

To Our Shareholders

It is my pleasure to submit to shareholders this report on our operating results and strategies.

In the fiscal year that ended in March 2005, we recorded substantial increases in sales and earnings. Consolidated net sales increased 16.7% to ¥429,106 million, operating income improved 123.1% to ¥21,456 million and net income was up 171.0% to ¥11,385 million. Due to this performance, we reached our medium-term management plan goals for sales, return on assets (ROA) and total assets ahead of schedule. Our strong results reflect more than a favorable operating environment. They are due also to market acceptance of the technological skills that we have built over many years.

The manufacture of specialty grades of steel requires much more advanced technology than common steel production. The Daido Steel Group's success in the specialty steel industry is achieved through creativity and a storehouse of technologies that allow us to solve problems that at first appear to be impossible. These strengths are the result of our decades of dedication to *monozukuri*, the art of manufacturing. The desire to develop new technologies and products

has always been an integral element of Daido's "DNA." Through the years, our R&D activities have created numerous products that have become global leaders. Many products are exclusive to Daido Steel. This dedication to creativity and *monozukuri* underpins the solid market positions that we enjoy today.

I am convinced that demand for specialty steel will grow significantly during the 21st century. Value-added specialty steel that performs specific functions is already essential in a variety of fields. Automobiles, aircraft and electric generators all require steel and steel components that have outstanding precision and strength. Environmental issues are creating another source of demand. The kinds of technologies Daido Steel can develop will be vital to conserving energy by making various products

lighter and more efficient. Another positive trend is the rising demand for specialty steel in China and other Asian nations where economic growth is strong. A recovery in demand for aircraft and other market trends are also creating generally favorable conditions for specialty steel.

These trends are one reason for the growth in our sales and earnings in the past fiscal year. But even as we benefit from this environment, we are continuing to build an operating platform for further growth without relying on favorable market conditions. Our current medium-term management plan calls for a switch in focus from quantity to quality. With this in mind, we are building a sounder profit structure by focusing resources on number-one products while boosting efficiency through cost reductions and organizational reforms. This process will give us a framework better able to produce consistently high earnings. We have also started work on a profit structure that can support the development of next-generation products.

In terms of its environmental credentials, specialty steel is mainly made from steel scrap using electric furnaces. We are proud of the role we have played since the Company was founded in striving to realize a recycling-oriented society. Today, as a responsible corporate citizen, we are working even harder to contribute to society with engineering that protects the environment based on superior technologies accumulated through years of specialty steel production.

Our strong performance in the past fiscal year represents nothing more than a starting point for even greater accomplishments. But rising sales and earnings do demonstrate that Daido Steel is well positioned to grow as the 21st century takes shape as "the age of specialty steel."

Every member of the Daido Steel Group is firmly committed to aiming for higher goals in order to maximize our value as an enterprise and meet the expectations of shareholders, customers and all other stakeholders. I believe that we are ideally positioned to benefit from market trends and leverage our strengths in order to achieve these goals.

August 2005



Masatoshi Ozawa
President and Representative Executive Director

