

**AICHI STEEL**

AICHI STEEL REPORT  
**2018**



## Our Vision

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

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

## CSR Policy

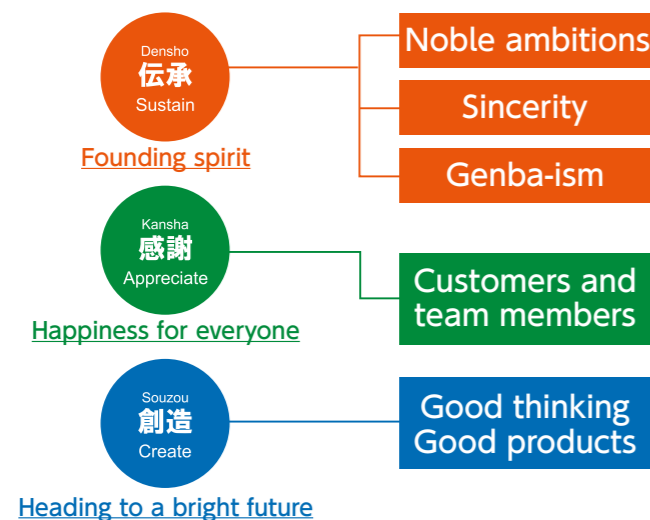
We will contribute to the sustainable progress of society and the Earth through our sound corporate activities.

## CSR Vision

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

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

## Aichi Way (Common values and codes of conduct to be followed by all employees of the Aichi Steel Group)



### Editorial Policy

The Aichi Steel Report 2018 was prepared to assist understanding among our many stakeholders of the approaches taken by Aichi Steel and the Aichi Steel Group in fiscal 2017, ended March 31, 2018. Besides describing these approaches with specific examples, it sets forth as much as possible the causes and future initiatives concerning items for which targets have not yet been met.

This fiscal year, as detailed in our new 2020 Medium-term Management Plan, we have written our report with a focus on clear communication of growth strategies for achieving our vision, and on what value we will contribute to society and how we will provide it.

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

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

### Readers

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

### Report Period and Scope

The Report covers activities conducted by the Aichi Steel Group during fiscal 2017 (April 2017 to March 2018). However, some activities conducted before or after fiscal 2017 are also explained where necessary.

### Important note about forecasts

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

### Reporting Media

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



### Reference Guidelines

GRI Standards  
ISO 26000 (Corporate Social Responsibility)

### Information Available on Our Website

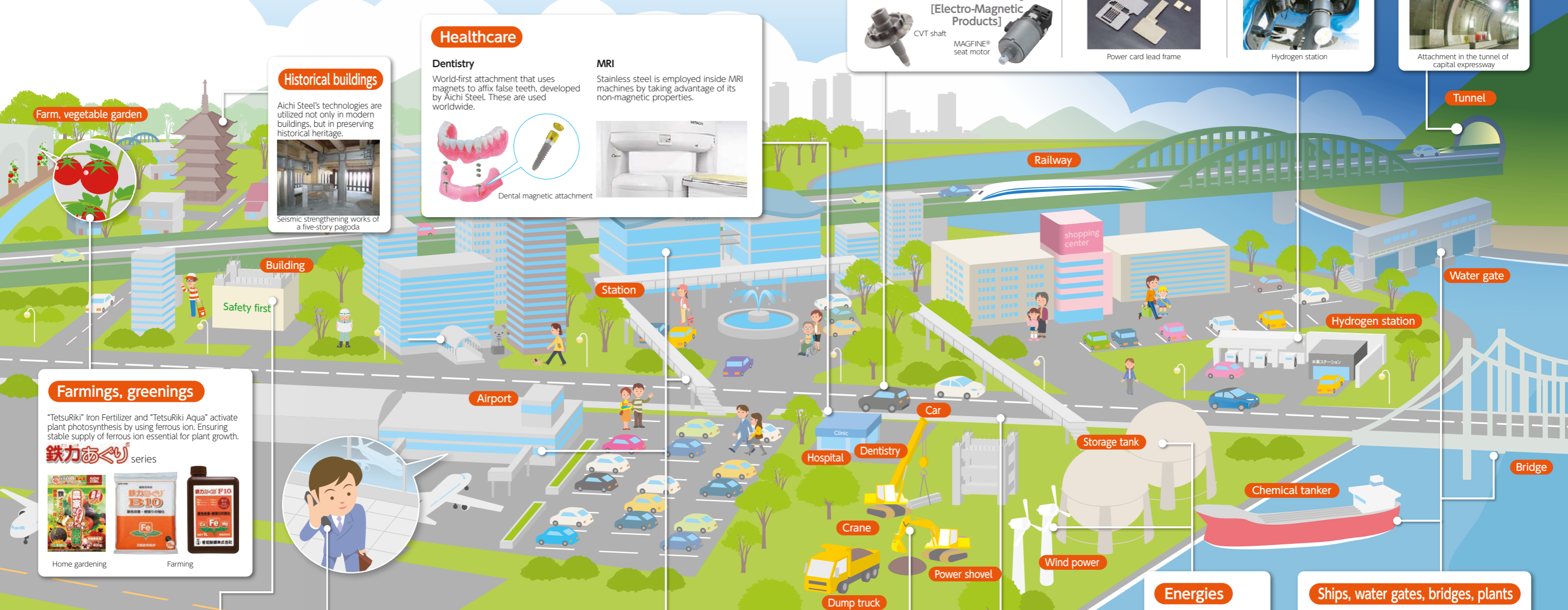
For topics with the "Web" mark, please refer to our website for further details including figures.

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

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

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



### Historical buildings

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

Seismic strengthening works of a five-story pagoda

### Healthcare

#### Dentistry

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

Dental magnetic attachment

#### MRI

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

### Car

We are contributing to lower fuel consumption and higher performance.

**[Forged Products]**

- Crankshaft
- Differential ring gear
- Counter driven gear
- CVT shaft

**[Electro-Magnetic Products]**

- MAGFINE® seat motor

### Hybrid vehicles (HV/PHV)

We are supporting the electrification of environmentally friendly vehicles.

**[Forged Products]**

- Cold plate
- Power card lead frame

### Fuel cell vehicles (FCV)

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

Hydrogen station

### Tunnels

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

Attachment in the tunnel of capital expressway

### Farmings, greenings

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

**鉄力あぐり series**

Home gardening      Farming

### Buildings, stores

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

Stainless steel concrete bar SUSCON®      Entrance eave, curtain wall

### PCs, smart watches

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

Electromagnetic compass for smart watches      High-sensitive MI sensor

### Stations, airports

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

Station skywalk      Handrail

### Construction machineries

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

Boss      Front idler      Propeller shaft

### Roads

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

### Energies

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

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

### Ships, water gates, bridges, plants

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

Propeller shaft for ship      Water gate      Bridge

# New Aichi Steel— Contributing to Smart Society through Materials

President **Takahiro Fujioka**

## Part 1.

### Modern Society in a Period of Great Transformation

#### Basic approach of management to periods of great transformation

The world is rapidly changing into a smart society, as typified by the once-in-a-century paradigm shift being experienced in the automotive industry. The progress of electrification of vehicles in particular is having a negative influence on demand for specialty steels, which are our core products.

However, regardless of the era we are in, as shown in our value creation model, we will respond flexibly to challenges related to the environment, society, and governance; we will continue to contribute value to society; and we will continue to grow steadily, like the annual growth rings of a tree.

#### Establishing a new medium-term management plan

With this in mind, we have established our 2020 Medium-term Management Plan to depict our vision for the future with a focus on the environment of 2040, to align all Group employees toward achieving this goal, and to establish unshakable Group management foundations.

Through this new management plan, we aim to manufacture ever-better products, develop better structures, and build a company of contented employees by implementing the following priority measures.

In other words, on the base of compliance and governance, we will build a robust business foundation that ensures safety, quality, production, and costs, in that order, we will look ahead to 2040 to accelerate proposals for new products and services for a smart society, and we will achieve solid profits through existing businesses that are currently experiencing high demand.

#### Contributing to a smart society through materials

By 2040, it is inevitable that increased use of electrified vehicles such as EVs and FCVs will be an essential part of maintaining a sustainable global environment, and there will be a significant increase in demand for motors and batteries. We will also see many projects that we are already working on taking shape and flourishing. They include more advanced sensing technologies tied to the popularization of autonomous driving systems that will help create safer and more secure communities, and expanded applications for stainless steel through expansion of a hydrogen-based society.

For a long time, I have searched for ways to contribute to society through provision of steel and other materials. I am now confident that the arrival of the smart society will create opportunities for businesses in many different fields that require our technologies. For this reason, we established the Frontier Research and Development Division in January 2018 to accelerate the pace of research and development with the aim of creating new businesses.

Development focuses on areas that contribute the most to society, that have the greatest impact on our business, and that our employees can embrace wholeheartedly. We also prioritize fields with potential for new business development based on our superior materials technologies.

Of course, advanced technical capabilities are important for us to convert this research into profits. We are currently working on autonomous driving support systems together with Advanced Smart Mobility Co., Ltd., a company in which we invested in February 2018. I expect that working with such an advanced company will guide and improve our technical strengths, and will enable us to demonstrate these capabilities even more.

Our founder Kiichiro Toyoda had the noble ambition of contributing to the production of Japan's first domestic automobiles using specialty steels. In the same way, we take pride in being the only materials manufacturer in the Toyota Group as we work to contribute toward materialization of a smart society through the power of materials.



◀ Priority measures in the medium-term management plan

## Part 2. Addressing Immediate Issues as well

### Increasing production volumes and improving cost competitiveness

Two immediate issues we are facing as the cost of raw materials and energy trend upward are **how to improve our cost competitiveness**, and **how to meet the high demand** we expect to continue growing until around 2020.

While systematically implementing its planned 4S Re-Engineering\*<sup>1</sup> initiatives, our Hagane Company has been thinking as a whole about how it can increase production in response to the current high rate of orders. Meanwhile, our Kitaeru Company is building a rolling mill line using new building methods, with a view to global expansion in the future as well as to strengthen its competitiveness in gear products for which demand is forecast to expand globally in applications such as next-generation vehicles.

Finally, our Smart Company is building a new production building at our Gifu Plant to increase

production capacity for heat-dissipating components (power card lead frames for hybrid and electric vehicles), for which we already hold a significant market share, and to create a second production site for BCM and BAP\*<sup>2</sup> purposes. The new building is expected to be operational by October this year.

### Providing high additional value through new technologies

As we grow the profitability of our existing businesses going forward, **high additional value will be critical**. **We can make our customers even happier by adding value to our work**. For example, we could conduct post-forging processes like cold forging and machining in-house, or we could even assemble rotors using magnets. In fact, preparations for these initiatives are already underway.

\*<sup>1</sup> 4S Re-Engineering: Simple, Slim, Short and Straight production process innovations to raise productivity and achieve energy savings.

\*<sup>2</sup> 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.



### Measures to change workstyles

I am also focusing on **workstyle reform**. As their leader, I have instructed employees in key management positions on my basic approach and have suggested how to communicate with their subordinates, within the PDCA cycle of business execution, in a way that will encourage a vibrant workplace and workstyle reform. I am also focusing on the participation of women in the workplace, and have presented an award to a Women's QC Team at the national presentations. Women are an essential part of our growth as a company. We are currently implementing a teleworking system and establishing a company nursery to make work easier for our employees with families. By November next year, we will also have completed construction of a recreation hall with facilities including a convenience store and restaurant. **I want our employees to see we have changed. If they see the company has changed then they will think they have to change themselves as well. I want this to lead to a happier workforce.**

### Establishing the Aichi Way

While implementing measures focused on the key phase of "Change itself and the world," to respond to this new age, **Aichi Steel has a set of values to pass down through the generations, starting from the spirit of our founder Kiichiro Toyoda**. We

believe that **the entire Aichi Steel Group, even our expanding global operations, should follow common values and codes of conduct**, such as Kiichiro's noble ambitions. That is why we **established the new Aichi Way**, as inspiration for our employees in an easy-to-understand form. The Aichi Way **documents our universal spiritual guide to making decisions and implementing actions at work, regardless of nationality or location**.

I believe that if top management continues to discuss topics like the Aichi Way and the pendulum, it will lead to transformation of our corporate culture.

Rather than just increasing the number of systems and rules, it is **the spread of ideas that enables cultural reform**. For this reason, the role of the Aichi Way is enormous.

### Toward a New Aichi Steel

Through these measures, and while maintaining good communications with stakeholders, I hope to continue contributing to the new society, through the starting point of materials, and to building a company of eager employees.

## Part 3. Transformation into the New Aichi Steel

### Swinging the pendulum higher

With the January 8, 2016, accident\* and completion of our new administration building, we are taking the opportunity to transform our company into the New Aichi Steel with a focus on the key phrase of **"Change itself and the world."**

I usually walk around carrying a pendulum. When we first became operational again after the January 8 accident, I used the first steel from our first rolled product to make paperweights that I distributed to employees in management positions so that the lessons we learned will never be forgotten. I attached a chain to one and made a pendulum that I use to **illustrate the act of swinging the pendulum higher to convey my desire for them to think about things with greater amplitude**.

In the middle of great changes, it is not possible to get beyond conventional methods if the amplitude is low. I want them to look at things

from a completely new perspective, to break through and make drastic changes. **If we can raise awareness among everyone, we will change Aichi Steel, and make it stronger**. It is important that we approach our jobs with the attitude that if we push the pendulum too far, it can always be reset.

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



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

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

Co-creating a new smart society through materials



**Business foundation that supports steady growth**

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

**Aichi Way**

- Densho 伝承 Sustain
- Kansha 感謝 Appreciate
- Souzou 創造 Create

# 2020

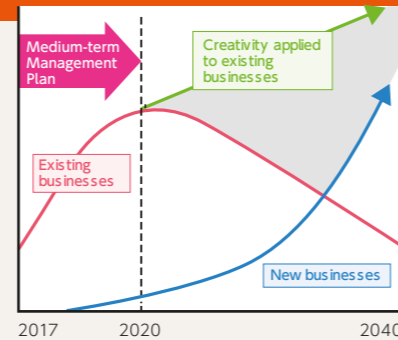
# Medium-term Management Plan

Aichi Steel has created a medium-term management plan to cover the years from fiscal 2017 through fiscal 2020. Situated at the core of our business, we will execute this plan to achieve the goals of manufacturing ever-better products, developing

better structures, and building a company of contented employees. As we further strengthen our global business foundation, we will grow steadily as a valued business group, like the growth recorded in the rings of a tree.

## Background

- Arrival of the smart society, with global acceleration of EV, FCV and other next-generation vehicle development, and expansion of autonomous driving technologies and car sharing schemes, etc.
- Steady growth leveraging the DNA of the materials business, even as our environment undergoes drastic changes
- A need to present a future-focused vision, align our Group employees toward achieving that goal, and establish an unshakable consolidated business foundation



## FY2020 Business Targets

Consolidated net sales **¥250 billion**  
(¥236.2 billion in FY2017)

Consolidated operating profit **¥20 billion**  
(Operating profit margin: 8%) (¥11.8 billion in FY2017)

## Basic Policies

- 1** Conserve local and global environments, and contribute to all stakeholders through safety and security
- 2** Develop technologies, open markets and evolve manufacturing to meet diverse needs
- 3** Always overcome environmental changes, and build a flexible consolidated income/financial foundation

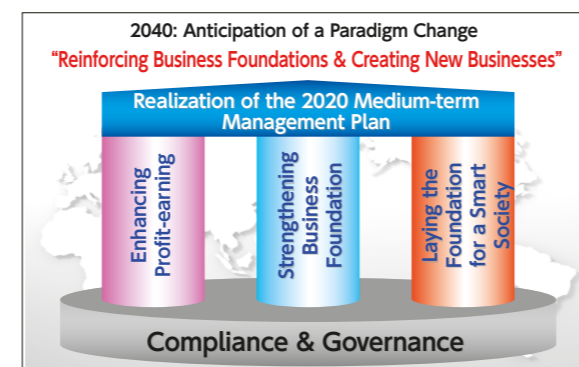
## Vision



Business enhancement across the whole company

## Priority Measures—Three Pillars

Compliance and governance form the cornerstone of the company. On this base, we have established the three pillars of enhancing profit-earning, strengthening business foundation, and laying the foundation for a smart society in order to support our medium-term management plan. From there, we are reinforcing business foundations and creating new businesses.



## Laying the Foundation for a Smart Society

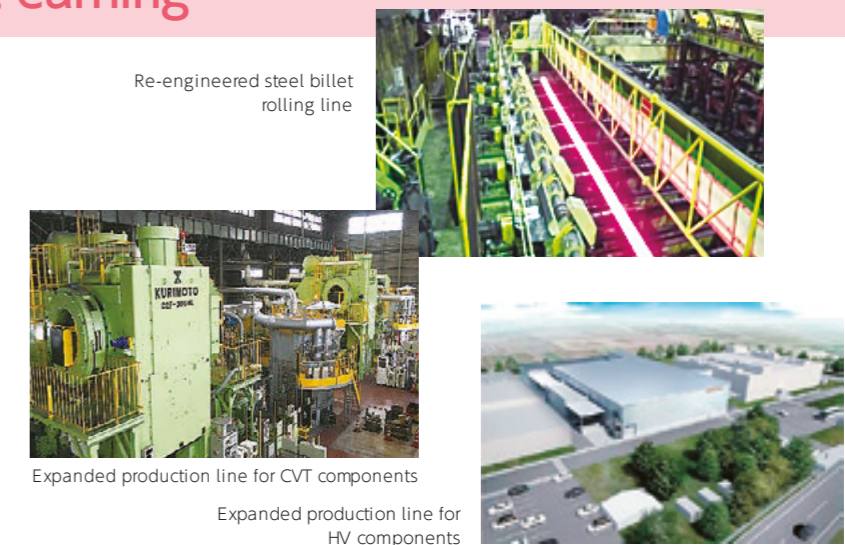
### Steady development and enhancement of next-generation businesses

1. Research into components and materials for EV/FCV motors, batteries and inverters
2. Contributions to autonomous driving support systems
3. Development of materials for a hydrogen-based society: FCV refueling station materials
4. Development of demand for a diverse range of businesses, including environment, medical and energy



## Enhancing Profit-earning

1. Enhanced traction toward speedy management through adoption of an internal company system
2. Execution of strategic high-level investments
3. Building manufacturing infrastructure and achieving a stable profit base
4. Leveraging the DNA of our materials business to develop and expand new applications and products for existing businesses



## Strengthening Business Foundation

1. Successful completion and further deepening of Step Up Plan, a project based on lessons learned from the January 8, 2016, explosion
2. Penetration of the Aichi Way and enhancement of a global business foundation
3. Ensuring prioritization of workstyles, safety/environment/quality, production, and costs, and building a robust business foundation

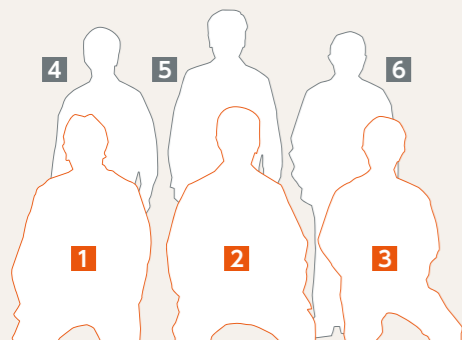
### Ensuring order of prioritization



**Enhanced Foundations (Fundamental and robust strength)**

- From the January 8 explosion to **completion of the Step Up Plan**  
(1) Safety and security, (2) Management systems, (3) BCP/BAP, (4) Culture, awareness and branding
- **Penetration of the Aichi Way and enhancement of a global business foundation**

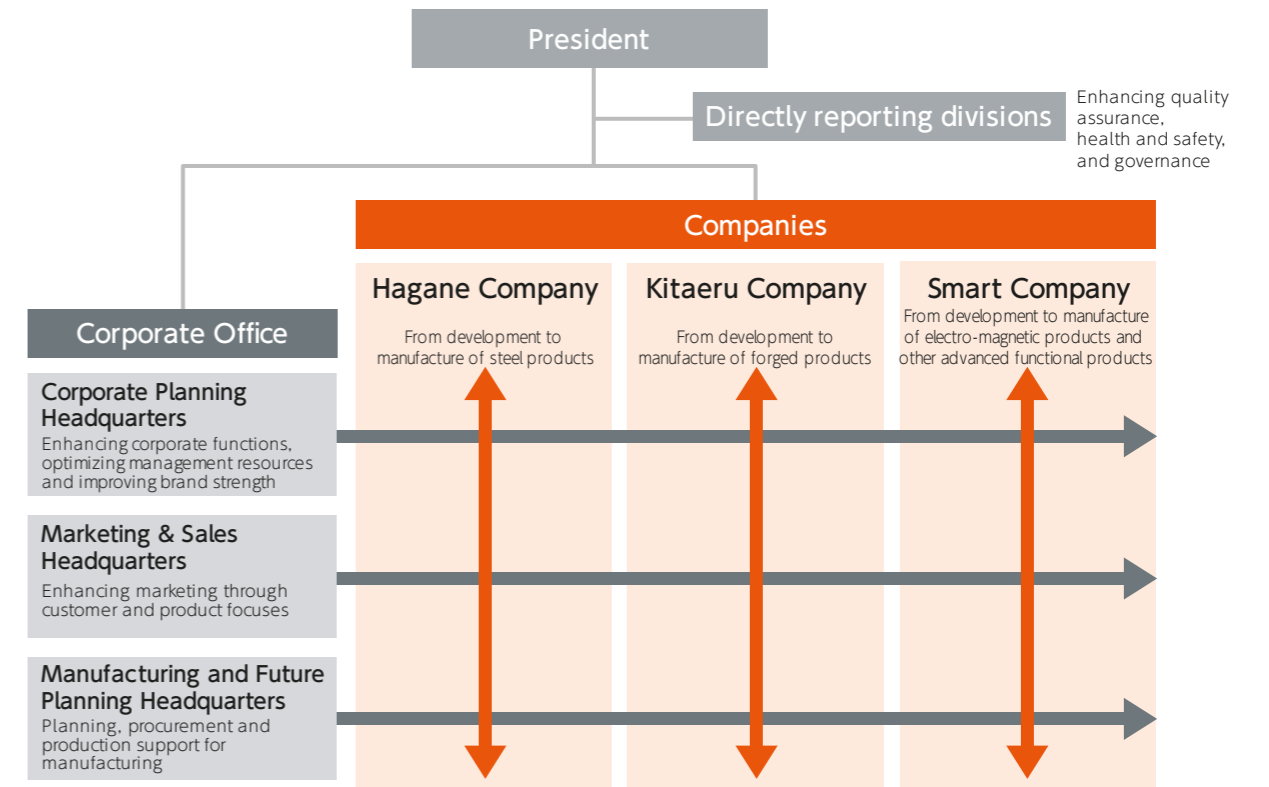
# Individual Companies Applying Themselves to Creating an Ever-better Aichi Steel



- 1 Naohiro Yasunaga  
Managing Executive Officer and Hagane Company President
- 2 Katsunori Kojima  
Managing Executive Officer and Kitaeru Company President
- 3 Takashi Ishigami  
Managing Executive Officer and Smart Company President
- 4 Hiroaki Chino  
Managing Executive Officer and Corporate Planning Headquarters General Manager
- 5 Toshiyuki Yamanaka  
Managing Executive Officer and Marketing & Sales Headquarters General Manager
- 6 Hiroaki Asano  
Executive Vice President and Manufacturing and Future Planning Headquarters General Manager

Aichi Steel introduced an in-house company system in April 2017 to improve the speed of decision-making in business operations and to create more competitive businesses. Three companies—Hagane Company, Kitaeru Company and Smart Company—were created around the core products of steel products, forged products and electro-magnetic products. The enhanced planning and product capabilities that this

has achieved are giving further traction toward increased profitability. The addition of three headquarters—Corporate Planning Headquarters, Marketing & Sales Headquarters and Manufacturing and Future Planning Headquarters—as well will provide groupwide checks and balances of the three Companies. In this way, we are strengthening corporate functions and providing support to manufacturing.



## Aims of adopting an in-house company system

1  **Manufacturing ever-better products**

We are meeting customer needs through an integrated system from development to sale, and through enhanced business planning and operation supported by the drive of our leaders and faster decision-making capabilities.

2  **Developing better structures**

Our domestic and overseas subsidiaries, engaged in a variety of businesses, were also reorganized into the in-house company structure. Our powerful leadership is improving traction of our businesses and strengthening our business foundations across the whole of Aichi Steel.

3  **Building a company of contented employees**

We are creating organizations and workplaces where our employees are proud to work, and where they can be happy and can grow through their jobs, and at the same time we are developing talented people with leadership qualities.



# Companies

## Hagane Company

**From development to manufacture of steel products**  
 Hagane Business Management Div., Hagane Products Development Div.,  
 Hagane Production Engineering Div.,  
 Chita Plant, Kariya Plant

◆Main subsidiaries

Aiko Corporation, Aichi Ceratec Corporation, Omi Mining Co., Ltd.,  
 Aichi Techno Metal Fukuami Co., Ltd., Aichi Steel Logistics Co., Ltd.

Example of products



Specialty steel



Stainless steel

## Kitaeru Company

**From development to manufacture of forged products**  
 Kitaeru Business Management Div., Kitaeru Production Engineering Div., Kitaeru Plant

◆Main subsidiaries

Asdex Corporation, Aichi Forge Philippines, Inc. (Philippines), Aichi Forge USA, Inc.  
 (USA), Aichi International (Thailand) Co., Ltd. (Thailand),  
 Shanghai Aichi Forging Co., Ltd. (China), PT. Aichi Forging Indonesia (Indonesia)

Example of products



CVT shaft



Crankshaft

## Smart Company

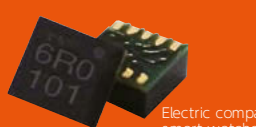
**From development to manufacture of electro-magnetic products and other advanced functional products**

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

◆Main subsidiaries

Aichi Micro Intelligent Corporation, Aichi  
 Magline Czech s.r.o. (Czech Republic),  
 Aichi Magline Technology (Pinghu) Co., Ltd.  
 (China), Aichi Europe GmbH (Germany),  
 Aichi Korea Corporation (Korea)

Example of products



Electric compass for smart watches



Power card lead frame

## Hagane Company



### Naohiro Yasunaga

Managing Executive Officer and Hagane Company President

### Sustain, Appreciate, Create— in practice daily through the Aichi Way

Right now, it is important that we put the words “I Will” into practice through our noble ambitions, and create the required Aichi brand, in order to restructure with safety, security, and stability at the completion of the Step Up Plan, and to respond to the current high rate of orders. Through the 2020 Medium-term Management Plan, we will ensure full penetration of our founding spirit, challenge ourselves by setting high targets, and achieve profitability by maximizing the capacity of our existing facilities. Thereafter, we hope to replace our iron and steel facilities to be able to adapt to changes in the business environment, such as a once-in-a-century transformation of automobiles. We also aim to become valued as the world’s leading manufacturer of specialty steels and as a passionate organization putting the Aichi Way into practice every day.

#### TOPICS

#### Aichi Steel awarded Best New Technology Award at International Stainless Steel Forum (ISSF)

Aichi Steel’s stainless steel for high-pressure hydrogen applications received the Bronze Award for Best New Technology Award at the International Stainless Steel Forum held in Shanghai, People’s Republic of China. The stainless steel we developed has high strength and shows exceptional ductility in high-pressure hydrogen environments. It was recognized for its contribution to improving safety and reliability of fuel cell vehicles.



## Kitaeru Company



### Katsunori Kojima

Managing Executive Officer and Kitaeru Company President

### Delivering high quality, affordable products to customers globally from the world’s safest and cleanest plant

Within the Kitaeru Company, our keyword is “change.” Against the backdrop of a dramatically changing business environment, we are changing our business planning to anticipate customer trends, changing the way forging is normally done, changing into a safe and clean workplace, and transforming into a global-level forging business. We are strengthening our domestic base by “manufacturing ever-better products” through selection and grouping of products and reallocation of production facilities, and by “building a company of contented employees” through HR development with enhanced education and a sense of unity cultivated with Company events, etc. At the same time, we are leading consolidated growth by supporting autonomous operations of our overseas facilities.

#### TOPICS

#### Completion of construction of servo press line for R&D of next-generation forged products

Aichi Steel has completed construction of a servo press line designed to promote the development of innovative forging technologies to positively respond to structural changes due to electrification of automobiles, such as hybrid vehicles and plug-in hybrid vehicles. With a double-action molding mechanism built into the servo press, the first ever for a Japanese forged products manufacturer, the press will accelerate the development of more advanced forged products including new products and techniques that maximize the benefits of the system.



## Smart Company



### Takashi Ishigami

Managing Executive Officer and Smart Company President

### From “dreams and challenges” to “realizing dreams”

A shift to electrification of vehicles is taking over the world, and this next-generation mobility is helping create a smart society. Our goal is to ensure we play a part in this. The Smart Company approaches challenges steadily, quickly and without hesitation, and develops products that are appealing to the new smart society.

The 2020 Medium-term Management Plan represents our “dreams and challenges” stage, which will then pass the baton to our “realizing dreams” stage. The Smart Company is a collection of mini businesses, such as electronic components and magnets. That is why we are working together to increase profitability by strengthening the foundations of each of these businesses, and to take on future challenges by focusing on the key phrase of “Change itself and the world.”

#### TOPICS

#### Aichi Steel exhibits for the first time at the 24th ITS World Congress 2017 Montreal

Aichi Steel Corporation participated for the first time as an exhibitor in the 24th ITS World Congress 2017 held in Montreal, Quebec, Canada. It introduced its magnetic marker-based autonomous driving support system, which utilizes its MI sensors, to help realize the smart city concept.



# Corporate Office

## ■ Corporate Planning Headquarters

Enhancing corporate functions, optimizing management resources and improving brand strength

Corporate Planning Div.	Corporate Communications Div.
IT Management Div.	Human Resources Div.
General Affairs Div.	Finance & Accounting Div.

## ■ Marketing & Sales Headquarters

Enhancing marketing through customer and product focuses

Sales Planning Div.	Tokyo Office
Toyota Sales Div.	Osaka Office
Chubu Sales Div.	

## ■ Manufacturing and Future Planning Headquarters

Planning, procurement and production support for manufacturing

Silicon Valley Office	Purchasing Div.
Technical Planning Div.	Production Control Div.
Process Engineering Development Div.	Facility Engineering Div.
Frontier Research and Development Div.	Analysis & Testing Dept.

## Corporate Planning Headquarters



### Hiroaki Chino

Managing Executive Officer and Corporate Planning Headquarters General Manager

### Supporting autonomous Company operations, setting directions ahead to 2040, and securing resources

In our corporate function, the Corporate Planning Headquarters supports the autonomous operation of our Companies. While strengthening our planning capabilities, we communicate directions Aichi Steel should take out to 2040, as well as which initiatives to prioritize, and how to secure and distribute the necessary resources (people, things and funds). In addition, each of us is responsible for leading the push toward transformation and spearheading penetration and application of the Aichi Way. We also promote company-wide activities to achieve our medium-term CSR targets, and work to promote healthy employees and a healthy company by pursuing variable and worthwhile workstyles.

## Marketing & Sales Headquarters



### Toshiyuki Yamanaka

Managing Executive Officer and Marketing & Sales Headquarters General Manager

### Growing value for customers and maximizing Company profits

The Marketing & Sales Headquarters has responsibility for sales (volumes and sale prices) to help each Company reach its business plan. To achieve this goal, we exercise our cross-organizational function to establish customer-oriented sales strategies through a commitment to incorporating market needs. We then apply those strategies to our products and reflect them in each Company business plan as we work to optimize all our businesses. We also aim to maximize profits by ensuring cost fluctuations are properly passed on and making most efficient use of limited production capacity. We also share our vision for future sales and workmanship with each Company, and participate in their business planning.

## Manufacturing and Future Planning Headquarters



### Hiroaki Asano

Executive Vice President and Manufacturing and Future Planning Headquarters General Manager

### Enhancing the manufacturing base and steadily laying the foundation for the future to achieve steady growth

The arrival of next-generation mobility and the smart society poses a serious threat to the future of our core businesses—specialty steels and forged products. On the other hand, periods of great change like this also present the perfect opportunity for creating new businesses that utilize our materials, which are the DNA of Aichi Steel. While ensuring proper completion and implementation of the Step Up Plan, the Manufacturing and Future Planning Headquarters is working to build a robust and competitive manufacturing foundation that incorporates IoT and other technologies.

We are also steadily laying the foundation for product development that merges our integrated forging and steelmaking process with electro-magnetics in response to the electrification of automobiles, and the creation of new businesses in areas such as autonomous driving, medical and environment that will contribute to a smart society.

## TOPICS

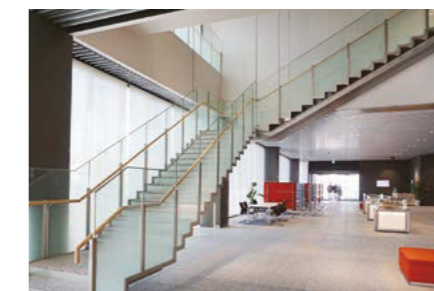
### Construction completed for new administration building

Construction of Aichi Steel's new administration building, a 75th anniversary project, has now been completed. The main building where our business is conducted became operational in January 2017, but the hall building marks the completion of our new administration building.

The new hall building contains a large hall and a Visitor Center with display rooms and guidance hall that will be used for plant tours. With a stainless steel staircase made from Aichi Steel formed stainless steel, this hall and the main building will together serve as the face of the company, and a symbol for our region.



▲Exterior of new administration building



▲Staircase made from Aichi Steel's formed stainless steel



▲Visitor Center display room

# Workstyle Reform at Aichi Steel

## Making serious changes to the way we think

Along with construction of the new administration building, Aichi Steel began to focus on workstyle reform. We aim to raise awareness of every employee to enable them to complete their tasks and achieve results within time limits and deadlines. We will also respect work-life balance as we support balance in the ways they work and rest.

### Background/Environment

#### Changes in the people we need

- Essential goals of the 2020 Medium-term Management Plan
- Steady growth out toward Aichi Steel's 100th anniversary in 2040

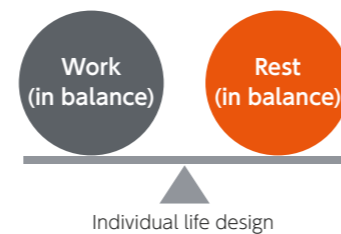
- Drastic changes in the business environment
- Arrival of the smart society, electrification of automobiles (EVs, FCVs), utilization of AI and IoT, etc.

#### Changes in workstyle values

- Aging populations, declining birthrates and shrinking workforces require every employee to improve productivity and work quality
- Prioritizing the work-life balance of each individual

- People able to flexibly respond to changing environments
- People able to achieve breakthroughs rather than just extending existing practices
- People able to achieve results within time limits

Respect and support the work-life balance of each individual



### Changing individual awareness to change workstyles

- Each employee managing their own work with the understanding that time is limited
- Supervisors supporting the work-life balance of the workers

### Workstyle reform process



### Awareness and culture reform



#### Work finish time boards

Post planned finish times to raise awareness of the need to complete tasks within the allotted time

#### Time management duty person

Person on duty reminds people about time management to improve time awareness across the entire workplace

#### Consecutive days of paid vacation encouraged

Balance rest time to do all the non-work-related things you want to do and need to do

##### ● "Refresh" Vacation System

Up to five days consecutive vacation for employees whose age is a multiple of 5

**93.9%** of eligible employees took this vacation in fiscal 2017

##### ● "Memorial" Vacation System

Up to three days consecutive vacation for employees on their birthday, day prior and day after

## Developing environments (HR and support systems, etc.)

### Working from Home System adoption "Ji-kotei-Kanketsu" training

As part of our efforts to support work-life balance, we have developed a system and environment that offers the choice of working from home to employees who work shorter hours because they are raising children, or who have family members in need of constant care.

To support the combination of work and child-raising/care-giving, we are promoting workstyles without time restrictions to increase opportunities for employee participation.

As part of our efforts to maximize ability and performance, we are conducting "Ji-kotei-Kanketsu" (built-in quality with ownership) training for team leaders.

Teaching the appropriate approach and concrete steps, the training aims to increase motivation among team members and maximize performance through efficient work practices without having to redo tasks.

#### VOICE (Working from Home)

##### Working while raising children, and improving management awareness

Because I am able to work at home in the free time I have between caring for sick children and other tasks, I am able to keep up with my work schedule.

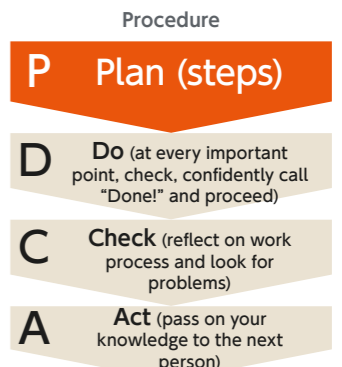
It is important that I am personally aware of time management, so I set and work toward deadlines for completing various work and child-raising tasks.

**Chihiro Ota** Corporate Branding Group  
Corporate Communications Div.



### What is "Ji-kotei-Kanketsu"?

This work approach emphasizes high-quality work with an efficient arrangement of steps to prevent errors and avoid redos.



## Management reform for supervisors

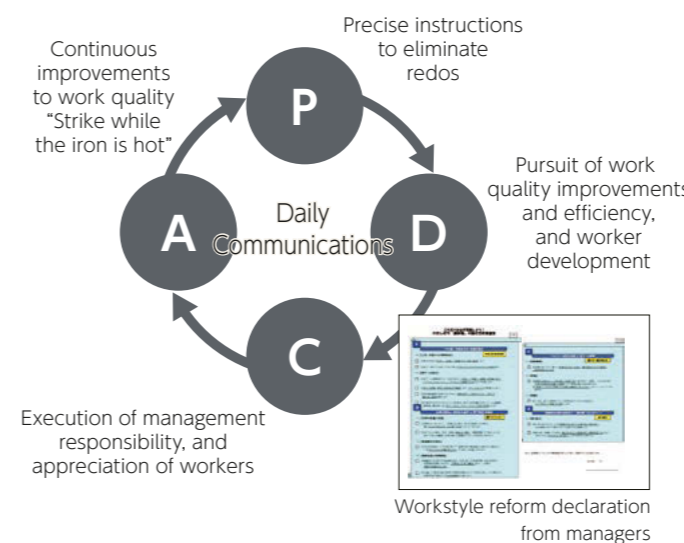
### Workstyle reform for managers

As part of our efforts to promote workstyle reform, our employees in management positions, who are leading workplace management, are changing awareness and actions.

### Team leader training

In 2016, we introduced a new training program to improve the management skills of team leaders and improve the quality of work conducted by each team.

- Teams are the smallest management units, of up to seven members, situated within departments.
- Approximately half the team leaders are younger members of staff (assistant manager level employees aged up to and including in their 30s).



- Details:
- Clarification and understanding of team leader roles and ideals
  - Raising awareness through direct instructions from the president (lectures)
  - Creation and distribution of a file depicting concrete examples of team leader actions
  - Understanding one's own management characteristics
  - Practical training through role-play
  - "Ji-kotei-Kanketsu" training, etc.



"ACTION! For the team" folder

Examples of concrete actions for team leaders always available for review

### "Yarikiri 3W" communication notepad

When supervisors provide work instructions to their workers, they can use this notepad to clarify objectives, deadlines, and quality, to ensure work carried out and avoids redos. Exchanging these notes is a way of improving communication between supervisors and workers.



#### VOICE (Team leader training)

##### Approaches and techniques learned through training can be passed on to workers

The training was great because we learned the main causes, and their solutions, when having to redo experiments. We learned to look for problems in actions we normally take without thinking, and then learned the techniques for resolving those issues. I will pass on this knowledge to my subordinates.

**Akihiro Matsuyama** Batteries Research Dept.  
Frontier Research and Development Div.



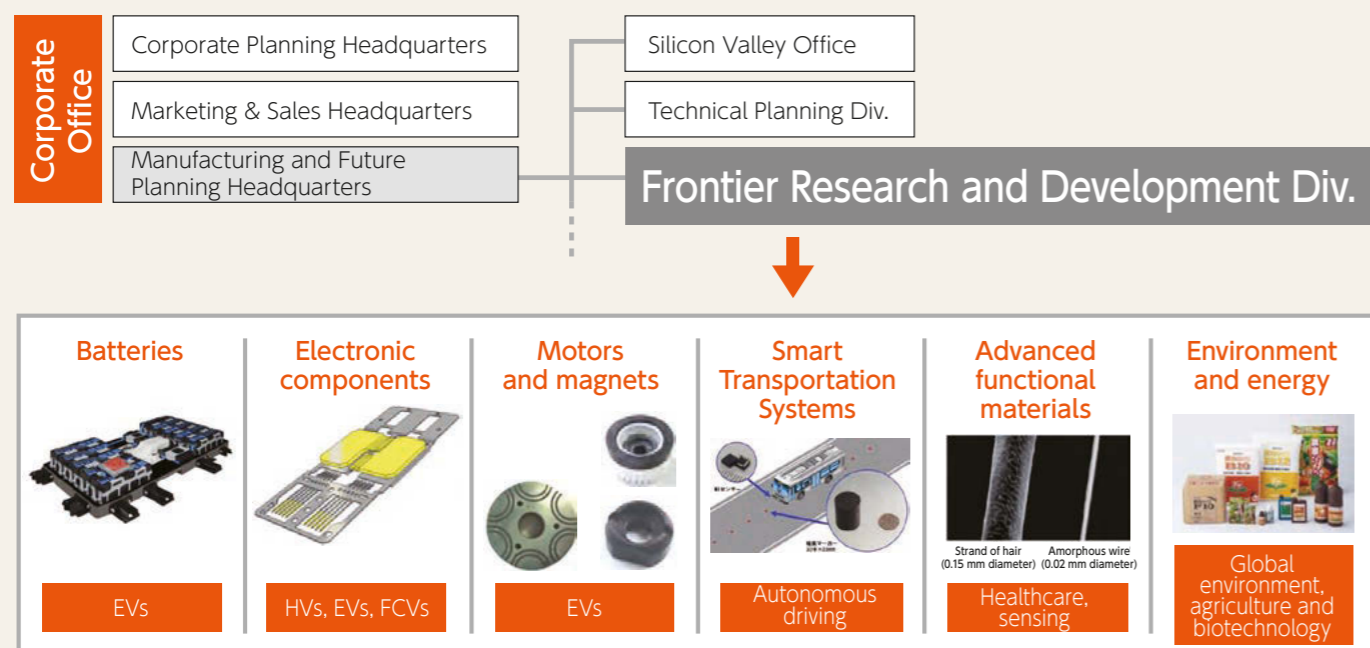
# Initiatives for the Next Generation

Co-creating a new smart society through materials

In January 2018, Aichi Steel established the new Frontier Research and Development Division to clarify internally and externally our stance to next-generation businesses, and to enhance our R&D capabilities with the aim of creating new businesses.

We are focusing on initiatives in six fields while leveraging our superior materials technologies.

## Positioning and R&D fields of the Frontier Research and Development Division



## MI sensor example application #1

### Joint Development with Mizuno of an Internal Baseball Sensor Module for MAQ System



Aichi Steel and Mizuno Corporation jointly developed a sensor module for Mizuno's MAQ baseball rotation analysis system.

The MAQ is a system that coordinates data acquired through a sensor module contained in a baseball with a specialized application so as to analyze the rotational frequency and speed etc. of the ball when thrown by a pitcher.

MI sensors are ultra-high response, ultra-sensitive, ultra-compact, and have ultra-low power consumption. Leveraging these four "ultras," the compact sensor module is able to reproduce the specifications (mass and balance) of the hard baseball so that pitching feels the same as normal.

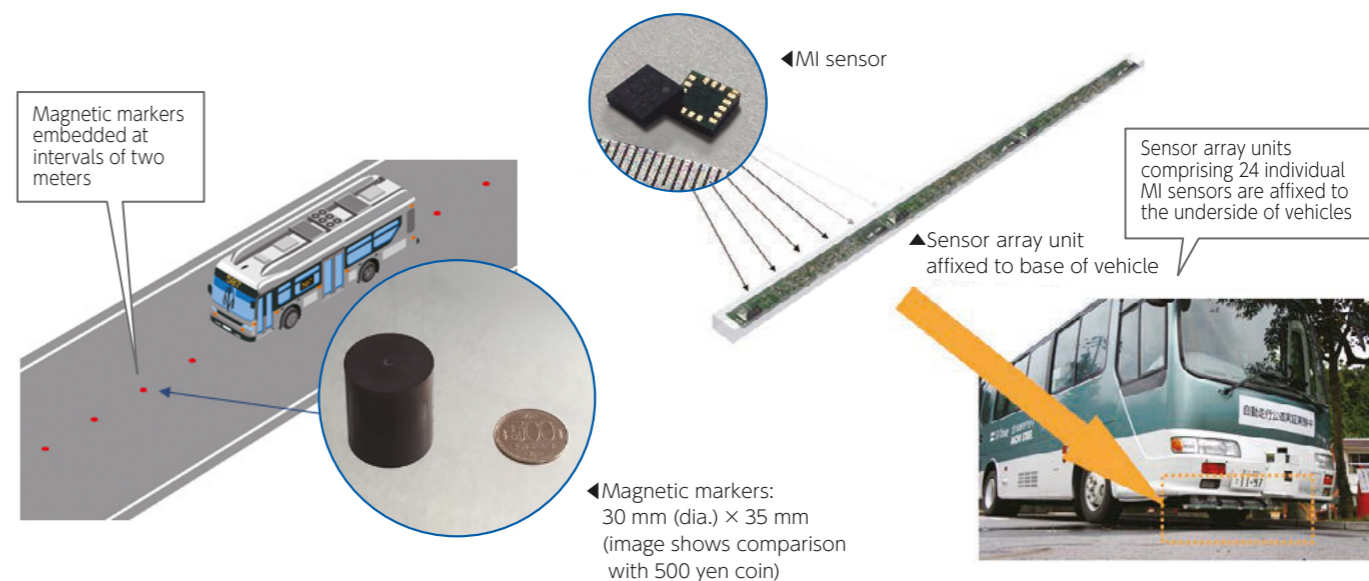
## MI sensor example application #2

### Autonomous Driving Support Using a Magnetic Marker System

#### Magnetic marker system

The magnetic marker system is an autonomous driving support system comprising MI sensors affixed to the base of a vehicle that use the magnetic force of magnetic markers embedded in the road to measure vehicle position with a high degree of precision, and steer the vehicle. The system uses ultra-sensitive MI sensors, which can detect very weak magnetic fields, together with embedded ferrite plastic magnets, which are low cost and kind to the environment.

Compared to existing systems that use GPS and image processing technologies, this system can reliably identify vehicle position even in mountainous regions or tunnels where GPS signals cannot reach, or at nighttime or in poor weather conditions where image acquisition is difficult. The system can increase reliability of autonomous driving systems when used to complement other systems.

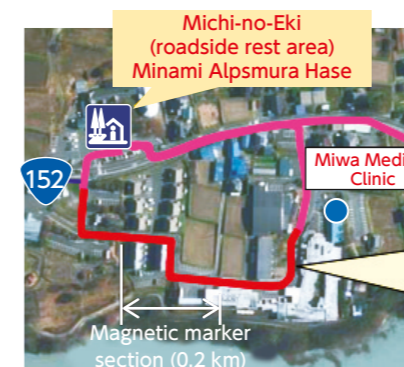


## Japan's first level 4 autonomous driving trials begun at Michi-no-Eki Minami Alpsmura Hase

As a participant in the autonomous driving service trials being conducted by the Ministry of Land, Infrastructure, Transport and Tourism, Aichi Steel used the magnetic marker system to conduct Japan's first level 4 trials.

From last year, we have conducted a series of trials across Japan, from Okinawa to Shiga and Hokkaido, with the aim of implementing practical applications of autonomous driving technologies. This level 4 trial entails full automation of the vehicle's acceleration, steering and braking functions with no-one in the driver seat.

Implementation of driverless technologies will provide safe, convenient, and affordable mobility options to suit various needs, such as areas with aging and declining populations. Going forward, we will contribute to realizing safe and secure next-generation transportation systems through further trials, while at the same time driving strategic development of new applications for our MI sensors in order to contribute to next-generation mobility and the smart society.



▲Driving route

**Driverless autonomous driving (Level 4 autonomous driving)**  
 ○ Person in passenger seat in case of emergency  
 ○ Travel along a dedicated route [0.4 km]  
 \* Level 4 autonomous driving on designated days only (Normally level 2 autonomous driving)

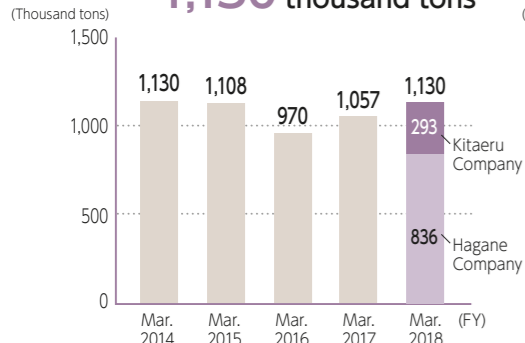


▲Driverless bus in operation

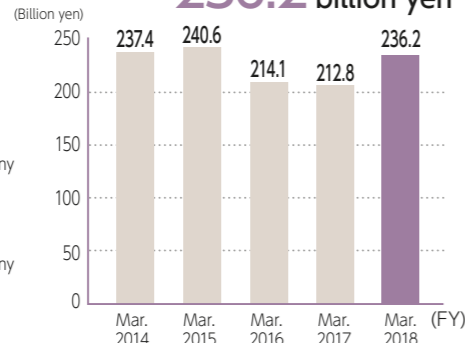
# Financial and Non-financial Highlights

## Financial

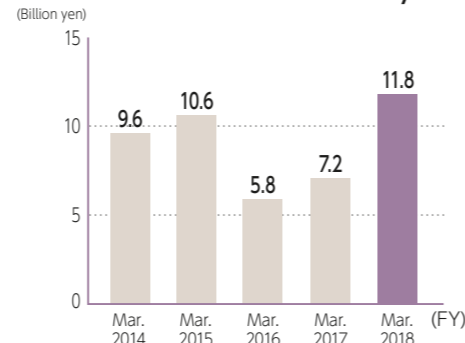
Sales volume (non-consolidated basis) **1,130** thousand tons



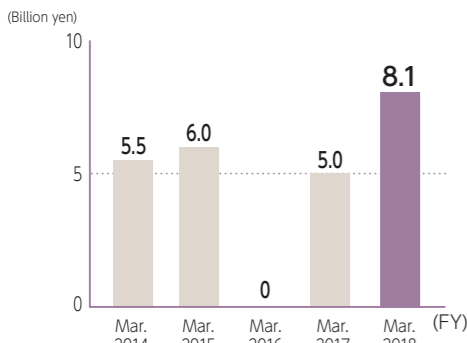
Net sales **236.2** billion yen



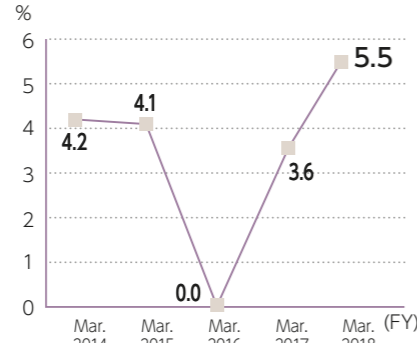
Operating profit **11.8** billion yen



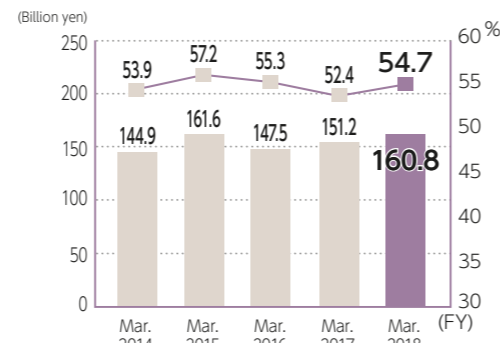
Profit attributable to owners of parent **8.1** billion yen



ROE **5.5%**

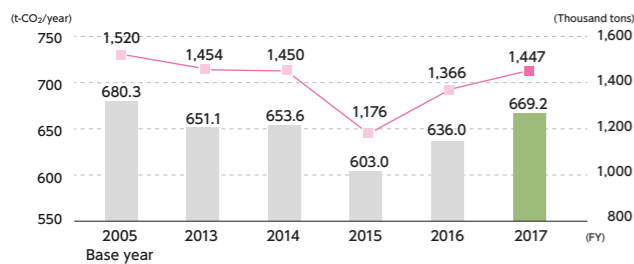


Net assets, capital adequacy ratio **160.8** billion yen **54.7%**

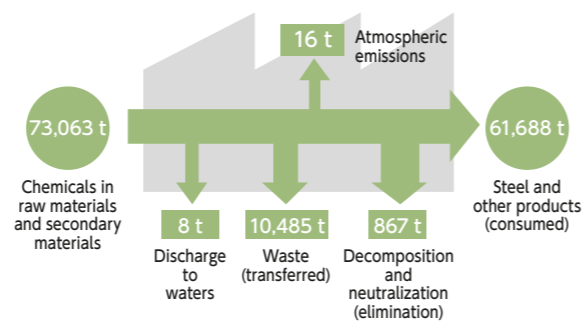


## Environmental

Total CO<sub>2</sub> emissions



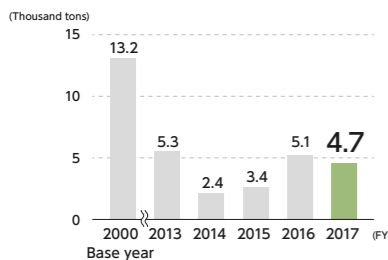
Companywide material balance of PRTR substances



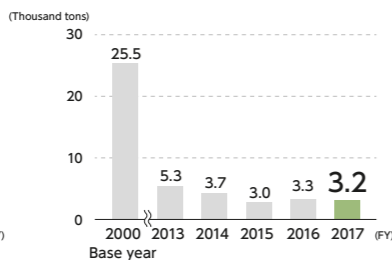
Waste recycling rate **97.4%**

Percentage of ISO 14001-certified subsidiaries **91%**

Waste sent directly to landfill



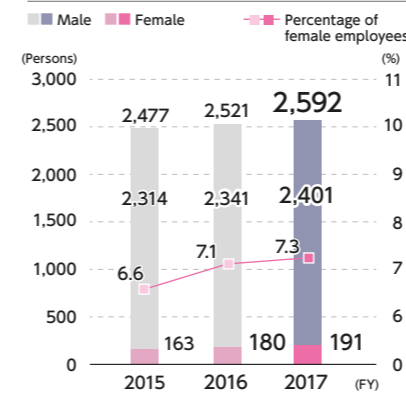
Waste sent indirectly to landfill



## Social

### Diversity

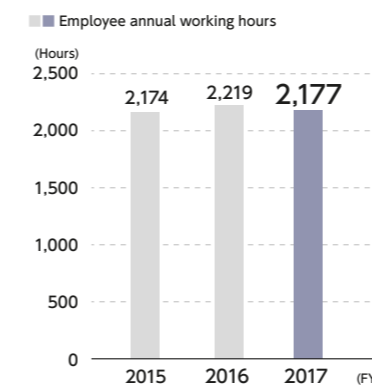
Changes in number of employees



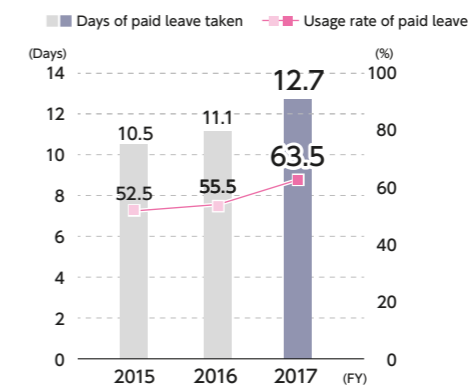
Women in management positions **4** (Proportion of all managers **1%**)

### Workstyles

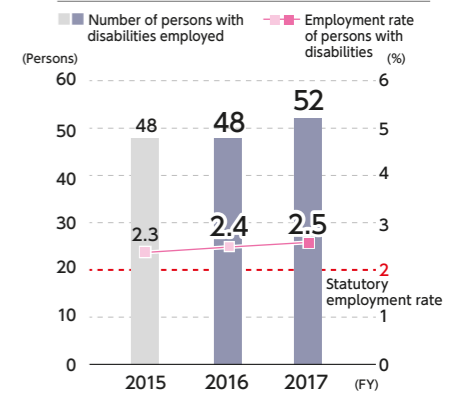
Changes in employee annual working hours



Changes in days of paid leave taken

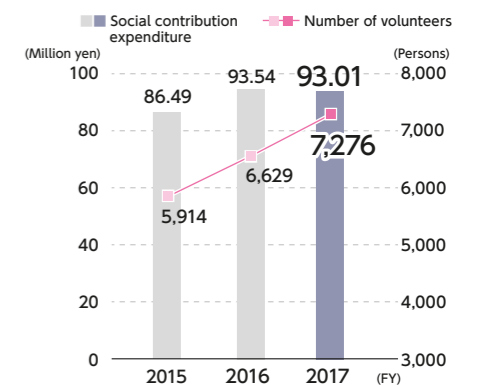


Changes in employment of persons with disabilities



### Social contribution

Social contribution expenditure and number of volunteers



## Governance

### Governance

Number of directors **10**

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

Number of Audit & Supervisory Board Members **5** (of which, 3 outside Audit & Supervisory Board Members)

Number of meetings of the Board of Directors **13**

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

### Security

Number of times security training held **13**

Number of serious information security incidents **0**

### Compliance

Number of compliance training classes **19**

Number of reporting and consultation incidents **10**

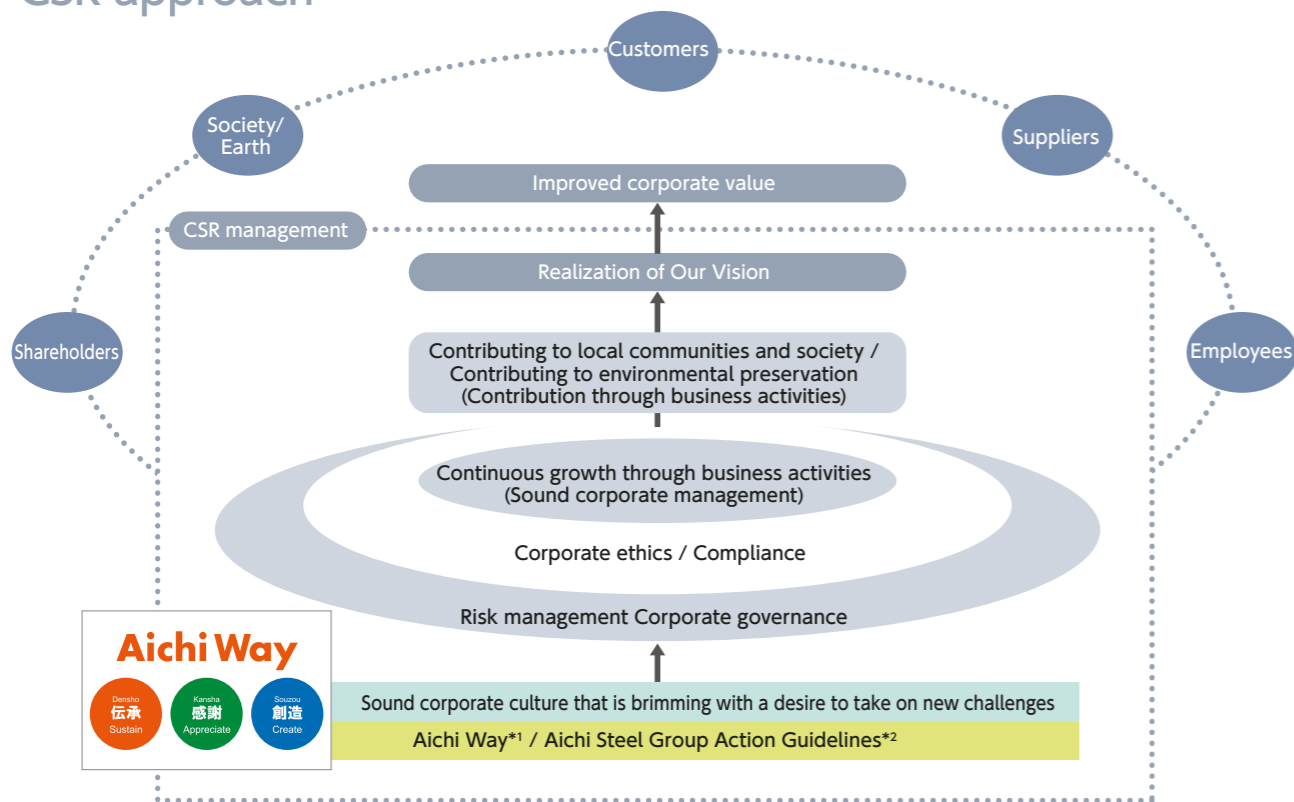
The Aichi Steel Group approaches Corporate Social Responsibility as a prerequisite for good governance, and as the foundations for long-term stable growth. We practice CSR management to gain trust from all our stakeholders, and to contribute to sustainable development of society and the planet, through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

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

## CSR promotion system

In March 2018, the CSR Committee was abolished. CSR activities are considered a natural part of management, so the Board of Directors, the Management Committee, the Corporate Planning Committee, and other committees discuss CSR activity policies, define CSR objectives, and review CSR activities.

## CSR approach



\*1 Aichi Way: Common values and codes of conduct to be followed by all employees of the Aichi Steel Group.  
 \*2 Aichi Steel Group Action Guidelines: Practical guidelines that must be followed during business activities (revised in October 2013).

## Priority issues (Materiality) for the Aichi Steel Group

To make an even greater contribution to achieving a sustainable society, in 2016, the Aichi Steel Group analyzed its impact on society, particularly with regards to certain important aspects, and identified six issues, which we refer to as the “Priority issues (Materiality) for the Aichi Steel Group,” as issues we should address through our business activities. We are now working to establish CSR objectives and plans that will help resolve these issues.

Items selected as priority issues			
Items selected as priority issues	Component identified in the analysis map	Key performance indicators (KPIs)	Applicable section
1 Increase compliance awareness globally, and strengthen corporate sustainability	Compliance (environment)	Results of environmental management system audit	Web (Environmental audit results) p. 28 (Compliance promotion system) p. 33 (Third-party certifications)
	Compliance (society)	Status of various efforts to strengthen compliance (number of lectures and internal audits held as a percentage of those planned)	
	Compliance (product responsibility)	Certification and review by a third party organization	
2 Encourage the creation of workplaces that are safe and comfortable for all employees	Occupational health and safety	Based on safety evaluation selected under in-house criteria, status of facilities improvements, status of safety measures and efforts to strengthen safety awareness, and frequency of accidents resulting in lost work time	p. 32 (Frequency rate and number of accidents resulting in lost work time) p. 28, p. 31, p. 32 (Whistle-blowing system, respect for human rights, mental health activities) p. 31 (Initiatives toward diversity)
	Mechanism for handling grievances regarding labor practices	Labor incident record of accepting, handling and resolving complaints through an in-house consultation office (number of cases)	
	Diversity and equal opportunity	Assistance and programs for supporting diverse work styles, and their status of use	
3 Provide highly competitive products that are safe and secure and offer new value globally	Products and services	Status of quality improvement efforts (number of recognitions received and description)	p. 34 (Awards for Group companies) p. 34 (Training programs for sales staff) p. 34 (Collection of customer evaluations)
	Training and education	Sales staff training, quality improvement activities (number of times held, number of participants, etc.)	
	Marketing and communications	Gathering of customer evaluations (number collected and percentage of improvements, resolutions, etc.)	
4 Strengthen relationships with local communities, and actively contribute to society	Presence in the community	Status of social contribution activities selected under in-house criteria (number of participants; clear compilation standards based on fixed-point observation)	p. 35 (Annual number of volunteers) p. 36 (Interaction with the community)
	Local communities	Status of local community development programs (plans and achievements against those plans)	
5 Strengthen initiatives toward manufacturing in harmony with the global environment	Energy consumption	Breakdown of energy use (CO <sub>2</sub> emissions)	p. 23, p. 38 (Total CO <sub>2</sub> emissions)
	Atmospheric emissions		
	Wastewater and waste	Volume of direct and indirect landfill waste	p. 23 (Volume of direct and indirect landfill waste)
	Biodiversity	Status of efforts to preserve biodiversity (reforesting, number of volunteer activities, etc.)	p. 38 (Coexistence with nature)
6 Establish a solid financial foundation to support stable and sustainable growth	Financial performance	Profitability (operating profit, ROE, etc.)  Soundness, capital efficiency (Net worth, interest-bearing debt balances, capital ratio, etc.)	p. 23 (Financial and non-financial highlights)

# Increase Compliance Awareness Globally, and Strengthen Corporate Sustainability

ISO 26000 relevance  
6.2 Organizational governance  
6.6 Fair operating practices

SDGs relevance



## Materiality

The Aichi Steel Group is undertaking measures to further ensure governance and compliance, enhance awareness of legal compliance, and conduct sound business activities worldwide. We are also revising our management structure and conducting thorough employee training to quickly address risks.

## Corporate governance

### Corporate governance policy

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

As common values and codes of conduct to be followed by all employees of the Aichi Steel Group, we are committed to adopting the Aichi Way as a spiritual guide to achieving Our Vision.

### Adoption of in-house company system

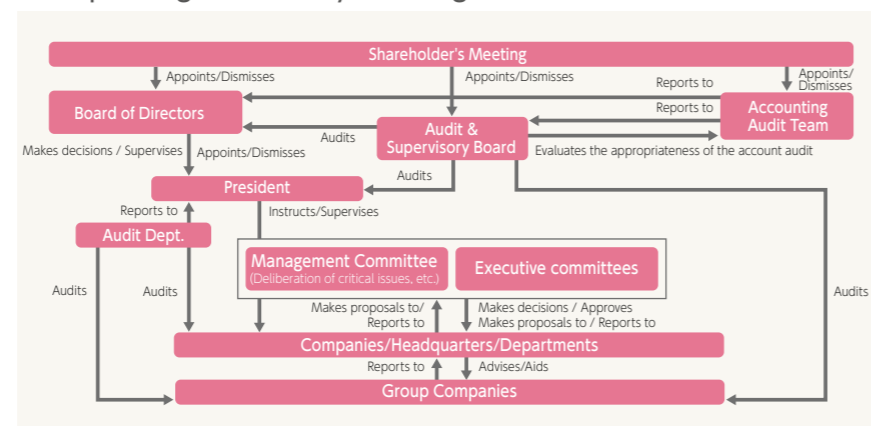
We have adopted an in-house company system comprising our Hagane Company, Kitaeru Company, and Smart Company to make operational decision-making faster and create more competitive businesses. Each company also has its own president and business management division to responsibly drive each business.

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

### Corporate governance system

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

#### Corporate governance system diagram



### Compliance with the Corporate Governance Code

We fully comply with the Corporate Governance Code, and submit a corporate governance report regarding disclosure to the Tokyo Stock Exchange. We review our compliance status once a year and make amendments or changes as required. (We made changes in November 2017.)

We are also currently responding to the June 2018 revision of Japan's Corporate Governance Code. We will continue with efforts to strengthen and expand corporate governance, and observe the content of the code.

### Internal control system

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

We review the basic policy annually to determine if any revisions or changes are required. We also check operational status, report to the Board of Directors, and make disclosures in our business report.

In the April 2018 review, we reflected changes in internal systems through revisions to this basic policy.

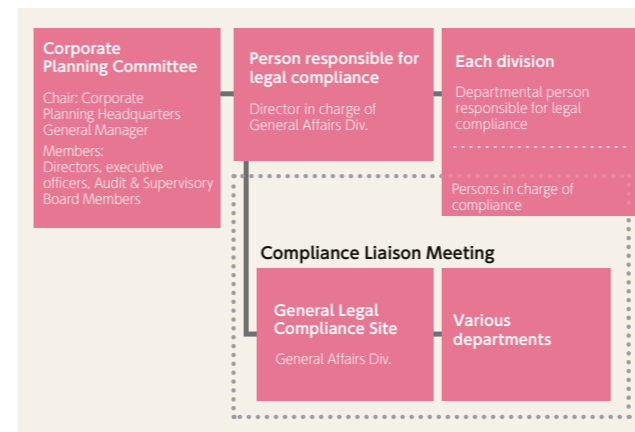
## Compliance

### Compliance promotion system

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

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

#### Compliance promotion system



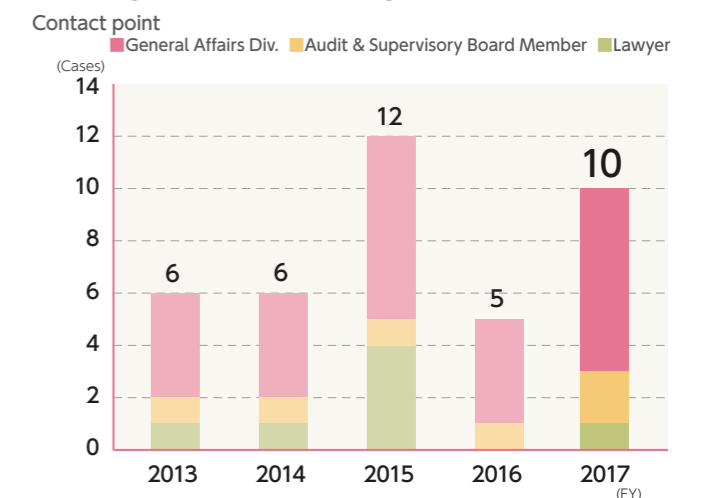
### Whistle-blowing system

In fiscal 2017, a total of 10 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 such 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.

10 cases

#### Changes in whistle-blowing cases



### Compliance promotion activities

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

We also hold director workshops on director responsibilities, and CSR seminars on confidentiality management and corporate scandals.

### Fair transactions with suppliers

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

Level-based training

301 participants

CSR workshops

4 times (Feb, Apr, Jul, Oct)

CSR Seminar

1 time (Jan)

Compliance Liaison Meeting

4 times (Mar, Jul, Oct, Dec)

Director workshops (director responsibilities)

1 time (Oct)

## Risk management system

### ● Risk management system

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

We have reviewed our management structure in line with the in-house company system we adopted in April 2017. As part of the review, in May 2017, we changed the name of our organization that considers matters related to large earthquakes, from the Earthquake Preparedness Committee to the Earthquake Preparedness Promotion Committee, and we improved the level of practice and implementation.

We also reviewed our Companywide Disaster Preparedness Organization and clarified its activities in chronological order, from (1) Earthquake occurrence to initial response, to (2) After initial response to recovery.

### ■ Review of earthquake preparedness committee



### ● Risk management education

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

As a result of the accident on January 8, 2016, we have declared January 8 to be Start Over Day at Aichi Steel to raise awareness of our commitment, confirmed by everyone at Aichi Steel, to preventing such an accident from recurring.

### ● Disaster prevention measures

The Earthquake Preparedness Promotion Committee (name changed May 2017) has systematically implemented disaster prevention measures based on the action roadmap established in March 2012, and from the key perspectives of (1) prioritizing human life, and (2) business continuity (BCM). The committee also considered damage that occurred as a result of the April 2016 Kumamoto earthquakes, identified some new concerns, and reviewed its disaster prevention plan.

The main actions implemented by each subcommittee during fiscal 2017 are detailed below.

#### ■ Human Safety Subcommittee

##### 1. Measures to ensure food, clothing and shelter for evacuees

- (1) Securing food, clothing and shelter for persons helping with recovery efforts
  - Adoption of water purification system using motorized pump: Chita Plant (securing water for daily living from company water tanks, etc.)
  - Installation of manual water purification system: Kariya, Higashiura, Gifu and Seki plants (as above)
  - Installation of cooking appliances: Canteens and dormitories at each plant

#### ■ Facility Safety Subcommittee

##### 1. Measures to ensure safety of escape routes

- (1) Implementation of safety measures
  - Attachment of bolsters to shelving: Forging Plant (planned for completion in September 2018)
  - Installation of crane escape equipment (as above)
  - Stabilizing equipment: Kariya, Higashiura, Gifu and Seki plants (completed)

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

- (1) Additional considerations after Kumamoto earthquakes (April 2016)
  - Identification of new potential risks (crane running off its tracks, sliding shelves falling from racks)
  - Clarification of equipment requiring emergency stop systems (confirmation of emergency stop procedures and times required) → Additional automatic shut-down mechanism to speed up stop times (1 unit)

#### ■ Production Recovery Subcommittee

##### 1. Liquefaction measures

- (1) Measures implemented, with one remaining (coordination with neighboring company completed, with full implementation planned for October 2018)

#### ■ Other actions

##### 1. Cooperation with domestic subsidiaries

- (1) Aichi Steel Group Disaster Prevention Liaison Committee (meeting held July 2017)
- (2) Multiple contact methods acquired (4 companies installed teleconferencing systems)

##### 2. Cooperation with domestic sites

- (1) Installation of teleconferencing systems with all domestic sites completed (all plants and offices)

##### 3. Identification of issues through companywide emergency drills

- (1) Planning improvements during fiscal 2018

## Information security

### ● Information security promotion system

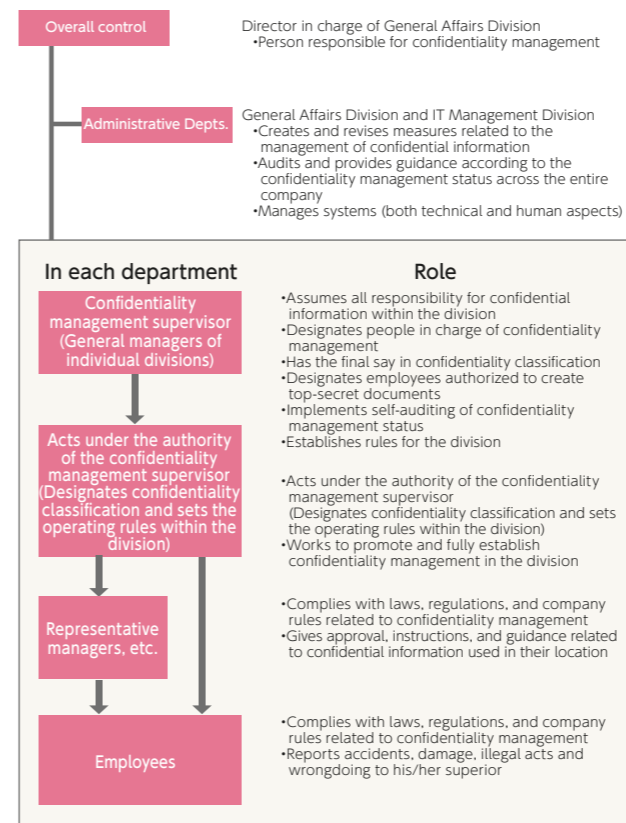
Recognizing the importance of information security management, and in compliance with the All Toyota Security Guidelines (ATSG), we have established internal structures, provided employees with information and education on rules and regulations, and conduct inspections and so on.

The Risk Management Department conducts security inspections to ensure that there are no issues with external email, that employees do not carelessly take internal information outside the office, or that USB memory, cameras, and other devices are handled properly. Along with enhanced checking functionality in the system, including the adoption of a system of alerts to persons in charge of confidentiality management in each department in the event of unauthorized access to confidential information, we are further enhancing our confidentiality management structure to also provide advice from experts.

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

### ■ Information security promotion system

#### Management system and roles of each department



### ● Information security guidelines

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

Examples of rules:

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

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

#### Definition of Confidential Information

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

### ● Information security awareness and education

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

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

Number of times security training held **13**



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

ISO 26000 relevance  
6.3 Human rights  
6.4 Labor practices

SDGs relevance



## Materiality

The Aichi Steel Group is working to create a strong organization by maximizing the potential of individuals through the creation of environments in which diverse human resources can play an active role. This includes not only consideration of a wide variety of human rights involving nationality, language, culture, age, gender and values, but also encompasses women, seniors, people with disabilities, and those combining work with child-raising or care-giving.

## Respect for human rights and creation of comfortable workplaces

### Initiatives toward respect for human rights

The Aichi Steel Group states in the Aichi Steel Group Action Guidelines that it will comply with domestic and foreign laws and regulations both in letter and in spirit, and that it will respect human rights, and sets out behavioral standards for this.

Through level-based training and other educational opportunities, we cultivate a corporate culture in which the diversity of each employee is respected. Workplace study sessions are held with the goal of preventing workplace harassment, and a "Hotto (hot)" line is in place for use by employees with issues regarding human rights. This system enables employees to consult directly with advising legal representatives.

### Aichi Steel Group Compliance Hotline flowchart



## Initiatives toward diversity

### Promotion of more active roles for women in the workplace

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



▲Yuko Arai, Outside Director at Aichi Steel, giving a diversity seminar on promoting the participation of women, in front of an audience of many female employees, managers and directors

### Promotion of employment for people with disabilities

We have employees with disabilities working in a range of workplaces, from our manufacturing sites to administrative divisions. We focus on providing support for continuous employment because it is important that they are able to continue working. Specifically, we are systematically training and allocating Vocational Life Consultants for Persons with Disabilities to provide general work advice to employees with disabilities, and Job Coaches to provide work-related coaching. In addition, we have also employed Certified Social Workers from fiscal 2017. With regular internal lessons aimed at developing the capabilities of people with intellectual disabilities as well, we are continuing our efforts to develop workplaces that suit individual capabilities, where all employees can enjoy working together.

### Post-retirement reemployment system

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

## Human resources development

### Global human resources development

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

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

We believe this system will improve understanding of the local languages and cultures, and enhance relationships with local staff.

As we increase our physical presence around the world, we are providing more opportunities for our young employees to work overseas.

The real-life experiences provided in this training system help participants understand the significance of working overseas and the importance of communicating in the local languages, and through that we hope to help them grow into globally-active employees of Aichi Steel.

### Specialized technical training

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

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

The hands-on training combines knowledge learning and practical skills acquisition. Trainee proficiency is confirmed through written tests, and determinations of whether trainees have reached a level that can be used in practical work are confirmed through presentations on examples of improvements and on-site monitoring. Trainees who pass receive ranked certification. We started Rank C training in fiscal 2016, and Rank B training in fiscal 2017.

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

## Employee health and safety

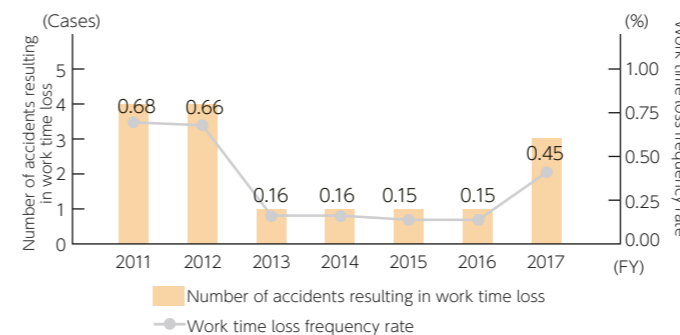
### Initiatives toward elimination of accidents resulting in lost work time

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

### Health promotion efforts

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

### Frequency rate and number of accidents resulting in lost work time



### Mental health activities

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

During fiscal 2017, we also provided advice to workplaces that rated a high risk for mental health based on the results of these stress tests. We also collaborate with mental health consultants to offer ongoing on-site consultation\* to ensure early detection and treatment of employees with mental health issues.

\* Mental health consultants visit our company once a month to provide two-hour consultations to interested employees who are experiencing mental health issues. The system we developed enables employees to discuss their concerns face-to-face with professionals.

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

ISO 26000 relevance 6.7 Consumer issues

SDGs relevance



## Materiality

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

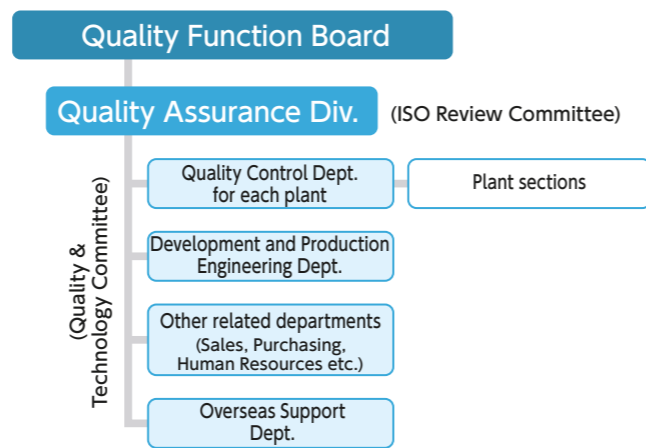
## Quality management system (QMS)

### Activity promotion system

In accordance with our policy of "Quality First," we will strive to maintain a business structure, based on ISO 9001, ISO 13485 and other standards, that gains customer trust and enables us to deliver attractive products that meet expectations and needs. In line with our Medium-term Quality Vision 2020, we are working as one to build a globally competitive, leading quality assurance system.

In addition to domestic efforts, head office regularly sends support people to overseas plants to provide training to quality officers at each site and provide appropriate assistance regarding quality issues to strengthen their quality assurance systems. We are always working to improve our level of quality assurance.

### Quality assurance system



### Medium-term Quality Vision 2020

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

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

### Third-party certifications and compliance with International Standards

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

accreditations.

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

### Acquisition status of Quality ISO certification

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

### Third-party certifications excluding ISO certification

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

## Quality improvement initiatives

### Quality Learning Center

November has been designated Quality Month. We have opened a Quality Learning Center as a learning place for improving the quality of our work based on the concepts of "Customer First" and "Quality First." We want every employee to be more conscious about quality, and to reconfirm the customer-first approach and the importance of observing rules, using failure case studies, actual experience and other methods to understand how quality problems impact our customers.



### Awards for Group companies

Shanghai Aichi Forging Co., Ltd. (Headquarters: Shanghai, China), an overseas subsidiary of Aichi Steel that produces a wide range of forged products, received both the 2015 Bronze Excellent Service Award and the 2016 Gold Excellent Service Award (top prize in the service category) from Shanghai Volkswagen. In 2017, it also received the Outstanding Quality Award from Shanghai Volkswagen for coming sixth in a field of 400 companies. Through these awards, the customer has recognized Shanghai Aichi Forging for its rapid and sincere after-sales service, its ability to flexibly meet logistics demands, and to meet urgent demands for increased production, the high net shaping rate and quality of its designs, and quality initiatives that have produced zero quality claims.



▲ A Volkswagen Polo GTI received as a supplementary prize in 2016

### Collection of customer evaluations

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

### Training programs for sales staff

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

Number of customers surveyed **78** offices

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

**5** programs per year

Total numbers of participants **22** persons  
(All new and younger staff members)

## Promotion of CSR procurement

### Global, open and fair transactions

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

### Legal compliance

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

### 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.

### Green procurement efforts

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

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

ISO 26000 relevance  
 6.8 Community involvement and development  
 SDGs relevance

## Materiality

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

## Social contribution policy

### Activity promotion system

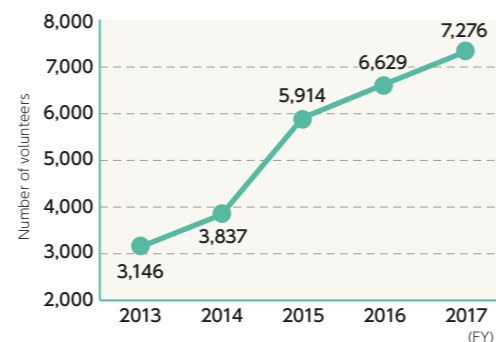
In pursuit of harmonious coexistence and co-prosperity, Aichi Steel promotes community-oriented activities focused around four key words: "clean," "green," "creative" and "volunteerism."

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

During fiscal 2017, we increased participation in activities through efforts such as an increased number of activities to promote coexistence with nature, starting the collection of used books, and introducing a canteen menu that supports regional recovery. We also set a record with a total of 7,276 volunteers, which was 647 more people than last year.

Number of volunteers in FY2017 **7,276**  
 (647 person increase year-on-year)

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



### Clean (beautification, safety, security)

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



### Nearby roads clean-up campaign

**5** events, **125** volunteers

### Clean Aichi Day

**800** volunteers

### Green (planting and environmental conservation)

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



▲ Student planting of flowers in front of Meitetsu Shurakuen Station

### Creative (education, culture)

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



### Creative lessons

**12** schools, **36** classes

### Volunteer support



Established in 1993, the Aichi Steel Volunteer Fund continues to donate to local social welfare organizations and others and to provide support to disaster-affected areas, including after the Kumamoto Earthquake. Another voluntary and ongoing program that employees can participate in is the "one-coin" donation program, where they donate 100 yen from their pays every month.

In fiscal 2017, we started a new initiative to support welfare facilities for disabled persons, with the installation of collection boxes for used books, CDs and DVDs at four locations around the company. We also introduced a canteen menu that supports regional recovery as a new initiative to support disaster-affected areas.

### Support for disaster-affected areas

As part of our efforts to support disaster-affected areas, after events like the Great East Japan Earthquake, the Kumamoto earthquakes or the heavy rains in northern Kyushu, we hold sales of local produce at plant open days and other events, and every year we collect goods to be used for disaster recovery.



▲ Canteen menu in support of regional recovery: Yogurt by Yuda Milk Corporation, Iwate Prefecture

◀ Produce stalls at a company event

### Traffic safety awareness

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



**2,325** volunteers

### "One-coin" donation

**544** volunteers

### Recycled books, CDs and DVDs

We have started a collection drive as a support activity for welfare facilities for disabled persons. The used books we collect are fixed up for resale by persons with disabilities, with profits going to the workers involved.



▲ Collection box for used books, CDs and DVDs

## Interaction with the community

### Events and participation

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

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



◀ Community meeting

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



# Strengthen Initiatives toward Manufacturing in Harmony with the Global Environment

ISO 26000 relevance 6.5 Environment

SDGs relevance



## Materiality

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

## Environmental management

### 2020 Environmental Action Plan

We formulated the Aichi 2020 Environmental Action Plan, a statement of policies and plans for environmental actions from fiscal 2016 to fiscal 2020. The plan adopts three core themes for the direction of our environmental action based on environmental management: building a low-carbon society, building a resource-recycling society and coexistence with nature. By reinforcing management from a global perspective that extends to consolidated subsidiaries, we are contributing, as a sustainable company, to society and the global environment.



Theme	Action item	Major efforts	Evaluation	
Three Core Themes	Building a low-carbon society	1. Encourage development of eco-products and technologies	• Trial manufacture of steel for high strength plate springs • Trial manufacture of stainless steel for next-generation high-pressure hydrogen applications	✓
		2. Reduce CO <sub>2</sub> emissions through the use of renewable energy	Target: Completion of Japan Iron and Steel Federation's Low-carbon Society Plan (Phase 1)	✓
		3. Thorough implementation of energy conservation practices in production activities	• Low-carbon Society Plan (Phase 1) completed • Promote energy conservation in production (on-site inspections by EMS chief executive, etc.)	✓
		4. Seek better transportation efficiency in logistics	Target: 11% reduction from fiscal 2006 for emission volume per transportation unit • Reduce traffic lines (eliminate backflow and redundant stock points) • Modal shift (from land transport to sea transport) • Improve loading efficiency (Kariya and Forging plants)	✓
	Building a resource-recycling society	5. Reduce by-products during production and continue to utilize resources effectively	Target: Emission volume per crude steel unit ≤189.3 kg/t • Reduce dust intake by electric furnaces • Some external sale of stainless steel dust • Internal recycling of debris • External recycling of waste acid and sludge	×*
		6. Promote projects that benefit resource-recycling corporations	• Promote Dy-free bonded magnets and low-molybdenum steel at exhibitions, etc.	✓
		7. Reduce and effectively use packaging materials in logistics operations	• Monitor presence of new materials: None found	✓
	Environmental management	8. Reduce water use in production activities	• Continue managing water use at Forging Plant and Gifu Plant	✓
		9. Promote activities for preservation of nature and biodiversity	• Participate in formation of a Chita Peninsula Biodiversity Network	✓
10. Promote activities for zero abnormalities and complaints		Target: Zero abnormalities and complaints per year • Implement strict management to achieve 80% or below of regulation values set by environment-related laws • Promote prevention activities (enhance GK)	✓	
11. Enhance consolidated environmental management		• Hold ongoing brush-up seminars with domestic affiliates • Conduct environment audits of domestic subsidiaries by the general manager of the Safety & Environmental Division • Launch companywide chemical substance management system	✓	
12. Reduce emissions to contribute to improvement of urban air quality in each country and region		• Monitor the introduction of low-emission vehicles	✓	
13. Promote environmental activities in coordination with business partners	• Conduct supplier briefings on Green Procurement Guidelines	✓		
14. Further reinforce global employee training and educational activities	• Investigate new teaching materials (environmental risk prediction training tools)	✓		
15. Ensure active disclosure of environmental information and enhanced communication activities	• Continue to issue reports and enhance content • Enhance environmental communication activities (Plant tours for media, community meetings, Visitor Center exhibitions, etc.)	✓		

\* Cut-off error with fiscal 2016 and deterioration in slag generation base units

## Initiatives toward building a low-carbon society

### Fiscal 2017 targets and results

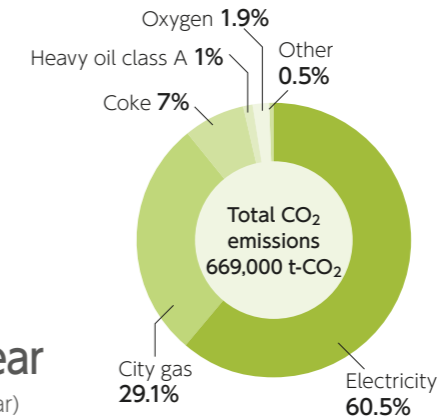
Based on the Aichi 2020 Environmental Action Plan, we pursued reductions in carbon dioxide to achieve the targets of the Japan Iron and Steel Federation's Low-carbon Society Plan (Phase 1).

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

Total CO<sub>2</sub> emissions

**669,000** t-CO<sub>2</sub>/year  
(+34,000 tons year-over-year)

### Breakdown of energy used in fiscal 2017 (CO<sub>2</sub> emissions)



### Factors behind changes since last fiscal year

**Positive improvements**  
1. Improved insulation on rolling line furnace  
1,000 t-CO<sub>2</sub>/year  
2. Less carburizing material due to appropriate use of scrap  
4,900 t-CO<sub>2</sub>/year  
Total 5,900 t-CO<sub>2</sub>/year

**Negative factors**  
1. Increased emissions due to increased production  
39,100 t-CO<sub>2</sub>/year  
Total 39,100 t-CO<sub>2</sub>/year

## Measures to develop a recycling-based society

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

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

We introduced silica sand into steelmaking slag generated in electric furnaces as a molten slag cooling down material, but we focused on the similarities between silica sand and the glass components and made it possible to achieve the same effects by mixing silica sand with waste glass, and it is

now possible to recycle waste glass as an electric furnace byproduct.

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



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

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

## Measures to promote coexistence with nature

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

Aichi Steel is participating in the All-Toyota Green Wave Project activities being implemented by the Toyota Group and other affiliated companies as part of efforts to coexist with nature. This project includes a range of activities to

“connect communities toward harmony with nature.” We are undertaking activities that contributing to increased restoration of ecosystems by connecting people with other people and activities and linking habitats.

### Forestation to create a forest for beetles

Since fiscal 2012, we have been helping plant a broadleaf forest to create an environment in which beetles and other creatures can live their natural life cycles. We have been working with the Chita Peninsula Biodiversity Network Promotion Council and members of the Student Action Committee NPO to grow the trees. In fiscal 2017, we planted saplings provided by Toyoda Gosei as part of mutual engagement activities. In fall every year, we also hold a large “Forest 2” event where employees and their families participate in programs held in collaboration with

other organizations and companies, nature craft activities, collecting acorns and growing seedlings.



▶Student Action Committee involved in nature craft activity

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

## Materiality

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

## Financial information for fiscal 2017



### 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. At the same time, and despite uncertainties in some economies like China and other emerging countries in Asia, the global economy was also on the rise.

Net sales stood at 236,237 million yen for the current consolidated fiscal year, an 11.0% increase from the previous consolidated fiscal year of 212,837 million yen. Profit also increased from the previous consolidated fiscal year. The main factors behind this were increased sales volumes, increased selling prices, and the fact that compared to the previous consolidated fiscal year, there were no negative pressures on prices or supplier logistics charges resulting from the January 8, 2016 explosion. As a result, the Aichi Steel Group posted an operating profit of 11,813 million yen, a 63.7% increase from the previous consolidated fiscal year of 7,218 million yen, despite increased costs of raw materials, energy and other purchased goods, increased expenses and other negative pressures on profit. In addition, we posted an ordinary profit of 11,774 million yen, a 71.6% increase from the previous consolidated fiscal year of 6,863 million yen, and profit attributable to owners of parent of 8,182 million yen, a 60.9% increase from the previous consolidated fiscal year of 5,084 million yen.

### Assets, liabilities and net assets

Total assets at the end of the consolidated fiscal year were 277,847 million yen, which was an increase of 4,740 million yen from the previous consolidated fiscal year.

Current assets were 125,740 million yen, which was a decrease of 5,057 million yen.

Property, plant and equipment increased by 4,658 million yen from the previous consolidated fiscal year. In the current consolidated fiscal year, we made total capital investments of 19,020 million yen. Depreciation and amortization totaled 13,818 million yen.

Current liabilities were 51,300 million yen, which was a decline of 8,637 million yen from the previous consolidated fiscal year, mainly because the current portion of long-term loans payable decreased by 8,853 million yen.

Non-current liabilities were 65,741 million yen, which was an increase of 3,844 million yen from the previous consolidated fiscal year. Net assets were 160,806 million yen, which was an increase of 9,533 million yen from the previous consolidated fiscal year. Also, net assets per share stood at 7,716.77 yen (7,266.42 yen in the previous consolidated fiscal year), while the capital adequacy ratio was 54.7% (52.4% in the previous consolidated fiscal year).

### Consolidated cash flows

Net cash provided by operating activities increased by 186 million yen from the previous consolidated fiscal year to a total of 13,164 million yen. Profit before income taxes increased by 4,326 million yen, and cash increased by 2,699 million yen due to an increase in notes and accounts payable-trade (cash decreased by 3,819 million yen in the previous consolidated fiscal year due to a decrease in notes and accounts payable-trade). Despite this, cash decreased by 3,600 million yen due to an increase in inventories (159 million yen in the previous consolidated fiscal year), and cash increased by 2,316 million yen due to a decrease in other current liabilities (cash increased by 4,722 million yen in the previous consolidated fiscal year due to an increase in other current liabilities).

Net cash used in investing activities decreased by 20,954 million yen, which was an increase of 1,277 million yen from the previous consolidated fiscal year. The main factor was a decrease of 1,604 million yen in income due to the sale of investment securities compared to the previous consolidated fiscal year.

Net cash used in financing activities decreased by 9,509 million yen (cash increased by 15,231 million yen in the previous consolidated fiscal year). This was due to income of 20,000 million yen through a corporate bond issue in the previous consolidated fiscal year.

As a result, cash and cash equivalents at the end of the current consolidated fiscal year amounted to 27,439 million yen, a decrease of 17,292 million yen from the end of the previous consolidated fiscal year (44,732 million yen).

### Capital investments

Capital investments totaled 19,000 million yen, mainly for the purposes of increasing production capacity on steel or electro-magnetic product manufacturing equipment, and for streamlining, updating and functionally improving steel and forged product manufacturing equipment.

### Financing

U.S. forging subsidiary Aichi Forge USA repaid a long-term loan of 16 million U.S. dollars (approximately 1,700 million yen) in September 2017, so in light of forecasts for future capital investments and cash flow, it received new financing from a local Japanese bank in December 2017 in the form of a long-term loan for 23.5 million U.S. dollars (approximately 2,500 million yen).

### Sales by segment

In April 2017, Aichi Steel Group adopted an in-house company system and changed its organizational structure to achieve the steady growth it is targeting. With this change, we revised the reporting segmentation we use from this consolidated fiscal year. Instead of the previous four categories of Specialty Steel Business, Forged Products Business, Electro-magnetic Products Business and Other Businesses, we are now using the categories of Hagane Company, Kitaeru Company, Smart Company and Other Businesses.

#### Hagane Company

As a result of increased sales volumes and sales prices in our core product areas of specialty steel and stainless steel, we achieved net sales of 110,974 million yen during the current consolidated fiscal year (96,225 million yen in the previous consolidated fiscal year), which was a 15.3% increase from last year.

#### Kitaeru Company

As a result of increased sales volumes and sales prices in our core product area of closed-die forged products for automobiles, we achieved net sales of 107,352 million yen during the current consolidated fiscal year (99,599 million yen in the previous consolidated fiscal year), which was a 7.8% increase from last year.

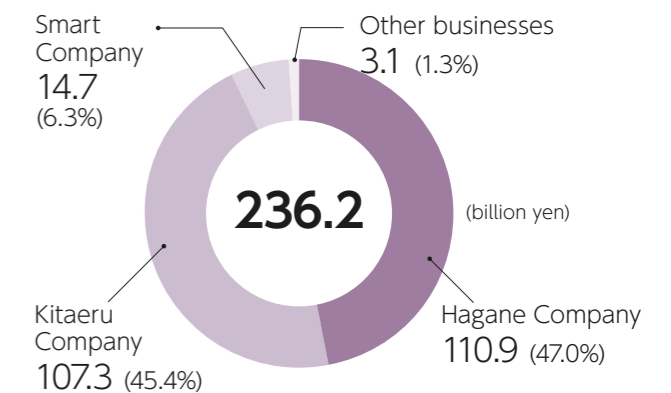
#### Smart Company

As a result of increased sales volumes of our electronic components, we achieved net sales of 14,786 million yen during the current consolidated fiscal year (13,820 million yen in the previous consolidated fiscal year), which was a 7.0% increase from last year.

#### Other businesses

We achieved net sales of 3,123 million yen during the current consolidated fiscal year (3,191 million yen in the previous consolidated fiscal year), which was a 2.1% decrease from last year.

### Net sales breakdown



### Five-year summary (consolidated)

Term	110th Term	111th Term	112th Term	113th Term	114th Term
Year ending	Mar. 2014	Mar. 2015	Mar. 2016	Mar. 2017	Mar. 2018
Net sales (Billion yen)	237.420	240.647	214.120	212.837	<b>236.237</b>
Operating profit (Billion yen)	9.627	10.616	5.883	7.218	<b>11.813</b>
Profit before income taxes (Billion yen)	9.779	10.693	1.409	8.045	<b>12.371</b>
Profit attributable to owners of parent (Billion yen)	5.503	6.023	0.020	5.084	<b>8.182</b>
Property, plant and equipment (Billion yen)	85.841	88.291	89.628	96.310	<b>100.968</b>
Total assets (Billion yen)	255.259	268.064	251.760	273.107	<b>277.847</b>
Net assets (Billion yen)	144.965	161.669	147.534	151.273	<b>160.806</b>
Per share data:					
Net profit: Basic*1 (Yen)	279.94	306.25	1.02	258.34	<b>415.71</b>
Net profit: Diluted*1 (Yen)	279.84	306.18	1.02	258.31	<b>415.71</b>
Cash dividends (Yen)	10.00	10.00	10.00	55.00 <sup>*2</sup>	<b>120.00</b>
Number of employees (Persons)	4,613	4,617	4,654	4,773	<b>4,847</b>

Notes: \*1 Every 10 shares in the Company were consolidated into one share effective of October 1, 2016. Net profit per share and net profit per share (diluted) were calculated in anticipation of this share consolidation at the beginning of the 110th Term.

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



This year's Aichi Steel report again accurately describes the company's strategic and proactive CSR management based on the clear commitment of the president.

### Mr. Satoshi Chikami

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

#### Clearly taking a proactive stance to changes in the business environment

As the president mentioned at the beginning of his message, there is a paradigm shift occurring as the environment surrounding the automotive industry undergoes great change. The in-house company system adopted in April 2017, consisting of the Hagane Company, Kitaeru Company, and Smart Company, is a clear example of this proactive stance. In their messages, Company presidents show their commitment to generating high profitability on the back of the exceptional technical capabilities they have built up. The new Corporate Office as well, consisting of the Corporate Planning Headquarters, Marketing & Sales Headquarters and Manufacturing and Future Planning Headquarters, forms a framework providing groupwide checks and balances of the three Companies, which is a commendable system assuring reliable governance.

#### Synergies between company transformation, employee awareness and workstyle reform

One of the goals of Aichi Steel's 2020 Medium-term Management Plan is to build a company of contented employees, while the Aichi Way, established in January 2018, also clearly positions the concepts of Densho/Sustain, Souzou/Create and Kansha/Appreciate as a spiritual guide to achieving the goals, which is particularly praiseworthy. In response to the groupwide transformation that came with adoption of the in-house company system, and as described in the president's message and Special Feature 2, it is clear that the company has launched comprehensive efforts toward workstyle reform for its employees. The report describes implementation of workplace-based ideas for smooth reform of employee workstyles, such as the introduction of work finish time boards and time management duty persons, while at the same time making efforts to transform management styles for key managers with the adoption of a team system. Raising awareness among key managers about the need to both develop and appreciate workers, should also contribute greatly to improving work-related pride and motivation of every employee. It is possible that the significant yearly increases in the number of participants in volunteer activities is an outcome of these efforts to change the way people think.

#### Clearly setout priority issues (materiality) and systematic descriptions based on them

The six priority issues (materiality) established in fiscal 2016, the setting

of important management indices to resolve them, and a systematic CSR plan were clearly described. As a result, the contributions that Aichi Steel is attempting to make toward realizing a sustainable society were accurately expressed throughout the report, which was highly commendable.

The report contains three special features in the first half that clearly describe the areas that Aichi Steel is focusing on, the directions it is taking and how it aims to get there.

#### Steady achievements of the 2020 Environmental Action Plan

The 2020 Environmental Action Plan included a list of 15 action items. However, there was a slight deterioration in slag generation base units and the company failed to achieve internal targets for reducing by-products during production and reducing CO<sub>2</sub> emissions, which had been set at higher levels, due to issues such as increased production volumes over the previous two years. The report shows that despite this, all other action items were steadily achieving results. Because the company is continuing existing efforts to reduce environmental burden, through initiatives such as 4S Re-Engineering, there might not be much more room for improvement, but I hope the company will continue working toward its goals.

#### Easier to read, easier to understand

This year's report implements many ideas for improving its appeal to readers, including ongoing efforts to link to the online version, a much more detailed examination of each priority issue, an improved layout and emphasis on important numbers. The result is commendable for its accurate presentation of information that needs to be conveyed, and the highly balanced ease of reading and understanding for readers.

#### Conclusion

In the company's 114th Term, operating income made considerable improvements toward targets in the 2020 Medium-term Management Plan. I look forward to seeing the further effects that adoption of an in-house company system has on driving strategic management and workstyle reform for employees, and seeing the contribution it makes to further expansion of shared value between the Aichi Steel and society.

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

## Response to the Third-party View



Ichiro Murakami  
Senior Executive Officer  
Corporate Communications Div.

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

This year, we have been implementing new initiatives toward creating a New Aichi Steel, including strengthening our business capabilities through an in-house company system and workstyle reform, to help achieve our newly established 2020 Medium-term Management Plan. In January 2018, we also established the Aichi Way, a spiritual guide shared by all employees of the Aichi Steel Group.

High praise for these initiatives from such an expert encourages us and gives us confidence in our continuing efforts. To live up to these expectations, we will further our endeavors and contribute to society through the results while working to achieve steady growth for the company.

Regarding the issues Professor Chikami noted of internal targets in our Environmental Action Plan for reducing by-products during production and reducing CO<sub>2</sub> emissions, which had been set at higher levels, we failed to reach those targets this time due to increased production in response to the current high rate of orders. However, we will continue to make a concerted effort to reuse steel scrap as raw materials in our products as a resource-recycling corporation, and work toward becoming a globally valued enterprise.

Finally, the Visitor Center in our new administration building was completed in March 2018. We intend to use the center to welcome many more people on plant tours and to otherwise strengthen communications with local residents and other stakeholders. Our aim is to become a company whose presence is cherished by locals, and, from a CSV perspective, it is our intention to continue to

## Corporate Profile

### Corporate Profile

Establishment	March 8, 1940	Offices	Head Office: Tokai City, Aichi Pref., Japan
Capital	25,016 million yen (as of March 31, 2018)	Sales Offices:	Tokyo/Osaka/Fukuoka
Representative	Takahiro Fujioka, President and Representative	Overseas Offices:	Shanghai/Silicon Valley
Employees	4,847 (Consolidated)/2,592 (Non-consolidated) (as of March 31, 2018)	Plants:	Chita/Kariya/Forging/Higashiura/Gifu/Seki/electronic parts
Business Description	Production and sale of specialty steel products, forgings and electromagnetic products		

### Major Products



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

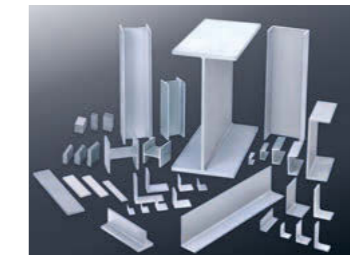
#### Specialty steel



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

Example products:  
Structural steel, free-cutting steel, spring steel, etc.

#### Stainless steel / titanium



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

Example products: Stainless steel shapes, round bars, etc.

#### Forged products



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

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

#### Electro-magnetic products



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

Example products: MAGFINE®, MI sensors, etc.

## Aichi Steel Group



Refer to the website for further detail: [https://www.aichi-steel.co.jp/ENGLISH/about/aichi\\_steel\\_group.html](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 Co., Ltd.
- Aichi Steel Logistics co., ltd.
- Aichi Information System Corporation
- AIKO SERVICE CO., LTD.
- Aichi Micro Intelligent Corporation
- Asdex Corporation

### 9 companies overseas

- AICHI FORGE PHILIPPINES, INC.(AFP)
- Aichi Forge USA, INC. (AFU)
- Aichi Europe GmbH (Ae)
- AICHI FORGE (THAILAND) CO., LTD.(AFT)
- Shanghai Aichi Forging Co., Ltd. (SAFC)
- PT. AICHI FORGING INDONESIA (AFI)
- Aichi Magfine Czech s.r.o (AMC)
- Aichi Korea Corporation (AKC)
- Aichi Magfine Technology (Pinghu) Co., Ltd. (AMT)



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



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



Waterless printing without the use of dampening water containing harmful substances is employed.

## AICHI STEEL

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Primary contact: Corporate Communications 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>

The idea expressed by the cover

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

As a material manufacturer, we want to create paths to the prosperous society of the future and support the people who will live in it. It is with this desire that for three years starting 2017 the cover will tell stories of continuous development and growth of people, communities, and nature through the efforts of Aichi Steel. We hope that you will look forward to the changes made next year.