



2017 Midterm Management Plan

June 2, 2015

 **DAIDO STEEL CO., LTD.**

- I. Results of the 2014 midterm management plan**
- II. Basic concepts of the 2017 midterm management plan**
- III. Priority strategies**
- IV. Objectives of the 2017 midterm management plan**
- V. Other approaches**

I. Results of the 2014 midterm management plan

I. Results of the 2014 midterm management plan

The objectives established in the 2014 midterm management plan

- Expand our line of global leading products to increase our share of the steel used in growth products in the Asian market.
- Perform a ground-up review of our manufacturing costs to prepare for the intensified competition that is coming soon.
- Review our products and technologies company-wide with an eye to strengthening our value proposition.
- Promote multifaceted strategic alliances, with a view to entering overseas growth markets.

The business environment during the period from 2012 through 2014

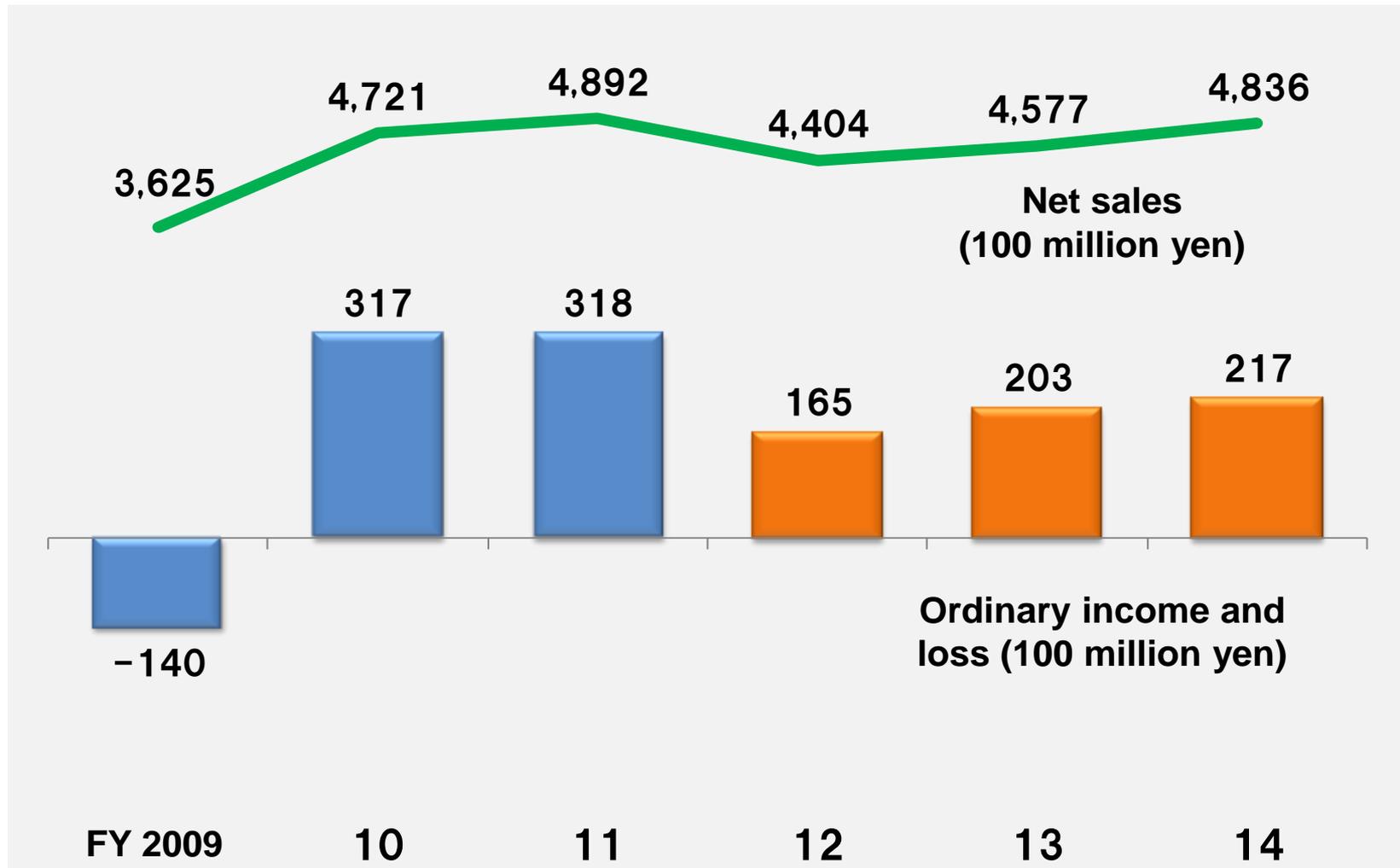
- The US economic recovery and concerns about Europe's financial crisis.
- The Chinese economic slowdown and the stalling of advanced economies.
- The consumption tax increase in Japan
- The weakening of the formerly extremely strong yen
- The Senkaku Islands dispute with China

Our business outcomes between 2012 and 2014

- We were not able to reach our revenue targets, both because of a decrease in demand in China associated with the Senkaku Islands dispute and because of the acceleration of their use of locally manufactured products.
- Sales of our global leading products expanded overseas.
- Using a new steel-making process alleviated the impact of rising energy costs.
- We enhanced our alliances with overseas mills (Timken Company in the USA and Sunflag Iron & Steel in India).

I. Results of the 2014 midterm management plan

Changes in net sales and ordinary income



I. Results of the 2014 midterm management plan

Management indices

(*: 100 million yen)

	FY 2012	FY 2013	FY 2014
Net sales	4,404*	4,577*	4,836*
Ordinary income	165*	203*	217*
Ratio of ordinary income to net sales	3.7%	4.4%	4.5%
Net income	110*	126*	109*
ROA	3.2%	3.8%	3.8%
Interest-bearing debts	1,470*	1,431*	1,462*
D/E	0.69	0.62	0.57

I. Results of the 2014 midterm management plan

Performance of major measures during the 2014 midterm management plan

Strategy	Major measure	Period
Enhance operational capabilities	Installation of a large new high-speed precision hot forging machine (Ohio Star Forge Co. in the USA)	The new machine started operating in October 2013.
	Streamlining our steel making process (in the Chita Plant)	The implementation of these measures started in November 2013.
	Upgrading the capabilities of our special melting facilities (in the Shibukawa Plant)	The implementation of the measures began rolling out in January 2015.
	Installing a new high-speed horizontal hot forging machine (in the die forging factory)	The new machine started operating in January 2015.
Develop overseas markets	Equity participation in Sunflag Iron & Steel in India	August 2014.
	Construction of a new engine valve manufacturing site in Indonesia	Completed in October 2014.
	Construction of new tool steel manufacturing sites in ASEAN, India and Mexico	Roll-outs and construction in process.
Expand growing businesses	Construction of the second Daido Electronics (Suzhou) Co., Ltd. factory	Completed in January 2013.
	Construction of a new manufacturing line for high-performance metal powder (in the metal powder factory)	The new line started operating in April 2013.

II. Basic concepts of the 2017 midterm management plan

II-1. Perspectives on the business environment

The demand for specialty steel will increase gradually, including that for automobiles.

- The trend toward shifting to overseas production while procuring parts from the local automobile industry will remain unchanged.

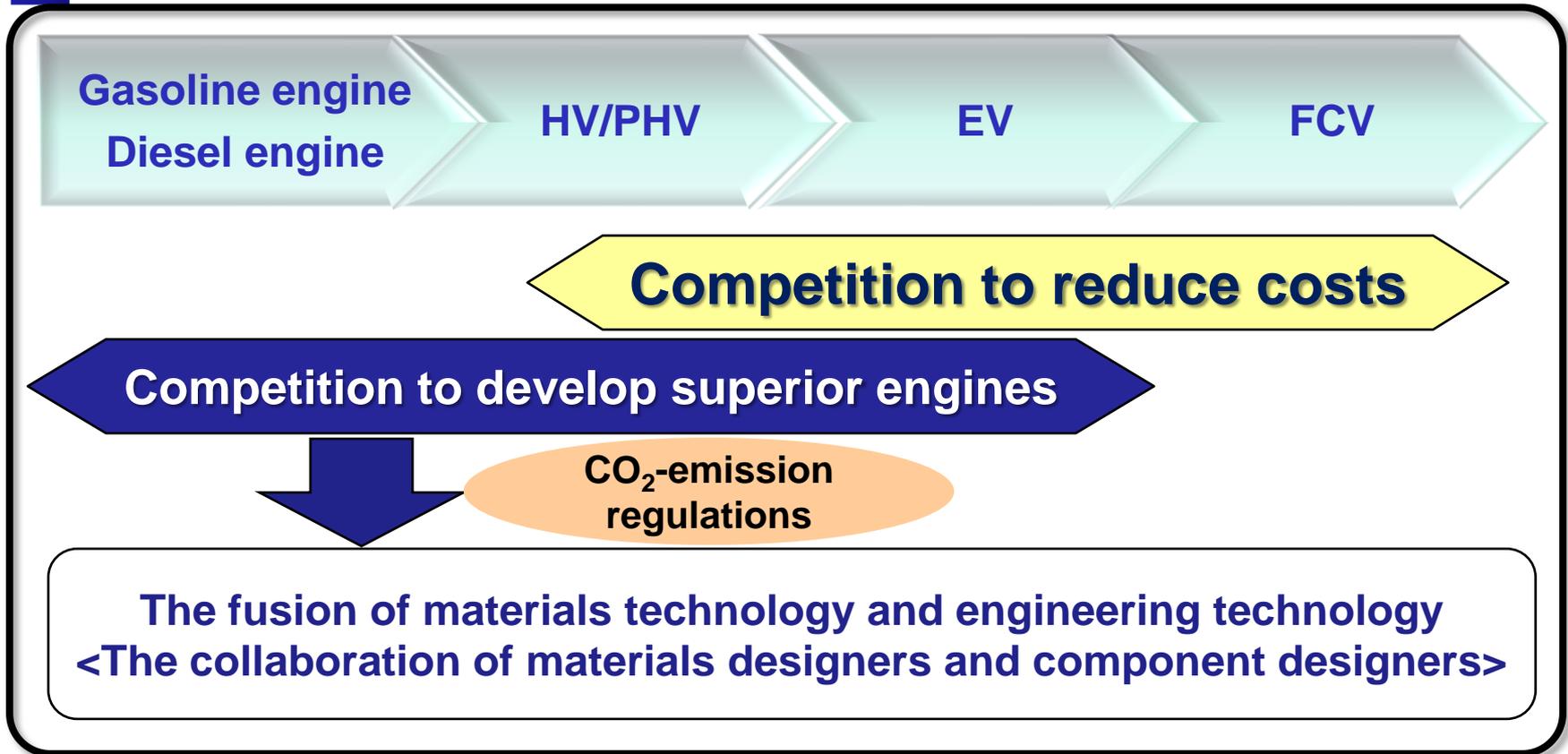
The demand for resource- and energy-related equipment will increase in the medium to long run.

- Environmental preservation activities will expand, including the enhancement of measures to prevent global warming (regulation of CO₂ emissions).

The yen exchange rate and the prices for raw materials, including for scrap steel and Ni, will level off at the current levels.

II-1. Perspectives on the business environment

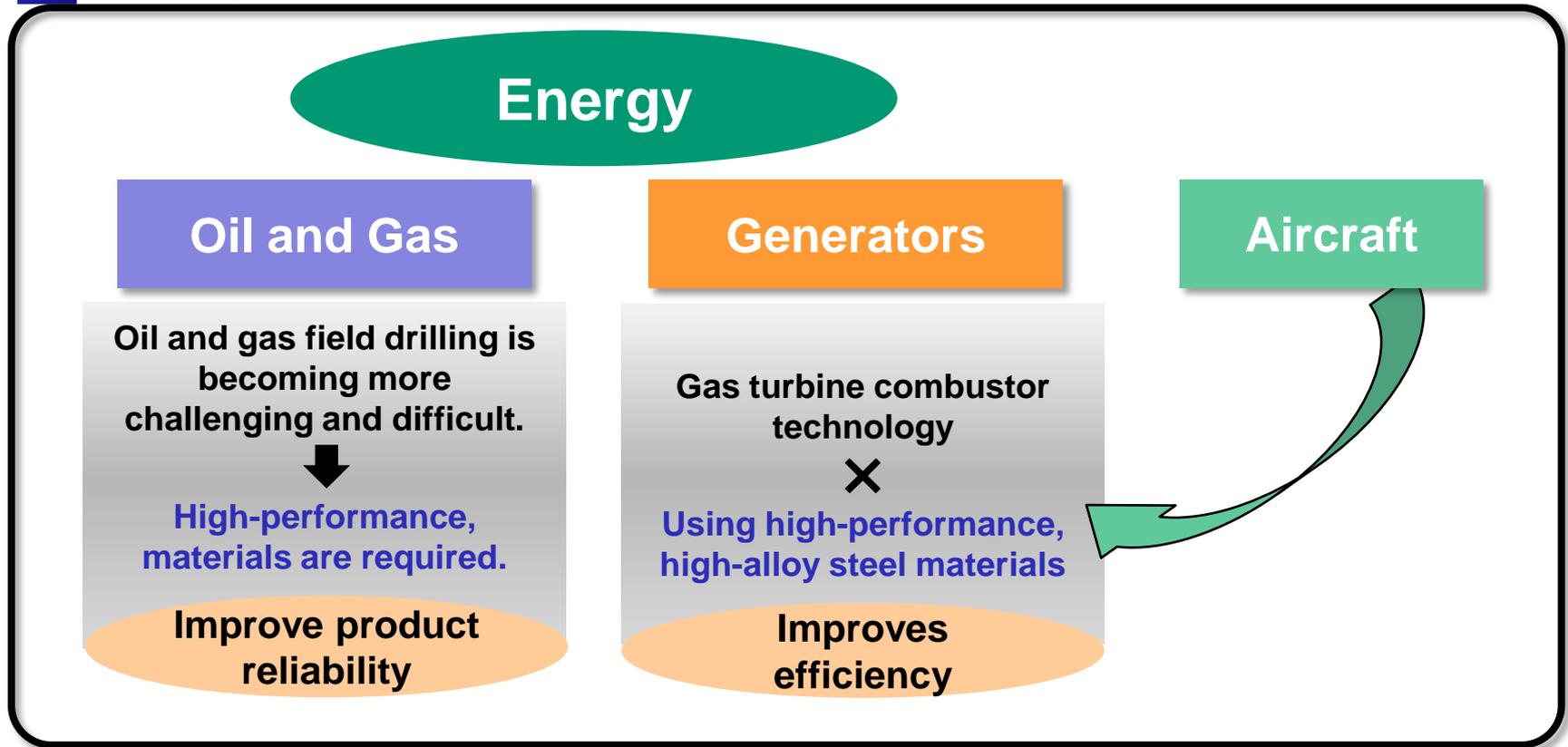
The struggle for dominance in the automobile power train market



- Revamping the sales structure: promoting customer-orientation and establishing a sales engineer force
- An aggressive sales approach to key customers

II-1. Perspectives on the business environment

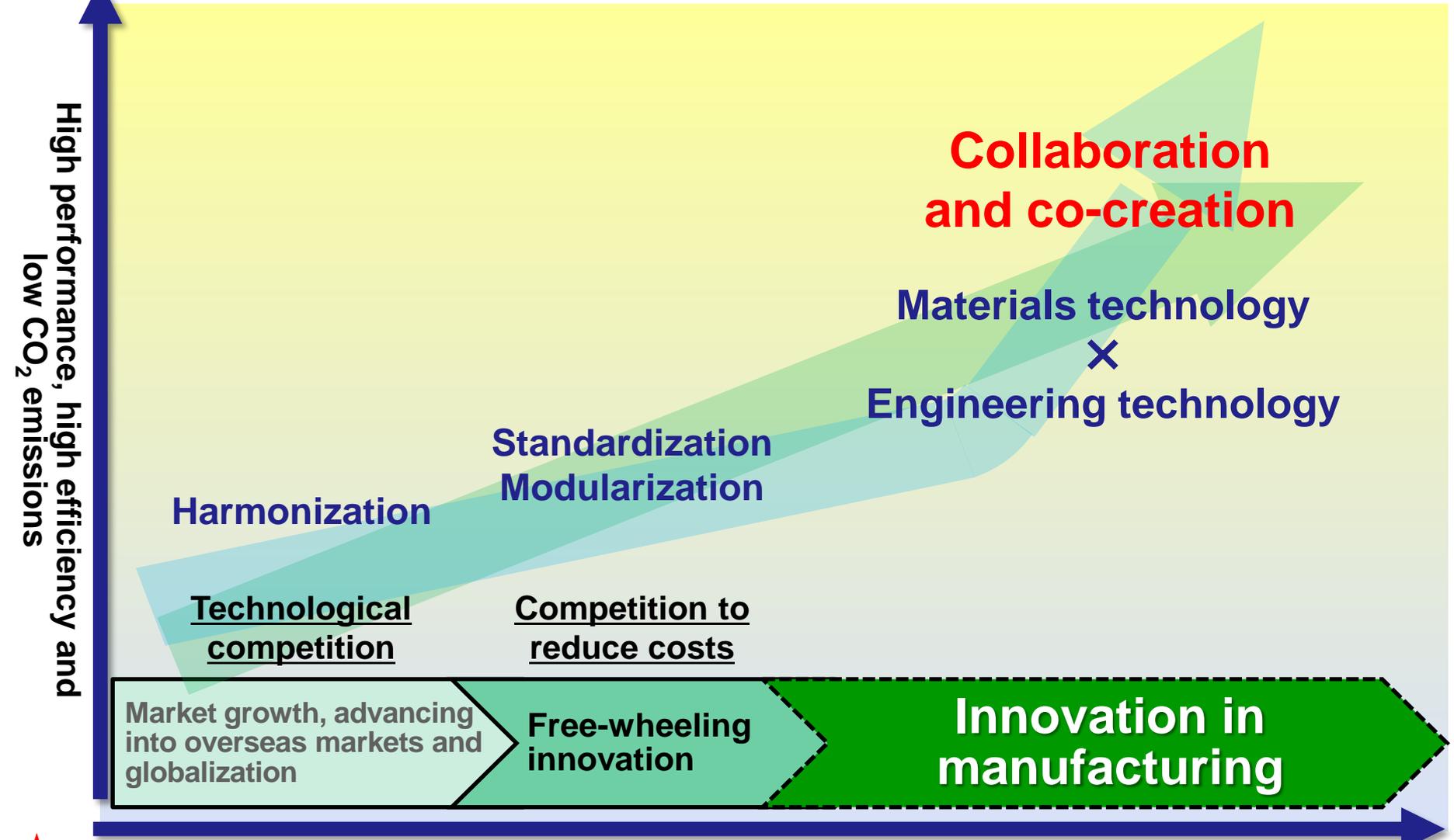
Full-fledged expansion of demand for resource- and energy-related infrastructure



- Expand Daido brands in the global marketplace
- Establish a high-alloy steel product network in Asia

II-1. Perspectives on the business environment

Structural materials requirements shift to a demand for high performance



II-2. Our mottos

<<Our basic management policy>>

We contribute to the world by
manufacturing specialty steel.



We are committed to producing new types of specialty steel — in collaboration with our customers — that support growth around the world.

➤ **Customer collaboration**

Automobile parts suppliers and heavy equipment manufacturers

➤ **Focus on growing fields**

Gasoline turbos, HV/PHV, on-board sensors, oil and gas, and aircraft

➤ **Enhance our QCD capabilities**

By optimizing the melting process, developing non-destructive inspection technology, and establishing a global supply chain

II-3. Strategy 2

Promote growth businesses

- High-alloy steel materials, turbo engine materials, magnets, and metal powder products

Expand our overseas business

- Steel forgings, die forgings, tool steel, engine valves, and engineering

Strengthen our operational capabilities: QCD, engineering, and the proposal of solutions

Enhance our management foundation

Management system reform

- Governance, diversity, group synergy

FY 2009 - 2011

FY 2012 - 2014

FY 2015 – 2017
(the period covered by this
midterm management plan)

FY 2018 -

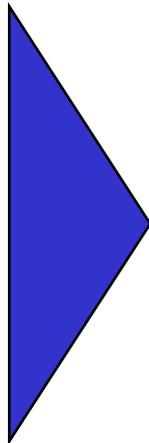
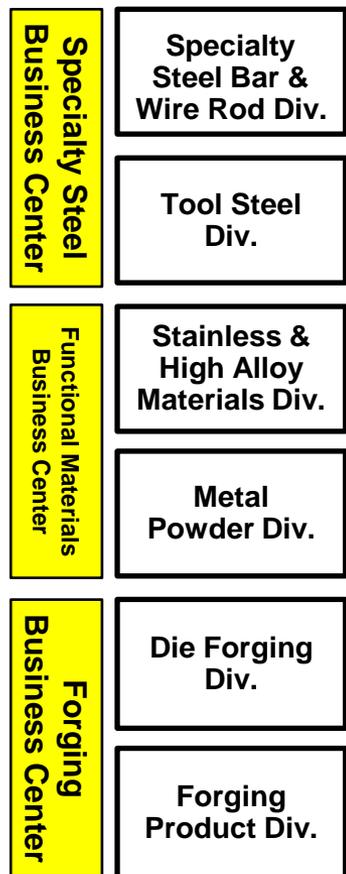
III. Priority strategies

III-1. Customer collaboration

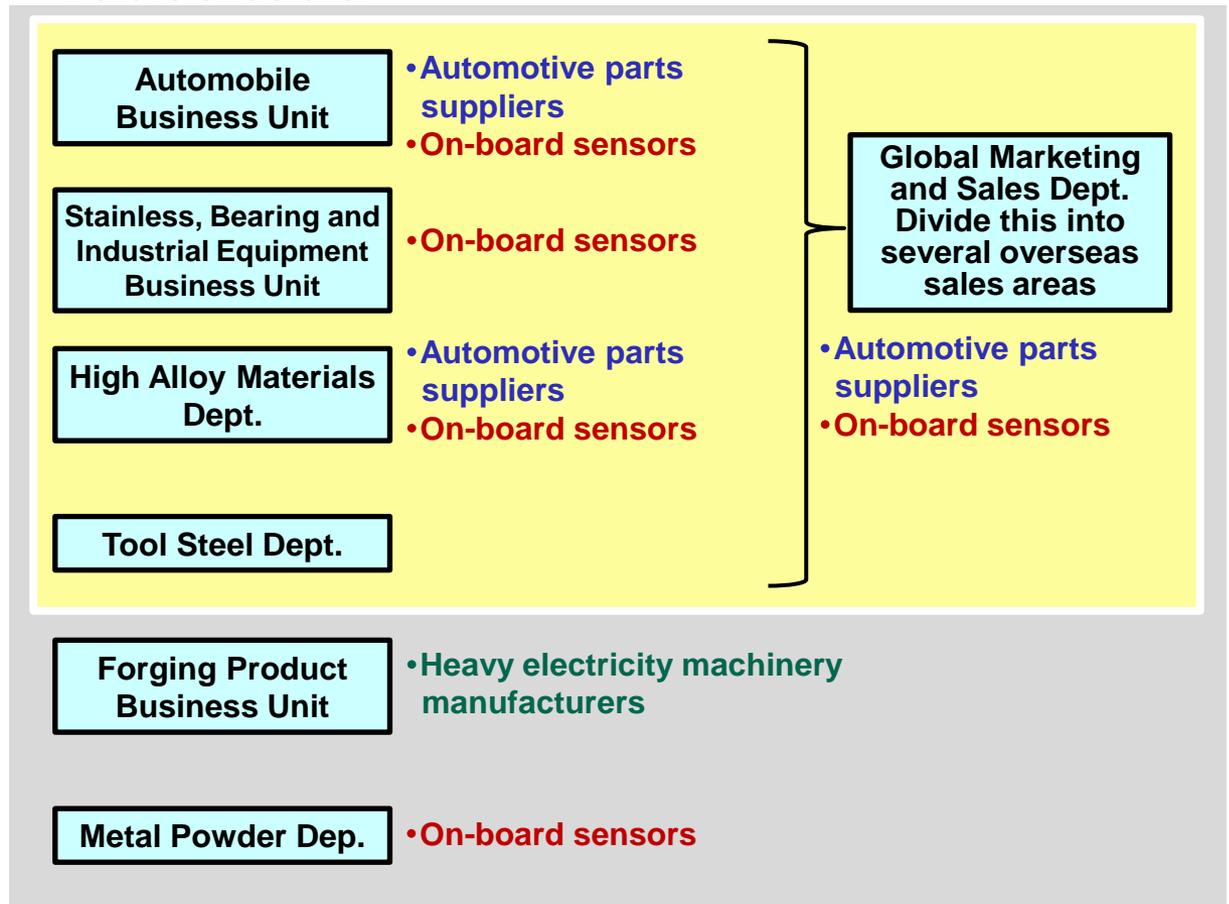
Reorganize the sales structure to make it customer-oriented



<Current structure>



<Future structure>



III-1. Customer collaboration

Die forging business

Collaborate with customers to enhance the marketability of products

- Renovate the manufacturing process by installing a new high-speed horizontal hot forging machine

【Features of a new high-speed horizontal hot forging machine (SHF)】

- Improved efficiency → Near net shape forging reduces products' weight.
- Expanded product lineup → Stainless steel products and forgings made without any machining (surface as forged).

- ⇒ Install a second SHF machine in Daido Steel (Thailand) Co., Ltd.
- Development of an innovative technology using an 8,000-ton screw press

A new high-speed horizontal hot forging machine (SHF)



Hot run tested in January 2015

Engineering business

Expand our lineup of products in response to customer needs and strengthen the after-sales-service system

- **Annealing furnace:**
Respond to the expansion of automobile production by Japanese auto manufacturers operating worldwide.
⇒ STC® (Short Time Cycle) furnace
- **Vacuum carburizing furnace:**
Provides two different product families, in response to customer needs.
⇒ Module-Thermo (most suitable for mass production)
⇒ Synchro-Thermo® (most suitable for small lot and inline production)

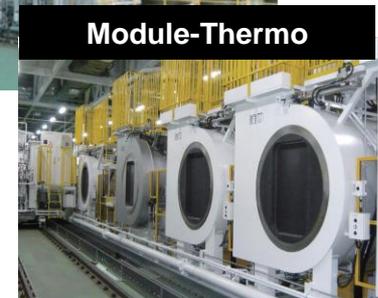
Global leading products



STC® furnace



Synchro-Thermo®



Module-Thermo

III-1. Customer collaboration

Automobile engine valve business

Promote advancing into overseas markets using Fuji OOZX locations

- Establish a sales promotion system for the Americas.

⇒ FUJI OOZX MEXICO S.A. de C.V. (Mexico)

The company will start the production of engine valves in July 2016.

- Expand the hollow valve supply system.

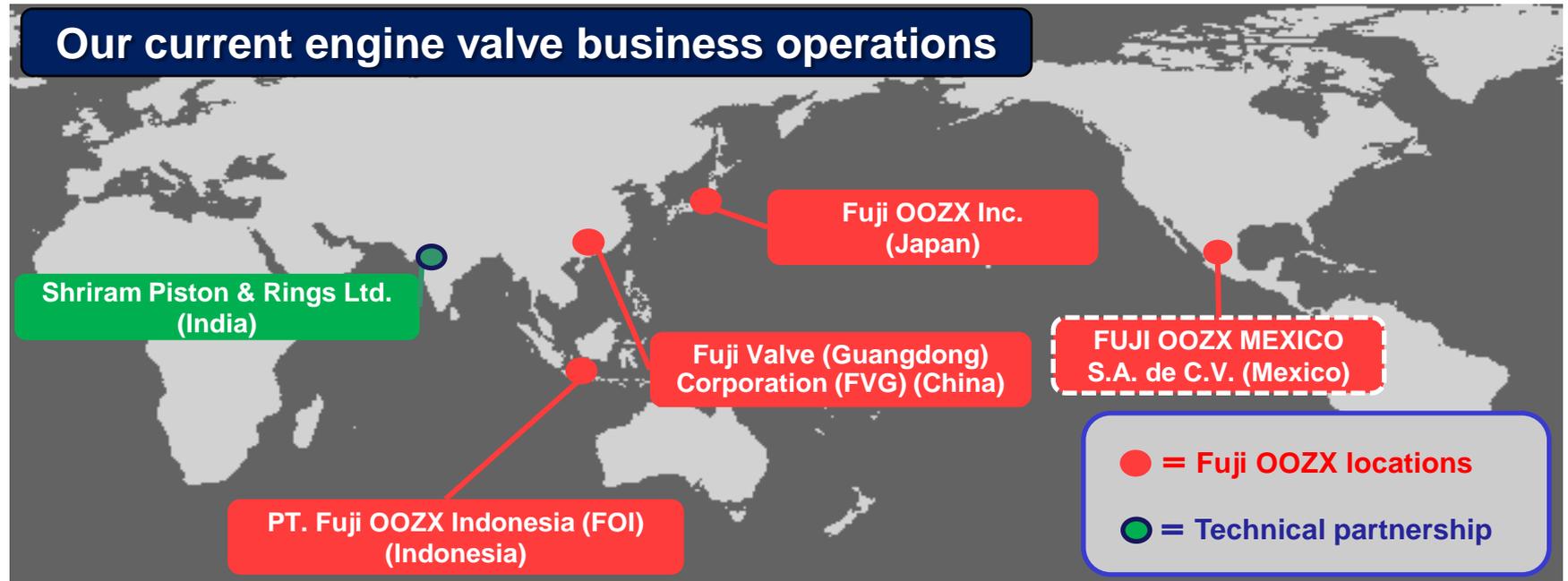
Engine valves



Hollow valve



Our current engine valve business operations



III-2. Focus on growing fields

Turbocharger component business

Daido castings

Vigorously identify and meet the needs of expanding turbocharger markets.

Turbine wheels

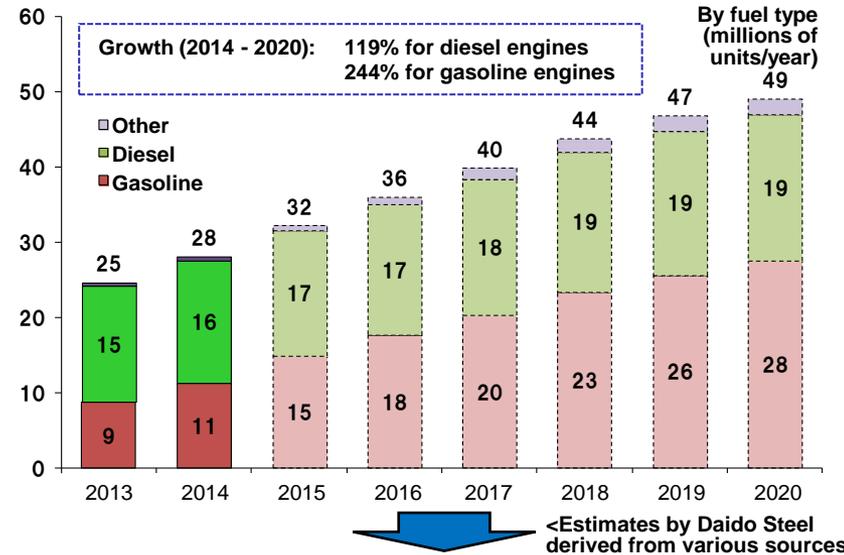


Turbine housings

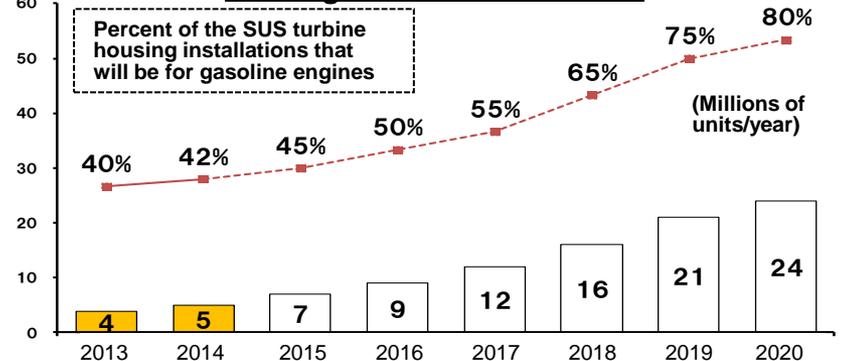


- Casting technology to meet requirements for thin-wall or complicated-shape products.
- Product lineup to meet high-temperature requirements.
- The development of a technology for automatically machining turbocharger components is now in sight.

Projection of world turbocharger production



Projection of the number of stainless steel turbine housings that will be installed



III-2. Focus on growing fields

Magnet business

Daido Electronics Group and Intermetallics Japan Corporation (IMJ)

Promote the growth strategy for high-performance neodymium magnets

- Comprehensive technological ability, from R&D to mass production
- A wide selection of technology processes to suit various applications

Daido Electronics Group

Expand sales of on-board magnets, including those for EPS.

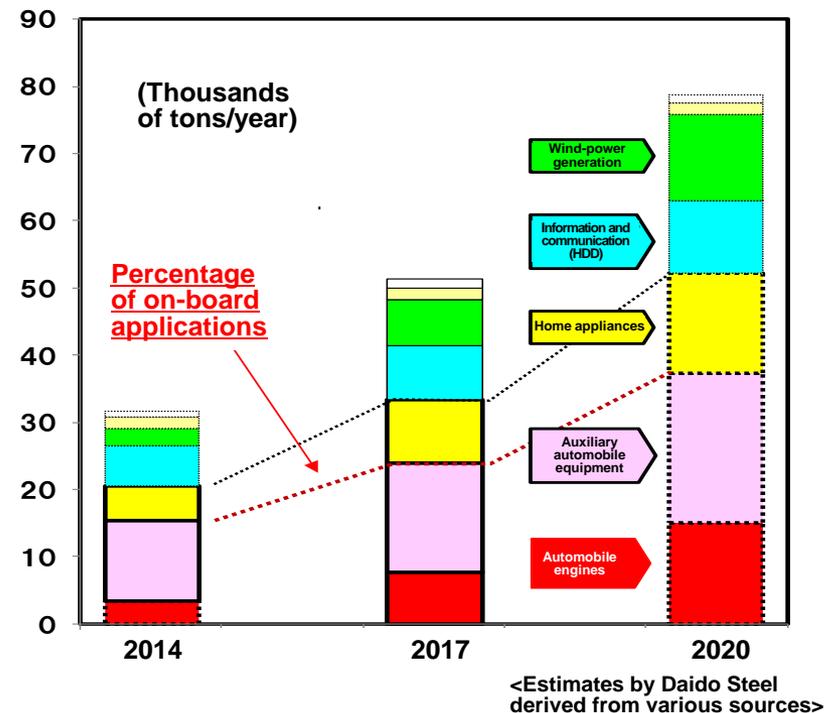


Intermetallics Japan Corporation

Strengthen the business in sintered magnets made using the press-less process (the PLP method) which results in near-net shapes.



World demand for high-performance magnets



★ Our rare-earth magnet lineup has been expanded by turning IMJ into a wholly-owned subsidiary (FY 2015).

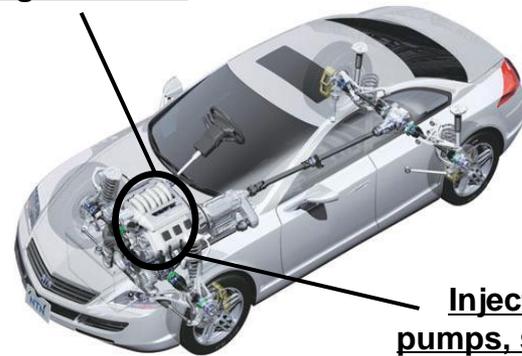
III-2. Focus on growing fields

Stainless steel product business

Growing with our customers — shifting focus from general-purpose products to high-performance stainless steel and changing manufacturing locations from Japan to overseas

- Meet International Standards (ISO/TS 16949, NORSOK).
⇒ High-performance stainless steel products for automobiles and oil and gas field drilling machines
- Thai Seisen Co., Ltd., one of our local production bases, started producing stainless steel wire for automobiles in fiscal 2015.

Engine valves

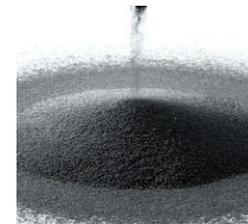


Injectors, pumps, sensors

Metal powder business

Expand the lineup of high-performance powder products and develop products in collaboration with customers

- Deep plow growth markets
⇒ Offer higher-performance products for on-board components.
- Develop new products by combining technologies for different processes.
- Develop new applications and products in collaboration with customers.
⇒ High-performance components and 3D printer applications



Reactors

III-2. Focus on growing fields

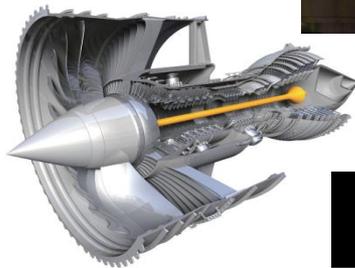
High-alloy steel business

High-alloy steel products

Global expansion of Daido's DSALLOY brand

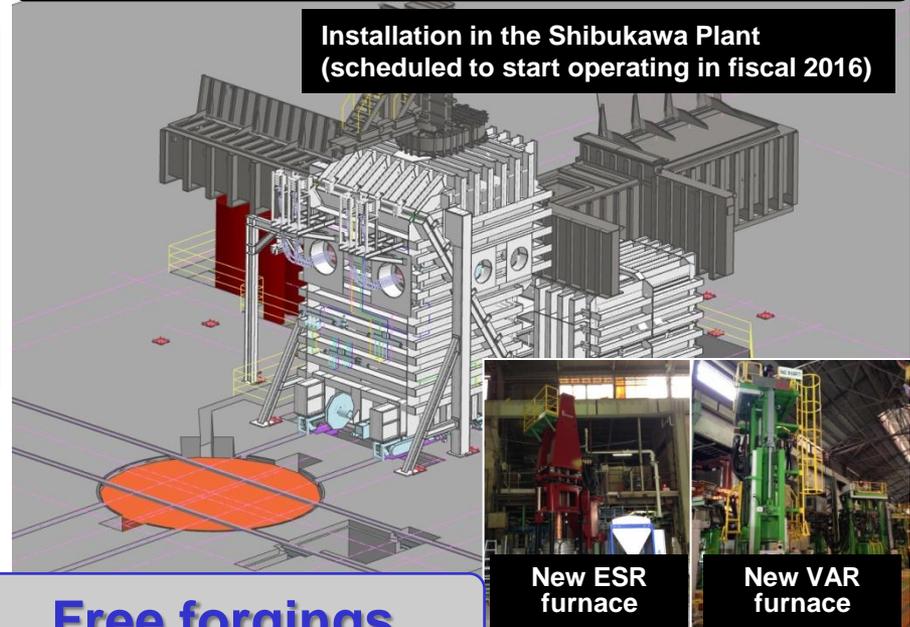
- Strengthen QCD capabilities using a new 22-ton vacuum induction melting (VIM) furnace.
- Establish a high-alloy steel product network in Asia.

※ DSALLOY: Trademark registration pending in 11 countries around the world.



Installation of the world's largest-level VIM (22 tons)

Installation in the Shibukawa Plant
(scheduled to start operating in fiscal 2016)



Free forgings

Upgrade our product portfolio Advance into further value-added product markets

- Products related to oil and gas field drilling
- Meet requirements for optimized and maximized production of high-alloy steel products.

III-3. Enhance our QCD capabilities

Specialty steel product business <the Chita Plant>



Achieve greater energy-savings and improved productivity

- Benefit from the effects of streamlining the steel making process (installation of a new 150-ton electric furnace)
 - Optimize the melting process
- ⇒ Installation of an electro-slag remelting (ESR) furnace.

Improve product reliability

- A variety of ultrasonic inspection techniques to meet different quality level requirements.
- Stricter levels of traceability

Tool steel business

Expand our global sales network to establish a product delivery system that meets customer needs



① Expand sales network

- Strengthen the partnership with Daido DM Solution's overseas locations (ASEAN and Mexico).

② Renovate manufacturing process

- Install an electro-slag remelting (ESR) furnace in the Chita Plant to radically strengthen the competitiveness of our strategic products.

③ Strategy for product differentiation

- Develop a new type of very strong SUS plastic mold steel that is highly corrosion resistant.

III-3. Enhance our QCD capabilities

Expand Daido Group's overseas network

India

★ Daido D.M.S. India Pvt. Ltd.

(A subsidiary of Daido DM Solutions, established in March 2015)

- **Inventory sale of tool steel to the Indian market**

North America

★ Daito Steel America Inc. (Houston Office)

(Scheduled to be established in October 2015)

- **Marketing of high-alloy steel for oil and gas drilling applications**

ASEAN

★ Daido Steel (Thailand) Co., Ltd.

(Established in January 2015 and scheduled to start operating in March 2016)

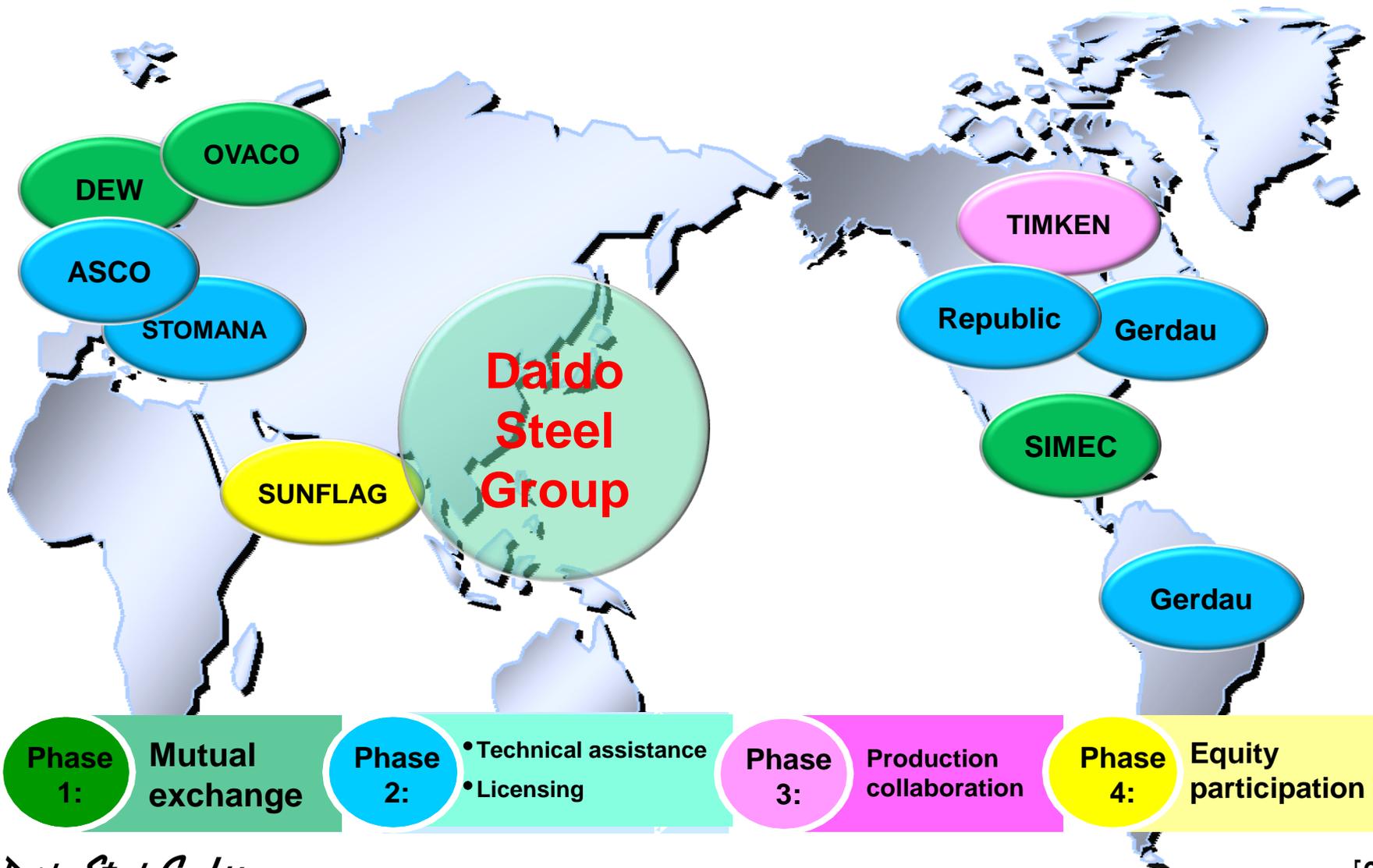
- **Our second high-speed horizontal hot forging machine has been installed.**
- **Manufacture and sale of die forgings, acting as a logistics and sales location for our specialty steel materials.**
- ★ **We are planning to open a new office in the area to strengthen marketing activities for our products, including high-alloy steel.**

(100 million yen)

	FY 2014	FY 2017 target
Overseas sales	1,108	1,700
(Ratio of overseas sales over total sales)	23%	more than 30%

III-3. Enhance our QCD capabilities

Global mill network



IV. Objectives of the 2017 midterm management plan

IV. Objectives of the 2017 midterm management plan

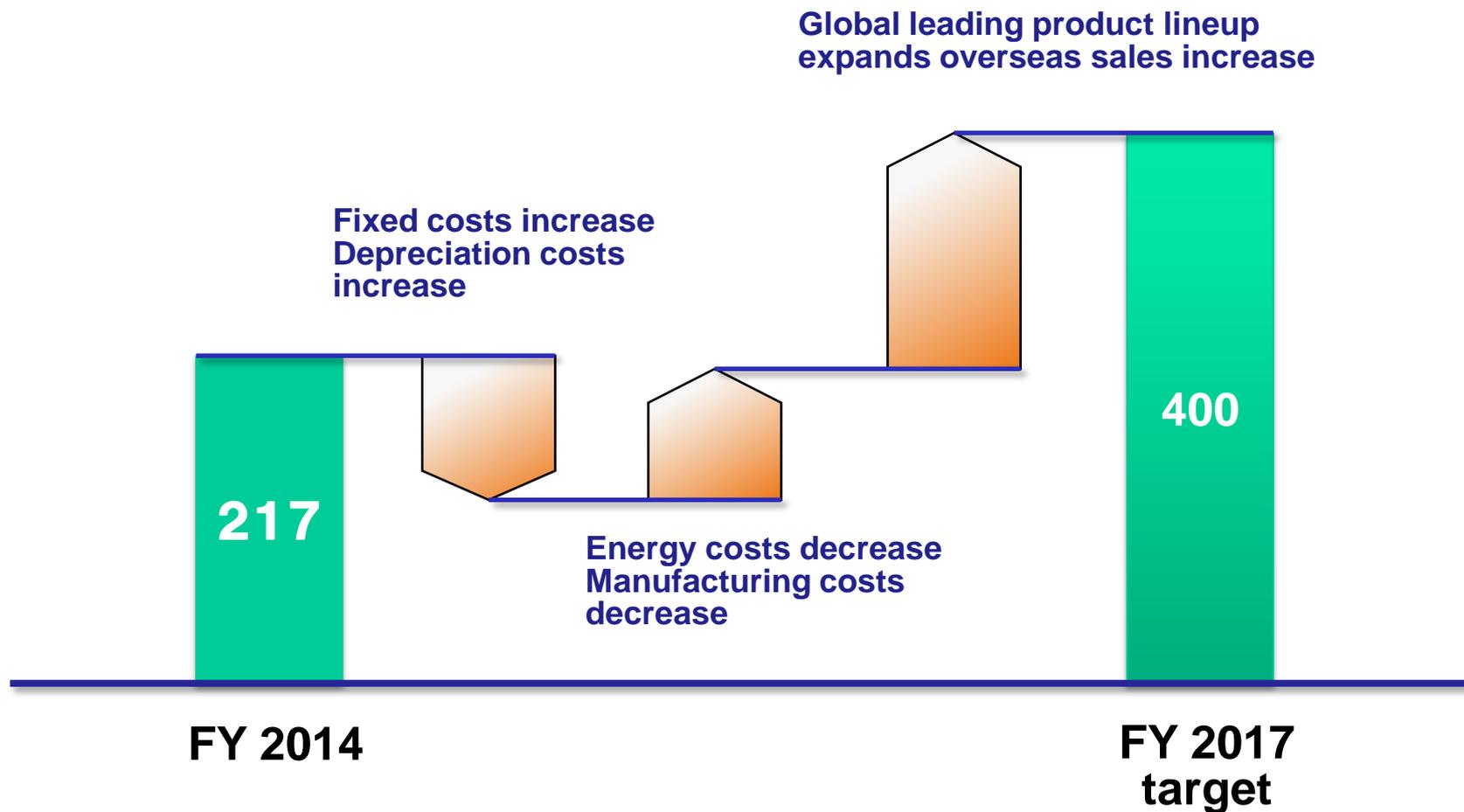
Management indices

(*: 100 million yen)

	FY 2014	FY 2017 target
Net sales	4,836*	5,600*
Ordinary income	217*	400*
Ratio of ordinary income to net sales	4.5%	7%
Net income	109*	250*
ROA	3.8%	6%
Dividend payout ratio (according to our dividend payout policy)	15 - 20%	20 - 25%

IV. Objectives of the 2017 midterm management plan

Changes in ordinary income



IV. Objectives of the 2017 midterm management plan

Capital investment plan

	Results for the period from FY 2012 to FY 2014	Plan for the period from FY 2015 to FY 2017
Capital investment	101.5 billion yen over 3 years	83 billion yen over 3 years

Continue our vigorous investment plan focusing on our strategic businesses

<Major strategies>

- Install a large-sized VIM furnace in the Shibukawa Plant
- Install an electro-slag remelting (ESR) furnace in the Chita Plant
- Establish a new die forging factory in Thailand
- Beef up an overseas location where we sell tool steel
- Optimize the production process

V. Other approaches

V-1. Enhance our management foundation

Enhance corporate governance

- Strengthen the Board of Directors' supervisory function and introduce an executive officer system
- Enhance the compliance system

Promote diversity

- Expand the employment of females and foreign nationals and further improve the work environment

Strengthen the group's management capabilities

- Emphasize the comprehensive Daido brand across the whole Daido Group

END

Fact Book List of consolidated companies ①

Segment	Company	Business Contents
Specialty steel	Tohoku Steel Co., Ltd.	* Production and sales of specialty steel secondary products / heat-treatment of metal
	Riken Seiko Co., Ltd.	* Production and sales of Specialty steel secondary products (shaft bearing) , cutting tool and machine tool
	Daido Die & Mold Solutions Co., Ltd.	Sales of tool steel / Production and sales of die products and finished tool / heat-treatment of metal
	Maruta Transport Co., Ltd.	* Transportation and warehousing business
	Kawaichi Sangyo Co., Ltd.	* Transportation and warehousing business
	Daido Shizai Service Co., Ltd.	Sales of materials for production
	Daido EcoMet Co., Ltd.	Development, production, sales of indirect materials for steel-making / recycling of waste and by-products from steel-making-process
	Daido Technica Co., Ltd.	Seam-removing, maintenance, processing of steel
	Sakurai Kosan Co., Ltd.	* Heat treatment works, surface treatment
	Izumi Electric Industries Co., Ltd.	* Design and construction of electric work / Design and production of power distribution board
	Tienwen Steel Co., Ltd.	Heat treatment, processing, sales of die products / Sales of die materials (in Taiwan)
	Daido Amistar(S) PTE Ltd.	Processing, sales of die products / Sales of die materials (in Singapore)
	Daido Amistar(M) SDN. BHD.	Processing, sales of die products / Sales of die materials (in Malaysia)
	Daido PDM (Thailand) Co., Ltd.	Heat treatment, processing, sales of die products / Sales of die materials (in Thailand)
High Performance Materials & Magnetic Materials	Nippon Seisen Co., Ltd.	Production and sales of stainless steel wire, metallic fiber
	THAI SEISEN Co., Ltd.	Production and sales of stainless steel wire
	Shimomura Tokushu Seiko Co., Ltd.	Drawing of free-cutting steel & stainless steel / Production and sales of grinding processed products
	Daido Electronics Co., Ltd.	Production, processing and sales of magnetic materials and electronic device parts
	Daido Electronics (Thailand) Co., Ltd.	Production, processing and sales of magnetic materials and electronic device parts (in Thailand)
	Daido Electronics (Suzhou) Co., Ltd.	Production, processing and sales of magnetic materials and electronic device parts (in China)
	Intermetalics Japan Corp.	Manufacturing and sales of neodymium iron boron (NdFeB) sintered magnets of high magnetic performance properties
	Daido Special Metals Ltd.	Merger with Special Metals (U.S.) : Sales of Nickel alloy products
	Nissei Seiko Co., Ltd.	Production and sales of screw, bolt and cold-forging parts for automobile

(Note)* Equity method affiliate

Fact Book List of consolidated companies ②

Segment	Company	Business Contents
Automobile & Industrial parts	Daido Precision Industries Ltd.	Production and sales of processing parts for compressor, power transmission, base-isolation device
	Fuji OOZX Inc.	Production and sales of engine valve
	Toyo Sangyo Co., Ltd.	Production and sales of die forging
	Japan Drop Forge Co., Ltd.	Production and sales of die forging
	Ohio Star Forge Co.	Production and sales of precise forging (in U.S.)
	Daido Star Techno Co., Ltd.	Seam-removing, maintenance, device processing of steel and forging
	Daido Castings Co., Ltd.	Production and sales of casting, precise casting, manganese rail
Engineering	Daido Plant Industries Co., Ltd.	Design, production, sales of industrial furnace, facility equipment and ancillary facility
	Daido Machinery Ltd.	Production and sales of machine tool / Installation, maintenance and repair of machine equipment
	Daido Environment Engineering Co., Ltd.	Maintenance and repair of environment device
Trading & Service	Daido Kogyo Co., Ltd.	Trading company specializing in specialty steel, equipments, steel-making materials
	Daido Steel(America)Inc.	Export & import of DAIDO group products / Group's front company for U.S. (in U.S.)
	Daido Life Service Co., Ltd.	Dealing and subdivision of real estate / Management of welfare provision / Insurance agent travel agent, printing
	Life Support., Ltd.	Cleaning, security, food-service operating, management of facility, tree-planting, labor dispatch service
	Kisokomakogen Kankokaihatsu Co., Ltd.	Management of golf course / management of land for vacation house / minor water project
	Star Info Tech Co., Ltd.	Planning, design, development, maintenance of information system / Development and sale of software
	Daido Bunseki Research, Inc.	Analysis, research, consulting regarding iron, steel, cast metal, ceramics



(Note)

Figures such as the business forecasts described in this document are based on specific assumptions which are predictable under the present state.

However, changes in circumstances could lead to different business outcomes, so blind reliance on this data as decision criterion is not recommended.

Also predicted figures can be changed in the future without prior notice. All use of this document is at the volition and discretion of the user. Please be aware that our company shall not assume any responsibility for the results of using the information in this document.