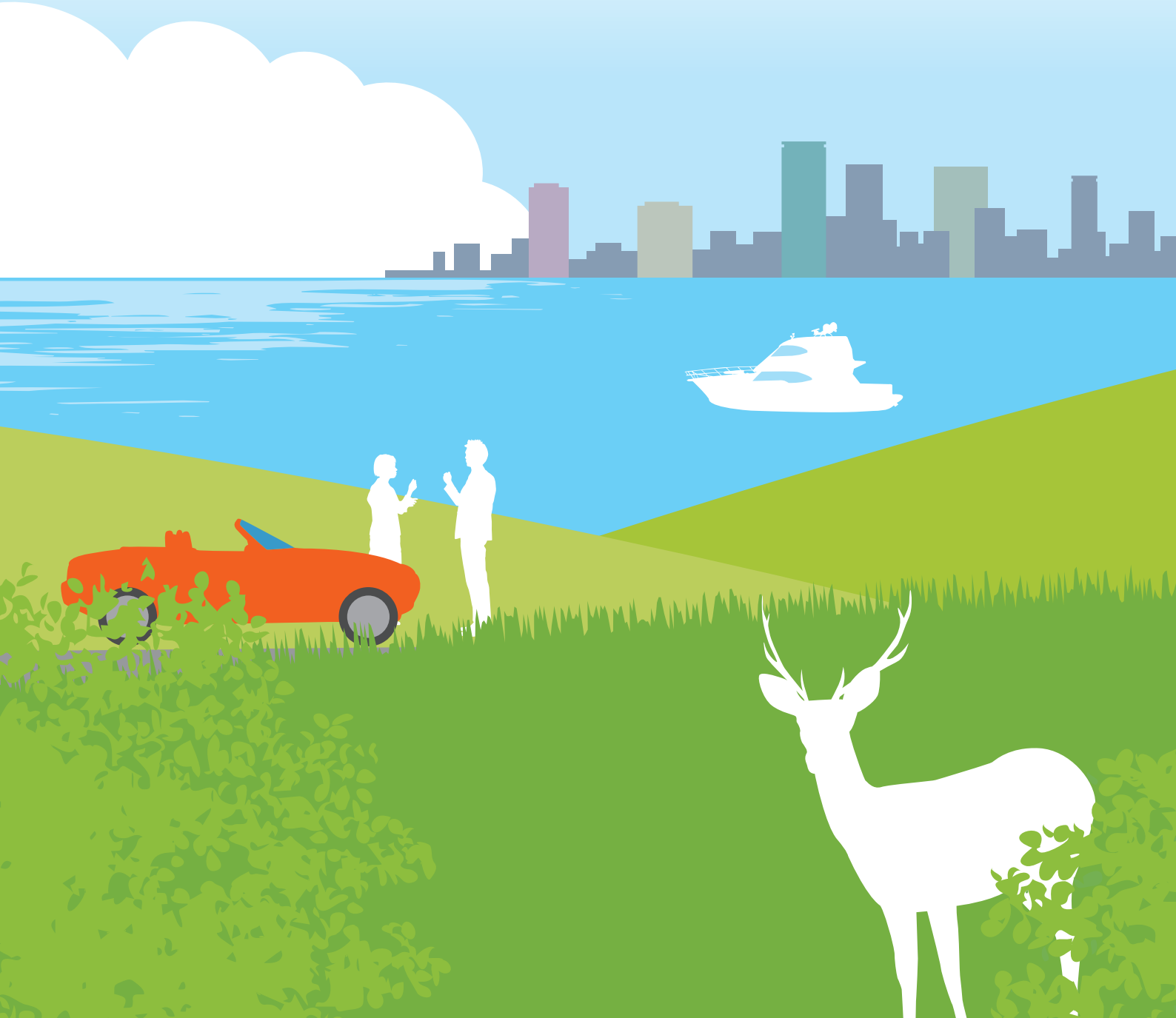


**AICHI STEEL**

AICHI STEEL REPORT  
**2017**



## Our Vision

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

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

## CSR Policy

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

## CSR Vision

We will gain the trust and confidence of and give satisfaction to our customers and all our stakeholders.

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

## 1S Culture

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

Sincerity first (Shojiki)  
Cleanliness first (Seiso)  
Safety first (Safety)



### Editorial Policy

The Aichi Steel Report 2017 was prepared to assist understanding among our many stakeholders of the approaches taken by Aichi Steel and the Aichi Steel Group in fiscal 2016, ended March 31, 2017. Besides describing these approaches with specific examples, it sets forth as much as possible the causes and future initiatives concerning items for which targets have not yet been met.

This fiscal year, we have carefully examined our report based on the CSR materiality we identified last fiscal year, and have created content that more fully meets the needs of every stakeholder. As this year's Special Feature, we have included a report on the workstyle reform we are driving within the company and the new administration building we have just completed (pp. 11-14 of this report).

As before, this report was prepared using a Universal Design\*1 (UD) font,\*2 and use of color, volume of text, text size and other factors were also taken into consideration to create a more easily readable report.

\*1 Design that enables all persons, regardless of age, gender, or disability, to make use of products, services, housing, or facilities, both conveniently and comfortably.

\*2 A typeface design based on the concept of universal design.

### Readers

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

### Report Period and Scope

The Report covers activities conducted by the Aichi Steel Group during fiscal 2016 (April 2016 to March 2017). However, some activities conducted before or after fiscal 2016 are also explained where necessary.

#### Important note about forecasts

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

### Reporting Media

Our reporting via print and the web takes advantages of the characteristics of each medium. The print version narrows down the content to those items of significant importance and those of greatest interest to the public, presented in an easy-to-read and easy-to-understand format. The web version offers a more complete overview of our CSR initiatives.



### Reference Guidelines

The Global Reporting Initiative (GRI) "Sustainability Reporting Guidelines" (versions 4)  
ISO 26000 (Corporate Social Responsibility)

### Information Available on Our Website



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

[https://www.aichi-steel.co.jp/ENGLISH/csr/csr\\_report/index.html](https://www.aichi-steel.co.jp/ENGLISH/csr/csr_report/index.html)

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## Corporate Profile

Establishment	March 8, 1940
Capital	25,016 million yen (as of March 31, 2017)
Representative	Takahiro Fujioka, President
Employees	4,773 (Consolidated)/2,521 (Non-Consolidated) (as of March 31, 2017)
Business Description	Production and sale of specialty steel products, forgings and electromagnetic products

Offices	Head Office:	Tokai City, Aichi Pref., Japan
	Sales Offices:	Tokyo/Osaka/Fukuoka
	Overseas Offices:	Shanghai/Silicon Valley
	Plants:	Chita/Kariya/Forging/Higashiura/Gifu/Seki

## Major Products



See the website for more detail: <https://www.aichi-steel.co.jp/ENGLISH/products/index.html>

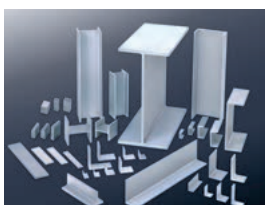
### Specialty Steel



Based on our more than half-century of experience and technology in specialty steel manufacturing, the Aichi Steel Group continues to evolve in pursuit of being number one in quality.

[Example products]  
Structural steel, free-cutting steel, spring steel, etc.

### Stainless Steel/Titanium



The durability of stainless steel, which resists the rust that is one of iron's weaknesses, has been demonstrated at dams, floodgates, ships, bridges, chemical plants and a wide variety of other fields. In recent years, stainless steel has also found many uses in architecture. Furthermore, using the metalworking technologies we have developed through stainless steel, we also develop titanium rods.

[Example products]  
Stainless steel shapes, round bars, etc.

### Forged Products



The Aichi Steel Group offers integrated production, from steel material to forged products, and that strength contributes to more compact, higher-performance automobiles. While we produce a wide range of forgings, we are particularly proud to be highly competitive in crankshafts, ring gears and shafts.

[Example products]  
Crankshafts, differential ring gears, rear axle shafts, etc.

### Electro-Magnetic Products/"TetsuRiki" Iron Fertilizer



The Group is also expanding into new businesses extending from stainless steel that combine technologies in materials, magnetics and surface treatment, including electronic parts, magnets, sensors, and dental appliances.

[Example products]  
MAGFINE®, MI sensors, etc.

## Aichi Steel Group



See the website for more detail: [https://www.aichi-steel.co.jp/ENGLISH/about/aichi\\_steel\\_group.html](https://www.aichi-steel.co.jp/ENGLISH/about/aichi_steel_group.html)

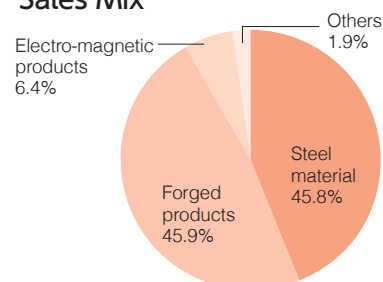
### 9 companies in Japan

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

### 10 companies overseas

- Aichi Forge Philippines, Inc. (AFP)
- Aichi Forge USA, Inc. (AFU)
- Aichi Europe GmbH (Ae)
- Aichi Forge (Thailand) Co., Ltd. (AFT)
- Shanghai Aichi Forging Co., Ltd. (SAFC)
- PT. Aichi Forging Indonesia (AFI)
- Aichi Magfine Czech s.r.o. (AMC)
- AMIT, Inc.
- Aichi Korea Corporation (AKC)
- Aichi Magfine Technology (Pinghu) Co., Ltd. (AMT)

### Sales Mix



# DNA of Aichi Steel

Aichi Steel Corporation originally began in 1934 with the establishment of a steelmaking division at Toyoda Automatic Loom Works (currently Toyota Industries Corporation). Carrying forward the spirit of our founder Kiichiro Toyoda and his belief that "Great cars are made with great steel," the history of Aichi Steel shows our efforts to contribute to society.

Net sales (billion yen)

250

200

150

100

50

0

20

15

10

5

0



1935 **First** prototype, A1 passenger vehicle completed



1940 Changed to become a **specialty steel manufacturer**

1952 Spun off as **Toyoda Steel Corporation**



1970 Changed to become a **complete electric furnace manufacturer**



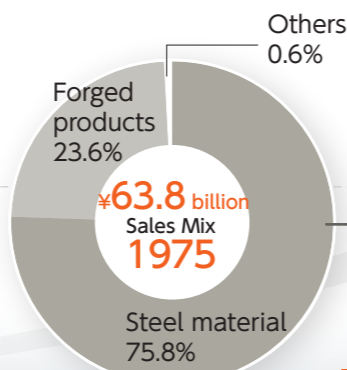
1973 Developed **world's best** steel-rolling technology



1982 Developed **world's first** composite steelmaking process



1992 Achieved practical application of **Japan's first** dental magnetic attachment



2003 Developed **TetsuRiki Agri** to promote photosynthesis in vegetation



2002 Successfully developed and produced MI **highly sensitive magnetic sensor elements**



2001 Solved weaknesses in reinforcing bar and developed **SUSCON** stainless steel concrete reinforcing bar



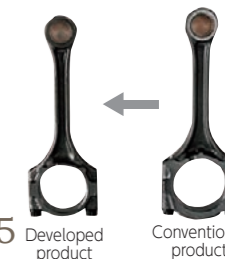
2010 Developed **Dy-free MAGFINE** magnetic particle without rare earth metals



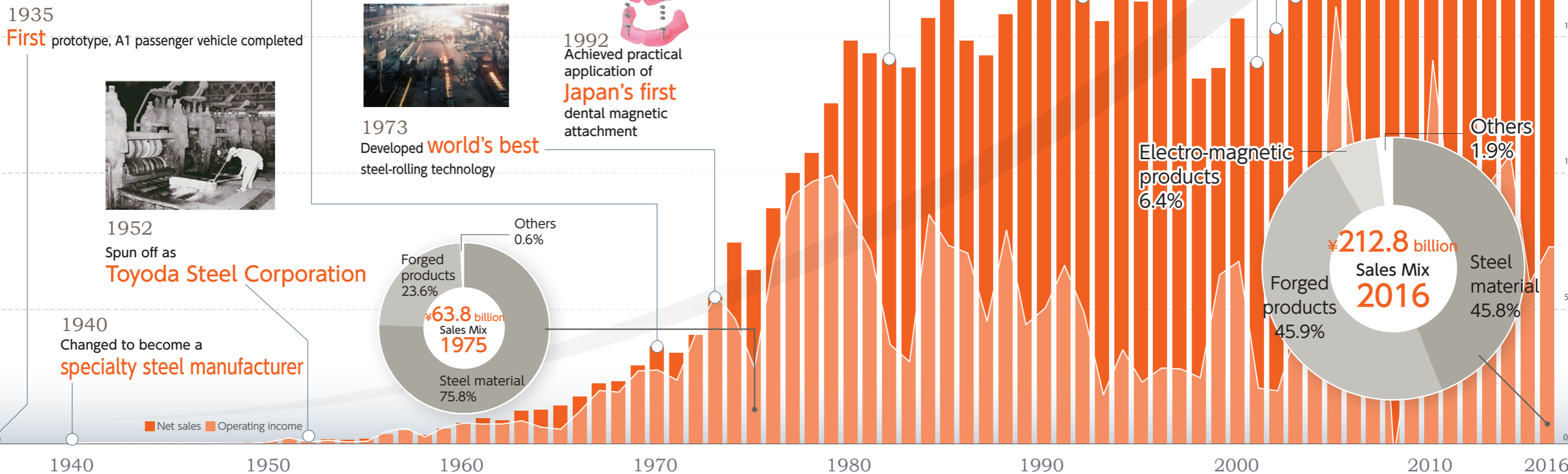
2005 Established **technology for recycling plastics** from end-of-life vehicles



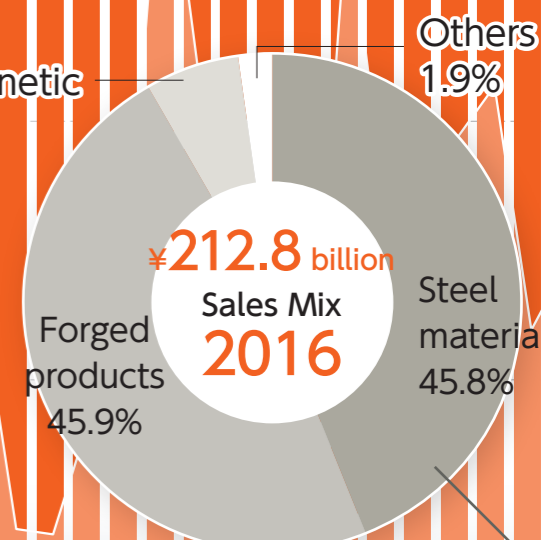
2014 Used stainless steel in the high-pressure hydrogen train of **MIRAI** fuel-cell vehicles



2015 Developed **steel for high-strength connecting rods** to improve fuel efficiency for vehicles



Electro-magnetic products 6.4%

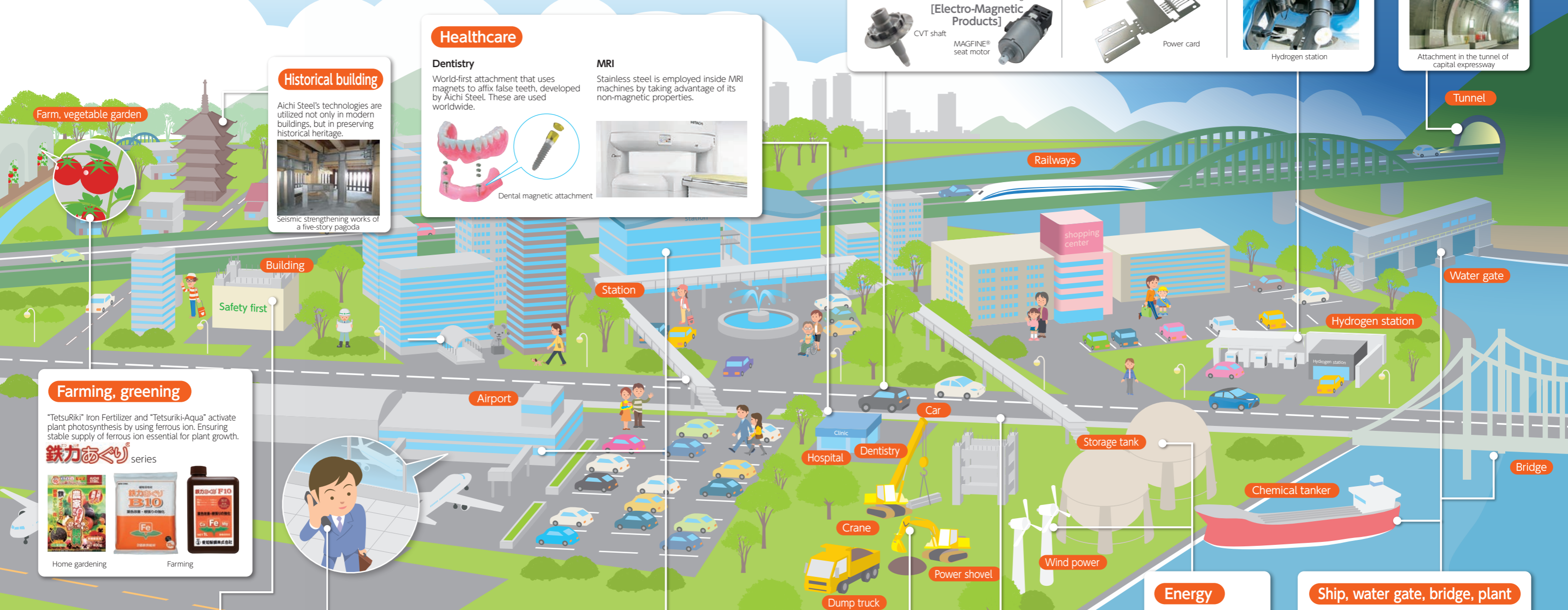


\* Consolidated since 1995  
\* The standards for posting sales were changed in 1998 (the portion of sales from steel making base material are excluded from sales of steel products)



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

We contribute to society by providing products that match the needs of our customers, thus ensuring a more comfortable life for people.



### Historical building

Aichi Steel's technologies are utilized not only in modern buildings, but in preserving historical heritage.

Seismic strengthening works of a five-story pagoda

### Healthcare

#### Dentistry

World-first attachment that uses magnets to affix false teeth, developed by Aichi Steel. These are used worldwide.

Dental magnetic attachment

#### MRI

Stainless steel is employed inside MRI machines by taking advantage of its non-magnetic properties.

### Farming, greening

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

鉄力あぐり series

Home gardening      Farming

### Building, store

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

Stainless steel concrete bar "SUSCON"<sup>®</sup>      Entrance eave, curtain wall

### PC, smart phone

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

Electromagnetic compass for smart phone      High-sensitive MI sensor

### Station, airport

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

Station skywalk      Handrail

### Car

We are contributing to lower fuel consumption and higher performance.

[Forged Products]

Crankshaft      Differential ring gear      Counter driven gear      CVT shaft

[Electro-Magnetic Products]

MAGFINE<sup>®</sup> seat motor

### Hybrid vehicles (HV/PHV)

We are supporting the electrification of environmentally friendly vehicles.

Cold plate      Power card

### Fuel cell vehicles (FCV)

To assist emergence of the hydrogen society, we are contributing to the safety and reliability of fuel-cell vehicles and hydrogen station equipment.

Hydrogen station

### Tunnel

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

Attachment in the tunnel of capital expressway

### Construction machinery

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

Boss      Front idler      Propeller shaft

### Roads

Slag, a steel-making byproduct, is used as a recycled material in road subbase course material, reducing environmental impact.

### Energy

Our products are also used in energy applications that require strength and durability such as storage tanks, dams, and wind power

Dams      Gas tanks (photo credit: Toho Gas Co., Ltd.)

### Ship, water gate, bridge, plant

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

Propeller shaft for ship      Water gate      Bridge

# Becoming “an ever-better company”

President

Takahiro Fujioka



I believe Aichi Steel's goal of becoming “an ever-better company” comprises the following elements.

- 1** Our materials improve the quality of manufacturing of our customers.
- 2** Every employee adopts the attitude of “I Will” to express a sense of ownership in their work.
- 3** Our workplaces are lively, vibrant places to be.
- 4** Local communities are happy with us and want us to stay.

Through honest, steady and thorough efforts to manufacture materials, we will contribute to society.



Fiscal 2016 marked the dawn of a new era for Aichi Steel, a year in which we thanked our loyal stakeholders for their support following the explosion at our Chita Plant on January 8, 2016, allowing us to carry out reliable manufacturing.

# January 8, a Big Wake-up for Aichi Steel

## Our weaknesses exposed

I believe that the January 8 accident was the result of the interaction of human, work, culture, and facility related factors. I believe that with regard to the human aspects, we lacked a culture where supervisors and workers could openly discuss the difficulties of the work and there was a lack of communications.

With regard to our facility, it was not designed with human fallibility in mind. We immediately set about reviewing all of our production facilities, and adopted facility improvements based on fail-safe\*<sup>1</sup> concepts.

Issues with production management in our integrated forging and steelmaking process\*<sup>2</sup>, one of Aichi Steel's strengths, were also highlighted in the review. Our steel products start in a huge 150 ton per lot steelmaking process, but without clear inventory management and traceability between the final forged products and the steel material, it was not immediately possible in the event of an accident to know which parts on the customer's production line would run out of stock and when it would happen, and which types of steel to prioritize production for. To resolve this issue, more than 100 of us gathered in a meeting room to create individual manufacturing diagrams for each steel material showing forged product numbers, users and pathways. When we thought something was unacceptable, we shared it with the group. Despite the difficulties, rearranging the production plans together was a valuable experience for us. This leads to all employees being involved in manufacturing activities for our integrated forging and steelmaking process.

Prior to the accident, we relied on our BCM and BAP plans\*<sup>3</sup> but an important point we learned from this was that these plans were not enough. At the same time though, we found new inspiration in the "iron bonds" we share within the steel industry. We were really grateful for the willingness of other steelmakers across Japan to

help when we needed to outsource alternative production. In one respect, perhaps the best BCM and BAP plans we can have are good relationships with other companies in our industry. We wish to use such alternative production arrangements in other cases as well to improve our BCM and BAP plans.

## Aichi Steel's roles and responsibilities

Although the January 8 accident caused our customers considerable inconvenience, we can look at it from a different viewpoint. Rather than just being another product category of the Toyota Group, it showed that our products play a significant role within manufacturing in Japan. I think our employees realized this, too. I appealed to everyone at Aichi Steel to help make us a great company again in the eyes of our customers, to start over from zero. We are currently implementing a number of reforms companywide as part of our Step Up Plan, but to fully implement the lessons we learned from the accident, I have to step up myself and lead the team as the head of Aichi Steel.



▲ Standing as leaders at the companywide headquarters to ensure the accident of January 8, 2016 does not reoccur

# Ready to Transform into a New Aichi Steel

## Goals of the in-house company system

In April 2017, we implemented an in-house company system as the organizational structure that will carry the new Aichi Steel forward, with the aim of enabling faster decision-making and stronger business promotion as a product-centered company.

An important element of this new structure is that it becomes a matrix organization with the three companies and the Corporate Office function, which provides groupwide support and checks and balances between each company.

Using easy-to-understand yet somewhat unique names like “Steel Company,” “Forging Company” and “Smart Company” for our new in-house companies, we wanted every employee to share management’s dream and create workplaces that are exciting, vibrant places to be, under the leadership of each company.

Another goal is to improve governance within our organization. In addition to including the Audit Department among divisions reporting directly to the president, we have clarified the separate supervisory and business execution roles. We also actively seek the opinions of outside directors to receive advice from a completely new perspective.

Under this new in-house company system, we must consider our response to the structural changes and electrification of vehicles that will help create a low-carbon society. In the near future, there will be fewer engine-driven cars on our roads and therefore there will be less demand for our special steels. This will require the development of completely new business models.

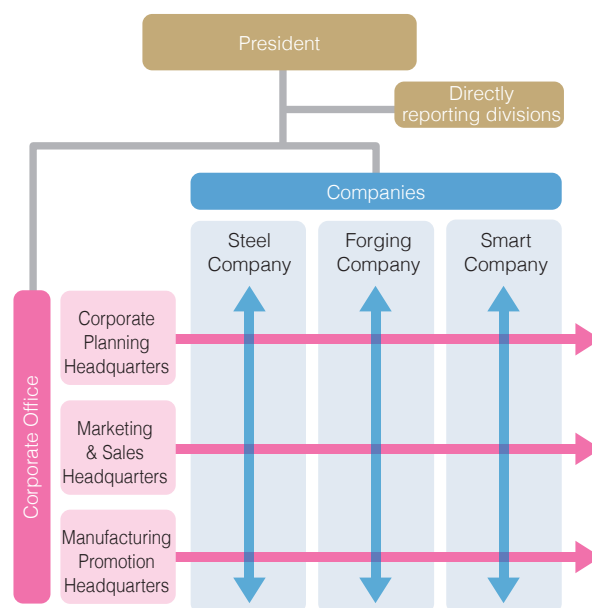
We currently provide a number of products in response to the increasing use of next-generation vehicles, such as hybrid vehicles (HVs and PHVs), fuel cell vehicles (FCVs) and electric vehicles (EVs). These products include stainless steel for use with high-pressure hydrogen and environment-friendly dysprosium\*4 (Dy)-free high performance magnets for EV motor

applications. However, there is an urgent need for more progress in fields other than these specialty steels.

On the other hand, even without engines, the demand and importance of specialty steels for transmissions and suspension systems will not change. Key concepts that lead to improved fuel efficiency and environmental protection are “high strength” and “light weight,” so we must apply ourselves more than ever to building our technological strength in these areas.

Right now, Aichi Steel is the largest producer of forged products in Japan, with forged product plants run by our overseas subsidiary companies in North America, China and Southeast Asia as well. We want to take this further and become the largest globally, and to do that we have to become a company in tune with that goal. We also have big hopes for our Smart Company, the new core business where we are driving new initiatives using sensing technologies such as automated driving systems for vehicles.

### Matrix organization of in-house company system







## Working at Aichi Steel

Another new initiative for us at Aichi Steel is workstyle reform. I believe that making improvements in the work environment and in working styles so that all employees have positive feelings about working for Aichi Steel is a workstyle reform. We began to implement these changes with completion of first-stage construction of our new headquarters administration building in January 2017 (p. 11 of this report). Personally, I think the first thing we need for workplace reform is communication. Right in the middle of our new administration building is a wide-open stairwell that we call our “Communication Stairs.” With comings and goings of people through this stairwell, it gives our new office a feeling of openness.

At the end of the day though, the space is just a receptacle and it is up to our employees to see what eventual effect it will have on the new office environment. I look forward to seeing what workstyle reform everyone will achieve. As president, I aim to follow through on my mission to renew workstyles. With new workwear, enhanced public relations activities and other changes, we are working to improve the Aichi Steel brand. In this way, we are encouraging our employees to be proud of their company, which we hope will lead to improved motivation and the manufacture of ever-better products.

Through these new initiatives, we look forward to each and every employee helping us achieve a New Aichi Steel.

# From Aichi Steel Japan to Aichi Steel **Global**

## The treasure of Aichi Steel

The thing about Aichi Steel that we should never change is the thing that makes us who we are. That is the spirit of our founder Kiichiro Toyoda and his belief that “Great cars are made with great steel” which we have carried forward over the years. More than anyone, he had a passion to make Japan's first automobile with his own hands. This is the true sense of ownership expressed in the words “I Will” (I will change the company) that I am always talking about. Other universal values that every employee should adopt, and that I want to protect, are the spirit of daring and creativity towards new things and technologies, genchi genbutsu (on-site, hands-on experience) approach, and rules and principles. I want to raise awareness of these values as the Aichi Way once more.

One slogan we are currently using is “A safer world with Aichi Steel products.” To make this happen we have to solidify our position as a global company by properly implementing our ESG<sup>\*5</sup> initiatives and being accepted

by our investors and every other stakeholder. More than ever, we have to manufacture high quality, affordable products, and products that contribute to society from the perspective of creating shared value<sup>\*6</sup>.

For Aichi Steel right now, our target of reaching 20 billion yen in profit by the year 2020 is not an easy one. We have to think harder and continue meeting every challenge. That is why I am continuing to lead the way, and that is why I want everyone at Aichi Steel to continue working and striving together.

<sup>\*1</sup> Fail-safe: A method for always reverting to a safe condition in the event of a failure caused by an operating error or malfunction.  
<sup>\*2</sup> Integrated forging and steelmaking process: Aichi Steel's production system, and source of competitive strength, comprising an integrated in-house process for making steel material, from development and production to forging.  
<sup>\*3</sup> BCM: Business Continuity Management, BAP: Backup Action Plan, enables the securing of facilities, procedures and spare parts to allow for production at alternative locations if production at Group facilities becomes impossible.  
<sup>\*4</sup> Dysprosium (Dy): A rare earth element. Generally used as an additive to raise the coercive force in neodymium (Nd) magnets, but concerns about supply stability and environmental destruction caused during the mining process led to Aichi Steel developing high-performance Dy-free magnets in 2010.  
<sup>\*5</sup> ESG: Environmental, social and governance.  
<sup>\*6</sup> The act of simultaneously addressing social issues while improving corporate competitiveness



Special | Dawn of a New Aichi Steel

# New Workstyles and Eco-friendly Design in New Administration Building



In December 2015, construction started on a new administration building as part of Aichi Steel's 75th anniversary project, with the main structure being completed and opened in January 2017.

The new administration building was built around the three concepts of enhancing business continuity systems, supporting new workstyles, and halving energy usage in the office.

With this new building, we aim to improve intellectual productivity and creativity among our employees, achieve a more harmonious coexistence with all stakeholders, and become a respected, highly-valued company within the community.

## Looking Forward to What a New Aichi Steel Delivers

Takahiro Fujioka, President

Replacing a building that served well for 57 years, the new administration building was constructed to achieve new workstyles and eco-friendly design. Along with my team, I am looking forward to seeing what innovations will be created from this new base. Construction of a hall on the south side of the new administration building is also scheduled for completion in March 2018. With display rooms as well, we plan to use the new hall as a visitor center that will serve as the starting point for plant tours. I hope the new administration building can become our place of interaction with the local community.





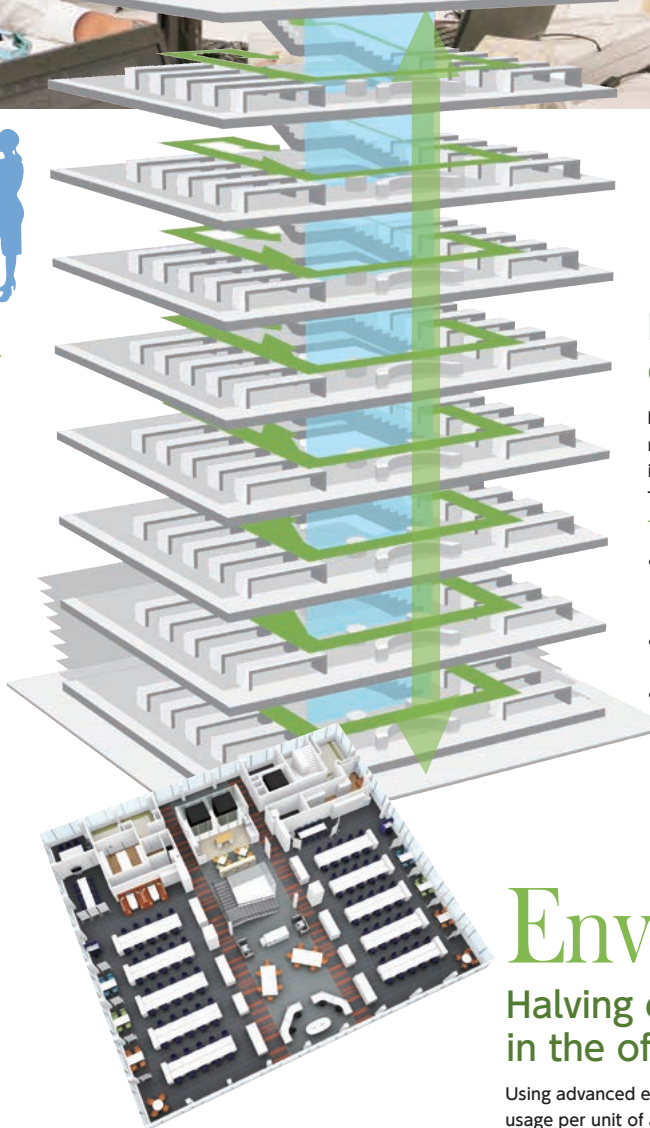


# Comfort

## Supporting new workstyles

Aichi Steel will achieve new workstyles in an office space that improves intellectual productivity, enhances communication, and encourages diversity.

- Communication Stairs in the middle of the building connect all floors through a wide-open stairwell
- Each floor consists of a single barrier-free workspace covering a large 630m<sup>2</sup> area
- Many different meeting spaces for a diverse range of needs
- Biorhythm-friendly lighting control promotes health and improves intellectual productivity
- Wireless LAN and mobile phones enable employees to work from anywhere in the building



# Safety



## Enhancing business continuity systems

Business continuity systems enable fast recovery of operations after natural disasters, including any major earthquakes in the Nankai Trough.

- Seismically isolated structure consists of laminated rubber bearings and hydraulic dampers
- In-house electric generators have been installed to provide 72 hours of operation
- Solar power generators will be installed after March 2018 on the roof of the hall



# Environment

## Halving energy usage in the office

Using advanced energy-efficient technologies will halve energy usage per unit of area compared to the previous building.

- LED lighting, daylight sensor control in the offices, and motion sensors in shared spaces
- Automatic wall louvers and low-e glass enable control of direct sunlight
- Air-conditioning costs have been reduced through the use of underground ducts providing ventilation for heat-exchange air-conditioning
- Solar panels installed for power generation



# Innovation through Communication

Improving communication was a central focus during construction of the new administration building, so a lot of effort was spent to reform workstyles. Each employee becoming more aware of their own workstyle and changing their behavior will lead to great innovation in the future.

## Copying positives from other divisions

The open-plan office space enables us to see what goes on in other divisions, so we can incorporate the good aspects of culture and the initiatives we see into our own divisions. We have been following efforts by the Corporate Planning Division to reduce overtime hours. Automatically changing lighting at set times, like normal finish time or 7:00 p.m. or 8:00 p.m. or so, is also a good way to make people aware of the time, so it would be effective for reducing overtime.

**Shuhei Sugimoto,**

Chief of Staff, Accounting Dept. Finance & Accounting Div.



## Staircase encounters

We use the Communication Stairs in the middle of the building all the time. When you pass people on the stairs that you have a work relationship with, you often remember something you wanted to ask them. As a result, you can get information there that helps speed up your work. There are computers in the meeting spaces as well, which help save time and resources because we do not need paper any more.

**Misaki Hoshino,**

Compensation & Benefits Dept., Human Resources Div.



## Confidence and pride in new administration building

With lots of meeting spaces, and lots of types, it improves work efficiency because we can promptly find a space that suits the people involved and the topics discussed. The Procurement Division has many meetings with suppliers, which we usually have in the first floor lobby area. The administration building is nice and new, with toilets and vending machines provided, and that gives us more confidence and pride in our work.

**Kenichi Kato,**

Purchasing Dept. No.2, Purchasing Div.



## Maximizing divisional functions in a new environment

The directors and division managers have their desks in the middle of the floors, which improves contact between divisions, enables information sharing, and increases the pace of decision-making. The synergies created by improvements to both quality and quantity of communications within each division, enable us to quickly and accurately resolve issues and make it easier to create new ideas as well, and I think that is helping us maximize the ability of our divisional functions.

**Hirofumi Takaki,**

General Manager, Sales Planning Div.







### Conference room perfect for interviews

With so many different meeting spaces, it is now easier to direct or meet with people in your office, which makes our jobs faster. There is a focus on interviews as part of improving communications with office staff, and one particular example of that is Conference Room 151 in the northeast corner of the building. It is a closed conference room but with two walls made of glass to improve light and openness, which makes it perfect for having discussions.

**Ryugo Koji.**

Representative Manager, Sales Dept. No.2,  
Chubu Sales Div.



### Face-to-face more efficient than telephone

The open-plan office space has eliminated doors, which makes it easier to visit other divisions. Rather than telephoning someone, it is more efficient to meet face-to-face and talk while looking at materials, so I go to the Accounts Division all the time. I also enjoy sharing a friendly greeting with the chairman, president or directors on the stairs.

**Kisa Kubota.**

Sales Dept. No.1, Toyota Sales Div.



### Convenience in wireless computers and mobile phones

Being able to use computers wirelessly has made working with team members and meeting with users considerably easier. The adoption of mobile phones has also made emergency contact more convenient when we have system troubles. In the past, we were assigned to different work spaces according to the user division involved, but because our division is together in a single space now, we have more frequent face-to-face meetings, which has improved working efficiency. We still have to go out to user divisions, but the advantages outweigh that issue.

**Etsuko Kato.**

System Planning Dept. No.2,  
IT Management Div.



### New Aichi Steel excels! A changed company with a changed attitude

The new administration building is a symbol of change at the New Aichi Steel, with every conceivable possibility and potential.

Going forward, business will require even greater creativity and imagination, with faster decision-making and action. That is why we have to make fundamental changes to our workstyles while making intelligent use of this new building. This is what will drive business growth and contribute to all stakeholders going forward, as we continue our growth into a company respected by local communities and society as a whole.

With this new administration building, I hope we can all work together happily and harmoniously to create environments and raise awareness that will enable us to realize our full potential for creating new value. Our aim is to create a better company, a company with happy employees.



**Takamasa Kato**

Corporate Strategy Group Manager,  
Corporate Planning Div.  
Leader, Workstyle Subcommittee  
New Administration Building Committee



# 01

## Operation of the CVT hot-forging press line, a world-class high-speed automatic forging machine

Forging Company

In January 2017, Aichi Steel began operation of two newly-constructed CVT hot-forging press lines to improve competitiveness by reforming its forging production process.

Global demand for Continuously Variable Transmission (CVT) vehicles is increasing thanks to their fuel efficiency. These new forging lines have enabled world-class high-speed automatic forging of the shafts for vehicles equipped with CVTs and have increased productivity by 60%. Use of FIA\* furnaces has enhanced energy efficiency and reduced CO<sub>2</sub> emissions, while improved logistics have shortened production lead times by 50%.

Going forward, Aichi Steel will continue its forward-thinking rationalization of plants in consideration of the global environmental, while meeting growing demand through the development of stable and timely supply systems.



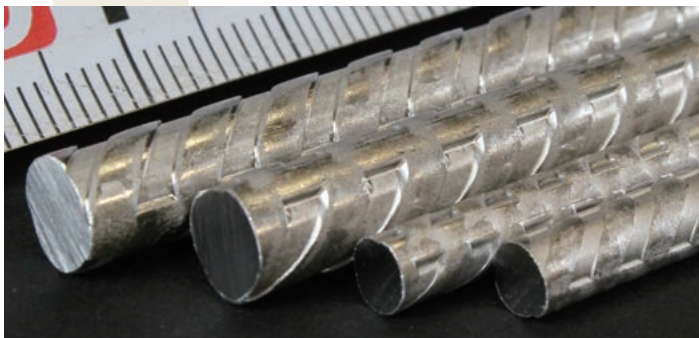
\* FIA (Forging Isothermal Annealing): Heat treatment using energy retained from hot forging.

## Fiscal 2016 Highlights

# 02

## ASCONE<sup>®</sup>-CD6 launched to expand product lineup of stainless steel reinforcing bars

Steel Company



Back: ASCONE<sup>®</sup>-CD6  
Front: ASCONE<sup>®</sup>-CD4



Green wall mesh fencing

Expanding the lineup of SUSCON<sup>®</sup> stainless steel concrete reinforcing bars, Aichi Steel and Aiko Corporation jointly developed and launched ASCONE<sup>®</sup>-CD6 as a larger version of the already available ASCONE<sup>®</sup>-CD4, which was launched in November 2012. With excellent corrosion resistance and crack dispersibility, this product is the industry's first stainless steel deformed steel wire, with expected demand to include use as reinforcing materials such as concrete secondary products.

To satisfy increasing environmental concerns, Aichi Steel also developed and launched "Stainless Green Fence", a green wall mesh fencing product using CD4, and the company's first product for the landscape gardening market.

Going forward, Aichi Steel will continue expanding its product lineup and making its contribution to safety and security in society through improved durability of concrete structures.

## Aichi Steel starts production of metallic fiber (amorphous wire)

Building an integrated production system from raw materials to sensors, and providing a stable supply of material

Aichi Steel acquired the metallic fiber (amorphous wire<sup>\*1</sup>) business of Unitika Ltd. in September 2015. With transfer and installation of the production equipment at its Higashiura Plant now complete, production has started.

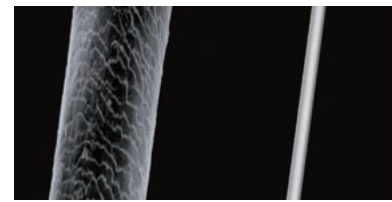
Of the equipment transferred, the in-rotating liquid spinning machine<sup>\*2</sup> in particular is unlike any other in the world. It directly quenches the molten metal and spins it into a fine wire.

With this new operation, we have built an integrated production system from raw material to sensor. This will provide us with a stable supply of material, enabling us to produce our own amorphous wire, a key material in the manufacture of the ultra-compact, high-performance magnetic MI sensors<sup>\*3</sup> that we develop, manufacture and sell. By further improving the performance of our MI sensors, increasing our cost competitiveness, and promptly developing new products, Aichi Steel will meet the needs of society and customers in a timely manner.

\*1 Amorphous wire: Fine amorphous metal wire (no systemic atomic structure) with diameter of between 20 and 100 micrometers

\*2 In-rotating liquid spinning machine: In this machine, a liquid layer is formed on the inside of a rotating drum using centrifugal force, and metal that has been heated and melted is blown into the liquid layer. The fluid layer causes rapid quenching and solidification before the molten metal can crystallize, creating the amorphous wire.

\*3 MI sensor: An ultra-compact, ultra-sensitive, ultra-low power consumption, ultra-high response magnetic sensor using magneto impedance



Strand of hair  
(0.15 mm diameter)

Amorphous wire  
(0.02 mm diameter)

## Initiatives to increase unity across the Aichi Steel Group

All Group companies

Aichi Steel and its consolidated subsidiaries in Japan and overseas are sharing information and actively increasing exchanges between sites in efforts to increase unity across the Aichi Steel Group. Along with the launch of a new in-house company system in April 2017, consolidated subsidiaries were also reorganized within the company structure, which will further increase the focus on initiatives to improve solidarity.



- One example is the kick-off event celebrating the second year of the Revival Plan at AFU, our only forging site in North America. The Chairman, President, and President of the Forging Company visited from the headquarters and offered words of encouragement to employees at the event, explaining the importance of AFU within the Aichi Steel Group and the value of continued mutual cooperation.



- Another example is the Asia Kaizen Meeting, which is held every year between Aichi Steel and the four forging sites in Asia (AFP, AFT, AFI and SAFC) to share information through open dialogue and presentations of ongoing improvements. The meeting was held twice in fiscal 2016; once in September 2016 at AFC (Philippines) and once in March 2017 at AFT (Thailand).

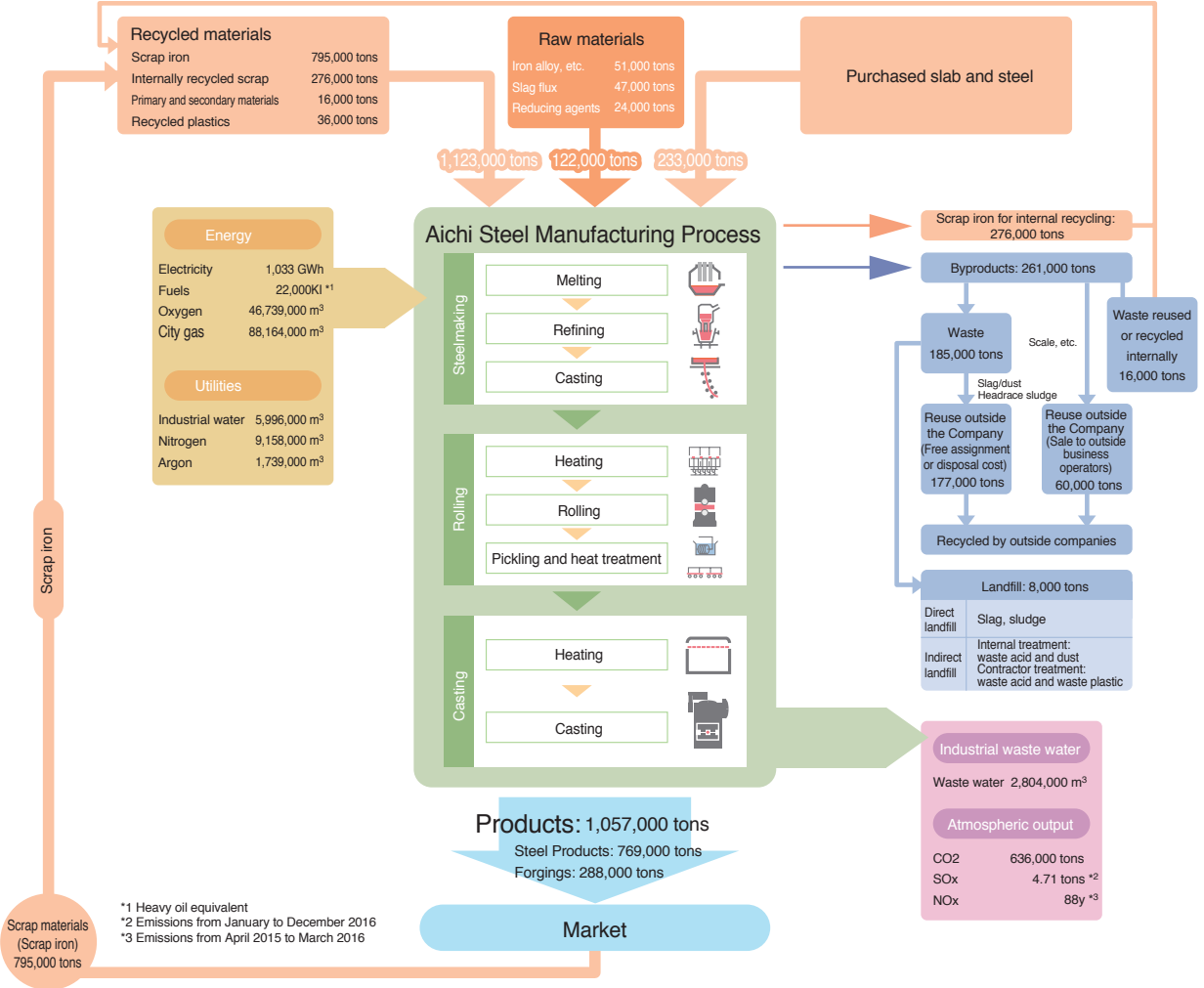


- The Aichi Global Meeting is also held on an ongoing basis to promote autonomy and strengthen ties between companies of the Aichi Steel Group, including subsidiaries in Japan and overseas. The fifth Global Meeting, held in fiscal 2016, had the theme of "clarifying parent and subsidiary roles and missions to improve autonomy of each company." With seminars, group discussions and relaxed gatherings, the event promoted friendly relations within the Group.

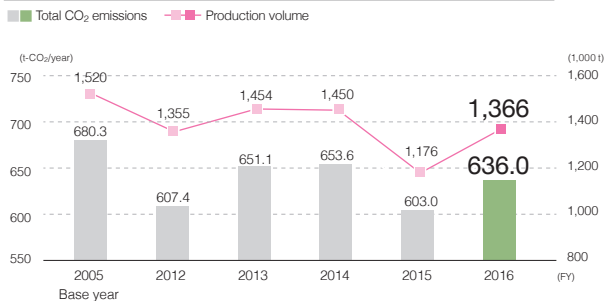




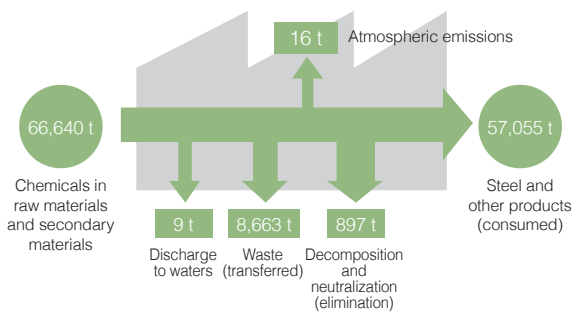
### Environment



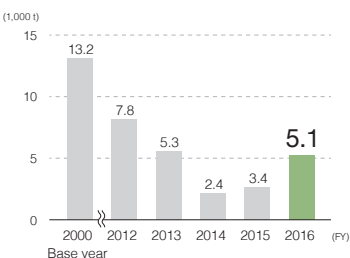
#### Total CO<sub>2</sub> emissions



#### Companywide material balance of PRTR substances



#### Waste sent directly to landfill



#### Waste sent indirectly to landfill



Waste recycling rate: **96.8%**

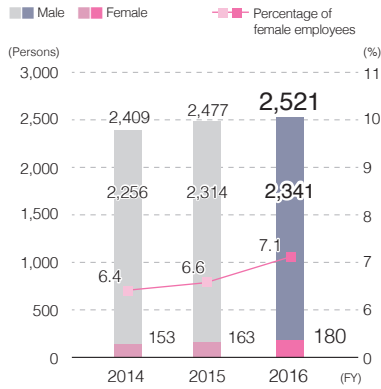
Percentage of ISO-certified subsidiaries: **91%**



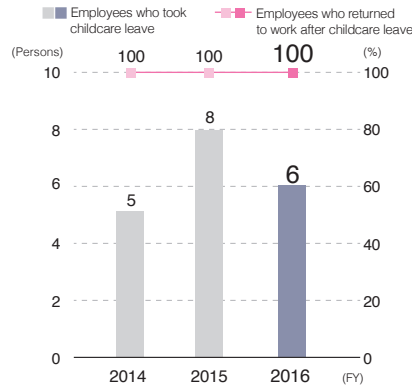
# Social

## Diversity

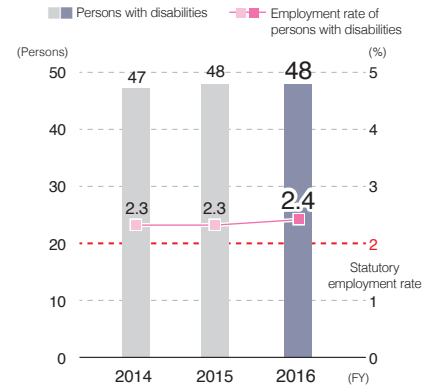
### Changes in number of employees



### Changes in childcare leave



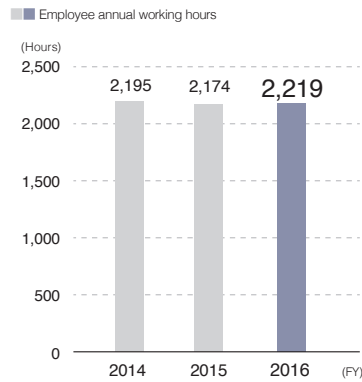
### Changes in employment of persons with disabilities



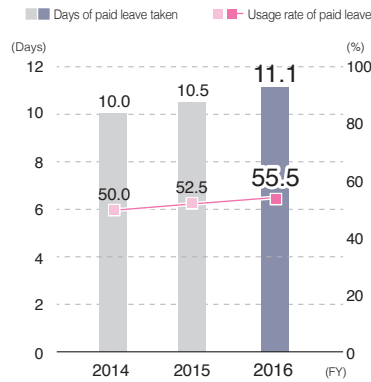
Women in management positions **3** (Proportion of all managers **1**%)

## Workstyles

### Changes in employee annual working hours

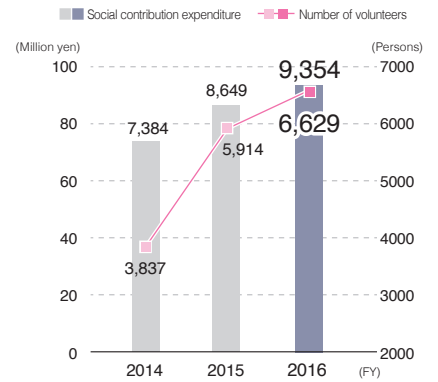


### Changes in days of paid leave taken



## Social contribution

### Social contribution expenditure and number of volunteers



# Governance

## Governance

Number of directors **10**

Number of outside directors **2** (incl. 1 woman)

Number of directors **5** (of which, 3 outside directors)

Number of meetings of the Board of Directors **14**

Attendance rate at meetings of the Board of Directors **95.1** %

## Security

Number of security training classes **17**

Number of serious information security incidents **0**

## Compliance

Number of compliance training classes **19**

Number of reporting and consultation incidents **5**

# CSR Management

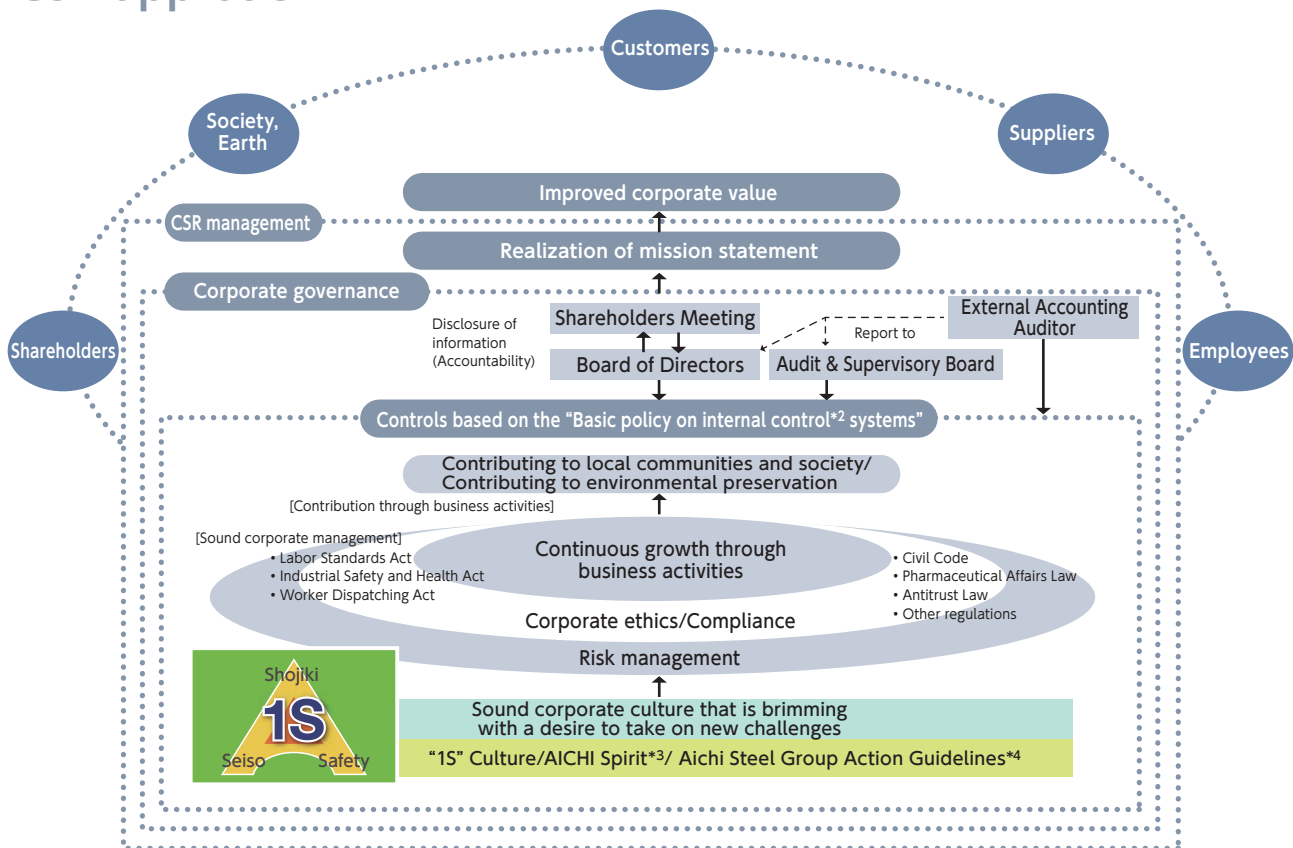
The Aichi Steel Group approaches Corporate Social Responsibility as a prerequisite for good governance, and as the foundations for long-term stable growth. We practice CSR management to gain trust from all our stakeholders, and to contribute to sustainable development of society and the planet, through the establishment of our Long-term CSR Vision and the implementation of our Medium-term CSR Plan.

The “Aichi Steel Action Guidelines” were established in 1998, and then revised in 2007 to grow the entire Aichi Steel Group. As a result, the “Aichi Steel Group Action Guidelines”, for global management, were defined and became the foundation for the CSR management of the Aichi Steel Group as a whole.

## CSR promotion system

The CSR Committee, chaired by the president, confirms and reports on the status of CSR management efforts. The committee previously met annually in March, but beginning in fiscal 2016, to further strengthen the CSR structure, the CSR Committee will meet twice a year, in October and March, providing a midterm confirmation and report on CSR management.

## CSR approach



\*1 J-SOX: The Japanese version of the U.S. SOX (Sarbanes-Oxley Act). This Act was created using SOX as a model and was designed to improve the accounting auditing system and internal control of companies in Japan.  
 \*2 Internal control: Activities and systems to control, monitor, and secure the soundness and efficiency of operations, as part of corporate governance, by following standards and procedures established for individual operations. In particular, standards and systems to prevent improper financial accounting should be established, and auditing should be conducted to verify that they are operated properly.  
 \*3 Aichi Spirit: A slogan presenting, in an easy-to-understand manner, the management philosophy, sense of value, and other basic ideas upheld by Aichi Steel as the corporate genes inherited from its predecessors (established in July 2006).  
 \*4 Aichi Steel Group Action Guidelines: Practical guidelines that must be followed during business activities (revised in October 2013)

# Priority issues (Materiality) for the Aichi Steel Group



To make an even greater contribution to achieving a sustainable society, last year the Aichi Steel Group analyzed its impact on society, particularly with regards to certain important aspects, and identified six issues, which we refer to as the “Priority issues (Materiality) for the Aichi Steel Group,” as issues we should address through our business activities. We are now working to establish CSR objectives and plans that will help resolve these issues.

## Items selected as priority issues

Priority issue (Title)	Component identified in the analysis map	Key performance indicators (KPIs)	Applicable section
1 Increase Compliance Awareness Globally, and Strengthen Corporate Sustainability	Compliance (Environment)	Results of environmental management system audit	→ pp. 22, 33 (Environmental audit results)
	Compliance (Society)	Status of various efforts to strengthen compliance (number of lectures and internal audits held as a percentage of those planned)	→ p. 22 (Compliance education)
	Compliance (Product responsibility)	Certification and review by a third party organization	→ pp. 22, 29 (Third-party certification)
2 Encouraging the Creation of Workplaces that are Safe and Comfortable for All Employees	Occupational health and safety	Based on safety evaluation selected under in-house criteria, status of facilities improvements, status of safety measures and efforts to strengthen safety awareness, and frequency of accidents resulting in lost work time	→ p. 28 (Frequency of accidents and lost work time, creation of safe worksites)
	Mechanism for handling grievances regarding labor practices	Labor management record of accepting, handling and resolving complaints through an in-house consultation office (number of cases)	→ pp. 22, 25, 28 (Whistle-blowing system, respect for human rights, mental health activities)
	Diversity and equal opportunity	Assistance and programs for supporting diverse work styles, and their status of use	→ p. 26 (Diversity initiatives)
3 Providing Highly Competitive Products that are Safe, Secure and Offer New Value Globally	Products and services	Status of quality improvement efforts (number of recognitions received and description)	→ p. 30 (Group company awards)
	Training and education	Sales staff training, quality improvement activities (number of times held, number of participants, etc.)	→ p. 30 (Training programs for sales staff)
	Marketing and communications	Gathering of customer evaluations (number collected and percentage of improvements, resolutions, etc.)	→ p. 30 (Gathering evaluations from customers)
4 Strengthen Relationships with Local Communities, and Actively Contribute to Society	Presence in the community	Status of social contribution activities selected under in-house criteria (number of participants; clear compilation standards based on fixed-point observation)	→ p. 31 (Annual number of participants in volunteer activities)
	Local communities	Status of local community development programs (plans and achievements against those plans)	→ p. 32 (Interaction with the community)
5 Strengthening Efforts toward Manufacturing in Harmony with the Global Environment	Energy consumption	Breakdown of energy use (CO <sub>2</sub> emissions)	→ p. 34 (Total CO <sub>2</sub> emissions)
	Atmospheric emissions		
	Wastewater and waste	Volume of direct and indirect landfill waste	→ p. 35 (Volume of direct and indirect landfill waste)
	Biodiversity	Status of efforts to preserve biodiversity (reforestation, number of volunteer activities, etc.)	→ p. 35 (Coexistence with nature)
6 Establishing a Solid Financial Foundation to Support Stable and Sustainable Growth	Financial performance	Profitability (operating income, ROE, etc.)	→ p. 37 (FY2016 Financial Report)
		Soundness, capital efficiency (Net worth, interest-bearing debt balances, equity capital ratio, etc.)	→ p. 37 (FY2016 Financial Report)

# Increase Compliance Awareness Globally, and Strengthen Corporate Sustainability

## Materiality

The Aichi Steel Group is working to further ensure governance and compliance, enhance awareness of legal compliance, and conduct sound business activities worldwide. We are also revising our management structure and employee training to quickly address risks, putting in place a structure to support sound and appropriate business activities on a global level.

ISO 26000 relevance 6.2 Organizational governance 6.6 Fair operating practices

SDG relevance

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

## Corporate governance

### I Corporate governance policy



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

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

### I Adoption of in-house company system

We have adopted an in-house company system comprising our Steel Company, Forging Company and Smart Company to make decision-making faster, improve operational efficiency and increase profitability of each business. Each company also has its own president and Business Management Div. to responsibly drive each business.

We have established a Corporate Office with three separate headquarters as well to provide groupwide support and checks and balances for each company.

### I Corporate governance system

The Board of Directors, comprising Directors appointed by shareholders, makes decisions regarding material matters affecting the Company through discussion and mutual supervision regarding such aspects as necessity, legality, and efficiency. Auditors and the Audit & Supervisory Board examine these decisions for legal violations and other compliance matters.

### I Compliance with the Corporate Governance Code

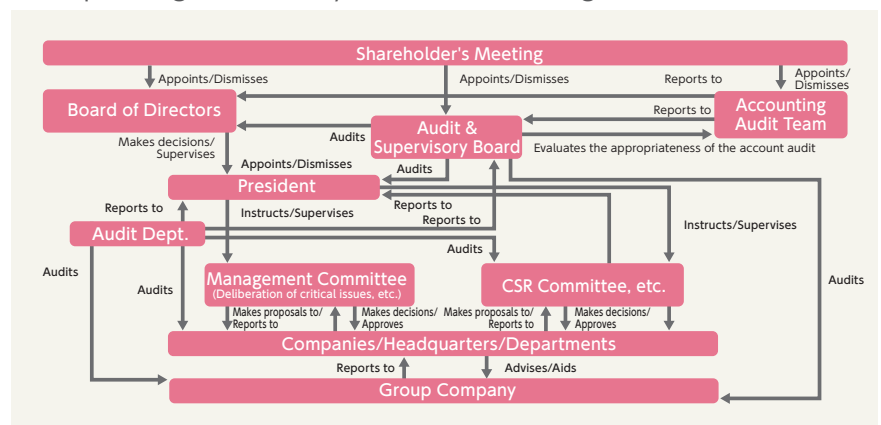
We have fully complied with the Corporate Governance Code, submitting a corporate governance report regarding disclosure to the Tokyo Stock Exchange in December 2015. We will continue with efforts to strengthen and expand corporate governance, and observe the content of the code.

### I Internal control system



The Internal Control System Basic Policy is reviewed annually to determine if any revisions are required. The operational status is reported to the Board of Directors, and disclosure made in the business report. In response to changes in the Companies Act, in April 2015 a resolution was passed to revise the policy, and its contents disclosed. Also in April 2015, we introduced a new Board of Directors system, aimed at further separating and strengthening management decision-making by the Board, and supervisory and business execution functions. Further, at the general meeting of shareholders held in June 2016, the Company completed implementation of a system of multiple outside directors, further strengthening corporate governance.

■ Corporate governance system schematic diagram





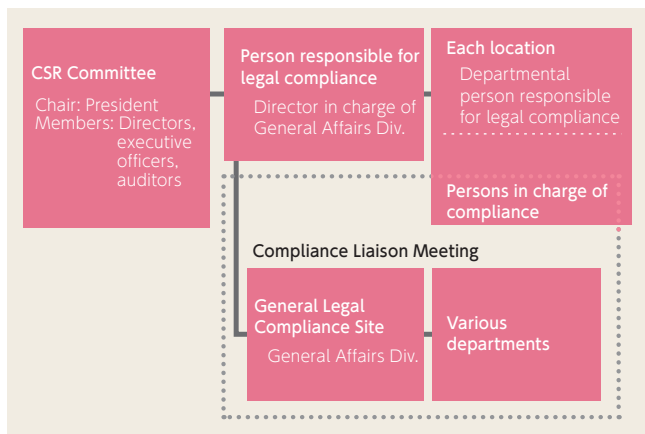
# Compliance

## I Compliance promotion system

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

Based on our internal rules and the Aichi Steel Group Action Guidelines, we strive to improve our compliance with laws and regulations as well as our social common sense. We enhance employee awareness by distributing compliance manuals, the Aichi Steel Group Action Guidelines, and the 1S Guidebook.

### ■ Compliance promotion system



## I Compliance education program

To enhance the compliance awareness of employees, we provide education on compliance to all employees. The importance of compliance is also covered in the Action Guidelines workshop held for those promoted to each level within the organization. In addition, any relevant corporate scandal case studies are reported to the Compliance Liaison Meeting to help prevent the recurrence of similar compliance incidents.

Level-based training

**372** participants

1S Workshop

**4** times  
(Feb, Apr, Jul, Oct)

CSR Seminar

**1** time  
(January)

Compliance Liaison Meeting

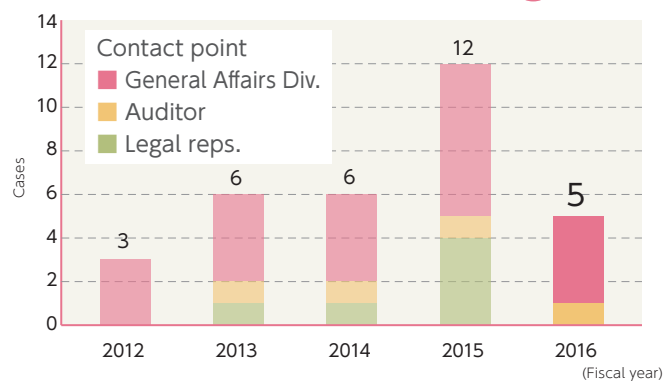
**4** times  
(Mar, Jul, Oct, Dec)

## I Whistle-blowing system

In fiscal 2016, a total of 5 cases were reported to the Aichi Steel Group Compliance Hotline, the company's whistle-blowing system. We will continue promoting recognition and awareness of our whistle-blowing system to further improve our internal ability to govern ourselves. Necessary measures will be taken for improper actions reported, and the president will be informed to the president for confirmation while said measures are carried out. We will also lay out how the system is operated and protection of whistle-blowers to ensure whistle-blowers are protected.

### ■ Changes in whistle-blowing cases

**5** cases



## I Quality certification by third-party organizations

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

→ See details on page 29

## I Environmental management system audit

The results of the FY2016 internal audit and the surveillance audit of the environment management system showed there were no major non-conformance issues.

→ See details on page 33

## I Fair transactions with suppliers



We periodically hold Business Regulations, Procurement Edition seminars to improve compliance with the Subcontracting Act, which is closely connected to our procurement transactions, and to avoid breaches of an act that is easy to fall foul of.

# Risk management system

## I Risk management system

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

We have prepared a risk map, in which risk items for each job level are organized according to the degree of importance and urgency. We regularly review and revise this risk map. The development of a disaster prevention/reduction scheme that enables a quick response to emergencies is underway, including the setup of emergency Company headquarters in the case of earthquakes or other disasters. After the January 8 accident, we have increased efforts to both develop alternative production systems for emergencies and prevent similar fires or explosions.

## I Disaster prevention measures

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

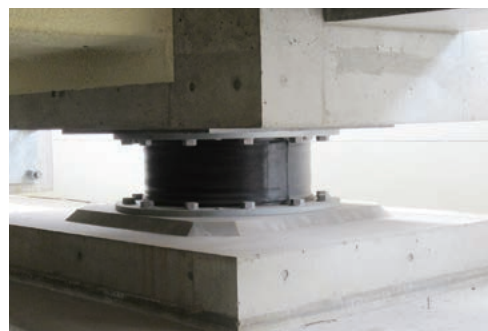
In December 2016, we completed construction on a new administration building with a seismically isolated structure and private electric generators, and finished transferring our computer and server installations, to avoid operation stoppages and enable rapid recovery in the event of a large earthquake.

In fiscal 2016, the following measures were taken by each subcommittee.

### ■ Disaster prevention system



Secretariat,  
General Affairs  
Div.



Disaster prevention measures at new administration building: Seismic isolation rubber bearings ▶

## I Risk management education

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

To prevent risk events from occurring, and to ensure the January 8 accident is never forgotten, we are working to transfer this understanding of risk management to all our employees, and to build a culture of trust with all stakeholders.

### Human Safety Subcommittee

#### Measures to ensure the safer evacuation of people

- 1) Educating employees through regular publication of "Disaster Prevention News"
- 2) Replenishing and stocking sufficient food and other emergency relief supplies
- 3) Regular evacuation drills
  - Early-stage fire extinguishing, transporting injured people to hospital, etc.
  - Evacuating to a high place in the case of a tsunami
  - Prompt safety checks

### Facility Safety Subcommittee

#### Measures to prevent injury from buildings and other structures during earthquakes

- 1) Promoting measures to prevent equipment from collapsing or falling over so that people can evacuate safely (ongoing)
- 2) Installed battery-run emergency lights in the building and on the grounds
- 3) Reviewing necessary countermeasures and check for any omissions, using the Kumamoto Earthquakes as a reference

### Production Recovery Subcommittee

#### Measures to ensure products are delivered promptly to customers

- 1) Reinforcing facilities to prevent fatal damage due to earthquakes or liquefaction (ongoing)
- 2) Establishing a restoration organization using obeya for times of large-scale emergencies or accidents
- 3) Storing extra essential parts as preparation for any damage to equipment
- 4) Backed up information systems and data



▲ Liquefaction measures: Redesigned in-plant transformer substation

# Information security

## Information security promotion system

Recognizing the importance of information security management, and in compliance with the All Toyota Security Guidelines (ATSG), we have established internal structures, provided employees with information and education on rules and regulations, and conduct inspections and so on.

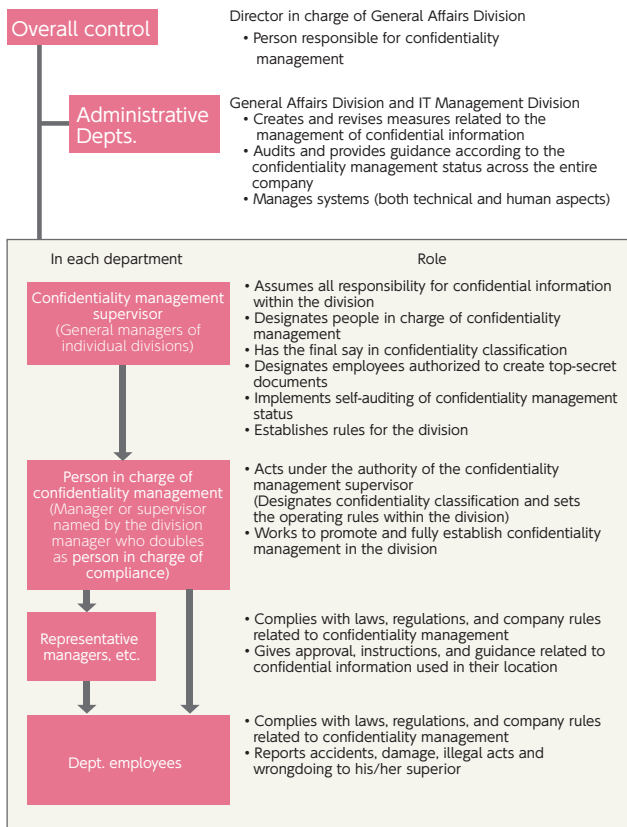
The Risk Management Department conducts security inspections to ensure that there are no issues with external email, that employees do not carelessly take internal information outside the office, or that USB memory, cameras, and other devices are handled properly.

Along with enhanced checking functionality in the system, including the adoption of a system of alerts to persons in charge of confidentiality management in each department in the event of unauthorized access to confidential information, we are further enhancing our confidentiality management structure to also provide advice from experts.

We have applied the All Toyota Security Guidelines (ATSG) at all group companies, and are enhancing information security across the entire Aichi Steel Group.

### Information security promotion system

#### Management system and roles of each department



## Information security guidelines

We, for security controls and to prevent leakages of personal information, have established rules regarding the procedures for handling documents and data, sending and receipt of email, and management standards and procedures for computers and peripheral devices.

Examples of rules:

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

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

### Definition of Confidential Information

All information, products, and facilities, regardless of form, designated as subject to restrictions on disclosure by the confidentiality management supervisor specified under the information security system. Confidential information regarding other companies obtained through proper means is also included.

## Information security awareness and education

Through our CSR meetings, management receives updates on current Group information security management levels, as well as issues and ongoing efforts, ensuring a common awareness of information security as a management issue. For employees, a check is conducted using an "information security checklist" for every employee using a personal computer in their day-to-day work, regarding handling of information devices and various related rules. Based on those results, staff responsible for education in each department, along with department heads, provide individual instruction.

We also present public incidents of information leaks in a news format, and issue company-wide alerts when a computer virus or other malicious program is discovered in the Company, in order to raise awareness of security controls.

Number of times security training held **17**



# Encouraging the Creation of Workplaces that are Safe and Comfortable for All Employees

ISO 26000 relevance  
6.3 Human rights  
6.4 Labor practices

SDG relevance



## Materiality

With the expansion of its business domains in the midst of globalization, the Aichi Steel Group is working to create a strong organization by maximizing the potential of individuals through the creation of environments in which diverse human resources can play an active role. This includes consideration of a wide variety of human rights involving nationality, language, culture, age, gender and values, and encompassing women, seniors and those with disabilities.

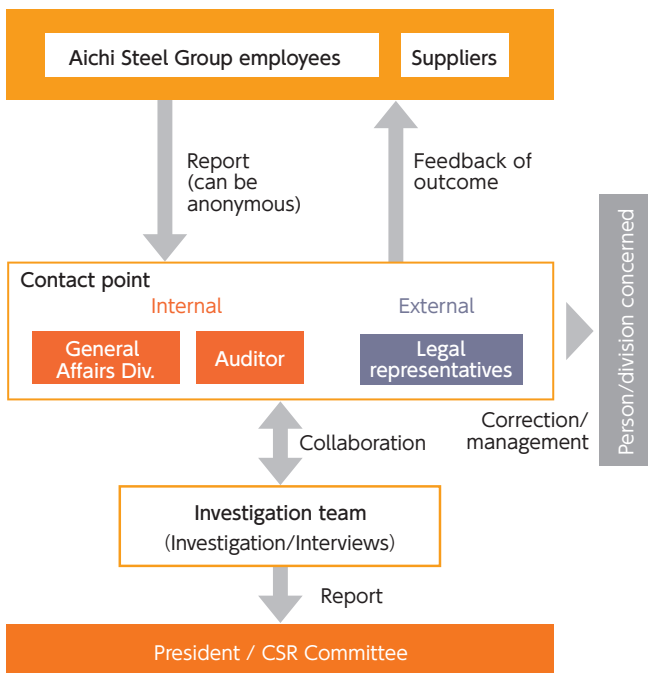
## Respecting human rights and creating comfortable workplaces

### I Initiatives involving respect for human rights



The Aichi Steel Group states in the Aichi Steel Group Action Guidelines that it will comply with domestic and foreign laws and regulations both in letter and in spirit, and that it will respect human rights, and sets out behavioral standards for this. Through level-based training and other means, we cultivate a corporate culture in which the diversity, character and individuality of each employee is respected. Workplace study sessions are held with the goal of preventing workplace harassment, and a "Hotto (hot)" line is in place for use by employees with issues regarding human rights. This system enables employees to consult directly with advising attorneys.

#### ■ Aichi Steel Group Compliance Hotline flowchart



### I Hiring and employment policies



In addition to basic matters regarding employment prescribed by law or in collective labor agreements, Aichi Steel has set forth its Rules of Employment, with the goal of establishing fair labor conditions and maintaining order in the workplace. We clarify and implement recruiting standards in conformity with the Equal Employment Opportunity Law, the Corporate Code of Conduct set forth by the Japan Economic Federation, and the Aichi Steel Group Action Guidelines.

#### Employment

Number of employees: **2,521**  
(2,341 men and 180 women)

### I Efforts to reduce total working hours



A variety of activities are promoted in which labor and management work together to create a working environment that is friendlier to workers and helps enrich their lives. Beginning in fiscal 2015, proactive efforts are underway to prevent health hazards due to overwork and to ensure the physical and mental health of employees through the promotion of work-life balance. These include efforts to reduce total working hours through the establishment of a labor-management review committee charged with reducing overtime hours and encouraging employees to use paid leave.

#### Total working hours

**2,219** hours (FY2016)

#### Usage of annual paid leave

**55.5** (FY2016)

## Efforts for diversity

### I Promoting more active roles for women in the workplace

Aichi Steel considers the promotion of diversity to be an important part of its management strategy. As part of creating a more comfortable environment for women, we are strengthening measures to promote more active roles for women and have established a system for this. We have begun to proactively hire more female employees, setting goals for the percentage of female hires among regular university hires. We also run seminars aiming to spread understanding of how to promote active roles for women, as well as career design training for female employees and their bosses. In this way, we are advancing initiatives to support women in developing their skills.

Percentage of managers who are women 1% (**3** women)

Percentage of new graduates hired who are women 18% (**15** women)



▲An employee organizes a team as the team leader.



### I Childcare and nursing care support system

We have established the Nice Family System to support employees with childcare and nursing care, so that employees can choose to work in a way that matches their life stage. We are advancing the creation of a work environment in which employees can easily balance work and family.

#### Childcare support system

Childcare leave	Childcare special leave
Shorter work hours	Overtime work exemption for childcare
Nighttime work restriction for childcare	Reemployment system

#### Nursing support system

Nursing care leave	Nursing care special leave
Staggered work hours for nursing care (not applicable to flextime workers)	Overtime work exemption for nursing care
Nighttime work restriction for nursing care	Reemployment system

Use of the Nice Family System **17**

(Number of people who started to use the system this fiscal year)

### I Promoting employment of the people with disabilities

We have employees with disabilities working in various positions in our manufacturing and administrative divisions. To ensure they are assigned to workplaces that suit their individual capabilities, we are encouraging more workplaces to be open to employing people with disabilities, and welcome them to visit prospective workplaces for orientation. We are also providing a range of support to employees with disabilities to help them continue working at Aichi Steel. We continue our efforts to develop workplaces in which all employees can enjoy working together.

Employment of people with disabilities **2.37%** (48 persons)



▲In-house seminar on work support measures for employees with intellectual disabilities

In addition to providing the knowledge required for working at Aichi Steel, these seminars are a good opportunity for people with disabilities to meet with other work colleagues with disabilities.



### I Post-retirement reemployment system

We have in place a Nice Senior System, which allows employees who are willing to work after retirement to continue working until they begin receiving their pensions. These employees contribute their advanced skills while working to pass on their skills and offer guidance to younger employees. We are also implementing other measures to make Aichi Steel a great place for older workers, including the creation of work environments friendlier to senior employees and the reevaluation of compensation.



◀Using technologies developed over many years, we are encouraging employees to pass on guidance and training to younger generations.

Registrants for the Nice Senior System **90**

(Number enrolled as of the end of the fiscal year)

## Human resources development

### I Global human resources development

Aichi Steel is accelerating efforts to develop diverse human resources with globally competitive capabilities. For younger employees, this means acquiring specialized core capabilities, mental toughness and language skills. Our Overseas Trainee (OT) program offers young employees to learn how to work overseas by placing them with our business entities outside Japan,

where they work with national staff to accomplish tasks based on specific themes.

Technical Training Institute students are also given ongoing English language training, and engage in communication and interaction with national university students during overseas training.



#### VOICE

### Review of OT training system

We reviewed the Overseas Trainee (OT) program and opened applications for the new program from April 2017. In this new program, we focused on providing real work experiences at overseas affiliates, and on language studies to enable Japanese employees to work alongside local employees using the local language.

The main changes were increasing the training period from a maximum of six months to more than one year, and including non-English-speaking countries (Thailand, Indonesia, China, the Czech Republic and Germany) in the countries where we place participants. We believe these changes will improve understanding of the local languages and cultures, and enhance relationships with local staff.

As we increase our physical presence around the world, we are providing more opportunities for our young employees to work overseas. The real-life experiences provided in this training system help participants understand the significance of working overseas and the importance of communicating in the local languages, and through that we hope to help them grow into globally-active employees of Aichi Steel.



**Toshikazu Nagai**  
(in charge of Overseas Trainee (OT) program)  
Labor Management Team  
Labor Management Dept.,  
Human Resources Div.

### I Specialized Technical Training

Specialized technical training for all skilled workers in forging plants commenced in August 2016 to provide systematic training on the knowledge and skills needed at that plants.

The training is intended to raise understanding and lead to improvements in the purposes and "why" of each task. The roles of skilled workers from the fundamentals of manufacturing to the essentials of the facilities that create products and measures for dealing with abnormalities are divided into three ranks (Rank C, Rank B, and Rank A), and the training is organized so that workers learn in steps (Rank C: five years after joining the company; Rank B: 10 years after joining the company; Rank A: first-level supervisor).

The hands-on training combines knowledge learning and practical skills acquisition. Trainee proficiency is confirmed through testing, and determinations of whether trainees have reached a level that can be used in practical work are confirmed through presentations on examples of improvements and on-site monitoring. Trainees who pass receive first-rank certification.

By having all skilled workers undergo this training, a culture of asking "why?" will be created and the handing down of technology and skills to successor works will be encouraged.



▲ On-site explanation of an improvement example



▲ A certification ceremony

Number of times held (total)

**19**

Number of participants (total)

**158**



# Employee health and safety

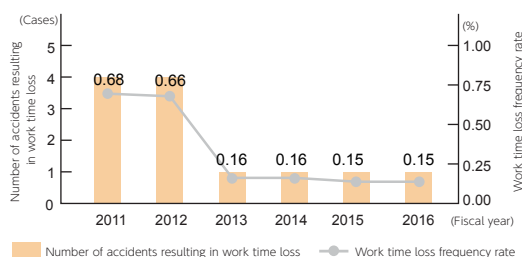
## Workplace safety and health policies

Determined to prevent even a single accident in our workplaces, in-plant business operators and Group companies are collaborating to achieve “zero accidents in all workplaces throughout Aichi” by focusing on comprehensive safety and health management.

## Initiatives to eliminate accidents resulting in lost work time

We are transforming our safety culture and creating safe workplaces to eliminate accidents that result in lost work time and to ensure we never forget the lessons learned from the January 8 explosion. We are restructuring our workplace safety by preventing recurrence of fires and explosions, and improving workplaces that have high risk of serious accidents. We have also improved communication with in-plant operators, and have enhanced support systems by listening to any issues about work difficulties.

### Frequency and number of accidents and lost work time



## Work inspections with top management

During fiscal 2016, we carried out work inspections on furnaces in all our plants. Led by the chairman and president themselves, this company-wide initiative was implemented to help prevent any recurrence of an explosion by inspecting work procedures and offering advice following Toyota's genchi genbutsu (on-site, hands-on experience) approach.



## Creation of safe worksites

During fiscal 2016, we reassessed the risk associated with all of the company's furnaces, we added interlock functions to all nonconforming furnaces, and we completed all measures to prevent recurrence of the January 8 explosion.

We also continued our efforts to create safe worksites by ranking worksites according to risk assessments, and attempting to eliminate C and D rankings, the highest danger levels. As in last fiscal year, we tackled risks of being trapped or caught in equipment, the separation of people and vehicles, and prevention of electric shocks.

## Creation of safety-conscious human resources through hands-on training

As part of our efforts to enhance employee awareness of labor safety, we have created a facility for simulating danger, where employees can gain firsthand experience with the potential risks of day-to-day operations. Using dummy equipment to demonstrate the variety of dangers that can arise in the workplace, we work to enhance employee sensitivity to danger. To ensure we never forget the lessons we learned from the January 8 explosion, we deployed a furnace simulator training device in fiscal 2016 to enable workers to understand furnace mechanisms and experience their frightening power for themselves. All furnace workers have now received training on this device.



▲ In-furnace purging demonstration device

▶ Furnace simulator training

## Health promotion efforts

The Aichi Steel Group works to maintain and promote the health of its entire Group workforce through concerted efforts by industrial physicians, public health nurses, nurses and health management staff. In fiscal 2016, we systematically implemented initiatives for the priority items of mental health, lifestyle-related disease prevention and health management support for employees assigned overseas. We will continue focusing on these areas to maintain and promote the health of our employees, which is a priority issue for the company.

## Mental health activities

The Aichi Steel Group is working to maintain the mental health of its employees and prevent the development of mental issues, through various educational programs and individualized mental health care based on the results of stress check tests.

During fiscal 2016, we also provided advice to workplaces that rated a high risk for mental health based on the results of these stress tests. We also collaborated with mental health consultants to offer ongoing on-site consultation to ensure early detection and treatment of employees with mental health issues.

We will continue working with managers and supervisors to promote the creation of organization where views are aired freely helping to prevent mental health issues and ensure their early detection and care when they do arise.

# Providing Highly Competitive Products that are Safe, Secure and Offer New Value Globally

ISO 26000 relevance

6.7 Consumer issues

SDG relevance



## Materiality

Products provided by the Aichi Steel Group are important parts directly related to automobile running, turning and stopping, and to offer customers greater peace of mind in using our products, it is essential that we provide a stable supply of high quality products. As we aim to become an integrated forging and steelmaking company that provides the world's finest quality, we are working as one to build a globally competitive, leading quality assurance system to ensure our products gain the trust of our customers around the world.

## Quality management system (QMS)

### Activity promotion system

In accordance with our policy of "Quality First," we will strive to maintain a business structure based on ISO 9001 that gains customer trust and enables us to deliver attractive products that meet expectations and needs. In line with our Long-term Quality Vision 2017, we are working as one to build a globally competitive, leading quality assurance system. In addition to domestic efforts, head office regularly sends people to overseas plants to strengthen quality assurance systems and provide appropriate assistance regarding the differing quality issues at each site. We are working to further improve the level of quality assurance at all sites.

### Quality assurance system



### Long-term Quality Vision 2017

**Becoming an integrated forging and steelmaking company that provides the world's best quality**  
**-Gaining customer's trusts on a global scale-**

- 1) Achieving a higher level of quality assurance by improving company-wide quality awareness
- 2) Strengthening global quality assurance system
- 3) Promoting Total Quality Management (TQM) to build personnel familiar with quality

### Certification by third-party organizations and compliance with international standards

In addition to ISO 9001 certification, we have also obtained other third-party quality certifications based on our QMS, and we are assessed on an annual or three-year basis for review of these certifications.

Our overseas subsidiary AMC (Czech Republic) newly acquired ISO 9001 certification this fiscal year.

#### Acquisition status of Quality ISO certification

1. Steel materials and forged products	Passed 7th recertification audit for ISO 9001 (September)
2. Electro-magnetic products	Passed surveillance audit for ISO 9001 (February) Passed surveillance audit for ISO13485 (February)
3. Analysis and testing	Passed surveillance audit for ISO/IEC 17025 (June)

#### Non-ISO certification by third-party organizations

- New JIS mark (by JICQA)
- Marks issued by shipping classification associations (NK, LR, GL, DNV, KR, CCS, CR, ABS)
- European Pressure Equipment Directive (PED), Construction Products Regulation (CPR)
- European Medical Devices Directives (MDD Annex v.3.2)

# Quality improvement initiatives

## I Quality Rally

November has been designated Quality Month. To deliver outstanding quality to customers at the next process, we have established a Quality Rally (to share quality cases among departments), events and exhibitions. Through these events, we work to spread the concepts of “Customer First” and “Full Participation” among all of our employees, and work to raise quality consciousness.



## I Collection of customer evaluations

Every year, we collect customer evaluations of Aichi Steel through a survey rating quality, delivery and service on a five-level scale. If any areas drop below standard, we implement initiatives the following year to improve those areas and improve customer satisfaction.

Number of customers surveyed **77** offices  
 (All customers who were supplied with above a certain amount of steel materials and forged products)

# Promotion of CSR procurement

## I Global, open and fair transactions

In our transactions, we strive to provide all of our suppliers, at home and abroad, with procurement information and the opportunity for open, fair transactions. Actual transactions are determined based on a comprehensive review of quality, technology, cost and delivery times, as well as soundness of management, approach to and structures for ongoing improvement, and other factors.

## I Mutual growth based on mutual trust

Our relationships with our suppliers based on building and maintaining relationships of trust through close communication, and a basic approach that calls for us to grow together with our business partners and share the fruits of our mutual efforts.

## I Group company receives award

In April 2016, Aichi Steel overseas subsidiary Aichi Forging Company of Asia, Inc. (now Aichi Forge Philippines, Inc./AFP) received the 2015 Most Improved in Quality Performance award from Toyota Autoparts Philippines, Inc. (TAP).

The award recognized AFP as a supplier that made remarkable improvements during 2015 through its quality improvement activities. Other Group companies have also won a variety of awards (two APF awards, two AFT awards, and four SAFC awards).



## I Training programs for sales staff

Primarily focusing on newly-assigned and younger/mid-level employees, we have expanded curriculum aimed at further enhancement of skills, and strengthened our educational offerings from outside lecturers. Furthermore the Sales Division is working toward our stated goal of strengthening individuals and strengthening our systems.

**5** programs per year  
**19** participants  
 (All newly-assigned and younger staff)

## I Legal compliance

We comply with all relevant laws and regulations related to our purchasing activities, and ensure careful control over the confidential information of our suppliers.

## I Green purchasing

Since formulating the Aichi Steel Environmental Charter in 1996, we consider environmental preservation in all phases of our business activities, and work to continuously improve our environmental preservation activities. As part of the effort, in 2003 we established our Green Purchasing Guidelines, working to purchase products with minimal environmental impact and prioritize purchases from suppliers engaged in proactive environmental protection efforts.



# Strengthen Relationships with Local Communities, and Actively Contribute to Society

ISO 26000  
relevance

6.8 Community involvement  
and development

SDG  
relevance



## Materiality

The Aichi Steel Group seeks prosperous coexistence with surrounding communities, is conscious of its role as a “good corporate citizen,” and is actively involved with the local community. We place importance on communication through our social contribution activities and other efforts, and by gaining the trust of communities and understanding of our business activities, we strive to be a company that is continually supported welcomed in the community.

## Social contribution policy

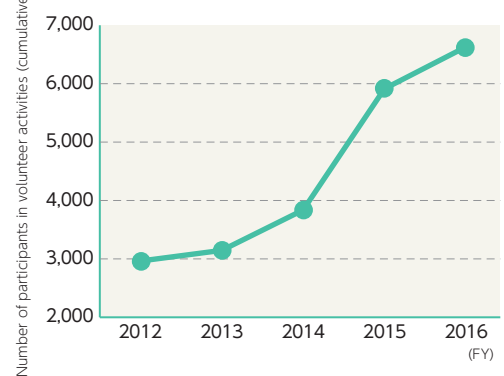
### I Social contribution promotion system

In pursuit of harmonious coexistence and co-prosperity, Aichi Steel promotes community-oriented activities focused around four key words: “clean,” “green,” “creative” and “volunteerism.”

The Volunteer Center, located in the General Affairs Division, provides information and promotes educational activities with the aim of supporting employee volunteer activities. It also plans smaller-scale volunteer activities which employees can participate in, and encourages them to experience volunteering for themselves.

During fiscal 2016, we increased participation in activities such as collection drives (ink cartridges) and in-house sales events. We also set a record with a total of 6,629 people participating, which was 715 more people than last year.

Changes in the number of participants in volunteer activities



Number of volunteers in FY2016: **6,629**  
(715 person increase year-on-year)

### Clean (beautification, safety, security)

### Green (planting and environmental conservation)

In addition to holding the “Nearby roads clean-up campaign” every two months to help clean our neighborhoods, we have been holding Clean Aichi Day every October since 2009, together with employees of domestic and overseas subsidiaries, as one of Aichi Steel’s CSR Enhancement Month activities.

Twice every year, students of the Aichi Steel Technical Training Institute plant flowers in the roundabout in front of Meitetsu Shurakuen Station, the station nearest our offices, as one of our activities to clean the neighborhood.



▲ Student planting of flowers in front of Meitetsu Shurakuen Station

Nearby roads clean-up campaign

Clean Aichi Day

**5** events, **138** volunteers

**1,226** volunteers

## Creative (education, culture)

Launched in 2010 to mark the 70th anniversary of our founding, every year we visit schools to present a "Lesson about Iron" to students. The project, which has been held 13 times, aims to teach elementary school fifth graders about the local industry of Tokai, the largest iron-producing region in central Japan. Through a lesson called "Making Magnets," we offer a fun way for students to experience manufacturing.



Creative lessons

**12** schools, **33** classes

## Traffic safety awareness

Aichi Steel conducts traffic safety awareness activities as a responsible manufacturer in the automobile industry. One of those activities is "Zero Day" safety patrols that each site continues to conduct.



**2,124** volunteers

## Volunteer support



Established in 1993, the Aichi Steel Volunteer Fund continues to donate to local social welfare organizations and others and to provide support to disaster-affected areas, including after the Great East Japan Earthquake and the Kumamoto Earthquake. Another voluntary and ongoing program that employees can participate in is the "one-coin" donation program, where they donate 100 yen from their pays every month. Every employee at Aichi Steel is helping drive our volunteer activities. In fiscal 2016, we started a new initiative called the "Volunteering and Welfare Hands-on Classroom" to enable employees to participate as volunteers in the local community, and to better understand social welfare.

In-house events have included support activities such as wanko soba challenges, an all-you-can-eat noodle challenge popular in Iwate Prefecture, and Tohoku produce sales.

Through the Aichi Steel Volunteer Fund, and company donations from our matching gift program, we have donated items needed by various organizations.



▲Donation from the Aichi Steel Volunteer Fund

Our volunteers have experienced wheelchairs and working as transportation volunteers.



▲Volunteering and Welfare Hands-on Classroom



▲In-house event to support disaster-affected areas

"One-coin" donation

**518** volunteers

## Interaction with the community

### I Holding and participating in events

We hold community meetings once a year in the cities of Tokai and Kariya, where we promote exchanges with residents of the local communities and actively participate in a variety of local volunteer activities. We also support activities involving festivals, sports days and other local events in the communities surrounding our sites, and dispatch employees to assist with the operation of those events.

We also invite local residents to events held at our headquarters and plants, and work to encourage interaction with our employees.



◀Community meeting

▶ Shiawase Mura: Support for production workshops for parents and children at Momiji Matsuri



# Strengthening Efforts toward Manufacturing in Harmony with the Global Environment

ISO 26000 relevance 6.5 Environment

SDG relevance



## Materiality

The Aichi Steel Group has established medium- to long-term targets around three environmental issues—building a low-carbon society, building a resource-recycling society and coexistence with nature—and is working to achieve those targets. Through these efforts, we are achieving effective use of energy and resources and, through harmony between the global environment and manufacturing and by providing products and services with low environmental burden, contribute to the sustainable growth of society and our world.

## Environment management

### Environmental activity promotion system

The Behavior Guidelines on Environmental Issues (current Environmental Action Plan) was established in June 1993, and the Aichi Steel Environmental Charter was developed in June 1996, together with which we continuously and actively aim to achieve our goals.

In light of increasing global trends to prohibit, restrict, or manage certain chemical substances in products, in February 2016 we revised the Aichi Steel Environmental Charter and our management structure in order to strengthen our chemical substances management.

As the overall promotion organization, the Environmental Working Group is promoting a variety of activities for environmental conservation through its four subcommittees, the Global Warning Prevention Committee and the Aichi Steel Group Environmental Committee. It is also providing guidance toward achieving our aim of all consolidated subsidiaries with manufacturing sites acquiring ISO 14001 certification.

Percentage of consolidated subsidiaries with ISO 14001 certification **91%**

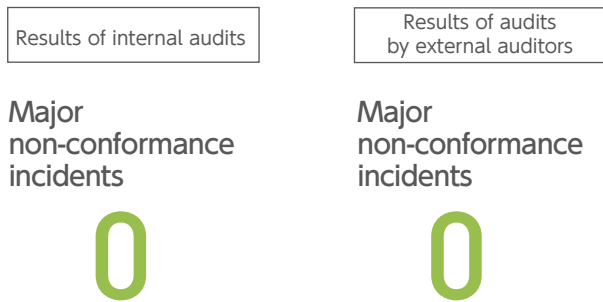
### 2020 Environmental Action Plan

We formulated the Aichi 2020 Environmental Action Plan, a statement of policies and plans for environmental actions from fiscal 2016 to fiscal 2020. The plan adopts three core themes for the direction of our environmental action based on environmental management: building a low-carbon society, building a resource-

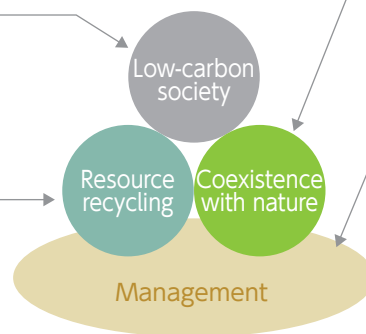
### Educating internal environment auditors

With the aim of moving toward ISO 14001:2015 certification, 80 of the 216 internal environment auditors, who support the efficient operation of the environmental management system, have acquired 2015 certification.

### Environmental audit results



Building a low-carbon society	Evaluation
1. Encourage development of eco-products and technologies	○
2. Reduction of CO <sub>2</sub> emissions through the use of renewable energy	△*1
3. Thorough implementation of energy conservation practices in production activities	○
4. Seeking better transportation efficiency in logistics	○
<small>*1 Due to the effects of the January 8 incident</small>	
Building a resource-recycling society	Evaluation
5. Reduction of by-products during production and further effective utilization of resources	○
6. Promotion of projects that benefit resource-recycling corporations	○
7. Reduction and effective use of packaging materials in logistics operations	○
8. Reduction of water use in production activities	○



Coexistence with nature	Evaluation
9. Promotion of activities for preservation of nature and biodiversity	○
Environmental management	Evaluation
10. Promotion of activities for zero abnormalities and complaints	○
11. Enhancement of consolidated environmental management	○
12. Reduction of emissions to contribute to improvement of urban air quality in each country and region	○
13. Promotion of environmental activities in coordination with business partners	○
14. Further reinforcement of global employee training and educational activities	○
15. Active disclosure of environmental information and enhanced communication activities	○



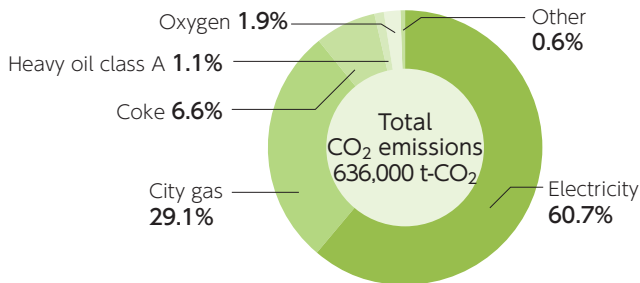
# Initiatives building a low-carbon society

## FY2016 targets and results

Based on the Aichi 2020 Environmental Action Plan, we pursued reductions in carbon dioxide to achieve the targets of the Japan Iron and Steel Federation's Low-carbon Society Plan (Phase 1).

We set our internal targets at even higher levels and took action, but we were unable to avoid the effects of the January 8 accident, and we did not achieve those targets.

## Breakdown of energy used in FY2016 (CO<sub>2</sub> emissions)



## Total CO<sub>2</sub> emissions

**636,000** t-CO<sub>2</sub>/year  
(+34,000 tons year-over-year)

## Factors behind changes since last fiscal year

Positive improvements	Negative factors
1. Electric furnace energy balance changed (increase in aluminum cross), etc. <b>4,300 t-CO<sub>2</sub>/year</b>	1. Effect of accident at No.2 Bar Furnace (reduced efficiency of furnace) <b>1,800 t-CO<sub>2</sub>/year</b>
2. Productivity increased by re-engineering the bloom rolling process (reduced furnace loss), etc. <b>3,700 t-CO<sub>2</sub>/year</b>	2. Steel plant environmental measures <b>3,300 t-CO<sub>2</sub>/year</b>
3. Efficiency improvements in forging furnaces (IH furnaces) <b>1,500 t-CO<sub>2</sub>/year</b>	3. Increased emissions due to increased production <b>40,000 t-CO<sub>2</sub>/year</b>
4. Consolidated lines by converting stainless steel furnaces for general use, etc. <b>1,600 t-CO<sub>2</sub>/year</b>	
<b>Total</b> <b>11,100 t-CO<sub>2</sub>/year</b>	<b>Total</b> <b>45,100 t-CO<sub>2</sub>/year</b>

## Measures to raise productivity and promote energy savings through 4S re-engineering\*

We continue to undertake 4S Re-Engineering in order to raise productivity while promoting energy savings through all processes from steelmaking, which is an upstream production process, to rolling, refining, and forging.

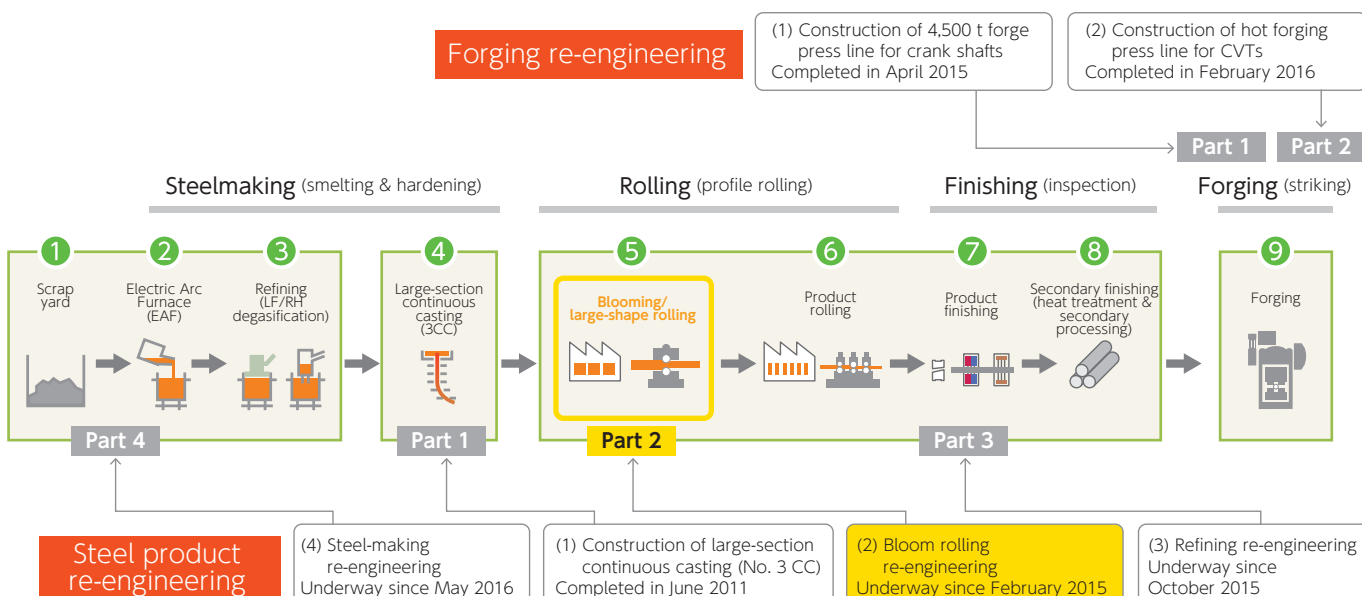
Bloom rolling re-engineering has been conducted since February 2015 and process streamlining was completed in February 2016 as a first step, resulting in higher productivity and yields and reducing heating furnace fuel consumption per unit of production.

\*Simple, Slim, Short and Straight process innovations

### Bloom rolling re-engineering

Productivity **7.0% increase**  
Heating furnace fuel consumption per unit of production **7.3% decrease**

(CO<sub>2</sub> equivalent: 5,900 t-CO<sub>2</sub> reduction since fiscal 2015)



## Initiatives to develop a recycling-based society

### I FY2016 targets and results



In fiscal 2016 we reduced production volumes and promoted recycling in compliance with the Guidelines on the Aichi Prefectural Ordinance on Appropriate Use of Recycled Resources. We have achieved a 96.8% byproduct recycling rate, but we seek to make even further improvements. It is difficult to recycle the remaining byproducts both technologically and in terms of cost, but we are developing additional recycling technologies and working to meet society's expectations for recycling technology while contributing to a sustainable global environment

Direct landfill **5,114** t/year  
 Indirect landfill **3,318** t/year

### I Contributions to end-of-life vehicle recycling

In accordance with the End-of-Life Vehicle Recycling Act, which came into effect in 2005, the Toyota group has been working towards total recycling. Aichi Steel is cooperating with Toyota Metal Co., Ltd. to improve recycling and develop recycling technology for glass parts, which have been the most difficult.

We introduced silica sand into steelmaking slag generated in electric furnaces as a slag settling agent, but we focused on the similarities between silica sand and the glass components and made it possible to achieve the same effects by mixing silica sand with waste glass, and it is now possible to recycle waste glass as an electric furnace byproduct.

As a result, the end-of-life vehicle recycling rate increased to 99.8%.



▲Waste glass from cars was previously difficult to recycle due to its specialty components and color

\* Slag settling agent: An electric furnace byproduct that is added to control the slag components, reduce the temperature as a cooling material, and curtail explosive boiling.

## Measures to promote coexistence with nature



### I Basic policy

We understand the concept of COP 10 (tenth meeting of the Conference of the Parties to the Convention on Biological Diversity) and participate in activities to preserve biodiversity by promoting the structuring of an ecosystem network through public and private sector cooperation, and fostering next-generation individuals capable of working to preserve the earth's environment. We have been working on forestation and volunteer employee activities, and will continue with projects to protect the ecosystem.

### I Participation in All-Toyota Green Wave Project activities

Aichi Steel is participating in the All-Toyota Green Wave Project activities being implemented by the Toyota group and other affiliated companies as part of efforts to coexist with nature. This project includes a range of activities to "connect communities toward harmony with nature". We are undertaking activities that contributing to increased restoration of ecosystems by connecting people with other people and activities and linking habitats.

### I Forestation to create a forest for beetles

Since 2012, we have been helping plant a deciduous broadleaf forest to create an environment in which beetles and other creatures can live their natural life cycles. We have been working with the Chita Peninsula Biodiversity Network Promotion Council and members of the Student Action Committee NPO to grow the trees. In fiscal 2016, we weeded and irrigated areas that were previously planted, and we also held a "Forest 2" event where employees and their families participated in tours of leading biodiversity companies, nature craft activities, collecting acorns, preparing seedlings and planting trees.



▶ Student Action Committee involved in nature craft activity

# Establishing a Solid Financial Foundation to Support Stable and Sustainable Growth

## Materiality

Aichi Steel recognizes that the establishment of a solid financial foundation is critical for enhancing corporate value and supporting stable and sustainable returns to stakeholders. With the intention of establishing a solid financial foundation realizing an ROE of 8% or higher as a target for improved profitability, we will steadily and systematically promote effective capital measures and capital investments aimed at perennial growth.

## Financial information for fiscal 2016

### I Summary

During the consolidated fiscal year, the Japanese economy drifted toward a gradual recovery on the economic policies of the government. However, the economic slowdown in China and other emerging countries in Asia, changes in U.S. policy directions after the presidential election, and other factors mean that the future remains uncertain.

The Aichi Steel Group's production and sales volumes of specialty steel and forgings, our core products, increased over the previous consolidated fiscal year due to strong demand despite the effect of the January 8 explosion.

Net sales stood at 212,837 million yen for the current consolidated fiscal year, a 0.6% decrease from the previous consolidated fiscal year of 214,120 million yen. In terms of profit, we posted logistics costs of 4,808 million yen in the year as our share of costs incurred by suppliers because of the January 8 accident. Although selling prices declined, sales volumes increased, energy prices dropped, and our overseas subsidiaries experienced a business recovery. As a result, the Aichi Steel Group posted an operating income of 7,218 million yen, a 22.7% increase from the previous fiscal year of 5,883 million yen, which was due to increased costs associated with alternative production efforts after the January 8 accident. Total assets were 273,107 million yen, up 21,347 million yen from the end of the previous fiscal year.

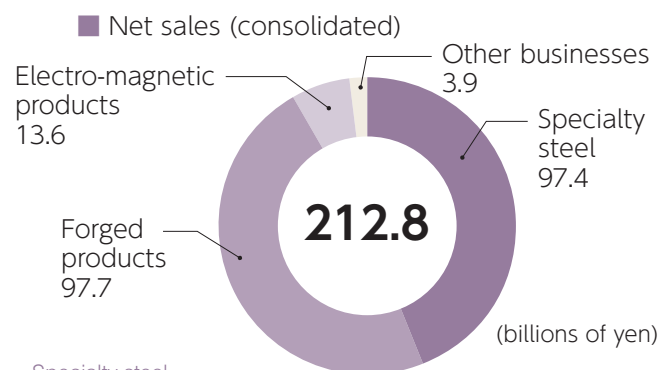
### I Consolidated cash flows

Net cash provided by operating activities decreased by 11,843 million yen from the previous fiscal year to 13,350 million yen. Although profit before income taxes increased 6,636 million yen compared with the preceding term, other current assets decreased, and cash flow from the increase in other current liabilities rose 9,045 million yen (cash decreased 4,881 million yen in the previous consolidated fiscal year), cash declined by 12,495 million yen due to an increase in accounts receivable-trade and a decrease in notes and accounts payable-trade (cash increased 15,682 million yen in the previous consolidated fiscal year).

Net cash used in investing activities decreased by 7,555 million yen from the previous fiscal year to 19,677 million yen. The main factor was payments for purchases of property, plant and equipment, which used 9,404 million yen more than in the previous fiscal year.

Net cash used in financing activities stood at 15,231 million yen (previous fiscal year was a deficit of 9,466 million yen). This was due to income of 20,000 million yen through a corporate bond issue in this fiscal year.

### I Sales by business segment



#### Specialty steel

Specialty steel is the mainstay product of the Aichi Steel Group. Demand was strong for specialty steel predominantly for use in automobiles, and for stainless steel predominantly for use in the domestic market, with an increase in overall sales volume this fiscal year compared to the previous year's decrease, which was due to the effect of the January 8 accident. This resulted in net sales of 97,450 million yen for the current consolidated fiscal year, a 3.3% increase from the previous consolidated fiscal year of 94,321 million yen.

#### Forged products

Closed-die forged products for automobiles account for a major part of this segment. Selling prices declined, and overseas subsidiary net sales decreased due to exchange rate changes, resulting in net sales of 97,751 million yen for this consolidated fiscal year, a 4.4% decrease from the previous consolidated fiscal year of 102,248 million yen.

#### Electro-magnetic products

Aiming to turn this segment into the Company's core business in the future, the Aichi Steel Group develops business in four industrial fields: electronic components, dental accessories, sensors, and magnetic products. In the electronic components segment, the sales volume of heat dissipation components for inverters installed on hybrid vehicles increased, resulting in net sales of 13,673 million yen for this consolidated fiscal year, a 1.3% increase from the previous consolidated fiscal year of 13,495 million yen.

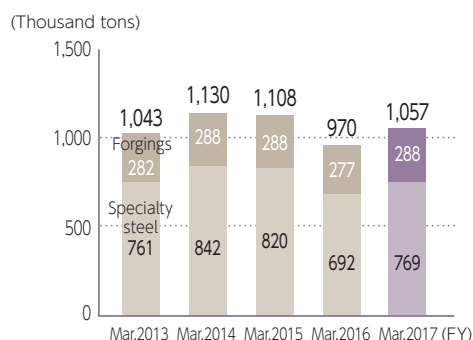
#### Other businesses

Aichi Steel's subsidiaries are involved in such business activities as providing services and engaging in computer software development. Net sales for this consolidated fiscal year were 3,962 million yen, a 2.3% decrease from the previous consolidated fiscal year of 4,055 million yen.



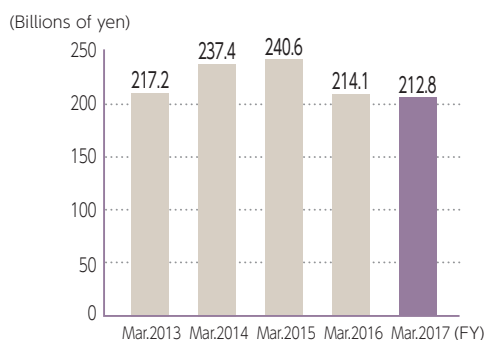
## Sales volume (Non-consolidated basis)

**1,057,000 tons**



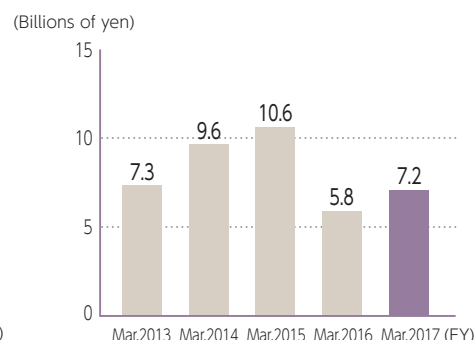
## Net sales

**212.8 billion yen**



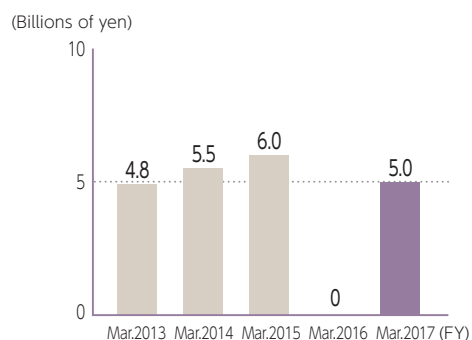
## Operating income

**7.2 billion yen**



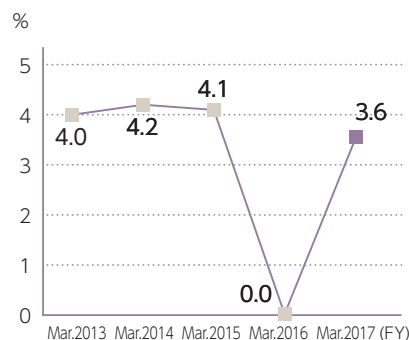
## Profit attributable to owners of parent

**5.0 billion yen**



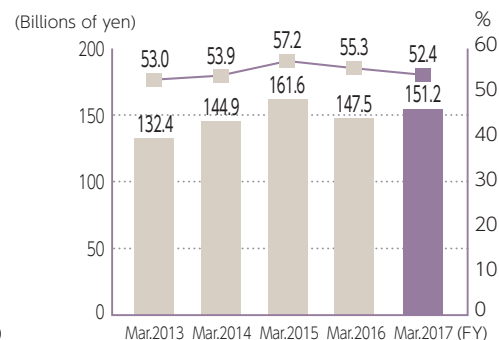
## ROE

**3.6%**



## Net assets, capital adequacy ratio

**151.2 billion yen 52.4%**



## Five-year summary (consolidated)

	Billions of yen				
	Mar. 2013	Mar. 2014	Mar. 2015	Mar. 2016	Mar. 2017
Net sales	217.279	237.420	240.647	214.120	212.837
Operating profit	7.332	9.627	10.616	5.883	7.218
Profit before income taxes and minority interests	7.768	9.779	10.693	1.409	8.045
Profit attributable to owners of parent	4.898	5.503	6.023	0.02	5.084
Property, plant and equipment	83.618	85.841	88.291	89.628	96.310
Total assets	238.165	255.259	268.064	251.760	273.107
Net assets	132.436	144.965	161.669	147.534	151.273
	Yen				
Per share data:					
Net profit: Basic	249.37 <sup>*1</sup>	279.94	306.25	1.02	258.34
Net profit: Diluted	—	279.84	306.18	1.02	258.31
Cash dividends	10.00	10.00	10.00	10.00	55.00
Number of employees (Persons)	4,504	4,613	4,617	4,654	4,773 <sup>*2</sup>

Notes: 1. Diluted net income per share for 2013 is not written because no dilutive shares exist.

2. The cash dividend for the fiscal year ended March 31, 2017 was 55.00 yen per share, comprising an interim dividend of 5.00 yen and a final dividend of 50.00 yen. Because every 10 shares in the Company were consolidated into 1 share effective of October 1, 2016, the interim dividend of 5.00 yen was pre-consolidation and the final dividend of 50.00 yen was post-consolidation. When making calculations related to the share consolidation, the full-year dividend is considered to be 100.00 yen per share, comprising an interim dividend of 50.00 yen and a final dividend of 50.00 yen.

## Third-Party View



**Mr. Satoshi Chikami**

Executive Officer and Professor,  
Faculty of International  
Welfare Development  
Nihon Fukushi University

This year's Aichi Steel report focuses on defining materiality (priority issues) and responding to them fully. One of the report's key features is that, based on clear management thinking, it transparently and systematically outlines how the company is engaging in CSR activities and why it is doing so.

**Developments in how materialities are defined and responses to SDGs**  
Since last year, Aichi Steel has defined and responded to materialities based on SRI Guidance (G4). This year, however, the content of the report has been even more closely scrutinized and clearly denotes the core subjects pertaining to ISO 26000, as well as its relationship to SDGs targets.

Page 20 clearly shows how materialities correspond to key performance indicators, and which sections of the report they apply to. This increased integrity is particularly praiseworthy. The company's approach to contributing to the realization of sustainable local communities is clear as a result.

With regard to SDGs, the five materialities have enabled Aichi Steel to cover 12 of the 17 targets defined by the UN. The company's activities evidently have a significant influence on societal sustainability.

The report has therefore evolved such that the goals of Aichi Steel's various initiatives are easy to understand for stakeholders and readers. This is a development deserving of praise.

### Increasing the value of the Aichi Steel brand

In his message on pages 7–10, the president calls for Aichi Steel to become "an ever-better company." This is an extremely important and attractive message for raising the value of the company's brand.

It goes without saying that Aichi Steel products are used in various fields—including the automotive industry—the world over. Consequently, both the development of even better products that cater to societal needs and improvements to product quality via proper manufacturing methods are essential conditions for raising brand strength. At the same time, however, it is critical that the company's production bases located in Japan and overseas enhance their value to local societies. Such developments will not only increase the company's estimation in the eyes of local communities, but also enable employees to remain motivated and proud of the fact that they work for Aichi Steel. I look forward to further improvements in this area.

### Establishing new workstyles (pages 11–14)

The construction of the New Administration Building has engendered a significant shift in individual workstyles and

attitudes. Supported by thorough earthquake countermeasures and advanced energy-efficient technologies, various initiatives have been implemented so that the company's working environment and functions facilitate improvements in the employees' intellectual productivity. Employees who utilize staircase encounters on the eight-story "communication stairs" have already been introduced earlier in this report. I expect the New Administration Building to foment employee creativity and exchanges of opinion, and become a place which provides the energy required to generate new products that cater to societal needs. For this reason, "Innovation through communication" (page 13) is an excellent title. The Visitor Center is scheduled to be completed next March; I hope that it will serve as a base at which new initiatives for harmonious coexistence with the local community will thrive.

### Steadily continuing environmental action (pages 33–4)

In fiscal 2016, Aichi Steel drew up a new five-year plan entitled "Aichi Environmental Action Plan 2020." Details can be found on the e-version of this report. The effects of the January 2016 accident mean that total CO<sub>2</sub> emissions from the production process will fall just short of the 2020 targets. However, there have been steady gains in other fields: continuing 4S Re-engineering initiatives have resulted in major improvements to productivity, logistics have been optimized, and there have been reductions in byproducts from the production process.

The Aichi Environmental Action Plan 2020 will form the policy and plan for the company's environmental actions for the next five years. For this reason, while there are limits to what can be included in the paper version of this report, listing the targets for each component of the plan may well improve reader comprehension. Let us hope that such changes are implemented next year.

### Conclusion

Aichi Steel has set a lofty goal of achieving consolidated operating income of 20 billion yen by 2020, and the company has introduced a new in-house company system this year in order to achieve it. As an organization with flexible, high-quality governance functions, I have great hopes for further growth aimed at the generation of values that are shared by both company and society.

Note: This third-party view was written based on interviews with management and related parties.

## Response to the Third-Party View



**Ichiro Murakami**  
Senior Executive Officer  
Corporate  
Communications Div.

Professor Chikami has provided us with valuable insights and proposals since fiscal 2010, and we are extremely grateful for his support.

This fiscal year, we used the accident that occurred on January 8, 2016, as an opportunity to push forward new initiatives aimed at both realizing the New Aichi Steel, and at drastically strengthening our management structure by advancing our step-up plan and shifting to the new company system. We intend to consider those elements praised and criticized by Professor Chikami with the aim of continuing to grow sustainably.

Professor Chikami praised our association of ISO 26000 and SDGs, the increase of the value of the Aichi Steel brand, and the successful implementation of new workstyles. We intend to further develop these aspects of our company, and we will work hard to ensure that the fruits of our new workstyles lead to societal contributions

and annual growth.

The professor also indicated that, in order to increase the strength of the Aichi Steel brand, our production bases in Japan and overseas ought to improve their value to society. In addition, he proposed reporting the results of the Aichi Environmental Action Plan 2020 in an easier to understand manner. In order to remedy both these failings, the relevant divisions will work together on any issues and discuss what can be done to improve next year's report.

Finally, our Visitor Center will be completed next March. We intend to use the center to further strengthen communications with our stakeholders. Our aim is to become a company whose presence is cherished by locals and, from a CSV perspective, it is our intention to continue to contribute to local communities and the environment.



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## AICHI STEEL

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The idea expressed  
by the cover

#### Aichi Steel contributes to the continuous growth of people, communities, and the environment.

As a material manufacturer, we want to create paths to the prosperous society of the future and support the people who will live in it. It is with this desire that for three years starting this year the cover will tell stories of continuous development and growth of people, communities, and nature through the efforts of Aichi Steel. We hope that you will look forward to the changes made next year.