

Consolidated Balance Sheet

(As of March 31, 2016)

(Unit: 1,000 Yen)

Assets		Liabilities	
Account	Amount	Account	Amount
Current assets	60,002,212	Current Liabilities	40,337,695
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
Fixed assets	62,918,336	Non-Current Liabilities	30,434,608
Tangible fixed assets	55,324,271	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
		Total Liabilities	70,772,303
Intangible fixed assets	2,124,994	Net Assets	
Goodwill	482,362	Shareholders' equity	45,729,227
Leased assets	121,529	Capital stock	7,273,178
Others	1,521,102	Capital surplus	8,821,612
		Retained earnings	31,055,453
Investments and other assets	5,469,071	Treasury stocks	(1,421,016)
Investment securities	2,827,111	Accumulated other comprehensive income	(1,753,622)
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)	Non-controlling interests in consolidated subsidiaries	8,172,639
Total Assets	122,920,549	Total Net Assets	52,148,245
		Total Liabilities and Net Assets	122,920,549

(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	
Net sales		81,400,799
Cost of sales		58,599,589
Gross profit on sales		22,801,210
Selling, general and administrative expenses		15,686,425
Operating income		7,114,785
Non-operating income		
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
Non-operating expenses		
Interest expense	311,366	
Foreign exchange losses	823,578	
Others	337,174	1,472,118
Ordinary income		6,796,474
Extraordinary gains		
Gain on sales of investment securities	2,716	
Subsidy income	200,000	202,716
Profit before income taxes		6,999,191
Corporation tax, inhabitant tax and business tax	2,151,889	
Income taxes-deferred	82,149	2,234,039
Profit		4,765,152
Profit attributable to non-controlling interests		845,295
Profit attributable to owners of parent		3,919,856

(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
Balance at the beginning of the period	7,273,178	7,946,245	28,051,389	(1,420,012)	41,850,799
Changes during the period					
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					
Total changes during the period	—	875,367	3,004,064	(1,003)	3,878,427
Balance at the end of the period	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		
Balance at the beginning of the period	1,250,907	1,340,744	(860,741)	1,730,909	9,512,211	53,093,921
Changes during the period						
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)
Total changes during the period	(364,077)	(1,500,257)	(1,620,196)	(3,484,531)	(1,339,572)	(945,676)
Balance at the end of the period	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 (including amounts scheduled to be repaid within one 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
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Acquisition cost		434,000 thousand yen
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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
Current assets	38,388,870	Current liabilities	23,279,745
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
Fixed assets	43,906,580		
Tangible fixed assets	19,543,468	Non-current liabilities	16,815,781
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
Intangible fixed assets	1,227,213	Total Liabilities	40,095,526
Software	1,100,080	Net Assets	
Leased assets	39,075	Shareholders' equity	41,406,762
Right for using facilities	16,267	Capital stock	7,273,178
Others	71,789	Capital surplus	7,946,245
Investments and other assets	23,135,898	Legal capital surplus	7,649,095
Investment securities	1,557,643	Other capital surplus	297,150
Stocks of affiliated companies	11,626,076	Retained earnings	27,608,355
Investments of capital in affiliated companies	7,526,346	Legal retained earnings	743,443
Long-term loans to employees	21,684	Other retained earnings	
Bankruptcy and reorganization claims etc.	2,083	Reserve for compressed entry of fixed assets	1,616,618
Long-term prepaid expenses	44,475	General reserve	19,000,000
Prepaid pension expenses	1,352,318	Retained earnings brought forward	6,248,293
Others	1,018,444	Treasury stocks	(1,421,016)
Allowance for doubtful accounts	(13,173)	Valuation, translation adjustments and other	793,161
		Net unrealized gain (loss) on securities	793,161
Total Assets	82,295,450	Total Net Assets	42,199,924
		Total Liabilities and Net Assets	82,295,450

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

(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
Balance at the beginning of the period	7,273,178	7,649,095	297,150	743,443
Changes during the period				
Provision of reserve for compressed entry of fixed assets				
Reversal of reserve for compressed entry of fixed assets				
Reversal of general reserve				
Dividend of surplus				
Profit				
Acquisition of treasury stocks				
Changes (net) to items other than shareholders' equity during the period				
Total changes during the period	—	—	—	—
Balance at the end of the period	7,273,178	7,649,095	297,150	743,443

(Unit: 1,000 Yen)

	Shareholders' equity				
	Retained earnings			Treasury stocks	Total shareholders' equity
	Other retained earnings		Retained earnings brought forward		
	Reserve for compressed entry of fixed assets	General reserve			
Balance at the beginning of the period	1,458,004	17,000,000	5,181,197	(1,420,012)	38,182,056
Changes during the period					
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					
Total changes during the period	158,614	2,000,000	1,067,095	(1,003)	3,224,706
Balance at the end of the period	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	
Balance at the beginning of the period	1,119,573	1,119,573	39,301,630
Changes during the period			
Provision of reserve for compressed entry of fixed assets			—
Reversal of reserve for compressed entry of fixed assets			—
Reversal of general reserve			—
Dividend of surplus			(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)
Total changes during the period	(326,411)	(326,411)	2,898,294
Balance at the end of the period	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 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) Direct 100.0	Sale of the Company's products, rental of facilities, loans etc. and key Management Personnel Service	Sale of bearing products Note 1	3,848,869	Account receivable-trade	1,710,028
	NDC Co., Ltd.	(Holding) Direct 58.8	Purchase of products etc. manufacturing of the Company's products, sales of the Company's products etc., licensing of technology, lease of facilities etc. and key Management Personnel Service	Sales of bearing products etc. Note 1	1,803,316	Account receivable-trade Electronically recorded monetary claims - operating	156,797 687,976
				Purchase of bearing products etc. Note 2	5,755,658	Account payable-trade	1,877,504
	Daido Plain Bearings Co., Ltd.	(Holding) Direct 100.0	Manufacturing of the Company's products, lease of facilities, debt guarantees etc. and key Management Personnel Service	Purchase of bearing products etc. Note 2	8,791,903	Account payable-trade	1,005,756
				Dividend received	500,000	Electronically recorded obligations- operating -	2,276,287 -
	Daido Metal U.S.A. Inc.	(Holding) Direct 100.0	Sales of Company's products etc., purchase of products, licensing of technology, rental of facilities, loans, debt guarantees and key Management Personnel Service	Sales of bearing products etc. Note 1	6,003,446	Account receivable-trade	2,287,141
				Underwriting of capital increase Note 10	864,080	-	-
				Debt guarantees Note 3	3,802,950	-	-
	Daido Metal Mexico S.A. de C.V.	(Holding) Direct 99.9 (Holding) Indirect 0.0	Sales of the Company's products, rental of facilities, debt guarantees etc. and key Management Personnel Service	Debt guarantees Note 4	3,009,010	-	-
	Daido Metal Czech s.r.o.	(Holding) Direct 100.0	Sales of the Company's products etc., purchase of products, licensing of technology, rental of facilities, loans, debt guarantees etc. and key Management Personnel Service	Debt guarantees Note 5	2,360,067	-	-
	Daido Industrial Bearings Europe Ltd.	(Holding) 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 Note 6	1,904,797	-	-
Daido Metal Europe Ltd.	(Holding) Direct 100.0	Sales of the Company's products, rental of facilities, debt guarantees etc. and key Management Personnel Service	Sales of bearing products etc. Note 1	4,295,777	Account receivable-trade	1,332,603	
			Debt guarantees Note 7	995,808	-	-	
Dyna Metal Co., Ltd.	(Holding) 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) Direct 74.0 (Holding) 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 Note 8	1,447,359	-	-	
Daido Metal Russia LLC	(Holding) Direct 99.8	Sales of the Company's products etc., licensing of technology, debt guarantees etc. and key Management Personnel Service	Debt guarantees 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