

(Attachment)

Business Report

(From: April 1, 2017
To: March 31, 2018)

1. Matters Relating to the Current Situation of Corporate Group

(1) Progress of Business and Operating Performance

1) Economic conditions

Global

The world economy overall continued a moderate recovery during the current consolidated fiscal year. The US economy was strong, owing to higher personal spending backed by the improvement of employment environment and an increase in capital investment. In Europe, the economy also maintained its moderate recovery trend. In Asia, the Chinese economy held firm mainly owing to the effects of various economic policies, and there were signs of economic recovery in Thailand, Indonesia and other areas.

Japan

With regard to the Japanese economy, a moderate recovery also continued, with personal spending picking up thanks to gradually rising real total labor income and slowly increasing capital investment. On the other hand, close attention must still be paid to rising uncertainty in overseas economies, such as increasing geopolitical risk and moves towards protectionism in the US, the UK and in other countries.

2) Business situation in the industries

In the automotive sector, the Group's core business area, new car sales for 2017 (calendar year) were approximately 96 million units worldwide (a year-on-year increase of approximately 3%), recording a historical high for eight consecutive years. Sales in the Chinese and US markets, the two largest markets in the world, slowed. In China, the growth waned compared to the previous year, due to the weakened effects of tax breaks on small sized passenger cars. During 2017 (calendar year), new car sales in the US fell year-on-year for the first time in eight years. However, global automotive production and sales remained strong, supported by high-level sales in China and the US, recoveries in sales in the emerging countries, and by strong European and Japanese domestic markets.

In the non-automotive sector, the shipbuilding industry worldwide continued to face conditions of excess tonnage. It is expected to take some time for the balance of supply and demand to improve.

The construction machine industry is recovering steadily, supported by strong demand in major market such as China and the US. Total exports of domestic manufacturers for 2017 (calendar year) rose 19.1% year on year, the first increase in three years and the production and sales of manufacturers in the US and other countries also recovered rapidly. Other industry sectors also performed strongly on the whole.

3) Summary of the Group's results

Under this business environment, consolidated net sales of the Group for the period were 106,648 million yen, an increase of 21,575 million yen (up 25.4%) compared with the previous period, exceeding the 100,000 million yen mark. This was due to the addition of sales of Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd., which became consolidated subsidiaries of the Company from the previous period, as well as sales of the group companies of these two companies.

Compared to the previous period, operating income was 6,511 million yen, an increase of 1,407 million yen (up 27.6%), and ordinary income was 6,708 million yen, an increase of 1,281 million yen (up 23.6%). The Company incurred a temporary cost in the previous period caused by the sudden rise in order at our plant in Mexico. The situation being now stabilized, the increase in production in Mexico contributed to the rise in profit. Steady growth in bimetal production at DAIDO METAL SAGA CO., LTD. and the Group's sales expansion on a global basis also contributed positively, despite the rise in material cost and one-off cost incurred by Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd. Profit attributable to owners of parent was 3,281 million yen, an increase of 645 million yen (up 24.5%) compared with the previous period, despite the impairment loss on fixed assets by the Group's subsidiary, Daido Industrial Bearings Europe Limited.

4) Results by segment

Sales to external customers by segment are as follows.

a) Automotive engine bearings

In Japan, new car sales in 2017 (calendar year) exceeded five million units, after a drop in 2016. The Company's domestic sales increased 6.9% with increased sales of automotive engine bearings for both trucks and passenger cars. Increase in bearings turbochargers also contributed to the increase.

In overseas market, sales increased 12.0% despite slowing sales in the two of the world's largest markets, China and the US, thanks to sales recovery in emerging countries such as Thailand, and in Europe (including Russia), as well as a sales increase of high value-added engine bearings.

Net sales of the segment resulted in 65,265 million yen, an increase of 5,899 million yen (up 9.9%) compared with the previous period.

b) Automotive non-engine bearings

Net sales were 14,266 million yen, an increase of 1,508 million yen (up 11.8%) compared with the previous fiscal year. As with automotive engine bearings, domestic sales increased owing to strong automobile sales and production, and overseas sales increased in various countries.

c) Non-automotive bearings

With regard to bearings for the shipbuilding industry, sales decreased due to weak demand reflecting the situation of excess tonnage. Meanwhile, new order situation is starting to improve slowly.

With regard to bearings for construction machinery, sales grew significantly compared with the previous period due to a strong sales recovery in the US and China.

With regard to bearings for general industries, sales of special types of bearings for the energy industry were largely sluggish, due to weaker-than-expected demand for coal and petroleum thermal power plants.

As a result, net sales were 9,324 million yen, a decrease of 366 million yen (down 3.8%) compared with the previous period.

d) Other automotive parts

Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd. as well as the group companies of these two joined the Group during the previous consolidated fiscal year. Sales from these two groups of companies are reported in this segment. Net sales were 15,573 million yen, which is in line with the sales expected when the two companies were acquired.

e) Others

This segment, which includes electrode sheets for electric double layer capacitors, the metallic dry bearings business, pump-related products businesses, and the real estate leasing business, remained strong. Net sales were 2,219 million yen, an increase of 201 million yen (up 10.0%) compared with the previous period.

(Sales by segment)

Segment	Net sales (Millions of yen)	
	FY 2016 109 th term	FY 2017 110 th term (Current Period)
Automotive engine bearings	59,365	65,265
Automotive non-engine bearings	12,757	14,266
Non-automotive bearings	9,691	9,324
Other automotive parts	1,241	15,573
Others	2,017	2,219
Total	85,073	106,648

(Note) Sales represent the amount to external customers.

(2) Status of Financing etc.

1) Financing

During the current period, there was no material financing through loans from financial institutions or the issuing of company shares or bonds.

2) Capital investment

The Group is the sole all-round plain bearing manufacturer in the world, having the world's top market shares (our estimate) in automotive engine bearings, bearings for low-speed diesel engines for large ships, and bearings for turbochargers (small turbo chargers for automobiles), and large market shares in other segments. Under the previous Midterm Business Plan "Together To The Top," the Group made efforts to establish and expand its production and sales network in five regions of the world. While capital investment associated with these efforts has slowed down somewhat, additional investments will be made to achieve global market share targets, a continued theme from the previous Midterm Business Plan, taking future changes in the business environment and risks into account.

In FY2017, the Group made total capital investment of 1,369 million yen (an increase of 1,208 million yen compared with the previous fiscal year) in relation to Iino Holding Ltd., ATA Casting Technology Japan Co., Ltd., and the group companies of these two companies. However, capital investment in other segments decreased.

As a result, total capital investment for the current period was 8,694 million yen, a decrease of 3,635 million yen compared with the previous period.

(Major capital investments during the current period)

- Investment to enhance production capacity and improve productivity for bimetal (material for bearings) at domestic production sites
- Investment to improve productivity for automotive engine bearings, expand facilities and improve productivity for non-automotive bearings at domestic production sites
- Investment to enhance production capacity for automotive engine bearings at overseas production sites in Mexico, China, Thailand, South Korea, the Czech Republic and other countries
- Investment to improve productivity and enhance production capacity for other automotive parts (aluminum die cast, formed pipes, knock pins, etc.) in Japan and Thailand
- Investment related to information systems

(3) Financial Conditions and Operating Results

1) Financial conditions and operating results of the Group

Category \ Fiscal year	FY 2014 107 th term	FY 2015 108 th term	FY 2016 109 th term	FY 2017 110 th term (Current period)
Net sales (Millions of yen)	85,015	81,400	85,073	106,648
Operating income (Millions of yen)	7,633	7,114	5,103	6,511
Ordinary income (Millions of yen)	8,129	6,796	5,427	6,708
Profit attributable to owners of parent (Millions of yen)	4,459	3,919	2,635	3,281
Net income per share (Yen)	112.00	98.44	66.19	82.42
Net assets (Millions of yen)	53,093	52,148	52,964	57,940
Total assets (Millions of yen)	116,533	122,920	155,331	161,366

(Note) During the current period, the Company finalized the provisional accounting treatment for the business combination of ATA Casting Technology Japan Co., Ltd. Accordingly, the financial conditions and operating results of the Group for FY2016 (109th term) are restated for the resulting revision of previously allocated cost of acquisition.

2) Financial conditions and operating results of the Company

Category \ Fiscal year	FY 2014 107 th term	FY 2015 108 th term	FY 2016 109 th term	FY 2017 110 th term (Current period)
Net sales (Millions of yen)	67,269	64,665	63,345	66,413
Operating income (Millions of yen)	5,296	3,836	2,695	1,851
Ordinary income (Millions of yen)	6,220	5,294	4,500	3,475
Profit (loss) (Millions of yen)	4,000	4,141	(577)	2,398
Net income (loss) per share (Yen)	100.46	104.01	(14.49)	60.24
Net assets (Millions of yen)	39,301	42,199	40,707	42,002
Total assets (Millions of yen)	77,042	82,295	102,831	104,954

(4) Company's Fundamental Policy

The Group has established "Corporate Philosophy," "Code of Conduct," "Standards of Conduct," "Principles" and "Environmental Fundamental Policy," and contributes to society through its business operations. As a company built on technologies, the Group will continue to make proactive efforts to develop industrial technology and environment conservation technology, starting from our core Tribology (friction, wear and lubrication technology), and meet its corporate social responsibilities.

The Group established "Raise Up 'Daido Spirit' - Ambitious, Innovative, Challenging -," as its new Midterm Business Plan for the period from FY2018 to FY2023. Amid the dramatically changing and unpredictable environment, the Group will accelerate its evolution and create a solid organization.

(5) Issues to be Addressed

Execution of the new "Midterm Business Plan"

In FY2017, the final year of the previous plan period of "Together To The Top," the Company targeted consolidated sales of 111.0 billion yen, operating income of 16.7 billion yen, and operating margin of 15% or more, with the global top market share in all industry segments of plain bearings.

Net sales targets of the plan was essentially met thanks to the acquisitions of two companies, compensating the sluggish market in shipbuilding and construction machine industries, and our slowed global expansion of polymer bearings business that resulted in the missed sales target. The profit target was not achieved due to the declines in sales in existing business mentioned above, initial cost to set up DAIDO METAL SAGA CO., LTD., and temporary expenses incurred to cope with the rapid increase in orders at our plant in Mexico. Taking the results of the previous Midterm Business Plan into consideration, the Company launched its new Midterm Business Plan for the period from FY2018 to FY2023. In view of the achievements and issues of the previous Plan, together with the foreseeable changes and risks in business environment, the Group will work to implement the new Midterm Business Plan with the following four points as its principle action lines.

Action line 1: Strengthen current business lines further	"True leader in Tribology"
Action line 2: Creating / fostering new business lines	"Identify new business areas and foster them"
Action line 3: Enhance management / operational control platform	"Strengthen various platform including production, IT, HR, financial reporting. Review of organizational structure"
Action line 4: Energetic organization with animated communication and motivation	"To develop people and organization who can adapt oneself to the rule changes in the business"

The Group's third year (FY2020) targets are
consolidated net sales 120,000 million
operating profit 10,000 million
operating margin 8.3%
ROE (return on equity) 9.5%

and its final year (FY2023) targets are
consolidated net sales 140,000 million
operating profit 14,000 million
operating margin 10.0%
ROE (return on equity) 10.0%

Under the new Midterm Business Plan, the Group will implement the following initiatives based on the four principle action lines to enhance its corporate value and realize sustainable growth.

Action line 1: Strengthen current business lines further "True leader in Tribology"

The Group will capture the world's top shares in all industry segments of plain bearings and establish a solid position within the segments. Specifically, the Group will strive to gain the world's top shares in all segments of plain bearings, including automotive engine bearings, bearings for turbochargers, bearings for low-speed marine diesel engines, bearings for mid to high-speed marine and industrial diesel engines, and bearings for general industries including special types of bearings for hydro, thermal and wind power generation and polymer bearings. This is an ongoing challenge from the previous Midterm Business Plan, and the Group will continue to work towards achieving these targets.

Action line 2: Creating / fostering new business lines "Identify new business areas and foster them"

The Group will foster the new business areas centered on Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd., which fully joined the Group in FY2017, as one of the new pillars of the Group business by leveraging on the sales networks the Group has developed over the years. The Group will further invest in research and development and strive to create new business in growth areas. Through such initiatives, the Group will properly respond to the future paradigm change in the automobile market (from engines to motors) and build a solid basis for growth into the new business fields and the field of special types of non-automotive bearings.

Action line 3: Enhance management / operational control platform “Strengthen various platform including production, IT, HR, financial reporting. Review of organizational structure”

During the previous Midterm Business Plan, the Group’s production and sales network in five regions of the world was implemented in line with the plan. In order to establish global and robust business foundations however, there are still numerous issues to address, such as redefinition of the global optimal production and sales network, strategic reorganization of group structure, establishment and strengthening of a global research and development framework, and implementation of new production process with utilizing IoT (internet of things). Through the new Midterm Business Plan, the Group will put all the efforts towards these challenges in order to meet major changes in the business environment.

Action line 4: Energetic organization with animated communication and motivation “To develop people and organization who can adapt oneself to the rule changes in the business”

The Group will promote hiring with an eye to global recruitment and diversity, and will strive to secure personnel that can drive the further growth of the Group. In addition to further enriching the Group’s education and training, the Group will provide opportunities and environments for open communication to stimulate active discussion on the Group’s future growth. Through such communication and a better work-life balance, the Group will make itself more energetic.

* The matters discussed here concerning the future events are based on certain assumptions by the Group at the end of the current period. The above descriptions may differ from the actual results and the achievement of such is not guaranteed in any way.

(6) Major Business Lines

Major business divisions	Business lines
Automotive engine bearings	Bearings for automobile engines (passenger cars, trucks and racing cars), bearings for two-wheeled vehicle engines, bearings for engine auxiliary machines (turbochargers and balancer mechanisms), etc.
Automotive non-engine bearings	Bearings for other automotive parts (transmissions, shock absorbers, compressors for air conditioning, steering wheels, injection pumps, etc.).
Non-automotive bearings	Bearings for low speed (two-cycle) diesel engines, bearings for medium speed (four-cycle) diesel engines, special types of bearings for power generation (hydro, thermal and wind), special types of bearings for general industry use (compressors, accelerators and decelerators), etc.
Other automotive parts	High-precision and high-quality parts for automotive engines and transmissions (such as formed pipes, knock pins, NC milled parts, etc.), aluminium die cast automotive parts
Others	Electrode sheet business for electric double layer capacitors, metal dry bearings business, pump-related products business, real estate leasing, etc.

(7) Principal Locations of the Group and Employees

1) Principal locations of the Group

a. The Company

Headquarters	Nagoya HQ (Naka-ku, Nagoya), Tokyo HQ (Shinagawa-ku, Tokyo)
Domestic sales offices	Tokyo Branch (Shinagawa-ku, Tokyo), Nagoya Branch (Inuyama-shi, Aichi), Osaka Branch (Yodogawa-ku, Osaka), Hamamatsu Branch (Naka-ku, Hamamatsu-shi), Hiroshima Branch (Minami-ku, Hiroshima-shi), Kyushu Branch (Nagasaki-shi, Nagasaki), Kitakanto Branch (Kumagaya-shi, Saitama)
Domestic production sites	Inuyama Site (Bimetal Division, Inuyama Plant, Maehara Plant, TMBS (Turbomachinery Bearing Systems) Plant, others) (Inuyama-shi, Aichi), Gifu Plant (Gujyo-shi, Gifu)

b. Subsidiaries

Domestic sales companies	DAIDO METAL SALES CO., LTD. (Inuyama-shi, Aichi), NDC Sales Co., Ltd. (Narashino-shi, Chiba)
Overseas sales companies	DMS Korea Co., Ltd. (South Korea), Chung Yuan Daido (Guangzhou) Co., Ltd. (China), Daido Metal U.S.A. Inc. (U.S.A.), Daido Metal Mexico Sales, S.A. de C.V. (Mexico), Chung Yuan Daido Co., Ltd. (Taiwan), PT. IINO INDONESIA (Indonesia), Daido Metal Europe GmbH. (Germany), DAIDO METAL EUROPE LIMITED (UK)
Domestic production companies	NDC Co., Ltd. Narashino Plant (Narashino-shi, Chiba), NDC Co., Ltd. Kozaki Plant (Katori-gun, Chiba), Daido Plain Bearings Co., Ltd. (Seki-shi, Gifu), Daido Industrial Bearings Japan Co., Ltd. (Inuyama-shi, Aichi), DAIDO METAL SAGA CO., LTD. (Takeo-shi, Saga), Iino Manufacturing Co., Ltd. Omiya Plant (Saitama-shi, Saitama), Iino Manufacturing Co., Ltd. Yaita Plant (Yaita-shi, Tochigi), Iino Manufacturing Co., Ltd. Tajima Plant (Minamiaizugun, Fukushima)
Overseas production companies	Dyna Metal Co., Ltd. (Thailand), Dong Sung Metal Co., Ltd. (Korea), PT. Daido Metal Indonesia (Indonesia), Daido Precision Metal (Suzhou) Co., Ltd. (China), Daido Metal Mexico, S.A. de C.V. (Mexico), Daido Industrial Bearings Europe Limited (UK), DAIDO METAL KOTOR AD (Montenegro), DAIDO METAL CZECH s.r.o. (Czech Republic), Daido Metal Russia LLC (Russia), Korea Dry Bearing Co., Ltd. (Korea), IINO (Foshan) Technology Co., Ltd. (China), PHILIPPINE IINO CORPORATION (Philippines), ISS America, Inc. (U.S.A.), ISS MEXICO MANUFACTURING S.A. de C.V. (Mexico), ATA Casting Technology Co., Ltd. (Thailand), DM Casting Technology (Thailand) Co., Ltd. (Thailand)
Other domestic companies	DAIDO LOGITECH CO., LTD. (Inuyama-shi, Aichi), Asia Kelmet Co., Ltd. (Ohta-ku, Tokyo), Iino Holding Ltd. (Saitama-shi, Saitama), ATA Casting Technology Japan Co., Ltd. (Inuyama-shi, Aichi)
Other overseas company	SUPER CUB FINANCIAL CORPORATION (Philippines)

2) Employees

a. Employees of the Group

Number of employees (persons)		Change from previous period (persons)	
Japan	2,542	Increase	78
Overseas	4,186	Increase	329
Total	6,728	Increase	407

(Notes) 1. In addition to the above, temporary employees (total of 590) are employed. Number of temporary employees is calculated as annual average at the rate of 8 hours a day.

2. Temporary employees include part-timers and employees under non-regular contract, but exclude temporary staff (staff employed by the staffing agency).
3. Starting from the current period, the above number of employees excludes employees of non-consolidated subsidiaries.

b. Employees of the Company

Number of employees (persons)	Change from previous period (persons)	Average age (years of age)	Average number of service years (years)
1,271	Increase 16	37.8	14.0

(Notes) 1. In addition to the above, temporary employees (total of 175) are employed. Number of temporary employees is calculated as annual average at the rate of 8 hours a day.

2. Temporary employees include part-timers and employees under non-regular contract, but exclude temporary staff (staff employed by the staffing agency).

(8) Material Parent Company and Subsidiaries

1) Parent company

None

2) Material subsidiaries

Name	Capital stock or investments in capital	Percentage of voting rights held by the Company	Major businesses	Notes
(Consolidated subsidiaries) DAIDO LOGITECH CO., LTD.	45 million yen	100.0%	Logistics, insurance agent	
DAIDO METAL SALES CO., LTD.	100 million yen	100.0%	Sales of bearings	
Daido Plain Bearings Co., Ltd.	300 million yen	100.0%	Production of bearings/jigs, etc.	
NDC Co., Ltd.	1,575 million yen	58.8%	Production of bearings/CALME/bimetal (material for bearings)	
NDC Sales Co., Ltd.	90 million yen	100.0% (100.0%)	Sales of bearings/CALME, insurance agent	Note 2
Daido Industrial Bearings Japan Co., Ltd.	80 million yen	100.0%	Production of bearings	
Asia Kelmet Co., Ltd.	55 million yen	100.0%	Real estate leasing	
DAIDO METAL SAGA CO., LTD.	100 million yen	100.0%	Production of bimetal (material for bearings)	
Iino Holding Ltd.	96 million yen	100.0%	Holding company	
Iino Manufacturing Co., Ltd.	96 million yen	100.0% (100.0%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
ATA Casting Technology Japan Co., Ltd.	10 million yen	100.0%	Design, development and sales of aluminium die cast automotive parts	
Daido Precision Metal (Suzhou) Co., Ltd.	115,714 thousand Chinese yuan	90.2% (16.2%)	Production and sales of bearings	Note 2
IINO (Foshan) Technology Co., Ltd.	7,796 thousand Chinese yuan	100.0% (100.0%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
Chung Yuan Daido Co., Ltd.	120 million new Taiwan yuan	50.0%	Sales of bearings	Note 1
Dong Sung Metal Co., Ltd.	6,120 million Korean won	50.0%	Production and sales of bearings	Note 1
Dyna Metal Co., Ltd.	200 million Thai baht	50.0%	Production and sales of bearings	Note 1
ATA Casting Technology Co., Ltd.	340 million Thai baht	100.0% (99.9%)	Production and sales of aluminum die cast automotive parts	Note 2
DM Casting Technology (Thailand) Co., Ltd.	200 million Thai baht	99.9%	Production of aluminum die cast automotive parts	
PT. Daido Metal Indonesia	13,748 million Indonesian rupiah	50.0%	Production and sales of bearings	Note 1
PT. IINO INDONESIA	2,845 million Indonesian rupiah	99.0% (99.0%)	Sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
PHILIPPINE IINO CORPORATION	1,379 million yen	99.9% (99.9%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2

Name	Capital stock or investments in capital	Percentage of voting rights held by the Company	Major businesses	Notes
SUPER CUB FINANCIAL CORPORATION	60 million Philippine peso	59.9% (59.9%)	Sales financing	Note 2
Daido Metal U.S.A. Inc.	40,900 thousand US dollar	100.0%	Production and sales of bearings	
ISS America, Inc.	650 thousand US dollar	100.0% (100.0%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
Daido Metal Mexico, S.A. de C.V.	283,328 thousand Mexico peso	100.0% (0.0%)	Production of bearings	Note 2
Daido Metal Mexico Sales, S.A. de C.V.	2,644 thousand Mexico peso	100.0% (0.0%)	Sales of bearings	Note 2
ISS MEXICO MANUFACTURING S.A. de C.V.	22,400 thousand Mexico peso	100.0% (100.0%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
Daido Industrial Bearings Europe Limited	13,500 thousand Sterling pound	100.0%	Production of bearings	
DAIDO METAL EUROPE LIMITED	3,613 thousand Sterling pound	100.0%	Sale of bearings	
DAIDO METAL KOTOR AD	26,535 thousand euro	99.6%	Production and sales of bearings	
Daido Metal Europe GmbH.	500 thousand euro	100.0%	Sales of bearings	
DAIDO METAL CZECH s.r.o.	50 million Czech koruna	100.0%	Production of bearings	
Daido Metal Russia LLC	430 million Russian ruble	99.8%	Manufacture and sales of bearings	
(Unconsolidated subsidiaries to which equity method is applied)				
Korea Dry Bearing Co., Ltd.	3,100 million Korean won	50.0% (50.0%)	Production and sale of bearings	Note 1 & 2
(Associated companies to which equity method is applied)				
BBL Daido Private Limited	280 million Indian rupee	50.0%	Production and sales of bearings	
Shippo Asahi Moulds (Thailand) Co., Ltd.	205 million Thai baht	40.6% (40.6%)	Production and sales of molds for die casting	Note 2

(Notes)

1. Although the voting rights held by the Company is not more than 50%, the company is treated as a subsidiary because it is effectively controlled by the Company.
2. Figure in () of percentage of holding of voting rights represents the percentage of indirect holding of voting rights.

3) Status of specified wholly-owned subsidiaries at the end of the fiscal year

None

(9) Major Lenders and Amount of Borrowing

Lender	Outstanding Balance (Millions of yen)
Mizuho Bank, Ltd.	20,625
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	10,960
Sumitomo Mitsui Banking Corporation	3,945
Development Bank of Japan Inc.	3,514
Sumitomo Mitsui Trust Bank, Limited	3,451

(Note) Effective as of April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its trade name to MUFG Bank, Ltd.

(10) Other Significant Matters Relating to Current Situation of the Corporate Group

None

2. Matters Relating to Shares of the Company

- (1) Number of authorized shares 80,000,000 shares
(2) Total number of issued shares 44,956,853 shares (including treasury stocks of 5,141,640 shares)
(3) Number of shareholders at end of the period 4,111 shareholders
(4) Major shareholders (top 10)

Name of shareholder	Number of shares held (1,000 shares)	Ratio of shareholding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	2,661	6.68
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,537	6.37
Sumitomo Mitsui Trust Bank, Limited	1,978	4.96
Mizuho Bank, Ltd.	1,977	4.96
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,822	4.57
J.P. Morgan Bank Luxembourg S.A. 380578	1,349	3.39
Daido Metal Yueikai Employee Stock-Ownership Plan	1,347	3.38
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,261	3.16
The Seri Wathana Industry Co, Ltd. 703000	1,000	2.51
Nisshin Steel Co., Ltd.	909	2.28

(Notes) 1. The Company holds treasury stocks of 5,141,640 shares, which is excluded from the above list.

2. Ratio of shareholding is calculated with total shares outstanding net of treasury stocks (5,141,640 shares).

3. Effective as of April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its trade name to MUFG Bank, Ltd.

3. Matters Relating to New Share Subscription Rights etc.

None

4. Company Officers
(1) Directors and Audit & Supervisory Board Members

(As of March 31, 2018)

Position	Name	Duties/departments in charge and important positions at other companies
Chairman & Chief Executive Officer (CEO)	Seigo Hanji	Executive & Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of the Association
President & Chief Operating Officer (COO)	Kotaro Kashiyama	In charge of Audit Department, Secretarial Department and Bi-metal Division
Director and Senior Managing Executive Officer	Toshiyuki Sasaki	Head of BPR-ICT Division and General Manager of BPR (Business Process Re-engineering) Department
Director and Senior Managing Executive Officer	Masaki Ikawa	Head of Human Resources Planning Division and Head of Daido Metal College In charge of Purchasing Department and High Performance Bearings and Equipment Division
Director	Toshikazu Takei	Managing Director of Japan Center for International Finance
Director	Kiyotaka Hoshinaga	President, Fujita Health University Managing Director, Fujita Academy Incorporated Educational Institution
Full-time Audit & Supervisory Board Member	Masaaki Tamaya	—
Outside Audit & Supervisory Board Member	Kuniko Tanabe	Partner, Lawyer of Tanabe & Partners Outside Director of KDDI CORPORATION
Outside Audit & Supervisory Board Member	Kazuo Matsuda	Outside Director of Sumitomo Bakelite Co., Ltd.

- (Notes) 1. Mr. Toshikazu Takei and Mr. Kiyotaka Hoshinaga are Outside Directors. The Company has registered Mr. Toshikazu Takei and Mr. Kiyotaka Hoshinaga as “Independent Officers” pursuant to the provisions of the Tokyo Stock Exchange and Nagoya Stock Exchange.
2. Ms. Kuniko Tanabe and Mr. Kazuo Matsuda are Outside Audit & Supervisory Board Members. The Company has registered Mr. Kazuo Matsuda as an “Independent Officer” pursuant to the provisions of the Tokyo Stock Exchange and Nagoya Stock Exchange.
3. Mr. Toshikazu Takei, Director, was engaged in business execution and served in managerial positions at the Bank of Japan, and has considerable knowledge of international businesses.
4. Mr. Kiyotaka Hoshinaga, Director, has extensive experience gained through involvement in management of a hospital and a university, and has considerable knowledge of organizational management.
5. Ms. Kuniko Tanabe, Audit & Supervisory Board Member, is qualified as a lawyer, and has considerable knowledge of legal affairs.
6. Mr. Kazuo Matsuda, Audit & Supervisory Board Member, has experience working as a Director and Audit & Supervisory Board Member in financial institutions and corporates, and has considerable knowledge of finance and accounting matters.

7. Changes in Directors' duties and departments in charge during the current period

Date	Name	New duties and departments in charge	Previous duties and departments in charge
October 1, 2017	Toshiyuki Sasaki	Head of BPR-ICT Division and General Manager of BPR (Business Process Re-engineering) Department	General Manager of BPR (Business Process Re-engineering) Department

8. Changes in Directors' duties and departments in charge on or after April 1, 2018

Date	Name	New duties and departments in charge	Previous duties and departments in charge
April 1, 2018	Masaki Ikawa	Head of Human Resources Planning Division In charge of Purchasing Department and High Performance Bearings and Equipment Division	Head of Human Resources Planning Division and Head of Daido Metal College In charge of Purchasing Department and High Performance Bearings and Equipment Division

9. Changes (including scheduled changes) in Directors' important positions at other entities on or after April 1, 2018

Date	Name	New important positions at other entities	Previous important positions at other entities
May 24, 2018	Seigo Hanji	Executive of Japan Auto Parts Industries Association	Executive & Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of the Association

10. Changes in Audit & Supervisory Board Members' important positions at other companies during the current period

Date	Name	New important positions at other companies	Previous important positions at other companies
June 23, 2017	Kazuo Matsuda	Outside Director of Sumitomo Bakelite Co., Ltd.	Executive Advisor of NSK Ltd. Outside Director of Sumitomo Bakelite Co., Ltd.

(2) Outline of Liability Limiting Agreement

The Company amended its Articles of Incorporation at the 107th Annual Shareholders' Meeting held on June 26, 2015 and established a policy regarding the liability limiting agreement for Directors (excluding executive Directors etc.) and Outside Audit & Supervisory Board Members. The outline of the liability limiting agreement, which the Company concluded with Outside Director Mr. Toshikazu Takei, Outside Director Mr. Kiyotaka Hoshinaga, Audit & Supervisory Board Member Mr. Masaaki Tamaya, Outside Audit & Supervisory Board Member Ms. Kuniko Tanabe and Outside Audit & Supervisory Board Member Mr. Kazuo Matsuda in accordance with the provisions of the Company's Articles of Incorporation, is as follows:

- When they are liable for damages caused to the Company for their negligence of duties, they assume such liability up to the amount stipulated by laws and regulations (the minimum liability amount stipulated in Article 425, paragraph 1 of the Companies Act).
- The above liability limitation is allowed only when they act in good faith and without gross negligence with respect to the liability as set forth in Article 423, paragraph 1 of the Companies Act.

(3) Total Remuneration to Directors and Audit & Supervisory Board Members

Category	Number	Remuneration	Bonus	Total remuneration
Directors (Outside Directors)	7 (2)	192 million yen (21 million yen)	128 million yen (– million yen)	321 million yen (21 million yen)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	3 (2)	38 million yen (23 million yen)	– million yen (– million yen)	38 million yen (23 million yen)

- (Notes) 1. The above includes one Director who retired at the conclusion of the 109th Annual Shareholders' Meeting held on June 29, 2017.
2. In addition to the above, a total of 35 million yen was paid as employee-portion salaries for employee-directors.
3. "Bonus" amount listed above is an estimated amount to be paid, if the proposed agenda item No. 4 is approved at the 110th Annual Shareholders' Meeting to be held on June 28, 2018.
4. The maximum amount of remuneration to Directors (excluding employee-portion salaries for employee-directors) is 400 million yen per annum as per the resolution of the 98th Annual Shareholders' Meeting held on June 29, 2006.
5. The maximum amount of remuneration to Audit & Supervisory Board Members is 45 million yen per annum as per the resolution of the 98th Annual Shareholders' Meeting held on June 29, 2006.

[Guidelines and Decision-Making Methodology for Calculating the Remuneration Amount for Directors]

(a) Directors' remuneration

Pursuant to the standard for Directors' remuneration agreed upon by the Board of Directors, the basic policy of Directors' remuneration is to attract and retain personnel suitable for the role of a Director of the Group, to serve effectively as an incentive for raising motivation to enhance business performance, corporate value as well as morale, and the level of remuneration shall correspond to a role, responsibility and business performance of each Director.

In order to ensure objectivity and transparency, the Company established an Advisory Board ("Board") with both in-house and external members who will discuss and determine the actual remuneration for each Director.

Specific structure and decision-making methodology are as follows:

(i) Directors' remuneration consists of "monthly remuneration" and "bonuses."

For an Outside Director, in order to ensure independence and neutrality, the "monthly remuneration" consists of only a "fixed component."

(ii) "Monthly remuneration"

- "Monthly remuneration" consists of (1) "fixed component" based on role and responsibility associated with execution of operations of a Representative Director, or a Director concurrently serving as an Executive Officer, and (2) "consolidated performance related component" which is determined after taking into account the Group's consolidated performance in the previous year and the performance of divisions that the Director is in charge.

- Monthly remuneration for each Director will be determined by the Board of Directors based on the predetermined payment ratio based on the position of each Director, consolidated sales, profit attributable to the parent company, and by considering the comments from the Advisory Board.

(iii) "Bonus"

- Total payment of bonuses to be deliberated in the meeting of shareholders is limited in proportion to the dividend to shareholders. After considering the comments from the Advisory Board, it is determined by the Board of Directors.

- Individual payment amount will be determined by the Board of Directors based on the predetermined payment ratio according to the position of each Director, consolidated sales and profit attributable to the parent company and by considering the comments from the Advisory Board.

(b) Audit & Supervisory Board Members' remuneration

To ensure independence and neutrality, Audit & Supervisory Board Members' remuneration shall consist of only a "basic remuneration" as a fixed component. Payment amount to each Audit & Supervisory Board Member shall be determined following discussion by the Audit & Supervisory Board.

(4) Status of Outside Directors and Outside Audit & Supervisory Board Members

1) Matters relating to positions concurrently held by operating officers of other corporations and outside officers etc.

Name	Material concurrent holding of positions	Relation between the Company and such other corporations
Toshikazu Takei (Outside Director)	Managing Director of Japan Center for International Finance	The Company has no transaction with Japan Center for International Finance that would constitute grounds for concluding that Mr. Toshikazu Takei does not have independence from the Company.
Kiyotaka Hoshinaga (Outside Director)	President, Fujita Health University Managing Director, Fujita Academy Incorporated Educational Institution	The Company has no transaction with Fujita Academy Incorporated Educational Institution that would constitute grounds for concluding that Mr. Kiyotaka Hoshinaga does not have independence from the Company.
Kuniko Tanabe (Outside Audit & Supervisory Board Member)	Partner, Lawyer of Tanabe & Partners	The Company has no transaction with Tanabe & Partners that would constitute grounds for concluding that Ms. Kuniko Tanabe does not have independence from the Company.
	Outside Director of KDDI CORPORATION	The Company has no transaction with KDDI CORPORATION that would constitute grounds for concluding that Ms. Kuniko Tanabe does not have independence from the Company.
Kazuo Matsuda (Outside Audit & Supervisory Board Member)	Outside Director of Sumitomo Bakelite Co., Ltd.	The Company has no transaction with Sumitomo Bakelite Co., Ltd. that would constitute grounds for concluding that Mr. Kazuo Matsuda does not have independence from the Company.

(Note) Mr. Kazuo Matsuda worked at Mizuho Bank, Ltd., the Company's business partner as well as main shareholder; however, more than ten years has passed since he resigned from the Bank in May 2003. The Company borrows from and deposits with Mizuho Bank, Ltd.

2) Main activities of Outside Officers

Position	Name	Main activities
Director	Toshikazu Takei	Attended all 15 meetings of the Board of Directors held during FY2017. Making remarks based on his rich experience and deep insight as he was long engaged in business execution and served in managerial positions at the Bank of Japan; and he is familiar with international businesses.
Director	Kiyotaka Hoshinaga	Attended all 15 meetings of the Board of Directors held during FY2017. Making remarks based on his rich experience and deep insight as he was long engaged in management of a hospital and a university; and he is familiar with organizational management.
Audit & Supervisory Board Members	Kuniko Tanabe	Attended all 15 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2017. Making remarks from a professional well-versed viewpoint in corporate legal affairs based on her rich experience as a lawyer.
Audit & Supervisory Board Members	Kazuo Matsuda	Attended all 15 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2017. Making remarks from a wide viewpoint based on his rich insight on corporate management accounting and governance of business as he is familiar with finance and international businesses through his many years' experience at banks and securities companies and he has experience and knowledge gained from the management of a manufacturing company.

(5) Other important matters concerning Company Officers

[Policies on and procedures for the Nomination of candidates for Senior Management positions, Directors, and Audit & Supervisory Board Member]

The nomination of candidates for Directors, Audit & Supervisory Board Members, and Executive officers is determined at the Board of Directors, based on the Company's rules, considering experience, leadership, personality, a sense of ethics, health, etc. (Candidates for Audit & Supervisory Board Members are nominated with the prior consent of the Audit & Supervisory Board.)

5. Accounting Auditor

(1) Name

Deloitte Touche Tohmatsu LLC

(2) Liability Limiting Agreement

None

(3) Remuneration for Accounting Auditor

	Amount paid
Remuneration for audit attestation service rendered during the current period, payable by the Company	55 million yen
Total remuneration and benefits payable by the Group to Accounting Auditor.	79 million yen

- (Notes)
1. Remuneration based on audit attestation service includes 1 million yen related to financial statements in English.
 2. Financial statements of the following material subsidiaries are audited by the qualified accountant / auditor /auditing firm other than Deloitte Touche Tomatsu, the Company's accounting auditor:
 - Dong Sung Metal Co., Ltd. (Korea)
 - Daido Precision Metal (Suzhou) Co., Ltd. (China)
 - Chung Yuan Daido Co., Ltd (Taiwan)
 - PT. Daido Metal Indonesia (Indonesia)
 - Dyna Metal Co., Ltd. (Thailand)
 - PHILIPPINE IINO CORPORATION (Philippine)
 - ATA Casting Technology Co., Ltd. (Thailand)
 - Daido Metal U.S.A. Inc. (U.S.A.)
 - Daido Metal Mexico, S.A. de C.V. (Mexico)
 - Daido Metal Mexico Sales, S.A. de C.V. (Mexico)
 - DAIDO METAL KOTOR AD (Montenegro)
 - Daido Industrial Bearings Europe Limited (UK)
 - DAIDO METAL CZECH s.r.o. (Czech Republic)
 - DAIDO METAL EUROPE LIMITED (UK)
 - Daido Metal Russia LLC (Russia)
 3. Remuneration for the audit as per "Companies Act" and as per "Financial Instruments and Exchange Law" is combined in the contract, and amount of work is practically inseparable among the two. As such, the amount of remuneration for the current period represents the total payable.
 4. Audit & Supervisory Board reviewed the audit plan, audit procedure, basis of calculation for remuneration, and other documents provided by the Accounting Auditor. After an overall assessment of the results of analysis of variance between the estimate in the previous period and actual results, Audit & Supervisory Board agreed with the amount of remuneration for the current period, an agreement expected as per Article 399, paragraph 1 of the Companies Act.

(4) Non-audit Services Provided

None

(5) Policy regarding the Decision to Dismiss or not to Re-appoint the Accounting Auditor

Policy regarding the decision to dismiss or not to re-appoint the Accounting Auditor is as follows:

- 1) The Audit & Supervisory Board will decide on an agenda item regarding dismissal or non-reappointment of the Accounting Auditor when (1) the cases prescribed in each item of Article 340, paragraph 1 of the Companies Act, applies, or (2) dismissal or non-reappointment is considered necessary based on overall consideration of audit ability, credibility, audit fees, years of continuous audits, etc.
- 2) If any cases prescribed in each item of Article 340, paragraph 1 of the Companies Act have occurred, and if the Audit & Supervisory Board considers the case too urgent to wait for the approval of the shareholders meeting, the Audit & Supervisory Board can dismiss the Accounting Auditor with the consent of all Audit & Supervisory Board members. In such a case, an Audit & Supervisory Board Member elected by the Audit & Supervisory Board will report the fact of dismissal and reasons for dismissal to the first Shareholders' Meeting held after the dismissal.
- 3) In the event of dismissal or non-reappointment of the Accounting Auditor, the Audit & Supervisory Board shall collect information on prospective accounting auditors and deliberate over them at the earliest point. If the Accounting Auditor is dismissed based on Article 340, paragraphs 1 and 4 of the Companies Act, the Audit & Supervisory Board will determine the content of an agenda item regarding the election of a new accounting auditor based on overall consideration of auditing ability, credibility, audit fees, etc., pursuant to Article 344, paragraphs 1 and 3 of the Companies Act by the first Shareholders' Meeting to be convened after the dismissal. If an agenda item regarding dismissal or non-reappointment of the Accounting Auditor is submitted to a Shareholders' Meeting, the Audit & Supervisory Board will do the same by the said Shareholders' Meeting.

6. System for Ensuring Proper Business Operations

The Company's systems for ensuring proper business operations are as follows:

(1) Retention and Control of Information on the Performance of Duties by Directors

- 1) The General Affairs Department is designated as the department responsible for retention and control of information on the performance of duties by Directors.
- 2) The General Affairs Department implements a system to retain and control information related to the performance of duties by Directors including the "Regulations of the Board of Directors" and the "Rules on Confidential Information Management." It may give directions to the departments responsible on the correct measures for the retention and control of such information.
- 3) The information related to performance of duties of Directors set forth in the preceding paragraph is as follows:
 - a. Minutes of meetings of the Board of Directors, minutes of meetings of the Management Strategy Committee, etc.
 - b. Midterm Business Plan and short-term business plans.
 - c. Important contracts relating to acquisitions, investments, etc.
 - d. Other important information designated by the Board of Directors, such as documents regarding decisions and approvals.

(2) Regulations and Other Systems regarding Risks of Loss by the Company

- 1) The Risk Management Committee is designated as the committee responsible for regulations and other systems regarding risks of loss by the Company.
- 2) The Risk Management Committee develops a system to properly manage risk based on the "Rules on Risk Management."
- 3) The Risk Management Committee sets risk items to be monitored from a management standpoint and reports to the Board of Directors accordingly.
- 4) The Risk Management Committee designates departments to implement control measures to mitigate each risk item, and to report the status (result) of the risk to the Board of Directors.
- 5) The Risk Management Committee establishes the Information Management Subcommittee as its subordinate organization, and sets IT Security Guidelines as well as develops rules related to information management.

(3) System to Ensure Efficient Performance of Duties by Directors

- 1) The Corporate Planning Department is designated as the department responsible for a system to ensure efficient performance of duties by Directors.
- 2) Each department in charge formulates management plans such as the Midterm Business Plan, short-term management plans, capital investment plans and financial plans based on the Company's management policy, leading to the allocation of management resources.
- 3) Each responsible department compiles a progress report, and reports to a meeting of the Board of Directors.
- 4) The Corporate Planning Department develops (establishes/revises) rules such as the "Rules for Organization," the "Rules for Segregation of Duties" and the "Rules for Authorities" as necessary, which contribute to the efficient and appropriate organization and efficient performance of duties.
- 5) At least once every quarter, Executive Directors report if their own duties were performed efficiently, and if their decisions were made appropriately at a meeting of the Board of Directors.

(4) System to Ensure that Performance of Duties by Directors and Employees Conforms to Laws and Regulations and Articles of Incorporation

- 1) The Corporate Ethics Committee is designated as the committee responsible for a system to ensure that performance of duties by Directors and employees conforms to laws and regulations and Articles of Incorporation.
- 2) The Corporate Ethics Committee drafts the "Code of Conduct" and the "Standards of Conduct" in compliance with the internal rules of the Company etc., and revises their contents as necessary after obtaining approval from the Board of Directors.
- 3) Based on the "Rules on Operation and Management of Standards of Conduct", the Corporate Ethics Committee deliberates on rules and other important matters related to compliance, and instructs the department in charge on the necessary measures.
- 4) The Corporate Ethics Committee instructs the Compliance Unit to provide employees with regular compliance education/training in order to strengthen/fully enforce compliance and keep them informed and aware of compliance.
- 5) The Corporate Ethics Committee reports to the Board of Directors and the Audit & Supervisory Board on the status of compliance on a regular basis.
- 6) The General Affairs Department assumes the role of company-wide control on "Attitude to Anti-Social Forces" included in the "Standards of Conduct," in order to assume a resolute attitude toward any forces/groups threatening the healthy activities of the Group.
- 7) The General Affairs Department assumes the role of company-wide control, which endeavors to collect information on any anti-social forces and suspicious groups, in close collaboration with external institutions (related government offices/associations/lawyers etc.). The General Affairs Department centrally manages such information, including internal distribution of information, and raises awareness of employees.

(5) System to Ensure Appropriate Business Operations in the Group

- 1) The Compliance Unit and Corporate Planning Department are designated as the departments responsible for “Internal Control System” of the Group, and promote design and operation of the “Internal Control System” at the group companies.
- 2) The Compliance Unit keeps the group companies informed and aware of the “Code of Conduct” and “Standards of Conduct” and promotes development of necessary rules, regulations, procedures, etc. including “Rules of Employment” for appropriate and effective operation and assessment of a compliance system at the group companies.
- 3) The Corporate Planning Department reviews “Group Companies Management Rules” as necessary in order to ensure the effectiveness/efficiency of business operations between the Company and its group companies, and keeps them informed and aware of the rules.
- 4) The Corporate Planning Department makes the group companies report monthly on their performance of duties, financial conditions, etc. through “Monthly Reports” and other reports.
- 5) The Risk Management Committee establishes policies concerning a system for managing risks of loss at the group companies, and the group companies develop and operate their rules based on such policies. The group companies periodically report their progress and situation to the Risk Management Committee.
- 6) Each responsible department reports the status of development and operation of each system of “Internal Control System” of the group companies when they make periodical report to the Board of Directors and the Audit & Supervisory Board.

(6) Assigning Employees to Assist the Duties of Audit & Supervisory Board Members of the Company, System to Ensure Independence of Such Employees and the Effectiveness of Instruction from the Audit & Supervisory Board Members

- 1) The Corporate Planning Department is designated as the department responsible for assigning employees to assist the duties of Audit & Supervisory Board Members and for the independence of such employees.
- 2) An “Audit & Supervisory Board Members Secretariat”, independent of the Directors, is established as a department to assist the Audit & Supervisory Board Members on a regular basis.
- 3) The Audit & Supervisory Board may receive reports on the transfer and appraisals of employees who assist the “Audit & Supervisory Board Members Secretariat” in advance, and if necessary, may request changes to the officer in charge of Human Resource.
- 4) Employees who are in charge of “Audit & Supervisory Board Members Secretariat” perform their duties full time in accordance with instructions from Audit & Supervisory Board Members.

(7) System to Ensure Directors and Employees of the Group Report to Audit & Supervisory Board Members

- 1) The Head of Compliance Unit is designated as the person responsible for reporting to Audit & Supervisory Board Members.
- 2) Directors and employees swiftly report the following matters to Audit & Supervisory Board Members, in addition to statutory reporting matters, when they occur:
 - a. Cases discussed/reported in the management meeting etc. in which Audit & Supervisory Board Members are not present;
 - b. Cases that are likely to cause significant damage to the Company;
 - c. Results of internal audits on the group companies performed by the Audit Department;
 - d. Status of whistleblowing and content of the information; and
 - e. Other matters which the Audit & Supervisory Board considers necessary to be reported in the course of performing its duties.
- 3) “Rules on Whistleblowing, and Report and Consultation” stipulates whistleblowing and who to inform inside and outside the Company, and all employees throughout the Group in Japan are kept informed of development and operation of the whistleblower system.
- 4) Officers and employees of the group companies, or those who have received reports or consultation from officers and employees of the group companies, report to Audit & Supervisory Board Members in an appropriate manner about any and all information useful for the performance of duties by Audit & Supervisory Board Members.
- 5) If any compliance issue is found in a whistleblower report, the Head of Compliance Unit reports the status of improvement/corrective measures and preventive measure at a “Corporate Ethics Committee,” and reports to the Audit & Supervisory Board along with the investigation results.
- 6) The Company assures that employees (including employees of the group companies) who have reported to the Audit & Supervisory Board Members will not be dismissed or treated unfairly as a result of their disclosure.

(8) Other Systems to Ensure Effective Audit to be Performed by Audit & Supervisory Board Members

- 1) The Compliance Unit is designated as the department responsible for a system to ensure effective performance of audit by Audit & Supervisory Board Members.
- 2) The Company maintains a system that allows Audit & Supervisory Board Members and the Audit & Supervisory Board to have regular meetings with the Representative Director, confirming the management policies of the Representative Director, and to exchange opinions regarding the issues to be addressed by the Group, risks surrounding the Group, status of improvements in the audit environment, significant matters in performing audits and other matters.
- 3) The Company pays necessary expenses in advance or on request where necessary for the performance of duties by the Audit & Supervisory Board Members of the Company.

7. Outline of Operation to Ensure the Appropriateness of Business Operations

With regard to retention and control of information on performance of duties by Directors, the Group provides basic concepts in the “IT Security Guidelines” and strives to maintain appropriate retention and control of internal documents such as minutes of meetings of the Board of Directors, in accordance with “Rules on Document Control” and “Rules on Confidential Information Management” by specifying the retention period and control method. With regard to the risk of loss, the “Risk Management Committee” is held twice a year, where risks to the Group, including the associated companies, are identified. Measures are taken to reduce such risks and the results are reported to the Board of Directors.

In order that the Directors perform their duties in an efficient way, the Company formulates annual management policies, single-year management plans and short-term management plans based on the Midterm Business Plan, and implement them throughout the Group. The Company verifies the level of achievement at divisional and departmental meetings as well as at policy management report meetings.

Moreover, in order to ensure that Directors and employees of the Company comply with laws and regulations and Articles of Incorporation, the Company has implemented a system whereby any events of non-compliance or suspected non-compliance occurring within the Group are reported to the Company. The events reported are compiled by the Company and reported to the Board of Directors and the Audit & Supervisory Board. In addition, the Company strengthened the control of group companies by requiring the group companies to apply for/report on budgets, capital investment, risk control, compliance status, etc.

8. Fundamental Policies on the Governance of the Company

(1) Details of Fundamental Policies

The fundamental policies on the control over financial and business decisions of the Company are as follows:

The Company has developed business strategies for sales, production, technology, new business development, etc. from medium- to long-term perspectives, and aims to achieve stable development and growth. The circumstances surrounding our business, however, have been changing dramatically, and therefore short-term business decisions are equally important to ensure sustainable growth in the future.

In order to ensure stable growth and improve sustainable corporate value, the Company established “Raise Up ‘Daido Spirit’ - Ambitious, Innovative, Challenging -” as its new Midterm Business Plan from FY2018.

Together with our various stakeholders including business partners such as customers and suppliers, employees and their families, local residents and others, the Company will respond to short-term changes in a flexible manner, and achieve sustainable business growth with medium- to long-term perspectives in mind. The Company believes that returning a sustainable level of profits to shareholders would be beneficial to all, rather than distributing from a short-term perspective or out of tentative profits.

The Company would therefore like to have its shares held in a balanced manner by those stakeholders, customers, suppliers, employees and their families, and local residents, who support our objective of sustainable growth with medium- and long-term perspectives.

(2) Initiatives to Achieve Fundamental Policies

1) Specific initiatives for the achievement of fundamental policies

- a. Effective use of the Company’s assets to achieve sustainable growth based on medium- and long-term perspectives
 - The Company has in the past, and still now, been effectively utilizing its assets in order to achieve sustainable growth based on medium- and long-term perspectives.
 - In order for the Company to achieve sustainable growth through management from a medium- to long-term perspective, it is necessary to establish and develop a base network for production, sales and technology to respond to future trends and market changes, to improve productivity of domestic and overseas subsidiaries to the levels achieved by the Company, and to maintain world leading technologies for products, design, manufacturing, production and development. For those purpose, the Company will invest effectively and efficiently in research and development for mainly new products and production technologies, enhancement of “monozukuri (craftsmanship)”, utilization and introduction of advanced technologies through industry-government-academia cooperation, corporate protection through intellectual property rights, etc. while considering the balance between such investments and dividends to our shareholders.
- b. Promotion of shareholding by employees
 - The Company promotes the holding of shares by employees by paying incentives to members of the Employee Stock-Ownership Plan.
 - The Company continues to implement other measures to grow the Employee Stock-Ownership Plan.
- c. Improve local communities’ recognition of the Company
 - The Company interacts with local communities and tries to improve the recognition of the Company by attending social programs and inviting local residents to factory tours at major business locations.

2) Preventive measures against shareholders who do not share our fundamental policies

The Company takes the following measures in order to prevent any inappropriate parties from controlling the decisions on finance and business of the Company (hereinafter referred to as “hostile acquisition”):

Firstly the Company communicate proactively through Investor Relations activities in order to increase the appreciation of the value of the Company in the market, as well as effectively utilizing the Company’s assets to the fullest extent, thus achieving sustainable growth through business management based on the above-mentioned medium- and long-term perspectives, increasing the corporate value, and enabling us to distribute appropriate profits to our shareholders.

Next, the Company will identify beneficial owners of its shares on a continuous basis and, if a hostile acquirer appears, will check and assess the objective of the acquirer and negotiate with the acquirer in consultation with external specialists. If the hostile acquirer is considered to be incompatible with the Company’s fundamental policies, the Company will take appropriate countermeasures.

Also, the Company does not exclude the option of taking preventive measures against a possible hostile takeover bid, and will continue to study effective measures available in reference to laws and regulations, guidance issued by authorities and the behavior of other companies, while respecting the common interests of our shareholders.

(3) Assessment of Above Efforts and its Basis

It is clear that the above efforts are consistent with the fundamental policies, do not conflict with the common interests of shareholders, and are not intended to secure the positions of the Company's officers. We also consider that the countermeasures and measures for the prevention of a hostile acquisition are appropriate because they are put in motion only when the acquisition is against the Company's fundamental policies.

9. Policies for Determining Appropriation of Surplus

It is the Company's policy to pay appropriate dividends to our shareholders, based on the results of operations and payout ratio, and to maintain a stable and sustainable level of dividend in overall consideration of the internal reserve for future business development, expansion of research and development, strengthening of business foundations and changes to the business environment.

The Company has a fundamental policy of making a dividend of surplus twice a year, i.e. interim dividend and year-end dividend. The decision-making bodies for these dividends of surplus are the Shareholders' Meeting for the year-end dividend and the Board of Directors for the interim dividend in accordance with the provisions of the Company's Articles of Incorporation.

In overall consideration of the factors above, including the consolidated performance of the Company for the full year, we propose the year-end dividend of 15 yen per share.

As a result, the annual dividend, including the interim dividend of 15 yen per share (actual), would be 30 yen per share, unchanged from the previous period.

For the next fiscal year, the Company plans an annual dividend of 30 yen per share (the interim dividend of 15 yen per share and year-end dividend of 15 yen per share), same as the current fiscal year.

10. Other Material Issues relating to the Company

For basic concepts and basic policies on the Company's corporate governance, please refer to the "Corporate Governance Report" posted on the Company's website.

(<https://www.daidometal.com/investors/ir-library/governance/>)

(Note) Amounts, numbers of shares, percentages of voting rights held, and percentages of shareholding described in this Business Report are presented by rounding down fractions. For other ratios, fractions are rounded down to the nearest unit.