

SPECIALTY STEEL

Overview of Business

Specialty steel, the Company's core business, generates about 61% of consolidated net sales. Specialty steel is made by combining steel with alloys to add value in the form of properties such as resistance to heat, abrasions or rust. Because a range of special properties can be achieved by varying the type and amount of alloy, one of the special features of the business is that products are developed to meet the specific applications required by the user. The automobile and industrial machinery sectors are the primary users of specialty steel, accounting for about 80% of sales in this business segment.

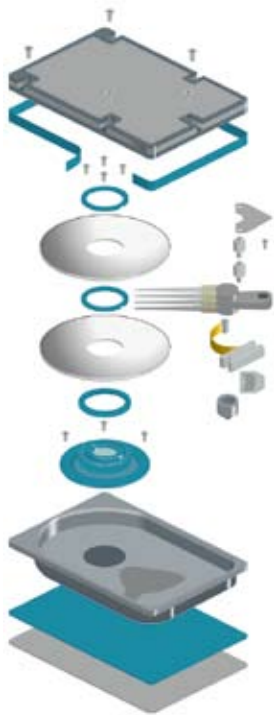
Results of Operations

Brisk growth in sales and production for automobiles in emerging economies fuelled an increase in sales volume in the specialty steel segment, centered on mechanical construction steel. Sales of high-grade products such as stainless steel and tool steel surged compared to the previous fiscal year in which we were required to make inventory adjustments. Contributing factors included rebounding demand in both the industrial machinery and IT sectors, as well as returning vitality in overseas markets.

To address this uptick in demand, the Daido Steel Group executed cost-cutting measures and improved the flexibility of its production network to such changes. The Group also reviewed its sales prices to take into account the changes in raw material prices.

The Great East Japan Earthquake that struck towards the end of the fiscal year under review resulted in production line stoppages for many of our major customers. In anticipation of the impact this would have on our operations, we made the necessary adjustments to maintain adequate levels of inventory.

Thanks in part to these measures, sales volume in the specialty steel segment increased 34.2% year on year. Sales rose 38.5% to ¥286,827 million due to higher sales volume and sales price revisions implemented in light of the jump in the price of key materials such as steel scrap.



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

ELECTRONIC & MAGNETIC MATERIALS

Overview of Business

This segment, which accounts for roughly 8% of consolidated net sales, manufactures and sells electronic and magnetic materials used chiefly in computers, automobiles, mobile phones and digital consumer electronics. Notably, Daido Steel holds the world's largest market share as a supplier of magnets for spindle motors* for hard disk drives (HDD).

Key products include rare earth magnets (used in spindle motors for HDD and other products), high alloys, steel strip materials for lead frames and electromagnetic materials.

* Spindle motor:

Motor used to rotate hard disk drives installed in computers.

Results of Operations

In the high alloy business, sales increased year on year, albeit including the effect of inventory adjustments in IT-related products in the latter half of the year. This increase was the result of two factors: the continuing resurgence in demand for automobiles and IT-related products, and sales price revisions implemented in light of the jump in the price of nickel. In the magnetic product business, sales increased year on year albeit including the effect of inventory adjustments in magnets used in HDD spindle motors. This increase was the result of two factors: the growth in demand for factory automation (FA) servomotors in turn driven by the expansion of capital investment in China, and sales price revisions implemented in light of the steep rise in the price of rare earth metals.

As a result of all these factors, segment sales amounted to ¥39,905 million, increasing 15.3% from the previous fiscal year.



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.

PARTS FOR AUTOMOBILE & INDUSTRIAL EQUIPMENT

Overview of Business

This segment contributes around 22% of consolidated net sales. It manufactures die forged parts such as crankshafts using specialty steel, precision casting parts for use in gears and turbochargers (used in diesel engines to improve fuel efficiency and reduce exhaust gases), engine valves, jet engine shafts and parts for industrial gas turbines. Most of the auto parts sold in this segment use materials that were developed through joint projects with automakers to meet their exacting requirements. These parts can therefore lower processing expenses at customers' factories as well as contribute to reducing the weight of finished products.

Many products in this segment are leading products in their respective market categories, such as aircraft jet engine shafts and marine diesel engine valves. Daido Steel also has a high market share in numerous other product categories, including automobile engine valves and turbine disks. We will continue to develop and launch new products that differentiate us from competitors and support our position as a provider of advanced products.

In addition to specialty steel supplied by the specialty steel segment of the Group, some steel materials used in this segment are manufactured in-house.

Results of Operations

Automobile parts-related sales for both die forged products and hot precision forging products rose following a recovery in demand for passenger vehicles in Japan and overseas, as well as expanding export markets for trucks and construction machinery, in Southeast Asia in particular. In precision casting parts, sales increased significantly compared to the previous fiscal year. The main contributory factor was a rise in popularity, and a related expansion in production, of diesel turbo engines in the European automobile market. In industrial equipment, sales rose year on year despite demand for free forgings, such as for heavy electric machines, ship and plant-related equipment, being dampened by the appreciation of the yen. This was made possible by inventory adjustments started in the previous year.

As a result of all these factors, sales in this segment totaled ¥102,536 million, an increase of 31.9% year on year.



Hot, High-speed Precision Forgings

Daido Steel is one of the largest manufacturers of hot, high-speed precision forgings.

ENGINEERING

Overview of Business

This segment generates about 5% of consolidated net sales. Major activities include 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) and machine tools.

With respect to environmental equipment in particular, the operation and engineering technologies we have fostered over the years support our cutting-edge engineering business, which constantly has a grasp of current market needs. The many new types of equipment and technologies that this segment has created contribute to environmental preservation and energy reduction in a wide variety of settings. Operations also include maintenance and management of this machinery and equipment.

Results of Operations

A sharp slowdown in orders in the previous year prolonged the slump in inquiries for new projects, resulting in a year-on-year decline in sales. In maintenance work on the other hand, sales improved year on year in tandem with increases in capacity utilization.

Reflecting all these factors, segment sales decreased 8.7% to ¥23,801 million.



Daido Arc Process (DAP)

NEW MATERIALS

Overview of Business

Accounting for about 2% of consolidated net sales, this segment mainly supplies titanium products for medical-use artificial bones and eyeglass frames, and high-performance powder metals used to make valve sheets and magnetic materials.

Results of Operations

Titanium product sales rebounded due to expansion in domestic demand resulting from inventory adjustments and revitalized real demand. This was despite the negative effect the strong yen had on exports. In powder metal products, the increase in orders for sintered parts for automotive applications was reflected in stronger sales figures compared to the previous year.

Consequently, segment sales rose 40.7% year on year to ¥9,558 million.

TRADING & SERVICE

Overview of Business

The major activities of this segment, which accounts for approximately 2% of consolidated net sales, include the sale of products made by Group companies, employee benefits services, real estate and insurance services, golf course management, analytics, and sales of software to external customers.

Results of Operations

Segment sales during the fiscal year fell 7.4% year on year, to ¥9,436 million, as the transfer of major real estate and construction transactions in the previous year, offset an increase in trading operations sales driven by recovering demand.