

The President Discusses Strategies and Goals

«Daido Steel's Core Strengths»

Q. What strengths set Daido Steel apart from its competitors?

Answer: We have two distinguishing strengths in the specialty steel field: expertise in developing technologies, and the ability to provide solutions for our customers' problems. Specialty steel is an advanced material that performs specific functions. Alloys are added to achieve the required quality of specialty steel such as strength, hardness and other properties. Unlike common steel, specialty steel is not a commodity-like product with a price driven mainly by market conditions. We supply value-added products that are quite different from ordinary materials. Daido Steel also offers ideas for and develops steel grades that are precisely suited for use in our customers' products. We thus provide our customers with a sophisticated service that matches specific needs.

At present, we manufacture about 2,000 kinds of steel. Common steel is used mainly in construction. But our specialty steel is used chiefly for critical components in products that have stringent quality requirements. Automobiles, aircraft and electric generators are three primary applications. Many of our products rank first in their market categories worldwide. We have a solid reputation as a supplier of products with superior quality and performance that no competitor can match.



Specialty steel for automotive parts accounts for about 55% of our sales. We are one of the world's largest suppliers of specialty steel for automotive chassis and powertrain components, which require materials of extraordinary strength and precision. Daido Steel also has solid positions in many other markets as a recognized supplier of products outside the field of specialty steel. Examples include electronic materials used in PCs and cell phones, materials for railway cars, ships, aircraft and power generation facilities, as well as many kinds of steel for dies and molds. Our machinery business provides steelmaking equipment and environmental systems like waste processing facilities.

I expect that global competition will become even more intensified and that the needs of customers will diversify. However, our ability to develop technologies and provide solutions gives us a big advantage in overcoming these challenges.

«Operating Results»

Q. What is your view of last year's sales and earnings in light of market conditions?

Answer: Our performance was outstanding. We recorded a ¥61,313 million, or 16.7%, increase in consolidated net sales to ¥429,106 million and net income rose ¥7,184 million, or 171.0%, to ¥11,385 million. One reason was higher sales by Japanese automakers based overseas.

Our engineering and new materials businesses showed generally steady growth. On the negative side, though, we had to deal with a sharp increase in the cost of raw materials caused by much higher demand for steel in China and Southeast Asia. We also saw downturns in sales of electronic materials for digital cameras and IT products and in sales of environmental equipment, such as our incinerated ash melting system. Fortunately, we offset these challenges by cutting costs, revising prices and increasing sales of high-margin products.

«Medium-term Management Plan»

Q. The current management plan ends in March 2006. What is the outlook for achieving the plan's goals?

Answer: We achieved the three-year plan's goals for sales, ROA and total assets in the past fiscal year. I expect to reach the operating income goal this year as planned. So our performance last year gave us a sound base for a successful conclusion to the management plan in the current fiscal year.

The main goal of the plan is to rebuild our profit structure by switching our emphasis from quantity to quality. Building this structure will allow us to generate consistently high earnings.

Our highest priority is channeling more resources into strategic products ranking first in their markets worldwide. Sales of these number-one products totaled ¥79.9 billion in the year ended March 2003. In the fiscal year that ended in March 2005, this figure was about ¥100 billion. At the completion of the next medium-term plan in the year ending March 2009, we are aiming for a further increase to more than ¥200 billion and for these products to account for half of total sales. Driving this growth will be something that has distinguished the Daido Steel Group for many years—creative thinking. Innovation will target improvements in existing products as well as the development of entirely new products. R&D programs for next-generation products will focus on electromagnetic materials and materials for the energy field. For example, we are working on commercializing a high-performance, thin-film magnetic sensor (GIGS). In the energy field, we are collaborating with Sharp Corporation and DAIDO METAL Corporation to develop a concentrator photovoltaic system that achieves world-leading energy conversion efficiency. We hope to complete development of this system during the next management plan.

The reduction of interest-bearing debt remains to be achieved. Lowering debt is essential to building a sounder financial position. To accomplish this, we are concentrating on improving cash flows. Basically, this entails raising earnings through measures such as revising prices, improving the product mix, and cutting costs. Accordingly, we are increasing investments in products where we lead the market or where growth prospects are good. In other categories, investments will be made to achieve further rationalization. Overall, I am confident that targeted and effective investments will lead to higher earnings.

We are now focusing our resources on the remaining goals of the medium-term plan. Reaching these goals will be vital to laying the groundwork for taking on the even higher goals for further expansion in the next plan.

Goals of the Medium-term Plan

Year ending March 2006

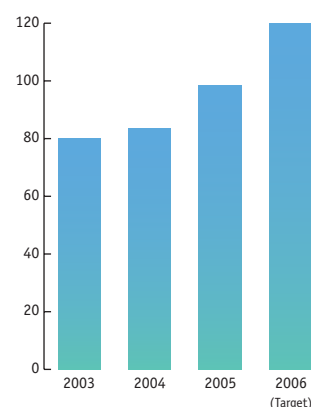
Net sales	¥375 billion
Operating income	¥21.5 billion
ROA	5.0%
Total assets	¥378 billion
Interest-bearing debt	¥110 billion

Medium-term Management Plan Objectives

Target number-one products for growth	<ul style="list-style-type: none"> • Become more selective in mature markets and product categories • Focus resources on number-one products • Quickly develop next-generation, number-one products
Improve the profit structure	<ul style="list-style-type: none"> • Cut costs, improve production efficiency and ensure capital expenditures rapidly contribute to sales and earnings • Review low-margin product lines • Collaborate and form alliances with other manufacturers
Expand outside Japan	<ul style="list-style-type: none"> • Enlarge supply and sales networks in Southeast Asia and North America
Enact reforms to improve Group management	<ul style="list-style-type: none"> • Reorganize businesses of the Daido Steel Group

Growth in Sales of Number-one Products

(billions of yen)



«Corporate Governance»

Q. Would you explain Daido Steel's corporate governance policy and systems?

Answer: Achieving transparent management by strengthening corporate governance is one of our highest priorities. We believe that effective corporate governance is essential to managing Daido Steel efficiently and speeding up decision-making. We have implemented many corporate governance measures, particularly regarding internal and external systems for checking business execution.

As part of this process, we are building management systems and a corporate culture centered on speed, simplicity and self-confidence to ensure that we reach the right management decisions. Speed refers to the ability to reach management decisions faster. As an organization dedicated to *monozukuri*, Daido Steel must consider technical issues when making decisions. Managers are therefore required to have a good understanding of manufacturing technologies and are given the necessary training to allow them to make quick and accurate management decisions.



Simplicity refers to our organizational structure. We have already adopted a divisional management framework in which unit managers have considerable decision-making autonomy. Our aim is to speed up decision-making by giving more discretion to lower-level executives.

Self-confidence expresses our desire for every employee to understand and be proud of Daido Steel's strengths. We also want our people to upgrade their skills and be confident in their abilities. For example, I myself lead the Daido Top Seminar, which is held every six months for executives at the general manager level. This seminar provides a firm grounding in our history, strategies and management styles for the individuals who are in line to join the senior management team. Our goal is to upgrade management skills by conducting the necessary training programs in-house.

Our corporate governance extends to a rigorous compliance system that includes a Risk Management and Ethics Committee and an Internal Audit Department.

«Outlook for Operating Results»

Q. What are your expectations for growth in sales and earnings during the next few years?

Answer: I believe that demand for specialty steel will remain solid for the foreseeable future. This outlook is based on a number of positive trends in our markets.

First, Japanese automakers continue to increase sales outside Japan. I expect that overseas auto sales will grow until at least the Shanghai Expo in 2010. That means higher demand for specialty steel in line with this increase. On the supply side, we are seeing only limited investments in Japan to raise capacity at specialty steel mills. And it will take considerable time for Japanese automakers to approve new mills in China and other countries that have been built by material suppliers. The supply of specialty steel will therefore probably remain tight, and, consequently, prices should remain firm. Based on this outlook, I expect to see solid growth in sales in our core business of automotive specialty steel and components.

The second trend is the strong demand for our products being fueled by infrastructure investments in China and other Asian countries. For example, we are seeing remarkable growth in our sales of turbine blades and shafts for electric generators. I am confident this growth will last for at least several years.

Third is resurgent aircraft sales following the extended slump in the wake of the 9-11 terrorist attacks. We supply about 30% of the jet engine shafts worldwide. Naturally, sales of these shafts are rising with aircraft orders.

As we target these favorable trends, we are also considering ways to restructure two underperforming businesses: certain categories of our IT business, and environmental equipment, which relies mainly on public-sector orders and remains in a slump.

To remain a leader in the specialty steel industry, we are leveraging our expertise in developing technologies and products to enhance our reputation as a technology-oriented organization. With this in mind, we have established the Next Decade Research Section. Consisting of Daido Steel research engineers and external advisers, this unit formulates R&D strategies from medium- and long-term perspectives. It is now working on strategies that look ahead to 2015.

In sum, our activities over the next few years will continue to be guided by our medium-term management plan, which calls for us to shift from quantity to quality by focusing on number-one products. We will invest in profitable businesses and next-generation businesses while reinforcing the performance of existing operations. Our goal is to create a business portfolio that excels in terms of growth and consistency.

Finally, I would like to note that we plan to pay a dividend of ¥5.0 per share, the sum of ¥2.5 interim and year-end distributions, applicable to the fiscal year ending in March 2006.