

Fiscal Year ending March 2019 Interim Results Briefing (Apr.1 – Sept.30/2018)

October 31, 2018



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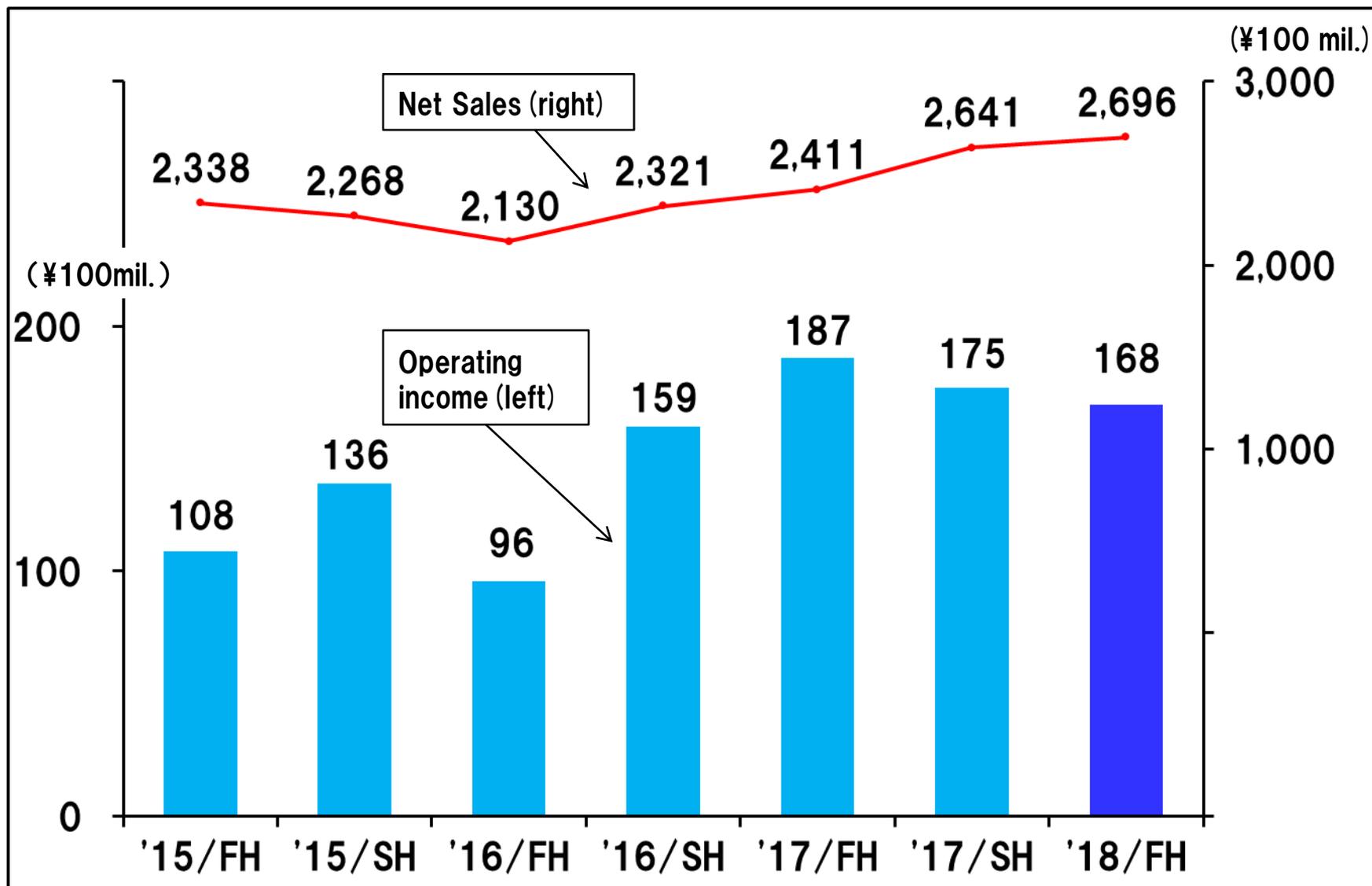
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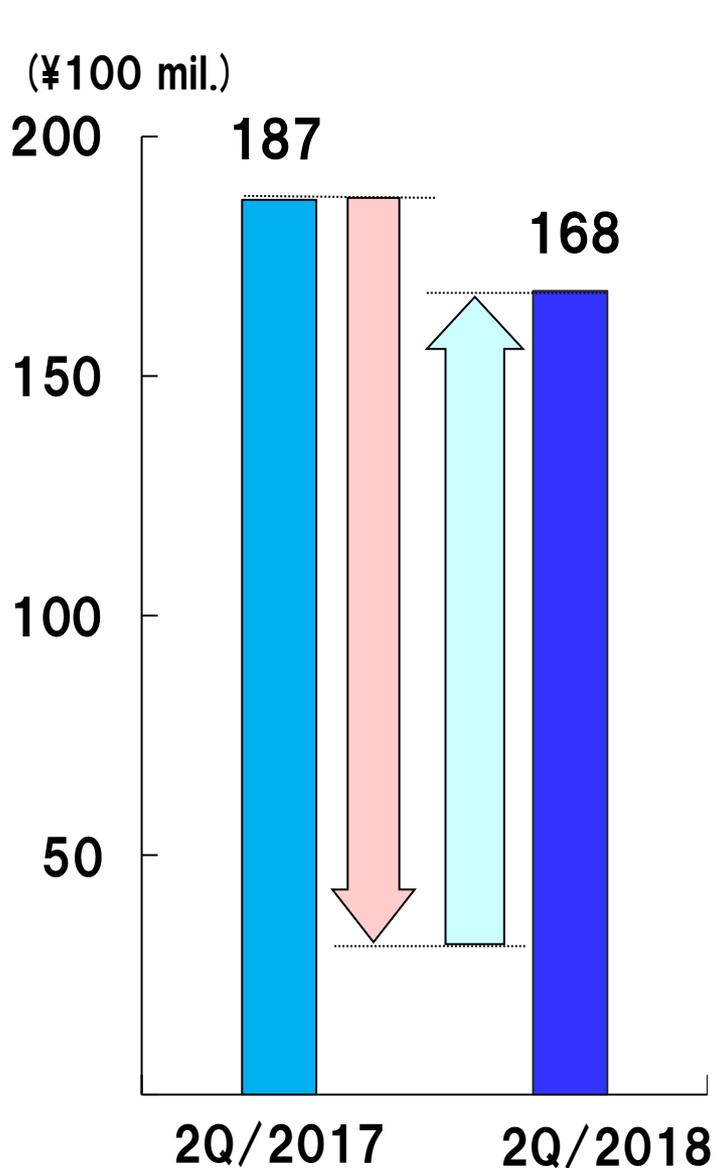
FY2018 Interim Results

(Apr.1 – Sep.30/2018)

Changes in Net Sales & Operating Income (Interim)



4-9/2018 Changes in Operating Income (y/y)



4-9/2017 Operating income	
Changes (y/y)	Raw material/Fuel price
	Sales volume
	Sales price
	Sales mix
	Variable cost
	Fixed cost
	Total
4-9/2018 Operating income	

(¥100 mil.)

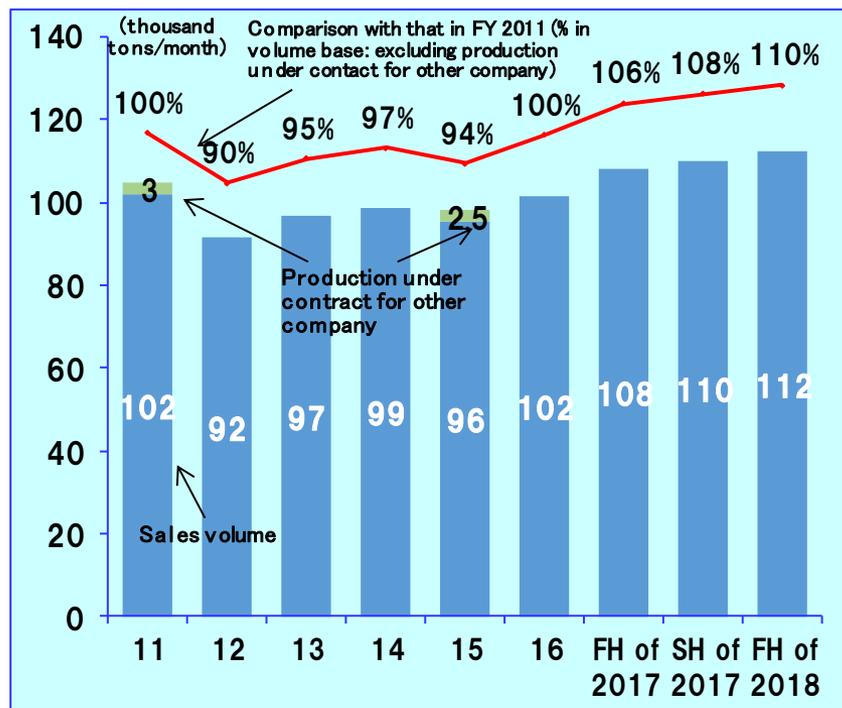
4-9/2017 Operating income	
187	
-147	
	+29
	+101
	+9
	+1
-12	
-159	+140
4-9/2018 Operating income	
168 (-19)	

Overview of our major products in FY 2018①

Specialty steel

<Demand environment>

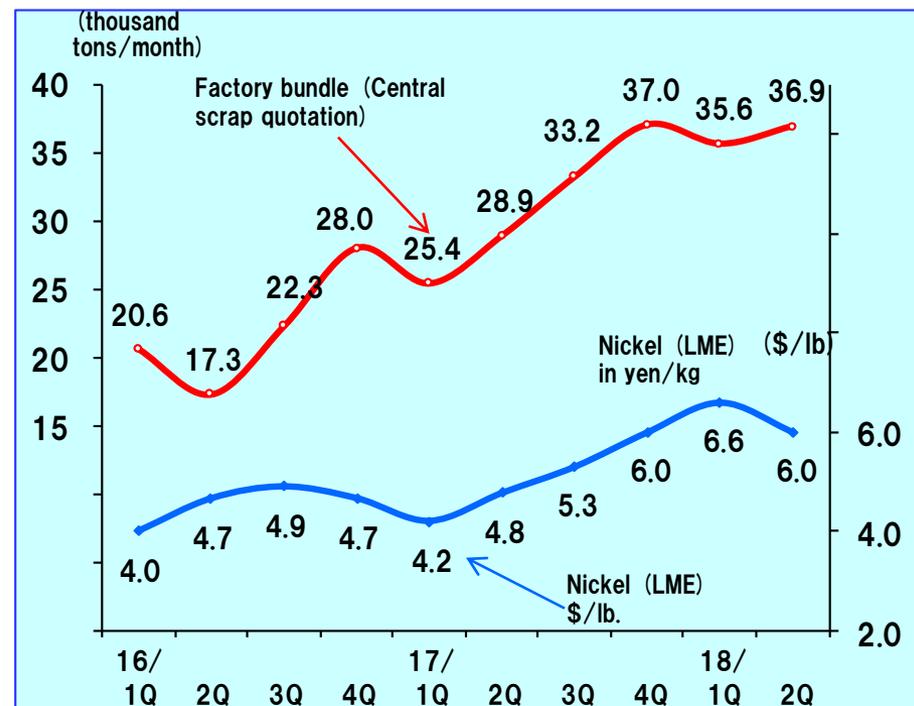
Sales volume (non-consolidated)



- Sales increased due to continuing strong demand in the automobile field and increased demand for industrial machinery parts.

<Market conditions of raw materials>

Changes in scrap iron and nickel prices

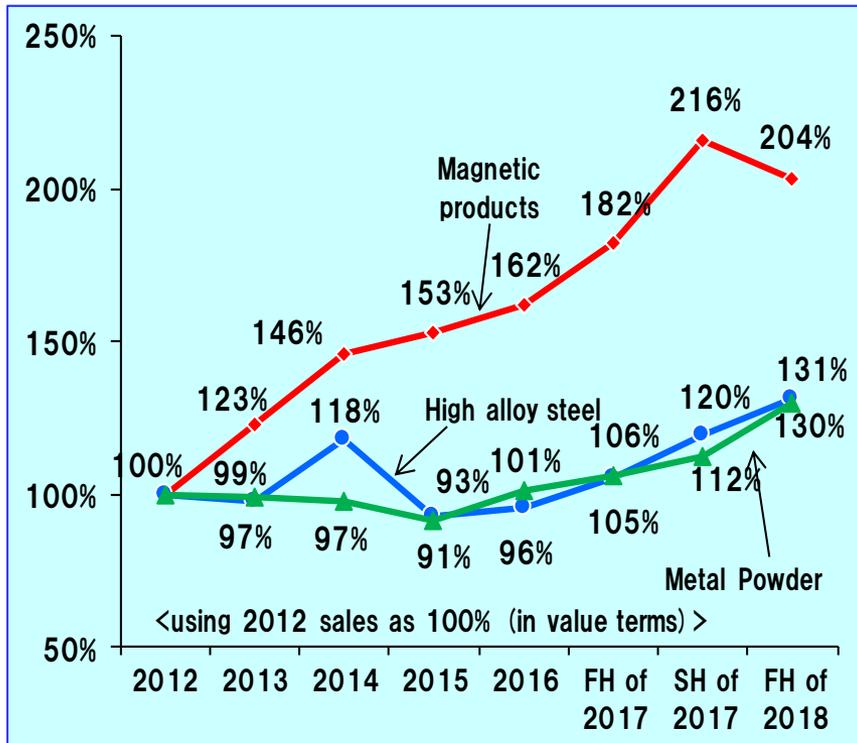


- Scrap: Prices leveled off at a high stage due to increased domestic demand.
- Nickel: Prices remained high due to strong demand.

Overview of our major products in FY 2018 ②

High-performance and magnetic materials

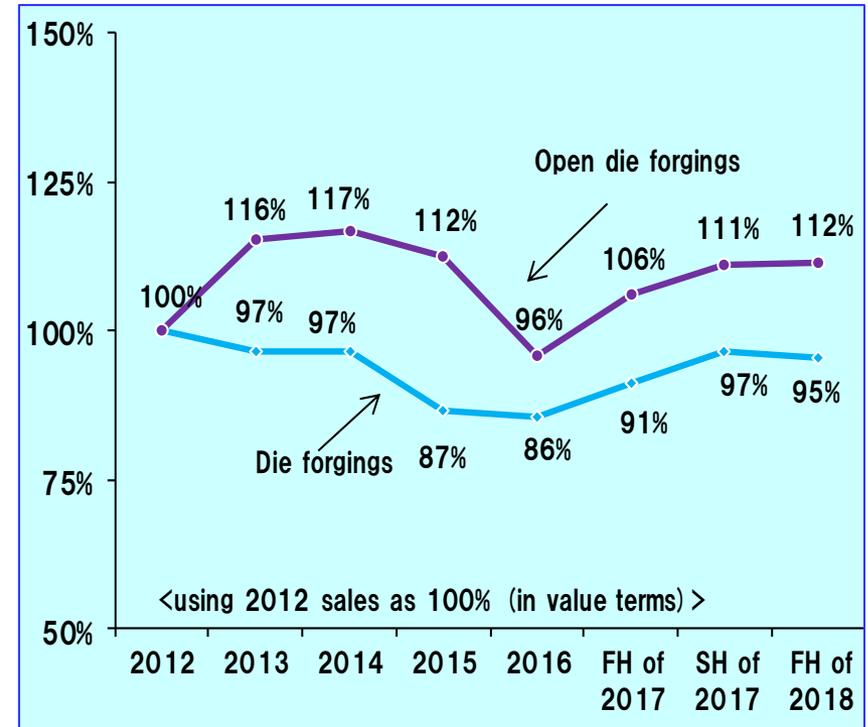
<High-alloy, magnetic products and metal powder>



- Magnetic products: Increased trend in sales in spite of some customers making inventory adjustment.
- Metal powder products: Both sales volume and selling prices increased.
- High-alloy steel: Sales were strong in the automobile field.

Parts for automobile and industrial equipment

<Die forging and open die forging>



- Open die forgings: Aircraft-related demand continued to be solid.
- Die forgings: Automobile-related demand remained strong.

4-9/2018 Net Sales & Operating Income by Segment

(¥100 mil.)

		4-9/2017	4-9/2018	y/y (B) - (A)
		Results (A)	Results (B)	
Specialty Steel	Net Sales	914	1,020	106
	Operating Income	48	21	-27
High Performance Materials & Magnetic Materials	Net Sales	811	927	116
	Operating Income	108	114	6
Parts for Automobile & Industrial Equipment	Net Sales	517	554	37
	Operating Income	11	11	0
Engineering	Net Sales	105	126	21
	Operating Income	7	8	1
Trading & Service	Net Sales	64	69	5
	Operating Income	13	14	1
Total	Net Sales	2,411	2,696	285
	Operating Income	187	168	-19

Sales volume of specialty steel

650 thou.t

673 thou.t

23 thou.t

4-9/2018 Changes in Operating Income of Major Segments (y/y)

(¥100 mil.)

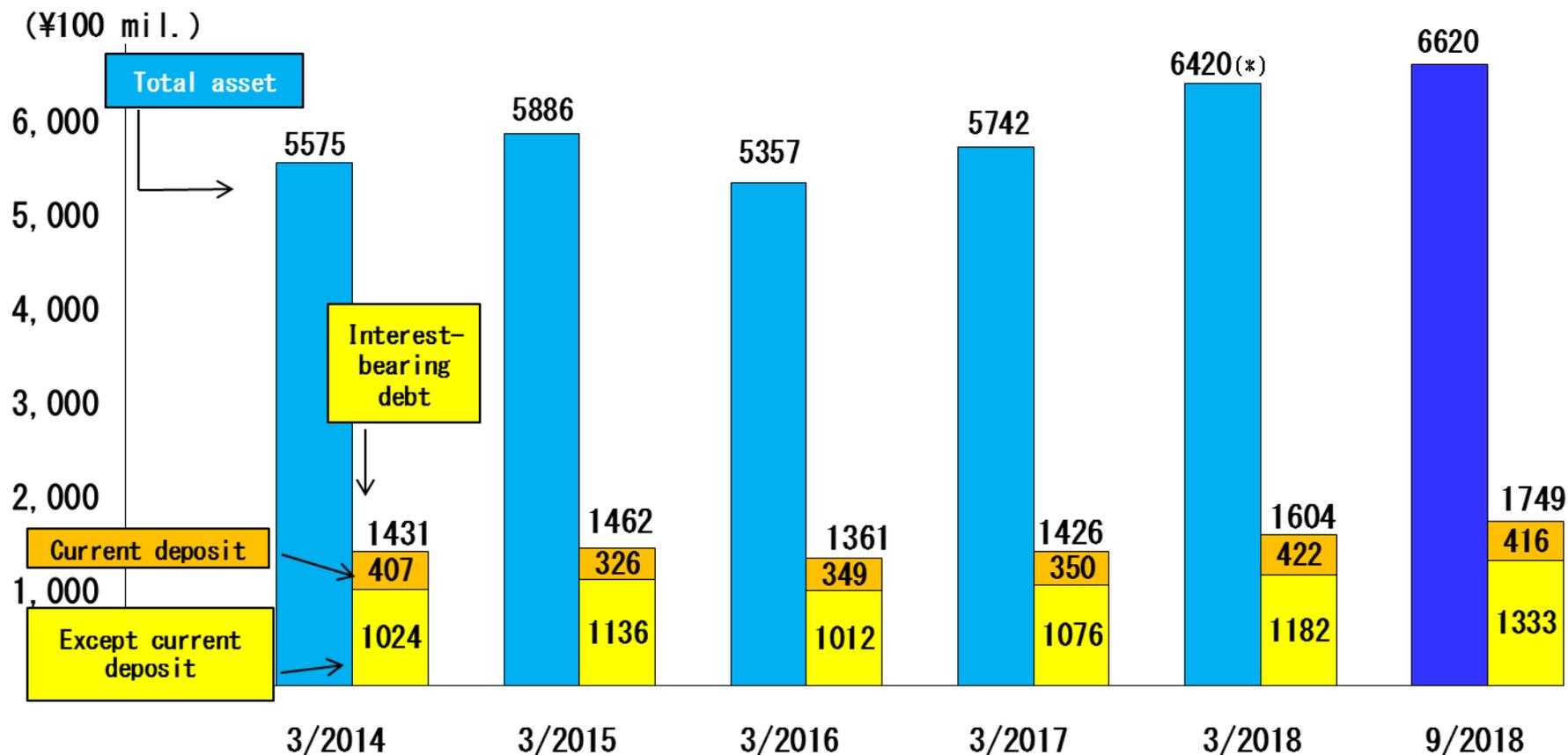
Segment			Specialty Steel	High Performance Materials & Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering			
4-9/2017 Operating Income			48	108	11	7			
Changes (y/y)	Operating Income / Loss	Raw material/Fuel price	-100	-34	-13				
		Sales volume		+6	+12	+11			
		Sales price		+61	+33	+7			
		Sales mix		+3	+3	+1			
		Variable cost		+3	-2				
		Fixed cost			-6	-6			
		Total		-100	+73	-42	+48	-19	+19
4-9/2018 Operating Income			21 (-27)	114 (+6)	11 (±0)	8 (+1)			

■ 4-9/2018 Ordinary income - Net income

(億円)

Operating income	168
Non-operating income / expense	8
Ordinary income	176
Extraordinary income / loss	0
Income taxes and profit attributable to non-controlling interests	▲68
Net income that is profit attributable to owners of parent	108

Total Assets, Interest-bearing Debt, D/E Ratio



(*) "Accounting standard for tax effect" is applied retroactively to total assets as of the end of March 2018, and figures are changed and displayed (before change is ¥ 645 billion)

	3/2014	3/2015	3/2016	3/2017	3/2018	9/2018
ROA	3.8%	3.8%	4.5%	4.8%	5.9%	5.4%
D/E	0.62	0.57	0.58	0.55	0.56	0.60

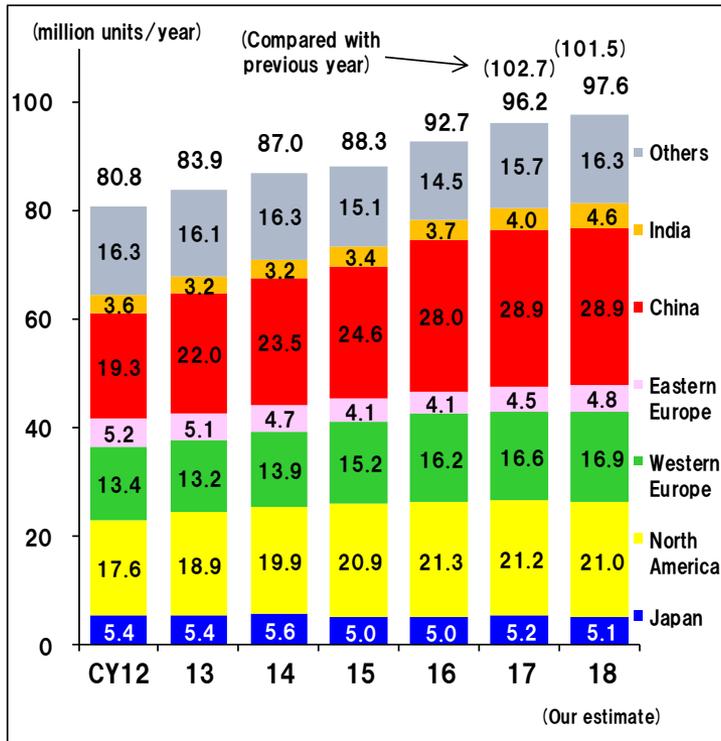
Plan for FY2018

(Apr.1 / 2018 – Mar.31 / 2019)

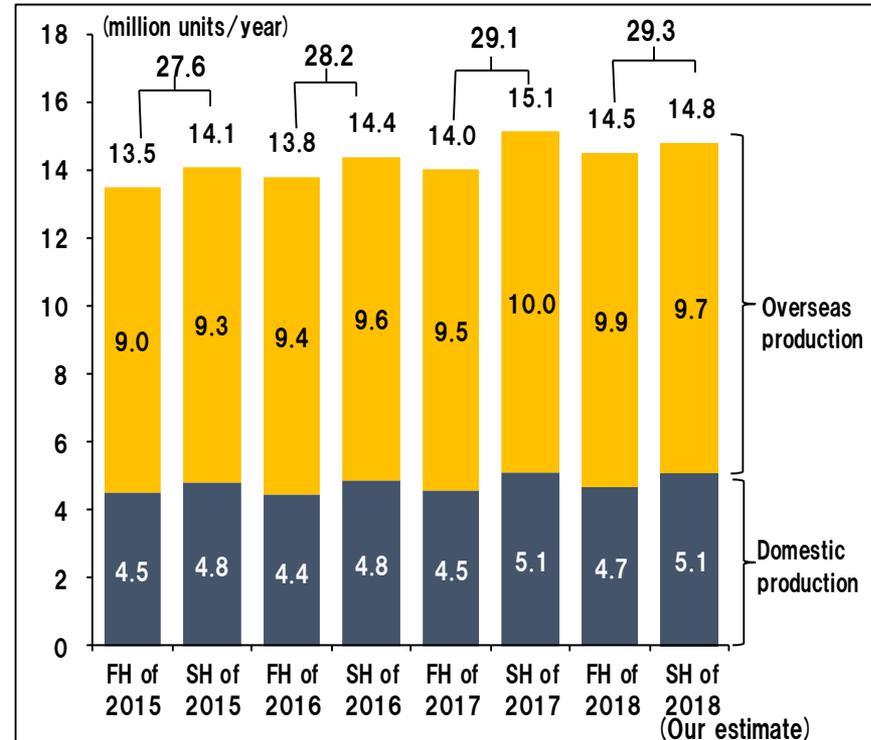
Outlook in the major markets <Automobiles>

Automobile-related demand

<Estimated global demand for automobiles>



<Prospective car production by Japanese car manufacturers>



- **Global demand:** Demand is expected to drop slightly in North America and Japan, remain unchanged from the previous year in China, and increase in emerging economies so that the whole demand may increase slightly.
- **Production by Japanese car manufacturers:** Production is estimated to be the same level as the previous year due to the effects of demand for automobiles leveling off.

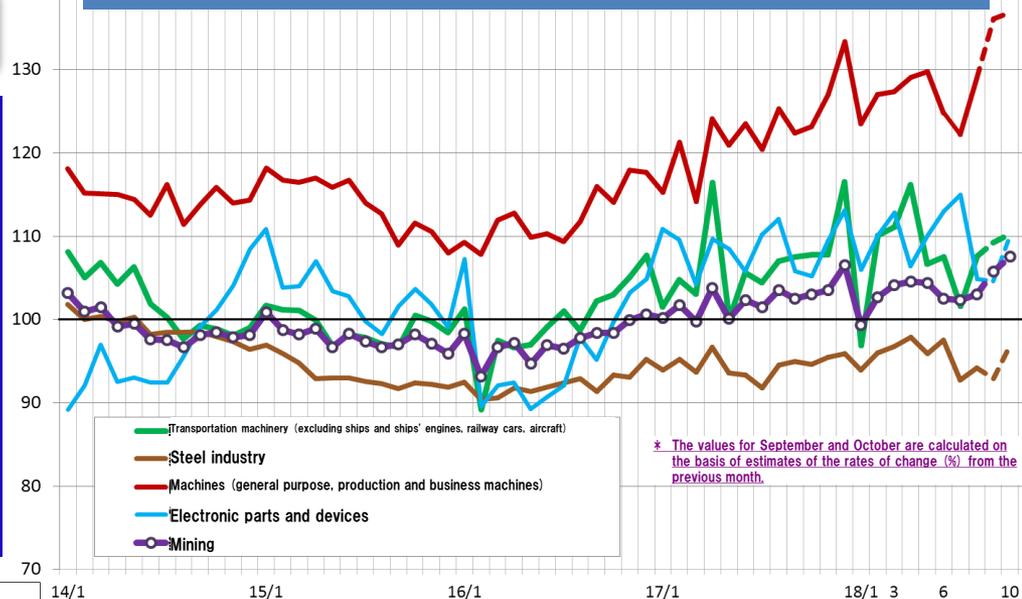
Outlook for the major markets <Industrial machines>

Demand related to industrial machines

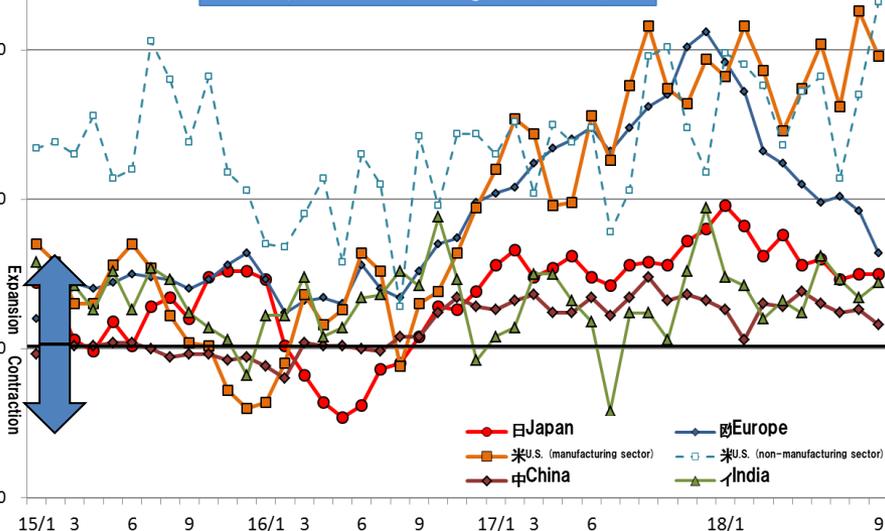
[Domestic market]

- The implementation of the production plan is expected to remain stable due to strong demand, in spite of the temporary effects of heavy rain and flooding in western Japan.
 - Demand for general machinery is expected to pick up gradually, because semi-conductor-related demand will continue to expand, in spite of a possible temporary drop in demand for semi-conductor manufacturing equipment.
- It is necessary to keep a watchful eye on the possible development of trade friction and on the effects of concern about a slowdown in the global economy caused by a softening of business sentiment for capital investment.

Industrial production index (based on "2010 figures =100". Seasonally adjusted.)



PMI (Purchase Manager's Index)

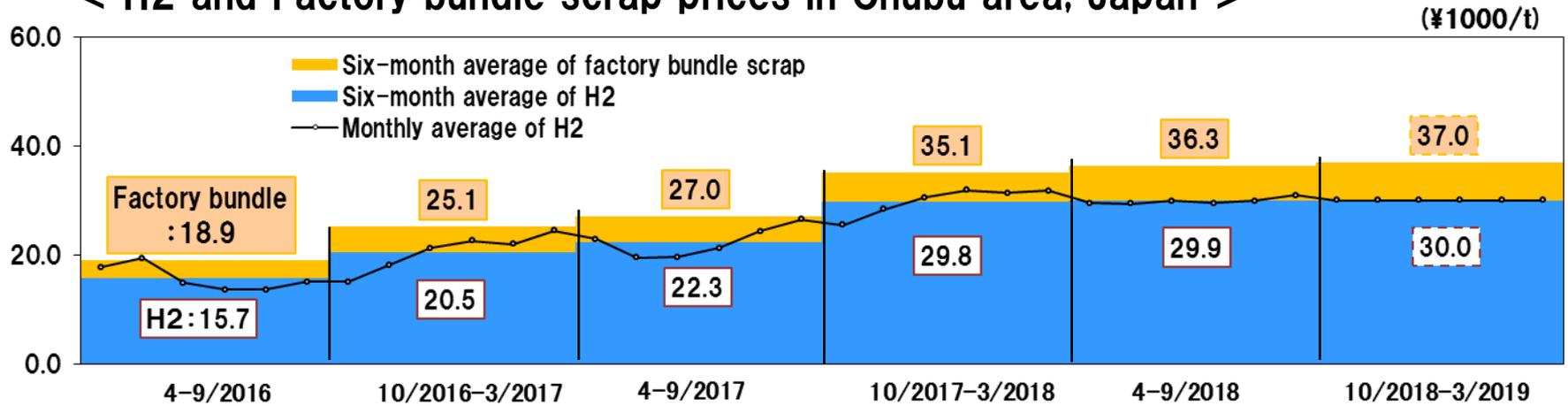


[Overseas markets]

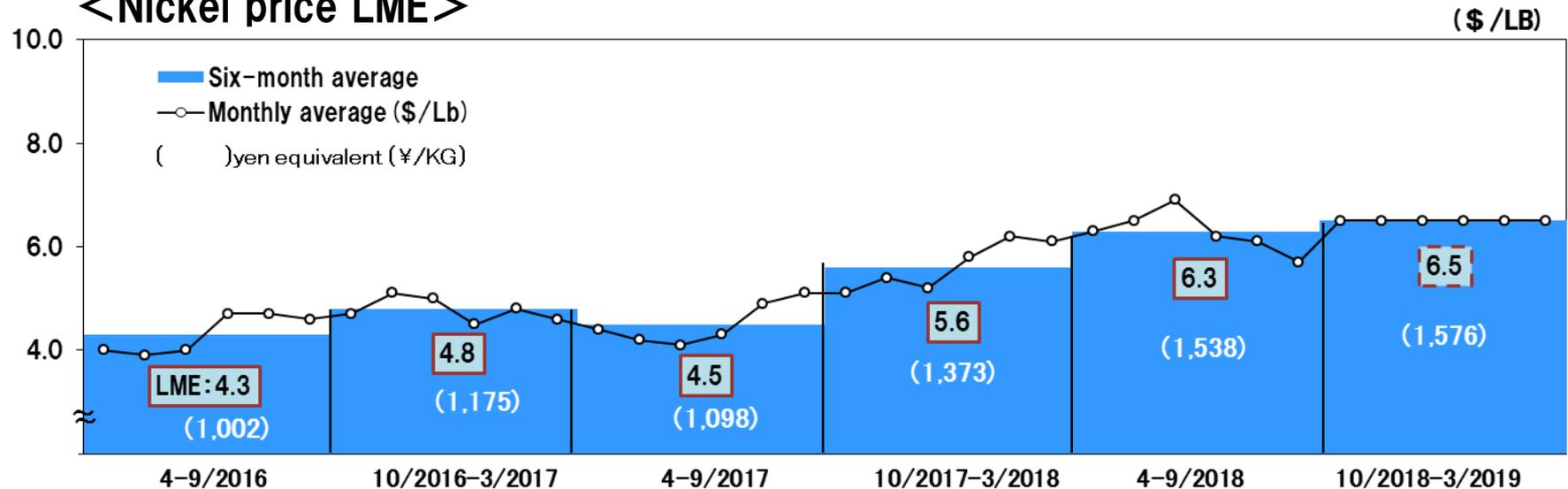
- Domestic demand in the U.S. remains firm and the manufacturing sector's business sentiment is strong. However, emerging trade friction between the United States and China is a cause for concern because it might lead to price increases, thus adversely affecting the U.S. economy.
 - China's PMI (Purchasing Managers' Index) dropped close to neutral (which is 50), partly because of the imposition of punitive tariffs by the U.S. on Chinese imports.
- It is necessary to closely observe as they arise the effects of trade friction between the United States and China.

Market Trend of Raw Materials (Scrap Steel and Nickel)

< H2 and Factory bundle scrap prices in Chubu area, Japan >



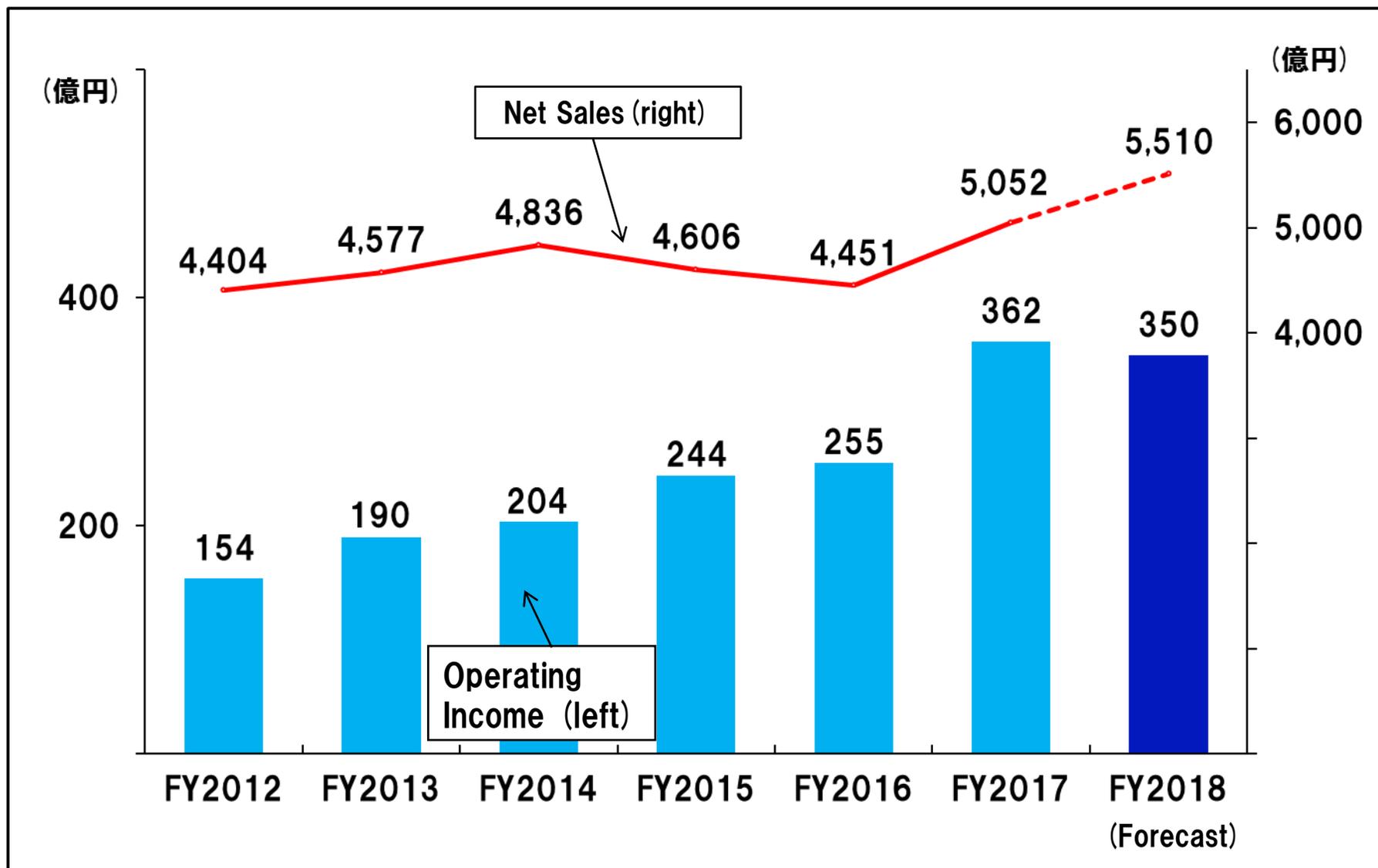
< Nickel price LME >



Premises of Profit Planning for FY2018 (Market Trend)

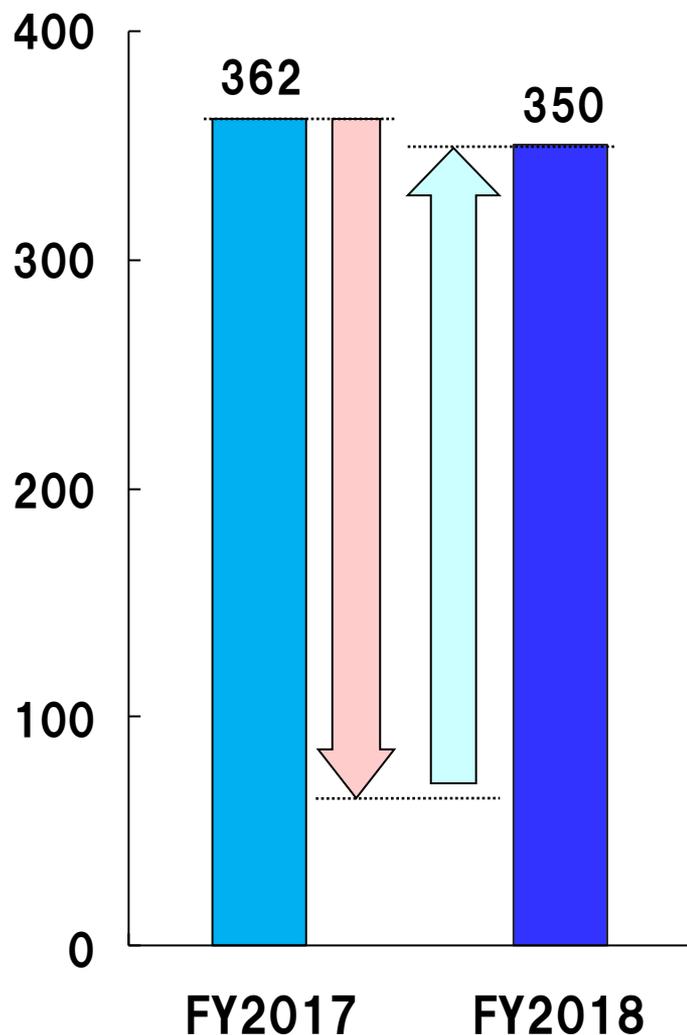
	UNIT	4-9/2018 Results (Difference with the original premise)	10/2018-3/2019 Premises of plan (Difference with the original premise)
Scrap steel Upper:H2 Lower:Factory bundle	¥thou./t	29.9 (-0.1) 36.3 (+1.3)	30.0 (±0.0) 37.0 (+2.0)
Nickel (LME)	\$/LB	6.3 (+0.3)	6.5 (+0.5)
Crude oil (Dubai)	\$/B	72.6 (+12.6)	70.0 (+10.0)
Exchange rate (TTM)	¥/\$	110.7 (+0.7)	110.0 (±0.0)

Changes in Net Sales & Operating Income (Forecast for FY2018)



FY2018 Changes in Operating Income (y/y)

(¥100 mil.)



(¥100 mil.)

FY2017 Operating Income		362	
Changes (y/y)	Raw material/Fuel price	-276	
	Sales volume		+50
	Sales price		+221
	Sales mix		+11
	Variable cost		+7
	Fixed cost	-25	
	Total	-301	+289
FY2018 Operating Income		350 (-12)	

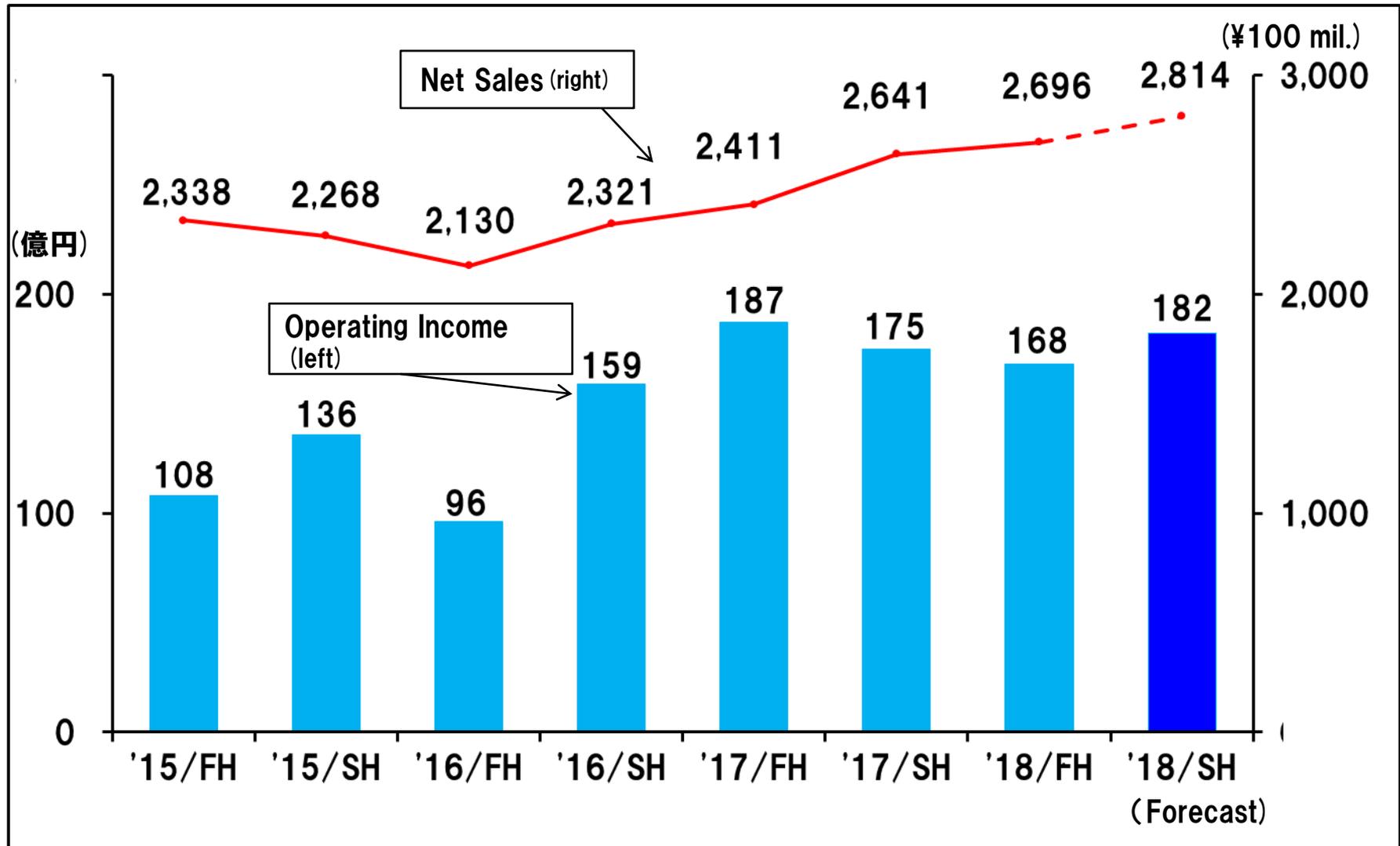
Net Sales & Operating Income by Segment(y/y)

(¥100 mil.)

		FY2017 Results (A)	FY2018 Forecast (B)	y/y (B) - (A)
Specialty Steel	Net Sales	1,890	2,080	190
	Operating Income	65	40	-25
High Performance Materials & Magnetic Materials	Net Sales	1,708	1,870	162
	Operating Income	222	235	13
Parts for Automobile & Industrial Equipment	Net Sales	1,063	1,150	87
	Operating Income	30	35	5
Engineering	Net Sales	249	270	21
	Operating Income	18	15	-3
Trading & Service	Net Sales	142	140	-2
	Operating Income	27	25	-2
Total	Net Sales	5,052	5,510	458
	Operating Income	362	350	-12

Sales volume of specialty steel 1,311 thou.t 1,361 thou.t 50 thou.t

Changes in Net Sales & Operating Income (Interim)



Net Sales & Operating Income by Segment(Interim)

(¥100 mil.)

		FY2018		
		4-9/2018 Results	10/2018- 3/2019 Forecast	Full year Plan
Specialty Steel	Net Sales	1,020	1,060	2,080
	Operating Income	21	19	40
High Performance Materials & Magnetic Materials	Net Sales	927	943	1,870
	Operating Income	114	121	235
Parts for Automobile & Industrial Equipment	Net Sales	554	596	1,150
	Operating Income	11	24	35
Engineering	Net Sales	126	144	270
	Operating Income	8	7	15
Trading & Service	Net Sales	69	71	140
	Operating Income	14	11	25
Total	Net Sales	2,696	2,814	5,510
	Operating Income	168	182	350

Sales volume of specialty steel

673 thou.t

688 thou.t

1,361 thou.t

FY2018 Ordinary income - Net income

(¥100 mil.)

Operating income	350
Non-operating income / expense	10
Ordinary income	360
Extraordinary income / loss	▲11
Income taxes and profit attributable to non-controlling interests	▲129
Net income that is profit attributable to owners of parent	220

FY2018 Dividend per share

	FY2017		FY2018	
	Interim	Year-end	Interim	Year-end
Ordinary income (¥100 mil.)	183	361	176	360
Net income (※1) (¥100 mil.)	119	239	108	220
Dividend per share (※2) (¥/Share)	6.0	Interim 6.0	65.0	130.0
		Year-end 60.0		
Payout ratio (%)	21.5	21.4	25.7	25.2

※1: The net income that is attributable to stockholders of the parent company.

※2: We implemented a reverse stock split which makes one for ten common stocks on October 1, 2017

Capital investment etc.

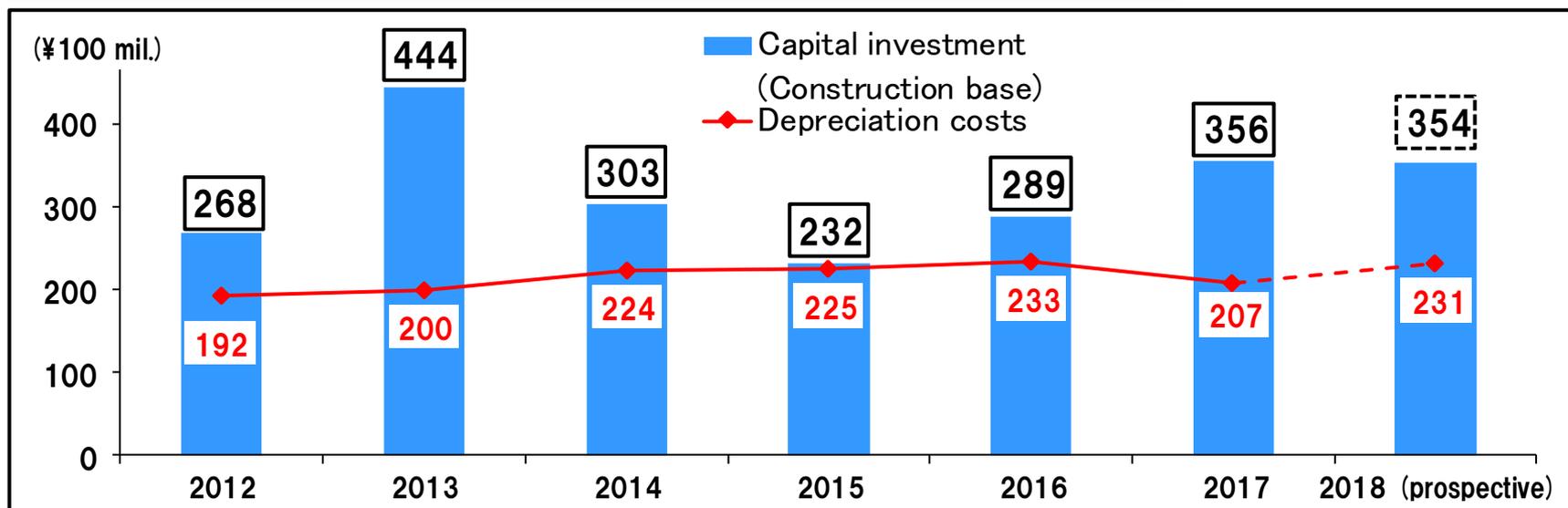
Capital investment

We are continuing to invest capital according to our mid-term management plan (major investment projects).

<Expansion of stainless steel production capacity>: Streamlining the continuous casting line and increasing secondary processing capacity

<Expansion of high-grade steel production capacity > : Adding re-melting equipment and a steel-strip heat treatment furnace.

Changes in capital investment and depreciation costs



Reduce bottlenecks in production processes to achieve maximized throughput

Streamline the continuous casting line

Improve our continuous casting capacity and streamline ladle handling
(Improve our stainless steel continuous casting capacity by 15%)

⇒ The foundations have been laid for the main parts
Construction of the ladle transfer facility has started.

- Investment : about 4 billion yen
- Start of operation : Scheduled to commence in the second half of 2019.



Increase secondary processing capacity

Add a heat treatment furnace and cold processing facility
(Improve our manufacturing capacity by 10%)

⇒ The foundations have been laid for the main parts
Installation of the processing facilities has begun.

- Investment : about 1.5 billion yen
- Start of operation : Scheduled to commence in the first half of 2019.



Keep up with increasing demand and improve process capabilities

Build new re-melting furnaces

Cope with the increased level of cleanliness required to deal with specialty stainless steel and plastic die steel, and expand production capacity

⇒ A new building for re-melting furnaces in Shibukawa Plant is under construction.

- Investment : about 4 billion yen
- Start of operation : Scheduled to commence in the first half of 2019.

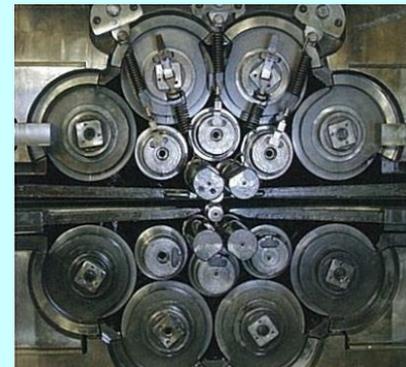


Increase high-grade steel strip production capacity

Increase our capacity for producing high-alloy steel by adding a heat-treatment furnace (Increase production capacity by 20%)

⇒ Details are being designed for the steel strip production equipment at the Chital Plant

- Investment : about 1.5 billion yen
- Start of operation : Scheduled to start operating in the second half of 2019.



Metal powder products

Expand our capacity to produce high-performance metal powder products, such as are used for on-board reactors

Increase our soft magnetic metal powder production line

⇒ The foundation and construction of a new factory is in progress

- Investment : about 1.5 billion yen
- Start of operation : Scheduled to start operating in 2019.



Compressed cores for reactors

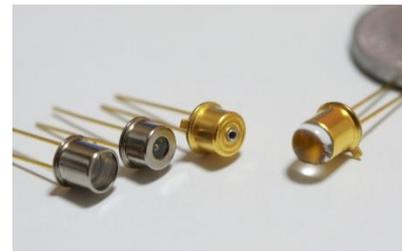
Electronic component products (LEDs)

Expand our capacity for producing high-performance LEDs, such as for industrial robots.

LED manufacturing and inspection process:
Increase our production capacity by 50%.

⇒ Installation of inspection equipment has been completed and performance is being checked

- Investment : about 500 million yen
- Start of operation : Scheduled to start operating in 2018.



Point light source LEDs: Star LED

Approach to ESG (Environment, Society and Governance)

Enhance compliance activities

Specify October as Corporate Ethics Month, to reconfirm awareness of the importance of compliance.



大同特殊鋼 DAIDO STEEL GROUP
Beyond the Special

Issue CSR reports

Issue CSR Report for 2018.

<https://www.daido.co.jp/csr/data/report.html>



Fact Book

Fact Book Financial highlight

Consolidation

(¥1 mil.)

	'14/3	'15/3	'16/3	'17/3	18/3	'14/9	'15/9	'16/9	'17/9	'18/9
Net sales	457,731	483,633	460,577	445,122	505,219	238,917	233,832	213,010	241,119	269,643
Operating income	18,977	20,408	24,432	25,513	36,218	8,664	10,757	9,643	18,726	16,752
Ordinary income	20,287	21,729	25,108	26,373	36,130	9,670	11,431	9,023	18,320	17,569
Net income	12,616	10,886	6,746	16,386	23,920	4,116	2,037	5,363	11,890	10,759
R & D expenses	5,160	5,300	5,766	6,206	5,419	2,671	2,716	3,158	2,770	2,788
Capital investment(Plan)	26,400	20,600	28,300	32,800	38,600	10,900	16,100	15,800	20,300	18,800
Capital investment(Construction)	44,404	30,295	23,205	28,940	35,605	13,967	9,241	15,791	14,899	15,027
Depreciation	20,052	22,436	22,454	23,275	20,740	10,650	11,039	11,087	10,023	11,453
Financial account balance	28	719	949	904	995	396	541	432	429	584
Total assets	557,522	588,590	535,675	574,169	642,021	568,193	567,439	523,304	614,828	661,998
Equity	232,153	256,022	232,832	259,851	284,435	237,892	250,255	231,600	274,221	291,948
Interest-bearing debt	143,085	146,208	136,114	142,599	160,352	146,470	146,461	133,172	157,201	174,928
Pay roll number	10,709	10,855	11,036	11,498	11,873	10,927	11,126	11,574	11,843	12,559
ROA(%)	3.8	3.8	4.5	4.8	5.9	3.4	4.0	3.4	6.2	5.4
ROE(%)	5.7	4.5	2.8	6.7	8.8	3.5	1.6	4.6	8.9	7.5
Consolidated subsidiary number	33	34	36	34	36	33	35	35	36	38
(Equity method affiliate number is excluded from the above)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Ratio of the consolidated to the non-consolidated										
Net sales	1.6	1.6	1.6	1.7	1.6					
Ordinary income	1.9	1.8	1.6	1.5	1.7					
Net income	1.6	2.5	1.2	1.1	1.6					

*Long-term prepaid expenses are not included in the depreciation. Net income after 2015 belongs to stockholder of parent company.

Fact Book Net Sales & Operating Income by Segment

Consolidation

<New segment(From Apr.1st in 2012)>

(¥100 mil.)

		'14/3	'15/3	'16/3	'17/3	'18/3
Speciality Steel	Net Sales	1,841	1,891	1,705	1,646	1,890
	Operating Income	17	32	75	58	65
High Performance Materials & Magnetic Materials	Net Sales	1,435	1,618	1,553	1,485	1,708
	Operating Income	111	135	123	174	222
Parts for Automobile & Industrial Equipment	Net Sales	970	994	997	975	1,063
	Operating Income	38	10	13	▲ 5	30
Engineering	Net Sales	241	229	261	239	249
	Operating Income	11	17	21	12	18
Trading and Service	Net Sales	90	104	90	106	142
	Operating Income	13	10	12	16	27
Total	Net Sales	4,577	4,836	4,606	4,451	5,052
	Operating Income	190	204	244	255	362

(¥100 mil.) (¥100 mil.)

		'13/4-9	'13/10-3	'14/4-9	'14/10-3	'15/4-9	'15/10-3	'16/4-9	'16/10-3	'17/4-9	'17/10-3	'18/4-9
Speciality Steel	Net Sales	887	1,004	951	940	859	846	787	859	914	976	1,020
	Operating Income	23	9	6	26	21	54	26	32	48	17	21
High Performance Materials & Magnetic Materials	Net Sales	705	913	787	831	807	746	711	774	811	897	927
	Operating Income	54	81	67	68	63	60	75	99	108	114	114
Parts for Automobile & Industrial Equipment	Net Sales	471	523	492	502	494	503	467	508	517	546	554
	Operating Income	23	▲ 13	4	6	8	5	▲ 16	11	11	19	11
Engineering	Net Sales	111	118	107	122	132	129	115	124	105	144	126
	Operating Income	▲ 1	18	3	14	10	11	3	9	7	11	8
Trading and Service	Net Sales	47	57	52	52	46	44	50	56	64	78	69
	Operating Income	7	3	7	3	6	6	8	8	13	14	14
Total	Net Sales	2,221	2,615	2,389	2,447	2,338	2,268	2,130	2,321	2,411	2,641	2,696
	Operating Income	106	98	87	117	108	136	96	159	187	175	168

Fact Book List of consolidated companies ①

Segment	Company	Business Contents
Specialty steel	DAIDO DMS (Thailand) CO., Ltd.	Heat treatment, processing, sales of die products / Sales of die materials (in Thailand)
	Daido Die & Mold Solutions Co., Ltd.	Sales of tool steel / Production and sales of die products and finished tool / heat-treatment of metal
	Daido TIEN WEN Steel Co., Ltd.	Heat treatment, processing, sales of die products / Sales of die materials (in Taiwan)
	DAIDO AMISTAR(M) SDN. BHD.	Processing, sales of die products / Sales of die materials (in Malaysia)
	DAIDO DMS SINGAPORE PTE Ltd.	Processing, sales of die products / Sales of die materials (in Singapore)
	DAIDO SHIZAI SERVICE Co., Ltd.	Sales of materials for production
	DAIDO TECHNICA CO., LTD.	Seam-removing, maintenance, processing of steel
	DAIDO ECOMET CO., LTD.	Development, production, sales of indirect materials for steel-making / recycling of waste and by-products from steel-making-process
	RIKEN SEIKO CO., LTD. *	Production and sales of Specialty steel secondary products (shaft bearing) , cutting tool and machine tool
	Tohoku Steel Co., Ltd. *	Production and sales of specialty steel secondary products / heat-treatment of metal
	MARUTA TRANSPORT CO., LTD. *	Transportation and warehousing business
	SAKURAI KOSAN CO., LTD. *	Heat treatment works, surface treatment
High Performance Materials & Magnetic Materials	izumi electric industries co., ltd. *	Design and construction of electric work / Design and production of power distribution board
	KAWAICHI SANGYO CO.LTD. *	Transportation and warehousing business
	Nippon Seisen Co., Ltd.	Production and sales of stainless steel wire, metallic fiber
	THAI SEISEN Co., Ltd.	Production and sales of stainless steel wire
	Daido Electronics Co., Ltd.	Production, processing and sales of magnetic materials and electronic device parts
	Daido Electronics (Suzhou) Co., Ltd.	Production, processing and sales of magnetic materials and electronic device parts (in China)
	Daido Electronics (Thailand) Co., Ltd.	Production, processing and sales of magnetic materials and electronic device parts (in Thailand)
	SHIMOMURA TOKUSYU SEIKO CO., LTD.	Drawing of free-cutting steel & stainless steel / Production and sales of grinding processed products
NISSEI SEIKO CO., LTD.	Production and sales of screw, bolt and cold-forging parts for automobile	

Fact Book List of consolidated companies ②

Segment	Company	Business Contents
Automobile & Industrial parts	Daido Castings Co., Ltd.	Production and sales of casting, precise casting, manganese rail
	FUJI OOZX Inc.	Production and sales of engine valve
	FUJI VALVE (GUANGDONG) CORPORATION	Production and sales of engine valve(in China)
	JAPAN DROP FORGE CO., LTD.	Production and sales of die forging
	TOYO SANGYO CO., LTD.	Production and sales of die forging
	DAIDO STAR TEKUNO Co., Ltd.	Seam-removing, maintenance, device processing of steel and forging
	Daido Precision Industries Ltd.	Production and sales of processing parts for compressor, power transmission, base-isolation device
	OHIO STAR FORGE CO.	Production and sales of precise forging (in U.S.)
	Daido Steel (Thailand) Co., Ltd.	Production and sales of die forging
	PT. FUJI OOZX INDONESIA	Production and sales of engine valve(in Indonesia)
	FUJI OOZX MEXICO, S.A. DE C.V.	Production and sales of engine valve(in Mexico)
Engineering	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
	DAIDO PLANT INDUSTRIES CO., LTD.	Design, production, sales of industrial furnace, facility equipment and ancillary facility
Trading & Service	Daido Kogyo Co., Ltd.	Trading company specializing in specialty steel, equipment, steel-making materials
	DAIDO LIFE SERVICE CO., LTD.	Dealing and subdivision of real estate / Management of welfare provision / Insurance agent travel agent, printing
	Daido Steel (Shanghai) Co., Ltd.	Export & import of DAIDO group products / Group's front company for China (in China)
	DAIDO BUNSEKI RESEARCH, INC.	Analysis, research, consulting regarding iron, steel, cast metal, ceramics
	Star Info Tech Co., Ltd.	Planning, design, development, maintenance of information system / Development and sale of software
	Life Support., Ltd.	Cleaning, security, food-service operating, management of facility, tree-planting, labor dispatch service
	KISOKOMAKOGEN KANKOKAIHASTU CO., LTD.	Management of golf course / management of land for vacation house / minor water project
	Daido Steel (America) Inc.	Export & import of DAIDO group products / Group's front company for U.S. (in U.S.)
	The silent partnership which makes TAKAKURA FUNDING CORPORATION LTD. a business operator	Owning a commercial complex

(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.