



Naohide Goto President

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

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

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

There are two things that I learned from this experience

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

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

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

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

I Looking Back at Fiscal 2022

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

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

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

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

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

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

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

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

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

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

Five Frameworks

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

I Promoting Sustainability for the Future

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

Accelerating Initiatives for Decarbonization

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

*1 Japan has set a target of reducing greenhouse gas emissions by 46% by fiscal 2030 (compared to fiscal 2013), while also declaring a challenge of 50%.

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

Initiatives for Human Resources Development

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

Promoting Essential DX

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

I A Message to Our Stakeholders

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

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

