

To Our Shareholders

Overview of Results for Fiscal 2006

In fiscal 2006, ended March 31, 2007, the Japanese economy continued to experience strong exports due to growth of overseas economies. Capital investment also grew strongly on the back of high corporate earnings. Individual consumption was also firm as a result of moderate increases in employee incomes. Such increases in internal and external demand led to an overall gradual increase in production activity.

During the fiscal year under review, the automobile industry, the largest source of demand for the specialty steel industry, achieved year-on-year growth in output on the back of continued strength in exports. Consequently, the Daido Steel Group recorded brisk orders concentrated in its automobile-related businesses. Except some engineering-related products, other operations also sustained high levels of production, underpinned by firm demand.

Amid this demand environment, we recorded an increase in consolidated net sales of ¥41,916 million, or 8.7%, to ¥522,620 million. To offset the impact of sharply higher prices for various metals such as nickel and steel scrap, we implemented cost-reduction programs and made upward adjustments to selling prices. Despite our best efforts, earnings still declined, with recurring income dropping ¥6,336 million to ¥33,029 million. Although we booked gains on sales or disposals of property, plant and equipment—net and on sales of investment securities, among other items, net income also dropped, falling ¥1,643 million to ¥19,552 million, due to the booking of losses on sales or disposals of property, plant and equipment—net and on sales of investment securities, among other items.

Progress Under Our Medium-term Management Plan

Our new medium-term management plan, which was launched in April 2006 and will run through March 2009, has two core elements: “enhancing the quality of volume



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

	2006	2007	2009 (Target)
Net sales (billions of yen)	480.7	522.6	530.0
Operating income (billions of yen)	37.5	31.7	53.0
Operating margin (%)	7.8	6.1	10.0
Net income (billions of yen)	21.2	19.6	30.0
Net income per share (yen)	48.19	45.06	69.11
ROA (%)	8.6	6.6	Over 10
Interest-bearing debt (billions of yen)	152.4	172.7	125.0
Debt-equity ratio	0.88	0.92	0.53

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. The plan sets numerical targets for the year ending March 31, 2009, targeting net sales of ¥530.0 billion, operating income of ¥53.0 billion and net income of ¥30.0 billion. We also plan to continue reducing interest-bearing debt, targeting a level of ¥125.0 billion by the conclusion of the plan.

Progress achieved in the fiscal year under review included realignment of our stainless steel wire business with the merger of group companies Daido Stainless Steel Co., Ltd., and Nippon Seisen Co., Ltd. Our goal with this move is to establish the world’s top maker of steel wire in terms of both quantity and quality. We believe that this realignment provides an even stronger operating base to meet needs for increasingly sophisticated steel wire products, while at the same time contending with the evolution of the Asian market, where competition is escalating due to expanding production by Chinese and Korean makers. In new businesses, we launched Ethylene Super Tube (EST), a high-performance steel pipe for use in ethylene plants and other applications. We are targeting sales of ¥2.0 billion in the first year after market launch.

We have also been proactive in pursuing wide-ranging alliances. For example, we formed a technical and equity alliance in the high-end specialty steel sector with Hitachi Metals, Ltd. in March 2006. In December of the same year, we strengthened our technical tie-up with Gerdau Aços

Especiais Piratini of Brazil. And in January 2007, we announced a business collaboration with the Timken Company of the United States. Such wide-ranging alliances are aimed at creating a worldwide high-quality steel network and diversifying sources of steel materials.

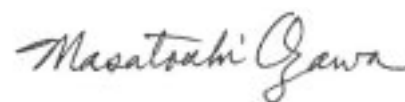
In strategic products, we redoubled our efforts to streamline costs, especially in the areas of titanium, metal powder, aircraft, and energy. We also worked harder to develop and boost sales of products and expand our supply capacity in growth fields.

We are diversifying sources of steel materials and enhancing our portfolio of materials sources in response to high prices for raw materials. We are also working to reduce our exposure to nickel prices with full strategic implementation of DSR (Daido Special Recycling Process for Direct & Smelting Reduction) and through efforts to conserve nickel resources.

In our R&D activities, we are concentrating our efforts on strengthening the R&D system, developing products for growth markets, and accelerating development of high-value-added products.

We are confident that our current medium-term plan will result in higher corporate value for the Daido Steel Group, and thus support attractive returns for all of our shareholders over the long term.

June 2007



Masatoshi Ozawa
President