

AICHI STEEL

AICHI STEEL REPORT
2019



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.

Aichi Way

Common values and codes of conduct to be followed by all employees of the Aichi Steel Group.

We established the Aichi Way as common values and codes of conduct for every Aichi Steel Group employee to follow in order to help us continue growing as a global company and improve our corporate value.

As a universal spiritual guide for our employees to use when making decisions and implementing actions at work, the Aichi Way is the foundation for every initiative we pursue, from raising awareness of compliance and contributing to local communities to providing our many competitive products.

Now and forever, we aim to remain a trusted company by following the spirit of the Aichi Way and continuing to contribute to the sustainable development of society and the global environment.

Aichi Way Working together to be an even better company!



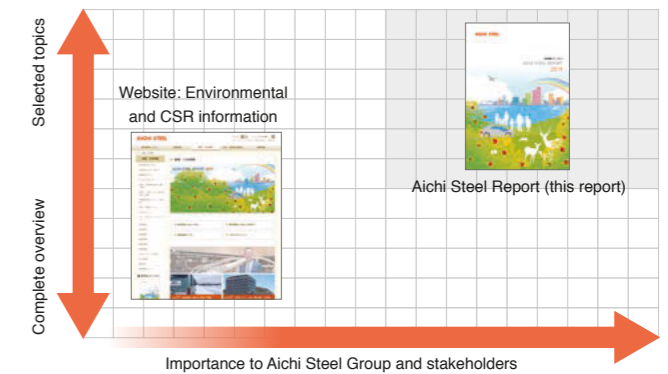
Editorial Policy

The Aichi Steel Report 2019 was prepared to assist understanding among our many stakeholders of the approaches taken by Aichi Steel and the Aichi Steel Group in fiscal 2018, ended March 31, 2019. 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, with the goal of transformation at our core, we have written our report with a focus on clear communication of growth strategies, and the value we will contribute to society during this major once-in-a-century transition. Use of color, volume of text, text size and other factors were taken into consideration to create a more easily readable report.

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.



Readers

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

Reference Guidelines

GRI Standards
 ISO 26000 (Corporate Social Responsibility)

Report Period and Scope

The Report covers activities conducted by the Aichi Steel Group during fiscal 2018 (April 2018 to March 2019). However, some activities conducted before or after fiscal 2018 are also explained where necessary.

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

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.

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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 buildings

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



Seismic strengthening works of a five-story pagoda

Medical

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.



Car

We are contributing to lower fuel consumption and higher performance.

[Forged Products]

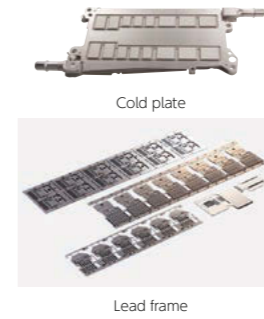


[Electro-Magnetic Products]

MAGFINE® magnets and seat motor

Hybrid vehicles (HV/PHV)

We are supporting the electrification of environmentally friendly vehicles.



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.



Tunnels

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

Farm, vegetable garden



Building



Agriculture, greenings

"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

Grass trimmers, drones

MAGFINE® is enabling manufacture of lighter equipment for agriculture and forestry.



Buildings, stores

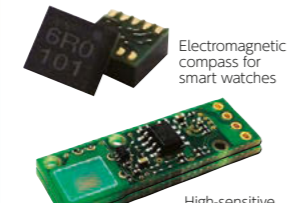
Stainless steel is used for diverse applications for its design and corrosion resistance, contributing to extended life of building appearances and concrete structures.



Seismic strengthening works at a sewage treatment pumping station Entrance eave, curtain wall

PCs, smart watches

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



Electromagnetic compass for smart watches

High-sensitive MI sensor

Stations, airports

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



Station skywalk

Handrail

Construction machineries

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



Boss

Front idler

Propeller shaft

Roads

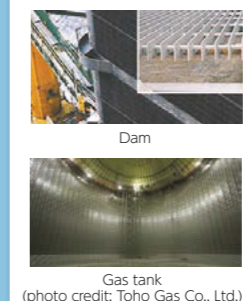
Slag, a steel making byproduct, is used as a recycled material in road subbase course material, reducing environmental impact.



Dam

Energies

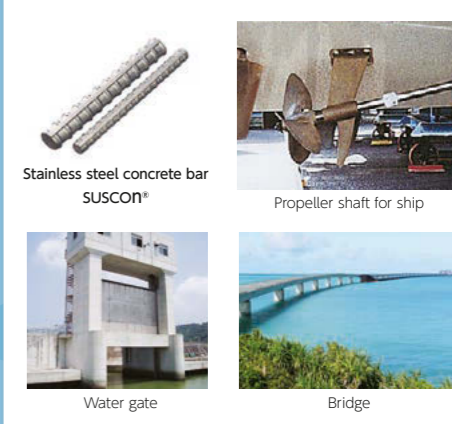
Our products are also used in energy applications that require strength and durability such as storage tanks, dams, and wind power facilities.



Gas tank (photo credit: Toho Gas Co., Ltd.)

Ships, water gates, bridges, plants

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



Stainless steel concrete bar SUSCON®

Propeller shaft for ship

Water gate

Bridge

Tunnel



Water gate



Hydrogen station



Railway



Shopping center



Car



Hospital



Dentistry



Crane



Power shovel



Dump truck



Storage tank



Wind power



Chemical tanker



Bridge



Value Creation Model

Even as our environment undergoes drastic changes, we will address social challenges through our business activities and realize our vision, supported by the spirit of our founder and his belief that "Great cars are made with great steel."

Aichi Steel employees, who all carry the spirit of the Aichi Way, will continue to provide value to society, and work to achieve the goal of co-creating a new smart society through materials, by leveraging the strengths of materials developed since foundation in each of our business domains.



About the Sustainable Development Goals

The Sustainable Development Goals (SDGs) were adopted at a United Nations summit in September 2015 as a number of goals for creating a sustainable world. The global community is working together to achieve the goals. Aichi Steel is also committed to the achievement of the SDGs through its businesses.

Co-creating a new smart society through materials

Identity

Strengths

Businesses

Value for Society

Roots/DNA of Aichi Steel

- Established to manufacture the specialty steels required for automobiles
- Toyota Group's only materials manufacturer, supporting the basic performance of automobiles

Mission

At foundation:
"Great cars are made with great steel"

Now:
"A great society comes from great materials"

Next:
"Co-creating a new smart society through materials"

Changes in society and the environment

- Global warming and air pollution
- Urbanization and aging populations
- Information technologies and intelligent technologies
- Changes in automobiles
- Automation and driverless technologies

Systems and people

- Business organization comprising Companies and a Corporate Office
- HR diversity and HR development systems to support sustainable growth

Development and manufacturing capabilities

- Material development capabilities handed down since foundation
- Magnet and sensor technologies derived from steel manufacturing
- High quality, stable manufacturing capabilities developed by the Toyota Group

Networks and cooperation

- Global production and sales sites
- Robust supply chains
- Future-focused business and technical collaborations

Financial foundation

- Healthy and robust financial foundation
- Varied financing channels
- Cash flows with highly efficient capital

Existing businesses

Hagane Company



Specialty Steel

Kitaeru Company



Stainless Steel / Titanium

Smart Company



Forged products



Electro-magnetic products

Expanded further

value through creativity and leveraging of existing strengths



Laying the foundation for new businesses

Batteries EVs	Electronic components HV's, EV's, FCV's	Motors and magnets EV's	Smart Transportation Systems Autonomous driving	Advanced functional materials Sensing and medical	Environment and energy Global environment, agriculture and biotechnology
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New value

focused on social changes and needs

Supporting safe and convenient mobility

- Autonomous driving support
- High strength, high performance materials to support running, turning and stopping
- Support for vehicle electrification (EVs/FCVs)

Maintaining human and global health

- Medical equipment
- CO₂ reductions through support for vehicle electrification (EVs/FCVs)
- CO₂ reductions through high strength, high performance materials for lightweighting vehicles
- Soil improvement and greening



Creating an exciting future

- Superior design and maintenance-free stainless steel
- Aerospace, oceanic and underground development: Developing materials that make our dreams come true

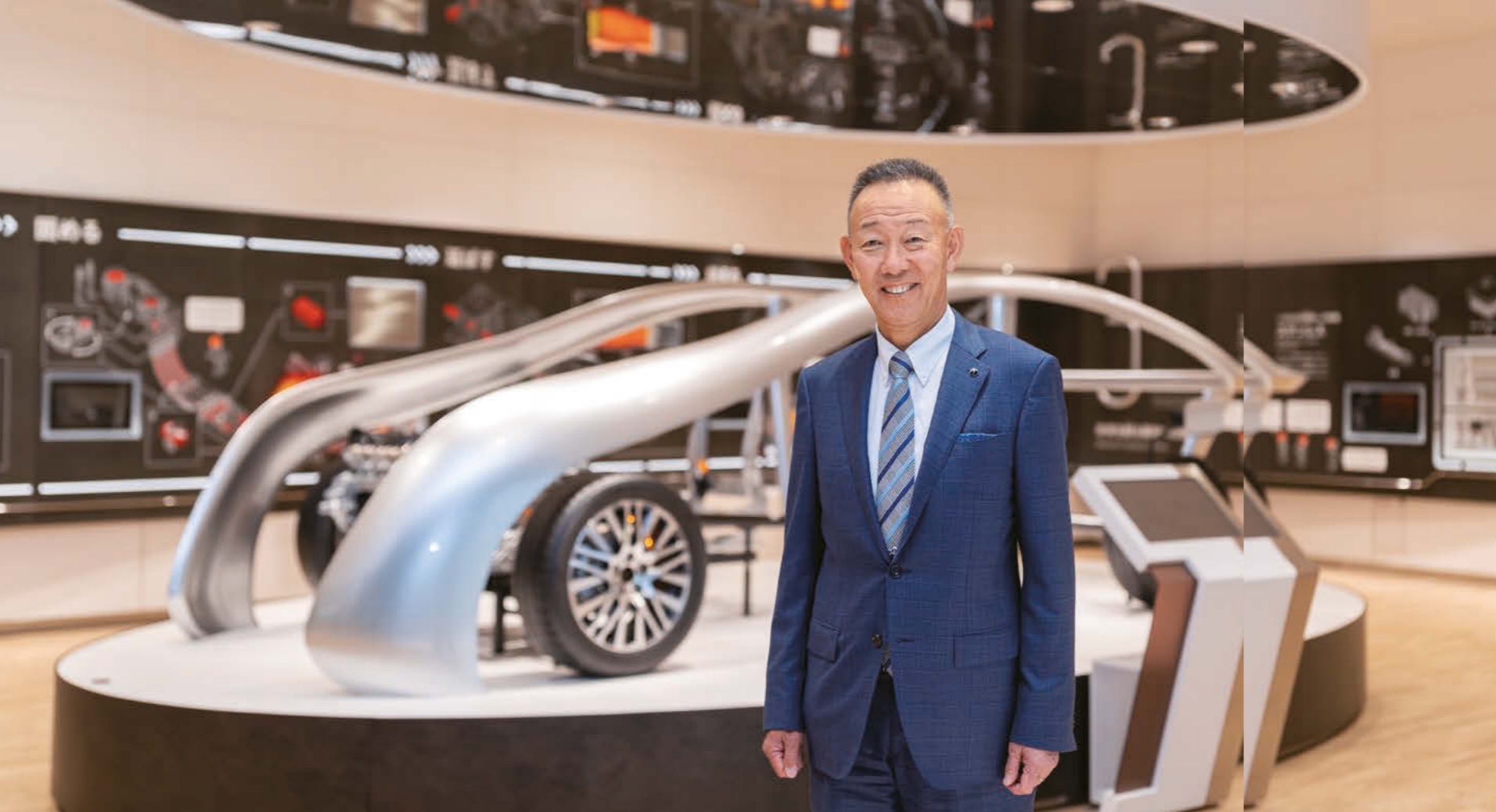


Business foundation that supports steady growth

- ESG management (Environmental, Social and Governance)
- Risk management and compliance
- Prioritization (safety, quality, production, costs)
- Employee contentedness and growth

Aichi Way

Densho 伝承 Sustain	Kansha 感謝 Appreciate	Souzou 創造 Create
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Message of Commitment from the President

Swinging the Pendulum Higher and Accomplishing Transformation as a Group

President **Takahiro Fujioka**

Part 1 Major Transition in the Business Environment

Taking a hard look at materials

The business environment is continuing to undergo rapid change as the automotive industry, where our major customers are, faces a major once-in-a-century transition. Electrification of vehicles in particular has an enormous impact on our company and brings with it a serious sense of urgency. However, **new businesses never develop without a healthy sense of urgency.** We are also currently tackling the new CASE* era. At the **core of this challenge is the DNA of Aichi Steel.** Our founder had a belief that "Great cars are made with great steel," but going forward, **we will contribute to society through materials** with the conviction that "A great society comes from great materials."

* Acronym for Connected, Autonomous, Shared & Services, and Electric.

Transformation (FY2019 goal) and the Aichi Way

During fiscal 2018, we surpassed our plan for consolidated net sales by a wide margin. I believe we

achieved these results because we were able to supply products that met our customers' needs in a timely manner. On the other hand, operating profit fell short of the plan because our purchase costs rose sharply and exceeded any benefit we received from reduced cost of sales and increased prices. This means that our **earning power is still insufficient.**

The reason we chose "transformation" as our goal for fiscal 2019 is because **without changing awareness and systems, and without reform, we will not be able to survive this major transition.** Established in 2018 as a set of universal values for all our employees to share, **the Aichi Way acts as a support for our company as it works together to meet this turbulent period head-on.**

Targeting steady growth

To fulfill our mission of delivering high-value products to every customer, **it is important that our production systems are able to flexibly, quickly and accurately respond to fluctuations in demand.** We are currently **building those systems while minimizing costs.** Another thing we are working on is improving consolidated

profitability by leveraging the capabilities of Aichi Steel Group companies. Our Group companies are active in various areas of demand, **where we are aiming to maximize profits on a consolidated basis.**

Our existing businesses are currently focused on four different areas. They are (1) enhancing our stainless steel business, (2) driving product development by leveraging our integrated forging and steel making, (3) filling orders for electronic components, and (4) enhancing our magnet business. By implementing these efforts while sowing seeds for new businesses, we are achieving **steady growth.**

Contributing to the resolution of social issues, and ESG initiatives

Over recent years, a number of social issues are materializing, such as environmental issues and aging societies. With the adoption of the SDGs by the UN and increasing interest in ESG investment, **it is expected that efforts be made to achieve sustainable growth for society as a whole and for companies individually.** I believe that **we should achieve corporate growth by**

helping to solve social issues. In addition to improving financial value, we must also improve social value before we can achieve sustainable corporate growth and improve corporate value.

For this reason, we are **incorporating ESG perspectives in our management approach.** We focused on governance in particular this year and made changes to our Board of Directors. In addition to reducing the number of directors to six and increasing the ratio of independent outside directors, we are also providing opportunities for them to discuss special topics, such as current issues and medium- to long-term business strategies. We also established a voluntary Director Remuneration and Personnel Planning Committee, which has an independent outside director as chairman and consists of the majority of other Board members. The Committee discusses nomination of director and auditor candidates, selection and removal of senior management, and remuneration for directors and senior management, and then reports to the Board. Through this process, **we are working to increase activity on the Board of Directors, and improve its transparency and objectivity.**

Part 2 Efforts to Contribute to a Smart Society

Swinging the pendulum higher

Going forward, we will continue contributing to a smart society as typified by CASE and MaaS* technologies, by leveraging our development capabilities and providing even higher value-added materials. I always talk about "swinging the pendulum higher," which means looking at things from a completely new perspective and breaking through the status quo with bold ideas and actions. We will broaden our perspectives to include areas such as infrastructure and medicine, and will continue making steady progress with initiatives focused on the smart society of the future.

* Acronym for Mobility as a Service. A new concept for treating all modes of transportation, except personally-owned vehicles, as a single mobility service.

Developing autonomous driving support systems

In response to CASE, we are currently developing a magnetic marker system as an autonomous driving support system. Developed independently by Aichi Steel, this system employs MI sensor modules on vehicles to detect very weak magnetism from magnetic markers laid in the road, from which it can estimate

vehicle position with a high degree of precision. The system provides support in places where GPS- and camera-based autonomous driving is difficult. In December 2018, we joined partner enterprises to conduct joint trials of a bus rapid transit (BRT) system in Rikuzentakata City, one of the areas affected by the Great East Japan Earthquake. To quickly bring this to market, we are preparing to conduct more trials under a range of conditions and develop these technologies into a system package that we can offer.

We are also working to increase our competitiveness in automotive-related technologies. We are doing this by expanding our stainless steel business, developed for hydrogen stations and fuel cell vehicles (FCVs), and by adopting the latest forging machines to manufacture drivetrain components, where demand is high despite electrification being well advanced, to generate the high yields* and high productivity that are our strengths.

* Yield: The ratio of product weight against the weight of materials required for production of those products.



▲ Newly adopted forging machine used to manufacture ring gears

Entering the fields of medicine and agriculture

Amorphous wire, a metal fiber with strong magnetic properties, is already being used for catheters in the medical field because of its exceptional sensing capabilities. We also expect it to have uses in many other applications in the future. Plant growth activators, which we are researching jointly with Tokushima University, are another new development with the potential for considerable growth. About 30 percent of cultivated land globally apparently has soil where plants struggle to absorb iron and crops are difficult to grow. We expect that if plant growth activators can be mass produced, then we can contribute to eliminating food shortages on a global scale by making barren land suitable for cropping and increasing harvest volumes.

Part 3 Aichi Steel's Vision as it Approaches its 80th Anniversary

Making the most out of every situation

This is the third year since we adopted our in-house company system. I feel that as a result, compared to when we operated with a divisional business structure, we now have a stronger sense of ownership and solidarity in taking responsibility for all manner of things.

The "Step Up Plan" activities we launched after the accident of January 8, 2016* have now come to an end. In light of the enormous trouble this caused to society and customers, we have spent the three years of this plan thoroughly identifying the causes of the accident, making improvements, and strengthening our corporate structures. Of course, we will not stop there. In the future, we will ensure the lessons learned over these three years are fully entrenched within the company and we will face new issues as they arise. We will continue to show society our commitment to making the most out of every situation and becoming stronger as a result.

* On January 8, 2016, an explosion occurred in the No. 2 Bar Mill Shop at Aichi Steel's Chita Plant.

Driving workstyle reform

One of the goals of our Medium-term Management Plan is the strengthening of our business foundation. Essential for achieving this are active people and organizations, and a shared happiness in aligning growth of individual employees with growth of the company.

With these thoughts in mind, we are driving workstyle reform at Aichi Steel. As a tangible initiative, we completed construction of our new administration building in March 2018. With a range of ideas to

encourage communication and the latest energy-efficient design, the new building has not only increased employee satisfaction but has resulted in Aichi Steel receiving the New Office Promotion Award and the Chief of Chubu Bureau of Economy, Trade and Industry Ministry Award, at the 31st Nikkei New Office Awards sponsored by the New Office Promotion Association and Nikkei Inc.

As an intangible initiative, I took the lead in establishing and following a set of action guidelines for managers that will serve as a model for the workers. We are also promoting the use of teleworking systems and use of parental leave by men as ways to help women play even more active roles.

In November 2019, we will open our new recreation hall. This new facility will be a direct result of the hard work of our employees and when they use it, I believe they will feel even happier to be working at Aichi Steel.

Becoming a company that the community needs

Communication with people in the local community is extremely important. Since January 2019, we have been using display rooms in the administration building to hold plant tours for the general public and elementary school students. We also plan to open up to the public the convenience store and restaurant located within the new recreation hall.

In 2020, we will celebrate our 80th anniversary. We strive to be an attractive company that is continually welcomed by everyone in the community and to that extent we will continue creating great products and working to create ties with the community.



▲ Awards received at Nikkei New Office Awards



▲ New recreation hall (illustration only)





Special Feature

01 Creating a next-generation smart society

Contributing to Autonomous Driving Evolution Through Materials

Using smart technologies to resolve social issues

Right now, people all around the world are researching and developing autonomous driving technologies. The majority of development is focused on using GPS and camera image recognition technologies, but those alone are unable to cover all driving scenarios. For example, GPS does not reach some hilly and mountainous areas or in tunnels. In areas of heavy snowfall as well, there is a risk that the road dividing lines will be covered by snow and the camera image recognition reliability will drop. In many of these areas as well, communities are facing the urgent challenge of securing local transportation options because of reduced or canceled rail and bus services due to labor shortages and financial difficulties resulting from aging and declining populations.

Since 2017, we have been collaborating with national and local governments, and East Japan Railway Company, to trial an autonomous driving system in various regions. This magnetic marker system, developed independently by Aichi Steel, is able to support GPS and camera image recognition technologies.

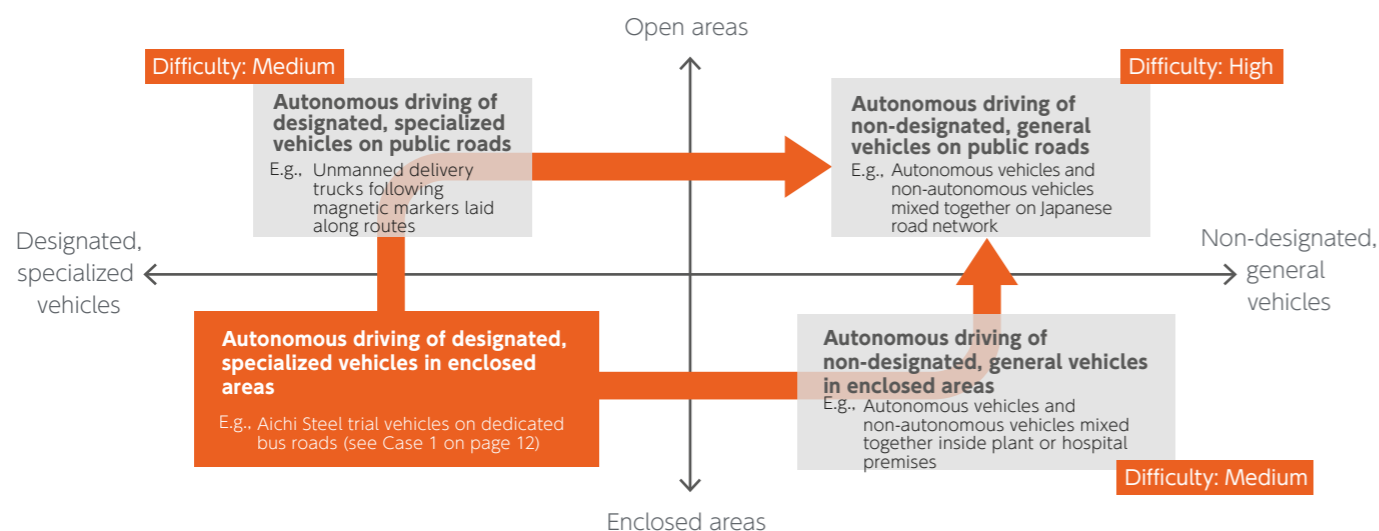
TOPICS

Frontier Research and Development Div.

In preparation for the arrival of a smart society, this division was established in 2018 for the purpose of creating new businesses. The division is driving research and development in a total of six fields—Smart Transportation Systems, Batteries, Electronic components, Motors and Magnets, Advanced materials, and Environment and energy.

Autonomous driving business areas for Aichi Steel

To quickly respond to urgent social challenges, we are conducting autonomous driving trials of designated, specialized vehicles in enclosed areas, which we expect can be achieved in the near-term. In the future, we will look into the potential of these technologies in open areas and non-designated, general vehicles as part of efforts to achieve autonomous driving of non-designated, general vehicles on public roads.



CASE 1 Joint seven-company project with East Japan Railway Company and others

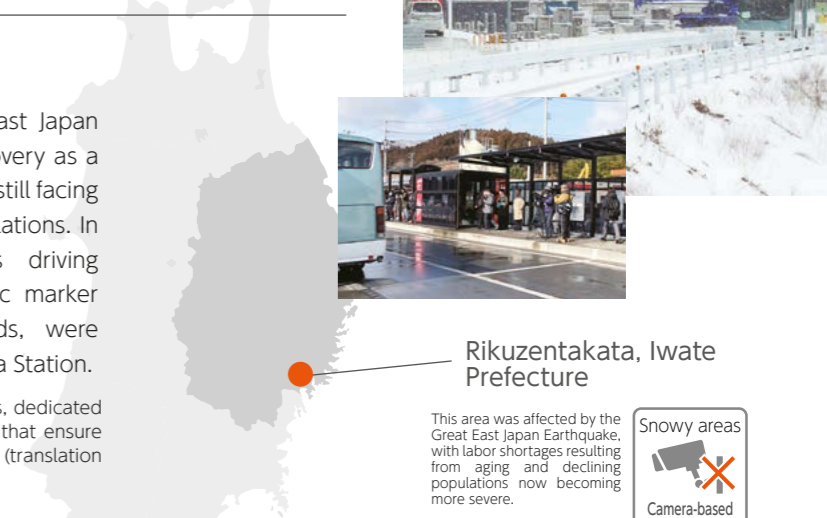
Autonomous Bus Trials on JR Ofunato Line BRT*

Period: December 2018 to March 2019
Area: Vicinity of Takekoma Station on JR Ofunato Line BRT

Having sustained considerable damage in the Great East Japan Earthquake, the JR Ofunato Line is in the process of recovery as a BRT system*. However, the area serviced by the rail line is still facing labor shortages resulting from aging and declining populations. In hope of addressing this issue with autonomous driving technologies, trials of a BRT system, using a magnetic marker system that functions even on snow-covered roads, were conducted on dedicated roads in the vicinity of Takekoma Station.

* Bus rapid transit system: A bus system, combining articulated buses, dedicated bus roads, bus lanes and other elements, with advanced features that ensure rapid, on-time performance and enable increases in transit capacity. (translation of MLIT definition)

- POINT**
- Model case for restoration support
 - Safe transportation within unique BRT alternating traffic zones (controlled by traffic signals via wireless exchange of bus locations)



Rikuzentakata, Iwate Prefecture

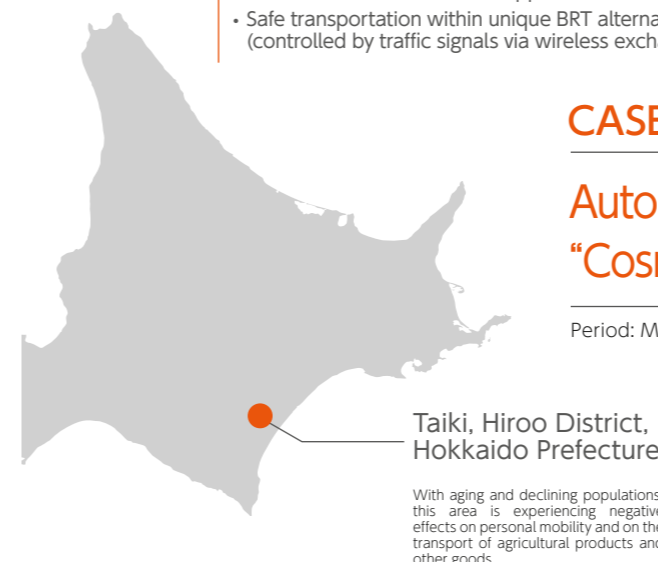
This area was affected by the Great East Japan Earthquake, with labor shortages resulting from aging and declining populations now becoming more severe.



CASE 2 Joint project with MLIT

Autonomous Driving Service Trials at the "Cosmall Taiki" Michi-no-Eki (Roadside Rest Area)

Period: May to June 2019
Area: Two routes centered on Cosmall Taiki roadside rest area (Level 2 trial of buses with up to 17 passengers traveling at speeds of up to 40 km/h)



Taiki, Hiroo District, Hokkaido Prefecture

With aging and declining populations, this area is experiencing negative effects on personal mobility and on the transport of agricultural products and other goods.



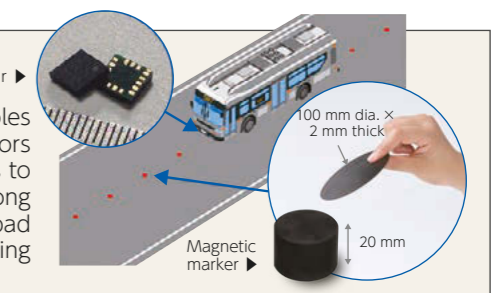
In the village of Taiki in Hiroo District, Hokkaido Prefecture, there are areas at night and when there is snow cover where image recognition reliability is poor. Trials have been conducted of a service that uses a magnetic marker system to follow two routes from the Cosmall Taiki roadside rest area, with fares actually collected from passengers.

- POINT**
- 15 services each day, with maximum of 17 passengers, and speeds of up to 40 km/h
 - Used by residents for a variety of reasons, including as daily transport and for transporting agricultural products to the roadside rest area
 - Planned for commercial operation by 2020

TOPICS

Magnetic marker system

The magnetic marker system is a unique Aichi Steel technology that enables vehicle position to be estimated with a high degree of precision. Magnetic sensors (MI sensor modules) are attached to the underside of buses or other vehicles to detect the very weak magnetism from magnets (magnetic markers) laid along travel routes. In this way, the system enables stable autonomous driving in bad weather, snow and tunnels where GPS- and camera-based autonomous driving may be difficult.





Special Feature

02

Targeting new workstyles and coexistence with the community

Benefits of New Administration Building, a Symbol of Transformation

The main building of the new administration building was completed in January 2017, and the hall was completed in March 2018, as tangible support for employee transformation. In use now for about two-and-a-half years, the main building is receiving positive reviews from outside the company as well. One example is the 31st Nikkei New Office Awards*, where the building received the New Office Promotion Award and the Chief of Chubu Bureau of Economy, Trade and Industry Ministry Award. It has brought a range of benefits from the four perspectives below—enhancing business continuity systems, supporting new work styles, halving energy usage, and coexisting with the community. Going forward, in combination with intangible initiatives, it will help drive further employee activity and provide support during this period of transformation.



* Sponsored by the New Office Promotion Association and Nikkei Inc., these awards recognize originality and invention in creating advanced office spaces.

Work

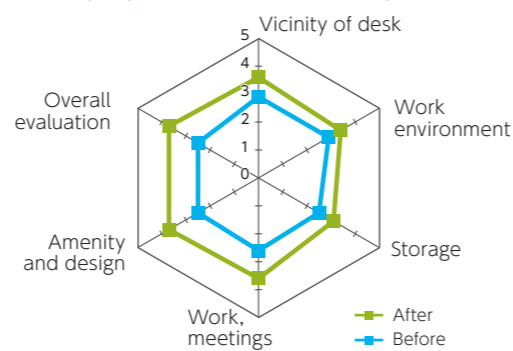
Supporting new work styles

The new administration building was developed as a model for our future offices for the purposes of improving intellectual productivity and supporting diversity of our staff. A range of ideas were incorporated into construction, including our “Communication Stairs” that encourage lively communication between employees, work areas that respond flexibly to organizational changes, and an IT environment that enables people to work from anywhere inside the building.



Intellectual productivity

Employee satisfaction survey



Satisfaction improved for all indicators

60% of respondents answered “intellectual productivity has improved”

(Results of internal survey)



BCP

Enhancing business continuity systems

The new building has a seismically isolated structure able to withstand a large earthquake of intensity 7, and an emergency power generator able to run for 72 hours. With the ability to provide an Emergency Control Headquarters and evacuation area during emergencies, it acts as the business continuity center for the whole company.



Emergency generator power capable of 72-hour operation



Built to withstand intensity 7 earthquake



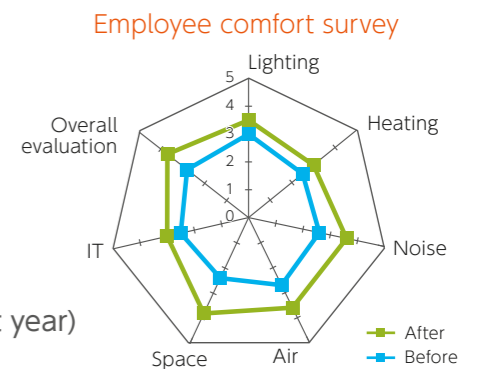
Energy

Halving energy usage

The building uses an all-surface radiant air conditioning system (ceiling, windows, and floors), high efficiency LED light fittings, and other technologies to achieve energy efficiency, and incorporates specifications that create a comfortable lighting, noise and air environment.



Power consumption per unit area (compared to last year) **50.5% less**



Comfort improved for all indicators

Community

Coexisting with the community

A Visitor Center has been established with easy-to-understand displays depicting the founding of Aichi Steel, its steel making business and its contributions to the future. From this fiscal year, we rearranged our plant tours to start from this Visitor Center so that people in the local community can also enjoy visiting the company.



Visitor Center visitors **2,500 people approx.** (FY2018)

TOPICS

New recreation hall

Built on the basic concepts of Sustain, Appreciate, Create, from the Aichi Way, which was established as common values and codes of conduct for Aichi Steel, the recreation hall is designed to blend in with the administration building. Its facilities include a convenience store, restaurant, communication lounge and multipurpose hall. It will be opened in November 2019.

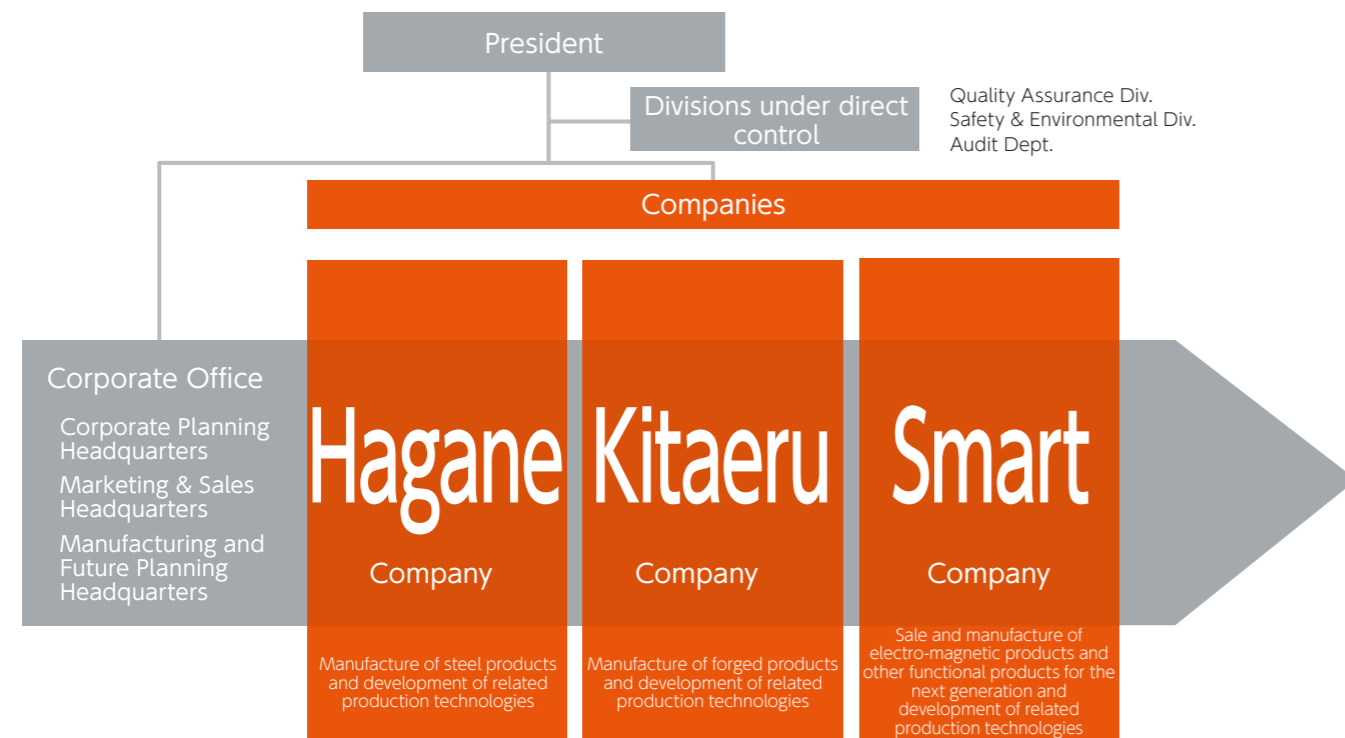
New recreation hall (illustration only)



Aichi Steel's Medium-term Management Plan and In-house Company System

Anticipation of a Paradigm Change in the Automotive Industry "Reinforcing Business Foundations & Creating New Businesses"

Right now, Aichi Steel needs to reinforce its business foundations and create new businesses in anticipation of a paradigm change in the automotive industry. To achieve these goals, we have established our 2020 Medium-term Management Plan based on compliance and governance and with the priority measures of enhancing profit-earning, strengthening business foundation, and laying the foundation for a smart society. We are implementing this plan with our three in-house companies playing a central role.



Company Presidents Talk about the Present and Future of Aichi Steel

Hagane Company

Manufacture of steel products and development of related production technologies

Specialty Steel Business Management Div., Stainless Steel Business Management Div., Chita Plant, Kariya Plant, Hagane Production Engineering Div.

◆Main subsidiaries AIKO CORPORATION, AICHI CERATEC CORPORATION, OMI MINING CO., LTD., Aichi Techno Metal Fukuami Co., Ltd., Aichi Steel Logistics co., Ltd.

Example of products



Specialty steel



Stainless Steel / Titanium

1. Current business environment and risks

In fiscal 2018, we increased production to meet high demand by running our production lines at full capacity. We actually achieved our target net sales for fiscal 2020 but as the impact of a recent slowdown in the Chinese economy becomes clear, the future for steel demand is uncertain. There is also a risk of steep price rises for resources, such as the steel scrap used as raw materials, and for secondary materials such as the electrodes used for melting steel. Therefore, we have to achieve greater efficiencies and reduced costs if we want to achieve our profit targets.

2. Initiatives for fiscal 2020

We are implementing a range of initiatives in preparation for this risk of decreased profits, including reducing loss through all production processes (steel making, rolling and refining), reducing purchase costs through such measures as using imported products and purchasing from multiple companies, and improving specific consumption by extending the life of refractory materials. In this way, we are striving for "true profit-earning improvements" to help us achieve our fiscal 2020 profit targets.

As part of these profit-earning improvements, we established a separate Stainless Steel Business Management Division and created systems able to meet high demand for stainless steel products. In addition to the automotive market, we also plan to accelerate business expansion in the highly profitable stainless steel market in the future.

3. Growth vision for a smart society

The coming mobility revolution is a certainty. With this change will come a decline in the amount of specialty steels used around engines. However, there will continue to be a need for gears, shafts and other drive transmission components. At the same time though, we expect more and more reductions in size and weight. We have identified opportunities for us in the mobility revolution, including development of high strength steels for next-generation drive transmission components.

From a global perspective, pockets of high demand for specialty steels will remain into the future, so we are cooperating with corporation divisions in areas such as market surveys and analysis, and looking for opportunities to enter into new markets.

In this way, in addition to stainless steel and other non-mobility related fields, we will investigate growth strategies and will expand in mobility fields as well.

Leveraging the mobility revolution as an opportunity, we will accelerate an even broader business expansion going forward.

Takashi Ishigami Managing Executive Officer and Hagane Company President

Profile | After working as Smart Company President, Takashi Ishigami took on the role of Hagane Company President in April 2019.



Kitaeru Company

Manufacture of forged products and development of related production technologies

Kitaeru Business Management Div., Forging Production Engineering Div., Forging Plant

◆Main subsidiaries Asdex Corporation, AICHI FORGE PHILIPPINES, INC. (AFP), Aichi Forge USA, INC. (AFU), AICHI FORGE (THAILAND) CO., LTD. (AFT), Shanghai Aichi Forging Co., Ltd. (SAFC), PT. AICHI FORGING INDONESIA (AFI)

Example of products



CVT shaft

Crankshaft

1. Current business environment and risks

In the short term, the Chinese economy will slow down, while in the medium to long term, we will see engine downsizing and greater electrification. Due to the impact of these changes in the business environment, we are experiencing declines in order volumes for our forged products. On the other hand, because we are not doing enough about reducing quality-related losses, and appropriately responding to reduced production volumes by allocating people, things and finances without waste, we are experiencing increased costs in manufacturing that are putting pressure on profits.

2. Initiatives for fiscal 2020

With manufacturing, we believe there are two areas where we need to continue our efforts: adding value and reducing costs. This year, we are focusing our efforts in particular on reducing costs to build the foundations of our response to the above unfavorable conditions. As a measure to tackle quality defects at the source, we are pouring resources into managing costs appropriately according to fluctuations in volume as we reduce quality losses and tighten budget management. To reduce quality losses, we are making more effective use of the inspection data built up over the years to drill down into the mechanisms behind each type of defect, and truly tackle the source of our problems. Through these activities, we are working to improve costs and deliver true improvements to our manufacturing capabilities.

Using our strengths in integrated forging and steel making, we will forge greater competitiveness to survive this period of transformation.

Motoshi Nakamura Senior Managing Executive Officer and Kitaeru Company President

Profile | After working as Assistant General Manager, Manufacturing and Future Planning Headquarters, Motoshi Nakamura took on the role of Kitaeru Company President in April 2019.



3. Growth vision for a smart society

The automotive industry is experiencing a major once-in-a-century transformation. In this changing environment, we expect to see reduced total demand in the forging industry and a shakeout of inefficient companies, but the survivors will definitely see increased order volumes. We will be able to survive this period by leveraging the great strength of Aichi Steel, a unique system with material produced by the in-house Hagane Company, achieving true integrated forging and steel making processes, and pursuing better quality, lower cost manufacturing. At the same time, we will manufacture products with greater value and evolve from simple manufacturers of forged products into manufacturers of components.

Smart Company

Sale and manufacture of electro-magnetic products and other functional products for the next generation and development of related production technologies

Smart Business Management Div., Sensor Business Dept., Magnet Business Dept., Electronic Components Business Dept., Smart Production Engineering Div., Higashiura Plant, Gifu Plant, Seki Plant, Electronic Components Plant

◆Main subsidiaries Aichi Micro Intelligent Corporation, Aichi Magfine Czech s.r.o. (AMC), Aichi Magfine Technology (Pinghu) Co., Ltd. (AMT), Aichi Europe GmbH (Ae)

Example of products



Lead frame

Electric compass for smart watches

Magnet

1. Current business environment and risks

While our electronic components business is doing well due to increasing demand for lead frames for hybrid vehicles (HVs) and electric vehicles (EVs), our magnet business is experiencing some decline, so overall business remains steady. The electronic components business is anticipated to continue growing but it faces risk if electrification of vehicles slows down in China or elsewhere. The magnet business is subject to large demand fluctuations outside of Japan in particular, so the risk it faces is that the future is uncertain.

2. Initiatives for fiscal 2020

To enable our electronic components business to meet future demand increases, we have extended lead frame production lines at our Gifu Plant. At the same time however, we are also focused on increasing capacity of existing production lines. In our magnet business, we have been developing magnets aimed at smaller and lighter products, and as a result they are starting to be used in drone motors and other new fields. While increasing the competitiveness of our production lines, we are currently also diversifying them for non-automotive fields as well and developing the framework for stable business operations. In addition to these core businesses, we are implementing a wide range of other initiatives, including application of Aichi Steel's unique amorphous wire products to the medical field and use of our TetsuRiki Agri products in agriculture.

We will continue to leverage our ability to develop products from materials, and create products that no other company can match.

Katsunori Kojima Managing Executive Officer and Smart Company President

Profile | After working as Kitaeru Company President, Katsunori Kojima took on the role of Smart Company President in April 2019.



Priority issues (Materiality) for the Aichi Steel Group



To make an even greater contribution to achieving a sustainable society, in 2016, 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.

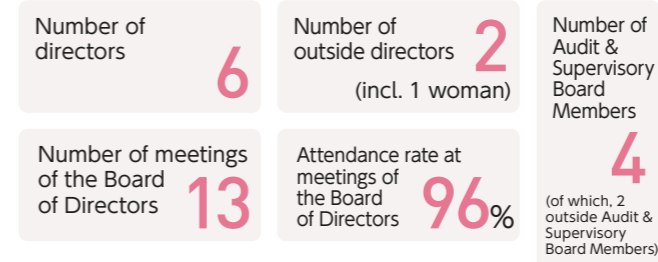
We are now working to establish CSR objectives and plans that will help resolve these issues.

Items selected as priority issues

Items selected as priority issues	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	→ Web (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 promotion system)
	Compliance (product responsibility)	Certification and review by a third-party organization	→ p. 27 (Third-party certifications)
2 Encourage 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. 26 (Frequency rate and number of accidents resulting in lost work time)
	Mechanism for handling grievances regarding labor practices	Labor incident record of accepting, handling and resolving complaints through an in-house consultation office (number of cases)	→ p. 22, p. 25, p. 26 (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. 25 (Initiatives toward diversity)
3 Provide highly competitive products that are safe and secure and offer new value globally	Products and services	Status of quality improvement efforts (number of recognitions received and description)	→ p. 28 (Awards for Group companies)
	Training and education	Sales staff training, quality improvement activities (number of times held, number of participants, etc.)	→ p. 28 (Training programs for sales staff)
	Marketing and communications	Gathering of customer evaluations (number collected and percentage of improvements, resolutions, etc.)	→ p. 28 (Collection of customer evaluations)
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. 29 (Annual number of volunteers)
	Local communities	Status of local community development programs (plans and achievements against those plans)	→ p. 30 (Interaction with the community)
5 Strengthen initiatives toward manufacturing in harmony with the global environment	Energy consumption	Breakdown of energy use (CO ₂ emissions)	→ p. 20, p. 32 (Total CO ₂ emissions)
	Atmospheric emissions		
	Wastewater and waste	Volume of direct and indirect landfill waste	→ p. 20 (Volume of direct and indirect landfill waste)
	Biodiversity	Status of efforts to preserve biodiversity (replanting, number of volunteer activities, etc.)	→ p. 32 (Harmony with nature)
6 Establish a Solid Financial Foundation to Support Stable and Sustainable Growth	Financial performance	Profitability (operating profit, ROE, etc.)	→ p. 33-36 (Financial information for fiscal 2018)
		Soundness, capital efficiency (Net worth, interest-bearing debt balances, capital ratio, etc.)	

G Governance

Governance



Security



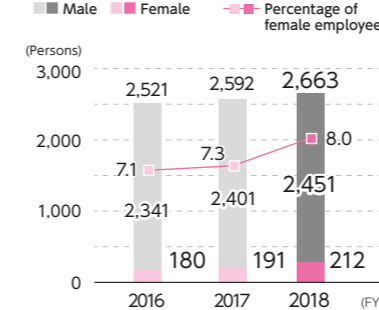
Compliance



S Social

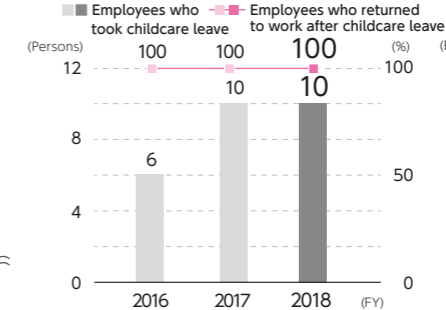
Diversity

Changes in number of employees

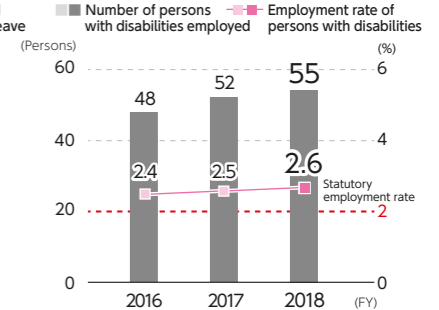


Women in management positions 4 (Proportion of all managers 1%)

Changes in childcare leave

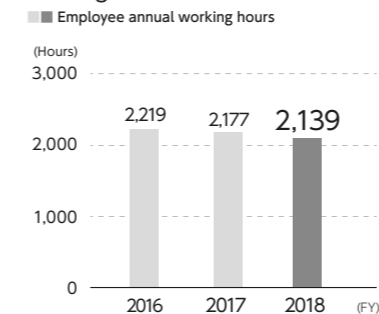


Changes in employment of persons with disabilities

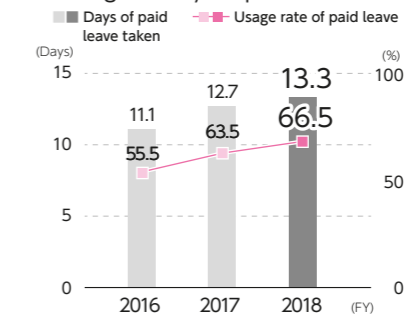


Workstyles

Changes in employee annual working hours

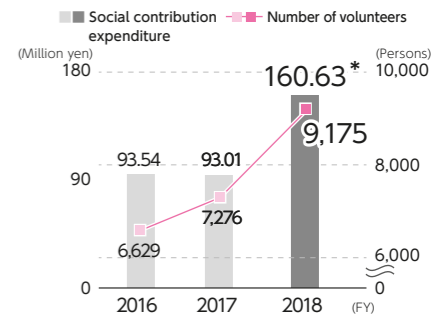


Changes in days of paid leave taken



Social contribution

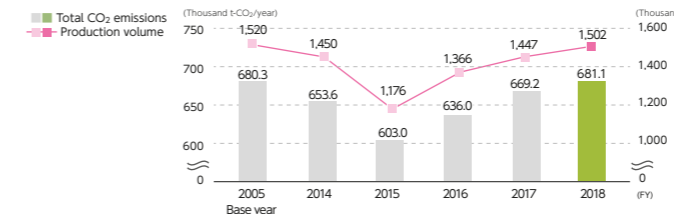
Social contribution expenditure and number of volunteers



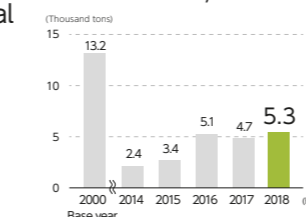
* Increase due to maintenance of Nakashinden green spaces (maintenance to promote coexistence with nature and biodiversity)

E Environmental

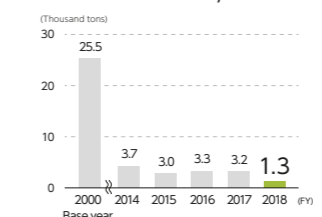
Total CO₂ emissions



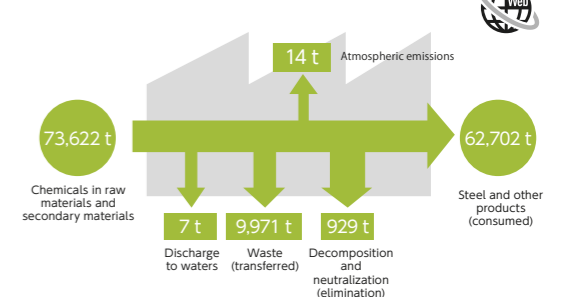
Waste sent directly to landfill



Waste sent indirectly to landfill



Companywide material balance of PRTR substances



Waste recycling rate

97.9%

Percentage of ISO 14001-certified subsidiaries

91%

Increase Compliance Awareness Globally, and Strengthen Corporate Sustainability

ISO 26000 relevance

- 6.2 Organizational governance
- 6.6 Fair operating practices

SDGs relevance

Materiality

The Aichi Steel Group is undertaking measures 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 conducting thorough employee training to quickly address risks.

Corporate governance

Basic approach to corporate governance

The basic CSR policy of the Aichi Steel Group is "striving to contribute to sustainable development of society and the Earth through sound corporate activities." With this in mind, we aim to manage our company in a way that always enjoys extensive trust of our shareholders and 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 fully comply with the Corporate Governance Code, and submit a report regarding disclosure to the Tokyo Stock Exchange. We review our compliance status once a year and make amendments or changes as required.

Aichi Way

In January 2018, we established the Aichi Way as a set of universal values and codes of conduct for the Aichi Steel Group with a focus on the three concepts of Sustain, Appreciate, and Create. By instilling the Aichi Way among all Group officers and employees, and ensuring each person puts it into practice, we aim to strengthen our business foundations and show our integrity as a business group.

Working together to be an even better company!

Aichi Way Densho 伝承 Sustain Founding spirit	Noble ambitions	Value the spirit of our founders, who ambitiously created from scratch the steel to manufacture Japan's first domestic motor vehicle.
	Sincerity	Face all things with sincerity, taking ownership, and approach your work with an attitude of "I will."
	Genba-ism	Go to the workplace and see for yourself (Genchi Genbutsu), then resolve problems by reducing the gap between the fundamental principle (Genri Gensoku) and reality.
Kansha 感謝 Appreciate Happiness for everyone	Customers and team members	Contribute to society by producing products that are chosen by customers, and create a company where teamwork fills our team members with happiness.
	Good thinking Good products	Always anticipate the future, use our knowledge and curiosity to maximize creativity as good products come from good thinking and combine our strengths to head into a new world.
Souzou 創造 Create Heading to a bright future		

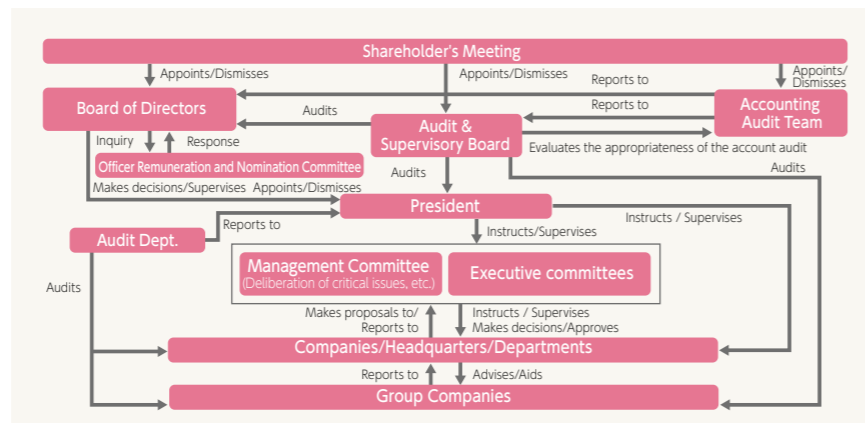
Corporate governance structure

Aichi Steel uses an Audit & Supervisory Board. This system concentrates authority and responsibility for business execution to the Board of Directors, as the ultimate body for management decision making, and assigns the role of audit and supervision of the Board of Directors to the Audit & Supervisory Board and Audit & Supervisory Board Members, which are independent of the Board of Directors and business execution. We believe this system achieves appropriate management decisions and execution of duties while providing sufficient organizational checks and balances. We employ two independent outside directors and two outside Audit and Supervisory Board Members, with extensive experience and broad insights as managers, who supervise and audit the execution of duties of the directors, and we develop

systems that function effectively to ensure objectivity and neutrality of management oversight.

Internally, we also develop and properly operate systems to ensure the appropriateness of our operations in line with the Internal Control System Basic Policy.

Corporate governance system diagram



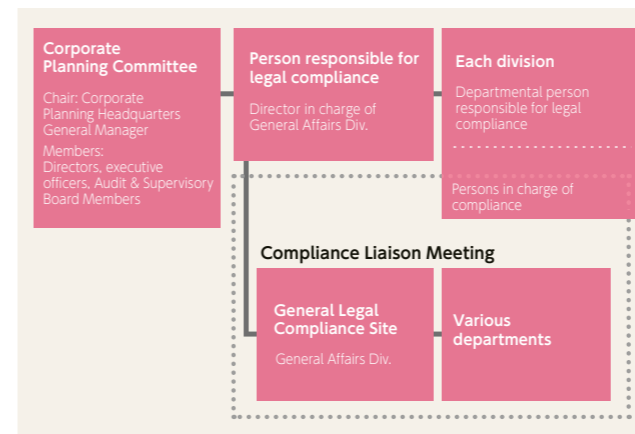
Compliance

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 Corporate Planning Committee—headed by the Corporate Planning Headquarters General Manager—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, and the Aichi Steel Group Action Guidelines.

Compliance promotion system



Compliance promotion activities

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, other corporate scandal case studies are reported to the Compliance Liaison Meeting to help prevent the recurrence of similar compliance incidents.

We also hold CSR seminars on preventing harassment, and on-site compliance training at each plant for the purpose of preventing crime and harassment.

Level-based training

248 participants (10 levels)

CSR Seminar

1 time (Dec)

Compliance Liaison Meeting

4 times (Apr, Jul, Oct, Dec)

CSR workshops

4 times (Feb, Apr, Jul, Oct)

On-site compliance training (crime and harassment prevention)

10 locations (Oct, Nov)

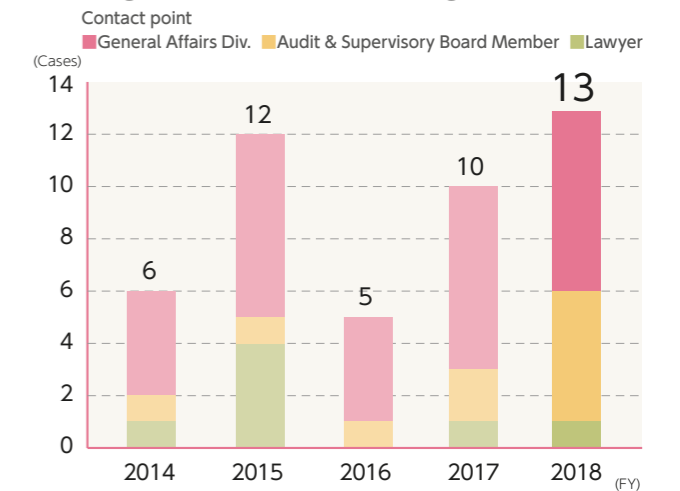
Whistle-blowing system

In fiscal 2018, a total of 13 cases were reported to the Aichi Steel Compliance Hotline, the company's whistle-blowing system.

We will continue promoting recognition and awareness of our whistle-blowing system among employees to further improve our internal ability to govern ourselves. The president will be informed and confirmation will be made that such measures are carried out. We will also specify in the Code of Corporate Ethics how the system is operated and rules on the protection of whistle-blowers to ensure that whistle-blowers are protected.

13 cases

Changes in whistle-blowing cases



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 the act that is easy to fall foul of.

Risk Management

● Risk management system

We have established internal rules, such as risk management rules and disaster prevention rules, and have established a risk management system, so that if we face or predict a serious risk, we can take prompt and appropriate action and ensure sound business operation.

● 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 we include 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 what initial response to take when a crisis occurs.

As a result of the accident on January 8, 2016, we have declared January 8 to be Start Over Day at Aichi Steel to raise awareness of our commitment, confirmed by everyone at Aichi Steel, to preventing such an accident from recurring. We have also established a permanent Education Center to teach and pass on to the next generation the lessons learned from the accident and our other failures, and have started providing special safety training to all employees.

I "Step Up Plan" initiatives and outcomes

In February 2019, we held a "Step Up Plan Review Meeting" where all employees were able to share the outcomes of their activities.

Based on lessons learned from the January 8 accident, the "Step Up Plan" is a three-year project designed to raise the bar for manufacturing across the whole company. With activities conducted on four themes since 2016 now complete, we confirmed the outcomes and shared challenges for further improving ourselves. We will continue tackling new challenges and passing on the lessons learned so that the whole company will be able to step up to an even higher level.

Examples of companywide initiatives on four themes

1. Safety and security	<ul style="list-style-type: none"> • Fail-safe functions based on safety/security evaluations • Safety function updates
2. Product and manufacturing management systems	<ul style="list-style-type: none"> • Centralized management from orders to shipping • Product code refresh • Building integrated management systems from steel to forging
3. BCP/BAP mechanisms	<ul style="list-style-type: none"> • Building alternative production mechanisms • Damage prevention
4. Culture, awareness and branding reform	<ul style="list-style-type: none"> • Enhancing compliance, management capabilities, and business foundations • Improving quality, corporate value, and brand image • Enhancing CSR

● Disaster prevention measures

We established the Earthquake Preparedness Promotion Committee through which we are developing disaster prevention measures in the event of an earthquake in the Nankai Trough.

Including responding to warnings from the government (information issued instead of official warnings when an earthquake cannot be predicted), we have also started collecting information from the government and related companies rather than taking action alone. In preparation for an earthquake in the Nankai Trough, which has a high degree of probability in the future, we are aiming to achieve damage minimization through self-help. The main actions implemented during fiscal 2018 are detailed below.

■ Review of earthquake preparedness promotion committee

The Production Recovery Subcommittee, operated up until fiscal 2017, was disbanded and its activities were consolidated into another committee. Responsibility for remaining issues was absorbed by the Human Safety Subcommittee and Facility Safety Subcommittee.



Initiatives

■ Human Safety Subcommittee

1. Improvement of disaster prevention capabilities

- (1) Proficiency in use of disaster prevention equipment and materials
 - Emergency rice cooker training during dormitory disaster drills
 - Cooker training and joint demonstrations with manufacturers of manual water purification systems

■ Facility Safety Subcommittee

1. Improvement of escape route safety

- (1) Implementation of safety measures
 - Bolster shelf attachment: Forging Plant
 - Installation of crane escape equipment: Chita Plant
 - Installation of emergency gas shut-off valves: Chita Plant

2. Measures to minimize damage to buildings and equipment, etc.

- (1) Liquefaction measures
 - Completed elevated construction of Aichi irrigation system (industrial use water) pipes: Chita Plant
- (2) Additional measures after Kumamoto earthquakes (April 2016)
 - Derailment prevention of cranes: Kariya Plant, Forging Plant (completed), Chita Plant (planned for completion in 2019)

■ Other actions

1. Cooperation with domestic subsidiaries

- (1) Multiple communication methods secured
 - teleconferencing systems installed: 7 companies

2. Identification of issues through companywide emergency drills

- (1) Emergency drills for production line workers
 - Consider using model workplace to conduct drills and extend to other workplaces
- (2) Nighttime disaster prevention drills
 - Conducted for selected workplaces in administration departments
- (3) Prompt employee roll calls
 - Shorter roll call times through deployment of information sharing system

Information security

● Information security promotion system

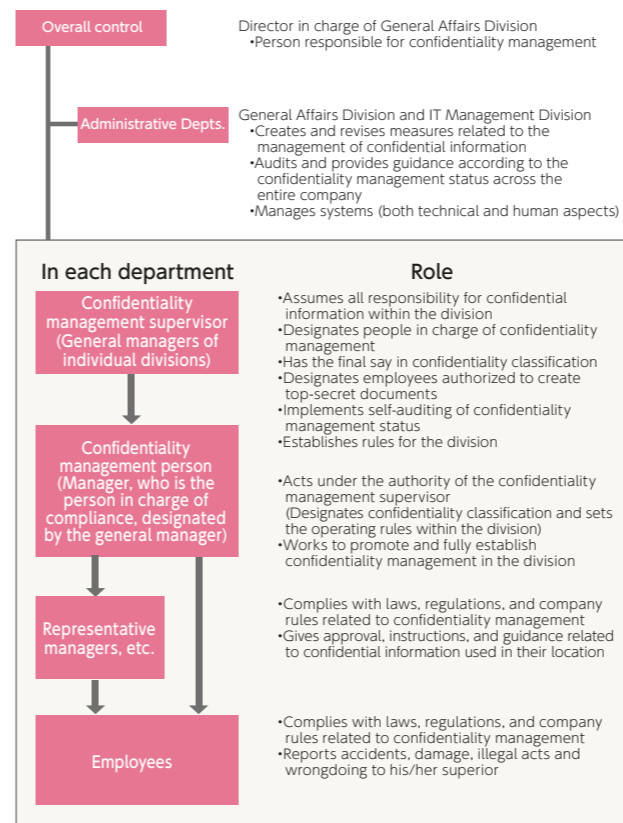
Recognizing the importance of information security management, and in compliance with the All Toyota Security Guidelines (ATSG), we have established internal structures, provided employees with information and education on rules and regulations, and conduct inspections and so on.

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 ATSGs at all Group companies, and are enhancing information security across the entire Aichi Steel Group.

I 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 **12**

Encourage the Creation of Workplaces That Are Safe and Comfortable for All Employees

ISO 26000 relevance

- 6.3 Human rights
- 6.4 Labor practices

SDGs relevance



Materiality

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 not only consideration of a wide variety of human rights involving nationality, language, culture, age and gender, but also encompasses women, seniors, people with disabilities, and those combining work with child-raising or care-giving.

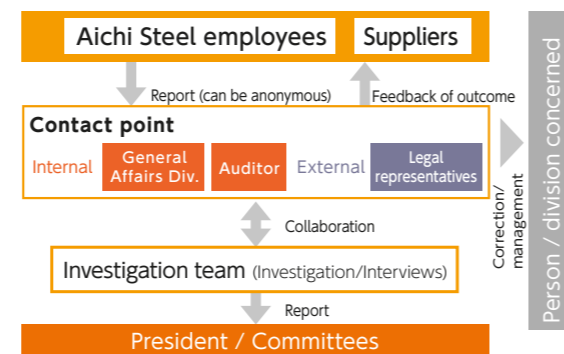
Respect for human rights and creation of comfortable workplaces

Initiatives toward 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 educational opportunities, we cultivate a corporate culture in which the diversity 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 legal representatives.

Aichi Steel Compliance Hotline flowchart



Initiatives toward diversity

Promotion of more active roles for women in the workplace

Aichi Steel considers the promotion of diversity to be an important part of its management strategy, and as part of that is strengthening measures to promote more active roles for women. We 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. As part of our culture and awareness reform, we are holding diversity seminars to help create an environment where employees can balance work with family-life and child-raising duties.



▲ Diversity seminar on male participation in domestic and child-raising duties

Promotion of employment for people with disabilities

We have employees with disabilities working in a range of workplaces, from our manufacturing sites to administrative divisions. To enable them to remain at work, it is important to not only provide the appropriate work support but to provide them with work that suits their individual abilities, so at the time of recruitment, we follow a program of practical training and interviews to decide where to assign them. With the majority of people with disabilities working at Aichi Steel being those with intellectual impairments, we hold seminars aimed at developing their capabilities and workshops aimed at helping them acquire internal qualifications as part of continued support to provide them with rewarding careers. We are also systematically training and allocating Vocational Life Consultants for Persons with Disabilities and Job Coaches to provide work-related coaching to develop workplaces where all employees can enjoy working together.

Post-retirement reemployment system

We have in place a Nice Senior System, which in principle allows all employees who wish to work after retirement to continue working until they begin receiving their pensions. To make work more enjoyable for our older employees, we are also creating workplaces that are easier to work in and we are reassessing employee benefits.

Human resources development

Global human resources development

In April 2017, we relaunched our Overseas Trainee (OT) program, and stationed one young employee in Thailand from April 2017 to September 2018.

In this new program, we are focusing on providing real work experiences at overseas affiliates, and on language studies to enable trainees to work alongside local employees using the local language. The trainee in Thailand attended language school to learn Thai while working on specific training topics.

We believe this system 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 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.

Specialized technical training

Since August 2016, we have been providing specialized technical training for all skilled workers in forging plants to provide systematic training on the knowledge and skills needed at those plants.

To raise understanding of the purpose and necessity of each task, and lead to "Kaizen", 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 written tests, 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 ranked certification. With Rank C training starting in fiscal 2016, and Rank B training starting in fiscal 2017, we are continuing to expand training activities.

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 successors will be encouraged.

Employee health and safety

Efforts to eliminate risks that lead to occupational accidents

We are changing our safety culture, creating safe workspaces, eliminating accidents leading to occupational accidents, and never forgetting 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 are also improving safety management by improving communication with operators in the factory and listening to problems related to work issues.

Number of lost-time accidents and lost-time frequency rate



Health promotion efforts

We prioritize mental health, lifestyle-related disease prevention and health management support for employees assigned overseas, and systematically implement relevant initiatives. As a result, we were recognized for the second consecutive year as a Health and Productivity Management Outstanding Organization (White 500 category), in a program adopted by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi. We work 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.

We have also provided advice to workplaces that were determined to be at high risk for mental health based on analysis of these results.

From the perspectives of self-care and line care, we held mental health seminars in cooperation with Tokai City to deepen employee understanding of self-expression, to facilitate personal relationships in the workplace, and prevention of harassment. Going forward, we will continue working with supervisors to promote the creation of open workplaces that enable free discussion, to prevent the development of mental issues, and enable early detection of issues and early provision of care.

Provide Highly Competitive Products That Are Safe and Secure and Offer New Value Globally

ISO 26000 relevance
6.7 Consumer issues

SDGs relevance



Materiality

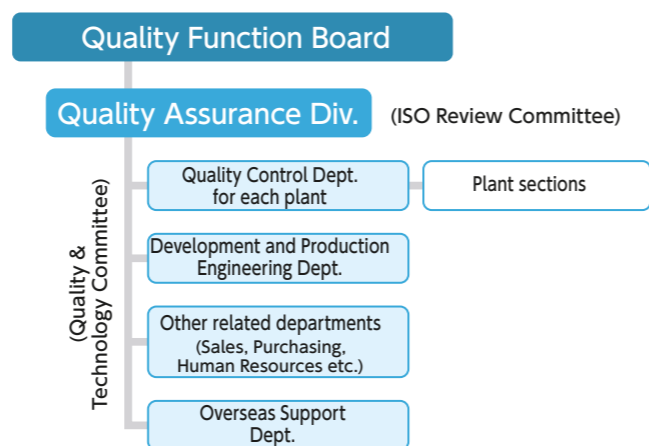
Products provided by the Aichi Steel Group are important parts directly related to automobile running, turning and stopping. To offer customers greater peace of mind in using our products, it is essential that we provide a stable supply of high quality products. To ensure our products gain the trust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

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, ISO 13485 and other standards, that gains customer trust and enables us to deliver attractive products that meet expectations and needs. In line with our Medium-term Quality Vision 2020, we are working as one to build a globally competitive, leading quality assurance system. In addition to domestic efforts, head office regularly sends support people to overseas plants to provide training to quality officers at each site and provide appropriate assistance regarding quality issues to strengthen their quality assurance systems. We are always working to improve our level of quality assurance.

Quality assurance system



Medium-term Quality Vision 2020

Becoming an integrated forging and steel making company that provides the world's best quality—Gaining customer's trusts on a global scale

- 1) Enhancing the "Ji-kotei-Kanketsu" initiative to achieve customer-first manufacturing
- 2) Strengthening global quality assurance system
- 3) Promoting Total Quality Management (TQM) to improve the quality of work

Third-party certifications and compliance with International Standards

In addition to ISO 9001 certification, we have also obtained other third-party certifications and public institution accreditations based on our QMS, and we are assessed every one to five years for review of these certifications and

accreditations.

After the 2015 revision of ISO 9001, we passed the revision approval for Steel products, forged products, and electro-magnetic products.

Acquisition status of Quality ISO certification

1. Steel products and forged products	Passed surveillance audit for ISO 9001 (October 2018)
2. Electro-magnetic products	Passed surveillance audit for ISO 9001 (December 2018) Passed revision approval and surveillance audit for ISO 13485 (November 2018)
3. Analysis and testing	Passed surveillance audit for ISO/IEC 17025 (February 2018)

Third-party certifications excluding ISO certification

- JIS Certification (JICQA)
- Certifications issued by classification societies (ABS, CCS, DNV GL, KR, LR, NK)
- European Pressure Equipment Directive (PED), European Construction Products Regulation (CPR)
- European Medical Devices Directive (MDD Annex v.3.2)

Quality improvement initiatives

Quality awareness activities

November has been designated Quality Month. With a focus on the concepts of "Customer First" and "Quality First," we are working to raise awareness of quality among our employees by holding site inspections by the president and quality seminars, displaying quality mottos and posters, and implementing other initiatives. We also relaunched our Quality Learning Center, previously held as part of Quality Month, and established a permanent Education Center in March 2019 to relearn the essence of quality and emergency lessons learned from our past failures.



Survey 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 **85** offices
(All customers who were supplied with above a certain amount of steel materials and forged products)

Promotion of CSR procurement

Global, open and fair 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.

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.

Legal compliance

We comply with all relevant laws and regulations related to our purchasing activities, and also carefully control the confidential information of our suppliers in accordance with our company rules.

Customer recognition of quality

Aichi Steel Group initiatives to improve quality are being recognized by customers. In December 2018, Shanghai Aichi Forging Co., Ltd. (Headquarters: Shanghai, China), one of our overseas subsidiaries, received an Outstanding Quality Award from Guangzhou Automobile. In March 2019, our Forging Plant received an Excellence Award for quality during 2018 from the Head Office Plant of Toyota Motor Corporation. In April 2019, our Electronic Components Plant received an Excellence Award for supplier contributions to quality improvement during 2018 from the Hirose Plant of Toyota Motor Corporation.



Training programs for sales staff

We are focusing on sales education for new and younger staff members to develop essential sales skills through a rich basic curriculum including training from outside specialists. The true purpose of our program is to strengthen each person's skills and also improve our sales management process.

3 programs per year
Total numbers of participants **19** persons
(All new and younger mid-level employees)

Green procurement efforts

Since formulating the Aichi Steel Environmental Charter in 1996, we consider environmental conservation in all phases of our business activities, and work to achieve continuous improvements. In March 2017, we revised our Green Procurement Guidelines, which were established in 2003, to reflect changes in environmental laws and regulations, and customer demands and regulatory trends. We also work to purchase products with minimal environmental impact and prioritize purchases from suppliers engaged in proactive environmental conservation efforts.

We identify and manage banned substances and restricted substances in line with chemical substance regulations and customer requirements.

When entering a new transaction or making changes to current transactions, we also request that suppliers submit a Report on Presence of Environmentally Hazardous Substances, and ensure they are not used.

Strengthen Relationships with Local Communities, and Actively Contribute to Society

ISO 26000 relevance
6.8 Community involvement and development

SDGs 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.

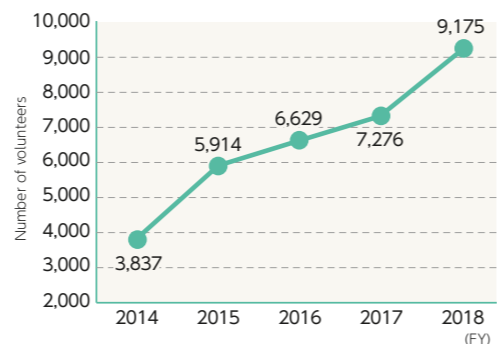
Social contribution policy

Activity 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 2018, we increased participation in activities through efforts such as an increased number of activities to promote harmony with nature, and starting the sale of bakery goods and lunchtime volunteering activities in the area around Head Office. We set a record with a total of 9,175 volunteers, which was 1,899 more people than last year.

Changes in the number of volunteers in social contribution activities (cumulative)



Number of volunteers in FY2018 **9,175**
(1,899 person increase year-on-year)

Clean (beautification, safety, security)

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.

We also conduct 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.



Nearby roads clean-up campaign
6 events, **152** volunteers



Clean Aichi Day
1,468 volunteers



Traffic safety awareness
2,381 volunteers

Green (planting and environmental conservation)

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

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 is in its ninth year, aims to teach elementary school fifth graders about the local industry of Tokai City, the largest iron-producing region in central Japan. Through a lesson called "Making Magnets," we offer a fun way for all elementary school students to experience manufacturing.



Creative lessons
12 schools, **36** classes

Volunteer support



Established in 1993, the Aichi Steel Volunteer Fund continued this fiscal year to donate to local social welfare organizations and others near our company, and to provide support after the Kumamoto Earthquake. It also provided ongoing support to areas affected by the heavy rains in July 2018. 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.

In fiscal 2018, we launched a new initiative to support welfare facilities by starting the sale of bakery goods at new locations. We also called for the donation of old ties and children's books, and started lunchtime volunteering activities where employees cleaned up the collected books and separated the fabric from collected ties.

"One-coin" donation
544 volunteers

Support for disaster-affected areas



Local specialties from areas affected by the Great East Japan Earthquake on sale at plant open days and other events



Approximately 1,800 towels donated by employees to Seki City, Gifu Prefecture, an area affected by heavy rains

Lunchtime volunteer activities



Separating the fabric from ties as a lunchtime volunteer activity

Interaction with the community

Events and participation

We hold community meetings in the cities of Tokai (February) and Kariya (December), 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 (Tokai City)



Shiawase Mura: Support for production workshops for parents and children at Momiji Matsuri (Tokai City)

Strengthen Initiatives toward Manufacturing in Harmony with the Global Environment

ISO 26000 relevance

6.5 Environment

SDGs relevance



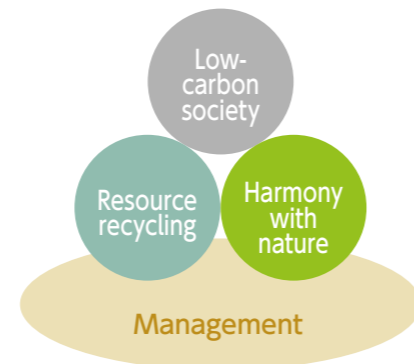
Materiality

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 "achieving harmony 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.

Environmental management

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-recycling society" and "achieving harmony with nature." By reinforcing management from a global perspective that extends to consolidated subsidiaries, we are contributing, as a sustainable company, to society and the global environment.



Theme	Action item	Major efforts	Evaluation	
Three Core Themes	Building a low-carbon society	1. Undertake development of eco-products and technologies	• Development of products that reduce the environmental burden	✓
		2. Reduce CO ₂ emissions through innovative improvements in energy efficiency	• Planning and implementing CO ₂ reduction activities at each plant • Promoting energy savings in production	✓
		3. Thorough implementation of energy saving activities in production	• On-site inspections to improve energy efficiency through joint patrols between each site and EMS*1 top management	✓
		4. Seek better transportation efficiency in logistics	• Reduce traffic lines • Modal shift (from land transport to sea transport) • Improve loading efficiency (Kariya and Forging plants)	✓
	Building a resource-recycling society	5. Reduce by-products during production and continue to utilize resources effectively	• Internal reuse of dust from electric furnaces • Internal recycling of electric furnace refractories • Some external sale of stainless steel electric furnace dust • External recycling of waste acid and treated sludge	✓
		6. Promote projects that benefit resource-recycling corporations	• Operate second "AS shot"*2 machine	✓
		7. Reduce and effectively use packaging materials in logistics operations	• Monitor for new packaging	✓
		8. Reduce water use in production activities	• Continue managing water use	✓
	Harmony with nature	9. Promote activities for preservation of nature and biodiversity	• Participation in "All-Toyota Green Wave Project" activities	✓
Environmental management	10. Promote activities for zero abnormalities and complaints	• Implement strict management to achieve 80% or below of regulation values set by environment-related laws • Promote prevention activities	✓	
	11. Enhance consolidated environmental management	• On-site inspections of domestic subsidiaries at "Aichi Steel Group Environmental Study Group" • Environmental audits of domestic subsidiaries by the General Manager of the Safety & Environmental Division • Enhance chemical substance management system	✓	
	12. Reduce emissions to contribute to improvement of urban air quality in each country and region	• Monitor the adoption of low-emission vehicles	✓	
	13. Promote environmental activities in coordination with business partners	• Obtain information on product chemical substances and ensure compliance with Green Procurement Guidelines	✓	
	14. Further reinforce global employee environmental education and awareness activities	• Trial environmental risk prediction training tools	✓	
	15. Ensure active disclosure of environmental information and enhanced communication activities	• Continuous publication of environmental reports and enhancement of content • Enhancing environmental communication activities	✓	

*1 Environment Management System

*2 Recycled abrasives made from by-products of the steel making process

Initiatives for building a low-carbon society

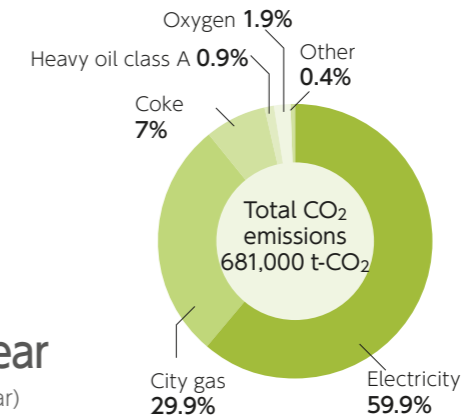
Fiscal 2018 targets and results

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 Commitment to a Low Carbon Society" (Phase 1). We attempted to improve CO₂ specific consumption through energy saving practices, but total CO₂ emissions increased due to increased production.

Total CO₂ emissions

681,000 t-CO₂/year
(+12,000 tons year-over-year)

Breakdown of energy used in fiscal 2018 (CO₂ emissions)



Factors behind changes since last fiscal year

Improvement factors

1. Reduce energy consumption by improving productivity, etc. 2,900 t-CO₂/year
2. Reduce energy consumption by improving thermal efficiency of forging heat treatment furnaces, etc. 5,800 t-CO₂/year

Total 8,700 t-CO₂/year

Hindrance factors

1. Increase in energy consumption due to increased production 20,600 t-CO₂/year

Total 20,600 t-CO₂/year

Measures to develop a recycling-based society

Contributions to end-of-life car recycling

In accordance with the End-of-Life Car 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 steel making slag generated in electric furnaces as a molten slag cooling down material, 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 car recycling rate increased to 99.8%. Recycling will continue after fiscal 2019 as well.



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

* Molten slag cooling down material: 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 harmony with nature

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.

Forestation to create a forest for beetles

Since fiscal 2012, we have been creating a forest for beetles with the aim of planting a broadleaf forest and creating 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 2018, we received a subsidy from Aichi Prefecture and together with members of the Student Action Committee NPO, we helped form "living creature mounds" and completed the creation of new streams. In fall every year, we also hold a large harmony-with-nature event called "Mori

Mori event" where employees and their families participate in programs held in collaboration with other organizations and companies, nature craft activities, collecting acorns and growing seedlings.



▶ Maintaining an area planted with trees in 2017

Establish a Solid Financial Foundation to Support Stable and Sustainable Growth

Materiality

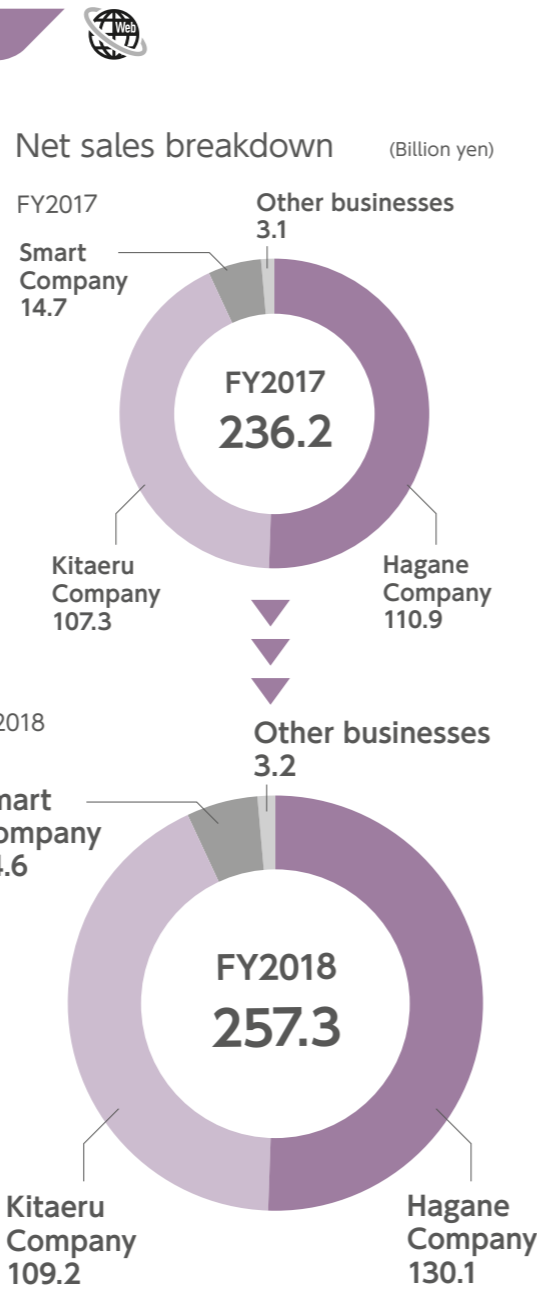
Aichi Steel recognizes that the establishment of a solid financial foundation is critical for enhancing corporate value and supporting stable and sustainable returns to stakeholders. With the intention of establishing a solid financial foundation realizing an ROE of 8% or higher as a target for improved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

Business performance for fiscal 2018

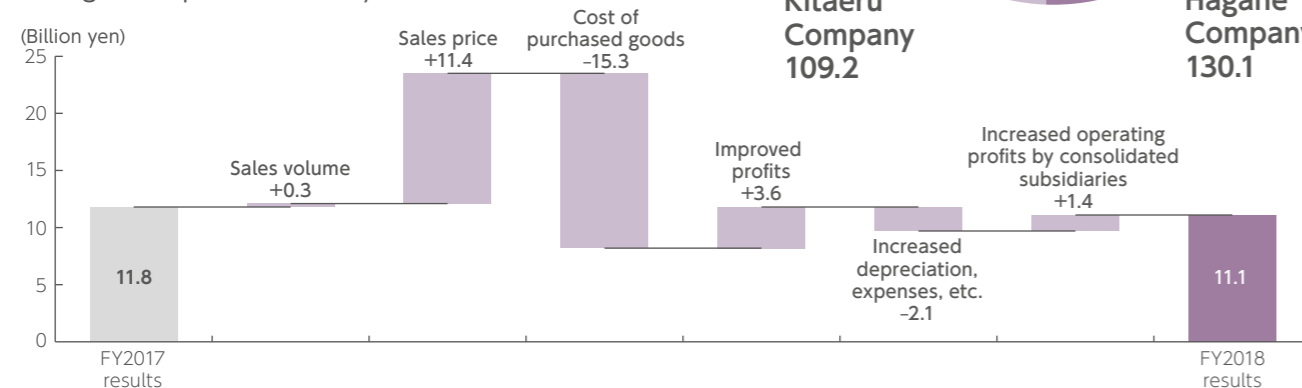
Business performance for fiscal 2018 was underpinned by robust demand for Aichi Steel Group's main products, steel and forged products, with net sales increasing by 21 billion yen (8.9%) to 257.3 billion yen compared the previous fiscal year. Of those net sales, the Hagane Company accounted for 130.1 billion yen, the Kitaeru Company for 109.2 billion yen, the Smart Company for 14.6 billion yen, and other businesses for 3.2 billion yen.

On the profit side, factors increasing Group profits included increased sales volumes, increased selling prices, and increased profits by overseas subsidiaries. Despite this, operating profits dropped by 694 million yen (5.9%) to 11.119 billion yen compared the previous fiscal year due to increased costs of raw materials, secondary materials, energy and increased depreciation expenses. In addition, ordinary profit decreased by 450 million yen (3.8%) to 11.324 billion yen compared the previous fiscal year, and profit attributable to owners of parent decreased by 1.679 billion yen (20.5%) to 6.503 billion yen compared to the previous fiscal year.

Profits decreased compared to the previous fiscal year, but the whole company worked together on measures to improve profitability, such as reducing costs, increasing sales volumes, improving sales prices, and improving costs of purchased goods.



Fiscal 2018 consolidated operating profits: Change from previous fiscal year



Targeting improved corporate value

● Business environment

Despite forecasts that the current steady demand for specialty steels will continue, the Aichi Steel Group's business environment is going through a major once-in-a-century period of profound transformation, as represented by the advancement of vehicle electrification and automated driving technologies. We expect the trend toward a smart society, which creates and offers new value, will accelerate going forward.

In such an environment, our aim is to always respond appropriately from the ESG perspective (environment, society and governance) and according to the Aichi Way (Aichi Steel Group's universal values and codes of conduct), and to continue providing value to society through materials. As the second year of our Medium-term Management Plan (FY2017-FY2020), formulated to achieve these goals, the whole Group worked to improve profitability this fiscal year.

● Initiatives to improve corporate value

Aichi Steel's targets for fiscal 2020, the final year of our Medium-term Management Plan, are consolidated net sales of 250 billion yen or higher, consolidated operating profits of 20 billion yen or higher, and ROE of 8% or higher.

To reach these targets, we will work to improve capital productivity and profitability of our businesses to both maintain and strengthen a solid financial foundation.

During fiscal 2018, we exceeded our net sales target due to the robust demand that our core products were experiencing.

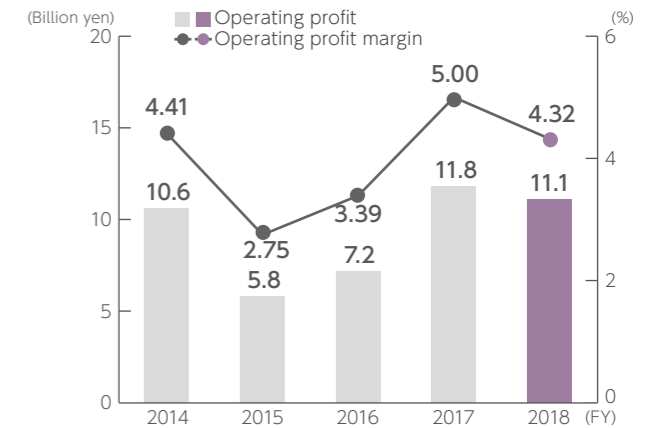
ROE during fiscal 2018 was 4.27%, which is still short of our fiscal 2020 target of 8%, but we will strive to increase the efficiency of capital and assets by increasing profits and streamlining our balance sheet.

Sales, purchasing, plant and various other divisions have been working on drastic measures to improve profitability, which we call breakthrough activities. To increase profits, we will further strengthen our efforts to "reform selling and buying practices and raise profitability through improved manufacturing capabilities," and "reform fixed cost management from the planning stage in line with selling prices."

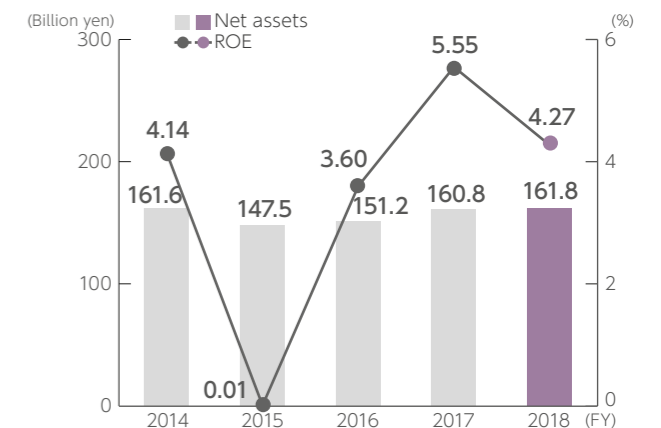
Over the medium- to long-term, we will also accelerate efforts to "develop areas of expertise in "Home & Away" from a global perspective and "create new businesses by enhanced planning through stronger ties between Headquarters and Companies."

Streamlining the balance sheet, on the other hand, will entail continued measures to achieve efficient capital expenditure, reduced inventories, effective capital utilization across the Group, and reduced strategic cross shareholdings.

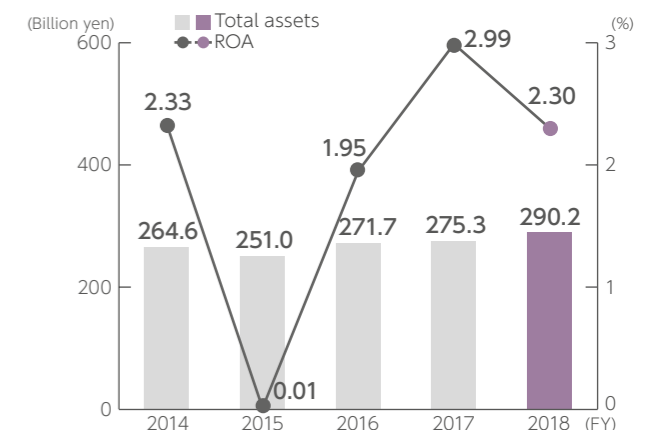
Operating profit and operating profit margin



Net assets and ROE



Total assets and ROA



We are systematically and efficiently expanding our strategic capital expenditure to help build solid manufacturing infrastructure and achieve a stable profit base, which are two of the objectives established by our Medium-term Management Plan.

During fiscal 2018, we made capital expenditure totaling 20.9 billion yen, mainly for the purposes of increasing production capacity on forged and electro-magnetic product manufacturing equipment, and for streamlining, updating and functionally improving steel and forged product manufacturing equipment.

We obtain the necessary funds for investment through funds on hand, loans and corporate bond issues. Going forward, while keeping an eye on our cash flows from sales and investing activities, we will continue sourcing external funding when necessary to maintain capital liquidity, and working to increase cash flows from operating activities to reduce interest bearing debt.

Aiming to develop and expand new applications and products for our existing businesses while leveraging the DNA of our materials business, and steadily fostering and strengthening next-generation businesses for the coming smart society, we proactively implemented R&D activities with R&D expenses of 3.9 billion yen in fiscal 2018.

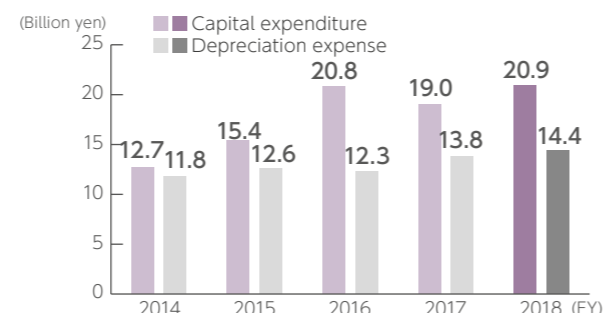
Shareholder returns

Respect for shareholder profits is an important management policy at Aichi Steel. While striving to enrich and strengthen our corporate structures, we are working to increase corporate value and enhance our dividend policy by systematically expanding our businesses.

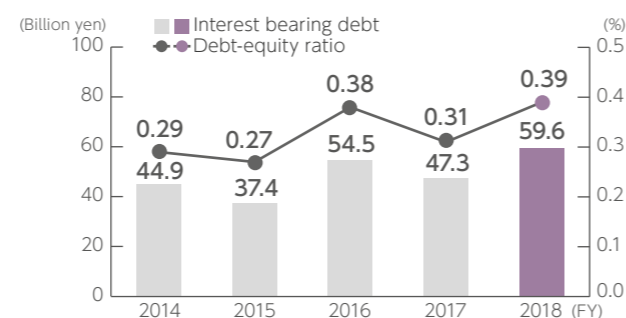
Following this policy, we aim to deliver dividends that meet our shareholders' expectations while maintaining the internal reserves necessary for future business expansion and taking full consideration of our business performance, financial condition and payout ratios. Our target consolidated payout ratio is 30%.

In line with our policy detailed above, the annual dividend paid in fiscal 2018 was 120 yen per share.

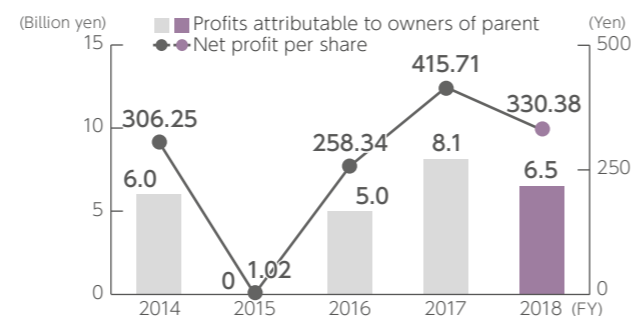
Capital Expenditure, depreciation Expense



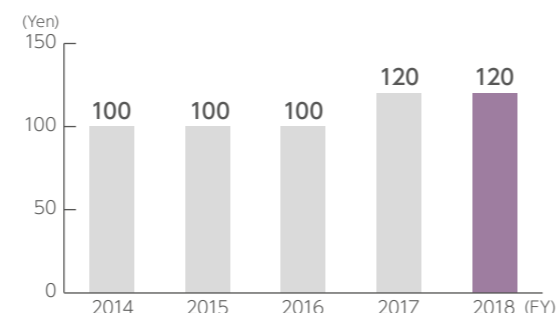
Interest bearing debt and debt-equity ratio



Profits attributable to owners of parent and net profit per share



Cash dividends per share and payout ratio



	FY2014	FY2015	FY2016	FY2017	FY2018
Payout ratio (%)	32.7	—	38.7	28.9	36.3

Key financial data

(Million yen)

	FY2014	FY2015	FY2016	FY2017	FY2018
Profit and loss					
Net sales	240,647	214,120	212,837	236,237	257,315
Segment:					
Hagane Company			96,225	110,974	130,180
Kitaeru Company			99,599	107,352	109,217
Smart Company			13,820	14,786	14,627
Other businesses			3,191	3,123	3,290
Operating profit	10,616	5,883	7,218	11,813	11,119
Segment:					
Hagane Company			5,653	8,006	9,245
Kitaeru Company			845	2,747	1,057
Smart Company			237	348	-39
Other businesses			482	710	856
Operating profit margin (%)	4.41	2.75	3.39	5.00	4.32
Ordinary profit	11,141	5,835	6,863	11,774	11,324
Profit before income taxes	10,693	1,409	8,045	12,371	10,455
Profit attributable to owners of parent	6,023	20	5,084	8,182	6,503
Profit margin attributable to owners of parent (%)	2.50	0.01	2.39	3.46	2.53
Capital expenditures and R&D expenses					
Capital Expenditures	12,752	15,408	20,831	19,020	20,914
Depreciation Expenses	11,833	12,692	12,353	13,818	14,423
R&D expenses	3,538	3,282	3,304	3,777	3,992
Profitability					
Return on equity (ROE) (%)	4.14	0.01	3.60	5.55	4.27
Return on assets (ROA) (%)	2.33	0.01	1.95	2.99	2.30
Assets, liabilities and capital					
Total assets	264,694	251,078	271,763	275,315	290,294
Net assets	161,669	147,534	151,273	160,806	161,889
Capital adequacy	153,316	139,344	143,024	151,891	152,638
Capital adequacy ratio (%)	57.92	55.50	52.63	55.17	52.58
Interest bearing debt	44,915	37,447	54,598	47,317	59,618
Debt-equity ratio (Ratio)	0.29	0.27	0.38	0.31	0.39
Cash flows					
Cash flows from operating activities	19,336	25,193	13,350	13,164	13,580
Cash flows from investing activities	-13,565	-12,122	-19,677	-20,954	-19,765
Cash flows from financing activities	-10,158	-9,466	15,231	-9,509	9,035
Investment indicators					
Net profit per share (Yen)	306.25	1.02	258.34	415.71	330.38
Net assets per share (Yen)	7,794.08	7,080.24	7,266.42	7,716.77	7,754.80
Dividends per share (Yen)	100	100	100	120	120
Payout ratio (%)	32.7	—	38.7	28.9	36.3
Non-financial information					
Employees (Persons)	4,617	4,654	4,773	4,847	4,957

*1 Every 10 shares in the Company were consolidated into one share effective of October 1, 2016. Net profit per share, net assets per share, and dividends per share were calculated in anticipation of this share consolidation at the beginning of fiscal 2014.

*2 The ASBJ Statement No. 28, Partial Amendments to Accounting Standard for Tax Effect Accounting (February 16, 2018) came into force at the beginning of fiscal 2018. The key management indicators for FY2014, FY2015, FY2016 and FY2017 represent retrospective application of this accounting standard.

Third-party View



This year's Aichi Steel report again accurately describes the company's stance toward strategic and proactive management for a smart society, based on the clear commitment of the president.

Mr. Satoshi Chikami

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

Clear stance toward transformation for a smart society

The Message of Commitment from the President points toward development of autonomous driving support systems and research and development in the areas of healthcare and agriculture as new business fields where Aichi Steel is focusing its efforts for a smart society. Special Feature 1 also details the outcomes of autonomous driving support trials in Ofunato and Taiki areas.

These sections clearly communicate how Aichi Steel is tackling the smart society and expanding new businesses. The automotive industry is in the middle of a major transformation right now. Establishing a Frontier Research and Development Division and clearly demonstrating the proactive stance the whole company is taking to this issue are both important for gaining the trust of society, shareholders and investors, which is a commendable approach.

Aichi Way demonstrates corporate governance (Pages 1, 21)

This year's report even more clearly explains that the Aichi Way, established in January 2018 as a set of values and codes of conduct for the Aichi Steel Group as a whole, is part of the Group's corporate governance activities. The Aichi Way focuses on the three concepts of Sustain, Appreciate, and Create, which each form an important ethical foundation for companies and employees to share. From next fiscal year, I suggest the inclusion of a number of case studies of the Aichi Way in action to demonstrate the connection to these three keywords.

Future created by in-house company system (Pages 15-18)

Launched in April 2017, the three-Company in-house company system is now three years old. Compared to last fiscal year, this year's report more clearly describes the business risks and challenges faced by each Company. The straightforward explanations of short-term initiatives for 2020, and of medium-term strategies for Company growth in a smart society are commendable. From next fiscal year, providing more information on the outcomes being achieved by the in-house company system, while also linking them to priority issues, might demonstrate more conclusively the road to transformation in the Message of Commitment from the President that I mentioned above.

Easy-to-understand presentation of priority issue establishment and progress (Pages 19-20)

The compilation of six priority issues that Aichi Steel Group is working on to help realize a sustainable society requires special mention for

the way it illustrates in an easy-to-understand manner the connections between the priority issues and the four perspectives of environment, social, governance and finance, and the progress being made. Clear and easy-to-understand presentation of the implementation and progress of initiatives in each area is important for responding proactively to ESG investment, and the page layout is commendable for the straightforward way it depicts connections to each of the priority issues.

What issues stand out among the individual ESG indicators are that employee total annual working hours continue to decline, that social contribution expenditure and number of volunteers grew considerably compared to the previous fiscal year, and that indirect landfill waste has more than halved from the previous fiscal year despite waste sent directly to landfill increasing compared to the previous fiscal year. Other indicators are also showing steady improvements. I look forward to further evolution of initiatives from all ESG perspectives.

Significant enhancement to description of financial foundation (Pages 33-36)

Information on Priority Issue 6. Establish a Solid Financial Foundation to Support Stable and Sustainable Growth has been expanded considerably, and the way this section also expresses the Group's positive stance with awareness of ESG investment is highly commendable. In addition to the easy-to-understand description of changes in consolidated operating profits compared to the previous fiscal year, the report proactively discloses financial indicators for investors, including ROE, ROA, capital investment, R&D expenses, debt-equity ratios and cash flows. I look forward to the continuation of this positive practice as a way to improve corporate value.

Conclusion

This fiscal year was the final year of a three-year effort, started in fiscal 2017, to integrate both financial information and non-financial information (ESG information) into the report. This demonstrates another accomplishment toward creating a new investor-focused report. I look forward to continued efforts to create a report that all stakeholders need.

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

Response to the Third-party View



Mitsuharu Tsuzuki
Officer in charge of
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 year, as we focus on the coming smart society, we have implemented a variety of initiatives under the banner of transformation, in line with our 2020 Medium-term Management Plan, so that we can survive this major once-in-a-century transition and continue contributing to society as a company. When putting this report together, as the final year of a three-year effort, we also tried to make improvements that would deliver a report that is even more needed by our stakeholders.

The high praise we received for our initiatives here encourages us in our continuing efforts. To live up to these expectations, we will further

enhance our initiatives as we strive to contribute to society and achieve steady growth for the company. In regard to the comments about including case studies of the Aichi Way in action and linking outcomes of the in-house company system to priority issues, we will share this advice with relevant divisions and use it to create reports that are even easier to understand from next fiscal year.

Aichi Steel celebrates its 80th anniversary in 2020. Going forward, we will continue to provide new value to a new society and contribute to resolving social issues. At the same time, we will improve and broaden communication with stakeholders through such things as our new recreation hall and plant tours, as we strive to be a more open company that is a company whose presence is cherished by locals.

Corporate Profile

Corporate Profile

Establishment	March 8, 1940	Offices	Head Office: Tokai City, Aichi Pref., Japan
Capital	25,016 million yen (as of March 31, 2019)	Sales Offices:	Tokyo/Osaka/Fukuoka
Representative	Takahiro Fujioka, President and Representative	Overseas Offices:	Shanghai/Silicon Valley
Employees	4,957 (Consolidated)/2,663 (Non-consolidated) (as of March 31, 2019)	Plants:	Chita/Kariya/Forging/Higashiura/Gifu/Seki/Electronic Components
Business Description	Production and sale of specialty steel products, forgings and electromagnetic products		

Major Products



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

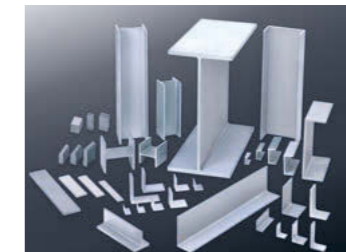
Specialty steel



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 in 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



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



Refer to the website for further detail: https://www.aichi-steel.co.jp/ENGLISH/about/aichi_steel_group.html

9 companies in Japan

- AIKO CORPORATION
- AICHI CERATEC CORPORATION
- OMI MINING CO. LTD.
- Aichi Techno Metal Fukuami Co. Ltd.
- Aichi Steel Logistics co. Ltd.
- Aichi Information System Corporation
- AIKO SERVICE CO. LTD.
- Aichi Micro Intelligent Corporation
- Asdex Corporation

9 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)
- Aichi Korea Corporation (AKC)
- Aichi Magfine Technology (Pinghu) Co. Ltd. (AMT)



FSC-certified paper, with the proof of wood product from appropriately managed forests, is used.



100% vegetable oil non-VOC ink (not containing volatile organic compounds) is used.



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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 2017 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.