Kiichiro Toyoda, saw the need to promote Japan's automobile industry, and in Toyoda Automatic Loom Works, Ltd. set up the Steel Production Division in 1934, to develop specialty steel for automobiles. This was the starting point of Aichi Steel.

In 1940, the Division developed into Toyota Steel Works, Ltd. (the name was changed to Aichi Steel Works, Ltd. in 1945) (Kariya City). Realizing the necessity of supplying high-quality materials that were right for the job, Kiichiro came up with the R&D principle, "Great cars are made of great steel."

Rolling mill (1942)

Toward motorization after overcoming difficulties

Since its founding, Aichi Steel has faced many difficulties, including wartime shortages, and each time it has overcome those difficulties by modernizing its steel making process, rationalizing its equipment and other efforts at aggressive technological development. The birth of many brands of steel – such as "plate springs" and "angle-shaped stainless" is a testament to the Company's bold challenges to manufacturing, against all odds and risks.

When Japan entered the era of high economic growth, the Company reached a turning point. As income levels rose, people began to seek a better life, accelerating motorization. The Company made massive investments in new plants and equipment, including the introduction of large-scale electric arc furnaces, to establish a steel supply system. In 1964, the Forging Plant constructed in the Head Office area (Tokai

the No.1 Forging Plant (1964)

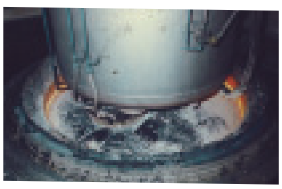
The History of Aichi Steel ①

A.D	1930	1940	1950	1960	1970
Time background		**1941** Pacific War **1945** War end	**1950** Korean War **1955** Rapid economic growth begins	**1966** Private-car boom (Toyota "Corolla" & Nissan "Sunny" released)	**1973** 1st oil crisis **1979** 2nd oil crisis
Company milestones	**1934** Steel Production Div. established in Toyoda Automatic Loom Works, Ltd.	**1940** Toyota Steel Works, Ltd. founded **1943** Chita Plant opened **1945** Renamed Aichi Steel Works, Ltd.		**1964** Forging Plant opened	
Products & technology			**1951** Steelmaking process modernized; rolling facility improved **1958** Angle-shaped stainless Commercialized		**1975** Stainless Channel commercialized **1978** 6,000-ton forging press introduced

City) commenced operation to strengthen the Kariya City-based forging business of the Company, by which means the Company established the world's leading integrated production system from steelmaking to forging, to meet customer needs more quickly and smoothly.

Evolving technology

In 1982, Aichi Steel succeeded in developing the world's first multi-stage steelmaking process. Key driving forces behind this development were increased automobile production volumes, increasing demand for lightweight and high-strength materials resulting from the oil shocks, and growing need for quick delivery. Taking full advantage of our accumulated technologies, we remarkably enhanced steel quality and productivity, contributing significantly to shortening delivery times. In the forging business, the introduction of an innovative 6,000-ton pressing machine enabled the manufacturing of the large forgings. With our hot-cold complex forging technology, moreover, we created and commercially introduced a number of high-strength forgings. We have stubbornly pursued our aim of offering high-quality, highly reliable materials that support the evolution of automobiles.

80-ton electric arc furnace (left), Vacuum degassing unit (right)

Increasingly value-added products and our new business

In the 1990s, the production trend shifted from mass production and consumption to manufacturing of diversified products in small quantities. In response to accelerated demand for quality products of highly enhanced value, we developed speciality steel like Short-time Carburizing Steel and High Strength and Tough Bainitic Micro-alloyed Steel. In forgings, we developed high-intensity, high-quality, stable cold forgings and Lightweight Connecting Rod while enhancing productivity.
In our quest for materials of more enhanced value, we have entered into newfields of business with unique products of our own, such as "MAGFINE," "MI Sensors" and "TetsuRiki Agri," taking full advantage of our accumulated steelmaking technology. The superb bonded magnet "MAGFINE" is used for automobile power seat motors to help ensure a comfortable ride.

MI Sensor (left) and MAGFINE magnet powder (right)

Bolstering global automobile industry by promoting our globalization

In the 21st century, motorization has been accelerated, especially in emerging countries. Aichi Steel has promoted its globalization in step with foreign market entry by Japanese auto manufacturers. After founding our overseas affiliated company in the Philippines in 1995, we established our production systems in the US and Asia. Under the Japan-US-Asia trilateral framework, we have been supplying steel and forgings that support the basic vehicle performance of "run, turn and stop," throughout the world.
With the business environment surrounding us currently undergoing unprecedentedly drastic changes, we will continue to support motorization **"in an enthusiastic, strong and straightforward manner,"** by proposing and providing materials for a new era.


Commemorating the production of 1 million units of forged parts in 2007 in Indonesia (AFI) (left)
ISO/TS16949 accredited in 2009 in the US (AFU) (right)

	1980	1990	2000
	1985 G5 Plaza Accord	**1995** Great Hanshin-Awaji Earthquake	**2001** Series of terrorist attacks in US **2008** Lehman's fall
	1982 the No.2 Melting Plant opened **1989** the No.2 Bar and Wire Rod Mill opened	**1993** Higashiura Plant opened **1995** AFC founded **1997** A-USA & LFG founded **1998** Shanghai & Seoul representative offices opened	**2000** Ae founded **2002** AIT and SAFC founded **2003** AFI founded and Gifu Plant opened **2008** AMIT and AMC founded **2009** AFU founded as a result of merger between A-USA and LFG **2010** Seki Plant opened
	1980 Micro-alloyed Steel/Combined hot and cold forgings developed **1982** Multi-stage Steelmaking Process technology developed **1985** Billet continuous-casting machine commenced operation **1986** Stainless steel H beam commercialized **1988** Free Cutting Tri-composite Micro-alloyed Steel/ titanium shapes commercialized	**1992** Dental magnetic attachments "MAGFIT 600" commercialized **1993** Short-time Carburizing Steel developed **1994** Cold forged products/High Strength and Tough Bainitic Micro-alloyed Steel developed **1995** Lightweight Connecting Rod developed **1998** Titanium patter "APTY" commercialized ISO 9000 Series acquired by Chita, Kariya, Forging and Higashiura plants	**2001** Stainless steel bars for "SUSCON" commercialized **2002** Stainless steel shapes "Screen Bar" commercialized **2003** New titanium alloy "ASTA" developed/"TetsuRiki Agri & Aqua" commercialized **2005** "G^2 Motion Sensor" commercialized 4-Pole MAGFINE motor for automobile seat commercialized **2009** 3-axis electronic compass for handsets commercialized

Feature Story 1

Marking the 70th anniversary of Aichi Steel's founding

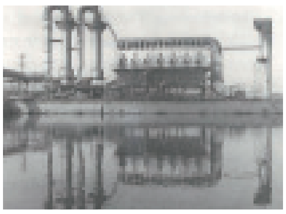
1940-2010

Environmentally Friendly

Establishment of an environmental management system

In the 1970s, in line with our development during the years of Japan's rapid economic growth, we accelerated our efforts to take countermeasures against air, water, noise and other types of pollution. In 1971 we established an environmental management system by setting up an environmental committee and deciding on pollution control policy and measures.

In response to increasing awareness of environmental issues, we launched our Environment Month campaign in 1973. In the first round of the campaign, various events were held, including tree planting at our plants, a commemorative lecture, a slogan and poster contest, and a plant tour by the Company president.



Electric are furnace dust collector in Chita Plant (1970)

Multiple environment management

With the advance of global development, environmental problems such as acid rain, ozone depletion and global warming have become increasingly complex global issues. In 1996, we placed environmental preservation activities among the most important issues for us, and established the Aichi Steel Environmental Charter. In 1998, our Chita, Kariya, Forging, and Higashiura plants acquired ISO 14001 certification. To enhance public awareness of our environmental conservation activities, we have published an annual "Environmental Report" (currently "Aichi Steel Report") since 1999.

Lecture for obtaining ISO 14001 certification (1997)

As a long-established recycling-oriented enterprise, we take on the challenge of developing environmental technology

Since our founding in 1940, from useless scrap iron we have been reproducing specialty steel in electric arc furnaces. The scraps include iron scraps generated in the city and steel remnants from auto manufacturers and our manufacturing process. We have been promoting the recycling of such byproducts.

Recently, we have also been recycling byproducts other than scraps of iron and promoting the development of new technology. Our efforts include the recycling of automobile shredder residues (debris generated from shredding of scrap cars), valuable metals other than iron (nickel, aluminum etc.), residues generated by dissolution of scrap iron in electric arc furnaces. As a member of society, we will continue to take on difficult challenges.

Briquettes made from waste nickel

The History of Aichi Steel ②

Time background	**1967** Basic Law for Environmental Pollution Control	**1973** 1st oil crisis **1979** 2nd oil crisis	
A.D	1960	1970	1980
Environmental and social contribution activities		**1971** Environmental Task Force/Environmental Division established **1973** 1st Environmental Management Month **1977** Excellent Heat Management Plant Award by Nagoya Bureau of Economy, Trade and Industry (Chita Plant, Forging Division) **1978** Excellent Heat Management Plant Award by Nagoya Bureau of Economy, Trade and Industry (Kariya Plant) Prize of the Director-General of the Agency of Natural Resources and Energy (Chita Plant, Forging Division)	**1986** Excellent Energy Management Plant Prize of Ministry of International Trade and Industry (MITI) (Chita Plant, Forging Division) **1989** Aichi Steel Gymnasium ASCOM opens

For local communities and society

The spirit of "helping others"

Aichi Steel has a long history of corporate philanthropy. Since its founding in 1940, the Company has extended assistance to the local community.

In 1945, to local communities we donated salt and charcoal briquettes we made, to help alleviate severe food and fuel shortages. Whenever a typhoon or other disaster strikes, we cooperate in relief activities, in addition to providing relief supplies and monetary donations. When a severe typhoon hit Ise Bay in 1959, we helped with local rescue efforts by searching for missing people by boat throughout the flooded area amid the floating driftwood.

As a corporate citizen, we are determined to pursue the spirit of "helping others."

Salt-making (left) Employees working to relieve severe food shortages after the war (right)

The Aichi Steel Volunteer Fund

In the early 1990s, a fund-raising scheme - the forerunner of the Aichi Steel Volunteer Fund (1993) - was launched in which employees donated money to be spent for courtesy gifts (e.g. gifts given in return for funeral offerings or Valentine's chocolate given at the workplace out of a sense of social obligation). At present, employees who support the purpose of our volunteer fund have donated money to the Fund to be used for gifts relating to ceremonial occasions, and the raised money by the Fund has been contributed in the form of goods*1 to welfare organizations and other local facilities.

Donation through local authorities

*1: By fiscal 2009, a total of 73 million yen worth of goods had been donated.

Giving children the pleasures of manufacturing

As a manufacturing enterprise, Aichi Steel gives children an opportunity to experience manufacturing.

Our employees and trainees in the Aichi Steel Technical Training Institute, participate as instructors in workshops held by Tokai City's Invention Club for School Children to show children how pleasant it is to make something. Moreover, Aichi Steel's "Forging Technology Museum" receives visitors interested in manufacturing.

In 2010, the Company celebrates its 70th anniversary in business. Taking this opportunity, we are planning to visit local schools to give a "lesson about iron." The aim is to teach children more about the superior raw material "iron" and convey the pleasure and importance of manufacturing to future generations.

Invention Club for School Children

1990	2000
1992 Rio Declaration on Environment and Development **1993** Basic Environment Law **1997** Kyoto Protocol adopted	**2010** COP 10 to be held in Nagoya
1991 Recycling of used paper commences **1992** Resource Recycling Promotion Dept. established **1993** Aichi Steel Volunteer Fund established/Environmental action plan developed **1996** Aichi Steel Environmental Charter established **1997** Nishi-Chita Industrial Road cleanup campaign launched **1998** ISO 14001 certificate acquired at Chita, Kariya, Forging and Higashiura plants	**2000** Forging Technology Museum opens **2001** Pb-free, ultra free cutting steel "ECOSCUT-Steel" developed **2003** "TetsuRiki Agri & Aqua" commercialized **2005** Slag recycling technology "ANRP" developed **2006** Tree-cutting activity participation commenced for forestation improvement in Kiso Village **2007** Nickel recycling briquette facility installed/ Grinding material "AS Shot" commercialized **2008** Global Warming Prevention Committee launched

Feature Story 2

Aichi Steel and Biological Diversity

In October 2010, the 10th meeting of the Conference of the Parties (COP 10) to the Convention on Biological Diversity (CBD) will be held in Nagoya, Aichi Prefecture. How should Aichi Steel address the issue of conservation and sustainability as to biological diversity? Regarding this issue, we had an interview with Dr. Ryo Kohsaka, associate professor at the Graduate School of Economics at Nagoya City University.

Engage in activities that make full use of regional characteristics and that appeal to people's senses

You gave us a lecture in June 2009. Could you tell us what impression you had at the time?

Kohsaka I had the impression that your employees' environmental awareness is very high. They seriously considered and discussed what they can do when the concept of biodiversity is applied to their workplaces.

What was most impressive to me was your company's product "TetsuRiki Agri." I found it interesting to learn that, taking full advantage of your deep knowledge of steel, you had developed a product that is not easily associated with steel. In addition to your contribution to environmental protection via your products, it is also necessary to expand the scope of your activities to cover land use and regional contribution.

In June 2009, a lecture entitled "Challenges to be Addressed by Companies and Individuals to Protect Biodiversity" was given before approx. 100 employees.

From the perspective of corporate social responsibility, what kinds of activities do you think are necessary for Aichi Steel?

Kohsaka One such activity would be a tree-planting campaign, which is relatively easy for a company to conduct. What is important here is to consider where and how to plant trees so as to achieve synergetic effects, rather than just planting trees around your plants. Biodiversity has a lot to do with how the land is used.

If you are going to take your environmental activities one step further, you can engage in positive efforts that make people aware that a company's know-how and byproducts can be effectively used for society and living things.

Aichi Steel is based in the Tokai Region, where manufacturing and agriculture are key industries. Making full use of local characteristics, you might carry out activities that bring benefits to both manufacturing and agricultural industries. For example, you can work together with local people to grow crops using TetsuRiki Agri, so as to promote local production for local consumption. Your activities will appeal to local people's sensitivity via food. If those involved in such activities can directly benefit from them, it may be easier to continue them.

Biodiversity: a concept that encompasses variety within species, rich ecosystem comprising species, and genetic diversity.

Efforts toward protecting biodiversity

- **Recycling-oriented enterprise**
  We manufacture products by recycling discarded materials (scrap iron) generated in auto and parts manufacture. (See p. 32)
- **Recycled nickel (Reducing mine development)**
  We promote the recovery and recycling of nickel, a rare metal, from byproducts generated from our stainless steel manufacturing process.

Nickel recycling briquette facility

Dr. Ryo Kohsaka
Associate Professor
Graduate School of Economics, Nagoya City University

After graduating from the Agricultural Faculty, University of Tokyo, he joined the Regional Environmental Center for Central and Eastern Europe in Hungary. He earned a master's degree in the U.K. and a PhD at the Faculty of Forest and Environmental Sciences, University of Freiburg, Germany. He worked for the UNEP CBD Secretariat (Montreal, Canada) in 2006. In April 2008, he assumed his current position as associate professor. He also serves as advisor to the Aichi-Nagoya COP10 CBD Promotion Committee and as a visiting researcher at United Nations University IAS.

Preserve the ecosystem by promoting energy- and resource-saving efforts

From the standpoint of environmental preservation, the conservation of biodiversity will be an important issue in conducting business activities. What do you think is expected of Aichi Steel?

Kohsaka I want you to be a front-runner in ecological preservation by yourself, or by working with the industry.
It is not easy to make a quick decision on what specific measures to take. However,some factors affecting the ecosystem are the same as those that contribute to climate change. You don't have to draw a clear line between the two issues. Your efforts to reduce CO_2 emissions can lead to preserving biodiversity. Efforts that seem to be considered unrelated to biodiversity – including energy- and resource-saving – can contribute to the protection of biodiversity. The development and manufacture of new products with lower consumption of resources and energy can reduce resource development pressure on other countries, eventually leading to protection of the ecosystem.

Seek a new business model that enables a sustainable relationship with the ecosystem

Is there anything we should consider in conducting business activities as the Aichi Steel Group, including overseas bases?

Kohsaka In light of the fact that you are supplying your products to various areas, including foreign countries, I think it is important for you to consider what impact your products might have on the environments of the areas in which they are used. Moreover, if you are planning to expand your business into developing and emerging countries, it is necessary to seek a new business model for a sustainable relationship with the ecosystem.

After the interview

As a company that procures resources from around the world, manufactures products and markets them worldwide, we must engage in the development, manufacture and sale of products from a global perspective, while paying due consideration to ecological preservation. We have so far been committed to the preservation of biodiversity in the capacity of a recycling-oriented enterprise. In the future, however, we will develop more positive and voluntary approaches to this issue from the perspectives of manufacturing and CSR, taking full advantage of our environmentally friendly products and technology.

- **Signing the partnership for promoting the Declaration of Nippon Keidanren (Japan Business Federation) on Nature Conservation.**
- **Participation in Chubu Economic Federation's project for COP10 ("TetsuRiki Agri" appears in the leaflet.)**
- **Addition of the preservation of biodiversity to the list of our initiatives for environmental conservation. (See p. 26)**
- **Participation in tree-cutting activities for forestation improvement in Kiso Village, Nagano Prefecture (Green Challenger, NPO)**
- **Cooperation in Tokai Forestation for the 21st Century Campaign**
- **Support of environmental activities by NPO, Workshop of Iron Nutrition Enhancement in Plants (WINEP*)**

Employees participating in the Tokai Forestation for the 21st Century Campaign

* A nonprofit organization that aims to provide accurate and up-to-date information concerning improvement of the global environment by iron nutrition, and to improve the environment and the quality of life.

CSR Policy

We practice CSR management to gain trust from all our stakeholders.

CSR Enhancement Month

To disseminate and enhance CSR consciousness among employees, we set October as the Aichi Steel Group CSR Enhancement Month. In fiscal 2009, the second year since the establishment of the Month, workshops were held at all worksites to confirm our CSR philosophy, Medium-Term Plan and achievements, using Aichi Steel Report 2009 as a textbook. The "1S" campaign was promoted at all departments and a community cleaning program "Clean Aichi Day" (see p.24) was also implemented, in which employees from the entire Aichi Steel Group participated.

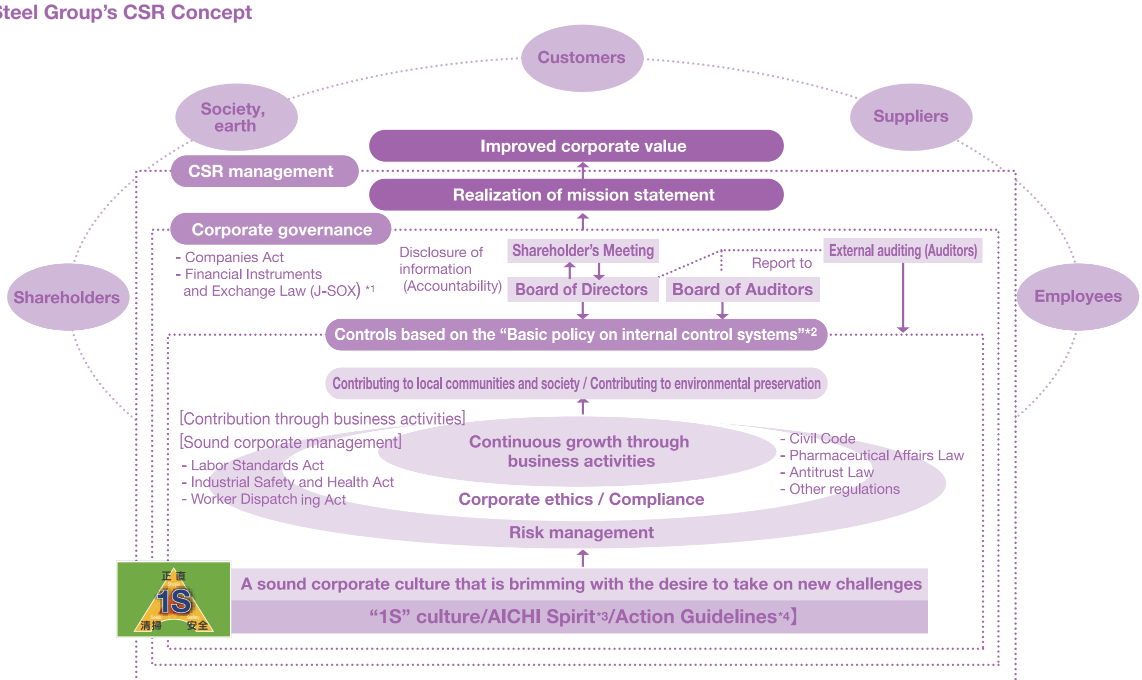
Workshop using Aichi Steel Report 2009

Cultivation of the "1S" culture

The "1S" slogan conveys our message that our first priority should be placed on the three Ss, that is, "Shojiki" (sincerity), "Seisou" (cleanliness) and "Safety."

We will actively promote the "1S" until it is established as part of our corporate culture through various activities, including featuring 1S in every issue of our company newsletter and displaying the 1S banner.

Aichi Steel Group's CSR Concept



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

*2 Internal control: Activities and systems to control, monitor and secure the soundness and efficiency of operations, as part of corporate governance, by following standards and procedures established for individual operations.
In particular, standards and systems to prevent improper financial accounting should be established, and auditing should be conducted to verify that they are operated properly.

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

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

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

Medium-Term CSR Plan Priority Issues and Major Activities in Fiscal 2009

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

Category	Priority items	Priority activities in fiscal 2009	Assessment	Future plan
Ⅰ Activity management	1 Diffusion of and strict adherence to CSR Policy among all relevant parties including suppliers	• Promoted CSR Enhancement Month. • Prepared CSR guidelines for entire supply chain.	△	• Enhance activities to promote dissemination of “1S.” • Enhance communications with stakeholders. • Promote CSR throughout the supply chain.
Ⅱ Contribution through business activities	2 Development and provision of products/technologies that can satisfy eco-minded customers	• Increased orders for hybrid-exclusive parts. • Proposed products that match customer needs.	○	• Develop materials/parts with advanced functions ahead of automobile evolution.
	3 Innovation for environment-conscious manufacturing and contribution through resources recycling	• Reduced slag treatment and improved yield rate through Project Z100 activities.	○	• Evolve into a recycling-oriented enterprise by pursuing the 3R (Reduce, Reuse, Recycle) technologies.
	4 Community activities resulting in environmental/social contribution	• Implemented the “Extended Clean Aichi Day” program. • Participated in a forestation program in Tokai City. → A total of 1,637 employees participated.	○	• Support employees’ participation in volunteer activities. • Support community contribution activities by overseas subsidiaries.
Ⅲ Sound corporate management	5 Prevention of risks pertaining to environmental changes	• Promoted “1S” campaign. • Reviewed risks for the entire Company.	○	• Make the risk prevention activities visible.
	6 Enhancement of internal control systems and improvement of compliance consciousness	• Reviewed organizations and job ladders to improve internal control.	△	• Establish a self-auditing tool and deploy it to overseas subsidiaries.
	7 Activities to preserve local and global environments	• Improved heat efficiency through Project Z100. • Overseas subsidiaries acquired environmental ISO.	○	• Reduce CO_2 through improvement of heat efficiency. • Support ISO acquisition by subsidiaries.
Ⅳ Employees/ corporate culture supporting growth	8 Human resources development and creation of motivating worksites to improve job quality	• Improved work efficiency by using general-purpose tools. • Established an index based on a worksite management survey.	△	• Conduct a survey on the status of human resources development and determine the development vision.
	9 Creation of a safe/comfortable workplace environment	• Promoted cultivation of a “1S” culture. • Implemented the “Place a hand on the handrail” campaign. • Expanded risk assessment. • Improved the operations assessed as comprising high risk.	△	• Promote advanced safety activities and enhance mental health improvement activities. • Promote operation of OSHMS (Occupational Safety and Health Management System).

CSR System

CSR Committee
Chairperson: President
Members: Standing Directors and Corporate Auditors
Secretariat: Corporate Planning Division, General Affairs Division

Subjects discussed
1) Medium-Term CSR Plan, annual policy and progress
2) Compliance
3) Risk management
4) Social contribution
5) Other CSR-related matters

Relevant parties
Our Company Group
Our major suppliers

Training
1) CSR training
For our officers and employees, officers of our Group companies, executives of our major suppliers
2) Action Guidelines workshop
(Mission statement, CSR Policy, compliance, risk management, etc.)
Training sessions are provided for all employees by each job ladder (total eight ladders).

Corporate Governance

We aim at efficient and transparent corporate governance.

NEW

Appointment of “independent officer”

In response to a revision of the securities listing rules of the Tokyo Stock Exchange and Nagoya Stock Exchange (Dec. 2009 and Feb. 2010, respectively), an outside auditor was appointed as an “independent officer,” an highly independent officer, and notification of the appointment was made to the two stock exchanges in March 2010.

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

The regular meeting of the Board of Directors is held every month, and a special meeting is called as needed. Important decisions are made and the operating status of the Company is reported at the Board meeting.

■Attendance rates in fiscal 2009

	Meetings	Director attendance rate	Corporate auditor attendance rate	
			Standing corporate auditors	Outside corporate auditors
Board of Directors	16 times	96%	100%	63%
Board of Auditors	11 times	–	100%	85%

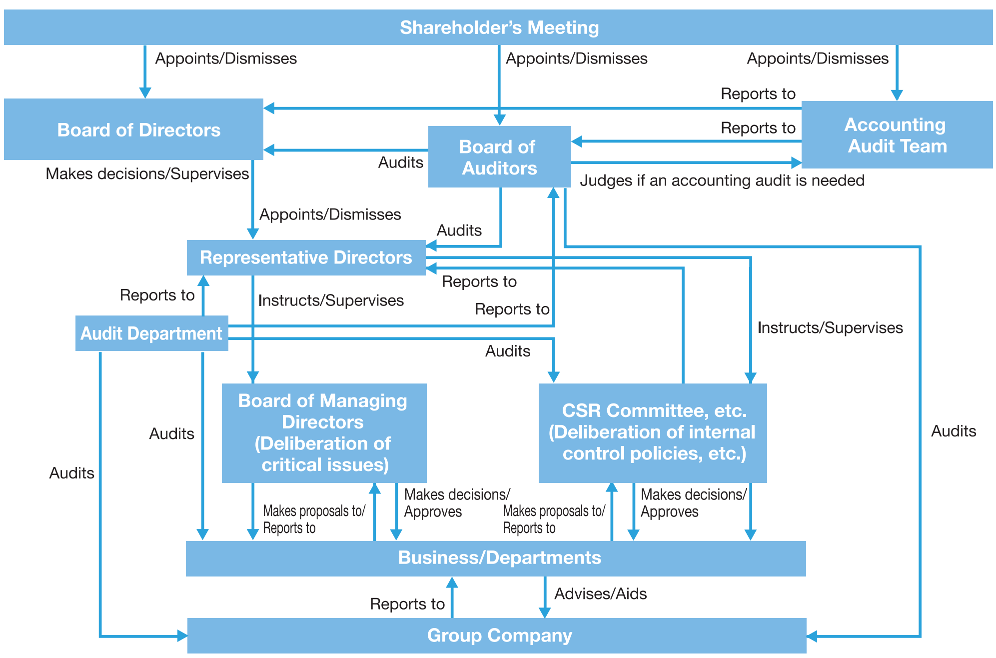
Compliance with the Financial Instruments and Exchange Act

In 2009, the second year since the enactment of the Act, the Company and its consolidated subsidiaries continued to strengthen their control environment. As a result, the Company was able to implement internal control over financial reporting (J-SOX) with no “critical defects.”

Internal control system

The Basic Policy for the Internal Control System is reviewed every year, and the status of the operation system is reported to the Board of Directors. The system with regard to compliance, risk management and operation efficiency improvement efforts in 2009 was confirmed to be maintained/improved with no problems, and it was judged that no revision of the Policy was necessary in response to changes in laws or regulations (revision of the listing rules, etc.).

■Our corporate governance system



Compliance

We always strive to be a reliable enterprise through protection of human rights and compliance with laws and regulations, and by respecting public decency.

Compliance education program

To enhance the compliance consciousness of employees, we provide educational programs for each job level of employees. The "Legal Affairs News" was also issued to deliver information about compliance and laws to all employees by e-mail.

Training sessions for each job ladder: eight ladders (targeting from freshman employees to major executives)

Themed sessions: Twice

Session title	Target	Purpose
Study session on Subcontractors Act (Jan.)	Purchasing staff (including participants from Group companies)	To ensure compliance with the Subcontractors Act
Study session on Anti-Monopoly Act (Jan.–Mar.)	Sales staff	To ensure compliance with Anti-Monopoly Act

Issuance of Legal Affairs News

Nine times for employees (Anti-Monopoly Act, Subcontractors Act, labor issues, sexual harassment, power harassment, information security control, etc.)

Twice for officers (explanation on other companies' cases, general knowledge on compliance)


Study session on Subcontractors Act

NEW

"Compliance Close Call" activities

Entire Company members were encouraged to report their experiences close to compliance violation and predicted risks, and a total of 188 cases were reported. These cases were presented at the Compliance liaison meetings (four times a year) to discuss specific advice for each case.

Classification of the cases

Information security control	85
Traffic safety	33
Purchasing	20
Labor	5
Other	45
Total	188

Operation status of the "Hotto" Line

Aichi Steel "Hotto" Line is a hotline system to encourage internal reporting of improper actions. During fiscal 2009, the "Hotto" Line received nine internal reports. Reported facts were investigated and measures to correct the improper actions were taken. A notice was distributed throughout the Company to prevent recurrence.

Rules for operation of the Line and protection of privacy of the callers are provided in the Corporate Ethics Rules, and are also put on bulletin boards placed at employees' restaurants, etc., to be known by all employees.

Calls to "Hotto" Line

Fiscal year	2005	2006	2007	2008	2009
No. of calls	2	11	5	5	9

Compliance Promotion System

Risk Management

We make efforts to develop a complete system to avoid risks pertaining to our businesses.

Progress status

At the meeting of the CSR Committee in November 2009, the progress of the risk management efforts was reported and necessary follow-up actions were discussed. The risk map for the entire Company was revised in response to the changes in the management environment.

NEW
Introduction of a Safety Confirmation System

In August 2009, the "Safety Confirmation System" was introduced to avoid panic in communication when an earthquake occurs, and to quickly provide information on the status of our employees and their family members.

NEW
Emergency drill in cooperation with Fire Department

In September 2009, a companywide emergency drill was held in collaboration with the Tokai Fire Department to minimize the damage from disasters.

Fire fighting drill

AED operation demonstration

NEW
Actions against the new influenza

In reaction to the outbreak of the new influenza in Mexico in April 2009, we took the actions listed below to secure the safety of our employees/their family members and avoid the suspension/slowdown of our businesses. As a result, the influenza had no impact on our businesses nor on the health of our employees.

- Distributed a manual for actions against the new influenza. (May)
- Clarified the rules for attendance of employees who are infected or in close contact with those infected. (May)
- Prepared/stored "preventive goods." (May)
- Released information about infection status inside the Company and raised an alert. (May – Mar.)
- Had employees check their temperatures every morning. (Sep. – Mar.)

*The same actions were taken for our consolidated subsidiaries both inside and outside Japan.

Information Security

Management system and roles of each department

Overall control
Director in charge of General Affairs Div.
- Person responsible for confidentiality management

Administrative departments
The General Affairs Div. and the Coporate Planning Div.
- Creates and revises measures related to the management of confidential information
- Audits and provides guidance according to the confidentiality management status across the entire company
- Manages systems (both technical and human aspects)

In each department	Role
Person in charge of confidentiality management (General managers of individual divisions)	- Total responsibility for confidential information within the division - Designates people in charge of confidentiality management - Has the final say in confidentiality classification - Designates employees authorized to create top-secret documents - Implements voluntary auditing of confidentiality management status - Establishes rules for the division
Person in charge of confidentiality management (Manager or supervisor named by the division general manager)	- Acts under the authority of the person responsible for confidentiality (Designates confidentiality classifications and sets the operating rules within the division) - Works to promote and fully establish confidentiality management in the division
Representative managers, GMs, etc.	- Follows laws, regulations, and company rules related to confidentiality management - Gives approval, instruction, and guidance related to confidential information used in their location.
Department employees	- Follows laws, regulations, and company rules related to confidentiality management - Reports accidents, damage, illegal acts, and wrongdoing to his/her superior

Information Security Control

We have set May and October each year as "Information Security Control Enhancement Months," during which intensive educational activities to enhance employees' awareness are conducted.

- "Clear Desk, Clear Screen" campaign
- Information security control educational programs for each job level
- Baggage inspection
- Auditing of e-mails sent outside of the Company

Inspecting baggage

Protection of personal information

We experienced no incidents of personal information leak in fiscal 2009.

Please refer to our Website

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

With Our Customers

Placing the highest priority on securing the trust of our customers, we are striving to maintain and improve a reliable quality assurance system.

Quality

Quality Management System (QMS)

Basic Quality Policy

In accordance with our policy of "Quality First," we strive to establish a business structure trusted by customers on the basis of our ISO 9001 certification, and deliver attractive products that meet customers expectations and needs.
Under our Medium-Term Global Quality Plan 2012, we will establish a quality assurance system that enables us to lead other companies in quality competition.

Quality assurance activities

In fiscal 2009, we experienced no serious problems related to quality defects, etc. Based on the review on the results of quality activities and the Medium-Term Quality Plan policies, we will promote the actions listed below as our priority items for fiscal 2010.

- Reinforce shipping quality assurance to completely prevent outflow of serious complaints
- Review (reinforce) quality assurance basis
- Complete and disseminate the activities to establish necessary conditions (Z100 quality losses reduction)

Raising quality awareness

Quality education

Aiming to develop human resources with sufficient knowledge of quality management from the viewpoint of customers, educational programs on quality management, quality-related losses and complaints are provided for each job level (six ladders from freshmen to executives) based on the Medium-Term Quality Plan.

NEW

President's commendation for "Quality" achievements

Awards for quality-related achievements were established to be given in the annual president's commendation ceremony in March every year, with the aim of raising motivations for quality improvement activities.
In fiscal 2009, six cases were honored by the Excellent Performance Award and the Good Performance Award (one case each in the customer satisfaction category and two cases each in the good product manufacturing category.)

ISO9001

Consolidated subsidiaries in Japan and overseas have striven to acquire ISO (ISO9001) certifications.

■ISO certification acquisition

Kariya Plant	ISO9001	Apr. 1993
Chita Plant	ISO9001	Dec. 1995
Forging Plant	ISO9001	Nov. 1997
Electromagnetic products	ISO9001	Mar. 1998
Dental materials	ISO13485	Jul. 1999
Dental materials	EC Directive (93/42/EEC)	Jul. 1999
Technical Development Div.	ISO17025	Sep. 2007

■Consolidated subsidiaries

Omi Mining	ISO9001	May. 2002
Aiko Corp.	ISO9001	Apr. 2005
Asdex	ISO9001	Jun. 2008
AFC	ISO9001	Apr. 2003
SAFC	ISO/TS16949	Aug. 2006
AIT	ISO/TS16949	Mar. 2008
AFI	ISO9001	Nov. 2008
AFU	ISO/TS16949	Sep. 2009
AMC	ISO/TS16949	Expected to acquire

ISO/TS16949 is a quality management system standard for automobile businesses.

ISO audit

Third-party labeling

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

Business Update
Feature Story
CSR Management
Social Relations Section
Environmental Section
Financial Section

With Our Customers

Enhancement of customer satisfaction (CS)

NEW

Technical Service Section transferred to Sales Head Office

In January 2010, the Technical Service Section that had been placed inside the Quality Assurance Division was transferred to the Sales Head Office, with the aim of hearing the voices of wider variety of customers. This transfer enabled quick and proper response to customers' technical and quality needs.

Gathering opinions of major customers

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

Study seminars for freshmen of the Japan Specialty Steel Distributors' Association member companies

In April 2009, a study seminar was held for 45 freshmen employees of the Japan Specialty Steel Distributors' Association member companies. The purpose of this seminar was to provide necessary basic knowledge for freshman sales representatives of trading firms and wholesalers dealing with specialty steel. Lectures on basic technical knowledge were given, and participants were also taken on a plant tour to deepen their understanding.

Technical exchange meetings

To figure out the needs of users, technical exchange meetings are held about 20 times every year mainly for major customers. The meetings serve as useful opportunities to introduce our new technologies, collect information regarding the latest customer needs, and provide information on our development seeds for customers, greatly contributing to improved customer satisfaction.

NEW

Developing new uses of stainless steel restoring a historical structure

For restoration work of the five-story pagoda of Kuonji Temple of Mt. Minobu completed in May 2009, our stainless steel was used as an aseismic reinforcement material. It was the first case in Japan in which stainless steel was used for the restoration of a wooden historic building.

Five-story pagoda of Kuonji Temple

Stainless steel intermediary posts and tie-rod clasps

Plant tours during fiscal 2009

A total of 1446 people from our major customers visited our plants in 209 tours.

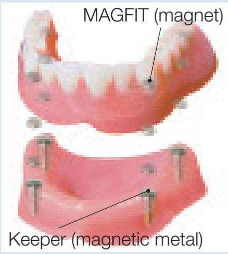
VOICE

Imagining the happy faces of patients

"MAGFIT," dental magnetic attachment, being used by 2 million patients

Yoshinobu Sugiura
Customer Service Desk, Dental Business Dept.

We respond to various inquiries from dentists, the practical users of our products, at a free-dial service desk every day. Our service includes relaying questions concerning specific dental treatment to professional advisors, which is highly appreciated by the users. I feel particularly happy and fulfilled when I hear that our product has enabled patients to bite easily. In this aging society, all of our staff members hope that this system will help patients having troubles with their teeth regain comfortable eating habits.



With Our Suppliers

We procure raw materials, materials, facilities, etc., from all over the world, in compliance with laws and regulations.

■Aichi Steel Purchasing Policy

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

*Fair and just attitude of selecting suppliers

NEW Supply Chain CSR

"CSR Seminar"

To help our major suppliers deepen their understanding of CSR, a "CSR Seminar" was held in October 2009, in which officers of the Aichi Steel Group and representatives of our suppliers participated.

Mr. Eiichiro Adachi of the Japan Research Institute spoke on "What is CSR?"

Preparation of a guideline and request for cooperation

In November 2009, the CSR Guideline for Aichi Steel Suppliers was established. Based on this guideline, we asked our suppliers for cooperation and held workshops.

Supplier diagnosis sheet

In November 2009, we asked our customers to evaluate their own CSR promotion status using the "supplier diagnosis sheet" prepared by Aichi Steel, and analyzed the strengths and weaknesses of each company.

NEW Internal purchasing audit

An internal audit was held in November 2009 to determine the compliance status of the purchasing-related rules onsite. Instructions to correct the problems found as a result of the audit were given.

With Shareholders/Investors

To help shareholders/investors correctly understand the Aichi Steel Group, we try to ensure timely and fair information disclosure.

Returning profits to shareholders and creation of corporate values

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

Timely and proper disclosure

We strive to ensure timely and proper disclosure of our corporate information for investors and to enhance the internal system related to correct and fair information disclosure.
In fiscal 2009, to help deepen understanding of our management and business strategies, we actively disclosed timely information, taking the opportunities of the shareholders' meetings, financial results briefing, press release of the financial results. Independent meetings with analysts and institutional investors were also held.

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

Disclosure

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

■Information Disclosure Preliminary Review Committee

Chair: Information manager (director in charge of General Affairs Div.)

Administrative office (General Affairs Div.)

Members: Managers of functions, including the head office, technical, marketing and production functions, appointed by the Chair; managers of departments from which the disclosed information originates and related departments

With Employees

We promote the creation of safe/healthy and lively workplaces where all employees feel motivated and work actively.

Labor safety and health

Basic labor safety/health concept

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

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

(2) Visualization

Visualization of problems (bad matters, bad conditions)
Visualization of good points (improvement cases, knowledge, experiences)
Visualization of standards, changed points or other status

Basis of activities

Focusing on comprehensive safety and health management, make straightforward efforts for improvement.
Aiming to achieve "no accidents in all workplaces throughout Aichi"

Development of safety-conscious human resources

Everyone should protect themselves of their own initiative (by noticing risks).
Bosses should protect their subordinates (by foreseeing risks).

Small group activities

In small group activities, with the aim of creating workplaces where all members are able to actively participate in safety activities, the development of human resources capable of thinking seriously about safety and taking proper actions (as safety-conscious human resources) has been promoted based on the "1S" policy. About 300 small groups are engaged for a specified period in the activities on their registered themes, such as risk prediction training and correction of dangerous points. At the year end, the implementation status was evaluated for five aspects.The evaluation in fiscal 2009 revealed an improvement of 0.4 points from 2008.

NEW

Thorough implementation of basic safety actions

As the number of accidents in simple operations/actions is increasing, the basic rule to "place a hand on the handrail when you walk on stairs" was established, with the aim of raising safety consciousness. During the annual safety emphasis month of January, executives and managers took the initiative to show good examples, hoping to improve the safety awareness of employees.

Establishment of safe operation procedure manuals

Advance abstracting dangers

NEW

Drawing up of operation manuals focusing on the movement lines of eyes, hands and legs.

For each operation, the movement lines of the eyes, hands and legs of the operator are reflected in the operation manual. Establishment of an operation manual that enables anyone to perform safe operation just by glancing at the manual was included in the Quality Medium-Term Quality Plan.

Creation of safe worksites

Visualization of danger levels

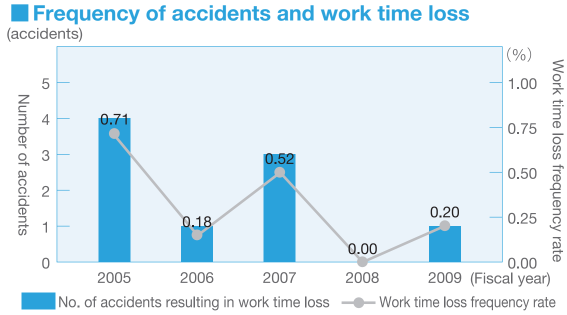
Worksite improvement through risk assessment

The common targets for the entire Company, such as "reducing non-stop operations" and "separation of people and vehicles" and the targets for each department such as the "improvement of facilities that stop frequently" and the "improvement of operations that the operators feel are difficult or dangerous" are both pursued. These targets are all set based on past accidents, and improvement actions are taken according to the annual plan to reduce dangerous positions. After improvement is made, risk assessment is conducted to visualize the remaining danger (residual risk).

Participation by all

Worksite improvement is promoted by all members. The headquarters departments notify their registered themes to their staff members every term, while associated business operators and consolidated subsidiaries disseminate information about accidents and work time losses.

Frequency of accidents and work time loss



We see a decreasing trend in the long run. We will strive to achieve and maintain "zero" accidents.

NEW AED operation training

Our consolidated subsidiaries are increasingly providing training programs for AED operation, aiming to contribute to the safety of employees and members of the local community. The Aichi Information System and the AFU (USA) voluntarily offered the AED operation training program to prepare employees for emergencies.

Aichi Information System Corporation: September, 11 participants

AFU (USA): March, 9 participants

Training at Aichi Information System

Efforts for improvement of traffic safety

We promote educational activities for prevention of traffic accidents.

- Stand guard on 10th, 20th and 30th every month.
- Traffic safety ladies' activities (four times annually)

NEW Lifestyle-related diseases prevention seminar

In December 2009, the "Lifestyle-related diseases prevention seminar" was held with the aim of preventing lifestyle-related diseases, in which 70 people participated.

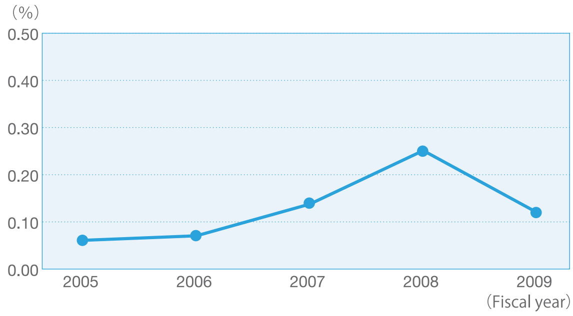
NEW Healthy Menu Week

From October 12 to 23, 2009, the "Healthy Menu Week" event was held at our employee restaurant during the Aichi Steel CSR Enhancement Month. The restaurant offered different menus every day that were low calorie or allowed the easy burning of fat.

Mental health activities in fiscal 2009

Thanks to the steady and careful activities of our specialized mental health nurses and advisor doctor, the mental health of our employees improved slightly in fiscal 2009.

■Rate of work time loss resulting from mental health problems



VOICE

Safety is what makes you work actively

Hisakazu Nakazawa, Forging Sect.No.3, Forging plant

If you get injured, it distresses you and your family members. To prevent our employees from experiencing such distress, I have promoted the creation of safe worksites and the development of safety-conscious human resources, maintaining high safety awareness.

It is extremely difficult (though seemingly easy) to keep the safety awareness of all members. I made various efforts to keep their motivations; I prepared a sheet for gratituding safety, held risk prediction trainings in small groups, and visualized the results of these activities.

For four years since the beginning of our activity, our team has had no accidents. I will continue to have high safety awareness to help all members work in good health.

With Employees

Human resource development/ employment

Work-life balance (WLB)

To support the balancing of work and private life, a survey for child-raising assistance was conducted in October 2009 targeting our employees, to figure out the problems in the current situation. Based on the results of the survey, the applicable period of the short-hour work system was prolonged to each child's completion of the third year of primary school, one year longer than the current system.

■Ongoing major WLB programs

Happy Life Seminar (June, attended by 89 employees at the age of 55, and their spouses)
"Money Plan for Employees in Their 40s" Seminar (Nov., attended by 31 employees in their 40s and their spouses)

"Money Plan for Employees in Their 40s" Seminar

NEW

Saiban-in System (lay judge system)

In response to the commencement of the Saiban-in (lay judge) system in May 2009, we reviewed our Office Regulations. To enable our employees to fulfill this national obligation, "special holidays (paid)" are granted to employees who attend the court as the lay judges.

NEW

Establishment of the "supervisor"position

In January 2010, for the purpose of enhancing manufacturing lines in plants,"supervisor" was newly established under the "assistant manager".

Communication events

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

Futsal competition (Apr.)

Mini-mini sport festival (Aug.)

Enhancement of collaboration between the Company and the workers' union

Aichi Steel adopts the union shop system, under which periodical meetings are held in June, September and December to facilitate smooth communication between the Company and the workers' union. In fiscal 2009, in response to rapid changes in the economic environment, an extraordinary meeting between the Company and the union was held in November. The current situation and problems of the Company were explained so as to be shared between both sides.

Actions to prevent child labor and forced labor in foreign subsidiaries

We investigate our subsidiaries in Indonesia and Thailand every year to confirm that there are no child labor or forced labor cases. In fiscal 2009, no problems were found in the investigation. In the future, we will conduct onsite investigation through a wider range of our foreign subsidiaries.

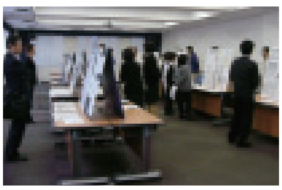
NEW
Workplace management survey

In April 2009, to clarify the current management capacity and the problems of each workplace, a questionnaire survey on workplace management was conducted. The results of the survey were reflected in each workplace to be used for future improvement activities.

NEW
Promoting educational programs for AVI-21

Amid the severe business environment, we promoted educational programs (Toyota process improvement, etc.) for implementation of the AVI-21 (Aichi Value Innovation; operation efficiency improvement initiative). After registering their promoters and target issues, each department was given lectures and practice exercises, and then addressed actual operational issues.
The results of this initiative were presented for the entire Company at the AVI-21 case exhibition (Nov.).


Study session (with 128 participants)


AVI-21 case exhibition

NEW
Discussion meetings with President for section managers

For enhancement of leadership, discussion meetings with President were held in small groups two or three times a month for all of the targeted section managers. By having direct dialogues with President, participants were expected to understand the leader's viewpoint.

Labor Data

■ Labor composition

	FY2005	FY2006	FY2007	FY2008	FY2009
Total workers (persons)	2,340	2,327	2,328	2,331	2,330
Managers (persons)	238	241	247	253	263
Male (persons)	2,245	2,233	2,224	2,227	2,221
Female (persons)	95	94	104	104	109
Average age (years)	39.2	39.2	39.3	39.4	39.5
Average service (years)	19.6	19.7	19.3	19.8	20.0
Turnover rate (%)	0.5	0.4	0.8	0.8	0.3
Voluntary resignation for personal reason (persons)	13	10	18	17	10

■Users of the Nice Family System

	FY2005	FY2006	FY2007	FY2008	FY2009
Child care leave (persons)	6	9	8	8	11
Shorter work hours (persons)	1	7	13	7	6

■Registrants to the Nice Senior* System

	FY2005	FY2006	FY2007	FY2008	FY2009
Nice Seniors (persons)	15	25	50	69	55

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

■Employment of persons with disabilities

	FY2005	FY2006	FY2007	FY2008	FY2009
Employees with disabilities (persons)	26	31	30	29	34
Employment rate (%)	1.3	1.6	1.6	1.5	1.8
Achievement status of the legal employment rate (%)	81.3	91.2	88.2	85.3	100

■Usage rate of annual paid vacations

	FY2005	FY2006	FY2007	FY2008	FY2009
Usage rate (%)	50.0	50.5	48.0	69.0	54.0

Usage rate against 20 days granted

VOICE

I want to work on various projects, learn many things deeply and improve myself.

Masahiro Waseda Development&Engineering Dept., Tetsuriki-Agri Business Div.

I am currently engaged in test cultivation and analysis of plants using TetsuRiki-Agri. Every finding in my work gives me great inspiration. Instead of giving up anything because I am in a wheelchair, I will try as many types of work as possible and learn many things deeply, hoping to become a trusted person responsible to take on any job. Though I am new in this workplace and currently learning my job, I hope that I will be of some help to the other members and be able to propose new products, etc., in the future.

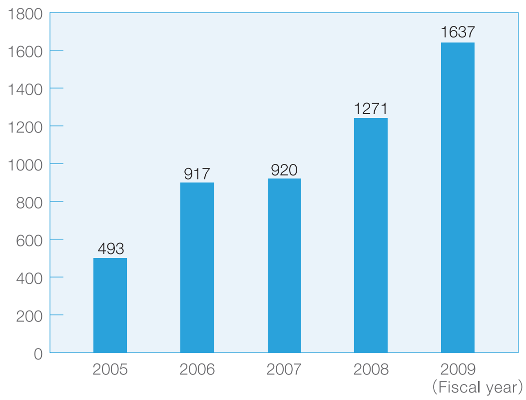
With Community and Society

As a corporate citizen, we participate in social contribution activities to achieve mutual support and mutual growth of the Company and the community.

Policy

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

■ **Number of persons who participated in volunteer activities (cumulative total)**



Clean

Nishi-Chita Industrial Road Clean-up Campaigns

A cumulative total of 400 participants cleaned the area around the Arao Interchange of Nishi-Chita Industrial Road in April, June, August, October and February.

Clean Aichi Day

In October 2009, a total of 519 employees participated in the event at 10 sites: the Head Office, and the Chita, Kariya, Forging, Higashiura, Gifu, Tokyo, Osaka, Hiroshima and Fukuoka blocks.

Green

NEW

Support for the growth and maintenance of lawns in the gardens of Tokai City nursery schools

TetsuRiki-Agri has been used for the lawns of four nursery schools in Tokai City since November 2009. To help school teachers understand how to manage the lawns, we held a workshop inviting Prof. Akashi of Miyazaki University and other experts to provide information on the growth and maintenance of lawns.
Growing lawns in the gardens of nursery schools allows children to run around the gardens actively, and is expected to bring some environmentally friendly effects such as lowering the temperature due to reduced sunlight reflection and prevention of a cloud of dust.

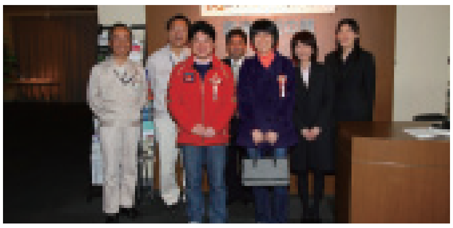
- Planting flowers in front of Meitetsu Shurakuen Station (June, Nov., Mar.)
- Participation in Tokai Forestation for the 21st Century Campaign (Nov., Feb.)
- Tree planting activities by foreign subsidiaries

AFC (Philippines; July)

Creative

NEW Over 20,000 people visited the Forging Technology Museum

In March 2010, the number of visitors to the Forging Technology Museum, reached 20,000.



- Dispatched instructors to Tokai City "Invention Club for Boys and Girls." (Aug.)
- Dispatched instructors of Monozukuri for the Momiji Festival in Shurakuen. (Nov.)
- Accepted a junior high school student for job experience training. (Aug.)

Volunteer activities

NEW Awarded a Health Minister prize for blood donation activity

We hold a blood donation campaign in September and March every year. In July 2009, we were awarded a Health Minister prize for our over 30 years of commitment to this activity.

Donations to Haiti and Chile

We donated 500,000 yen to the victims of the great earthquakes in Haiti (Jan.) and Chile (Feb.) through the Japanese Red Cross.

Activities of the Aichi Steel Volunteer Fund

In fiscal 2009, the Fund donated charity gifts worth about ¥3.03 million, including those contributed through our Matching Gifts Program*.

*Under this program, we donate an amount equal to the amount donated by you to the Volunteer Fund.

Donations by foreign subsidiaries

AFC (Philippine) — 20,000 pesos for victims of Typhoon No. 16, via TSC and PEZA (Oct.)

AFI (Indonesia) — 5 million rupiahs via TMMIN and 910,000 rupiahs collected from employees, for victims of the great earthquake off Padang(Oct.)

Meat equivalent to a whole cow (12.5 million rupiahs) for local residents for 'Id al-Adha (Nov.)

Scholarships worth 4.08 million rupiahs for local primary school and junior high school students (Oct., Feb.)

AFU (US) — $5,000 for victims of the Haiti Earthquake via the Red Cross (Jan.)

Other activities

Community meeting (Apr. 2010*)

*Postponed from autumn to April for prevention of the spread of flu.

Kariya Area Community Meeting (Dec.)

Ongoing activities

- Support for a Nagoya Philharmonic Orchestra welfare concert (Sep.)
- Support for a blind tennis tournament (Nov.)
- Support for the Tokai City Marathon (Dec.)
- Support for the Tokai Junior School Indoor Tennis Tournament (Feb.)

Environmental Activity Policy

The Aichi Steel Group promotes conservation of the global environment in order to realize a sustainable society.

Aichi Steel Environmental Charter (established in June 1996)

[Mission]

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

[Basic Policy]

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

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

NEW

"Biodiversity" to be added to Environmental Action Plan 2010

After announcing its participation of the "Declaration of Biodiversity by Nippon Keidanren" Promotion Partners in December 2009, the Company decided in March 2010 to consider biodiversity as one of its important environmental action items, and to add it to the Social Contribution section of its Environmental Action Plan 2010. From 2010 onward, the Company will actively take part in the environmental protection measures of the local communities, as well as enhancing efforts in coordination with NPOs and local governments.

The Environmental Action Plan 2015

Mitsuaki Iwai, Safety and Environmental Division

We have reached the final year of Environmental Action Plan 2010, and with a few exceptions, we expect to achieve most of our goals. Efforts to promote activities for environmental improvement will be continued.

Moreover, upon newly drafting Environmental Action Plan 2015 (Fifth Plan) at the end of fiscal 2010, we as a recycling-oriented enterprise hope to set even higher goals in order to realize a sustainable society. Companywide efforts will be made with increased environmental awareness for "setting goals more stringent than legal standards for all emissions," "clear visualization of individual measures to reduce CO_2," and the like.

The Environmental Action Plan 2010: Results of efforts and their evaluation

○: Target achieved
△: Target achieved but improvement still incomplete
×: Target not achieved

Item	2010 target	2009 target	Major efforts	Results	Assessment
Environmental Management	All consolidated manufacturing companies acquire ISO14001 certification	Renewal screening passed (Material non-conformance;None, Minor non-conformance; One incident/site or less)	**Spiraling enhancement of environmental activities** Implement internal audit, setting priority issues. Prepare for SAFC certification acquisition	Passed the audit. Material non-conformance: None Minor non-conformance: One SAFC certification acquisition (Dec.09)	○
		Complaints from outside the Company (Problems pointed out, administrative guidance, and complaints: No incidents/ year)	**Promotion of environmental conservation** Make proactive efforts by anticipating the future development of environment-related laws and regulations. Promote activities for compliance with environment-related laws. - Implement strict management and actions to achieve a target of 80% of the limit values regulated by environment-related laws. - Improve high-risk facilities. - Practice "Environmental Close Call" activities.	No complaints One incident of "Environment Close Call" (See P28)	△
Global warming prevention	Reduce CO_2 emissions from manufacturing departments by 10% from 1990 level.	CO_2 emissions: 540,000 tons/ year	**Promotion of CO_2 emissions reduction by energy-saving efforts** - Change to, or concentrate processes on, energy-efficient facilities and furnaces. - Identification of issues and reduction of loss through heat balancing - Deliberate introduction of high-efficiency facilities	514,000 tons/yearr	○
	Reduce per-unit CO_2 emissions at logistics department by average of 1% per year from 2006 level.	Per-unit CO_2 emissions for outbound logistics:Reduce by 2%	**Promotion of CO_2 emissions reduction by improving logistics efficiency** Improvement of cargo loading rate, direct delivery	Reduce by 2% (=> See P30)	○
Recycling	Landfill volume: 2% or less of 1990 level (1990: 58,000 tons/year) Total landfill volume: 1,160 tons/year or less	Direct landfill: 28,800 tons/year Indirect landfill: 1,260 tons/year	**Company-wide efforts, focusing on activities to promote Zero Emission** - Reduction of landfill volume by returning fluorine-containing slag into the electric furnace - Collection of valuable metals from neutralized acidic sludge	Direct: 44,345 tons/ year Indirect: 2,432 tons/ year (=> See P33)	×
Reduction of environmental burden		Development of environmental burden evaluation indexing	**Drafting of evaluation index ideas**	Drafting of evaluation index ideas to be used for DR3/DR5	○
		Green purchasing program Deployment of new guidelines	**Systemization of green procurement program ideas** **Adoption of CO_2 reduction ideas**	Promote idea proposals 10 cases/ month	○
Social contribution		Disclose environmental information to stakeholders	**Publication of Aichi Steel Report** **CSR community meetings**	Timely disclosure	○
		Implement environment conservation activities	**Employee volunteers' participation in NPO tree cutting activity for forestation improvement** **Employee volunteers' participation in treeplanting ceremony of Tokai Forestation for the 21st Century Campaign**	Three events	○

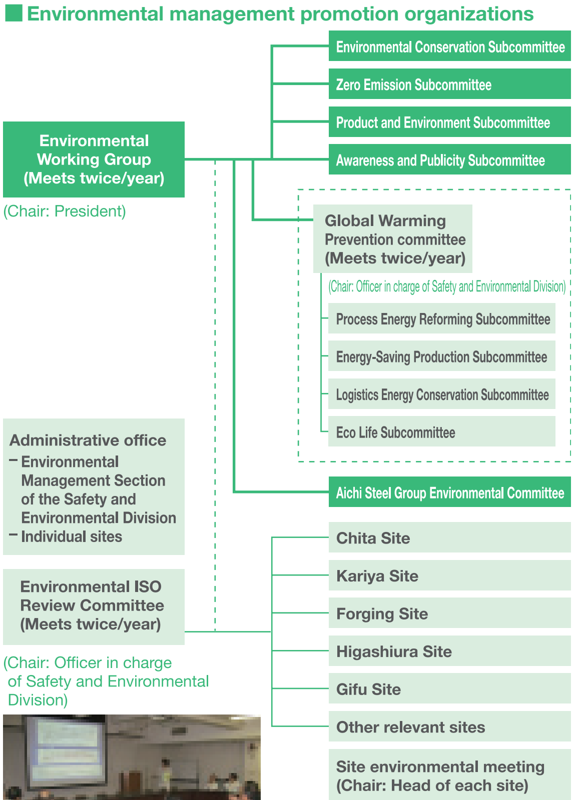
Environmental Management

An environmental management structure has been developed in order to conduct environmental conservation activities based on the Aichi Steel Environmental Charter.

System for environmental management promotion

The Environmental Working Group strongly promotes all environmental preservation activities in an organized and systematic manner.

Environmental management promotion organizations



Aichi Steel Group Environmental Committee (Nov.)

Acquisition of Environmental ISO

Aichi Steel aims for 100% acquisition of ISO14001 certification of its consolidated subsidiaries that operate production sites. SAFC acquired certification in fiscal 2009.

ISO certification acquisition

Aichi Steel	ISO14001	Jan. 1997

Consolidated subsidiaries

Aichi Ceratec	ISO14001	Mar. 2003
Aiko Corp.	ISO14001	Jan. 2004
Omi Mining	ISO14001	Oct. 2004
Aiko Service	ISO14001	Jan. 2005
Aichi Steel Logistics	ISO14001	Mar. 2005
Asdex	ISO14001	May. 2007
Aichi Techno Metal Fukaumi	ISO14001	(Expected to acquire in 2010)
AFU	ISO14001	Apr. 2003
AIT	ISO14001	Nov. 2006
SAFC	ISO14001	Dec. 2009
AFI	ISO14001	(Expected to acquire in 2010)
AFC	ISO14001	(Expected to acquire in 2010)

Practicing "Environmental Close Call" activities

During fiscal 2009, we received no complaints from outside the Company. However, there was one inquiry from a neighboring company. Although the involvement of the Company was unknown, we handled the inquiry as a "material environmental close call," and worked on taking improvement measures regarding management.

Environmental conservation costs

Unit: millions of yen

Classification	Major efforts	Amount
1 Environmental conservation costs necessary for controlling environmental burdens arising within our operational areas from production or service activities (operational area cost)	Power for dust collectors/repair costs for dust collectors, wastewater treatment costs, investment and maintenance of energy-saving facilities, costs of disposal and recycling of industrial waste and general waste discharged from business operations	1,985
2 Costs necessary for controlling environmental burdens arising upstream or downstream of our operational areas in connection with production or service activities (Upstream/downstream cost)	Simplified packaging (reducing packing materials and reducing packing time)	0
3 Environmental conservation costs arising from our administrative activities (Administrative costs)	Costs for employee environmental education, and costs necessary to acquire and maintain ISO certification Labor costs and related costs of environmental action organizations	318
4 Environmental conservation costs arising from our R&D activities (R&D costs)	Research costs for environmental conservation	35
5 Environmental conservation costs arising from our social-relation activities (Social-relation costs)	Site greening and industrial road cleaning activities	26
		Total 2,364

Environmental training

Environmental training was held three times targeting freshmen assigned to administrative departments (August: 20 freshmen), newly promoted Assistant Managers (June: 30 Assistant Managers), and newly-promoted Foremen (March: 17 Foremen).

NEW

Environmental technology and standard education

Starting in June 2009 targeting in particular the Production Engineering Department, this education has been conducted in order to foster human resources with thorough knowledge of the environment.

11 times: Approx. 250 participants

NEW

Promotion of Eco Test certification

The Eco Life Subcommittee played a central role in promoting acquisition of Eco Test certification by employees in order to increase environmental awareness.

Employees were encouraged through the intranet, in-house newsletter, etc., and the goal for certification was 100 employees by fiscal 2009. 126 employees acquired certification.

Also, 12 Eco Life Members have been appointed for environmentally friendly activities to promote energy conservation in the office.

Results of audits

The results of the fiscal 2009 internal audit and the surveillance audit of the environmental management system were as follows. There were no material non-conformances.

Results of internal audits

Classification	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Material non-conformance (incidents)	2	0	0	0	0
Minor non-conformance (incidents/department)	1	0.9	0.7	0.7	0.7

Results of audits by independent auditors

Classification	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Minor non-conformance (incidents)	1	1	1	1	1
Opportunity for improvement and other observances (incidents/department)	18	21	12	20	31
	(1.0)	(0.5)	(0.3)	(1.0)	(0.8)

Internal environmental auditors

A training program for internal environmental auditors was held during "Environment Month" (June). 20 auditors were newly certified. This brings the total number of auditors in the Company to 162.

VOICE

Increase eco-awareness for more eco-people

Michihiro Tanaka, Eco Life Member, Analysis & Testing Dept.

"The questions are all about everyday things; I should invite others to take this test too," was my first thought when I saw the exercise book of the Eco Test. I took the test with three colleagues from work, so starting from two weeks before the test, we used our lunch hour to quiz each other on the material. Now that I am certified, I support colleagues who are planning to take the test.

Eco Test questions are all about everyday things, and studying for it greatly helps to increase eco-awareness. I will continue to support those who would like to take the test, and hope the number of eco-people will increase.

Global Warming Prevention

The Company makes various efforts to achieve its reduction goals for CO_2 emissions.

Targets and results of fiscal 2009

In fiscal 2009, improvements were made in energy efficiency, etc., and the annual target was achieved.

Item	2009 target	2009 results
CO_2 emissions	540,000 tons/year	514,000 tons/year

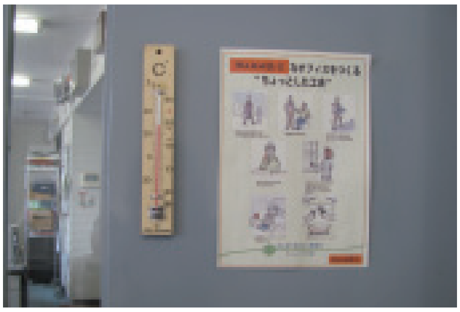
Energy conservation in office

NEW Automatic lighting control in the stairwell of the Technology Center

Automatic lighting control was installed in the central stairwell of Technology Center No. 1. Lights go on and off automatically with the sensor that detects passersby in the stairwell in order to conserve energy. This system will be installed in all stairwell lights in the Technology Center.

NEW Warm Biz (December to March)

Information posters were posted in each department, and heater thermostats were set at 20 degrees Celsius.



- Cool Biz (June to September)
- Close laptops when leaving the desk
- Turn off lights whenever possible
- Reduce waste (recycle)

Participated in the lights-down campaign

As part of the Team Minus 6% national campaign led by the Ministry of the Environment, the Company participated in the CO_2 reduction/lights-down campaign.

- June 21: Black Illumination
- July 7: Tanabata (Star Festival) Lights Down

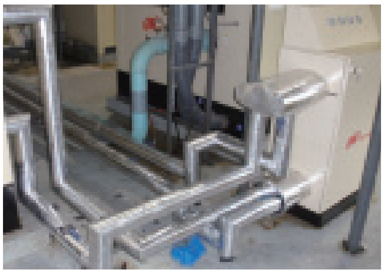
Conserving Energy in Logistics Operations

In fiscal 2009, the total freightage of the Company reached approximately 110 million ton-kilometers.* To reduce transportation losses caused by rapid change in demand, we held detailed discussions with our customers and improved our loading ratio as well as shortening the transportation distance. As a result, we achieved a 2% reduction rate per production unit of CO_2 year on year. We will continue to cooperate with our customers in energy conservation activities for logistics operations.

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

NEW
Residual heat from compressor used to heat bathrooms in SAFC (China)

The Aichi Steel Group also conducts unique efforts. SAFC installed a heat exchanger to the compressor that sends compressed air to manufacturing equipment in October 2009 in order to use the residual heat from the compressor to heat bathrooms (four) in the company. This is expected to conserve approximately 300 tons of coal per year.



Green purchasing

The Company actively exercises green purchasing by employing its own Green Purchasing Guideline to purchase environmentally friendly products and services from suppliers who are conscious about global environmental protection.

Please refer to our Website

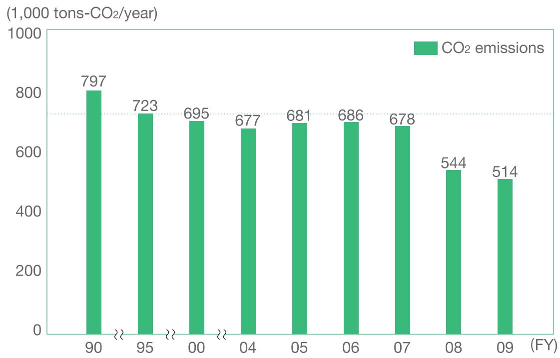
http://www.aichi-steel.co.jp/ENGLISH/over_proc/index.html

NEW
Certification of TMG compliant vehicle for motorcoach and minibuses

In July 2009, one motorcoach and two minibuses of the Company were certified as TMG compliant vehicles in accordance with the Tokyo Metropolitan Ordinance on Environmental Preservation, and a certification sticker was affixed to each vehicle.

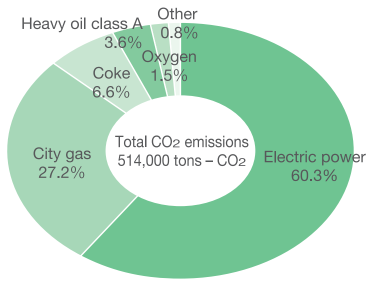
This sticker may be affixed to vehicles with low environmental burden that meet emission standards for nitrogen compounds, particulate matters, etc.

Change in CO2 emissions



Breakdown of energy consumption

Breakdown of CO_2 emissions during fiscal 2009



CO2 balance

CO_2 emissions in fiscal 2008	544,000 tons – CO_2/year
CO_2 emissions in fiscal 2009	514,000 tons – CO_2/year
Difference	30,000 tons – CO_2/year

Breakdown

Reduction due to decrease in production volume	29,000 tons – CO_2/year
Improvements (A) – Aggravations (B)	1,000 tons – CO_2/year
Total	30,000 tons – CO_2/year

Improvements (A)

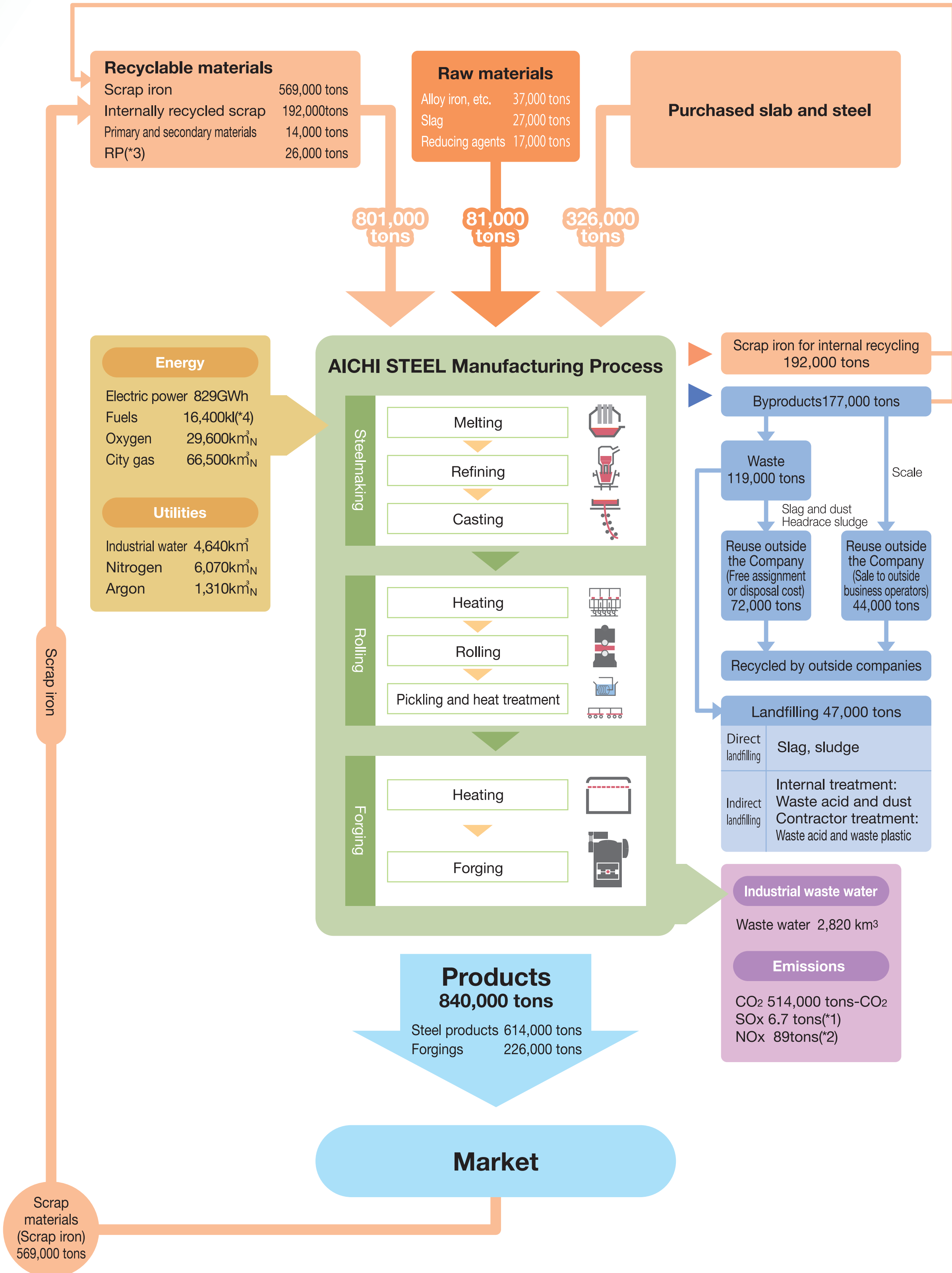
(1) Production system changed to match reduced production	1,000 tons – CO_2/year
(2) Improved energy efficiency	4,000 tons – CO_2/year
(3) Loss reduction during suspension of operations	2,000 tons – CO_2/year
Total	7,000 tons – CO_2/year

Aggravations (B)

(1) Changes in steel manufacturing process	6,000 tons – CO_2/year
Total	6,000 tons – CO_2/year

Environmental Material Flows

We make diligent efforts both in the market and in our manufacturing processes to promote complete recycling and waste reduction.



*1 Emissions during the period January to December 2009
*2 Emissions during the period April 2008 to March 2009
*3 RP: Recycled plastics
*4 Heavy oil equivalent

By-products

As a law-abiding member of society, the Company promotes the 3R activities to make efficient use of by-products as resources.

Targets and results of fiscal 2009

We have been promoting recycling activities in compliance with the Guideline for the Proper Use of Recyclable Resources (published by Aichi Prefecture) which came into effect in 2008, but could not meet the targets due to technological difficulties and production line adjustments required by drastic changes in production volume.

Item	2009 target	2009 results
Direct landfilling	28,800 tons/year	44,345 tons/year
Indirect landfilling	1,260 tons/year	2,432 tons/year

Efforts to reduce landfilling

We make efforts towards 3R activities, cutting deep into conventional production processes, while maintaining the quality expected of specialty steel. Slag, which contains a large volume of direct landfill (approx. 95%), is a byproduct generated during the steel refining process, which largely affects the quality of specialty steels. This matter requires careful handling and unconventional ideas. A cross-departmental in-house project has been launched in order to realize zero landfilling.

Recycling with Toyota Group

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

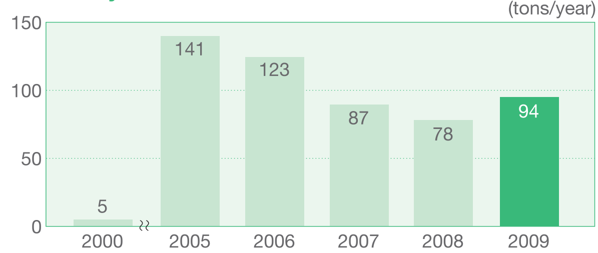
We already make efforts such as the reuse of automobile shredder residue including iron scraps, and in addition to such existing activities, we are developing recycling technology for nonferrous metals, glass, etc. Also, we are deliberating methods to exchange information within the group to promote recycling as well as the reuse of byproducts as resources.

Recycling technologies

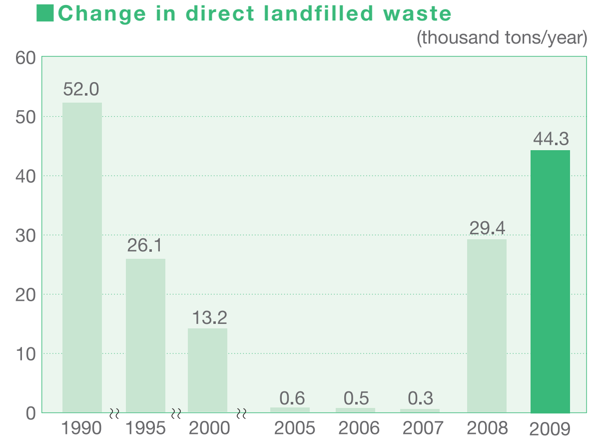
- Production of abrasive (AS Shot)
- Recycling of electric arc furnace reducing slag, "ANRP method*1"
- Recycling of nickel from byproducts

*1 ANRP: Aichi New Hot Slag Recycling Process

■Recycled nickel

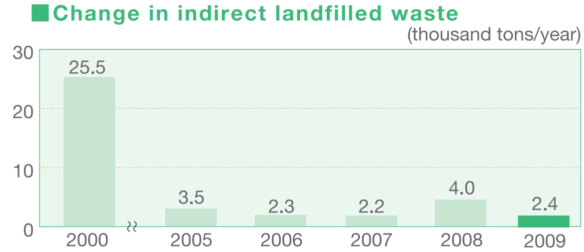


■Change in direct landfilled waste



There is an increase because landfilling for fiscal 2008 was eight-months' worth from August 2008 to March 2009, and for fiscal 2009 was for one whole year, in order to adhere to the Guideline for Proper Use of Recyclable Resources.

■Change in indirect landfilled waste



Business Update
Feature Story
CSR Management
Social Relations Section
Environmental Section
Financial Section

Environmental Data

We employ strict management systems to aim for zero impact on the natural environment as well as risk reduction.

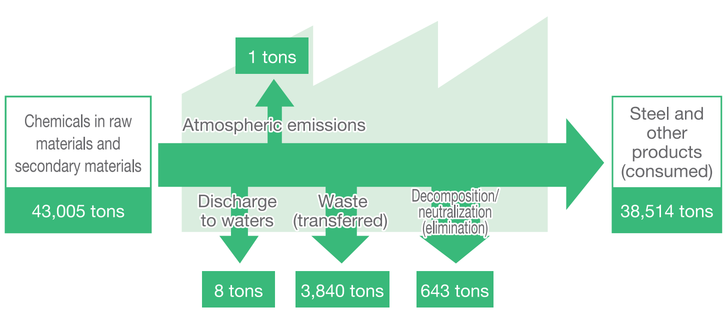
PRTR Data

(Unit: tons)

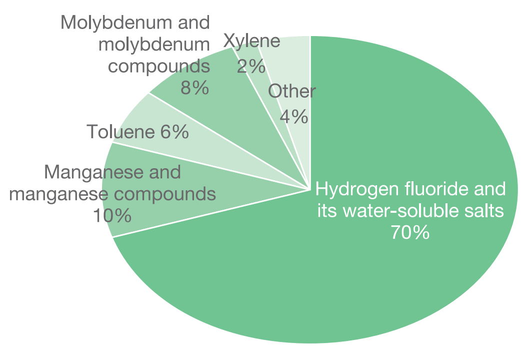
	Chemical	Amount handled	Discharged		Transferred
			Air	Water	Outside of premises (as waste, etc.)
Chita and Forging Plants	Ethyl benzene	1.0	0.0	-	-
	Xylene	5	0.1	-	-
	Chromium and trivalent chromium compounds	20,000	0.0	0.0	2,100.0
	Cobalt and cobalt compounds	120	-	0.0	2.4
	Dioxins	100	100	-	-
	Toluene	7	0.5	-	-
	Lead and lead compounds	270	0.0	0.0	120.0
	Nickel	5,000	-	-	-
	Nickel compounds	700	0.0	0.1	58.0
	Hydrogen fluoride and its water-soluble salts	5	0.0	5.0	0.2
	Benzene	0.6	0.0	-	-
	Boron and boron compounds	54	-	0.1	16.0
	Manganese and manganese compounds	9,400	0.0	0.8	1,400.0
	Molybdenum and molybdenum compounds	6,300	-	0.5	0.6
Kariya Plant	Chromium and trivalent chromium compounds	910	-	0.0	39.0
	Nickel compounds	440	-	0.0	21.0
	Hydrogen fluoride and its water-soluble salts	110	0.0	0.9	77.0
	Molybdenum and molybdenum compounds	15	-	0.2	1.4

Higashiura and Gifu Plants: No chemicals requiring reporting were handled by these plants.
A hyphen ("-") indicates a quantity of "0" (zero). The volumes were calculated according to the PRTR system.
The unit is tons/year (however, the unit for Dioxins is mg-TEQ/year).

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



Breakdown of discharged PRTR substances



Atmospheric Quality Data

Regulated by the Air Pollution Control Act and the Prefectural Ordinance

Chita and Forging Plants

Substance	Facility	Limit	Actual level (max)
NOx	Boiler	130	72.0
		150	25.5
		250	26.8
	Heating furnace	130	65.3
		150	43.3
		170	56.5
		180	61.7
		200	44.3
Soot	Boiler	0.30	0.001
	Heating furnace	0.08	0.003
		0.10	0.003
		0.20	0.003
		0.25	0.002
		0.30	0.005
	Electric arc furnace	0.05	0.001
		0.08	0.001
		0.10	0.002
SOx	(Total limit)	34.35	4.003

Kariya Plant

Substance	Facility	Limit	Actual level (max)
NOx	Boiler	180	67.6
	Heating furnace	130	52.0
		150	44.8
		170	63.0
		200	54.7
Soot	Boiler	0.30	0.002
	Heating furnace	0.20	0.003
		0.25	0.003
SOx	(Total limit)	11.622	7.333

Higashiura Plant

No regulated facilities were operated in this plant

Gifu Plant

Substance	Facility	Limit	Actual level (max)
NOx	Boiler	150	85.0

The actual levels of NOx and soot indicate the maximum values actually measured for each regulated facility.
Units are as follows: NOx (ppm); Soot (g/m^3_N); SOx (m^3_N/h) (Total limits set out in the Air Pollution Control Act)

Water Quality Data

Regulated by the Water Quality Pollution Control Act and the Prefectural Ordinance

Chita and Forging Plants

Item	Limit	Max.	Min.	Average
pH	5~9	7.8	6.4	7.0
COD	25(20)	7.4	0.4	4.8
SS	40(30)	3.5	Less than 0.1	1.2
Nitrogen	120(60)	2.8	1.3	2.0
Phosphorus	16(8)	0.1	Less than 0.1	0.07

Kariya Plant

Item	Limit	Max.	Min.	Average
pH	5.8~8.6	7.1	6.3	6.7
BOD	25(20)	3.8	1.2	1.9
SS	40(30)	20.5	0.5	6.5
Nitrogen	120(60)	13.7	2.0	7.6
Phosphorus	16(8)	1.2	0.1	0.40

Higashiura Plant

Item	Limit	Max.	Min.	Average
pH	5.8~8.6	7.2	6.7	6.9
BOD	25(20)	5.1	5.1	5.1
SS	40(30)	18.5	Less than 0.1	2.1
Nitrogen	120(60)	3.5	1.1	2.1
Phosphorus	16(8)	0.4	0.1	0.22

Gifu Plant

Item	Limit	Max.	Min.	Average
pH	5.8~8.6	7.9	6.5	6.9
BOD	30(20)	4.9	2.2	3.6
SS	60(50)	4.0	Less than 0.1	1.1
Nitrogen	120(60)	8.3	1.2	3.9
Phosphorus	16(8)	0.8	0.1	0.18

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

Third-Person View

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

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

The Report for this fiscal year stresses that amidst the difficult business environment persisting since two years ago, continuous corporate activities comprise one of a company's responsibilities to society. At the same time, it provides CSR activities and environmental preservation efforts based on clear visions in a balanced manner.

Mission Statement and CSR Policy is clearly stated (back of cover)

At the beginning of this report, readers will find the Mission Statement, CSR Policy, and CSR Vision 2015. Also, the report includes the Financial Section, in addition to the Environmental Section and the Social Relations Section. In other words, this report clearly shows the resolve of the corporate management to maintain the healthy business activities of the Company while taking responsibility and making contributions towards society and the community. This is an extremely important point in promoting comprehensive and innovative efforts as well as broad social contribution activities.

The corporate culture "1S" permeates all processes, including production, environmental preservation and CSR (P5, P12, etc.)

The corporate culture of making "Shojiki (Sincelity), Seisou (cleanliness), and Safety" its top priorities is an important philosophy in all areas, such as an efficient and quality production system, environmental risk management, the work motivation of each employee, and how to engage with the local society. The entire Report conveys this message, and the reader can feel reassurance and trust though this "1S" culture that permeates all company activities.

A recycling-oriented enterprise by birth (P8, P32)

As an electric arc furnace manufacturer using iron scraps as its main raw material, the Company plays a role in Japan's iron material recycling. However, in the Feature Story, it is simply mentioned as a recycling-oriented enterprise by birth. This can be easily deduced from the material flow. I hope that in the future, the Company will deliberate and include in its Report support for venous industries* involved in iron recycling, a significant part of material recycling.

*Industry that collects and reuses/recycles waste and byproducts

Focus placed on biodiversity (P10-11, P26)

Triggered by the COP 10 to be held in Nagoya in October 2010, the Company engages in activities to conserve biodiversity, such as adding biodiversity to its Environmental Action Plan 2010. Cooperation for forestry in the community where the head office is located is already underway as part of the Company's social contribution efforts. In the future, I look forward to seeing further active involvement in the conservation of biodiversity through projects and new product developments.

Byproducts (P27, P33)

The amount of direct landfilling has shown rapid increase since 2008, but it can be commended that the company is clear and honest about its data. There is a reason behind this increase; steel slag, which had conventionally been recycled, must now be disposed of by direct landfilling in accordance to the amendment of administrative guideline. Since this byproduct is directly related to the manufacturing process of specialty steels, the main product of the Company, it will not be easy to reduce amount generated. However, the 2010 goal firmly maintains a "2% decrease compared to fiscal 1990," and therefore, I am expecting to see technological efforts at a companywide level.

In conclusion

To make this Report even better in the future, I would like to make the following suggestions on its content:
- Regarding the Medium-Term CSR Plan, attainment level assessment should provide reasons why some items were unattained, and how this can be remedied (P13);
- Promotion and support for environmental management and CSR activities including the supply chain should be given(P19);
- More detailed explanation of the calculation basis and scope of CO_2 emissions should be provided (P30);
- An introduction of environmental preservation and CSR efforts by overseas subsidiaries should be given.

This view is based on interviews with relative parties, observation of production sites, etc.

Financial Section

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

Any fractional sum of less than one million yen is disregarded.
A delta symbol in the table represents negative figures.
Sales by business segment represent sales to outside customers.

Summary

During the consolidated accounting period under review, the Japanese economy remained in prolonged recession triggered by the global financial crisis. There were some signs of improvement in corporate profits and consumer spending, mainly due to the effects of economic stimulus measures taken by governments around the world and an increase in Japan's exports mainly to Asian countries. However, with the nation's continuing severe employment situation and income environment, the prospects for a self-sustaining recovery of the Japanese economy remains grim.

In the fourth quarter of the previous fiscal year (January to March 2009), hit by a sudden and significant drop in demand in the wake of the devastating global recession, the Aichi Steel Group was forced to cut back production to an unprecedented level. Then each quarter afterward, production and sales volumes of our mainstay products—specialty steel and forgings, particularly for automobiles—steadily picked up. However, sales volume in the full fiscal year under review declined from the previous fiscal year.

Facing the severest recession in a hundred years, the Aichi Steel Group has striven to create a production system that will minimize operational losses despite production curtailment, reduce fixed costs proportionately to production volumes, and promote drastic cost reductions, mainly in variable expenses.

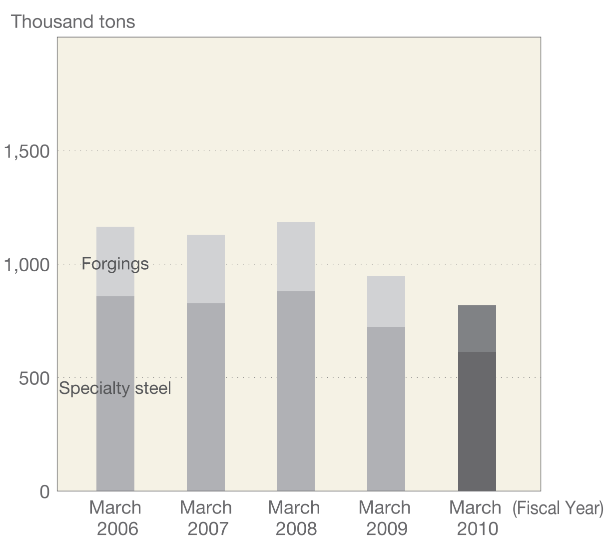
We also implemented the Z100 Project, a new full-scale, Group-wide reform of our profit structure, in a bid to generate profits by reducing quality loss, improving yield ratio, and revamping procurement and physical distribution systems.

The Group's consolidated net sales for the fiscal year under review totaled 174,279 million yen, down 21.5% from the previous fiscal year (222,060 million yen).

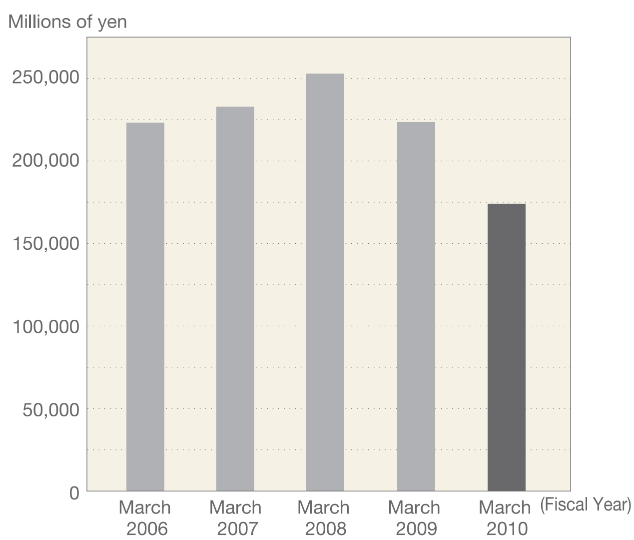
The Aichi Steel Group posted an operating income of 4,314 million yen and ordinary income of 3,906 million yen, compared to an operating loss of 483 million yen and ordinary loss of 1,804 million yen in the previous fiscal year. This was primarily attributable to the effect of drastic cost-cutting efforts launched at the beginning of the fiscal year under review, which helped improve profits each quarter, despite decreased sales volume.

Taking into consideration the future business outlook, Aichi Steel reassessed recoverability of deferred tax assets, which was reversed in full in the previous fiscal year, and recorded a portion of the deferred income taxes, or 3,372 million yen, at the end of the fiscal year under review. As result, the Group posted a net income of 6,625 million yen, compared to a net loss of 14,105 million yen in the previous fiscal year.

■Sales volume (non-consolidated basis)



■Net sales



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

Operating Income and Net Income

Net sales for the fiscal year under review fell 21.5% from the previous fiscal year to 174,279 million yen. Cost of sales was 152,793 million yen. The cost-to-sales ratio stood at 87.7%, improving from 91.0% in the previous fiscal year. Selling, general and administrative expenses totaled 17,172 million yen, which accounted for 9.9% of net sales (compared to 9.2% in the previous fiscal year).

Consequently, the Group posted an operating income of 4,314 million yen and net income of 6,625 million yen for the fiscal year under review. Return on equity (ROE) was 6.4%.

Sales by Business Segment

Specialty steel

Specialty steel is a mainstay product of the Aichi Steel Group. Net sales in this segment dropped 30.5% to 89,706 million yen from 129,006 million yen in the previous fiscal year, due to price decline and decreased sales volume.

Forgings

Closed-die forgings for automobiles account for a major part of this segment. Net sales in this segment fell 11.8% to 75,754 million yen from 85,896 million yen in the previous fiscal year, due to price decline and decreased sales volume.

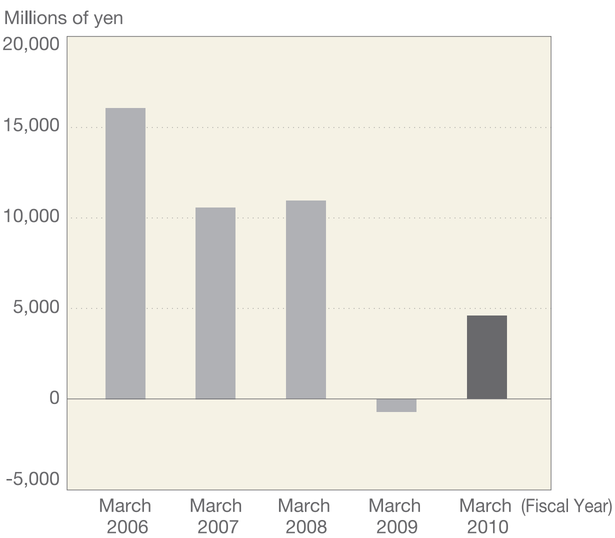
Electromagnetic components

Aiming to turn this segment into the Company's core business in the future, Aichi Steel has been nurturing and promoting new industrial fields for its sensors and magnetic products. Net sales in this segment rose 66.3% to 5,623 million yen from 3,380 million yen in the previous fiscal year, due to an increase in sales volume of MI Sensors, MAGFINE magnets, and electronic parts.

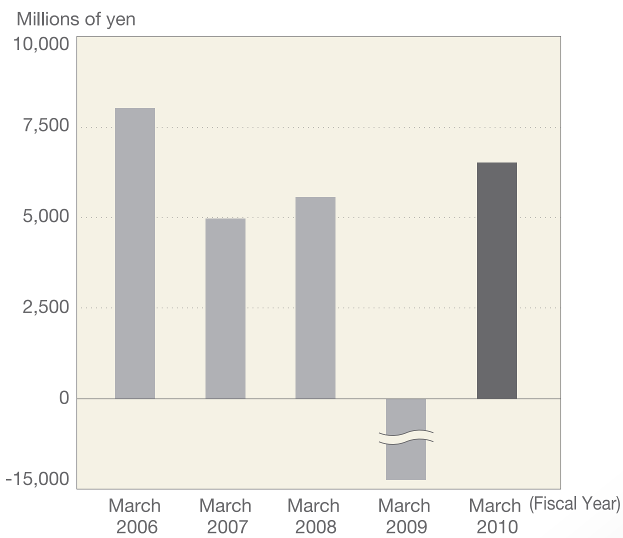
Other businesses

Aichi Steel's subsidiary companies provide various services and engage in software development or other businesses. Net sales in this segment decreased 15.4% to 3,196 million yen from 3,778 million yen in the previous fiscal year.

■Operating income or Operating loss (△)



■Net income or Net loss (△)



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

Financial Position

The Aichi Steel Group's financial position as of the end of March 2010 is as follows.

Total assets were 242,350 million yen, an increase of 22,333 million yen from the end of the previous fiscal year. Current assets increased by 25,676 million yen to 129,216 million yen. This increase is mainly attributable to an increase of 15,327 million yen in notes and accounts receivable-trade led by sales increase, and an increase in deposits by making borrowings.

Property, plant and equipment decreased by 5,890 million yen from the previous fiscal year. In the fiscal year under review, a total of 8,163 million yen was invested. Depreciation and amortization totaled 13,370 million yen.

Current liabilities increased by 33,983 million yen from the previous fiscal year, mainly due to the inclusion of a current portion of convertible bond with stock acquisition rights of 30,000 million yen.

Non-current liabilities decreased by 19,631 million yen from the previous fiscal year, mainly due to a transfer of a current portion of convertible bond with stock acquisition rights of 30,000 million yen to current liabilities and an increase in long-term debt.

Net assets at the end of March 2010 totaled 112,377 million yen, an increase of 7,981 million yen from the end of the previous fiscal year. Net assets per share stood at 547.85 yen, compared to 508.16 yen in the previous fiscal year. The capital adequacy ratio was 44.4%, compared to 45.3% in the previous fiscal year.

Consolidated Cash Flows

Net cash provided by operating activities amounted to 19,427 million yen, mainly due to net income before income tax of 3,730 million yen, depreciation and amortization of 13,370 million yen, an increase in notes and accounts payable-trade of 9,415 million yen, and a decline in inventories of 6,562 million yen, despite an increase in notes and accounts receivable-trade of 15,185 million yen.

Net cash used in investment activities was 8,288 million yen, mainly due to property, plant and equipment purchases of 8,157 million yen.

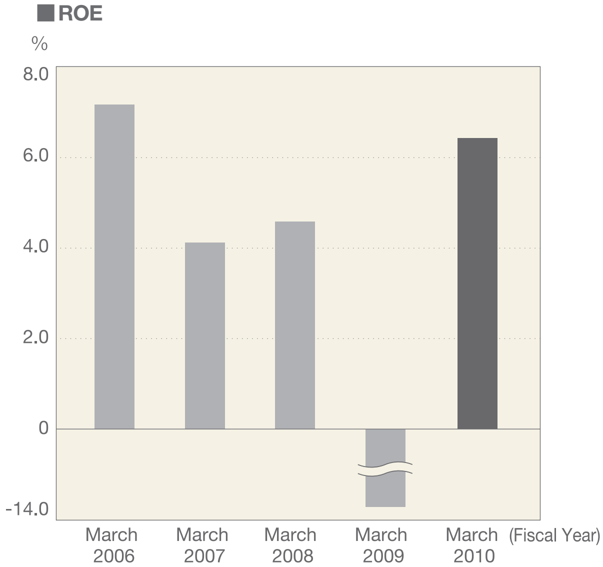
Net cash provided by financing activities amounted to 3,717 million yen, mainly due to proceeds from long-term debt of 10,000 million yen and repayment of long-term debt of 5,131 million yen.

Consequently, cash and cash equivalents as of the end of March 2010 amounted to 52,350 million yen, an increase of 14,954 yen from the end of March 2009 (37,396 million yen).

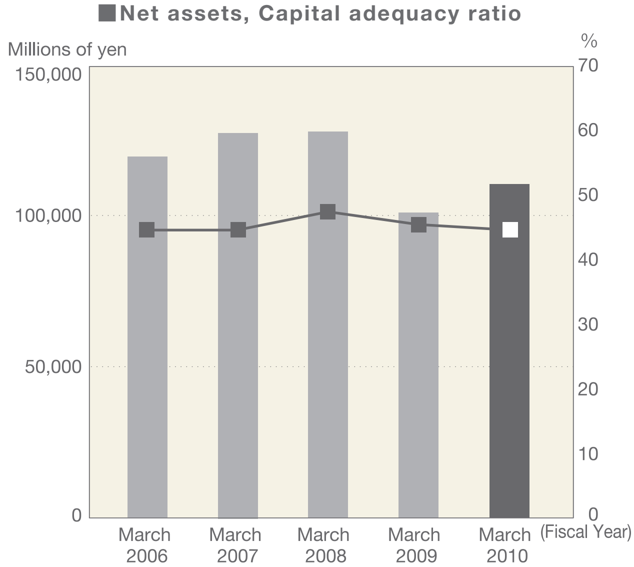
Available-for-Sales Securities

Of the total available-for-sales securities owned by the Company and its consolidated subsidiaries, the historical cost of those reported on the consolidated balance sheet at fair market value amounted to 2,359 million yen (the fair market value of these securities was 9,831 million yen).

■ROE



■Net assets, Capital adequacy ratio



Five–year Summary(Consolidated & Non-Consolidated)

Five–year Summary (Consolidated)

	Millions of Yen					Thousands of U.S. Dollars
	2010	2009	2008	2007	2006	**2010**
Net sales	**¥ 174,279**	¥ 222,060	¥ 253,462	¥ 235,637	¥ 224,954	**$ 1,873,964**
Operating income (loss)	**4,314**	(483)	10,884	10,611	16,051	**46,384**
Income (loss) before income taxes and minority interests	**3,730**	(2,618)	9,055	9,037	13,784	**40,105**
Net income (loss)	**6,625**	(14,105)	5,693	4,922	8,152	**71,241**
Property, plant and equipment	**82,906**	88,796	93,092	96,076	80,301	**891,464**
Total assets	**242,350**	220,017	264,048	274,608	269,606	**2,605,916**
Net assets	**112,377**	104,396	128,155	127,329	119,784	**1,208,352**
Per share data	Yen					U.S. Dollars
Net income (loss):						
Basic	**¥ 33.77**	¥ (71.89)	¥ 29.00	¥ 24.97	¥40.23	**$ 0.4**
Diluted	**30.54**	-	26.23	22.56	39.49	**0.3**
Number of employees (persons)	**4,282**	4,467	4,539	4,637	4,724	

Notes:
1. Net sales are presented exclusive of consumption taxes.
2. Scope of Consolidation:
   All subsidiaries are consolidated. Names of subsidiaries at March 31, 2010 are as follows:
   Aiko Corporation, Aichi Ceratec Corporation, Omi Mining Co., Ltd., Aichi Techno Metal Fukaumi Company, Aichi Steel Logistics Co., Ltd., Aichi Information System Company, Aiko Service Co., Ltd., Aichi Micro Intelligent Corporation, Asdex Corporation, Aichi Forging Company of Asia, Inc., Aichi Forge USA, Inc., Aichi Europe GmbH, Aichi International (Thailand) Co., LTD., Shanghai Aichi Forging Co., Ltd., PT. Aichi Forging Indonesia, Aichi Magfine Czech s.r.o., and AMIT, Inc.
3. Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.5 'Accounting Standards for Presentation of Net Assets in the Balance Sheets' and its Implementation Guidance No.8 'Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheets' issued on December 9, 2005 by the Accounting Standards Board of Japan.
4. Net income per share is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the respective years.
5. Due to net loss, diluted net income per share of the fiscal year ended March 31, 2009 has not been presented.
6. Each fiscal year end date is March 31.
7. The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥93=U.S.$1.

Five–year Summary(Non-Consolidated)

	Millions of Yen					Thousands of U.S. Dollars
	2010	2009	2008	2007	2006	**2010**
Net sales	**¥141,093**	¥ 181,317	¥ 202,860	¥ 187,076	¥ 178,621	**$ 1,517,133**
Operating income (loss)	**3,153**	(3,209)	6,559	7,012	15,051	**33,909**
Income (loss) before income taxes	**2,351**	(3,877)	5,811	6,929	11,532	**25,285**
Net income (loss)	**5,967**	(14,573)	3,838	4,017	5,478	**64,160**
Property, plant and equipment	**69,809**	75,250	77,539	79,575	64,779	**750,635**
Total assets	**222,210**	200,006	236,098	250,844	246,287	**2,389,360**
Net assets	**102,593**	95,919	115,615	117,709	116,770	**1,103,148**
Per share data	Yen					U.S. Dollars
Net income (loss):						
Basic	**¥ 30.41**	¥ (74.28)	¥ 19.55	¥ 20.38	¥ 27.08	**$ 0.3**
Diluted	**27.51**	-	17.68	18.42	26.59	**0.3**
Cash dividends	**8.50**	7.50	10.00	10.00	9.00	**0.1**
Number of employees (persons)	**2,330**	2,331	2,328	2,327	2,340	

Notes:
1. Net sales are presented exclusive of consumption taxes.
2. Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.5 'Accounting Standards for Presentation of Net Assets in the Balance Sheets' and its Implementation Guidance No.8 'Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheets' issued on December 9, 2005 by the Accounting Standards Board of Japan.
3. Net income per share is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the respective years.
4. Due to net loss, diluted net income per share of the fiscal year ended March 31, 2009 has not been presented.
5. Each fiscal year end date is March 31.
6. The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥93=U.S.$1.

Consolidated Balance Sheets

As at March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Assets			
Current assets:			
Cash and deposit (Note 4)	¥ 51,863	¥37,312	$ 557,664
Notes and accounts receivable (Notes 4,18)	42,211	26,884	453,888
Short-term investments (Note 5)	659	245	7,082
Finished goods	5,723	6,364	61,540
Work in process	15,259	17,518	164,071
Raw materials and supplies	7,811	11,283	83,991
Deferred tax assets (Note 17)	3,439	454	36,974
Other assets	2,386	3,653	25,660
Less: allowance for doubtful receivables	(135)	(173)	(1,450)
Total current assets	129,216	103,540	1,389,420
Fixed assets:			
Property, plant and equipment: (Note 6)			
Building and structures	57,108	56,643	614,069
Less: accumulated depreciation	(37,854)	(36,615)	(407,034)
Machinery, equipment and vehicles	243,396	243,173	2,617,161
Less: accumulated depreciation	(201,314)	(195,792)	(2,164,668)
Equipment	11,974	12,725	128,752
Less: accumulated depreciation	(10,520)	(10,801)	(113,121)
Land	14,242	14,204	153,138
Lease assets	97	42	1,047
Less: accumulated depreciation	(19)	(4)	(200)
Construction in progress	5,796	5,221	62,320
Net property, plant and equipment	82,906	88,796	891,464
Intangible fixed assets:			
Telephone rights	12	12	126
Other assets	230	240	2,477
Total intangible fixed assets	242	252	2,603
Investments and other assets:			
Investment securities (Notes 4,5)	13,582	10,862	146,046
Long-term loans	1,146	1,020	12,324
Prepaid pension cost (Note 15)	14,255	14,360	153,276
Deferred tax assets (Note 17)	191	272	2,056
Other assets	887	940	9,536
Less: allowance for doubtful receivables	(75)	(25)	(809)
Total investments and other assets	29,986	27,429	322,429
Total fixed assets	113,134	116,477	1,216,496
Total assets	¥ 242,350	¥ 220,017	$ 2,605,916

Financial Section

Consolidated Balance Sheets

As at March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Liabilities and net assets			
Liabilities			
Current liabilities:			
Notes and accounts payable (Note 4)	¥ 21,301	¥ 13,154	$ 229,047
Short-term borrowings (Notes 4,6)	2,393	2,497	25,726
Current portion of long-term debt (Notes 4,6)	683	5,647	7,344
Current portion of convertible bond with stock acquisition rights(Note4,6)	30,000	-	322,581
Lease obligations (Note 6)	21	8	226
Income taxes payable	311	244	3,349
Accrued bonuses for directors and corporate auditors	186	-	1,997
Deferred tax liabilities (Note 17)	-	167	-
Other liabilities	11,554	10,749	124,234
Total current liabilities	66,449	32,466	714,504
Long-term liabilities:			
Convertible bond with stock acquisition rights	-	30,000	-
Long-term debt (Notes 4,6)	45,647	35,801	490,829
Lease obligations (Note 6)	63	33	678
Long-term payables	633	992	6,808
Deferred tax liabilities (Note 17)	6,862	6,070	73,784
Employees' retirement benefit liabilities (Note 15)	9,200	9,164	98,926
Retirement benefit obligation for directors and corporate auditors	1,026	974	11,033
Other liabilities	93	121	1,002
Total long-term liabilities	63,524	83,155	683,060
Total liabilities	129,973	115,621	1,397,564
Net assets			
Shareholders' equity:			
Common stock, no par value: Authorized: 476,000,000 shares; Issued: 198,866,751 shares in 2010 and 2009	25,017	25,017	268,997
Capital surplus	27,899	27,899	299,987
Retained earnings	52,738	47,093	567,071
Less, treasury stock, at cost	(1,611)	(1,610)	(17,317)
2,668,238 shares in 2010 and 2,665,366 shares in 2009			
Total shareholders' equity	104,043	98,399	1,118,738
Valuation and translation adjustments			
Net unrealized gains on available-for-sale securities, net of taxes	4,607	2,950	49,538
Foreign currency translation adjustments	(1,162)	(1,648)	(12,492)
Total valuation and translation adjustments	3,445	1,302	37,046
Subscription rights to shares (Note 16)	180	149	1,930
Minority interests in subsidiaries	4,709	4,546	50,638
Total net assets	112,377	104,396	1,208,352
Commitments and contingent liabilities (Note 8)			
Total liabilities and net assets	¥ 242,350	¥ 220,017	$ 2,605,916

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

Consolidated Statements of Income

For the Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Net sales (Notes 18 and 19)	**¥ 174,279**	¥ 222,060	**$ 1,873,964**
Cost of sales	**152,793**	202,009	**1,642,930**
Gross profit	**21,486**	20,051	**231,034**
Selling, general and administrative expenses:			
Freight expenses	**2,390**	3,582	**25,693**
Sales commission	**853**	1,024	**9,175**
Salaries and allowances and welfare expenses	**6,051**	7,143	**65,075**
Retirement benefit expenses	**658**	429	**7,074**
Provision of allowance for directors' bonuses	**186**	-	**1,996**
Provision of allowance for directors' retirement benefits	**245**	238	**2,635**
Provision of allowance for doubtful receivables	**8**	32	**90**
Depreciation	**662**	658	**7,119**
Research and development expenses (Note 9)	**2,532**	2,829	**27,224**
Others	**3,587**	4,599	**38,569**
Total selling, general and administrative expenses	**17,172**	20,534	**184,650**
Operating income (loss) (Note 19)	**4,314**	(483)	**46,384**
Non-operating income:			
Interest income	**120**	250	**1,294**
Dividend income	**136**	313	**1,458**
Rent income	**-**	70	**-**
Gain on sales of goods	**-**	260	**-**
Foreign exchange gain	**132**	-	**1,414**
Earnings of subsidies	**235**	-	**2,526**
Others	**618**	402	**6,650**
Total non-operating income	**1,241**	1,295	**13,342**
Non-operating expenses:			
Interest expenses	**727**	840	**7,822**
Loss on disposal of property, plant and equipment, net	**515**	436	**5,533**
Foreign exchange loss	**-**	683	**-**
Loss on valuation of derivatives	**115**	141	**1,234**
Others	**292**	516	**3,137**
Total non-operating expenses	**1,649**	2,616	**17,725**
Ordinary income (loss)	**3,906**	(1,804)	**42,001**
Extraordinary income:			
Compensation for transference	**744**	-	**7,999**
Extraordinary expenses:			
Impairment loss on fixed assets (Note 10)	**230**	814	**2,474**
Loss on valuation of subscription	**60**	-	**647**
Removal cost of overseas subsidiary's factory	**630**	-	**6,775**
Total extraordinary expenses	**920**	814	**9,896**
Income (loss) before income taxes and minority interests	**3,730**	(2,618)	**40,105**
Income taxes:			
Current	**416**	525	**4,472**
For prior periods	**(63)**	212	**(679)**
Deferred	**(3,372)**	11,040	**(36,255)**
Total income taxes	**(3,019)**	11,777	**(32,461)**
Minority interests in net income (loss) of subsidiaries	**124**	(290)	**1,325**
Net income (loss)	**¥ 6,625**	¥ (14,105)	**$ 71,241**
	Yen		U.S. Dollars
Per share (Note 20)	**2010**	2009	**2010**
Net income (loss):			
Basic	**¥ 33.77**	¥ (71.89)	**$ 0.4**
Diluted	**30.54**	-	**0.3**
Cash dividends	**8.50**	7.50	**0.1**

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

Consolidated Statements of Changes in Net Assets

For the Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Shareholders' equity			
Common stock			
Balance at the beginning of year	**¥ 25,017**	¥ 25,017	**$ 268,997**
Balance at the end of year	**25,017**	25,017	**268,997**
Capital surplus			
Balance at the beginning of year	**27,899**	27,899	**299,987**
Balance at the end of year	**27,899**	27,899	**299,987**
Retained earnings			
Balance at the beginning of year	**47,093**	63,162	**506,378**
Change of items during the period			
Cash dividends (Note 11)	**(981)**	(1,962)	**(10,548)**
Net income (loss) for the year	**6,625**	(14,105)	**71,241**
Disposal of treasury stock due to exercise of stock options	**-**	(2)	**-**
Total changes of items during the period	**5,645**	(16,069)	**60,693**
Balance at the end of year	**52,738**	47,093	**567,071**
Treasury stock			
Balance at the beginning of year	**(1,610)**	(1,612)	**(17,305)**
Change of items during the period			
Purchase of treasury stock and fractional shares	**(1)**	(3)	**(12)**
Disposal of treasury stock due to exercise of stock options	**-**	5	**-**
Total changes of items during the period	**(1)**	2	**(12)**
Balance at the end of year	**(1,611)**	(1,610)	**(17,317)**
Total shareholders' equity			
Balance at the beginning of year	**98,399**	114,466	**1,058,057**
Change of items during the period			
Cash dividends (Note 11)	**(981)**	(1,962)	**(10,548)**
Net income (loss) for the year	**6,625**	(14,105)	**71,241**
Purchase of treasury stock and fractional shares	**(1)**	(3)	**(12)**
Disposal of treasury stock due to exercise of stock options	**-**	3	**-**
Total changes of items during the period	**5,644**	(16,067)	**60,681**
Balance at the end of year	**¥ 104,043**	¥ 98,399	**$ 1,118,738**

Consolidated Statements of Changes in Net Assets

For the Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Valuation and translation adjustments			
Net unrealized gains on available-for-sale securities, net of taxes			
Balance at the beginning of year	**¥ 2,950**	¥6,171	**$ 31,719**
Change of items during the period			
Net changes of items other than shareholders' equity	**1,657**	(3,221)	**17,819**
Total changes of items during the period	**1,657**	(3,221)	**17,819**
Balance at the end of year	**4,607**	2,950	**49,538**
Foreign currency translation adjustments			
Balance at the beginning of year	**(1,648)**	1,889	**(17,723)**
Change of items during the period			
Net changes of items other than shareholders' equity	**486**	(3,537)	**5,231**
Total changes of items during the period	**486**	(3,537)	**5,231**
Balance at the end of year	**(1,162)**	(1,648)	**(12,492)**
Total valuation and translation adjustments			
Balance at the beginning of year	**1,302**	8,060	**13,995**
Change of items during the period			
Net changes of items other than shareholders' equity	**2,143**	(6,758)	**23,050**
Total changes of items during the period	**2,143**	(6,758)	**23,050**
Balance at the end of year	**3,445**	1,302	**37,045**
Subscription rights to shares			
Balance at the beginning of year	**149**	99	**1,598**
Change of items during the period			
Net changes of items other than shareholders' equity	**31**	50	**332**
Total changes of items during the period	**31**	50	**332**
Balance at the end of year	**180**	149	**1,930**
Minority interests in subsidiaries			
Balance at the beginning of year	**4,546**	5,530	**48,885**
Change of items during the period			
Net changes of items other than shareholders' equity	**163**	(984)	**1,754**
Total changes of items during the period	**163**	(984)	**1,754**
Balance at the end of year	**4,709**	4,546	**50,639**
Total net assets			
Balance at the beginning of year	**104,396**	128,155	**1,122,535**
Change of items during the period			
Cash dividends (Note 11)	**(981)**	(1,962)	**(10,548)**
Net income (loss) for the year	**6,625**	(14,105)	**71,241**
Purchase of treasury stock and fractional shares	**(1)**	(3)	**(12)**
Disposal of treasury stock due to exercise of stock options	**-**	3	**-**
Net changes of items other than shareholders' equity	**2,337**	(7,692)	**25,136**
Total changes of items during the period	**7,981**	(23,759)	**85,817**
Balance at the end of year	**¥ 112,377**	¥104,396	**$ 1,208,352**

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

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥ 3,730**	¥ (2,618)	**$ 40,105**
Adjustments for depreciation	**13,370**	14,795	**143,768**
Adjustments for impairment loss on fixed assets	**230**	814	**2,473**
Loss on valuation of subscription	**60**	-	**647**
Decrease (increase) of prepaid pension cost	**103**	(437)	**1,106**
Increase of employees' retirement benefit obligation	**33**	192	**358**
Decrease in defined contribution pension payable	**(380)**	(358)	**(4,091)**
Increase of allowance for doubtful receivables	**11**	26	**122**
Interest and dividend income	**(256)**	(563)	**(2,752)**
Interest expense	**728**	840	**7,821**
Foreign exchange (gain) loss	**(107)**	233	**(1,151)**
Gain on sale of property, plant and equipment, net	**(2)**	(5)	**(22)**
Loss on disposal of property, plant and equipment	**430**	298	**4,627**
Increase/ Decrease in operating assets and liabilities:			
Notes and accounts receivable	**(15,185)**	25,814	**(163,281)**
Inventories	**6,562**	5,197	**70,561**
Notes and accounts payable	**9,415**	(13,507)	**101,233**
Other, net	**1,481**	(1,875)	**15,927**
Subtotal	**20,223**	28,846	**217,451**
Interest and dividend received	**258**	565	**2,775**
Interest paid	**(733)**	(740)	**(7,882)**
Income taxes paid	**(321)**	(2,351)	**(3,447)**
Net cash provided by operating activities	**19,427**	26,320	**208,897**
Cash flows from investing activities:			
Net increase in time deposits	**(10)**	(0)	**(108)**
Payments for purchase of property, plant and equipment	**(8,157)**	(15,952)	**(87,716)**
Proceeds from sales of property, plant and equipment	**32**	37	**348**
Payments for purchase of investment securities	**(1)**	(1)	**(15)**
Payments for acquisition of subsidiary's shares	**-**	(47)	**-**
Payments for subscriptions	**-**	(115)	**-**
Payments for loans	**(300)**	-	**(3,226)**
Collections of loans	**159**	294	**1,710**
Other, net	**(11)**	(65)	**(116)**
Net cash used in investing activities	**(8,288)**	(15,849)	**(89,123)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	**(149)**	1,172	**(1,597)**
Proceeds from long-term debt	**10,000**	20,000	**107,527**
Repayments of long-term debt	**(5,131)**	(20,934)	**(55,177)**
Payments for refund of lease obligations	**(14)**	(4)	**(153)**
Proceeds from minority shareholders of subsidiary	**20**	-	**215**
Proceeds from disposal of treasury stock	**-**	1	**-**
Payments for acquisitions of treasury stock	**(1)**	(3)	**(12)**
Proceeds from exercise of stock options	**-**	2	**-**
Cash dividends paid	**(983)**	(1,962)	**(10,566)**
Cash dividends paid to minority shareholders	**(25)**	(72)	**(268)**
Others	**-**	3	**-**
Net cash provided by (used in) financing activities	**3,717**	(1,797)	**39,969**
Effect of exchange rate changes on cash and cash equivalents	**98**	(1,770)	**1,054**
Net increase in cash and cash equivalents	**14,954**	6,904	**160,797**
Cash and cash equivalents at beginning of year	**37,396**	30,492	**402,109**
Cash and cash equivalents at end of year	**¥ 52,350**	¥ 37,396	**$ 562,906**

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

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

(a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of AICHI STEEL CORPORATION ("the Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Financial Instruments and Exchange Law and submitted to the Director of Kanto Finance Bureau in Japan. On the accompanying consolidated financial statements, amounts less than ¥1 million are rounded to the nearest million yen; therefore, some accounts and notes are not consistent with those on the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan, on which amounts less than ¥1 million are omitted.

(b) U.S. dollar amounts

The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen into U.S. dollars at the rate of ¥93 to $1, the approximate rate of exchange at March 31, 2010. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in U.S. dollars at ¥93 to $1 or at any other rates. Amounts are rounded to the nearest US$ 1 thousand.

(c) Reclassification

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

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries (17 and 18 companies in 2010 and 2009, respectively). Investments in affiliates (3 companies in 2010 and 2009) are carried at cost, since the equity in retained earnings and net income of affiliates is not material. Significant intercompany transactions and accounts have been eliminated. Assets and liabilities of subsidiaries are revalued at their fair value as of the date of acquisition of control based on the full fair value method.

(a-i) Scope of consolidation

Subsidiaries at March 31, 2010 are as follows:

Domestic subsidiaries (9 companies):

- Aiko Corporation
- Aichi Ceratec Corporation
- Omi Mining Co., Ltd.
- Aichi Techno Metal Fukaumi Company
- Aichi Steel Logistics Co., Ltd.
- Aichi Information System Company
- Aiko Service Co., Ltd.
- Aichi Micro Intelligent Corporation
- Asdex Corporation

Overseas subsidiaries (8 companies):

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

(a-ii) Fiscal year of subsidiaries

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

(b) Cash and cash equivalents

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

(c) Valuation of securities

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

(d) Derivatives and Hedge Accounting

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

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

(e) Inventories

Finished goods and work in process are mainly stated at cost determined by the periodic average method. The amount carried on the balance sheet is evaluated by devaluation method based on decline of profit. Raw materials and supplies are mainly stated at cost determined by the moving average method, and the amount on balance sheet is evaluated by the devaluation method based on decline of profit, except for rolls and molds included in supplies, which are depreciated over useful life and recorded after depreciation value.

For the year ended March 31, 2010

The inventory amount on the balance sheet of is stated after devaluation based on decline of profit and evaluation loss of inventory of ¥544 million

($5,844 thousand) as included in 'Cost of goods sold' on income statement.
For the year ended March 31, 2009
The inventory amount on the balance sheet of is stated after devaluation based on decline of profit and evaluation loss of inventory of ¥2,790 million as included in 'Cost of goods sold' on income statement.
(Accounting Change)
Effective from the year ended March 31, 2009, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.9 'Accounting Standard for Evaluation of Inventory' issued on July 5, 2006. As a result of the adoption, operating losses increased by ¥2,652 million, and ordinary losses and losses before income taxes and minority interests increased by ¥1,333 million.

(f) Property, plant and equipment
Property, plant and equipment are stated at cost, and have been depreciated by the declining balance method. The exceptions to this are the No.2 Bar and Wire Rod Mill Shop of the Company as well as lease assets which have been depreciated by the straight-line method.
Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease contract began before April 1, 2008, the leased property of the Company and its domestic subsidiaries are not capitalized and the relating rental and lease expenses are charged to income as incurred.

For the year ended March 31, 2009
(Additional information)
The Company and its domestic subsidiaries have changed the depreciable period for a part of property, plant and equipment using the opportunity provided by the 2008 tax reform. As a result, operating losses, ordinary losses and losses before income taxes and minority interest increased by ¥1,013 million.

(g) Goodwill and Negative Goodwill
The difference between the cost of investments in subsidiaries and the underlying equity in their net assets is recorded as goodwill or negative goodwill in the consolidated balance sheets and amortized using the straight –line method over a period of 20 years. If the amount is immaterial, it is fully recognized as an expense or an income when incurred.

(h) Allowance for doubtful receivables
An allowance for doubtful receivables is provided based on the historical loss expense during a certain reference period, plus the estimated non-collectable amount based on the analysis of certain specific accounts in accordance with the accounting standard.

(i) Allowance for bonuses to directors and corporate auditors
Bonuses to directors and corporate auditors are recorded on an accrual basis with a related charge to income.

(j) Employees' retirement benefit obligation
The Company and its subsidiaries have recognized the retirement benefit obligation including pension costs and related liabilities based on the actuarial present value of the projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the respective year-ends. Unrecognized actuarial differences from changes in the projected benefit obligation or pension plan assets resulting from differences in actual experiences from those assumed or from changes in assumptions, are amortized straight-line method over 15 years. The period is intended to reflect the expected average remaining service life of employees, and amortization commences in the year following that in which they arise. Prior service costs are amortized straight-line over 15 or 16 years.

Employees' retirement benefit obligation includes reserve for retirement benefits of executive officers calculated based on the method similar to that used for to determine the retirement benefit obligation for directors and corporate auditors.
(Accounting Change)
Effective from the year ended March 31, 2010, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.19 'Amendment of 'Accounting Standard for Retirement Benefit" issued on July 31, 2008.
This change does not influence operating income, ordinary income and income before income taxes and minority interest.

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

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

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

(n) Accounting for foreign currency translation
All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates. The resulting unrealized gain or loss is charged to income each year.
Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates. The shareholders' equity in Net Assets is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rates during the respective years. Differences in yen amounts arising from use of different rates have been presented as "Foreign currency translation adjustments" in Net Assets or included in "Minority interests in subsidiaries" in Net Assets.

(o) Per share data
Basic net income per share of common stock is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period. Diluted net income per share of common stock is calculated based on the assumption for the possible dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or result in the issuance of common stock.
As described in Note 16, the Company granted the stock option to its directors, executive officers and selected employees for purchase of its common stock. In addition, the Company issued a \30-billion convertible bond-type bond with stock acquisition rights during the year ended March 31, 2006. Diluted net income per share of common stock for the year

Notes to Consolidated Financial Statements

ended March 31, 2010 reflects possible dilution of the stock option and the convertible bond-type bond with stock acquisition rights to shares.
Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

3. Accounting Changes

(a) Accounting standard for construction contract

Effective from the year ended March 31, 2010, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.15 'Accounting Standard for Construction Contract' issued on December 27, 2007 and Implementation Guidance of Financial Accounting Standard No.18 'Guidance on Accounting Standard for Construction Contract' issued on December 27, 2007.
The effect of this change was not material for sales and profit and loss.

(b) Accounting standard for lease transaction

The Company and its domestic subsidiaries did not capitalize finance leases which do not transfer ownership of the leased property to the lessee during the term of the lease contract and charged the related rental and lease expenses to income as incurred until the year ended March 31, 2008. Effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted Financial Accounting Standard No. 13 'Accounting Standard for Lease Transaction' issued on June 17, 1993 and revised on March 30, 2007 by Accounting Standards Board of Japan and its Implementation Guidance No.16 issued on January 18, 1994 and revised on March 30, 2007 by Accounting Standards Board of Japan. In accordance with the Standard and the Guidance, finance leases other than those deemed to transfer the ownership of leased properties to lessees are accounted for mainly by a method similar to that applicable to ordinary sales transactions, instead by the former method, a method similar to that applicable to ordinary operating leases.
This change does not influence operating loss, ordinary loss and loss before income taxes and minority interest.

(c) Accounting policies applied to overseas subsidiaries

Effective from the year ended March 31, 2009, the Company and its subsidiaries have adopted Practical Issue Task Force No.18 'Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements' issued on May 17, 2006 by the Accounting Standards Board of Japan, and makes the necessary adjustments for its consolidated financial statements.
This adoption does not influence operating loss, ordinary loss and loss before income taxes and minority interest.

(d)Classification change in Consolidated Statement of Income

Earnings of subsidies is listed as a separate component of non-operating income because the amount became more than 10% of the total amount of non-operating income. Earnings of subsidies in fiscal 2009 was ¥84 million.

At the previous fiscal year, Rent income ¥63 million ($679 thousand) and Gain on sales of goods ¥123 million ($1,321 thousand) which were listed as a separate component of non-operating income, are included in others of non-operating income because the amount became less than 10% of the total amount of non-operating income.

4. Financial Instruments

(1) Status of financial instruments

(a) Policies concerning financial instruments

Our Group's asset management is focused primarily on short-term deposits, etc. and funds are mainly procured by means of loans from banks and issuance of corporate bonds. We use derivatives in order to avoid the risks described below and we do not get involved in any speculative transactions.

(b) Type of financial instruments, their risks, and risk management

Notes and accounts receivable, which are operating receivables, are exposed to customer credit risk. To reduce this risk, we have established a system to control due dates and balances for each client and to determine the credit status of the clients every six months in accordance with credit administration regulations.
Investment securities mostly comprise shares of the companies having business relationships with the Company and are exposed to the risk of fluctuations of market prices. To reduce this risk, we periodically check their fair values and the financial status of their issuers (client companies).
Notes and accounts payable, which are operating liabilities, are mostly due within three months.
Among borrowings, short-term borrowings is mainly for procurement of operating funds while convertible bond with stock acquisition rights and long-term debt are mainly for procurement of funds for investment in plants and equipment. Because operating liabilities and debts are exposed to liquidity risk, the Company and its consolidated subsidiaries make/update financial plans on a timely basis based on reports from each department while maintaining liquidity in hand, so as to control liquidity risk.
As for derivatives, the Company uses foreign currency swap contracts for its foreign-currency-denominated loans to overseas subsidiaries, to hedge risks from fluctuations in exchange rates in the future. Each derivative transaction is required to obtain approval in accordance with our approval standards, and once a derivative contract is concluded, our Accounting Division investigates the credit status, etc. of the derivative provider and reports to the officer in charge of accounting on a regular basis. Since the Company's use of derivatives is limited to instruments provided by highly rated financial institutions, we believe there is virtually no associated risk.

(c) Supplementary explanation concerning fair value, etc. of financial instruments

The fair value of a financial instrument represents the value based on its market price or the reasonably calculated value if the instrument has no market price. Since calculation of fair value involves several variable factors, the value may fluctuate depending on the preconditions, etc. adopted. The values of derivative contracts, etc. stated in Note "Derivative Transactions" do not necessarily indicate the market risks associated with the derivative transactions.

(2) Fair value, etc. of financial instruments

The amounts presented on the consolidated balance sheet, fair values and their differences as of March 31, 2010 are as follows. Financial instruments whose fair values are extremely difficult to calculate are not included. (See Note 2 "Financial instruments whose fair value is extremely difficult to determine")

	Millions of Yen		
	Book carrying amount	Fair value	Difference
At March 31, 2010:			
(1) Cash and deposit	¥ 51,863	¥ 51,863	-
(2) Notes and accounts receivable	42,211		
Allowance for doubtful receivables (*1)	(135)		
	42,077	42,077	-
(3) Investment securities	9,831	9,831	-
Total	¥ 103,771	¥ 103,771	-
(1) Notes and accounts payable	¥ 21,301	¥ 21,301	-
(2) Short-term borrowings	2,393	2,393	-
(3) Current portion of long-term debt	683	683	(0)
(4) Current portion of convertible bond with stock acquisition rights	30,000	29,715	(285)
(5) Long-term debt	45,647	45,726	79
Total	¥ 100,024	¥ 99,818	¥ (206)
Derivatives (*2)	¥ 301	¥ 301	-

	Thousands of U.S. Dollars		
	Book carrying amount	Acquisition cost	Difference
At March 31, 2010:			
(1) Cash and deposit	$ 557,664	$ 557,664	
(2) Notes and accounts receivable	453,888		
Allowance for doubtful receivables (*1)	(1,450)		
	452,438	452,438	-
(3) Investment securities	105,715	105,715	-
Total	$ 1,115,817	$ 1,115,817	-
(1) Notes and accounts payable	$ 229,047	$ 229,047	
(2) Short-term borrowings	25,726	25,726	
(3) Current portion of long-term debt	7,344	7,344	(0)
(4) Current portion of convertible bond with stock acquisition rights	322,581	319,516	(3,065)
(5) Long-term debt	490,829	491,680	851
Total	$ 1,075,527	$ 1,073,313	$ (2,214)
Derivatives (*2)	$ 3,234	$ 3,234	-

(*1) The amount of Allowance for doubtful receivables included in Notes and accounts receivable is deducted.
(*2) Receivables and payables resulting from derivative transactions are presented in net amounts, and items that resulted in net losses are stated in parentheses.

(Notes)
1. Calculation of the fair value of financial instruments, and matters pertaining to marketable securities and derivative transactions

Assets
(1) Cash and deposit (2) Notes and accounts receivable
Because these assets are settled on a short-term basis, their fair value is approximately equal to their book value; therefore, their fair value is calculated according to their applicable book value.
(3) Investment securities
These are shares of the companies having business relationships with the Company and their fair value is determined according to their quoted market price and investment securities by classification is included in Note "5. Investments (a) Investments securities"

Liabilities
(1) Notes and accounts payable (2) Short-term borrowings
Because these liabilities are settled on a short-term basis, their fair value is approximately equal to their book value; therefore, their fair value is calculated according to their applicable book value.
(3) Current portion of long-term debt (5) Long-term debt
The fair value of these debt items is calculated by applying the interest rates currently available for similar loans to the total of principal and interest.
(4) Current portion of convertible bond with stock acquisition rights
The fair value of these bonds is determined according to their quoted market price.

Derivatives
In Note "14. Derivative Financial Instruments"

Notes to Consolidated Financial Statements

2. Financial instruments whose fair value is extremely difficult to determine

	Millions of Yen	Thousands of U.S. Dollars
	Book carrying amount	Book carrying amount
Non-marketable securities	**¥ 3,751**	**$ 40,331**

These shares do not have a market price, so it is therefore extremely difficult to determine the fair value. For this reason, these instruments are not included in "(3) Investment securities."

3. Scheduled redemption after the consolidated settlement date of financial instruments and marketable securities with maturity

	Millions of Yen			
	Within 1 year	1 year to within 5 years	5 years to within 10 years	Over 10 years
Cash and deposit	**¥51,863**	-	-	-
Notes and accounts receivable	**42,077**	-	-	-
Total	**¥ 93,940**			

	Thousands of U.S. Dollars			
	Within 1 year	1 year to within 5 years	5 years to within 10 years	Over 10 years
Cash and deposit	**$ 557,664**	-	-	-
Notes and accounts receivable	**452,438**	-	-	-
Total	**$ 1,010,102**			

We have no investment securities with maturity.

4. Scheduled repayment after the consolidated settlement date of long-term debt
See the accompanying financial statement schedule, "Schedule on Borrowings, etc."

(Additional information)
Effective from the year ended March 31, 2010, the Company and its subsidiaries have adopted Financial Accounting Standard No.10 'Accounting Standards for Financial Instruments' issued on March 10, 2008 and Implementation Guidance of Financial Accounting Standard No.19 'Guidance on Accounting Standard for Financial Instruments and Related Disclosures' issued on March 10, 2008.

5. Investments

(a) Investments securities

All marketable securities are classified as available-for-sale and are valued at fair value with unrealized gains and losses exclude from the current earnings and reported as a net amount within net assets until realized. At March 31,2010 and 2009, gross unrealized gains and losses for marketable securities are summarized as follows:

	Millions of Yen		
	Book carrying amount	Acquisition cost	Difference
At March 31, 2010:			
Securities with fair value exceeding acquisition cost			
Marketable securities:			
Equity securities	¥ 9,767	¥ 2,282	¥ 7,485
Bonds	-	-	-
Others	-	-	-
Subtotal	¥ 9,767	¥ 2,282	¥ 7,485
Securities with fair value not exceeding acquisition cost			
Marketable securities:			
Equity securities	¥ 64	¥ 77	¥ (13)
Bonds	-	-	-
Others	-	-	-
Subtotal	¥ 64	¥ 77	¥ (13)
Total	¥ 9,831	¥ 2,359	¥ 7,472

	Thousands of U.S. Dollars		
	Book carrying amount	Acquisition cost	Difference
At March 31, 2010:			
Securities with fair value exceeding acquisition cost			
Marketable securities:			
Equity securities	$ 105,025	$ 24,534	$ 80,491
Bonds	-	-	-
Others	-	-	-
Subtotal	$ 105,025	$ 24,534	$ 80,491
Securities with fair value not exceeding acquisition cost			
Marketable securities:			
Equity securities	$ 690	$ 832	$ (142)
Bonds	-	-	-
Others	-	-	-
Subtotal	$ 690	$ 832	$ (142)
Total	$ 105,715	$ 25,366	$ 80,349

	Millions of Yen		
	Acquisition cost	Book carrying amount	Difference
At March 31, 2009:			
Securities with fair value exceeding acquisition cost			
Marketable securities:			
Equity securities	¥ 2,167	¥ 6,929	¥ 4,762
Bonds	-	-	-
Others	-	-	-
Subtotal	¥ 2,167	¥ 6,929	¥ 4,762
Securities with fair value not exceeding acquisition cost			
Marketable securities:			
Equity securities	¥ 190	¥ 155	¥ (35)
Bonds	-	-	-
Others	-	-	-
Subtotal	¥ 190	¥ 155	¥ (35)
Total	¥ 2,357	¥ 7,084	¥ 4,727

Non-listed stocks (total amount is ¥3,602 million in the Consolidated Balance Sheets) are not included in the above because there are no market prices and ascertaining fair value is extremely difficult.

Book value of investment securities carried at cost at March 31, 2009 are as follows:

	Millions of Yen
	2009
Non-marketable securities	¥ 3,630
Securities investment trusts	245
(Included in Cash and cash equivalents)	

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

(b) Investments in affiliates

Investments in affiliates at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Investments in affiliates stated at cost	**¥ 148**	¥ 147	**$ 1,589**

6. Short-term Borrowing and Long-term Debt

Short-term borrowing at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Unsecured bank loans	**¥ 2,393**	¥ 2,497	**$ 25,726**
Average interest rate	**3.17%**		

Notes to Consolidated Financial Statements

Long-term debt at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Unsecured convertible bond with stock acquisition rights due March 2011 with no interest	**¥ 30,000**	¥ 30,000	**$ 322,581**
Unsecured bank loans due through 2016 at March 31, 2010	**46,330**	41,448	**498,173**
Average interest rate	**1.43%**		
Subtotal	**76,330**	71,448	**820,754**
Less, current portion	**(683)**	(5,647)	**(7,344)**
Total	**¥ 75,647**	¥ 65,801	**$ 813,410**

The current conversion price of convertible bond with stock acquisition rights due March 2011 is ¥1,440 per share and is subject to adjustment in certain circumstances, including in the event of a stock split.

The aggregate annual maturities of long-term debt at March 31, 2010 are as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2011	**¥ 30,683**	**$ 329,925**
2012	**71**	**768**
2013	**15,576**	**167,480**
2015	**10,000**	**107,527**
Total	**¥ 56,330**	**$ 605,700**

The aggregate annual maturities of lease obligations at March 31, 2010 are as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2011	**¥ 21**	**$ 224**
2012	**18**	**199**
2013	**14**	**147**
2014	**5**	**55**
Total	**¥ 58**	**$ 625**

7. Advanced depreciation of Fixed Assets

The amount of advances depreciation of fixed assets with government subsidies at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Advances depreciation of fixed assets with government subsidies	**¥ 681**	¥ 681	**$ 7,325**

8. Contingent Liabilities

Amounts guaranteed against bank loans of an affiliate and other company at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Kentucky Advanced Forge, LLC	**¥ -**	¥ 5	**$ -**

9. Research and Development Expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses were included in general and administrative expenses, and manufacturing costs amounted to ¥2,532 million ($27,224 thousand) and ¥2,829 million for the years ended March 31, 2010 and 2009,respectively.

10. Impairment

Impairment of Fixed Assets

"Impairment loss on fixed assets" recorded in the consolidated statements of income for the year ended March 31, 2010 was as follows:

Item	Description	Location	Millions of Yen	Thousands of U.S. Dollars
Machinery and equipment	Idle assets	Tokai-shi, Aichi prefecture	¥ 170	$ 1,831
Machinery and equipment	Idle assets	Kagamihara-shi, Gifu prefecture	32	345
Buildings and structures and other assets	Idle assets	Tokai-shi, Aichi prefecture	3	35
Buildings and structures and other assets	Idle assets	Kagamihara-shi, Gifu prefecture	23	245
Land	Idle assets	Takayama-shi, Gifu prefecture	0	1
Intangible fixed assets	Idle assets	Maibara-shi, Shiga prefecture	2	16
			¥ 230	$ 2,474

Fixed assets are principally grouped into cash-generating units based on units of production, other than assets for rent and idle assets. An impairment loss on idle assets is calculated using the expected net selling price as the recoverable value. An impairment loss was recognized for the year ended March 31, 2010 because the forecast of future cash flow had changed due to: the renewal plan of the machinery and equipment; the fair value of the land diminishing significantly due to recent decline in land prices; and the business asset value diminishing because the change of business environment. The machinery, equipment, buildings, structures, construction in progress and other assets is written down to ¥1 because net selling prices of the machinery, equipment, buildings, structures, construction in progress and other assets are expected to be nil. The land is written down to the expected net selling price of the land based on the valuations carried out to determine the property tax bases for land, and the salvage values for tax purposes for other properties.

"Impairment loss on fixed assets" recorded in the consolidated statements of income for the year ended March 31, 2009 was as follows:

Item	Description	Location	Millions of Yen
Machinery and equipment	Idle assets	Tokai-shi, Aichi prefecture	¥ 249
Machinery and equipment	Idle assets	Handa-shi, Aichi prefecture	15
Machinery and equipment	Idle assets	Kagamihara-shi, Gifu prefecture	57
Machinery and equipment and other assets	Idle assets	Higashiura-cho, Aichi prefecture	27
Machinery and equipment and other assets	Forging parts Product equipment	Shanghai, China	394
Construction in progress	Idle assets	Tokai-shi, Aichi prefecture	58
Land	Idle assets	Takayama-shi, Gifu prefecture	0
Buildings and structures and other assets	Idle assets	Tokai-shi, Aichi prefecture	14
			¥ 814

Fixed assets are principally grouped into cash-generating units based on units of production, other than assets for rent and idle assets. An impairment loss on idle assets is calculated using the expected net selling price as the recoverable value. An impairment loss was recognized for the year ended March 31, 2009 because the forecast of future cash flow had changed due to: the renewal plan of the machinery and equipment; the fair value of the land diminishing significantly due to recent decline in land prices; and the business asset value diminishing because the change of business environment. The machinery, equipment, construction in progress and other assets is written down to ¥1 because net selling prices of the machinery, equipment, construction in progress and other assets are expected to be nil. The land is written down to the expected net selling price of the land based on the valuations carried out to determine the property tax bases for land, and the salvage values for tax purposes for other properties.

The impairment loss for the assets for forging production was recognized for the year ended March 31, 2009 because of the change of business condition. Assets for forging production are written down to the estimated collectable amount based on future cash flow discounted at 11%.

11. Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2010

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

	Thousands of Unit	
	Shares outstanding	Treasury stock
Type	Common stock	Common stock
Number of shares at the end of the previous fiscal year	198,867	2,665
Number of increase during the year ended March 31, 2010	-	3
Number of shares at the end of the fiscal year	198,867	2,668

Increase in the number of shares was due to purchase of 3 thousand less-than-one-unit shares.

Notes to Consolidated Financial Statements

(b) Matters related to the subscription rights to shares

		Millions of Yen	Thousands of U.S. Dollars
Class	Details	Balance	
the Company	Stock option	¥ 180	$ 1,930

As of March 31, 2010 these rights are not yet exercisable.

(c) Matters related to dividends

(1) Dividend payment

Approved at ordinary general meeting of shareholders held on June 19, 2009 as follows:

Dividends on common stock		
Total amount of dividends	¥ 491 million	$ 5,274 thousand
Dividends per share	¥ 2.50	$ 0.03
Record date	March 31, 2009	
Effective date	June 22, 2009	

Approved at the Board of Directors at meeting held on October 30, 2009 as follows:

Dividends on common stock		
Total amount of dividends	¥ 490 million	$ 5,274 thousand
Dividends per share	¥ 2.50	$ 0.03
Record date	September 30, 2009	
Effective date	November 20, 2009	

(2) Dividend whose record date is attributable to the year ended March 31, 2010 but to be effective after the said fiscal year.

Approved by the Company at the general meeting of shareholders held on June 23, 2010 as follows:

Dividends on common stock		
Total amount of dividends	¥ 1,177 million	$ 12,658 thousand
Dividends per share	¥ 6.00	$ 0.06
Record date	March 31, 2010	
Effective date	June 24, 2010	

Dividends are paid out of retained earnings.
Commemorative dividends (¥1.00) included in the above.

Fiscal year ended March 31, 2009

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

	Thousands of Unit	
	Shares outstanding	Treasury stock
Type	Common stock	Common stock
Number of shares at the end of the previous fiscal year	198,867	2,666
Number of increase during the year ended March 31, 2009	-	7
Number of decrease during the year ended March 31, 2009	-	8
Number of shares at the end of the fiscal year	198,867	2,665

Increase in the number of shares was due to purchase of 7 thousand less-than-one-unit shares. Decrease in the number of shares was sales of 4 thousand shares by exercises of stock options and sales of 4 thousand less-than-one-unit shares.

(b) Matters related to the subscription rights to shares

		Millions of Yen
Class	Details	Balance
the Company	Stock option	¥ 148

As of March 31, 2009 these rights are not yet exercisable.

(c) Matters related to dividends

(1) Dividend payment

Approved at ordinary general meeting of shareholders held on June 20, 2008 as follows:

Dividends on common stock	
Total amount of dividends	¥ 981 million
Dividends per share	¥ 5.00
Record date	March 31, 2008
Effective date	June 23, 2008

Approved at the Board of Directors at meeting held on October 30, 2008 as follows:

Dividends on common stock	
Total amount of dividends	¥ 981 million
Dividends per share	¥ 5.00
Record date	September 30, 2008
Effective date	November 20, 2008

(2) Dividend whose record date is attributable to the year ended March 31, 2009 but to be effective after the said fiscal year.
Approved by the Company at the general meeting of shareholders held on June 19, 2009 as follows:

Dividends on common stock	
Total amount of dividends	¥ 491 million
Dividends per share	¥ 2.50
Record date	March 31, 2009
Effective date	June 22, 2009

Dividends are paid out of retained earnings.

12. Consolidated Statements of Cash flows

Fiscal year ended March 31, 2010 and 2009

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

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Cash and Deposit	**¥ 51,863**	¥ 37,312	**$ 557,664**
Short-term investment	**658**	245	**7,082**
Total	**52,521**	37,557	**564,746**
Time deposit more than 3 months	**(171)**	(161)	**(1,839)**
Cash and cash equivalents	**¥ 52,350**	¥ 37,396	**$ 562,906**

13. Lease Transactions

(a)Finance lease contracts

The company and its subsidiaries use certain machinery and equipment obtained via finance lease contracts.

Pro forma information regarding the leased property such as acquisition cost, accumulated depreciation and future minimum lease payments under finance leases that do not transfer the ownership of the leased property to the lessee at March 31, 2010 and 2009 are as follows:

	Millions of Yen		
	Acquisition Cost	Accumulated Depreciation	Balance
At March 31, 2010:			
Machinery	**¥510**	**¥ 383**	**¥ 127**
Equipment	**236**	**189**	**47**
Total	**¥746**	**¥ 572**	**¥ 174**
At March 31, 2009:			
Machinery	¥ 641	¥ 381	¥ 260
Equipment	372	263	109
Total	¥ 1,013	¥ 644	¥ 369

	Thousands of U.S. Dollars		
	Acquisition Cost	Accumulated Depreciation	Balance
At March 31, 2010:			
Machinery	**$ 5,486**	**$ 4,115**	**$ 1,371**
Equipment	**2,539**	**2,034**	**504**
Total	**$ 8,025**	**$ 6,149**	**$ 1,875**

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

Notes to Consolidated Financial Statements

Aggregate minimum future lease obligations at March 31, 2010 and 2009 and lease expenses for the year then ended are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Due within one year	**¥ 110**	¥ 166	**$ 1,181**
Due over one year	**64**	203	**694**
Total	**174**	369	**1,875**
Lease expenses for the year	**¥ 150**	¥ 196	**$ 1,609**

Pro forma amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion. Pro forma depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed by the straight line method, would be ¥150 million ($ 1,609 thousand) and ¥196 million for the years ended March 31, 2010 and 2009, respectively.

(b) Operating lease contracts

Aggregate minimum future lease obligations for non cancelable operating lease contracts at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Due within one year	**¥ 68**	¥ 67	**$ 730**
Due over one year	**153**	180	**1,644**
Total	**¥221**	¥ 247	**$ 2,374**

14. Derivative Financial Instruments

(a) Derivative instruments for which hedge accounting is not applied

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

A summary of foreign currency swap contracts and foreign exchange forward contracts outstanding, excluding those for a hedge of assets recognized on accompanying consolidated balance sheets, at March 31, 2010 and 2009 are as follows:

	Millions of Yen		
	Contract amounts	Fair value	Net unrealized gain
At March 31, 2010:			
Receiving Japanese Yen, paying U.S. Dollar	**¥1,564**	**¥ 301**	**¥ 301**
At March 31, 2009:			
Receiving Japanese Yen, paying U.S. Dollar	¥ 2,583	¥ 415	¥ 415
Foreign exchange forward contracts	182	182	(0)
Total	¥2,765	¥ 597	¥ 415

	Thousands of U.S. Dollars		
	Contract amounts	Fair value	Net unrealized gain
At March 31, 2010:			
Receiving Japanese Yen, paying U.S. Dollar	**$ 16,817**	**$ 3,234**	**$ 3,234**

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

(b) Derivative instruments for which hedge accounting is applied

There is not the pertinence matter.

15. Employees' retirement benefit liabilities

(a) Overview of retirement benefit plans

The Company operates two non-contributory defined benefit retirement plans and a defined contribution pension plan. Defined benefit retirement plans consist of a lump-sum retirement plan and an enterprise pension plan. The Company established an employee retirement benefit trust for defined benefit retirement plans.

The enterprise pension benefits are payable as pension payment or lump-sum payment at the option of terminated employees.

Domestic subsidiaries and an overseas subsidiary operate a non-contributory tax qualified pension plan and a lump-sum retirement plan.

(b) Projected benefit obligation at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
(1) Projected benefit obligation	**¥ (27,171)**	¥ (28,077)	**$ (292,164)**
(2) Fair value of pension plan assets (including retirement benefit trust)	**29,209**	26,127	**314,077**
(3) Subtotal [(1)+(2)]	**2,038**	(1,950)	**21,913**
(4) Unrecognized actuarial (gains) losses	**4,164**	8,430	**44,776**
(5) Unrecognized prior service cost	**(1,147)**	(1,283)	**(12,340)**
(6) Prepaid pension cost	**14,255**	14,361	**153,276**
Employees' retirement benefit liabilities [(3)+(4)+(5)-(6)]	**¥ (9,200)**	¥ (9,164)	**$ (98,926)**

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

(c) The components of retirement benefit expense for the years ended March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
(1) Service cost (Notes)	**¥ 837**	¥ 980	**$ 8,996**
(2) Interest cost	**539**	570	**5,797**
(3) Expected return on pension plan assets	**(243)**	(294)	**(2,611)**
(4) Amortization of unrecognized actuarial losses	**604**	75	**6,500**
(5) Amortization of unrecognized prior service cost	**(135)**	(135)	**(1,457)**
(6) Retirement benefit expense [(1)+(2)+(3)+(4)+(5)]	**1,602**	1,196	**17,225**
(7) Contribution payments to the defined contribution retirement benefit plans	**211**	207	**2,266**
(8) Total [(6)+(7)]	**¥ 1,813**	¥ 1,403	**$ 19,491**

Notes:
1. The retirement benefit expense of subsidiaries which have adopted the simplified method is included in "(1) Service cost".
2. Retirement benefit expense for executive officers is included in "(1) Service cost".

(d) Major assumptions used in calculation of above information for the years ended March 31, 2010 and 2009 are as follows:

	2010	2009
Discount rate	**2.0 %**	2.0 %
Expected rate of return on pension plan assets	**2.0 %**	2.0 %
Period allocation method for estimated retirement benefits	**Straight-line method**	Straight-line method
Amortization period of prior service cost	**15 years**	15 years
Amortization period of unrecognized actuarial gains or losses	**15-16 years (Expenses from next fiscal year)**	15-16 years (Expenses from next fiscal year)

16. Share-based Payment

(a) Stock option expenses for the years ended March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Salaries and allowances and welfare expenses	**¥ 26**	¥ 31	**$ 281**
Other selling, general and administrative expenses	**16**	20	**174**
Personnel expenses	**¥ 42**	¥51	**$ 455**

(b) Stock option profits for the year ended March 31, 2010 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2010	**2010**
Profit effect due to not exercise	**¥ 11**	**¥123**

Notes to Consolidated Financial Statements

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

(1) Details of stock option

For the year ended March 31, 2010

Year of issue	**2010**	2009	2008	2007	2006	2005
Position and number of grantees	Directors: 14 Executive officers: 10 Selected employees: 25	Directors: 15 Executive officers: 13 Selected employees: 25	Directors: 15 Executive officers: 12 Selected employees: 29	Directors: 15 Executive officers: 12 Selected employees: 29	Directors: 15 Executive officers: 11 Selected employees: 26	Directors: 15 Executive officers: 10 Selected employees: 25
Class and number of stock	Common stock: 410,000	Common stock: 455,000	Common stock: 470,000	Common stock: 490,000	Common stock: 450,000	Common stock: 870,000
Date of issue	August 3, 2009	August 1, 2008	August 1, 2007	August 1, 2006	August 1, 2005	August 2, 2004
Condition of settlement of the stock options	Grantee must be a director, executive officer or employee of the Company at the time of exercise of the stock options. However, grantee can exercise the stock options for 12 months after retirement or resignation from the Company.	Same as left	Same as left	Same as left	Same as left	Same as left
Periods that grantees must provide service in return for the stock options	From August 3, 2009 to July 31, 2011	From August 1, 2008 to July 31, 2010	From August 1, 2007 to July 31, 2009	From August 1, 2006 to July 31, 2008	From August 1, 2005 to July 31, 2007	From August 2, 2004 to July 31, 2006
Exercise period of the stock options	From August 1, 2011 to July 31, 2016	From August 1, 2010 to July 31, 2015	From August 1, 2009 to July 31, 2014	From August 1, 2008 to July 31, 2013	From August 1, 2007 to July 31, 2012	From August 1, 2006 to July 31, 2011

For the year ended March 31, 2009

Year of issue	2009	2008	2007	2006	2005
Position and number of grantees	Directors: 15 Executive officers: 13 Selected employees: 25	Directors: 15 Executive officers: 12 Selected employees: 29	Directors: 15 Executive officers: 12 Selected employees: 29	Directors: 15 Executive officers: 11 Selected employees: 26	Directors: 15 Executive officers: 10 Selected employees: 25
Class and number of stock	Common stock: 455,000	Common stock: 470,000	Common stock: 490,000	Common stock: 450,000	Common stock: 870,000
Date of issue	August 1, 2008	August 1, 2007	August 1, 2006	August 1, 2005	August 2, 2004
Condition of settlement of the stock options	Grantee must be a director, executive officer or employee of the Company at the time of exercise of the stock options. However, grantee can exercise the stock options for 12 months after retirement or resignation from the Company.	Same as left	Same as left	Same as left	Same as left
Periods that grantees must provide service in return for the stock options	From August 1, 2008 to July 31, 2010	From August 1, 2007 to July 31, 2009	From August 1, 2006 to July 31, 2008	From August 1, 2005 to July 31, 2007	From August 2, 2004 to July 31, 2006
Exercise period of the stock options	From August 1, 2010 to July 31, 2015	From August 1, 2009 to July 31, 2014	From August 1, 2008 to July 31, 2013	From August 1, 2007 to July 31, 2012	From August 1, 2006 to July 31, 2011

(2) Number of stock options and state of fluctuation

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

① Number of stock options

For the year ended March 31, 2010

Year of issue	**2010**	2009	2008	2007	2006	2005
Non-exercisable stock options						
Stock options outstanding at the end of the previous fiscal year	**-**	455,000	460,000	-	-	-
Stock options granted	**410,000**	-	-	-	-	-
Forfeitures	**-**	-	60,000	-	-	-
Conversion to exercisable stock options	**-**	-	400,000	-	-	-
Stock options outstanding at the end of the fiscal year	**410,000**	455,000	-	-	-	-
Exercisable stock options						
Stock options outstanding at the end of the previous fiscal year	**-**	-	-	405,000	402,000	306,000
Conversion from non-exercisable stock options	**-**	-	400,000	-	-	-
Stock options exercised	**-**	-	-	-	-	-
Forfeitures	**-**	-	-	60,000	-	-
Stock options outstanding at the end of the fiscal year	**-**	-	400,000	345,000	402,000	306,000

For the year ended March 31, 2009

Year of issue	2009	2008	2007	2006	2005
Non-exercisable stock options					
Stock options outstanding at the end of the previous fiscal year	-	470,000	485,000	-	-
Stock options granted	455,000	-	-	-	-
Forfeitures	-	10,000	70,000	-	-
Conversion to exercisable stock options	-	-	415,000	-	-
Stock options outstanding at the end of the fiscal year	455,000	460,000	-	-	-
Exercisable stock options					
Stock options outstanding at the end of the previous fiscal year	-	-	-	402,000	310,000
Conversion from non-exercisable stock options	-	-	415,000	-	-
Stock options exercised	-	-	-	-	4,000
Forfeitures	-	-	10,000	-	-
Stock options outstanding at the end of the fiscal year	-	-	405,000	402,000	306,000

② Unit price of options

For the year ended March 31, 2010

	Yen					
Year of issue	**2010**	2009	2008	2007	2006	2005
Exercise price	**¥ 367**	¥ 482	¥698	¥800	¥630	¥ 503
Average market price of the stock at the time of exercise	**-**	-	-	-	-	-
Fair value of stock options on the grant date	**109**	109	143	189	-	-

For the year ended March 31, 2009

	Yen				
Year of issue	2009	2008	2007	2006	2005
Exercise price	¥ 482	¥698	¥ 800	¥630	¥503
Average market price of the stock at the time of exercise	-	-	-	-	496
Fair value of stock options on the grant date	109	143	189	-	-

(d) Method for estimating fair value of stock options

The method and assumptions for estimating fair value of stock options during the years ended March 31, 2010 and 2009 are summarized as follows:

① Valuation method used ② Principal basic values and estimation methods	Black-Scholes model	
Year of issue	**2010**	2009
Share price fluctuations (Note 1)	**42.49 %**	34.20 %
Projected remaining period (Note 2)	**4 years 6 month**	4 years 6 month
Projected dividend (Note 3)	**¥7.5 per share**	¥10 per share
Risk-free interest rate (Note 4)	**0.691 %**	1.254 %

Notes to Consolidated Financial Statements

Notes:
1. Computed based on actual share prices during a four-year and six-month period (from February 2005 to July 2009 for the year ended March 31, 2010 and from February 2004 to July 2008 for the year ended March 31,2009).
2. Because of a lack of accumulated data and difficulty in making supportable estimates, it is assumed the stock options are exercised at the midpoint of the exercise period.
3. Based on the estimated dividend for the years ended March 31, 2010 and 2009 on the grant date.
4. Yields on government bonds for the period corresponding to the projected remaining period.

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

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

17. Deferred Tax

The significant components of deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Deferred tax assets:			
Employees' retirement benefit liabilities	**¥ 4,047**	¥4,103	**$ 43,518**
Tax losses carried forward in subsidiaries	**3,023**	3,763	**32,499**
Supplies adjustments	**2,346**	2,545	**25,221**
Accrued bonuses	**1,088**	1,159	**11,702**
Software and other assets	**864**	706	**9,284**
Impairment loss on fixed assets	**518**	551	**5,573**
Inventories	**493**	674	**5,303**
Retirement benefit obligation for directors and corporate auditors	**410**	391	**4,410**
Goodwill	**357**	437	**3,839**
Depreciation	**350**	348	**3,764**
Write-down of investment securities	**338**	307	**3,636**
Loss on disposal of property, plant and equipment	**-**	111	**-**
Other	**765**	627	**8,231**
	14,599	15,722	**156,980**
Change of, valuation allowance	**(10,087)**	(14,525)	**(108,464)**
Deferred tax assets	**4,512**	1,197	**48,516**
Deferred tax liabilities:			
Prepaid pension cost	**(4,093)**	(4,219)	**(44,013)**
Unrealized gains on available-for-sale securities	**(2,855)**	(1,762)	**(30,698)**
Depreciation of property, in overseas subsidiaries	**(562)**	(445)	**(6,044)**
Reserve for advanced depreciation	**(96)**	(97)	**(1,036)**
Reserve for special depreciation	**-**	(0)	**-**
Other	**(138)**	(186)	**(1,478)**
Deferred tax liabilities	**(7,744)**	(6,709)	**(83,269)**
Net deferred tax (liability) / asset	**¥ (3,232)**	¥ (5,512)	**$ (34,753)**

The differences between the Japanese statutory tax rate and the actual effective income tax rate in pretax income for the year ended March 31, 2010 are as follows:

	2010
Japanese statutory tax rate	**40.0 %**
Increase(decrease) due to:	
Entertainment expenses and others	**6.4**
Income taxes for prior periods	**(3.0)**
Less, valuation allowance	**(122.8)**
Others	**(1.5)**
Actual effective income tax rate	**(80.9)**

The differences between the Japanese statutory tax rate and the actual effective income tax rate in pretax income for the year ended March 31, 2009 are not described because a loss before income taxes and minority interests was reported.

18. Related Party Transactions

Transactions with Toyota Motor Corporation for the years ended March 31, 2010 and 2009, and balances outstanding as at those dates are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
For the year: Sales of goods	**¥ 21,869**	¥ 23,237	**$ 235,154**
At the year-end: Accounts receivable	**¥ 3,087**	¥ 1,839	**$ 33,192**

Notes:
1. Toyota Motor Corporation held 24.1% of the Company's equity interests directly, and indirectly held a further 0.5% at March 31, 2010. The above transactions were conducted using normal commercial terms and conditions.
2. Every year, the Company present their favorable sales price and negotiate it with Toyota Motor Corporation. The procedure is the same as other common transactions.
3. Sales of goods are presented exclusive of consumption taxes, and the balance of Accounts receivable include consumption taxes.

19. Segment Information

(1)Business segment information

The Company and its subsidiaries operations primarily consist of the manufacture and sale of specialty steel business, forging business, electro-magnetic components business and other miscellaneous businesses. The specialty steel segment consists of specialty iron steel, stainless steel and tool steel. Forging segment includes closed die forging for automobile parts and free forging products. A portion of the materials used by the forging segment are goods produced by the specialty steel segment. Electro-magnetic components segment comprises sale off materials for electronics parts, dental-use magnetic attachments, magnetic powder and magneto-impedance sensors. Other segment is consists of information processing service, nursing care service and other service businesses.

The table below summarizes the business segment information for the years ended March 31, 2010 and 2009 are as follows:

	Millions of Yen						
	Specialty steel	Forgings	Electro-magnetic components	Other	Total	Corporate or elimination	Consolidated
For the year 2010:							
Net sales:							
External customers	¥ 89,706	¥75,754	¥ 5,623	¥ 3,196	¥ 174,279	¥ -	¥ 174,279
Inter-segment sales	26,092	-	-	2,542	28,634	(28,634)	-
Total net sales	115,798	75,754	5,623	5,738	202,913	(28,634)	174,279
Operating costs and expenses	109,813	76,223	6,723	5,862	198,621	(28,656)	169,965
Operating income (loss)	¥ 5,985	¥ (469)	¥ (1,100)	¥ (124)	¥ 4,292	¥ 22	¥ 4,314
Total assets	¥ 105,751	¥ 64,884	¥ 12,988	¥ 3,609	¥ 187,232	¥ 55,118	¥ 242,350
Depreciation	6,248	5,979	1,052	91	13,370	-	13,370
Impairment loss on fixed assets	80	18	132	-	230	0	230
Capital expenditures	4,391	2,316	1,416	40	8,163	-	8,163
For the year 2009:							
Net sales:							
External customers	¥ 129,006	¥ 85,896	¥ 3,380	¥ 3,778	¥ 222,060	¥ -	¥222,060
Inter-segment sales	28,480	-	-	3,127	31,607	(31,607)	-
Total net sales	157,486	85,896	3,380	6,905	253,667	(31,607)	222,060
Operating costs and expenses	154,838	86,743	5,871	6,888	254,340	(31,797)	222,543
Operating income (loss)	¥ 2,648	¥ (847)	¥ (2,491)	¥ 17	¥ (673)	¥ 190	¥ (483)
Total assets	¥ 102,249	¥64,367	¥10,566	¥ 3,486	¥ 180,668	¥ 39,349	¥ 220,017
Depreciation	6,568	7,063	1,083	81	14,795	-	14,795
Impairment loss on fixed assets	118	525	171	-	814	-	814
Capital expenditures	7,004	4,018	3,129	317	14,468	-	14,468
For the year 2010:	Thousands of U.S. Dollars						
Net sales:							
External customers	$ 964,580	$ 814,560	$ 60,455	$ 34,369	$ 1,873,964	$ -	$ 1,873,964
Inter-segment sales	280,562	-	-	27,335	307,897	(307,897)	-
Total net sales	1,245,142	814,560	60,455	61,704	2,181,861	(307,897)	1,873,964
Operating costs and expenses	1,180,786	819,601	72,291	63,035	2,135,713	(308,133)	1,827,580
Operating income (loss)	$ 64,356	$ (5,041)	$ (11,836)	$ (1,331)	$ 46,148	$ 236	$ 46,384
Total assets	$ 1,137,108	$ 697,673	$ 139,654	$ 38,809	$ 2,013,244	$ 592,672	$ 2,605,916
Depreciation	67,189	64,291	11,311	977	143,768	-	143,768
Impairment loss on fixed assets	862	197	1,415	-	2,474	1	2,474
Capital expenditures	47,220	24,901	15,227	427	87,775	-	87,775

Notes to Consolidated Financial Statements

Notes:
1.Corporate assets included in corporate or elimination consist mainly of cash and deposit and investment securities held by the Company. Corporate assets are ¥57,356 million ($616,735 thousand) and ¥40,530 million at March 31, 2010 and 2009, respectively.
2.As described in Note 3(a) (Accounting change), effective from the year ended March 31, 2010, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.15 'Accounting Standard for Construction Contract' issued on December 27, 2007 and Implementation Guidance of Financial Accounting Standard No.18 'Guidance on Accounting Standard for Construction Contract' issued on December 27, 2007. The effect of this change was not material for sales and profit and loss.
As described in Note 2(j) (Accounting change), effective from the year ended March 31, 2010, the Company and its domestic subsidiaries adopted Financial Accounting Standard No.19 'Amendment of 'Accounting Standard for Retirement Benefit" issued on July 31, 2008. This change does not influence operating income, ordinary income and income before income taxes and minority interest.
3.As described in Note 2(e) (Accounting change), effective from the year ended March 31,2009, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.9 'Accounting Standard for Evaluation of Inventory' issued on July 5, 2006. As a result of the adoption, operating income of specialty steel business segment and other business segment decreased by ¥2,063 million and by ¥41 million, and operating loss of forging business segment and electro-magnetic components business segment increased by ¥339 million and by ¥209 million, respectively, as compared with the previous accounting method.
As described in Note 2(f) (Additional information), effective from the year ended Mar 31, 2009, the Company and its domestic subsidiaries have changed depreciation year for a part of property, plant and equipment by chance of tax reform in 2008. As a result of the change, operating income of specialty steel business segment and other business segment decreased by ¥68 million and by ¥0 million, and operating loss of forging business segment and electro-magnetic components business segment increased by ¥907 million and by ¥38 million, respectively, as compared with the previous accounting method.

(2)Geographic segment information

The table below summarizes the geographic segment information for the years ended March 31, 2010 and 2009 are as follows:

	Millions of Yen						
	Japan	North America	Europe	Asia	Total	Corporate or elimination	Consolidated
For the year 2010:							
Net sales:							
External customers	¥ 151,758	¥ 6,804	¥ 1,276	¥ 14,441	¥174,279	¥ -	¥174,279
Inter-segment sales	6,187	-	16	251	6,454	(6,454)	-
Total net sales	157,945	6,804	1,292	14,692	180,733	(6,454)	174,279
Operating costs and expenses	154,424	6,473	1,325	14,192	176,414	(6,449)	169,965
Operating income (loss)	¥ 3,521	¥ 331	¥ (33)	¥ 500	¥ 4,319	¥ (5)	¥ 4,314
Total assets	¥ 177,515	¥ 7,202	¥ 849	¥ 15,532	¥ 201,098	¥41,252	¥ 242,350
For the year 2009:							
Net sales:							
External customers	¥ 193,107	¥9,280	¥ 1,552	¥ 18,121	¥ 222,060	¥ -	¥ 222,060
Inter-segment sales	7,557	-	-	100	7,657	(7,657)	-
Total net sales	200,664	9,280	1,552	18,221	229,717	(7,657)	222,060
Operating costs and expenses	203,037	8,883	1,650	16,827	230,397	(7,854)	222,543
Operating income (loss)	¥ (2,373)	¥397	¥ (98)	¥ 1,394	¥(680)	¥ 197	¥ (483)
Total assets	¥171,073	¥8,548	¥ 956	¥ 15,000	195,577	¥ 24,440	¥ 220,017
For the year 2010:	Thousands of U.S. Dollars						
Net sales:							
External customers	$ 1,631,802	$ 73,163	$ 13,717	$ 155,282	$ 1,873,964	$ -	$ 1,873,964
Inter-segment sales	66,527	-	169	2,704	69,400	(69,400)	-
Total net sales	1,698,329	73,163	13,886	157,986	1,943,364	(69,400)	1,873,964
Operating costs and expenses	1,660,473	69,601	14,241	152,610	1,896,925	(69,345)	1,827,580
Operating income (loss)	$ 37,856	$ 3,562	$ (354)	$ 5,375	$ 46,439	$ (55)	$ 46,384
Total assets	$ 1,908,760	$ 77,438	$ 9,130	$ 167,012	$ 2,162,340	$ 443,576	$ 2,605,916

Notes:
1. Geographical segments are divided into categories based on their geographical proximity.
2. Corporate assets included in corporate or elimination consist mainly of cash and deposit and investment securities held by the Company. Corporate assets are ¥57,356 million ($616,735 thousand) and ¥40,530 million at March 31, 2010 and 2009, respectively.
3. Countries or areas belonging to each segment are as follows:

	2010 and 2009
North America	U.S.A.
Europe	Germany, Czech Republic
Asia	Philippine, Thailand, China, Indonesia, Taiwan

4.As described in Note 3(a) (Accounting change), effective from the year ended March 31, 2010, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.15 'Accounting Standard for Construction Contract' issued on December 27, 2007 and Implementation Guidance of Financial Accounting Standard No.18 'Guidance on Accounting Standard for Construction Contract' issued on December 27, 2007. The effect of this change was not material for sales and profit and loss.
As described in Note 2(j) (Accounting change), effective from the year ended March 31, 2010, the Company and its domestic subsidiaries adopted Financial Accounting Standard No.19 'Amendment of 'Accounting Standard for Retirement Benefit" issued on July 31, 2008. This change does not influence operating income, ordinary income and income before income taxes and minority interest.
5.As described in Note 2(e) (Accounting change), effective from the year ended March 31, 2009, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.9 'Accounting Standard for evaluation of inventory' issued on July 5, 2006. As a result of the change, operating loss of Japan region increased by ¥2,652 million as compared with the previous accounting method.
As described in Note 2(f) (Additional information), effective from the year ended March 31, 2009, the Company and its domestic subsidiaries depreciate have changed depreciation year for a part of property, plant and equipment by change of tax reform in 2008. As a result of the change, operating loss of Japan region increased by ¥1,013 million as compared with the previous accounting method.

(3) Sales to overseas customers

For the years ended March 31, 2010 and 2009, overseas sales which included export sales from Japan and net sales of overseas consolidated subsidiaries other than Japan are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
North America	**¥ 7,435**	¥ 10,220	**$ 79,944**
Europe	**1,281**	1,677	**13,772**
Asia	**18,950**	26,292	**203,770**
Other areas	**98**	581	**1,050**
	¥ 27,764	¥ 38,770	**$ 298,536**
Total consolidated net sales	**¥ 174,279**	¥ 222,060	**$ 1,873,964**
Percentage of overseas sales to total consolidated net sales	**15.9%**	17.5%	**15.9%**

Note:
1. Sales to overseas customers are divided into categories based on their geographical proximity.
2. Significant countries or areas belonging to each segment are as follows:

	2010 and 2009
North America	U.S.A.
Europe	Germany, Netherlands, Switzerland
Asia	Thailand, China, Indonesia
Others	Oceania

20. Per Share Data

Per share data for the years ended March 31, 2010 and 2009 are as follows:

	Yen		U.S. Dollars
	2010	2009	**2010**
Net assets per share	**¥ 547.85**	¥508.16	**$ 5.9**
Basic net income (loss) per share	**33.77**	(71.89)	**0.4**
Diluted net income per share	**30.54**	-	**0.3**

Due to net loss, diluted net income per share of the fiscal year ended March 31, 2009 has not been presented.

Basic used in calculation

(a) Net assets per share

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Net assets	**¥ 112,377**	¥ 104,396	**$ 1,208,352**
Deduction from net assets	**4,889**	4,695	**52,568**
Subscription rights to shares	**180**	149	**1,930**
Minority interests	**4,709**	4,546	**50,638**
Net assets attributable to common stock	**107,488**	99,701	**1,155,784**
Number of common stock at the end of the fiscal year used for the calculation of net assets per share (Thousands of shares)	**196,199**	196,201	

Notes to Consolidated Financial Statements

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

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Basic net income per share			
Net income	**¥6,625**	¥ (14,105)	**$ 71,241**
Net income not attributable to common stock	**-**	-	**-**
Net income attributable to common stock	**6,625**	(14,105)	**71,241**
Average number of common stock shares in issue during the fiscal year (Thousands of shares)	**196,200**	196,202	
Diluted net income per share			
Adjustment for net income (After tax deduction)	**4**	-	**39**
Management fee for convertible bonds	**4**	-	**39**
Effect of dilutive Securities (Thousands of shares)	**20,849**	-	
Convertible bonds with subscription rights to shares (Thousands of shares)	**20,833**	-	
Stock option (Thousands of shares)	**15**	-	
Outline of dilutive Securities not included in the calculation of diluted net income per share because they do not have any dilutive effect	**Stock option issued on August 1 ,2005, 2006, 2007 and 2008 : 2,028 units**	Stock option issued on August 1, 2005, 2006 and 2007 : 2,122 units	

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Aarata
JR Central Towers 33rd Floor
1-1-4 Meieki, Nakamura-ku
Nagoya-shi, Aichi 450-6033
Japan
Telephone : +81 (52) 588 3951
Facsimile : +81 (52) 588 3952
www.pwc.com/jp/aarata

Report of Independent Auditors

To the Board of Directors of AICHI STEEL CORPORATION

We have audited the accompanying consolidated balance sheet of AICHI STEEL CORPORATION ("the Company") and its subsidiaries as of March 31, 2010, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1. (b) to the consolidated financial statements.

PricewaterhouseCoopers Aarata

September 15, 2010

AICHI STEEL CORPORATION

Primary contact：General Affairs & Public Relations Dept., General Affairs Div.

1, Wanowari, Arao-machi, Tokai-shi, Aichi 476-8666, Japan
Tel : +81-52-603-9216
Fax: +81-52-603-1835
http://www.aichi-steel.co.jp/ENGLISH/index.html

Released：October 2010