

SPECIALTY STEEL

Overview of Business

Specialty steel, the Company's core business, generates approximately 38% 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 as automobile-related demand was brisk and demand for industrial machinery was robust. Sales volume for tool steel also rose year on year, driven by strong momentum in the automobile field.

The cost of steel scrap, the main raw material, was generally higher year on year due to strong domestic demand. A sharp rise in prices for auxiliary materials such as graphite electrodes used in steelmaking also led to higher costs. Sales prices increased year on year, reflecting the rise in raw material and auxiliary material prices.

As a result, the specialty steel segment's net sales in fiscal 2018 increased 9.9% year on year to ¥207,744 million, due primarily to higher sales volume and an increase in sales prices reflecting higher raw material and auxiliary material prices. Operating income decreased by ¥479 million to ¥5,998 million, owing to the impact of higher costs associated with a steep increase in auxiliary material prices.



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 volumes of stainless steel products and high alloys increased year on year, driven by brisker demand amid the movement to make automobiles more fuel efficient. However, semiconductor-related products were affected by capital expenditures being delayed worldwide and magnetic products by lower automobile sales in China, such that both saw a decline in sales volume along with inventory adjustments. Net sales of powder metal products increased, due to an increase in sales prices reflecting higher raw material prices.

As a result, net sales for the high performance materials and magnetic materials segment in fiscal 2018 increased 8.1% year on year to ¥184,554 million, reflecting higher sales volumes for stainless steel and high alloys used in automobiles, along with higher sales prices. Operating income decreased ¥1,501 million to ¥20,694 million, owing mainly to lower sales volumes for semiconductor-related stainless steel and magnetic products.

PARTS FOR AUTOMOBILE AND INDUSTRIAL EQUIPMENT

Overview of Business

This segment contributes around 20% 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 auto-makers 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 as strong aircraft-related demand outweighed a decline in semiconductor-related demand in the fourth quarter. Net sales of die forged products and engine valves rose year on year, reflecting brisk automobile production. Net sales of precision cast products increased year on year, owing to ongoing growth in demand for turbine housing. However, turbine wheels experienced inventory adjustments, due mainly to a decline in automobile sales in China.

As a result, net sales in the parts for automobile and industrial equipment segment for fiscal 2018 increased 3.4% year on year to ¥109,929 million, chiefly on a contribution from sales volume growth. Operating income decreased by ¥761 million to ¥2,309 million, as a sharp rise in auxiliary material prices pushed up costs.



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

Net sales in the engineering segment for fiscal 2018 increased 10.7% year on year to ¥27,529 million, as companies' capital expenditures were strong, and operating income rose ¥455 million to ¥2,292 million.



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 for fiscal 2018 declined 4.8% year on year to ¥13,499 million, while operating income decreased by ¥158 million to ¥2,527 million. These decreases partly reflected lower sales at the China trading subsidiary from a slowdown in domestic demand in China.