

## SPECIALTY STEEL

### Overview of Business

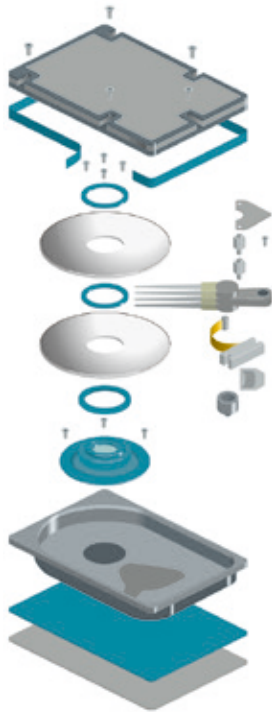
Specialty steel, the Company's core business, generates approximately 40% of consolidated net sales. Specialty steel is made by combining steel with alloys to add value in the form of properties such as resistance to heat, abrasions or rust.

Because a range of special properties can be achieved by varying the type and amount of alloy, one of the special features of the business is that products are developed to meet the specific applications required by the user. 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

In the specialty steel segment, sales volume increased year on year atop higher export sales due to an upturn in orders resulting from the yen's depreciation in addition to expanded sales to the industrial machinery sector. The increase came despite the effects of the decline in demand for automobiles in reaction to the consumption tax increase and sluggish Japanese automobile sales in China and the ASEAN region. Tool steel sales volume also increased on higher sales to Asia and strong automobile-related demand, especially for exports.

As a result, the specialty steel segment's net sales in fiscal 2014 increased 2.7% year on year to ¥189,125 million due to an increase in sales volume. Operating income increased by ¥1,486 million to ¥3,178 million.



#### HDD Spindle Motors

Daido Steel is the world's leading supplier of stainless steel for HDD spindle motors.

## HIGH PERFORMANCE MATERIALS AND MAGNETIC MATERIALS

### Overview of Business

This segment, which accounts for roughly 33% of consolidated net sales, manufactures and sells high performance materials and magnetic materials used chiefly in computers, automobiles, mobile phones and consumer electronics. Notably, Daido Steel holds the world's largest market share as a supplier of magnets for spindle motors\* for hard disk drives (HDD).

Key products include rare earth magnets (used in spindle motors\* for HDD and other products), high alloys, titanium products and high performance powder metal products, and electromagnetic materials.

\* Spindle motor: The motor used to rotate hard disk drives installed in computers.

### Results of Operations

Net sales of stainless steel products were up year on year driven by strong demand for HDD-related products and automobiles, as well as higher sales prices reflecting higher nickel prices. Sales of high alloy products, magnetic products, and powder metal products surpassed those of the previous fiscal year thanks to firm demand for use in automobiles. Moreover, sales of titanium products increased, reflecting strong demand for use in medical services in Japan.

As a result, buoyed by strong demand, net sales for high performance materials and magnetic materials in fiscal 2014 increased 12.7% year on year to ¥161,758 million. Operating income also increased by ¥2,413 million to ¥13,518 million due to higher sales prices.



#### NEOQUENCH-P (NdFeB Polymer-bonded Magnets)

Magnets for precision, high-speed motors used in mobile phones, office automation (OA) equipment and other products; currently the world's most popular magnet for HDD spindle motors.

## 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 gears and turbochargers (used in diesel engines to improve fuel efficiency and reduce exhaust gases), 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.

Many products in this segment are leading products in their respective market categories, such as aircraft jet engine shafts and marine diesel engine valves. Daido Steel also has a high market share in numerous other product categories, including automobile engine valves and turbine disks. We will continue to develop and launch new products that differentiate us from competitors and support our position as a provider of advanced products.

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

### Results of Operations

Sales of free forging products increased year on year atop strong demand for use in commercial aircraft and large plant-related equipment. Die forging product volumes and sales were largely in line with those of the previous fiscal year as inventory adjustments resulting from sluggish automobile sales in the ASEAN region were offset by new sales expansion. Sales of engine valves increased on brisk orders following solid North American automobile sales and other factors. Sales of castings and precision cast products were up year on year due to robust demand for turbo-related products, despite the Company's withdrawal from large castings.

As a result, net sales in the parts for automobile and industrial equipment segment for fiscal 2014 rose 2.5% to ¥99,386 million. Operating income declined by ¥2,756 million to ¥1,024 million due to a deteriorating content structure and the posting of slag treatment-related expenses at the Shibukawa Plant.



#### Hot, High-speed Precision Forgings

Daido Steel is one of the largest manufacturers of hot, high-speed precision forgings.

## ENGINEERING

### Overview of Business

This segment generates about 5% of consolidated net sales. Major activities include the manufacture of steelmaking equipment, industrial furnaces, and associated equipment. This segment also manufactures environmental equipment for the treatment of wastewater, gas emissions and waste materials (mainly to public-sector clients with incinerated ash melting systems for urban waste) and machine tools.

With respect to environmental equipment in particular, the operation and engineering technologies we have fostered over the years support our cutting-edge engineering business, which constantly has a grasp of current market needs. The many new types of equipment and technologies that this segment has created contribute to environmental preservation and energy reduction in a wide variety of settings. Operations also include maintenance and management of this machinery and equipment.

### Results of Operations

In the engineering segment, overseas projects, such as the construction of industrial furnaces in the ASEAN region, expanded steadily. However, sales from large construction projects, such as a facility for manufacturing magnetic materials for related companies, had been concentrated in the previous year and, consequently, net sales decreased year on year.

Engineering segment sales for fiscal 2014 decreased by

5.0% to ¥22,904 million. However, operating income increased ¥526 million to ¥1,652 million, mainly due to the margin on projects improving.



Daido Arc Process (DAP)

## TRADING AND SERVICE

### Overview of Business

The major activities of this segment, which accounts for approximately 2% 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 increased thanks to strong exports to North America. However, operating income decreased on recording losses related to system development.

As a result, net sales in fiscal 2014 climbed 15.7% to ¥10,460 million, while operating income declined by ¥237 million to ¥1,043 million.