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Daido Metal Co., Ltd.

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Introduction of Performance-linked Stock-based Remuneration Scheme for Directors

Today, Daido Metal Co., Ltd. (hereinafter “the Company”) resolved at a board of directors’ meeting to present a proposal at the 111th Annual Shareholders’ Meeting (“the Shareholders’ Meeting”) scheduled for June 27, 2019, to introduce new performance-linked stock-based remuneration (“the Scheme”) for Directors (excluding Outside Directors, the same applying hereinafter).

If the proposal is approved at the Shareholders’ Meeting, the Company plans to introduce a similar stock-based remuneration for Executive Officers

1. Purpose of introducing the Scheme

Current remuneration for Directors comprises monthly salaries and annual bonus.

The Scheme is designed to align remuneration of Directors with our business performance and stock price. The Company will introduce the Scheme to let Directors share the common interest in the stock price with the shareholders, and to incentivize Directors to improve the business performance of the Company and to enhance the corporate value over medium to long term.

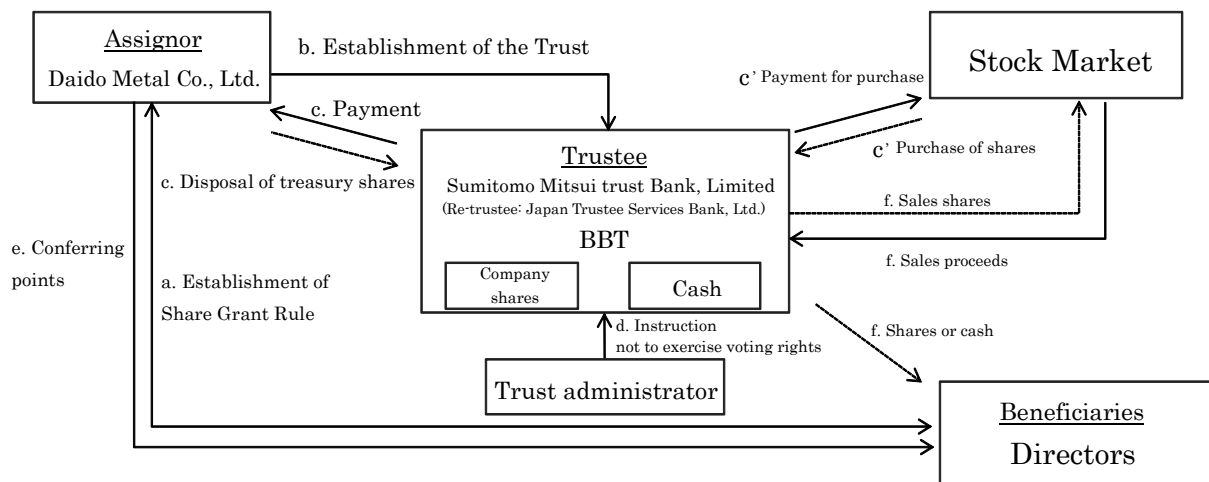
2. Overview of the Scheme

(1) Structure of the Scheme

A Board Benefit Trust (“the BBT”) is created with the contribution from the Company. The BBT purchases Company shares, and the Company gives eligible Directors the shares based on accumulated number of points conferred in accordance with their individual rank and their achievement in meeting goals etc., as set forth in Share Grant Rule.

Beneficiaries of the BBT shall be those who serve as Directors during the five year period from the fiscal year ending March 31, 2020 to the fiscal year ending March 31, 2024 (“the Plan Period”). The Company shares are granted to each Director when they retire from their position.

<Structure of the Scheme>



- a. The Company establishes Share Grant Rule for Directors.
- b. The Company sets up the BBT (a third-party-benefit trust) whose objectives are to grant shares to Directors who are beneficiaries of the trust. In so doing, the Company entrusts to the trustee an amount of money necessary to purchase shares (limited to the amount approved at the Shareholders' Meeting).
- c. The trustee acquires, in a lump sum, a sufficient number of shares of the Company that are expected to be granted in the future (either through a treasury offering or purchase from the market, including after-hours trading).
- d. The Company and the trustee appoint a trust administrator, a party independent of the Company and of its officers, who is responsible for protecting the interests of the beneficiaries and for supervising the trustee throughout the trust period. The trust administrator will give instructions to the trustee not to exercise any voting rights associated with the shares of the Company held in the BBT throughout the trust period, and the trustee will follow such instructions.
- e. The Company confers points to eligible Directors in accordance with the Share Grant Rules.
- f. Directors who meet the requirements set forth in the Share Grant Rules and the requirements set forth in the trust agreement will receive, as beneficiaries of the BBT, Company shares from the trustee corresponding to the accumulated number of points. In certain cases set forth in advance in the Share Grant Rules and the trust agreement, the trustee sells in the stock market a portion of the shares to be granted, and pays cash instead.

Of the assets remaining in the BBT at the end of the trust period, all Company shares are to be acquired by the Company without consideration and then cancelled by resolution of the Board of Directors, while a certain amount of cash is to be donated to special public interest promotion foundation having no conflict of interest with Directors of the Company, as arranged in advance in accordance with the Share Grant Rules and the trust agreement.

Under the Scheme, the Company shall appoint Sumitomo Mitsui Trust Bank, Limited as trustee and the trustee shall entrust the management of trust assets to Japan Trustee Services Bank, Ltd.

(2) Establishment of the BBT

The Company establishes the BBT by providing the funds necessary for the BBT to purchase, over a certain period of time in advance, the number of Company shares reasonably estimated to be needed for the grants in accordance with (6) below, subject to approval of the introduction of the Scheme at the Shareholders' Meeting. The BBT shall, as described in (5) below, purchase Company shares using the funds contributed by the Company.

Under the Scheme, the Company shall appoint Sumitomo Mitsui Trust Bank, Limited as trustee and the trustee shall entrust the management of trust assets to Japan Trustee Services Bank, Ltd.

(3) Trust period

The trust period is approximately five years beginning in August 2019 (planned) and ending in August 2024 (planned). The period may be extended as described in (4) below.

(4) Maximum amount of funds held in the BBT for purchasing Company shares

The Company contributes to the BBT an amount not exceeding JPY 400 million during the Trust Period as funds necessary for the BBT to purchase Company shares to be granted to eligible Directors under the Scheme. The BBT acquires Company shares through either a treasury offering or purchase from the market (including after-hours trading), using funds entrusted by the Company.

Note: The funds to be entrusted by the Company to the BBT shall include the estimated expenses such as trust fees and compensation for the trust administrator, etc., in addition to the funds necessary to purchase Company shares.

By a resolution of the Board of Directors, the Plan Period may be extended up to the period not exceeding 10 years, and the trust period will be extended accordingly. (Trust period extension includes effective extension through transfer of the trust assets to another trust established by the Company for an identical purpose, the same applying hereinafter.) If the trust period is thus extended, the Company contributes an additional amount not exceeding JPY 80 million for each year of the extended trust period into the BBT to purchase Company shares necessary for granting Directors under the Scheme. The conferring of points as described in (6) below, as well as the grant of Company shares shall continue into the extended trust period.

In case when the Plan Period is not extended but Directors who have accumulated points remain in his/her office at the end of the trust period, the Company may extend the trust period until such Directors retire from office and the corresponding grant of Company shares from the BBT is completed.

(5) Purchase of Company shares by the BBT

Initial purchase of Company shares by the BBT is planned to be through either a treasury offering or purchase from the market, in an amount not exceeding the maximum as funds to acquire shares as described in (4) above but the details of the purchase will be decided and announced after the Shareholders' Meeting.

During the trust period, if the number of Company shares held in the BBT is expected to fall

short of the number of shares that corresponds to the number of points to be conferred to Directors during the trust period due to an increase in the number of Directors or for other reasons, the Company may, without exceeding the maximum amount entrusted as approved at the Shareholders' Meeting as described in (4) above, entrust additional money to the BBT in order to enable the trust to acquire additional Company shares as required.

(6) Calculation of shares to be conferred to Directors

A. Calculation of points to be conferred to Directors

The Company confers to each Director a certain number of points as specified in Share Grant Rule based on their individual rank and their achievement in meeting goals etc., on a set date during the trust period, pre-defined in the Share Grant Rule.

The total number of points to be conferred during a single fiscal year shall not exceed 70,000.

B. Grant of shares corresponding to the number of conferred points to Directors

Directors receive Company shares in accordance with their accumulated number of points conferred as described in A above.

The number of Company shares granted to each Director is equal to the number of points accumulated for each Director. However, reasonable adjustment may be made if there has been a share split, share consolidation, or other change of circumstances between the time the points are conferred and the time the shares are granted.

C. Grant of Company shares to Directors

Upon retirement from office, each Director will receive shares of the Company as described in B above from the BBT.

Nevertheless, a certain proportion of Company shares may be sold by the BBT to cover the withholding tax and other tax obligation to be deducted by the Company. Furthermore, in case where Company shares within the BBT apply for a tender offer, the cash proceeds may be paid out in place of Company shares.

(7) Exercise of voting rights

In accordance with instructions from the trust administrator which is independent of the Company and its officers, voting rights associated with Company shares held in the BBT shall not be exercised at all, in order to ensure independence from the management of the Company.

(8) Handling of dividends

Dividends of Company shares held in the BBT shall be received by the BBT to purchase Company shares and to pay trust fees to be paid to the trustee.

(9) Handling of assets remaining at the end of the trust period

Of the assets remaining in the BBT at the end of the trust period, all Company shares are to be purchased by the Company without consideration and then cancelled by the resolution of the

Board of Directors, while a certain amount of cash is to be donated to special public interest promotion foundation having no conflict of interest with Directors of the Company, as arranged in advance in accordance with the Share Grant Rule and the trust agreement.

(Reference) Overview of the Trust agreement

Trustor: The Company

Trustee: Sumitomo Mitsui Trust Bank, Limited

(Re-trustee: Japan Trustee Services Bank, Ltd.)

Beneficiaries: Directors who satisfy beneficiary requirements

Trust administrator: Third party having no conflict of interest with the Company

Exercise of voting rights: Not to be exercised during trust period

Type of trust: Trust of money other than money trust (third-party-benefit trust)

Date of trust agreement: August 2019 (Plan)

Trust period: August 2019 to August 2024 (Plan)

Purpose of trust: Granting shares to eligible Directors as set forth in Share Grant Rule

This is a translation of the Japanese press release for reference purposes only. In the event of any discrepancy, the Japanese original shall prevail.