

SPECIALTY STEEL

Overview of Business

Specialty steel, the Company's core business, generates approximately 37% of consolidated net sales. Specialty steel is made by combining steel with alloys to add value in the form of properties such as resistance to heat, abrasions or rust. Because a range of special properties can be achieved by varying the types and amount of alloy, one of the special features of the business is that products are developed to meet the specific applications required by users. The automobile and industrial machinery sectors are the primary users of specialty steel, accounting for about 80% of sales in this business segment.

Results of Operations

Sales volume for structural steel increased year on year, mainly due to favorable sales in the automotive sector, a major source of demand for this steel, and a recovery in demand for industrial machines in China. Sales volume of tool steel increased year on year as inventory adjustments ended. The cost of steel scrap, the main raw material, rose year on year mainly due to the impact of the rising prices of steel products in China. Sales prices also increased year on year in line with this trend.

As a result, the specialty steel segment's net sales in fiscal 2017 increased 14.6% year on year to ¥186,835 million, due primarily to higher sales volume and an increase in sales prices in connection with rising raw material prices. Operating income increased by ¥664 million to ¥6,478 million.



Tool steel from Daido Steel

HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

Overview of Business

This segment, which accounts for roughly 34% of consolidated net sales, manufactures and sells high performance materials and magnetic materials used chiefly in automobiles, computers, mobile phones and consumer electronics.

Key products include stainless steel products, rare earth magnets, high alloys, titanium products, and high performance powder metal products.



NEOQUENCH-DR (Nd-Fe-B ring magnets) for EPS motors

Results of Operations

Sales volume of stainless steel products increased year on year, driven by strong demand for use in automobiles and semiconductors. Sales volume of high alloys increased year on year atop higher automobile-related demand. Sales volume of magnetic products rose year on year primarily due to a continued increase in demand for use in electronic power steering systems, in addition to higher demand for use in the drive motors of hybrid vehicles. Powder metal products saw sales volume remain mostly unchanged from the previous fiscal year, as firm demand for use in hybrid vehicles and other applications was largely offset by some weakness in demand for overseas automobile components.

As a result, net sales for the high performance materials and magnetic materials segment in fiscal 2017 increased 15.0% year on year to ¥170,788 million, due primarily to higher sales volume and an increase in sales prices in connection with rising raw material prices. Operating income rose by ¥4,779 million to ¥22,196 million as higher sales volume and an improved sales composition contributed positively to earnings.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

Overview of Business

This segment contributes around 21% of consolidated net sales. It manufactures die forged parts such as crankshafts using specialty steel, precision cast parts for use in turbochargers, as well as engine valves, jet engine shafts and parts for gas turbines. Most of the auto parts sold in this segment use materials that were developed through joint projects with automakers to meet their exacting requirements. These parts can therefore lower processing expenses at customers' factories as well as contribute to reducing the weight of finished products.

In this segment, Daido Steel has a high market share in numerous product categories, including aircraft jet engine shafts, automobile engine valves and turbine wheels. We will continue to develop and launch new products that differentiate us from competitors and support our position as a provider of advanced parts.

In addition to specialty steel supplied by the specialty steel segment of the Group, some materials used in this segment are manufactured in-house.

Results of Operations

Net sales of free forged products increased year on year, due to increased demand for use in semiconductors, along with solid aircraft-related demand. Net sales of die forged products and engine valves increased year on year, owing to favorable automobile sales. Net sales of precision cast products rose year on year, reflecting continuing growth in turbocharger-related demand.

As a result, net sales in the parts for automobile and industrial equipment segment for fiscal 2017 increased 9.0% year on year to ¥106,288 million. Operating income rose by ¥3,586 million to ¥3,070 million, as higher sales volume and an improved sales composition contributed positively to earnings.



Jet Engine Shaft



ENGINEERING

Overview of Business

This segment generates about 5% of consolidated net sales. Major activities include the design and manufacture of, and related after-sales services for, melting and refining equipment such as arc furnaces and ladle furnaces (LF), heat treatment furnaces for auto parts such as vacuum carburizing furnaces and STC® (Short Time Cycle) annealing furnaces, and environmental equipment such as sewage sludge carbonization furnaces and automobile tunnel filters, as well as machine tools.

With respect to heat treatment furnaces for auto parts in particular, the operation and engineering technologies we have fostered over the years support our cutting-edge engineering business worldwide, in which we constantly maintain a grasp of current market needs. The many new types of equipment and technologies that this segment has created contribute to improvements in quality for customers and energy reduction in a wide variety of settings.

Results of Operations

In the engineering segment, sales of vacuum carburizing furnaces and parts increased. As a result, engineering segment sales for fiscal 2017 increased 4.0% year on year to ¥24,865 million, while operating income increased by ¥617 million to ¥1,835 million.



Daido Arc Process (DAP)

TRADING AND SERVICE

Overview of Business

The major activities of this segment, which accounts for approximately 3% of consolidated net sales, include the sale of products made by Group companies, employee benefits services, real estate and insurance services, golf course management, analytics, and sales of software to external customers.

Results of Operations

Net sales in the trading and service segment for fiscal 2017 rose 35.2% year on year to ¥16,443 million, while operating income increased by ¥1,103 million to ¥2,686 million. These increases partly reflected growth in transaction volume, mainly owing to higher sales volumes of specialty steel and high performance materials.