

**[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 8, 2016

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 108th Annual Shareholders' Meeting

Dear shareholders,

You are cordially invited to the 108th 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, 2016 (Tuesday).**

Yours sincerely,

#### Note

- 1. Date and time** 10 a.m. on June 29, 2016 (Wednesday)
- 2. Venue** 4-2, Marunouchi 2-chome, Naka-ku, Nagoya, Japan  
5<sup>th</sup> 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 108th business report (from April 1, 2015 to March 31, 2016), consolidated financial statements and results of the audit of consolidated financial statements by the accounting auditors and Audit & Supervisory Board
  2. Reporting of non-consolidated financial statements for the 108th fiscal year (from April 1, 2015 to March 31, 2016)

#### Matters for resolution

- |                   |  |
|-------------------|--|
| Agenda Item No. 1 | Appropriation of Surplus                                       |
| Agenda Item No. 2 | Election of Seven 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, 2016 (Tuesday).
- (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, 2016 (Tuesday).
- (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.

- 
- ⦿ **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, 2016

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, 2016

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, 2016

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)
  - Please use the following browser:  
Microsoft® Internet Explorer® or Windows® Internet Explorer® (Ver.5.01 SP2 or later) (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 listed above.)
  - Please enable Cookies.
  - Please set your screen resolution to at least 800 x 600 pixels (width by height) (SVGA).
  - Adobe® Reader® (Ver. 6.0 or later) must be installed on your computer to view the reference materials.
- 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, 2015  
To: March 31, 2016 )

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

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

###### 1) Economic conditions

###### Global

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

###### Japan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 4) Results by segment

Sales to external customers by segment are as follows.

##### a) Automotive engine bearings

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

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

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

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

##### c) Non-automotive bearings

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

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

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

##### d) Others

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

(Sales by segment)

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

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

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

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

### 1) Financing

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

### 2) Capital investment

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

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

(Major capital investments during the current period)

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



### (3) Financial Conditions and Operating Results

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

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

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

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

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

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

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

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

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

Execution of "Midterm Business Plan"

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

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

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

##### 2) Result of Stage 1

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

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

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

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

### 3) Progress of Stage 2

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

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

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

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

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

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

### (6) Major Business Lines

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

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

## 1) Principal locations of the Group

## a. The Company

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

## b. Subsidiaries

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

2) Employees

a. Employees of the Group

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

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

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

b. Employees of the Company

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

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

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

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

## 1) Parent company

None

## 2) Material subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

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

None



## 2. Matters Relating to Shares of the Company

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

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

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

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

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

None

#### 4. Company Officers

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

(As of March 31, 2016)

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

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

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

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

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

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

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

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

## (2) Outline of Liability Limiting Agreement

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

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

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

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

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

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

(a) Directors' remuneration

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

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

Specific structure and decision-making methodology are as follows:

(i) Directors' remuneration consists of "monthly remuneration" and "bonuses."

For an Outside Director, in order to ensure independence and neutrality, the "monthly remuneration" consists of only a "fixed component."

(ii) "Monthly remuneration"

- "Monthly remuneration" consists of (1) "fixed component" based on role and responsibility associated with execution of operations of a Representative Director, or a Director concurrently serving as an Executive Officer, and (2) "consolidated performance related component" which is determined after taking into account the Group's consolidated performance in the previous year and the performance of divisions that the Director is in charge.

- Monthly remuneration for each Director will be determined by the Board of Directors based on the predetermined payment ratio based on the position of each Director, consolidated sales, profit attributable to the parent company, and by considering the comments from the Advisory Board.

(iii) "Bonus"

- Total payment of bonuses to be deliberated in the meeting of shareholders is limited in proportion to the dividend to shareholders. After considering the comments from the Advisory Board, it is determined by the Board of Directors.

- Individual payment amount will be determined by the Board of Directors based on the predetermined payment ratio according to the position of each Director, consolidated sales and profit attributable to the parent company and by considering the comments from the Advisory Board.

(b) Audit & Supervisory Board Members' remuneration

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

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

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

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

(Note) Mr. Kazuo Matsuda worked at Mizuho Bank, Ltd., the Company's business partner as well as main shareholder; however, more than ten years has passed since he resigned from the Bank in May 2003. The Company borrows from and deposits with Mizuho Bank, Ltd.

2) Main activities of Outside Officers

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

## 5. Independent Auditor

### (1) Name

Deloitte Touche Tohmatsu LLC

### (2) Liability Limiting Agreement

None

### (3) Remuneration

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

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

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

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

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

### (4) Non-audit Services provided

None

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

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

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



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

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

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

- 1) The General Affairs Department is designated as the department responsible for retention and control of information on the performance of duties by Directors.
- 2) The General Affairs Department implements a system to retain and control information related to the performance of duties by Directors including the "Regulations of the Board of Directors," the "Rules on Document Control" and the "Rules on Decisions and Approvals". It may give directions to the departments responsible on the correct measures for the retention and control of such information.
- 3) The information related to performance of duties of Directors set forth in the preceding paragraph is as follows:
  - a. Minutes of meetings of the Board of Directors, minutes of meetings of the Management Strategy Committee etc.
  - b. Midterm Business Plan and short-term business plans.
  - c. Important contracts relating to acquisitions, investments etc.
  - d. Other important information designated by the Board of Directors, such as documents regarding decisions and approvals.

### **(2) Regulations and Other Systems regarding Risks of Loss by the Company**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In order that the Directors perform their duties in an efficient way, the Company formulates annual management policies and short-term management plans based on the Midterm Business Plan, and implement them throughout the Group. The Company verifies the level of achievement at divisional and departmental meetings as well as at policy management report meetings.

Moreover, in order to ensure that Directors and employees of the Company comply with laws and regulations and Articles of Incorporation, the Company implemented a system this year whereby any events of non-compliance or suspected non-compliance occurring within the Group are reported to the Company. The events reported are compiled by the Company and reported to the Board of Directors and the Audit & Supervisory Board. In addition, the Company strengthened the control of group companies by requiring the group companies to apply for/report on on budgets, capital investment, risk control, compliance status etc.

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

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

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

The Company has developed business strategies for sales, production, technology, new business development etc. from medium to long term perspectives, and aims to achieve stable development and growth. However, the circumstances surrounding our business have been changing dramatically, and therefore a short-term business decision is important to ensure sustainable growth in the future. In the Midterm Business Plan, the Company plans to reorganize its business base during Stage 1 (from FY2012 to FY2014), and achieve the Group's challenge targets of "consolidated net sales of 111 billion yen, operating income of 16.7 billion yen, and an operating margin of 15% or more" in the final years of Stage 2 (from FY2015 to FY2017).

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

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

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

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

- a. Effective use of Company's assets to achieve sustainable growth based on medium and long term perspectives
  - The Company has in the past, and still now, been effectively utilizing its assets in order to achieve sustainable growth based on medium and long term perspectives.
  - In order for the Company to achieve sustainable growth through management from mid to long term perspective, it is necessary to establish production and sales bases to respond to future trends and market changes, to improve productivity of domestic and overseas subsidiaries to the levels achieved by the Company, and to maintain world leading technologies for products, design, manufacturing, production and development. For those purpose, the Company will invest effectively and efficiently in research and development for mainly new products and production technologies, enhancement of "monozukuri (craftsmanship)", utilization and introduction of advanced technologies through industry-government-academia cooperation, corporate protection through intellectual property rights etc. while considering the balance between such investments and dividends to our shareholders.
- b. Promotion of shareholding by employees
  - The Company promotes the holding of shares by employees by paying incentives to members of the Employee Stock-Ownership Plan.
  - The Company continues to implement other measures to grow the Employee Stock-Ownership Plan.
- c. Improve local community's recognition of the Company
  - The Company interacts with local communities and tries to improve the recognition of the Company by attending social programs and inviting local residents to factory tours at major business locations.

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

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

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

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

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

**(3) Assessment of above efforts and its basis**

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

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

None

---

(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, 2016)

(Unit: 1,000 Yen)

| Assets  |                    | Liabilities   |                    |
|---|--------------------|---|--------------------|
| Account   | Amount             | Account   | Amount             |
| <b>Current assets</b>                               | <b>60,002,212</b>  | <b>Current Liabilities</b>                                    | <b>40,337,695</b>  |
| Cash and deposits                                   | 14,268,885         | Notes and accounts payable-trade                              | 7,003,486          |
| Notes and accounts receivable-trade                 | 22,824,103         | Electronically recorded obligations - operating               | 7,783,966          |
| Electronically recorded monetary claims - operating | 1,304,213          | Short-term borrowings   | 12,485,361         |
| Merchandise and finished goods                      | 8,172,014          | Current portion of long-term borrowings                       | 3,552,328          |
| Work in process                                     | 6,993,294          | Lease obligations   | 203,731            |
| Raw materials and supplies                          | 3,219,504          | Accrued income taxes  | 983,578            |
| Deferred tax assets                                 | 1,820,826          | Reserve for bonuses   | 1,566,933          |
| Others  | 1,458,704          | Reserve for Directors' bonuses                                | 135,800            |
| Allowance for doubtful accounts                     | (59,335)           | Reserve for compensation for products                         | 237,267            |
|   |                    | Electronically recorded obligations - non-operating           | 1,132,725          |
|   |                    | Others  | 5,252,515          |
| <b>Fixed assets</b>                                 | <b>62,918,336</b>  | <b>Non-Current Liabilities</b>                                | <b>30,434,608</b>  |
| <b>Tangible fixed assets</b>                        | <b>55,324,271</b>  | Long-term borrowings  | 19,817,597         |
| Buildings and structures                            | 15,838,868         | Lease obligations   | 1,446,993          |
| Machinery, equipment and vehicles                   | 20,034,180         | Deferred tax liabilities                                      | 1,833,647          |
| Land  | 10,954,142         | Provision for environmental measures                          | 29,006             |
| Leased assets                                       | 1,652,291          | Net defined benefit liability                                 | 6,920,785          |
| Construction in progress                            | 5,844,970          | Asset retirement obligations                                  | 17,720             |
| Others  | 999,819            | Negative goodwill   | 2,693              |
|   |                    | Others  | 366,164            |
|   |                    | <b>Total Liabilities</b>                                      | <b>70,772,303</b>  |
| <b>Intangible fixed assets</b>                      | <b>2,124,994</b>   | Net Assets  |                    |
| Goodwill  | 482,362            | <b>Shareholders' equity</b>                                   | <b>45,729,227</b>  |
| Leased assets                                       | 121,529            | Capital stock   | 7,273,178          |
| Others  | 1,521,102          | Capital surplus   | 8,821,612          |
|   |                    | Retained earnings   | 31,055,453         |
| <b>Investments and other assets</b>                 | <b>5,469,071</b>   | Treasury stocks   | (1,421,016)        |
| Investment securities                               | 2,827,111          | <b>Accumulated other comprehensive income</b>                 | <b>(1,753,622)</b> |
| Long-term loans                                     | 70,294             | Net unrealized gain (loss) on securities                      | 886,829            |
| Deferred tax assets                                 | 1,542,107          | Foreign currency translation adjustments                      | (159,513)          |
| Others  | 1,070,842          | Remeasurements of defined benefit plans                       | (2,480,938)        |
| Allowance for doubtful accounts                     | (41,284)           | <b>Non-controlling interests in consolidated subsidiaries</b> | <b>8,172,639</b>   |
| <b>Total Assets</b>                                 | <b>122,920,549</b> | <b>Total Net Assets</b>                                       | <b>52,148,245</b>  |
|   |                    | <b>Total Liabilities and Net Assets</b>                       | <b>122,920,549</b> |

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

## Consolidated Statement of Income

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

(Unit: 1,000 Yen)

| Account  | Amount    |                   |
|--|-----------|-------------------|
| <b>Net sales</b>   |           | <b>81,400,799</b> |
| <b>Cost of sales</b>   |           | <b>58,599,589</b> |
| <b>Gross profit on sales</b>   |           | <b>22,801,210</b> |
| <b>Selling, general and administrative expenses</b>                        |           | <b>15,686,425</b> |
| <b>Operating income</b>  |           | <b>7,114,785</b>  |
| <b>Non-operating income</b>  |           |                   |
| Interest and dividend income   | 123,979   |                   |
| Amortization of negative goodwill  | 533       |                   |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies | 88,218    |                   |
| Proceeds on sale of scraps   | 480,036   |                   |
| Others   | 461,041   | 1,153,808         |
| <b>Non-operating expenses</b>  |           |                   |
| Interest expense   | 311,366   |                   |
| Foreign exchange losses  | 823,578   |                   |
| Others   | 337,174   | 1,472,118         |
| <b>Ordinary income</b>   |           | <b>6,796,474</b>  |
| <b>Extraordinary gains</b>   |           |                   |
| Gain on sales of investment securities                                     | 2,716     |                   |
| Subsidy income   | 200,000   | 202,716           |
| <b>Profit before income taxes</b>  |           | <b>6,999,191</b>  |
| Corporation tax, inhabitant tax and business tax                           | 2,151,889 |                   |
| Income taxes-deferred  | 82,149    | 2,234,039         |
| <b>Profit</b>  |           | <b>4,765,152</b>  |
| <b>Profit attributable to non-controlling interests</b>                    |           | <b>845,295</b>    |
| <b>Profit attributable to owners of parent</b>                             |           | <b>3,919,856</b>  |

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

## Consolidated Statements of Changes in Shareholders' Equity

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

(Unit: 1,000 Yen)

|   | Shareholders' equity |                 |                   |                 |                            |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
|   | Capital stock        | Capital surplus | Retained earnings | Treasury stocks | Total shareholders' equity |
| <b>Balance at the beginning of the period</b>   | 7,273,178            | 7,946,245       | 28,051,389        | (1,420,012)     | 41,850,799                 |
| <b>Changes during the period</b>  |                      |                 |                   |                 |                            |
| Dividends paid  |                      |                 | (915,792)         |                 | (915,792)                  |
| Profit attributable to parent company   |                      |                 | 3,919,856         |                 | 3,919,856                  |
| Acquisition of treasury stocks  |                      |                 |                   | (1,003)         | (1,003)                    |
| Change in controlling interests of parent arising from transactions with non-controlling shareholders |                      | 875,367         |                   |                 | 875,367                    |
| Net change in items other than shareholders' equity during the period                                 |                      |                 |                   |                 |                            |
| <b>Total changes during the period</b>  | —                    | 875,367         | 3,004,064         | (1,003)         | 3,878,427                  |
| <b>Balance at the end of the period</b>   | 7,273,178            | 8,821,612       | 31,055,453        | (1,421,016)     | 45,729,227                 |

(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 |  |                  |
| <b>Balance at the beginning of the period</b>   | 1,250,907                                | 1,340,744                                | (860,741)                               | 1,730,909                                    | 9,512,211  | 53,093,921       |
| <b>Changes during the period</b>  |  |  |   |  |  |                  |
| Dividends paid  |  |  |   |  |  | (915,792)        |
| Profit attributable to parent company   |  |  |   |  |  | 3,919,856        |
| Acquisition of treasury stocks  |  |  |   |  |  | (1,003)          |
| Change in controlling interests of parent arising from transactions with non-controlling shareholders |  |  |   |  |  | 875,367          |
| Net change in items other than shareholders' equity during the period                                 | (364,077)                                | (1,500,257)                              | (1,620,196)                             | (3,484,531)                                  | (1,339,572)  | (4,824,104)      |
| <b>Total changes during the period</b>  | (364,077)                                | (1,500,257)                              | (1,620,196)                             | (3,484,531)                                  | (1,339,572)  | (945,676)        |
| <b>Balance at the end of the period</b>   | 886,829                                  | (159,513)                                | (2,480,938)                             | (1,753,622)                                  | 8,172,639  | 52,148,245       |

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



## Notes to Consolidated Financial Statements

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

#### 1. Scope of consolidation

##### (1) Number of consolidated subsidiaries

Names of consolidated subsidiaries

22 companies

Daido Logitech Co., Ltd.  
Daido Metal Sales Co., Ltd.  
Daido Plain Bearings Co., Ltd.  
Daido Industrial Bearings Japan Co., Ltd.  
Daido Metal U.S.A. Inc.  
Daido Metal Kotor AD  
Daido Industrial Bearings Europe Ltd.  
Daido Metal Czech s.r.o.  
Dyna Metal Co., Ltd.  
Chung Yuan Daido Co., Ltd.  
P.T. Daido Metal Indonesia  
Dong Sung Metal Co., Ltd.  
NDC Co., Ltd.  
NDC Sales Co., Ltd.  
Daido Precision Metal (Suzhou) Co., Ltd.  
Daido Metal Germany GmbH  
Asia Kelmet Co., Ltd.  
Daido Metal Europe Ltd.  
Daido Metal Russia LLC  
Daido Metal Mexico S.A. de C.V.  
Daido Metal Mexico Sales, S.A. de C.V.  
Daido Metal Saga Co., Ltd.

Daido Metal Saga Co., Ltd. has been included as a consolidated subsidiary due to being newly established during the consolidated fiscal year under review.

##### (2) Names of unconsolidated subsidiaries

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

Reason for exclusion from scope of consolidation

Korea Dry Bearing Co., Ltd. and Chung Yuan Daido (Guangzhou) 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 does 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 affiliates to which the equity method was applied

Names of companies  
2 companies  
(Unconsolidated subsidiary) Korea Dry Bearing Co., Ltd.  
(Affiliated company) BBL Daido Private Ltd.

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

(Unconsolidated subsidiaries)  
Chung Yuan Daido (Guangzhou) Co., Ltd.

### Reason for non-application of equity method

Chung Yuan Daido (Guangzhou) Co., Ltd. is immaterial from the Group's point of view in terms of total assets, revenue and net income or loss for the year and does 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 LTD., Daido Metal Czech s.r.o., Dyna Metal Co., Ltd., Chung Yuan Daido Co., P.T. Daido Metal Indonesia, Dong Sung Metal Co., Ltd., Daido Precision Metal (Suzhou) Co., Ltd., Daido Metal Germany GmbH, Daido Metal Europe LTD., Daido Metal Russia LLC, Daido Metal Mexico S.A. de C.V. and Daido Metal Mexico Sales S.A. de C.V. 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 five 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, 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) Accounting method for important hedges

(a) Hedge accounting

Special treatment is applied to interest rate swaps when the conditions of special treatment are met.

(b) Hedging instruments

Derivative transactions (interest rate swaps)

(c) Hedged items

Items with the possibility of losses due to market fluctuations and for which such market fluctuations are not reflected in their valuation and items with fixed cash flow and for which such fluctuations can be avoided.

(d) Hedge policies

The Company adopts a policy of utilizing derivative transactions as hedging instruments only for the purpose of avoiding the risks to assets and liabilities exposed to risks of market fluctuations.

(e) Evaluation of effectiveness of hedges

Test of hedge effectiveness at the balance sheet date is exempted because the conditions for special treatment of hedge by interest swaps are met.

4) Amortization of goodwill and the amortization period

Goodwill is amortized by the straight-line method within a period of 12 years based on the estimated period during which the benefits are expected to arise.

5) Accounting method of consumption taxes

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

(Change in accounting policy)

Starting from the consolidated fiscal year under review, the Company will apply the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013, hereinafter the "Business Combinations Standard"), the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013; hereinafter the "Consolidated Financial Statements Standard") and the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013; hereinafter the "Business Divestitures Standard"). Accordingly, the Company's accounting policies have been changed; the difference arising from a change in the Company's ownership interest in a subsidiary over which the Company continues to have control is recorded as capital surplus and acquisition-related costs are expensed in the consolidated fiscal year they are incurred. Also, for business acquisitions taking place at or after the beginning of the

consolidated fiscal year under review, if adjustments to the allocation of acquisition cost under provisional accounting methods are made in the financial period following the financial period in which the days of the relevant business acquisitions are included, the accounting method will be changed to a method whereby the amount of effect on the opening balance of the fiscal year in which the adjustments are made is presented separately and the opening balance reflecting the effect of the adjustments is clearly stated. In addition, the Company has changed the presentation of profit and other related items, as well as the presentation of “minority interests” to “non-controlling interests.” The Business Combinations Standard etc. were applied in accordance with transitional treatments stipulated in Paragraph 58-2 (4) of the Business Combinations Standard, Paragraph 44-5 (4) of the Consolidated Financial Statements Standard and Paragraph 57-4 (4) of the Business Divestitures Standard, and they have been prospectively applied from the beginning of the consolidated fiscal year under review. The effect of these changes for the current consolidated fiscal year has a minor impact on operating income, ordinary income and profit before income taxes. Furthermore, capital surplus as of the end of the current consolidated fiscal year increased by 875,367 thousand yen. Fiscal year end balance of capital surplus in the Consolidated Statement of Changes in Shareholders’ Equity for the consolidated fiscal year ended March 31, 2016 increased by 875,367 thousand yen. The effect on per share information is minor.

(Changes in Representation Methods)

Electronically recorded monetary claims – operating, (827,899 thousand yen in the previous consolidated fiscal year), which was included in notes and accounts receivable-trade under current assets in the previous consolidated fiscal year, is presented separately from the consolidated fiscal year ending March 31, 2016 due to an increase in significance.

## **II. Additional Information**

Following the enactment of the “Act for Partial Amendment of the Income Tax Act etc.” and “Act for Partial Amendment of the Local Taxation Act etc.” in the Diet on March 29, 2016, the statutory tax rate for the calculation of deferred tax assets and (applicable only to deferred tax assets or liabilities to be realized on or after April 1, 2016) has changed from 32.2% to 30.8% for those to be realized during the period of April 1, 2016 to March 31, 2018, and to 30.6% for those to be realized on or after April 1, 2018, respectively.

As a result of this change deferred tax assets (net of deferred tax liabilities), deferred income taxes (debit), and re- measurements of defined benefit plans (credit) decreased by 15,136 thousand yen, 18,016 thousand yen, and 54,673 thousand yen, respectively, while unrealized gain (loss) on securities (credit) increased by 21,520 thousand yen.

**III. Notes to Consolidated Balance Sheet**

|   |                  |              |
|---|------------------|--------------|
| 1. Accumulated depreciation of tangible fixed assets                                  | 80,742,432       | thousand yen |
| 2. Assets pledged as collateral, and liabilities secured by collateral                |                  |              |
| Assets pledged as collateral  |                  |              |
| Buildings and structures  | 544,997          | thousand yen |
| Machinery, equipment and vehicles   | 1,567,067        |              |
| Land  | 867,242          |              |
| Other tangible fixed assets   | 12,253           |              |
| Total   | <u>2,991,561</u> |              |
| Liabilities secured by collateral   |                  |              |
| Short-term borrowings   | 1,700,000        | thousand yen |
| Long-term borrowings<br>(including amounts scheduled to be repaid within one<br>year) | 955,556          |              |
| Total   | <u>2,655,556</u> |              |
| 3. Liabilities for guarantee  |                  |              |
| Employee housing loans etc.   | 181,104          | thousand yen |
| 4. Notes receivable discounted or transferred by endorsement                          |                  |              |
| Discounted export bills   | 8,531            | thousand yen |

**IV. 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 26, 2015    | Ordinary share | 398,173                    | 10.00                    | March 31, 2015     | June 29, 2015    |
| Board of Directors' meeting held on November 12, 2015 | Ordinary share | 517,618                    | 13.00                    | September 30, 2015 | December 7, 2015 |

(2) Of dividends for which the base date belongs to the current consolidated fiscal year, those that come into effect in the following consolidated fiscal year

| 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, 2016 | Ordinary share | 517,614                    | 13.00                    | March 31, 2016 | June 30, 2016  |

Fiscal resource of dividends is planned to be retained earnings.

## **V. Notes on Financial Instruments**

### 1. Matters relating to financial instruments

The Group invests its excess cash to 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) and interest swap transactions are made for some of long-term borrowings in order to fix the interest costs against the risk of interest rate 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 values and differences as of March 31, 2016 are as follows:  
(Unit: 1,000 yen)

|   | Book value (*) | Market value (*) | Difference |
|---|----------------|------------------|------------|
| (1) Cash and deposits   | 14,268,885     | 14,268,885       | —          |
| (2) Notes and accounts receivable-trade   | 22,824,103     | 22,824,103       | —          |
| (3) Electronically recorded monetary claims – operating                             | 1,304,213      | 1,304,213        | —          |
| (4) Investment securities   | 1,977,491      | 1,977,491        | —          |
| (5) Notes and accounts payable-trade  | (7,003,486)    | (7,003,486)      | —          |
| (6) Electronically recorded obligations - operating                                 | (7,783,966)    | (7,783,966)      | —          |
| (7) Short-term borrowings   | (12,485,361)   | (12,485,361)     | —          |
| (8) Long-term borrowings (including amounts scheduled to be repaid within one year) | (23,369,925)   | (23,490,354)     | (120,429)  |
| (9) Electronically recorded obligations - non-operating                             | (1,132,725)    | (1,132,725)      | —          |
| (10) Lease obligations  | (1,650,724)    | (1,672,429)      | (21,704)   |

(\*) 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 bonds are present values of future cash flows, discounted with the interest rate as of balance sheet date, corresponding to the period to maturity of such bonds.

(5) Notes and accounts payable-trade, (6) Electronically recorded obligations – operating, (7) Short-term borrowings and (9) 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.

(8) Long-term borrowings (including amounts scheduled to be repaid within one year) and (10) 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 rate are stated at their carrying values because they reflect market interest rate 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 value.

For long-term borrowings subject to the special treatment of interest rate swap hedge, borrowings and swaps are treated as if one transaction, and their market values are calculated by discounting the combined cash flow, with the rate reasonably estimated to be applicable if the borrowings with the same term were newly made at the balance sheet date.

(Note 2) As it is considered extremely difficult to obtain the market values of unlisted stocks (consolidated balance sheet amount of 849,619 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.”

## **VI. Notes on Business Combination**

Transaction under common control

Acquisition of additional shares in a subsidiary

### 1. Summary of the transaction

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

Name of the company: NDC Co., Ltd.

Description of the business: Mainly manufacturing and sales of automotive engine bearings

(2) Date of business acquisition: December 22, 2015

- (3) Legal form of the business acquisition: Share acquisition from non-controlling shareholders
- (4) Name of the entity after the business acquisition: No change to the name of the company.
- (5) Other matters concerning summary of the transaction

The Company acquired additional shares of NDC Co., Ltd., aiming to increase the value of the Group and further improve the efficiency of the operation through collaboration within the Group.



2. Accounting standards applied

The Company accounted for the business acquisition as a transaction with non-controlling shareholders under common control in accordance with Accounting Standard for Business Combinations and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Divestitures.

3. Additional acquisition of shares in a subsidiary

Acquisition cost and breakdown by type of consideration

|                               |                   |                      |
|-------------------------------|-------------------|----------------------|
| Consideration for acquisition | Cash and deposits | 434,000 thousand yen |
|-------------------------------|-------------------|----------------------|

---

|                  |  |                      |
|------------------|--|----------------------|
| Acquisition cost |  | 434,000 thousand yen |
|------------------|--|----------------------|

4. Changes in the ownership interests related to transaction with non-controlling shareholders

(1) Main reason for the changes in the ownership interests

Additional acquisition of the subsidiary's shares

(2) Increase in capital surplus by transaction with non-controlling shareholders

875,367 thousand yen

**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 |
|------------|--------------|
| 755,290    | 4,796,497    |

(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

1,104.45 yen

2. Net income per share

98.44 yen

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

## Non-Consolidated Balance Sheet

(As of March 31, 2016)

(Unit: 1,000 Yen)

| Assets  |                   | Liabilities   |                    |
|---|-------------------|---|--------------------|
| Account   | Amount            | Account   | Amount             |
| <b>Current assets</b>                               | <b>38,388,870</b> | <b>Current liabilities</b>                          | <b>23,279,745</b>  |
| Cash and deposits                                   | 6,323,803         | Accounts payable-trade                              | 5,796,499          |
| Notes receivable-trade                              | 408,203           | Electronically recorded obligations - operating     | 9,577,247          |
| Accounts receivable-trade                           | 19,250,039        | Current portion of long-term borrowings             | 1,827,100          |
| Electronically recorded monetary claims – operating | 1,707,856         | Lease obligations                                   | 188,325            |
| Merchandise and finished goods                      | 1,862,074         | Other accounts payable                              | 2,040,703          |
| Work in process                                     | 3,376,591         | Accrued expenses                                    | 855,123            |
| Raw materials and supplies                          | 1,392,382         | Accrued income taxes                                | 569,966            |
| Prepaid expenses                                    | 162,306           | Advances received                                   | 9,431              |
| Deferred tax assets                                 | 865,335           | Deposits received                                   | 58,413             |
| Short-term loans to affiliated companies            | 602,225           | Unearned revenue                                    | 24,013             |
| Accounts receivable-other                           | 2,267,399         | Reserve for bonuses                                 | 1,093,453          |
| Others  | 171,052           | Reserve for Directors' bonuses                      | 135,800            |
| Allowance for doubtful accounts                     | (400)             | Electronically recorded obligations - non-operating | 1,102,870          |
|   |                   | Others  | 797                |
| <b>Fixed assets</b>                                 | <b>43,906,580</b> |   |                    |
| <b>Tangible fixed assets</b>                        | <b>19,543,468</b> | <b>Non-current liabilities</b>                      | <b>16,815,781</b>  |
| Buildings   | 6,225,744         | Long-term borrowings                                | 13,129,600         |
| Structures  | 701,054           | Lease obligations                                   | 193,649            |
| Machinery and equipment                             | 5,538,777         | Long-term accounts payable                          | 204,119            |
| Cars and vehicles                                   | 11,497            | Deferred tax liabilities                            | 70,440             |
| Tools, furniture and fixtures                       | 319,461           | Reserve for retirement benefits                     | 3,172,241          |
| Land  | 3,671,939         | Provision for environmental measures                | 2,957              |
| Leased assets                                       | 418,601           | Asset retirement obligations                        | 1,800              |
| Construction in progress                            | 2,656,391         | Others  | 40,971             |
| <b>Intangible fixed assets</b>                      | <b>1,227,213</b>  | <b>Total Liabilities</b>                            | <b>40,095,526</b>  |
| Software  | 1,100,080         | Net Assets  |                    |
| Leased assets                                       | 39,075            | <b>Shareholders' equity</b>                         | <b>41,406,762</b>  |
| Right for using facilities                          | 16,267            | <b>Capital stock</b>                                | <b>7,273,178</b>   |
| Others  | 71,789            | <b>Capital surplus</b>                              | <b>7,946,245</b>   |
|   |                   | Legal capital surplus                               | 7,649,095          |
| <b>Investments and other assets</b>                 | <b>23,135,898</b> | Other capital surplus                               | 297,150            |
| Investment securities                               | 1,557,643         | <b>Retained earnings</b>                            | <b>27,608,355</b>  |
| Stocks of affiliated companies                      | 11,626,076        | Legal retained earnings                             | 743,443            |
| Investments of capital in affiliated companies      | 7,526,346         | Other retained earnings                             |                    |
| Long-term loans to employees                        | 21,684            | Reserve for compressed entry of fixed assets        | 1,616,618          |
| Bankruptcy and reorganization claims etc.           | 2,083             | General reserve                                     | 19,000,000         |
| Long-term prepaid expenses                          | 44,475            | Retained earnings brought forward                   | 6,248,293          |
| Prepaid pension expenses                            | 1,352,318         | <b>Treasury stocks</b>                              | <b>(1,421,016)</b> |
| Others  | 1,018,444         | <b>Valuation, translation adjustments and other</b> | <b>793,161</b>     |
| Allowance for doubtful accounts                     | (13,173)          | Net unrealized gain (loss) on securities            | 793,161            |
| <b>Total Assets</b>                                 | <b>82,295,450</b> | <b>Total Net Assets</b>                             | <b>42,199,924</b>  |
|   |                   | <b>Total Liabilities and Net Assets</b>             | <b>82,295,450</b>  |

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

## Non-Consolidated Statement of Income

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

(Unit: 1,000 Yen)

| Account   | Amount    |                   |
|---|-----------|-------------------|
| <b>Net sales</b>                                    |           | <b>64,665,021</b> |
| <b>Cost of sales</b>                                |           | <b>51,524,516</b> |
| <b>Gross profit on sales</b>                        |           | <b>13,140,504</b> |
| <b>Selling, general and administrative expenses</b> |           | <b>9,303,825</b>  |
| <b>Operating income</b>                             |           | <b>3,836,678</b>  |
| <b>Non-operating income</b>                         |           |                   |
| Interest and dividend income                        | 1,194,374 |                   |
| Proceeds from sale of scrap                         | 197,631   |                   |
| Others  | 359,850   | 1,751,856         |
| <b>Non-operating expenses</b>                       |           |                   |
| Interest expense                                    | 92,641    |                   |
| Foreign exchange losses                             | 70,975    |                   |
| Others  | 130,492   | 294,109           |
| <b>Ordinary income</b>                              |           | <b>5,294,425</b>  |
| <b>Extraordinary gains</b>                          |           |                   |
| Gain on sales of investment securities              | 2,716     |                   |
| Subsidy income                                      | 200,000   | 202,716           |
| <b>Profit before income taxes</b>                   |           | <b>5,497,141</b>  |
| Corporation tax, inhabitant tax and business tax    | 1,182,970 |                   |
| Income taxes-deferred                               | 172,667   | 1,355,638         |
| <b>Profit</b>                                       |           | <b>4,141,502</b>  |

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

## Non-Consolidated Statements of Changes in Shareholders' Equity

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

(Unit: 1,000 Yen)

|  | Shareholders' equity |                       |                       |                         |
|--|----------------------|-----------------------|-----------------------|-------------------------|
|  | Capital stock        | Capital surplus       |                       | Retained earnings       |
|  |                      | Legal capital surplus | Other capital surplus | Legal retained earnings |
| <b>Balance at the beginning of the period</b>                            | 7,273,178            | 7,649,095             | 297,150               | 743,443                 |
| <b>Changes during the period</b>   |                      |                       |                       |                         |
| 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  |                      |                       |                       |                         |
| Profit   |                      |                       |                       |                         |
| Acquisition of treasury stocks   |                      |                       |                       |                         |
| Changes (net) to items other than shareholders' equity during the period |                      |                       |                       |                         |
| <b>Total changes during the period</b>                                   | —                    | —                     | —                     | —                       |
| <b>Balance at the end of the period</b>                                  | 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 |                 |                            |
| <b>Balance at the beginning of the period</b>                            | 1,458,004                                    | 17,000,000      | 5,181,197                         | (1,420,012)     | 38,182,056                 |
| <b>Changes during the period</b>   |  |                 |                                   |                 |                            |
| Provision of reserve for compressed entry of fixed assets                | 169,342                                      |                 | (169,342)                         |                 | —                          |
| Reversal of reserve for compressed entry of fixed assets                 | (10,727)                                     |                 | 10,727                            |                 | —                          |
| Reversal of general reserve  |  | 2,000,000       | (2,000,000)                       |                 | —                          |
| Dividend of surplus  |  |                 | (915,792)                         |                 | (915,792)                  |
| Profit   |  |                 | 4,141,502                         |                 | 4,141,502                  |
| Acquisition of treasury stocks   |  |                 |                                   | (1,003)         | (1,003)                    |
| Changes (net) to items other than shareholders' equity during the period |  |                 |                                   |                 |                            |
| <b>Total changes during the period</b>                                   | 158,614                                      | 2,000,000       | 1,067,095                         | (1,003)         | 3,224,706                  |
| <b>Balance at the end of the period</b>                                  | 1,616,618                                    | 19,000,000      | 6,248,293                         | (1,421,016)     | 41,406,762                 |

(Unit: 1,000 Yen)

|  | Valuation, conversion adjustments etc.   |  | Total net assets |
|--|--|--|------------------|
|  | Net unrealized gain (loss) on securities | Total valuation, translation adjustments and other |                  |
| <b>Balance at the beginning of the period</b>                            | 1,119,573                                | 1,119,573  | 39,301,630       |
| <b>Changes during the period</b>   |  |  |                  |
| 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  |  |  | (915,792)        |
| Profit   |  |  | 4,141,502        |
| Acquisition of treasury stocks   |  |  | (1,003)          |
| Changes (net) to items other than shareholders' equity during the period | (326,411)                                | (326,411)  | (326,411)        |
| <b>Total changes during the period</b>                                   | (326,411)                                | (326,411)  | 2,898,294        |
| <b>Balance at the end of the period</b>                                  | 793,161                                  | 793,161  | 42,199,924       |

(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) Stocks of subsidiaries and

stocks of affiliates ..... 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 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.

#### 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 hedges

###### 1) Hedge accounting

Special treatment is applied to interest rate swaps when the conditions of special treatment are met.

###### 2) Hedging instruments

Derivative transactions (interest rate swaps)

###### 3) Hedged items

Items with possibility of losses due to market fluctuations and for which such market fluctuations are not reflected in their valuation and items with fixed cash flow and for which such fluctuations can be avoided.

###### 4) Hedge policies

The Company adopts a policy of utilizing derivative transactions as hedging instruments only for the purpose of avoiding risks to assets and liabilities exposed to risks of market fluctuations.

###### 5) Evaluation of effectiveness of hedges

Test of hedge effectiveness at the balance sheet date is exempted because the conditions for special treatment of hedge by interest swaps are met.

##### (3) 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.

##### (4) Accounting treatment of consumption taxes

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

##### (Change in accounting policy)

Starting from the consolidated fiscal year under review, the Company will apply the “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013, hereinafter the “Business Combinations Standard”), the “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013; hereinafter the “Consolidated Financial Statements Standard”) and the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013; hereinafter the “Business Divestitures Standard”). Accordingly, the Company’s accounting policies have been changed; the difference arising from a change in the Company’s ownership interest in a subsidiary over which the Company continues to have control is recorded as capital surplus and acquisition-related costs are expensed in the consolidated fiscal year they are incurred. Also, for business acquisitions taking place at or after the beginning of the consolidated fiscal year under review, if adjustments to the allocation of acquisition cost under provisional accounting methods are made in the financial period following the financial period in which the days of the relevant business acquisitions are included, the accounting method will be changed to a method whereby the amount of effect on the opening balance of the fiscal year in which the adjustments are made is presented separately and the opening balance reflecting the effect of the adjustments is clearly stated.

The Business Combinations Standard etc. were applied in accordance with transitional treatments stipulated in Paragraph 58-2 (4) of the Business Combinations Standard, Paragraph 44-5 (4) of the Consolidated Financial Statements Standard and Paragraph 57-4 (4) of the Business Divestitures Standard, and they have been prospectively applied from the beginning of the consolidated fiscal year under review.

The effect of these changes for the current consolidated fiscal year has a minor impact on non-consolidated financial statements and per share information.

##### (Changes in Presentation)

Electronically recorded monetary claims – operating, (1,156,047 thousand yen in the previous fiscal year), which was included in notes and accounts receivable-trade under current assets in the previous fiscal year, is now presented separately for its increase in balance.

## **II. Notes to Balance Sheet**

|  |                         |
|--|-------------------------|
| 1. Accumulated depreciation of tangible fixed assets                         | 42,116,584 thousand yen |
| 2. Monetary claims and monetary debts to/from affiliated companies           |                         |
| Short-term monetary claims   | 9,740,055 thousand yen  |
| Long-term monetary claims  | 379,097                 |
| Short-term monetary debts  | 5,569,857               |
| 3. Liabilities for guarantee   |                         |
| (1) For employee housing loans etc.  | 181,104 thousand yen    |
| (2) For bank borrowings  |                         |
| Daido Metal Czech s.r.o.   | 2,360,067               |
| Daido Metal Kotor AD   | 483,599                 |
| Daido Industrial Bearings Europe Ltd.  | 1,862,080               |
| Daido Metal Europe Ltd.  | 971,520                 |
| Daido Metal U.S.A. Inc.  | 3,802,950               |
| Daido Metal Mexico S.A. de C.V.  | 3,009,010               |
| Daido Precision Metal (Suzhou) Co., Ltd.                                     | 1,447,359               |
| Daido Plain Bearings Co., Ltd.   | 255,300                 |
| (3) For liabilities on purchases   |                         |
| Daido Metal Kotor AD   | 71,493                  |
| (4) For lease obligations  |                         |
| Daido Metal Russia LLC   | 1,684,060               |
| (5) Relating to letter of awareness<br>submitted relating to bank borrowings |                         |
| Daido Industrial Bearings Europe Ltd.  | 42,717                  |
| (6) For export duties  |                         |
| Daido Metal Europe Ltd.  | 24,288                  |
| Total  | <u>16,195,552</u>       |

### **III. Notes to Statement of Income**

Amount of transactions with affiliated companies

Operating transactions

Amount of sales 21,593,502 thousand yen

Amount of purchases 17,331,550 thousand yen

Other operating transactions 1,119,879 thousand yen

Transactions other than operating transactions 1,226,356 thousand yen

### **IV. 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

### **V. 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.



## **VI. Notes on Tax Effect Accounting**

### 1. Breakdown of the main causes of deferred tax assets and liabilities

| Deferred tax assets                               |                      |
|---|----------------------|
| Devaluation of finished goods and work in process | 427,985 thousand yen |
| Depreciation in excess of tax allowable limit     | 63,250               |
| Impairment losses                                 | 166,651              |
| Accrued business tax                              | 61,400               |
| Devaluation loss of investment in affiliates      | 1,301,979            |
| Devaluation loss of golf club memberships         | 16,986               |
| Reserve for bonuses                               | 336,783              |
| Reserve for retirement benefits                   | 868,552              |
| Long-term accounts payable                        | 58,196               |
| Others  | 138,495              |
| Sub-total of deferred tax assets                  | <u>3,440,283</u>     |
| Valuation reserves                                | <u>(1,596,831)</u>   |
| Total deferred tax assets                         | <u>1,843,452</u>     |
| Deferred tax liabilities                          |                      |
| Reserve for compressed entry of fixed assets      | (712,918)            |
| Unrealized gain (loss) on securities              | (333,632)            |
| Others  | (2,006)              |
| Total deferred tax liabilities                    | <u>(1,048,557)</u>   |
| Net deferred tax assets                           | <u>794,895</u>       |

### 2. Effect of adjustments to deferred tax amounts for enacted changes in tax rates

Following the enactment of the “Act for Partial Amendment of the Income Tax Act etc.” and “Act for Partial Amendment of the Local Taxation Act etc.” in the Diet on March 29, 2016, the statutory tax rate for the calculation of deferred tax assets and liabilities (applicable only to deferred tax assets or liabilities to be realized on or after April 1, 2016) has changed from 32.2% to 30.8% for those to be realized during the period of April 1, 2016 to March 31, 2018, and to 30.6% for those to be realized on or after April 1, 2018, respectively.

As a result of this change, deferred tax assets (net of deferred tax liabilities) decreased by 36,519 thousand yen, while income taxes-deferred (debit) and unrealized gain (loss) on securities (credit) increased by 53,964 thousand yen and 17,444 thousand yen, respectively.

## VII. Notes on Transactions with Related Parties

### Subsidiaries and affiliates

| 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)<br>Direct 100.0   | Sale of the Company's products, rental of facilities, loans etc. and key Management Personnel Service   | Sale of bearing products<br>Note 1                                       | 3,848,869                              | Account receivable-trade  | 1,710,028  |
|  | NDC Co., Ltd.  | (Holding)<br>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 | Sales of bearing products etc.<br>Note 1                                 | 1,803,316                              | Account receivable-trade<br>Electronically recorded monetary claims - operating | 156,797<br>687,976                               |
|  |  |   |   | Purchase of bearing products etc.<br>Note 2                              | 5,755,658                              | Account payable-trade   | 1,877,504  |
|  | Daido Plain Bearings Co., Ltd.                         | (Holding)<br>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.<br>Note 2                              | 8,791,903                              | Account payable-trade   | 1,005,756  |
|  |  |   |   | Dividend received  | 500,000                                | Electronically recorded obligations- operating<br>-                             | 2,276,287<br>-                                   |
|  | Daido Metal U.S.A. Inc.                                | (Holding)<br>Direct 100.0   | Sales of Company's products etc., purchase of products, licensing of technology, rental of facilities, loans, debt guarantees and key Management Personnel Service                              | Sales of bearing products etc.<br>Note 1                                 | 6,003,446                              | Account receivable-trade  | 2,287,141  |
|  |  |   |   | Underwriting of capital increase<br>Note 10<br>Debt guarantees<br>Note 3 | 864,080<br>3,802,950                   | -<br>-  | -<br>-   |
|  | Daido Metal Mexico S.A. de C.V.                        | (Holding)<br>Direct 99.9<br>(Holding)<br>Indirect 0.0   | Sales of the Company's products, rental of facilities, debt guarantees etc. and key Management Personnel Service  | Debt guarantees<br>Note 4  | 3,009,010                              | -   | -  |
|  | Daido Metal Czech s.r.o.                               | (Holding)<br>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<br>Note 5  | 2,360,067                              | -   | -  |
|  | Daido Industrial Bearings Europe Ltd.                  | (Holding)<br>Direct 100.0   | Sales of the Company's products, purchase of products, licensing of technology, rental of facilities, debt guarantees etc. and key Management Personnel Service                                 | Debt guarantees<br>Note 6  | 1,904,797                              | -   | -  |
|  | Daido Metal Europe Ltd.                                | (Holding)<br>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.<br>Note 1                                 | 4,295,777                              | Account receivable-trade  | 1,332,603  |
| Debt guarantees<br>Note 7                |  |   |   | 995,808  | -                                      | -   |  |
| Dyna Metal Co., Ltd.                     | (Holding)<br>Direct 50.0                               | Sales of the Company's products etc., purchase of products, licensing of technology, rental of facilities and key Management Personnel Service                              | Dividend received   | 195,900  | Accounts receivable-other              | 95,700  |  |
| Daido Precision Metal (Suzhou) Co., Ltd. | (Holding)<br>Direct 74.0<br>(Holding)<br>Indirect 16.2 | Sales of the Company's products etc., purchase of products, rental of facilities, licensing of technology, loans, debt guarantees etc. and key Management Personnel Service | Dividend received   | 177,156  | -                                      | -   |  |
|  |  |   | Debt guarantees<br>Note 8   | 1,447,359  | -                                      | -   |  |
| Daido Metal Russia LLC                   | (Holding)<br>Direct 99.8                               | Sales of the Company's products etc., licensing of technology, debt guarantees etc. and key Management Personnel Service  | Debt guarantees<br>Note 9   | 1,684,060  | -                                      | -   |  |

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) Debt guarantees are provided for the bank borrowings (3,802,950 thousand yen) of Daido Metal U.S.A. Inc. and guarantee fees of 0.2% per annum are received.

(Note 4) Debt guarantees are provided for the bank borrowings (3,009,010 thousand yen) of Daido Metal Mexico S.A. de C.V. and guarantee fees of 0.2% per annum are received.

(Note 5) Debt guarantees are provided for the bank borrowings (2,360,067 thousand yen) of Daido Metal Czech s.r.o. and guarantee fees of 0.2% and 0.3% per annum are received.

(Note 6) Debt guarantees are provided for the bank borrowings (1,862,080 thousand yen) of Daido Industrial Bearings Europe Ltd. and guarantee fees of 0.2% per annum are received. In addition, Letter of awareness is provided for the bank borrowings (42,717 thousand yen) of Daido Industrial Bearings Europe Ltd.

(Note 7) Debt guarantees are provided for the bank borrowings (971,520 thousand yen) and for export duties (24,288 thousand yen) of Daido Metal Europe Ltd. and guarantee fees of 0.2% per annum are received.

(Note 8) Debt guarantees are provided for the bank borrowings (1,447,359 thousand yen) of Daido Precision Metal (Suzhou) Co., Ltd. and guarantee fees of 0.2% per annum are received.

(Note 9) Debt guarantees are provided for the lease obligations (1,684,060 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.

### **VIII. Notes on Per Share Information**

|                         |              |
|-------------------------|--------------|
| 1. Net assets per share | 1,059.86 yen |
| 2. Net income per share | 104.01 yen   |

**Independent Auditor's Report on Consolidated Financial Statements:**

Independent Auditor's Report

May 20, 2016

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

Deloitte Touche Tohmatsu LLC

|  |  |                                 |             |
|--|--|---------------------------------|-------------|
| <u>Designated Partner</u><br><u>Engagement Partner</u> | <u>Certified Public</u><br><u>Accountant</u> | <u>Norio Hattori</u>            | <u>Seal</u> |
| <u>Designated Partner</u><br><u>Engagement Partner</u> | <u>Certified Public</u><br><u>Accountant</u> | <u>Yasuteru</u><br><u>Miura</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 108th fiscal year from April 1, 2015 to March 31, 2016, 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 on Non-consolidated Financial Statements

Independent Auditor's Report

May 20, 2016

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

Deloitte Touche Tohmatsu LLC

|  |  |                   |      |
|--|--|-------------------|------|
| <u>Designated Partner</u><br><u>Engagement Partner</u> | <u>Certified Public</u><br><u>Accountant</u> | Norio Hattori     | Seal |
| <u>Designated Partner</u><br><u>Engagement Partner</u> | <u>Certified Public</u><br><u>Accountant</u> | Yasuteru<br>Miura | Seal |

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 108th fiscal year from April 1, 2015 to March 31, 2016, 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 108th fiscal year from April 1, 2015 to March 31, 2016, 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, 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 independent 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 26, 2016

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 13 yen per share.

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

To attain sufficient internal reserves necessary for strengthening business foundations to cope for future business development and for changes to the business environment, the Company proposes to appropriate retained earnings carried forward and to transfer to a general reserve as stated below.

#### 1. Details of the year-end dividend

- (1) Type of dividend  
Cash
- (2) Allocation of dividends to shareholders and the total amount  
13 yen per ordinary share of the Company  
Total amount: 517,614,032 yen
- (3) Date when dividends from surplus become effective  
June 30, 2016

#### 2. Other items regarding appropriation of surplus

- (1) Item and amount of surplus to be increased  
General reserve 2,000,000,000 yen
- (2) Item and amount of surplus to be decreased  
Retained earnings carried forward 2,000,000,000 yen

## Agenda Item No. 2 Election of Seven Directors

The terms of office for all six Directors expire at the close of this Shareholders' Meeting. To ensure the transparency of management and further enhance corporate governance, the Company believes it should increase the number of Directors from six to seven by newly appointing one Outside Director. We therefore propose the election of seven Directors.

The candidates for the position of Director are as follows:

| Candidate No. | Name<br>(Date of birth)   | Career history, positions at the Company,<br>and important positions at other entities  | Number of shares of<br>the Company held by<br>the candidate |
|---------------|---|---|---|
| (1)           | Seigo Hanji<br>(January 2, 1942)<br><br><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 &amp; Chief Executive Officer</p> <p>June 2007      Chairman &amp; Chief Executive Officer (current)</p> <p>May 2008      Executive &amp; 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. (current)</p> <p>[Important positions at other entities]<br/>Executive &amp; Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of the aforementioned Association</p>   | 139,412 shares  |
| (2)           | Kotaro<br>Kashiyama<br>(March 28, 1947)<br><br><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 &amp; 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 &amp; Turbo Charging Bearings Division</p> <p>July 2005      Director and Executive Officer, and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division</p> <p>June 2007      Managing Director and Executive Officer, and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division</p> <p>July 2007      Managing Director and Senior Executive Officer, and Head of Thinwall Bearings &amp; 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>President of Daido Plain Bearings Co., Ltd.</p> <p>April 2011      Senior Managing Director and Senior Executive Officer, and General Manager of Global Strategy Division and Head of Technology Division</p> <p>President of Daido Plain Bearings Co., Ltd.</p> <p>June 2011      President &amp; Chief Operating Officer</p> <p>Head of Global Strategy Division and Technology Division</p> <p>April 2012      President &amp; Chief Operating Officer (current)</p> | 75,369 shares   |

| Candidate No. | Name<br>(Date of birth)   | Career history, positions at the Company,<br>and important positions at other entities   | Number of shares of<br>the Company held by<br>the candidate |
|---------------|---|--|---|
| (3)           | Toshiyuki<br>Sasaki<br>(December 7, 1950)<br><br><u>Reappointment</u> | <p>April 1974      Joined Tokai Bank Ltd.<br/>April 1997      Manager of Taipei Branch<br/>March 2001     Manager of Americas, Manager of New York Branch, Manager of Cayman Branch and Manager of Chicago Office<br/>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<br/>April 2004      Joined the Company<br/>April 2004      General Manager of Overseas Planning Department, Corporate Planning Division<br/>April 2005      General Manager of Corporate Planning Department, Corporate Planning Division<br/>June 2005      Director and General Manager of Corporate Planning Department, Corporate Planning Division<br/>July 2005      Director and Executive Officer, and General Manager of Corporate Planning Department, Corporate Planning Division<br/>June 2007      Director and Executive Officer, and General Manager of Corporate Planning Division<br/>April 2008      Director and Executive Officer, and Head of Corporate Planning Division<br/>July 2008      Director and Senior Executive Officer, and Head of Corporate Planning Division<br/>July 2009      Director and Senior Executive Officer, and Head and General Manager of Corporate Planning Department of Corporate Planning Division<br/>October 2009    Director and Senior Executive Officer, and Head of Corporate Planning Division<br/>April 2010      Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division<br/>June 2010      Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division<br/>June 2011      Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division and Head of Human Resources Planning Division<br/>April 2012      Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division<br/>April 2015      Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division<br/>July 2015      President of DAIDO METAL SAGA CO., LTD. (part-time)<br/>Director and Managing Executive Officer, and Head of Corporate/Financial Planning Division<br/>April 2016      President of DAIDO METAL SAGA CO., LTD. (part-time)<br/>Director and Managing Executive Officer, and General Manager of Business Process Re-engineering (BPR) Department<br/>President of DAIDO METAL SAGA CO., LTD. (part-time) (current)</p> | 60,863 shares   |
| (4)           | Yasuo Kawamura<br>(December 13, 1949)<br><br><u>Reappointment</u>     | <p>April 1973      Joined the Company<br/>April 1999      General Manager of Tokyo Branch<br/>July 2005      Executive Officer and General Manager of Tokyo Branch<br/>April 2006      Vice-Head of Thinwall Bearings &amp; Turbo Charging Bearings Division<br/>July 2008      Senior Executive Officer<br/>Director-President of Dyna Metal Co., Ltd. (Thailand)<br/>April 2010      Senior Executive Officer and Head of Sales Division<br/>April 2011      Senior Executive Officer and Head of Polymer Bearings Division<br/>June 2011      Director and Senior Executive Officer, and Head of Polymer Bearings Division<br/>April 2015      Director and Senior Executive Officer, and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division<br/>July 2015      Director and Managing Executive Officer, and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division<br/>April 2016      Director and Managing Executive Officer, Head of Thinwall Bearings &amp; Turbo Charging Bearings Division and General Manager of Global Business Administration Department<br/>June 2016      Director and Managing Executive Officer, and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division (current)</p>   | 24,494 shares   |

| Candidate No. | Name<br>(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 |
|---------------|---|---|---|
| (5)           | Masaki Ikawa<br>(December 12, 1950)<br><br>[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 &amp; Planning Department</p> <p>July 2011      Senior Executive Officer, General Manager of Quality Management &amp; Planning Department and General Manager of Inuyama Site</p> <p>March 2012      Senior Executive Officer, General Manager of Quality Management &amp; 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> | 25,382 shares   |
| (6)           | Toshikazu Takei<br>(September 22, 1953)<br><br>[Reappointment]<br>[Outside Director]<br>[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]<br/>Managing Director of Japan Center for International Finance</p>   | 681 shares  |

| Candidate No. | Name<br>(Date of birth)  | Career history, positions at the Company,<br>and important positions at other entities   | Number of shares of<br>the Company held by<br>the candidate |
|---------------|--|--|---|
| (7)           | Kiyotaka<br>Hoshinaga<br>(November 15, 1950)<br><br>New appointment<br>Outside Director<br>Independent Officer | <p>May 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>[Important positions at other entities]<br/>President, Fujita Health University Hospital<br/>Managing Director, Fujita Academy Incorporated Educational Institution</p> | 0 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. Matters Relating to Company Officers, (1) Directors and Audit & Supervisory Board Members" on pages 19-20.
  - 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, we judge for the reason above that he is able to appropriately oversee and supervise the management of the Company as an Outside Director.
  - Liability limitation agreement  
The Company has entered into a liability limitation agreement with Mr. Toshikazu Takei. The Company will continue this agreement with him if he is elected as an Outside Director and he assumes office.  
The Company will enter into a liability limitation agreement with Mr. Kiyotaka Hoshinaga if he is elected as an Outside Director and he assumes 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 has been registered as an "Independent Officer" pursuant to the provisions of the Tokyo Stock Exchange and Nagoya Stock Exchange. If he is elected as an Outside Director and he assumes office the Company will continue to register him as an "Independent Officer."
  - The Company will register Mr. Kiyotaka Hoshinaga as an "Independent Officer" pursuant to the provisions of the Tokyo Stock Exchange and Nagoya Stock Exchange if he is elected as a Director and he assumes office.
  - The term of office of Mr. Toshikazu Takei 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<br>(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<br/>(July 12, 1945)</p> <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 5px 0;">Substitute Audit &amp; Supervisory Board Member</div> <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 5px 0;">Outside Audit &amp; Supervisory Board Member</div> | <p>April 1971      Joined Tohmatsu Aoki Audit Corporation (now Deloitte Touche Tohmatsu LLC)<br/>           April 1975      Registered as a certified public accountant<br/>           January 1976    Registered as a licensed tax accountant<br/>           March 1978      Left Tohmatsu Aoki Audit Corporation (now Deloitte Touche Tohmatsu LLC)<br/>           April 1978      Opened CPA Nobuyuki Ishiwata accounting firm<br/>           April 1988      Established Seishin &amp; Co. Audit Corporation (currently, SeishinShisei &amp; Co. Audit Corporation) and assumed the post of Representative Partner (to present)<br/>           August 1999    Outside auditor of Adecco Ltd. (to present)<br/>           July 2003      Established Seishin &amp; Co. Tax Corporation (currently, SeishinShisei &amp; Co. Tax Corporation) and assumed the post of Representative Partner (to present)</p> <p>[Important positions at other corporations]<br/>           Representative Partner of SeishinShisei &amp; Co. Audit Corporation<br/>           Representative Partner of SeishinShisei &amp; Co. Tax Corporation<br/>           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 135.8 million yen to the five Directors (excluding one Outside Director) 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. (Please refer to page 21 of this Notice.)

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

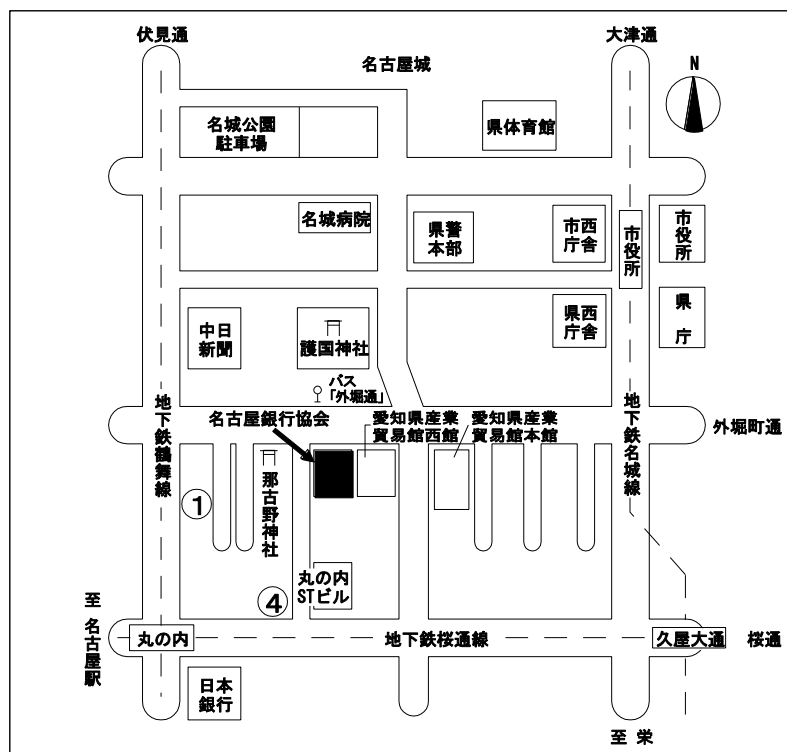
End of document

## Venue of Shareholders' Meeting

**Venue** 4-2, Marunouchi 2-chome, Naka-ku, Nagoya  
5<sup>th</sup> 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.

