

**[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, 2018

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 110th Annual Shareholders' Meeting

Dear shareholders,

You are cordially invited to the 110th 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, etc. 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 27, 2018 (Wednesday).**

Yours sincerely,

Note

- 1. Date and time** 10 a.m. on June 28, 2018 (Thursday)
- 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 business report, consolidated financial statements and results of the audit of consolidated financial statements by the Accounting Auditor and Audit & Supervisory Board for the 110th fiscal year (from April 1, 2017 to March 31, 2018)
  2. Reporting of non-consolidated financial statements for the 110th fiscal year (from April 1, 2017 to March 31, 2018)

Matters for resolution

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

#### **4. Guidance on exercising voting rights**

(1) Exercising voting rights by post

Please complete the enclosed Voting Card, indicating your approval or disapproval, and send the Card by return mail to be delivered to us no later than 5 p.m. of June 27, 2018 (Wednesday).

(2) Exercising voting rights via the Internet

If you exercise your voting rights via the Internet, please review the instructions under “Guidance for exercising your voting rights via the Internet” described on pages 4 and 5. Please access the Website designated by the Company (<https://www.web54.net>) to exercise your voting rights following the instructions on the screen by no later than 5 p.m. on June 27, 2018 (Wednesday).

(3) If you exercise your voting rights by post AND via the Internet, etc., the voting rights exercised via the Internet, etc. shall be treated as the valid vote. If you exercise your voting rights multiple times via the Internet, etc., only your last vote shall be treated as valid.

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- ⦿ **If you attend the meeting in person on the day, please kindly submit the enclosed Voting Card to the reception desk.**
  - ⦿ **If you intend to exercise your voting right by proxy, you can designate a single shareholder of the Company to vote on your behalf. In this case, please submit documentation to prove you have properly assigned your rights to your proxy to vote on your behalf.**
  - ⦿ **The reception desk is scheduled to open at 9 a.m. on the day.**
  - ⦿ **If there are any revisions to the business report, consolidated financial statements, non-consolidated financial statements and Reference Materials for the Annual Shareholders' Meeting, they will be posted online on the Company's website.**

**The Company's website (<https://www.daidometal.com/>)**



## **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 (<https://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: <https://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., Japan 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.



QR Code

(Attachment)

## Business Report

( From: April 1, 2017  
To: March 31, 2018 )

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

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

##### 1) Economic conditions

###### Global

The world economy overall continued a moderate recovery during the current consolidated fiscal year. The US economy was strong, owing to higher personal spending backed by the improvement of employment environment and an increase in capital investment. In Europe, the economy also maintained its moderate recovery trend. In Asia, the Chinese economy held firm mainly owing to the effects of various economic policies, and there were signs of economic recovery in Thailand, Indonesia and other areas.

###### Japan

With regard to the Japanese economy, a moderate recovery also continued, with personal spending picking up thanks to gradually rising real total labor income and slowly increasing capital investment. On the other hand, close attention must still be paid to rising uncertainty in overseas economies, such as increasing geopolitical risk and moves towards protectionism in the US, the UK and in other countries.

##### 2) Business situation in the industries

In the automotive sector, the Group's core business area, new car sales for 2017 (calendar year) were approximately 96 million units worldwide (a year-on-year increase of approximately 3%), recording a historical high for eight consecutive years. Sales in the Chinese and US markets, the two largest markets in the world, slowed. In China, the growth waned compared to the previous year, due to the weakened effects of tax breaks on small sized passenger cars. During 2017 (calendar year), new car sales in the US fell year-on-year for the first time in eight years. However, global automotive production and sales remained strong, supported by high-level sales in China and the US, recoveries in sales in the emerging countries, and by strong European and Japanese domestic markets.

In the non-automotive sector, the shipbuilding industry worldwide continued to face conditions of excess tonnage. It is expected to take some time for the balance of supply and demand to improve.

The construction machine industry is recovering steadily, supported by strong demand in major market such as China and the US. Total exports of domestic manufacturers for 2017 (calendar year) rose 19.1% year on year, the first increase in three years and the production and sales of manufacturers in the US and other countries also recovered rapidly. Other industry sectors also performed strongly on the whole.

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

Under this business environment, consolidated net sales of the Group for the period were 106,648 million yen, an increase of 21,575 million yen (up 25.4%) compared with the previous period, exceeding the 100,000 million yen mark. This was due to the addition of sales of Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd., which became consolidated subsidiaries of the Company from the previous period, as well as sales of the group companies of these two companies.

Compared to the previous period, operating income was 6,511 million yen, an increase of 1,407 million yen (up 27.6%), and ordinary income was 6,708 million yen, an increase of 1,281 million yen (up 23.6%). The Company incurred a temporary cost in the previous period caused by the sudden rise in order at our plant in Mexico. The situation being now stabilized, the increase in production in Mexico contributed to the rise in profit. Steady growth in bimetal production at DAIDO METAL SAGA CO., LTD. and the Group's sales expansion on a global basis also contributed positively, despite the rise in material cost and one-off cost incurred by Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd. Profit attributable to owners of parent was 3,281 million yen, an increase of 645 million yen (up 24.5%) compared with the previous period, despite the impairment loss on fixed assets by the Group's subsidiary, Daido Industrial Bearings Europe Limited.

##### 4) Results by segment

Sales to external customers by segment are as follows.

###### a) Automotive engine bearings

In Japan, new car sales in 2017 (calendar year) exceeded five million units, after a drop in 2016. The Company's domestic sales increased 6.9% with increased sales of automotive engine bearings for both trucks and passenger cars. Increase in bearings turbochargers also contributed to the increase.

In overseas market, sales increased 12.0% despite slowing sales in the two of the world's largest markets, China and the US, thanks to sales recovery in emerging countries such as Thailand, and in Europe (including Russia), as well as a sales increase of high value-added engine bearings.

Net sales of the segment resulted in 65,265 million yen, an increase of 5,899 million yen (up 9.9%) compared with the previous period.

b) Automotive non-engine bearings

Net sales were 14,266 million yen, an increase of 1,508 million yen (up 11.8%) compared with the previous fiscal year. As with automotive engine bearings, domestic sales increased owing to strong automobile sales and production, and overseas sales increased in various countries.

c) Non-automotive bearings

With regard to bearings for the shipbuilding industry, sales decreased due to weak demand reflecting the situation of excess tonnage. Meanwhile, new order situation is starting to improve slowly.

With regard to bearings for construction machinery, sales grew significantly compared with the previous period due to a strong sales recovery in the US and China.

With regard to bearings for general industries, sales of special types of bearings for the energy industry were largely sluggish, due to weaker-than-expected demand for coal and petroleum thermal power plants.

As a result, net sales were 9,324 million yen, a decrease of 366 million yen (down 3.8%) compared with the previous period.

d) Other automotive parts

Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd. as well as the group companies of these two joined the Group during the previous consolidated fiscal year. Sales from these two groups of companies are reported in this segment. Net sales were 15,573 million yen, which is in line with the sales expected when the two companies were acquired.

e) Others

This segment, which includes electrode sheets for electric double layer capacitors, the metallic dry bearings business, pump-related products businesses, and the real estate leasing business, remained strong. Net sales were 2,219 million yen, an increase of 201 million yen (up 10.0%) compared with the previous period.

(Sales by segment)

Segment	Net sales (Millions of yen)	
	FY 2016 109 <sup>th</sup> term	FY 2017 110 <sup>th</sup> term (Current Period)
Automotive engine bearings	59,365	65,265
Automotive non-engine bearings	12,757	14,266
Non-automotive bearings	9,691	9,324
Other automotive parts	1,241	15,573
Others	2,017	2,219
Total	85,073	106,648

(Note) Sales represent the amount to external customers.

## (2) Status of Financing etc.

### 1) Financing

During the current period, there was no material financing through loans from financial institutions or the issuing of company shares or bonds.

### 2) Capital investment

The Group is the sole all-round plain bearing manufacturer in the world, having the world's top market shares (our estimate) in automotive engine bearings, bearings for low-speed diesel engines for large ships, and bearings for turbochargers (small turbo chargers for automobiles), and large market shares in other segments. Under the previous Midterm Business Plan "Together To The Top," the Group made efforts to establish and expand its production and sales network in five regions of the world. While capital investment associated with these efforts has slowed down somewhat, additional investments will be made to achieve global market share targets, a continued theme from the previous Midterm Business Plan, taking future changes in the business environment and risks into account.

In FY2017, the Group made total capital investment of 1,369 million yen (an increase of 1,208 million yen compared with the previous fiscal year) in relation to Iino Holding Ltd., ATA Casting Technology Japan Co., Ltd., and the group companies of these two companies. However, capital investment in other segments decreased.

As a result, total capital investment for the current period was 8,694 million yen, a decrease of 3,635 million yen compared with the previous period.

(Major capital investments during the current period)

- Investment to enhance production capacity and improve productivity for bimetal (material for bearings) at domestic production sites
- Investment to improve productivity for automotive engine bearings, expand facilities and improve productivity for non-automotive bearings at domestic production sites
- Investment to enhance production capacity for automotive engine bearings at overseas production sites in Mexico, China, Thailand, South Korea, the Czech Republic and other countries
- Investment to improve productivity and enhance production capacity for other automotive parts (aluminum die cast, formed pipes, knock pins, etc.) in Japan and Thailand
- Investment related to information systems



### (3) Financial Conditions and Operating Results

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

Category \ Fiscal year	FY 2014 107 <sup>th</sup> term	FY 2015 108 <sup>th</sup> term	FY 2016 109 <sup>th</sup> term	FY 2017 110 <sup>th</sup> term (Current period)
Net sales (Millions of yen)	85,015	81,400	85,073	106,648
Operating income (Millions of yen)	7,633	7,114	5,103	6,511
Ordinary income (Millions of yen)	8,129	6,796	5,427	6,708
Profit attributable to owners of parent (Millions of yen)	4,459	3,919	2,635	3,281
Net income per share (Yen)	112.00	98.44	66.19	82.42
Net assets (Millions of yen)	53,093	52,148	52,964	57,940
Total assets (Millions of yen)	116,533	122,920	155,331	161,366

(Note) During the current period, the Company finalized the provisional accounting treatment for the business combination of ATA Casting Technology Japan Co., Ltd. Accordingly, the financial conditions and operating results of the Group for FY2016 (109<sup>th</sup> term) are restated for the resulting revision of previously allocated cost of acquisition.

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

Category \ Fiscal year	FY 2014 107 <sup>th</sup> term	FY 2015 108 <sup>th</sup> term	FY 2016 109 <sup>th</sup> term	FY 2017 110 <sup>th</sup> term (Current period)
Net sales (Millions of yen)	67,269	64,665	63,345	66,413
Operating income (Millions of yen)	5,296	3,836	2,695	1,851
Ordinary income (Millions of yen)	6,220	5,294	4,500	3,475
Profit (loss) (Millions of yen)	4,000	4,141	(577)	2,398
Net income (loss) per share (Yen)	100.46	104.01	(14.49)	60.24
Net assets (Millions of yen)	39,301	42,199	40,707	42,002
Total assets (Millions of yen)	77,042	82,295	102,831	104,954

#### (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.

The Group established "Raise Up 'Daido Spirit' - Ambitious, Innovative, Challenging -," as its new Midterm Business Plan for the period from FY2018 to FY2023. Amid the dramatically changing and unpredictable environment, the Group will accelerate its evolution and create a solid organization.

#### (5) Issues to be Addressed

Execution of the new "Midterm Business Plan"

In FY2017, the final year of the previous plan period of "Together To The Top," the Company targeted consolidated sales of 111.0 billion yen, operating income of 16.7 billion yen, and operating margin of 15% or more, with the global top market share in all industry segments of plain bearings.

Net sales targets of the plan was essentially met thanks to the acquisitions of two companies, compensating the sluggish market in shipbuilding and construction machine industries, and our slowed global expansion of polymer bearings business that resulted in the missed sales target. The profit target was not achieved due to the declines in sales in existing business mentioned above, initial cost to set up DAIDO METAL SAGA CO., LTD., and temporary expenses incurred to cope with the rapid increase in orders at our plant in Mexico. Taking the results of the previous Midterm Business Plan into consideration, the Company launched its new Midterm Business Plan for the period from FY2018 to FY2023. In view of the achievements and issues of the previous Plan, together with the foreseeable changes and risks in business environment, the Group will work to implement the new Midterm Business Plan with the following four points as its principle action lines.

Action line 1: Strengthen current business lines further	"True leader in Tribology"
Action line 2: Creating / fostering new business lines	"Identify new business areas and foster them"
Action line 3: Enhance management / operational control platform	"Strengthen various platform including production, IT, HR, financial reporting. Review of organizational structure"
Action line 4: Energetic organization with animated communication and motivation	"To develop people and organization who can adapt oneself to the rule changes in the business"

The Group's third year (FY2020) targets are

consolidated net sales	120,000 million
operating profit	10,000 million
operating margin	8.3%
ROE (return on equity)	9.5%

and its final year (FY2023) targets are

consolidated net sales	140,000 million
operating profit	14,000 million
operating margin	10.0%
ROE (return on equity)	10.0%

Under the new Midterm Business Plan, the Group will implement the following initiatives based on the four principle action lines to enhance its corporate value and realize sustainable growth.

Action line 1: Strengthen current business lines further "True leader in Tribology"

The Group will capture the world's top shares in all industry segments of plain bearings and establish a solid position within the segments. Specifically, the Group will strive to gain the world's top shares in all segments of plain bearings, including automotive engine bearings, bearings for turbochargers, bearings for low-speed marine diesel engines, bearings for mid to high-speed marine and industrial diesel engines, and bearings for general industries including special types of bearings for hydro, thermal and wind power generation and polymer bearings. This is an ongoing challenge from the previous Midterm Business Plan, and the Group will continue to work towards achieving these targets.

Action line 2: Creating / fostering new business lines "Identify new business areas and foster them"

The Group will foster the new business areas centered on Iino Holding Ltd. and ATA Casting Technology Japan Co., Ltd., which fully joined the Group in FY2017, as one of the new pillars of the Group business by leveraging on the sales networks the Group has developed over the years. The Group will further invest in research and development and strive to create new business in growth areas. Through such initiatives, the Group will properly respond to the future paradigm change in the automobile market (from engines to motors) and build a solid basis for growth into the new business fields and the field of special types of non-automotive bearings.

Action line 3: Enhance management / operational control platform “Strengthen various platform including production, IT, HR, financial reporting. Review of organizational structure”

During the previous Midterm Business Plan, the Group’s production and sales network in five regions of the world was implemented in line with the plan. In order to establish global and robust business foundations however, there are still numerous issues to address, such as redefinition of the global optimal production and sales network, strategic reorganization of group structure, establishment and strengthening of a global research and development framework, and implementation of new production process with utilizing IoT (internet of things). Through the new Midterm Business Plan, the Group will put all the efforts towards these challenges in order to meet major changes in the business environment.

Action line 4: Energetic organization with animated communication and motivation “To develop people and organization who can adapt oneself to the rule changes in the business”

The Group will promote hiring with an eye to global recruitment and diversity, and will strive to secure personnel that can drive the further growth of the Group. In addition to further enriching the Group’s education and training, the Group will provide opportunities and environments for open communication to stimulate active discussion on the Group’s future growth. Through such communication and a better work-life balance, the Group will make itself more energetic.

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

**(6) Major Business Lines**

Major business divisions	Business lines
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, special types of bearings for power generation (hydro, thermal and wind), special types of bearings for general industry use (compressors, accelerators and decelerators), etc.
Other automotive parts	High-precision and high-quality parts for automotive engines and transmissions (such as formed pipes, knock pins, NC milled parts, etc.), aluminium die cast automotive parts
Others	Electrode sheet business for electric double layer capacitors, metal dry bearings business, pump-related products business, real estate leasing, etc.

## (7) Principal Locations of the Group and Employees

### 1) Principal locations of the Group

#### a. The Company

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

#### b. Subsidiaries

Domestic sales companies	DAIDO METAL SALES CO., LTD. (Inuyama-shi, Aichi), NDC Sales Co., Ltd. (Narashino-shi, Chiba)
Overseas sales companies	DMS Korea Co., Ltd. (South Korea), Chung Yuan Daido (Guangzhou) Co., Ltd. (China), Daido Metal U.S.A. Inc. (U.S.A.), Daido Metal Mexico Sales, S.A. de C.V. (Mexico), Chung Yuan Daido Co., Ltd. (Taiwan), PT. IINO INDONESIA (Indonesia), Daido Metal Europe GmbH. (Germany), DAIDO METAL EUROPE LIMITED (UK)
Domestic production companies	NDC Co., Ltd. Narashino Plant (Narashino-shi, Chiba), NDC Co., Ltd. Kozaki Plant (Katori-gun, Chiba), Daido Plain Bearings Co., Ltd. (Seki-shi, Gifu), Daido Industrial Bearings Japan Co., Ltd. (Inuyama-shi, Aichi), DAIDO METAL SAGA CO., LTD. (Takeo-shi, Saga), Iino Manufacturing Co., Ltd. Omiya Plant (Saitama-shi, Saitama), Iino Manufacturing Co., Ltd. Yaita Plant (Yaita-shi, Tochigi), Iino Manufacturing Co., Ltd. Tajima Plant (Minamiaizugun, Fukushima)
Overseas production companies	Dyna Metal Co., Ltd. (Thailand), Dong Sung Metal Co., Ltd. (Korea), PT. Daido Metal Indonesia (Indonesia), Daido Precision Metal (Suzhou) Co., Ltd. (China), Daido Metal Mexico, S.A. de C.V. (Mexico), Daido Industrial Bearings Europe Limited (UK), DAIDO METAL KOTOR AD (Montenegro), DAIDO METAL CZECH s.r.o. (Czech Republic), Daido Metal Russia LLC (Russia), Korea Dry Bearing Co., Ltd. (Korea), IINO (Foshan) Technology Co., Ltd. (China), PHILIPPINE IINO CORPORATION (Philippines), ISS America, Inc. (U.S.A.), ISS MEXICO MANUFACTURING S.A. de C.V. (Mexico), ATA Casting Technology Co., Ltd. (Thailand), DM Casting Technology (Thailand) Co., Ltd. (Thailand)
Other domestic companies	DAIDO LOGITECH CO., LTD. (Inuyama-shi, Aichi), Asia Kelmet Co., Ltd. (Ohta-ku, Tokyo), Iino Holding Ltd. (Saitama-shi, Saitama), ATA Casting Technology Japan Co., Ltd. (Inuyama-shi, Aichi)
Other overseas company	SUPER CUB FINANCIAL CORPORATION (Philippines)

## 2) Employees

### a. Employees of the Group

Number of employees (persons)		Change from previous period (persons)	
Japan	2,542	Increase	78
Overseas	4,186	Increase	329
Total	6,728	Increase	407

(Notes) 1. In addition to the above, temporary employees (total of 590) are employed. Number of temporary employees is calculated as annual average at the rate of 8 hours a day.

- Temporary employees include part-timers and employees under non-regular contract, but exclude temporary staff (staff employed by the staffing agency).
- Starting from the current period, the above number of employees excludes employees of non-consolidated subsidiaries.

### 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)
1,271	Increase 16	37.8	14.0

(Notes) 1. In addition to the above, temporary employees (total of 175) are employed. Number of temporary employees is calculated as annual average at the rate of 8 hours a day.

- 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/jigs, etc.	
NDC Co., Ltd.	1,575 million yen	58.8%	Production of bearings/CALME/bimetal (material for bearings)	
NDC Sales Co., Ltd.	90 million yen	100.0% (100.0%)	Sales of bearings/CALME, insurance agent	Note 2
Daido Industrial Bearings Japan Co., Ltd.	80 million yen	100.0%	Production of bearings	
Asia Kelmet Co., Ltd.	55 million yen	100.0%	Real estate leasing	
DAIDO METAL SAGA CO., LTD.	100 million yen	100.0%	Production of bimetal (material for bearings)	
Iino Holding Ltd.	96 million yen	100.0%	Holding company	
Iino Manufacturing Co., Ltd.	96 million yen	100.0% (100.0%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
ATA Casting Technology Japan Co., Ltd.	10 million yen	100.0%	Design, development and sales of aluminium die cast automotive parts	
Daido Precision Metal (Suzhou) Co., Ltd.	115,714 thousand Chinese yuan	90.2% (16.2%)	Production and sales of bearings	Note 2
IINO (Foshan) Technology Co., Ltd.	7,796 thousand Chinese yuan	100.0% (100.0%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
Chung Yuan Daido Co., Ltd.	120 million new Taiwan yuan	50.0%	Sales of bearings	Note 1
Dong Sung Metal Co., Ltd.	6,120 million Korean won	50.0%	Production and sales of bearings	Note 1
Dyna Metal Co., Ltd.	200 million Thai baht	50.0%	Production and sales of bearings	Note 1
ATA Casting Technology Co., Ltd.	340 million Thai baht	100.0% (99.9%)	Production and sales of aluminum die cast automotive parts	Note 2
DM Casting Technology (Thailand) Co., Ltd.	200 million Thai baht	99.9%	Production of aluminum die cast automotive parts	
PT. Daido Metal Indonesia	13,748 million Indonesian rupiah	50.0%	Production and sales of bearings	Note 1
PT. IINO INDONESIA	2,845 million Indonesian rupiah	99.0% (99.0%)	Sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
PHILIPPINE IINO CORPORATION	1,379 million yen	99.9% (99.9%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2

Name	Capital stock or investments in capital	Percentage of voting rights held by the Company	Major businesses	Notes
SUPER CUB FINANCIAL CORPORATION	60 million Philippine peso	59.9% (59.9%)	Sales financing	Note 2
Daido Metal U.S.A. Inc.	40,900 thousand US dollar	100.0%	Production and sales of bearings	
ISS America, Inc.	650 thousand US dollar	100.0% (100.0%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
Daido Metal Mexico, S.A. de C.V.	283,328 thousand Mexico peso	100.0% (0.0%)	Production of bearings	Note 2
Daido Metal Mexico Sales, S.A. de C.V.	2,644 thousand Mexico peso	100.0% (0.0%)	Sales of bearings	Note 2
ISS MEXICO MANUFACTURING S.A. de C.V.	22,400 thousand Mexico peso	100.0% (100.0%)	Production and sales of various parts for automobiles, motorcycles, and general-purpose machines	Note 2
Daido Industrial Bearings Europe Limited	13,500 thousand Sterling pound	100.0%	Production of bearings	
DAIDO METAL EUROPE LIMITED	3,613 thousand Sterling pound	100.0%	Sale of bearings	
DAIDO METAL KOTOR AD	26,535 thousand euro	99.6%	Production and sales of bearings	
Daido Metal Europe GmbH.	500 thousand euro	100.0%	Sales of bearings	
DAIDO METAL CZECH s.r.o.	50 million Czech koruna	100.0%	Production of bearings	
Daido Metal Russia LLC	430 million Russian ruble	99.8%	Manufacture and sales of bearings	
(Unconsolidated subsidiaries to which equity method is applied)				
Korea Dry Bearing Co., Ltd.	3,100 million Korean won	50.0% (50.0%)	Production and sale of bearings	Note 1 & 2
(Associated companies to which equity method is applied)				
BBL Daido Private Limited	280 million Indian rupee	50.0%	Production and sales of bearings	
Shippo Asahi Moulds (Thailand) Co., Ltd.	205 million Thai baht	40.6% (40.6%)	Production and sales of molds for die casting	Note 2

(Notes)

1. Although the voting rights held by the Company is not more than 50%, the company is treated as a subsidiary because it is effectively controlled by the Company.
2. Figure in ( ) of percentage of holding of voting rights represents the percentage of indirect holding of voting rights.

3) Status of specified wholly-owned subsidiaries at the end of the fiscal year

None

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

Lender	Outstanding Balance (Millions of yen)
Mizuho Bank, Ltd.	20,625
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	10,960
Sumitomo Mitsui Banking Corporation	3,945
Development Bank of Japan Inc.	3,514
Sumitomo Mitsui Trust Bank, Limited	3,451

(Note) Effective as of April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its trade name to MUFG Bank, Ltd.

#### (10) 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 5,141,640 shares)  
(3) Number of shareholders at end of the period 4,111 shareholders  
(4) Major shareholders (top 10)

Name of shareholder	Number of shares held (1,000 shares)	Ratio of shareholding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	2,661	6.68
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,537	6.37
Sumitomo Mitsui Trust Bank, Limited	1,978	4.96
Mizuho Bank, Ltd.	1,977	4.96
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,822	4.57
J.P. Morgan Bank Luxembourg S.A. 380578	1,349	3.39
Daido Metal Yueikai Employee Stock-Ownership Plan	1,347	3.38
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,261	3.16
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 5,141,640 shares, which is excluded from the above list.

2. Ratio of shareholding is calculated with total shares outstanding net of treasury stocks (5,141,640 shares).

3. Effective as of April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its trade name to MUFG Bank, Ltd.

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

None



**4. Company Officers**  
**(1) Directors and Audit & Supervisory Board Members**

(As of March 31, 2018)

Position	Name	Duties/departments in charge and important positions at other companies
Chairman & Chief Executive Officer (CEO)	Seigo Hanji	Executive & Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of the Association
President & Chief Operating Officer (COO)	Kotaro Kashiyama	In charge of Audit Department, Secretarial Department and Bi-metal Division
Director and Senior Managing Executive Officer	Toshiyuki Sasaki	Head of BPR-ICT Division and General Manager of BPR (Business Process Re-engineering) Department
Director and Senior Managing Executive Officer	Masaki Ikawa	Head of Human Resources Planning Division and Head of Daido Metal College In charge of Purchasing Department and High Performance Bearings and Equipment Division
Director	Toshikazu Takei	Managing Director of Japan Center for International Finance
Director	Kiyotaka Hoshinaga	President, Fujita Health University Managing Director, Fujita Academy Incorporated Educational Institution
Full-time Audit & Supervisory Board Member	Masaaki Tamaya	—
Outside Audit & Supervisory Board Member	Kuniko Tanabe	Partner, Lawyer of Tanabe & Partners Outside Director of KDDI CORPORATION
Outside Audit & Supervisory Board Member	Kazuo Matsuda	Outside Director of Sumitomo Bakelite Co., Ltd.

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

7. Changes in Directors' duties and departments in charge during the current period

Date	Name	New duties and departments in charge	Previous duties and departments in charge
October 1, 2017	Toshiyuki Sasaki	Head of BPR-ICT Division and General Manager of BPR (Business Process Re-engineering) Department	General Manager of BPR (Business Process Re-engineering) Department

8. Changes in Directors' duties and departments in charge on or after April 1, 2018

Date	Name	New duties and departments in charge	Previous duties and departments in charge
April 1, 2018	Masaki Ikawa	Head of Human Resources Planning Division In charge of Purchasing Department and High Performance Bearings and Equipment Division	Head of Human Resources Planning Division and Head of Daido Metal College In charge of Purchasing Department and High Performance Bearings and Equipment Division

9. Changes (including scheduled changes) in Directors' important positions at other entities on or after April 1, 2018

Date	Name	New important positions at other entities	Previous important positions at other entities
May 24, 2018	Seigo Hanji	Executive of Japan Auto Parts Industries Association	Executive & Vice Chairman of Japan Auto Parts Industries Association and Chubu Branch Manager of the Association

10. Changes in Audit & Supervisory Board Members' important positions at other companies during the current period

Date	Name	New important positions at other companies	Previous important positions at other companies
June 23, 2017	Kazuo Matsuda	Outside Director of Sumitomo Bakelite Co., Ltd.	Executive Advisor of NSK Ltd. Outside Director of Sumitomo Bakelite Co., Ltd.

**(2) Outline of Liability Limiting Agreement**

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

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

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

Category	Number	Remuneration	Bonus	Total remuneration
Directors (Outside Directors)	7 (2)	192 million yen (21 million yen)	128 million yen (– million yen)	321 million yen (21 million yen)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	3 (2)	38 million yen (23 million yen)	– million yen (– million yen)	38 million yen (23 million yen)

- (Notes) 1. The above includes one Director who retired at the conclusion of the 109th Annual Shareholders' Meeting held on June 29, 2017.  
2. In addition to the above, a total of 35 million yen was paid as employee-portion salaries for employee-directors.  
3. "Bonus" amount listed above is an estimated amount to be paid, if the proposed agenda item No. 4 is approved at the 110th Annual Shareholders' Meeting to be held on June 28, 2018.  
4. The maximum amount of remuneration to Directors (excluding employee-portion salaries for employee-directors) is 400 million yen per annum as per the resolution of the 98th Annual Shareholders' Meeting held on June 29, 2006.  
5. The maximum amount of remuneration to Audit & Supervisory Board Members is 45 million yen per annum as per the resolution of the 98th Annual Shareholders' Meeting held on June 29, 2006.

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

(a) Directors' remuneration

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

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

Specific structure and decision-making methodology are as follows:

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

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

(ii) "Monthly remuneration"

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

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

(iii) "Bonus"

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

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

(b) Audit & Supervisory Board Members' remuneration

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

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

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

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

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

2) Main activities of Outside Officers

Position	Name	Main activities
Director	Toshikazu Takei	Attended all 15 meetings of the Board of Directors held during FY2017. Making remarks based on his rich experience and deep insight as he was long engaged in business execution and served in managerial positions at the Bank of Japan; and he is familiar with international businesses.
Director	Kiyotaka Hoshinaga	Attended all 15 meetings of the Board of Directors held during FY2017. Making remarks based on his rich experience and deep insight as he was long engaged in management of a hospital and a university; and he is familiar with organizational management.
Audit & Supervisory Board Members	Kuniko Tanabe	Attended all 15 meetings of the Board of Directors and attended all 15 meetings of the Audit & Supervisory Board held during FY2017. 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 FY2017. 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) Other important matters concerning Company Officers**

[Policies on and procedures for the Nomination of candidates for Senior Management positions, Directors, and Audit & Supervisory Board Member]

The nomination of candidates for Directors, Audit & Supervisory Board Members, and Executive officers is determined at the Board of Directors, based on the Company's rules, considering experience, leadership, personality, a sense of ethics, health, etc. (Candidates for Audit & Supervisory Board Members are nominated with the prior consent of the Audit & Supervisory Board.)

## 5. Accounting Auditor

### (1) Name

Deloitte Touche Tohmatsu LLC

### (2) Liability Limiting Agreement

None

### (3) Remuneration for Accounting Auditor

	Amount paid
Remuneration for audit attestation service rendered during the current period, payable by the Company	55 million yen
Total remuneration and benefits payable by the Group to Accounting Auditor.	79 million yen

- (Notes)
1. Remuneration based on audit attestation service includes 1 million yen related to financial statements in English.
  2. Financial statements of the following material subsidiaries are audited by the qualified accountant / auditor /auditing firm other than Deloitte Touche Tomatsu, the Company's accounting auditor:
    - Dong Sung Metal Co., Ltd. (Korea)
    - Daido Precision Metal (Suzhou) Co., Ltd. (China)
    - Chung Yuan Daido Co., Ltd (Taiwan)
    - PT. Daido Metal Indonesia (Indonesia)
    - Dyna Metal Co., Ltd. (Thailand)
    - PHILIPPINE IINO CORPORATION (Philippine)
    - ATA Casting Technology Co., Ltd. (Thailand)
    - Daido Metal U.S.A. Inc. (U.S.A.)
    - Daido Metal Mexico, S.A. de C.V. (Mexico)
    - Daido Metal Mexico Sales, S.A. de C.V. (Mexico)
    - DAIDO METAL KOTOR AD (Montenegro)
    - Daido Industrial Bearings Europe Limited (UK)
    - DAIDO METAL CZECH s.r.o. (Czech Republic)
    - DAIDO METAL EUROPE LIMITED (UK)
    - Daido Metal Russia LLC (Russia)
  3. 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.
  4. Audit & Supervisory Board reviewed the audit plan, audit procedure, basis of calculation for remuneration, and other documents provided by the Accounting Auditor. After an overall assessment of the results of analysis of variance between the estimate in the previous period and actual results, Audit & Supervisory Board agreed with the amount of remuneration for the current period, an agreement expected as per Article 399, paragraph 1 of the Companies Act.

### (4) Non-audit Services Provided

None

### (5) Policy regarding the Decision to Dismiss or not to Re-appoint the Accounting Auditor

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

### (1) Details of Fundamental Policies

The fundamental policies on the control over financial and business decisions 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. The circumstances surrounding our business, however, have been changing dramatically, and therefore short-term business decisions are equally important to ensure sustainable growth in the future.

In order to ensure stable growth and improve sustainable corporate value, the Company established “Raise Up ‘Daido Spirit’ - Ambitious, Innovative, Challenging -” as its new Midterm Business Plan from FY2018.

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 changes in a flexible manner, and achieve sustainable business growth with medium- to long-term perspectives in mind. The Company believes that returning a sustainable level of profits to shareholders would be beneficial to all, rather than distributing from a short-term perspective or out of tentative profits.

The Company would therefore like to have its shares held in a balanced manner by those stakeholders, customers, suppliers, employees and their families, and local residents, who support our objective of sustainable growth with medium- and long-term perspectives.

### (2) Initiatives to Achieve Fundamental Policies

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

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

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

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

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

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

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

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

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

### **9. 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, and 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 overall consideration of the factors above, including the consolidated performance of the Company for the full year, we propose the year-end dividend of 15 yen per share.

As a result, the annual dividend, including the interim dividend of 15 yen per share (actual), would be 30 yen per share, unchanged from the previous period.

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), same as the current fiscal year.

### **10. Other Material Issues relating to the Company**

For basic concepts and basic policies on the Company's corporate governance, please refer to the "Corporate Governance Report" posted on the Company's website.

(<https://www.daidometal.com/investors/ir-library/governance/>)

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

## Consolidated Balance Sheet

(As of March 31, 2018)

(Unit: 1,000 Yen)

Assets		Liabilities	
Account	Amount	Account	Amount
<b>Current assets</b>	<b>73,727,725</b>	<b>Current Liabilities</b>	<b>66,163,931</b>
Cash and deposits	13,672,237	Notes and accounts payable-trade	8,337,038
Notes and accounts receivable-trade	27,782,964	Electronically recorded obligations - operating	9,544,312
Electronically recorded monetary claims - operating	2,455,024	Short-term borrowings	27,755,900
Merchandise and finished goods	10,913,287	Current portion of long-term borrowings	9,545,278
Work in process	8,538,349	Lease obligations	929,411
Raw materials and supplies	6,327,888	Accrued income taxes	1,251,789
Deferred tax assets	1,904,692	Reserve for bonuses	1,835,027
Others	2,184,794	Reserve for Directors' bonuses	128,800
Allowance for doubtful accounts	(51,512)	Reserve for compensation for products	291,946
		Electronically recorded obligations - non-operating	479,201
		Others	6,065,225
<b>Fixed assets</b>	<b>87,638,466</b>		
<b>Tangible fixed assets</b>	<b>64,947,211</b>	<b>Non-Current Liabilities</b>	<b>37,261,323</b>
Buildings and structures	17,682,636	Long-term borrowings	23,295,342
Machinery, equipment and vehicles	26,878,089	Lease obligations	4,275,602
Land	10,801,359	Deferred tax liabilities	2,519,857
Leased assets	5,580,524	Provision for environmental measures	20,094
Construction in progress	2,921,126	Net defined benefit liability	6,457,872
Others	1,083,475	Asset retirement obligations	17,720
		Negative goodwill	1,626
		Others	673,207
<b>Intangible fixed assets</b>	<b>15,085,677</b>	<b>Total Liabilities</b>	<b>103,425,254</b>
Goodwill	9,650,993	Net Assets	
Leased assets	79,940	<b>Shareholders' equity</b>	<b>49,336,094</b>
Others	5,354,744	Capital stock	7,273,178
		Capital surplus	8,821,705
<b>Investments and other assets</b>	<b>7,605,576</b>	Retained earnings	34,663,572
Investment securities	4,777,944	Treasury stocks	(1,422,361)
Long-term loans	290,276	<b>Accumulated other comprehensive income</b>	<b>16,742</b>
Net defined benefit asset	194,176	Net unrealized gain (loss) on securities	1,316,307
Deferred tax assets	1,132,050	Foreign currency translation adjustments	557,965
Others	1,259,966	Remeasurements of defined benefit plans	(1,857,530)
Allowance for doubtful accounts	(48,838)	<b>Non-controlling interests in consolidated subsidiaries</b>	<b>8,588,099</b>
		<b>Total Net Assets</b>	<b>57,940,936</b>
<b>Total Assets</b>	<b>161,366,191</b>	<b>Total Liabilities and Net Assets</b>	<b>161,366,191</b>

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

## Consolidated Statement of Income

( From: April 1, 2017  
To: March 31, 2018 )

(Unit: 1,000 Yen)

Account	Amount	
<b>Net sales</b>		<b>106,648,857</b>
<b>Cost of sales</b>		<b>78,848,892</b>
<b>Gross profit on sales</b>		<b>27,799,964</b>
<b>Selling, general and administrative expenses</b>		<b>21,288,763</b>
<b>Operating income</b>		<b>6,511,201</b>
<b>Non-operating income</b>		
Interest and dividend income	159,021	
Amortization of negative goodwill	533	
Equity in earnings of unconsolidated subsidiaries and associates	164,883	
Proceeds from sale of scraps	705,029	
Others	387,300	1,416,768
<b>Non-operating expenses</b>		
Interest expense	768,391	
Foreign exchange losses	157,068	
Others	293,827	1,219,287
<b>Ordinary income</b>		<b>6,708,682</b>
<b>Extraordinary losses</b>		
Impairment loss	141,465	141,465
<b>Profit before income taxes</b>		<b>6,567,217</b>
Corporation tax, inhabitant tax and business tax	2,221,490	
Income taxes-deferred	217,393	2,438,883
<b>Profit</b>		<b>4,128,333</b>
<b>Profit attributable to non-controlling interests</b>		<b>846,643</b>
<b>Profit attributable to owners of parent</b>		<b>3,281,690</b>

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

## Consolidated Statements of Changes in Shareholders' Equity

( From: April 1, 2017  
To: March 31, 2018 )

(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	8,821,705	32,576,356	(1,421,594)	47,249,645
Effects of finalization of provisional accounting treatment					
Balance at the beginning of the period reflecting finalization of provisional accounting treatment	7,273,178	8,821,705	32,576,356	(1,421,594)	47,249,645
<b>Changes during the period</b>					
Dividends paid			(1,194,473)		(1,194,473)
Profit attributable to parent company			3,281,690		3,281,690
Acquisition of treasury stocks				(766)	(766)
Net change in items other than shareholders' equity during the period					
<b>Total changes during the period</b>	—	—	2,087,216	(766)	2,086,449
<b>Balance at the end of the period</b>	7,273,178	8,821,705	34,663,572	(1,422,361)	49,336,094

(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>	1,145,635	(1,114,666)	(2,049,572)	(2,018,603)	7,733,759	52,964,800
Effects of finalization of provisional accounting treatment		(0)		(0)	1	1
Balance at the beginning of the period reflecting finalization of provisional accounting treatment	1,145,635	(1,114,666)	(2,049,572)	(2,018,603)	7,733,760	52,964,802
<b>Changes during the period</b>						
Dividends paid						(1,194,473)
Profit attributable to parent company						3,281,690
Acquisition of treasury stocks						(766)
Net change in items other than shareholders' equity during the period	170,671	1,672,632	192,041	2,035,346	854,338	2,889,684
<b>Total changes during the period</b>	170,671	1,672,632	192,041	2,035,346	854,338	4,976,134
<b>Balance at the end of the period</b>	1,316,307	557,965	(1,857,530)	16,742	8,588,099	57,940,936

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

## Notes to Consolidated Financial Statements

### I. Notes on Significant Matters that Form the Basis of Presenting the Consolidated Financial Statements, etc.

#### 1. Scope of consolidation

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

33 companies

##### Names of consolidated subsidiaries

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

##### Change in the scope of consolidation

DM Casting Technology (Thailand) Co., Ltd. has been included in the scope of consolidation, as the company was 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.  
DMS Korea Co., Ltd.

##### Reason for exclusion from scope of consolidation

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

## 2. Application of equity method

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

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

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

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

### (3) Special mention regarding the application of equity method

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

## 3. Matters relating to the accounting period of consolidated subsidiaries

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

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

## 4. Matters relating to accounting policies

### (1) Basis and method of valuation of important assets

#### 1) Basis and method of valuation of securities

Other securities

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

Securities without market value ..... Stated at cost using moving average method

#### 2) Basis and method of valuation of derivatives

Stated at market value

#### 3) Basis and method of valuation of inventories

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

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

(b) Work in process ..... Principally by weighted average method

(c) Raw materials ..... Principally by weighted average method

(d) Supplies ..... Principally by moving average method

### (2) Method of depreciation of important depreciable assets

#### 1) Tangible fixed assets (excluding leased assets)

The Company and six domestic consolidated subsidiaries use the declining balance method (with the exception of

buildings (excluding facilities annexed to buildings) acquired on or after April 1, 1998 and facilities annexed to buildings and structures acquired on or after April 1, 2016, for which the straight-line method is used), while other subsidiaries use the straight-line method.

Estimated useful lives of major assets are as follows:

Buildings and structures	3-60 years
Machinery, equipment and vehicles	4-10 years

2) Intangible fixed assets (excluding leased assets)

Straight-line method is used.

3) Leased assets

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

(3) Reserves and Provisions

1) Allowance for doubtful accounts

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

2) Reserve for bonuses

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

3) Reserve for Directors' bonuses

An estimated amount of bonuses payable is provided.

4) Reserve for compensation for products

In order to prepare for any expenditure for quality claims, an estimated amount required to be paid in future is provided.

5) Provision for environmental measures

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

(4) Other significant matters for presentation of consolidated financial statements

1) Accounting for retirement benefits

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

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

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

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

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

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

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

3) Amortization of goodwill and the amortization period

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

4) Accounting method of consumption taxes

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

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

1. Accumulated depreciation of tangible fixed assets	88,887,212	thousand yen
2. Assets pledged as collateral, and liabilities secured by collateral		
Assets pledged as collateral		
Buildings and structures	634,557	thousand yen
Machinery, equipment and vehicles	1,481,114	
Land	3,206,948	
Other tangible fixed assets	0	
Total	<u>5,322,620</u>	



Liabilities secured by collateral		
Short-term borrowings	1,987,635	thousand yen
Long-term borrowings (including amounts scheduled to be repaid within one year)	1,100,000	
Total	<u>3,087,635</u>	

3. Liabilities for guarantee		
Employee housing loans, etc.	156,821	thousand yen

4. Notes receivable discounted or transferred by endorsement		
Discounted export bills	18,511	thousand yen

5. Notes matured as of the consolidated balance sheet date

The settlement of the notes receivable are accounted for when the notes are cleared. As the balance sheet date fell upon non-business day, and thus the notes that fell due on that date were not cleared until the following business day, following amount of notes with due date Mar. 31, 2018 is included in the balance sheet.

Notes receivable-trade	195,982	thousand yen
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### **III. Notes to Consolidated Statement of Changes in Shareholders' Equity**

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

Ordinary shares 44,956 thousand shares

2. Matters relating to dividend

(1) Total dividends paid

Resolution	Type of share	Dividends paid (1,000 yen)	Dividend per share (yen)	Base date	Effective date
Annual shareholders' meeting held on June 29, 2017	Ordinary share	597,238	15.00	March 31, 2017	June 30, 2017
Board of Directors' meeting held on November 14, 2017	Ordinary share	597,234	15.00	September 30, 2017	December 7, 2017

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

It is scheduled to be resolved as follows:

Resolution	Type of share	Dividends paid (1,000 yen)	Dividend per share (yen)	Base date	Effective date
Annual shareholders' meeting to be held on June 28, 2018	Ordinary share	597,228	15.00	March 31, 2018	June 29, 2018

Dividends will be paid out of retained earnings.

#### **IV. Notes on Financial Instruments**

##### 1. Matters relating to financial instruments

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

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

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

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

##### 2. Matters relating to market values of financial instruments

Book value, market value and differences as of March 31, 2018 are as follows:

(Unit: 1,000 yen)

	Book value (*1)	Market value (*1)	Difference
(1) Cash and deposits	13,672,237	13,672,237	—
(2) Notes and accounts receivable-trade	27,782,964	27,782,964	—
(3) Electronically recorded monetary claims - operating	2,455,024	2,455,024	—
(4) Investment securities	3,267,559	3,267,559	—
(5) Notes and accounts payable-trade	(8,337,038)	(8,337,038)	—
(6) Electronically recorded obligations - operating	(9,544,312)	(9,544,312)	—
(7) Short-term borrowings	(27,755,900)	(27,755,900)	—
(8) Income taxes payable	(1,251,789)	(1,251,789)	—
(9) Long-term borrowings (including amounts scheduled to be repaid within one year)	(32,840,620)	(32,824,300)	16,319
(10) Electronically recorded obligations - non-operating	(479,201)	(479,201)	—
(11) Lease obligations	(5,205,014)	(5,408,079)	(203,065)
(12) Derivative transactions (*2) Those not qualifying for hedge accounting	14,247	14,247	—

(\*1) Items recorded in liabilities are shown in ( ).

(\*2) Claims and obligations arising from derivative transactions are stated in net amounts.

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

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

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

(4) Investment securities

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

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

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

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

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

(12) Derivative transactions

Market values are based on the quoted price obtained from financial institutions, etc., which we have business relationship with

(Note 2) As it is considered extremely difficult to obtain the market values of unlisted stocks (consolidated balance sheet amount of 1,510,385 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."

#### **V. 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
764,397	5,074,313

- (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.”

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

1. Net assets per share	1,239.54 yen
2. Net income per share	82.42 yen

#### **VII. Notes on Business Combinations**

##### Business combination through acquisition

##### 1. Finalization of provisional accounting treatment related to business combination

Allocation of the acquisition cost of ATA Casting Technology Japan Co., Ltd., acquired during the previous period, to identifiable assets and liabilities were not completed as of previous period end, and as such provisional accounting treatment was adopted based upon the reasonable information available at the time of preparation of the consolidated financial statements.

The allocation of the acquisition cost has been completed as of the end of the consolidated fiscal year under review. The goodwill is adjusted as follows:

Adjusted item	Adjustment of goodwill
Goodwill (before adjustment)	8,069 million yen
Tangible fixed assets	(640)
Intangible fixed assets	(697)
Deferred tax liabilities	46
Non-controlling interests in consolidated subsidiaries	0
Total adjusted amount	(1,291)
Goodwill (after adjustment)	6,777

##### 2. Amount and the source of goodwill and the applicable amortization method and period

##### (1) Amount of goodwill

6,777 million yen

##### (2) Source of goodwill

Goodwill arose from reasonable estimates of future excess earning power expected to be generated from business developments going forward.

##### (3) Amortization method and period

Straight-line method over 14 years

##### 3. Amounts allocated to intangible fixed assets other than goodwill and breakdown by type and amortization period

Type	Amount	Amortization period
Customer-related assets	697 million yen	37 years

##### 4. Details of conditional consideration amount stipulated in the business combination agreement and their future accounting policies

Under the transfer agreement of stocks and receivables, consideration may change according to the occurrence of certain events in the future. In cases where such change in consideration occurs, the acquisition cost is adjusted by assuming that the change occurred at the time of acquisition, and accordingly, adjustments are made to the amount of goodwill and the amortization amount of goodwill.

## Non-Consolidated Balance Sheet

(As of March 31, 2018)

(Unit: 1,000 Yen)

Assets		Liabilities	
Account	Amount	Account	Amount
<b>Current assets</b>	<b>36,876,457</b>	<b>Current liabilities</b>	<b>38,995,051</b>
Cash and deposits	2,311,836	Accounts payable-trade	5,981,605
Notes receivable-trade	539,956	Electronically recorded obligations - operating	11,260,485
Accounts receivable-trade	19,066,365	Short-term borrowings	10,700,000
Electronically recorded monetary claims - operating	2,501,018	Current portion of long-term borrowings	6,116,600
Merchandise and finished goods	1,935,665	Lease obligations	374,090
Work in process	3,556,008	Other accounts payable	1,281,387
Raw materials and supplies	2,018,117	Accrued expenses	895,552
Prepaid expenses	138,208	Accrued income taxes	526,145
Deferred tax assets	966,733	Advances received	4,742
Short-term loans receivable from subsidiaries and associates	1,600,000	Deposits received	60,473
Accounts receivable-other	2,153,394	Unearned revenue	25,764
Others	89,550	Reserve for bonuses	1,178,152
Allowance for doubtful accounts	(400)	Reserve for Directors' bonuses	128,800
		Electronically recorded obligations - non-operating	458,877
		Others	2,374
<b>Fixed assets</b>	<b>68,078,249</b>	<b>Non-current liabilities</b>	<b>23,956,693</b>
<b>Tangible fixed assets</b>	<b>20,398,668</b>	Long-term borrowings	16,185,900
Buildings	6,286,730	Lease obligations	2,471,637
Structures	569,531	Deferred tax liabilities	358,630
Machinery and equipment	5,825,894	Reserve for retirement benefits	3,751,091
Cars and vehicles	13,838	Provision for environmental measures	1,435
Tools, furniture and fixtures	225,385	Provision for loss on guarantees	754,759
Land	3,671,939	Asset retirement obligations	1,800
Leased assets	2,939,606	Long-term accounts payable	405,440
Construction in progress	865,742	Others	26,000
<b>Intangible fixed assets</b>	<b>1,129,982</b>	<b>Total Liabilities</b>	<b>62,951,744</b>
Software	909,737		
Leased assets	22,591	Net Assets	
Right for using facilities	15,655	<b>Shareholders' equity</b>	<b>40,917,712</b>
Others	181,998	<b>Capital stock</b>	<b>7,273,178</b>
<b>Investments and other assets</b>	<b>46,549,597</b>	<b>Capital surplus</b>	<b>7,946,245</b>
Investment securities	1,999,598	Legal capital surplus	7,649,095
Shares of subsidiaries and associates	32,498,408	Other capital surplus	297,150
Investments in capital of subsidiaries and associates	7,862,329	<b>Retained earnings</b>	<b>27,120,649</b>
Long-term loans receivable from subsidiaries and associates	1,100,000	Legal retained earnings	743,443
Long-term loans to employees	16,637	Other retained earnings	
Bankruptcy and reorganization claims, etc.	2,083	Reserve for compressed entry of fixed assets	1,724,613
Long-term prepaid expenses	12,062	General reserve	21,000,000
Prepaid pension expenses	2,136,334	Retained earnings brought forward	3,652,592
Others	935,316	<b>Treasury stocks</b>	<b>(1,422,361)</b>
Allowance for doubtful accounts	(13,173)	<b>Valuation, translation adjustments and other</b>	<b>1,085,249</b>
		Net unrealized gain (loss) on securities	1,085,249
<b>Total Assets</b>	<b>104,954,706</b>	<b>Total Net Assets</b>	<b>42,002,962</b>
		<b>Total Liabilities and Net Assets</b>	<b>104,954,706</b>

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

## Non-Consolidated Statement of Income

( From: April 1, 2017  
To: March 31, 2018 )

(Unit: 1,000 Yen)

Account	Amount	
<b>Net sales</b>		<b>66,413,180</b>
<b>Cost of sales</b>		<b>53,748,021</b>
<b>Gross profit on sales</b>		<b>12,665,158</b>
<b>Selling, general and administrative expenses</b>		<b>10,813,890</b>
<b>Operating income</b>		<b>1,851,268</b>
<b>Non-operating income</b>		
Interest and dividend income	1,124,533	
Foreign exchange gains	10,889	
Proceeds from sale of scrap	441,056	
Others	280,352	1,856,832
<b>Non-operating expenses</b>		
Interest expense	151,764	
Others	80,352	232,116
<b>Ordinary income</b>		<b>3,475,984</b>
<b>Extraordinary losses</b>		
Provision for loss on guarantees	412,129	412,129
<b>Profit before income taxes</b>		<b>3,063,855</b>
Corporation tax, inhabitant tax and business tax	700,705	
Income taxes-deferred	(35,644)	665,060
<b>Profit</b>		<b>2,398,794</b>

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

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

( From: April 1, 2017  
To: March 31, 2018 )

(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>				
Reversal of reserve for compressed entry of fixed assets				
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>	1,738,371	21,000,000	2,434,513	(1,421,594)	39,714,157
<b>Changes during the period</b>					
Reversal of reserve for compressed entry of fixed assets	(13,757)		13,757		—
Dividend of surplus			(1,194,473)		(1,194,473)
Profit			2,398,794		2,398,794
Acquisition of treasury stocks				(766)	(766)
Changes (net) to items other than shareholders' equity during the period					
<b>Total changes during the period</b>	(13,757)	—	1,218,079	(766)	1,203,554
<b>Balance at the end of the period</b>	1,724,613	21,000,000	3,652,592	(1,422,361)	40,917,712

(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>	993,658	993,658	40,707,816
<b>Changes during the period</b>			
Reversal of reserve for compressed entry of fixed assets			—
Dividend of surplus			(1,194,473)
Profit			2,398,794
Acquisition of treasury stocks			(766)
Changes (net) to items other than shareholders' equity during the period	91,591	91,591	91,591
<b>Total changes during the period</b>	91,591	91,591	1,295,145
<b>Balance at the end of the period</b>	1,085,249	1,085,249	42,002,962

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

## Notes to Financial Statements

### I. Notes on Matters Relating to Significant Accounting Policies

#### 1. Basis and method of valuation of assets

##### (1) Basis and method of valuation of securities

- 1) Shares of subsidiaries and associates ..... Stated at cost by the moving average method
- 2) Other securities
  - Securities with market value ..... Stated at market value based on the market price, etc. at balance sheet date (Valuation differences are recorded directly in net assets, and the net sales cost is calculated by the moving average method.)
  - Securities without market value .... Stated at cost using moving average method

##### (2) Basis and method of valuation of inventories

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

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

#### 2. Method of depreciation of fixed assets

##### (1) Tangible fixed assets (excluding leased assets)

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

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

##### (2) Intangible fixed assets (excluding leased assets)

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

##### (3) Leased assets

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

#### 3. Reserves and Provisions

##### (1) Allowance for doubtful accounts

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

##### (2) Reserve for bonuses

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

##### (3) Reserve for Directors' bonuses

An estimated amount of bonuses payable is provided.

##### (4) Reserve for retirement benefits

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

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

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

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

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

##### (5) Provision for environmental measures

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

##### (6) Provision for loss on guarantees

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

4. Other significant matters for the presentation of financial statements
- (1) Conversion of foreign currency denominated assets and liabilities into Japanese Yen  
Foreign currency denominated monetary assets and liabilities are converted into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded as gains or losses.
- (2) Accounting method for retirement benefits  
The accounting method for unrecognized actuarial differences and unrecognized past service cost differs from the accounting method for the above items used in consolidated financial statements.
- (3) Accounting treatment of consumption taxes  
Consumption taxes are accounted for by the tax-excluded method.

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

1. Accumulated depreciation of tangible fixed assets	41,910,745 thousand yen
2. Monetary claims and monetary debts to/from subsidiaries and associates	
Short-term monetary claims	8,964,175 thousand yen
Long-term monetary claims	307,649
Short-term monetary debts	5,493,873
3. Liabilities for guarantee	
(1) For employee housing loans, etc.	156,821 thousand yen
(2) For bank borrowings	
DAIDO METAL CZECH s.r.o.	1,545,000
DAIDO METAL KOTOR AD	522,080
Daido Industrial Bearings Europe Limited	1,329,000
DAIDO METAL EUROPE LIMITED	1,313,742
Daido Metal U.S.A. Inc.	4,977,344
Daido Metal Mexico, S.A. de C.V.	2,705,648
Daido Precision Metal (Suzhou) Co., Ltd.	299,596
Daido Plain Bearings Co., Ltd.	29,900
Daido Metal Europe GmbH.	78,312
(3) For liabilities on purchases	
DAIDO METAL KOTOR AD	97,683
(4) For lease obligations	
Daido Metal Russia LLC	1,476,855
(5) For export duties	
DAIDO METAL EUROPE LIMITED	22,556
Total	<u>14,554,540</u>

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

Amount of transactions with subsidiaries and associates	
Operating transactions	
Amount of sales	21,561,654 thousand yen
Amount of purchases	17,978,125
Other operating transactions	1,311,550
Transactions other than operating transactions	1,205,512

## **IV. Notes to Statements of Changes to Shareholders' Equity**

Type and number of treasury stocks at the balance sheet date	
Ordinary shares	5,141 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**

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

Deferred tax assets	
Devaluation of finished goods and work in process	509,632 thousand yen
Depreciation in excess of tax allowable limit	35,054
Impairment losses	165,967
Accrued business tax	53,994
Devaluation loss of investment in subsidiaries and associates	2,557,271
Devaluation loss of golf club memberships	16,986
Reserve for bonuses	360,514
Provision for loss on guarantees	230,956
Reserve for retirement benefits	840,762
Long-term accounts payable	58,196
Others	146,135
Sub-total of deferred tax assets	<u>4,975,471</u>
Valuation reserves	<u>(3,083,379)</u>
Total deferred tax assets	<u>1,892,092</u>
Deferred tax liabilities	
Reserve for compressed entry of fixed assets	(760,420)
Unrealized gain (loss) on securities	(461,898)
Others	(61,669)
Total deferred tax liabilities	<u>(1,283,988)</u>
Net deferred tax assets	<u>608,103</u>

## VII. Notes on Transactions with Related Parties

### Subsidiaries and associates

Type	Name of company	Percentage of voting rights the Company is holding (or percentage of the Company's voting rights held)	Relation with related party	Nature of transaction	Transaction amount (1,000 yen) Note 10	Account	Balance at the end of period (1,000 yen) Note 10
Subsidiaries	DAIDO METAL SALES CO., LTD.	(Holding) Direct 100.0	Sale of the Company's products, rental of facilities and loans, etc.	Sale of bearing products Note 1	3,228,216	Account receivable-trade	1,443,810
	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 and lease of facilities etc.	Purchase of bearing products, etc. Note 2	5,672,591	Account payable-trade	1,939,669
	Daido Plain Bearings Co., Ltd.	(Holding) Direct 100.0	Manufacturing of the Company's products, lease of facilities, debt guarantees, etc. and key management personnel service	Purchase of bearing products, etc. Note 2	9,113,372	Account payable-trade Electronically recorded obligations - operating	761,481 2,271,869
	Daido Industrial Bearings Japan Co., Ltd.	(Holding) Direct 100.0	Manufacturing of the Company's products, lease of facilities, loans, etc. and key management personnel service	Loans Note 3	450,000	Short-term loans receivable from subsidiaries and associates Long-term loans receivable from subsidiaries and associates	1,000,000 1,100,000
	Daido Metal U.S.A. Inc.	(Holding) Direct 100.0	Sale of the Company's products, etc., purchase of products, licensing of technology, rental of facilities and debt guarantees, etc.	Sale of bearing products, etc. Note 1 Debt guarantees Note 4	4,577,156 4,977,344	Account receivable-trade -	1,081,475 -
	Daido Metal Mexico, S.A. de C.V.	(Holding) Direct 99.9 (Holding) Indirect 0.0	Sale of the Company's products, rental of facilities and debt guarantees, etc.	Debt guarantees Note 5	2,705,648	-	-
	DAIDO METAL CZECH s.r.o.	(Holding) Direct 100.0	Sale of the Company's products, etc., purchase of products, licensing of technology, rental of facilities and debt guarantees, etc.	Debt guarantees Note 6	1,545,000	-	-
	Daido Industrial Bearings Europe Limited	(Holding) Direct 100.0	Sale of the Company's products, purchase of products, licensing of technology, rental of facilities and debt guarantees, etc.	Debt guarantees Note 7	2,083,760	-	-
	DAIDO METAL EUROPE LIMITED	(Holding) Direct 100.0	Sale of the Company's products, rental of facilities and debt guarantees, etc.	Sale of bearing products etc. Note 1 Debt guarantees Note 8	4,401,564 1,336,298	Account receivable-trade	1,657,768
	Daido Metal Russia LLC	(Holding) Direct 99.8	Sale of the Company's products, etc., purchase of products, licensing of technology and debt guarantees etc.	Debt guarantees Note 9	1,476,855	-	-

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

(Note 4) Debt guarantees are provided for the bank borrowings (4,977,344 thousand yen) of Daido Metal U.S.A. Inc. and guarantee fees of 0.2% per annum are received.

(Note 5) Debt guarantees are provided for the bank borrowings (2,705,648 thousand yen) of Daido Metal Mexico, S.A. de C.V. and guarantee fees of 0.2% per annum are received.

(Note 6) Debt guarantees are provided for the bank borrowings (1,545,000 thousand yen) of DAIDO METAL CZECH s.r.o. and guarantee fees of 0.2% per annum are received.

(Note 7) Debt guarantees are provided for the bank borrowings (2,083,760 thousand yen) of Daido Industrial Bearings Europe Limited and guarantee fees of 0.2% per annum are received. In addition, 412,129 thousand yen is provided for loss on guarantees, making the balance of provision for loss on guarantees at the end of period 754,759 thousand yen.

(Note 8) Debt guarantees are provided for the bank borrowings (1,313,742 thousand yen) and export duties (22,556 thousand yen) of DAIDO METAL EUROPE LIMITED and guarantee fees of 0.2% per annum are received.

(Note 9) Debt guarantees are provided for the lease obligations (1,476,855 thousand yen) of Daido Metal Russia LLC and guarantee fees of 0.2% per annum are received.

(Note 10) 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	1,054.94 yen
2. Profit per share	60.24 yen

Accounting Auditor's Report on Consolidated Financial Statements:

Independent Auditor's Report

May 17, 2018

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

Deloitte Touche Tohmatsu LLC

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

We have audited the accompanying consolidated financial statements, i.e. consolidated balance sheet, consolidated statement of income, consolidated statement of changes in shareholders' equity, and notes to consolidated financial statements of Daido Metal Co., Ltd. for the fiscal year from April 1, 2017 to March 31, 2018, 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 auditor. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**Audit opinion**

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

**Interests in the Company**

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

**Notes to the Reader of Independent Auditor's Report**

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

Independent Auditor's Report

May 17, 2018

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

Deloitte Touche Tohmatsu LLC

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

We have audited the accompanying non-consolidated financial statements, i.e. balance sheet, statement of income, statement of changes in shareholders' equity, and notes to financial statements as well as the supporting schedules of Daido Metal Co., Ltd. for the 110th fiscal year from April 1, 2017 to March 31, 2018, 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 auditor. 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 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 110th fiscal year from April 1, 2017 to March 31, 2018, based on the audit reports prepared by each Audit & Supervisory Board Member, and hereby reports as follows:

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

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

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

## 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 22, 2018

Audit & Supervisory Board  
Daido Metal Co., Ltd.

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

# Reference Materials for the Annual Shareholders' Meeting

## Agendas and Matters for Reference

### Agenda Item No. 1 Appropriation of Surplus

The Company proposes to make the following appropriation of surplus:

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

In consideration of the factors above, including the consolidated performance of the Company for the full year, we propose the year-end dividend of 15 yen per share.

As a result, the annual dividend, including the interim dividend paid of 15 yen per share, would be 30 yen per share.

Details of the year-end dividend

- (1) Type of dividend  
Cash
- (2) Allocation of dividends to shareholders and the total amount  
15 yen per ordinary share of the Company  
Total amount: 597,228,195 yen
- (3) Date when dividends from surplus become effective  
June 29, 2018

## Agenda Item No. 2 Election of Six Directors

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

The candidates for the position of Director are as follows:

Candidate No.	Name (Date of birth)	Career history, positions at the Company, and important positions at other entities	Number of shares of the Company held by the candidate
(1)	Seigo Hanji (January 2, 1942) <u>Reappointment</u>	<p>April 1965      Joined the Company</p> <p>April 1980      General Manager of Tokyo Sales Office</p> <p>April 1991      General Manager of Corporate Planning Department</p> <p>April 1993      Deputy General Manager of Business Division 3</p> <p>June 1993      Director and Deputy General Manager of Business Division 3</p> <p>April 1994      Director and General Manager of Business Division 1</p> <p>June 1995      President</p> <p>June 2005      President &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</p> <p>June 2010      Outside Director of Nichirei Co., Ltd.</p> <p>May 2018      Executive of Japan Auto Parts Industries Association (current)</p> <p>[Important positions at other entities] Executive of Japan Auto Parts Industries Association</p>	141,705 shares
(2)	Kotaro Kashiyama (March 28, 1947) <u>Reappointment</u>	<p>April 1971      Joined the Company</p> <p>April 1993      General Manager of Product Planning Department, Production Engineering Laboratory</p> <p>April 1994      Manager of Maehara Plant</p> <p>April 1996      Deputy General Manager of Business Division 2, and Manager of Maehara Plant</p> <p>April 1999      Head of Heavywall Bearings, RPB, Heavy Industrial Bearings, Fluid Systems &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 Senior Executive Officer, and General Manager of Strategy Development Division</p> <p>June 2010      Senior Managing Director and Senior Executive Officer, and General Manager of Strategy Development Division</p> <p>April 2011      President of Daido Plain Bearings Co., Ltd.</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>June 2011      President of Daido Plain Bearings Co., Ltd.</p> <p>June 2011      President &amp; Chief Operating Officer</p> <p>April 2012      Head of Global Strategy Division and Technology Division</p> <p>April 2012      President &amp; Chief Operating Officer (current)</p>	86,496 shares

Candidate No.	Name (Date of birth)	Career history, positions at the Company, and important positions at other entities	Number of shares of the Company held by the candidate
(3)	Toshiyuki Sasaki (December 7, 1950)  <u>Reappointment</u>	<p>April 1974      Joined Tokai Bank Ltd.</p> <p>April 1997      Manager of Taipei Branch</p> <p>March 2001     Manager of Americas, Manager of New York Branch, Manager of Cayman Branch and Manager of Chicago Office</p> <p>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</p> <p>April 2004      Joined the Company</p> <p>April 2004      General Manager of Overseas Planning Department, Corporate Planning Division</p> <p>April 2005      General Manager of Corporate Planning Department, Corporate Planning Division</p> <p>June 2005      Director and General Manager of Corporate Planning Department, Corporate Planning Division</p> <p>July 2005      Director and Executive Officer, and General Manager of Corporate Planning Department, Corporate Planning Division</p> <p>June 2007      Director and Executive Officer, and General Manager of Corporate Planning Division</p> <p>April 2008      Director and Executive Officer, and Head of Corporate Planning Division</p> <p>July 2008      Director and Senior Executive Officer, and Head of Corporate Planning Division</p> <p>July 2009      Director and Senior Executive Officer, and Head and General Manager of Corporate Planning Department of Corporate Planning Division</p> <p>October 2009    Director and Senior Executive Officer, and Head of Corporate Planning Division</p> <p>April 2010      Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division</p> <p>June 2010      Managing Director and Senior Executive Officer, Head of Corporate/Financial Planning Division</p> <p>June 2011      Managing Director and Senior Executive Officer, Head of Corporate/Financial Planning Division</p> <p>                         Head of Human Resources Planning Division</p> <p>April 2012      Managing Director and Senior Executive Officer, Head of Corporate/Financial Planning Division</p> <p>April 2015      Managing Director and Senior Executive Officer, Head of Corporate/Financial Planning Division</p> <p>                         President of DAIDO METAL SAGA CO., LTD. (part-time)</p> <p>July 2015      Director and Managing Executive Officer, Head of Corporate/Financial Planning Division</p> <p>                         President of DAIDO METAL SAGA CO., LTD. (part-time)</p> <p>April 2016      Director and Managing Executive Officer, General Manager of BPR (Business Process Re-engineering) Department</p> <p>                         President of DAIDO METALSAGA CO., LTD. (part-time)</p> <p>July 2016      Director and Senior Managing Executive Officer</p> <p>                         General Manager of BPR (Business Process Re-engineering) Department</p> <p>                         President of DAIDO METAL SAGA CO., LTD. (part-time)</p> <p>April 2017      Director and Senior Managing Executive Officer</p> <p>                         General Manager of BPR (Business Process Re-engineering) Department</p> <p>October 2017    Director and Senior Managing Executive Officer, Head of BPR-ICT Division and General Manager of BPR (Business Process Re-engineering) Department (current)</p>	68,550 shares

Candidate No.	Name (Date of birth)	Personal history, positions at the Company, and important positions at other corporations	Number of shares of the Company held by the candidate
(4)	Masaki Ikawa (December 12, 1950)  Reappointment	<p>April 1973      Joined the Company</p> <p>April 2001      General Manager of Overseas Sales and Concerned Office of Company 1</p> <p>September 2005      President of Daido Metal Bellefontaine LLC</p> <p>July 2008      Executive Officer</p> <p>                         President of Daido Metal Bellefontaine LLC</p> <p>October 2009      Executive Officer and General Manager of Corporate Planning Department, Corporate Planning Division</p> <p>April 2010      Executive Officer and General Manager of Bimetal Division</p> <p>April 2011      Executive Officer and General Manager of Quality Management &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</p> <p>July 2017      Director and Senior Managing Executive Officer, Head of Human Resources Planning Division and Head of Daido Metal College</p> <p>April 2018      Director and Senior Managing Executive Officer, Head of Human Resources Planning Division (current)</p>	32,460 shares
(5)	Toshikazu Takei (September 22, 1953)  Reappointment Outside Director Independent Officer	<p>April 1976      Joined the Bank of Japan</p> <p>July 1989      Director of Nagoya Branch</p> <p>November 1991      Director of Secretary Office and Secretariat of the Policy Board</p> <p>June 1994      Deputy General Manager for Europe</p> <p>April 1998      Director of Diet Liaison Division, Secretariat of the Policy Board</p> <p>May 1999      General Manager of Matsuyama Branch</p> <p>February 2002      Director-General, Senior Secretary to the Governor, Secretariat</p> <p>July 2003      Advisor to the Governor for Parliamentary Affairs and Public Relations, Secretariat of the Policy Board</p> <p>July 2005      General Manager of Nagoya Branch</p> <p>July 2006      Chief Representative in Europe of the Bank of Japan (stationed in London)</p> <p>June 2008      Left the Bank of Japan</p> <p>July 2008      Senior Executive Advisor of Accenture</p> <p>October 2012      Managing Director of Japan Center for International Finance (current)</p> <p>June 2015      Outside Director of the Company (current)</p> <p>[Important positions at other entities] Managing Director of Japan Center for International Finance</p>	2,980 shares

Candidate No.	Name (Date of birth)	Career history, positions at the Company, and important positions at other entities	Number of shares of the Company held by the candidate
(6)	Kiyotaka Hoshinaga (November 15, 1950)  <u>Reappointment</u> <u>Outside Director</u> <u>Independent Officer</u>	<p>April 1975      Joined Department of Urology, Keio University School of Medicine</p> <p>August 1994    Assistant Professor, Department of Urology, Fujita Health University School of Medicine</p> <p>April 2000      Professor</p> <p>February 2006   Deputy Director, Fujita Health University Hospital</p> <p>February 2009   Director</p> <p>April 2013      Managing Director, Fujita Academy Incorporated Educational Institution (current)</p> <p>April 2014      President, Fujita Health University (current)</p> <p>June 2016      Outside Director of the Company (current)</p> <p>[Important positions at other entities] President, Fujita Health University Hospital Managing Director, Fujita Academy Incorporated Educational Institution</p>	1,782 shares

- (Notes)
- There are no particular conflicts of interest between each candidate and the Company.
  - As for each candidate's position please refer to "4. Company Officers, (1) Directors and Audit & Supervisory Board Members" on pages 17-18.
  - Mr. Toshikazu Takei and Mr. Kiyotaka Hoshinaga are candidates for Outside Directors.
  - Mr. Toshikazu Takei was long engaged in business execution and served in managerial positions at the Bank of Japan. We expect that he will oversee and supervise the management of the Company with his familiarity with international businesses and based on his rich experience and broad insight. We therefore propose the election of Mr. Takei as an Outside Director. Although he has no experience in the management of a company, he has appropriately overseen and supervised the management of the Company as an Outside Director, and therefore we re-nominated him as a candidate for an Outside Director.
  - Mr. Kiyotaka Hoshinaga has served as a director of a hospital and a president of a university after serving as a professor of a university. We expect that he will oversee and supervise the management of the Company based on his extensive knowledge and experience as a manager of a hospital and a president of a university. We therefore propose the election of Mr. Hoshinaga as an Outside Director. Although he has no experience in the management of a company, he has appropriately overseen and supervised the management of the Company as an Outside Director, and therefore we re-nominated him as a candidate for an Outside Director.
  - Liability limitation agreement**  
The Company has entered into a liability limitation agreement with Mr. Toshikazu Takei and Mr. Kiyotaka Hoshinaga. The Company will continue this agreement with them if they are elected as Outside Directors and they assume office.  
The outline of the agreement is as follows:
    - When a non-executive Director is liable to compensate the Company for damages due to his/her negligence of duties, he/she assumes such liability up to the amount stipulated by laws and regulations (the minimum liability amount stipulated in Article 425, paragraph 1 of the Companies Act).
    - The above liability limitation is allowed only when the relevant non-executive Director acts in good faith and without gross negligence with respect to the liability as set forth in Article 423, paragraph 1 of the Companies Act.
  - Mr. Toshikazu Takei and Mr. Kiyotaka Hoshinaga have been registered as "Independent Officers" pursuant to the provisions of the Tokyo Stock Exchange and Nagoya Stock Exchange. If they are elected as Outside Directors and they assume office, the Company will continue to register them as "Independent Officers."
  - The term of office of Mr. Toshikazu Takei as an Outside Director will be three years at the conclusion of this Annual Shareholders' Meeting. The term of office of Mr. Kiyotaka Hoshinaga as an Outside Director will be two years 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 been an officer or employee of a financial institution with which the Company currently has transactions of deposits or borrowings of 1,000 million yen or more.
  - 2) A person who currently is or, in the last three fiscal years, has previously been an officer or employee of a company which is a managing underwriter of the Company.
- (5) Person related to the parties providing professional services  
A person who currently receives, or within the last three years, has received from the Company an annual compensation of 20 million yen or more as the Company's legal counsel (law office), the Company's accounting auditor, a certified tax accountant, patent attorney, judicial scrivener, or as a management, finance, technology or marketing consultant.
- (6) Person related to the parties receiving donations or grants from the Company  
A person who is a representative or operating officer of an organization (public interest incorporated foundation, public interest incorporated association, not-for-profit organization, etc.) to which the Company has made donations or provided grants exceeding a certain amount (1.0 million yen or 30% of the organization's annual average total expenses, whichever the larger) in the current fiscal year or in the last three fiscal years.
- (7) Relatives  
A relative of a person who currently works or has previously worked for the DAIDO Group within the last five years (the person's spouse, parent, child, sibling, grandparent, grandchild, or relatives living with the person). A relative of a person coming under aforementioned categories (2) to (5).
- (8) Reappointment and reappointed person.  
A person who has executed his/her duties as an outside director for a period exceeding ten years without coming under any of the aforementioned categories (\*a period exceeding twelve years with three consecutive terms in case of reappointment of Audit & Supervisory Board Member).



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

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

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

The candidate for the position is as follows:

Name (Date of birth)	Personal history, positions at the Company, and important positions at other corporations	Number of shares of the Company held by the candidate
<p>Nobuyuki Ishiwata (July 12, 1945)</p> <p>Substitute Audit &amp; Supervisory Board Member</p> <p>Outside Audit &amp; Supervisory Board Member</p>	<p>April 1971      Joined Tohmatsu Aoki Audit Corporation (currently, Deloitte Touche Tohmatsu LLC)            April 1975      Registered as a certified public accountant            January 1976    Registered as a licensed tax accountant            March 1978      Left Tohmatsu Aoki Audit Corporation (currently, Deloitte Touche Tohmatsu LLC)            April 1978      Opened CPA Nobuyuki Ishiwata accounting firm            April 1988      Established Seishin &amp; Co. Audit Corporation (currently, SeishinShisei &amp; Co. Audit Corporation) and assumed the post of Representative Partner (current)            August 1999    Outside auditor of Adecco Ltd. (current)            July 2003      Established Seishin &amp; Co. Tax Corporation (currently, SeishinShisei &amp; Co. Tax Corporation) and assumed the post of Representative Partner (current)</p> <p>[Important positions at other corporations]            Representative Partner of SeishinShisei &amp; Co. Audit Corporation            Representative Partner of SeishinShisei &amp; Co. Tax Corporation            Outside auditor of Adecco Ltd.</p>	<p>0 shares</p>

- (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 128.8 million yen to the four Directors (excluding two Outside Directors) at the end of this fiscal year based on the specified standard of the Company in due consideration of business performance, etc. during the fiscal year.

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

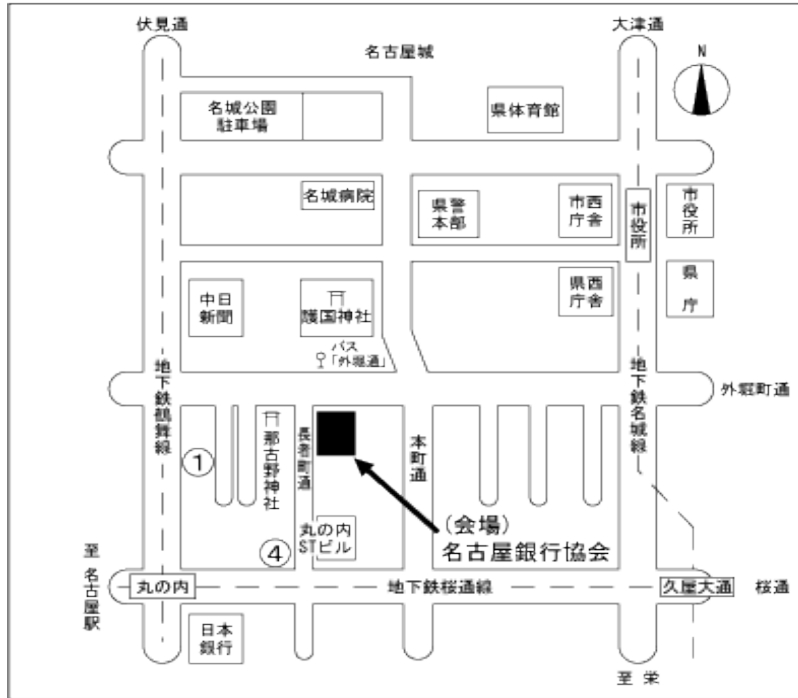
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## Venue of Shareholders' Meeting

**Venue** 4-2, Marunouchi 2-chome, Naka-ku, Nagoya  
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.

