

TO OUR SHAREHOLDERS

Overview of Results for Fiscal 2010

In fiscal 2010, the Japanese economy continued to progress on a steady recovery track, supported both by economic growth in China and other emerging countries as well as the boost provided by various economic policy measures. While certain sectors experienced a downturn in association with factors such as the rapid appreciation of the yen and the severe employment environment, the overall trend in business conditions was one of mild improvement. In the Japanese automobile industry, a key source of demand for our products, domestic sales fell back as subsidies for eco-friendly vehicle purchases expired in the second half of the year under review, but overall sales were firm in conjunction with the recovery and in some cases expansion of overseas sales, particularly to customers in Asia and North America. Although industrial equipment-related demand from heavy electrical machinery, ships, and plants, is still recovering, overall sales recovered smoothly in line with the progress in inventory adjustments and the growth in overseas demand.

Amid this environment, we continued to work tirelessly to lower production costs and streamline operations. As a result of these efforts, we saw a significant improvement in operating results compared to the previous fiscal year during which demand fell sharply. Group net sales increased ¥109,555 million year on year, to ¥472,063 million. Recurring income rose ¥45,721 million year on year, to ¥31,726 million, while we reported net income of ¥23,004 million.

Outlook for Fiscal 2011

Damage to production plants and infrastructure caused by the Great East Japan Earthquake resulted in supply chain disruptions, which in turn led to widespread paralysis in production activity in the automobile industry and most other industrial sectors. In addition, both production and demand have been impacted by efforts to conserve energy during the summer months in response to the reduced supply of electric power. However, on the other hand, production activity has returned to normal faster than was initially forecast, and demand is likely to increase in the second half of the calendar year in relation to the reconstruction of regions affected by the March earthquake and tsunami. For these reasons, we are expecting overall economic activity to pick up. Over the medium- to long-term, we believe there will be higher demand spurred by economic growth in emerging countries, particularly in Asia, as well as an increase in new demand for infrastructure and environmental products. There is therefore a need for us to flexibly respond to such changes in the business environment.

The effects of the earthquake on our customers in the automobile industry and other sectors have created an uncertain operating outlook with much volatility expected. We will take the necessary steps in the management of our operations to provide an appropriate and timely response to such issues.

We will also place the highest priority on addressing demand related to recovery efforts in the regions affected by the Great East Japan Earthquake, such as that for gas turbine materials used in thermal power plants as we do all that we can to contribute to a speedy recovery.

Given this business environment, our outlook for fiscal 2011 takes into account the recovery in demand for our key products, such as specialty steel, from customers in the automobile industry, as well as the impact of the earthquake on the supply-demand dynamics and prices for raw materials, electric power and other energy sources. Consequently, we expect Group net sales to increase ¥24,900 million to ¥497,000 million, recurring income to fall ¥4,700 million to ¥27,000 million, and net income to decrease to ¥20,000 million.

Medium- to Long-Term Management Strategies

In order to fortify our position as a technologically advanced global supplier of specialty steels, we are focusing our efforts on promoting strategic investment and strengthening our financial position, as we strive to maximize corporate value and shareholder value.

In order to achieve these goals, we have positioned the deepening of key technologies and the promotion of global market strategies, as well as active efforts to advance into expanding markets as core policies, and will implement the strategies discussed below.

Rebuilding manufacturing competitiveness

- Consider an optimal production layout for the Chita Plant
- Reduce costs and improve working environment by automating production processes
- Reforms of management systems to increase the operational efficiency of managerial departments

Strengthening ties with markets and customers

- Cultivate new demand by expanding high value-added areas

Accelerating overseas expansion

- Bolster global supply capacity and expand overseas sales and procurement bases
- Pursue global strategies that fully leverage our technological potential

By focusing on these key issues, we aim to achieve a sustainable increase in the corporate value of Daido Steel.

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Tadashi Shimao
President

