2020 Midterm Management Plan

June 6, 2018

DAIDO STEEL CO., LTD.
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   (3) Priority strategies
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1. Review of 2017 midterm management plan
Objectives of the 2017 midterm management plan (Target vs Results)

<table>
<thead>
<tr>
<th></th>
<th>Target for FY2017</th>
<th>Results of FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>5,600*</td>
<td>5,052*</td>
</tr>
<tr>
<td><strong>Ordinary income</strong></td>
<td>400*</td>
<td>361*</td>
</tr>
<tr>
<td><strong>Ratio of ordinary income to net sales</strong></td>
<td>7%</td>
<td>7.2%</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>250*</td>
<td>239*</td>
</tr>
<tr>
<td><strong>ROA</strong></td>
<td>6%</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>Dividend payout ratio (according to our dividend payout policy)</strong></td>
<td>20–25%</td>
<td>21.4%</td>
</tr>
</tbody>
</table>

(*: 100 million yen)
Net sales and ordinary income

Ordinary Income

<table>
<thead>
<tr>
<th>Year</th>
<th>2014 Mid-term</th>
<th>2017 Mid-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>165</td>
<td>5600</td>
</tr>
<tr>
<td>2015</td>
<td>203</td>
<td>5052</td>
</tr>
<tr>
<td>2016</td>
<td>217</td>
<td>261</td>
</tr>
<tr>
<td>2017</td>
<td>251</td>
<td>361</td>
</tr>
</tbody>
</table>

Net Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>2014 Mid-term</th>
<th>2017 Mid-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>4404</td>
<td>5600</td>
</tr>
<tr>
<td>2015</td>
<td>4577</td>
<td>5052</td>
</tr>
<tr>
<td>2016</td>
<td>4836</td>
<td>264</td>
</tr>
<tr>
<td>2017</td>
<td>4606</td>
<td>361</td>
</tr>
</tbody>
</table>

Increase in profit: ¥14,400 million
## Net Sales & Operating Income by Segment (Compared to the last year of the midterm plan)

(¥100 mil.)

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2014 Results</th>
<th>FY2017 Results</th>
<th>Previous midterm plan difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(A)</td>
<td>(B)</td>
<td></td>
</tr>
<tr>
<td>Specialty Steel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>1,891</td>
<td>1,890</td>
<td>-1</td>
</tr>
<tr>
<td>Operating Income</td>
<td>32</td>
<td>65</td>
<td>33</td>
</tr>
<tr>
<td>High Performance Materials &amp; Magnetic Materials</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>1,618</td>
<td>1,708</td>
<td>90</td>
</tr>
<tr>
<td>Operating Income</td>
<td>135</td>
<td>222</td>
<td>87</td>
</tr>
<tr>
<td>Parts for Automobile &amp; Industrial Equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>994</td>
<td>1,063</td>
<td>69</td>
</tr>
<tr>
<td>Operating Income</td>
<td>10</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Engineering</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>229</td>
<td>249</td>
<td>20</td>
</tr>
<tr>
<td>Operating Income</td>
<td>17</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>Trading &amp; Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>104</td>
<td>142</td>
<td>38</td>
</tr>
<tr>
<td>Operating Income</td>
<td>10</td>
<td>27</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>4,836</td>
<td>5,052</td>
<td>216</td>
</tr>
<tr>
<td>Operating Income</td>
<td>204</td>
<td>362</td>
<td>158</td>
</tr>
</tbody>
</table>

Sales volume of specialty steel

- Volume: 1,187 thou.t
- Volume: 1,310 thou.t
- Volume: 123 thou.t
Vigorous investment implemented, including the brought-forward construction of the 2nd turbine housing factory.

**<Major investment projects>**

- Install a large VIM furnace in the Shibukawa Plant
- Install an electro-slag remelting (ESR) furnace in the Chita Plant
- Construct the second turbine housing factory
- Establish a new die forging factory in Thailand
- Construct a new hollow-head engine valve factory
2. 2020 Midterm Management Plan
（1）Management basic policy
Beyond the Special

We support our customers' technological innovations by supplying high-performance materials.

A big wave of technological innovation is occurring throughout many industries. The automobile sector, one of our major sources of customers, is bursting with new product possibilities, like highly efficient internal combustion engines, electric vehicles and self-driving cars.

DAIDO STEEL is providing an agile response to this astonishing once-in-a-hundred-years revolution and the digital-age innovations that help drive it. We are committed to supporting our customers' technological innovations by supplying the high-performance materials they need.
Basic management policy

«Guidelines for corporate activities»

1. Portfolio reform
   - Shift from structural materials to high-performance materials

2. Enhance our business fundamentals
   - Improve the break-even point and strengthen our corporate structure

3. Rebuild our business
   - More focus on the die forging and turbine housing businesses
（2）Business environment recognition
Perspectives on our business environment

<Global issues>
- Global warming
- Destruction of the natural environment
- Increased populations in emerging countries and decline of the working-age population in Japan

<Changes in market (technology)>
- Highly efficient internal combustion engines
- Electric vehicles and self-driving cars
- Digitalization (Big Data, AI, IoT, FA, etc.)

Increased demand for high-performance materials
(Materials delivering high performance such as high resistance to heat and corrosion, a high level of cleanliness, and high strength, including high-performance magnets and powder products)
(3) Priority strategies
Enhance our stainless steel manufacturing capacity

**Chita Plant**
- Upgrade its capacity by streamlining the steel-making process and logistics (Increase the quantity of stainless steel continuous casting by 15%)
- Improve yield by increasing the process’s continuous casting ratio
- Reduce each product’s energy consumption rate
- Investment: about 4 billion yen
- Operating schedule: Fiscal 2019 (planned)

**Hoshizaki Plant**
- Add a new steel wire heat-treatment furnace and new cold-forming equipment (For an increase of 10% in capacity)
- Improve the efficiency of logistics between the Chita and Hoshizaki Plants (Establish a Production Management Dept.)
- Investment: about 1.5 billion yen
- Operating schedule: Fiscal 2019 (planned)
**Update the capacities for manufacturing special stainless steel and high-alloy steel**

**Shibukawa Plant and Chita Plant**
- Increase capacities for manufacturing super-clean steel by adding a new electro-slag remelting (ESR) furnace.
- Increase Chita Plant’s integrated manufacturing capacity for plastic die steel
- **Investment**: about 4 billion yen
- **Operating schedule**: Fiscal 2019 (planned)

**Chita Steel Strip Plant**
- Upgrade capacities for manufacturing high-end steel strip by adding a new heat treatment furnace and increasing the cold drawing capacity (Increase manufacturing capacities by about 20%)
- **Investment**: about 1.5 billion yen
- **Operating schedule**: Fiscal 2019 (planned)
High performance materials and magnetic materials

**Powder products**

- Expand sales of high-performance powder products for automotive reactors, etc.
- Add a production line for soft magnetic powder products
- Increase sales of high-performance magnetic powder products

  - **Investment:** about 1.5 billion yen
  - **Operating schedule:** Fiscal 2019 (planned)

**Electronic parts**

- Increase sales of high-performance LED products for industrial robots, etc.
- LED production and inspection process: Upgrade production capacities by 50%
- Establish a new Electronic Parts Department

  - **Investment:** about 0.5 billion yen
  - **Operating schedule:** Fiscal 2018 (planned)
Magnet products

Promote a growth strategy for high-performance neodymium magnets

- Upgrade production line for “near-net-shape” sintered magnets made using the pressless process (PLP) method
- Consider establishing new sales locations overseas (including in North America) in order to increase sales of automotive magnets.
- Strengthen the R&D organization to enhance our ability to come up with new solutions in the development for high-performance motors
- Promote closer interrelationships and the further integration of sales, production and product development.

- Investment: about 4 billion yen
- Sales target: An increase of about 150%
Specialty steel

**Structural steel**

- **Secure sustainable profit margins**
  - Rethink our selling prices to account for rising materials costs

- **Secure the Chita Plant’s structural steel production capacity**
  - Upgrade the rolling capacity of products by 5% (steel bars and wires)
    - Investment: about 2 billion yen
    - Operating schedule: Fiscal 2019 (planned)

**Tool steel**

- **Meet demand and sow seeds for the future**

  1. Expand sales network
  2. Review manufacturing strategy
  3. Develop new products

- **Expand sales network**
  - Make the most of Daido’s DM solution overseas locations (ASEAN, North America, China)

- **Review manufacturing strategy**
  - Install an electro-slag remelting (ESR) furnace in the Chita Plant

- **Develop new products**
  - Develop new steel products for hot stamping and plastic molds
Parts for automobile & industrial equipment

**Free forgings**

*Respond clearly to growing markets*

- Make the most of the production capabilities of the large VIM furnace (installed in fiscal 2016)
- Expand sales of aircraft engine shaft and advance into the market of high-alloy turbine disk forging

**Engine valves**

*Expand the engine valve production capacity in order to increase our share in the global market (Global 10)*

- Increase the production of hollow valves (increase the proportion of high-end products)
- Expand the proportion produced overseas

**Portfolio reform**

- Aircraft engine shafts
- Hollow valves
**Parts for automobile & industrial equipment ②**

### Die forgings

**Rebuild our business**

- Rebuild our businesses’ emphases in Japan and accelerate overseas growth
  
- Accelerate the reorganization of our businesses by promoting project-based activities
  
- Increase sales by taking advantage of our locations around the world

![Die forgings](image1)

### Turbocharger components

**Rebuild our business**

- Respond to increases in demand for turbocharger components
  
- Bring the turbocharger housing business into the black by taking advantage of our newly established second factory (started operating in January 2018)
  
- Increase sales of turbine wheels

![Turbine housings](image2)

![Turbine wheels](image3)
Environmental engineering products

Reduce environmental impact by reducing the energy consumption of electric furnaces

*Reduce the time required for melting by adopting a uniform scrap melting method using a swing electric furnace*

Streamline automotive parts heat treatment and renovate the production line

*Reduce CO2 emissions by 47% as compared with a conventional gas carburizing furnace*

*Propose optimal solutions for materials and heat treatment (Vacuum carburizing steel)*

Portfolio reform

Improve the automotive parts factory's production process by achieving synchronous production of multiple machines.

Large-batch production type

Earned the Agency of Natural Resources and Energy Director's General Prize in the energy-saving equipment category in recognition of its outstanding efficiency.

Small-batch inline type

Swing AC electric furnace

Swing AC electric furnace

Hydraulic swing motor

Large bearing

Swinging mechanism inside the furnace body

ModulTherm®

SyncroTherm®
Enhance our ability to provide solutions by collaborating with customers

Integrate the functions of proposing special steel and materials solutions to promote priority strategies as projects

I) Electrification and self-driving products project

II) High-performance turbocharger parts project

III) Semiconductor manufacturing equipment project

IV) High-performance powder products project
Approach to ESG (Environment, Society, Governance)

- Strengthen our compliance activities
  Establish a CRM (Corporate Risk Management) Department in the Head Office to strengthen the entire Daido group’s risk management system.

- Promote a better health management system
  We were recognized by the METI as one of the Superior “Good-Health Business Corporations” in 2018 (in the big company category). We are committed to keeping and promoting the health of our employees.

- Promote better eco-communication
  We earned the Minister of the Environment’s Award in the 72th Bird Week (2018) Wildlife Protection Contributors Recognition section.
（4）Business objectives
## Objectives of the 2020 midterm management plan

(*: 100 million yen)

<table>
<thead>
<tr>
<th></th>
<th>Results of FY2017</th>
<th>Target for FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>5,052*</td>
<td>5,800*</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>362*</td>
<td>470*</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>239*</td>
<td>300*</td>
</tr>
<tr>
<td><strong>ROS</strong></td>
<td>7.2%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>ROA</strong></td>
<td>5.9%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>8.8%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Capital investment</strong></td>
<td>877*</td>
<td>950*</td>
</tr>
<tr>
<td>(Three years total,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction base)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dividend payout ratio</strong></td>
<td>21.4%</td>
<td>20~25%</td>
</tr>
</tbody>
</table>
Net sales and Operating income

![Graph showing net sales and operating income over different periods.](image)

- **Net Sales (right):**
  - 2014 Mid-term planning period: 4,404 (¥100 mil.)
  - 2017 Mid-term planning period: 5,052 (¥100 mil.)

- **Operating income (left):**
  - 2014 Mid-term planning period: 154
  - 2017 Mid-term planning period: 255

2020 Mid-term management plan: 470 (¥100 mil.)
### Net Sales & Operating Income by Segment (Compared to the last year of the midterm plan)

(¥100 mil.)

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY 2017 Results</th>
<th>FY 2020 Plan</th>
<th>Previous midterm plan difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(A)</td>
<td>(B)</td>
<td>(B) - (A)</td>
</tr>
<tr>
<td>Specialty Steel</td>
<td>1,890</td>
<td>2,050</td>
<td>160</td>
</tr>
<tr>
<td>Net Sales</td>
<td>1,890</td>
<td>2,050</td>
<td>160</td>
</tr>
<tr>
<td>Operating Income</td>
<td>65</td>
<td>70</td>
<td>5</td>
</tr>
<tr>
<td>High Performance Materials &amp; Magnetic Materials</td>
<td>1,708</td>
<td>2,100</td>
<td>392</td>
</tr>
<tr>
<td>Net Sales</td>
<td>1,708</td>
<td>2,100</td>
<td>392</td>
</tr>
<tr>
<td>Operating Income</td>
<td>222</td>
<td>290</td>
<td>68</td>
</tr>
<tr>
<td>Parts for Automobile &amp; Industrial Equipment</td>
<td>1,063</td>
<td>1,200</td>
<td>137</td>
</tr>
<tr>
<td>Net Sales</td>
<td>1,063</td>
<td>1,200</td>
<td>137</td>
</tr>
<tr>
<td>Operating Income</td>
<td>30</td>
<td>65</td>
<td>35</td>
</tr>
<tr>
<td>Engineering</td>
<td>249</td>
<td>280</td>
<td>31</td>
</tr>
<tr>
<td>Net Sales</td>
<td>249</td>
<td>280</td>
<td>31</td>
</tr>
<tr>
<td>Operating Income</td>
<td>18</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>Trading &amp; Service</td>
<td>142</td>
<td>170</td>
<td>28</td>
</tr>
<tr>
<td>Net Sales</td>
<td>142</td>
<td>170</td>
<td>28</td>
</tr>
<tr>
<td>Operating Income</td>
<td>27</td>
<td>25</td>
<td>-2</td>
</tr>
<tr>
<td>Total</td>
<td>5,052</td>
<td>5,800</td>
<td>748</td>
</tr>
<tr>
<td>Net Sales</td>
<td>5,052</td>
<td>5,800</td>
<td>748</td>
</tr>
<tr>
<td>Operating Income</td>
<td>362</td>
<td>470</td>
<td>108</td>
</tr>
</tbody>
</table>

**Specialty Steel** includes the following segments:
- High Performance Materials & Magnetic Materials
- Parts for Automobile & Industrial Equipment
- Engineering
- Trading & Service

**DAIDO STEEL GROUP**
Beyond the Special
Continue vigorous investment in growing businesses

<Major investment projects>

- Streamline the stainless steel production line at the Chita and Hoshizaki Plants
- Install an electro-slag remelting (ESR) furnace at the Chita and Shibukawa Plants
- Upgrade high-end steel strip capacity in the Chita Steel Strip Factory
- Upgrade the powder factory’s production capacity
- Upgrade the high-performance magnet manufacturing line and consider the establishment of an overseas location for manufacturing high-performance magnet product
- Nippon Seisen Co., Ltd.: Upgrade its high-performance product capacity
- OOZX: Upgrade the hollow valve manufacturing line.
Policy for returns to shareholders

We plan to make investments that exceed depreciation costs during the 2020 Midterm Management Plan period by maintaining vigorous investment in growing businesses. Therefore, we will continue to use a consolidated dividend payout of 20 to 25% as a guide when returning the earnings to shareholders.
### Premises of profit planning for 2020 midterm management plan (Market Trend)

<table>
<thead>
<tr>
<th></th>
<th>UNIT</th>
<th>FY2017 Results</th>
<th>FY2020 Premises of plan (Previous midterm plan difference)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scrap steel</strong></td>
<td>¥thou./t</td>
<td>26.1</td>
<td>30.0 (+3.9)</td>
</tr>
<tr>
<td>Upper: H2</td>
<td></td>
<td>31.1</td>
<td>35.0 (+3.9)</td>
</tr>
<tr>
<td>Lower: Factory bundle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nickel (LME)</strong></td>
<td>$/LB</td>
<td>5.1</td>
<td>6.0 (+0.9)</td>
</tr>
<tr>
<td><strong>Crude oil (Dubai)</strong></td>
<td>$/B</td>
<td>55.9</td>
<td>70.0 (+14.1)</td>
</tr>
<tr>
<td><strong>Exchange rate (TTM)</strong></td>
<td>¥/$</td>
<td>110.9</td>
<td>110.0 (−0.9)</td>
</tr>
</tbody>
</table>
（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.