

[NOTICE: This Corporate Governance Report is a translation of the Japanese original for reference purposes only. In the event of any discrepancy, the Japanese original shall prevail.]

Corporate Governance Report

Last Update: July 3, 2020

Daido Metal Co., Ltd.

Chairman & Chief Executive Officer (CEO)

Seigo Hanji

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Securities Code: 7245

<http://www.daidometal.com/>

The corporate governance of Daido Metal Co., Ltd. (the “Company”) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views **Updated**

In order for the Company to be trusted by its stakeholders including shareholders, business partners and employees, the Company has structured its Board of Directors to achieve sustainable growth and enhance corporate value from medium- to long-term perspectives. The Company introduced an Executive Officer system to improve management efficiency.

In order to enhance transparency of the management, the Company relies on Outside Directors and Outside Audit & Supervisory board members to supervise other Directors.

Reasons for Non-compliance with the Principles of the Corporate Governance Code

[Supplementary Principle 4-8-2] Appointment of the lead independent director

The Company appointed two independent outside directors at the 108th Annual Shareholders’ Meeting and continues to do so thereafter. This formation works fine with two independent outside directors in close collaboration with each other with proactive communication with the senior management, creating an environment in which independent outside directors fulfill their function of monitoring and supervising. The Company therefore does not appoint the lead independent director at the present moment, but will consider its necessity when, for example, number of independent outside directors increases, in consultation with independent outside directors.

[Supplementary Principle 4-10-1] Involvement of and advice from Independent Directors on remuneration/nomination

The Company has an Advisory Board with two in-house and two external members who will discuss business management including, inter alia, the nomination and remuneration for each Director.

Mandatory Disclosure items as per the Corporate Governance Code **Updated**

[Principle 1.4] Cross-Shareholdings

The Company, being an independent company, is not affiliated with any particular corporate group, and thus it is necessary to maintain long-lasting, good relationships with business partners to continue its business. From this perspective, the Company believes that these holdings provide certain benefits to its business. The Board of Directors will assess every year the situation of each cross-shareholdings, evaluating the financial return during the previous year against our cost of capital, considering our business relationship or our contribution to local communities or to preservation of Japanese traditional culture. The Company does not think it appropriate to decide on the reduction of holdings with the mere consideration of financial return. On the other hand, even when financial return exceeds our cost of capital, the Company may consider disposing its shareholdings when there is no or limited business relationship.

[Principle 1-4] Standards of exercising voting rights

The Company exercises its voting rights, with the aim to maintain smooth, stable and continuous relationships with customers.

In principle, the Company agrees on proposals made by the subject companies. However, if the Company considers it necessary to clarify the purpose of the proposal, considers that the proposal impairs significantly the corporate value of the subject company or of Daido Metal, or if the proposal is a proposal made by a shareholder, then the Company will scrutinize such proposals in detail and exercise its voting rights with agreement by a majority of Management Strategy Meeting members.

The Company sets up the rules of its exercise of voting rights for each of the following categories of proposals:

1. Proposals for appropriation of surplus and shareholder return
2. Proposals for appointment of Directors and Audit & Supervisory board members
3. Proposals for remuneration for each Director
4. Other proposals (including proposals made by a shareholder)

[Principle 1-7] Related Party Transactions

Followings are some example of transactions which the Company considers to be conflict-of-interest transactions; Transaction of Director with the Company for his/her own interest or that of third party, the Company providing guarantee for the benefit of the Director, other transactions between the Company and the third party where the interest of the Company conflicts with that of the Director.

The Company examines and approves each conflict-of-interest transaction between Directors and the Company (and its group companies) at the Board of Directors, with the detail of transactions submitted by the Director prior to the conclusion of the transaction, in order to confirm such transactions will not be detrimental to the interests of the Company.

Operating effectiveness of such control is one of the important audit items of Accounting Auditors, and it is also audited from time to time by the Audit & Supervisory Board Members.

No single shareholder holds more than 10% of the Company for the moment. When the Company has such shareholder (Major Shareholders as prescribed in Article 163(1) of the Financial Instruments and Exchange Act) in the future, the Company will examine its transaction with such shareholder at the Board of Directors in advance, to confirm it will not damage the interests of the Company or the common interests of shareholders.

[Principle 2-6] Roles of Corporate Pension Funds as Asset Owners

The Company manages a corporate pension fund, based on its strategic asset allocation, to fund the future pension benefits and lump-sum payment for its employees. On important matters regarding asset management, Asset Management Committee will receive professional advice from financial institutions, and ultimately the decisions are made by the Board of Representatives. The Company assigns personnel suitable for the Board of Representatives and Asset Management Committee, from Human Resources Planning department, Finance Department, etc., and as a representative of beneficiaries, a top official of labor union is appointed.

Our corporate pension fund secretariat has persons with financial expertise and knowledge to sufficiently monitor performance and activities of each appointed fund management companies.

[Principle 3-1 (1)] Corporate Philosophy, Management Strategies, and Management Plans

For Corporate Philosophy, please refer to the details provided on our website.

For Management Strategies and Management Plans, please refer to the following documents.

- i) Securities Report and Financial Results Report
- ii) Business Report
- iii) Other Disclosure

The Company announces Management Strategies and Management Plans on various IR events for institutional and individual investors.

* Corporate Philosophy (<https://www.daidometal.com/company/the-code/>)

* Management Strategies and Management Plans (<https://www.daidometal.com/investors/business-plan/>)

[Principle 3-1 (2)] Basic Views and Guidelines on Corporate Governance

Please refer to I-1 “Basic Views” of this report.

[Principle 3-1 (3)] Policies and Procedures in Determining the Remuneration of Senior Management, Directors

The Company considers Executive Officers as part of senior management.

- i) The Remuneration of Executive Officers
The Remuneration of Executive Officers as employees is determined based on the Company's rules approved by the Board of Directors.
- ii) The Remuneration of Directors
Please refer to “The 112th Securities Report” on the Company’s website.
* The 112th Securities Report
(only available in Japanese version at the following url:
https://www.daidometal.com/jp/wp-content/uploads/sites/4/2020/06/s_112_4_securities_report.pdf#page=49)

[Principle 3-1 (4)] Policies on and Procedures for the Appointment/Dismissal of Senior Management and the Nomination of candidates for Directors and for Audit & Supervisory Board Members

The appointment of Executive Officers and nomination of candidates for Directors and for Audit & Supervisory Board is determined at the Board of Directors, in accordance with the Company’s selection rules, considering each individual’s experience, leadership, personality, a sense of ethics, health, etc. Candidates for Audit & Supervisory Board Members are nominated with the prior consent of the Audit & Supervisory Board.

The dismissal of Directors, Audit & Supervisory Board Members and Senior Management is also resolved at the Board of Directors, as prescribed in the Company’s rules on dismissal, considering how much the behavior of the person in question damage the Company’s credit and corporate value, or whether the person in question is still fit and proper vis-à-vis Company’s selection criteria.

[Principle 3-1 (5)] Explanations of the rationale for the Appointment/Dismissal of Senior Management, and the Nomination of candidates for Directors, and for Audit & Supervisory Board Members

- i) The Appointment/Dismissal of Executive Officers
Rationale for Appointment/Dismissal of each Executive Officer is provided to the Board of Directors in accordance with the Company’s rules on selection/dismissal.
- ii) The Nomination and appointment of candidates for Director and for Audit & Supervisory Board
Please refer to “Notice of Convocation of the 112th Annual Shareholders’ Meeting” on the Company’s website.
* Notice of Convocation of the 112th Annual Shareholders’ Meeting
(https://www.daidometal.com/wp-content/uploads/2020/06/E_2020_Convocation_Full_Document_112.pdf#page=56)

[Supplementary Principle 4-1-1] The Scope of Matters to Be Resolved at the Board of Directors and Matters Delegated to the Management

The Company has “Rules on the Board of Directors” which stipulates the matters to be resolved at the Board of Directors, and also matters to be delegated to the Directors, to enable an appropriate supervision of each department and a prompt decision-making.

Delegation is made to two Chief Officers in a comprehensive way, and to each Director individually.

The Company monitors the balance between a scope of supervision of each Director and the speed of decision-making. If the delegated area becomes too large for the expansion of the business, or for the revision of delegated area, the Company revises the scope of matters to be resolved at the Board of Directors and the matters to be delegated to the Directors and Executive Officers as necessary.

[Principle 4-9] Standards for Independence of Outside Officers

The Company has established independence standards of Outside Officers, based on those established by the Tokyo Stock Exchange, but more strict standards. An outside director or an outside Audit & Supervisory board member who is deemed to have independence from the Company as required by this standards is registered as an independent outside director or as an independent outside Audit & Supervisory board member. For more details, please refer to [Standards for Independence of Outside Officers of DAIDO METAL CO., LTD.] on the Company’s website.

* Standards for Independence of Outside Officers of DAIDO METAL CO., LTD.

(<https://www.daidometal.com/wp-content/uploads/2019/01/Standards-for-Independence-of-Outside-Officers.pdf>)

[Supplementary Principle 4-11-1] Views on the Balance between Knowledge, Experience, and Skills of the Board of Directors as a Whole, and on Diversity and Board Size

The Company maintains its Board size is appropriate with six inside directors and two outside directors for a prompt decision-making.

The Board of Directors is comprised of those who are familiar with management, production, sales, technology, finance, etc., including members with rich international experience and a female member of Audit & Supervisory Board. The Company's Board will continue its discussion for the possibility of further introduction of diversity among Board members.

[Supplementary Principle 4-11-2] Concurrent positions held by Directors and Audit and Supervisory Board Members at other listed companies

Directors and Audit and Supervisory Board Members concurrently serving as officers at other listed companies are disclosed in Business Report (attached to Notice of Convocation of the Annual Shareholders' Meeting) and in Securities Reports. Judging from status of their concurrent assignment, our Directors and Audit & Supervisory Board members are considered to be in a position to perform their duty properly.

[Supplementary Principle 4-11-3] Analysis and evaluation of effectiveness of the Board of Directors

The Company assesses the effectiveness of the Board of Directors, and use the result of the assessment to further improve the Board.

In January 2020, improvement on the previous year's comments is reported to the Board. In April 2020, the Company conducted the assessment of its Board of Directors' role and management during fiscal year 2019, using questionnaire sent out to 11 Directors and Audit & Supervisory Board Members, including external Directors and Members, and the result was reported to the Board in May 2020.

The result confirmed that the running of the Board Meeting provides enough time for discussion to enable the swift decision making. There is still room for further improvement in the provision of advance information on materials for discussion by the Board of Directors. We will further refine the assessment, and make use of the result to make our Board of Directors more effective.

[Supplementary Principle 4-14-2] Training policy for Directors and Audit and Supervisory Board Members

The Company provides training to newly appointed Directors and Audit and Supervisory Board Members, and seminars are held from time to time. On top of that, when new laws or regulations are introduced, internal seminars are organized with external specialist lecturers.

In fiscal year 2019, all Directors and Audit and Supervisory Board Members underwent training, including taking e-learning courses provided by the Tokyo Stock Exchange.

[Principle 5-1] Policy for Constructive Dialogue with Shareholders

In order to achieve sustainable growth and mid-/long-term realization of corporate value, the Company considers it important to have constructive dialogue with shareholders.

Our structure for promoting constructive dialogue with shareholders is as follows.

(i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place.

In the Company, the director in charge of public relations and investor relations is responsible for all dialogue with shareholders.

(ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue

The Corporate Communication Group (hereinafter referred to as "IR Department") is taking the lead in developing an internal system to further promote constructive dialogue with shareholders, in coordination with other related departments.

(iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities)

We have periodical IR meeting with institutional investors and analysts where our top Management will present Company's mid-/long-term vision and latest financial results. Our IR department also carries out individual session with such investors and analysts. With regard to private investors, the Company is present in various IR events organized by Stock Exchanges or by Securities companies.

For our current IR related activities, please read III. Implementation of Measures for Shareholders and Other Stakeholders 2. IR Activities.

(iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board

In addition to management's direct communication with shareholders, IR Department provides feedback to the director in charge of IR, as necessary, on the opinions and other aspects of the dialogue with shareholders.

(v) Measures to control insider information when engaging in dialogue

IR Department is a contact department regarding dialogue with shareholders and investors, and unify management of insider information (unpublished important facts) to prevent the leakage of the insider information to shareholders and investors.

2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%
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[Status of Major Shareholders] **Updated**

Name / Company Name	Number of Shares Owned	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	2,102,300	4.23
Sumitomo Mitsui Trust Bank, Limited	1,978,000	4.16
Mizuho Bank, Ltd.	1,977,008	4.16
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,831,300	3.85
MUFG Bank, Ltd.	1,822,218	3.83
Daido Metal Yueikai Employee Stock-Ownership Plan	1,472,200	3.10
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,107,479	2.33
Daido Metal Employee Stock Purchase Plan	1,032,908	2.17
The Seri Wathana Industry Co, Ltd. 703000	1,000,000	2.10
The Nomura Trust and Banking Co., Ltd. (Daido Metal Employee Stock Purchase Plan Trust Account)	917,100	1.93

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation **Updated**

a. "Status of Major Shareholders" is based on shareholder registry as of March 31, 2020.

c. While these companies and their joint holders mentioned below are listed on a Report of Possession of Large Volume (including Change Report), they are not included in "Status of Major Shareholders", because the Company was unable to confirm their effective shareholding as of March 31, 2020.

1) In Change Report regarding Possession of Large Volume as of May 13, 2019, Sumitomo Mitsui DS Asset Management Company, Limited and its two joint holders state that they hold the Company shares of 2,113,000 shares (4.45%) as of April 30, 2019.

2) In Change Report regarding Possession of Large Volume as of May 9, 2019, Schroder Investment Management (Japan) Limited and its two joint holder state that they hold the Company shares of 2,290,000 shares (4.82%) as of April 30, 2019.

3. Corporate Attributes

Listed Stock Market and Market Section	The first section of Tokyo Stock Exchange The first section of Nagoya Stock Exchange
Fiscal Year-End	March
Type of Business	Transportation Equipment
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000

Sales (consolidated) as of the End of the Previous Fiscal Year	From JPY100 billion to less than JPY1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

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II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit and Supervisory Board
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation [Updated]	10
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman of the Board of Directors
Number of Directors [Updated]	8
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Toshikazu Takei	Other												
Kiyotaka Hoshinaga	Academic												

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the director himself/herself only)

- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Company (2) **Updated**

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Toshikazu Takei	○	<p>Mr. Takei is a 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.</p>	<p>Mr. Toshikazu Takei was long engaged in business execution and served in managerial positions at the Bank of Japan. In addition, he is familiar with international businesses and has extensive experience and broad insight. In the belief that he will continue to oversee and supervise the management of the Company based on such experience and insight, the Company nominated him as a candidate for Outside Director. Although Mr. Toshikazu Takei has no experience of engaging in the management of a company, the Company judges that he will appropriately fulfill his duties as an Outside Director of the Company based on the above reasons. The term of office of Mr. Takei as an Outside Director is five years at the conclusion of the 112th Annual Shareholders' Meeting on June 26, 2020.</p>
Kiyotaka Hoshinaga	○	<p>Mr. Hoshinaga is the 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. Hoshinaga does not have independence from the Company.</p>	<p>Mr. Kiyotaka Hoshinaga has served as a director of a hospital and a president of a university after serving as a professor of a university and has extensive knowledge and experience gained through involvement in management of a hospital and a university. In the belief that he will continue to oversee and supervise the management of the Company based on such knowledge and experience, the Company nominated him as a candidate for Outside Director. Although Mr. Kiyotaka Hoshinaga has no experience of engaging in the management of a company, the Company judges that he will appropriately fulfill his duties as an Outside Director of the Company based on the above reasons. The term of office of Mr. Hoshinaga as an Outside Director is four years at the conclusion of the 112th Annual</p>

			Shareholders' Meeting on June 26, 2020.
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Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Advisory Board	Advisory Board
All Committee Members	4	4
Full-time Members	0	0
Inside Directors	2	2
Outside Directors	0	0
Outside Experts	2	2
Other	0	0
Chairperson	Director	Director

Supplementary Explanation **Updated**

In order to ensure objectivity and transparency, the nomination of Director Candidates is resolved at the Board of Directors considering the rationale for the nomination and the comments from the Advisory Board that consists of both in-house and external members. For the same reason, Directors' remuneration is also determined at the Board of Directors after considering the comments from the Advisory Board.

The Advisory Board has the function of Nomination Committee and Remuneration Committee. The details are below.

1) Name

Advisory Board

2) Objective

To improve the Company's management quality and to ensure its transparency, by leveraging on the knowledge and experience of members, together with the information gathered globally with regard to Management topics.

3) Authorities

The Advisory Board gives comments to the Board of Directors after having discussions on the matters listed below.

- a. Management issues in general that are referred to the Advisory Board by the Board of Directors or by Chief Executive Officer.
- b. Matters regarding the nomination of candidates for Directors.
- c. Matters regarding the remuneration of Directors.
- d. Management issues that are regarded as important by the Advisory Board.

4) Members

Chairman: Seigo Hanji (Chairman & Chief Executive Officer)

Members:

Masaki Ikawa (Director & Senior Executive Officer, Head of Human Resources Planning Division)

Eizo Kobayashi (External expert, Director Emeritus of ITOCHU Corporation)

Katsuhiko Tanabe (External expert, Lawyer)

[Kansayaku (Audit and Supervisory Board)]

Establishment of <i>Kansayaku-kai</i> (Audit and Supervisory Board)	Established
Maximum Number of <i>Kansayaku</i> (Audit and Supervisory Board Member) stipulated in Articles of Incorporation	4
Number of <i>Kansayaku</i> (Audit and Supervisory Board Member)	3

Cooperation among *Kansayaku* (Members of Audit and Supervisory Board), Accounting Auditor and Internal Audit Department Updated

We have so-called “three party audit” system with audit performed by 1) *Kansayaku*, 2) Internal Audit department, and 3) Accounting Auditor.

Kansayaku will receive report from Internal Audit Department with regard to internal audit schedule and the result of internal audit. *Kansayaku* will have periodical (generally 4 times per year) meetings with a head of Internal Audit Department, and examine each other’s audit report and performance, and discuss/exchange views to ascertain the effectiveness of the audit. *Kansayaku* will have periodical meeting (four times per year) with Accounting Auditor, attend the site visit and stock take of Accounting Auditor, and exchange views and information throughout the year.

Internal Audit Department will report to Accounting Auditor its Internal Audit Plan and its result, and will check the performance of business operation and will exchange views and opinions to ascertain the effectiveness of the internal audit activity. Through the three party audit, close cooperation has been created with each other, leading to proper and effective audits.

Kansayaku, Internal Audit Department, and Accounting Auditor have a periodical meeting with Compliance Group that is in charge of formulating basic policy on the internal control system for financial reliability, to exchange views and opinions to help improve the effectiveness of audit over internal control.

Appointment of Outside <i>Kansayaku</i> (Audit & Supervisory Board Members)	Appointed
Number of Outside <i>Kansayaku</i> (Audit & Supervisory Board Members)	2
Number of Independent <i>Kansayaku</i> (Audit & Supervisory Board Members)	1

Outside *Kansayaku* (Audit & Supervisory Board Members)’ Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Kuniko Tanabe	Lawyer													
Kazuo Matsuda	From another company										△			

* Categories for “Relationship with the Company”

* ”○” when the director presently falls or has recently fallen under the category;

“△” when the director fell under the category in the past

* “●” when a close relative of the director presently falls or has recently fallen under the category;

“▲” when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

c. Non-executive director or executive of a parent company of the Company

d. Audit & Supervisory Board member of a parent company of the Company

e. Executive of a fellow subsidiary company of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a *kansayaku*

i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board member himself/herself only)

- k. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the Audit & Supervisory Board member himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board member himself/herself only)
- m. Others

Outside Audit & Supervisory Board Members' Relationship with the Company (2) **Updated**

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
Kuniko Tanabe		<p>Ms. Tanabe is a Partner of Lawyer of Tanabe & Partners.</p> <p>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.</p>	<p>Ms. Tanabe has extensive experience and superior expertise, cultivated as the partner at law firms, in addition to her extensive experience as an outside officer. In addition, she is the only female candidate for Officer. We expect that she will continue to audit the Company's management based on her extensive experience and superior expertise, and provide pertinent advice and proposals for initiatives regarding the promotion of diversity of the Company from a female perspective. Although Ms. Tanabe has no experience of engaging in the management of a company other than as an outside officer, the Company judges that she will appropriately fulfill her duties as an Outside Audit & Supervisory Board Member of the Company based on the above reasons.</p> <p>The term of office of Ms. Tanabe as an Outside Audit & Supervisory Board Member is 17 years at the conclusion of the 112th Annual Shareholders' Meeting on June 26, 2020.</p>
Kazuo Matsuda	○	<p>Mr. Matsuda is an Outside Director of Sumitomo Bakelite Co., Ltd.</p> <p>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.</p>	<p>Mr. Matsuda has rich insights on governance of the overall management of a company as he is familiar with finance and international businesses through his experience at financial institutions for many years and has experiences and knowledge which he gained through serving as a director and an executive officer for other business entities.</p> <p>We expect that he will continue to audit the Company's management based on his knowledge, experience and insight. Mr. Matsuda worked at Mizuho Bank, Ltd., the Company's business partner as well as main shareholder; however, more than seventeen years has passed since he resigned from the Bank in May</p>

		2003. The Company borrows from and deposits with Mizuho Bank, Ltd. The term of office of Mr. Matsuda as an Outside Audit & Supervisory Board Member is 9 years at the conclusion of the 112th Annual Shareholders' Meeting on June 26, 2020.
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[Independent Directors/ Audit & Supervisory Board Members]

Number of Independent Directors/ Audit & Supervisory Board Members	3
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Matters relating to Independent Directors/ Audit & Supervisory Board Members

The Company has established independence standards of Outside Officers, based on those established by the Tokyo Stock Exchange, but more strict standards. An outside director or an outside audit & supervisory board member who meets this standards is registered at Tokyo Stock Exchange as an independent outside director or as an independent outside audit & supervisory board member. For more details, please refer to [Standards for Independence of Outside Officers of DAIDO METAL CO., LTD.] on the Company's website (<https://www.daidometal.com/wp-content/uploads/2019/01/Standards-for-Independence-of-Outside-Officers.pdf>).

[Incentives]

Incentive Policies for Directors	Performance-linked Remuneration
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Supplementary Explanation **Updated**

Please refer to "Director Remuneration: Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" below.

Recipients of Stock Options	-
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Supplementary Explanation

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[Director Remuneration]

Disclosure of Individual Directors' Remuneration	partially
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Supplementary Explanation **Updated**

Remuneration of Directors and *Kansayaku* (Members of Audit & Supervisory Board) is disclosed as a total for each category. Remuneration of Outside Directors and Outside *Kansayaku* is shown as a total for each category.

Directors with remuneration of 100 million yen or more are disclosed individually in Securities Report.

* The 112th Securities Report

(only available in Japanese version at the following url:

https://www.daidometal.com/jp/wp-content/uploads/sites/4/2020/06/s_112_4_securities_report.pdf#page=50)

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods **Updated**

1) Directors' remuneration

The standard for Directors' remuneration approved by the Board of Directors states that the basic policy of Directors' remuneration is to attract and retain personnel suitable for the role of a Director of the Company, to serve effectively as an incentive to motivate Directors to enhance business performance and corporate value. The level of remuneration commensurate with a role, responsibility and business performance of each Director.

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

Specific components 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 only of a "fixed component."

- ii) "Monthly remuneration"

"Monthly remuneration" consists of (1) "fixed component" based on role and responsibility associated with execution of operations as a Representative Director, or as a Director concurrently serving as an Executive Officer, and (2) "performance related component" paid in addition to "fixed component" based on the Group's consolidated performance in the previous year and the performance of the Director.

"Fixed component" for each Director will be determined by the Board of Directors based on the predetermined amount for the position of each Director, after considering the comments from the Advisory Board.

"Performance related component" for each Director will be determined by the Board of Directors based on calculation table which takes into account (1) the position of each Director, (2) base amount that is variable in proportion to the consolidated sales and profit attributable to owners of parent for the previous fiscal year, and (3) Director's contribution to the Company in terms of Management and leadership, after considering the comments from the Advisory Board. The Company uses consolidated sales and profit attributable to owners of parent as indicator of "performance related component" because the Company believes that these indicators are closely related to the achievement of action line 1 & 2 of 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 meeting of shareholders is limited in proportion to the dividend to shareholders. After considering the comments from the Advisory Board, it is determined by the Board of Directors.

Amount for each individual Director will be determined by the Board of Directors based on calculation table which takes into account (1) the position of each Director, (2) base amount that is variable in proportion to the consolidated sales and profit attributable to owners of parent, after considering the comments from the Advisory Board. The Company uses these indicators for the same reason as "performance related component" mentioned above ii).

- iv) "Stock-based remuneration"

The Company resolved at the 111th Annual Shareholders' Meeting on July 27, 2019, to introduce a new performance-linked stock-based remuneration to Directors (excluding Outside Directors).

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.

- 2) **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.
- 3) **Resolution Date and Results of the Annual Shareholders' Meeting regarding Director Remuneration**
In the Annual Shareholders' Meeting dated on July 29, 2006, the maximum amount of remuneration for Directors was resolved to be up to 400 million yen per year (excluding Directors' bonus and Executive officer portion of salary), and the maximum amount of remuneration for Audit & Supervisory Board Members was resolved to be up to 45 million yen per year. The number of Directors eligible for this resolution was seven Directors and four Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members.)
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 to FY2023 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. The number of Directors eligible for this resolution is six.
- 4) **Authority and Determination Process of Director Remuneration and its Calculation methodology**
Director remuneration and its calculation methodology is Chairman and Chief Executive Officer, Seigo Hanji, with full authority commissioned by the Board of Directors. Seigo Hanji decides the policies, considering the latest trends on Director Remuneration and the comments from the Advisory Board. In March 2020, the Advisory Board had a discussion regarding remuneration for each Director based on the forecast of financial results for fiscal year 2019, and the result was reported to the Board of Directors. Then Seigo Hanji decided the remuneration for each Director within the scope of resolution of the Annual Shareholders' Meeting regarding Director Remuneration, as entrusted by the Board of Directors.
The Company uses consolidated sales and profit attributable to owners of parent as indicator of "performance related component" and "Bonus", and the actual results for the year was 100,159 million yen and 2.7% respectively. The Company does not set a numerical goal specifically for the determination of Director Remuneration. As achieving the targets of Midterm Business Plan is the first priority, the Company adopts the remuneration plan that fluctuates in proportion to consolidated sales and profit attributable to owners of parent. 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, and the actual results for the year was 100,159 million yen, 4.2% and 4.9% respectively. The performance targets in the medium-term management plan for the current fiscal year are ¥115,200 million, 8.2%, and 9.2%, respectively. The points are awarded based on the director's role and achievement of performance targets. Through this plan, the Company gives Directors appropriate short-term incentives to increase corporate value.
Retirement benefits plan for Directors and Audit & Supervisory Board Members was abolished at the conclusion of the 98th Annual Shareholders' Meeting held on June 29, 2006. Payment of retirement benefits accrued up to the time of the conclusion of the meeting was approved.

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

An "Audit & Supervisory Board Members Secretariat", independent of the Directors, is nominated as a department to assist the Audit & Supervisory Board Members on a regular basis.
The Secretariat serves *Kansayaku* (Audit & Supervisory Board members) with advance distribution of the Board Meeting documents, and provision of other information relevant with the Board Meeting agenda.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) Updated

The Company adopts the management structure listed below in order to clarify the business execution responsibility through introduction of Executive Officers, to strengthen the supervision/oversight by outsider directors, to enhance audit with the nomination of outside *Kansayaku*, and to strengthen and

accelerate management decision making via creation of Management Strategy Meeting and other decision making body.

1) Board of Directors

Board of Directors will decide on the execution of the Company's business operation, and oversee the performance of individual Directors. Actual execution of the business operation is delegated to Executive Officers or employees. Board of Directors is small with eight Directors to enable the Board to make prompt decisions. Board meeting will be held once a month and as and when necessity arises. The Board of Directors were held fifteen times during fiscal year 2019. The record of attendance are below.

<Directors>

Seigo Hanji (Chairman & Chief Executive Officer)	Attended all fifteen meetings.
Kotaro Kashiyama (President and Chief Operating Officer)	Attended all fifteen meetings.
Toshiyuki Sasaki (Director and Senior Managing Executive Officer)	Attended all fifteen meetings.
Masaki Ikawa (Director and Senior Managing Executive Officer)	Attended all fifteen meetings.
Motoyuki Miyo (Director and Managing Executive Officer)	Attended all twelve meetings.
Yoshiaki Sato (Director and Managing Executive Officer)	Attended all twelve meetings.
Toshikazu Takei (Outside Director)	Attended all fifteen meetings.
Kiyotaka Hoshinaga (Outside Director)	Attended all fifteen meetings.

<Audit & Supervisory Board Members >

Masaaki Tamaya (Full-time Audit & Supervisory Board Member)	Attended all fifteen meetings.
Kuniko Tanabe (Outside Audit & Supervisory Board Member)	Attended all fifteen meetings.
Kazuo Matsuda (Outside Audit & Supervisory Board Member)	Attended all fifteen meetings.

For policies on and procedures for the nomination of candidates for Directors and for Audit & Supervisory Board Members and policies and procedures in determining the remuneration of Senior Management and Directors, please refer to each category below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

[Mandatory Disclosure items as per the Corporate Governance Code]

[Principle 3-1 (3)] Policies and Procedures in Determining the Remuneration of Senior Management, Directors

[Principle 3-1 (4)] Policies on and Procedures for the Appointment/Dismissal of Senior Management and the Nomination of candidates for Directors and for Audit & Supervisory Board Members

2) Management Strategy Meeting

Other than the Board of Directors meeting, there is a "Management Strategy Meeting" held each month once or twice, where important management issues such as management policy and Midterm Business Plan are discussed with the presence of Inside Directors and full-time *Kansayaku*.

3) Audit & Supervisory Board

Audit & Supervisory Board (3 members) will audit the business execution of Directors. Audit & Supervisory Board consists of three members, one full-time and two outside members to maintain the transparency of the management, and will be held once a month and as and when deemed necessary.

4) *Kansayaku* Audit

(A) *Kansayaku* audit organization, personnel and procedures

The Company has three *Kansayaku*. One of them is Mr. Masaaki Tamaya, a Full-time *Kansayaku*, who has served as the management department of the Company and has a wealth of business experience and knowledge accumulated over many years in sales and general affairs.

Ms. Kuniko Tanabe, an outside *Kansayaku*, is a qualified lawyer, and has professional experience and considerable knowledge of legal affairs.

Mr. Kazuo Matsuda, an outside *Kansayaku*, has considerable knowledge and experience of corporate management through the experience in finance and international affairs at financial institutions and corporates for many years and has the experience as a Director and and Executive Officer of other

companies.

Kansayaku led by full-time Kansayaku will audit Directors' performance of duties based on the Code of *Kansayaku* Audit Standards and audit policies and plan, which has been approved by Audit and Supervisory Board.

Kansayaku will, among other things, attend Board meetings and other important meetings of the Company, examine the reports received from Directors, employees, accounting auditors and others, investigate on the Company's business operation and the state of the assets, express opinion/advice/recommendation to Directors or employees, and take appropriate measures such as stopping Directors' actions if necessary. *Kansayaku* will also have regular meetings with representative Directors, confirm management policies, and exchange opinions on various issues to be addressed, the risks surrounding the Company, the environment for *Kansayaku* Audit, and other important issues in audit.

Besides, each *Kansayaku* will share the task of auditing overseas/domestic subsidiaries, grasp the Group management situation and perform appropriate and efficient audit with diverse viewpoint. The Company has Secretariat of the Audit & Supervisory Board which is a department independent of Directors, and is expected to support *Kansayaku's* activities on continual basis. The Secretariat is supposed to carry out the duties based on instructions by *Kansayaku*, and are authorized to conduct appropriate investigations and information collection.

The Audit and Supervisory Board has a "System to ensure the properness of the business of a corporation" in place so that it can receive advanced reports on the personnel changes and the personnel evaluation of the secretary candidate, from the officer in charge of HR and can request the officer to change the candidate if necessary.

(B) Status of Audit & Supervisory Board Members and Audit & Supervisory Board

In principle, the Audit & Supervisory Board meets once a month and occasionally as needed. During the current fiscal year, a total of 15 meetings were held, with all corporate auditors attending. The Audit & Supervisory Board's main considerations are the preparation of audit reports, the selection and dismissal of full-time *Kansayaku*, the approved audit policies, and other matters related to the execution of duties by *Kansayaku*.

From time to time, the Audit & Supervisory Board is considering the matters to be resolved, such as matters regarding the appointment and dismissal or non-reappointment of the Accounting Auditor and consent to the Accounting Auditor's remuneration.

Moreover, the Audit & Supervisory Board will examine the Board Meeting documents in advance, and require advanced explanation if necessary to consider if there are any items which *Kansayaku* should point out as problems and/or require further explanation at the Board Meeting.

Starting with the audit of the financial statements for the fiscal year ending March 31, 2021, since the auditor's report has been required to include KAM (key audit considerations), the Audit & Supervisory Board has exchanged opinions with the independent accounting auditors in selecting KAM.

All *Kansayaku* attended a total of 15 meetings of the Board of Directors, as well as the global management meetings held in Japan at the beginning of the fiscal year of the Company with the Group companies, attendance.

Each *Kansayaku* also audits the status of the execution of duties by the executive directors through some methods such as the directors' self-checklist and departmental visits.

Kansayaku communicated and exchanged information with the directors and others of two important domestic subsidiaries and two companies that recently became subsidiaries through acquisition, and received reports on the status of their business.

Kansayaku holds regular information exchange meetings (in principle, four times a year) with the Internal Audit Department (Audit Center) and the Internal Control and Compliance Department (Compliance Center) to share problems and issues as well as to express our opinions as *Kansayaku* on a case-by-case basis.

Kansayaku shall maintain an independent position in relation to the accounting auditors and conduct an appropriate accounting audit. *Kansayaku* will monitor and verify whether the accounting auditors are performing their duties. After receiving reports of quarterly review and audit results from the accounting auditors, *Kansayaku* will request an explanation from them if necessary. In addition, the quarterly financial results review and audit reports will be received. In addition, *Kansayaku* and the accounting auditors share awareness of major issues, including KAM, through exchanges of opinions, etc.

As previously announced, during the fiscal year under review, a delay in accounts receivable due to an

accounting treatment error was found at DAIDO METAL EUROPE LIMITED., the Company's subsidiary in U.K.

In response to this, the Company established an internal investigation committee. The Internal Investigation Committee was chaired by Mr. Kazuo Matsuda, an outside *Kansayaku*, and the committee members were Ms. Kuniko Tanabe, an outside *Kansayaku*, Mr. Masaaki Tamaya, full-time *Kansayaku*, and Mr. Motoyuki Miyo, a director.

The Committee conducted a detailed investigation, with attorneys from the Company's law firm assisting in the investigation. The Committee held a total of seven meetings during the approximately one-month investigation period. The Committee conducted investigation regarding the background and situations and provided the proposal of the preventive measures.

Based on the proposals, the Company will continue working on the preventive measures such as personnel reinforcement of the accounting and finance department and review of business flow.

The Audit & Supervisory Board will also continue to audit these measures to prevent recurrence and ensure their effectiveness.

In addition to the above activities, Full-time *Kansayaku* attended management meetings other than the Board of Directors' meetings (32 meetings in total) and other important meetings and expressed opinions as necessary.

Full-time *Kansayaku* also inspected important decision-making documents and other documents, and investigated the status of the assets of the major business units.

5) Internal Audit

Internal Audit Department (3 members) is a department which reports directly to COO (Chief Operating Officer). Internal Audit Department performs internal audit on compliance with various laws and regulations, audit on operations against assigned duties, and audit on internal control system's development/operation/improvement.

Internal Audit has as its scope all divisions including overseas subsidiaries. Internal Audit activities are based on the risk-based annual audit policy and audit plan approved by COO.

Internal audit covers all business operations including overseas operations. It covers business audit, theme audit, internal control audit, and fraud discovery audit and other type of audit.

Internal Audit Department makes an audit report promptly after an audit, and the report is submitted to CEO and COO. Internal Audit Department delivers the report to the person in charge of the audited department and asks them to report how to address the audit exceptions. The progress of improvements is assessed by Internal Audit Department and reported to CEO and COO.

We have so-called "three party audit" system with audit performed by 1) *Kansayaku*, 2) Internal Audit department, and 3) Accounting Auditor.

Kansayaku will receive report from Internal Audit Department with regard to internal audit schedule and the result of internal audit. *Kansayaku* will have periodical (generally 4 times per year) meetings with a head of Internal Audit Department, and examine each other's audit report and performance, and discuss/exchange views to ascertain the effectiveness of the audit. *Kansayaku* will have periodical meeting (four times per year) with Accounting Auditor, attend the site visit and stock take of Accounting Auditor, and exchange views and information throughout the year.

Internal Audit Department will report to Accounting Auditor its Internal Audit Plan and its result, and will check the performance of business operation and will exchange views and opinions to ascertain the effectiveness of the internal audit activity. Through the three party audit, close cooperation has been created with each other, leading to proper and effective audits.

Kansayaku, Internal Audit Department, and Accounting Auditor have a periodical meeting with Compliance Group that is in charge of formulating basic policy on the internal control system for financial reliability, to exchange views and opinions to help improve the effectiveness of audit over internal control.

6) Accounting Audit

Certified Public Accountants in charge of the accounting audit of the Company are Messrs. Masaki Okuda and Yasuhiko Goto, who are designated limited liability partners and managing partners of Deloitte Touche Tohmatsu LLC.

Support members of the Company's accounting audit are ten Certified Public Accountants and 11 other members.

7) Limiting Liability Agreement

As expected in Article 427, paragraph (1) of Companies Act, the Company enters into agreements with outside directors and *Kansayaku* to the effect that, if they have acted in good faith and without gross negligence in performing their duties, their liability under Article 423, paragraph (1) is limited to the Minimum Liability Amount as set forth in Article 425, paragraph (1).

3. Reasons for Adoption of Current Corporate Governance System

Current Corporate Governance System allows clarifying Executive Directors' responsibility, who also acts as department heads. It strengthens audit/supervision functionality through outsider Directors, and it also enhances decision making function through setting up of Business Strategy Meeting.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

Updated

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The notice of Convocation of the Annual Shareholders' Meeting is sent three weeks before the Annual Shareholders' Meeting. Prior to the shipping date, the notice is posted on the website of the Tokyo Stock Exchange and the Company's website. In 2020, the Company released the notice on June 2 in Japanese and on June 8 in English. The dispatch date was June 8.
Allowing Electronic Exercise of Voting Rights	Implemented.
Participation in Electronic Voting Platform	Registered at the electronic voting platform operated by ICJ, Inc.
Providing Convocation Notice in English	The English translation of the notice of Convocation of the Annual Shareholders' Meeting was posted on the website of the Tokyo Stock Exchange on the shipping date. The notice was posted on the Company's website as well.
Other	The result of exercise of voting rights is posted on the Company's website promptly after the Annual Shareholders' Meeting.

2. IR Activities **Updated**

	Supplementary Explanations	Explanation by a representative
Preparation and Publication of Disclosure Policy	The Company's "Code of Conduct" includes articles on disclosure, and states the Company's intention to appropriately manage its corporate information, to timely disclose it, and to increase the transparency of the operation.	
Regular Investor Briefings for Individual Investors	The Company participates in IR events or seminars targeting individual investors, organized by Nagoya Stock Exchange, or by Securities Companies. (The Company participates in IR event or seminars organized by Nagoya Stock Exchange about twice a year.)	No
Regular Investor Briefings for Analysts and Institutional Investors	Briefings to institutional investors are made by our CEO twice a year to present the Company's financial results (annual and semi-annual). The Company also presents itself to analysts in the Seminar organized by Nagoya Stock Exchange.	Yes
Posting of IR Materials on Website	IR materials posted on the Corporate Website include Summary of Financial Results (Kessan Tanshin), Quarterly Securities Report (Shihanki hokokusho), Securities Report (Yukashoken Hokokusho), Notice of convocation of Annual Shareholders' Meeting, Report to Shareholders, Corporate Brochure, Fact Book, and CSR Report.	

	Corporate Website has in its English page various IR materials including Notice of convocation of Annual Shareholders' Meeting and Fact Book.	
Establishment of Department and/or Manager in Charge of IR	Corporate Communications & Marketing Group in the General Affairs Department is in charge of IR.	
Other	One on One sessions are held from time to time with Institutional Investors and Securities Companies.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	Company's basic policy with regard to the respect for the Stakeholders, including but not limited to shareholders, is reflected in our "Code of Conduct", "Corporate Philosophy", "Principles", "Environmental Policy", and are posted on our Web site
Implementation of Environmental Activities, CSR Activities etc.	ISO14001 certification obtained for all plants (except for recently built plants). We produce CSR report as well.
Development of Policies on Information Provision to Stakeholders	With regard to timely disclosure of corporate information, information disclosure team will assess the necessity of disclosure, and ask for prior approval of Board meeting where necessary

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development **Updated**

The Company set up the fundamental policy on "internal control system" which is "system for ensuring proper business operations" as per Companies Act and Ordinance for Enforcement of the Companies Act. The Company also has Compliance Group within Human Resources Planning Department which is in charge of formulating basic policies on the Internal Control System in order to improve the internal control over financial reporting, to improve the design and operation of internal control, and to improve the Corporate Governance structure.

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.

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.

Summary of the System for ensuring proper business operations" is as follows:

1. System for Ensuring Proper Business Operations

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

- The General Affairs Department is designated as the department responsible for retention and control of information on the performance of duties by Directors.
- The General Affairs Department implements a system to retain and control information related to the performance of duties by Directors including the "Regulations of the Board of Directors" and the "Rules on Confidential Information Management." It may give directions to the departments responsible on the correct measures for the retention and control of such information.
- The information related to performance of duties of Directors set forth in the preceding paragraph is as follows:
 - a. Minutes of meetings of the Board of Directors, minutes of meetings of the Management Strategy Committee, etc.
 - b. Midterm Business Plan and short-term business plans.

- c. Important contracts relating to acquisitions, investments, etc.
- d. Other important information designated by the Board of Directors, such as documents regarding decisions and approvals.

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

- The Risk Management Committee is designated as the committee responsible for regulations and other systems regarding risks of loss by the Company.
- The Risk Management Committee develops a system to properly manage risk based on the “Rules on Risk Management.”
- The Risk Management Committee sets risk items to be monitored from a management standpoint and reports to the Board of Directors accordingly.
- 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.
- The Risk Management Committee establishes the Information Management Subcommittee as its subordinate organization, and sets IT Security Guidelines as well as develops rules related to information management.

3. System to Ensure Efficient Performance of Duties by Directors

- The Corporate Planning Department is designated as the department responsible for a system to ensure efficient performance of duties by Directors.
- 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.
- Each responsible department compiles a progress report, and reports to a meeting of the Board of Directors.
- 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.
- 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

- 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.
- 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.
- 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.
- The Corporate Ethics Committee instructs the Compliance Department to collect information on any events of noncompliance 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.
- 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.
- 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

5. System to Ensure Appropriate Business Operations in the Group

- 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.
- 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.

- 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.
- 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.
- 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.
- 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.
- The Corporate Ethics Committee instructs the Compliance Department to collect information on any events of noncompliance 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.
- 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

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

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

- The General Manager of Compliance Department is designated as the person responsible for reporting to Audit & Supervisory Board Members.
- 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.
- “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.
- 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.

- 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.
- 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

- The Compliance Department is designated as the department responsible for a system to ensure effective performance of audit by Audit & Supervisory Board Members.
- 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.
- 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.

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

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

In order that the Directors perform their duties in an efficient way, the Company formulates annual management policies, single-year management plans and short-term management plans based on the Midterm Business Plan, and implement them throughout the Group. The Company verifies the level of achievement at divisional and departmental meetings as well as at policy management report meetings. Moreover, in order to ensure that Directors and employees of the Company comply with laws and regulations and Articles of Incorporation, the Company has implemented a system whereby any events of non-compliance or suspected non-compliance occurring within the Group are reported to the Company. The events reported are compiled by the Company and reported to the Board of Directors and the Audit & Supervisory Board. The Company resolved at the Board of Directors meeting held in December 2018 to implement the “Guidelines on Human Rights”. 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.

* Guidelines on Human Rights

(https://www.daidometal.com/company/human_rights_policy/)

2. Basic Views on Eliminating Anti-Social Forces

The Company provides in “Attitude to Anti-Social Forces” of “Standards of Conduct” that assume a resolute attitude toward any forces/groups threatening the sound activities of the Group.

- 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.
- Rules of Action, which lists the items to observe in performing the duty following “Standards of Conduct”, is distributed to all staff of the Group, to inform “Attitude to Anti-Social Forces”.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation **Updated**

Fundamental Policies on the Control of the Company

1) Details of Fundamental Policies

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

The Company has developed business strategies for sales, production, technology, new business development, etc. from medium- to long-term perspectives, and aims to achieve stable development and growth. The circumstances surrounding our business, however, have been changing dramatically, and therefore short-term business decisions are equally important to ensure sustainable growth in the future. In order to ensure stable growth and improve sustainable corporate value, the Company has started “Raise Up ‘Daido Spirit’ - Ambitious, Innovative, Challenging -”, as its new 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 sudden and 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 one-off 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

[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 production, sales and technology bases to respond to future trends and market changes, to improve productivity of domestic and overseas subsidiaries to the levels achieved by the Company, and to maintain world leading technologies for products, design, manufacturing, production and

development. For those purpose, the Company will invest effectively and efficiently in research and development for mainly new products and production technologies, enhancement of “monozukuri (craftsmanship)”, utilization and introduction of advanced technologies through industry-government-academia cooperation, corporate protection through intellectual property rights, etc. while considering the balance between such investments and dividends to our shareholders.

- b. Promotion of shareholding by employees
 - The Company promotes the holding of shares by employees by paying incentives to members of the Employee Stock-Ownership Plan.
 - The Company continues to implement other measures to grow the Employee Stock-Ownership Plan.
- c. Improve local communities’ recognition of the Company
 - The Company interacts with local communities and tries to improve the recognition of the Company by attending social programs and inviting local residents to factory tours at major business locations.

[Preventive measures against shareholders who do not share our fundamental policies]

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

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

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

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

3) Assessment of Above Efforts and its Basis

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

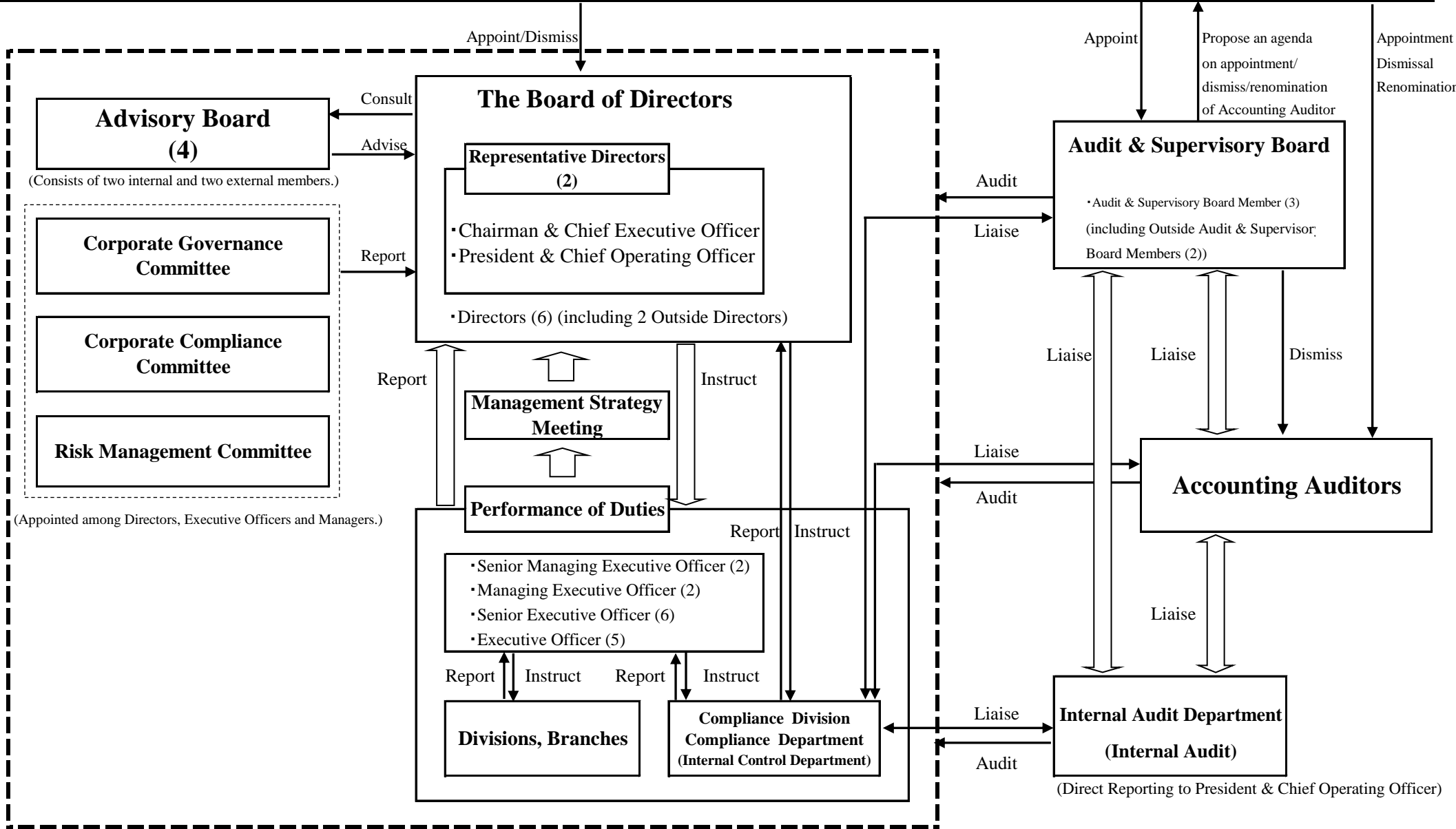
2. Other Matters Concerning Corporate Governance System **Updated**

(1) As for “Organizational Structure for Corporate Governance” please refer to page 24.

(2) As for “Diagram for Timely Disclosure” please refer to page 25.

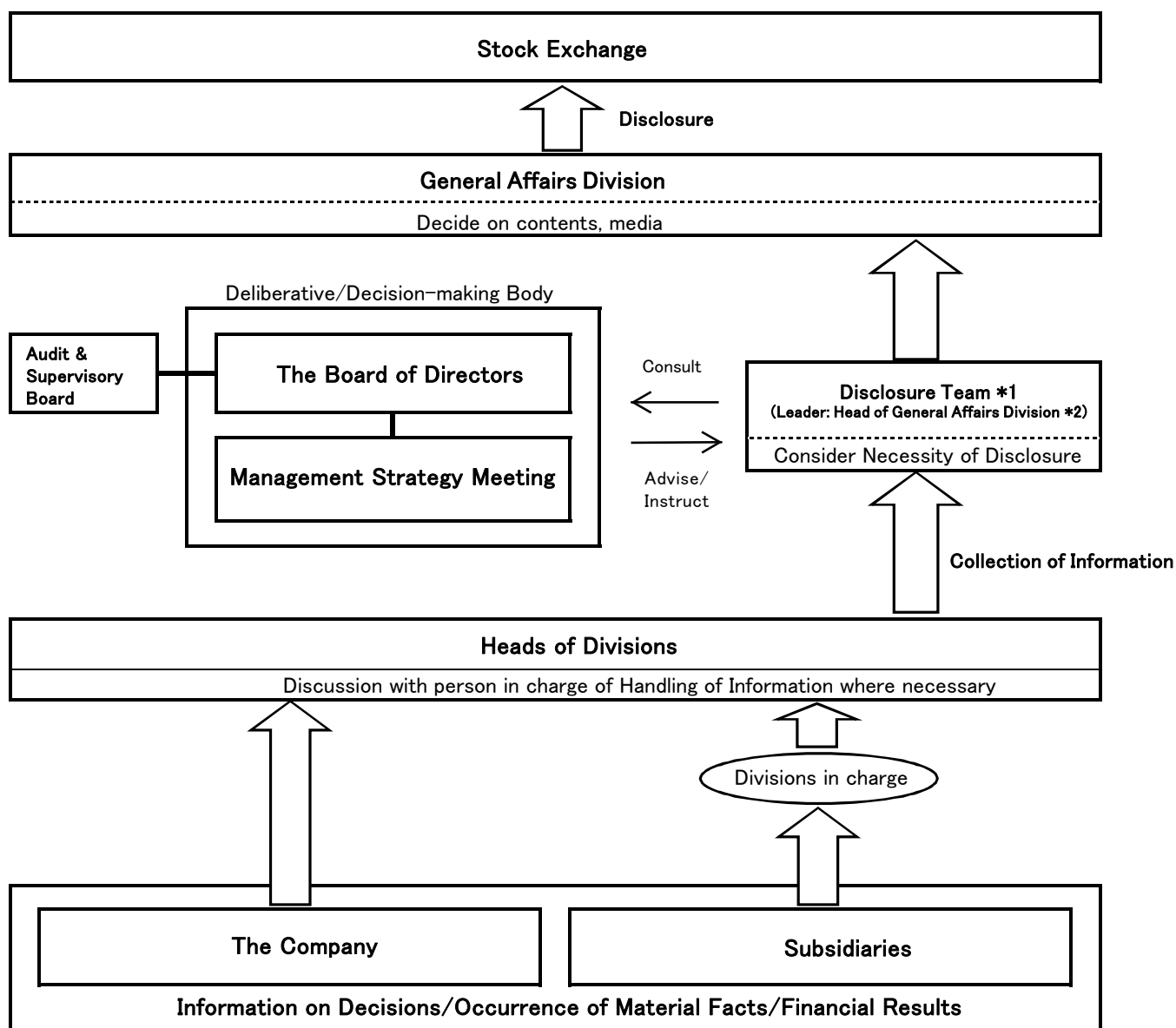
Organizational Structure for Corporate Governance

Annual Shareholders' Meeting



Number in parentheses denote number of people

< Diagram for Timely Disclosure >



*1 Disclosure Team includes Senior Executive in charge of Corporate Disclosure, Head of Compliance, Corporate Planning, Corporate Management & Administration, Finance, and General Affairs.

*2 Person in charge of handling of information, as per Article 417 of Tokyo Stock Exchange Securities Listing Regulations.