



Pure Passion and Persistence

AICHI STEEL REPORT 2016

Year ended March 31, 2016

AICHI STEEL

Mission Statement

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 environment responsibilities.

CSR Policy

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

CSR Vision 2016

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

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

1S Culture

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

Sincerity first (Shojiki)

Cleanliness first (Seiso)

Safety first (Safety)



Editorial Policy

The Aichi Steel Report 2016 was prepared to assist understanding among our many stakeholders of the approaches taken by Aichi Steel and the Aichi Steel Group in fiscal 2015, ended March 31, 2016. 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. Based on the priority issues in the Aichi Steel Group we have worked to identify since last fiscal year (pgs. 11-16 of this report), this fiscal year we have revamped the titles and contents of our report on our activities, and redone the contents in line with those changes. We have also included a report on the accident that occurred at our Chita Plant on January 8, 2016 (pgs. 7-8 of this report). As before, this report was prepared using a Universal Design*1 (UD) font,*2 and use of color, volume of text, text size and other factors were also taken into consideration to create a more easily readable report.

*1 A typeface design based on the concept of universal design. Design that enables all persons, regardless of age, gender, or disability, to make use of products, services, housing, or facilities, both conveniently and comfortably.
 *2

Readers

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

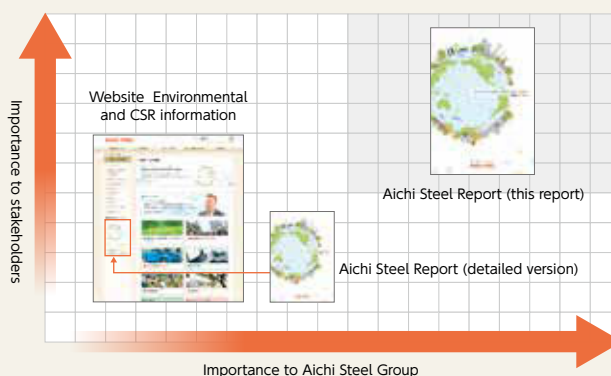
Report Period and Scope

The Report covers activities conducted by the Aichi Steel Group during fiscal 2015 (April 2015 to March 2016). However, some activities conducted before or after fiscal 2013 are also explained where necessary.

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.

Importance to stakeholders



Reference Guidelines

The Global Reporting Initiative (GRI) "Sustainability Reporting Guidelines" (versions 4)
 ISO26000 (Corporate Social Responsibility)

Information Available on Our Website

WEB

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

https://www.aichi-steel.co.jp/csr/csr_report/index.html

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Corporate Profile

Establishment	March 8, 1940	Offices	Head Office: Tokai City, Aichi Pref., Japan
Capital	25,016 million yen (as of March 31, 2016)		Sales Offices: Tokyo/Osaka/Fukuoka
Representative	Takahiro Fujioka, President		Overseas Offices: Shanghai/Silicon Valley
Employees	4,654 (Consolidated)/2,477 (Non-Consolidated) (as of March 31, 2016)		Plants: Chita/Kariya/Forging/Higashiura/Gifu/Seki
Business Description	Production and sale of specialty steel products, forgings and electromagnetic products		

Major Products

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

Specialty Steel



Based on our more than half-century of experience and technology in specialty steel manufacturing, 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



The durability of stainless steel, which resists the rust that is one of iron's weaknesses, has been demonstrated in dams, floodgates, ships and other areas involving water, as well as in science and in nuclear power plants and a wide variety of other fields. In recent years, its superior design properties have also found many uses for stainless steel in architecture.

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

Forged Products



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

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

Electro-Magnetic Products/"TetsuRiki" Iron Fertilizer



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

[Example products]
MAGFINE, MI sensors, etc.

Aichi Steel Group

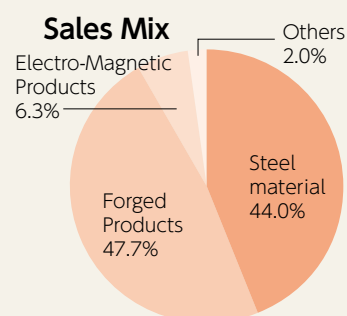
WEB See the website for more detail : https://www.aichi-steel.co.jp/ENGLISH/about/aichi_steel_group.html

9 companies in Japan

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

10 companies in overseas

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





President

Takahiro Fujioka

Q: Could you provide an overview of fiscal 2015 and describe what the year was like amid a difficult management environment?

Looking Back on Fiscal 2015

To begin with, on January 8, 2016, an explosion occurred at our Chita Plant. We deeply regret the great trouble and inconvenience that may have been experienced by neighborhood residents, customers, related parties, employees and their families. We also deeply appreciate the steel companies and Toyota Group companies that assumed production on our behalf and assisted with the early restoration of operations at this plant. In terms of the external environment, despite extremely severe circumstances including the weaker yen and an economic slowdown in Asia, the tremendous support and cooperation we received enabled us to minimize the impact of the plant accident and secure marginal profitability. This accident taught us that we have a duty to share information that can be used going forward to ensure that an accident like this never happens again in the steel or any other manufacturing industry.

Enhanced Compliance and Governance Functions

The accident emphasized the weaknesses in our safety awareness, rules and equipment designed to guarantee safety. We will thoroughly review this accident, and in light of what we learned from supplier support and cooperation, we will further raise the level of manufacturing from the perspective of overall optimization, from steel materials to forging. To this end, we will formulate a “step up plan” focused on safety, production

management and distribution, and engage in initiatives involving all departments and employees. Specifically, we will make production more efficient and engage in safety measures incorporating fail-safe*1 concepts and thorough education as well as more robust and practical BCM/BAP*2. These goals will be realized through the step up plan.

Aiming to Achieve Targets and a V-Shaped Recovery by Steadily Following Up on Each Theme

In terms of operations, the 4S Re-Engineering*3 initiatives were are currently engaged in are proceeding according to plans. This will enable us to further increase production and provide products in a timelier manner, while also reducing distribution loss and making production more efficient. We have also launched new ZZZ200*4 activities aimed at lowering the cost of sales. As opposed to activities conducted up to now, a sales and profit leader has been established in all segments to strengthen activities linked to reliable earnings. And, we aim to achieve targets and a V-shaped recovery with a more robust earnings base.

*1. Fail-safe: A design method established on the premise of preventing mistakes and erroneous operations.

*2. BCM: Business Continuity Management (Plan). BAP: Backup Action Plan, enables the securing of facilities, procedures and spare parts to allow for production at alternative locations if production at Group facilities becomes impossible.

*3. Simple, Slim, Short and Straight manufacturing process innovations.

*4. ZZZ (tri-zed) 200: Named to incorporate the ideas of zenin sanko (participation by all), zenryoku (full power) and zettai yarinuku (definitely prevail), this activity sets the target of achieving consolidated operating income of at least ¥20 billion by fiscal 2020.

All employees will work with the singular purpose of advancing manufacturing to an even higher level and achieving perennial growth.

Q: How are you proceeding in terms of creating a more robust management structure to achieve Vision 2020?

Moving Forward with Product Manufacturing that Contributes to Society Based on 1S Culture

One of the things learned as a result of the accident was the rediscovery of the importance of specialized steel, our Company's core product, by all employees. We are engaged in manufacturing to evolve our founding philosophy of "great cars are made with great steel" into "a great society comes from great materials." As a manufacturer of crucial components related to vehicle operation, turning and stopping, Aichi Steel plays a critical role in society, thus we must engage in manufacturing with sense of responsibility. Furthermore, I think our 1S corporate culture*5 is the linchpin of our corporate management. With respect to the accident, with the 1S component of honesty (shojiki) as our motto, we made every effort to disclose accurate information in a timely manner. Going forward, we will attempt to further inculcate 1S Culture among all employees as we move steadily forward with the step up plan and create a more robust management structure.

Aiming to Further Enhance the Value of the Steel Business

Going forward, amid the increased diversification of automobiles and the spread of fuel cell vehicles (FCV), hybrid vehicles (HV) and electric vehicles (EV), the per-unit use of specialized steel will decline as the demand for smaller, lighter and stronger materials increases. In response to these social trends, it is critical that we quickly ascertain customer needs and promote collaborative manufacturing by front-loading that leverages the

strengths of forged steel consistency. Furthermore, we will promote the steady implementation of 4S Re-Engineering manufacturing process innovations. In May 2016, we launched steelmaking reengineering, a cornerstone of energy reforms. Specifically, we make use of energy recovered and converted from electric furnace exhaust heat. Aichi Steel is first in the Japanese electric furnace industry to engage in this type of energy creation. As a Company operating in a power-intensive industry, we proactively engage in recycling energy conservation activities that significantly contribute to the global environment. We also promote the local procurement of steel materials. We are in the second year of providing technological support to Usha Martin Ltd. (India), and this year we will further improve product quality and safety to progress toward a phase in which we can realize stable procurement from India and ASEAN countries.

Further Expanding the Base of All Steel Forging Business Processes

Aichi Steel is promoting the expansion of all steel forging business processes, from cutting to machining, while at the same time enhancing capabilities through reengineering. Specifically, we have installed a CVT hot forging press line in response to increased CVT production and product miniaturization in Japan. Also, in support of stable local production by customers in line with the sales launch of new model IMVs, we established a stable operation system at AIT (Thailand) realizing stable product quality and supply in the ASEAN region.



Contributing to the Creation of a Hydrogen Society and the Rebuilding of Infrastructure

As one of our “only one” businesses, the stainless steel business is achieving contributions to the creation of a hydrogen society and the rebuilding of infrastructure. AUS316L-H2 high-pressure hydrogen stainless steel used in Toyota Motor’s fuel cell vehicle MIRAI leverages the strengths of high ductility (malleability) in a high-pressure hydrogen gas environment, contributing to smaller and lighter components, which further promote higher quality, lower cost product development. In addition, as a member of the Toyota Group, Aichi Steel contributes to the realization of the Toyota Environmental Challenge 2050 promoted by Toyota Motors. We will also contribute to improved earthquake-resistance and durability in a wide range of areas through the use of high-function and varied stainless steel in the rebuilding of deteriorating roads, buildings, bridges and other infrastructure ahead of the Tokyo Olympics.

Creating a Safe and Secure Society with the Electro-Magnetic Products as a New Business Pillar

In response to the rare earth resource problem, our product MAGFINE does not use dysprosium, a heavy rare earth element. Used in conjunction with the high degree of molding freedom offered by integrated injection molding technology established last year, this product has a strong reputation of superiority in the market. Going forward, based on the local production for local consumption approach, we will increase the productivity of magnets produced at overseas subsidiaries AMC (Czech Republic) and AMT (China) in support of

local procurement. In the sensor business, we developed a foreign matter detection device that contributes to the safety and security of food. We provide safety and security developed in the automobile industry to a wide range of industrial sectors. In the metallic fibers business, we commenced operation of a production line in May at the Higashiura Plant. As a result, we enabled the production of Amorphous Wire*6, making us one of only two companies in the world with this capability, while facilitating integrated production, from materials to sensors. We are looking to expand into a variety of applications, including use as a reinforcing material for golf club shafts. In the electronic components business, we are advancing the deployment of inverter cooling units for hybrid vehicles, which continue to grow in popularity around the world. By front-loading in this way, we have achieved integrated manufacturing, from the development stage to customer delivery, and are moving toward the establishment of a production system that takes BAP into account. We are also looking into the global expansion of our dental business after having expanded into the United States.

*5. 1S Culture: The concept of putting shojiki (honesty), seiso (cleanliness) and dai-ichi anzen (safety first) as the basis of our corporate culture.

*6. Amorphous Wire: Metallic fibers comprising the core material of MI sensors. This business was acquired last year from Unitika Ltd.



Q: What makes Aichi Steel’s priority issues (materiality) so important?

Please discuss your basic approach and specific initiatives aimed at addressing these issues.

Priority Issue 1 Increase Compliance Awareness Globally, and Strengthen Corporate Sustainability →P17~

Aichi Steel has always placed the highest emphasis on shojiki (honesty), one aspect of our 1S culture. Employees sent to work overseas explain in their own words the meaning of 1S culture as part of our effort to thoroughly inculcate this concept among local staff around the world. In addition to management risks associated with global business expansion, the prevention of corporate scandals causing global gossip and in light of what was learned from our plant accident this year, we observe laws and rules, revise work standards and have redoubled our safety education activities in an effort to create a mechanism for preventing compliance infractions throughout the Aichi Steel Group, providing value ensuring global security and safety.

Priority Issue 2 Encouraging the Creation of Workplaces that are Safe and Comfortable for All Employees →P21~

Since being appointed as president, I have emphasized employee satisfaction. In the department policies created annually by managers in each section, I ask for recommendations on increasing employee satisfaction. I think knowing your employees and providing a positive work environment is ultimately linked to customer satisfaction. In January 2016, we established the Diversity Promotion Team with the aim of creating a workplace in which women, seniors and disabled employees are able to play an active role. In December this year, the construction of our new headquarters will be completed. This new building is expected to embody this objective by providing a diverse array of employees with a safe and satisfying space in which to work.



Priority Issue 3 Providing Highly Competitive Products that are Safe, Secure and Offer New Value Globally →P25~

We need to further inculcate the idea that Aichi Steel is engaged in manufacturing that protects human life. In pursuit of this goal, if we are able to provide global security and safety, this will lead to the creation of shared value (CSV) for Aichi Steel. We must share with employees the idea of approaching work not only from the perspective of how our Company will benefit, but also how our Company can contribute to communities and society. It would be wonderful if the vectors of society, companies and individual employees were all aiming for the same goal.

Priority Issue 4 Strengthen Relationships with Local Communities, and Actively Contribute to Society →P27~

Understanding and cooperation from local communities are indispensable for a company's continued success. This is why it is important that local citizens want Aichi Steel to be a part of the community forever. The construction of our new headquarters building involves the incorporation of features designed to mitigate the impact of various natural disasters, including a Nankai Trough megathrust earthquake, so that it can be used by the local community in the event of an emergency. This effort is aimed at enhancing the level of trust from the local community.

Priority Issue 5 Strengthening Efforts toward Manufacturing in Harmony with the Global Environment →P29~

Aichi Steel manufacturing consumes massive amounts of energy through the use of electric furnaces. For this reason, we think it is necessary to proactively engage in the reduction of CO2, energy conservation and the prevention of greenhouse gas emissions as our Company's mission. Furthermore, as a resource-recycling corporation, we reuse steel scrap in our products, and we plan to further promote the 3R's going forward to fulfill our responsibilities. We also contribute to the sustainable development of society and the Earth in harmony with the environment, including foresting and greening activities aimed at protecting biodiversity, in an effort to coexist with nature. We formulated the Aichi Environmental Initiatives Plan 2020 based on these concepts, and will make an effort to achieve these targets going forward.

Priority Issue 6 Establishing a Solid Financial Foundation to Support Stable and Sustainable Growth →P35~

Without a stable financial foundation, companies are not able to provide shareholders with dividends or realize satisfactory social contributions. We will steadily practice management engaged in strengthening our financial foundation to identify appropriate inventory levels and manage our balance sheet.

Q:Finally, what is your message for Aichi Steel stakeholders?

Aichi Steel will never forget the lessons learned from the plant accident. Our determined implementation of the step up plan will not only provide us with a fresh start, it will enable us to build a stronger management foundation as we make an effort to regain the faith and trust of all our stakeholders. Also, the aforementioned six priority issues must be achieved from the perspective of the Company and society. This will enable us to create shared value (CSV), enhance our competitiveness and resolve social issues. All employees will come together under the words "I Will" that express the spirit of our founder and tackle issues with the "Ever Better (than ever before)" attitude in an effort to achieve perennial growth and meet all targets under Vision 2020. I want to give back to all our stakeholders through the steady progress of our entire management. All of us at Aichi Steel sincerely appreciate your continued support and encouragement.



Special Report

About the Accidental in the No. 2 Bar Mill Shop at the Chita Plant

On January 8, 2016, there was an accident involving an explosion in the No. 2 Bar Mill Shop at the Chita Plant. Aichi Steel deeply regrets the great trouble and inconvenience that may have been experienced by neighborhood residents and other related parties. We take accidents of this severity very seriously and are continuously engaged in the strengthening of our management foundation and improvements to our supply structure trusted by customers, conducting measures to prevent recurrence and enhancing internal safety management so that an accident like this never happens again.

Overview

Date / time : January 8, 2016, 11:45 p.m.

Location : No. 2 Bar Mill Shop at Chita Plant
(production of special steel bars used mainly for automotive components)

Affected equipment : Heating furnace

Human damage : No injuries

Property damage : Furnace and factory building were damaged



Accident Conditions

January 8, 10:00 p.m.:

The operator began the process to ignite the reheating furnace to start operation of the No. 2 Bar Mill Shop manufacturing line.

January 8, 11:30 p.m.:

The operator started to charge the pipes of the reheating furnace with fuel gas.

January 8, 11:45 p.m.:

The explosion occurred when the pilot burner was lit.

After the accident, an Emergency Control Headquarters was immediately established, led by the president, to ascertain the accident status, confirm onsite inventory and alternative production, explain conditions to customers, seek help with production from other companies in the steel industry and explain the accident to relevant authorities.

Recovery Response

Directly after the accident, based on our BCM*³ and BAP*⁴ plans, inventory was confirmed, and steps were taken to setup an alternate internal production line as well as seek the help of other companies in the steel industry. All employees made every effort to establish an alternate supply system.

*3. Business Continuity Management (Plan)

*4. Backup Action Plan

Cause of the Accident

During restarting after regular maintenance, the pre-ignition air purge process*¹ was not carried out. Furthermore, incorrect work procedure was followed when fuel gas*² was run through the lines, leading to gas flowing into the furnace. As a result, the pilot burner flame ignited the accumulated gas.

*1. A blower is run before ignition to ventilate the furnace and prevent explosions.

*2. Nitrogen gas in the pipe is replaced with town gas when the heating furnace is restarted.

Facility Restoration, Resumption of Production

The heating furnace restoration was completed in the beginning of March and the safety of the reheating furnace was confirmed based on guidance by the relevant authorities. After confirming facility performance and product quality by way of a test production run, operations were recommenced on March 21, 2016.

Initiatives to Prevent Recurrence

Aichi Steel has implemented human measures, which include the revision of work procedures and enhanced safety education for all employees, as well as material measures including the addition of an interlock*5 function designed to act as a fail-safe*6. These measures will be implemented throughout the Company to prevent similar accidents from occurring in other departments.

1) Recurrence prevention measures implemented in the No. 2 Bar Mill Shop

Proposed Measures	Specific Actions	Completion date	
Human measures	① Increase understanding through enhanced education	• Education reaffirming the importance of the air purge process • Education emphasizing ignition process safety points	Feb. 2016
	② Revision of work procedures	• Two employees confirm the completion of work processes using a checklist	Mar. 2016
Material measures	① Addition of a fail-safe function	• Addition of an interlock function for the air purge process (will function only when air purge conditions are set correctly)	Mar. 2016
		• Addition of an interlock function for the ignition process (will function only when air purge conditions are set correctly)	Mar. 2016

*5. Function ensuring safety even in the event of erroneous operation.

*6. Function that halts work processes if specific conditions are not met.

2) Company-wide Measures to Prevent Recurrence

Proposed Measures	Specific Actions	Completion date	
Human measures	① Increase worker skill level	• Special education and qualification examination for ignition processes • Create an arazen dojo training facility to teach the ignition process	Sep. 2016
	② Cultivate a rule-observing culture	• Inculcate importance of rules • Designate Jan. 8th as a memorial "Re-Start Day" to remember the accident	Annually from Apr. 2016
Material measures	① Addition of fail-safe functions (applied to all furnaces)	• Addition of a fail-safe function to all plant furnaces conducted sequentially according to level of risk	Annually from Apr. 2016

Supply System Strengthening

Since the Great East Japan Earthquake, we have enhanced business continuity by ensuring inventory, investigating in-house and out-sourced alternative production in advance, and creating lists of detailed information to enable the promote establishment of an alternative mas production framework. However, because of lead time and other factors that occur in both production and distribution, there is a possibility that some products will not be delivered in accordance with customer requirements, resulting in a temporary disruption to customer production lines. In addition to reflecting on how this accident affected customer production activities, Aichi Steel will verify the status of inventory and the implementation of alternative production while engaging in dialogues with customers in an attempt to create, enhance and improve a supply structure that never again adversely affects customers.

To Become a Company Trusted by Society and Local Communities

All Aichi Steel employees will work together to start over from zero and raise the Company's value to an even higher level.

The accident in the No. 2 Bar Mill Shop at the Chita Plant reaffirmed our awareness of the significant influence our manufacturing has on society as a company that manufactures specialized steel used for key automobile components. At the same time, we have a strong sense of gratitude for the stakeholders whose support makes it possible for us to engage in business activities, as well as a sense of the importance of daily communications with those stakeholders. Looking back on this accident, and having thoroughly analyzed the weaknesses that existed in terms of both safety and production management, we formulated a step up plan that aims to enhance our BCM and BCP structures while further raising our level of manufacturing. As a result, we will establish a strong management base that shares issues throughout the Company and steadily execute efforts to enable the provision of products that ensure safety and security globally.

Step Up Plan Overview

Duration : Three-year period beginning in fiscal 2016

Promotion structure :

President Takahiro Fujioka (Leader), Executive Vice President Masao Ukai (Second in command)

Managing Executive Officer Katsunori Kojima (Entire promoter)

Steering committee: Comprising strategic Headquarters managers

Corporate Administration Headquarters manager: Executive Vice President Masao Ukai	Strengthening of mechanisms and management capabilities to quickly establish structures in the event of an emergency (organization, laws, public relations, IT, procurement and cost)	
Production Headquarters manager: Managing Executive Officer Katsunori Kojima	Safety: (Human/Culture) Create structure for observation of rules, avoidance of postponing difficult work (plants, facilities, mechanisms), create comprehensive risk prevention structure	Operations: Improve level of management with respect to all customers ① Revise management cycle ② Visualization and other inventory accuracy efforts
	Quality: Detect foreign matter, create system stop (enhance quality assurance system)	Production management: ① Create integrated production management mechanism, from rolling to forging ② Thorough post supplementary production ③ Create product code base, etc.
Production Engineering Headquarters: Managing Executive Officer Naohiro Yasunaga	Organize issues and strengthen measures (prevention and response) from both production engineering and facilities recovery perspectives that present an opportunity for accidents	

Enhanced Manufacturing Capabilities with the Integrated Forging and Steelmaking Process

Reengineering for steel material refining, and the start of construction on a CVT hot-forging press line

Aichi Steel is currently revising its production process to strengthen each stage of the steelmaking process, in order to enhance the manufacturing capabilities of "integrated forging and steelmaking," a cohesive production process from base material to finished product.

For steel materials, as part of our 4S Re-Engineering*1 program, in October 2015 Aichi Steel began revising the refining process. Specifically, we began construction on a steel material water-cooled facility and refining line, which will shorten shipment lead times and allow us to meet market demands for superior quality. The new facility is scheduled to commence operations in January 2017.

For forged products, we are implementing a series of production process innovations we call "forgings reengineering." To meet automakers' needs for lighter vehicles with greater fuel efficiency and lower costs, in April

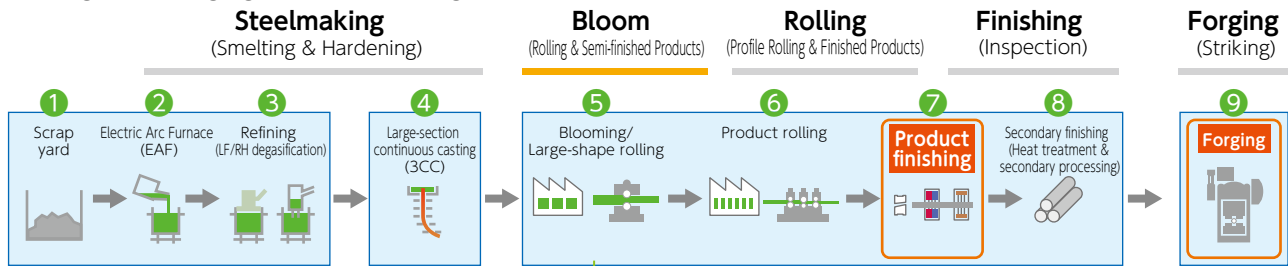
2015 we began operations on a forging press line for crankshafts used in small and mid-sized vehicles. In November that same year, we decided to simultaneously establish two hot-forging press lines to produce forgings for continuously variable transmission (CVT)*2. These new facilities will provide a top-class level of high-speed automatic forging in Japan, while the use of an advanced forging isothermal annealing (FIA)*3 furnace will shorten production lead times, enhance energy efficiency, and help to reduce CO2 emissions. The new facilities are scheduled to commence operations in January 2017.

*1: 4S Re-Engineering: process innovation keyed by the watchwords "simple, slim, short, and straight."

*2: CVT (Continuously Variable Transmission): A transmission that continuously changes the gear ratio.

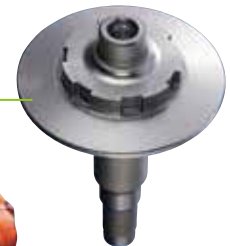
*3: FIA (Forging Isothermal Annealing): Heat treatment using energy retained from hot forging.

Integrated Forging and Steelmaking Process



Bloom rolling process streamlined through reengineering

Toyota Corolla Fielder 1.8S



CVT secondary shaft

Establishment of Direct Injection Molding Technology for MAGFINE® Dy-free Bonded Magnets

Used in the MAKITA Cordless Grass Trimmer

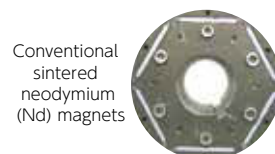
Aichi Steel has established an innovative "integrated molding" process to produce its MAGFINE® Dy (Dysprosium) free bonded magnets, which first entered mass production and sale in 2011. The combination of freely shaped MAGFINE and injection molding simplifies the motor assembly process and lowers the component cost, while retaining the same functionality and quality of sintered neodymium (Nd) magnets. This process is being used in the MAKITA Cordless Grass Trimmer. We will use this technology to develop more competitive magnets, benefitting our customers with enhanced production, while helping to reduce the use of heavy rare earth materials for which supply is unstable.



MAGFINE used in the rotor



MAKITA Cordless Grass Trimmer "MUR365D"



Conventional sintered neodymium (Nd) magnets



MAGFINE Dy-free Bonded Magnet

Greater freedom in motor design

Development of a Mobile Foreign Substance Detecting Device Using the MI Sensor

Aichi Steel has utilized its “MI Sensor,” a supersensitive magnetic sensor, to develop a device to detect foreign substances. We developed this equipment in response to the recent increase in awareness regarding food safety, taking advantage of the MI sensor’s four main features—small size, high sensitivity, low power consumption, and rapid response. The device incorporates the MI Sensor in a thin mat. By simply placing foods or other items on it at the checkout

register of convenience stores or supermarkets, it’s possible to detect metallic foreign substances, preventing potential incidents immediately before the product is passed to the consumer. We will continue to use the manufacturing capabilities of the Aichi Steel Group, which has been supported by the automotive industry, to ensure safety and security around the world in various industries.



A mobile foreign substance detecting device using a tablet, and the MI Sensor



The detector has been highly acclaimed by visitors trying it during various trade shows, and has been featured in TV news stories.

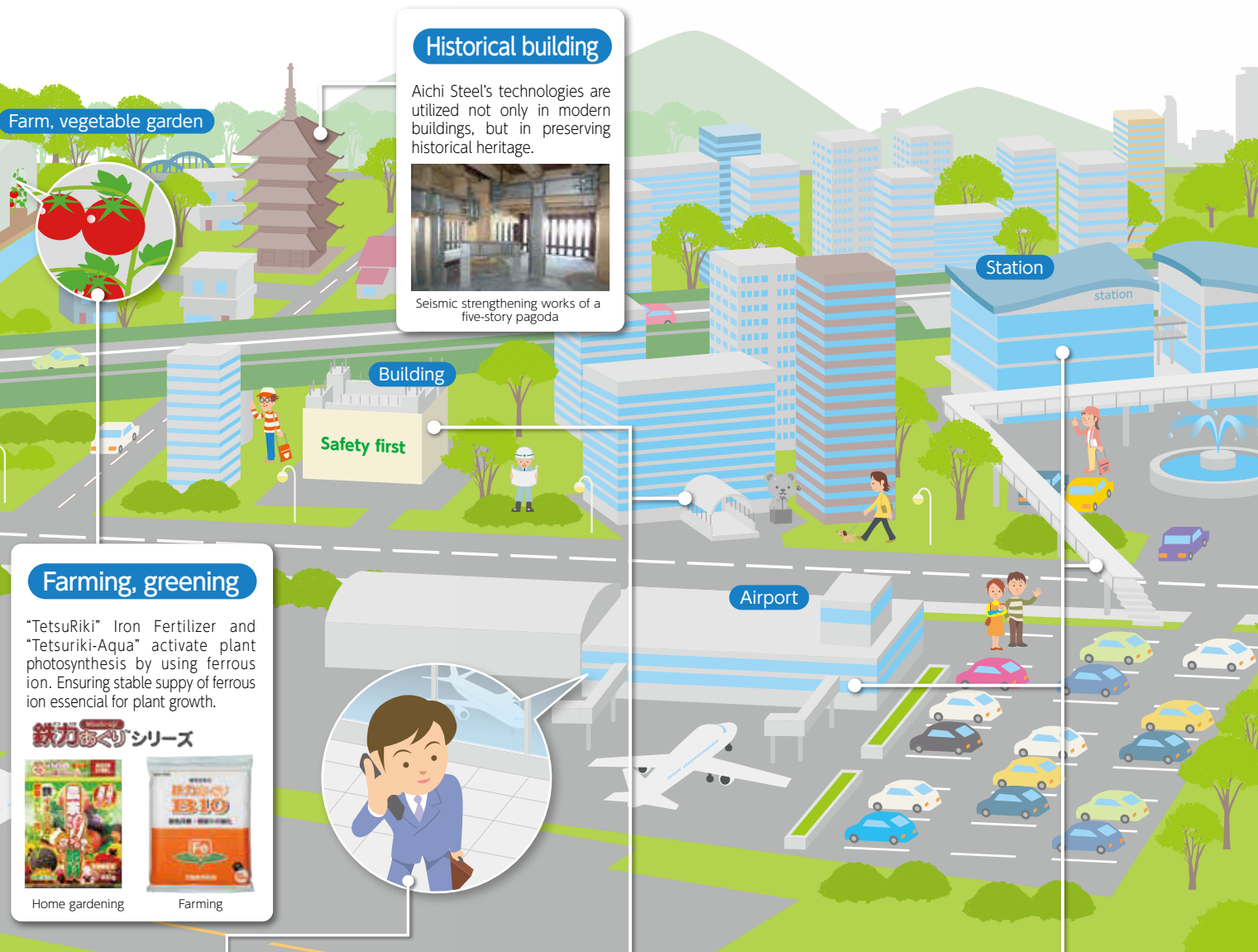
Construction Started on New Administration Building

Aichi Steel started construction in December 2015 on a new administration building on the site of its current headquarters location (Arao-machi, Tokai-shi, Aichi Prefecture). This new office, part of the 75th anniversary project, will strengthen the Company’s business continuity structure, accommodate modern workstyles, and make extensive use of advanced energy-saving technologies, supporting our efforts for environmental conservation and workforce diversity. In constructing the new administration building, Aichi Steel aims to achieve a more harmonious coexistence with all stakeholders, and as a manufacturing-oriented company respected in the community, support our growth toward becoming a company providing great value to society. The new building comprises a main structure to be finished in December 2016, and a hall scheduled for completion in February 2018.



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.



Farm, vegetable garden

Historical building

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



Seismic strengthening works of a five-story pagoda

Building

Safety first

Farming, greening

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

鉄力ありシリーズ



Home gardening



Farming

PC, smart phone

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



Electromagnetic compass for smart phone



High-sensitive MI sensor

Building, store

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



Stainless steel concrete bar "SUSCON"



Entrance eave, curtain wall

Station, airport

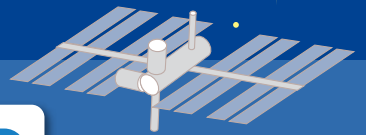
Our stainless steel is also used in stations and airports used by thousands of people everyday.



Station skywalk



Handrail



Car



We are contributing to lower fuel consumption and higher performance.

[Forged Products]



Differential ring gear



Crankshaft



Counter driven gear

[Electro-Magnetic Products]

MAGFINE seat motor

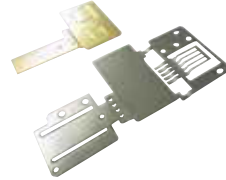


Hybrid vehicles

We are supporting the electrification of environmentally friendly vehicles.



Cold plate



Power card

Fuel-cell vehicles

Hydrogen station

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



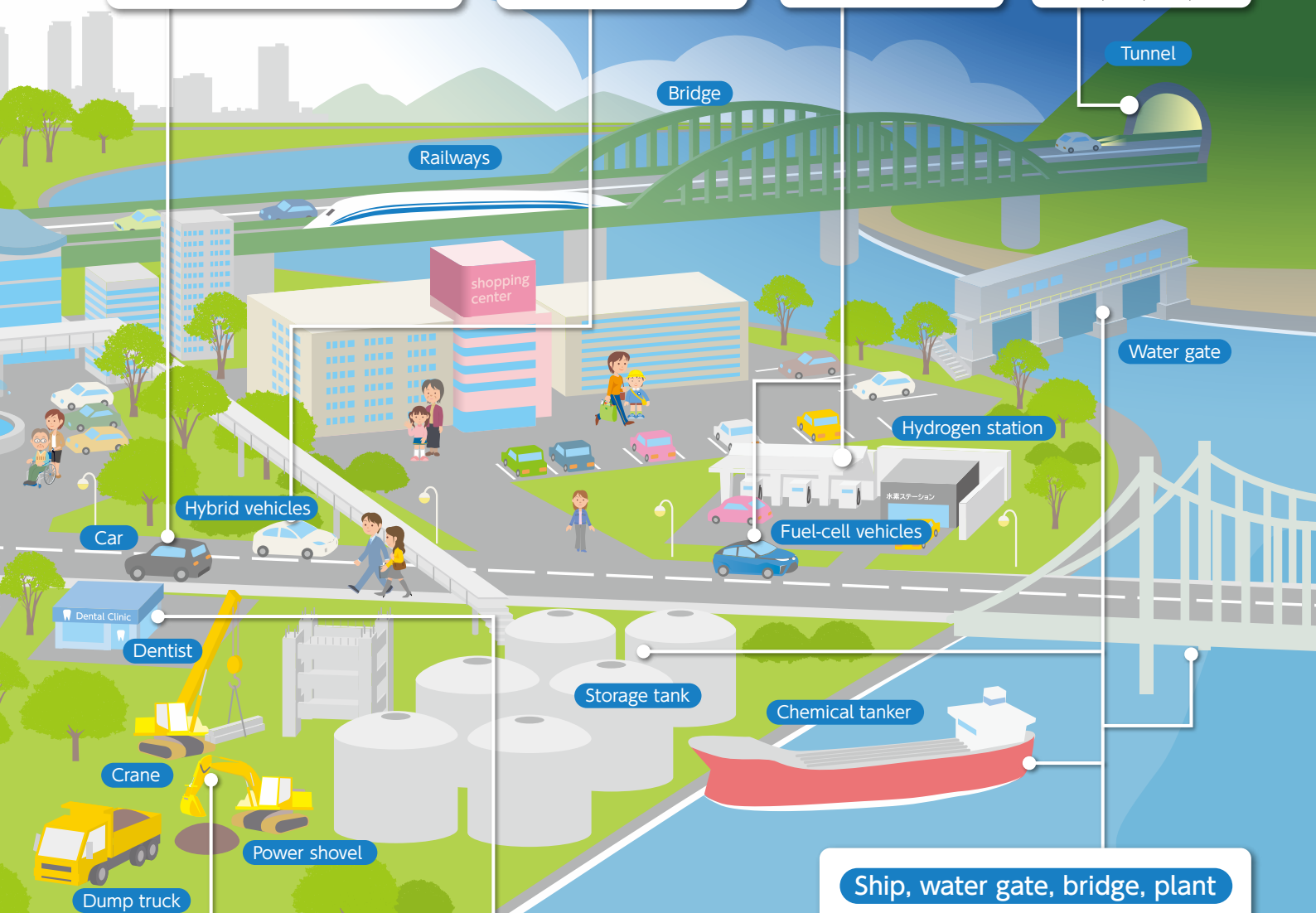
Hydrogen station

Tunnel

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



Attachment in the tunnel of capital expressway



Construction machinery

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



Boss



Front idler



Propeller shaft

Dentistry

Small magnet developed by Aichi Steel and used worldwide to affix false teeth.



Dental magnetic attachment

Ship, water gate, bridge, plant

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



Propeller shaft for ship



Water gate



Irabu Bridge

Summary of priority issues for the Aichi Steel Group

Aichi Steel Group has identified priority issues to be addressed through its business activities, and sets them out here, recognizing the involvement of the surrounding value chain and the Group's engagement with its stakeholders.

Engagement with stakeholders in the value chain

Customers

- Sales activities
- Supplier groups, Kyohokai, etc.
- Customer groups (Aikokai, Aishinkai)
- Corporate website
- Aichi Steel Report (this report)

Shareholders/Investors

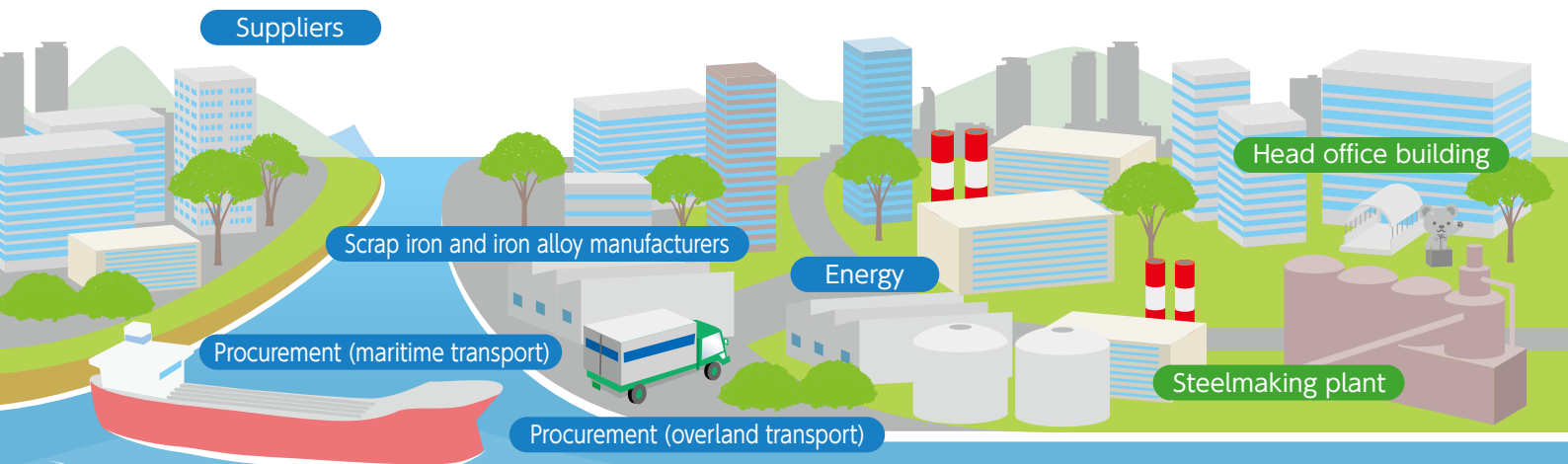
- General meetings of shareholders
- Meetings for presentation to investors
- Various IR tools
- Aichi Steel Report (this report)
- IR website
- Stable management and return of profit
- Information disclosure

Suppliers

- Procurement activities
- Meetings for description of procurement policy
- Supplier groups (Hokokai)
- Equal and fair transactions
- Management of labor safety

Public administrative authorities

- Meetings for discussion with authorities
- Contribution to educational activities
- Promotion of employment
- Payment of taxes
- Contribution to the region and education



Major issues in each phase

■ Issues in the environmental aspect

■ Issues in the social aspect

Procurement

- More efficient transport and green procurement
- Natural resources, decrease in amount of use
- Extensive use of clean energy
- Thorough compliance
- Management of labor health and safety
- Respect for human rights

Production

- Reduction of energy consumption by facilities
- Increase in efficiency in work processes
- Thorough compliance
- Preparation of business continuity plans (BCP) & back-up action plans (BAP)
- Information security
- Decrease in CO2 emissions
- Promotion of zero emissions
- Effective use of diverse human resources
- Good work-life balance
- Human resource development

- Stable supply of products
- Improvement in product quality and added value
- Improvement in economic merit
- Improvement in environmental performance

Employees

- Labor-management negotiations and explanatory meetings
- Various discussions ● Various seminars
- Portals for consultation and communication ● Corporate website and intranet
- Aichi Steel Report (this report) ● In-house report
- Stable management and return of profit
- Improvement of labor conditions and creation of opportunities
- Promotion of a good work-life balance ● Human resource development
- Management of labor health and safety ● Fair assessment

Main stakeholders and their estimated wishes

AICHI STEEL

- Main engagement opportunities
- Estimated expectations and wishes

Aichi Steel Group as a whole

- Conference for promotion of consolidated management
- Global meeting
- Meetings for discussion by top-level executives
- Provision of technology and know-how
- Support for human resource development
- Conditioning of production facilities and infrastructure

Local community

- Community meetings
- Participation in local community events
- Social contribution activities
- Information disclosure
- Promotion of social contribution activities
- Contribution to local communities
- Environmental contribution
- Maintenance and improvement of biodiversity

Various supporting groups (cooperation with NPOs, NGOs, etc.)

- Communication with various groups
- Support of activities ● Promotion of social contribution activities

Aichi Steel Group

Technical center

Group companies

Shareholders/Investors

Local community

Customers

Trading firms

Wholesalers

Forging plants

Component manufacturers

Automotive plants

- Curtailment of environment-burdening substances
- Preservation of water quality

- Management of labor health and safety
- Creation of employment
- Regional contribution

Logistics (physical distribution)

- Increase in transport efficiency
- Decrease in crating materials
- Curtailment of environment-burdening substances

- Thorough compliance
- Stable supply
- Alleviation of impact on transportation

Products

- Development of energy-saving products
- Contribution to emergence of the resource-recycling society

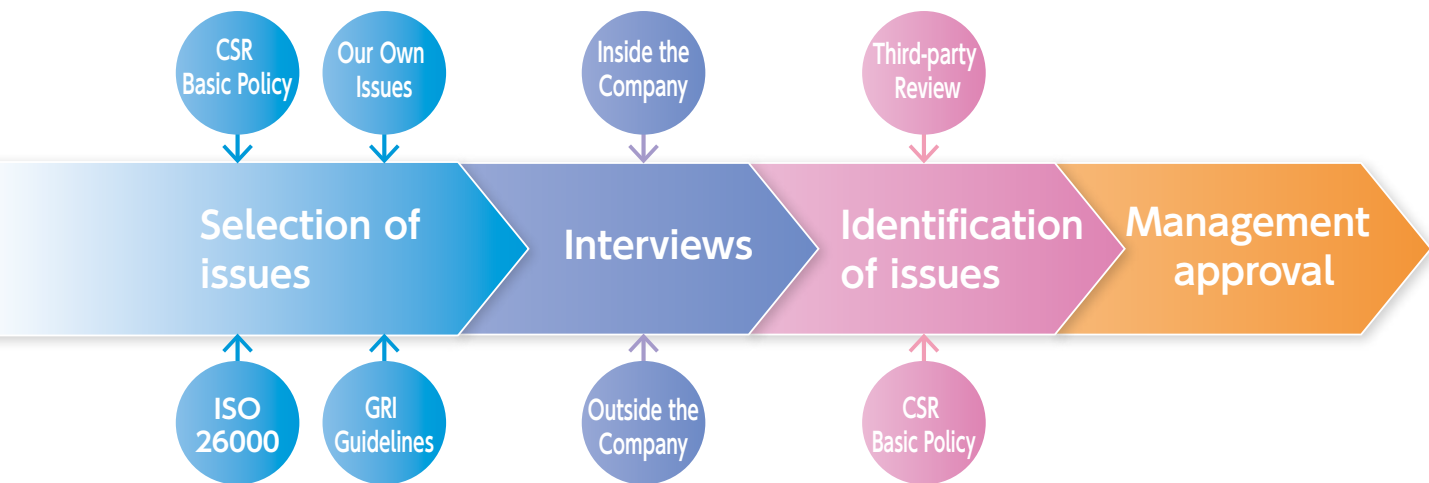
- Improvement of product quality
- Product safety
- Heightening of customer satisfaction

Identifying priority issues (materiality) at the Aichi Steel Group

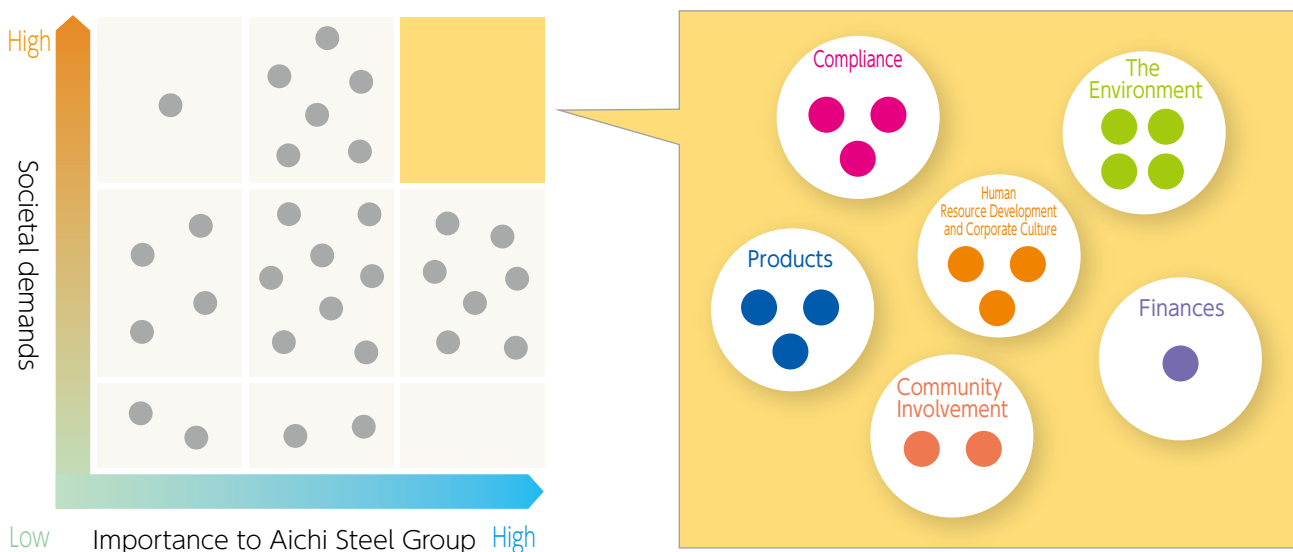
Aichi Steel Group succeeds only with the understanding and cooperation of all of its stakeholders, including customers, suppliers, our local communities, our shareholders and our employees. To make an even greater contribution to achieving a sustainable society, Aichi Steel Group believes it should conduct its business with an understanding of its impact on society, particularly with regards to certain important aspects. As a result, we have identified six issues, which we refer to as the "Priority issues (Materiality) for Aichi Steel Group," as issues we should address through our business activities.

Identification Process

Based on our Basic CSR Policy and CSR Action Plan, Aichi Steel selected a number of important items, referencing both the ISO 26000 standard and the GRI Sustainable Reporting Guidelines. These were plotted on an X-axis (for their importance from Aichi Steel's viewpoint) and a Y-axis (for their importance as seen by society).



Materiality Analysis Map



The 16 selected items were each categorized in one of six groups, including (1) Compliance, (2) Human Resource Development and Corporate Culture, (3) Products, (4) Community Involvement, (5) the Environment, and (6) Finances, and these categories were identified as "Priority issues for Aichi Steel Group."

Items selected as priority issues

Priority issue(Title)	Component identified in the analysis map	Key performance indicators (KPIs)	Applicable section
1 Increase Compliance Awareness Globally, and Strengthen Corporate Sustainability	Compliance (Environment) Compliance (Society) Compliance (Product responsibility)	Results of environmental management system audit Status of various efforts to strengthen compliance (number of lectures and internal audits held as a percentage of those planned) Certification and review by a third party organization	→ P.29 (Audit results) → P.19 (Compliance education) → P.25 (Third-party certification)
2 Encouraging the Creation of Workplaces that are Safe and Comfortable for All Employees	Occupational health and safety Mechanism for handling grievances regarding labor practices Diversity and equal opportunity	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 Labor management record of accepting, handling and resolving complaints through an in-house consultation office (number of cases) Assistance and programs (and environments) for supporting diverse work styles	→ P.24 (Frequency of accidents and lost work time, creation of safe worksites) → P.21, 24 (Respect for human rights, mental health activities (promotion of steps to improve communication)) → P.22 (Diversity initiatives)
3 Providing Highly Competitive Products that are Safe, Secure and Offer New Value Globally	Products and services Training and education Marketing and communications	Status of quality improvement efforts (number of recognitions received and description) Sales staff training, quality improvement activities (number of times held, number of participants, etc.) Gathering of customer evaluations (number collected and percentage of improvements, resolutions, etc.)	→ P.26 (Global quality assurance activities) → P.26 (Training programs for sales staff) → P.26 (Gathering evaluations from customers)
4 Strengthen Relationships with Local Communities, and Actively Contribute to Society	Presence in the community Local communities	Status of social contribution activities selected under in-house criteria (number of participants; clear compilation standards based on fixed-point observation) Status of local community development programs (plans and achievements against those plans)	→ P.27 (Annual number of participants in volunteer activities) → P.27 (Annual number of participants in volunteer activities)
5 Strengthening Efforts toward Manufacturing in Harmony with the Global Environment	Energy consumption Atmospheric emissions Wastewater and waste Biodiversity	Breakdown of energy use (CO2 emissions) 3Rs (resource recycling) (change in volume of direct and indirect landfill waste) Status of efforts to preserve biodiversity (reforestation, number of volunteer activities, etc.)	→ P.32 (Total CO2 emissions) → P.33 (Change in volume of direct and indirect landfill waste) → P.34 (Biodiversity)
6 Establishing a Solid Financial Foundation to Support Stable and Sustainable Growth	Financial performance	Profitability (operating income, ROE, etc.) Soundness, capital efficiency (interest-bearing debt balances, equity capital ratio, etc.)	→ P.35, 36 (Management's discussion and analysis of financial operations, results of operations and financial statements) → P.35, 36 (Management's discussion and analysis of financial operations, results of operations and financial statements)

Increase Compliance Awareness Globally, and Strengthen Corporate Sustainability

Materiality

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

CSR Management

Basic policy

We strive to pursue a business that places value on social morality and relations with local communities in order to fulfill our obligations in compliance with laws and regulations, as a good global corporate citizen. We practice CSR management to gain trust from all our stakeholders through the establishment of our Long-term CSR Vision and the implementation of our Medium-term CSR Plan.

CSR guidelines

The "Aichi Steel Action Guidelines" were established in 1998, and revised in 2007. Based on the "Aichi Steel Group Action Guidelines" (see website), the action guidelines for global management, these guidelines are the foundation for the CSR management of the Aichi Steel Group as a whole. We have also established the Basic Management Rules (4 items in 2 categories), the Rules of Employment (15 items in 2 categories), the Organization Rules (7 items in 2 categories), and the Business Administration Rules (309 items in 10 categories). These rules are revised whenever any changes are made to related laws and regulations or environmental conditions, and they are also checked, audited and revised on a regular basis.

CSR system

The CSR Committee, chaired by the president, meets annually in March to confirm and report on the status of CSR management efforts. Beginning in fiscal 2016, to further strengthen the CSR structure, the CSR Committee will meet twice a year, in October and March, providing a midterm confirmation and report on CSR management.

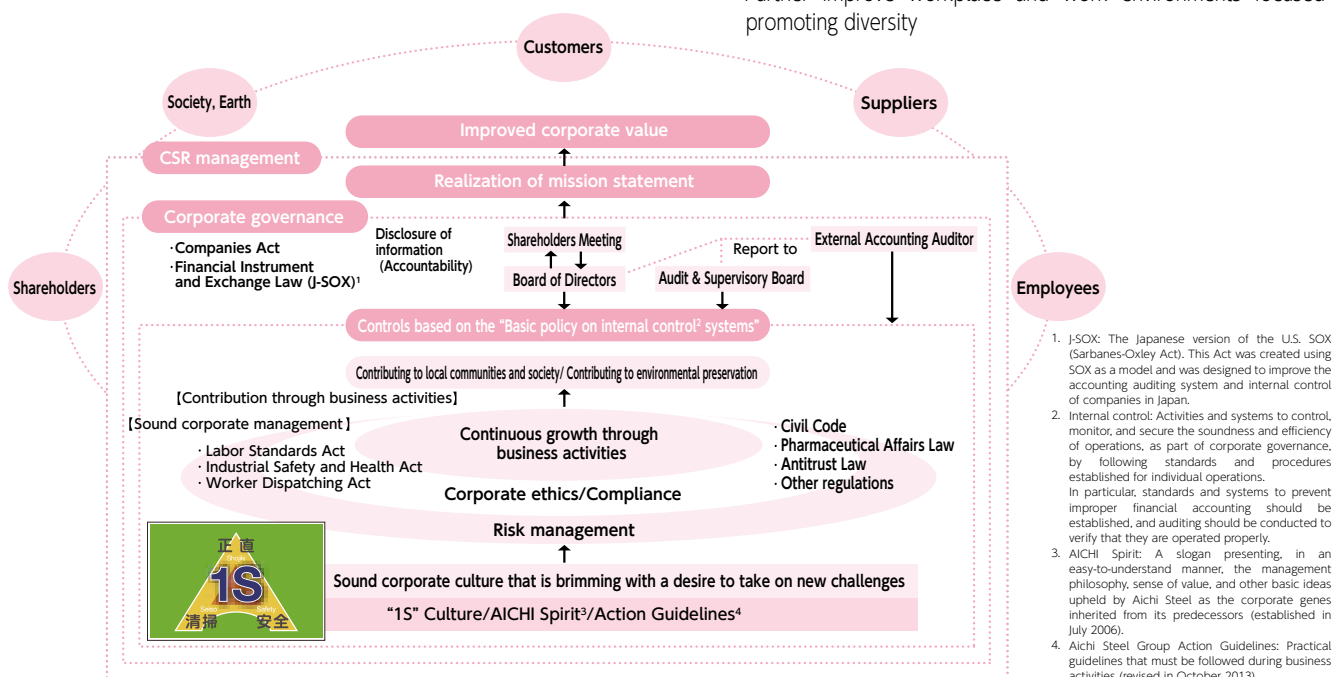
Review of CSR activities in fiscal 2015 and identifying issues

Comprehensive risk management enhancements based on lessons from the accident

- Review and reflect on accident to identify weak points, formulate and promote enhanced business foundation plan based on this review
- Arrange and manage a risk map incorporating disaster prevention and BCM perspectives
- Promote strengthening of each measure aimed at thorough compliance

Creating a foundation and safe environment via thorough strengthening of zero accident and disaster activities

- Ongoing activities to thoroughly eliminate unacceptable accidents
 - I) Developing safety-conscious human resources
 - II) Developing safety standards
 - III) Developing safe worksites
- Promotion of more thorough efforts to follow rules and procedures in light of accidents
- Further improve workplace and work environments focused on promoting diversity



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

Corporate Governance

Basic policy

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

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

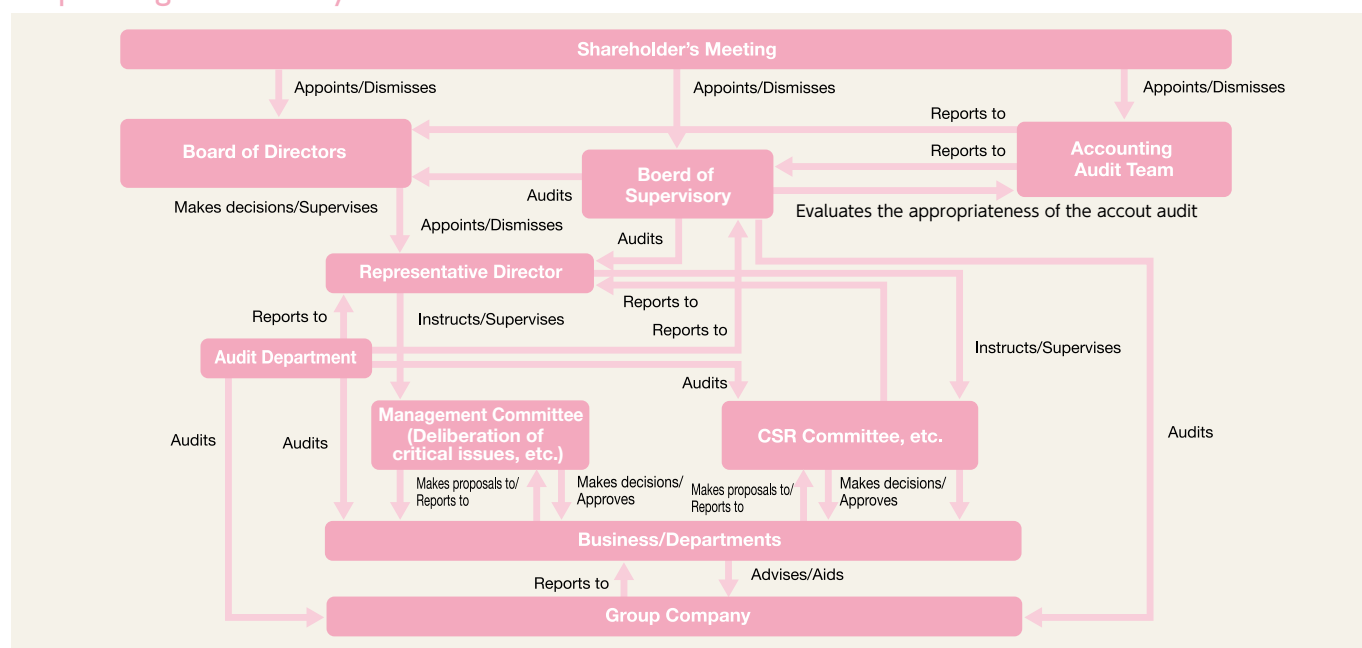
Corporate governance guidelines

We have published two types of codes of conduct: the "Action Guidebook for Directors and Audit & Supervisory Board Members," and the "Aichi Steel Group Action Guidelines for employees." We review and revise them to match changes in the law and in social trends. The "Action Guidebook for Directors" and the "Aichi Steel Group Action Guidelines for employees" are distributed to all of our directors and employees, and we provide related training to freshman employees and those promoted to new job levels. A CSR card that employees can carry with them is also distributed to all of employees, part of our efforts to ensure employees remain constantly aware of our Code of Conduct.

Compliance with the Corporate Governance Code

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

Corporate governance system



Status of the Board of Directors and the Audit & Supervisory Board

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

	2011	2012	2013	2014	2015
Directors	20	20	13	13	13
Outside Directors	0	0	0	0	1

Note : Outside directors include one man appointed during the General Meeting of Shareholders in June 2015, and one woman appointed at the General Meeting of Shareholders in June 2016.

Attendance rates in fiscal 2015

	No. of Meetings	Director attendance rate	Auditor attendance rate	
			Standing members	Outside members
Board of Directors	14	99%	100%	93%
Audit & Supervisory Board	12		100%	94%

Internal control system

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

Compliance

Basic policy

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

Compliance guidelines

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. To enhance employee awareness of compliance, various workshops and training sessions are held at every opportunity, using compliance manuals, the Aichi Steel Group Action Guidelines and the 1S Guidebook.

Compliance education program

To enhance the compliance awareness of employees, we provide education on compliance to all employees. Compliance education is also covered in the Action Guidelines workshop held for those promoted to each new job ladder. Moreover, we issue "Legal Affairs News" to deliver information about compliance issues closely related to our daily lives, which enables employees to check such information on our intranet. Aichi Steel, to eliminate misconduct and illicit activity, conducts compliance training for all engineering-level employees at all factories and work locations, utilizing morning assemblies and lunch meetings. We will actively and continuously promote compliance activities to further ensure employees' compliance and prevent the occurrence of compliance deviations.

Risk Management System

Basic policy

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

Risk management guidelines

Aichi Steel has formulated and implemented risk management regulations, along with various rules according to the type of risk. These rules are revised on a regular basis in response to changes in the business environment or when new risks are identified, in order to ensure a reliable risk management system. Based on the lessons from the accident that occurred in January 2016, we are enhancing our initial response and internal-external coordination procedures.

Whistle-blowing system

In fiscal 2015, a total of 12 cases were reported to the Aichi Steel Group Compliance Hotline, the company's whistle-blowing system. We will continue promoting recognition and awareness of our whistle-blowing system to further improve our internal ability to govern ourselves. Necessary measures will be taken for improper actions reported, and the president will be informed to the president for confirmation while said measures are carried out. We will also lay out how the system is operated and protection of whistle-blowers to ensure whistle-blowers are protected.

Fiscal year	2011	2012	2013	2014	2015
Number of calls	6	3	6	6	12

Promotion of CSR activities throughout the supply chain

As part of efforts to support our suppliers' compliance activities, we have developed a CSR program for our supply chain. In fiscal 2015, CSR seminars for suppliers were held (in May, October) to raise their awareness of our compliance. We will make continuous efforts to promote CSR throughout our supply chain.

Intellectual property protection

In fiscal 2015, there were no complaints or comments concerning intellectual property.

Number of applications

	Japan	Overseas
Number of our patent applications in fiscal 2015	31	6

Risk management promotion system

Risk management issues are delivered and discussed by the CSR Committee. We have prepared a risk map, in which risk items for each job ladder are organized according to the degree of importance and urgency. The development of a disaster prevention/reduction scheme that enables a quick response to emergencies is underway, including the setup of emergency Company headquarters in the case of earthquakes or other disasters.

Education/Awareness-raising

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

Disaster prevention measures

Following the Great East Japan Earthquake, we established the Earthquake Preparedness Committee, under which three subcommittees—the Human Safety, Facility Safety, and Production Recovery Subcommittees—were set up to enhance our earthquake preparedness. We are also working to improve our BCM (Business Continuity Management) plans. In fiscal 2015, following measures were taken by each subcommittee.

Human Safety Subcommittee

Measures to ensure the safer evacuation of people

- 1) Educating employees through regular publication of "Disaster Prevention News"
- 2) Regular evacuation drills, including transport of injured and other practical activities
- 3) Ensuring sufficient food and other emergency relief supplies

Facility Safety Subcommittee

Measures to prevent injury from buildings and other structures during earthquakes

- 1) Renovations to interiors and exteriors of buildings and other work to ensure safe evacuation

Production Recovery Subcommittee

Measures to ensure products are delivered promptly to customers

- 1) Reinforcing facilities to prevent fatal damage due to earthquakes or liquefaction (ongoing)
- 2) Consideration of a broad range of alternative production options, including domestic and foreign group companies, suppliers, and other companies in the industry
- 3) Establishing elemental technologies and training key personnel to allow operation of core production lines with a small number of employees
- 4) Backups of information systems and data

Information Security

Basic policy

Confidential materials shall mean any and all information, products and facilities that may cause a disadvantage to the Company or benefit a third party if made known to the public or if leaked out, and the use and disclosure of which is controlled by people in charge of confidentiality management, who are designated under the information security promotion system. Confidential materials also include other companies' confidential materials obtained by fair means.

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.

Information security guidelines

Aichi Steel, for security controls and to prevent leakages of personal information, has 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.

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.

Information security

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

Information audit results

Auditing of e-mails	Cases detected:22	Failure to set a password for a file Inclusion of a password in an e-mail message E-mailing to a terminal unit for private use
Baggage inspection	May: Three October: Two	Incomplete permit application

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

Materiality

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

Respecting Human Rights

Basic approach

Aichi Steel plans, formulates and executes a variety of measures to ensure that we secure, develop, appropriately allocate and effectively utilize human resources capable of contributing to global management. We are working to create workplaces in which each individual employee is respected, and individual capabilities and aptitudes are maximized.

Hiring and employment guidelines

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

Labor composition (fiscal year)

Fiscal year	2011	2012	2013	2014	2015
Total workers (persons)	2,367	2,369	2,383	2,409	2,477
Managers (female) (persons)	268(3)	286(4)	279(4)	284(4)	291(3)
Regular employees (women) (persons)★	2,099(121)	2,083(128)	2,104(140)	2,125(149)	2,186(160)
Male (persons)	2,243	2,236	2,239	2,256	2,314
Female (persons)	124	133	144	153	163
Average age (years)	39.9	39.8	39.7	39.6	39.5
Average service (years)	20.3	20.1	19.7	19.4	19.0
Turnover rate (%)	0.8	0.4	0.8	0.4	1.1
Voluntary resignation for personal reasons (persons)	10	12	20	12	28
New graduates employed (female) (persons)	61(5)	66(5)	66(10)	69(12)	77(10)

★New item established this fiscal year.

Initiatives involving respect for human rights

Aichi Steel Group states in the Aichi Steel Group Action Guidelines and the Guidebook of Corporate 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. Through stratified training and other means, we cultivate a corporate culture in which the diversity, character and individuality of each employee is respected. Workplace study sessions are held with the goal of preventing workplace harassment, and a "Hotto (hot)" line is in place for use by employees with issues regarding human rights. This system enables employees to consult directly with advising attorneys.

Efforts to reduce total working hours

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

Changes in total working hours(hours worked per person per year)

Fiscal year	2011	2012	2013	2014	2015
Hours	2,124	2,145	2,180	2,195	2,174

Usage of annual paid vacations

Fiscal year	2011	2012	2013	2014	2015
Usage rate (%)	48.5	48.8	47.0	50.0	52.5

Usage rate against the standard 20 days granted

Efforts for Diversity

Promoting more active roles for women in the workplace

Aichi Steel considers the promotion of diversity to be an important part of its management strategy. As part of creating a more comfortable environment for women, we have focused on measures to support work-life balance, by formalizing programs for childcare leave and shortened working hours, and by putting in place an environment that allows for shift work in our plants. To further advance these measures, we have formulated and announced an action plan for promoting more active roles for women, including expanding the number of women in management positions and the number of women we hire as new graduates.

Usage of the Nice Family System

Fiscal year	2011	2012	2013	2014	2015
Child care leave (persons)	5	9	10	5	8
Shorter work hours (persons)	5	4	5	10	6

Number of persons who started using the system per year



Post-retirement reemployment system

We have in place a Nice Senior System, which allows employees who are willing to work after retirement to continue working until they begin receiving their pensions. These employees contribute their advanced skills in various workplaces, while working to pass on their skills and offer guidance to younger employees. In fiscal 2015, we launched a Response to Aging project, designed to promote the creation of work environments friendlier to senior employees and to reevaluate their compensation and other issues.

Registrants for the Nice Senior System

Fiscal year	2011	2012	2013	2014	2015
Nice Seniors (persons)	49	47	101	99	82

Those who are reemployed between the ages of 60 and 64 (as of the end of each fiscal year)



Promoting employment of the people with disabilities

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

Employment of people with disabilities

Fiscal year	2011	2012	2013	2014	2015
Employees with disabilities (persons)	40	50	44	47	48
Employment rate (%)	1.8	2.1	2.3	2.3	2.3
Achievement status of the statutory employment rate (%)	100	100	100	100	100

Human Resources Development

Global human resources development

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

entities outside Japan, where they work with national staff to accomplish tasks based on specific themes. Technical Training Institute students are also given ongoing English language training, and engage in communication and interaction with national university students during overseas training.

VOICE

Feedback from OT participant (trained at AIT)

Ryosuke Mori, Cost Management Dept., Finance & Accounting Div.

Prior to training, I was concerned about this being my first overseas assignment, and about communicating with national staff. But I decided that the only thing to do was to take on the challenge and give it a try, and every day turned out to be a fresh, enriching experience. In addition to communicating in English, I also gradually learned a little Thai, which enabled me to interact more closely with the national staff. I hope to make use of the experience I gained through OT training with other cultures, as well as my language abilities and willingness to accept new challenges, working to improve profitability at our consolidated companies.



(Photo) With local staff

Global meeting

Since fiscal 2012, the Aichi Steel Group has held an annual "Aichi Global Meeting," with the goal of further strengthening ties between our domestic and overseas group companies and promoting their autonomy. These meetings, where Aichi Steel Group executives and employees from within Japan and abroad can get together and exchange ideas, are part of our effort toward globalization on both the hard (things) and the soft (people) sides of our business.

At the fiscal 2015 meeting, the primary theme was communication, and in addition to the lecture by President Fujioka, his first since the initial meeting, we incorporated our first lecture by an outside instructor. At the same time, group discussions featured lively debate about how to communicate between the head office and subsidiaries, issues and ideas about work, and the direction the group should take, all part of an effort to deepen mutual understanding and cultivate an even greater sense of solidarity. We will continue to hold these annual meetings with the goal of strengthening consolidated management capabilities through stronger group cohesiveness and the vigorous development of and interaction between global human resources.



Global seminar (July)

Aichi Steel offers a continuing series of global seminars, an opportunity for young employees to learn the appeal and rewards of working overseas, as well as the hardships and effort that come with that work. At each session, staff with experience in overseas assignments who put down roots in overseas group companies and endeared themselves to national staff are selected as instructors, ensuring participants gain an understanding of the work involved and the cultures of the respective countries. Each year, their round-table talks with the younger employees leads to lively discussions.



Employee Health and Safety

Basic policy

Basic labor safety/ health concept

1. Strengthening of "heart, mind, and body"

Heart : Strong belief in and awareness of pursuing safety

Mind : Careful observation and thorough investigation of true causes

Body : Powerful actions, dedicated efforts

2. Clarification

Clarifying problems

(negative issues, poor conditions)

Clarifying good points

(improvement cases, knowledge, experiences)

Clarifying standards, changes, or other status

Basis of activities

Consistently focusing on comprehensive safety and health management, aiming to achieve

"zero accidents in all workplaces throughout Aichi."

Health promotion efforts

Aichi Steel Group works to maintain and promote the health of its entire Group workforce through concerted efforts by industrial physicians, public health nurses, nurses and health management staff. In fiscal 2015, systematic efforts placed a priority on mental health, lifestyle-related disease prevention and health management support for employees assigned overseas.

Mental health activities (Promotion of measures for communication activities)

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. In fiscal 2015, we implemented workplace stress check tests in anticipation of revisions to the Industrial Safety and Health Act, creating a system whereby all employees who so desire can consult with an industrial physician. We also collaborated with mental health consultants to offer ongoing on-site consultation to ensure early detection and treatment of employees with mental health issues. We will continue working with managers and supervisors to promote the creation of organization where views are aired freely helping to prevent mental health issues and ensure their early detection and care when they do arise.

Follow-up meetings by top-level safety managers

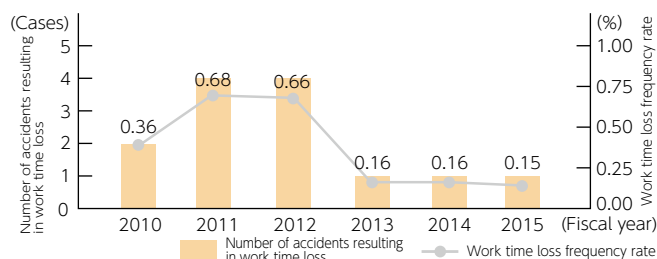
In fiscal 2015, top-level safety managers participated in monthly workplace safety and health meetings. Efforts are being expanded company-wide to offer on-site day-to-day safety management guidance, with the goal of reducing accidents resulting in lost work time to zero.



Frequency of accidents and lost work time

In fiscal 2015, we worked to make improvements to highly risky work that could lead to a serious accident, and created and reviewed procedural manuals (rules), with the goal of reducing accidents resulting in lost work time to zero. We have strengthened communication with in-plant operators, and reviewed support systems to make it easier for any issues to be brought up. In addition, we worked to prevent reoccurrence of fire and explosion accidents, and are moving forward to rebuild our approach to security and safety.

Number of accidents resulting in work time loss



Creation of safe worksites

We continued our efforts to create safe worksites, working to ensure safety in the workplace by ranking worksites according to risk assessments, and attempting to eliminate C and D rankings, the highest danger levels.

We have developed and are implementing a three-year plan to address individual accident factors, and in fiscal 2015, as in the previous year, we tackled risks of being trapped or caught in equipment, the separation of people and vehicles, and prevention of electric shocks.

In addition, following the explosion at the No. 2 Bar Mill Shop, the Company reevaluated the risk levels at all of its furnaces, and is working to prevent a recurrence through the addition of new furnace fail-safe functions.

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

As part of our efforts to enhance employee awareness of labor safety, we have created a facility for simulating danger, where employees can gain firsthand experience with the potential risks of day-to-day operations.

Using dummy equipment to demonstrate the variety of dangers that can arise in the workplace, we work to enhance employee sensitivity to danger. About 1,100 employees took underwent this training in fiscal 2015, but we are working to increase that rate by establishing a graded certification system. We have also begun offering an on-site "traveling facility" to bring the same experience to plants in more distant locations. In addition, we also plan to deploy a furnace simulator training device to enable workers to understand furnace mechanisms and experience their frightening power for themselves.

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

Materiality

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

Quality Management System (QMS)

Basic stance

<Basic Policy>

In accordance with our policy of "Quality First," we will strive to maintain a business structure based on ISO 9001 that gains customer trust and enables us to deliver attractive products that meet expectations and needs.

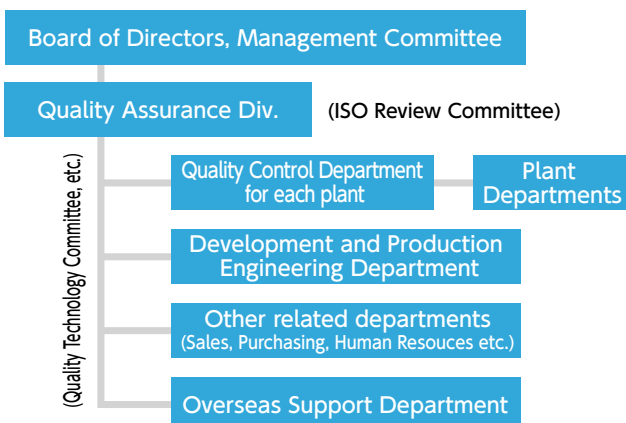
Under our long-term Quality Vision 2017, we will strive for a united company-wide effort to maintain a quality assurance system that keeps us in the lead over other companies in quality competition.

Long-term Quality Vision 2017

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

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

Quality Assurance System



Certification by third-party organizations

Acquisition status of Quality ISO certification

- 1) Steel materials and Forged Products
 - 17th periodic review for ISO 9001 certification (September)
- 2) Electro-Magnetic products
 - Passed renewal review for ISO 9001 (December)
 - Passed renewal review for ISO 13485 (medical devices) (December)
- 3) Analysis and testing
 - Passed expanded renewal review for ISO/IEC 17025 (June)

ISO certification acquisition

Kariya Plant	ISO9001	April 1993
Chita Plant	ISO9001	December 1995
Forging Plant	ISO9001	November 1997
Electro-Magnetic products	ISO9001	March 1998
Dental materials	ISO13485	July 1999
Dental materials	EC Directive	July 1999
Analysis & Testing Dept.	ISO17025	September 2007

Consolidated subsidiaries

Omi Mining	ISO9001	May 2002
Aiko	ISO9001	April 2005
Asdex	ISO9001	June 2008
Aichi Techno Metal Fukuami	ISO9001	March 2013
AFC	ISO9001	April 2003
SAFC	ISO/TS16949	August 2006
AIT	ISO/TS16949	March 2008
AFI	ISO9001	November 2008
AFU	ISO/TS16949	September 2009

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

- New JIS mark (by JICQA)
- Marks issued by shipping classification associations: NK, LR, GL, DNV, KR, CCS (recertified in December), CR, ABS
- TÜV (Mark issued by Germany's Technical Inspection Association, recertified in May)
- Medical Devices Directives [MDD Annex v.3.2] (recertified in December)

Expansion of ISO/IEC 17025 Laboratory Accreditation

Last year, Aichi Steel Group passed the expanded renewal review for ISO/IEC 17025 Laboratory Accreditation. Laboratories worldwide accredited based on ISO/IEC 17025 are deemed to have the required management systems, testing technology, testing equipment and testing personnel to ensure the same test (performed with the same materials and test equipment) will produce the same results. While accreditation previously focused on the field of analysis, two years ago the scope was expanded to include accredi-

tation in machine-based testing. Our laboratory was thus accredited under a total of 19 standards, including new accreditation for one analysis standard and five standards for machine-based testing. This ensures that our inspection certificates demonstrate test values that are highly reliable internationally, enhancing the credibility of our materials and machined parts both at home and abroad. Going forward, we hope to expand our accredited facilities to include the field of environmental analysis.

Quality month activities

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

Global quality assurance activities

Auditors specializing in quality assurance are regularly sent to overseas plants to strengthen quality assurance systems and provide appropriate assistance from the head office regarding the differing quality issues at each site, working to further improve the level of quality assurance at all sites.

Aichi Steel receives Outstanding Quality Award

At the Supplier Conference held by Toyota Motor (Changshu) Auto Parts Co., Ltd. (TMCAP), Shanghai Aichi Forging Co., Ltd. (SAFC) was recognized with the Outstanding Quality Award, granted to the top five parts manufacturers in terms of quality. SAFC was recognized for continuing to maintain a record of zero defects going to its customers for the ring gears it has supplied to TMCAP since last year.

Gathering evaluations from customers

We keep and manage a database in which reports of product defects or requests from customers, status of investigations and feedbacks to relevant customers are stored. This database not only prevents repeated complaints, but also enables us to identify the true cause of those complaints (trouble arising from unsuitable products within contracted specifications), and helps us work to quickly discover areas where we can improve internally.

Training programs for sales staff

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

Aichi Steel purchasing policy

Purchasing through sound corporate activities

- Global, open and fair transactions
- Mutual growth based on mutual trust
- Legal compliance
- Green Procurement Activities

Global, open and fair transactions

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

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 ensure careful control over the confidential information of our suppliers.

Green purchasing

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

Strengthen Relationships with Local Communities, and Actively Contribute to Society

Materiality

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

Basic policy

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

Promotion system

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 and offers smaller-scale volunteer opportunities which employees can participate in, and encourages them to experience volunteering for themselves.

Clean (Beautification, safety, security)

Nearby roads clean-up campaign

The “Nearby roads clean-up campaign,” a social contribution activity to clean neighborhoods, is held every two months. In fiscal 2015, the campaign was conducted five times. A total of 118 people from every worksite and in-plant business operators participated in the cleaning.



Clean Aichi Day

The Clean Aichi Day program, one of Aichi Steel’s CSR Enhancement Month activities, has been conducted annual in October since 2009. In fiscal 2015, 810 people, including employees of domestic and overseas subsidiaries, cleaned up the neighborhoods around our various facilities.



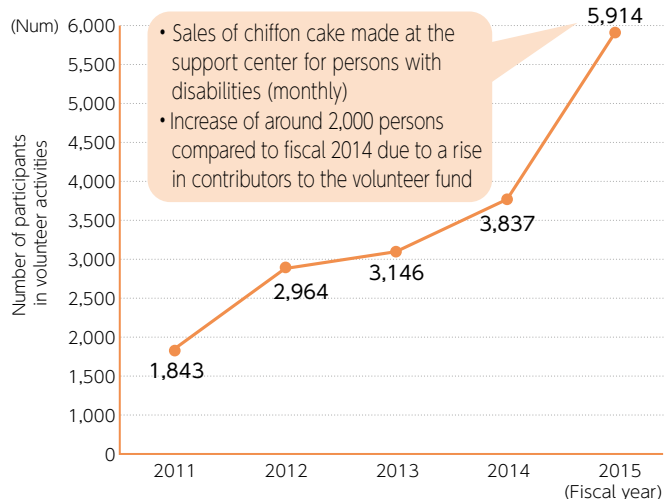
Traffic safety awareness

Continuing “Zero Day” patrols

To increase traffic safety awareness, Aichi Steel Group continues to conduct “Zero Day” safety patrols at each of its sites. In fiscal 2015, these patrols were held 88 times, with a total of 2,137 employees participating prior to starting work.



Number of participants in volunteer activities



Green (Planting and environmental conservation)

Student planting of flowers in front of Meitetsu Shurakuen Station

Each year in June and November, students of the Aichi Steel Technical Training Institute plant flowers in the roundabout in front of Meitetsu Shurakuen Station, the station nearest our offices. Part of our neighborhood beautification program along with picking up trash and other clean-up activities, the planting of seasonal flowers helps commuters feel relaxed and refreshed.



Creative (Education, culture)

“Lesson about Iron”

Aichi Steel launched “Lesson about Iron,” a project in which employees visit schools to teach children about steelmaking, in 2010 to mark the 70th anniversary of our founding. In fiscal 2015, we conducted the program at elementary schools in Tokai, Aichi Prefecture (32 classes at 11 schools), in September, October, and February. The “Lesson about Iron” given to fifth graders to learn about the local industry of Tokai, the largest iron-producing region in central Japan, and to experience the joy of manufacturing by making magnets.



Volunteer support

Aichi Steel Volunteer Fund

The Aichi Steel Volunteer Fund was established in 1993. We partially suspended donations in fiscal 2015 because of the explosion accident, but in fiscal 2016, as in previous years we plan to donate around 200 million yen in goods through our matching gift program.



Volunteer program for the Great East Japan Earthquake

Aichi Steel, in cooperation with Kyohokai, an association of Toyota Group suppliers and Toyota Group companies, has each year since fiscal 2011 participated in a volunteer activity to gather items to assist victims of the Great East Japan Earthquake. Volunteers collect disused cellular phones, spoiled postcards, and other articles around the home that can be converted into cash, and donate the money to aid disaster areas. A total of 26 employees from the Aichi Steel Group participated in the program, collecting 39 disused cellular phones, 199 spoiled postcards, ¥326 worth of postage stamps, ¥7,200 worth of prepaid phone cards, and 2,191.6 Bellmark points.



“One-coin” donation

In response to calls by employees who are interested in volunteer activities but have no time or chance to join them, we introduced a “one-coin” donation program, which enables employees to participate in activities that benefit society voluntarily and continuously.

Participants in the “one-coin” donation program can contribute one or more shares (¥100 a share), which are collected from the payroll, to the Aichi Steel Volunteer Fund, from which donations are made to organizations that we support. A total of 459 directors and employees who supported the program’s purpose have participated in this donation program (as of March 31, 2016).

Interaction with the community

Participation community meetings

Community meetings are held every year (in December) in the cities of Tokai and Kariya, and we promote exchanges with residents of the local communities and proactively 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.



Strengthening Efforts toward Manufacturing in Harmony with the Global Environment

Materiality

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

Environment Management

Basic approach

We view environmental preservation activities as one of the top priority issues in corporate management. The Aichi Steel Environmental Charter was developed in June 1996 to clarify our sincere approach in environmental efforts. The Behavior Guidelines on Environmental Issues (current Environmental Action Plan) was established in June 1993, and we continuously and actively aim to achieve our goals.

Environment management promotion organization

Our environmental management structure has been developed to carry out environmental preservation activities based on the Aichi Steel Environmental Charter. The Environmental Working Group strongly promotes all environmental preservation activities in an organized and systematic manner.

We aim for 100% ISO 14001 certification for consolidated subsidiaries with manufacturing sites.

The Philippine AFC acquired the certification in January 2012. With this, all target subsidiaries have now been certified.

Educating internal environment auditors

Fiscal year 2015 saw the certification of 16 new internal environment auditors who support the efficient operation of the environmental management system, making a total of 228. We also conduct internal environmental auditor education for employees scheduled for overseas dispatch on an as-needed basis.

Environmental guidelines

To promote its environmental management activities, Aichi Steel has set up the "Environmental Management Rules." These Rules provide for matters concerning: 1) systems to promote environmental management; 2) compliance/management of the Basic Environment Act and other environment-related regulations; 3) advance assessments of the environmental impacts of products, raw materials, secondary materials and equipment; and 4) support and cooperation for environmental protection in society and communities.

Audit results

The results of the FY 2015 internal audit and the surveillance audit of the environment management system were as follows. There were no major non-conformance issues.

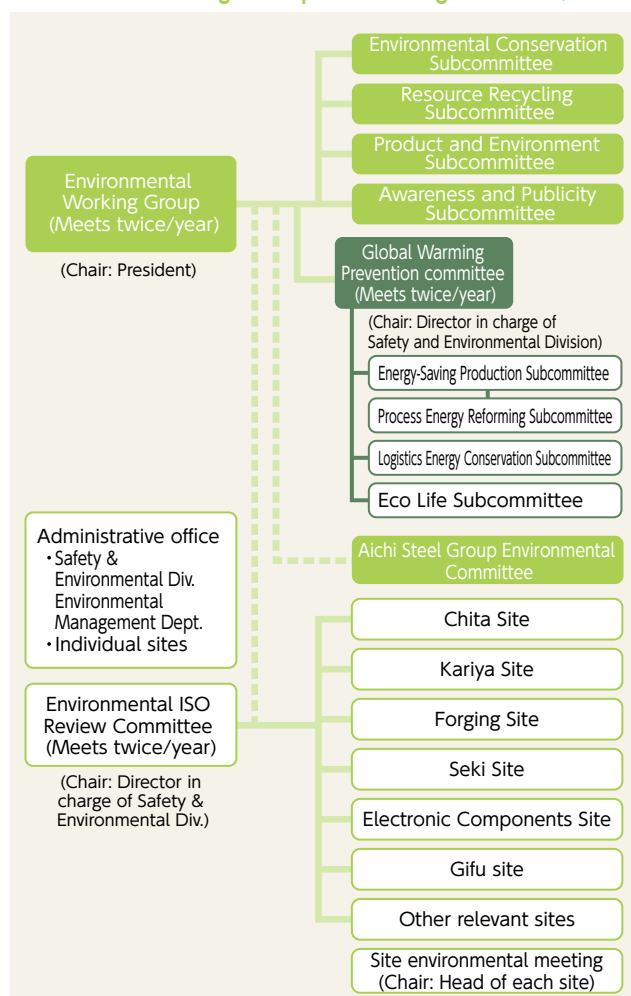
Results of internal audits

Classification	2011	2012	2013	2014	2015
Major non-conformance (incidents)	0	0	0	0	0
Minor non-conformance (incidents/department)	0.47	0.38	0.28	0.17	0.26

Results of audits by external auditors

Classification	2011	2012	2013	2014	2015
Minor non-conformance (incidents)	1	1	0	1	2
Opportunities for improvement and incident classifications (incidents/department)	23	32	24	17	51
	1.1	0.8	1.04	0.81	1.11

Environmental management promotion organizations (FY2015)



ISO certification status

Region	Company	Year
Japan	Aichi Steel	January 1997
	Aichi Ceratec	March 2003
	Aiko	January 2004
	Omi Mining	October 2004
	Aiko Service	January 2005
	Aichi Steel Logistics	March 2005
	Asdex	May 2007
	Aichi Techno Metal Fukaumi	December 2010
	Overseas	AFU
AIT		November 2006
SAFC		December 2009
AFI		May 2010
AFC		January 2012
AMC		Under consideration

Environmental conservation costs

(Unit: Million yen)

Classification	Major efforts and their effects	Cost
Environmental conservation costs necessary for controlling environmental burdens arising within our operational areas from production or service activities (Operational area costs)	Power for dust collectors/repair costs for dust collectors, wastewater treatment costs, investment and maintenance of energy-saving facilities, costs of disposal and recycling of industrial waste and general waste discharged from business operations	3,836
Costs necessary for controlling environmental burdens arising upstream or downstream of our operational areas in connection with production or service activities (Upstream/downstream costs)	Simplified packaging (reducing packing materials and reducing packing time)	0
Environmental conservation costs arising from our administrative activities (Administrative costs)	Costs for employee environmental education, and costs necessary to acquire and maintain ISO certification labor costs and related costs of environmental action organizations	335
Environmental conservation costs arising from our R&D activities (R&D costs)	Research costs for environmental conservation	1,320*
Environmental conservation costs arising from our social-relation activities (Social-relation costs)	Site greening and industrial road cleaning activities	19
Costs directly required for reducing environmental burdens	Share of cost of pollution levy	40
		Total 5,550

*Reason for increase from the previous fiscal year: In FY2015, we revised the expense items contained within R&D expenditures.

Environmental Action Plan 2015

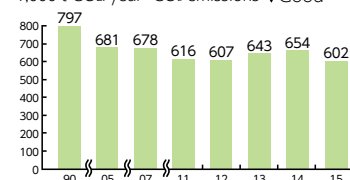
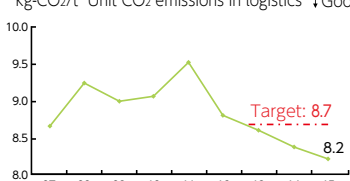
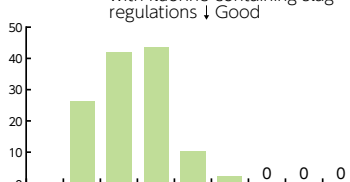
The Environmental Action Plan 2015, our plan highlighting our environmental efforts from FY2011 to 2015, was established in March 2011, with the basic philosophy "to contribute to the sustainable development of society and the global community" through manufacturing.

To this end, placing "environmental management" as the basis of all environmental activities, we promote continuous social contributions and enhance

management from a global viewpoint involving consolidated subsidiaries.

Specifically, the three pillars of implementation will be "reduction of environmental burdens," "promotion of a low-carbon society," and "improvement of resource recycling," and our activities will be conducted from many different directions, including production, technology development, coordination with society, and logistics.

Environmental Action Plan 2015 – Action Items and Results

Theme	Action item	Target(s)	Major efforts	Results	Results		
Three Pillars	Reduction of environmental burdens	1. Promotion of environmental activities in coordination with business partners	<ul style="list-style-type: none"> Promote and adopt proposals for green purchasing. Strengthening efforts at VA Exhibit (October 2015) 	<ul style="list-style-type: none"> CO₂ reduction, prioritized implementation of 3Rs 6.9 proposals/month 	△ ¹		
		2. Development of technologies to reduce substances of environmental concern	<ul style="list-style-type: none"> Promote environment-related themes in the medium-term plan for engineering departments. 	<ul style="list-style-type: none"> Follow-up on progress by theme (1 theme completed, 2 themes progressing according to plan) 	○		
		3. Enhanced control of environmental burdens for each product	<ul style="list-style-type: none"> Understanding and collection of data on LCA items 	<ul style="list-style-type: none"> Participation in international standardization of circulation-type LCA methods for steel 	○		
		4. Development of eco-friendly products that reduce CO ₂ emissions by our customers	<ul style="list-style-type: none"> Promotion of eco-friendly related themes in the medium-term plans 	<ul style="list-style-type: none"> Follow-up on progress by theme 	○		
	Promotion of a low-carbon society	5. Thorough implementation of energy conservation practices in production activities	Based on internal goals in fiscal 2013	<ul style="list-style-type: none"> Accumulate and execute energy conservation improvement activities Promote improvement in the departments using large amounts of energy 	1,000 t-CO ₂ /year CO ₂ emissions ↓ Good 	△ ²	
		6. Seeking better transportation efficiency in logistics	8% reduction of emission volume per transportation unit in 2013 from the 2006 level	<ul style="list-style-type: none"> Implementing reduced traffic lines Eliminating backflow and redundant stock points 	kg-CO ₂ /t Unit CO ₂ emissions in logistics ↓ Good 	○	
	Improvement of resource recycling	7. Reduction of by-products during production and further effective utilization of resources	Landfill volume in correspondence with fluorine-containing slag regulations in 2013: Zero Internal goal (Based on direct and indirect landfill)	<ul style="list-style-type: none"> Continue zero landfill volume in accordance with fluorine-containing slag regulations Begin outsourcing of disposal of hard-to-sort bricks, etc. Begin developing new outsourcers for disposal of acid sludge. 	1,000 t/year Landfill volume in correspondence with fluorine-containing slag regulations ↓ Good 	△ ³	
		8. Promotion of projects that benefit resource-recycling corporations	—	<ul style="list-style-type: none"> Effective reuse of metal scrap from Toyota Group 	—	—	
	Environmental management	Social contribution	9. Promotion of activities for "zero abnormalities/complaints" Zero abnormalities/complaints	<ul style="list-style-type: none"> Implement strict management to achieve 80% or below of regulation values set by environment-related laws. Promote preventive activities (enhance GK). 	<ul style="list-style-type: none"> "Environment Close Call" was adopted. 	○	
			10. Enhancement of consolidated environmental management	<ul style="list-style-type: none"> Promote on-site monitoring through Brush-Up Seminars. Environment audit of domestic affiliates by safety/environment manager 	<ul style="list-style-type: none"> Ongoing brush-up seminars held with domestic affiliates. Continue with environment audits 	○	
			11. Promotion of global CO ₂ management	<ul style="list-style-type: none"> Require all group subsidiaries to report their energy consumption volume. 	<ul style="list-style-type: none"> Continue to follow up and operate, including overseas offices 	○	
		Social contribution	12. Promotion of biodiversity	—	<ul style="list-style-type: none"> Participate in NPO-led forest preservation activities and the city of Tokai forestation project. Promote the "Forestation to Create a Forest for Beetles" 	<ul style="list-style-type: none"> Participate in forest preservation activities (June, August) "Forestation to Create a Forest for Beetles" event (October) 	○
			13. Enhancement and promotion of environmental education activities	—	<ul style="list-style-type: none"> Enhance education programs. Increase environmental consciousness through environmental news, etc. 	<ul style="list-style-type: none"> Classified education continued and internal auditors increased. Environmental seminars were held.(June) 	○
			14. Active disclosure of environmental information and enhanced communication activities	—	<ul style="list-style-type: none"> Demonstrate environmental contributions through participation in Messe Nagoya, Industrial Festival, etc. Make the Aichi Steel Report available on the Web. Hold media meetings, head Office area meetings, and Kariya regional meetings. 	<ul style="list-style-type: none"> Exhibiting at the "Automotive Engineering Exposition" (May) English version of Aichi Steel Report: issued in Nov. (Disclosed publicly in PDF (on the web)) Round-table conferences with the press (5 times) Head office (December) ·Kariya (December) 	○
			15. Revitalization of regional contribution activities	—	<ul style="list-style-type: none"> Increase participants in Clean Aichi Day. Demonstrate environmental activities through in-house publications and News a la carte. 	<ul style="list-style-type: none"> Participants in Expanded Clean Aichi Day: 810 Environment-related information was provided through in-house publications and News a la carte. 	○

1 Work to improve environmental performance 2 Respond to Japan Iron and Steel Federation plan for commitment to a low carbon society 3 Work to reduce waste emission base units

Prevention of Global Warming

FY2015 targets and results

Based on Environmental Action Plan 2015, we pursued a 10% reduction compared to 1990 levels until fiscal 2012, a figure higher than the Kyoto Protocol target. From Fiscal 2013, the internal goal was set at 1% reduced emission per production volume from the previous year.

Item	FY 2015 target (internal)	Result
CO ₂ emissions	635,000 t-CO ₂ /year	602,000 t-CO ₂ /year

Energy conservation in offices

We have promoted energy conservation activities in our offices since 2008. In fiscal 2015, the following activities were conducted.

1. Summer/winter measures to reduce electricity consumption

- Promoting Cool Biz activities (Temperature set to 28°C)
- Promoting Warm Biz activities (Temperature set to 19°C)
- Shift to energy-saving air conditioning system in forging office



2. Other

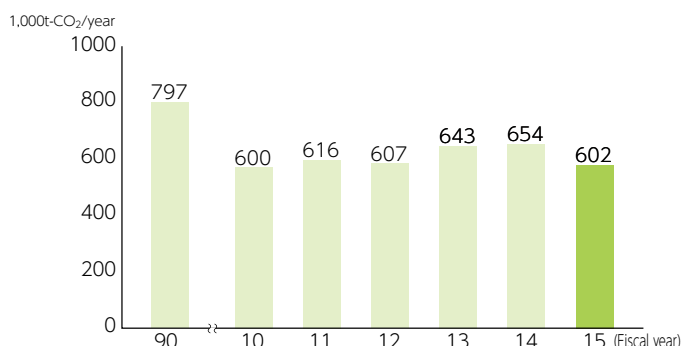
- Joint energy conservation patrols by all members of the eco-life promotion committee (December)
- In-house publications for Environment Month (June) and Energy Conservation Month (February)

Collection of customer evaluations

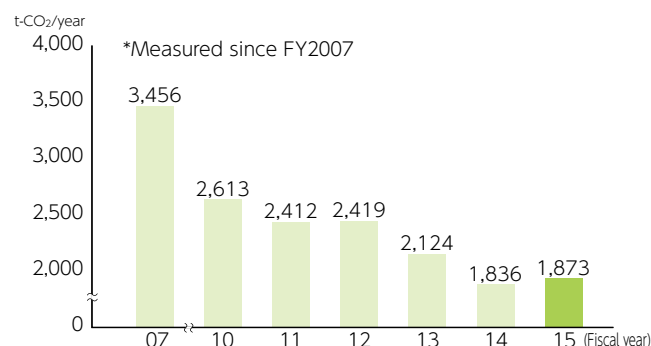
In accordance with the Energy Saving Act revised in April 2006*1, we have been working on environmental improvement activities through the structuring of an efficient environmentally friendly logistics system, after understanding the flow of distribution and reviewing issues. Specifically, through M3 Shipping Cost Activity*2, the flow of products after shipment is visualized to promote logistics improvements from the perspective of reverse flow, double storage and modal shift. Between 2006 to 2015, we achieved a 14% reduction in specific CO₂ emissions from logistics.

¹ Revised Energy Saving Act: Shippers are obligated to establish plans for a 1% reduction in specific CO₂ emissions and the reporting of specific output level on a regular basis
² M3 shipping cost activity: Visualization of product shipping routes and costs to reduce distribution cost

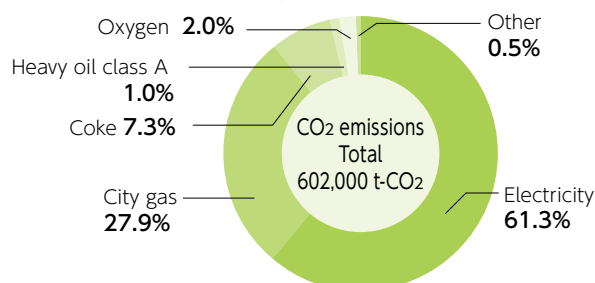
Total CO₂ emissions



CO₂ emissions from administrative divisions



Breakdown of energy used in FY2015 (CO₂ emissions)



CO₂ Balance

FY2014 emissions	654,000 t-CO ₂ /year
FY2015 emissions	602,000 t-CO ₂ /year

Breakdown of increases versus FY14

Reduction due to reduced production (No. 2 bar mill furnace accident, etc.)	- 58,000 t-CO ₂ /year
Areas of improvement (A) -Decreasing factors (B)	6,000 t-CO ₂ /year
Total	- 52,000 t-CO ₂ /year

Improvements (A)

1. Reduction in loss of coolant in rolling furnaces, etc.	7,200 t-CO ₂ /year
2. Fuel conversion for stainless steel furnaces	1,500 t-CO ₂ /year
3. Efficiency improvements in forging furnaces (IH furnaces)	800 t-CO ₂ /year
Total	9,500 t-CO ₂ /year

Change Factors (B)

1. Change in steelmaking processes	12,500 t-CO ₂ /year
2. Change in volume of heat from municipal gas	2,100 t-CO ₂ /year
3. Change in stainless steel rolling operation	900 t-CO ₂ /year
Total	15,500 t-CO ₂ /year

3R (Resource Recycling)

Basic approach

As a law-abiding member of society, the Company actively promotes 3R activities (reduce, reuse, recycle) for efficient use of resources with the aim of achieving "zero emissions," or reducing the waste generated from the Company to as close to zero as possible.

Fiscal 2015 targets and results

In fiscal 2015, we complied with Aichi Prefecture guidelines for the appropriate use of recyclable resources, and promoted a reduction in waste and increased recycling. As a result, we were unable to find safe, secure, stable new recycling uses for difficult-to-recycle by-products such as waste bricks for direct landfill and sludge for indirect landfill, and thus were unable to reach our target. We intend to further pursue and strengthen management of the sorting and separating of by-products at the point of origin, move forward with the development of recycling technology, and work to make effective use of resources.

Item	FY2015 target	Results
Direct landfill	2,400t or less/year	3,393t or less/year
Indirect landfill	3,000t or less/year	2,963t or less/year

High-strength abrasives from internal by-products: Construction of an AS Shot production facility

AS Shot is an environmentally friendly abrasive made from electric furnace slag, a by-product generated by the company. Compared to conventional products, it generates less dust and can be used repeatedly. As a high value-added product made from slag, it is used in the foundation treatment for coating, removal of rust and die washing, and has received a positive response.

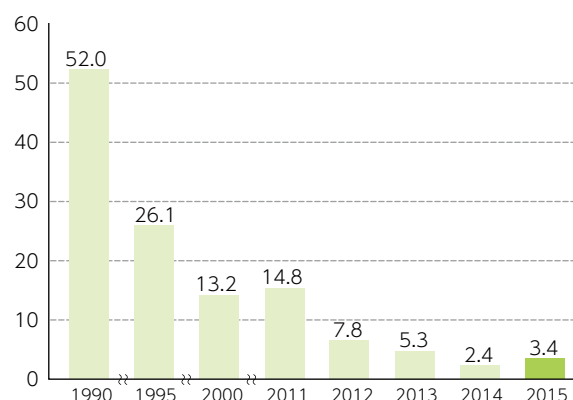
We expect that its use as a foundation process for blasting, to enable long-life coatings and improve durability, will increase. To respond to that need, we hope to establish mass production technologies, and expand sales as a result of our recycling technology.

Handling of by-products as part of BCM and BAP*

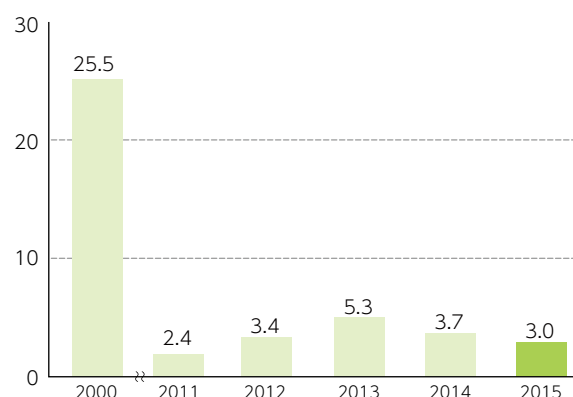
To ensure the safe, secure, stable handling of by-products, we are promoting handling of multiple by-products by multiple companies, finding alternatives, and working to make the process part of BCM and BAP.

*BCM : Business Continuity Management
BAP : Backup Action Plan

Volume of direct landfilled waste (1,000 t/FY)



Volume of indirect landfilled waste (1,000t/FY)



Biodiversity

Basic policy

We think that preservation of biodiversity, along with the prevention of global warming, is an important environmental issue that needs to be addressed to realize a sustainable society.

We understand the concept of COP10 (10th Conference of Parties of United Nations Conventions, Convention on Biological Diversity) and participate in activities to preserve biodiversity by

promoting the structuring of an ecosystem network through public and private sector cooperation, and fostering next-generation individuals capable of working to preserve the earth's environment. We have been working on forestation and volunteer employee activities, and will continue with projects to protect the ecosystem.

Forestation to create a forest for beetles

As part of our activities to promote sustainable biodiversity, we have established a goal of creating an environment in which beetles and other creatures can live in a natural cycle by forming a deciduous broadleaf forest, and have continued this "Forestation to Create a Forest for Beetles" project since 2012. In fiscal 2013, employees and their families planted approximately 1,200 trees, and since then, we have continued to work with the Chita Peninsula Biodiversity Network Promotion Council and members of the Student Action Committee NPO to raise the trees. In fiscal 2015, areas planted last year were weeded and irrigated, and we also held a "Forest 2" event where employees and their families participated in collecting acorns, preparing seedlings and planting trees.



Forest-developing volunteers

Our company uses a large volume of water in the production of steel and supports the NPO "Green Challenger," which works to develop forests in Nagano Prefecture, where the headwater for Aichi water originates. Volunteers have been recruited among employees to work side-by-side with local residents in cutting and thinning work for forest cultivation twice per year since 2006.

Kiso Village, Nagano Prefecture



Otaki Village, Nagano Prefecture



Establishing a Solid Financial Foundation to Support Stable and Sustainable Growth

Materiality

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

Management’s Discussion and Analysis of Financial Operations and Results of Operations

Summary

During the consolidated fiscal year, the Japanese economy drifted toward a gradual recovery on the economic policies of the government and the Bank of Japan. However, the economic slowdown in China and other developing countries in Asia and the rapid appreciation of the yen from the end of last year pose the risk of downward pressure on the Japanese economy, thus the future remains uncertain.

Aichi Steel Group’s production and sales volumes of specialty steel and forgings, our mainstay products, declined compared to the previous year to due to weak demand and an explosion accident that occurred on January 8, 2016, at our Chita Plant.

Under these circumstances, we persevered in accordance with the slogan we introduced in fiscal 2015 “First, let’s give it a try! Change ourselves! Persevere!”

These efforts resulted in consolidated net sales of 214,120 million yen, a 11.0% decrease from the previous fiscal year (240,647 million yen). In terms of profit, although raw material and energy costs declined, sales volumes decreased and selling prices declined amid increased costs associated with alternative production efforts after the accident at the Chita Plant. As a result, Aichi Steel Group posted operating income of 5,883 million yen, a 44.6% decrease from the previous fiscal year (10,616 million yen). Also, ordinary income was 5,835 million yen, a 47.6% decrease from the previous fiscal year (11,141 million yen), and profit attributable to owners of parent was 20 million yen, a 99.7% decrease from the previous fiscal year (6,023 million yen) due to recovery costs associated with the explosion accident recorded as an extraordinary loss.

Total assets were 251,760 million yen, down 16,304 million yen from the end of the previous fiscal year.

Consolidated Cash Flows

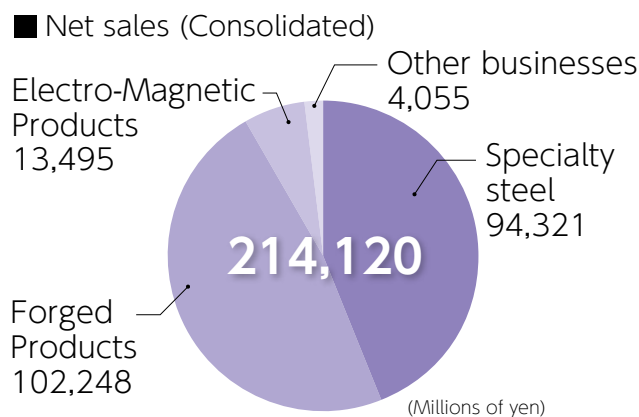
Net cash provided by operating activities increased by 5,857 million yen from the previous fiscal year to 25,193 million yen. Although income before income taxes and minority interests decreased 9,284 million yen compared with in the preceding term, sources of cash included 12,058 million yen due to a decrease in notes and accounts receivable-trade and 6,333 million yen due to an increase in notes and accounts payable-trade increased more than previous fiscal year.

Net cash used in investing activities decreased by 1,443 million yen from the previous fiscal year to 12,122 million yen. The main factor was payments for purchases of property, plant and equipment, which used 2,561 million yen less than in the previous fiscal year.

Net cash used in financing activities decreased by 692 million yen from the previous fiscal year to 9,466 million yen.

Although payments of long-term loans payable used 18,795 million yen more than in the previous fiscal year, proceeds from long-term loans payable provided 19,474 million yen more than in the previous fiscal year.

Sales by Business Segment



Specialty steel

Specialty steel is the mainstay product of Aichi Steel Group. During the fiscal year, explosion accident at the Chita Plant and other factors caused the specialty steel sales volume to decrease and selling prices declined, resulting in a 17.8% decrease to 94,321 million yen for this consolidated fiscal year (114,808 million yen for the previous fiscal year).

Forged Products

Closed-die forged products for automobiles account for a major part of this segment. Sales volume decreased and selling prices declined, resulting in a 6.2% decrease to 102,248 million yen for this consolidated fiscal year (108,976 million yen for the previous fiscal year).

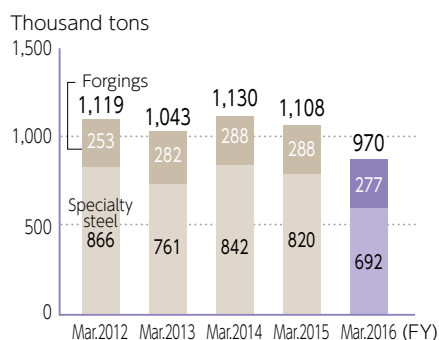
Electro-Magnetic Products

Aiming to turn this segment into the Company’s core business in the future, Aichi Steel Group develops business in four industrial fields: sensors, magnetic products, electronic components and dental. Sales in this segment saw a 6.6% increase to 13,495 million yen for this consolidated fiscal year (12,665 million yen for the previous fiscal year).

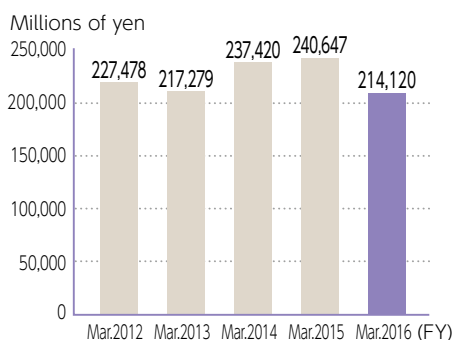
Other businesses

Aichi Steel’s subsidiaries are involved in such business activities as providing services and engaging in computer software development. Net sales in this segment a 3.4% decrease to 4,055 million yen for this consolidated fiscal year (4,197 million yen for the previous fiscal year).

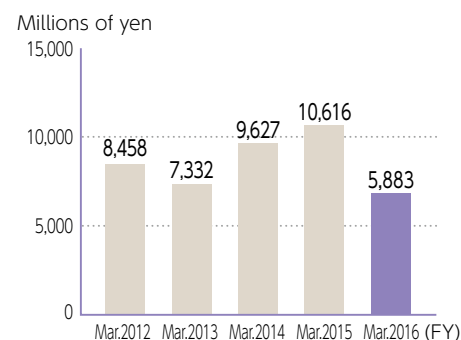
■ Sales volume (Non-consolidated basis)



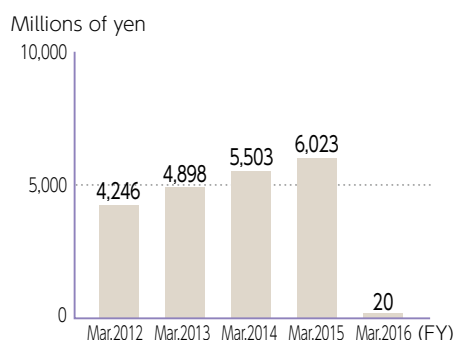
■ Net sales



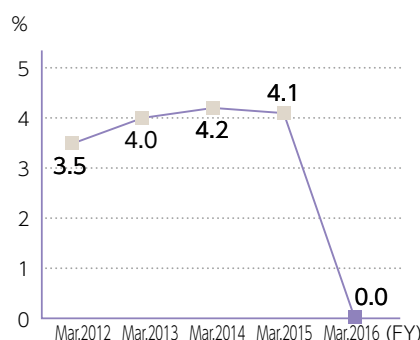
■ Operating income



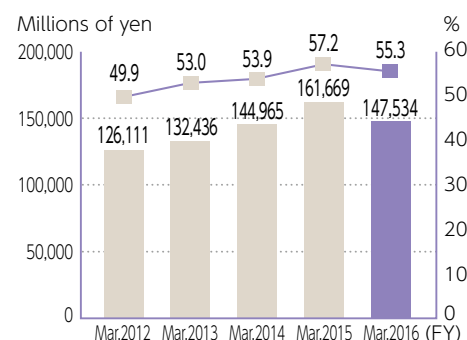
■ Net income



■ ROE



■ Net assets, capital adequacy ratio



Five-year Summary (Consolidated)

	Millions of Yen					Thousands of U.S. Dollars
	Mar. 2016	Mar. 2015	Mar. 2014	Mar. 2013	Mar. 2012	Mar. 2016
Net sales	¥214,120	¥240,647	¥237,420	¥217,279	¥227,478	\$1,784,338
Operating income	5,883	10,616	9,627	7,332	8,458	49,032
Income before income taxes and minority interests	1,409	10,693	9,779	7,768	7,884	11,744
Profit attributable to owners of parent	20	6,023	5,503	4,898	4,246	167
Property, plant and equipment	89,628	88,291	85,841	83,618	85,528	746,901
Total assets	251,760	268,064	255,259	238,165	241,951	2,098,006
Net assets	147,534	161,669	144,965	132,436	126,111	1,229,452
	Yen					U.S. Dollars
Per share data:						
Net income: Basic	¥ 0.10	¥ 30.62	¥ 27.99	¥ 24.94	¥ 21.62	\$ 0.1
Net income: Diluted	0.10	30.62	27.98	-	21.61	0.1
Cash dividends	10.00	10.00	10.00	10.00	10.00	0.0
Number of employees (Persons)	4,654	4,617	4,613	4,504	4,406	

Notes:

1. Net sales are presented exclusive of consumption taxes.

2. Scope of Consolidation:

The consolidated financial statements include the financial statement of AICHI STEEL CORPORATION and 19 significant subsidiaries.

The 19 subsidiaries are:

Aiko Corporation, Aichi Ceratec Corporation, Omi Mining Co., Ltd., Aichi Techno Metal Fukuami Company, Aichi Steel Logistics Co., Ltd., Aichi Information System Company, Aiko Service Co., Ltd., Aichi Micro Intelligent Corporation, Asdex Corporation, Aichi Forging Company of Asia, Inc., Aichi Forge USA, Inc., Aichi Europe GmbH, Aichi International (Thailand) Co., LTD., Shanghai Aichi Forging Co., Ltd., PT. Aichi Forging Indonesia, Aichi Magfine Czech s.r.o., AMIT, Inc., Aichi Korea Corporation and Aichi Magfine Technology(Pinghu)Co., Ltd.

Due to its negligible impact on the consolidated financial statements, Meinan Koki Co., Ltd., has been excluded from the scope of consolidation as a non-equity method unconsolidated subsidiary.

3. Net income per share is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the respective fiscal years.

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

5. Each fiscal year end date is March 31.

6. The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥120=U.S.\$1.

GRI Guideline Comparison Table

This report conforms to the core G4 Sustainability Reporting Guidelines. Note: "Details" refer to page numbers corresponding to the detailed report posted on our website.

General Standard Disclosures

*Items in yellow are standard disclosures required in Core-compliant reports.

Strategy and Analysis		
1	a. Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	P3-6
2	a. Provide a description of key impacts, risks, and opportunities.	P3-6, 11-16
Organizational Profile		
3	a. Report the name of the organization.	P2
4	a. Report the primary brands, products, and services.	P2
5	a. Report the location of the organization's headquarters.	P2
6	a. Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	P2
7	a. Report the nature of ownership and legal form.	P2
8	a. Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	P2, 35
9	a. Report the scale of the organization, including: <ul style="list-style-type: none"> Total number of employees Total number of operations Net sales (for private sector organizations) or net revenues (for public sector organizations) Total capitalization broken down in terms of debt and equity (for private sector organizations) Quantity of products or services provided 	P2, 19, 35, 36
10	a. Report the total number of employees by employment contract and gender. b. Report the total number of permanent employees by employment type and gender. c. Report the total workforce by employees and supervised workers and by gender. d. Report the total workforce by region and gender.	P21
11	a. Report the percentage of total employees covered by collective bargaining agreements.	P21
12	a. Describe the organization's supply chain.	P13-14
13	a. Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.	Not applicable
14	a. Report whether and how the precautionary approach or principle is addressed by the organization.	P19-20
15	a. List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	P20, 25, 29
16	a. List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization: <ul style="list-style-type: none"> Holds a position on the governance body Participates in projects or committees Provides substantive funding beyond routine membership dues Views membership as strategic This refers primarily to memberships maintained at the organizational level.	P25
Identified Material Aspects and Boundaries		
17	a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	P36
18	a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content.	P1
19	a. List all the material Aspects identified in the process for defining report content.	P16
20	a. For each material Aspect, report the Aspect Boundary within the organization.	P15
21	a. For each material Aspect, report the Aspect Boundary outside the organization.	P15
22	a. Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Not applicable
23	a. Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Not applicable
Stakeholder Engagement		
24	a. Provide a list of stakeholder groups engaged by the organization.	P13-14
25	a. Report the basis for identification and selection of stakeholders with whom to engage.	P13-14
26	a. Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	P13-14
27	a. Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	P13-14
Report Profile		
28	a. Reporting period (such as fiscal or calendar year) for information provided.	P1
29	a. Date of most recent previous report (if any).	P1
30	a. Reporting cycle (such as annual, biennial).	P1
31	a. Provide the contact point for questions regarding the report or its contents.	Back cover
32	a. Report the "in accordance" option the organization has chosen. b. Report the GRI Content Index for the chosen option. c. Report the reference to the External Assurance Report, if the report has been externally assured.	P37
33	a. Report the organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.	P38
Governance		
34	a. Report the governance structure of the organization. Identify any committees responsible for decision-making on economic, environmental and social impacts.	P18
35	a. Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	P18
36	a. Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	P18
37	a. Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.	P17-18
38	a. Report the composition of the highest governance body and its committees by: <ul style="list-style-type: none"> Executive or non-executive Independence Tenure on the governance body Number of each individual's other significant positions and commitments, and the nature of the commitments Gender Membership of under-represented social groups Competences relating to economic, environmental and social impacts Stakeholder representation 	P18
40	a. Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members.	P18
41	a. Report processes for the highest governance body to ensure conflicts of interest are avoided and managed. Report whether conflicts of interest are disclosed to stakeholders, including, as a minimum: <ul style="list-style-type: none"> Cross-board membership Cross-shareholding with suppliers and other stakeholders Existence of controlling shareholder Related party disclosures 	P18

42	a. Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	P18
44	a. Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment. b. Report actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organizational practice.	P17
45	a. Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes. b. Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities.	P17, 18
46	a. Report the highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	P18, 19
47	a. Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	P18
49	a. Report the process for communicating critical concerns to the highest governance body.	P18
50	a. Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	P19-20
Ethics and Integrity		
56	a. Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	P17
57	a. Report the internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines.	P19
58	a. Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	P19

Specific Standard Disclosures

Disclosures on Management Approach		
DMA	a. Report why the Aspect is material. Report the impacts that make this Aspect material. b. Report how the organization manages the material Aspect or its impacts. c. Report the evaluation of the management approach, including: <ul style="list-style-type: none"> The mechanisms for evaluating the effectiveness of the management approach The results of the evaluation of the management approach Any related adjustments to the management approach 	P3-6, 15-16, 17, 21, 25, 27, 29, 35
Economic		
Aspect: Economic Performance		
EC1	Direct Economic Value Generated And Distributed	Listed on the annual securities report
EC2	Financial Implications And Other Risks And Opportunities For The Organization's Activities Due To Climate Change	P35
EC3	Coverage Of The Organization's Defined Benefit Plan Obligations	Listed on the annual securities report
Environmental		
Aspect: Materials		
EN1	Materials Used By Weight Or Volume	(WEB)P37
EN2	Percentage Of Materials Used That Are Recycled Input Materials	(WEB)P37
Aspect: Energy		
EN3	Energy Consumption Within The Organization	(WEB)P37
EN6	Reduction Of Energy Consumption	P31-32
Aspect: Water		
EN8	Total Water Withdrawal By Source	P37
Aspect: Biodiversity		
EN11	Operational Sites Owned, Leased, Managed In, Or Adjacent To, Protected Areas And Areas Of High Biodiversity Value Outside Protected Areas	P34
EN13	Habitats Protected Or Restored	P34
Aspect: Emissions		
EN15	Direct Greenhouse Gas Emissions (Scope 1)	P32
EN16	Energy Indirect Greenhouse Gas Emissions (Scope 2)	P32
EN19	Reduction Of Greenhouse Gas Emissions (Ghg)	P32
EN21	Nox, Sox, And Other Significant Air Emissions	(WEB)P39
Aspect: Effluents And Waste		
EN23	Total Weight Of Waste By Type And Disposal Method	P31, 33, (WEB)P37
Aspect: Products And Services		
EN27	Extent Of Impact Mitigation Of Environmental Impacts Of Products And Services	P9
Aspect: Compliance		
EN29	Monetary Value Of Significant Fines And Total Number Of Non-Monetary Sanctions For Non-Compliance With Environmental Laws And Regulations	P31
Aspect: Overall		
EN31	Total Environmental Protection Expenditures And Investments By Type	P30
Aspect: Environmental Grievance Mechanisms		
EN34	Number Of Grievances About Environmental Impacts Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	P31
Social		
Aspect: Employment		
LA1	Total Number And Rates Of New Employee Hires And Employee Turnover By Age Group, Gender And Region	P21
Aspect: Occupational Health And Safety		
LA6	Type Of Injury And Rates Of Injury, Occupational Diseases, Lost Days, And Absenteeism, And Total Number Of Work-Related Fatalities, By Region And By Gender	P24, (WEB)P18
LA8	Health And Safety Topics Covered In Formal Agreements With Trade Unions	P24
Aspect: Training And Education		
LA10	Programs For Skills Management And Lifelong Learning That Support The Continued Employability Of Employees And Assist Them In Managing Career Endings	(WEB)P18
Human Rights		
Aspect: Non-Discrimination		
HR12	Number Of Grievances About Human Rights Impacts Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	P19
Society		
Aspect: Local Communities		
SO1	Percentage Of Operations With Implemented Local Community Engagement, Impact Assessments, And Development Programs	27-28, (WEB)P18
Aspect: Anti-Corruption		
SO4	Communication And Training On Anti-Corruption Policies And Procedures	P19
Product Responsibility		
Aspect: Product And Service Labeling		
PR5	Results Of Surveys Measuring Customer Satisfaction	P26

This year's Aichi Steel report fully conforms to the GRI's G4 Sustainability Reporting Guidelines. Its main feature is the clear defining of priority issues in six categories, the importance and basic policies for which are expressed in the president's message, with related management indices systematically noted.



Mr. Satoshi Chikami
Executive Officer and Professor,
Faculty of International
Welfare Development
Nihon Fukushi University

Setting of priority issues and supporting statements (p. 11, etc.)

The major change (improvement) in this year's report is the specification of six priority issues for the Aichi Steel Group to address through its business activities, and using the "Core" level method, the systematic listing of the main management indices related to these issues, adopted in response to the identification of the issues involving engagement with stakeholders in the value chain that was noted in the fiscal 2015 report. The clear expression from top management as to why the Company considers these important and their basic position is particularly praiseworthy. In the presentation of priority issues (p. 17, etc.) the basic policies for resolving issues are clearly indicated, and the broader CSR strategy has been made clear by bringing the entire report into conformity with G4 guidelines. It is a report easy for stakeholders to understand. Going forward, I hope Aichi Steel will share these priority issues throughout the Company, and further expand its efforts based on the social meaning, significance, and responsibilities of these corporate activities.

Clear development and growth potential based on 1S (pp. 3-6)

The management policies to achieve Vision 2020 through "4S Re-Engineering" process reforms and company-wide ZZZ200 activities are clear. In particular, the energy recovery from electric furnace exhaust heat and power generation business, one of the initiatives for steelmaking reengineering, is especially promising as a new development from energy reduction to energy creation. Also, from the lessons of the accident, the report reaffirms the "1S Culture" centered on honesty and indicates that it is being implemented globally, and I hope that it will continue to be the root of Aichi Steel's corporate culture, and the center of its various activities.

Evolution of the report over three years

Examining this report for three years since 2014, it has steadily evolved in favor of ease of understanding and readability. This

year's report clearly indicates a stance to build a solid business foundation, including in the president's message a vision for the new Aichi Steel, and on the pages regarding the accident, the Step Up Plan to overcome the Company's weaknesses and ensure that such an accident does not happen again. Comparing the covers, the globe depicted in the illustration has been rotated, depicted with more green and showing a world filled with a rich abundance of life, and telling the story of the success of steady efforts toward full G4 compliance.

Clear notation of results and issues in the Medium-Term CSR Plan (Full Version p. 18)

Like last year's edition, this year's report presents a concise summary of priority agenda items based on the CSR Vision, strategies for attaining them, targets, results, and assessments. Also noteworthy are the statements regarding items for which targets have not yet been attained, with clear a reflection on the issues and problems.

Environmental Action Plan 2015 nearly achieved (p. 31)

The initial targets of the five-year Environmental Action Plan 2015 have mostly been reached, including improvements in transport efficiency, and global CO2 management. While this is commendable, direct landfill volume and reduction in overall CO2 emissions continue to be issues. I hope the next environmental plan will address new challenges, such as reform of the overall production process.

Conclusion

In response to the accident, Aichi Steel has identified issues company-wide and is implementing improvement measures, and I hope they will fully implement the Step Up Plan, and preserve yearly growth. Based on these expectations, I am looking forward to how the report will further evolve next year.

Note: This Third-Party View was written based on interviews with management and related parties.

Response to the Third-Party View



Ichiro Murakami
Senior Executive Officer
General Affairs Div.

I would like to express my appreciation to Professor Chikami for the valuable opinions and suggestions he has given us each year since fiscal 2010.

This year, for full compliance with GRI's G4 Sustainability Reporting Guidelines, we set six priority issues for the entire corporate group to address, and based on the accident that occurred on January 8, 2016, we have made efforts as a major focus toward further strengthening our CSR system and rebuilding our management foundations. Professor Chikami provided valuable opinions for achieving strategic CSR management, including basic policies for resolution of issues. Professor Chikami commended our systematic statements regarding key issues, management policies for achieving Vision 2020, global implementation of the "1S Culture," and our efforts regarding the Step Up Plan. We consider this encouragement for future activities, and will make sincere efforts for sound execution.

Regarding the issues Professor Chikami noted of direct landfill volume and reduction in overall CO2 emissions, we will continue to make a concerted effort as a company and consider ways to achieve these targets. Also, through the steady implementation of the Aichi Steel Environment Initiatives Plan 2020 newly formulated this year, we will further broaden the scope of our environmental measures, and make proactive contributions to the environment to establish a new era.

Looking ahead, Aichi Steel will continue to maintain a feeling of appreciation toward stakeholders, place importance on regular communication, and pursue our CSR activities through a concerted groupwide effort. Further, to realize CSV (creating shared value), all employees will work together for better manufacturing, and aim ever higher to be a company that remains a welcome part of the community.



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AICHI STEEL CORPORATION

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

1, Wanowari, Arao-machi, Tokai-shi, Aichi 476-8666, Japan

Tel: +81-52-603-9216

Fax: +81-52-603-1835

<https://www.aichi-steel.co.jp/ENGLISH/index.html>

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