

(Attachment)

## Business Report

( From: April 1, 2016  
To: March 31, 2017 )

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

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

##### 1) Economic conditions

###### Global

World economy overall saw a moderate recovery during the current consolidated fiscal year, although some weakness remained in some sectors or regions of the world. The US economy is strong, owing to higher personal spending backed by reduced unemployment rate, and buildup in inventories. In Europe overall, the economy continues its moderate recovery trend, with some proof to the contrary visible in some areas. In China, economic policy stimulus by the government keeps the economy going strong.

###### Japan

With regard to Japanese economy, personal spending is generally in a recovery trend, as evidenced by the pick-up in new car sales thanks to an improved employment and salary/wage conditions. On the other hand, uncertainty prevails with the events as UK's exit from the European Union (Brexit), or new US administration's possible shift toward inward-looking policy platform and protectionism, which caused significant fluctuations in foreign exchange rates and share prices.

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

In the automotive sector, the Group's core business area, new car sales for 2016 (calendar year) were 93.00 million units worldwide (a year-on-year increase of 4.4%), recording a historical high for seven consecutive years. The overall increase was led by the Chinese market where the effect of tax breaks on small-sized passenger cars continued, and by the US and European markets where sales remained strong throughout the year.

Domestic automotive production volume in the current period was 9.08 million, approximately 1.0% less compared with the previous fiscal year. Decline is partly due to the continued effect of the rise of light vehicle tax from the previous period, and the effect of increased shift of automotive production by the Japanese auto makers to the overseas countries. On the other hand, the volume of overseas automotive production by Japanese auto makers for 2016 (calendar year) increased to 18.50 million units (a year-on-year increase of 2.2%), recording a historical high for seven consecutive years.

In the non-automotive sector, the shipbuilding industry to start with, worldwide new orders for 2016 (calendar year) were at the lowest since the global financial crisis of 2008 triggered by the bankruptcy of the Lehman Brothers, as new orders for bulk carriers, tankers, and other types of vessel were at a record low. As a result, the number of vessels scrapped exceeded the number of new shipbuilding contracts. Globally, conditions of excess tonnage remain, and it is believed that it will require some time for the balance of supply and demand to improve.

For the construction machine industry, demand to meet 2011 exhaust gas emission regulation in Japan now subsided, and the amount of domestic shipments for 2016 (calendar year) decreased by 4.3% compared with the previous year. In overseas markets, exports decreased by 9.7% as sluggish demand continued in China and in resource-rich countries for mining-machines. The total shipments of the construction machine industry decreased 7.4%, but signs of recovery are now visible.

In other industry sectors, the new area of electrode sheets for electric double layer capacitors grew, and there was firm demand for special types of bearings used in electric power generation facilities in the electric power/energy related business.

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

Under this business environment, consolidated net sales of the Group for the period were 85,073 million yen, an increase of 3,672 million yen (up 4.5%) compared with the previous period.

Domestic sales increased by 1,465 million yen (up 3.2%). This was due to an inclusion of Iino Holding Ltd. coming under the scope of consolidation from the fourth quarter, and the growth in the new area of electrode sheets for electric double layer capacitors, etc., which compensated the effects of a small decline in domestic production volume by Japanese auto manufacturers, and declines in ship and construction segments.

Overseas sales increased by 2,207 million yen (up 6.0%). By location, sales in Asia increased by 577 million yen (+3.6%), with a strong increase in China and Thailand. Sales in North America increased by 1,889 million yen (up 23.2%), with an increase in the production of automotive engine bearings in Mexico exceeded our expectations, which more than compensated the decline in construction machine-related segments. In Europe (including Russia), automotive-related sales remained robust and sales increased on a local currency basis, but ended up with the decrease of 259 million yen (down 2.1%) due to the stronger yen.

Operating income was 5,103 million yen, a decrease of 2,010 million yen (down 28.3%) compared with the previous

period, mainly due to the sluggish market condition in shipbuilding and construction machinery industries that resulted in the decrease in demand for high value-added items. It is also due to our Mexico subsidiary's failure to achieve profitability planned for the current period which was caused by increased production, inspection and logistic costs to meet sudden and large increase in new order, as the Company prioritized quality and delivery deadlines. Ordinary income was 5,427 million yen, a reduction of 1,368 million yen (down 20.1%) compared with the previous period. Reduction in foreign exchange loss contributed to the limited decrease in ordinary income. Profit attributable to owners of parent was 2,635 million yen, a decrease of 1,284 million yen (down 32.8%) compared with the previous period. This was due to the impairment loss recorded by the subsidiaries; impairment in land with NDC Co., Ltd., and impairment in manufacturing equipment with Daido Industrial Bearings Europe Limited. Besides, although there is no effect on consolidated results, the Company reported in non-consolidated financial results, devaluation loss on the shares of subsidiaries; of 3,959 million yen for Daido Metal U.S.A. Inc. and 142 million yen for Daido Industrial Bearings Europe Limited.

#### 4) Results by segment

Sales to external customers by segment are as follows.

Please note that due to the review of business grouping, a part of the "Automotive non-engine bearings" business is now included in "Automotive engine bearings" from this period. Previous period numbers appearing below are recalculated according to this new grouping.

##### a) Automotive engine bearings

In Japan, sales were affected by the transfer of the production of bearings from Japan to group companies overseas, and by decreased domestic car production, but sales resulted in moderate increase as the increased sales of bearings for turbochargers and high value-added engine bearings more than compensated the decrease. In overseas market, strong orders, mainly in North America and in Asia, China and Thailand in particular, made up for the decrease in Europe, where sales decreased due to the exchange rates effect. As a result, sales were 59,365 million yen, an increase of 4,361 million yen (up 7.9%) compared with the previous fiscal year.

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

Net sales were 12,757 million yen, a decrease of 218 million yen (down 1.7%). Same as Automotive engine bearings, production in Japan decreased with continuing transfer to overseas group companies. Overseas sales decreased due to the exchange rates effect (mainly in European currencies).

##### c) Non-automotive bearings

With regard to bearings for general industries, demand for special type of bearings used for equipment in power plant or in petrochemical plant remained firm, but with the impact of sluggish markets in ship and construction machine-related segments continued, net sales were 9,691 million yen, a decrease of 2,021 million yen (down 17.3%) compared with the previous period.

##### d) Other automotive parts

From the current consolidated fiscal year, the sales of Iino Holding Ltd., ATA Casting Technology Japan Co., Ltd., and their subsidiaries will be reported in this segment. For the current fiscal year, Group's results include only the fourth quarter sale of Iino Holding Ltd. and its subsidiaries whose accounting period ends as of March 31. The sales amounted to 1,241 million yen.

##### e) Others

As a result of a significant increase in sales of electrode sheets for electric double layer capacitors, net sales including the metallic dry bearings business, pump-related products businesses and the real estate leasing business were 2,017 million yen, an increase of 310 million yen (up 18.2%) compared with the previous period.

#### (Sales by segment)

Segment	Net sales (Millions of yen)	
	FY 2015 108 <sup>th</sup> term	FY 2016 109 <sup>th</sup> term (Current Period)
Automotive engine bearings	55,003	59,365
Automotive non-engine bearings	12,976	12,757
Non-automotive bearings	11,713	9,691
Other automotive parts	—	1,241
Others	1,707	2,017
Total	81,400	85,073

(Note) Sales represent the amount to external customers.

## (2) Status of Financing etc.

### 1) Financing

During the current period, the Company borrowed 18.6 billion yen from financial institutions in order to finance acquisitions of Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd., both of which became the Company's subsidiaries.

### 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 chargers for automobiles), 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 12,329 million yen, a decrease of 2,473 million yen compared with the previous period.

(Major capital investments during the current period)

- Investment in existing bimetal production sites and in DAIDO METAL SAGA CO., LTD., a new bimetal production site.
- Construction of the third plant and other investment for production efficiency at Daido Plain Bearings Co., Ltd.
- Investment to enhance production of automotive engine bearings at overseas production sites in Mexico, China, Thailand, South Korea and others.
- Investment in special equipment for research and development.

### 3) Acquisition or disposal of shares or other equity in other companies or subscription rights to shares, etc.

On December 6, 2016, the Company acquired 100% of the shares of Iino Holding Ltd. that controls and manages subsidiaries that manufacture and sell high-precision and high-quality parts for automotive engines and transmissions (such as formed pipes, knock pins, milled parts, etc.), and Iino Holding Ltd. has become a wholly owned consolidated subsidiary of the Company.

On January 31, 2017, the Company acquired 100% of the shares of ATA Casting Technology Japan Co., Ltd. that designs and develops aluminium die cast automotive parts, and ATA Casting Technology Japan Co., Ltd. has become a wholly owned consolidated subsidiary of the Company.

### (3) Financial Conditions and Operating Results

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

Category \ Fiscal year	FY 2013 106 <sup>th</sup> term	FY 2014 107 <sup>th</sup> term	FY 2015 108 <sup>th</sup> term	FY 2016 109 <sup>th</sup> term (Current period)
Net sales (Millions of yen)	77,350	85,015	81,400	85,073
Operating income (Millions of yen)	7,368	7,633	7,114	5,103
Ordinary income (Millions of yen)	8,063	8,129	6,796	5,427
Profit attributable to owners of parent (Millions of yen)	4,735	4,459	3,919	2,635
Net income per share (Yen)	118.89	112.00	98.44	66.19
Net assets (Millions of yen)	46,733	53,093	52,148	52,964
Total assets (Millions of yen)	104,099	116,533	122,920	155,284

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

Category \ Fiscal year	FY 2013 106 <sup>th</sup> term	FY 2014 107 <sup>th</sup> term	FY 2015 108 <sup>th</sup> term	FY 2016 109 <sup>th</sup> term (Current period)
Net sales (Millions of yen)	58,978	67,269	64,665	63,345
Operating income (Millions of yen)	3,994	5,296	3,836	2,695
Ordinary income (Millions of yen)	4,611	6,220	5,294	4,500
Profit (loss) (Millions of yen)	3,387	4,000	4,141	(577)
Net income (loss) per share (Yen)	85.04	100.46	104.01	(14.49)
Net assets (Millions of yen)	36,039	39,301	42,199	40,707
Total assets (Millions of yen)	69,245	77,042	82,295	102,831

#### **(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. FY2017, ending March 31, 2018, is the final year of the plan.

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 "Together to The Top" (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's 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 country, and (6) establishing solid financial foundations.

In Stage 1 of the Midterm Business Plan (FY2012 to FY2014) the Group's target was to expand and reorganize business bases in order to enhance production on a global basis to deal with increasing sales. In Stage 2 of the Midterm Business Plan (from FY2015 to FY2017), we aim to achieve the Group's 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.

##### 2) Result of Stage 1

The Group 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 strove 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 the 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 promoted activities to improve profitability, and advanced efforts to improve productivity, in particular by introducing innovative machining lines and compact lines in Japan and overseas for automobile engine bearings.

Through these initiatives, the Group 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 firmer 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 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 Limited (India), and working on the truck bearing business and the bearing business for foreign automobile manufacturers at Daido Metal Russia LLC. DAIDO METAL SAGA CO., LTD. established in April 2015 to increase production capacity for bimetal, a material used for bearings, started mass production in August 2016.

The Group set up the North American Technical Center in the US in October 2015 for technical support services. In January 2017, design engineers at the European Technical Center in the Czech Republic were relocated to premises in the suburbs of Stuttgart in Germany to be closer to customers. By integrating the engineering team with the sales team, we have established a system that enables us to speedily grasp user needs and offer technical support. Through these initiatives, the Group will further promote the technical services based on the Customer First principle on a global basis as part of efforts to expand sales.

Furthermore, with an increased number of manufacturing bases in Japan and overseas, the Group is working to establish a streamlined production system on a global basis and review business processes (business process reengineering) in order to promote more efficient business development. Specifically, in April 2016, the Group established the Global Business Administration Department to optimize global production and facility deployment so as to increase production efficiency on a global basis and to achieve uniform quality around the world. The Company established the Business Process Re-engineering (BPR) Department in April 2016 and is promoting cross-organizational reform in order to improve productivity within non-manufacturing area.

One of the Group's urgent issues to tackle is the struggling situation in production lines at Daido Metal Mexico, S.A. de C.V. plant, caused by the rapid increase in orders received by Daido Metal U.S.A. Inc., and related increase in various expenses. The Group is making a concerted effort to normalize the production lines and to eliminate cost increase factor, and to normalize logistics. The situation is now under control and we expect the North American operation to be profitable in FY2017.

At NDC Co., Ltd. in response to the reducing production volumes by automotive manufacturers in Japan, reorganization of the production based on the application is now under way, and we foresee its return to profitability soon.

### 4) Formulation of the next Midterm Business Plan

The Company is formulating its next Midterm Business Plan, which will be an ambitious one to strengthen the Company's fundamentals and achieve further growth in financial performance in view of the next stage of the Group's development.

The Group's fundamental objective is unchanged and the Group will continue its efforts to gain the global top share in all segments of plain bearings. On the other hand, with the aim of product and business diversification and multifaceted expansion, the Company acquired Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd. in FY2016.

Iino Holding Ltd. and its subsidiaries manufacture and sell high-precision and high-quality parts for automotive engines and transmissions (such as formed pipes, knock pins, milled parts, etc.). ATA Casting Technology Japan Co., Ltd. and its subsidiary manufacture and sell aluminium die cast automotive parts in Thailand.

We will expand our sales channel further, adding these two companies in the Group, and selling their products through long established sales network of the Group.

In addition, acquisition of these two companies will be the foundation for growth of new businesses other than bearings. Leveraging on the Group's current global production and sales network, the globalization process of these two companies will be accelerated. We can enhance technological and production capabilities and improve efficiency of operations through exchange of human resources and sharing of technologies and expertise. Through these initiatives, the Group intends to establish a foundation for a new round of growth in the period of the next Midterm Business Plan.

Business environment surrounding the Group is rapidly changing. Uncertainties such as the Brexit or the transition to new administration in the US, together with increased geopolitical tensions around the world are increasing. In Japan, there is a pressing need to reform working styles to remedy the long-hour work, or decrease in workforce due to aging population. 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 improving productivity and enhancing customer services. Moreover, in addition to ensuring compliance, with initiatives to enhance internal systems in light of the Corporate Governance Code, 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. The above descriptions may differ from the actual results and the achievement of such is not guaranteed in any way.

**(6) Major Business Lines**

Major business divisions	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, accelerators and decelerators), etc.
Other automotive parts	High-precision and high-quality parts for automotive engines and transmissions (such as formed pipes, knock pins, NC milled parts, etc.), aluminium die cast automotive parts
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	DMS Korea Co., Ltd. (South Korea), Chung Yuan Daido (Guangzhou) Co., Ltd. (China), Daido Metal U.S.A. Inc. (U.S.A.), Daido Metal Mexico Sales, S.A. de C.V. (Mexico), Chung Yuan Daido Co., Ltd. (Taiwan), PT. IINO INDONESIA (Indonesia), Daido Metal Europe GmbH. (Germany), DAIDO METAL EUROPE LIMITED (UK)
Domestic production companies	NDC Co., Ltd. Narashino Plant (Narashino-shi, Chiba), NDC Co., Ltd. Kozaki Plant (Katori-gun, Chiba), Daido Plain Bearings Co., Ltd. (Seki-shi, Gifu), Daido Industrial Bearings Japan Co., Ltd. (Inuyama-shi, Aichi), DAIDO METAL SAGA CO., LTD. (Takeo-shi, Saga), Iino Manufacturing Co., Ltd. Omiya Plant (Saitama-shi, Saitama), Iino Manufacturing Co., Ltd. Yaita Plant (Yaita-shi, Tochigi), Iino Manufacturing Co., Ltd. Tajima Plant (Minamiaizu-gun, Fukushima)
Overseas production companies	Dyna Metal Co., Ltd. (Thailand), Dong Sung Metal Co., Ltd. (Korea), PT. Daido Metal Indonesia (Indonesia), Daido Precision Metal (Suzhou) Co., Ltd. (China), Daido Metal Mexico, S.A. de C.V. (Mexico), Daido Industrial Bearings Europe Limited (UK), DAIDO METAL KOTOR AD (Montenegro), DAIDO METAL CZECH s.r.o. (Czech Republic), Daido Metal Russia LLC (Russia), Korea Dry Bearing Co., Ltd. (Korea), IINO (Foshan) Technology Co., Ltd. (China), PHILIPPINE IINO CORPORATION (Philippines), ISS America, Inc. (U.S.A.), ISS MEXCIO MANUFACTURING S.A. de C.V. (Mexico), ATA Casting Technology Co., Ltd. (Thailand)
Other domestic companies	DAIDO LOGITECH CO., LTD. (Inuyama-shi, Aichi), Asia Kelmet Co., Ltd. (Ohta-ku, Tokyo), Iino Holding Ltd. (Saitama-shi, Saitama), ATA Casting Technology Japan Co., Ltd. (Kikugawa-shi, Shizuoka)
Other overseas company	SUPER CUB FINANCIAL CORPORATION (Philippines)



## 2) Employees

### a. Employees of the Group

Number of employees (persons)		Change from previous period (persons)	
Japan	2,464	Increase	257
Overseas	3,903	Increase	1,473
Total	6,367	Increase	1,730

(Notes) 1. In addition to the above, temporary employees (total of 587) 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)
1,255	Decrease 30	37.5	13.6

(Notes) 1. In addition to the above, temporary employees (total of 181) 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	Note 2
Daido Industrial Bearings Japan Co., Ltd.	80 million yen	100.0%	Production of bearings	
Asia Kelmet Co., Ltd.	55 million yen	100.0%	Real estate leasing	
DAIDO METAL SAGA CO., LTD.	100 million yen	100.0%	Production of material for bearings etc.	
Iino Holding Ltd.	96 million yen	100.0%	Holding company	
Iino Manufacturing Co., Ltd.	96 million yen	100.0% (100.0%)	Manufacture and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
ATA Casting Technology Japan Co., Ltd.	10 million yen	100.0%	Design and development of aluminium die cast automotive parts	
Daido Precision Metal (Suzhou) Co., Ltd.	115,714 thousand Chinese yuan	90.2% (16.2%)	Production and sales of bearings	Note 2
IINO (Foshan) Technology Co., Ltd.	7,796 thousand Chinese yuan	100.0% (100.0%)	Manufacture and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
Chung Yuan Daido Co., Ltd.	120 million new Taiwan yuan	50.0%	Sales of bearings	Note 1
Dong Sung Metal Co., Ltd.	6,120 million Korean won	50.0%	Production and sales of bearings	Note 1
Dyna Metal Co., Ltd.	200 million Thai baht	50.0%	Production and sales of bearings	Note 1
ATA Casting Technology Co., Ltd.	340 million Thai baht	100.0% (99.9%)	Manufacture and sales of aluminum die cast automotive parts	Note 2
PT. Daido Metal Indonesia	13,748 million Indonesian rupiah	50.0%	Production and sales of bearings	Note 1
PT. IINO INDONESIA	2,845.5 million Indonesian rupiah	99.0% (99.0%)	Manufacture and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
PHILIPPINE IINO CORPORATION	80,835 thousand yen	99.9% (99.9%)	Manufacture and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2

Name	Capital stock or investments in capital	Percentage of voting rights held by the Company	Major businesses	Notes
SUPER CUB FINANCIAL CORPORATION	20 million Philippine peso	59.9% (59.9%)	Sales financing	Note 2
Daido Metal U.S.A. Inc.	40,900 thousand US dollar	100.0%	Production and sales of bearings	
ISS America, Inc.	650 thousand US dollar	100.0% (100.0%)	Manufacture and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
Daido Metal Mexico, S.A. de C.V.	283,328 thousand Mexico peso	100.0% (0.0%)	Production of bearings	Note 2
Daido Metal Mexico Sales, S.A. de C.V.	2,644 thousand Mexico peso	100.0% (0.0%)	Sales of bearings	Note 2
ISS MEXCIO MANUFACTURING S.A. de C.V.	22,400 thousand Mexico peso	100.0% (100.0%)	Manufacture and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
Daido Industrial Bearings Europe Limited	13,500 thousand Sterling pound	100.0%	Production of bearings	
DAIDO METAL KOTOR AD	26,535 thousand euro	99.6%	Production and sales of bearings	
Daido Metal Europe GmbH.	500 thousand euro	100.0%	Sales of bearings	
DAIDO METAL CZECH s.r.o.	50 million Czech koruna	100.0%	Manufacture and sales of bearings	
DAIDO METAL EUROPE LIMITED	3,613 thousand Sterling pound	100.0%	Sale of bearings	
Daido Metal Russia LLC	430 million Russian ruble	99.8%	Manufacture and sales of bearings	
(Unconsolidated subsidiaries to which equity method is applied)				
Korea Dry Bearing Co., Ltd.	3,100 million Korean won	50.0% (50.0%)	Manufacture and sale of bearings	Note 1 & 2
(Associated companies to which equity method is applied)				
BBL Daido Private Limited	280 million Indian rupee	50.0%	Manufacture and sales of bearings	
Shippo Asahi Moulds (Thailand) Co., Ltd.	205 million Thai baht	40.6% (40.6%)	Manufacture and sales of molds for die casting	Note 2

(Notes)

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.	20,653
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	9,632
Sumitomo Mitsui Banking Corporation	3,917
Sumitomo Mitsui Trust Bank, Limited	3,589
Development Bank of Japan Inc.	2,940

### (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 15 yen per share.

As a result, the annual dividend, including the interim dividend of 15 yen per share (actual), would be 30 yen per share, an increase of 4 yen compared with the annual dividend of 26 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), unchanged from 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 5,140,926 shares)  
(3) Number of shareholders at end of the period 4,411 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)	3,028	7.60
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,262	5.68
Sumitomo Mitsui Trust Bank, Limited	1,978	4.96
Mizuho Bank, Ltd.	1,977	4.96
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	1,295	3.25
The Seri Wathana Industry Co, Ltd. 703000	1,000	2.51
Nisshin Steel Co., Ltd.	909	2.28
Marubeni-Itochu Steel Inc.	886	2.22

(Notes) 1. The Company holds treasury stocks of 5,140,926 shares, which is excluded from the above list.

2. Ratio of shareholding is calculated against total shares outstanding net of treasury stocks (5,140,926 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, 2017)

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
President & Chief Operating Officer (COO)	Kotaro Kashiyama	In charge of Audit Department and Secretarial Department
Director and Senior Managing Executive Officer	Toshiyuki Sasaki	General Manager of Business Process Re-engineering (BPR) Department and President of DAIDO METAL SAGA CO., LTD. (part-time)
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 and Head of Daido Metal College In charge of Purchasing Department
Director	Toshikazu Takei	Managing Director of Japan Center for International Finance
Director	Kiyotaka Hoshinaga	President, Fujita Health University Managing Director, Fujita Academy Incorporated Educational Institution
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	Executive Advisor of NSK Ltd. Outside Director of Sumitomo Bakelite Co., Ltd.

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

7. Changes in duties and departments on or after charge April 1, 2016

Date	Name	New duties and departments in charge	Previous duties and departments in charge
April 1, 2017	Kotaro Kashiyama	In charge of Audit Department, Secretarial Department, and Bimetal Division	In charge of Audit Department and Secretarial Department
April 1, 2017	Yasuo Kawamura	—	Head of Thinwall Bearings & Turbo Charging Bearings Division
April 1, 2017	Masaki Ikawa	Head of Human Resources Planning Division and Head of Daido Metal College In charge of Purchasing Department and High Performance Bearings and Equipment Division	Head of Human Resources Planning Division and Head of Daido Metal College In charge of Purchasing Department
April 3, 2017	Toshiyuki Sasaki	General Manager of Business Process Re-engineering (BPR) Department	General Manager of Business Process Re-engineering (BPR) Department and President of DAIDO METAL SAGA CO., LTD. (part-time)

**(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, Outside Director Mr. Kiyotaka Hoshinaga, Audit & Supervisory Board Member Mr. Masaaki Tamaya, Outside Audit & Supervisory Board Member Ms. Kuniko Tanabe and Outside Audit & Supervisory Board Member Mr. Kazuo Matsuda in accordance with the provisions of the Company's Articles of Incorporation, is as follows:

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

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

Category	Number	Remuneration	Bonus	Total remuneration
Directors (Outside Directors)	7 (2)	203 million yen (18 million yen)	121 million yen (– million yen)	324 million yen (18 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 45 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 109th Annual Shareholders' Meeting to be held on June 29, 2017.  
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 officers of other corporations and outside officers etc.

Name	Material concurrent holding of positions	Relation between the Company and such other corporations
Toshikazu Takei (Outside Director)	Managing Director of Japan Center for International Finance	The Company has no transaction with Japan Center for International Finance that would constitute grounds for concluding that Mr. Toshikazu Takei does not have independence from the Company.
Kiyotaka Hoshinaga (Outside Director)	President, Fujita Health University Managing Director, Fujita Academy Incorporated Educational Institution	The Company has no transaction with Fujita Academy Incorporated Educational Institution that would constitute grounds for concluding that Mr. Kiyotaka Hoshinaga does not have independence from the Company.
Kuniko Tanabe (Outside Audit & Supervisory Board Member)	Partner, Lawyer of Tanabe & Partners	The Company has no transaction with Tanabe & Partners that would constitute grounds for concluding that Ms. Kuniko Tanabe does not have independence from the Company.
	Outside Director of KDDI CORPORATION	The Company has no transaction with KDDI CORPORATION that would constitute grounds for concluding that Ms. Kuniko Tanabe does not have independence from the Company.
Kazuo Matsuda (Outside Audit & Supervisory Board Member)	Executive Advisor of NSK Ltd.	The Company has no transaction with NSK Ltd. that would constitute grounds for concluding that Mr. Kazuo Matsuda does not have independence from the Company.
	Outside Director of Sumitomo Bakelite Co., Ltd.	The Company has no transaction with Sumitomo Bakelite Co., Ltd. that would constitute grounds for concluding that Mr. Kazuo Matsuda does not have independence from the Company.

(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 15 meetings of the Board of Directors held during FY2016. Making remarks based on his rich experience and deep insight as he was long engaged in business execution and served in managerial positions at the Bank of Japan; and he is familiar with international businesses.
Director	Kiyotaka Hoshinaga	Attended all 12 meetings of the Board of Directors held after he assumed office in June 2016. Making remarks based on his rich experience and deep insight as he was long engaged in management of a hospital and a university; and he is familiar with organizational management.
Audit & Supervisory Board Members	Kuniko Tanabe	Attended all 15 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2016. 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 FY2016. 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. Accounting 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	62 million yen
Total remuneration and benefits payable by the Group	83 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 accounting 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)
- ATA Casting Technology 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 Limited (UK)
- Daido Metal Europe GmbH. (Germany)
- DAIDO METAL CZECH s.r.o. (Czech Republic)
- DAIDO METAL EUROPE LIMITED (UK)
- 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 Accounting 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 Accounting Auditor

Policy regarding the decision to dismiss or not to re-appoint the Accounting Auditor is as follows:

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

## **6. 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" and the "Rules on Confidential Information Management." It may give directions to the departments responsible on the correct measures for the retention and control of such information.
- 3) The information 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 Conforms to Laws and Regulations and Articles of Incorporation**

- 1) The Corporate Ethics Committee is designated as the committee responsible for a system to ensure that performance of duties by Directors and employees conforms to laws and regulations and Articles of Incorporation.
- 2) The Corporate Ethics Committee drafts the "Code of Conduct" and the "Standards of Conduct" in compliance with the internal rules of the Company etc., and revises their contents as necessary after obtaining approval from the Board of Directors.
- 3) Based on the "Rules on Operation and Management of Standards of Conduct", the Corporate Ethics Committee deliberates on rules and other important matters related to compliance, and instructs the department in charge on the necessary measures.
- 4) The Corporate Ethics Committee instructs the Compliance 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 “Group Companies Management Rules” as necessary in order to ensure the effectiveness/efficiency of business operations between the Company and its group companies, and keeps them informed and aware of the rules.
- 4) The Corporate Planning Department makes the group companies report monthly on their performance of duties, financial conditions, etc. through “Monthly Reports” and other reports.
- 5) The Risk Management Committee establishes policies concerning a system for managing risks of loss at the group companies, and the group companies develop and operate their rules based on such policies. The group companies periodically report their progress and situation to the Risk Management Committee.
- 6) Each responsible department reports the status of development and operation of each system of “Internal Control System” of the group companies when they make periodical report to the Board of Directors and the Audit & Supervisory Board.

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

- 1) The Corporate Planning Department is designated as the department responsible for assigning employees to assist the duties of Audit & Supervisory Board Members and for the independence of such employees.
- 2) An “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 an appropriate manner about any and all information useful for the performance of duties by Audit & Supervisory Board Members.
- 5) If any compliance issue is found in a whistleblower report, the Head of Compliance 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” 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.

## 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 short-term business decisions are important to ensure sustainable growth in the future.

In the final year of the current Midterm Business Plan (6-year plan from FY2012 to FY2017), the Group will make an all-out effort to achieve the targets. The Company is formulating the next Midterm Business Plan that will cover six years from FY2018. With the aim of reestablishing robust business foundations and achieving further business expansion, the Company intends to steadily implement the plan to strengthen sustainable business foundations and enhance corporate value.

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 a sustainable level of profits to shareholders would be beneficial to common interests, rather than distributing from a short-term perspective or out of tentative profits. The Company would therefore like to have its shares held in a balanced manner by those stakeholders, customers, suppliers, employees and their families, and local residents, who support our objective of sustainable growth with medium- and long-term perspectives.

### (2) Initiatives to Achieve Fundamental Policies

#### 1) Specific initiatives for the achievement of fundamental policies

- a. Effective use of the Company's assets to achieve sustainable growth based on medium- and long-term perspectives
  - The Company has in the past, and still now, been effectively utilizing its assets in order to achieve sustainable growth based on medium- and long-term perspectives.
  - In order for the Company to achieve sustainable growth through management from a medium- to long-term perspective, it is necessary to establish 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.

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

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

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

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

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

**(3) Assessment of Above Efforts and its Basis**

It is clear that the above efforts are consistent with the fundamental policies, do not conflict with the common interests of shareholders, and are not intended to secure the positions of the Company's officers. 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.

**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.