

THE NEW MEDIUM-TERM MANAGEMENT PLAN: Delivering Qualitative Growth



In April 2006, Daido Steel began executing a three-year management plan structured to further improve consolidated performance.

The primary objective of this plan is to build a profit structure less vulnerable to shifts in the operating environment. One step in this direction is eliminating or minimizing sales of low-margin, general-purpose products. This will mean increasing our presence in market sectors requiring highly specialized products where our technologies are most valuable. The core automotive parts business is one such sector. Quantity is one focus: We will meet rising demand for high-end components. Quality is another focus: We will constantly improve these products. In the industrial machinery and electronic devices sectors, the goals are increasing sales of products that perform specific functions and are highly distinctive. Through this approach, we intend to increase sales and earnings.

New Medium-term Management Plan Goals (Years ended March 31)

	2006	2009	Change
Net sales (millions of yen)	480,704	530,000	49,296
Operating income (millions of yen)	37,543	53,000	15,457
Operating margin (%)	7.7	10.0	2.3
Net income (millions of yen)	21,196	30,000	8,804
Net income per share (yen)	48.19	69.11	20.92
ROA (%)	8.6	Over 10	1.4
Interest-bearing debt (millions of yen)	152,387	125,000	(27,387)
Debt-equity ratio	0.88	0.53	(0.35)

MARKETS TARGETED BY SPECIALTY STEELMAKERS

Mainly products for specific applications

High-performance/high-growth domain

High-performance/differentiated products domain

TECHNOLOGICAL SKILLS REQUIRED

Environment, energy conservation, lighter weight, better performance, etc.

Higher

Key Elements of the New Medium-term Plan

1. EXPAND LINEUP OF AUTOMOTIVE PARTS ◆◆◆ (P. 6)

Growth is expected to continue in the global automobile industry. Daido Steel will capitalize on this growth by narrowing its focus to product categories demanding advanced technologies. The goal is to grow in established markets while developing new markets.

2. EXPAND LINEUP OF PRODUCTS FOR INDUSTRIAL MACHINERY AND ELECTRONICS ◆◆◆ (P. 8)

Daido Steel already has a competitive edge in these fields. Backed by its outstanding technologies, Daido Steel has earned a reputation for reliability among manufacturers of aircraft, ships, industrial machinery, hard disk drives and many other products large and small. The goal is to grow in established markets as well as in markets the company is newly targeting.

3. FORM ALLIANCES ◆◆◆ (P. 9)

Daido Steel is forming many types of alliances to effectively tap the resources of partners. We foresee many benefits. Some alliances will diversify procurement channels, better enabling us to adapt to changes in markets for various materials. Alliances will also be used to increase sales by raising production capacity, respond to the globalization of our customers' operations and cut costs by raising efficiency.

1. Expand Lineup of Automotive Parts

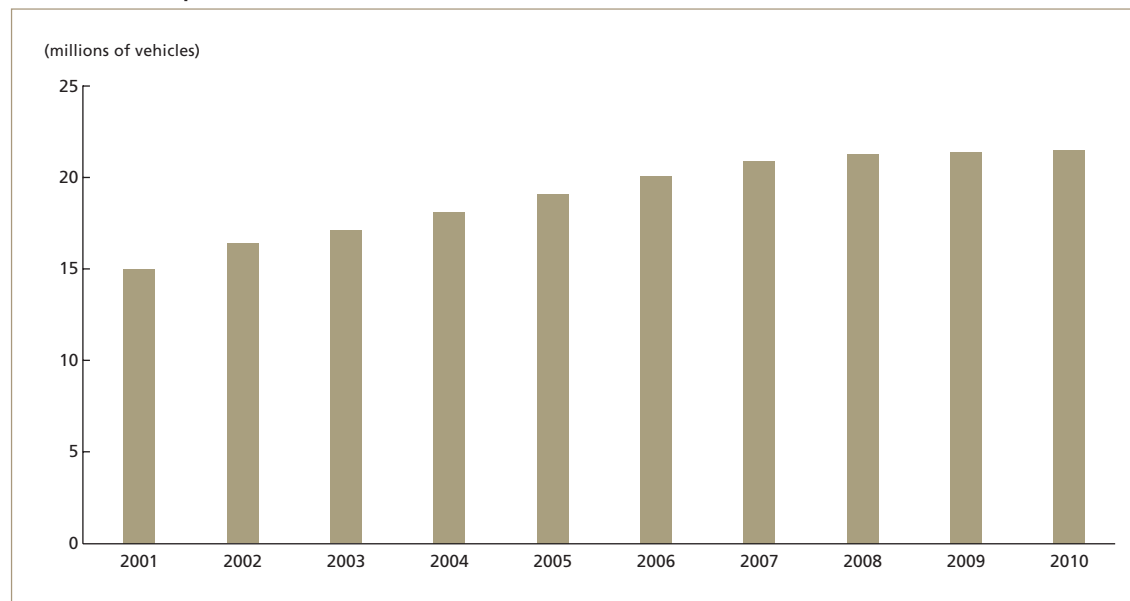
The automobile industry accounts for a large share of demand for specialty steel worldwide, making it a crucial market for Daido Steel. Projections for steady growth in auto sales indicate that this demand will also increase. Through progress in terms of quality and quantity and a focus on high-performance products, Daido Steel is determined to sustain its own growth in the automotive market.

OUTLOOK FOR THE AUTOMOBILE INDUSTRY

Automobiles are the primary application for our core specialty steel operations, accounting for more than half of total sales. By using advanced technologies and skill in offering ideas to users, we have become a trusted partner of many companies in the automobile industry, as well as in other fields.

Most forecasts predict annual growth of about 4% in auto sales worldwide. Furthermore, Japanese automakers, which are our largest customers, are expected to retain their competitive edge. All these companies are skillful at meeting environmental regulations, designing small and light vehicles, and constantly improving efficiency. Thanks to an extensive manufacturing infrastructure, Daido Steel can serve Japanese automakers worldwide.

Production at Japanese Automakers (Years ended March 31)



* Figures for 2006 onwards are forecasts.

ADVANCES IN QUANTITY AND QUALITY

Under the new three-year plan, we will achieve further advances in quantity and quality to grow along with demand from the automobile industry.

Quantity has two elements. First is raising the output of specialty steel. We will do this by streamlining existing production facilities and improving productivity. We want to build the largest optimized manufacturing infrastructure possible. Second is increasing the volume of products that we supply to companies manufacturing parts for automobile engines, drive trains, exhaust systems and electrical equipment.

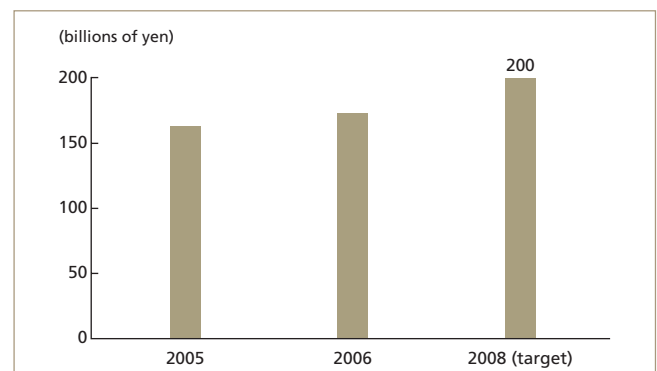
Quality involves the vigorous pursuit of higher performance and added value. Tighter environmental regulations and the need for lighter weight is increasing demand from the automobile industry for specially designed steel. Daido Steel is in an ideal position to benefit from this trend. We have our eye on many opportunities. Regarding specialty steel, special grades for transmissions and common rail systems, and heat-resistant steel and electromagnetic stainless steel are high-margin products that we plan to target in the new medium-term plan. Regarding auto parts, we plan to enlarge our lineup to include high-speed precision forged parts, cast parts for turbochargers, magnetic products for electric power steering, and other opportunities.

SETTING OUR PRODUCTS APART BY USING EXCLUSIVE TECHNOLOGIES

High-end specialty steel is one of our greatest strengths. Each type of steel is customized for a particular application. We can design steel that plays a vital role in allowing client companies to diversify and upgrade their own products. Experience gained through this business gives us considerable expertise involving technology, innovation and how to precisely meet customers' needs. This know-how puts us in a position to enter new fields by targeting even more advanced requirements of our customers.

There is little price-based competition in the market for critical auto parts. Technological barriers are high and each part must complete a stringent certification process. As a trusted partner of many automakers, we thus have an extremely powerful base for capturing orders to earn profits in the automobile industry. We supply many number-one products. We define this as either products that have the number-one global market share or one-of-a-kind products that incorporate exclusive Daido Steel technology. Increasing our lineup of number-one products is a central goal of the new three-year plan. In all, these strengths position us to grow in markets for high-performance products by expanding established operations while developing new markets.

Net Sales of Number-one Products (Years ended March 31)



2. Expand Lineup of Products for Industrial Machinery and Electronics

A large number of Daido Steel products boast a high market share. Our sophisticated technologies make us the leading supplier of numerous components used in aircraft, ships, industrial machinery, hard disk drives, motors of all types, and many other products. Demand for all of these finished products is expected to remain consistently high, giving us an excellent base for further sales growth.

THE INDUSTRIAL MACHINERY AND ELECTRONIC DEVICES MARKETS

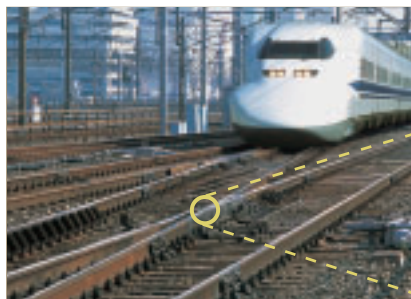
Daido Steel products for industrial machinery play a part in the manufacture of automobiles and countless other products. Aircraft, ships, railroad cars, electric generators and industrial plants are just a few of the growing markets that produce demand for our products. We also foresee growth in sales of hard disk drives, electric motors and other electronic devices, another important source of demand for our products.

The markets we serve have immense potential. Between now and 2024, demand for passenger aircraft is projected to double. Additionally, the world's merchant fleet is expected to grow by about 50% and the world's demand for primary energy to climb by roughly 40% by 2020. Annual growth in semiconductor output is forecast to be about 8% in 2006 and 2007.

Daido Steel already has many number-one positions in the industrial machinery and electronic devices markets. Almost one in every three aircraft jet engine shafts is made by us. We have 60% of the world market for marine diesel engine valves, and we are the only supplier of *Shinkansen* (Japan's "bullet train") railway track manganese crossings, which is the section that must withstand the greatest forces. We also rank first in the world in turbine disks with a share of about 30% and we have a share of roughly 60% in magnets for hard disk drive spindle motors.



Aircraft Jet Engine Shaft



Manganese Crossings



KEEPING PACE WITH GROWTH IN DEMAND

Included in the new three-year plan are measures to ensure we expand along with markets associated with industrial machinery and electronic devices. Significant capital expenditures are planned. Projects include the expansion of remelting facilities, the purchase of large press forging machines and higher output for magnets.

As in the automotive sector, the products we make for industrial machinery and electronic devices are all used for critical components and functions. Barriers to entry are extremely high and only the best technology is acceptable. The majority of our products are order-made for specific finished products. Success requires a complete understanding of each customer's needs based on our technologies and experience. Our sound market positions and customer relationships thus represent an invaluable asset. Our goal is to further distinguish ourselves from competitors by creating even more number-one products in our areas of expertise.

3. Form Alliances

Within the new three-year plan, alliances are positioned as an important means of preserving the proper balance in manufacturing capabilities. Achieving this balance is essential to maximizing overall production capacity. With rapid growth in the BRIC countries and rising global demand for raw materials, alliances will also support the stable and efficient procurement of raw materials. Another goal of alliances is utilizing the resources of our partners to serve our customers on a global scale.

BUSINESS ALLIANCE WITH HITACHI METALS

Daido Steel and Hitachi Metals signed an alliance agreement in March 2006. Increasingly diverse and exacting user needs involving specialty steel were one trend that prompted this action. Another is the need to supply products anywhere in the world. To fulfill these demands, companies must raise efficiency and develop products faster globally. This alliance will allow Daido Steel and Hitachi Metals to make better use of their combined resources. Both companies expect to become more competitive and refine their abilities to create products incorporating advanced technologies. One more advantage is a more diversified manufacturing network, allowing us to continue filling orders even if production is halted at one of our factories by an earthquake or other event.

The Daido Steel-Hitachi Metals alliance has three components.

1. A mutual OEM supply system that more efficiently uses upstream production facilities
2. The joint development of technologies to upgrade manufacturing capabilities
3. The stable and efficient procurement of raw materials, equipment and auxiliary resources