

REVIEW OF OPERATIONS

SPECIALTY STEEL

Accounting for about 55% of consolidated net sales, specialty steel is the core business of Daido Steel. Specialty steel is made by combining steel scrap with alloys and other substances to add value in the form of properties such as resistance to heat, abrasions or rust. Daido Steel is skilled in achieving a variety of desired characteristics by using precise amounts of carefully chosen materials. Companies can thus rely on Daido Steel to develop products that meet the demands of specific applications. 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

Japanese automakers, the largest source of demand for specialty steel, recorded an increase of about 7% in their production volume. This was the combination of a small increase in Japan and stronger growth in North America, Asia and other overseas areas. Growing capital expenditures outside the automobile industry, primarily by machine tool companies, led to higher demand for specialty steel from other user segments, too. One highlight of the year was growth in sales of products where Daido Steel is the world's leading supplier. Illustrating this was higher sales of steel for common rail systems, a fuel-injection technique for diesel engines. Due to these factors, sales of specialty steel at Daido Steel increased 14.8% to ¥265,629 million.

New Medium-term Management Plan Goals

(Years ended March 31)

	2006	2009	Change
Net sales (billions of yen)	265.6	290.0	24.4
Operating income (billions of yen)	19.4	29.0	9.6
ROS (%)	7.3	10.0	2.7

To meet the strong demand for specialty steel, Daido Steel made investments to raise productivity at existing plants and to add production capacity. Investments were focused on eliminating production bottlenecks in order to take full advantage of existing capacity. Examples of such actions include streamlining a blooming mill, building a vertical warehouse for small bar products, and adding another line of vessel transport between the steel mill and continuous casting plant. To offset the higher cost of specialty steel additives such as nickel, molybdenum, vanadium and tungsten, a cost-linked sales price system was adopted and cost-containment measures were increased.

MAJOR INITIATIVES OF THE MEDIUM-TERM MANAGEMENT PLAN

Upgrade manufacturing capabilities

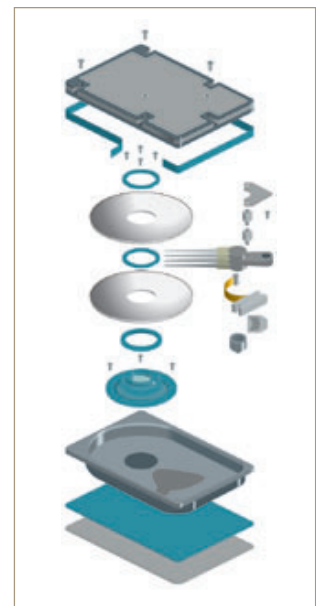
Increase output capacity and raise productivity for automotive specialty steel products; establish an optimum manufacturing infrastructure with the highest possible output capacity.

Establish a variety of alliances

Form alliances for the purposes of raising manufacturing efficiency and better managing risks.

Increase sales of number-one products

Between now and the fiscal year ending March 2009, the goal is to raise sales of tool steel by 6% and sales of steel for heat-resistant bolts by 54%.



Daido Steel is the world's leading supplier of stainless steel for HDD spindle motors.

PARTS FOR AUTOMOBILE & INDUSTRIAL EQUIPMENT

Accounting for about 22% of consolidated net sales, this segment focuses on developing and launching distinctive high-performance products. Many products in this segment have dominant positions in their respective market categories worldwide. Aircraft jet engine shafts and marine diesel engine valves are two examples. Daido Steel has a high market share in numerous other product categories, including automotive engine valves and turbine disks. Most of the auto parts sold in this segment use materials that were developed through joint projects with automakers to fulfill exacting requirements. These parts can therefore lower processing expenses at customers' factories as well as reduce the weight of finished products.

RESULTS OF OPERATIONS

Several factors combined to generate strong demand for Daido Steel's automobile parts. Most significant was higher motor vehicle production and the imposition of tighter restrictions on emissions of diesel engines used in SUVs, trucks and other commercial vehicles. This led to higher sales of die forgings, hot precision forgings and other products. Sales of precision cast products increased in conjunction with extremely high demand for turbo-

chargers, primarily for use in Europe. In March 2006, Daido Steel completed work to raise output capacity of precision castings that are used in turbochargers, mostly in diesel engines.

Sales of parts for industrial machinery were higher, too. Daido Steel's jet engine shaft production facilities operated at full capacity throughout the fiscal year due to the full-scale rebound in global demand for jet aircraft. Daido Steel is the world's leading supplier of these shafts. Backed by rising demand, output of marine diesel engine valves and power generator materials also increased. The result was an 11.9% increase in segment sales to ¥104,092 million.

MAJOR INITIATIVES OF THE MEDIUM-TERM MANAGEMENT PLAN

Make large investments to upgrade production facilities and enhance quality.

During the past fiscal year, the decision was made to add a large 7,000-ton press forging machine at the Shibukawa Plant. The machine is slated to become operational early in 2008. A U.S. subsidiary has ordered a high-speed precision forging machine that is expected to increase sales of forged products to customers in North America.

Increase sales of number-one products

Between now and the fiscal year ending in March 2009, the goal is to raise sales of jet engine shafts by 60%, gas turbine components by 67% and turbocharger parts by 64%.

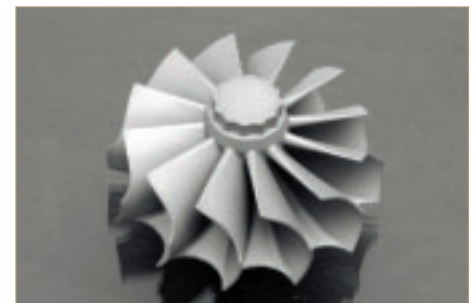
New Medium-term Management Plan Goals

(Years ended March 31)

	2006	2009	Change
Net sales (billions of yen)	104.1	119.0	14.9
Operating income (billions of yen)	10.9	13.0	2.1
ROS (%)	10.5	10.9	0.4

Titanium Aluminide Alloy Turbine Wheel

Daido Steel has achieved a world first by successfully putting gamma titanium aluminide alloys into practical use in turbine wheels for auto engines.



ELECTRONIC AND MAGNETIC MATERIALS

The major products in this segment, which accounts for about 10% of consolidated net sales, are electronic and magnetic materials. Most of these materials are used in computers, automobiles, cell phones and digital consumer electronics. With a market share of approximately 60%, Daido Steel is the world's largest supplier of magnets for hard disk drive (HDD) spindle motors, which spin the hard disks. Major electronics products are rare earth magnets, mainly for HDD spindle motors, high alloys, lead frame materials, and electromagnetic materials. Demand for these products is climbing along with expansion of global markets for electronics products. To respond to this growth, Daido Steel has an extensive new product development program with the aim of developing electronics into a core business alongside specialty steel.

RESULTS OF OPERATIONS

Sales of nickel-alloy IC lead frames declined as a recovery in the second half was insufficient to offset a sales downturn in the first half. Sales of magnetic materials used in office equipment and home appliances fell as manufacturers reduced inventories. However, higher demand for HDD

New Medium-term Management Plan Goals

(Years ended March 31)

	2006	2009	Change
Net sales (billions of yen)	51.7	59.0	7.3
Operating income (billions of yen)	3.0	6.0	3.0
ROS (%)	5.8	10.2	4.4

applications resulted in growth in total sales of magnetic materials. Sales of thin-film deposition and electronic materials declined as a higher sales volume of cobalt-evaporation materials was offset by falling sales prices. Sales of niobium materials for cold cathode fluorescent lamps and target materials for surface hardening, both strategic products of Daido Steel, were higher. As a result, segment sales increased 1.9% to ¥51,696 million.

MAJOR INITIATIVES OF THE MEDIUM-TERM MANAGEMENT PLAN

Increase sales of magnets

Between now and the fiscal year ending March 2009, the goal is to raise sales of magnets by 33%. Plans call for increasing sales for automotive applications, a market that is growing and where Daido Steel can effectively use its technologies. Work has been completed on a factory in China to produce magnets for electric power steering system motors. Full-scale production and sales activities will begin during 2006.

Develop technology for value-added hot rolled materials with hard workability and begin sales

Daido Steel is expanding applications for steel with hard workability, such as alloys with high nickel content, to fully utilize the attributes of its Steckel Mill. This mill is ideal for producing high-quality alloy strip and flat products with hard workability thanks to a furnace coiler that maintains a stable temperature during rolling. This processing capability is creating new opportunities for Daido Steel at the high end of the electronic materials market.

NEOQUENCH-P (NdFeB Polymer-bonded Magnets)

Magnets for precision, high-speed motors used in mobile phones, office automation (OA) equipment and other products; currently the world's most popular magnet for HDD spindle motors.



ENGINEERING

Major activities in this segment, which accounts for about 7% of consolidated net sales, are the manufacture of steelmaking equipment, industrial furnaces and associated equipment. This segment also supplies environmental equipment for the treatment of wastewater, gas emissions and waste materials, mainly to public-sector clients with incinerated ash melting systems for urban waste. Operations also include maintenance and management services.

RESULTS OF OPERATIONS

Sales of environmental equipment were about the same as one year earlier due to a decline in orders from municipalities for incinerated ash melting equipment. Sales of industrial furnaces benefited from growth in private-sector capital expenditures, mainly in the automobile industry. Heat treatment furnaces performed very well. Contributing to this growth were short-time cycle (STC) heat treatment furnaces, which are well suited for producing many types of products in small quantities, and continuous heat treatment furnaces. Segment results also benefited from rising orders for large dust collection systems required to comply with stricter dioxin restrictions. Due to these factors, segment sales increased 10.4% to ¥33,892 million.

New Medium-term Management Plan Goals

(Years ended March 31)

	2006	2009	Change
Net sales (billions of yen)	33.9	34.0	0.1
Operating income (billions of yen)	1.7	2.0	0.3
ROS (%)	5.0	5.9	0.9

MAJOR INITIATIVES OF THE MEDIUM-TERM MANAGEMENT PLAN

Develop new products and markets

Continue work on developing new products and markets by collaborating with heat treatment companies and other users of this segment's products and services.



Sewage Sludge Carbonizing System

Sewage sludge is thermally decomposed into a carbonized form using oxygen-free or low-oxygen environments. Carbonized sludge can be utilized as ameliorant for soil or as a biomass energy resource. Heat is recovered and used during the treatment.

Daido Arc Process (DAP)

The Daido Arc Process (DAP) is the world's first municipal solid waste incinerated ash melting system. DAP breaks down dioxin into less polluting substances and makes it possible to reduce and recycle burnt ash.



NEW MATERIALS

Accounting for about 2% of consolidated net sales, this segment supplies mainly titanium products for engine valves and turbine wheels, shape-memory alloys, and high-performance metal powders used to make valve sheets and magnetic materials.

RESULTS OF OPERATIONS

Sales of titanium products increased because of price increases to reflect the significant rise in the cost of raw materials. Demand was extremely strong for titanium products used in medical applications and industrial machinery. However, limited supplies along with growing worldwide consumption of titanium restricted Daido Steel's ability to procure titanium. Because of this, the company was forced to decline some orders. Sales of metal powder products rose along with growth in demand, primarily for high-performance materials used to make automotive parts. To meet this demand, Daido Steel expanded its water atomization capability. Due to these factors, segment sales surged 40.8% to ¥11,499 million.

MAJOR INITIATIVES OF THE MEDIUM-TERM MANAGEMENT PLAN

Increase sales of number-one products

Between now and the fiscal year ending March 2009, the goal is to raise sales of metal powder products by 61% and sales of titanium products by 46%.

New Medium-term Management Plan Goals

(Years ended March 31)

	2006	2009	Change
Net sales (billions of yen)	11.5	15.0	3.5
Operating income (billions of yen)	1.0	2.0	1.0
ROS (%)	8.7	13.3	4.6

Invest in strategic businesses (number-one products)

Major projects are expansion of water atomization capability at the metal powder plant and increased capacity for titanium melting furnaces at the Hoshizaki Plant.

Knee Plates

Titanium alloys are excellent biocompatible materials and also have good superelastic and shape-memory characteristics. This makes them ideal for medical materials such as these knee plates and components such as catheters and orthodontic wiring.



TRADING & SERVICE

The major activities in this segment, which represents about 3% of consolidated net sales, are the sale of products made by group companies, employee benefit services, real estate and insurance services, operation of golf courses, an analysis business, and the sale of software to external customers.

RESULTS OF OPERATIONS

There were no significant changes in overall operating results compared with the prior fiscal year. Segment sales, however, decreased 7.7% to ¥13,896 million because of intense competition in the market for imported construction materials.