[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 2, 2018
Daido Metal Co., Ltd.
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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

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 to supervise other Directors, and on Outside Audit & Supervisory Board Members for its audit function.

[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 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, the remuneration for each Director, etc.
The Company does not have a voluntary Nomination Committee but discuss the issue with all members of the Board of Directors.

[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 stable and smooth relationships with business partners to continue its business. If its business partners are listed companies, the Company believes that holding their stocks enables it to develop solid relationships with them to the benefit of the Company. The Company also believes that holding stocks of financial institutions brings the same benefits. Moreover, the Company will hold stocks of such listed companies that contribute to local communities or traditional culture, as the Company recognizes their importance. The Company will review its shareholding at the Board of Directors as required, when the continued shareholding becomes unprofitable due to the change in financial condition of the issuer which causes the drop in its share price.
The Company believes that its shareholdings does not have a material impact on its business performance as

it is limited to 1.9 billion yen (excluding stocks contributed to retirement benefit trust), which accounts for 1.2% of total assets. For more details, please refer to [The 110th Securities Report] on the Company's website (only available in Japanese version at the following url: https://www.daidometal.com/jp/wp-content/uploads/sites/4/2018/06/s_110_4_securities_report.pdf).

[Principle 1-4] Standards of exercising voting rights

The Company exercises its voting rights, with the aim to maintain smooth relationships with customers and stable and continuous relationships with financial institutions. The Company will exercise its voting rights based on this policy. If it considers it necessary, the Company will have dialogue with customers and financial institutions to discuss the agenda to be voted. In principle, the Company respects the decisions of the Management of the issuer, unless such agenda impairs significantly the corporate value of the issuer, or harms the business relationship between the two.

[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 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 "Notice of Convocation of the 110th Annual Shareholders' Meeting" and "The 110th Securities Report" on the Company's website.
* Notice of Convocation of the 110th Annual Shareholders' Meeting (https://www.daidometal.com/wp-content/uploads/2018/06/E_2018_Convocation_Full_Document.x70620.pdf)
* The 110th Securities Report
(only available in Japanese version at the following url:

https://www.daidometal.com/jp/wp-content/uploads/sites/4/2018/06/s_110_4_securities_report.pdf)

[Principle 3-1 (4)] Policies on and Procedures for the Nomination of Senior Management, Director Candidates, and Audit & Supervisory Board Member Candidates

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

[Principle 3-1 (5)] Explanations of the reason for the Nomination of Senior Management, Director Candidates, and Audit & Supervisory Board Member Candidates

i) The nomination of Senior Management
Reason of nomination is provided for each candidate at the Board of Directors based on the Company's rules.

ii) The Nomination of Director Candidates, and Audit & Supervisory Board Member Candidates
Reason of nomination is provided for each candidate at the Board of Directors, with reference to leadership, personality, insight, etc.
For the reasons for the nomination of Outside Directors and Outside Audit & Supervisory Board Members, please refer to "Notice of Convocation of the 110th Annual Shareholders' Meeting" on the Company's website.
* Notice of Convocation of the 110th Annual Shareholders' Meeting
(https://www.daidometal.com/wp-content/uploads/2018/06/E_2018_Convocation_Full_Document.x70620.pdf)

[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 4-8] Appointment of two or more Independent Outside Directors.

The Company appoints two Independent Outside Directors who meet independence requirement as per Companies Act, Independence Standards of Outside Officers established by the Tokyo Stock Exchange, and the Company's own standards.

[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/2018/06/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 appropriate size with four 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.

With regard to the diversity within the Board of Directors, the Company's Board will continue its discussion.

[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 April 2018, improvement on the previous year's comments is reported to the Board. In May 2018, the Company conducted the assessment of its Board of Directors' role and management during fiscal year 2017, using questionnaire sent out to 9 Directors and Audit & Supervisory Board Members, including external Directors and Members, and the result was reported to the Board.

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 providing the Board Meeting related documents earlier.

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 & 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.

[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. 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.

Corporate Communication Group is set up in April 2016, specializing in public relations and investors relations to enhance the constructive dialogue with shareholders.

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

2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%

[Status of Major Shareholders] Updated

Name / Company Name	Number of Shares Owned	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	2,661,600	6.68
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,537,600	6.37
Sumitomo Mitsui Trust Bank, Limited	1,978,000	4.96
Mizuho Bank, Ltd.	1,977,008	4.96
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,822,218	4.57
J.P. Morgan Bank Luxembourg S.A. 380578	1,349,900	3.39
Daido Metal Yueikai Employee Stock-Ownership Plan	1,347,200	3.38
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,261,479	3.16
The Seri Wathana Industry Co, Ltd. 703000	1,000,000	2.51
Nisshin Steel Co., Ltd.	909,000	2.28

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

Supplementary Explanation

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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 Updated	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

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	8
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman of the Board of Directors
Number of Directors	6
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	○	Mr. Takei is a Managing Director of Japan Center for International Finance. The Company has no transaction with Japan Center for International Finance that would constitute grounds for concluding that Mr. Toshikazu Takei does not have independence from the Company.	Although Mr. Takei has no experience in the management of a company, he was long engaged in business execution and served in managerial positions at the Bank of Japan. We expect that he will oversee and supervise the management of the Company with his familiarity with international businesses and based on his rich experience and broad insight. The term of office of Mr. Takei as an Outside Director is three years at the conclusion of the 110th Annual Shareholders' Meeting on June 28, 2018.
Kiyotaka Hoshinaga	○	Mr. Hoshinaga is the President of Fujita Health University and a Managing Director 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	Although Mr. Hoshinaga has no experience in the management of a company, he has served as a director of a hospital and a president of a university after serving as a professor of a university. We expect that he will oversee and supervise the management of the Company based on his extensive knowledge and experience as a manager of a hospital and a president of a university. The term of office of Mr. Hoshinaga as an Outside Director is two years at the conclusion of the 110th Annual Shareholders' Meeting on June 28, 2018.

		from the Company.	

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson

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

Supplementary Explanation

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.

[*Kansayaku* (Audit and Supervisory Board)]

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

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

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.
Kansayaku, Internal Audit Department, and Accounting Auditor have a periodical meeting with Internal Control Department, to exchange views and opinions to help improve the effectiveness of audit over internal control.

Appointment of Outside *Kansayaku* (Audit & Supervisory Board Members)	Appointed

Number of Outside *Kansayaku* (Audit & Supervisory Board Members)	2
Number of Independent *Kansayaku* (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		Ms. Tanabe is a Partner of Lawyer of Tanabe & Partners and Outside Director of KDDI CORPORATION. The Company has no transaction with Tanabe & Partners and KDDI CORPORATION that would constitute grounds for concluding that Ms. Kuniko Tanabe does not have independence from the Company.	Ms. Tanabe has no experience in the management of a company, she has served as a layer and has considerable knowledge of corporate legal affairs. We expect that she will be able to perform the duties appropriately as an Outside Audit & Supervisory Board Member and conduct an audit in terms of legal compliance. The term of office of Ms. Tanabe as an Outside Audit & Supervisory Board Member is 15 years at the conclusion of the 110th Annual Shareholders' Meeting on June 28, 2018.
Kazuo Matsuda	○	Mr. Matsuda is an	Mr. Matsuda is familiar with finance

		Executive Advisor of NSK Ltd. and Outside Director of Sumitomo Bakelite Co., Ltd. The Company has no transaction with NSK Ltd. and Sumitomo Bakelite Co., Ltd. that would constitute grounds for concluding that Mr. Kazuo Matsuda does not have independence from the Company. Mr. Matsuda worked at Mizuho Bank, Ltd., the Company's business partner as well as main shareholder; however, more than ten years has passed since he resigned from the Bank in May 2003. The Company borrows from and deposits with Mizuho Bank, Ltd.	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. We expect that he will be able to perform the duties appropriately as an Outside Audit & Supervisory Board Member based on his rich insight on corporate management accounting and governance of business. The term of office of Mr. Matsuda as an Outside Audit & Supervisory Board Member is 7 years at the conclusion of the 110th Annual Shareholders' Meeting on June 28, 2018.

[Independent Directors/ Audit & Supervisory Board Members]

Number of Independent Directors/ Audit & Supervisory Board Members	3

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/2018/06/Standards-for-Independence-of-Outside-Officers.pdf).

[Incentives]

Incentive Policies for Directors	Performance-linked Remuneration

Supplementary Explanation

Directors' remuneration consists of "monthly remuneration" and "bonuses."
Monthly remuneration for each Director is determined by the Board of Directors and is deliberated in the meeting of shareholders based on the predetermined payment ratio based on the position of each Director, consolidated sales, profit attributable to the parent company, and by considering the comments from the Advisory Board.
Total payment of bonuses 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 and is deliberated in the meeting of shareholders.
Amount of bonuses for each individual Director is determined by the Board of Directors based on the predetermined payment ratio according to the position of each Director, consolidated sales and profit

attributable to the parent company and by considering the comments from the Advisory Board.
In order to ensure objectivity and transparency, the Company established an Advisory Board with both in-house and external members.

Recipients of Stock Options	-

Supplementary Explanation

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[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors

Supplementary Explanation

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.
Director with remuneration of 100 million yen or more is disclosed individually in Securities Report.

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

1) Directors' remuneration
Pursuant to the standard for Directors' remuneration approved by the Board of Directors, the basic policy of Directors' remuneration is to attract and retain personnel suitable for the role of a Director of the Group, to serve effectively as an incentive for raising motivation to enhance business performance, corporate value as well as morale, and the level of remuneration shall correspond to a role, responsibility and business performance of each Director.
In order to ensure objectivity and transparency, the Company established an Advisory Board ("Board") with both in-house and external members who will discuss and determine the actual remuneration for each Director.

Specific structure and decision-making methodology are as follows:

i) Directors' remuneration consists of "monthly remuneration" and "bonuses."
For an Outside Director, in order to ensure independence and neutrality, the "monthly remuneration" consists 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 of a Representative Director, or a Director concurrently serving as an Executive Officer, and (2) "performance related component" based on the Group's consolidated performance in the previous year and the performance of divisions that the Director is in charge.
Monthly remuneration for each Director will be determined by the Board of Directors based on the predetermined payment ratio based on the position of each Director, consolidated sales, profit attributable to the parent company, and by considering the comments from the Advisory Board.

iii) "Bonus"
Total payment of bonuses to be deliberated in the meeting of shareholders is limited in proportion to the dividend to shareholders. After considering the comments from the Advisory Board, it is determined by the Board of Directors.
Amount for each individual Director will be determined by the Board of Directors based on the predetermined payment ratio according to the position of each Director, consolidated sales and profit attributable to the parent company and by considering the comments from the Advisory

Board.

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.

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

1) 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 six Directors to enable the Board to make prompt decisions. Board meeting will be held once a month and as and when necessity arises. There is a once or twice a month "Management Strategy Meeting" where important management issues are discussed with the presence of full time *Kansayaku*

2) Audit & Supervisory Board 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.

3) *Kansayaku* will audit Directors' performance of duties based on the Code of *Kansayaku* Audit Standards in accordance with audit policies and audit Plan. The Company has Secretariat of the Audit & Supervisory Board which is a department independent of Directors, and is expected to support *Kansayku's* activities on continual basis.
Kansayaku will, among other things, attend Board meeting and other important meetings of the Company, examine the reports received from Directors, employee, accounting auditors and others, investigate on the Company's business operation and the state of the assets, express opinion/advice/recommendation to Directors and employees, and take appropriate measures to stop Directors' actions where appropriate. *Kansayaku* will also have regular meetings with representative Directors, confirm management policy, and exchange opinions on various issues to be addressed, the risks surrounding the Company, auditing environment for *Kansayaku*, and other important issues in audit.
Besides, each *Kansayku* will share the task of auditing overseas/domestic subsidiaries, grasp the Group management situation and perform appropriate and efficient audit with diverse viewpoint.

4) All *Kansaykus* attend, in principle, monthly Board meeting and monthly Audit & Supervisory Board meeting.
Moreover, all *Kansayakus* will examine the Board Meeting documents in advance, and discuss over it during the Audit & Supervisory board meeting held prior to the board meeting, and express opinions where appropriate during the board meeting.

5) 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.

6) With regard to the enhancement of risk management and control, the Company has a following structure to minimize management and compliance risk.
- The Company has "Corporate Compliance Committee" to clarify the issues and to implement preventive measures with regard to compliance risk, and to notify employees, within the Group. Corporate Compliance Committee is in charge of updating "Code of Conduct" and "Rules of Action" which are Company's guiding principles in observing Company's rules, laws and regulations.
- Compliance Committee is set up to identify and promote the activities to prevent such risks as natural disaster, various management risks such as technology, quality, property rights, environment and safety, and compliance risks. The Committee will assess the nature and impact of such risks, and prioritize those risks according to its probability and likelihood of damage to be incurred, and implement the mitigating measures properly.

The detail of discussion at this Committee will be examined at Management Strategy Meeting in terms of each risk's nature and impact, and will be acted upon in the course of business where appropriate.

3. Reasons for Adoption of Current Corporate Governance System

Current Corporate Governance System allows clarifying Executive Directors' responsibility, who also act 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 2018, the Company released the notice on May 31th in Japanese and on June 7th in English. The dispatch date was June 8th.
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 one day prior to 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

	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's Director in charge or the head of IR department will do the presentation. (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 Communication 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 Internal Control Dept. within Compliance Unit 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.
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 Unit to provide employees with regular compliance education/training in order to strengthen/fully enforce compliance and 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 compliance on a regular basis.
- 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 Unit and Corporate Planning Department are designated as the departments responsible for "Internal Control System" of the Group, and promote design and operation of the "Internal Control System" at the group companies.
   - The Compliance Unit keeps the group companies informed and aware of the "Code of Conduct" and "Standards of Conduct" and promotes development of necessary rules, regulations, procedures, etc. including "Rules of Employment" for appropriate and effective operation and assessment of a compliance system at the group companies.
   - 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 makes the group companies report monthly on their performance of duties, financial conditions, 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.
   - 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 Head of Compliance Unit 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 Head of Compliance Unit reports the status of improvement/corrective measures and preventive measure at a "Corporate Ethics Committee," and reports to the Audit & Supervisory Board along with the investigation results.
- 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 Unit 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. In addition, the Company strengthened the control of group companies by requiring the group companies to apply for/report on budgets, capital investment, risk control, compliance status, etc.

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

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 drawn up "Raise Up 'Daido Spirit' - Ambitious, Innovative, Challenging -", its new Midterm Business Plan from FY2018.

Together with our various stakeholders including business partners such as customers and suppliers, employees and their families, local residents and others, the Company will respond to 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 and sales 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.

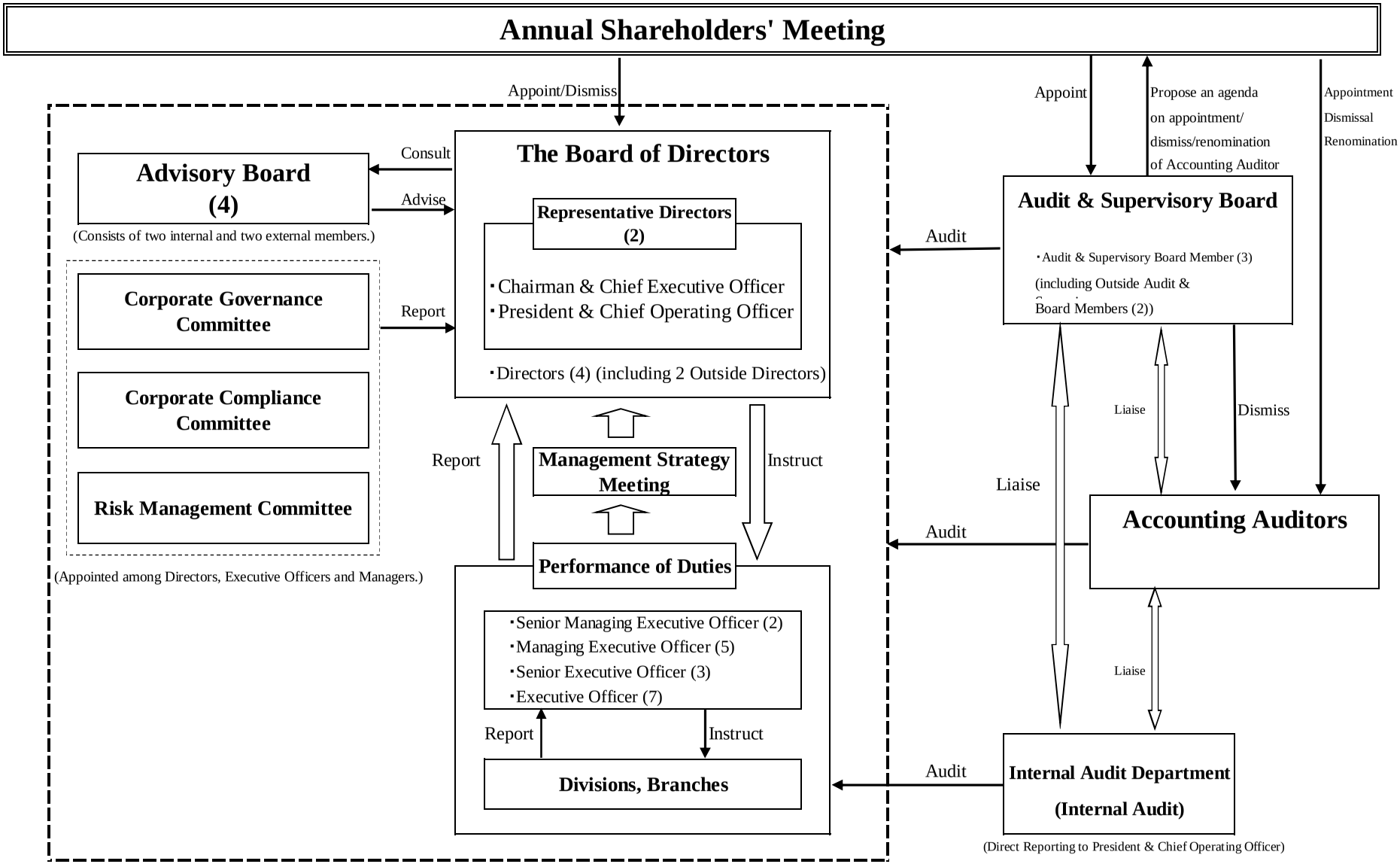
3) Assessment of Above Efforts and its Basis

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

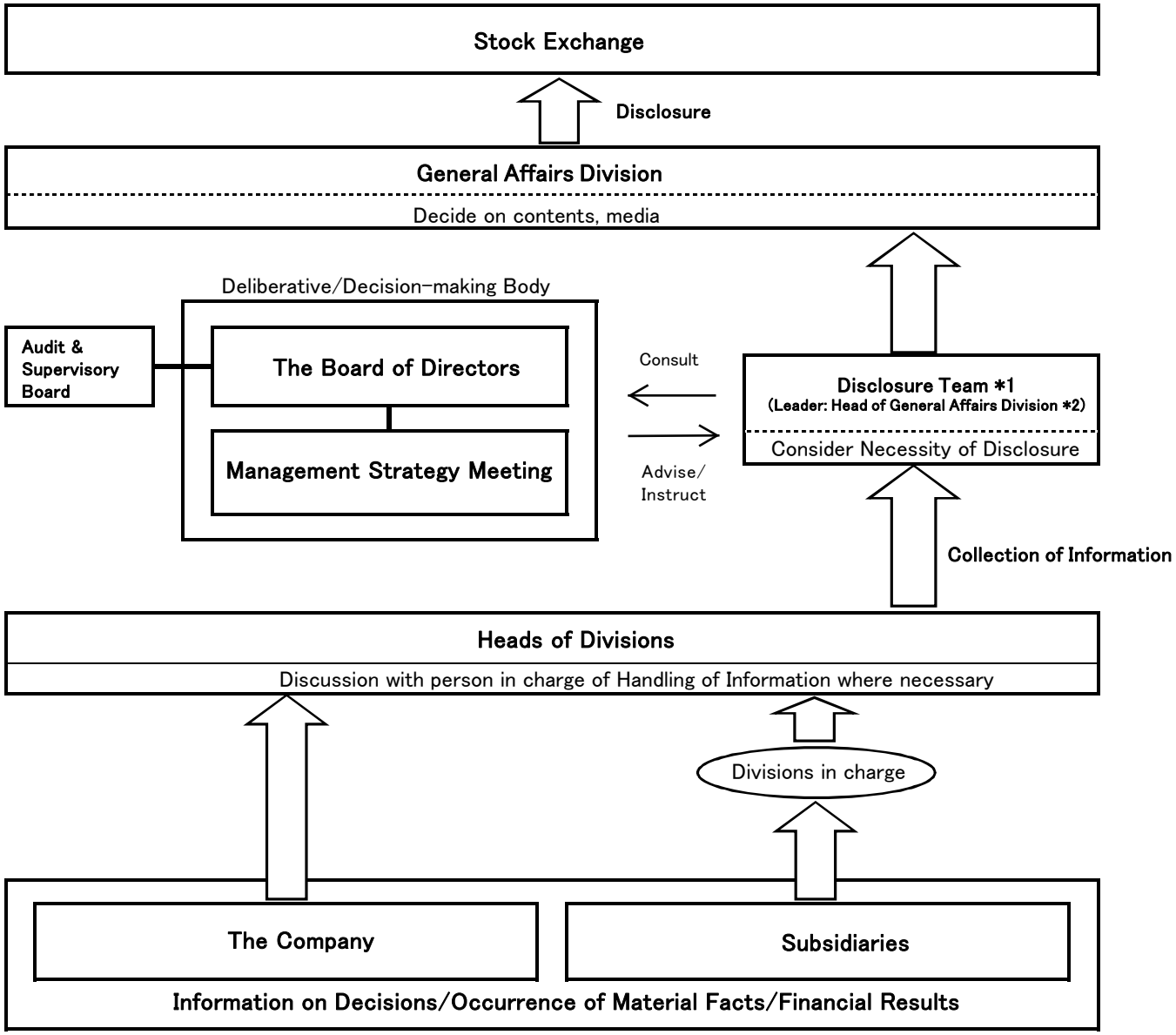
(1) As for "Organizational Structure for Corporate Governance" please refer to page 19.
(2) As for "Diagram for Timely Disclosure" please refer to page 20.

Organizational Structure for Corporate Governance



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.