

TO OUR SHAREHOLDERS

EARNINGS UP SHARPLY

The automobile industry, the largest source of demand for our products, continued to perform well during the past fiscal year as output climbed, particularly outside Japan. Factories of the Daido Steel Group operated at full capacity to fill orders from the automobile industry and other customers. Orders from IT companies briefly weakened due to the global downturn in the IT industry. However, this downturn had no effect on our high production volume during the fiscal year due to solid demand for our products in other industries.

Amid these generally favorable market conditions, we recorded a 12.0% increase in consolidated net sales to ¥480,704 million. Earnings rose dramatically despite the much higher cost of metals of all types. We conducted a cost-containment drive, raised prices and increased sales of high-margin products. The result was a 75.0% increase in operating income to ¥37,543 million and an 86.2% increase in net income to ¥21,196 million.

PERFORMANCE WELL ABOVE THE MEDIUM-TERM PLAN'S TARGETS

The fiscal year that ended in March 2006 was the final year of our three-year medium-term management plan. We surpassed all our targets by a wide margin, particularly with regard to earnings.

Results Surpass Medium-term Plan Targets (billions of yen)

	Target	Actual performance
Net sales	375.0	480.7
Operating income	21.5	37.5
ROA	5.0%	8.6%

Our operating environment is quite different when this plan started. China's steel output and consumption has increased dramatically, but the cost of all raw materials is much higher than we had anticipated. In response, we have raised our prices and expanded the scope of our surcharges. On the positive side, the volume of orders is exceeding our forecasts. Fueling demand is strength in key industries such as automobiles, shipbuilding, aircraft and industrial machinery. We acted quickly, making investments to eliminate bottlenecks by raising capacity and improving productivity. Due to these investments, we have been filling all orders by operating at full capacity. These accomplishments are proof of the enormous progress made during the three-year plan. We now have an operating system that can adapt to shifts in market conditions with speed and agility.



OUR NEXT THREE-YEAR MANAGEMENT PLAN

The next three-year plan, which will end in March 2009, reflects our outlook for market conditions five to ten years from now. We expect demand for specialty steel for automobiles and other products to continue growing until around 2010. Furthermore, demand will be especially strong for the high grades of steel where Daido is most competitive. Tighter environmental regulations and the increasing use of intelligent transport systems (ITS) are two reasons for this outlook. But there are challenges, too. Prices of raw materials are likely to remain high because of economic growth in the BRIC (Brazil, Russia, India, China) nations.

Therefore, one central theme for Daido Steel will be meeting the high level of demand foreseen over the next three years. At the same time, we need to act now to deal with the impact of costly raw materials.

AIMING FOR GROWTH PROPELLED BY QUALITY AND QUANTITY

The medium-term plan that began in April 2006 has two core elements: "enhancing the quality of volume products" and "boosting the output of high-quality products." Our goals are to build a sound base for earnings while increasing our presence in growing markets and our lineup of products with rising sales. To accomplish these goals, we are focusing on the following three strategies:

❖ Grow by focusing on expanding markets

Daido Steel will continue to meet rising demand from the automobile industry. During the three-year plan that just ended, we increased our output of specialty steel, turbocharger components and magnets for power steering systems. We will continue to add capacity for automotive parts during the new three-year plan.

❖ Grow in product categories that need high performance, distinctive technologies

We plan to increase sales in market sectors where we can use our strengths to offer highly distinctive products. Primary targets are aircraft and shipbuilding

components, parts used in the energy industry, and parts for electronic devices, all areas that we believe will see further growth in demand. Plans also include entering new fields based on an aggressive R&D program.

❖ Form alliances to become more efficient and competitive

We plan to form many types of alliances to make procurement, production and other activities more efficient and globally competitive. For example, we announced a technical and equity alliance in the high-end specialty steel sector with Hitachi Metals, Ltd. in March 2006.

In addition to these measures, we are working relentlessly on cutting costs and boosting productivity at our factories to meet the strong demand for our products. Our aim is to upgrade our production capabilities in a manner that improves efficiency and provides a sound base for long-term growth.

Shareholders will benefit from the new three-year plan from a long-term perspective. By fulfilling the plan's goals, we will increase our corporate value and build a base for returning a substantial volume of earnings to shareholders. During the plan, our goal is to maintain a dividend payout ratio of between 15% and 20%. I am confident that our past year's performance is just one step toward even greater accomplishments that will generate more value for our shareholders and all other stakeholders.

June 2006



Masatoshi Ozawa
President and Representative Executive Director