

### Basic Policy

Daido Steel views corporate governance as one of the key issues for management in today's rapidly changing business environment. We strive to increase management efficiency, accelerate and improve decision-making, and ensure management transparency.

In addition, in order to clarify our responsibilities as a company contributing to society, Daido Steel has established a Risk Management Committee. The Company has also implemented the Daido Steel Corporate Code of Ethics, and is working to improve its basic structure as a company open to society. In order to ensure the reliability of its financial reporting, the Company has set up an Internal Control Committee.

### Governance System

Daido Steel uses the corporate auditor system. The business execution of the 17 directors (including one external director) is conducted according to a medium-term management plan, covering a period of three years in principle, and one-year plans for each business segment that specify steps to be taken under the medium-term plan, based on common Group goals shared with all employees.

The Board of Directors convenes a minimum of once a month to decide important matters and report on the status of the directors' business execution. A Management Meeting attended by managing directors and above is held once monthly in principle, as well as on an as-needed basis, in order to increase the flexibility of decision-making on important matters and ensure more detailed dissemination of information. In addition, the Executive Directors' Meeting takes place once a month to increase the efficiency of execution of duties by Directors and review the progress on the medium-term management plan.

Three corporate auditors, including two external corporate auditors, attend important meetings such as the Management Meeting and Board of Directors' meetings and conduct visiting audits of all business divisions and consolidated subsidiaries in order to audit and oversee the business execution of directors.

### Internal Control System

#### *Risk Management Initiatives*

Daido Steel emphasizes risk management and legal compliance in its management. To this end, the Company has set out basic points for risk management in the Risk Management Regulations. In addition, the Risk Management Committee, chaired by the president, discusses management of projected upcoming and latent risks within the Group, reports to the Company's Executive Directors and advises the Company's Board of Directors. The Company also appoints a director who is responsible for the company-wide supervision of risk management and compliance.

In preparation for a major accident or other problem, relevant information is shared with all concerned people, and speedy and smooth countermeasures are formulated. The Company has also formulated regulations for emergency countermeasures in the event of a major accident, aimed at minimizing the impact of the accident or other problem on business activities, and disseminated the regulations to all employees and Group companies.

Furthermore, in response to any major share-purchase activity (for example, purchases of the Company's shares aimed at increasing the voting rights of a specific shareholders' group to over 20%), Daido Steel will implement takeover defense measures from the perspective of ensuring and improving corporate value and, by extension, the shared beneficial interests of all shareholders.

#### *Efforts to enhance compliance*

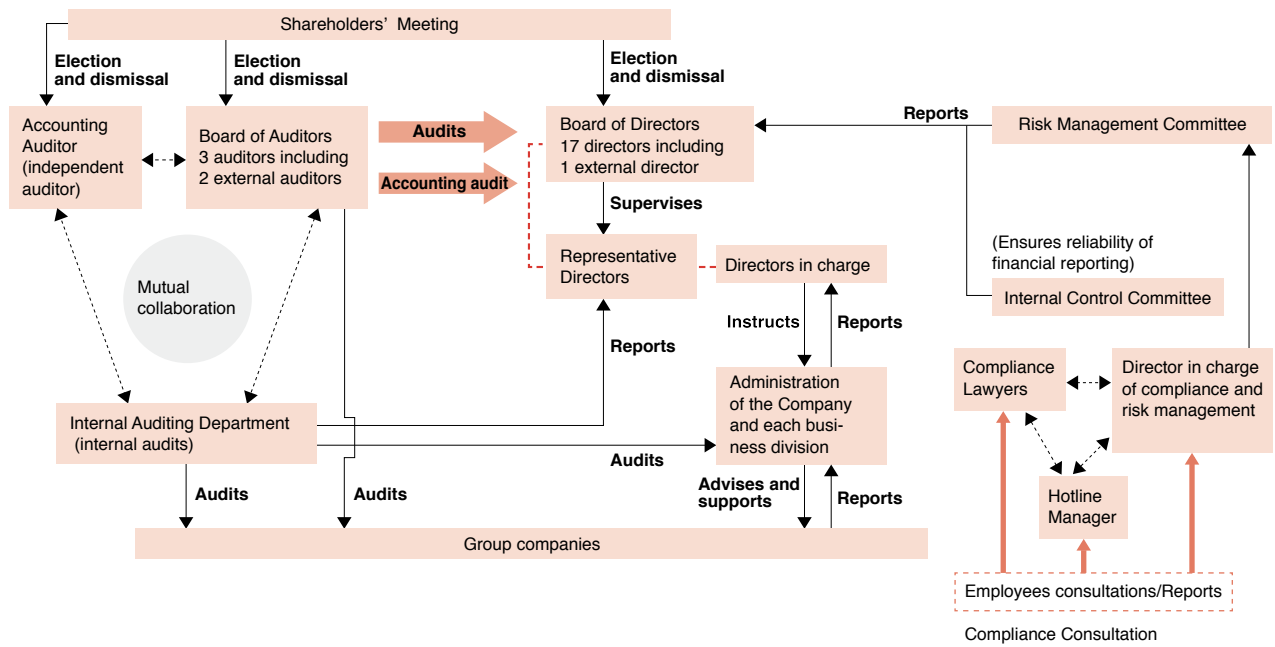
Daido Steel has established the Daido Steel Corporate Code of Ethics and the Daido Steel Code of Conduct, and works to disseminate them to all employees and Group companies. The Company also maintains a hotline for consultation and reporting by employees regarding compliance, as well as directors in charge of compliance and risk management, divisions in charge and outside attorneys.

#### *Efforts to ensure the reliability of financial reporting*

In order to ensure the reliability of financial reporting and enhance the level of response of the Company and Group companies to J-SOX, the Daido Steel Group prescribes the basic points for system improvement and operation in the Internal Control Regulations and has established an Internal Control Committee chaired by the president.

**MECHANISM FOR BUSINESS EXECUTION, AUDIT, SUPERVISION AND INTERNAL CONTROL**

(As of June 29, 2011)



**BOARD OF DIRECTORS AND CORPORATE AUDITORS**

**CHAIRMAN AND REPRESENTATIVE EXECUTIVE DIRECTOR**



Masatoshi Ozawa

**PRESIDENT AND REPRESENTATIVE EXECUTIVE DIRECTOR**



Tadashi Shimao

**EXECUTIVE VICE PRESIDENTS AND REPRESENTATIVE EXECUTIVE DIRECTORS**



Kengo Fukaya



Shuichi Nakatsubo

**MANAGING DIRECTORS**



Michio Okabe



Akira Miyajima



Yasuhiro Itazuri



Hitoshi Horie



Yasuma Yasuda

**DIRECTORS**

Akihiro Miyasaka  
Motoshi Shinkai  
Takeshi Ishiguro  
Hajime Takahashi

Toshiharu Noda  
Tsukasa Nishimura  
Kazuto Tachibana  
Satoshi Tsujimoto

**STANDING CORPORATE AUDITORS**

Masaru Hashizume  
Toshinori Koike

**CORPORATE AUDITOR**

Yukichi Ozawa