

(Attachment)

Business Report

(From: April 1, 2019
To: March 31, 2020)

1. Matters Relating to the Current Situation of Corporate Group

(1) Progress of Business and Operating Performance

1) Economic conditions

Global

During the current fiscal year, the global economy slowed down markedly due to lackluster production amid sluggish exports particularly in China and Europe in the first half of the fiscal year caused by the effects of the U.S.–China trade frictions, UK's departure from the EU, emergence of geopolitical risks in the Middle East, etc. In the second half of the fiscal year, the prospect for the global economy became more optimistic as the said trade frictions mitigated slightly. However, the global economy worsened rapidly due to the emergence of problems caused by the spread of new coronavirus infections in 2020.

Japan

In Japan, although there was a conspicuous decline in capital investment due to the slowdown of the global economy as well as continued concerns over the economic downturn, a sign of moderate recovery was seen in the first half of the current fiscal year, which was underpinned by robust domestic demand. However, later on, as domestic demand fell due to the impact of the hike in consumption tax and natural disasters caused by large typhoons, early in 2020 the spread of new coronavirus infections dealt a severe blow to the economy, which deteriorated rapidly toward the end of the fiscal year.

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 FY2019 decreased 4.2% year on year to approximately 5.03 million units, while it surpassed 5 million units for the fourth consecutive year. Meanwhile, the number of new car sales in China, the world's largest market, for 2019 (calendar year) also fell 8.2% year on year to slightly over 25.76 million units, recording a year-on-year decrease for the second consecutive year, due to the sluggish market affected by the U.S.–China trade friction. Moreover, in the U.S., new car sales in 2019 (calendar year) declined 1.3% year on year to approximately 17.05 million units. Due to such lackluster car sales stemming mainly from the U.S.–China trade friction, global new car sales for 2019 remained at a weak level of approximately 90.27 million units, indicating a year-on-year decrease of approximately 4.4%. In 2020, the situation is expected to be extremely tough due to the full-scale impact of the spread of new coronavirus infections.

In the non-automotive sector, total global new tonnage orders for 2019 in the shipbuilding industry decreased 17.7% year on year to 41.49 million gross tons and Japan's export ship tonnage under construction at the end of FY2019 decreased 30.9% year on year to 17.40 million gross tons. This was partly because of the impact of restraint on replacement to newly built ships due to tightening of environmental regulations. However, global new shipbuilding tonnage increased 14.4% year on year to 66.14 million gross tons, marking the first year-on-year increase in four years. Nevertheless, considering the situation regarding global excess tonnage which remains unresolved, it may take some time before a path can be followed to full-scale recovery in global new tonnage demand.

In the construction machinery industry, domestic demand in FY2019 has recovered from the reactionary decline in last-minute demand associated with the environmental regulations, and construction machinery shipments have risen, for the second consecutive year, by 2.8% year on year to 1,020 billion yen. On the other hand, overseas demand decreased 18.4% year on year to 1,481 billion yen, marking the first year-on-year decrease in three years, due to weak overseas demand centered on the three major export destinations of North America, Europe, and Asia. As a result, demand in and outside of Japan decreased 10.9% to 2,501 billion yen.

In the general industry field related to the Company, domestic demand remained weak as a whole, following completion of a set of capital investments in major industries and due to curtailment of capital investment amid the U.S.–China trade friction and overseas demand also remained sluggish as a whole, especially in the major regions of North America and Europe as well as in China.

3) Summary of the Group's results

Under this business environment, consolidated net sales of the Group for the current fiscal year were 100,159 million yen, a decrease of 7,558 million yen (down 7.0%) compared with the previous fiscal year.

Compared with the previous fiscal year, operating profit was 4,168 million yen, a decrease of 3,093 million yen (down 42.6%), and ordinary profit was 3,660 million yen, a decrease of 2,970 million yen (down 44.8%). In the automotive engine bearings segment and the automotive non-engine bearings segment, profit decreased due to the negative effect of the global economic slowdown. In addition, various costs were incurred in the other automotive parts segment, such as costs for consolidating and restructuring domestic and overseas sites of Iino Manufacturing Co., Ltd., a consolidated subsidiary of the Company, and initial costs for starting operations of a new company for aluminum die cast parts in Thailand. However, in the non-automotive bearings segment, there was an increase in profit of approximately 20% year-on-year mainly due to winning over new overseas customers. Profit attributable to owners of parent was 2,740 million yen, a decrease of 1,395 million yen (down 33.7%) compared with the previous fiscal year, as an impairment loss for non-current assets of NDC Co., Ltd., a consolidated subsidiary of the Company, was posted despite a gain on sales of non-current assets of 3,909 million yen (the amount affected by these transactions was a decrease of 976 million yen).

During the current fiscal year, errors in part of the accounting process carried out in the past fiscal years were found at DAIDO METAL EUROPE LIMITED, the Company's UK consolidated subsidiary, and such accounting errors for the past fiscal years were corrected by recording allowance for doubtful accounts and others. The cumulative effect of correcting these errors is reflected in the book value of net assets at the beginning of the current fiscal year, and the total impact is a decrease of 1,236 million yen.

The Company expresses its deepest apologies to shareholders for any inconvenience and concern this matter has caused. In addition, the Company would like to report that we have seriously taken on board the errors that occurred, and have steadily implemented measures to prevent recurrence while striving to improve the internal control system of the Group. (Please note that the Group's Business Report shows the figures after these revisions were made.)

4) Results by segment

Sales by segment are as follows.

The Company has included intersegment sales or transfers in net sales by segment.

a. Automotive engine bearings

In Japan, new car sales in FY2019 decreased 4.2% from the previous fiscal year. Overseas, new car sales decreased approximately 8.2% in China, were down approximately 7.4% in all Asian countries other than China, and remained almost flat in the U.S. and Europe.

Under such circumstances, domestic net sales of the Group decreased approximately 10.5% from the previous fiscal year, and overseas net sales fell approximately 2.8% from the previous fiscal year despite developing some new customers.

Net sales of the segment came to 60,982 million yen (down 5.9% year on year) and segment profit came to 7,285 million yen (down 13.7% year on year) compared with the previous fiscal year.

b. Automotive non-engine bearings

Net sales were 15,515 million yen (down 8.7% year on year) and segment profit was 2,550 million yen (down 23.3% year on year) due to the decreasing demand in the global automotive market.

c. Non-automotive bearings

- Shipbuilding industry

Domestic and overseas orders received showed continued signs of gradual recovery as a whole and demand for bearings for low- to mid-speed diesel engines remained strong. Especially bearings for low-speed diesel engines for exports contributed to an increased market share, by winning over new overseas customers, and as a result, saw increased net sales.

- Construction machinery industry

While demand remained strong in Japan, overseas demand declined in China, the U.S., Southeast Asia, etc., resulting in a decrease in net sales.

- Energy sector in the general industry

In the fossil fuel power generation market as a whole within the energy market, a tough environment continues from the viewpoint of CO₂ reductions, but net sales increased due to higher orders received for bearings for gas turbines and steam turbines for high-efficiency thermal power generation.

As a result, net sales were 10,683 million yen (up 7.7% year on year) and segment profit was 1,632 million yen (up 19.9% year on year) as net sales increased in the shipbuilding industry and in the energy sector in the general industry.

d. Other automotive parts

- Aluminum die cast parts

Net sales declined from the previous fiscal year, due to lower orders for aluminum die cast parts which resulted from a global slowdown in automobile production. In addition, although continuous efforts to generate profits by rationalizing the existing factories in Thailand contributed to improve the profitability, such gains were more than offset by increased initial costs incurred to start operating a new company in Thailand, DM Casting Technology (Thailand) Co., Ltd.

- Formed pipes, knock pins, NC milled parts, etc.

Overseas demand remained firm, but net sales declined from the previous fiscal year due to a drop in domestic demand. In addition, partly because of a temporary increase in costs due to consolidating and restructuring domestic and overseas production sites aimed at production rationalization, profit fell from the previous fiscal year.

As a result, net sales were 13,758 million yen (down 15.2% year on year) and segment loss was 812 million yen, a decrease of 1,030 million yen from a segment profit of 217 million yen compared with the previous fiscal year.

e. Others

Due to concerns over the economic slowdown caused by the U.S.–China trade friction, there was less demand for overall capital investment such as machine tools and various types of industrial machinery, and demand for construction machinery, etc. declined. As a result, net sales of this segment, which includes electrode sheets for electric double layer capacitors, the metallic dry bearings business, pump-related products businesses, and real estate leasing business, decreased to 2,441 million yen (down 11.3% year on year) and segment profit decreased to 528 million yen (down 24.6% year on year), compared with the previous fiscal year.

(Net sales by segment)

Segment	Net sales (Millions of yen)	
	FY 2018 111 th term	FY 2019 112 th term (Current fiscal year)
Automotive engine bearings	64,835	60,982
Automotive non-engine bearings	16,985	15,515
Non-automotive bearings	9,919	10,683
Other automotive parts	16,219	13,758
Others	2,753	2,441
Elimination of intersegment sales or transfers	(2,995)	(3,221)
Total	107,718	100,159

(Note) 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

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

2) Capital investment

In the Midterm Business Plan that started in FY2018, “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 FY2019 was 10,857 million yen, an increase of 3,583 million yen compared with the previous fiscal year.

Described below are major capital investments, which include investments amounting to 3,625 million yen (an increase of 1,639 million yen from the previous fiscal year) in the other automotive parts segment that deals with aluminum die cast products, formed pipes, knock pins, NC milled parts, etc. partly because of the investment for the construction of a new factory of DM Casting Technology (Thailand) Co., Ltd. started operations in February 2020.

(Major capital investments during the current fiscal year)

- Construction of a new factory of DM Casting Technology (Thailand) Co., Ltd.
- Acquisition of a factory site of Daido Plain Bearings Co., Ltd. (land previously used under a lease agreement with Gifu Land Development Authority)
- Investment to consolidate and restructure domestic production sites for other automotive parts and investment to improve productivity in Thailand
- Investment, etc. to enhance production capacity and streamline production for automotive engine bearings at domestic and overseas production sites
- Investment related to information systems

(3) Financial Conditions and Operating Results

1) Financial conditions and operating results of the Group

Category \ Fiscal year	FY 2016 109 th term	FY 2017 110 th term	FY 2018 111 th term	FY 2019 112 th term (Current fiscal year)
Net sales (Millions of yen)	85,073	106,648	107,718	100,159
Operating profit (Millions of yen)	4,700	6,628	7,262	4,168
Ordinary profit (Millions of yen)	5,023	6,826	6,630	3,660
Profit attributable to owners of parent (Millions of yen)	2,212	3,590	4,135	2,740
Basic earnings per share (Yen)	55.56	90.16	93.72	58.22
Net assets (Millions of yen)	51,915	57,147	65,253	64,168
Total assets (Millions of yen)	154,330	160,065	161,881	159,539

2) Financial conditions and operating results of the Company

Category \ Fiscal year	FY 2016 109 th term	FY 2017 110 th term	FY 2018 111 th term	FY 2019 112 th term (Current fiscal year)
Net sales (Millions of yen)	63,345	66,413	67,732	62,860
Operating profit (Millions of yen)	2,708	1,859	2,789	1,432
Ordinary profit (Millions of yen)	4,513	3,484	4,026	2,653
Profit (loss) (Millions of yen)	(564)	2,166	3,365	3,905
Basic earnings (loss) per share (Yen)	(14.17)	54.40	76.25	82.97
Net assets (Millions of yen)	40,720	41,783	50,374	51,162
Total assets (Millions of yen)	102,843	104,596	106,465	105,178

(Notes) 1. As accounting errors were found in the past consolidated financial statements, the figures presented for FY2016 (109th term) – FY2018 (111th term) reflect corrections of these errors.

- Effective from the beginning of FY2019 (112th term), the Group changed accounts regarding proceeds from disposal of scraps, and the Group's financial conditions and operating results and the Company's financial conditions and operating results for FY2018 (111th term) show the figures after the change is applied retrospectively.
- Basic earnings (loss) per share is calculated by dividing profit (loss) by the average number of shares during the period. (Treasury shares and the shares of the Company relating to the Board Benefit Trust for Officers and Executive Officers and the shares relating to the Daido Metal Employee Stock Purchase Plan Trust are excluded.)

(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

As previously stated, during the current fiscal year, errors in part of the accounting process carried out in the past fiscal years were found at DAIDO METAL EUROPE LIMITED, the Company's UK consolidated subsidiary, and such accounting errors for the past fiscal years were corrected by recording allowance for doubtful accounts and others. The Company expresses its deepest apologies to shareholders for any inconvenience and concern this matter has caused.

After an internal investigation was conducted, the Company realized that these accounting errors were caused mainly by insufficient human resources and the resulting excessive workload for accounting staff members as well as by an inadequate internal control system at DAIDO METAL EUROPE LIMITED.

Based on the findings of the internal investigation, the Company has seriously taken on board the errors that occurred, and has steadily implemented measures to prevent recurrence while striving to improve the internal control system of the Group. (For the status of measures implemented to prevent recurrence, please refer to "7. Outline of Operation to Ensure the Appropriateness of Business Operations.")

The Company would like to ask for continued support from all shareholders.

As an urgent issue for the Group, the spread of new coronavirus infections has been damaging the domestic and overseas economies, increasing uncertainty about the future in each industrial sector surrounding the Group, and raising concerns about a significant impact on the Company's business activities and business performance of FY2020 (113th term). To deal with a decline in the number of units produced by auto makers, etc. due to the spread of infections, the Group has adjusted production quantities by tentatively suspending factory operations across the world. However, the Group is striving to minimize relevant effects on its sales.

The Group will continuously strive to achieve the targets of the Midterm Business Plan (FY2018 – FY2023) that started in FY2018, by responding flexibly and swiftly to changes in the business environment and risks that may be materialized due to factors such as the spread of new coronavirus infections while paying close attention to them.

In its Midterm Business Plan, the Company positions the following four points as its principle management action lines. Main performance results and initiatives for FY2019 are as follows.

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"

<Action line 1: Strengthen current business lines further>

1) Automotive engine bearings and automotive non-engine bearings

The market share of the current business lines was 33.0%, the world's top share, in calendar year 2019 (estimated by the Company) for automotive engine half bearings, as was in calendar year 2018. Going forward, the Company will aim to further expand market shares by boosting sales of metal for truck engines and developing new metal for gasoline engines.

With regard to automotive non-engine bearings, the Company will promote sales of new products/applications that meet market needs.

2) Non-automotive bearings

In addition, the market share of bearings for low-speed marine diesel engines was 55.0%, the world's top share, in calendar year 2019 (estimated by the Company), as in calendar year 2018. Especially, bearings for low-speed diesel engines for export contributed to an increased market share, by winning over new overseas customers.

Going forward, in order to further enhance competitiveness, the Company will make efforts to improve productivity and aim to further expand market shares not only of bearings for low-speed diesel engines but also of metals for medium- to high-speed diesel engines.

Also, in the energy sector in the general industry, the Company will work to increase sales of bearings for gas turbines and steam turbines for high-efficiency thermal power generation.

3) Other automotive parts

With regard to aluminum die cast parts, DM Casting Technology (Thailand) Co., Ltd., a new subsidiary in Thailand, which mainly produces aluminum die casting parts for electric vehicles, has been in operation since February 2020. Full-scale mass production is scheduled to start in the summer of 2020, and the Company will further enhance its presence in the electrified vehicle market.

With regard to parts such as formed pipes, knock pins, and NC milled parts, the Company worked to rationalize production by consolidating and restructuring domestic and overseas production sites to streamline production. Going forward, the Company will improve profitability by increasing business synergies with group companies.

<Action line 2: Creating / fostering new business lines>

Moving on to the new business lines, including the expansion into new areas for use in the existing businesses, the Company's sound absorbing plate CALME, which is a porous plate made by sintering aluminum powder with a unique method, was adopted at the Tokyo Aquatics Center, the swimming venue of the Tokyo Olympic Games to be held in 2021. Going forward, the Company will continue to expand its market and work to increase sales from various perspectives centered on reliable quality.

There are higher needs for offshore and onshore wind power generation in Europe and China, and demand for bearings used for wind power generation is expected to grow. Therefore, to strengthen the structure of TMBS (Turbo Machinery Bearing System) business that produces these products, the Company newly set up the Turbo Machinery Bearing Systems Division in April 2019 as a spun-off company of the TMBS Business Division of the Marine & Industrial Bearings Division and started working to promote such business.

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, and has been committed to planning and conducting basic experiments on a variety of types of new field research. This was done in an effort to develop new products, without being bound by existing businesses in which we have actual track records or experience.

<Action line 3: Enhance management / operational control platform>

The Company has been improving its financial structure to strengthen its management base. As part of such efforts, the Company has been committed to improving the capital adequacy ratio, which stood at 30.3% at the end of FY2017. However, as a result of issuing new shares by way of offering, etc. this was improved to 35.0% at the end of FY2018 and 35.1% at the end of FY2019. Moreover, aiming to effectively use management resources and efficiently use assets, the Company transferred the land where the Company's former headquarters and the Nagoya Plant used to be located, with a gain on sales of non-current assets of 3,909 million yen to be recorded in the current fiscal year. The Company is considering the best way to use this gain.

Furthermore, as part of measures to prevent recurrence of the problem of past due accounts receivable which occurred at DAIDO METAL EUROPE LIMITED, the Company set up the Compliance Department in April 2020. Through these measures, the Group has integrated its internal control functions with governance functions, aiming to strengthen its internal control system.

<Action line 4: Energetic organization with animated communication and motivation>

Having been committed to reduced gross working hours as work-style reforms, the Company was certified as an outstanding enterprise in Health and Productivity Management (under the large enterprise category) selected by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi (a health promotion organization) on March 2, 2020. The Certified Health and Productivity Management Organization Recognition Program aims to recognize outstanding organizations

engaged in efforts to advance Health and Productivity Management, based on initiatives to address local health issues or health promotion initiatives proposed by Nippon Kenko Kaigi.

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 Group regards promotion of physical and mental health of employees as one of the important management issues. It will therefore continue to promote the creation of a workplace where diverse human resources can make full use of their personality and abilities and the development of a proper working environment.

* 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-to high-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), ISS America, Inc. (U.S.A.), 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. 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 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. (Shinagawa-ku, Tokyo), ATA Casting Technology Japan Co., Ltd. (Shinagawa-ku, Tokyo)
Other overseas company	SUPER CUB FINANCIAL CORPORATION (Philippines)

2) Employees

a. Employees of the Group

(As of March 31, 2020)

Number of employees (persons)		Change from previous period (persons)	
Japan	2,536	Decrease	46
Overseas	4,380	Increase	75
Total	6,916	Increase	29

(Notes) 1. In addition to the above, temporary employees (total of 498) 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

(As of March 31, 2020)

Number of employees (persons)	Change from previous period (persons)	Average age (years of age)	Average years of service (years)
1,323	Increase 27	38.7	14.9

(Notes) 1. In addition to the above, temporary employees (total of 147) 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

(As of March 31, 2020)

Name	Share capital 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, etc.	
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%)	Sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2

Name	Share capital or investments in capital	Percentage of voting rights held by the Company	Major businesses	Notes
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 Borrowings

(As of March 31, 2020)

Lender	Outstanding Balance (Millions of yen)
Mizuho Bank, Ltd.	19,103
MUFG Bank, Ltd.	9,854
Sumitomo Mitsui Banking Corporation	4,192
The Aichi Bank, Ltd.	2,938
Development Bank of Japan Inc.	2,901

(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 47,520,253 shares (including treasury shares of 633 shares)
- (3) Number of shareholders at end of the fiscal year 12,284 shareholders (Increased by 4,173 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)	2,012	4.23
Sumitomo Mitsui Trust Bank, Limited	1,978	4.16
Mizuho Bank, Ltd.	1,977	4.16
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,831	3.85
MUFG Bank, Ltd.	1,822	3.83
Daido Metal Yueikai Employee Stock-Ownership Plan	1,472	3.10
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,107	2.33
Daido Metal Employee Stock Purchase Plan	1,032	2.17
The Seri Wathana Industry Co, Ltd. 703000	1,000	2.10
The Nomura Trust and Banking Co., Ltd. (Daido Metal Employee Stock Purchase Plan Trust Account)	917	1.93

(Note) Ratio of shareholding is calculated with total shares outstanding net of treasury shares (633 shares). The 432,000 shares of the Company held by Japan Trustee Services Bank, Ltd. (Trust Account) relating to the Board Benefit Trust for Officers and Executive Officers and the 917,000 shares of the Company held by the Nomura Trust and Banking Co., Ltd. (Daido Metal Employee Stock Purchase Plan Trust Account) relating to the Daido Metal Employee Stock Purchase Plan Trust are not included in the number of treasury shares held.

3. Matters Relating to Share Acquisition Rights, etc.

None

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

(As of March 31, 2020)

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, General Manager of BPR (Business Process Re-engineering) Department and General Manager of Inuyama Site In charge of Environmental & Safety Management 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 and Managing Executive Officer	Motoyuki Miyo			Head of Corporate/Financial Planning Division
Director and Managing Executive Officer	Yoshiaki Sato			Head of Thinwall Bearings & Turbo Charging Bearings Division
Director	Toshikazu Takei	Outside	Independent	Chairman of The Central Council for Financial Services Information
Director	Kiyotaka Hoshinaga	Outside	Independent	Chairman, Board of Directors of Fujita Academy Incorporated Educational Institution
Full-time Audit & Supervisory Board Member	Masaaki Tamaya			—
Outside Audit & Supervisory Board Member	Kuniko Tanabe	Outside	Female	Partner, Lawyer of Tanabe & Partners
Outside Audit & Supervisory Board Member	Kazuo Matsuda	Outside	Independent	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 long 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 served as a director of a hospital and a president of a university after serving as a professor of 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 for many years, and has considerable knowledge of finance and accounting matters.

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

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

8. Changes in Audit & Supervisory Board Members' important concurrent positions at other entities during the current fiscal year

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

9. Changes in Directors' duties and departments in charge on or after April 1, 2020

Date	Name	New duties and departments in charge	Previous duties and departments in charge
April 1, 2020	Kotaro Kashiyama	In charge of Audit Department and Secretarial Department	In charge of Audit Department, Secretarial Department and Bimetal Division
April 1, 2020	Masaki Ikawa	Head of Human Resources Planning Division In charge of Purchasing Department, Quality Management and Planning Department, High Performance Bearings and Equipment Division and Compliance Department	Head of Human Resources Planning Division In charge of Purchasing Department and High Performance Bearings and Equipment Division
April 1, 2020	Yoshiaki Sato	Head of Thinwall Bearings & Turbo Charging Bearings Division In charge of Bimetal Division	Head of Thinwall Bearings & Turbo Charging Bearings Division

(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)	Stock-based remuneration	Total remuneration
		Fixed component	Consolidated performance-linked component			
Directors (Outside Directors)	8 (2)	204 million yen (24 million yen)	83 million yen (– million yen)	105 million yen (– million yen)	16 million yen (– million yen)	410 million yen (24 million yen)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	3 (2)	41 million yen (26 million yen)	– million yen (– million yen)	– million yen (– million yen)	– million yen (– million yen)	41 million yen (26 million yen)

- (Notes) 1. In addition to the above, a total of 58 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. 4 is approved at the 112th Annual Shareholders' Meeting to be held on June 26, 2020.
3. The maximum amount of remuneration to Directors (excluding bonus to Directors, employee-portion salaries for employee-directors, and performance-linked stock-based remuneration) is 400 million yen per annum as per the resolution of the 98th Annual Shareholders' Meeting held on June 29, 2006. In addition, the proposed introduction of a new performance-based stock-based remuneration scheme for Directors of the Company (excluding Outside Directors) who are in office for five fiscal years from FY2019 (112th term) to FY2023 (116th term) was approved at the 111th Annual Shareholders' Meeting held on June 27, 2019, with the maximum amount of contribution of money by the Company being a total of 400 million yen and the maximum total points granted to each eligible Director being 70,000 points per annum (one point corresponds to one share of the Company).
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.

(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," "bonuses," and "stock-based remuneration."

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) a "fixed component" based on the role and responsibility associated with execution of operations of a Representative Director, or a Director concurrently serving as an Executive Officer, and (2) a "consolidated performance-linked component" paid monthly in addition to the "fixed component" and 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.

(iv) "Stock-based remuneration"

- As per the Share Grant Rule created by the Board of Directors, the Company shall grant points to each Director (one point corresponds to one share of the Company). Points granted to each Director consist of (1) a "performance-linked component" which is in accordance with role and responsibility as well as level of achievement of performance targets in the Midterm Business Plan and (2) a "fixed component" based on role and responsibility and determined regardless of the level of achievement of performance targets in the Midterm Business Plan.
- The Company has chosen the consolidated net sales, the ratio of profit to net sales, and ROE (return on equity) as indicators used for the stock-based "performance-linked component." Use of these indicators is supposed to provide incentives to Directors for the purposes of enhancing the Company's performance and corporate value over the medium to long term, by creating a linkage between remuneration for Directors and the Company's performance and share value.

(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)	Chairman of The Central Council for Financial Services Information	The Company has no transaction with The Central Council for Financial Services Information 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	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.
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. Ms. Kuniko Tanabe retired as Outside Director of KDDI CORPORATION on June 19, 2019.

2) Main activities of Outside Officers

Position	Name	Main activities
Director	Toshikazu Takei	Attended all 15 meetings of the Board of Directors held during FY2019. 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 FY2019. 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 15 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2019. 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 15 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2019. 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	92 million yen
Total remuneration and benefits payable by the Group to Accounting Auditor	115 million yen

- (Notes) 1. Fees for audit attestation service include 34 million yen related to the fee for auditing financial statements, etc. included in the corrected report under the Financial Instruments and Exchange Act and 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 1 million yen for advisory services to apply accounting standard for revenue recognition, 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 FY2020.

(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:

Upon noticing that around 1,390 million yen of accounts receivable at DAIDO METAL EUROPE LIMITED, the Company’s UK subsidiary, were past due, the Company changed its organizational structure such as newly setting up the Compliance Department on April 1, 2020, based on the findings of investigation, etc. from an internal investigation committee, as described in the “Announcement regarding Organizational Changes and Personnel Transfers” released on February 17, 2020 (only available in Japanese).

Before change	After Change
Corporate & Financial Planning Division General Affairs Department Legal Affairs & Corporate Governance Group (Legal functions/Corporate governance functions)	Corporate & Financial Planning Division General Affairs Department Legal Affairs Group (Legal functions)
Human Resources Planning Division Human Resources Planning Department Compliance Group (Internal control functions/Compliance promotion functions)	Compliance Department (Corporate governance functions/Internal control functions/Compliance promotion functions)

In light of such organizational structure changes, the Company reviewed the system for ensuring proper business operations of the Group at the Board of Directors meeting held on April 30, 2020, based on the findings of investigation, etc. from an internal investigation committee. (The underlined parts indicate the revisions.)

(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 in charge 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, etc.
 - 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 Department to collect information on any events of non-compliance or suspected non-compliance, analyze the causes, fully implement measures to prevent recurrence and to provide employees with regular compliance education/training in order to 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 the initiatives to achieve and improve compliance on a regular basis, based on reports from the Compliance Department.
- 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 Department 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 Department keeps the group companies informed and aware of the "Code of Conduct" and "Standards of Conduct," and also promotes development of necessary rules, regulations, procedures, etc. 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 understands the organizational structure, performance of duties, financial conditions, etc. of each group company and makes the group companies report monthly on these specific situations, 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) The Corporate Ethics Committee instructs the Compliance Department to collect information on any events of non-compliance or suspected non-compliance of the group companies, analyze the causes, fully implement measures to prevent recurrence and to provide officers and employees of the group companies with regular compliance education.
- 7) The Corporate Ethics Committee reports to the Board of Directors and the Audit & Supervisory Board of the Company on the status of the initiatives to achieve and improve compliance of each group company on a regular basis, based on reports from the Compliance Department.
- 8) 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) A “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 General Manager of Compliance Department 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 Company in Japan are kept informed of development and operation of the whistleblower system. In addition, officers and employees of the group companies in Japan are kept informed of whistleblowing and the person to inform outside the Company in order to collect information on any events of non-compliance or suspected non-compliance.
- 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 General Manager of Compliance Department 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 officers and 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 Department 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 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 requires the group companies to apply for/report on budgets, capital investment, risk control, compliance status, etc., and in FY2019 the Company further strengthened the internal control system of group companies by reviewing the whistleblower system of group companies in Japan, investigating the operation status, and so on.

Moreover, in light of the fact that some accounts receivable were past due at DAIDO METAL EUROPE LIMITED, (“DME”), the Company reinforced the accounting and finance department with two additional personnel, by having DME hire a new accountant to reduce the workload per local staff member and by seconding an employee of the Company to DME as Finance Director. The Company is also reviewing the operational flow at DME at the same time, and for transactions with outstanding accounts receivable (with past due or underpaid balances), has built a system to promote collection of outstanding accounts receivables in liaison with other departments such as sales departments and shipping departments, by sharing such information internally through a monthly meeting of business reporting, thus reinforcing the internal system of checks and balances. Furthermore, the Company and DME hold a monthly review meeting for checking the status of past due accounts receivables and their collection as well as a weekly meeting for sharing and discussing issues and problems related to specific business partners in order to perform appropriate customer credit control for DME. Other than the above, with regard to the items requiring improvement which the external auditors pointed out for group companies, the Compliance Department will continue to follow up on them until the required improvements are completed and fully share information on the items requiring improvement and the contents of improvements with the Company and group companies, in order to strengthen the monitoring system for the group companies as a whole.

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 has introduced a “trust-type employee stock purchase incentive plan (E-Ship®)” in FY2019. This is intended to achieve the performance targets in the Midterm Business Plan as well as 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.
 - 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 20 yen per share, (including a commemorative dividend of 5 yen), would be 35 yen per share.

As to dividend payouts for the next fiscal year, a forecast is not available at this moment due to uncertain circumstances caused by the worldwide spread of new coronavirus infections.

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.