



Overview of Results for Fiscal 2016

In fiscal 2016, the Japanese economy underwent a moderate recovery with signs of a rebound in industrial production in the corporate sector and gradual improvement in consumer spending. In Europe and the U.S., economic growth remained on a moderate trend with employment expanding, while major events included the U.K.'s decision to exit the European Union and the election of President Trump in the U.S. In China, economic growth was relatively stable, supported by government measures to stimulate the economy, which boosted sales of automobiles.

Under these economic circumstances, production increased in the automobile industry in the second half, owing to brisk sales in North America and China. Scrap steel prices were volatile in the spring, influenced by Chinese steel billet prices, achieved some stability, and then increased from autumn amid a rise in coking coal prices.

As a result, the Daido Steel Group's net sales decreased ¥15,454 million year on year to ¥445,123 million, owing to a decline in selling prices, which are linked to raw material prices. Ordinary income increased ¥1,265 million to ¥26,373 million due to higher sales volume. Net income attributable to owners of the parent grew ¥9,640 million to ¥16,386 million, reflecting the absence of

provisions for environmental remediation and extraordinary losses for discontinuing software development posted in the previous fiscal year.

Outlook for Fiscal 2017

The global economy is likely to keep expanding at a moderate pace amid robust employment conditions in advanced countries. The Chinese economy should see relatively stable growth thanks to government stimulus measures, although there are latent risks related to real estate prices and excessive debt. Based on this outlook, our core customers in the automobile industry should remain on solid footing. However, there are uncertainties as well, including the new administration in the U.S., the issue of the U.K.'s exit from the European Union, political risk in Europe and growing geopolitical risk. We will continue to monitor risks, such as the risk of weaker demand due to foreign exchange fluctuations and the risk of price fluctuations in raw materials and fuel.

In this business environment, we are constantly monitoring market trends and customers, and are prepared to respond to any changes. The Group will steadily implement measures for expanding overseas sales, which is a target of our medium-term business plan. The Group is working

diligently to strengthen quality, cost and delivery (QCD) competitiveness, while focusing on growth fields and co-creation with customers.

Given these conditions, our segment forecasts for the coming fiscal year are as follows.

SPECIALTY STEEL

We expect sales volume of structural steel in 2017 will continue to be at the same level as in the second half of fiscal 2016, based on the outlook for brisk global demand from automakers. In tool steel, we anticipate a gradual recovery in volume after the end to inventory adjustments. While we expect an increase in volume, we forecast cost increases in energy due to higher crude oil prices. Under these circumstances, we will strive to reduce costs further and focus efforts on improving the product mix by leveraging the secondary melting facility newly constructed at the Chita Plant during fiscal 2016.

HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

We expect sales volume of stainless steel and high-alloy steel will continue to be at the same level as the second half of fiscal 2016, based on the assumption that demand remains strong for the automobile and semiconductor industries. In powder metal products, we are developing new products for future growth while fulfilling firm automobile-related demand. In magnetic products, we are concentrating on the increasing use of electronics in automobiles and electrical applications.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

In free forgings, we are keeping up with ongoing brisk demand for civil aircraft, while waiting for demand recovery in the oil and gas sector. In die forgings, we will set up Daido Steel (Thailand) Co., Ltd. as a production base for the Southeast Asia region. In turbo-related products, we will respond to increasing production of stainless steel turbine housing, considering the likelihood of continued growth in demand from an increasing ratio of gasoline engines with turbos installed. In engine valves, we are updating our supply structure for North America, having launched operations at a new plant in Mexico.

ENGINEERING

The Daido Steel Group aims to expand sales of Premium STC® (Short Time Cycle), which is its mainstay STC® annealing furnace with a new combustion system installed, as well as increase sales of vacuum carburizing furnaces to auto parts makers, and of vacuum sintering furnaces to magnet product makers.

TRADING AND SERVICE

In the trading and service segment, demand should be the same level as in 2016.

Based on the above, for fiscal 2017, the Daido Steel Group forecasts consolidated net sales of ¥480.0 billion, operating income of ¥30.0 billion, ordinary income of ¥31.0 billion, and net income attributable to owners of the parent of ¥20.0 billion.

Medium- to Long-Term Management Strategy

During the current medium-term business plan that continues through fiscal 2017, advanced countries have continued to grow their economies at a moderate pace amid robust employment conditions. Growth in the Chinese economy has decelerated more than anticipated, and the pace of expansion in emerging markets has slowed down somewhat. The automobile industry continues to grow strongly. Resource- and energy-related demand should expand over the long run, but recently it has declined due to a fall in crude oil prices.

Meanwhile, customers may also demand higher performance from specialty steel. For example, customers may demand unprecedented performance in terms of the heat resistance and thinness of specialty steel in order to maximize internal combustion efficiency in internal combustion engines used in automobiles and the like amid tightening carbon dioxide regulations to combat global warming. The Daido Steel Group intends to work more closely with its customers to solve these challenging issues.

The Daido Steel Group celebrated its 100th anniversary in August 2016 by declaring a new Group management philosophy, "pursuing the potential of materials to support our future." With the materials and materials-related technologies of the Daido Steel Group, we will create new value by bringing out the hidden potential of materials with the ultimate objective of contributing to the development of society while discovering the unknown needs of people and society.

June 2017



Takeshi Ishiguro
President