

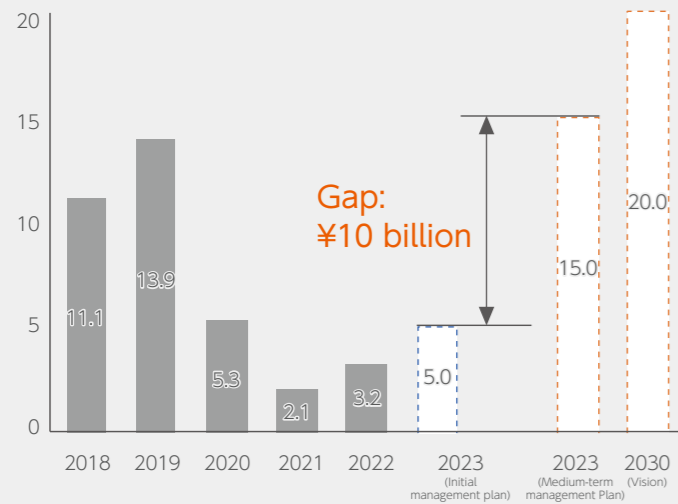
Feature 1 Enhancement of the Earnings Base

As a materials manufacturer expanding the potential of manufacturing through innovative materials and parts, Aichi Steel aims to achieve sustainable improvement of corporate value and medium- to long-term growth by helping to tackle social issues. In these uncertain times where the future is hard to see, we are working to establish a robust earnings base that can sustainably achieve sufficient profitability to respond to any changes.

Structural Changes in the Business Environment

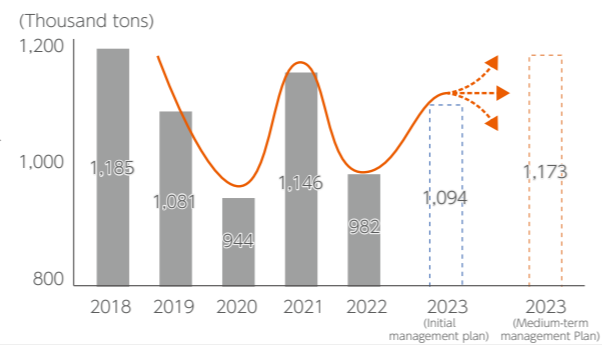
Since the spread of COVID-19, a number of issues have materialized due to structural changes in the business environment. They include persistently high costs of steel scrap metal—Aichi Steel's main raw material—and energy, dramatic short-term fluctuations in demand due to disruptions in the supply chains of the automotive industry, where our major customers are, and a shift to electrification.

Changes in operating profit

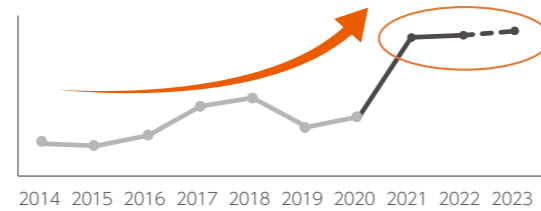


Category	Structural change
Demand	Unstable Downturn <ul style="list-style-type: none"> Unstable production in the automotive industry (major customers) Reduced usage of specialty steel per automobile (changes in model composition, including more compact automobiles, and a shift to electrification, etc.)
Costs	Increased burden <ul style="list-style-type: none"> Increased and persistently high costs of steel scrap (main raw material) and energy

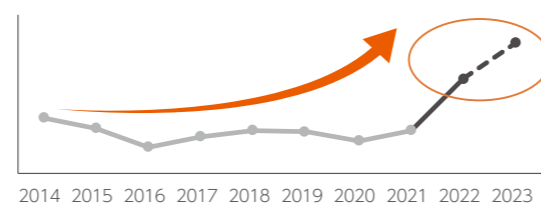
Changes in sales volumes of specialty steel materials



Steel scrap prices (illustration)



Electricity prices (illustration)



Progress of Initiatives

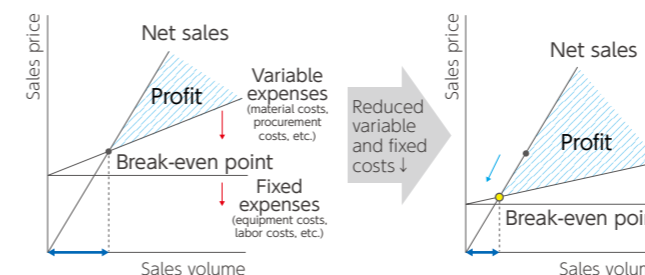
Low-cost stable procurement and reduced raw material costs through expansion of steel scrap storage and processing capacity

Steel scrap, which is the main raw material of the specialty steel that Aichi Steel manufactures, is a market commodity that fluctuates dramatically in price in response to supply and demand conditions. These price fluctuations have a significant impact on our business performance. With the trend toward decarbonization over recent years, there has been a shift from the use of blast furnaces to the use of electric furnaces not only in Japan but in China and the rest of the world. This and other changes have created a tight supply and demand situation that has resulted in persistently high prices. We are working to expand our storage capacity for steel scrap and build flexibility into our receiving structures to secure stable supplies of raw materials, reduce the costs of raw materials, and minimize impacts from price fluctuations.

Initiatives	Effects
• Increase purchase volumes when prices are low	Reduced procurement costs
• Reduce reliance on high-priced scrap by improving grade-level management of steel scrap	Reduced material costs
• Increase backup capacity for times of low supply	Stable reserves of raw materials

Full lowering of break-even points

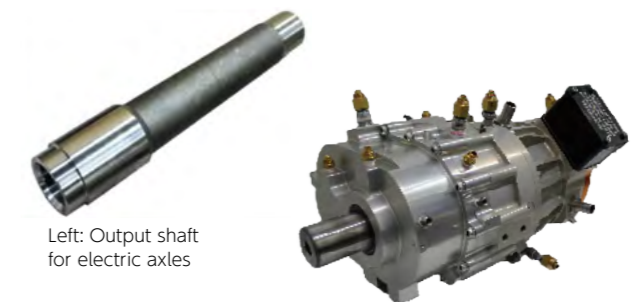
In the past, Aichi Steel's focus was on maintaining and improving stable supply systems to be able to respond quickly and surely to customer needs even in unstable demand environments. To do this, we conducted a range of initiatives, including building upward flexibility into our production capacity and upgrading/repairing aging equipment. This enabled us to supply our customers without interruption even when demand rose rapidly after the pandemic. Demand for specialty steel and forged products is expected to remain steady into the future. To ensure we have the earnings needed to sustain business by responding flexibly and quickly even in periods of lower production volumes, we are focusing on fully lowering break-even points. To reduce fixed expenses, we are working on things such as selection and concentration of investment through consolidation and capacity maximization for current equipment. In terms of reducing variable expenses, our initiatives include developing minimum-cost operating structures through activities to reduce specific consumption, which is not affected by production volume, and achieving efficient cross-business employee management by multi-skilling our workforce. Over the medium to long term, we



will adopt innovative electric furnaces that combine our own technologies with the industry's latest technologies to reduce costs by dramatically improving energy efficiency. We will also work to develop new processes that include small-section continuous casting technologies and high-mix, low-volume production lines for forged products.

Raised demand through increased sales of strategic products

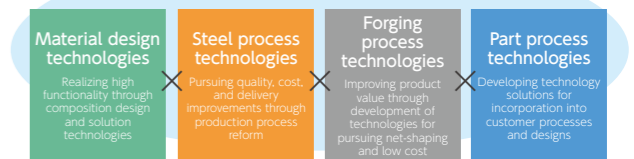
Electrification is progressing rapidly in the automotive industry, where Aichi Steel's major customers are, so use of steel material and forged products for traditional internal combustion engine automobiles is expected to decline. On the other hand, the need for steel materials and parts with advanced functionality is increasing. To maintain sales volumes of steel material and forged parts, we are working to expand sales of strategic products like steel materials and parts for electrified vehicles. We are building a second line to handle increased demand for output shafts for electric axles. We are also making steady progress with development of new products, using the technical capabilities of our integrated forging with steel making processes, such as resource-saving high-strength gear steel. By making maximum use of our own technologies and partnerships with automakers and parts manufacturers, we are driving development and sales of steel materials and parts for electrified vehicles.



Left: Output shaft for electric axles

Right: Next-generation electric axle being developed to save resources, reduce size and weight, and handle high-speed rotation

Development based on integrated forging with steel making processes



Revision of sales prices

With the burden of increasing costs, including the costs of raw materials, secondary materials, and energy, Aichi Steel is working to improve sales prices while also implementing complete cost structure reforms and improving productivity. In the past, we have set our prices using such things as a sliding scale linked to the price of the raw materials, but lags in the reflection of price changes, non-application of the sliding scale to some costs, and other issues have had the effect of suppressing earnings. For this reason, we are increasing the frequency of sales price revisions, expanding the scope of application for our sliding price scale, and otherwise revising our rules for setting sales prices.

Issues to address	Priority measures
(1) Downturn in sales volumes of specialty steel and forged products	(1) Purchases: Low-cost stable procurement and reduced raw material costs through expansion of steel scrap storage and processing capacity
(2) Increased and persistently high costs of raw materials and energy	(2) Production: Full lowering of break-even points
	(3) Sales: Raised demand through increased sales of strategic products Revision of sales prices