

[NOTICE: This Notice of Convocation is a translation of the Japanese original for reference purposes only, and in the event of any discrepancy, the Japanese original shall prevail.]

Securities Code 7245

June 9, 2017

To shareholders with voting rights

3-1, Sakae 2-chome, Naka-ku, Nagoya
13F Nagoya Hirokoji Building

DAIDO METAL CO., LTD.

Chairman and
Chief Executive Officer **Seigo Hanji**

Notice of Convocation of the 109th Annual Shareholders' Meeting

Dear shareholders,

You are cordially invited to the 109th Annual Shareholders' Meeting to be held as set forth below. Your attendance at the meeting will be greatly appreciated.

If you are unable to attend the meeting on the day, you may exercise your voting rights by post or via the Internet. Please kindly review the reference materials for the Annual Shareholders' Meeting that follow this notice, and exercise your voting rights by no later than 5 p.m. on June 28, 2017 (Wednesday).

Yours sincerely,

Note

- 1. Date and time** 10 a.m. on June 29, 2017 (Thursday)
- 2. Venue** 4-2, Marunouchi 2-chome, Naka-ku, Nagoya, Japan
5th Floor Grand Hall of Nagoya Bankers Association
(Please see "Information Map of Venues of Shareholders' Meeting on the final page)
- 3. Purpose**
 - Reporting matters 1. Reporting of the 109th business report (from April 1, 2016 to March 31, 2017), consolidated financial statements and results of the audit of consolidated financial statements by the Accounting Auditor and Audit & Supervisory Board
 2. Reporting of non-consolidated financial statements for the 109th fiscal year (from April 1, 2016 to March 31, 2017)

Matters for resolution

- | | |
|-------------------|--|
| Agenda Item No. 1 | Appropriation of Surplus |
| Agenda Item No. 2 | Election of Six Directors |
| Agenda Item No. 3 | Election of One Substitute Member of Audit & Supervisory Board |
| Agenda Item No. 4 | Payment of Bonuses to Directors |

4. Guidance on exercising voting rights

- (1) Exercising voting rights by post
Please complete the enclosed Voting Card, indicating your approval or disapproval, and send the Card by return mail to be delivered to us no later than 5 p.m. of June 28, 2017 (Wednesday).
- (2) Exercising voting rights via the Internet.
If you exercise your voting rights via the Internet, please review the instructions under “Guidance for exercising your voting rights via the Internet” described on pages 4 and 5. Please access the Website designated by the Company (<http://www.web54.net>) to exercise your voting rights following the instructions on the screen by no later than 5 p.m. on June 28, 2017 (Wednesday).
- (3) If you exercise your voting rights by post AND via the Internet, the voting rights exercised via the Internet shall be treated as the valid vote. If you exercise your voting rights multiple times via the Internet, only your last vote shall be treated as valid.

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- ⦿ **If you attend the meeting in person on the day, please kindly submit the enclosed Voting Card to the reception desk.**
 - ⦿ **If you intend to exercise your voting right by proxy, you can designate a single shareholder of the Company to vote on your behalf. In this case, please submit documentation to prove you have properly assigned your rights to your proxy to vote on your behalf.**
 - ⦿ **The reception desk is scheduled to open at 9 a.m. on the day.**
 - ⦿ **If there are any revisions to the attached documents and Reference Materials for Annual Shareholders’ Meeting they will be posted online on the Company’s website (<http://www.daidometal.com/>).**

Guidance for exercising your voting rights

You may exercise your voting rights either by post (using the Voting Card) or electronically (via the Internet).

If you intend to attend the Annual Shareholders' Meeting in person, it is not necessary to exercise your voting rights by either post or electronically.

- 1) If you intend to attend the Annual Shareholders' Meeting in person: Annual Shareholders' Meeting:
Date and time: 10 a.m. on June 29, 2017

Please bring the enclosed Voting Card and submit it to the reception desk.

- 2) By mail: Deadline for vote: 5 p.m. on June 28, 2017

Please fill the enclosed Voting Card, indicating your approval or disapproval, and send the Card by return mail to be delivered to us by the voting deadline set forth above.

- 3) Via the Internet: Deadline for vote: 5 p.m. on June 28, 2017

If you exercise your voting rights via the Internet, please review the instructions under "Guidance for exercising your voting rights via the Internet" described on pages 4 and 5, and exercise your voting rights by the voting deadline set forth above.

If you have any inquiries, please contact Stock Transfer Agency Web Support phone number listed on the following page.

«To institutional investors»

You can use the electronic voting platform for institutional investors operated by ICJ, Inc. subject to a prior request for use of the platform.

Guidance for exercising your voting rights via the Internet

If you exercise your voting rights via the Internet, please follow the instruction below and access the Website to exercise your voting rights at <http://www.web54.net>. Please enter the “Voting Rights Exercise Code” and “Password” given on the bottom right of the Voting Card, and exercise your voting rights following the instructions on screen.

1. Accessing the Website to exercise your voting rights
URL of the Website: <http://www.web54.net>
If you use a cellular phone or smartphone, you may access the website by scanning the “QR Code” provided on the right-hand side of the Voting Card as well as on the following page of this document.
(*QR Code is the registered trademark of DENSO WAVE INCORPORATED.)
2. Login
Please enter the “Voting Rights Exercise Code” given on the bottom right of the Voting Card.
3. Entering password
Please enter the “Password” given on the bottom right of the Voting Card.

Please then follow the instructions on the screen and indicate your approval or disapproval on the website.

<Help desk for Internet voting>
Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Web Support:
Toll free (only within Japan) 0120-652-031
(Business Hours: from 9 a.m. to 9 p.m., Japanese time)

«Passwords»

- The password is a means to verify the identity of the person exercising voting rights as a shareholder. Please keep the password in a safe place until the conclusion of this Annual Shareholders' Meeting.
- We will not be able to respond to inquiries about the password by telephone.
- If you enter an incorrect password more than a certain number of times, the operation will be locked. If you would like a new password to be issued, please follow the instructions on the screen.

«Notes on the system»

- Accessing the website using PCs (computers)
 - For browser and PDF viewer specification, please check the information on the web site <http://www.web54.net/>
 - Depending on your computer, settings and other software installed, you may not be able to access the Website with your computer even if you use the browser specified above.
 - Please enable Cookies.
 - Please set your screen resolution to at least 800 x 600 pixels (width by height) (SVGA).
- Accessing the Website using cellular phones
 - Please use any cellular phones compatible with the internet connection service of i-mode, EZweb, or Yahoo! Keitai. (Cellular phones must be equipped with SSL communication function which enables encrypted communication.)
 - Please access the website using the QR Code or by entering the URL directly.



QR Code

- Accessing the Website using smartphones or cellular phones via browser
 - You may access the website using full browser function. However, depending on your model, browser or Internet connection, you may not be able to access the website.
- Internet connection and communication charges to Internet service providers as well as communication charges to telecommunication carriers shall be borne by the shareholder.

(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 th term	FY 2016 109 th 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 th term	FY 2014 107 th term	FY 2015 108 th term	FY 2016 109 th 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 th term	FY 2014 107 th term	FY 2015 108 th term	FY 2016 109 th 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

(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.

Consolidated Balance Sheet

(As of March 31, 2017)

(Unit: 1,000 Yen)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	68,101,132	Current Liabilities	73,515,855
Cash and deposits	14,203,589	Notes and accounts payable-trade	8,696,298
Notes and accounts receivable-trade	25,031,493	Electronically recorded obligations - operating	8,143,777
Electronically recorded monetary claims - operating	1,910,597	Short-term borrowings	38,001,952
Merchandise and finished goods	9,355,428	Current portion of long-term borrowings	5,122,048
Work in process	8,072,136	Lease obligations	778,877
Raw materials and supplies	5,327,629	Accrued income taxes	989,741
Deferred tax assets	1,760,952	Reserve for bonuses	1,673,670
Others	2,478,271	Reserve for Directors' bonuses	121,100
Allowance for doubtful accounts	(38,966)	Reserve for compensation for products	335,736
		Electronically recorded obligations - non-operating	2,401,527
		Others	7,251,125
Fixed assets	87,183,334	Non-Current Liabilities	28,803,811
Tangible fixed assets	63,290,045	Long-term borrowings	15,623,481
Buildings and structures	17,705,128	Lease obligations	3,785,811
Machinery, equipment and vehicles	26,926,944	Deferred tax liabilities	2,299,523
Land	9,714,712	Net defined benefit liability	27,483
Leased assets	3,376,619	Provision for environmental measures	6,518,116
Construction in progress	4,506,277	Asset retirement obligations	17,720
Others	1,060,362	Negative goodwill	2,159
		Others	529,513
Intangible fixed assets	16,631,658	Total Liabilities	102,319,666
Goodwill	11,555,766	Net Assets	
Leased assets	82,142	Shareholders' equity	47,249,645
Others	4,993,748	Capital stock	7,273,178
		Capital surplus	8,821,705
Investments and other assets	7,261,630	Retained earnings	32,576,356
Investment securities	4,301,571	Treasury stocks	(1,421,594)
Long-term loans	275,765	Accumulated other comprehensive income	(2,018,603)
Net defined benefit asset	17,311	Net unrealized gain (loss) on securities	1,145,635
Deferred tax assets	1,458,003	Foreign currency translation adjustments	(1,114,666)
Others	1,257,964	Remeasurements of defined benefit plans	(2,049,572)
Allowance for doubtful accounts	(48,987)	Non-controlling interests in consolidated subsidiaries	7,733,759
Total Assets	155,284,467	Total Net Assets	52,964,800
		Total Liabilities and Net Assets	155,284,467

(Note) Amounts are rounded down to the nearest 1,000 yen.

Consolidated Statement of Income

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

(Unit: 1,000 Yen)

Account	Amount	
Net sales		85,073,690
Cost of sales		62,982,252
Gross profit on sales		22,091,438
Selling, general and administrative expenses		16,987,463
Operating income		5,103,974
Non-operating income		
Interest and dividend income	126,978	
Amortization of negative goodwill	533	
Equity in earnings of unconsolidated subsidiaries and associates	49,645	
Proceeds on sale of scraps	536,134	
Others	409,996	1,123,288
Non-operating expenses		
Interest expense	455,314	
Foreign exchange losses	101,518	
Others	242,766	799,599
Ordinary income		5,427,663
Extraordinary gains		
Subsidy income	200,000	200,000
Extraordinary losses		
Impairment loss	2,449,581	2,449,581
Profit before income taxes		3,178,081
Corporation tax, inhabitant tax and business tax	1,714,694	
Income taxes-deferred	(1,086,477)	628,216
Profit		2,549,864
Profit (loss) attributable to non-controlling interests		(85,894)
Profit attributable to owners of parent		2,635,759

(Note) Amounts are rounded down to the nearest 1,000 yen.

Consolidated Statements of Changes in Shareholders' Equity

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

(Unit: 1,000 Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stocks	Total shareholders' equity
Balance at the beginning of the period	7,273,178	8,821,612	31,055,453	(1,421,016)	45,729,227
Changes during the period					
Dividends paid			(1,114,856)		(1,114,856)
Profit attributable to parent company			2,635,759		2,635,759
Acquisition of treasury stocks				(577)	(577)
Change in controlling interests of parent arising from transactions with non-controlling shareholders		92			92
Net change in items other than shareholders' equity during the period					
Total changes during the period	—	92	1,520,902	(577)	1,520,417
Balance at the end of the period	7,273,178	8,821,705	32,576,356	(1,421,594)	47,249,645

(Unit: 1,000 Yen)

	Accumulated other comprehensive income				Non-controlling interests in consolidated subsidiaries	Total net assets
	Net unrealized gain (loss) on securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the period	886,829	(159,513)	(2,480,938)	(1,753,622)	8,172,639	52,148,245
Changes during the period						
Dividends paid						(1,114,856)
Profit attributable to parent company						2,635,759
Acquisition of treasury stocks						(577)
Change in controlling interests of parent arising from transactions with non-controlling shareholders						92
Net change in items other than shareholders' equity during the period	258,806	(955,153)	431,365	(264,981)	(438,879)	(703,861)
Total changes during the period	258,806	(955,153)	431,365	(264,981)	(438,879)	816,555
Balance at the end of the period	1,145,635	(1,114,666)	(2,049,572)	(2,018,603)	7,733,759	52,964,800

(Note) Amounts are rounded down to the nearest 1,000 yen.

Notes to Consolidated Financial Statements

I. Significant Matters that Form the Basis of Presenting the Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries

32 companies

Names of consolidated subsidiaries

DAIDO LOGITECH CO., LTD.
DAIDO METAL SALES CO., LTD.
Daido Plain Bearings Co., Ltd.
NDC Co., Ltd.
NDC Sales Co., Ltd.
Daido Industrial Bearings Japan Co., Ltd.
Asia Kelmet Co., Ltd.
DAIDO METAL SAGA CO., LTD.
Iino Holding Ltd.
Iino Manufacturing Co., Ltd.
ATA Casting Technology Japan Co., Ltd.
Daido Precision Metal (Suzhou) Co., Ltd.
IINO (Foshan) Technology Co., Ltd.
Chung Yuan Daido Co., Ltd.
Dong Sung Metal Co., Ltd.
Dyna Metal Co., Ltd.
ATA Casting Technology Co., Ltd.
PT. Daido Metal Indonesia
PT. IINO INDONESIA
PHILIPPINE IINO CORPORATION
SUPER CUB FINANCIAL CORPORATION
Daido Metal U.S.A. Inc.
ISS America, Inc.
Daido Metal Mexico, S.A. de C.V.
Daido Metal Mexico Sales, S.A. de C.V.
ISS MEXICO MANUFACTURING S.A. de C.V.
Daido Industrial Bearings Europe Limited
DAIDO METAL EUROPE LIMITED
DAIDO METAL KOTOR AD
Daido Metal Europe GmbH.
Daido Metal Russia LLC
DAIDO METAL CZECH s.r.o.

Change in the scope of consolidation

Iino Holding Ltd. and its subsidiaries, and ATA Casting Technology Japan Co., Ltd. and its subsidiaries have been included in the scope of consolidation as the Company acquired them during the consolidated fiscal year under review.

(2) Names of unconsolidated subsidiaries

Korea Dry Bearing Co., Ltd.
Chung Yuan Daido (Guangzhou) Co., Ltd.
DMS Korea Co., Ltd.

Reason for exclusion from scope of consolidation

Korea Dry Bearing Co., Ltd., Chung Yuan Daido (Guangzhou) Co., Ltd., and DMS Korea Co., Ltd. have been excluded from the scope of consolidation because these companies are immaterial from the Group's point of view in terms of total assets, revenue and net income or loss for the year and do not have a significant impact on the net assets, financial position and results of operations of the Group.

2. Application of equity method

(1) Number of unconsolidated subsidiaries and associates to which the equity method was applied

	3 companies
Names of companies	(Unconsolidated subsidiary) Korea Dry Bearing Co., Ltd.
	(Associates) BBL Daido Private Limited Shippo Asahi Moulds (Thailand) Co., Ltd.

Shippo Asahi Moulds (Thailand) Co., Ltd. has become an associated company as a result of the Company's acquisition of the shares of ATA Casting Technology Japan Co., Ltd. during the consolidated fiscal year under review.

(2) Names of unconsolidated subsidiaries and associates to which the equity method was not applied

	(Unconsolidated subsidiaries) Chung Yuan Daido (Guangzhou) Co., Ltd. DMS Korea Co., Ltd.
Reason for non-application of equity method	Chung Yuan Daido (Guangzhou) Co., Ltd. and DMS Korea Co., Ltd. are immaterial from the Group's point of view in terms of total assets, revenue and net income or loss for the year and do not have a significant impact on the net assets, financial position and results of operations of the Group.

(3) Special mention regarding the application of equity method

For companies consolidated under equity method with closing dates different from the consolidated closing date, financial statements as of their year-end are used.

3. Matters relating to the accounting period of consolidated subsidiaries

The closing date for Daido Metal U.S.A. Inc., DAIDO METAL KOTOR AD, Daido Industrial Bearings Europe Limited, DAIDO METAL CZECH s.r.o., Dyna Metal Co., Ltd., Chung Yuan Daido Co., PT. Daido Metal Indonesia, Dong Sung Metal Co., Ltd., Daido Precision Metal (Suzhou) Co., Ltd., Daido Metal Europe GmbH., DAIDO METAL EUROPE LIMITED, Daido Metal Russia LLC, Daido Metal Mexico, S.A. de C.V., Daido Metal Mexico Sales, S.A. de C.V., PHILIPPINE IINO CORPORATION, IINO (Foshan) Technology Co., Ltd., ISS America, Inc., ISS MEXICO MANUFACTURING S.A. de C.V., PT. IINO INDONESIA, and SUPER CUB FINANCIAL CORPORATION is December 31.

Financial statements as of the same date are used in compiling the consolidated financial statements as of March 31, with necessary adjustment for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

4. Matters relating to accounting policies

(1) Basis and method of valuation of important assets

1) Basis and method of valuation of securities

Other securities

Securities with market value Stated at market value based on the market price at the balance sheet date (Valuation differences are recorded directly in net assets, and the net sales cost is calculated by the moving average method.)

Securities without market value Stated at cost using moving average method

2) Basis and method of valuation of derivatives

Stated at market value

3) Basis and method of valuation of inventories

Basis of valuation is in accordance with the cost basis (with writing down of the carrying value based on any decreased profitability).

(a) Merchandise and finished goods Principally by weighted average method

(b) Work in process Principally by weighted average method

(c) Raw materials Principally by weighted average method

(d) Supplies Principally by moving average method

- (2) Method of depreciation of important depreciable assets
- 1) Tangible fixed assets (excluding leased assets)

The Company and six domestic consolidated subsidiaries use the declining balance method (with the exception of buildings (excluding facilities annexed to buildings) acquired on or after April 1, 1998 and facilities annexed to buildings and structures acquired on or after April 1, 2016, for which the straight-line method is used), while other subsidiaries use the straight-line method.

Estimated useful lives of major assets are as follows:

Buildings and structures	3-60 years
Machinery, equipment and vehicles	4-10 years
 - 2) Intangible fixed assets (excluding leased assets)

Straight-line method is used.
 - 3) Leased assets
 - Leased assets relating to finance lease transactions which transfer the ownership of leased assets
The same depreciation method as applied to self-owned fixed assets is used.
 - Leased assets relating to finance lease transactions which do not transfer the ownership of leased assets
Straight-line method based on the depreciation period equal to the lease period and residual value of zero is used.
- (3) Reserves and Provisions
- 1) Allowance for doubtful accounts

In order to prepare for any losses arising from bad debt receivables, an amount estimated to be unrecoverable is provided. General reserve is calculated based on the past loss experience, and specific reserve is calculated by reviewing the probability of recovery in each individual case where there is concern over claims.
 - 2) Reserve for bonuses

An amount corresponding to the period out of the estimated amount of bonuses payable to employees is provided.
 - 3) Reserve for Directors' bonuses

An estimated amount of bonuses payable is provided.
 - 4) Reserve for compensation for products

In order to prepare for any expenditure for quality claims an estimated amount required to be paid in future is provided.
 - 5) Provision for environmental measures

In order to prepare for the payment of disposal cost of PCB wastes required as stipulated by the "Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes" the estimated disposal cost is provided.
- (4) Other significant matters for presentation of consolidated financial statements
- 1) Accounting for retirement benefits

In order to prepare for the payment of retirement benefits to employees (excluding operating officers etc.), an amount estimated to have occurred at the balance sheet date is provided based on the projected benefit obligation and plan assets at the balance sheet date.

When calculating retirement benefit obligations the benefit formula basis is used to allocate to the current period. Past service cost is recorded as an expense by a pro-rated amount by the straight-line method over the average remaining service years of employees at the time of occurrence thereof.

For actuarial differences, an amount prorated by the straight-line method over the average remaining service years of employees at the time of occurrence thereof in each consolidated fiscal year is expensed starting from the consolidated fiscal year that follows the consolidated fiscal year of occurrence.

In order to prepare for the payment of retirement benefits to operating officers etc., the amount that would need to be paid if all eligible officers retired at the balance sheet date is provided.
 - 2) Conversion of foreign currency denominated assets and liabilities into Japanese Yen

Foreign currency denominated monetary assets and liabilities are converted into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded as gains or losses. Assets and liabilities, income and expenses of overseas subsidiaries are converted into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded in net assets as foreign currency translation adjustments and non-controlling interests.
 - 3) Amortization of goodwill and the amortization period

Goodwill is amortized by the straight-line method within a period of 14 years based on the estimated period during which the benefits are expected to arise.
 - 4) Accounting method of consumption taxes

Consumption taxes are accounted for by the tax-excluded method.

II. Changes in Accounting Policy

Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

In line with the revisions to the Corporation Tax Act of Japan, the Company applied the practical solution on a change in depreciation method due to Tax Reform 2016 (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the consolidated fiscal year under review. Accordingly, the depreciation method for facilities annexed to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The effect of this change on operating income, ordinary income and income before income taxes for the consolidated fiscal year under review is minor.

III. Changes in Presentation

Consolidated Statement of Income

Proceeds on sale of waste fluids (129,851 thousand yen for the fiscal year ended March 31, 2016, 143,717 thousand yen for the fiscal year ended March 31, 2017), which was included in others under non-operating income in the previous consolidated fiscal year, is included in proceeds on sale of scraps from the consolidated fiscal year under review due to an increase in significance.

(Additional Information)

Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets

The Company applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) from the consolidated fiscal year under review.

IV. Notes to Consolidated Balance Sheet

1. Accumulated depreciation of tangible fixed assets	81,651,007	thousand yen
2. Assets pledged as collateral, and liabilities secured by collateral		
Assets pledged as collateral		
Buildings and structures	772,762	thousand yen
Machinery, equipment and vehicles	1,627,260	
Land	3,366,009	
Other tangible fixed assets	7,791	
Total	<u>5,773,824</u>	
Liabilities secured by collateral		
Short-term borrowings	1,893,600	thousand yen
Long-term borrowings (including amounts scheduled to be repaid within one year)	917,489	
Total	<u>2,811,089</u>	
3. Liabilities for guarantee		
Employee housing loans etc.	168,298	thousand yen
4. Notes receivable discounted or transferred by endorsement		
Discounted export bills	26,063	thousand yen

V. Notes to Consolidated Statement of Changes in Shareholders' Equity

1. Total number of shares issued as of the end of the period

Ordinary shares 44,956 thousand shares

2. Matters relating to dividend

(1) Total dividends paid

Resolution	Type of share	Dividends paid (1,000 yen)	Dividend per share (yen)	Base date	Effective date
Annual shareholders' meeting held on June 29, 2016	Ordinary share	517,614	13.00	March 31, 2016	June 30, 2016
Board of Directors' meeting held on November 14, 2016	Ordinary share	597,242	15.00	September 30, 2016	December 7, 2016

(2) Dividends with base date in the consolidated fiscal year under review, which come into effect in the following consolidated fiscal year

It is scheduled to be resolved as follows:

Resolution	Type of share	Dividends paid (1,000 yen)	Dividend per share (yen)	Base date	Effective date
Annual shareholders' meeting to be held on June 29, 2017	Ordinary share	597,238	15.00	March 31, 2017	June 30, 2017

Dividends will be paid out of retained earnings.

VI. Notes on Financial Instruments

1. Matters relating to financial instruments

The Group invests its excess cash in short-term deposits and other low risk products, and the funding needs are met by the borrowings from financial institutions such as banks.

The credit risk of customers with regard to notes, accounts receivable-trade, and electronically recorded monetary claims – operating are mitigated according to credit management policy. Investment securities consist mainly of shares, and the market values of listed shares are reviewed each quarter.

Borrowings are used for working capital (mainly short-term) and capital investment (long-term). Currency swap transactions are made for some foreign currency denominated borrowings against the risk of currency fluctuations.

Derivative transactions are made within the scope of actual demand in accordance with internal management regulations.

2. Matters relating to market values of financial instruments

Book value, market value and differences as of March 31, 2017 are as follows:

(Unit: 1,000 yen)

	Book value (*)	Market value (*)	Difference
(1) Cash and deposits	14,203,589	14,203,589	—
(2) Notes and accounts receivable-trade	25,031,493	25,031,493	—
(3) Electronically recorded monetary claims – operating	1,910,597	1,910,597	—
(4) Investment securities	2,978,522	2,978,522	—
(5) Notes and accounts payable-trade	(8,696,298)	(8,696,298)	—
(6) Electronically recorded obligations – operating	(8,143,777)	(8,143,777)	—
(7) Short-term borrowings	(38,001,952)	(38,001,952)	—
(8) Income taxes payable	(989,741)	(989,741)	—
(9) Long-term borrowings (including amounts scheduled to be repaid within one year)	(20,745,529)	(20,777,928)	(32,398)
(10) Electronically recorded obligations - non-operating	(2,401,527)	(2,401,527)	—
(11) Lease obligations	(4,564,689)	(4,635,332)	(70,643)

(*) Items recorded in liabilities are shown in ().

(Note 1) Calculation of market values of financial instruments, securities, and derivative transactions

(1) Cash and deposits and (2) Notes and accounts receivable-trade (3) Electronically recorded monetary claims – operating

These are stated at their carrying values because they are settled in a short period and their market values are considered to be close to their carrying values.

(4) Investment securities

Market values of equities are based on quotations in the stock exchange, and the market values of other securities are based on reasonable estimates.

(5) Notes and accounts payable-trade, (6) Electronically recorded obligations – operating, (7) Short-term borrowings, (8) Income taxes payable and (10) Electronically recorded obligations - non-operating

These are stated at their carrying values because they are settled in a short period and their market values are considered to be close to their

carrying values.

(9) Long-term borrowings (including amounts scheduled to be repaid within one year) and (11) Lease obligations

Market values of these items are calculated by discounting the total amount of principal and interest by a rate that is assumed if the same transaction were newly made. Among long-term borrowings, those at variable interest rates are stated at their carrying values because they reflect market interest rates in the short term and the Company's credit status has not changed significantly since the execution, and thus their market values approximate their carrying values.

(Note 2) As it is considered extremely difficult to obtain the market values of unlisted stocks (consolidated balance sheet amount of 1,323,049 thousand yen) because their market quotations are not available and their future cash flows cannot be estimated, they are not included in "(4) Investment securities."

VII. Notes on Rental Properties

1. Matters relating to rental properties

The Group owns rental properties in Nagoya city and in other areas.

2. Matters relating to market values of rental properties

(Unit: 1,000 yen)

Book value	Market value
740,852	4,992,412

(Notes) 1. The amount recorded in the consolidated balance sheet represents the acquisition cost less accumulated depreciation and accumulated impairment loss.

2. The market value at the balance sheet date represents an amount principally based on the "real-estate appraisal standards."

VIII. Notes on Per Share Information

1. Net assets per share

1,136.00 yen

2. Net income per share

66.19 yen

* As stated in "Change in accounting policy," the Business Combinations Standard etc. have been applied.

IX. Notes on Business Combinations

1. Business combination through acquisition

(1) Summary of the business combination

1) Name of the acquired company and description of its business

Name of the acquired company: Iino Holding Ltd.

Description of the business: Control and management of subsidiaries that manufacture and sell various parts for automobiles, motorcycles, and general-purpose machines

2) Reasons for the business combination

The Company expects that this acquisition will strengthen product offering to existing customers of the Group. Moreover, gaining access to the Company's wide customer base in the automotive industry in Japan and overseas, Iino Holding Ltd. and its subsidiaries can expect increased sales and further enhancement of their financial performance.

Therefore, the Company believes this will lead to product and business diversification and expansion for the Group over the medium to long term.

3) Date of the business combination

December 6, 2016 (Stock acquisition date)

December 31, 2016 (Deemed acquisition date)

4) Legal form of the business combination

Stock acquisition with cash as consideration

5) Name of the entity after the business combination

Iino Holding Ltd.

6) Percentage of voting rights acquired by the Company

100.0%

7) Primary reason for determining that the Company is the acquiring company

The Company acquired 100% of the stock of Iino Holding Ltd. against cash.

(2) Period of the acquired company's financial results included in the consolidated financial statements

From January 1, 2016 to March 31, 2017

(3) Acquisition cost and breakdown of consideration

Consideration for the acquisition: Cash 10,000 million yen

Acquisition cost 10,000

(4) Major expenses related to the acquisition and their amounts

Advisory expenses, etc.: 230 million yen

(5) Amount and cause of the resulting goodwill and the applicable amortization method and period

1) Amount of goodwill

3,324 million yen

The amount of goodwill has been revised to the above-stated amount with the conclusion of Purchase Price Allocation.

2) Source of goodwill

Goodwill arose from reasonable estimates of future excess earning power.

3) Amortization method and period

Straight-line method over 10 years

(6) Amounts of assets acquired and liabilities assumed on the business combination date and their breakdown

	Millions of yen
Current assets	5,821
Non-current assets	7,916
Total assets	<u>13,737</u>
Current liabilities	1,882
Non-current liabilities	4,987
Total liabilities	<u>6,870</u>

(7) Amounts allocated to intangible fixed assets other than goodwill and breakdown by type and weighted average life for depreciation

Type	Amount	Weighted average life
Customer-related assets	3,534 million yen	17.0 years

2. Business combination through acquisition

(1) Summary of the business combination

1) Name of the acquired company and description of its business

Name of the acquired company: ATA Casting Technology Japan Co., Ltd.

Description of the business: Design and development of aluminium die cast automotive parts

2) Reasons for the business combination

The Company expects that this acquisition will strengthen product offering to existing customers of the Group. Moreover, gaining access to the Company's wide customer base in the automotive industry in Japan and overseas, ATA Casting Technology Japan Co., Ltd. and ATA Casting Technology Co., Ltd. can expect increased sales and further enhancement of their financial performance.

Therefore, the Company believes this will lead to product and business diversification and expansion for the Group over the medium to long term.

3) Date of the business combination

January 31, 2017 (Stock acquisition date)

March 31, 2017 (Deemed acquisition date)

4) Legal form of the business combination

Stock acquisition with cash as consideration

5) Name of the entity after the business combination

ATA Casting Technology Japan Co., Ltd.

6) Percentage of voting rights acquired by the Company

100.0%

7) Primary reason for determining that the Company is the acquiring company

The Company acquired 100% of the stock of ATA Casting Technology Japan Co., Ltd. against cash.

(2) Period of the acquired company's financial results included in the consolidated financial statements

The acquired company's financial results are not included in the consolidated statement of income for the consolidated fiscal year under review because the deemed date of acquisition of the acquired company is March 31, 2017.

(3) Acquisition cost and breakdown of consideration

<u>Consideration for the acquisition:</u>	<u>Cash</u>	<u>12,400 million yen</u>
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Acquisition cost	12,400
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(4) Major expenses related to the acquisition and their amounts

Advisory expenses, etc.: 139 million yen

(5) Amount and cause of the resulting goodwill and the applicable amortization method and period

1) Amount of goodwill

8,069 million yen

The amount of goodwill is a provisional amount because allocation of the acquisition cost was not completed at the end of the consolidated fiscal year under review.

2) Source of goodwill

Goodwill arose from reasonable estimates of future excess earning power.

3) Amortization method and period

Straight-line method over 14 years

(6) Amounts of assets acquired and liabilities assumed on the business combination date and their breakdown

	Millions of yen
Current assets	3,225
Non-current assets	3,685
Total assets	<u>6,911</u>
Current liabilities	1,789
Non-current liabilities	790
Total liabilities	<u>2,580</u>

Non-Consolidated Balance Sheet

(As of March 31, 2017)

(Unit: 1,000 Yen)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	34,919,237	Current liabilities	45,521,574
Cash and deposits	2,385,984	Accounts payable-trade	5,699,312
Notes receivable-trade	451,397	Electronically recorded obligations - operating	9,834,814
Accounts receivable-trade	17,726,711	Short-term borrowings	19,100,000
Electronically recorded monetary claims – operating	2,003,038	Current portion of long-term borrowings	3,427,100
Merchandise and finished goods	1,558,352	Lease obligations	298,670
Work in process	3,343,947	Other accounts payable	2,236,251
Raw materials and supplies	1,578,716	Accrued expenses	866,796
Prepaid expenses	166,015	Accrued income taxes	467,376
Deferred tax assets	874,947	Advances received	197
Short-term loans receivable from subsidiaries and associates	1,200,000	Deposits received	64,178
Accounts receivable-other	3,473,264	Unearned revenue	25,764
Others	157,262	Reserve for bonuses	1,079,942
Allowance for doubtful accounts	(400)	Reserve for Directors' bonuses	121,100
		Electronically recorded obligations - non-operating	2,299,083
		Others	987
Fixed assets	67,911,772	Non-current liabilities	16,601,618
Tangible fixed assets	21,191,963	Long-term borrowings	10,302,500
Buildings	6,535,004	Lease obligations	1,845,830
Structures	609,834	Long-term accounts payable	349,330
Machinery and equipment	6,112,558	Deferred tax liabilities	262,503
Cars and vehicles	7,662	Reserve for retirement benefits	3,454,617
Tools, furniture and fixtures	323,469	Provision for environmental measures	1,435
Land	3,671,939	Provision for loss on guarantees	342,629
Leased assets	2,195,696	Asset retirement obligations	1,800
Construction in progress	1,735,798	Others	40,971
Intangible fixed assets	1,238,651	Total Liabilities	62,123,193
Software	1,180,058		
Leased assets	12,906	Net Assets	
Right for using facilities	16,848	Shareholders' equity	39,714,157
Others	28,837	Capital stock	7,273,178
Investments and other assets	45,481,157	Capital surplus	7,946,245
Investment securities	1,849,690	Legal capital surplus	7,649,095
Shares of subsidiaries and associates	31,742,587	Other capital surplus	297,150
Investments in capital of subsidiaries and associates	7,862,329	Retained earnings	25,916,328
Long-term loans receivable from subsidiaries and associates	1,350,000	Legal retained earnings	743,443
Long-term loans to employees	18,549	Other retained earnings	
Bankruptcy and reorganization claims etc.	2,083	Reserve for compressed entry of fixed assets	1,738,371
Long-term prepaid expenses	21,402	General reserve	21,000,000
Prepaid pension expenses	1,676,992	Retained earnings brought forward	2,434,513
Others	970,745	Treasury stocks	(1,421,594)
Allowance for doubtful accounts	(13,223)	Valuation, translation adjustments and other	993,658
		Net unrealized gain (loss) on securities	993,658
Total Assets	102,831,009	Total Net Assets	40,707,816
		Total Liabilities and Net Assets	102,831,009

(Note) Amounts are rounded down to the nearest 1,000 yen.

Non-Consolidated Statement of Income

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

(Unit: 1,000 Yen)

Account	Amount	
Net sales		63,345,882
Cost of sales		50,932,449
Gross profit on sales		12,413,432
Selling, general and administrative expenses		9,717,441
Operating income		2,695,991
Non-operating income		
Interest and dividend income	1,114,815	
Proceeds from sale of scrap	334,041	
Others	547,718	1,996,575
Non-operating expenses		
Interest expense	107,792	
Foreign exchange losses	24,655	
Others	59,751	192,198
Ordinary income		4,500,368
Extraordinary gains		
Subsidy income	200,000	200,000
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	4,102,258	
Provision for loss on guarantees	342,629	4,444,888
Profit before income taxes		255,479
Corporation tax, inhabitant tax and business tax	738,479	
Income taxes-deferred	94,169	832,649
Loss		(577,170)

(Note) Amounts are rounded down to the nearest 1,000 yen.

Non-Consolidated Statements of Changes in Shareholders' Equity

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

(Unit: 1,000 Yen)

	Shareholders' equity			
	Capital stock	Capital surplus		Retained earnings
		Legal capital surplus	Other capital surplus	Legal retained earnings
Balance at the beginning of the period	7,273,178	7,649,095	297,150	743,443
Changes during the period				
Provision of reserve for compressed entry of fixed assets				
Reversal of reserve for compressed entry of fixed assets				
Reversal of general reserve				
Dividend of surplus				
Net Loss of the period				
Acquisition of treasury stocks				
Changes (net) to items other than shareholders' equity during the period				
Total changes during the period	—	—	—	—
Balance at the end of the period	7,273,178	7,649,095	297,150	743,443

(Unit: 1,000 Yen)

	Shareholders' equity				
	Retained earnings			Treasury stocks	Total shareholders' equity
	Other retained earnings				
	Reserve for compressed entry of fixed assets	General reserve	Retained earnings brought forward		
Balance at the beginning of the period	1,616,618	19,000,000	6,248,293	(1,421,016)	41,406,762
Changes during the period					
Provision of reserve for compressed entry of fixed assets	138,800		(138,800)		—
Reversal of reserve for compressed entry of fixed assets	(17,046)		17,046		—
Reversal of general reserve		2,000,000	(2,000,000)		—
Dividend of surplus			(1,114,856)		(1,114,856)
Net Loss of the period			(577,170)		(577,170)
Acquisition of treasury stocks				(577)	(577)
Changes (net) to items other than shareholders' equity during the period					
Total changes during the period	121,753	2,000,000	(3,813,780)	(577)	(1,692,604)
Balance at the end of the period	1,738,371	21,000,000	2,434,513	(1,421,594)	39,714,157

(Unit: 1,000 Yen)

	Valuation, conversion adjustments etc.		Total net assets
	Net unrealized gain (loss) on securities	Total valuation, translation adjustments and other	
Balance at the beginning of the period	793,161	793,161	42,199,924
Changes during the period			
Provision of reserve for compressed entry of fixed assets			—
Reversal of reserve for compressed entry of fixed assets			—
Reversal of general reserve			—
Dividend of surplus			(1,114,856)
Net Loss of the period			(577,170)
Acquisition of treasury stocks			(577)
Changes (net) to items other than shareholders' equity during the period	200,496	200,496	200,496
Total changes during the period	200,496	200,496	(1,492,108)
Balance at the end of the period	993,658	993,658	40,707,816

(Note) Amounts are rounded down to the nearest 1,000 yen.

Notes to Financial Statements

I. Matters Relating to Significant Accounting Policies

1. Basis and method of valuation of assets

(1) Basis and method of valuation of securities

- 1) Shares of subsidiaries and associates Stated at cost by the moving average method
- 2) Other securities
Securities with market value Stated at market value based on the market price etc. at balance sheet date (Valuation differences are recorded directly in net assets, and the net sales cost is calculated by the moving average method.)

Securities without market value Stated at cost using moving average method

(2) Basis and method of valuation of inventories

Basis of valuation is in accordance with the cost basis (with writing down of the carrying value based on any decreased profitability).

- 1) Merchandise and finished goods Weighted average method
- 2) Work in process..... Weighted average method
- 3) Raw materials Principally by weighted average method
- 4) Supplies Principally by moving average method

2. Method of depreciation of fixed assets

(1) Tangible fixed assets (excluding leased assets)

Straight-line method is used for buildings (excluding facilities annexed to buildings) acquired on or after April 1, 1998 and facilities annexed to buildings and structures acquired on or after April 1, 2016, and declining balance method is used for other tangible fixed assets. Estimated useful lives used for major assets are mainly as follows:

Buildings	3-50 years
Structures	7-60 years
Machinery and equipment	5-9 years
Cars and vehicles	4-10 years
Tools, furniture and fixtures	2-20 years

(2) Intangible fixed assets (excluding leased assets)

Straight-line method is used. Estimated useful life for software for in-house use is mainly 5 years, and those for rights to use facilities are mainly 15-20 years.

(3) Leased assets

- Leased assets relating to finance lease transactions which transfer the ownership of leased assets
The same depreciation method as applied to self-owned fixed assets is used.
- Leased assets relating to finance lease transactions which do not transfer the ownership of leased assets
Straight-line method based on the depreciation period equal to the lease period and residual value of zero is used.

3. Reserves and Provisions

(1) Allowance for doubtful accounts

In order to prepare for any losses arising from bad debt receivables, an amount estimated to be unrecoverable is provided. General reserve is calculated based on the past loss experience, and specific reserve is calculated by reviewing the probability of recovery in each individual case where there is concern over claims.

(2) Reserve for bonuses

An amount corresponding to the period out of the estimated amount of bonuses payable to employees is provided.

(3) Reserve for Directors' bonuses

An estimated amount of bonuses payable is provided.

(4) Reserve for retirement benefits

In order to prepare for the payment of retirement benefits to employees (excluding operating officers etc.), an amount estimated to have occurred at the balance sheet date is provided based on the projected benefit obligation and plan assets at the balance sheet date.

When calculating retirement benefit obligation, the benefit formula basis is used to allocate to the current period.

Past service cost is recorded as an expense by a pro-rated amount by the straight-line method over the average remaining service years of employees at the time of occurrence thereof.

For actuarial differences, an amount pro-rated by the straight-line method over the average remaining service years of employees at time of the occurrence thereof in each fiscal year is expensed starting from the fiscal year that follows the fiscal year of occurrence.

In order to prepare for the payment of retirement benefits to operating officers etc., the amount that would need to be paid if all eligible officers retired at the balance sheet date is provided.

(5) Provision for environmental measures

In order to prepare for the disposal costs of PCB wastes as stipulated by the "Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes" the estimated disposal cost is provided.

(6) Provision for loss on guarantees

In order to prepare for loss on guarantees provided to subsidiaries and associates, the estimated loss amount is provided, taking into account the financial position etc. of guaranteed parties.

4. Other significant matters for the presentation of financial statements

(1) Conversion of foreign currency denominated assets and liabilities into Japanese Yen

Foreign currency denominated monetary assets and liabilities are converted into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded as gains or losses.

(2) Accounting method for retirement benefits

The accounting method for unrecognized actuarial differences and unrecognized past service costs differs from the accounting method for the above items used in consolidated financial statements.

(3) Accounting treatment of consumption taxes

Consumption taxes are accounted for by the tax-excluded method.

II. Changes in Accounting Policy

Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

In line with the revisions to the Corporation Tax Act of Japan, the Company applied the practical solution on a change in depreciation method due to Tax Reform 2016 (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the fiscal year under review. Accordingly, the depreciation method for facilities annexed to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The effect of this change on operating income, ordinary income and income before income taxes for the fiscal year under review is minor.

III. Changes in Presentation

Statement of Income

Proceeds on sale of waste fluids (129,851 thousand yen for the previous period, 143,717 thousand yen for the current period), which was included in “others” under non-operating income in the previous fiscal year, is included in “proceeds on sale of scraps” from the current period due to an increase in materiality.

(Additional Information)

Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets

The Company applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) from the fiscal year under review.

IV. Notes to Balance Sheet

1. Accumulated depreciation of tangible fixed assets	40,181,038 thousand yen
2. Monetary claims and monetary debts to/from subsidiaries and associates	
Short-term monetary claims	9,670,712 thousand yen
Long-term monetary claims	328,373
Short-term monetary debts	5,452,511
3. Liabilities for guarantee	
(1) For employee housing loans etc.	168,298 thousand yen
(2) For bank borrowings	
DAIDO METAL CZECH s.r.o.	1,774,754
DAIDO METAL KOTOR AD	396,504
Daido Industrial Bearings Europe Limited	1,268,290
DAIDO METAL EUROPE LIMITED	924,528
Daido Metal U.S.A. Inc.	5,320,610
Daido Metal Mexico, S.A. de C.V.	2,920,321
Daido Precision Metal (Suzhou) Co., Ltd.	634,995
Daido Plain Bearings Co., Ltd.	137,700
(3) For liabilities on purchases	
DAIDO METAL KOTOR AD	76,497
(4) For lease obligations	
Daido Metal Russia LLC	1,400,669
(5) Relating to letter of awareness submitted relating to bank borrowings	
Daido Industrial Bearings Europe Limited	10,365
(6) For export duties	
DAIDO METAL EUROPE LIMITED	21,255
Total	<u>15,054,791</u>

V. Notes to Statement of Income

Amount of transactions with subsidiaries and associates	
Operating transactions	
Amount of sales	20,293,921 thousand yen
Amount of purchases	17,576,195
Other operating transactions	1,171,059
Transactions other than operating transactions	1,500,871

VI. Notes to Statements of Changes to Shareholders' Equity

Type and number of treasury stocks at the balance sheet date	
Ordinary shares	5,140 thousand shares

VII. Notes on Leased Fixed Assets

Other than fixed assets recorded in the Balance Sheet, office equipment, manufacturing facilities etc. are being used under financial lease contracts, which do not transfer the ownership of leased assets.

VIII. Notes on Tax Effect Accounting

Breakdown of the main causes of deferred tax assets and liabilities

Deferred tax assets	
Devaluation of finished goods and work in process	444,940 thousand yen
Depreciation in excess of tax allowable limit	44,356
Impairment losses	166,594
Accrued business tax	56,739
Devaluation loss of investment in subsidiaries and associates	2,557,271
Devaluation loss of golf club memberships	16,986
Reserve for bonuses	332,622
Reserve for retirement benefits	873,015
Long-term accounts payable	58,196
Others	249,777
Sub-total of deferred tax assets	<u>4,800,500</u>
Valuation reserves	<u>(2,956,789)</u>
Total deferred tax assets	<u>1,843,711</u>
Deferred tax liabilities	
Reserve for compressed entry of fixed assets	(766,565)
Unrealized gain (loss) on securities	(421,913)
Others	(42,787)
Total deferred tax liabilities	<u>(1,231,266)</u>
Net deferred tax assets	<u><u>612,444</u></u>

IX. Notes on Transactions with Related Parties

Subsidiaries and associates

Type	Name of company	Percentage of voting rights the Company is holding (or percentage of the Company's voting rights held)	Relation with related party	Nature of transaction	Transaction amount (1,000 yen) Note 11	Account	Balance at the end of period (1,000 yen) Note 11
Subsidiaries	DAIDO METAL SALES CO., LTD.	(Holding) Direct 100.0	Sale of the Company's products, rental of facilities, loans etc. and key management personnel service	Sale of bearing products Note 1	3,095,317	Account receivable-trade	1,445,168
	NDC Co., Ltd.	(Holding) Direct 58.8	Purchase of products etc. manufacturing of the Company's products, sales of the Company's products etc., licensing of technology, lease of facilities etc. and key management personnel service	Purchase of bearing products etc. Note 2	5,420,040	Account payable-trade	1,869,297
	Daido Plain Bearings Co., Ltd.	(Holding) Direct 100.0	Manufacturing of the Company's products, lease of facilities, debt guarantees etc. and key management personnel service	Purchase of bearing products etc. Note 2	9,035,710	Account payable-trade Electronically recorded obligations- operating	870,422 2,238,048
	Daido Industrial Bearings Japan Co., Ltd.	(Holding) Direct 100.0	Manufacturing of the Company's products, lease of facilities, loans etc. and key management personnel service	Transfer of fixed assets Note 3 Loans Note 4	1,412,889 1,900,000	- Short-term loans receivable from subsidiaries and associates Long-term loans receivable from subsidiaries and associates	- 550,000 1,350,000
	Daido Metal U.S.A. Inc.	(Holding) Direct 100.0	Sales of Company's products etc., purchase of products, licensing of technology, rental of facilities, debt guarantees and key management personnel service	Sales of bearing products etc. Note 1 Underwriting of capital increase Note 10 Debt guarantees Note 5	4,840,084 1,449,260 5,320,610	Account receivable-trade - -	1,207,648 - -
	Daido Metal Mexico, S.A. de C.V.	(Holding) Direct 99.9 (Holding) Indirect 0.0	Sales of the Company's products, rental of facilities, debt guarantees etc. and key management personnel service	Debt guarantees Note 6	2,920,321	-	-
	DAIDO METAL CZECH s.r.o.	(Holding) Direct 100.0	Sales of the Company's products etc., purchase of products, licensing of technology, rental of facilities, loans, debt guarantees etc. and key management personnel service	Debt guarantees Note 7	1,774,754	-	-
	Daido Industrial Bearings Europe Limited	(Holding) Direct 100.0	Sales of the Company's products, purchase of products, licensing of technology, rental of facilities, debt guarantees etc.	Debt guarantees Note 8	1,621,285	-	-
	DAIDO METAL EUROPE LIMITED	(Holding) Direct 100.0	Sales of the Company's products, rental of facilities, debt guarantees etc. and key management personnel service	Sales of bearing products etc. Note 1	3,964,976	Account receivable-trade	1,544,827
	Daido Metal Russia LLC	(Holding) Direct 99.8	Sales of the Company's products etc., purchase of products, licensing of technology, debt guarantees etc. and key management personnel service	Debt guarantees Note 9	1,400,669	-	-

Transaction terms, policies for determining transaction terms etc.

(Note 1) Prices are principally set at the sales prices of each related party to the third party multiplied by a fixed rate.

(Note 2) Prices are principally set at the sales prices of the Company to the third party multiplied by a fixed rate.

(Note 3) The transfer value of fixed assets is determined in accordance with the Company's rules.

(Note 4) Loan interest rates are determined reasonably, taking into account the market interest rates.

(Note 5) Debt guarantees are provided for the bank borrowings (5,320,610 thousand yen) of Daido Metal U.S.A. Inc. and guarantee fees of 0.2% per annum are received.

(Note 6) Debt guarantees are provided for the bank borrowings (2,920,321 thousand yen) of Daido Metal Mexico, S.A. de C.V. and guarantee fees of 0.2% per annum are received.

(Note 7) Debt guarantees are provided for the bank borrowings (1,774,754 thousand yen) of DAIDO METAL CZECH s.r.o. and guarantee fees of 0.2% per annum are received.

(Note 8) Debt guarantees are provided for the bank borrowings (1,610,920 thousand yen) of Daido Industrial Bearings Europe Limited and guarantee fees of 0.2% per annum are received. In addition, the letter of awareness is provided for the bank borrowings (10,365 thousand yen) of Daido Industrial Bearings Europe Limited. As a result of recording of provision for loss on guarantees amounting to 342,629 thousand yen for the fiscal year under review, provision for loss on guarantees at the end of the fiscal year under review was 342,629 thousand yen.

(Note 9) Debt guarantees are provided for the lease obligations (1,400,669 thousand yen) of Daido Metal Russia LLC and guarantee fees of 0.2% per annum are received.

(Note 10) Underwriting of capital increase is the amount underwritten by the Company to strengthen the capital of Daido Metal U.S.A. Inc.

(Note 11) Consumption taxes are not included in the transaction amounts. Consumption taxes are included in fiscal year end balances.

X. Notes on Per Share Information

1. Net assets per share	1,022.40 yen
2. Net loss per share	(14.49) yen

Accounting Auditor's Report on Consolidated Financial Statements:

Independent Auditor's Report

May 24, 2017

To the Board of Directors of
Daido Metal Co., Ltd.

Deloitte Touche Tohmatsu LLC

<u>Designated Partner</u> <u>Engagement Partner</u>	<u>Certified Public</u> <u>Accountant</u>	<u>Yasufumi Mitomi</u>	<u>Seal</u>
<u>Designated Partner</u> <u>Engagement Partner</u>	<u>Certified Public</u> <u>Accountant</u>	<u>Masaki Okuda</u>	<u>Seal</u>

We have audited the accompanying consolidated financial statements, i.e. consolidated balance sheet, consolidated statement of income, consolidated statement of changes in shareholders' equity and significant matters that form the basis of presenting consolidated financial statements and other notes, of Daido Metal Co., Ltd. for the fiscal year from April 1, 2016 to March 31, 2017, in accordance with Article 444, paragraph 4 of the Companies Act.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting principles in Japan. This includes the development, implementation, and maintenance of internal control deemed necessary by management for the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits as independent auditors. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the Company's internal control. However, in performing this risk assessment, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit opinion

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position and the results of operations of Daido Metal Co., Ltd. and its consolidated subsidiaries as of the date and for the period for which the consolidated financial statements were prepared in accordance with generally accepted accounting principles in Japan.

Interests in the Company

Neither our firm nor any of the engagement partners has any interest in the Company as required to be disclosed herein under the provisions of the Certified Public Accountant Act.

Notes to the Reader of Independent Auditor's Report

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

Independent Auditor's Report

May 24, 2017

To the Board of Directors of
Daido Metal Co., Ltd.

Deloitte Touche Tohmatsu LLC

<u>Designated Partner</u>	<u>Certified Public</u>	<u>Yasufumi Mitomi</u>	<u>Seal</u>
<u>Engagement Partner</u>	<u>Accountant</u>		
<u>Designated Partner</u>	<u>Certified Public</u>	<u>Masaki Okuda</u>	<u>Seal</u>
<u>Engagement Partner</u>	<u>Accountant</u>		

We have audited the accompanying non-consolidated financial statements, i.e. balance sheet, statement of income, statement of changes in shareholders' equity, and the matters relating to significant accounting policies and other notes as well as the supporting schedules of Daido Metal Co., Ltd. for the 109th fiscal year from April 1, 2016 to March 31, 2017, in accordance with Article 436, paragraph 2, item 1 of the Companies Act.

Management's responsibility for the non-consolidated financial statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements and supporting schedules in accordance with generally accepted accounting principles in Japan. This includes the development, implementation, and maintenance of internal control deemed necessary by management for the preparation and fair presentation of non-consolidated financial statements and supporting schedules that are free from material misstatement, whether due to fraud or error.

Independent auditors' responsibility

Our responsibility is to express an opinion on the non-consolidated financial statements and supporting schedules based on our audits as independent auditors. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and supporting schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and supporting schedules. The procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and supporting schedules, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the Company's internal control. However, in performing this risk assessment, we consider internal control relevant to the Company's preparation and fair presentation of the non-consolidated financial statements and supporting schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and supporting schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit opinion

In our opinion, the non-consolidated financial statements and supporting schedules referred to above, present fairly, in all material respects, the financial position and the results of operations of the Company as of the date and for the period for which the non-consolidated financial statements and supporting schedules were prepared in accordance with generally accepted accounting principles in Japan.

Interests in the Company

Neither our firm nor any of the engagement partners has any interest in the Company as required to be disclosed herein under the provisions of the Certified Public Accountant Act.

Notes to the Reader of Independent Auditor's Report

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

Audit Report by Audit & Supervisory Board: translation

Audit Report

The Audit & Supervisory Board, upon deliberation, prepared this audit report regarding the performance of duties of the Directors of Daido Metal Co., Ltd. during the 109th fiscal year from April 1, 2016 to March 31, 2017, based on the audit reports prepared by each Audit & Supervisory Board Member, and hereby reports as follows:

1. Auditing Method Employed by Audit & Supervisory Board Members and the Audit & Supervisory Board and Details Thereof

- (1) The Audit & Supervisory Board established an auditing policy and auditing plans, including the assignment of the duties etc. of each Audit & Supervisory Board Member, received from each Audit & Supervisory Board Member reports on the execution of audits and the results thereof and, in addition, received etc. reports on the performance of their duties from the Directors and the Accounting Auditors and, when necessary, requested explanations regarding such reports.
- (2) In accordance with the auditing standards for Audit & Supervisory Board Members established by the Audit & Supervisory Board, and based on the auditing policy and the assignment of duties etc., each Audit & Supervisory Board Member has taken steps to facilitate communication with the Directors/Audit Center as well as other employees, and has endeavored to gather information and create an improved environment for auditing. Each Audit & Supervisory Board Member has audited in the following manner:
 - 1) Each Audit & Supervisory Board Member attended meetings of the Board of Directors and other important meetings, received from the Directors, employees and other related persons reports on the performance of their duties and, when necessary, requested explanations regarding such reports. In addition, each Audit & Supervisory Board Member inspected important authorized documents and associated information, and examined the business and financial position of the Company at the head office and each major department of the Company. With respect to the subsidiaries of the Company, each Director and Audit & Supervisory Board Member has taken steps to facilitate communication with the Directors and Audit & Supervisory Board Members and other related persons of major subsidiaries and to share information with them and, when necessary, received reports from the subsidiaries regarding their businesses.
 - 2) In terms of the content of resolutions made by the Board of Directors concerning the establishment of the systems provided in Article 100, paragraphs 1 and 3 of the Companies Act Enforcement Regulations to ensure that the performance of duties by the Directors, which are described in the business report, are compliant with the laws and regulations of Japan and with the Company's Articles of Incorporation and other systems to ensure that the Company's operation will be conducted appropriately, as well as the status of such systems established by such resolutions (internal control system), each Audit & Supervisory Board Member periodically received reports on the status of development and operating situation of such systems from Directors and employees and, when necessary, requested explanations regarding such reports and expressed their opinion.
 - 3) Regarding the fundamental policies prescribed in Article 118, item 3 (a) of the Companies Act Enforcement Regulations and each task prescribed in (b) of the same item described in the business report, we studied the content thereof based on the deliberation at the board of Directors and other meetings.
 - 4) The Audit & Supervisory Board Members audited and examined whether the accounting auditors maintained their independence and performed audits in an appropriate manner. The Audit & Supervisory Board Members received reports from the Accounting Auditors on the performance of their duties and, when necessary, requested explanations regarding those reports. The Audit & Supervisory Board Members also received notification from the Accounting Auditors that they have taken steps to improve the "System to Ensure Appropriate Execution of the Duties of the Accounting Auditors" (as enumerated in each item of Article 131 of the Company Calculation Regulations) in compliance with the "Quality Control Standards Relating to Auditing" (adopted by the Business Accounting Deliberation Council on October 28, 2005) etc. When necessary, the Audit & Supervisory Board Members requested explanations on such notifications.

Based on the aforementioned method the Audit & Supervisory Board Members reviewed the business report and supplementary schedules thereto for this fiscal year, the non-consolidated financial statements for this fiscal year (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statements of changes in shareholders' equity) and supplementary schedules thereto and the consolidated financial statements for this fiscal year (consolidated balance sheet, consolidated statement of income, consolidated statements of changes in shareholder's equity).

2. Results of Audit

(1) Audit Results on the Business Report etc.

- 1) In our opinion, the business report and the supplementary schedules fairly represent the Company's condition in conformity with the applicable laws and regulations of Japan as well as the Articles of Incorporation of the Company.
- 2) With respect to the execution of duties by the Directors, we have found no evidence of misconduct or material facts in violation of the applicable laws and regulations of Japan or the Articles of Incorporation of the Company in the course of the execution of duties of the Directors.
- 3) In our opinion, the content of the resolutions made by the Board of Directors regarding the internal control system is appropriate, and furthermore, we have not found anything to be pointed out on the content described in the business report and the performance of duties of the Directors concerning the internal control system.
- 4) There are no matters to be pointed out regarding the fundamental policies described in the business report, concerning the way of being of personnel that controls the Company's financial and business policies. We consider that each task of Article 118, item 3, (b) of the Companies Act Enforcement Regulations that is described in the business report is in line with said fundamental policies, that it does not undermine the common interests of the Company's shareholders, and that it does not aim to maintain the positions of the Company's officers.

(2) Results of Audit of the Non-consolidated Financial Statements and Supplementary Schedules

In our opinion, the method and results of the audit employed and rendered by Deloitte Touche Tohmatsu LLC and the Accounting Auditors of the Company are fair and reasonable.

(3) Results of Audit of the Consolidated Financial Statements

In our opinion, the method and results of the audit employed and rendered by Deloitte Touche Tohmatsu LLC and the Accounting Auditors of the Company are fair and reasonable.

May 29, 2017

Audit & Supervisory Board
Daido Metal Co., Ltd.

Full-time Audit & Supervisory Board Member	Masaaki Tamaya	Seal
Outside Audit & Supervisory Board Member	Kuniko Tanabe	Seal
Outside Audit & Supervisory Board Member	Kazuo Matsuda	Seal

Reference Materials for the Annual Shareholders' Meeting

Agendas and Matters for Reference

Agenda Item No. 1 Appropriation of Surplus

The Company proposes to make the following 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.

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.

Details of the year-end dividend

- (1) Type of dividend
Cash
- (2) Allocation of dividends to shareholders and the total amount
15 yen per ordinary share of the Company
Total amount: 597,238,905 yen
- (3) Date when dividends from surplus become effective
June 30, 2017

Agenda Item No. 2 Election of Six Directors

The terms of office for all seven Directors expire at the close of this Shareholders' Meeting. We therefore propose the election of six Directors.

The candidates for the position of Director are as follows:

Candidate No.	Name (Date of birth)	Career history, positions at the Company, and important positions at other entities	Number of shares of the Company held by the candidate
(1)	Seigo Hanji (January 2, 1942) <u>Reappointment</u>	<p>April 1965 Joined the Company</p> <p>April 1980 General Manager of Tokyo Sales Office</p> <p>April 1991 General Manager of Corporate Planning Department</p> <p>April 1993 Deputy General Manager of Business Division 3</p> <p>June 1993 Director and Deputy General Manager of Business Division 3</p> <p>April 1994 Director and General Manager of Business Division 1</p> <p>June 1995 President</p> <p>June 2005 President & Chief Executive Officer</p> <p>June 2007 Chairman & Chief Executive Officer (current)</p> <p>May 2008 Executive & Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of the same Association (current)</p> <p>June 2010 Outside Director of Nichirei Co., Ltd.</p> <p>[Important positions at other entities] Executive & Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of the aforementioned Association</p>	140,555 shares
(2)	Kotaro Kashiyama (March 28, 1947) <u>Reappointment</u>	<p>April 1971 Joined the Company</p> <p>April 1993 General Manager of Product Planning Department, Production Engineering Laboratory</p> <p>April 1994 Manager of Maehara Plant</p> <p>April 1996 Deputy General Manager of Business Division 2, and Manager of Maehara Plant</p> <p>April 1999 Head of Heavywall Bearings, RPB, Heavy Industrial Bearings, Fluid Systems & New Products Division</p> <p>April 2000 Head of Polymer Bearings Division</p> <p>June 2003 Director and Head of Polymer Bearings Division</p> <p>April 2005 Director and Head of Thinwall Bearings & Turbo Charging Bearings Division</p> <p>July 2005 Director and Executive Officer, and Head of Thinwall Bearings & Turbo Charging Bearings Division</p> <p>June 2007 Managing Director and Executive Officer, and Head of Thinwall Bearings & Turbo Charging Bearings Division</p> <p>July 2007 Managing Director and Senior Executive Officer, and Head of Thinwall Bearings & Turbo Charging Bearings Division</p> <p>June 2009 Managing Director and General Manager of Strategy Development Division</p> <p>June 2010 Senior Managing Director and Senior Executive Officer, and General Manager of Strategy Development Division</p> <p>April 2011 President of Daido Plain Bearings Co., Ltd. Senior Managing Director and Senior Executive Officer, and General Manager of Global Strategy Division and Head of Technology Division</p> <p>June 2011 President & Chief Operating Officer Head of Global Strategy Division and Technology Division</p> <p>April 2012 President & Chief Operating Officer (current)</p>	80,923 shares

Candidate No.	Name (Date of birth)	Career history, positions at the Company, and important positions at other entities	Number of shares of the Company held by the candidate
(3)	Toshiyuki Sasaki (December 7, 1950) Reappointment	<p>April 1974 Joined Tokai Bank Ltd. April 1997 Manager of Taipei Branch March 2001 Manager of Americas, Manager of New York Branch, Manager of Cayman Branch and Manager of Chicago Office June 2002 General Manager of Toyota Corporate Sales Division and Manager of Toyota Branch of UFJ Bank Co., Ltd.</p> <p>October 2003 Seconded to the Company April 2004 Joined the Company April 2004 General Manager of Overseas Planning Department, Corporate Planning Division April 2005 General Manager of Corporate Planning Department, Corporate Planning Division June 2005 Director and General Manager of Corporate Planning Department, Corporate Planning Division July 2005 Director and Executive Officer, and General Manager of Corporate Planning Department, Corporate Planning Division June 2007 Director and Executive Officer, and General Manager of Corporate Planning Division April 2008 Director and Executive Officer, and Head of Corporate Planning Division July 2008 Director and Senior Executive Officer, and Head of Corporate Planning Division July 2009 Director and Senior Executive Officer, and Head and General Manager of Corporate Planning Department of Corporate Planning Division October 2009 Director and Senior Executive Officer, and Head of Corporate Planning Division April 2010 Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division June 2010 Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division June 2011 Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division and Head of Human Resources Planning Division April 2012 Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division April 2015 Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division July 2015 President of DAIDO METAL SAGA CO., LTD. (part-time) Director and Managing Executive Officer, and Head of Corporate/Financial Planning Division April 2016 President of DAIDO METAL SAGA CO., LTD. (part-time) Director and Managing Executive Officer, and General Manager of Business Process Re-engineering (BPR) Department July 2016 President of DAIDO METALSAGA CO., LTD. (part-time) Director and Senior Managing Executive Officer General Manager of Business Process Re-engineering (BPR) Department April 2017 President of DAIDO METAL SAGA CO., LTD. (part-time) Director and Senior Managing Executive Officer General Manager of Business Process Re-engineering (BPR) Department (current)</p>	64,702 shares

Candidate No.	Name (Date of birth)	Personal history, positions at the Company, and important positions at other corporations	Number of shares of the Company held by the candidate
(4)	Masaki Ikawa (December 12, 1950) [Reappointment]	<p>April 1973 Joined the Company</p> <p>April 2001 General Manager of Overseas Sales and Concerned Office of Company 1</p> <p>September 2005 President of Daido Metal Bellefontaine LLC</p> <p>July 2008 Executive Officer</p> <p> President of Daido Metal Bellefontaine LLC</p> <p>October 2009 Executive Officer and General Manager of Corporate Planning Department, Corporate Planning Division</p> <p>April 2010 Executive Officer and General Manager of Bimetal Division</p> <p>April 2011 Executive Officer and General Manager of Quality Management & Planning Department</p> <p>July 2011 Senior Executive Officer, General Manager of Quality Management & Planning Department and General Manager of Inuyama Site</p> <p>March 2012 Senior Executive Officer, General Manager of Quality Management & Planning Department, President of Daido Metal College and General Manager of Inuyama Site</p> <p>April 2012 Senior Executive Officer, General Manager of Human Resources Planning Department, President of Daido Metal College and General Manager of Inuyama Site</p> <p>June 2012 Director and Senior Executive Officer, Head of Human Resources Planning Division, Head of Daido Metal College and Head of Inuyama Site</p> <p>April 2014 Director and Senior Executive Officer, Head of Human Resources Planning Division and Head of Daido Metal College</p> <p>April 2015 Director and Senior Executive Officer, Head of Human Resources Planning Division, General Manager of Human Resources Planning Department and Head of Daido Metal College</p> <p>July 2015 Director and Managing Executive Officer, Head of Human Resources Planning Division, General Manager of Human Resources Planning Department and Head of Daido Metal College</p> <p>April 2016 Director and Managing Executive Officer, Head of Human Resources Planning Division and Head of Daido Metal College (current)</p>	28,650 shares
(5)	Toshikazu Takei (September 22, 1953) [Reappointment] [Outside Director] [Independent Officer]	<p>April 1976 Joined the Bank of Japan</p> <p>July 1989 Director of Nagoya Branch</p> <p>November 1991 Director of Secretary Office and Secretariat of the Policy Board</p> <p>June 1994 Deputy General Manager for Europe</p> <p>April 1998 Director of Diet Liaison Division, Secretariat of the Policy Board</p> <p>May 1999 General Manager of Matsuyama Branch</p> <p>February 2002 Director-General, Senior Secretary to the Governor, Secretariat</p> <p>July 2003 Advisor to the Governor for Parliamentary Affairs and Public Relations, Secretariat of the Policy Board</p> <p>July 2005 General Manager of Nagoya Branch</p> <p>July 2006 Chief Representative in Europe of the Bank of Japan (stationed in London)</p> <p>June 2008 Left the Bank of Japan</p> <p>July 2008 Senior Executive Advisor of Accenture</p> <p>October 2012 Managing Director of Japan Center for International Finance (current)</p> <p>June 2015 Outside Director of the Company (current)</p> <p>[Important positions at other entities] Managing Director of Japan Center for International Finance</p>	1,830 shares

Candidate No.	Name (Date of birth)	Career history, positions at the Company, and important positions at other entities	Number of shares of the Company held by the candidate
(6)	Kiyotaka Hoshinaga (November 15, 1950) <u>Reappointment</u> <u>Outside Director</u> <u>Independent Officer</u>	<p>April 1975 Joined Department of Urology, Keio University School of Medicine</p> <p>August 1994 Assistant Professor, Department of Urology, Fujita Health University School of Medicine</p> <p>April 2000 Professor</p> <p>February 2006 Deputy Director, Fujita Health University Hospital</p> <p>February 2009 Director</p> <p>April 2013 Managing Director, Fujita Academy Incorporated Educational Institution (current)</p> <p>April 2014 President, Fujita Health University (current)</p> <p>June 2016 Outside Director of the Company (current)</p> <p>[Important positions at other entities] President, Fujita Health University Hospital Managing Director, Fujita Academy Incorporated Educational Institution</p>	619 shares

- (Notes)
- There are no particular conflicts of interest between each candidate and the Company.
 - As for each candidate's position please refer to "4. Company Officers, (1) Directors and Audit & Supervisory Board Members" on pages 18-19.
 - Mr. Toshikazu Takei and Mr. Kiyotaka Hoshinaga are candidates for Outside Directors.
 - Mr. Toshikazu Takei was long engaged in business execution and served in managerial positions at the Bank of Japan. We expect that he will oversee and supervise the management of the Company with his familiarity with international businesses and based on his rich experience and broad insight. We therefore propose the election of Mr. Takei as an Outside Director. Although he has no experience in the management of a company, he has appropriately overseen and supervised the management of the Company as an Outside Director, and therefore we re-nominated him as a candidate for an Outside Director.
 - Mr. Kiyotaka Hoshinaga has served as a director of a hospital and a president of a university after serving as a professor of a university. We expect that he will oversee and supervise the management of the Company based on his extensive knowledge and experience as a manager of a hospital and a president of a university. We therefore propose the election of Mr. Hoshinaga as an Outside Director. Although he has no experience in the management of a company, he has appropriately overseen and supervised the management of the Company as an Outside Director, and therefore we re-nominated him as a candidate for an Outside Director.
 - Liability limitation agreement
The Company has entered into a liability limitation agreement with Mr. Toshikazu Takei and Mr. Kiyotaka Hoshinaga. The Company will continue this agreement with them if they are elected as Outside Directors and they assume office.
The outline of the agreement is as follows:
 - When a non-executive Director is liable to compensate the Company for damages due to his/her negligence of duties, he/she assumes 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 the relevant non-executive Director acts in good faith and without gross negligence with respect to the liability as set forth in Article 423, paragraph 1 of the Companies Act.
 - Mr. Toshikazu Takei and Mr. Kiyotaka Hoshinaga have been registered as "Independent Officers" pursuant to the provisions of the Tokyo Stock Exchange and Nagoya Stock Exchange. If they are elected as Outside Directors and they assume office, the Company will continue to register them as "Independent Officers."
 - The term of office of Mr. Toshikazu Takei as an Outside Director will be two years at the conclusion of this Annual Shareholders' Meeting. The term of office of Mr. Kiyotaka Hoshinaga as an Outside Director will be one year at the conclusion of this Annual Shareholders' Meeting.

[Standards for Independence of Outside Officers]

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

[Standards for Independence of Outside Officers of DAIDO METAL CO., LTD.]
Established on October 28, 2015

An Outside Director or Outside Audit & Supervisory Board Member is deemed not to have independence from the Company if he/she falls under one of the categories below.

- (1) Person related to the Company
A person who currently works or has previously worked for the DAIDO Group within the last ten years.
- (2) Person related to the major suppliers
A person who currently is or has previously been an officer or employee of a major supplier to the Company (with which the annual aggregate amount of transactions is 1,000 million yen or more) or its group companies within the last three fiscal years.
- (3) Person related to the major business partners
A person who currently is or has previously been an officer or employee of the Company's major business partner (with which the annual aggregate amount of transactions is 1,000 million yen or more) during any of the last three fiscal years.
- (4) Person related to the financial institutions
 - 1) A person who currently is or, in the last three fiscal years, has previously has been an officer or employee of a financial institution with which the Company currently has transactions of deposits or borrowings of 1,000 million yen or more.
 - 2) A person who currently is or, in the last three fiscal years, has previously been an officer or employee of a company which is a managing underwriter of the Company.
- (5) Person related to the parties providing professional services
A person who currently receives, or within the last three years, has received from the Company an annual compensation of 20 million yen or more as the Company's legal counsel (law office), the Company's accounting auditor, a certified tax accountant, patent attorney, judicial scrivener, or as a management, finance, technology or marketing consultant.
- (6) Person related to the parties receiving donations or grants from the Company
A person who is a representative or operating officer of an organization (public interest incorporated foundation, public interest incorporated association, not-for-profit organization, etc.) to which the Company has made donations or provided grants exceeding a certain amount (1.0 million yen or 30% of the organization's annual average total expenses, whichever the larger) in the current fiscal year or in the last three fiscal years.
- (7) Relatives
A relative of a person who currently works or has previously worked for the DAIDO Group within the last five years (the person's spouse, parent, child, sibling, grandparent, grandchild, or relatives living with the person). A relative of a person coming under aforementioned categories (2) to (5).
- (8) Reappointment and reappointed person.
A person who has executed his/her duties as an outside director for a period exceeding ten years without coming under any of the aforementioned categories (*a period exceeding twelve years with three consecutive terms in case of reappointment of Audit & Supervisory Board Member).

Agenda Item No. 3 Election of One Substitute Member of Audit & Supervisory Board

We propose to elect one substitute member of Audit & Supervisory Board in advance, just in case we are unable to meet the number of Audit & Supervisory Board Members required by laws and regulations. The effect of this resolution is valid until the commencement of the next Annual Shareholders' Meeting.

We already have the approval of this agenda from the Audit & Supervisory Board.

The candidate for the position is as follows:

Name (Date of birth)	Personal history, positions at the Company, and important positions at other corporations	Number of shares of the Company held by the candidate
<p>Nobuyuki Ishiwata (July 12, 1945)</p> <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 5px 0;">Substitute Audit & Supervisory Board Member</div> <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 5px 0;">Outside Audit & Supervisory Board Member</div>	<p>April 1971 Joined Tohmatsu Aoki Audit Corporation (now Deloitte Touche Tohmatsu LLC) April 1975 Registered as a certified public accountant January 1976 Registered as a licensed tax accountant March 1978 Left Tohmatsu Aoki Audit Corporation (now Deloitte Touche Tohmatsu LLC) April 1978 Opened CPA Nobuyuki Ishiwata accounting firm April 1988 Established Seishin & Co. Audit Corporation (currently, SeishinShisei & Co. Audit Corporation) and assumed the post of Representative Partner (to present) August 1999 Outside auditor of Adecco Ltd. (to present) July 2003 Established Seishin & Co. Tax Corporation (currently, SeishinShisei & Co. Tax Corporation) and assumed the post of Representative Partner (to present)</p> <p>[Important positions at other corporations] Representative Partner of SeishinShisei & Co. Audit Corporation Representative Partner of SeishinShisei & Co. Tax Corporation Outside auditor of Adecco Ltd.</p>	0 shares

- (Notes)
1. There are no particular conflicts of interest between the candidate and the Company.
 2. Mr. Nobuyuki Ishiwata, candidate for a substitute Audit & Supervisory Board Member, is a candidate for an Outside Audit & Supervisory Board Member.
 3. Reason for appointment as candidate for the position of substitute Audit & Supervisory Board Member, and reason for judging that the candidate is able to perform adequately the duties as an Outside Audit & Supervisory Board Member:
 - (1) Reason for appointment as candidate for the position of substitute Outside Audit & Supervisory Board Member
 Mr. Nobuyuki Ishiwata has rich accounting and taxation knowledge gained from his experience as a certified public accountant and a licensed tax accountant. We expect that he will utilize such knowledge in the audit of the Company if he assumes the role of Audit & Supervisory Board Member.
 - (2) Reason for judging that the candidate is able to perform adequately the duties as an Outside Audit & Supervisory Board Member:
 Although Mr. Nobuyuki Ishiwata has no experience in the management of a company, he has been in practice as a certified public accountant and a licensed tax accountant, and we judge that he is able to perform the duties appropriately as an Outside Audit & Supervisory Board Member.
 4. Liability limitation agreement
 The Company will enter into a liability limitation agreement with Mr. Nobuyuki Ishiwata if he is elected as an Audit & Supervisory Board Member and he assumes office.
 The outline of the agreement is as follows:
 - When an Audit & Supervisory Board Member is liable to compensate the Company for damages due to his/her negligence of duties, he/she assumes 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 the relevant Audit & Supervisory Board Member acts in good faith and without gross negligence with respect to the liability as set forth in Article 423, paragraph 1 of the Companies Act.

Agenda Item No. 4 Payment of Bonuses to Directors

The Company requests approval for the payment of bonuses amounting to 121.1 million yen to the five Directors (excluding two Outside Directors) at the end of this fiscal year based on the specified standard of the Company in due consideration of business performance, etc. during the fiscal year.

It is also proposed that decisions as to the amounts of the bonus paid to each Director are delegated to the Board of Directors.

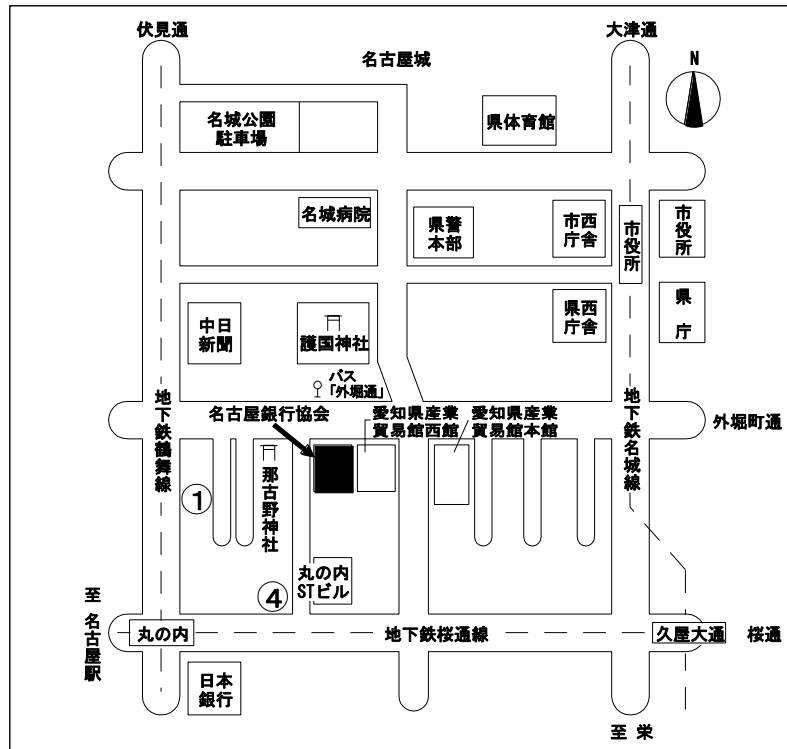
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Venue of Shareholders' Meeting

Venue 4-2, Marunouchi 2-chome, Naka-ku, Nagoya
5th Floor Grand Hall of Nagoya Bankers Association

Transportation

- Subway 6-minute walk from = No. 1 and No. 4 exit of Marunouchi Station of the Sakuradori Line/Tsurumai Line
- City bus From JR Nagoya Station Bus Terminal gate number 8, Sotoboridori Number 1 bus stop



- ◎ The reception is scheduled to open at 9 a.m. on the day.
- ◎ Shareholders are politely requested not to drive to the venue as the parking spaces are limited.

