



Overview of Results for Fiscal 2017

In fiscal 2017, the Japanese economy continued to exhibit a moderate recovery in consumer spending due to improvements in employment and income conditions, and the economy itself continued on a gradual recovery path, along with improved industrial production in the corporate sector. In the U.S., the steady economic recovery continued as consumer spending and capital expenditures increased. In Europe, the gradual economic recovery continued due to robust employment conditions. In China, exports have increased and there are continued signs of an economic upturn.

Under these economic circumstances, the Japanese automobile industry continued its strong performance because in addition to the recovery in domestic sales there was an increase in sales in China. Moreover, demand from China for construction equipment vigorously increased. There was a continued boom in capital expenditures related to semiconductors, and the associated demand continued to be robust. Prices of scrap steel, a key raw material, increased year on year mainly due to the impact of the rising prices of steel products in China.

As a result, the Daido Steel Group's net sales in fiscal 2017 increased by ¥60,096 million year on year to ¥505,219 million, due to a rise in sales prices in line with an increase in

sales volumes and rises in raw material prices. Ordinary income rose by ¥9,757 million to ¥36,130 million, due to the positive contribution of higher sales volumes and other factors. Net income attributable to owners of the parent increased by ¥7,535 million to ¥23,921 million.

Outlook for Fiscal 2018

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, the favorable environment should continue in terms of demand, including continued robust demand for our core customers in the automobile industry. However, there will be significant rises in raw material prices, such as for scrap steel and alloys and auxiliary materials including graphite electrodes used for manufacturing, and in energy costs. It is inevitable that we must pass on these increased costs in our sales prices.

Although we expect that the favorable demand environment will continue, there are uncertainties as well about factors that can impact the world economy, including the

protectionist movement in the U.S. and the geopolitical risks of North Korea, the Middle East, Russia and elsewhere. We need to closely watch these factors. In addition, the Daido Steel Group recognizes the ongoing need to monitor risks that could impact the Group, such as the risk of weaker demand due to foreign exchange fluctuations and the risk of price fluctuations in raw materials and fuel.

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

SPECIALTY STEEL

We expect sales volume of structural steel in fiscal 2018 will continue to be favorable as in fiscal 2017, based on the outlook for continued robust global demand from the automotive sector, a major source of demand for this steel. In tool steel, we anticipate the favorable demand conditions of fiscal 2017 to continue. However, there will be significant rises in the costs of raw materials, such as for scrap steel and alloys and auxiliary materials including graphite electrodes used for manufacturing, and in energy costs. We will seek to obtain our customers' understanding as we review sales prices in order to secure a consistently sustainable profit margin.

HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

We expect the sales volumes of high performance products, such as stainless steel, high alloys and powder metal, will increase, assuming robust demand continues in the automobile and semiconductor industries and improvements in the fuel economy of internal combustion engines for automobiles increase usage. 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 focusing on keeping up with ongoing brisk demand for civil aircraft and responding to strong demand related to semiconductor production. In turbo-related products, we will work on achieving mass production at the new plant for precision cast products (second plant for turbine housing) completed this year, considering the likelihood of continued growth in the expansion of demand from an increasing ratio of gasoline engines with turbos installed. In engine valves, we are working on launching the mass production of head hollow valves that contribute to improving the fuel consumption of automobiles.

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 and suchlike to auto parts makers.

TRADING AND SERVICE

In the trading and service segment, demand should be at the same level as in 2017.

Based on the above, for fiscal 2018, the Daido Steel Group forecasts consolidated net sales of ¥550.0 billion, operating income of ¥36.5 billion, ordinary income of ¥37.0 billion, and net income attributable to owners of the parent of ¥24.0 billion.

Medium- to Long-Term Management Strategy

Private and public entities have begun initiatives to realize a sustainable society all over the world. Even among our customers, the reduction of emissions that contribute to global warming is a major topic for them, and they require high levels of efficiency for the internal combustion engines of automobiles and jet engines of aircraft.

In the automobile industry moreover, a major technological innovation is about to occur—the kind of innovation that occurs only once every 100 years, such as the diversification of power trains to proliferate the use of electronics and similar devices and the expanding use of automated cars and connected cars. Furthermore, the digital revolution marches onward, taking advantage of big data, AI (artificial intelligence) and IoT (Internet of Things), and ushering in transformations in a wide variety of industries. As a result, the Daido Steel Group expects that demand for semiconductors will increase and the automation of various processes and suchlike by robots will develop further.

In this business environment, we formulated our medium-term business plan (Daido Steel Group 2020 Mid-Term Management Plan), a three-year plan through fiscal 2020 (the fiscal year ending March 31, 2021), and publicly announced it in June 2018. By providing the high performance materials that our customers need, we aim to firmly support these evolutionary and technological innovations. The Group will put into practice its basic management policies and guidelines for corporate activities, and work to achieve the management performance indicators described in the pages that follow.

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Takeshi Ishiguro
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