

## (Attachment)

### Business Report

( From: April 1, 2015  
To: March 31, 2016 )

#### 1. Matters Relating to the Current Situation of Corporate Group

##### (1) Progress of Business and Operating Performance

###### 1) Economic conditions

###### Global

Employment remained stable in the US although exports failed to grow due to strong US dollar and slowdown in economies of other countries. US economy continued its recovery, led by domestic demand with steady housing market and personal spending. In Europe, the economy maintained its trend of moderate recovery. On the other hand, excessive concerns about the Chinese economy, the major cause of turmoil in global financial market at the beginning of the year, receded. Still, slowdown in Chinese economy triggered the fall in prices of natural resources such as crude oil, and affected the economies in emerging countries and resource-rich countries amongst others. Overall, amidst a growing trend of economic stagnation, the outlook of the world economy remained uncertain.

###### Japan

Domestic economy continued its slow recovery overall, supported by improved corporate earnings and employment conditions, although personal spending remained weak. Uncertainty over the outlook for the economy has increased from the second half of the period, as concerns over economic slowdown in emerging countries including China, the strong yen, declining stock prices etc. brought about economic stagnation.

###### 2) Business situation in the Industries

In the automotive sector, the Group's core business area, new car sales for 2015 (calendar year) were 89.09 million units worldwide (a year-on-year increase of 2.0%), recording the historical high for six consecutive years. The overall increase was led by Chinese market where tax breaks on small-sized passenger cars have been introduced, and by the US and European markets where sales remained strong throughout the year.

Exports increased (a year-on-year increase of 2.0%) for the first time in three years. Domestic automotive production volume decreased however, by 4.2% compared with the previous fiscal year to 9.18 million units as domestic sales decreased (a year-on-year decrease of 6.8%), mainly due to a previous year's last-minute demand before the increase of the light vehicle tax rate. On the other hand, the volume of overseas automotive production by Japanese auto manufacturers for 2015 (calendar year) increased to 18.09 million units (a year-on-year increase of 3.5%), recording the historical high for six consecutive years.

In the non-automotive sector, the shipbuilding industry to start with, worldwide new orders for 2015 (calendar year) slightly decreased compared with the previous year, while in the domestic shipbuilding industry, both new orders and market share increased due to its competitive advantage in producing low environmental impact ships and/or with energy savings. With sluggish demand in natural resources however, the shipbuilding industry is yet to get out of excess shipping tonnage.

For the construction machine industry, despite stable demand for construction projects from the public and private sectors in Japan, the amount of domestic shipments increased only by 0.5% compared with the previous fiscal year. This resulted from a reactionary decrease against the last-minute demand in the previous year before the end of moratorium with regards to the 2011 exhaust emission regulations. In overseas markets, demand for housing construction remained strong in North America, but exports decreased by 13.0%, as demand declined in China and demand for mining-machines in resource-rich countries remained sluggish. The total shipment of the construction machine industry decreased by 7.5%, a decrease for the first time in three years. Overseas demand remained quite weak.

In other industry sectors, the Company's receiving orders steadily, for electric power generation facilities for mainly overseas markets in electric power/energy related business amongst others.

###### 3) Outline of the Group's results

Under this business environment, consolidated net sales of the Group for the period were 81,400 million yen, a decrease of 3,614 million yen (down 4.3%) compared with the previous period.

Domestic sales decreased by 2,000 million yen, mainly due to reduction in the domestic automotive production volume and sluggish demand for construction machines, in addition to a shift of bearings production from Japan to the overseas production sites with an aim to promote the Group's global production system.

Overseas sales decreased by 1,500 million yen, primarily due to the effect of the strong yen. Sales increased in most group companies on a local currency basis (calendar year). Sales increased in North America and Europe, and slightly increased in Asia. In North America, automotive-related sales increased due to increased production at our new factory in Mexico, while sales for construction machines decreased, and were affected by the foreign exchange rate. In Europe, sales for ships (medium to small ships) increased, and automotive-related sales remained robust on a local currency basis (calendar year). In Asia, despite increased sales in China and Thailand, sales in Korea, Indonesia etc. failed to grow, and automotive-related sales remained flat on a local currency basis (calendar year).

Operating income was 7,114 million yen, a decrease of 519 million yen (down 6.8%) compared with the previous period, mainly due to various initial expenditures such as labor costs and an increase in depreciation associated with strategic business development on a global basis. Such business development includes the setup of Daido Metal Saga Co., Ltd. (production site of bimetal, material used for bearings), expansion of the factory of Daido Industrial Bearings Japan Co., Ltd. (production site of bearings for medium speed diesel engines) in Japan, and enhancement of overseas facilities for increased production at Daido Metal Mexico Sales, S.A. de C.V. Profits increased in Europe, Asia and North America where profitability has steadily been improving with increased income, while profits in Japan decreased.

Ordinary income was 6,796 million yen, a reduction of 1,333 million yen (down 16.4%) compared with the previous period, mainly due to foreign exchange loss of 823 million yen attributable mainly to depreciation of Chinese yuan and other emerging and resource-rich countries' currencies.

Profit attributable to owners of parent was 3,919 million yen, a decrease of 540 million yen (down 12.1%) compared with the previous period.

#### 4) Results by segment

Sales to external customers by segment are as follows.

##### a) Automotive engine bearings

In Japan, net sales decreased mainly due to the sluggish domestic automotive production volume. In North America, net sales increased backed by enhanced sales promotion activities, firm demand, and expansion of production capacity at the new factory in Mexico. Net sales reduced in Europe and Asia due to foreign exchange rates, while sales on a local currency basis (calendar year) was firm in Europe and slightly increased in Asia.

As a result, net sales were 51,863 million yen, a reduction of 3,402 million yen (down 6.2%) compared with the previous period.

##### b) Automotive non-engine bearings

With regards to bearings for automotive parts, net sales were 16,171 million yen, a decrease of 245 million yen (down 1.5%), mainly due to the decreased domestic sales and the effect of foreign exchange rates despite robust sales on a local currency basis in Europe.

##### c) Non-automotive bearings

With regards to bearings for ships, domestic sales including export of bearings for medium- and high-speed diesel engines increased. In Europe, sales of bearings for medium- and high-speed diesel engines were in line with the budget.

With regards to bearings for general industries, sales of special types of bearings used for turbine for power generator facilities etc. in electric power/energy areas remained firm. Demand for the construction machine industry decreased in most regions overseas, although a certain level of demand was maintained in Japan.

As a result, net sales were 11,713 million yen, a decrease of 257 million yen (down 2.2%) compared with the previous period.

##### d) Others

As a result of significant sales growth in the new area of electrode sheets for electric double layer capacitors, net sales including the real estate leasing business, the metallic dry bearings and pump-related products businesses were 1,707 million yen, an increase of 291 million yen (up 20.6%) compared with the previous period.

(Sales by segment)

Segment	Net sales (Millions of yen)	
	FY 2014 107 <sup>th</sup> term	FY 2015 108 <sup>th</sup> term (Current Period)
Automotive engine bearings	55,265	51,863
Automotive non-engine bearings	16,362	16,117
Non-automotive bearings	11,970	11,713
Others	1,416	1,707
Total	85,015	81,400

(Notes) 1. Sales represent the amount to external customers.

2. Due to the reorganization as of April 1, 2015, the pump-related products business, which was previously categorized under "Non-automotive bearings," is now categorized under "Others." The above results were calculated as per new classification.

## **(2) Status of Financing etc.**

### 1) Financing

During the current period, there was no significant financing in either borrowings from financial institutions, or issue of stocks or debentures.

### 2) Capital investment

The Group has the world's top shares (our estimate) in the automotive engine bearings, in the bearings for low-speed diesel engines for large ships and in the bearings for turbochargers (small turbo), and has gained the world's top share (our estimate) in the plain bearings (the total of bearings for all use). The Group has been striving to strengthen its production capacity for prioritized regions and business segments, but we still need further expansion to cope with the expected future sales increase.

As a result, total capital investment for the current period was 14,802 million yen, an increase of 4,205 million yen compared with the previous period.

(Major capital investments during the current period)

- Investment to enhance production and improve productivity of bimetal (material for bearings) in Japan.  
Investment in existing bimetal production sites and in Daido Metal Saga Co., Ltd., a new production site.
- Investment to enhance production of automotive engine bearings and investment to enhance production capacity and productivity for non-automotive bearings in Japan.
- Investment to enhance production of automotive engine bearings at overseas production sites in Mexico, Russia and others.
- Investment to enhance production of automotive non-engine bearings at production sites in the Czech Republic and others.
- Investment in IT systems.

### (3) Financial Conditions and Operating Results

#### 1) Financial conditions and operating results of the Group

Category \ Fiscal year	FY 2012 105 <sup>th</sup> term	FY 2013 106 <sup>th</sup> term	FY 2014 107 <sup>th</sup> term	FY 2015 108 <sup>th</sup> term (Current period)
Net sales (Millions of yen)	70,886	77,350	85,015	81,400
Operating income (Millions of yen)	6,286	7,368	7,633	7,114
Ordinary income (Millions of yen)	6,935	8,063	8,129	6,796
Profit attributable to owners of parent (Millions of yen)	4,385	4,735	4,459	3,919
Net income per share (Yen)	110.10	118.89	112.00	98.44
Net assets (Millions of yen)	40,062	46,733	53,093	52,148
Total assets (Millions of yen)	92,314	104,099	116,533	122,920

#### 2) Financial conditions and operating results of the Company

Category \ Fiscal year	FY 2012 105 <sup>th</sup> term	FY 2013 106 <sup>th</sup> term	FY 2014 107 <sup>th</sup> term	FY 2015 108 <sup>th</sup> term (Current period)
Net sales (Millions of yen)	57,454	58,978	67,269	64,665
Operating income (Millions of yen)	3,778	3,994	5,296	3,836
Ordinary income (Millions of yen)	4,067	4,611	6,220	5,294
Profit (Millions of yen)	2,740	3,387	4,000	4,141
Net income per share (Yen)	68.79	85.04	100.46	104.01
Net assets (Millions of yen)	32,995	36,039	39,301	42,199
Total assets (Millions of yen)	68,210	69,245	77,042	82,295

#### **(4) Company's Fundamental Policy**

The Group has established "Corporate Philosophy," "Code of Conduct," "Standards of Conduct," "Principles" and "Environmental Fundamental Policy," and contributes to society through its business operations. As a company built on technologies, the Group will continue to make proactive efforts to develop industrial technology and environment conservation technology, starting from our core Tribology (friction, wear and lubrication technology), and meet its corporate social responsibilities.

In order to achieve further growth, the Group began the Midterm Business Plan "Together to The Top" in April 2012 for six years period from FY2012 to FY2017.

Going forward, the Group is committed to further improve its business performance, aiming at gaining the global top share in all segments of plain bearings and increasing the Group's presence in the world and enhancing its market value.

#### **(5) Issues to be addressed**

Execution of "Midterm Business Plan"

##### 1) Outline of the Medium-Term Business Plan

The Midterm Business Plan (from FY2012 to FY2017) included major objectives of (1) maintaining the world's top share (our estimate) in plain bearings as the sole all-around manufacturer of plain bearings in the world, (2) increasing the share of automotive engine bearings, which are the core products of plain bearings, while maintaining the world's top share (our estimate), (3) gaining the world's top share in bearings in each non-automotive segment of ships (excluding large ships category where we already have the world top share (our estimate)), construction machines, and rotary machines, (4) structuring and expanding Global Five-Hub System (Global corporate structure with independent operational hubs in five geographical regions (Japan, Asia, China, Europe and Americas)) to deal with domestic and overseas sales expansion, (5) strengthening research and development activities to maintain our technological advantages, and to respond to specific needs of each countries, and (6) establishing solid financial foundations.

In Stage 1 of the Midterm Business Plan (FY2012 to FY2014) the Group will expand and reorganize business bases in order to enhance production on a global basis to deal with increased sales. We aim to achieve the Group's challenging targets of "consolidated net sales of 111 billion yen, operating income of 16.7 billion yen, and an operating margin of 15% or more" and the target of "gaining the world's top share in all industry segments of plain bearings" in the final year of Stage 2 of the Midterm Business Plan (from FY2015 to FY2017).

##### 2) Result of Stage 1

The Group has expanded and reorganized business bases during Stage 1 (from FY2012 to FY2014); Dyna Metal Co., Ltd. (Thailand) completed its third factory and Daido Precision Metal (Suzhou) Co., Ltd. completed its second factory in 2012. In 2013 the second factory at Daido Metal Czech s.r.o., the second factory at PT. Daido Metal Indonesia and the new factory at Daido Metal Mexico S.A. de C.V., the newly established business base, were completed.

In the Group's efforts in expanding sales, the Group has strived to achieve targets by strengthening the sales force structure, enhancing technical services to our customers, accurately identifying and responding to region-specific needs, and ensuring the Group's support system which adapts itself to the changes in market environment. Specifically, the Group set up Daido Metal Mexico Sales, S.A. de C.V. to strengthen the sales force in Mexico, set up the Guangzhou Branch of Daido Precision Metal (Suzhou) Co., Ltd. to enhance sales activities in China, and set up the European Technical Center in the Czech Republic for technical support services, to enhance the Group-wide organizational structure.

Along with the initiatives to expand sales, the Group has advanced efforts to improve the efficiency of capital investment and increase its productivity, by promoting activities for further profit generation and in particular by introducing a new compact line both in Japan and overseas, an innovative production method for automobile engine bearings to replace conventional production lines.

Through these initiatives, the Group has successfully enhanced production capacity, sales and development structure during Stage 1, and strengthened the Global Strategy of Five-Hub System in five geographical regions (Japan, Americas, Europe, Asia and China) to make it much more firm than ever before.

### 3) Progress of Stage 2

The primary goals at Stage 2 of the Midterm Business Plan (from FY2015 to FY2017) include achieving the Group's challenge targets of "consolidated net sales of 111 billion yen, operating income of 16.7 billion yen, and an operating margin of 15% or more" and achieving the target of "gaining the world's top share in all industry segments of plain bearings." Specifically, the Group is steadily making progress on development of its business bases in line with the plan, by quickly bringing the businesses in North America into profit, starting up the automotive engine bearing business at BBL Daido Private Ltd. (India), working on the truck bearing business and the bearing business for foreign automobile manufacturers at Daido Metal Russia LLC, and planning mass production from FY2016 at Daido Metal Saga Co., Ltd. established in April 2015 to increase production capacity for bimetal, a material used for bearings.

The Group set up the North American Technical Center in the US in October 2015 for technical support services following the establishment of the European Technical Center in the Czech Republic. Through these initiatives the Group will further promote the technical services to our customers by properly identifying different needs of each region and by quickly responding to each customer's request as part of sales promotion activities.

Furthermore, during Stage 2, the Group will start a streamlined production system on a global basis and review business processes (business process reengineering) in order to promote more efficient business development with an increased number of manufacturing bases in Japan and overseas. Specifically, in April 2016, the Group established a new Global Business Administration Department in the Thinwall Bearings & Turbo Charging Bearings Division (automotive engine bearings segment). The Group aims to increase production efficiency and investment efficiency by controlling production on a global basis and identifying optimum investment as well as to achieve uniform quality around the world. The Company established the new Business Process Re-engineering (BPR) Department for the quantum improvement in operational efficiency from April 2016 and will promote cross-organizational reform.

With regard to North America, which will lead the Group's challenge to achieve its sales targets in the final year of the Midterm Business Plan (FY2017), both production and sales have been progressing at a pace exceeding the plan. The Group anticipates a significant increase in sales to bring the businesses into profit in FY2016. The Group anticipates further expansion of businesses in FY2017 with a start of new bearing businesses in India, Russia and other countries, in addition to the North America where a further increase in order and production volume are expected. In Chinese market, a steady increase in demand is expected although the growth rate is on a downward trend.

As the business environment surrounding the Group is rapidly changing, the Group will focus on the development of new products and new markets/applications by responding to the market trends and needs of each region in the world in a swift and appropriate manner, while further strengthening cost competitiveness and improved customer services. Moreover, in addition to fully enforcing compliance, with initiatives to enhance the corporate governance system, the Group will strive to improve its corporate value and achieve sustainable growth through Group-wide efforts in order to gain trust from and appeal to our stakeholders including our shareholders and business partners.

\* The matters discussed here concerning the future events are based on certain assumptions by the Group at the end of the current period. Above descriptions may differ from the actual results and the achievement of such is not guaranteed in any way.

### (6) Major Business Lines

Major business divisions	Content of business
Automotive engine bearings	Bearings for automobile engines (passenger cars, trucks and racing cars), bearings for two-wheeled vehicle engines, bearings for engine auxiliary machines (turbochargers and balancer mechanisms) etc.
Automotive non-engine bearings	Bearings for other automotive parts (transmissions, shock absorbers, compressors for air conditioning, steering wheels, injection pumps etc.).
Non-automotive bearings	Bearings for low speed (two-cycle) diesel engines, bearings for medium speed (four-cycle) diesel engines, bearings for power generation (water wheels, turbines etc.), bearings for general industry use (compressors, accelerator and decelerator) etc.
Others	Metal dry bearings business, pump-related products business, electrode sheet business for electric double layer capacitors, real estate leasing etc.

**(7) Principal locations of the Group and Employees**

## 1) Principal locations of the Group

## a. The Company

Headquarters	Nagoya HQ (Naka-ku, Nagoya), Tokyo HQ (Shinagawa-ku, Tokyo)
Domestic sales offices	Tokyo Branch (Shinagawa-ku, Tokyo), Nagoya Branch (Inuyama-shi, Aichi), Osaka Branch (Yodogawa-ku, Osaka), Hamamatsu Branch (Naka-ku, Hamamatsu-shi), Hiroshima Branch (Minami-ku, Hiroshima-shi), Kyushu Branch (Nagasaki-shi, Nagasaki), Kitakanto Branch (Kumagaya-shi, Saitama)
Domestic production sites	Inuyama Site (Bimetal Division, Inuyama Plant, Maehara Plant, TMBS (Turbomachinery Bearing Systems) Plant, Others) (Inuyama-shi, Aichi), Gifu Plant (Gujyo-shi, Gifu)

## b. Subsidiaries

Domestic sales companies	Daido Metal Sales Co., Ltd. (Inuyama-shi, Aichi), NDC Sales Co., Ltd. (Narashino-shi, Chiba)
Overseas sales companies	Daido Metal U.S.A. Inc. (U.S.A.), Daido Metal Mexico Sales, S.A. de C.V., Chung Yuan Daido Co., Ltd. (Taiwan), Daido Metal Germany GmbH (Germany), Daido Metal Europe Ltd. (England)
Domestic production companies	NDC Co., Ltd. Narashino Plant (Narashino-shi, Chiba), NDC Co., Ltd. Kozaki Plant (Katori-gun, Chiba), Daido Plain Bearings Co., Ltd. (Seki-shi, Gifu), Daido Industrial Bearings Japan Co., Ltd. (Inuyama-shi, Aichi), Daido Metal Saga Co., Ltd. (Takeo-shi, Saga)
Overseas production companies	Dyna Metal Co., Ltd. (Thailand), Dong Sung Metal Co., Ltd. (Korea), PT. Daido Metal Indonesia (Indonesia), Daido Precision Metal (Suzhou) Co., Ltd. (China), Daido Metal Mexico S.A. de C.V. (Mexico), Daido Industrial Bearings Europe Ltd. (England), Daido Metal Kotor AD (Montenegro), Daido Metal Czech s.r.o. (Czech Republic), Daido Metal Russia LLC (Russia), Korea Dry Bearing Co., Ltd. (Korea), BBL Daido Private Ltd. (India)
Other domestic companies	Daido Logitech Co., Ltd. (Inuyama-shi, Aichi), Asia Kelmet Co., Ltd. (Ohta-ku, Tokyo)

2) Employees

a. Employees of the Group

Number of employees (persons)		Change from previous period (persons)	
Japan	2,207	Increase	172
Overseas	2,430	Increase	144
Total	4,637	Increase	316

(Notes) 1. In addition to the above, temporary employees (total of 509) are employed. Number of temporary employees is calculated as annual average at the rate of 8 hours a day.

2. Temporary employees include part-timers and employees under non-regular contract, but exclude temporary staff (staff employed by the staffing agency).

b. Employees of the Company

Number of employees (persons)	Change from previous period (persons)	Average age (years of age)	Average number of service years (years)
1,285	Increase 100	37.2	13.4

(Notes) 1. In addition to the above, temporary employees (total of 228) are employed. Number of temporary employees is calculated as annual average at the rate of 8 hours a day.

2. Temporary employees include part-timers and employees under non-regular contract, but exclude temporary staff (staff employed by the staffing agency).



**(8) Material Parent Company and Subsidiaries**

## 1) Parent company

None

## 2) Material subsidiaries

Name	Capital stock or investments in capital	Percentage of voting rights held by the Company	Major businesses	Notes
(Consolidated subsidiaries)				
Daido Logitech Co., Ltd.	45 million yen	100.0%	Logistics, insurance agent	
Daido Metal Sales Co., Ltd.	100 million yen	100.0%	Sales of bearings	
Daido Plain Bearings Co., Ltd.	300 million yen	100.0%	Production of bearings	
NDC Co., Ltd.	1,575 million yen	58.8%	Production of bearings etc.	
NDC Sales Co., Ltd.	90 million yen	100.0% (100.0%)	Sales of bearings/Calme, insurance agent	2
Daido Industrial Bearings Japan Co., Ltd.	80 million yen	100.0%	Production of bearings	
Daido Metal Saga Co., Ltd.	100 million yen	100.0%	Production of material for bearings etc.	
Asia Kelmet Co., Ltd.	55 million yen	100.0%	Real estate leasing	
Chung Yuan Daido Co., Ltd.	120 million new Taiwan yuan	50.0%	Sales of bearings	1
Dong Sung Metal Co., Ltd.	6,120 million Korean won	50.0%	Production and sales of bearings	1
Dyna Metal Co., Ltd.	200 million Thai baht	50.0%	Production and sales of bearings	1
PT. Daido Metal Indonesia	13,748 million Indonesian rupiah	50.0%	Production and sales of bearings	1
Daido Precision Metal (Suzhou) Co., Ltd.	115,714 thousand Chinese yuan	90.2% (16.2%)	Production and sales of bearings	2
Daido Metal U.S.A. Inc.	27,900 thousand US dollar	100.0%	Production and sales of bearings	
Daido Metal Mexico S.A. de C.V.	283,328 thousand Mexico peso	100.0% (0.0%)	Production of bearings	Note 2
Daido Industrial Bearings Europe Ltd.	13,500 thousand sterling pound	100.0%	Production of bearings	
Daido Metal Kotor AD	26,535 thousand euro	99.6%	Production and sales of bearings	
Daido Metal Germany GmbH	500 thousand euro	100.0%	Sales of bearings	

Name	Capital stock or investments in capital	Percentage of voting rights held by the Company	Content of major businesses	Notes
Daido Metal Czech s.r.o.	50 million Czech koruna	100.0%	Manufacture and sale of bearings	
Daido Metal Europe Ltd.	3,613 thousand sterling pound	100.0%	Sale of bearings	
Daido Metal Russia LLC	330 million Russian ruble	99.8%	Manufacture and sale of bearings	
Daido Metal Mexico Sales, S.A. de C.V.	2,644 thousand Mexico peso	100.0% (0.0%)	Sale of bearings	2
(Unconsolidated subsidiaries to which equity method is applied)				
Korea Dry Bearing Co., Ltd.	3,100 million Korean won	50.0% (50.0%)	Manufacture and sale of bearings	1 and 2
(Affiliated companies to which equity method is applied)				
BBL Daido Private Ltd.	280 million Indian rupee	50.0%	Manufacture and sale of bearings	

(Note) 1. Although the voting rights held by the Company is not more than 50%, the company is treated as a subsidiary because it is effectively controlled by the Company.

2. Figure in ( ) of percentage of holding of voting rights represents the percentage of indirect holding of voting rights.

3) Status of specified wholly-owned subsidiaries at the end of the fiscal year  
None

#### (9) Major Lenders and Amount of Borrowing

Lender	Outstanding Balance (Millions of yen)
Mizuho Bank, Ltd.	8,543
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,906
Development Bank of Japan Inc.	3,366
Japan Bank for International Corporation	3,075
Sumitomo Mitsui Trust Bank, Limited	2,410

**(10) Policies for Determining Appropriation of Surplus**

It is the Company's policy to pay appropriate dividends to our shareholders based on the results of operations and payout ratio. It is also our policy to maintain a stable and sustainable level of dividend in overall consideration of the internal reserve for future business development, expansion of research and development, strengthening of business foundations and changes to the business environment.

The Company has a fundamental policy of making a dividend of surplus twice a year, i.e. interim dividend and year-end dividend. The decision-making bodies for these dividends of surplus are the Shareholders' Meeting for the year-end dividend and the Board of Directors for the interim dividend in accordance with the provisions of the Company's Articles of Incorporation.

In consideration of the factors above, including the consolidated performance of the Company for the full year, we propose the year-end dividend of 13 yen per share.

As a result, the annual dividend, including the interim dividend of 13 yen per share (actual), would be 26 yen per share, an increase of 6 yen compared with the annual dividend of 20 yen per share (actual) for the previous fiscal year.

For the next fiscal year, the Company plans an annual dividend of 30 yen per share (the interim dividend of 15 yen per share and year-end dividend of 15 yen per share), an increase of 4 yen compared with the current fiscal year.

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

None

## 2. Matters Relating to Shares of the Company

- (1) Number of authorized shares 80,000,000 shares  
(2) Total number of issued shares 44,956,853 shares (including treasury stocks of 5,140,389 shares)  
(3) Number of shareholders at end of the period 3,961 shareholders  
(4) Major shareholders (top 10)

Name of shareholder	Number of shares held (1,000 shares)	Ratio of shareholding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	3,016	7.57
Sumitomo Mitsui Trust Bank, Limited	1,978	4.96
Mizuho Bank, Ltd.	1,977	4.96
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,974	4.95
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,822	4.57
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,661	4.17
Daido Metal Yueikai Employee Stock-Ownership Plan	1,236	3.10
J.P. MORGAN BANK LUXEMBOURG S.A. 380578	1,069	2.68
The Seri Wathana Industry Co, Ltd. 703000	1,000	2.51
Nisshin Steel Co., Ltd.	909	2.28

(Notes) 1. The Company holds treasury stocks of 5,140,389 shares, which is excluded from the above list.

2. Ratio of shareholding is calculated against total shares outstanding net of treasury stocks (5,140,389 shares).

## 3. Matters Relating to New Share Subscription Rights etc.

None

#### 4. Company Officers

##### (1) Directors and Audit & Supervisory Board Members

(As of March 31, 2016)

Position	Name	Duties/departments in charge and important positions at other companies
Chairman & Chief Executive Officer (CEO)	Seigo Hanji	Executive & Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of the Association Outside Director of Nichirei Corporation
President & Chief Operating Officer (COO)	Kotaro Kashiyama	In charge of Bi-metal Division, Quality Management & Planning Department, Audit Department, Production Engineering Division and Polymer Bearings Division
Director and Managing Executive Officer	Toshiyuki Sasaki	Head of Corporate & Financial Planning Division and President of Daido Metal Saga Co., Ltd. (part-time) In charge of General Affairs Department
Director and Managing Executive Officer	Yasuo Kawamura	Head of Thinwall Bearings & Turbo Charging Bearings Division
Director and Managing Executive Officer	Masaki Ikawa	Head of Human Resources Planning Division, General Manager of Human Resources Planning Department, and Head of Daido Metal College In charge of Purchasing Department
Director	Toshikazu Takei	Managing Director of Japan Center for International Finance
Full-time Audit & Supervisory Board Member	Masaaki Tamaya	—
Outside Audit & Supervisory Board Member	Kuniko Tanabe	Partner, Lawyer of Tanabe & Partners Outside Director of KDDI CORPORATION
Outside Audit & Supervisory Board Member	Kazuo Matsuda	Special Advisor of NSK Ltd. Corporate Auditor of NSK-Warner K.K. Outside Corporate Auditor of Sumitomo Bakelite Company Limited

- (Notes) 1. Mr. Toshikazu Takei is Outside Director. The Company has registered Mr Toshikazu Takei as an “Independent Officer” pursuant to the provisions of the Tokyo Stock Exchange and Nagoya Stock Exchange.
2. Ms. Kuniko Tanabe and Mr. Kazuo Matsuda are Outside Audit & Supervisory Board Members.  
The Company has registered Mr. Kazuo Matsuda as an “Independent Officer” pursuant to the provisions of the Tokyo Stock Exchange and Nagoya Stock Exchange.
3. Mr. Toshikazu Takei, Director, was engaged in business execution and served in managerial positions at the Bank of Japan, and therefore has considerable knowledge of international businesses.
4. Ms. Kuniko Tanabe, Audit & Supervisory Board Member, is qualified as a lawyer, and therefore has considerable knowledge on legal affairs.
5. Mr. Kazuo Matsuda, Audit & Supervisory Board Member, has experience working as a Director and Audit & Supervisory Board Member in financial institutions and corporates, and therefore has considerable knowledge of finance and accounting matters.

6. Changes in duties and departments in charge April 1, 2016

Date	Name	New duties and departments in charge	Previous duties and departments in charge
April 1, 2016	Kotaro Kashiyama	In charge of Marine & Industrial Bearings Division, Polymer Bearings Division, Audit Department and Secretarial Department	In charge of Bi-metal Division, Quality Management & Planning Department, Audit Department, Production Engineering Division and Polymer Bearings Division
April 1, 2016	Toshiyuki Sasaki	General Manager of Business Process Re-engineering (BPR) Department and President of Daido Metal Saga Co., Ltd. (part-time)	Head of Corporate/Financial Planning Division and President of Daido Metal Saga Co., Ltd. (part-time) In charge of General Affairs Department
April 1, 2016	Yasuo Kawamura	Head of Thinwall Bearings & Turbo Charging Bearings Division and General Manager of Global Business Administration Department	Head of Thinwall Bearings & Turbo Charging Bearings Division
April 1, 2016	Masaki Ikawa	Head of Human Resources Planning Division and Head of Daido Metal College In charge of Purchasing Department	Head of Human Resources Planning Division, General Manager of Human Resources Planning Department and Head of Daido Metal College In charge of Purchasing Department
June 1, 2016	Yasuo Kawamura	Head of Thinwall Bearings & Turbo Charging Bearings Division	Head of Thinwall Bearings & Turbo Charging Bearings Division and General Manager of Global Business Administration Department

7. Changes in important positions at other companies of Directors after April 1, 2016 (including scheduled positions)

Date	Name	New important positions at other companies	Previous important positions at other companies
June 22, 2016	Seigo Hanji	Executive & Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of aforementioned Association	Executive & Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of aforementioned Association Outside Director of Nichirei Corporation

8. Changes in important positions at other companies of Audit & Supervisory Board Members after April 1, 2016 (including scheduled positions)

Date	Name	New important positions at other companies	Previous important positions at other companies
June 22, 2016 June 24, 2016	Kazuo Matsuda	Outside Corporate Auditor of Sumitomo Bakelite Company Limited	Special Advisor of NSK Ltd. Corporate Auditor of NSK-Warner K.K. Outside Corporate Auditor of Sumitomo Bakelite Company Limited

## (2) Outline of Liability Limiting Agreement

The Company amended its Articles of Incorporation at the 107th Annual Shareholders' Meeting held on June 26, 2015 and established a policy regarding the liability limiting agreement for Directors (excluding executive Directors etc.) and Outside Audit & Supervisory Board Members. The outline of the liability limiting agreement, which the Company concluded with Outside Director Mr. Toshikazu Takei, Audit & Supervisory Board Member Mr. Masaaki Tamaya, Outside Audit & Supervisory Board Member Ms. Kuniko Tanabe and Outside Audit & Supervisory Board Member Mr. Kazuo Matsuda in accordance with the provisions of the Company's Articles of Incorporation, is as follows:

- When they are liable for damages caused to the Company for their negligence of duties, they assume such liability up to the amount stipulated by laws and regulations (the minimum liability amount stipulated in Article 425, paragraph 1 of the Companies Act).
- The above liability limitation is allowed only when they act in good faith and without gross negligence with respect to the liability as set forth in Article 423, paragraph 1 of the Companies Act.

## (3) Total Remuneration to Directors and Audit & Supervisory Board Members

Category	Number	Remuneration	Bonus	Total remuneration
Directors (Outside Directors)	6 (1)	199 million yen (8 million yen)	135 million yen (- million yen)	335 million yen (8 million yen)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	3 (2)	36 million yen (22 million yen)	- million yen (- million yen)	36 million yen (22 million yen)

- (Notes) 1. In addition to the above, a total of 37 million yen was paid as employee-portion salaries for employee-directors.
2. "Bonus" is an estimated amount to be paid, if the proposed agenda item No. 4 is approved at the 108th Annual Shareholders' Meeting to be held on June 29, 2016.
3. The limit of remuneration to Directors (excluding employee-portion salaries for employee-directors) as per the resolution of the 98th Annual Shareholders' Meeting held on June 29, 2006 is 400 million yen per annum.
4. The limit of remuneration to Audit & Supervisory Board Members as per the resolution of the 98th Annual Shareholders' Meeting held on June 29, 2006 is 45 million yen per annum.

[Guidelines and Decision-Making Methodology for Calculating the Remuneration Amount for Directors]

### (a) Directors' remuneration

Pursuant to the standard for Directors' remuneration agreed upon by the Board of Directors, the basic policy of Directors' remuneration is to attract and retain personnel suitable for the role of a Director of the Group, to serve effectively as an incentive for raising motivation to enhance business performance, corporate value as well as morale, and the level of remuneration shall correspond to a role, responsibility and business performance of each Director.

In order to ensure objectivity and transparency, the Company established an Advisory Board ("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 of only a "fixed component."

#### (ii) "Monthly remuneration"

- "Monthly remuneration" consists of (1) "fixed component" based on role and responsibility associated with execution of operations of a Representative Director, or a Director concurrently serving as an Executive Officer, and (2) "consolidated performance related component" which is determined after taking into account 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.
- Individual payment amount 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.

### (b) Audit & Supervisory Board Members' remuneration

To ensure independence and neutrality, Audit & Supervisory Board Members' remuneration shall consist of only a "basic remuneration" as a fixed component. Payment amount to each Audit & Supervisory Board Member shall be determined following discussion by the Audit & Supervisory Board.

**(4) Status of Outside Directors and Outside Audit & Supervisory Board Members**

1) Matters relating to positions concurrently held by operating officer of other corporations and outside officers etc.

Name	Material concurrent holding of positions	Relation between the Company and such other corporations
Toshikazu Takei (Outside Director)	Managing Director of Japan Center for International Finance	The Company has no transaction with Japan Center for International Finance.
Kuniko Tanabe (Outside Audit & Supervisory Board Member)	Partner, Lawyer of Tanabe & Partners	Although the Company has concluded a consultant agreement with Tanabe & Partners and pays consultant fee annually, such consultant fee is relatively small compared with the scale of Tanabe & Partners. Ms. Tanabe is not included in the list of lawyers who provide consultation services to the Company and not involved in the Company's requests.
	Outside Director of KDDI CORPORATION	The Company has no particular relation with KDDI CORPORATION, which is required to be disclosed.
Kazuo Matsuda (Outside Audit & Supervisory Board Member)	Special Advisor of NSK Ltd.	The Company has no particular relation with NSK Ltd., which is required to be disclosed.
	Corporate Auditor of NSK-Warner K.K.	The Company sells its products to NSK-Warner K.K. but such sales are accounted for 0.5% to the Company's consolidated sales.
	Outside Corporate Auditor of Sumitomo Bakelite Company Limited	The Company has no particular relation with Sumitomo Bakelite Company Limited, which is required to be disclosed.

(Note) Mr. Kazuo 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.



2) Main activities of Outside Officers

Position	Name	Main activities
Director	Toshikazu Takei	Attended all 12 meetings of the Board of Directors held after he assumed office in June 2015. Making remarks based on his rich experience and broad insights as he was long engaged in business execution and served managerial positions at the Bank of Japan; and he is familiar with international businesses.
Audit & Supervisory Board Members	Kuniko Tanabe	Attended 14 out of 15 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2015. Making remarks from a professional well-versed viewpoint in corporate legal affairs based on her rich experience as a lawyer.
Audit & Supervisory Board Members	Kazuo Matsuda	Attended all 15 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2015. Making remarks from a wide viewpoint based on his rich insight on corporate management accounting and governance of business as he is familiar with finance and international businesses through his many years' experience at banks and securities companies and he has experience and knowledge gained from the management of a manufacturing company.

## 5. Independent Auditor

### (1) Name

Deloitte Touche Tohmatsu LLC

### (2) Liability Limiting Agreement

None

### (3) Remuneration

	Amount paid
Remuneration for its audit work for the current period, payable by the Company	42 million yen
Total remuneration and benefits payable by the Group	51 million yen

(Notes) 1. Financial statements of the following material subsidiaries are audited by the qualified accountant / auditor /auditing firm other than Deloitte Touche Tomatsu, the Company's independent auditor:

- Dong Sung Metal Co., Ltd. (Korea)
- Daido Precision Metal (Suzhou) Co., Ltd. (China)
- Chung Yuan Daido Co., Ltd (Taiwan)
- PT. Daido Metal Indonesia (Indonesia)
- Dyna Metal Co., Ltd. (Thailand)
- Daido Metal U.S.A. Inc. (U.S.A.)
- Daido Metal Mexico S.A. de C.V. (Mexico)
- Daido Metal Mexico Sales, S.A. de C.V. (Mexico)
- Daido Metal Kotor AD (Montenegro)
- Daido Industrial Bearings Europe Ltd. (England)
- Daido Metal Germany GmbH (Germany)
- Daido Metal Czech s.r.o. (Czech Republic)
- Daido Metal Europe Ltd. (England)
- Daido Metal Russia LLC (Russia)

2. Remuneration for the audit as per "Companies Act" and as per "Financial Instruments and Exchange Law" is combined in the contract, and amount of work is practically inseparable among the two. As such, the amount of remuneration for the current period represents the total payable.

3. Audit & Supervisory Board reviewed the audit plan, audit procedure, basis of calculation for remuneration, and other documents provided by the Independent Auditor. After an overall assessment, Audit & Supervisory Board agreed with the amount of remuneration, an agreement expected as per Article 399, paragraph 1 of the Companies Act.

### (4) Non-audit Services provided

None

### (5) Policy regarding the decision to dismiss or not to re-appoint the Independent Auditor

Policy regarding the decision to dismiss or not to re-appoint the independent auditor is as follows:

- 1) The Audit & Supervisory Board will decide on an agenda item regarding dismissal or non-reappointment of the Independent Auditor when (1) the cases prescribed in each item of Article 340, paragraph 1 of the Companies Act, applies, or (2) dismissal or non-reappointment is considered necessary based on overall consideration of audit ability, credibility, audit fees, years of continuous audits etc.
- 2) If any cases prescribed in each item of Article 340, paragraph 1 of the Companies Act have occurred, and if the Audit & Supervisory Board considers the case too urgent to wait for the approval of the shareholders meeting, the Audit & Supervisory Board can dismiss the Independent Auditor with the consent of all Audit & Supervisory Board members. In such a case, an Audit & Supervisory Board Member elected by the Audit & Supervisory Board will report the fact of dismissal and reasons for dismissal to the first Shareholders' Meeting held after the dismissal.
- 3) In the event of dismissal or non-reappointment of the Accounting Auditor, the Audit & Supervisory Board shall collect information on prospective accounting auditors and deliberate over them at the earliest point. If the Independent Auditor is dismissed based on Article 340, paragraphs 1 and 4 of the Companies Act, the Audit & Supervisory Board will determine the content of an agenda item regarding the election of a new Independent Auditor based on overall consideration of auditing ability, credibility, audit fees etc., pursuant to Article 344, paragraphs 1 and 3 of the Companies Act by the first Shareholders' Meeting to be convened after the dismissal. If an agenda item regarding dismissal or non-reappointment of the Independent Auditor is submitted to a Shareholders' Meeting, the Audit & Supervisory Board will do the same by the said Shareholders' Meeting.

## **6. System for Ensuring Proper Business Operations**

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

### **(1) Retention and Control of Information on the Performance of Duties by Directors**

- 1) The General Affairs Department is designated as the department responsible for retention and control of information on the performance of duties by Directors.
- 2) The General Affairs Department implements a system to retain and control information related to the performance of duties by Directors including the "Regulations of the Board of Directors," the "Rules on Document Control" and the "Rules on Decisions and Approvals". It may give directions to the departments responsible on the correct measures for the retention and control of such information.
- 3) 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**

- 1) The Risk Management Committee is designated as the committee responsible for regulations and other systems regarding risks of loss by the Company.
- 2) The Risk Management Committee develops a system to properly manage risk based on the "Rules on Risk Management."
- 3) The Risk Management Committee sets risk items to be monitored from a management standpoint and reports to the Board of Directors accordingly.
- 4) The Risk Management Committee designates departments to implement control measures to mitigate each risk item, and to report the status (result) of the risk to the Board of Directors.

### **(3) System to Ensure Efficient Performance of Duties by Directors**

- 1) The Corporate Planning Department is designated as the department responsible for a system to ensure efficient performance of duties by Directors.
- 2) Each department in charge formulates management plans such as the Midterm Business Plan, short-term management plans, capital investment plans and financial plans based on the Company's management policy, leading to the allocation of management resources.
- 3) Each responsible department compiles a progress report, and reports to a meeting of the Board of Directors.
- 4) The Corporate Planning Department develops (establishes/revises) rules such as the "Rules for Organization," the "Rules for Segregation of Duties" and the "Rules for Authorities" as necessary, which contribute to the efficient and appropriate organization and efficient performance of duties.
- 5) At least once every quarter, Executive Directors report if their own duties were performed efficiently, and if their decisions were made appropriately at a meeting of the Board of Directors.

### **(4) System to Ensure that Performance of Duties by Directors and Employees Conform to Laws and Regulations and Articles of Incorporation**

- 1) The Corporate Ethics Committee is designated as the committee responsible for a system to ensure that performance of duties by Directors and employees conforms to laws and regulations and Articles of Incorporation.
- 2) The Corporate Ethics Committee drafts the "Code of Conduct" and the "Standards of Conduct" in complying with the internal rules of the Company etc., and revises their contents as necessary after obtaining approval from the Board of Directors.
- 3) Based on the "Rules on Operation and Management of Standards of Conduct", the Corporate Ethics Committee deliberates on rules and other important matters related to compliance, and instructs the department in charge on the necessary measures.
- 4) The Corporate Ethics Committee instructs the Compliance Unit to provide employees with regular compliance education/training in order to strengthen/fully enforce compliance and keep them informed and aware of compliance.
- 5) The Corporate Ethics Committee reports to the Board of Directors and the Audit & Supervisory Board on the status of compliance on a regular basis.
- 6) The General Affairs Department assumes the role of company-wide control on "Attitude to Anti-Social Forces" included in the "Standards of Conduct," in order to assume a resolute attitude toward any forces/groups threatening the healthy activities of the Group.
- 7) The General Affairs Department assumes the role of company-wide control, which endeavors to collect information on any anti-social forces and suspicious groups, in close collaboration with external institutions (related government offices/associations/lawyers etc.). The General Affairs Department centrally manages such information, including internal distribution of information, and raises awareness of employees.

**(5) System to Ensure Appropriate Business Operations in the Group**

- 1) The Compliance 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.
- 2) 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.
- 3) The Corporate Planning Department reviews “Affiliated Companies Management Rules” as necessary in order to ensure the effectiveness/efficiency of business operations between the Company and its group companies, and keeps them informed and aware of the rules.
- 4) The Corporate Planning Department makes the group companies report monthly on their performance of duties, financial conditions etc. through “Monthly Reports” and other reports.
- 5) The Risk Management Committee establishes policies concerning a system for managing risks of loss at the group companies, and the group companies develop and operate their rules based on such policies. The group companies periodically report their progress and situation to the Risk Management Committee.
- 6) Each responsible department reports the status of development and operation of each system of “Internal Control System” of the group companies when they make periodical report to the Board of Directors and the Audit & Supervisory Board.

**(6) Assigning Employees to Assist the Duties of Audit & Supervisory Board Members of the Company, System to Ensure Independence of Such Employees and the Effectiveness of Instruction from the Audit & Supervisory Board Members**

- 1) The Corporate Planning Department is designated as the department responsible for assigning employees to assist the duties of Audit & Supervisory Board Members and for the independence of such employees.
- 2) An “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.
- 3) 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.
- 4) 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**

- 1) The Head of Compliance Unit is designated as the person responsible for reporting to Audit & Supervisory Board Members.
- 2) Directors and employees swiftly report the following matters to Audit & Supervisory Board Members, in addition to statutory reporting matters, when they occur:
  - a. Cases discussed/reported in the management meeting etc. in which Audit & Supervisory Board Members are not present;
  - b. Cases that are likely to cause significant damage to the Company;
  - c. Results of internal audits on the group companies performed by the Audit Department;
  - d. Status of whistleblowing and content of the information; and
  - e. Other matters which the Audit & Supervisory Board considers necessary to be reported in the course of performing its duties.
- 3) “Rules on Whistleblowing, and Report and Consultation” stipulates whistleblowing and who to inform inside and outside the Company, and all employees throughout the Group in Japan are kept informed of development and operation of the whistleblower system.
- 4) Officers and employees of the group companies, or those who have received reports or consultation from officers and employees of the group companies, report to Audit & Supervisory Board Members in appropriate manner about any and all information useful for the performance of duties by Audit & Supervisory Board Members.
- 5) If any compliance issue is found in a whistleblower report, the Head of Compliance 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.
- 6) The Company assures that employees (including employees of the group companies) who have reported to the Audit & Supervisory Board Members will not be dismissed or treated unfairly as a result of their disclosure.

**(8) Other Systems to Ensure Effective Audit to be performed by Audit & Supervisory Board Members**

- 1) The Compliance Unit is designated as the department responsible for a system to ensure effective performance of audit by Audit & Supervisory Board Members.
- 2) The Company maintains a system that allows Audit & Supervisory Board Members and the Audit & Supervisory Board to have regular meetings with the Representative Director, confirming the management policies of the Representative Director, and to exchange opinions regarding the issues to be addressed by the Group, risks surrounding the Group, status of improvements in the audit environment, significant matters in performing audits and other matters.
- 3) The Company pays necessary expenses in advance or on request where necessary for the performance of duties by the Audit & Supervisory Board Members of the Company.

**7. Outline of Operation to Ensure the Appropriateness of Business Operations**

With regard to retention and control of information on performance of duties by Directors, the Company 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” 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 affiliates, 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 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 implemented a system this year 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 on budgets, capital investment, risk control, compliance status etc.

## **8. Fundamental Policies on the Governance of the Company**

### **(1) Details of Fundamental Policies**

The fundamental policies for people who control decisions on financial and business policies 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. However, the circumstances surrounding our business have been changing dramatically, and therefore a short-term business decision is important to ensure sustainable growth in the future. In the Midterm Business Plan, the Company plans to reorganize its business base during Stage 1 (from FY2012 to FY2014), and achieve the Group's challenge targets of "consolidated net sales of 111 billion yen, operating income of 16.7 billion yen, and an operating margin of 15% or more" in the final years of Stage 2 (from FY2015 to FY2017).

The Company will strive to strengthen sustainable business foundations and further enhance corporate value by continuously implementing the Midterm Business Plan.

Together with our various stakeholders including business partners such as customers and suppliers, employees and their families, local residents and others, the Company will respond to short-term and rapid changes in a flexible manner, and achieve sustainable business management growth from medium to long term perspectives. The Company believes that returning sustainable level of profits to shareholders would be beneficial to common interests than distributing in short-term perspective or out of tentative profits. The Company would therefore like to have its shares held in balanced manner by those stakeholders, customers, suppliers, employees and their families, and local residents, who support our objective of sustainable growth with medium and long term perspectives.

### **(2) Initiatives to achieve Fundamental Policies**

#### **1) Specific initiatives to the achievement of fundamental policies**

- a. Effective use of 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 mid 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 community's recognition of the Company
  - The Company interacts with local communities and tries to improve the recognition of the Company by attending social programs and inviting local residents to factory tours at major business locations.

#### **2) Preventive measures against shareholders who do not share our fundamental policies**

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

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

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

Also, the Company does not exclude the option of taking preventive measures against possible hostile take-over bit, 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 to motion only when the acquisition is against the Company's fundamental policies.

**9. Other material issues relating to the Company**

None

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(Note) Amounts, numbers of shares, percentages of voting rights held, and percentages of shareholding described in this Business Report are presented by rounding down fractions. For other ratios, fractions are rounded down to the nearest unit.