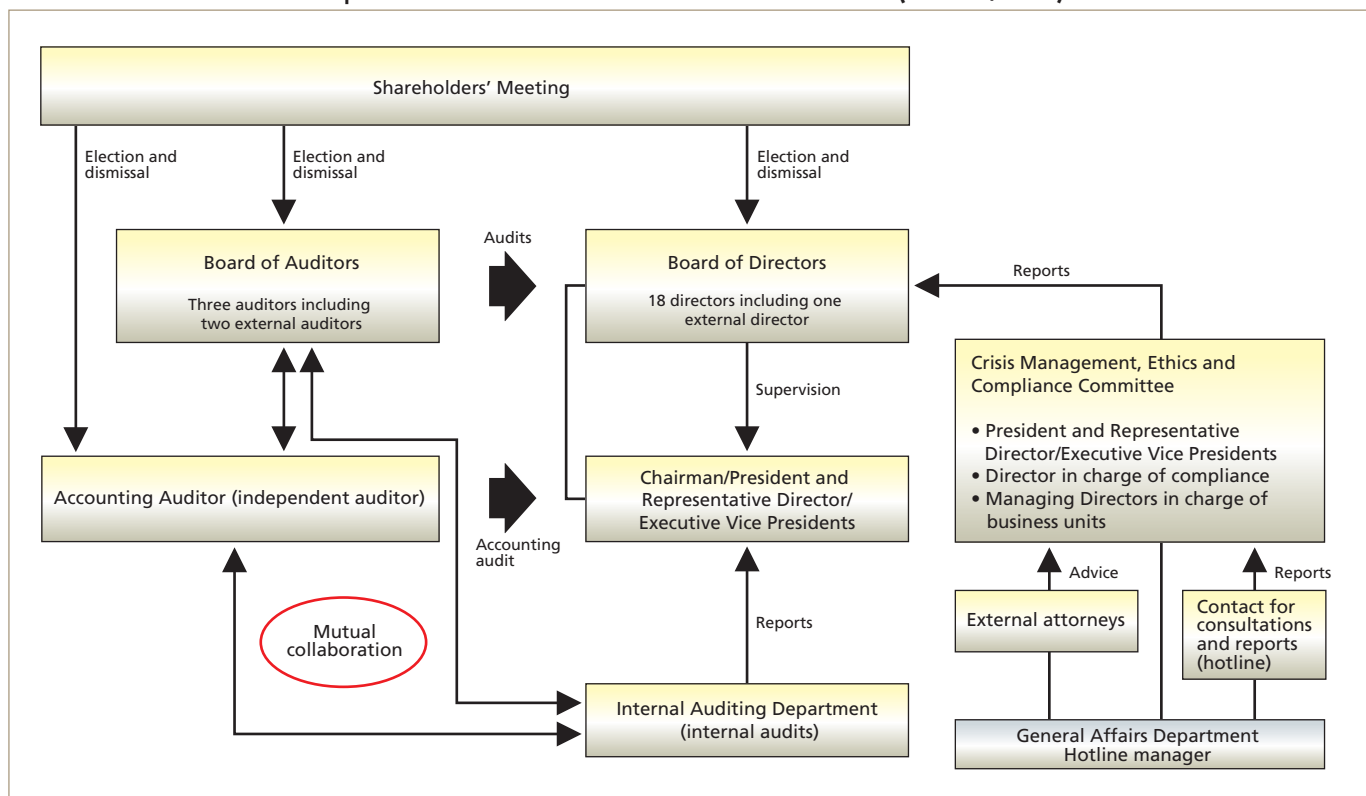


CORPORATE GOVERNANCE

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.