

(Attachment)

Business Report

(From: April 1, 2018
To: March 31, 2019)

1. Matters Relating to the Current Situation of Corporate Group

(1) Progress of Business and Operating Performance

1) Economic conditions

Global

The global economy during the current fiscal year saw increasingly strong signals of an economic slowdown with uncertainties such as trade friction between the US and China and the UK's departure from the EU, among other factors. Meanwhile, the US economy performed strongly, partly due to the effect of tax cuts by the Trump administration, but signs of deceleration gradually appeared toward the end of the fiscal year. In China, economic activity continued to lose pace, partly due to the dampening effect on investment of the trade friction with the US and other factors. The impact of this has weakened economic activity in parts of Asia and Europe.

Japan

In Japan, external demand continued to be weakened by the impact of the global economic slowdown. On the other hand, employment and income trends were firm as employment attained a record high and real wages trended upward. Except for temporary dips associated with natural disasters, personal spending continued to recover gradually. Corporate activity was also brisk, including a continued increase in capital investment driven by growth in demand for labor saving. The resulting economic expansion period has come to be viewed more widely as the longest in Japan's postwar history. However, Japanese exports came under downward pressure due to waning demand from China and other parts of Asia, and concerns of economic deterioration have emerged with further weakening of exports going into 2019.

2) Business situation in the industries

In the automotive sector, the Group's core business area, the number of new car sales in Japan for FY2018 is trending strongly, with an expected increase of 2.5% year on year to approximately 5.33 million units, surpassing 5 million units for a third consecutive year. However, the number of new car sales in China, the world's largest market, for 2018 (calendar year) fell year on year for the first time in 28 years, declining by 2.8% to slightly over 28.08 million units. Meanwhile, in the US, new car sales in 2018 (calendar year) maintained a high level at slightly over 17.27 million units, up 0.3%, or approximately level year on year. Global new car sales for 2018 were slightly over 97 million units, with subdued growth at just over 1% year on year due to lackluster car sales stemming from tariff issues in the US and China, causing increased uncertainty over the future of global car sales.

In the non-automotive sector, in the shipbuilding industry total global new tonnage under construction at the end of 2018 increased by 5.1% from the end of 2017 to 150.97 million gross tons, the first year-on-year increase in three years. With a resurgence in new tonnage orders globally ahead of the tightening of environmental regulations, such as SOx regulations in 2020, Japan has seen its tonnage under construction increase by 31.27 million gross tons (up 2.8% year on year). Global new tonnage orders increased 19.1% year on year to 51.43 million gross tons, increasing year on year for a second consecutive year. However, despite an apparent recovery trend in global new tonnage orders, the still-unresolved situation regarding excess tonnage and the impact of the US and Chinese economic situations and trade frictions have cast a shadow over the trajectory of the recovery going forward.

In the construction machine industry, domestic demand in FY2018 increased to 992.5 billion yen (up 0.9% year on year), increasing for the first time in three years as a result of the end of a decline that followed a surge in demand for old models of machinery associated with the end of a grace period for 2014 exhaust gas regulations for certain models, along with an increase from stable construction investment. In exports, overseas demand was buoyant, mainly in the three major export destinations: North America, Europe, and Asia, at 1,814.8 billion yen (up 12.6% year on year), increasing for a second consecutive year. Demand in and outside of Japan was 2,807.3 billion yen (up 8.2% year on year).

Other industry sectors continued to perform strongly on the whole, including demand for special types of bearings for power generation facilities, solid lubricant bearings, pump-related products, electrode sheets for capacitors.

3) Summary of the Group's results

Under this business environment, consolidated net sales of the Group for the current fiscal year were 107,718 million yen, an increase of 1,069 million yen (up 1.0%) compared with the previous fiscal year.

Compared with the previous fiscal year, operating profit was 6,944 million yen, an increase of 433 million yen (up 6.7%), and ordinary profit was 6,976 million yen, an increase of 267 million yen (up 4.0%). Profit increased mainly due to expanded sales in the non-automotive bearings segment and the other automotive parts segment, as well as cost reduction through rationalization. However, the automotive engine bearings segment and the automotive non-engine bearings segment were negatively affected by various factors, including economic slowdowns in China and South Korea, changes in sales mixes caused by changing market environments, and changing domestic labor environments. Profit attributable to owners of parent was 4,565 million yen, an increase of 1,283 million yen (up 39.1%) compared with the previous fiscal year. A subsidy of 1 billion yen that the Group received for the construction of a new factory of DAIDO METAL SAGA CO., LTD. is included in extraordinary income.

4) Results by segment

Sales by segment are as follows. The Group has included intersegment sales or transfers, as well as sales to external customers, since the beginning of the current fiscal year.

a) Automotive engine bearings

In Japan, sales grew steadily, as seen that new car sales in FY2018 are expected to exceed 5 million units for the third consecutive year. As a result, sales of automotive engine bearings mainly for passenger cars increased, while those for trucks increased slightly from the previous fiscal year. Net sales of bearings for turbochargers increased 2.9% (year on year) despite decreased orders affected by declined global demand.

Overseas sales decreased 3.9% (year on year) due to weak automotive sales in China, South Korea and Europe although sales in North America remained strong.

Net sales of the segment resulted in 64,835 million yen, a decrease of 620 million yen (down 0.9%) compared with the previous fiscal year.

b) Automotive non-engine bearings

Net sales were 16,985 million yen, an increase of 865 million yen (up 5.4%) compared with the previous fiscal year, mainly due to solid sales of bearings for automotive parts for Japanese market whose sales ratio is high.

c) Non-automotive bearings

With regard to bearings for the shipbuilding industry, the market appeared to have bottomed out. For example, the volume of new shipbuilding orders in the world increased year on year for two consecutive years. With regard to bearings for construction machinery, exports to North America, Europe and Asia (China) remained strong. With regard to bearings for general industries, sales remained on a par with the previous fiscal year mainly due to strong sales of special types of bearings for the energy industry.

As a result, net sales were 9,919 million yen, an increase of 572 million yen (up 6.1%) compared with the previous fiscal year.

d) Other automotive parts

Net sales were 16,219 million yen, an increase of 623 million yen (up 4.0%) from the previous fiscal year, mainly due to increased orders for aluminum die cast and strong sales of parts, such as formed pipes, knock pins and NC milled parts, as a whole in the global automotive industry.

e) Others

This segment, which includes electrode sheets for capacitors, the metallic dry bearings business, pump-related products businesses, and the real estate leasing business, remained strong. Net sales were 2,753 million yen, an increase of 33 million yen (up 1.2%) compared with the previous fiscal year.

(Net sales by segment)

Segment	Net sales (Millions of yen)	
	FY 2017 110 th term	FY 2018 111 th term (Current fiscal year)
Automotive engine bearings	65,455	64,835
Automotive non-engine bearings	16,120	16,985
Non-automotive bearings	9,346	9,919
Other automotive parts	15,596	16,219
Others	2,720	2,753
Elimination of intersegment sales or transfers	(2,590)	(2,995)
Total	106,648	107,718

(Note) Starting from the current fiscal year, in addition to sales to external customers, intersegment sales or transfers are included in net sales by segment.

(2) Status of Financing, etc.

1) Financing

In September 2018, the Company issued new shares through a public offering, disposed of treasury shares, and issued new shares through a third-party allotment conducted in connection with the issuance of over-allotment shares.

As a result, the Company procured a total of 7,150 million yen.

For the details, please see “2. Matters Relating to Shares of the Company.”

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.

In the Midterm Business Plan that started in FY2018 (current fiscal year), “Raise Up ‘Daido Spirit’ - Ambitious, Innovative, Challenging -,” the Group has listed the following investment plans:

- Continue to invest around 10.0 billion yen per year throughout the plan period to maintain/enhance our competitiveness in our current business area
- Take prudent course of action on investment related to automotive engine bearings in the capital investment in the latter half of the Midterm Business Plan period to prepare for the possibility of a rapid shrinking of the market
- R&D, new business, M&A (business combinations) are the key investment focus area. The Company will finance itself for necessary funds with capital adequacy ratio of 35% as a reference point while ensuring financial soundness

Total capital investment for FY2018 was 7,273 million yen (a decrease of 1,421 million yen compared with the previous fiscal year), a slight increase compared with the initially planned amount of 7,000 million yen.

Described below are major capital investments, which include an investment of 1,986 million yen in the other automotive parts segment that deals with aluminum die cast products, formed pipes, knock pins, NC milled parts, etc. (an increase of 85 million yen from the previous fiscal year).

(Major capital investments during the current fiscal year)

- 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 at domestic production sites
- Investment to expand facilities and improve productivity for non-automotive bearings in Japan and the UK
- Investment to enhance production capacity and improve productivity for automotive engine bearings at overseas production sites in the US, 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, NC milled parts, etc.) in Japan, Thailand and other countries
- Investment related to information systems

(3) Financial Conditions and Operating Results

1) Financial conditions and operating results of the Group

Category \ Fiscal year	FY 2015 108 th term	FY 2016 109 th term	FY 2017 110 th term	FY 2018 111 th term (Current fiscal year)
Net sales (Millions of yen)	81,400	85,073	106,648	107,718
Operating profit (Millions of yen)	7,114	5,103	6,511	6,944
Ordinary profit (Millions of yen)	6,796	5,427	6,708	6,976
Profit attributable to owners of parent (Millions of yen)	3,919	2,635	3,281	4,565
Basic earnings per share (Yen)	98.44	66.19	82.42	103.44
Net assets (Millions of yen)	52,148	52,964	57,940	66,490
Total assets (Millions of yen)	122,920	155,331	161,030	163,118

2) Financial conditions and operating results of the Company

Category \ Fiscal year	FY 2015 108 th term	FY 2016 109 th term	FY 2017 110 th term	FY 2018 111 th term (Current fiscal year)
Net sales (Millions of yen)	64,665	63,345	66,413	67,732
Operating profit (Millions of yen)	3,836	2,695	1,851	2,390
Ordinary profit (Millions of yen)	5,294	4,500	3,475	4,024
Profit (loss) (Millions of yen)	4,141	(577)	2,398	3,783
Basic earnings (loss) per share (Yen)	104.01	(14.49)	60.24	85.73
Net assets (Millions of yen)	42,199	40,707	42,002	51,012
Total assets (Millions of yen)	82,295	102,831	104,596	106,462

(Note) The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan Statement No. 28, February 16, 2018), etc. has been adopted from the beginning of FY2018 (111th term). The Group's financial conditions and operating results and the Company's financial conditions and operating results for FY2017 (110th term) show the figures after the Accounting Standard, etc. are applied retrospectively.

(4) Company's Fundamental Management Policy

The Group has established "Corporate Philosophy," "Code of Conduct," "Standards of Conduct," "Principles" and "Environmental Fundamental Policy" as the management 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 has started "Raise Up 'Daido Spirit' - Ambitious, Innovative, Challenging -," as its new Midterm Business Plan for six years 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 "Midterm Business Plan"

The Company has started its 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 management 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"

Main performance results for FY2018 (the initial year of the Midterm Business Plan) are as follows.

The market shares of the current business lines increased in calendar year 2018 (estimated by the Company) from 32.5% to 33.1% for automotive engine half bearings, from 50.5% to 53.5% for bearings for low-speed marine diesel engines, from 14.7% to 15.3% for bearings for mid to high-speed marine and industrial diesel engines, and from 12.8% to 12.9% for polymer bearings, on a year-on-year and annual production basis.

The market share of bearings for turbochargers decreased from 28% to 24%, but the Group is keeping its target of a 40% share by 2023 unchanged. The share of bearings for rotating machinery, including turbines for power generation, leveled off at 3.7%, the same as the previous year. The Company will continue to work toward increasing market share by developing new customers and improving price competitiveness and quality.

Moving on to the new business lines, including the expansion into new area for use in the existing businesses, the Company has advanced a plan to achieve the production of bearings for wind power generation in Europe, where there is high demand for onshore and offshore wind power generation. The Company is currently at the stage where it is about to deliver a product prototype, and is considering a location for a new plant in Europe for the launch of local production. In the wake of the expansion of the TMBS (Turbomachinery Bearing Systems) business to be provided, the Company spun off the TMBS Business Division of the Marine & Industrial Bearings Division in April 2019 and newly formed the Turbo Machinery Bearing Systems Division, with a focus on promoting it.

In addition, DM Casting Technology (Thailand) Co., Ltd., a subsidiary in Thailand, will start production of aluminum die cast EV (electric vehicle) parts, in which the Company invests on a continual basis, in February 2020. In Europe, a cooperative relationship with Nippon Piston Ring Co., Ltd., which is strengthened by a capital alliance made between the company and NPR of Europe GmbH, is expected not only to increase both companies' presence further through the expansion of sales to OEMs in the European market but also lead to mutually enhance business foundations and corporate values.

To build an internal structure for creating new business lines, the Company set up the Future Creation Department in the Technology Division in October 2018. This was done in an effort to strengthen and promote the speedy and continuous output of new products and the pioneering research and technological planning proposals for innovative bearing technologies, without being bound by fields with actual records or experience. In FY2018, the Company joined the Tokai Open Accelerator, a program organized by the Development Bank of Japan Inc. to accelerate start-up companies' growth and new business creation by leading companies. The four companies in the Tokai region including the Company called for collaboration with start-ups with cutting-edge ideas and know-how across Japan, chose among the proposals for collaborative projects taking advantage of respective resources, and decided to conduct demonstration experiments in February 2019 with two start-ups, with a goal of commercializing their collaborative projects.

Moreover, in order to focus on strengthening current business lines further and materializing and researching new business lines, the Company has been committed to developing the management foundation including the systems and financial base. It raised a total of 7,150 million yen in September 2018 by issuing new shares in public offerings and contributing to improvement in the capital adequacy ratio and reinforcement of the financial base. As announced in the press release dated March 28, 2019, “Notice of Transfer of Non-Current Assets and Posting of Extraordinary Income (only available in Japanese),” the Company resolved at the Board of Directors meeting held on the same day to transfer land where the Company’s former headquarters and the Nagoya Plant used to be located (currently rented to a third party), aiming to effectively use management resources and improve asset efficiency, with extraordinary income of approximately 3,906 million yen to be posted in the fiscal year ending March 31, 2020.

The Company strongly believes that the promotion of deepening global recruitment, diversity, and work-life balance should ultimately sustain and improve the vitality of an organization. The Company has laid the groundwork for it by establishing the “Guidelines on Human Rights” in January 2019 (https://www.daidometal.com/company/human_rights_policy/). Having been committed to reduced gross working hours as work-style reforms, the Company also started taking on improved productivity in FY2018 with “health management activities” as a theme and issued the “Daido Metal Group Health and Productivity Management Statement” in October 2018 (https://www.daidometal.com/jp/company/health_management/ (only available in Japanese)). In the belief that promoting a healthy mind and body creates proactive communication for improvement in the workplace and has a positive effect on business operations, the Company expects the realization of sustainability for each one of its employees to lead to the realization of sustainability of the Company itself.

* The matters discussed here concerning the future events are based on certain assumptions by the Group at the end of the current fiscal year. 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.), aluminum die cast automotive parts
Others	Electrode sheets business for electric double layer capacitors, metallic dry bearings business, pump-related products business, real estate leasing business, 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 Sales Office (Naka-ku, Hamamatsu-shi), Hiroshima Sales Office (Minami-ku, Hiroshima-shi), Kyushu Sales Office (Nagasaki-shi, Nagasaki), Kitakanto Sales Office (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 (Gujo-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 (Minamiaizu-gun, Fukushima)
Overseas production companies	Dyna Metal Co., Ltd. (Thailand), Dong Sung Metal Co., Ltd. (South 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. (South 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	2,582	Increase	40
Overseas	4,305	Increase	119
Total	6,887	Increase	159

(Notes) 1. In addition to the above, temporary employees (total of 567) 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).

b. Employees of the Company

Number of employees (persons)	Change from previous period (persons)	Average age (years of age)	Average years of service (years)
1,296	Increase 25	38.3	14.4

(Notes) 1. In addition to the above, temporary employees (total of 171) 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 aluminum 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.	355 million Thai baht	100.0% (99.9%)	Production and sales of aluminum die cast automotive parts	Note 2
DM Casting Technology (Thailand) Co., Ltd.	500 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	1,393 million yen	99.9% (99.9%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
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	Note 2

Name	Capital stock or investments in capital	Percentage of voting rights held by the Company	Major businesses	Notes
			automobiles, motorcycles, and general-purpose machines	
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%	Production 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	Notes 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
NPR of Europe GmbH.	2,500 thousand euro	30.0%	Sales of automotive-related products, etc.	

(Notes) 1. Although the voting rights held by the Company is not more than 50%, these companies are treated as subsidiaries because they are effectively controlled by the Company.

2. Figures in parentheses of percentage of holding of voting rights represent 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.	17,766
MUFG Bank, Ltd.	9,742
Sumitomo Mitsui Banking Corporation	4,161
Development Bank of Japan Inc.	3,398
Sumitomo Mitsui Trust Bank, Limited	3,186

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

At a Board of Directors meeting held on March 28, 2019, the Company resolved to transfer land where the Company's former headquarters and the Nagoya Plant used to be located, aiming to effectively use management resources and improve asset efficiency.

The Company had used this land for itself until October 2002, but thereafter continuously leased it out to a third party, rather than using it for itself. Under the Midterm Business Plan that was launched in 2018, the Company aims to effectively use its management resources and improve asset efficiency. Therefore, the Company decided to transfer the land, considering its future treatment, etc. as part of implementing the Plan. The Company plans to post extraordinary income of approximately 3,906 million yen in the fiscal year ending March 31, 2020 in connection with this transfer.

2. Matters Relating to Shares of the Company

- (1) Number of authorized shares 80,000,000 shares
- (2) Total number of issued shares 47,520,253 shares (including treasury shares of 324 shares)
- (3) Number of shareholders at end of the fiscal year 8,111 shareholders (Increased by 4,000 shareholders from the previous fiscal year)
- (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)	3,075	6.47
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,827	5.95
Sumitomo Mitsui Trust Bank, Limited	1,978	4.16
Mizuho Bank, Ltd.	1,977	4.16
MUFG Bank, Ltd.	1,822	3.83
Daido Metal Yueikai Employee Stock-Ownership Plan	1,370	2.88
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,107	2.33
The Seri Wathana Industry Co, Ltd. 703000	1,000	2.10
J.P. Morgan Bank Luxembourg S.A. 380578	972	2.04
Nisshin Steel Co., Ltd.	909	1.91

(Notes) 1. Ratio of shareholding is calculated with total shares outstanding net of treasury shares (324 shares).

2. Effective as of April 1, 2019, Nisshin Steel Co., Ltd. changed its trade name to Nippon Steel Nisshin Co., Ltd.

(5) Other Important Matters Relating to Shares

The Company issued new shares, etc. through a public offering in September 2018. As a result, the total number of issued shares came to 47,520,253, up 2,563,400, and the number of shareholders also reached 8,111, up 4,000, as of the end of the current fiscal year, while the number of treasury shares decreased to 324, down 5,141,316.

- Increase in the number of shares due to issuance of new shares through public offering: 1,558,400
- Increase in the number of shares due to issuance of new shares through third-party allotment: 1,005,000
- Number of shares disposed of due to disposal of treasury shares through public offering: 5,141,600

The Company also presents a proposal to introduce a new performance-linked stock-based remuneration, as Agenda Item No. 7, at the 111th Annual Shareholders' Meeting to be held on June 27, 2019. The performance-linked stock-based remuneration plan is intended to encourage Directors to contribute to the enhancement of the Company's performance and corporate value over the medium to long term, by clarifying the linkage between remuneration for Directors, the Company's performance, and its share value, and by Directors sharing with shareholders the benefits and risks of fluctuations in the share price.

Further, the Company resolved to introduce a "trust-type employee stock purchase incentive plan" at the Board of Directors meeting held on May 24, 2019. This plan is intended to encourage the Company's employees to contribute to the enhancement of the Company's corporate value over the medium to long term and to increase employee benefits.

3. Matters Relating to Share Acquisition Rights, etc.

None

4. Company Officers

(1) Directors and Audit & Supervisory Board Members

(As of March 31, 2019)

Position	Name	Duties/departments in charge and important concurrent positions at other entities
Chairman & Chief Executive Officer (CEO)	Seigo Hanji	Executive of Japan Auto Parts Industries Association
President & Chief Operating Officer (COO)	Kotaro Kashiyama	In charge of Audit Department, Secretarial Department and Bimetal 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 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	Chairman, Board of Directors of Fujita Academy Incorporated Educational Institution President, Fujita Health University
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’ important concurrent positions at other entities during the current fiscal year

Date	Name	New duties and departments in charge	Previous duties and departments in charge
October 2, 2018	Kiyotaka Hoshinaga	Chairman, Board of Directors of Fujita Academy Incorporated Educational Institution President, Fujita Health University	Managing Director, Fujita Academy Incorporated Educational Institution President, Fujita Health University

8. Changes in Directors’ duties and departments in charge on or after April 1, 2019

Date	Name	New duties and departments in charge	Previous duties and departments in charge
April 1, 2019	Toshiyuki Sasaki	Head of BPR-ICT Division and General Manager of BPR (Business Process Re-engineering) Department and Head of Inuyama Site	Head of BPR-ICT Division and General Manager of BPR (Business Process Re-engineering) Department
April 1, 2019	Masaki Ikawa	Head of Human Resources Planning Division In charge of Purchasing Department, Marine & Industrial Bearings Division, Polymer Bearings Division and High Performance Bearings and Equipment Division	Head of Human Resources Planning Division In charge of Purchasing Department and High Performance Bearings and Equipment Division

9. Changes in Directors' important concurrent positions at other entities on or after April 1, 2019

Date	Name	New important current positions at other entities	Previous important concurrent positions at other entities
April 1, 2019	Toshikazu Takei	Chairman of The Central Council for Financial Services Information	Managing Director of Japan Center for International Finance
April 1, 2019	Kiyotaka Hoshinaga	Chairman, Board of Directors of Fujita Academy Incorporated Educational Institution	Managing Director, Fujita Academy Incorporated Educational Institution President, Fujita Health University

10. Changes (including scheduled changes) in Audit & Supervisory Board Members' important concurrent positions at other entities on or after April 1, 2019

Date	Name	New important concurrent positions at other entities	Previous important concurrent positions at other entities
June 19, 2019	Kuniko Tanabe	Partner, Lawyer of Tanabe & Partners	Partner, Lawyer of Tanabe & Partners Outside Director of KDDI CORPORATION

(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 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	Monthly remuneration		Bonus (consolidated performance-linked component)	Total remuneration
		Fixed component	Consolidated performance-linked component		
Directors (Outside Directors)	6 (2)	182 million yen (23 million yen)	53 million yen (- million yen)	181 million yen (- million yen)	417 million yen (23 million yen)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	3 (2)	41 million yen (25 million yen)	- million yen (- million yen)	- million yen (- million yen)	41 million yen (25 million yen)

- (Notes) 1. In addition to the above, a total of 34 million yen was paid as employee-portion salaries for employee-directors.
2. "Bonus" amount listed above is an estimated amount to be paid, if the proposed agenda item No. 6 is approved at the 111th Annual Shareholders' Meeting to be held on June 27, 2019.
3. The maximum amount of remuneration to Directors (excluding bonus to Directors and 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.
4. 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 for Directors and Audit & Supervisory Board Members]

(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 with both in-house and external members who will discuss and determine the actual remuneration for each Director.

Specific remuneration structure and calculation 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-linked component” which is determined after taking into account the Group’s consolidated performance in the previous fiscal year and the degree of contribution to the Company, as described below.
 - Individual payment amount of this “fixed component” will be determined by the Board of Directors based on the prescribed base payment table (fixed amount) according to the position of each Director, and by considering the comments from the Advisory Board.
 - Furthermore, individual payment amount of the “consolidated performance-linked component” will be determined by the Board of Directors based on the prescribed base payment table according to the position of each Director, the amount proportionally changing in line with consolidated net sales and the ratio of profit to net sales for the previous fiscal year, along with the degree of contribution to the Company (aspects such as the presence of management sense, leadership ability, and ability to guide), and by considering the comments from the Advisory Board. The Company has chosen to use consolidated net sales and the ratio of profit to net sales as indicators used for the consolidated performance-linked component, and it believes that these indicators are useful as they are closely linked to the achievement of two of the principle action lines of the Midterm Business Plan, “Strengthen current business lines further” and “Creating/fostering new business lines.”
- (iii) “Bonus”
- Total payment of bonuses to be deliberated in the Shareholders’ Meeting 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 prescribed base payment table according to the position of each Director, and the amount proportionally changing in line with consolidated net sales and the ratio of profit to net sales for the previous fiscal year, and by considering the comments from the Advisory Board. The Company believes that these are good indicators based on the “consolidated performance-linked component” as stated in (ii) above.

(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 Members.

(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)	Chairman, Board of Directors of Fujita Academy Incorporated Educational Institution President, Fujita Health University	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.

- (Notes) 1. Mr. Kazuo Matsuda worked at Mizuho Bank, Ltd., the Company’s business partner as well as main shareholder; however, more than ten years have passed since he resigned from the Bank in May 2003. The Company borrows from and deposits with Mizuho Bank, Ltd.
2. Mr. Toshikazu Takei retired as Managing Director of Japan Center for International Finance on March 31, 2019, and took up the position of Chairman of The Central Council for Financial Services Information on April 1, 2019.
3. Mr. Kiyotaka Hoshinaga retired as President of Fujita Health University on March 31, 2019.
4. Ms. Kuniko Tanabe is scheduled to retire as Outside Director of KDDI CORPORATION on June 19, 2019.
5. Regarding the detailed reasons for appointing Outside Directors and Outside Audit & Supervisory Board Members, please see the proposed agenda items Nos. 3 and 4 of the 111th Annual Shareholders’ Meeting to be held on June 27, 2019.

2) Main activities of Outside Officers

Position	Name	Main activities
Director	Toshikazu Takei	Attended all 16 meetings of the Board of Directors held during FY2018. 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 16 meetings of the Board of Directors held during FY2018. 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 Member	Kuniko Tanabe	Attended all 16 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2018. Making remarks from a professional well-versed viewpoint in corporate legal affairs based on her rich experience as a lawyer.
Audit & Supervisory Board Member	Kazuo Matsuda	Attended all 16 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2018. 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 appointment and dismissal of candidates for senior management positions and for the nomination of candidates for Director and Audit & Supervisory Board Member]

The appointment and nomination of candidates for Director, Audit & Supervisory Board Member, and Executive Officer are determined at the Board of Directors' meetings, based on the appointment criteria stipulated in the Company's rules, considering experience, management skills, leadership, personality, a sense of ethics, health, etc. Candidates for Audit & Supervisory Board Member are nominated with the prior consent of the Audit & Supervisory Board.

The dismissal of Directors, Audit & Supervisory Board Members, and Executive Officers is also determined at the Board of Directors' meetings, based on the dismissal criteria stipulated in the Company's rules, considering the levels of damage to the Company's credibility and corporate value caused by their behavior, violation of these criteria, etc.

[About the nomination, appointment and dismissal of candidates for Director and Audit & Supervisory Board Member]

When appointing candidates, the Board of Directors comprehensively considers various factors such as whether they have excellent management skills and leadership as candidates for Director and whether their personalities, opinions, etc. make them suitable for becoming officers, and then receives the Advisory Board's answers to inquiries about the nominating candidates for Director. Before resolving the appointment, the Board of Directors receives explanations of the reasons for the nomination.

5. Accounting Auditor

(1) Name

Deloitte Touche Tohmatsu LLC

(2) Liability Limiting Agreement

None

(3) Remuneration for Accounting Auditor

	Amount paid
Remuneration based on audit attestation service rendered during the current fiscal year, payable by the Company	56 million yen
Total remuneration and benefits payable by the Group to Accounting Auditor	80 million yen

- (Notes)
1. Fees for audit attestation service includes 2 million yen related to financial statements in English.
 2. Financial statements of the overseas subsidiaries are audited by the qualified accountant / auditor / auditing firm other than Deloitte Touche Tohmatsu, the Company's Accounting Auditor.
 3. Remuneration for the audit as per "Companies Act" and as per "Financial Instruments and Exchange Act" is combined in the contract, and amount of work is practically inseparable among the two. As such, the amount of remuneration for the current fiscal year 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 fiscal year and actual results, Audit & Supervisory Board agreed with the amount of remuneration for the current fiscal year, an agreement expected as per Article 399, paragraph 1 of the Companies Act.

(4) Non-audit Services Provided

The Company pays the Accounting Auditor and others 2 million yen for preparing a letter of comfort concerning public offering of shares, etc., which are services other than the audit and attest services under Article 2, paragraph 1 of the Certified Public Accountants Act (non-audit services). There were no non-audit services provided to consolidated subsidiaries.

(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 selected 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) Policy regarding, and Reasons for, the Selection of the Accounting Auditor

In accordance with the "Assessment Criteria" set in reference to the "Policy regarding the Decision to Dismiss or not to Re-appoint the Accounting Auditor" established by the Audit & Supervisory Board and 14 items of the "Practical Guidelines for Setting Accounting Auditor Assessment Criteria" released by the Japan Audit & Supervisory Board Members Association, the Audit & Supervisory Board selects the accounting auditor by asking for opinions of divisions in charge and receiving reports from the accounting auditor to comprehensively assess various factors, including the accounting auditor's quality management system, audit team's independence, level of audit fees etc., and the status of communication between Audit & Supervisory Board Members, management and internal audit division.

With no issues identified with Deloitte Touche Tohmatsu LLC in any of its assessment items, such as quality management systems and independence of audit teams, the Audit & Supervisory Board judges that it is appropriate to reappoint it as the Accounting Auditor of the Company for FY2019.

(7) Assessment of the Accounting Auditor by Audit & Supervisory Board Members and the Audit & Supervisory Board

The Company's Audit & Supervisory Board Members and Audit & Supervisory Board assess the Accounting Auditor. To assess whether the Accounting Auditor maintains the quality of audits and performs the audits appropriately, the Company makes comprehensive assessments according to the predetermined assessment criteria as described in "(6) Policy regarding, and Reasons for, the Selection of the Accounting Auditor."

The Company's Audit & Supervisory Board Members and Audit & Supervisory Board confirm and assess that Deloitte Touche Tohmatsu LLC maintains the quality of audits and performs the audits appropriately, as it has an effective management body, effective supervisory and assessment organizations, adherence to professional ethics, and independence of audit teams in place, while the level of its audit fees, etc. is reasonable and its communication with Audit & Supervisory Board Members, management, and the internal audit division is efficient.

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 on 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 on the 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, sets IT Security Guidelines and 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 Division 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 Division 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 Division 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 “Secretariat of the Audit & Supervisory Board,” 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 “Secretariat of the Audit & Supervisory Board” in advance, and if necessary, may request changes to the officer in charge of Human Resource.
 - 4) Employees who are in charge of “Secretariat of the Audit & Supervisory Board” 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 Division 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 Division reports the status of improvement/corrective measures and preventive measure at a “Corporate Ethics Committee,” and reports to the Board of Directors and 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 Division 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.

The Company changed its organizational structure on April 1, 2019, as described in the “Announcement regarding Organizational Changes and Personnel Transfers” released on February 15, 2019 (only available in Japanese).

As a result, the “Compliance Division” and the “Head of Compliance Division” under the above-mentioned “System for Ensuring Proper Business Operations” were renamed to the “Human Resources Planning Division” and the “Head of Human Resources Planning Division,” respectively, at the Board of Directors’ meeting held on April 24, 2019.

Details of this organizational change and the relevant reasons are as follows.

Previously, under the Compliance Division, there were three departments (i.e., Environmental & Safety Management Department, Legal Affairs Department, and Internal Control Department). However, the Company has decided to abolish the Compliance Division and reorganize each department into a section that is closely related to each operation as follows so that each department’s operations can be efficiently carried out.

- 1) The Environmental & Safety Management Department conducted safety and health and environment-related operations for the Group, but its operations were mainly related to those of the Inuyama Site. Therefore, it is currently placed under the control of Head of the Inuyama Site.
- 2) The Legal Affairs Department dealt with legal matters related to compliance with corporate governance codes, revision of major laws, etc., but its operations partially overlapped with those of the General Affairs Department. Therefore, it was transferred to the General Affairs Department. In addition, its name was changed to the Legal Affairs & Corporate Governance Group of the General Affairs Department.
- 3) The Internal Control Department formulated the basic policy on internal control systems, etc. and implemented business continuity plans (BCP), but was transferred to the Human Resources Planning Department after compliance promotion functions, such as the establishment and promotion of the whistle-blowing system, were added. In addition, its name was changed to the Compliance Group of the Human Resources Planning Department.

Before change	After Change
Compliance Division Environmental & Safety Management Department	Inuyama Site Environmental & Safety Management Department
Compliance Division Legal Affairs Department	Corporate & Financial Planning Division General Affairs Department Legal Affairs & Corporate Governance Group
Compliance Division Internal Control Department	Human Resources Planning Division Human Resources Planning Department Compliance Group

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 performance of duties by Directors and employees of the Company conforms to 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. The Company resolved to implement the “Guidelines on Human Rights” at the Board of Directors’ meeting held in December 2018. These Guidelines are available on the Company’s website.

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 persons who exercise 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 has established “Raise Up ‘Daido Spirit’ - Ambitious, Innovative, Challenging -” as its Midterm Business Plan for six years from FY2018 to FY2023.

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 Purchase Plan.
 - The Company continues to implement other measures to grow the Employee Stock Purchase 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. The Company also considers 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, the Company proposes 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 fiscal year.

As to dividend payouts for the next fiscal year, the Company adopted the amount to be paid at the Board of Directors meeting held on May 10, 2019, of a total 35 yen per share (interim dividend: 20 yen, year-end dividend: 15 yen), including a commemorative dividend of 5 yen as it will mark the 80th anniversary on November 4, 2019.

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 off to the nearest unit.