

## SPECIALTY STEEL

### Overview of Business

Specialty steel, the Company's core business, generates approximately 37% of consolidated net sales. Specialty steel is made by combining steel with alloys to add value in the form of properties such as resistance to heat, abrasions or rust. Because a range of special properties can be achieved by varying the types and amount of alloy, one of the special features of the business is that products are developed to meet the specific applications required by users. The automobile and industrial machinery sectors are the primary users of specialty steel, accounting for about 80% of sales in this business segment.



Tool steel from Daido Steel

### Results of Operations

Sales volume for structural steel increased year on year, mainly due to favorable demand from the automotive sector, a major source of demand for this steel, in North America and China. Sales volume of tool steel decreased year on year due to the impact of inventory adjustments. The cost of steel scrap, the main raw material, had remained relatively stable after rising and falling sharply in early spring 2016 due to the impact of Chinese billet prices. However, since early autumn 2016, the cost of steel scrap has been increasing in response to rising coking coal prices.

As a result, the specialty steel segment's net sales in fiscal 2016 decreased 4.4% year on year to ¥163,087 million, due primarily to a decline in sales prices in line with raw material price movements. Operating income decreased by ¥1,747 million to ¥5,813 million, reflecting the impact of higher costs in connection with rising raw material prices since November, among other factors.

## HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

### Overview of Business

This segment, which accounts for roughly 33% of consolidated net sales, manufactures and sells high performance materials and magnetic materials used chiefly in automobiles, computers, mobile phones and consumer electronics.

Key products include stainless steel products, rare earth magnets, high alloys, titanium products, and high performance powder metal products.



NEOQUENCH-DR (Nd-Fe-B ring magnets) for EPS motors

### Results of Operations

Sales volume of stainless steel products increased year on year, driven by strong demand for use in automobiles and semiconductors. However, sales prices of stainless steel products declined in line with falling nickel prices. Sales volume of high alloys increased year on year atop higher demand from the automotive sector. Sales volume of magnetic products rose year on year primarily for use in electronic power steering systems. Powder metal products saw increased sales volume due to robust demand for use in automobile components overseas.

As a result, net sales for the high performance materials and magnetic materials segment in fiscal 2016 decreased 4.4% year on year to ¥148,468 million. Operating income rose by ¥5,085 million to ¥17,417 million as higher sales volume contributed positively to earnings.

## PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

### Overview of Business

This segment contributes around 22% of consolidated net sales. It manufactures die forged parts such as crankshafts using specialty steel, precision cast parts for use in turbochargers, as well as engine valves, jet engine shafts and parts for gas turbines. Most of the auto parts sold in this segment use materials that were developed through joint projects with automakers to meet their exacting requirements. These parts can therefore lower processing expenses at customers' factories as well as contribute to reducing the weight of finished products.

In this segment, Daido Steel has a high market share in numerous product categories, including aircraft jet engine shafts, automobile engine valves and turbine wheels. We will continue to develop and launch new products that differentiate us from competitors and support our position as a provider of advanced parts.

In addition to specialty steel supplied by the specialty steel segment of the Group, some materials used in this segment are manufactured in-house.

### Results of Operations

Net sales of free forged products decreased year on year, due to a large decline in demand from the oil and gas sector amid falling crude oil prices. Net sales of die forged products declined, mainly as a result of decreased sales prices linked to raw material prices and other factors. On the other hand, net sales of engine valves increased year on year, as automobile sales in North America and China remained strong. Net sales of precision cast products rose, reflecting continuing growth in turbocharger-related demand.

As a result, net sales in the parts for automobile and industrial equipment segment for fiscal 2016 decreased 2.2% year on year to ¥97,492 million. In terms of operating profitability, the segment recorded an operating loss of ¥516 million, a decline of ¥1,814 million from operating income recorded in the previous fiscal year. The operating loss was due to the impact of lower demand for free forged products, among other factors.



Jet Engine Shaft



## ENGINEERING

### Overview of Business

This segment generates about 5% of consolidated net sales. Major activities include the design and manufacture of, and related after-sales services for, melting and refining equipment such as arc furnaces and ladle furnaces (LF), heat treatment furnaces for auto parts such as vacuum carburizing furnaces and STC® (Short Time Cycle) annealing furnaces, and environmental equipment such as sewage sludge carbonization furnaces and automobile tunnel filters, as well as machine tools.

With respect to heat treatment furnaces for auto parts in particular, the operation and engineering technologies we have fostered over the years support our cutting-edge engineering business worldwide, in which we constantly maintain a grasp of current market needs. The many new types of equipment and technologies that this segment has created contribute to improvements in quality for customers and energy reduction in a wide variety of settings.

### Results of Operations

In the engineering segment, despite strong overseas sales of certain products, the number of revenue-generating projects decreased as a whole. As a result, engineering segment sales for fiscal 2016 decreased 8.4% year on year to ¥23,918 million, while operating income decreased by ¥852 million to ¥1,219 million.



Daido Arc Process (DAP)

## TRADING AND SERVICE

### Overview of Business

The major activities of this segment, which accounts for approximately 3% of consolidated net sales, include the sale of products made by Group companies, employee benefits services, real estate and insurance services, golf course management, analytics, and sales of software to external customers.

### Results of Operations

Net sales in the trading and service segment for fiscal 2016 rose 34.6% year on year to ¥12,158 million, while operating income increased by ¥410 million to ¥1,583 million. These increases partly reflected the conversion of Daido Steel (Shanghai) Co., Ltd. into a consolidated subsidiary in fiscal 2016.