DAIDO STEEL CO., LTD.

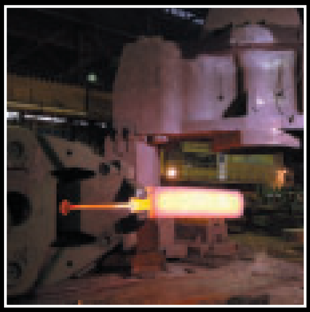
Annual Report 2006

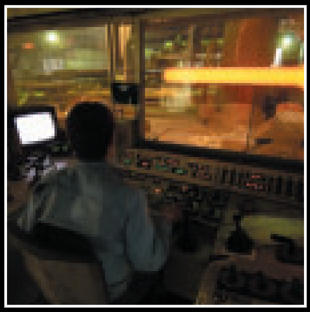
Year ended March 31, 2006

ACHIEVING STRENGTH IN DEPTH

THE COMPANY

Daido Steel Co., Ltd. ranks among the world's largest manufacturers of specialty steel. With a history dating back to 1916, the company has accumulated extensive skills in combining steel scrap with other materials to achieve the strength, workability and other characteristics to match exacting requirements. Along with the manufacture of value-added steel, the company offers many services that leverage its technological resources. Most services target high-end market sectors that demand the highest levels of quality and specialization. Daido Steel is one of the leading players worldwide in the manufacture of critical steel components where nothing less than absolute reliability is acceptable. They include automobile transmission and engine parts as well as components used in ships, aircraft and electric generators. Daido Steel shares are traded on the First Section of the Tokyo Stock Exchange under the securities code 5471.





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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements concerning DAIDO STEEL CO., LTD.'s and its Group companies' current plans, projections, strategies and performance. These forward-looking statements are not historical facts. Rather, they represent the assumptions and beliefs of DAIDO STEEL's management based on information currently available.

They should therefore not be relied upon as the sole basis for evaluating the Company. DAIDO STEEL also wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of risks and uncertainties.

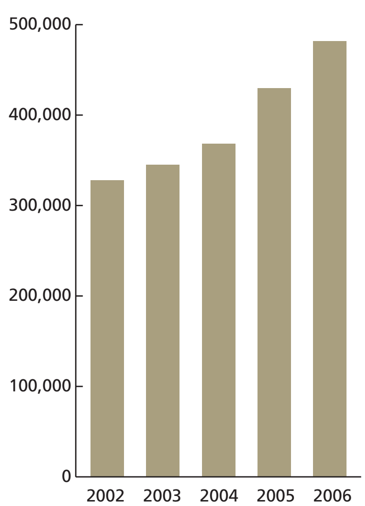
FINANCIAL HIGHLIGHTS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2006, 2005 AND 2004

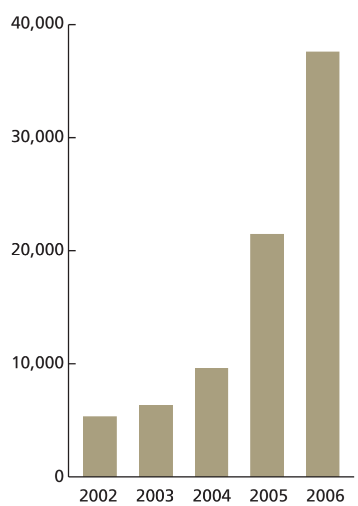
	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	2006
For the Year:				
Net Sales	¥480,704	¥429,106	¥367,793	$4,108,581
Operating Income	37,543	21,456	9,616	320,880
Income before Income Taxes and Minority Interests	38,433	19,037	10,177	328,487
Net Income	21,196	11,385	4,201	181,162
At Year-end:				
Total Assets	476,817	436,335	427,393	4,075,359
Shareholders' Equity	172,647	144,267	132,880	1,475,615
Per Share of Common Stock (Yen and U.S. Dollars):				
Basic Net Income	¥ 48.19	¥ 25.70	¥ 9.40	$ 0.41
Cash Dividends Applicable to the Year	8.00	5.00	2.00	0.07
Return on Equity (%)	12.3	7.89	3.16	12.3

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117 to $1, the approximate rate of exchange at March 31, 2006.

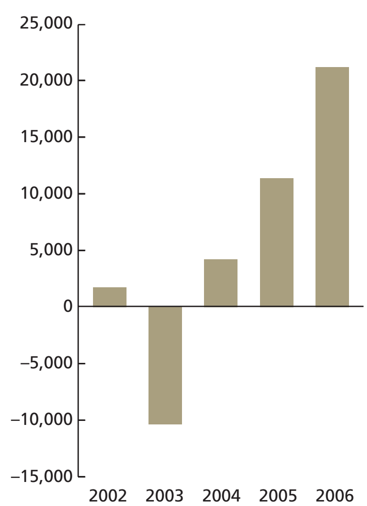
Net Sales (Years ended March 31)
(millions of yen)



Operating Income (Years ended March 31)
(millions of yen)



Net Income (Loss) (Years ended March 31)
(millions of yen)



TO OUR SHAREHOLDERS

EARNINGS UP SHARPLY

The automobile industry, the largest source of demand for our products, continued to perform well during the past fiscal year as output climbed, particularly outside Japan. Factories of the Daido Steel Group operated at full capacity to fill orders from the automobile industry and other customers. Orders from IT companies briefly weakened due to the global downturn in the IT industry. However, this downturn had no effect on our high production volume during the fiscal year due to solid demand for our products in other industries.

Amid these generally favorable market conditions, we recorded a 12.0% increase in consolidated net sales to ¥480,704 million. Earnings rose dramatically despite the much higher cost of metals of all types. We conducted a cost-containment drive, raised prices and increased sales of high-margin products. The result was a 75.0% increase in operating income to ¥37,543 million and an 86.2% increase in net income to ¥21,196 million.

PERFORMANCE WELL ABOVE THE MEDIUM-TERM PLAN'S TARGETS

The fiscal year that ended in March 2006 was the final year of our three-year medium-term management plan. We surpassed all our targets by a wide margin, particularly with regard to earnings.

Results Surpass Medium-term Plan Targets (billions of yen)

	Target	Actual performance
Net sales	375.0	480.7
Operating income	21.5	37.5
ROA	5.0%	8.6%

Our operating environment is quite different to when this plan started. China's steel output and consumption has increased dramatically, but the cost of all raw materials is much higher than we had anticipated. In response, we have raised our prices and expanded the scope of our surcharges. On the positive side, the volume of orders is exceeding our forecasts. Fueling demand is strength in key industries such as automobiles, shipbuilding, aircraft and industrial machinery. We acted quickly, making investments to eliminate bottlenecks by raising capacity and improving productivity. Due to these investments, we have been filling all orders by operating at full capacity. These accomplishments are proof of the enormous progress made during the three-year plan. We now have an operating system that can adapt to shifts in market conditions with speed and agility.

OUR NEXT THREE-YEAR MANAGEMENT PLAN

The next three-year plan, which will end in March 2009, reflects our outlook for market conditions five to ten years from now. We expect demand for specialty steel for automobiles and other products to continue growing until around 2010. Furthermore, demand will be especially strong for the high grades of steel where Daido is most competitive. Tighter environmental regulations and the increasing use of intelligent transport systems (ITS) are two reasons for this outlook. But there are challenges, too. Prices of raw materials are likely to remain high because of economic growth in the BRIC (Brazil, Russia, India, China) nations.

Therefore, one central theme for Daido Steel will be meeting the high level of demand foreseen over the next three years. At the same time, we need to act now to deal with the impact of costly raw materials.

AIMING FOR GROWTH PROPELLED BY QUALITY AND QUANTITY

The medium-term plan that began in April 2006 has two core elements: "enhancing the quality of volume 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. To accomplish these goals, we are focusing on the following three strategies:

✤ Grow by focusing on expanding markets

Daido Steel will continue to meet rising demand from the automobile industry. During the three-year plan that just ended, we increased our output of specialty steel, turbocharger components and magnets for power steering systems. We will continue to add capacity for automotive parts during the new three-year plan.

✤ Grow in product categories that need high performance, distinctive technologies

We plan to increase sales in market sectors where we can use our strengths to offer highly distinctive products. Primary targets are aircraft and shipbuilding components, parts used in the energy industry, and parts for electronic devices, all areas that we believe will see further growth in demand. Plans also include entering new fields based on an aggressive R&D program.

✤ Form alliances to become more efficient and competitive

We plan to form many types of alliances to make procurement, production and other activities more efficient and globally competitive. For example, we announced a technical and equity alliance in the high-end specialty steel sector with Hitachi Metals, Ltd. in March 2006.

In addition to these measures, we are working relentlessly on cutting costs and boosting productivity at our factories to meet the strong demand for our products. Our aim is to upgrade our production capabilities in a manner that improves efficiency and provides a sound base for long-term growth.

Shareholders will benefit from the new three-year plan from a long-term perspective. By fulfilling the plan's goals, we will increase our corporate value and build a base for returning a substantial volume of earnings to shareholders. During the plan, our goal is to maintain a dividend payout ratio of between 15% and 20%. I am confident that our past year's performance is just one step toward even greater accomplishments that will generate more value for our shareholders and all other stakeholders.

June 2006

Masatoshi Ozawa

Masatoshi Ozawa
President and Representative Executive Director

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

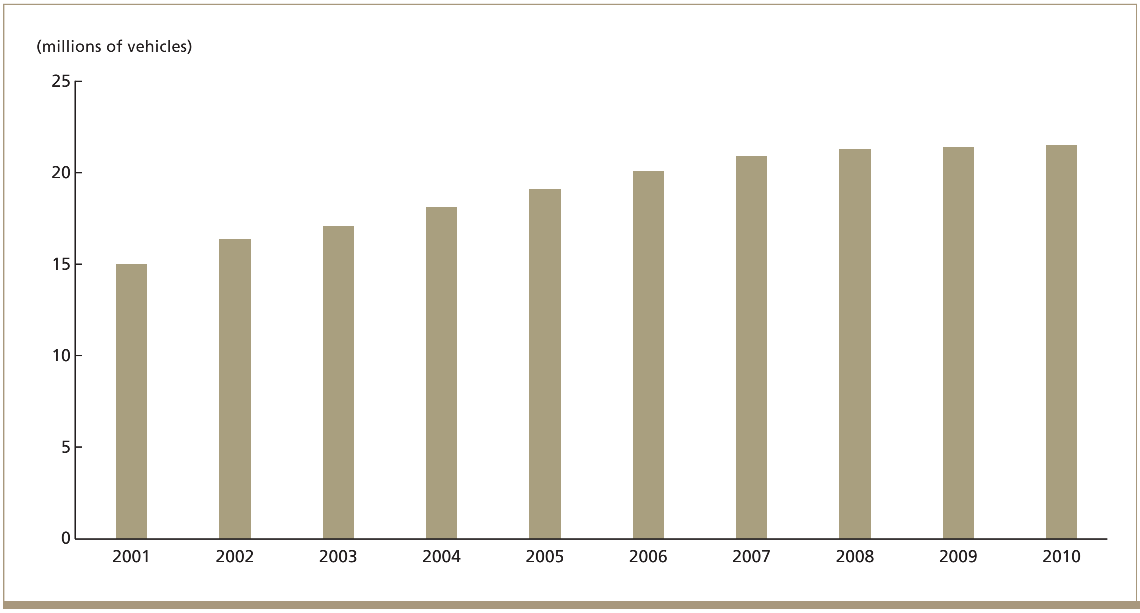
The automobile industry accounts for a large share of demand for specialty steel worldwide, making it a crucial market for Daido Steel. Projections for steady growth in auto sales indicate that this demand will also increase. Through progress in terms of quality and quantity and a focus on high-performance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

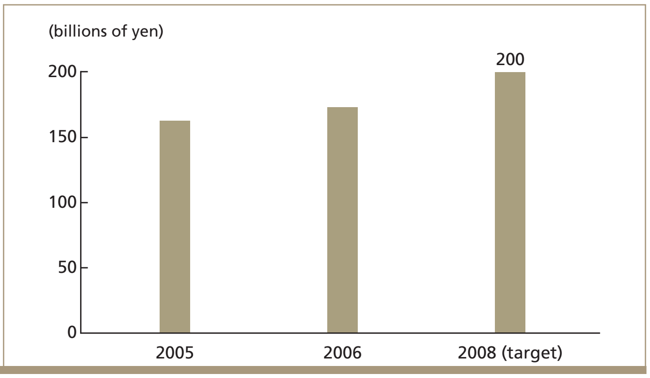
Quality involves the vigorous pursuit of higher performance and added value. Tighter environmental regulations and the need for lighter weight is increasing demand from the automobile industry for specially designed steel. Daido Steel is in an ideal position to benefit from this trend. We have our eye 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.

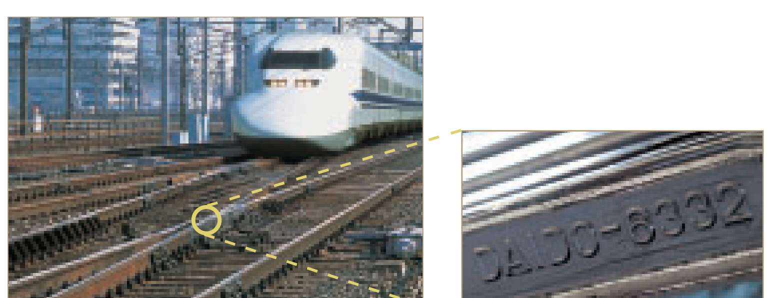
THE INDUSTRIAL MACHINERY AND ELECTRONIC DEVICES MARKETS

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.

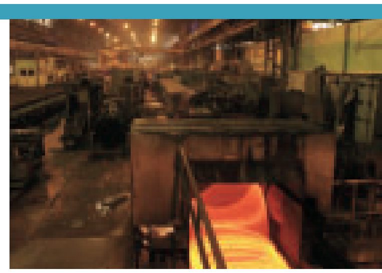
The Daido Steel-Hitachi Metals alliance has three components.

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

AT A GLANCE

Main Products

SPECIALTY STEEL

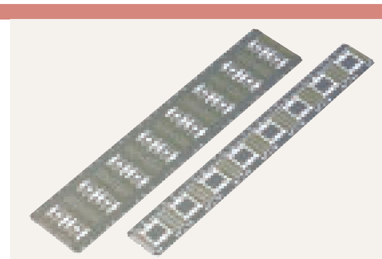


For automotive parts, industrial machinery parts, electrical machinery parts, welding, etc.

PARTS FOR AUTOMOBILE & INDUSTRIAL EQUIPMENT

Die forging (automotive parts and drilling parts)
Precise hot forging (automotive parts and bearing races)
Welded parts (rear axle housing)
Open die forging (parts for heavy electric machines, boats and ships, spacecraft and aircraft, industrial machines, steelmaking equipment, chemical equipment, and oil drilling rigs)
Springs and band saws for lumber sawing

ELECTRONIC AND MAGNETIC MATERIALS



Nickel-based alloys
Electrical and electronics parts

ENGINEERING

Environmental equipment (for waste treatment, water treatment and air pollution cleaning), etc.
Industrial furnaces and accessories

NEW MATERIALS

Powder metal (for automotive, mechanical, and electronics parts)
Titanium products and nickel-titanium alloys (shape-memory alloys)

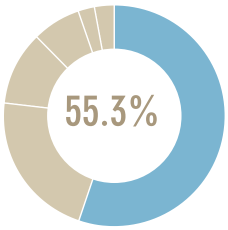
TRADING & SERVICE

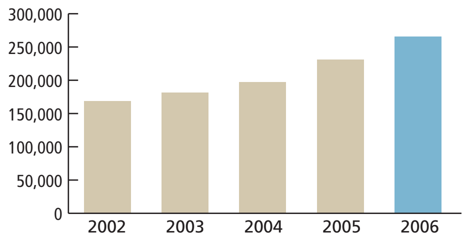
Sales of Group company products; provision of welfare services; real estate and insurance businesses; sales of information systems, etc.

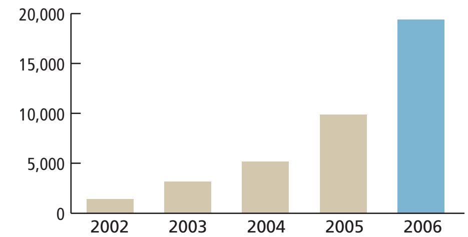
Share of Net Sales (%)

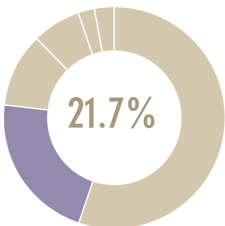
Net Sales (Years ended March 31) (millions of yen)

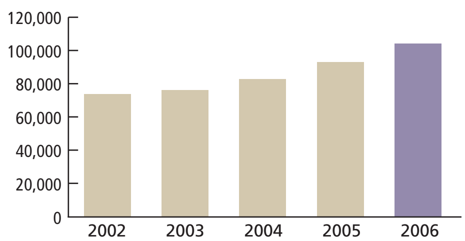
Operating Income (Loss) (Years ended March 31) (millions of yen)

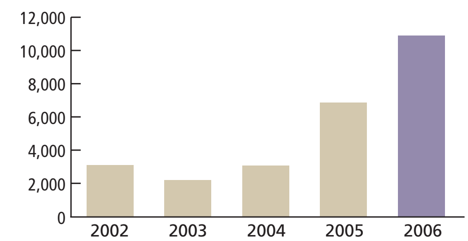


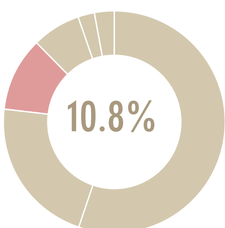


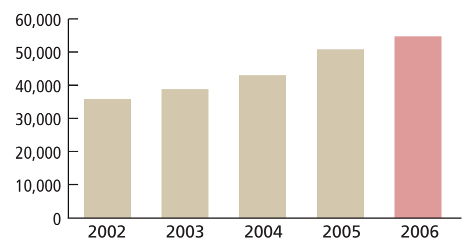


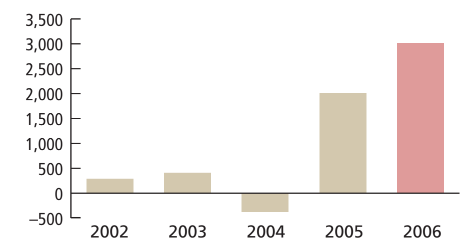


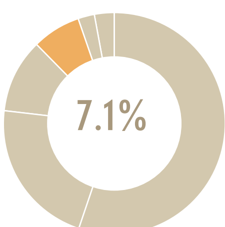


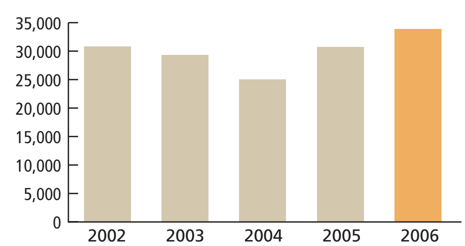


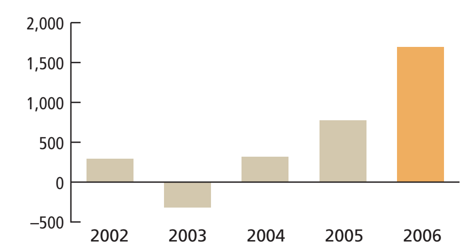


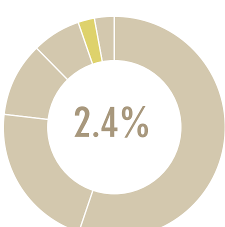


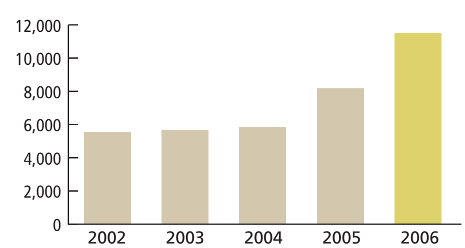


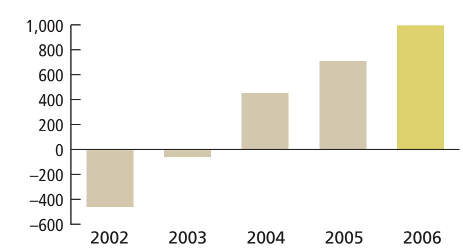


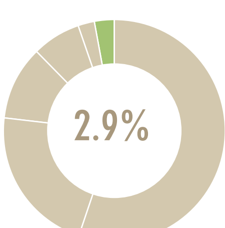


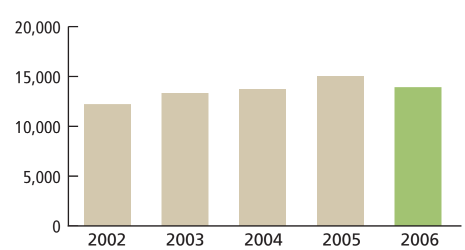


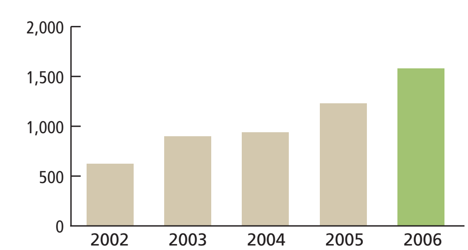












SPECIALTY STEEL

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

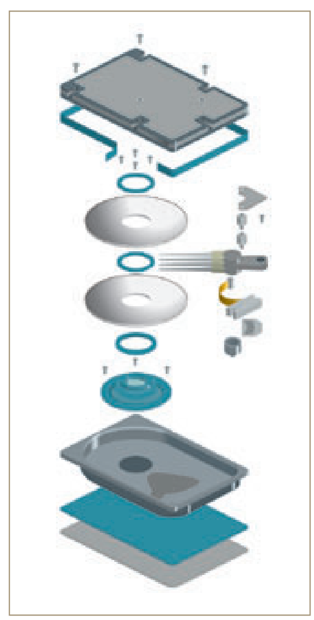
Increase output capacity and raise productivity for automotive specialty steel products; establish an optimum manufacturing infrastructure with the highest possible output capacity.

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 turbochargers, 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.

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

MAJOR INITIATIVES OF THE MEDIUM-TERM MANAGEMENT PLAN

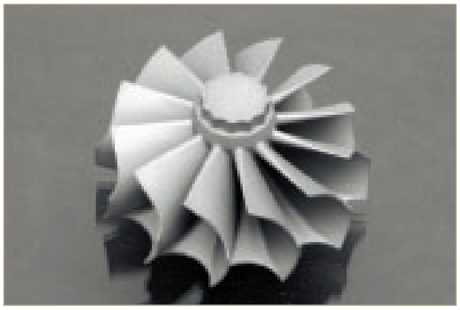
Make large investments to upgrade production facilities and enhance quality.

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%.

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 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.

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

MAJOR INITIATIVES OF THE MEDIUM-TERM MANAGEMENT PLAN

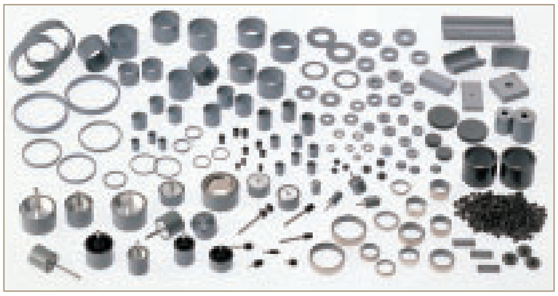
Increase sales of magnets

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

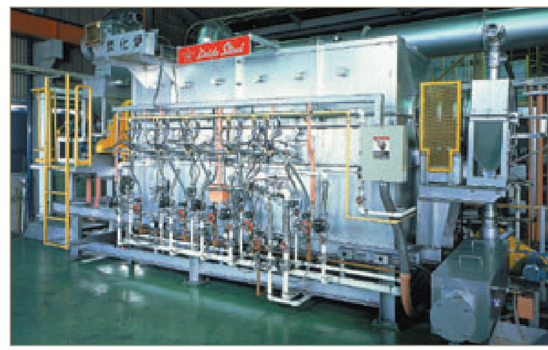
(Years ended March 31)

	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.

RESEARCH AND DEVELOPMENT

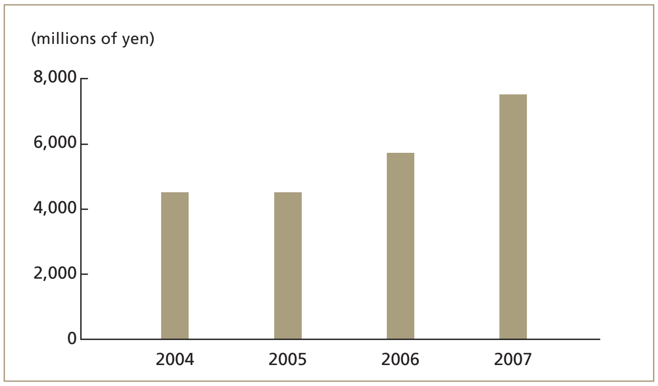
THE R&D ORGANIZATION

With an R&D organization that dates back to 1922, Daido Steel has been performing research in the field of specialty steel for more than eight decades. Today, the Research and Development Laboratory is the nucleus of this organization, which conducts work covering a broad range of sophisticated themes.

In fiscal 2005, non-consolidated research and development expenditures, which include the production of prototypes by factories, totaled ¥5.7 billion. In fiscal 2006, we plan to significantly raise this figure to ¥7.5 billion. Growth in the R&D budget reflects the increasing need to perform research to produce high-performance, value-added products that can meet the requirements of our customers.

We are focusing on technologies that target a number of key themes. One is the need for greater precision to make products that are smaller with higher performance. Other themes are environmental protection and safety for automobiles and industrial machinery. R&D programs are focused on the fields of electronic materials, technologies to protect the environment and conserve energy, and automotive materials. Our goal is to develop next-generation technologies and products.

Non-consolidated R&D Expenditures (Years ended March 31)



R&D TARGETS IN THE MEDIUM-TERM MANAGEMENT PLAN

Accelerating the development and commercialization of new technologies is a central goal of the 2008 medium-term plan. To support this more aggressive stance, we plan to raise the non-consolidated R&D budget during the course of the plan to ¥14.5 billion, an increase of 50% compared with the 2005 medium-term plan. At the Research and Development Laboratory, plans call for an increase in personnel from 207 to 227 between April 2006 and March 2009. Additionally, in a move to bolster research based on a long-term perspective, we established the Next Decade Research Center in 2005.

Development programs focus on three fields: products with excellent growth prospects; "number-one products" backed by exclusive Daido Steel technologies; and next-generation "future number-one products." In fiscal 2005, ending March 2006, number-one products generated sales of ¥163 billion. Our goal is to raise this to ¥200 billion in fiscal 2008, ending March 2009. Many product sectors offer opportunities for number-one positions. One is forged products used in aircraft, ships and automobiles. Others are magnetic materials, turbocharger parts, and high-performance materials like titanium and sintered products.

RESEARCH AND DEVELOPMENT RESULTS AND FORECASTS

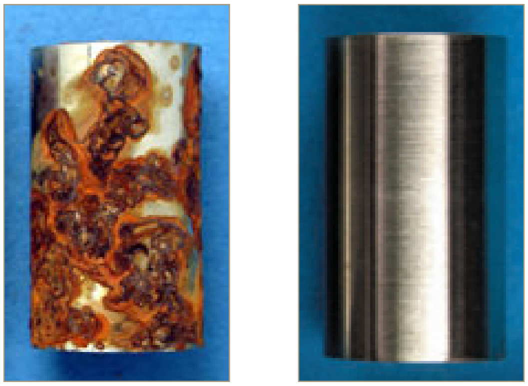
SPECIALTY STEEL

Becoming more competitive and making new products are the main objectives of specialty steel research. R&D covers all aspects of the specialty steel business. Engineers develop structural, heat- and corrosion-resistant, tool, welding and other types of materials. Research also covers process innovations for manufacturing and quality assurance, analytic technology and many other fields. Specialty steel R&D expenditures for the year under review were ¥1,741 million.

Key Achievements During the Year Under Review

✤ **High-nitrogen stainless steel with world-leading corrosion resistance**

Using its exclusive pressurized induction melting process, Daido Steel has devised a technology to make stainless steel with high nitrogen content, thus raising both hardness and corrosion resistance. This new type of steel has the world's highest level of corrosion resistance while preserving the same level of toughness as conventional high-hardness steel. Potential applications are plentiful, including marine structures, automobiles and other transportation equipment, IT products, and aerospace. Prospective users received the first samples in the fall of 2005. We expect this material to generate sales of ¥500 million in fiscal 2007, ending March 2008.



Results of salt spray test under identical conditions
Left: Conventional steel (full rust corrosion)
Right: Newly developed steel (no rust corrosion)

PARTS FOR AUTOMOBILE & INDUSTRIAL EQUIPMENT

Automakers are calling for engine, transmission and other components with more strength and less weight to improve the performance of automobiles. R&D in this category also serves the needs of industrial machinery manufacturers. Using its many years of experience both in alloy design, and in heat treatment, surface finishing and other technologies needed to make parts, Daido Steel is constantly creating materials with new properties. Fiscal 2005 R&D expenditures in this segment totaled ¥534 million.

Key Achievements During the Year Under Review

✤ **The DAINUS digital engineering system**

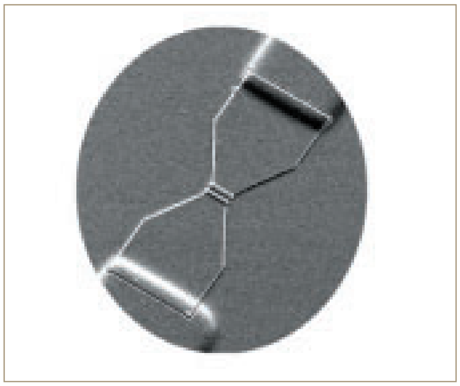
Our DAINUS simulation system makes it possible to predict the service life of a metal mold. DAINUS, which stands for Daido Numerical Process Engineering System, produces highly accurate forecasts after a mold has been processed thanks to a database built over a number of years. DAINUS has already proven its worth at our Shibukawa Plant, where it calculated the capabilities of a 7,000-ton press to be installed at the plant. The system also assisted design processes for cold forged components at the Chita Die Forging Plant.

ELECTRONIC AND MAGNETIC MATERIALS

Work on new products and technologies in this field is aimed at keeping up with rapid progress in materials for electronics and other IT applications. Magnetic materials and communications and environmental products are major areas of activity. In this segment, fiscal 2005 R&D expenditures totaled ¥500 million.

Key Achievements During the Year Under Review

✤ **GIG magnetic sensors**



GIG sensor

These sensors are the product of a joint research with the Research Institute for Electric and Magnetic Materials. Nano-Granular-In-Gap (GIG) sensors have more than three times the sensitivity of conventional magneto-resistive

(MR) sensors, but reduce the size of the magnetic sensor element by 90% and power consumption by 99%. With these advantages, the GIG sensor is ideal for radial magnetic sensors and other industrial applications that demand high sensitivity together with low power consumption. We are currently investing in production equipments and providing samples for evaluation tests to potential customers. We plan to begin sales of the GIG sensor in 2007.

ENGINEERING

Research in this segment covers recycling and other environmental systems, energy-efficient industrial ovens and other fields. Fiscal 2005 R&D expenditures totaled ¥15 million.

Key Achievements During the Year Under Review

✤ Daido steel begins using vacuum carburizing technology

Vacuum Carburizing Furnace

In the year under review, Daido Steel began operating a prototype furnace on a commercial scale that uses the vacuum carburizing technology of ALD Vacuum Technologies AG of Germany. We are using this furnace to develop our own vacuum carburizing technology, create new materials, improve production facilities and develop highly accurate simulation technologies. We plan to use these advances to begin supplying carburized steel products to manufacturers of automobile parts.

NEW MATERIALS

Daido Steel is developing functional powders, titanium alloys and other types of new materials. R&D expenditures in fiscal 2005 totaled ¥783 million.

Key Achievements During the Year Under Review

✤ Titanium wire (G-coat) for MIG welding

G-Coat

Daido Steel has developed a specially coated titanium welding wire called G-coat. This wire can be used with the MIG (metal inert gas) welding method, which is more efficient than conventional welding methods. We expect a growing number of companies to adopt this new welding wire.

ENVIRONMENTAL AND SOCIAL ACTIVITIES

BASIC POLICY

At Daido Steel, contributing to the realization of sustainable development through our operations is an important goal. We have a firm commitment to meeting the demands of society today as well as those of future generations. Since its inception, Daido Steel has demonstrated the value it places on people by operating schools and hospitals, as well as factories. Guiding our operations is a management philosophy that is firmly rooted in the desire to contribute to society through mutual prosperity and coexistence with communities.

Regarding environmental issues, the business operations of Daido Steel play a part in helping create an economy based on recycling. Our core specialty steel manufacturing and sales business is based on the use of recycled steel. We intend to make more contributions to the conservation of resources and energy by developing outstanding specialty steel production methods and conducting other R&D programs.

Corporate social responsibility (CSR) is a key element of the current medium-term management plan. One of the central targets is "placing importance on CSR and conducting management reform activities that are closely tied to business operations." As one way to achieve this goal, we are conducting programs that protect the environment and help achieve sustainable development.

ACTIVITIES FOR ENVIRONMENTAL PROTECTION

Programs to conserve energy

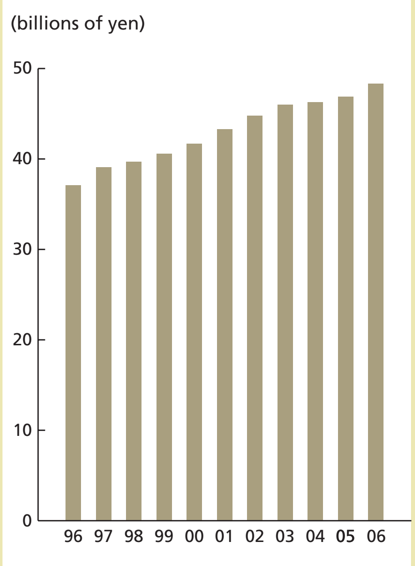
Daido Steel invested a total of ¥5.1 billion in energy conservation measures during the 10-year period that ended in March 2005. We were the first steelmaker worldwide operating electric arc furnaces to begin using large molten steel storage vessels. Using these vessels, we developed a new melting process that reduces the consumption of expensive daytime electricity and permits the use of low-grade steel scrap. In addition, we continue to work on improvements to our rotary hearth furnace to achieve further reductions in energy consumption. Another accomplishment was an improvement to the exhaust heat recovery system at the soaking pit furnace of the Chita Plant.

ACTIVITIES FOR A RECYCLING-ORIENTED SOCIETY

Devising ways to use steelmaking by-products

Every year, Daido Steel generates about 840,000 tons of slag and other by-products as part of its steelmaking operations. In the fiscal year ended March 2005, we achieved a by-product recycling rate of 93.8%. This accomplishment was due in large part to the many recycling technologies we have developed in-house. Our goal is to achieve zero emissions. One step bringing us closer to this target is a program to recycle all dust by-products by upgrading the performance of the Daido Steel-developed DSR (direct and smelting reduction) furnace.

Cumulative Environmental Investments and Major Projects (Years ended March 31)




A DSR furnace

ACTIVITIES USING PRODUCTS, TECHNOLOGIES AND FACTORIES

Using products and manufacturing technologies to protect the environment

Steel products are well suited for a recycling-oriented society because steel can be recycled with ease. Instrumental to making this recycling possible is the production of steel with an electric arc furnace, which uses steel scrap as the main ingredient to make a variety of steel products.

We are constantly working on ways to improve product quality and develop new types of steel that offer greater strength, a longer life, lighter weight and other properties. In addition, we supply companies in many industries with steel formulated to conserve resources and even eliminate the need for entire production processes. Overall, these materials play a big part in lowering the environmental impact of these companies. Daido Steel also supplies environmental protection systems that incorporate technologies we acquired as a manufacturer of specialty steel.

ACTIVITIES IN THE COMMUNITY

Community programs of the Daido Institute of Technology

The Daido Institute of Technology, our internal college, participated in the "Love the Earth Expo" in 2005 in Aichi, Japan. At this world expo, the institute showcased the four wind turbines on its campus and, with the Nagoya Chapter of the Japan Young Astronauts Club, conducted boomerang classes. Additionally, the institute's school of information mechanics and partners outside the Daido Group held performances featuring a wind-up circus robot and soccer robot.

Community programs at the Daido Hospital

Musical performances are occasionally held at the Daido Hospital. One highlight was the January 2005 concert by the New Japan Philharmonic Orchestra. The following April, hospital patients and staff members enjoyed a performance in the rehabilitation garden by the Joyful Sounds, a band made up of Toho Gas employees. Both events proved popular with patients and staff.

Daido-no-Mori

Daido Steel has programs that protect nature as well as many activities to manage and lower the use of harmful substances. Daido-no-Mori (the Daido Forest) covers about 370 hectares of land that Daido Steel purchased in 1940 in Hamatonbetsu, which is on the northern tip of Hokkaido. We have been managing this forest ever since, including the planting of trees every year since 1991. Today, Daido-no-Mori is a valuable resource that is designated as part of the North Okhotsk Prefectural Nature Park and a national wildlife protection zone.

For more details, please refer to Environmental Report.

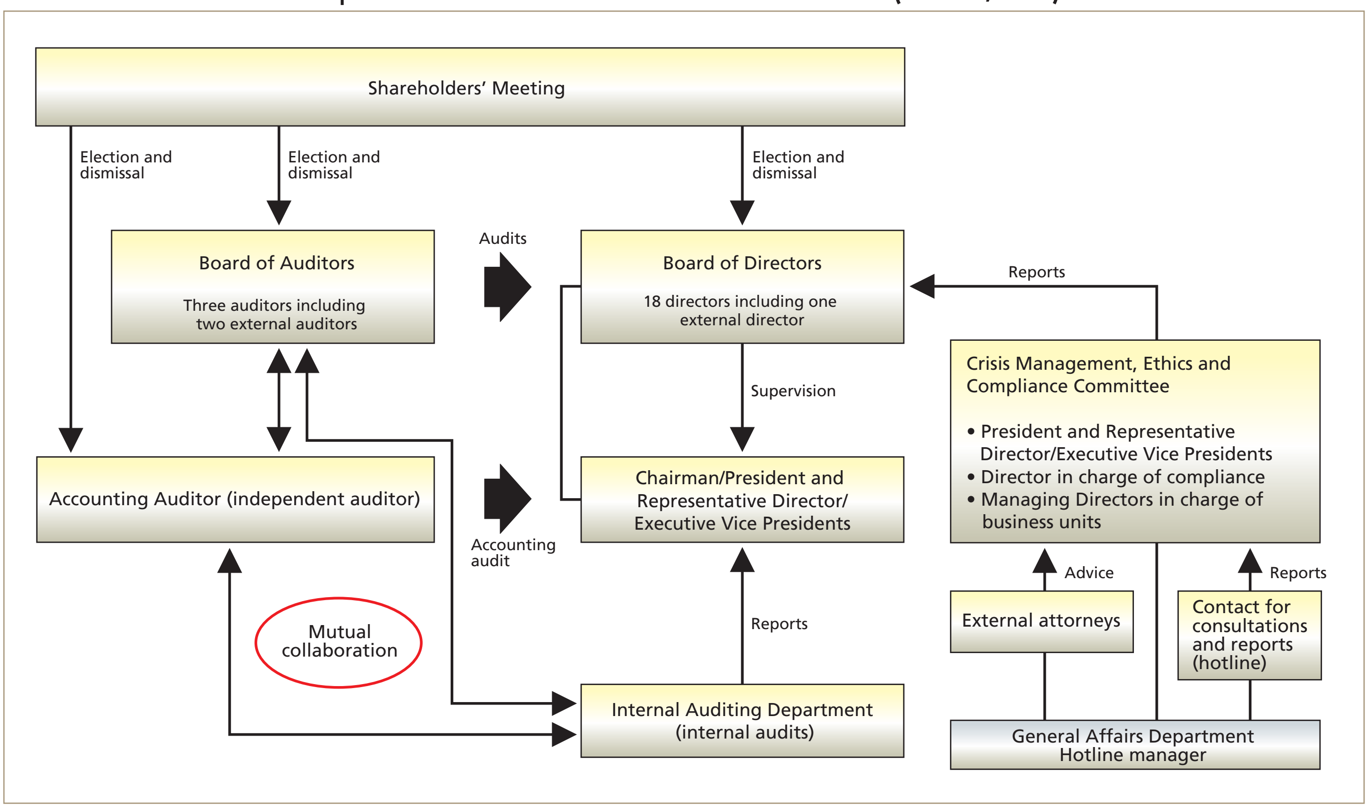
URL: http://www.daido.co.jp/csr/report/new/index.html

CORPORATE GOVERNANCE

GOVERNANCE SYSTEM

Daido Steel uses the corporate auditor system. There are two external corporate auditors and one external director. These individuals help improve corporate governance by auditing and supervising the performance of directors from their respective standpoints. Daido Steel has a total of 18 directors, including the external director.

Corporate Governance and Internal Control Framework (June 29, 2006)



INTERNAL CONTROLS

Compliance, environmental management, safety management, quality assurance and other control-related activities are performed by departments established for this purpose. Daido Steel's Internal Auditing Department constantly monitors these activities to verify that controls are functioning in a manner that is legal, effective and efficient. Furthermore, each department conducts its own list of periodic self-inspections to confirm that operations conform with regulations and are proper in all other respects. By using internal controls to review and update internal standards and business procedures, Daido Steel is ensuring the transparency of its management.

To improve internal control systems, Daido Steel's Internal Auditing Department submits frequent reports to senior management concerning the results of audits and self-inspections while working closely with the corporate auditors and independent auditor.

To upgrade internal control at all Group companies, the parent company's Internal Auditing Department conducts periodic audits of Group companies to verify that internal controls are functioning properly. In addition, all consolidated subsidiaries participate in a Group Auditing Seminar. This provides a forum for the exchange of information on audits at these companies, the improvement of auditing techniques by individuals performing audits, and for other initiatives.

RISK MANAGEMENT

In addition to placing importance on compliance programs, Daido Steel has a Crisis Management, Ethics and Compliance Committee. This committee discusses measures to eliminate and prevent certain anticipated and potential risks as well as measures to minimize the external impact of a sudden crisis.

Daido Steel has a director in charge of compliance and a hotline linked to this officer, the General Affairs Department and external attorneys. In addition, Daido Steel has established a corporate Code of Ethics and a Code of Conduct. All employees, including those at Group companies, are made aware of these guidelines. Furthermore, all potential risks throughout the Group are examined and countermeasures taken. Through these actions, Daido Steel is creating an even more powerful risk management framework for the entire Group.

On April 1, 2006, all provisions of a new law in Japan, commonly called the Whistleblower Protection Law, became effective. Daido Steel has established a company-wide system to comply with this law, including the formulation of regulations and a manual. These are being used to conduct training programs.

CORPORATE GOVERNANCE INITIATIVES

The New Medium-term Management Plan places emphasis on building a stronger management framework. Accordingly, the plan calls for reforms to management systems to increase the efficiency and speed of management.

During the fiscal year that ended in March 2006, the Crisis Management, Ethics and Compliance Committee held regular meetings. In addition, this committee is assisted by the Crisis Management, Ethics and Compliance Promotion Committee, which oversees extensive measures, such as Group-wide educational activities concerning laws and regulations, aimed at making compliance an integral element of management. In October 2005, Daido Steel revised its corporate Code of Ethics to further clarify its commitment to CSR and achieve qualitative improvements in the Group's daily activities. Steps are being taken to make all employees aware of the revised code.

BOARD OF DIRECTORS

TSUYOSHI TAKAYAMA
SHOJI MINAMI
SHUZO KUMURA
MASATOSHI OZAWA
YOSHIO INAGAKI
TADASHI SHIMAO
SADAYUKI NAKAMURA
MOTOFUMI KURAHASHI
KAZUHIKO MATANO
TATSUO KONDO

Chairman and Representative Executive Director
Tsuyoshi Takayama

President and Representative Executive Director
Masatoshi Ozawa

Executive Vice Presidents and Representative Executive Directors
Shuzo Kumura
Kazuhiko Matano

Managing Directors
Motofumi Kurahashi
Yoshio Inagaki
Shoji Minami
Tatsuo Kondo
Sadayuki Nakamura
Tadashi Shimao

Directors
Bunyu Futamura
Takayoshi Tsuda
Yasuaki Sawachika
Kengo Fukaya
Masakatsu Naruse
Hiroaki Kumazawa
Akira Miyajima
Shuichi Nakatsubo

Standing Corporate Auditors
Masaru Hashizume
Daisaburo Yabashi

Corporate Auditor
Kenjiro Hata

(As of June 29, 2006)

FINANCIAL SECTION

Overview

Japan's economy was marking time at the start of the fiscal year, with weak activity evident, mainly in exports and output, due to a correction in the IT sector worldwide and other factors. However, economic conditions improved from around the middle of the fiscal year, with exports picking up, particularly to Asia, and a cycle of inventory cutbacks in the IT-related industry coming to an end. Amid this trend, the Japanese economy steadily expanded as a whole, albeit moderately, as it broke out of the doldrums.

Particularly noteworthy was continued growth from the previous fiscal year in sales volume, mainly outside Japan, in the Japanese automobile industry. Due to this growth, Daido Steel's automotive segment continued to operate at full capacity. Demand was solid in other user segments as well, except for certain categories of electronic material, supporting a high output volume at Daido Steel.

High prices of nickel, molybdenum and other metals used to make alloys persisted throughout the fiscal year, but Daido Steel worked on offsetting these higher costs mainly by lowering costs in other areas, raising sales prices and increasing sales of high-margin products.

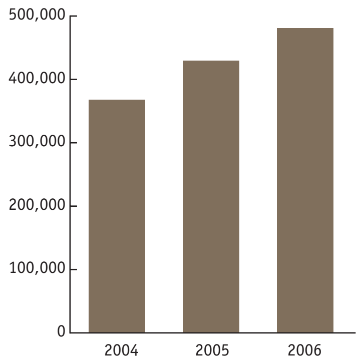
Due to the above factors, consolidated net sales increased ¥51,598 million, or 12.0%, year on year to ¥480,704 million, and operating income rose ¥16,087 million, or 75.0%, to ¥37,543 million. Net income climbed ¥9,811 million, or 86.2%, to ¥21,196 million, also reflecting gains on sales of investment securities and impairment losses on property, plant and equipment.

Results of Operations

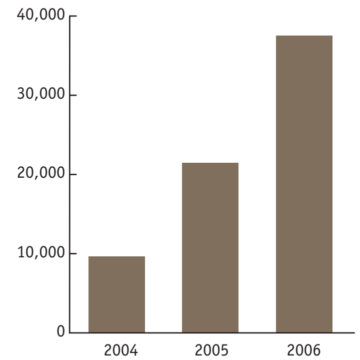
Specialty Steel

Sales in this segment increased ¥34,180 million, or 14.8%, to ¥265,629 million and operating income surged ¥9,514 million, or

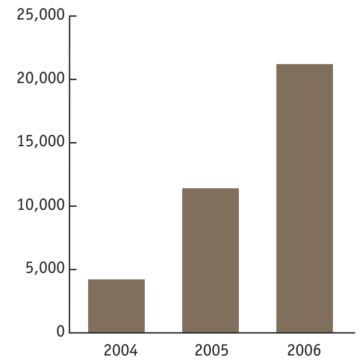
Net Sales (Years ended March 31)
(millions of yen)



Operating Income (Years ended March 31)
(millions of yen)



Net Income (Years ended March 31)
(millions of yen)



96.4%, to ¥19,380 million.

Japanese automakers, the largest source of demand for specialty steel, recorded an increase of 7% year on year in their production volume, reflecting strong growth in exports of knock-down kits in line with higher production and sales in North America, Asia and other overseas areas. Growing private-sector capital expenditures underpinned higher demand from other user segments, with the machine tool sector in particular continuing to see strong growth in demand.

Daido Steel made investments to raise productivity by eliminating bottlenecks at existing plants and to add production capacity. To offset the higher cost of alloys, a cost-linked sales price system was adopted and cost-containment measures were enhanced.

Electronic and Magnetic Materials

Sales in this segment rose ¥956 million, or 1.9%, year on year to ¥51,696 million, and operating income climbed ¥1,005 million, or 49.9%, to ¥3,016 million.

Negative factors impacting on sales included lackluster first-half sales of IC lead frames and inventory cutbacks by some manufacturers of office equipment and home appliances.

Positive factors were higher sales of Daido Steel strategic products and increased demand for magnetic materials for HDD applications.

Parts for Automobile & Industrial Equipment

This segment posted an ¥11,089 million, or 11.9%, increase in sales to ¥104,092 million and operating income rose ¥4,013 million, or 58.4%, year on year to ¥10,878 million.

The automotive parts business performed well, supported by robust motor vehicle production and demand stemming from the imposition of tighter restrictions on emissions of diesel engines used in SUVs, trucks and other commercial vehicles. In addition, sales volume increased in conjunction with extremely high demand for turbochargers, primarily for use in Europe.

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 demand for jet aircraft. Daido Steel is the leading supplier of these shafts in terms of market share. Backed by rising demand, output of marine diesel engine valves and turbine parts for power generators also increased.

Engineering

Segment sales rose ¥3,205 million, or 10.4%, to ¥33,892 million and operating income surged ¥919 million, or 118.7%, to ¥1,693 million.

Sales of environmental equipment were about the same as one year earlier. On the other hand, in industrial furnaces, heat treatment furnaces performed very well, driven by growth in private-sector capital expenditures, mainly in the automobile industry.

New Materials

Segment sales grew sharply by ¥3,333 million, or 40.8%, to ¥11,499 million, and operating income rose ¥284 million, or 39.8%, to ¥997 million.

Demand for titanium products used in medical applications and industrial machines remained healthy, but limited supplies of titanium forced the company to decline some orders. However, sales of titanium products increased because of price increases to reflect the significant rise in the cost of raw material.

Sales of metal powder products rose along with growth in demand, primarily for high-performance materials used to make automotive parts. Demand is expected to continue rising.

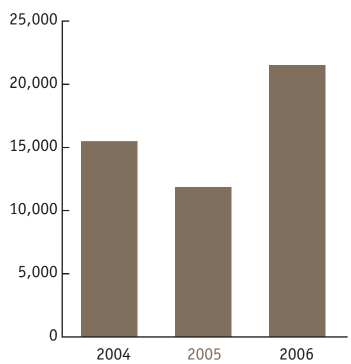
Trading & Service

Segment sales decreased ¥1,165 million, or 7.7%, to ¥13,896 million because of a decline in sales in the construction materials division at a subsidiary. This reflected intense competition in the market for imported construction materials. Operating income, however, rose ¥350 million, or 28.5%, to ¥1,580 million.

Capital Expenditures

Capital expenditures by business segment are shown in the following table. Figures below include intangible fixed assets, in addition to property, plant and equipment.

Capital Expenditures (Years ended March 31)
(millions of yen)



Capital Expenditures by Segment

(Years ended March 31)

	Millions of Yen		
	2006	2005	Change (%)
Specialty Steel	**¥11,236**	¥ 5,468	+105.5
Electronic and Magnetic Materials	**895**	1,142	(21.6)
Parts for Automobile & Industrial Equipment	**7,372**	3,660	+101.4
Engineering	**67**	330	(79.7)
New Materials	**408**	224	+82.1
Trading & Service	**626**	758	(17.4)
Total	**20,604**	11,582	+77.9
Corporate	**901**	304	+196.4
Consolidated	**¥21,505**	¥11,886	+80.9

Research and Development

In the past fiscal year, R&D expenditures totaled ¥3,575 million. Expenditures and major objectives and achievements in each business segment were as follows:

Specialty Steel

R&D in this segment is performed mainly by Daido Steel. One theme is the development of materials, including automotive structural materials, materials that resist corrosion and heat, tool steel, and connecting materials. Another theme is process improvement extending from melting, refining and solidification to quality assurance for finished products. In the past fiscal year, R&D expenditures in this segment totaled ¥1,741 million.

Electronic and Magnetic Materials

Daido Steel and consolidated subsidiary Daido Electronics Co., Ltd. conduct R&D involving magnets. Daido Steel also conducts R&D mainly involving high-performance steel strips and electromagnetic materials. Segment R&D expenditures totaled ¥500 million.

Parts for Automobile & Industrial Equipment
R&D in this segment is performed mainly by Daido Steel on engine valves and other automotive parts, as well as parts for various types of industrial machinery. R&D expenditures totaled ¥534 million.

Engineering
R&D in this segment is performed mainly by Daido Steel on the development of environmental protection and recycling equipment and a variety of energy-saving industrial furnaces. R&D expenditures totaled ¥15 million.

New Materials
R&D in this segment is performed mainly by Daido Steel in the field of new materials, chiefly focusing on functional powders and titanium alloys. R&D expenditures totaled ¥783 million.

Trading & Service
There are no R&D activities in this segment.

Financial Position

Cash Flows

Cash and cash equivalents as of March 31, 2006 amounted to ¥14,104 million, ¥2,031 million, or 12.6%, less than a year ago. Net cash provided by operating activities of ¥22,081 million and negative investing cash flows of ¥13,579 million resulted in free cash flows of ¥8,502 million. This cash and internal liquidity were used in financing activities, which used cash of ¥10,653 million.

OPERATING ACTIVITIES

Net cash provided by operating activities was ¥22,081 million, ¥1,301 million less than one year earlier. Although income before income taxes and minority interests increased significantly by ¥19,396 million to ¥38,433 million, cash was used by an increase in working capital, mostly reflecting higher notes and accounts receivable in line with increased net sales, and a rise in inventories due to a steep increase in the cost of metals used to make alloys.

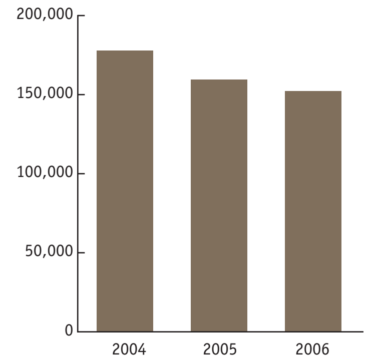
INVESTING ACTIVITIES

Net cash used in investing activities was ¥13,579 million, ¥2,276 million more than one year earlier. This increase was mainly attributable to increased outflows for the purchase of property, plant and equipment accompanying higher capital expenditures, offset in part by an increase in inflows from the sale of subsidiaries' shares.

FINANCING ACTIVITIES

Net cash used in financing activities was ¥10,653 million, ¥9,786 million less than in the previous fiscal year. Free cash flows resulting from the aforementioned activities and internal liquidity were used to repay loans and pay cash dividends.

Interest-bearing Debt (Years ended March 31)
(millions of yen)



Business Risks

Forward-looking statements in the following list of risks are based on Daido Steel Group's judgments as of March 31, 2006 with regard to significant risk factors.

Impact of changes in market conditions on operating results

The Daido Steel Group's sales and earnings are vulnerable to shifts in the Japanese and foreign economies, public-works expenditures, private-sector capital spending, consumer spending, commodity prices, foreign exchange rates and other factors. The automobile industry is a major source of demand for Daido Steel Group products. Accordingly, of the various operating environments to which it is subject, the Group's operating results may be affected in particular by changes in production levels by automakers in Japan and overseas and the Group's ability to negotiate suitable sales prices.

Fluctuations in raw material prices

Fluctuations in raw materials prices caused by changes in demand for raw materials may affect the Group's operating results. Scrap iron and nickel and other metals used to make alloys are the primary raw materials used by the Daido Steel Group. Additionally, the Group uses electricity, heavy oil and other energy sources when manufacturing its products. The recent rapid growth in steel output and consumption in China has caused the cost of these raw materials to rise.

Interest rate movements

The Daido Steel Group relies on loans from financial institutions and other external sources to fund part of its capital expenditures and working capital. Although interest rates in Japan have been low for many years, there are currently expectations of a change in interest rates due to economic trends in Japan. Such changes may affect the Group's sales and earnings.

Changes in the value of marketable securities held

Changes in the value of investment securities held by the Daido Steel Group due to poor operating results at portfolio companies and/or deterioration in conditions in the securities market, among other factors, may affect the Group's operating results. Furthermore, changes in the value of marketable securities forming part of retirement benefit trust assets may also affect operating results.

Fluctuations in exchange rates

The Daido Steel Group conducts transactions denominated in foreign currencies when exporting products and importing raw materials. Some receivables and payables are also denominated in foreign currencies. Accordingly, changes in foreign exchange rates may affect operating results.

Natural disasters

Many of the Daido Steel Group's factories, including the Chita Plant, are located in Aichi Prefecture, a region where there is a possibility of a major earthquake. While the Group is taking preventive measures such as strengthening earthquake resistance at its facilities, a severe earthquake in this region of the magnitude of the Tokai or Tonankai earthquakes may affect the Group's sales and earnings.

Equipment malfunctions and worker accidents

The Daido Steel Group employs electric arc furnaces, forging machines and other steel production facilities that operate at high temperatures and pressures. The Group also uses chemicals in production processes. Extreme care is exercised to prevent accidents associated with production machinery and processes. However, in the event of a major malfunction or worker accident involving machinery, the Group's production activities may be suspended and sales and earnings may be affected.

Overseas operations

The Daido Steel Group exports its products to and operates in the United States, China, other Asian countries and other regions. Business operations are therefore vulnerable to political and economic instability, unexpected revisions to laws and regulations, and social unrest. These events could disrupt overseas business operations and affect the Group's sales and earnings.

Environmental regulations

The Group is dedicated to operating in a manner that complies with all applicable laws and regulations in Japan and overseas, and demonstrates a commitment to environmental responsibility, including corporate citizenship. However, stricter regulations or rising public demands concerning environmental protection could result in greater restrictions and expenses that could affect the Group's sales and earnings.

Product liability

The Group has a system for conducting rigorous inspections and quality management in order to manufacture products of a consistently high quality. The Group has also purchased liability insurance. However, in the event that products of inadequate quality reach customers due to unforeseen circumstances, the cost of product returns, replacements and liability claims may affect the Group's sales and earnings.

CONSOLIDATED BALANCE SHEETS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
AS OF MARCH 31, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2006**	2005	**2006**
Current Assets:			
Cash and cash equivalents (Note 8)	**¥ 14,104**	¥ 16,135	**$ 120,547**
Time deposits	**719**	586	**6,145**
Trade notes and accounts receivable	**120,752**	112,264	**1,032,069**
Inventories (Note 5)	**92,317**	78,801	**789,034**
Deferred tax assets (Note 11)	**5,697**	5,529	**48,692**
Prepaid expenses and other current assets (Note 4)	**4,524**	3,974	**38,667**
Allowance for doubtful accounts	**(971)**	(736)	**(8,299)**
Total current assets	**237,142**	216,553	**2,026,855**
Property, Plant and Equipment:			
Land (Notes 6 and 8)	**30,043**	31,004	**256,778**
Buildings and structures (Notes 6 and 8)	**115,913**	114,812	**990,709**
Machinery and equipment	**349,567**	346,229	**2,987,752**
Construction in progress	**4,915**	2,317	**42,009**
Total	**500,438**	494,362	**4,277,248**
Accumulated depreciation	**(347,228)**	(342,760)	**(2,967,761)**
Net property, plant and equipment	**153,210**	151,602	**1,309,487**
Investments and Other Assets:			
Investment securities (Notes 4 and 8)	**46,337**	32,580	**396,043**
Investments in and advances to non-consolidated subsidiaries and associated companies	**27,481**	25,657	**234,880**
Deferred tax assets (Note 11)	**1,184**	1,068	**10,120**
Other investments and assets (Note 8)	**11,463**	8,875	**97,974**
Total investments and other assets	**86,465**	68,180	**739,017**
TOTAL	**¥ 476,817**	¥ 436,335	**$ 4,075,359**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
Current Liabilities:			
Short-term borrowings (Notes 7 and 8)	¥ 65,701	¥ 64,038	$ 561,547
Current portion of long-term debt (Notes 7 and 8)	13,516	13,768	115,521
Payables:			
Trade notes and accounts	77,278	78,599	660,496
Acquisitions of property, plant and equipment	5,423	2,504	46,350
	82,701	81,103	706,846
Income taxes payable	12,578	4,337	107,504
Accrued expenses	10,551	8,850	90,180
Other current liabilities (Note 8)	6,337	5,080	54,163
Total current liabilities	191,384	177,176	1,635,761
Long-Term Liabilities:			
Long-term debt (Notes 7 and 8)	73,171	81,843	625,393
Liability for employees' retirement benefits (Notes 2(i) and 9)	4,312	4,479	36,855
Deferred tax liabilities (Note 11)	13,737	9,716	117,410
Other long-term liabilities	5,045	5,107	43,120
Total long-term liabilities	96,265	101,145	822,778
Minority Interests	16,521	13,747	141,205
Contingent Liabilities (Note 15)			
Shareholders' Equity (Note 10)**:**			
Common stock:			
Authorized: 1,160,000 thousand shares			
Issued: 434,487 thousand shares in 2006 and 2005	37,172	37,172	317,709
Capital surplus	28,548	28,541	244,000
Retained earnings	87,048	68,639	744,000
Land revaluation surplus (Note 2(f))	1,357	1,357	11,598
Unrealized gain on available-for-sale securities	18,549	9,050	158,539
Foreign currency translation adjustments	152	(411)	1,299
Treasury stock, at cost			
493 thousand shares in 2006 and 383 thousand shares in 2005	(179)	(81)	(1,530)
Total shareholders' equity	172,647	144,267	1,475,615
TOTAL	¥476,817	¥436,335	$4,075,359

CONSOLIDATED STATEMENTS OF INCOME

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Net Sales	¥480,704	¥429,106	$4,108,581
Cost of Sales	394,213	359,900	3,369,342
Gross profit	86,491	69,206	739,239
Selling, General and Administrative Expenses	48,948	47,750	418,359
Operating income	37,543	21,456	320,880
Other Income (Expenses):			
Interest and dividend income	1,048	900	8,957
Interest expense	(1,696)	(1,995)	(14,496)
Equity in earnings of non-consolidated subsidiaries and associated companies	2,330	2,390	19,915
Gain on sales of investment securities	1,656	478	14,154
Impairment loss (Notes 2(g) and 6)	(813)	–	(6,949)
Loss on sales and disposals of property, plant and equipment—net	(1,186)	(2,334)	(10,137)
Write-down of investment securities including investments in non-consolidated subsidiaries and associated companies	(50)	(57)	(427)
Extraordinary retirement payments	(1,369)	(2,156)	(11,701)
Other—net	970	355	8,291
Other income (expenses)—net	890	(2,419)	7,607
Income before income taxes and minority interests	38,433	19,037	328,487
Income Taxes (Note 11)**:**			
Current	15,269	5,166	130,504
Deferred	(317)	481	(2,709)
Total income taxes	14,952	5,647	127,795
Minority Interests	2,285	2,005	19,530
Net income	¥ 21,196	¥ 11,385	$ 181,162

	Yen		U.S. Dollars
Per Share of Common Stock (Note 2(q))**:**			
Basic net income	¥ 48.19	¥ 25.70	$ 0.41
Cash dividends applicable to the year	8.00	5.00	0.07

	Thousands	
Weighted Average Number of Shares of Common Stock (Note 2(q))	434,054	434,152

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2006 AND 2005

	Thousands	Millions of Yen						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Surplus	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at April 1, 2004	434,181	¥37,172	¥28,535	¥55,874	¥ 3,642	¥ 7,887	¥(179)	¥ (51)
Net income	–	–	–	11,385	–	–	–	–
Cash dividends, ¥3 per share	–	–	–	(1,303)	–	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(85)	–	–	–	–
Reversal of land revaluation surplus due to sales of land	–	–	–	2,286	(2,285)	–	–	–
Adjustment of retained earnings for newly consolidated subsidiaries	–	–	–	482	–	–	–	–
Net change in unrealized gain on available-for-sale securities	–	–	–	–	–	1,163	–	–
Net change in foreign currency translation adjustments	–	–	–	–	–	–	(232)	–
Gain on sales of treasury stock—net		–	6	–	–	–	–	–
Net increase in treasury stock	(77)	–	–	–	–	–	–	(30)
Balance at March 31, 2005	434,104	37,172	28,541	68,639	1,357	9,050	(411)	(81)
Net income	–	–	–	**21,196**	–	–	–	–
Cash dividends, ¥6 per share	–	–	–	**(2,605)**	–	–	–	–
Bonuses to directors and corporate auditors	–	–	–	**(187)**	–	–	–	–
Increase due to merger of a consolidated subsidiary and a non-consolidated subsidiary	–	–	–	**5**	–	–	–	–
Net change in unrealized gain on available-for-sale securities	–	–	–	–	–	**9,499**	–	–
Net change in foreign currency translation adjustments	–	–	–	–	–	–	**563**	–
Gain on sales of treasury stock—net	–	–	**7**	–	–	–	–	–
Net increase in treasury stock	**(110)**	–	–	–	–	–	–	**(98)**
Balance at March 31, 2006	**433,994**	**¥37,172**	**¥28,548**	**¥87,048**	**¥ 1,357**	**¥18,549**	**¥ 152**	**¥(179)**

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Surplus	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at March 31, 2005	$317,709	$243,940	$586,658	$11,598	$ 77,350	$(3,513)	$ (692)
Net income	–	–	**181,162**	–	–	–	–
Cash dividends, $0.05 per share	–	–	**(22,265)**	–	–	–	–
Bonuses to directors and corporate auditors	–	–	**(1,598)**	–	–	–	–
Increase due to merger of a consolidated subsidiary and a non-consolidated subsidiary	–	–	**43**	–	–	–	–
Net change in unrealized gain on available-for-sale securities	–	–	–	–	**81,189**	–	–
Net change in foreign currency translation adjustments	–	–	–	–	–	**4,812**	–
Gain on sales of treasury stock—net	–	**60**	–	–	–	–	–
Net increase in treasury stock	–	–	–	–	–	–	**(838)**
Balance at March 31, 2006	**$317,709**	**$244,000**	**$744,000**	**$11,598**	**$158,539**	**$ 1,299**	**$(1,530)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
Operating Activities:			
Income before income taxes and minority interests	**¥ 38,433**	¥ 19,037	**$ 328,487**
Adjustments for:			
Income taxes—paid	**(6,480)**	(3,171)	**(55,385)**
Depreciation and amortization	**16,151**	16,422	**138,043**
Impairment loss	**813**	–	**6,949**
Loss on sales and disposals of property, plant and equipment—net	**1,173**	2,572	**10,026**
Gain on sales of investment securities—net	**(1,663)**	(471)	**(14,214)**
Write-down of investment securities including investments in non-consolidated subsidiaries and associated companies—net	**111**	104	**949**
Equity in earnings of non-consolidated subsidiaries and associated companies	**(2,330)**	(2,390)	**(19,915)**
Changes in assets and liabilities:			
Increase in notes and accounts receivable	**(10,106)**	(4,410)	**(86,376)**
Decrease in allowance for doubtful accounts	**(10)**	(841)	**(85)**
Increase in inventories	**(14,040)**	(8,508)	**(120,000)**
(Decrease) Increase in notes and accounts payable	**(505)**	2,299	**(4,316)**
Increase (Decrease) in liability for employees' retirement benefits	**83**	(544)	**709**
Other—net	**451**	3,575	**3,854**
Total adjustments	**(16,352)**	4,345	**(139,761)**
Net cash provided by operating activities	**22,081**	23,382	**188,726**
Investing Activities:			
Increase in time deposits	**(358)**	(335)	**(3,060)**
Proceeds from time deposits	**246**	27	**2,102**
Proceeds from sales of marketable securities	**–**	2	**–**
Purchases of property, plant and equipment	**(18,143)**	(11,021)	**(155,068)**
Proceeds from sales of property, plant and equipment	**267**	790	**2,282**
Purchases of investment securities and investments in non-consolidated subsidiaries and associated companies	**(731)**	(114)	**(6,248)**
Proceeds from sales of investment securities	**664**	780	**5,675**
Disbursements for originating loans	**(200)**	(171)	**(1,709)**
Proceeds from collection of loans	**196**	336	**1,675**
Proceeds from sales of investment in a consolidated subsidiary	**5,513**	–	**47,120**
Other—net	**(1,033)**	(1,597)	**(8,829)**
Net cash used in investing activities	**(13,579)**	(11,303)	**(116,060)**
Financing Activities:			
Net increase in short-term borrowings	**1,500**	6,131	**12,820**
Proceeds from long-term borrowings	**4,400**	17,510	**37,607**
Proceeds from issuance of bonds	**700**	–	**5,983**
Repayments of long-term debt	**(14,024)**	(42,373)	**(119,863)**
Dividends paid including payments to minority shareholders of subsidiaries	**(3,136)**	(1,681)	**(26,803)**
Other—net	**(93)**	(26)	**(795)**
Net cash used in financing activities	**(10,653)**	(20,439)	**(91,051)**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	**109**	(17)	**932**
Cash and Cash Equivalents Increased by Merger	**11**	92	**94**
Net Decrease in Cash and Cash Equivalents	**(2,031)**	(8,285)	**(17,359)**
Cash and Cash Equivalents of a Subsidiary Newly Consolidated, at Beginning of Year	**–**	492	**–**
Cash and Cash Equivalents at Beginning of Year	**16,135**	23,928	**137,906**
Cash and Cash Equivalents at End of Year	**¥ 14,104**	¥ 16,135	**$ 120,547**
Additional Information			
Details of proceeds from sales of investment in a subsidiary resulting in exclusion in consolidation			
Current assets	**¥ 4,123**	¥ –	**$ 35,239**
Non-current assets	**2,847**	–	**24,333**
Current liabilities	**(1,613)**	–	**(13,786)**
Non-current liabilities	**(305)**	–	**(2,607)**
Unrealized gain on available-for-sales securities	**(39)**	–	**(333)**
Gain on sales of a subsidiary	**1,355**	–	**11,581**
Proceeds from sales of a consolidated subsidiary	**¥ 6,368**	¥ –	**$ 54,427**
Cash and cash equivalents of a consolidated subsidiary sold	**(855)**	–	**(7,307)**
Net proceeds from sale of a consolidated subsidiary	**¥ 5,513**	¥ –	**$ 47,120**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DAIDO STEEL CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2006 AND 2005

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by DAIDO STEEL CO., LTD. (the "Company") and its consolidated subsidiaries (together with the Company, hereinafter referred to as the "Group") in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117 to $1, the approximate rate of exchange at March 31, 2006. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company had 48 (54 in 2005) majority-owned subsidiaries and 22 (22 in 2005) associated companies at March 31, 2006. The consolidated financial statements include the accounts of the Company and 31 (32 in 2005) significant subsidiaries for the year ended March 31, 2006.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has ability to exercise significant influence are accounted for by the equity method.

Investments in eight associated companies are accounted for by the equity method for the years ended March 31, 2006 and 2005. Investments in other non-consolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The fiscal years of the subsidiaries are not necessarily the same as that of the Company. Accounts of those subsidiaries, which have different fiscal years, have been adjusted for significant transactions to properly reflect their financial position at March 31 of each year and the results of operations for the years then ended.

The difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized on a straight-line basis over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) Cash and Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.

(c) Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost.
ii) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair values. The cost of available-for-sale securities sold is determined based on the moving-average method. A limited partnership investment is accounted for by the equity method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(d) Inventories

Inventories are stated at cost principally determined by the annual average method.

(e) Property, Plant and Equipment
Property, plant and equipment are stated at cost, less gains on grants receipts. The acquisition costs of property, plant and equipment have been reduced in the amount of ¥1,207 million ($10,316 thousand) by March 31, 2006.

Depreciation is computed by the declining-balance method or the straight-line method while the straight-line method is applied to buildings acquired after April 1, 1998 for domestic companies. The range of useful lives is from 7 to 60 years for buildings and structures and from 3 to 17 years for machinery and equipment.

(f) Land Revaluation
Under the "Law of Land Revaluation" Nippon Drop Forge Co., Ltd., a consolidated subsidiary, elected a one-time revaluation of its own-use land to a value based on real estate appraisal information at March 31, 1999. The resulting land revaluation surplus represented unrealized appreciation of land and was stated, net of income taxes, as a component of shareholders' equity. There was no effect on the consolidated statements of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities.

At March 31, 2006, the carrying amount of the land after the above one-time revaluation in the books of the consolidated subsidiary exceeded the market value by ¥3,626 million ($30,991 thousand).

(g) Long-lived Assets
In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets,* and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No. 6, *Guidance for Accounting Standard for Impairment of Fixed Assets*. These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Company and domestic consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The domestic consolidated subsidiaries review its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

As a result of the adoption of this new accounting standard, impairment loss on long-lived assets relating to certain land, buildings and leased assets, in the amount of ¥813 million ($6,949 thousand) was recognized and the effect of this was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by the same amount. (See Note 6)

(h) Other Assets
Intangible assets are amortized by the straight-line method. Research and development costs are charged to income as incurred.

(i) Liability for Employees' Retirement Benefits
The Company and its domestic consolidated subsidiaries have unfunded retirement benefit plans and non-contributory funded pension plans. Certain consolidated subsidiaries have defined contribution pension plans and multiemployer plans. The liability for employees' retirement benefits is accounted for based on projected benefit obligations and plan assets at the balance sheet date. Multiemployer plan assets, which were excluded from the balance sheet as of March 31, 2006 and 2005, amounted to ¥4,983 million ($42,590 thousand) and ¥3,803 million as of March 31, 2006 and 2005, respectively.

The existing accounting standard for employees' retirement benefits prohibited recognition of any excess portion of plan assets exceeding the projected benefit obligation that had arisen due to an excess of the actual return of plan assets over the expected return or a reduction level. This standard was amended in March 2005 to allow recognition of such excess portion of plan assets from the year ended March 31, 2005. In accordance with the amended standard, the Group recognized excess plan assets due to actual return of plan assets exceeding the expected return. Such excess was recognized as actuarial gain and is being recognized over 10 years from the year ended March 31, 2005. The effect of this change was to increase income before income taxes for the year ended March 31, 2005 by ¥446 million.

(j) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(k) Income Taxes

The provision for current income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(l) Appropriations of Retained Earnings

Appropriations of retained earnings at each year-end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

(m) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

(n) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity and minority interests.

(o) Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts are measured at the fair value and the unrealized gains (losses) are recognized in the consolidated statements of income.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense.

(p) Revenue Recognition

Revenue from construction contracts having a contract amount of more than ¥500 million ($4,274 thousand) and a construction duration of more than one year is recognized based on a percentage-of-completion method, measured by the percentage of direct cost incurred to date to estimated total direct cost for each contract (See Note 3).

(q) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share was not disclosed because it was anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years without giving retroactive adjustment for subsequent stock splits.

(r) New Accounting Pronouncements

Business Combination and Business Separation

In October 2003, the BAC issued a Statement of Opinion, *Accounting for Business Combinations,* and on December 27, 2005 the ASBJ issued *Accounting Standard for Business Separations* and ASBJ Guidance No. 10, *Guidance for Accounting Standard for Business Combinations and Business Separations*. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock Options

On December 27, 2005, the ASBJ issued *Accounting Standard for Stock Options* and *related guidance*. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to Directors and Corporate Auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders' meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, *Accounting treatment for bonuses to directors and corporate auditors*, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year-end to which such bonuses are attributable.

3. ACCOUNTING CHANGE

Prior to April 1, 2005, revenue under long-term construction contracts, for which the term of construction was more than one year, with contract amounts exceeding ¥1,000 million ($8,547 thousand), were recorded under the percentage-of-completion method. On the other hand, construction contracts which do not meet the above condition were accounted for by the completed-contract method. However, the number of projects with smaller contract amounts has increased and the management of the Group believes that this trend would continue in the future.

With the background mentioned above, the Group changed the scope of the application of the percentage-of-completion method to the long-term construction contracts effective from April 1, 2005, for which the term of construction was more than one year, with contract amounts exceeding ¥500 million ($4,274 thousand).

The effect of this change was to increase net revenue by ¥180 million ($1,538 thousand), and to increase operating income and income before income taxes and minority interests by ¥12 million ($103 thousand) for the year ended March 31, 2006.

4. MARKETABLE AND INVESTMENT SECURITIES

Investment securities at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Investment securities:			
Equity securities	**¥45,842**	¥32,079	**$391,812**
Debt securities	**6**	6	**51**
Other	**495**	495	**4,231**
Total	**¥46,343**	¥32,580	**$396,094**

Debt securities of ¥6 million ($51 thousand) due within one year was included in other current assets in the accompanying consolidated balance sheet as of March 31, 2006.

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2006 and 2005 was as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥7,919**	**¥29,063**	**¥22**	**¥36,960**
Debt securities	**6**	**–**	**–**	**6**

	Millions of Yen			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥7,697	¥15,560	¥57	¥23,200
Debt securities	6	0	–	6

March 31, 2006	Thousands of U.S. Dollars Cost	 Unrealized Gains	 Unrealized Losses	 Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$67,684**	**$248,401**	**$188**	**$315,897**
Debt securities	**51**	**–**	**–**	**51**

Securities classified as available-for-sale and held-to-maturity whose fair values were not readily determinable at March 31, 2006 and 2005 were as follows:

	Carrying Amount Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Available-for-sale:			
Equity securities	**¥8,882**	¥8,879	**$75,915**
A limited partnership investment	**495**	495	**4,231**
Total	**¥9,377**	¥9,374	**$80,146**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥664 million ($5,675 thousand) and ¥715 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥301 million ($2,673 thousand) and ¥2 million ($17 thousand), respectively, for the year ended March 31, 2006 and ¥448 million and nil, respectively, for the year ended March 31, 2005.

Contractual maturities for securities classified as available-for-sale at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	**¥6**	**$51**

5. INVENTORIES

Inventories held by the Group at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Merchandise	**¥14,104**	¥12,870	**$120,547**
Finished products	**7,601**	7,244	**64,965**
Semi-finished products	**21,553**	16,583	**184,214**
Work-in-process	**22,460**	19,990	**191,966**
Raw materials	**19,874**	16,026	**169,864**
Supplies	**6,725**	6,088	**57,478**
Total	**¥92,317**	¥78,801	**$789,034**

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of and for the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥813 million ($6,949 thousand) as other expense for certain land used for warehouses and certain unused assets due to other-than-temporary decline in market value and the carrying amount of the relevant assets was written down to the recoverable amount. The recoverable amount of that such land and unused assets were measured at its net selling price mainly determined by quotation from a third-party real estate appraiser or assessed by the value of fixed assets.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2006 and 2005 consisted of notes to banks, bank overdrafts and ¥7,000 million ($59,829 thousand) and ¥10,000 million of commercial paper, respectively. The weighted average rates of annual interest applicable to short-term borrowings (excluding the commercial paper) at March 31, 2006 and 2005 were 0.63% and 0.61%, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Borrowings from banks and other financial institutions, with weighted average interest rates of 1.11% in 2006 and 1.18% in 2005	¥ 65,987	¥ 71,761	$ 563,991
0.79% unsecured bonds due February 10, 2006	–	3,000	–
1.13% unsecured bonds due October 23, 2008	5,000	5,000	42,735
1.83% unsecured bonds due October 22, 2010	5,000	5,000	42,735
0.96% unsecured bonds due March 16, 2009	5,000	5,000	42,735
1.48% unsecured bonds due March 16, 2011	5,000	5,000	42,735
Unsecured bonds issued by consolidated subsidiaries due serially March 31, 2006	700	–	5,983
Secured bonds issued by the consolidated subsidiary due February 28, 2013	–	850	–
Sub-total	86,687	95,611	740,914
Less: Portion due within one year	(13,516)	(13,768)	(115,521)
Total long-term debt	¥ 73,171	¥ 81,843	$ 625,393

Annual maturity amounts of long-term debt at March 31, 2006 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥13,516	$115,521
2008	18,987	162,282
2009	16,404	140,205
2010	23,270	198,889
2011	12,270	104,872
2012 and thereafter	2,240	19,145
Total	¥86,687	$740,914

The Group entered into line of credit agreements with three banks. The details of the agreements were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Line of credit amount	¥23,000	$196,581
Balance used at March 31, 2006	–	–

8. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for short-term borrowings of ¥1,211 million ($10,350 thousand), long-term debt (including current portion) of ¥2,871 million ($24,538 thousand) and other current liabilities of ¥5 million ($43 thousand) at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	¥ 1	$ 9
Land	9,119	77,940
Buildings and structures	4,988	42,632
Investment securities	2,366	20,222
Total	¥16,474	$140,803

Land held for investment, in the amount of ¥103 million ($880 thousand) included in "Other investments and assets" was pledged as collateral for borrowings of ¥2,547 million ($21,769 thousand) by Yugen Kaisha Takakura Funding Corporation ("Takakura"). In the event that acceleration of the maturity of the borrowings for Takakura occurs, the Group may repay the balance of the borrowings on behalf of Takakura. The Group entered into an agreement with the lender that the Group shall settle the borrowings by way of a transfer of ownership of the pledged land to the lender with the settlement amount (the difference between the balance of the borrowings and the fair market value of the land) to be returned to the Group, if the Group does not repay the borrowings on behalf of Takakura.

In addition, investment securities of ¥495 million ($4,231 thousand) and other assets of ¥228 million ($1,949 thousand) were pledged as collateral for borrowings of ¥8,198 million ($70,068 thousand) by Takakura, including the above borrowings of ¥2,547 million ($21,769 thousand).

9. RETIREMENT AND PENSION PLANS

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from trustees. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 60,842	¥ 61,363	$ 520,017
Fair value of plan assets	(94,397)	(59,948)	(806,812)
Unrecognized prior year service cost	840	–	7,179
Unrecognized actuarial gain	32,161	436	274,880
Prepaid pension cost	4,866	2,628	41,591
Net liability	¥ 4,312	¥ 4,479	$ 36,855

The components of net periodic employees' retirement benefit costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Service cost	**¥2,411**	¥ 2,532	**$20,607**
Interest cost	**1,023**	1,079	**8,744**
Expected return on plan assets	**(849)**	(1,085)	**(7,256)**
Recognized actuarial loss	**313**	657	**2,675**
Amortization of prior service cost	**(66)**	–	**(564)**
Contribution to defined contribution plans	**68**	67	**581**
Contribution to multiemployer pension plans	**180**	152	**1,538**
Additional severance payments	**–**	22	**–**
Net periodic employees' retirement benefit costs	**¥3,080**	¥ 3,424	**$26,325**

In addition to the above amount, the Group recorded extraordinary retirement payments in the amount of ¥1,369 million ($11,701 thousand) and ¥2,156 million for the years ended March 31, 2006 and 2005, respectively.

Assumptions used for the years ended March 31, 2006 and 2005 were set forth as follows:

	2006	2005
Discount rate	**Primarily 1.9%**	Primarily 1.9%
Expected rate of return on plan assets	**1.7 – 2.5%**	1.7 – 3.5%
Recognition period of actuarial gain/loss	**10 years**	10 years
Recognition period of prior year service cost	**10 years**	–

10. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese Companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of the amount of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the amount of common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥64,282 million ($549,419 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred Tax Assets:			
Accrued bonuses	¥ 2,910	¥ 2,361	$ 24,872
Retirement benefits	1,992	2,527	17,025
Allowance for doubtful accounts	349	421	2,983
Write-down of securities and other assets	2,124	2,136	18,154
Unrealized gain on property, plant and equipment	371	375	3,171
Net loss carried forward	1,210	1,561	10,342
Unrealized gain on inventories	861	719	7,359
Enterprise tax	1,065	–	9,102
Other	1,797	1,962	15,359
Valuation allowance	(4,192)	(3,510)	(35,829)
Total deferred tax assets	¥ 8,487	¥ 8,552	$ 72,538
Deferred Tax Liabilities:			
Deferred gain on sales of property, plant and equipment	¥ 3,202	¥ 3,391	$ 27,367
Land revaluation surplus	1,694	1,694	14,479
Unrealized gain on securities	10,192	6,342	87,111
Other	255	244	2,179
Total deferred tax liabilities	15,343	11,671	131,136
Net Deferred Tax Liabilities	¥ (6,856)	¥ (3,119)	$(58,598)

A reconciliation between the normal effective statutory tax rates for the years ended March 31, 2006 and 2005, and the actual effective tax rates reflected in the accompanying consolidated statements of income were as follows:

	2006	2005
Normal effective statutory tax rates	41.0%	41.0%
Expenses not deductible for income tax purposes	0.8	1.8
Revenues not recognized for income tax purposes	(2.1)	(3.1)
Per capita tax	0.3	0.7
Net change in valuation allowance	(2.3)	(13.9)
Effects of elimination of dividend for consolidation purpose	2.4	3.4
Effect of accounting for equity methods	(2.5)	–
Effect of undistributed retained earnings in a consolidated subsidiary sold to the third party	5.6	–
Tax rate difference in foreign consolidated subsidiaries	(1.3)	–
Tax credits	(1.8)	–
Other—net	(1.2)	(0.2)
Actual effective tax rates	38.9%	29.7%

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥3,575 million ($30,556 thousand) and ¥3,094 million for the years ended March 31, 2006 and 2005, respectively.

13. LEASES

(As lessee)

The Company and certain consolidated subsidiaries lease machinery, equipment, vehicles, tools, furniture and fixtures and software as a lessee. Finance lease expenses were ¥1,001 million ($8,556 thousand) and ¥979 million for the years ended March 31, 2006 and 2005, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen			
2006	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	¥897	¥1,773	¥1,022	¥3,692
Accumulated depreciation	401	883	640	1,924
Impairment loss	17	–	–	17
Net leased property	¥479	¥ 890	¥ 382	¥1,751

	Millions of Yen			
2005	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	¥1,029	¥2,326	¥975	¥4,330
Accumulated depreciation	410	1,611	525	2,546
Net leased property	¥ 619	¥ 715	¥450	¥1,784

	Thousands of U.S. Dollars			
2006	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	$7,667	$15,154	$8,735	$31,556
Accumulated depreciation	3,427	7,547	5,470	16,444
Impairment loss	146	–	–	146
Net leased property	$4,094	$ 7,607	$3,265	$14,966

Obligations under finance leases at March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 756	¥ 662	$ 6,462
Due after one year	1,012	1,122	8,649
Total	¥1,768	¥1,784	$15,111

Depreciation expense, which was not reflected in the accompanying consolidated statements of income, computed by the straight-line method, was ¥1,001 million ($85,556 thousand) and ¥979 million for the years ended March 31, 2006 and 2005, respectively.

Impairment loss on leased assets was ¥24 million ($205 thousand) for the year ended March 31, 2006. Reversal of allowance for impairment loss on leased assets was ¥6 million ($51 thousand) for the year ended March 31, 2006.

The amounts of acquisition cost and obligations under finance leases include the imputed interest expense portion.

Obligations under operating leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 57	¥19	$ 487
Due after one year	188	50	1,607
Total	¥245	¥69	$2,094

(As lessor)

A consolidated subsidiary leases machinery, equipment, vehicles, tools, furniture and fixtures as a lessor. Finance lease revenues were ¥91 million ($778 thousand) and ¥75 million for the years ended March 31, 2006 and 2005, respectively.

Leased property whose ownership does not transfer to the lessee during or at the completion of the lease term at March 31, 2006 and 2005 was as follows:

	Millions of Yen		
2006	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Total
Acquisition cost	¥375	¥15	¥390
Accumulated depreciation	225	3	228
Net leased property	¥150	¥12	¥162

	Millions of Yen		
2005	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Total
Acquisition cost	¥342	¥6	¥348
Accumulated depreciation	188	3	191
Net leased property	¥154	¥3	¥157

	Thousands of U.S. Dollars		
2006	Machinery, Equipment and Vehicles	Tools, Furniture and Fixtures	Total
Acquisition cost	$3,205	$128	$3,333
Accumulated depreciation	1,923	26	1,949
Net leased property	$1,282	$102	$1,384

Expected revenues from finance leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥ 89**	¥ 78	**$ 760**
Due after one year	**144**	150	**1,231**
Total	**¥233**	¥228	**$1,991**

Depreciation expense, which was reflected in the accompanying consolidated statements of income, was ¥74 million ($632 thousand) and ¥73 million for the years ended March 31, 2006 and 2005 respectively. The amounts of expected revenues under finance leases include the imputed interest revenue portion.

14. DERIVATIVES

The Group enters into foreign exchange forward contracts, interest rate options and interest rate swaps. The Group does not hold or issue derivatives for trading or speculative purposes. Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate hedge policy, authorization, credit limit and reporting to the management. Each derivative transaction is periodically reported to the management, where evaluation and analysis of derivatives are made.

The Group had the following derivative contracts outstanding at March 31, 2006 and 2005:

	Millions of Yen			Thousands of U.S. Dollars		
2006	Contract or Notional Amount	Fair Value	Unrealized Gains (Losses)	Contract or Notional Amount	Fair Value	Unrealized Gains (Losses)
Forward Exchange Contracts:						
Selling:						
U.S. Dollar	**¥3,352**	**¥3,379**	**¥(27)**	**$28,650**	**$28,880**	**$(230)**
H.K. Dollar	**10**	**10**	**(0)**	**85**	**85**	**(0)**
Singapore Dollar	**1**	**1**	**(0)**	**9**	**9**	**(0)**
Euro	**0**	**0**	**0**	**0**	**0**	**0**
Buying:						
U.S. Dollar	**430**	**435**	**5**	**3,675**	**3,718**	**43**
H.K. Dollar	**1**	**1**	**0**	**9**	**9**	**0**
Euro	**0**	**0**	**0**	**0**	**0**	**0**

	Millions of Yen		
2005	Contract or Notional Amount	Fair Value	Unrealized Gains (Losses)
Forward Exchange Contracts:			
Selling:			
U.S. Dollar	¥2,518	¥2,581	¥(63)
H.K. Dollar	10	10	(0)
Buying:			
Japanese Yen	209	207	(2)
U.S. Dollar	200	199	(1)
Euro	26	27	1
H.K. Dollar	1	1	(0)
Interest rate options:			
Buying:			
Interest rate cap	¥ 380	–	–
<Option premiums>	<5>	–	(5)

Option premiums were reflected in brackets (< >) under the contracted amounts. The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk. Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2006 and 2005 and such amounts which are assigned to the associated assets and liabilities and recorded on the balance sheets at March 31, 2006 and 2005, are excluded from disclosure of market information. Interest rate caps which qualify for hedge accounting for the year ended March 31, 2005 are excluded from disclosure of market information.

15. CONTINGENT LIABILITIES

At March 31, 2006, the Group had contingent liabilities for notes trusted with recourse in the course of assets liquidation in the amount of ¥580 million ($4,957 thousand).

At March 31, 2006, the Group was contingently liable for ¥3,665 million ($31,325 thousand) for guarantees of loans and payables for non-consolidated subsidiaries, associated and other companies and employees. Additionally, the Group was jointly and severally liable for ¥300 million ($2,564 thousand) for guarantee of loans of a company of which the Group's proportionate liability was ¥30 million ($256 thousand).

The Group had an obligation to invest additionally in Takakura via an anonymous association contract with an upper limit of ¥525 million ($4,487 thousand) in the event that buildings owned by Takakura are destroyed or impaired by natural disaster.

The Group transferred all stocks of one of its consolidated subsidiaries, Tokuhatsu Co., Ltd., held by the Group, to NHK Spring Co., Ltd. in January 2006. Under the agreement with NHK Spring Co., Ltd., the Group would owe a defect liability against NHK Spring Co., Ltd. at the maximum ¥3,200 million ($27,350 thousand) for 10 years starting on the date of transfer. The Group agreed to owe the defect liability such as product liability and remedy cost for land pollution, which would be caused by the events occurred prior to the date of transfer. As a result of the due diligence process between the Group and NHK Spring Co., Ltd., the management of the Group believes that the possibility of exposures to loss would be remote.

16. SUBSEQUENT EVENT

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders' meeting held on June 29, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥5 ($0.04) per share	**¥2,171**	**$18,556**
Bonuses to directors and corporate auditors	**110**	**940**
Total	**¥2,281**	**$19,496**

17. SEGMENT INFORMATION

The Group operates in the following segmentation under the headings of "Specialty Steel," "Electronic and Magnetic Materials," "Parts for Automobile & Industrial Equipment," "Engineering," "New Materials" and "Trading & Service." The Electronics segment was renamed the Electronic and Magnetic Materials segment in the year under review.

(a) Industry Segments

(1) A summary of net sales, costs and expenses and operating income (loss) by industry segments for the years ended March 31, 2006 and 2005, was as follows:

	Millions of Yen								
2006	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Service	Total	(Elimination)	Consolidated
Net sales:									
Outside customers	**¥265,629**	**¥51,696**	**¥104,092**	**¥33,892**	**¥11,499**	**¥13,896**	**¥480,704**	**¥ –**	**¥480,704**
Intersegment transactions	**24,846**	**746**	**19,950**	**2,255**	**1,077**	**9,638**	**58,512**	**(58,512)**	**–**
Total	**290,475**	**52,442**	**124,042**	**36,147**	**12,576**	**23,534**	**539,216**	**(58,512)**	**480,704**
Costs and expenses	**271,095**	**49,426**	**113,164**	**34,454**	**11,579**	**21,954**	**501,672**	**(58,511)**	**443,161**
Operating income (loss)	**¥ 19,380**	**¥ 3,016**	**¥ 10,878**	**¥ 1,693**	**¥ 997**	**¥ 1,580**	**¥ 37,544**	**¥ (1)**	**¥ 37,543**

	Millions of Yen								
2005	Specialty Steel	Electronics	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Service	Total	(Elimination)	Consolidated
Net sales:									
Outside customers	¥231,449	¥50,740	¥ 93,003	¥30,687	¥8,166	¥15,061	¥429,106	¥ –	¥429,106
Intersegment transactions	23,009	820	18,110	630	871	9,389	52,829	(52,829)	–
Total	254,458	51,560	111,113	31,317	9,037	24,450	481,935	(52,829)	429,106
Costs and expenses	244,592	49,549	104,248	30,543	8,324	23,220	460,476	(52,826)	407,650
Operating income (loss)	¥ 9,866	¥ 2,011	¥ 6,865	¥ 774	¥ 713	¥ 1,230	¥ 21,459	¥ (3)	¥ 21,456

	Thousands of U.S. Dollars								
2006	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Service	Total	(Elimination)	Consolidated
Net sales:									
Outside customers	**$2,270,334**	**$441,846**	**$ 889,675**	**$289,675**	**$ 98,282**	**$118,769**	**$4,108,581**	**$ –**	**$4,108,581**
Intersegment transactions	**212,359**	**6,376**	**170,513**	**19,274**	**9,205**	**82,376**	**500,103**	**(500,103)**	**–**
Total	**2,482,693**	**448,222**	**1,060,188**	**308,949**	**107,487**	**201,145**	**4,608,684**	**(500,103)**	**4,108,581**
Costs and expenses	**2,317,051**	**422,444**	**967,214**	**294,479**	**98,966**	**187,641**	**4,287,795**	**(500,094)**	**3,787,701**
Operating income (loss)	**$ 165,642**	**$ 25,778**	**$ 92,974**	**$ 14,470**	**$ 8,521**	**$ 13,504**	**$ 320,889**	**$ (9)**	**$ 320,880**

(2) Assets, depreciation, capital expenditures and impairment loss for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Yen								
2006	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Service	Total	Corporate	Consolidated
Assets	**¥247,156**	**¥35,864**	**¥96,343**	**¥22,513**	**¥9,599**	**¥20,487**	**¥431,962**	**¥44,855**	**¥476,817**
Depreciation	**8,523**	**1,408**	**4,448**	**323**	**175**	**832**	**15,709**	**358**	**16,067**
Capital expenditures	**11,236**	**895**	**7,372**	**67**	**408**	**626**	**20,604**	**901**	**21,505**
Impairment loss	**570**	**56**	**28**	**66**	**16**	**77**	**813**	**–**	**813**

2005	Specialty Steel	Electronics	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Service	Total	Corporate	Consolidated
	Millions of Yen								
Assets	¥220,239	¥38,323	¥93,308	¥19,915	¥6,503	¥13,438	¥391,726	¥44,609	¥436,335
Depreciation	8,257	1,559	4,832	266	190	825	15,929	400	16,329
Capital expenditures	5,468	1,142	3,660	330	224	758	11,582	304	11,886

2006	Specialty Steel	Electronic and Magnetic Materials	Parts for Automobile & Industrial Equipment	Engineering	New Materials	Trading & Service	Total	Corporate	Consolidated
	Thousands of U.S. Dollars								
Assets	**$2,112,444**	**$306,530**	**$823,444**	**$192,419**	**$82,043**	**$175,103**	**$3,691,983**	**$383,376**	**$4,075,359**
Depreciation	**72,846**	**12,034**	**38,017**	**2,761**	**1,496**	**7,111**	**134,265**	**3,060**	**137,325**
Capital expenditures	**96,034**	**7,650**	**63,009**	**573**	**3,487**	**5,350**	**176,103**	**7,701**	**183,804**
Impairment loss	**4,872**	**479**	**239**	**564**	**137**	**658**	**6,949**	**–**	**6,949**

As discussed in Note 2 (g), the Group adopted the new accounting standard for impairment of long-lived assets as of April, 2005. As a result of the adoption of this new accounting standard, impairment loss in the amount of ¥813 million ($6,949 thousand) was recognized for the year ended March 31, 2006.

(b) Geographical Segments

Geographical segment information for the years ended March 31, 2006 and 2005, was not disclosed as net sales and assets in Japan were more than 90 percent of the consolidated net sales and assets of all segments.

(c) Export Sales

A summary of export sales information to foreign customers for the Group for the fiscal years ended March 31, 2006 and 2005 was as follows:

2006	North America	Asia	Others	Total
	Millions of Yen			
Export sales	**¥14,324**	**¥43,315**	**¥3,876**	**¥ 61,515**
Net sales				**480,704**
Ratio of export sales to net sales	**3.0%**	**9.0%**	**0.8%**	**12.8%**

2005	North America	Asia	Others	Total
	Millions of Yen			
Export sales	¥10,614	¥35,175	¥4,326	¥ 50,115
Net sales				429,106
Ratio of export sales to net sales	2.5%	8.2%	1.0%	11.7%

2006	North America	Asia	Others	Total
	Thousands of U.S. Dollars			
Export sales	**$122,427**	**$370,214**	**$33,128**	**$ 525,769**
Net sales				**4,108,581**
Ratio of export sales to net sales	**3.0%**	**9.0%**	**0.8%**	**12.8%**

INDEPENDENT AUDITORS' REPORT

Deloitte.

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To the Board of Directors of
DAIDO STEEL CO., LTD.:

We have audited the accompanying consolidated balance sheets of DAIDO STEEL CO., LTD. (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2006 and 2005, the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DAIDO STEEL CO., LTD. and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2 (g) to the consolidated financial statements, effective April 1, 2005, the consolidated financial statements have been prepared in accordance with the new Accounting Standard for Impairment of Fixed Assets.

As discussed in Note 3 to the consolidated financial statements, effective April 1, 2005, the Group changed the scope of the application of percentage completion method to the long-term construction contracts.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2006

Member of
Deloitte Touche Tohmatsu

DAIDO NETWORK

Offices and Branches

	Address	Phone (Facsimile)
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Tokyo Head Office	Daido Shinagawa Bldg., 6-35, Konan 1-chome, Minato-ku, Tokyo 108-8478, Japan	81-3-5495-1253 (81-3-5495-6733)
Osaka Branch	Kogin Building, 1-1, Koraibashi 4-chome, Chuo-ku, Osaka 541-0043, Japan	81-6-6229-6530 (81-6-6202-8663)
Niigata Sales Office	1084, Kotaka, Tsubame, Niigata 959-1241, Japan	81-256-63-4405 (81-256-62-2484)
Fukuoka Sales Office	13-2, Tenjin 1-chome, Chuo-ku, Fukuoka 810-0001, Japan	81-92-771-4481 (81-92-771-9384)
Hiroshima Sales Office	13-7, Moto-machi, Naka-ku, Hiroshima 730-0011, Japan	81-82-221-0275 (81-82-228-8290)
Tohoku Office	10-1, Chuo 1-chome, Aoba-ku, Sendai, Miyagi 980-0021, Japan	81-22-213-7130 (81-22-263-9409)

Research Institute and Plants

Research & Development Lab.	30, Daido-cho 2-chome, Minami-ku, Nagoya, Aichi 457-8545, Japan	81-52-611-2522 (81-52-611-9004)
Chita Plant	39, Motohama-machi, Tokai, Aichi, 477-0035, Japan	81-562-33-3101 (81-562-33-1570)
Chita Die Forging Plant		81-562-33-7461 (81-562-33-1550)
Chita Steel Strip Plant		81-562-33-7465 (81-562-33-1019)
Hoshizaki Plant	30, Daido-cho 2-chome, Minami-ku, Nagoya, Aichi 457-8545, Japan	81-52-611-2512 (81-52-614-2492)
Shibukawa Plant	500, Ishihara, Shibukawa, Gunma 377-0007, Japan	81-279-25-2000 (81-279-25-2040)
Kawasaki Plant	4-1, Yako 2-chome, Kawasaki-ku, Kawasaki, Kanagawa 210-0863, Japan	81-44-266-3760 (81-44-266-3768)
Tsukiji Techno Center	10, Ryugu-cho, Minato-ku, Nagoya, Aichi 455-0022, Japan	81-52-691-5181 (81-52-691-5212)
Metal Powder Plant		81-52-691-5186 (81-52-691-5195)
Oji Plant	9-3, Kamiya 3-chome, Kita-ku, Tokyo 115-0043, Japan	81-3-3901-4161 (81-3-3901-8211)
Kimitsu Plant	1-Kimitsu, Kimitsu, Chiba 299-1141, Japan	81-439-52-1541 (81-439-54-1280)
Takiharu Techno Center	9, Takiharu-cho, Minami-ku, Nagoya, Aichi 457-8712, Japan	81-52-613-6801 (81-52-613-6840)
Nakatsugawa Techno Center	1642-144, Nasubigawa, Nakatsugawa, Gifu 509-9132, Japan	81-573-68-6171 (81-573-68-6188)

Specialty Steel

- Daido Amistar Co., Ltd.
- Shimomura Tokushu Seiko Co., Ltd.
- Daido Stainless Co., Ltd.
- Daido Matex Co., Ltd.
- Daido Shizai Service Co., Ltd.
- Daido EcoMet Co., Ltd.
- Daido Technica Co., Ltd.
- Nippon Seisen Co., Ltd.
- Tohoku Steel Co., Ltd.
- Riken Seiko Co., Ltd.
- Oji Steel Co., Ltd.
- Maruta Transport Co., Ltd.
- Sakurai Kosan Co., Ltd.
- Izumi Denki Kogyo Co., Ltd.
- Kawaichi Sangyo Co., Ltd.
- DAIDO PDM (THAILAND) CO., LTD.
- Daido TIEN WEN Steel Co., Ltd.
- Daido Amistar (M) SDN. BHD.
- Daido Amistar (S) PTE LTD.

Electronic and Magnetic Materials

- Daido Electronics Co., Ltd.
- Daido-Special Metals Ltd.
- Daido Electronics (Thailand) Co., Ltd.

Parts for Automobile & Industrial Equipment

- Daido Castings Co., Ltd.
- Fuji OOZX Inc.
- Japan Drop Forge Co., Ltd.
- Toyo Sangyo Co., Ltd.
- Daido Star Techno Co., Ltd.
- Nissei Seiko Co., Ltd.
- Daido Precision Industries Ltd.
- OHIO STAR FORGE CO.

Engineering

- Daido Machinery Co., Ltd.
- Daido Environment Engineering Co., Ltd.
- Daido Plant Industries Co., Ltd.

Trading & Service

- Daido Kogyo Co., Ltd.
- Daido Life Service Co., Ltd.
- Kisokoma Heights Co., Ltd.
- Daido Bunseki Research Inc.
- Star Info Tech Co., Ltd.
- Daido Steel (America) Inc.

Other

- Daido Hospital*
- Daido Educational Institutions*
  - Daido Institute of Technology
  - Daido Institute of Technology Daido High School

*: Non-consolidated subsidiaries

(As of March 31, 2006)

CORPORATE DATA

Corporate Name:	Daido Steel Co., Ltd.
Founded:	August 19, 1916
Incorporated:	February 1, 1950
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Phone:	81-52-963-7501
Facsimile:	81-52-963-4386
Internet Address:	http://www.daido.co.jp
Number of Employees:	3,542
Common Stock:	¥37,172 million
Number of Authorized Shares:	1,160,000,000
Number of Issued Shares:	434,487,693
Number of Shareholders:	38,631
Independent Auditors:	Deloitte Touche Tohmatsu Nagoya Daiya Building 3-goukan 13-5, Meieki 3-chome, Nakamura-ku, Nagoya, Aichi 450-8530, Japan
Stock Exchange Listings:	Tokyo, Nagoya
Transfer Agent of Common Stock:	The Chuo Mitsui Trust and Banking Company, Limited 3-33-1, Shiba, Minato-ku, Tokyo 105-8574, Japan
Principal Shareholders:	NIPPON STEEL CORPORATION The Master Trust Bank of Japan, Ltd. (Trust account) Japan Trustee Services Bank, Ltd. (Trust Account) Meiji Yasuda Life Insurance Company The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Corporate Bank, Ltd. NHK SPRING CO., LTD. Mitsubishi UFJ Trust and Banking Corporation Trust & Custody Services Bank, Ltd. (Trust Account B) OKAYA & CO., LTD.
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(As of March 31, 2006)

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