

To shareholders with voting rights

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

DAIDO METAL CO., LTD.

Chairman and CEO Seigo Hanji

Notice of Convocation of the 107th Annual Shareholders' Meeting

Dear shareholders,

You are cordially invited to the 107th Annual Shareholders' Meeting to be held as set forth below. Your attendance to the meeting will be greatly appreciated.

If you are unable to attend the meeting on the day, you may exercise your voting rights by documents. Therefore, please kindly review the reference materials for the Annual Shareholders' Meeting that follow this notice, and complete the enclosed Voting Card, indicating your approval or disapproval, and send the Card by return mail so that it will reach us no later than 5 p.m. of June 25, 2015 (Thursday).

Yours sincerely,

Note

- 1. Date and time** 10 a.m. of June 26, 2015 (Friday)
- 2. Venue** 4-2, Marunouchi 2-chome, Naka-ku, Nagoya
5th Floor Grand Hall of Nagoya Bankers Association
(Please see "Information Map of Venues of Shareholders' Meeting in the last page)
- 3. Purpose**
Reporting matters
 1. Reporting of the 107th (from April 1, 2014 to March 31, 2015) business report, consolidated financial statements and results of audit of consolidated financial statements by the accounting auditors and Audit & Supervisory Board
 2. Reporting of non-consolidated financial statements for the 107th (from April 1, 2014 to March 31, 2015) fiscal year

Matters for resolution

- Agenda No. 1 Disposition of Surplus
- Agenda No. 2 Partial Amendments to the Articles of Incorporation
- Agenda No. 3 Election of Six Directors
- Agenda No. 4 Election of Three Audit & Supervisory Board Members
- Agenda No. 5 Election of One Substitute Audit & Supervisory Board Member
- Agenda No. 6 Payment of Bonuses to Directors

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- ⊙ **When attending the meeting on the day, please kindly submit the enclosed Voting Card to the receptionist.**
 - ⊙ **In the event the shareholder intends to exercise voting right by proxy, he/she can entrust his/her right to a single shareholder who has voting rights of the Company. In this case, please submit a document to prove the authority of proxy.**
 - ⊙ **The reception is scheduled to open at 9 a.m. on the day.**
 - ⊙ **If there are any revisions to the attached documents and Reference Materials for Annual Shareholders' Meeting, they will be posted online on the Company's website (<http://www.daidometal.com/>).**

Business Report

(From: April 1, 2014
To: March 31, 2015)

1. Matters Relating to Current Situation of Corporate Group

(1) Progress of Business and Operating Performance

Regarding the world economy during the current consolidated fiscal year, the US economy continued its gradual recovery, due to strong employment and personal spending, while European economy was at standstill, led by factors including prolonged geopolitical risks and unstable condition in Greece, despite the sign of recovery such as improved employment condition. In China, while some level of growth was maintained, the signs of slowing economy prevailed due to factors including the sluggish housing market. Economic growth in resource-rich countries and emerging countries also showed signs of slowing down, mainly led by the effects of decreased prices of mineral resources. Overall, the world economy remained unstable.

The domestic economy, led by yen depreciation trends resulting from the economic and financial policies by the government and the Bank of Japan, saw improved corporate business results mainly in export-related companies. However, the economy remained mixed as a recovery in personal spending continued to be at standstill due to the prolonged effects of the increase of the consumption tax rate.

In the automotive business, the Group's core business, the new car sales for 2014 were 87.20 million units worldwide (a year-on-year increase of 3.5%), recording the highest for five consecutive years. This is because the US market continued to be buoyant, and demand in China, despite the decreased growth rate of car sales, contributed to the new car sales worldwide.

However, the domestic automotive production volume for the fiscal year 2014 decreased by 3.2% compared with the previous fiscal year to 9.59 million units, not exceeding the previous fiscal year for the first time in five years. This resulted from a reactionary decrease against the last-minute demand before the increase of the consumption tax rate and a decrease in exports. On the other hand, the overseas automotive production volume increased to 17.47 million units (a year-on-year increase of 4.3%), recording the highest for five consecutive years, due to boosted overseas automotive production by the domestic auto manufacturers.

In the non-automotive segment, for the shipbuilding industry, while the intake of worldwide orders for shipbuilding was on a slowing trend in the second half despite its strong trend in the first half, the Japanese shipbuilders were on a mild recovery trend throughout the year, backed by the recovery in their price competitiveness due to the effect of yen depreciation and increased demand for high value added ships such as Eco-friendly ships. For the construction machine industry, the amount of domestic shipment decreased by 1.5% compared with the previous fiscal year as public related operations, including the earthquake restoration work and infrastructure development, calmed down. However, exports increased by 9.0% compared with the previous fiscal year, resulting in a year-on-year increase of 4.5% in the total amount of shipment. In the overseas markets, demand for general construction machines remained strong in North American and European markets. However, the industry-wide demand environment stopped short of a full recovery as investment in real estate development slowed down in China and demand for mining-machines in resource-rich countries remained sluggish.

In the general industries machines area, demand for electric power generation facilities mainly for overseas remained strong in electric power/energy related business.

Under this business environment, during the current consolidated fiscal year, Group net sales increased in all segments and regions due to factors including business expansion in Europe and North America and the growing number of orders received at bases in Asian region, mainly in China, in the automotive-related segments, as well as our efforts to increase the intake of orders in Japan and overseas under difficult market conditions and the effect of yen depreciation in the non-automotive segment.

As a result, consolidated net sales of the Group were 85,015 million yen, the highest ever recorded, an increase of 7,665 million yen (up 9.9%) compared with the previous consolidated fiscal year.

With respect to profits, operating income was 7,633 million yen, an increase of 265 million yen (up 3.6%) compared with the previous consolidated fiscal year, due to the effects of increased income and efforts in cost reduction activities to increase profits, despite an up-front expenditures for the start of production at Daido Metal Mexico, S.A. de C.V. Ordinary income was 8,129 million yen, an increase of 66 million yen (up 0.8%) compared with the previous consolidated fiscal year, due to factors including a decrease in interest expense (a year-on-year decrease of 170 million yen), despite a year-on-year decrease of 510 million yen in foreign exchange gains. Consolidated net income was 4,459 million yen, a decrease of 275 million yen (down 5.8%) compared with the previous consolidated fiscal year, due to the recording in the previous fiscal year of extraordinary gains of 896 million yen attributable mainly to capital gains on sale of the land of the former Tokyo Factory.

Sales to external customers by segment are as follows.

Due to the reorganization as of July 1, 2013, the metallic dry bearings business, which was previously categorized under "Non-automotive bearings," is now categorized under "Others." Below are results calculated by classification after the change.

1) Automotive engine bearings

Net sales outperformed those of the previous year backed by increased sales in overseas markets in Europe, North America and Asian region (mainly in China, Thailand and Korea), in addition to the effect of yen depreciation.

As a result, net sales were 55,265 million yen, an increase of 5,244 million yen (up 10.5%) compared with the previous consolidated fiscal year.

2) Automotive non-engine bearings

With regard to bearings for automotive parts, net sales outperformed those of the previous year due to the increased intake of orders resulting from the effects of sales expansion activities mainly in Japan and Europe.

As a result, net sales were 16,362 million yen, an increase of 1,370 million yen (up 9.1%) compared with the previous consolidated fiscal year.

3) Non-automotive bearings

Net sales outperformed those of the previous year due to the efforts to receive orders in Japan and overseas amid the harsh environment in the shipbuilding and construction machine industries, and firm sales of the special type of bearings for general industries.

As a result, net sales were 12,546 million yen, an increase of 890 million yen (up 7.6%) compared with the previous consolidated fiscal year.

4) Others

Net sales of others including the real estate leasing and metallic dry bearings businesses were 840 million yen, an increase of 159 million yen (up 23.5%) compared with the previous consolidated fiscal year.

(Sales by segment)

Segment	Net sales (Millions of yen)	
	FY 2013 106 th term	FY 2014 107 th term (The current consolidated fiscal year)
Automotive engine bearings	50,021	55,265
Automotive non-engine bearings	14,992	16,362
Non-automotive bearings	11,655	12,546
Others	680	840
Total	77,350	85,015

(Note) Sales represent the amount to external customers.

(2) Status of Financing, etc.

1) Financing

During the current consolidated fiscal year, there was no significant operation of financing in both borrowings from financial institutions and issuing stocks or debentures.

2) Capital investment

The Group seized the world's top shares in the plain bearings (the total of bearings for all use) and in the automotive engine bearings, following the bearings for low-speed diesel engines for large ships, in which the Group had already seized the world's top share (the estimate by the Company), as a result of our continued aggressive sales activities to expand overseas markets mainly in Europe. The Group will strive to reinforce our production facilities based on the priorities of regions and business segments as the effects of such sales expansion have brought about urgent needs for the expansion of production capabilities in the near future.

Accordingly, total capital investments for the year were substantially at the same level as the previous year, reaching 10,597 million yen, a decrease of 241 million yen compared with the previous year.

(Main capital investment during the current consolidated fiscal year)

- Investment for enhancing production capabilities for automotive engine bearings in the overseas production sites in Mexico, Russia, Thailand, China and others.
- Investment for enhancing production capabilities for automotive and non-automotive bearings in Japan and investment for enhancing production capabilities for bimetal (material for bearings).
- Investment in relation to information systems, etc.

(3) Movement of Financial Conditions and Operating Results

1) Financial conditions and operating results of the Corporate Group

Category \ Fiscal year	FY 2011 104 th term	FY 2012 105 th term	FY 2013 106 th term	FY 2014 107 th term (Current consolidated fiscal year)
Net sales (Millions of yen)	70,326	70,886	77,350	85,015
Operating income (Millions of yen)	9,523	6,286	7,368	7,633
Ordinary income (Millions of yen)	8,947	6,935	8,063	8,129
Net income (Millions of yen)	5,435	4,385	4,735	4,459
Net income per share (Yen)	136.44	110.10	118.89	112.00
Net assets (Millions of yen)	34,163	40,062	46,733	53,093
Total assets (Millions of yen)	88,402	92,314	104,099	116,533

2) Financial conditions and operating results of the Company

Category \ Fiscal year	FY 2011 104 th term	FY 2012 105 th term	FY 2013 106 th term	FY 2014 107 th term (Current consolidated fiscal year)
Net sales (Millions of yen)	61,673	57,454	58,978	67,269
Operating income (Millions of yen)	6,235	3,778	3,994	5,296
Ordinary income (Millions of yen)	6,100	4,067	4,611	6,220
Net income (Millions of yen)	3,688	2,740	3,387	4,000
Net income per share (Yen)	92.59	68.79	85.04	100.46
Net assets (Millions of yen)	30,659	32,995	36,039	39,301
Total assets (Millions of yen)	69,009	68,210	69,245	77,042

(4) Issues to be Addressed

Implement “Medium-Term Business Plan”

The Medium-Term Business Plan, “Together to The Top,” which is implemented from the term of FY2012 to FY2017, defined the major themes of (1) maintaining the position holding the world top share (our estimate) in plain bearings as the sole comprehensive manufacturer of plain bearings in the world, (2) further expanding the share of automotive engine bearings, which are the core products of plain bearings, while keeping the world top share (our estimate), (3) gaining the world top share in bearings in each non-automotive segment of ships excluding large ships that already have gained the world top share, construction machines, and rotary machines, (4) structuring and expanding Global Strategy of Five-Hub System (Global corporate structure through independent operational hubs in 5 geographical regions (Japan, Asia, China, Europe and Americas)) for responding to sales expansion both domestic and overseas, (5) strengthening of research and development activities for sustainable technical advantages to respond to geographical characteristics as a company built on technologies, and (6) establishment of solid financial bases.

The Group plans to especially enhance production capabilities on a global basis for sales expansion in order to expand and restructure its business base at the first stage (from FY2012 to FY2014), and achieve the Group’s challenge targets of “consolidated net sales of 111 billion yen, operating income of 16.7 billion yen, and an operating margin of 15% or more” and aim to realize “gaining the world top share in all the industry segments of plain bearings” in the final year of the second stage (from FY2015 to FY2017).

The Group has also been expanding and reconstructing the business base during the first stage; Dyna Metal Co., Ltd. (Thailand) completed its third factory and Daido Precision Metal (Suzhou) Co., Ltd. completed its second factory in 2012. In 2013, the second factory at Daido Metal Czech s.r.o., the second factory at PT. Daido Metal Indonesia and the new factory at Daido Metal Mexico S.A. de C.V., the newly established business base, were completed. Dongsung Metal Co., Ltd. (Korea) has been steadily advancing the plan to reinforce its production capabilities by increasing machining facilities to respond to demand mainly from local automobile manufactures. Daido Metal Russia LLC has been promoting full-scale production for foreign automobile manufacturers and providing for production focusing on the truck market. The Group will further fortify Global Strategy of Five-Hub System in five geographical regions (Japan, Americas, Europe, Asia and China) through further development and expansion of its business base.

In the Group’s efforts in expanding sales, the Group will strive to achieve targets by strengthening sales structure, enhancing technical services to our customers, accurately identifying and responding to region-specific needs, and ensuring the Group’s support system which adopts the changes in market environment. Specifically, the Group implemented measures such as establishing Daido Metal Mexico Sales, S.A. de C.V. to strengthen the sales structure in Mexico, setting up Guangzhou Branch of Daido Precision Metal (Suzhou) Co., Ltd. to enhance sales activities in China and setting up European Technical Center in Czech for technical support services, to enhance the Group-wide organizational structure.

Along with the expansion of sales, the Group has advanced efforts to improve productivity by promoting activities to improve earnings for further profit generation and by especially expanding the introduction in Japan and overseas of the machining line using new method and the compact machining line for automobile engine bearings.

The primary goals in the second stage (from FY2015 to FY2017) of Medium-Term Business Plan include achieving the Group’s challenge targets of “consolidated net sales of 111 billion yen, operating income of 16.7 billion yen, and an operating margin of 15% or more” and realizing “gaining the world top share in all the industry segments of plain bearings.” Specifically, the Group will strive to steadily achieve our targets in line with the plan, by bringing the businesses in Mexico into profit, starting up the automotive engine bearing business at BBL DAIDO PRIVATE LTD. (India), working on the truck bearing business and the bearing business for foreign automobile manufacturers at Daido Metal Russia LLC, and starting production at DAIDO METAL SAGA CO., LTD. established in April 2015 to increase production capabilities for bimetal, a material for bearings.

As the business environment surrounding the Group is drastically changing, the Group will focus on the development of new products and new markets by responding to the market trends and needs of each region in the world in a swift and appropriate manner, while further streamlining production and improving customer services. Moreover, in addition to fully enforcing the compliance and strengthening the corporate governance structure, with initiatives to enhance the internal system in line with the corporate governance code formulated by Financial Services Agency and Tokyo Stock Exchange, Inc. in March 2015, the Group will strive to improve our corporate value through the Group-wide efforts in order to gain trust from and appeal to our stakeholders, including our customers and shareholders.

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

(5) Major Business Lines

Major business divisions	Content of business
Automotive engine bearings	Bearings for automobile engines (passenger cars, trucks and racing cars), bearings for two-wheeled vehicle engines, bearings for engine auxiliary machines (turbochargers and balancer mechanisms), etc.
Automotive non-engine bearings	Bearings for other automotive parts (transmissions, shock absorbers, compressors for air conditioning, steering wheels, injection pumps, etc.).
Non-automotive bearings	Bearings for low speed (two-cycle) diesel engines, bearings for medium speed (four-cycle) diesel engines, bearings for power generation (water wheels, turbines, etc.), bearings for general industries use (compressors, speed-increasing and speed-reducing gears, etc.), rotary pumps, centralized lubrication systems (for machining tools), electrode sheets for electric capacitors, etc.
Others	Metallic dry bearings business, real estate leasing, etc.

(6) Major Bases of the Corporate Group and Status of Employees

1) Major bases of the corporate group

a. The Company

Headquarters	Nagoya HQ (Naka-ku, Nagoya), Tokyo HQ (Shinagawa-ku, Tokyo)
Domestic sales bases	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) *
Domestic production bases	Inuyama Site (Bimetal Division, Inuyama Plant, Maehara Plant, TMBS (Turbomachinery Bearing Systems) Plant, Others) (Inuyama-shi, Aichi), Gifu Plant (Gujyo-shi, Gifu)

* Kitakanto Branch (Kumagaya-shi, Saitama) was set up as of April 1, 2015.

b. Subsidiaries

Domestic sales bases	Daido Metal Sales Co., Ltd. (Inuyama-shi, Aichi), NDC Sales Co., Ltd. (Narashino-shi, Chiba)
Overseas sales bases	Daido Metal U.S.A. Inc. (U.S.A.), Daido Metal Mexico Sales, S.A. de C.V., Chung Yuan Daido Co., Ltd. (Taiwan), Daido Metal Germany GmbH (Germany), Daido Metal Europe Ltd. (England)
Domestic production bases	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) *
Overseas production bases	Dyna Metal Co., Ltd. (Thailand), Dongsung Metal Co., Ltd. (Korea), PT. Daido Metal Indonesia (Indonesia), Daido Precision Metal (Suzhou) Co., Ltd. (China), Daido Metal Mexico S.A. de C.V. (Mexico), Daido Industrial Bearings Europe Ltd. (England), Daido Metal Kotor AD (Montenegro), Daido Metal Czech s.r.o. (Czech), Daido Metal Russia LLC (Russia), Korea Dry Bearing Co., Ltd. (Korea), BBL Daido Private Ltd. (India)
Other domestic bases	Daido Logitech Co., Ltd. (Inuyama-shi, Aichi), Asia Kelmet Co., Ltd. (Ohta-ku, Tokyo)

* DAIDO METAL SAGA CO., LTD. (Takeo-shi, Saga) was established as of April 10, 2015.

2) Status of employees

a. Employees of the Corporate Group

Number of employees (persons)		Change from end of prior period (persons)	
Domestic	2,035	Increase	112
Overseas	2,286	Increase	151
Total	4,321	Increase	263

(Notes) 1. In addition to the above, temporary employees (total of 589 persons) are under employment. Number of temporary employees represents annual average number of employees (converted by 8 hours a day).

2. Temporary employees include part-timers and employees under non-regular engagement contract but exclude dispatched employees.

b. Employees of the Company

Number of employees (persons)	Change from end of prior period (persons)	Average age (years of age)	Average number of service years (years)
1,185	Increase 55	37.2	14.2

(Notes) 1. In addition to the above, temporary employees (total of 258 persons) are under employment. Number of temporary employees represents annual average number of employees (converted by 8 hours a day).

2. Temporary employees include part-timers and employees under non-regular engagement contract but exclude dispatched employees

(7) Status of Important Parent Company and Subsidiaries

1) Status of parent company

There are no applicable items.

2) Status of important subsidiaries

Name	Capital stock or investments in capital	Percentage of holding of voting rights	Content of major businesses	Remarks
(Consolidated subsidiaries)				
Daido Logitech Co., Ltd.	45 million yen	100.0%	Logistics business and insurance agent business	
Daido Metal Sales Co., Ltd.	100 million yen	100.0%	Sale of bearings	
Daido Plain Bearings Co., Ltd.	300 million yen	100.0%	Manufacture of bearings	
NDC Co., Ltd.	1,575 million yen	39.8%	Manufacture of bearings, etc.	Note 1
NDC Sales Co., Ltd.	90 million yen	100.0% (100.0%)	Sale of bearings/Calme, and insurance agent business	Note 2
Daido Industrial Bearings Japan Co., Ltd.	80 million yen	100.0%	Manufacture of bearings	
Asia Kelmet Co., Ltd.	55 million yen	100.0%	Rental of real estate	
Chung Yuan Daido Co., Ltd.	120 million new Taiwan yuan	50.0%	Sale of bearings	Note 1
Dongsung Metal Co., Ltd.	6,120 million Korean won	50.0%	Manufacture and sale of bearings	Note 1
Dyna Metal Co., Ltd.	200 million Thai baht	50.0%	Manufacture and sale of bearings	Note 1
PT. Daido Metal Indonesia	13,748 million Indonesian rupiah	50.0%	Manufacture and sale of bearings	Note 1
Daido Precision Metal (Suzhou) Co., Ltd.	115,714 thousand Chinese yuan	90.2% (16.2%)	Manufacture and sale of bearings	Note 2
Daido Metal U.S.A. Inc.	20,900 thousand US dollar	100.0%	Manufacture and sale of bearings	
Daido Metal Mexico S.A. de C.V.	283,328 thousand Mexico peso	100.0% (0.0%)	Manufacture of bearings	Note 2
Daido Industrial Bearings Europe Ltd.	13,500 thousand sterling pound	100.0%	Manufacture of bearings	
Daido Metal Kotor AD	26,535 thousand euro	99.6%	Manufacture and sale of bearings	
Daido Metal Germany GmbH	500 thousand euro	100.0%	Sale of bearings	

Name	Capital stock or investments in capital	Percentage of holding of voting rights	Content of major businesses	Remarks
Daido Metal Czech s.r.o.	50 million Czech koruna	100.0%	Manufacture and sale of bearings	
Daido Metal Europe Ltd.	3,613 thousand sterling pound	100.0%	Sale of bearings	
Daido Metal Russia LLC	330 million Russian ruble	99.8%	Manufacture and sale of bearings	
Daido Metal Mexico Sales, S.A. de C.V.	2,644 thousand Mexico peso	100.0% (0.0%)	Sale of bearings	Note 2
(Unconsolidated subsidiaries to which equity method is applied)				
Korea Dry Bearing Co., Ltd.	3,100 million Korean won	50.0% (50.0%)	Manufacture and sale of bearings	Notes 1 and 2
(Affiliated companies to which equity method is applied)				
BBL Daido Private Ltd.	124 million Indian rupee	50.0%	Manufacture and sale of bearings	

(Note) 1. Although the percentage of holding of voting rights is not more than 50%, the company is included in subsidiary because it is substantially controlled by the Company.

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

(8) Major Lenders and Amount of Borrowing

Lender	Outstanding Balance (Millions of yen)
Mizuho Bank, Ltd.	7,450
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,918
Japan Bank for International Corporation	3,408
Development Bank of Japan Inc.	2,770
Citibank Japan Ltd.	2,051

(9) Policies for Determination of Dividend, etc. of Surplus

The Company's basic policy is to return appropriate profits to our shareholders in consideration of the results of operations and payout ratio, and to maintain a stable and long-lasting level of dividend of surplus in overall consideration of the internal reserve funds for future business development, expansion of research and development, reinforcement of business base and changes of business environment.

The Company is of a basic policy to make 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 comprehensive consideration of all the factors including the consolidated performance for the full year based on the basic policy, the year-end dividend would be 10 yen per share for the current fiscal year.

As a result, the annual dividend, including the interim dividend of 10 yen per share (actual), would be 20 yen per share.

For the next fiscal year, the Company plans an annual 26 yen per share (the interim dividend of 13 yen per share and year-end dividend of 13 yen per share), an increase of 6 yen compared with the current fiscal year.

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

There are no applicable items.

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 5,139,512 shares)
- (3) Number of shareholders at end of the current fiscal year 3,468 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)	2,046	5.13
Sumitomo Mitsui Trust Bank, Limited	1,978	4.96
Mizuho Bank, Ltd.	1,977	4.96
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,928	4.84
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,822	4.57
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,661	4.17
CBNY-GOVERNMENT OF NORWAY	1,653	4.15
Daido Metal Yueikai Employee Stock-Ownership Plan	1,183	2.97
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 5,139,512 shares, but is excluded from the above major shareholders.

2. Ratio of shareholding is calculated by deducting the treasury stocks (5,139,512 shares).

(5) Change in the number of shares constituting one unit

With the aim of improving the liquidity of the Company's shares and expanding its shareholder base, along with consideration of the intent of the "Action Plan for Uniting Trading Units of Stocks" announced by Japanese Stock Exchanges, the Company, by resolution at the Board of Directors meeting held on November 13, 2014, amended the Articles of Incorporation and changed the number of shares constituting one unit from 1,000 shares to 100 shares as of January 1, 2015 based on the provisions of Article 195, paragraph 1 of the Companies Act.

3. Matters Relating to New Share Subscription Rights, Etc.

There are no applicable items.

4. Matters Relating to Company Officers

(1) Directors and Audit & Supervisory Board Members

(As of March 31, 2015)

Position	Name	Duties/departments in charge and important positions at other companies
Chairman & Chief Executive Officer (CEO)	Seigo Hanji	HQ Executive/Vice Chairman of Japan Auto Parts Industries Association and Branch Manager of Chubu Branch of the same Association Outside Director of Nichirei Corporation
President & Chief Operating Officer (COO)	Kotaro Kashiya	In charge of Bi-metal Division, Quality Management & Planning Department and Audit Department
Managing Director and Senior Executive Officer	Toshiyuki Sasaki	Head of Corporate/Financial Planning Division In charge of General Affairs Department
Director and Senior Executive Officer	Yasuo Kawamura	Head of Polymer Bearings Division
Director and Senior Executive Officer	Masaki Ikawa	Head of Human Resources Planning Department and Head of Daido Metal College In charge of Purchasing Department
Full-time Audit & Supervisory Board Member	Masaaki Tamaya	—
Outside Audit & Supervisory Board Member	Kuniko Tanabe	Partner, Lawyer of Tanabe & Partners Outside Auditor of Disco Corporation
Outside Audit & Supervisory Board Member	Kazuo Matsuda	Special Advisor of NSK Ltd. Corporate Auditor of NSK-Warner K.K.

(Notes) 1. Ms. Kuniko Tanabe and Mr. Kazuo Matsuda are Outside Audit & Supervisory Board Members.

Ms. Kuniko Tanabe is also an “Independent Officer” pursuant to the provisions of Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc.

2. Ms. Kuniko Tanabe, Audit & Supervisory Board Member, is qualified as a lawyer, and therefore has considerable knowledge on legal affairs.

3. Mr. Kazuo Matsuda, Audit & Supervisory Board Member, has experiences of working as Director and Audit & Supervisory Board Member in financial institutions and business entities, and therefore has considerable knowledge on finance and accounting matters.

4. Changes in departments in charge of Directors during the current fiscal year

Date	Name	New departments in charge	Previous departments in charge
April 1, 2014	Kotaro Kashiyama	In charge of Bi-metal Division, Quality Management & Planning Department and Audit Department	In charge of Bi-metal Division, Quality Management & Planning Department, Audit Department and Internal Control Department
April 1, 2014	Masaki Ikawa	Head of Human Resources Planning Department and Head of Daido Metal College In charge of Purchasing Department	Head of Human Resources Planning Department, Head of Daido Metal College and Head of Inuyama Site In charge of Environmental & Safety Management Department and Purchasing Department

5. Changes in duties and departments in charge of Directors after April 1, 2015

Date	Name	New duties and departments in charge	Previous duties and departments in charge
April 1, 2015	Kotaro Kashiyama	In charge of Bi-metal Division, Quality Management & Planning Department, Audit Department, Production Engineering Division and Polymer Bearings Division	In charge of Bi-metal Division, Quality Management & Planning Department and Audit Department
April 1, 2015	Yasuo Kawamura	Head of Thinwall Bearings & Turbo Charging Bearings Division	Head of Polymer Bearings Division
April 10, 2015	Toshiyuki Sasaki	Head of Corporate/Financial Planning Division and President of DAIDO METAL SAGA CO., LTD. (part-time) In charge of General Affairs Department	Head of Corporate/Financial Planning Division In charge of General Affairs Department

6. Changes in important positions at other companies of Audit & Supervisory Board Members during the current fiscal year

Date	Name	New important positions at other companies	Previous important positions at other companies
June 30, 2014	Kazuo Matsuda	Special Advisor of NSK Ltd. Corporate Auditor of NSK-Warner K.K.	Special Advisor of NSK Ltd. Corporate Auditor of NSK-Warner K.K. President of NSK (China) Investment Co., Ltd.

7. Changes in important positions at other companies of Audit & Supervisory Board Members after April 1, 2015 (including scheduled positions)

Date	Name	New important positions at other companies	Previous important positions at other companies
June 17, 2015 June 23, 2015	Kuniko Tanabe	Partner, Lawyer of Tanabe & Partners Outside Director of KDDI CORPORATION	Partner, Lawyer of Tanabe & Partners Outside Auditor of Disco Corporation
June 25, 2015	Kazuo Matsuda	Special Advisor of NSK Ltd. Corporate Auditor of NSK-Warner K.K. Outside Corporate Auditor of Sumitomo Bakelite Company Limited	Special Advisor of NSK Ltd. Corporate Auditor of NSK-Warner K.K.

(2) Total Amount of Remunerations to Directors and Audit & Supervisory Board Members

Category	Number	Remunerations	Bonus to officers	Total amount of remunerations
Directors	5	194 million yen	147 million yen	341 million yen
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	3 (2)	36 million yen (21)	– million yen (–)	36 million yen (21)

- (Notes) 1. Employee-portion salaries for employee-directors are not included in the above amount.
2. “Bonus to officers” is an estimated amount to be paid, if the proposed agenda No. 6 is approved at the 107th Annual Shareholders’ Meeting to be held on June 26, 2015.
3. The limit of remunerations to Directors (excluding employee-portion salaries for employee-directors) as per the resolution of the 98th Annual Shareholders’ Meeting held on June 29, 2006 is 400 million yen per annum.
4. The limit of remunerations to Audit & Supervisory Board Members as per the resolution of the 98th Annual Shareholders’ Meeting held on June 29, 2006 is 45 million yen per annum.

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

(a) Directors’ remuneration

Pursuant to the regulations for Directors’ remuneration provided by the Board of Directors, the basic policy of Directors’ remuneration is to obtain and retain human resources suitable for a Director of the Group, to work effectively as an incentive for raising motivation of contributing to enhance business performance and corporate value as well as morale, and the level of remuneration shall correspond to role, responsibility and business performance of each Director.

For the purpose of ensuring objectivity and transparency, the Company established an Advisory Board (“Board”) consisting of in-house and external members in order to deliberate and determine the actual remuneration amounts for each Director.

Specific structure and decision-making methodology are as follows:

- (i) The system of Directors’ remuneration consists of “monthly remuneration” and “bonuses.”
In the case of remuneration for an Outside Director, if elected, for ensuring independence and neutrality, “monthly remuneration” consists of only a “fixed component.”
- (ii) “Monthly remuneration”
- “Monthly remuneration” consists of a “fixed component” corresponding to role and responsibility associated with execution of Director’s operations and a “consolidated performance component” which are determined after taking into account the Group’s consolidated performance in the previous year and the performance of individual divisions that the Director is responsible for overseeing.
 - Individual payment of monthly remuneration will be determined by the Board of Directors based on the predetermined ratio of payment according to position of each Director, consolidated sales and net income considering the final plan of the Board.
- (iii) “Bonus”
- Total payment of bonuses to be deliberated in the meeting of shareholders is set certain ceiling corresponding to dividend to shareholders and considering the final plan of the Board, it is determined by the Board of Directors.
 - Individual payment amount will be determined by the Board of Directors based on the predetermined ratio of payment according to position of each Director, consolidated sales and net income considering the final plan of the Board.

(b) Audit & Supervisory Board Members’ remuneration

For ensuring 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 by the discussion of the Audit & Supervisory Board.

(3) Status of Movement of Directors and Audit & Supervisory Board Members

1) Matters relating to concurrent holding of positions of operating officer of other corporations and outside officers, etc.

Name	Material concurrent holding of positions	Relation between the Company and such other corporations
Kuniko Tanabe (Outside Audit & Supervisory Board Member)	Partner, Lawyer of Tanabe & Partners	Although the Company has concluded a consultant agreement with Tanabe & Partners and pays consultant fee annually, such consultant fee is relatively small compared with the scale of Tanabe & Partners. Ms. Tanabe is not included in the list of lawyers who provide consultation services to the Company and not involved in the Company's requests.
	Outside Auditor of Disco Corporation	The Company has no transaction with Disco Corporation.
Kazuo Matsuda (Outside Audit & Supervisory Board Member)	Special Advisor of NSK Ltd.	The Company has no particular relation with NSK Ltd., which is required to be disclosed.
	Corporate Auditor of NSK-Warner K.K.	The Company sells its products to NSK-Warner K.K. but such sales are accounted for 0.7% to the Company's consolidated sales.

(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 to Mizuho Bank, Ltd.

2) Main activities of Outside Officers of other companies

Position	Name	Main activities
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 FY2014. Making remarks from the viewpoint of a professional well-versed 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 FY2014. Making remarks from a wide viewpoint based on his rich insights on corporate management accounting and governance of business execution as he is familiar with finance and international businesses from his experience at banks and securities companies for many years and he has experiences and knowledge gained from management of manufacturing company.

3) Matters relating to liability limiting agreement

The Company amended its Articles of Incorporation at the 98th Annual Shareholders' Meeting held on June 29, 2006 and established provisions regarding the liability limiting agreement for Outside Audit & Supervisory Board Members.

The outline of the liability limiting agreement, which the Company concluded with all Outside Audit & Supervisory Board Members, is as follows:

- When an Outside 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 Outside 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.

4) Reasons of not placing Outside Directors

The Company did not appoint Outside Directors until this point of time. This is because we, despite our endless efforts, could not find an appropriate and adequate candidate who was familiar with international businesses and would carry out the supervision of the Company's management based on his/her abundant experiences and broad knowledge. We also determined that it was not appropriate to appoint personnel without such capabilities as Outside Directors.

However, the Company now has found an eligible candidate, Mr. Toshikazu Takei, and nominates him for an Outside Director to be elected at the 107th Annual Shareholders' Meeting to be held on June 26, 2015. Please see the agenda No. 3 for his brief personal history, etc.

5. Matters Relating to Accounting Auditor

(1) Name of Accounting Auditor

Deloitte Touche Tohmatsu LLC

(2) Matters Relating to Liability Limiting Agreement

There are no applicable items.

(3) Amount of Remunerations to Accounting Auditor

	Amount paid
Amount of remunerations as Accounting Auditor for current fiscal year	42 million yen
Total amount of money and other property gains which the Company and its subsidiaries pay to Accounting Auditor	48 million yen

(Notes) 1. Important consolidated subsidiaries of the Company that receive audits by certified public accountants or audit corporations (including those that possess qualifications equivalent to such qualifications in overseas countries) other than the Accounting Auditor of the Company are as follows:

- Dongsung Metal Co., Ltd. (Korea)
 - Daido Precision Metal (Suzhou) Co., Ltd. (China)
 - Chung Yuan Daido Co., Ltd (Taiwan)
 - PT. Daido Metal Indonesia (Indonesia)
 - Dyna Metal Co., Ltd. (Thailand)
 - Daido Metal U.S.A. Inc. (U.S.A.)
 - Daido Metal Mexico S.A. de C.V. (Mexico)
 - Daido Metal Mexico Sales, S.A. de C.V. (Mexico)
 - Daido Metal Kotor AD (Montenegro)
 - Daido Industrial Bearings Europe Ltd. (England)
 - Daido Metal Germany GmbH (Germany)
 - Daido Metal Czech s.r.o. (Czech)
 - Daido Metal Europe Ltd. (England)
 - Daido Metal Russia LLC (Russia)
2. In the audit contract between the Company and Accounting Auditor, the amount of remunerations for the audit under the Companies Act and that under the Financial Instruments and Exchange Law are not clearly separated and also substantially inseparable from each other. As such, the amount of remunerations for the current fiscal year represents the total amount of these remunerations.

(4) Content of Nonaudit Services

There are no applicable items.

(5) Policies for Decision of Dismissal or Non-Reappointment of Accounting Auditor

The policies regarding the decision of dismissal or non-reappointment of the Accounting Auditor are as follows:

- If dismissal or non-reappointment of the Accounting Auditor is considered necessary based on the overall consideration of the auditing ability, credibility, audit fees, years of continuous audits, etc., in addition to the cases prescribed in each item of Article 340, paragraph 1 of the Companies Act, the Audit & Supervisory Board will decide on an agenda regarding dismissal or non-reappointment of the Accounting Auditor.
- If any cases prescribed in each item of Article 340, paragraph 1 of the Companies Act have occurred, and if there is such an urgency as is inappropriate to dismiss the Accounting Auditor by holding the Shareholders' Meeting, the Audit & Supervisory Board will dismiss the Accounting Auditor based on 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.
- 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 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 regarding the election of a new Accounting Auditor based on the overall consideration of the auditing ability, credibility, audit fees, etc., pursuant to Article 344, paragraphs 1 and 3 of the Companies Act by the Shareholders' Meeting to be first convened after the dismissal. If an agenda 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 the Appropriateness of Business Operations of Joint-Stock Company

The Company's systems for ensuring the appropriateness of business operations of joint-stock company are as follows:

(1) System for Retention and Control of Information on Performance of Duties by Directors

- Documents and other information related to performance of duties of Directors including minutes of meetings of the Board of Directors and documents regarding decisions and approvals are retained and controlled in accordance with internal rules and regulations that stipulate the retention and control of confidential documents and material documents.

(2) Regulations and Other Systems for Management of Risks of Losses

- Based on "Rules on Risk Management," the Company develops a system to manage risks properly.
- The "Risk Management Committee" mainly handles management/compliance risks and assesses/understands the risks inherent therein as well as studying measures for responding to such risks. Results of this assessment are reported to the Management Meeting depending on the materiality of risks, and response measures are determined for cross-sectional matters.
- In order to ensure an effective compliance system, the Company establishes a compliance unit and strengthens the company-wide risk management and compliance management.

(3) System for Ensuring Efficient Performance of Duties by Directors

- Medium-term management plan and annual basic policies are developed, based on which policies/plans are prepared by each department. Matters for important decision making are studied from various aspects, and plans and concrete measures are reviewed on a periodical basis, thus enhancing the effectiveness of performance of duties.
- Effective segregation of duties or distribution of authorities regarding the internal organization and its systems is verified on a periodical basis, including the review of the scope of authorities and in-house company system.

(4) System for Ensuring that Performance of Duties by Directors and Employees Conform to Laws and Regulations and Articles of Incorporation

- An internal audit system is developed through Audit Department in order to ensure the legitimacy, reasonableness, efficiency and legal and regulatory compliance of performance of duties.
- In order to strengthen/fully enforce the compliance, the "Corporate Ethics Committee" clarifies the tasks regarding the prevention of compliance risks and carries out overall control activities for the establishment/promotion of response measures.
- The "Corporate Ethics Committee" establishes the "Standards of Conduct" in complying with the company rules and laws and regulations, and revises their contents as necessary after obtaining the approval of the Board of Directors.
- The Company and its group companies provide their employees with regular compliance education/trainings by utilizing the "Standards of Conduct."
- The Company keeps employees informed about the ethics consultation window and windows for various consultations under its whistleblower system.
- Based on "Rules on Operation and Management of Standards of Conduct," the Company develops and operates compliance and whistleblower systems.

(5) System for Ensuring Appropriate Business Operations by the Corporate Group Consisting of the Company, its Parent Company and Subsidiaries

- The Company reviews the size of affiliated companies from time to time as necessary in order to ensure the effectiveness/efficiency of jobs between the Company and its group companies.
- In order to ensure the appropriateness of business operations of group companies, the Company periodically performs operations audit regarding the matters related to the management of group companies based on the rules and regulations relating to the Company's affiliated companies, and verifies whether or not business activities are carried out appropriately.
- Group companies periodically report to the Directors of the Company on their performance of duties, financial conditions, etc. and promote the exchange of information between the Company and its group companies.
- The Company and its group companies hold meetings to determine the group policies and way of management and establish a system of collaboration.
- If the content of management/management guidance provided by the Company is considered to violate the laws and regulations or have any other problems of compliance, the group companies report them to the ethics consultation desk. Matters with significance are reported to the Audit & Supervisory Board Members, who then express their views to the Directors as necessary and request them to take improvement/remediation measures.
- In order to ensure the reliability of financial reporting, the Company and its group companies develop necessary rules, regulations, procedures, etc., establish a system for appropriate and effective operation and assessment thereof, and promote the management and operation of internal control by establishing "Internal Control Department" for company-wide maintenance and strengthening of internal control.

(6) Matters Relating to Assignment of Employees who Assist the Duties of Audit & Supervisory Board Members

- An "Audit & Supervisory Board Members Secretariat" independent of the Directors is established as a department for assisting the Audit & Supervisory Board Members.

(7) Matters Relating to Independence from Directors, of Employees who Assist the Duties of Audit & Supervisory Board Members

- The Audit & Supervisory Board may receive advance reports on the personnel movements and personnel evaluations relating to the "Audit & Supervisory Board Members Secretariat," and request to the officer in charge of personnel affairs for changes if such request is necessary.

(8) System for Reporting to Audit & Supervisory Board Members by Directors and Employees and Other Systems for Reporting to Audit & Supervisory Board Members

- Directors and employees report the following matters to Audit & Supervisory Board Members without delay, in addition to statutory reporting matters:
 - a. Cases discussed/reported in the management meeting;
 - b. Detected matters that are likely to cause significant damages to the Company;
 - c. Results of operations audit performed by Audit Department and other internal audit departments;
 - d. Status and content of information relating to the whistleblower system established by the Directors; and
 - e. Other matters which the Audit & Supervisory Board considers necessary to be reported in the course of performing its duties.

(9) Other Systems for Ensuring Effective Performance of Audit by Audit & Supervisory Board Members

- Audit & Supervisory Board Members and the Audit & Supervisory Board have regular meetings with the Representative Director, and exchange opinions regarding the tasks to be addressed by the Company, risks surrounding the Company, status of improvement of the environment of audit by the Audit & Supervisory Board Members, significant matters, etc. in performing the audit and other matters, as well as confirming the management policies of the Representative Director.

(10) Basic Philosophy for Rejection of Anti-Social Forces and Status of Arrangement Thereof

- The Company includes its “Attitude to Anti-Social Forces” in Article 7 of the “Code of Conduct” which specifies the basic principles of corporate ethics, declaring that the Company will assume a resolute attitude toward any forces/groups threatening the healthy activities of an entity.
- General Affairs Department of the Company assumes the role of company-wide control, which endeavors to collect information on any anti-social forces and doubtful groups, in close collaboration with external institutions (related government offices/associations/lawyers, etc.) and centrally manage such information, including internal distribution of information, calling for attention, etc.
- “Standards of Conduct” which specify specific matters to be observed in performing the business activities in accordance with the “Code of Conduct” are distributed to all officers and employees, in order to enlighten the officers and employees by indicating their required “responses to anti-social forces.”

Pursuant to the enactment on May 1, 2015 of the revised Companies Act, the Company, at the Board of Directors meeting held on April 28, 2015, passed a resolution concerning revision of the system for ensuring the appropriateness of business operations of joint-stock company as follows.

System for Ensuring the Appropriateness of Business Operations of Joint-Stock Company

The Company’s systems for ensuring the appropriateness of business operations of joint-stock company are as follows:

(1) System for Retention and Control of Information on Performance of Duties by Directors of the Company

- Documents, electronic records and other information related to performance of duties of Directors including minutes of meetings of the Board of Directors and documents regarding decisions and approvals are retained and controlled in accordance with “Rules on Document Control” that stipulate the retention and control of confidential documents and material documents.

(2) Regulations and Other Systems for Management of Risks of Losses by the Company

- Based on “Rules on Risk Management,” the Company develops a system to manage risks properly.
- The “Risk Management Committee” mainly handles management/compliance risks and assesses/understands the risks inherent therein as well as studying measures for responding to such risks. Some risks, depending on their materiality, are reported to the management meeting (a meeting of the Board of Directors or a meeting of the Management Strategy Committee; hereinafter the same), and response measures are determined for company-wide cross-sectional matters.

(3) System for Ensuring Efficient Performance of Duties by Directors of the Company

- Medium-term management plan and annual basic policies are developed, based on which policies/plans are prepared by each department. Matters for important decision making are studied from various aspects, and plans and concrete measures are reviewed on a periodical basis, thus enhancing the effectiveness of performance of duties.
- Effective segregation of duties or distribution of authorities regarding the internal organization and its systems is verified on a periodical basis, including the review of the scope of authorities and in-house company system.

(4) System for Ensuring that Performance of Duties by Directors and Employees of the Company Conform to Laws and Regulations and Articles of Incorporation

- The Company develops an internal audit system through Audit Department in order to ensure the legitimacy, reasonableness, efficiency and legal and regulatory compliance of performance of duties.
- The Company establishes a Compliance Unit to ensure the compliance system.
- The Compliance Unit, in order to strengthen/fully enforce the compliance, clarifies the tasks regarding the prevention of risks and carries out overall control activities for the establishment/promotion of response measures.
- The “Corporate Ethics Committee” drafts the “Code of Conduct” and the “Standards of Conduct” for complying with the company rules and laws and regulations, and revises their contents as necessary after obtaining approval from the Board of Directors.
- The Company provides its employees with regular compliance education/trainings by utilizing the “Code of Conduct” and the “Standards of Conduct” to keep them informed and aware of compliance.

(5) System for Ensuring the Appropriateness of Business Operations in the Group

- The Company reviews “Rules on Affiliated Company Management” as necessary in order to ensure the effectiveness/efficiency of business operations between the Company and its group companies.
- Group companies, through “Business Result Monthly Reports,” etc., periodically report to the Board of Directors of the Company on their performance of duties, financial conditions, etc. and promote the exchange of information between the Company and the group companies.

- In order to ensure the reliability of financial reporting of the Group, the Company develops necessary rules, regulations, procedures, etc., and also establishes a system for appropriate and effective operation and assessment of the financial reporting. “Internal Control Department” performs the supervision and promotion of internal control for company-wide maintenance and strengthening of the system.
 - The Company’s “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 and policies based on such policies. The group companies report to the “Risk Management Committee” about their progress and situations.
 - The Company and its group companies hold meetings to determine the group policies and way of management and establish a system of collaboration.
 - In order to ensure the legitimacy, reasonableness, efficiency and legal and regulatory compliance of performance of duties at the group companies, the Company periodically conducts internal audits on the group companies through Audit Department in accordance with “Rules on Internal Audit” and assesses whether or not their business activities are carried out in appropriate and effective manner.
 - For a whistleblower system based on “Rules on Operation and Management of Standards of Conduct,” the Company establishes a “Reporting and Consultation System,” including setting up windows for a variety of reporting and consultations both inside and outside the Company, and keeps all employees throughout the Group informed of the system.
- (6) Matters Relating to Assignment of Employees who Assist the Duties of Audit & Supervisory Board Members of the Company, Independence of Such Employees, and Ensuring Effectiveness of Instruction**
- An “Audit & Supervisory Board Members Secretariat” independent of the Directors is established as a department for assisting the Audit & Supervisory Board Members of the Company on a regular basis.
 - The Audit & Supervisory Board may receive advance reports on the personnel movements and personnel evaluations relating to employees who are in charge of the “Audit & Supervisory Board Members Secretariat,” and request to the officer in charge of personnel affairs for changes if such request is necessary.
 - 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 for Reporting to Audit & Supervisory Board Members of the Company**
- Directors and employees of the Company report the following matters to Audit & Supervisory Board Members of the Company without delay, in addition to statutory reporting matters:
 - a. Cases discussed/reported in the management meeting;
 - b. Matters that are likely to cause significant damages to the Company;
 - c. Results of internal audits on the Company and its group companies performed by Audit Department;
 - d. Status and content of information relating to the whistleblower system developed by Directors; and
 - e. Other matters which the Audit & Supervisory Board of the Company considers necessary to be reported in the course of performing its duties.
 - Based on “Rules on Operation and Management of Standards of Conduct” and “Rules on Whistleblower, and Report and Consultation,” the Company develops and operates whistleblower systems.
 - Officers and employees of the group companies, or those who have received report or consultation from officers and employees of the group companies, report to Audit & Supervisory Board Members of the Company in appropriate manner about any and all information useful for performance of duties by Audit & Supervisory Board Members.
 - Head of Compliance Unit, in the event of any cases of violation of compliance found among whistleblowers, deliberates on correction measurements and preventive measurements at a meeting of the “Corporate Ethics Committee,” and reports them to the Audit & Supervisory Board along with the investigation results.
 - The Company guarantees that employees (including employees of the group companies) who have reported to the Audit & Supervisory Board Members of the Company will not be fired or treated unfairly in any means only because of the reporting.
- (8) Matters Relating to Prepayment or Reimbursement of Expenses for Performance of Duties by Audit & Supervisory Board Members of the Company, and Policies and Procedures regarding Treatment of Expenses and Liabilities arising from Other Duties**
- The Company prepays, or pays upon request, audit expenses necessary for performance of duties by the Audit & Supervisory Board Members of the Company.
- (9) Other Systems for Ensuring Effective Performance of Audit by Audit & Supervisory Board Members of the Company**
- The Company maintains a system that allows Audit & Supervisory Board Members and the Audit & Supervisory Board of the Company to have regular meetings with the Representative Director, and exchange opinions regarding the tasks to be addressed by the Group, risks surrounding the Group, status of improvement of the environment of audit by the Audit & Supervisory Board Members, significant matters, etc. in performing audit and other matters, as well as confirming the management policies of the Representative Director.
- (10) Basic Philosophy of the Group for Rejection of Anti-Social Forces and Status of Arrangement Thereof**
- The Group includes its “Attitude to Anti-Social Forces” in Article 7 of the “Code of Conduct” which specifies the basic principles of corporate ethics, and assumes a resolute attitude toward any forces/groups threatening the healthy activities of an entity.
 - General Affairs Department of the Company assumes the role of company-wide control, which endeavors to collect information on any anti-social forces and doubtful groups, in close collaboration with external institutions (related government offices/associations/lawyers, etc.) and centrally manage such information, including internal distribution of information, calling for attention, etc.
 - “Standards of Conduct” which specify specific matters to be observed in performing the business activities in accordance with the “Code of Conduct” are distributed to all officers and employees of the Group, in order to enlighten the officers and employees by indicating their required “attitude to anti-social forces.”

7. Basic Policies Relating to Control of Joint-Stock Company

(1) Content of Basic Policies

Basic policies regarding the way of being of persons who control the determination of policies for the Company's finance and business are as follows:

The Company has developed business strategies for sales, production, technology, new businesses, etc. based on medium and long term perspectives and has been aiming to achieve the stable development and growth of the Company. However, the circumstances surrounding our business have been changing drastically and requires us an extremely important steering in the short-term management judgment for ensuring a sustainable growth toward the future.

In the Medium-Term Business Plan, the Company plans to construct its business base at the first stage (from FY2012 to FY2014), and achieve the Group's challenge targets of "consolidated net sales of 111 billion yen, operating income of 16.7 billion yen, and an operating margin of 15% or more" in the final years of the second stage (from FY2015 to FY2017).

The Company will strive to strengthen a sustainable business base and further enhance corporate value by steadily implementing the Medium-Term Business Plan.

Cooperating with our business partners, including customers and suppliers, employees and their families, local residents and other stakeholders, the Company will pursue flexible responses to the short-term and rapid changes and achieve a sustainable growth of business management in the view of medium and long term perspectives. The Company believes that returning profits gained as a result of such sustainable growth, to shareholders would come to be the better contribution to the common interest rather than distributing short-term or tentative profits to shareholders.

Accordingly, the Company would like stakeholders such as customers and suppliers, employees and their families and local residents, who support our sustainable growth based on medium and long term perspectives aforementioned, to hold our shares with proper balance.

(2) Efforts for Contributing to Achievement of Basic Policies

1) Special efforts for contributing to achievement of basic policies

- a. Effective utilization of the Company's properties for achieving sustainable growth through business management based on medium and long term perspectives
 - The Company has been utilizing its properties effectively in order to achieve a sustainable growth through business management based on medium and long term perspectives.
 - Since it becomes necessary to establish production and sales bases responsive to the future trends and changes of market, to upgrade productivity, etc. of domestic and overseas subsidiaries to the levels of the Company, and to maintain the technologies for products, design, manufacture, production and development at the global top levels, the Company will invest its properties effectively and efficiently for proactive research and development activities mainly for new products and production technologies, enhancement of creation capabilities, utilization and introduction of advanced technologies through industry-government-academia cooperation, corporate protection through intellectual property rights, etc. in consideration of the balance between such investments and dividends of surplus 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 also continues to implement active efforts to enhance the Employee Stock-Ownership Plan.
- c. Promotion of understanding of the Company by local residents
 - The Company interacts with local residents and tries to gain better understanding of the Company by local residents, such as by attendance to social programs and local residents' attendance to factory tours at major business locations.

2) Efforts for preventing the control by shareholders who violate basic policies

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

At first, the Company will conduct proactive IR activities in order to increase the corporate reputation of the Company in the market, as well as effectively utilizing the Company's assets to the fullest extent, thus achieving its 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 its substantial shareholders on a continuous basis and, if a hostile acquirer appears, will check and assess the purposes of acquisition by the said hostile acquirer and make negotiations with the said hostile acquirer on hearing the opinions of external specialists. If it is considered that the hostile acquirer is inappropriate in view of the Company's basic policies, the Company will take appropriate countermeasures.

Also, the Company does not deny the introduction of advance measures for the prevention of hostile acquisition in order to prepare for possible appearance of a hostile acquirer, and will continue to make studies on effective measures by reference to laws and regulations, guidance issued by related institutions and the trend of other companies, as well as securing the common interests of our shareholders.

(3) Judgment on and Reason for Reasonableness of Above Efforts

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

8. Other Significant Matters Relating to Status of Joint-Stock Company

There are no applicable items.

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(Note) Amounts, numbers of shares, percentages of holding of voting rights, and ratios of shareholding described in this Business Report are presented by rounding down fractions under units for presentation. Other ratios are presented as units rounded down to the nearest unit.

## Consolidated Balance Sheet

(As of March 31, 2015)

(Unit: 1,000 Yen)

| Assets                              |                    | Liabilities                                            |                    |
|-------------------------------------|--------------------|--------------------------------------------------------|--------------------|
| Account                             | Amount             | Account                                                | Amount             |
| <b>Current assets</b>               | <b>58,755,091</b>  | <b>Current Liabilities</b>                             | <b>37,355,592</b>  |
| Cash and deposits                   | 13,001,801         | Notes and accounts payable-trade                       | 6,727,599          |
| Notes and accounts receivable-trade | 24,056,431         | Electronically recorded obligations - operating        | 8,754,378          |
| Securities                          | 55,139             | Short-term borrowings                                  | 8,623,421          |
| Merchandise and finished goods      | 7,791,081          | Current portion of long-term borrowings                | 3,244,724          |
| Work in process                     | 6,986,328          | Lease liabilities                                      | 278,418            |
| Raw materials and supplies          | 3,451,689          | Accrued income taxes                                   | 1,936,359          |
| Deferred tax assets                 | 1,844,195          | Reserve for bonuses                                    | 1,550,304          |
| Others                              | 1,670,386          | Reserve for Directors' bonuses                         | 147,000            |
| Allowance for doubtful accounts     | (101,961)          | Reserve for compensation for products                  | 202,194            |
| <b>Fixed assets</b>                 | <b>57,778,222</b>  | Electronically recorded obligations - non-operating    | 1,141,544          |
| <b>Tangible fixed assets</b>        | <b>50,082,516</b>  | Others                                                 | 4,749,646          |
| Buildings and structures            | 14,267,228         | <b>Non-Current Liabilities</b>                         | <b>26,083,800</b>  |
| Machinery, equipment and carriers   | 19,448,753         | Long-term borrowings                                   | 18,454,737         |
| Land                                | 11,128,100         | Lease liabilities                                      | 364,743            |
| Lease assets                        | 632,059            | Deferred tax liabilities                               | 1,928,017          |
| Construction in progress            | 3,571,843          | Net defined benefit liability                          | 4,937,282          |
| Others                              | 1,034,531          | Provision for environmental measures                   | 35,914             |
| <b>Intangible fixed assets</b>      | <b>1,977,861</b>   | Asset retirement obligations                           | 17,720             |
| Goodwill                            | 649,769            | Negative goodwill                                      | 3,227              |
| Lease assets                        | 133,177            | Others                                                 | 342,156            |
| Others                              | 1,194,913          | <b>Total Liabilities</b>                               | <b>63,439,393</b>  |
| <b>Investments and other assets</b> | <b>5,717,845</b>   | Net Assets                                             |                    |
| Investment securities               | 3,471,510          | <b>Stockholders' equity</b>                            | <b>41,850,799</b>  |
| Long-term loans                     | 71,137             | Capital stock                                          | 7,273,178          |
| Net defined benefit asset           | 261,600            | Capital surplus                                        | 7,946,245          |
| Deferred tax assets                 | 853,959            | Retained earnings                                      | 28,051,389         |
| Others                              | 1,101,585          | Treasury stocks                                        | (1,420,012)        |
| Allowance for doubtful accounts     | (41,948)           | <b>Accumulated other comprehensive income</b>          | <b>1,730,909</b>   |
|                                     |                    | Net unrealized gain (loss) on securities               | 1,250,907          |
|                                     |                    | Foreign currency translation adjustments               | 1,340,744          |
|                                     |                    | Remeasurements of defined benefit plans                | (860,741)          |
|                                     |                    | <b>Minority interests in consolidated subsidiaries</b> | <b>9,512,211</b>   |
|                                     |                    | <b>Total Net Assets</b>                                | <b>53,093,921</b>  |
| <b>Total Assets</b>                 | <b>116,533,314</b> | <b>Total Liabilities and Net Assets</b>                | <b>116,533,314</b> |

(Note) Amounts are presented by rounding down fractions under 1,000 yen.

## Consolidated Statement of Income

( From: April 1, 2014  
To: March 31, 2015 )

(Unit: 1,000 Yen)

| Account                                                                    | Amount    |                   |
|----------------------------------------------------------------------------|-----------|-------------------|
| <b>Net sales</b>                                                           |           | <b>85,015,207</b> |
| <b>Cost of sales</b>                                                       |           | <b>62,068,817</b> |
| <b>Gross profit on sales</b>                                               |           | <b>22,946,389</b> |
| <b>Selling, general and administrative expenses</b>                        |           | <b>15,312,412</b> |
| <b>Operating income</b>                                                    |           | <b>7,633,976</b>  |
| <b>Non-operating income</b>                                                |           |                   |
| Interest and dividend income                                               | 121,568   |                   |
| Foreign exchange gains                                                     | 1,887     |                   |
| Amortization of negative goodwill                                          | 533       |                   |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies | 165,066   |                   |
| Proceeds on sale of scraps                                                 | 569,812   |                   |
| Others                                                                     | 393,850   | 1,252,719         |
| <b>Non-operating expenses</b>                                              |           |                   |
| Interest expense                                                           | 313,699   |                   |
| Retirement benefit expenses                                                | 257,450   |                   |
| Others                                                                     | 185,963   | 757,114           |
| <b>Ordinary income</b>                                                     |           | <b>8,129,581</b>  |
| <b>Extraordinary gains</b>                                                 |           |                   |
| Subsidy income                                                             | 436,038   | 436,038           |
| <b>Income before income taxes</b>                                          |           | <b>8,565,620</b>  |
| Corporation tax, inhabitant tax and business tax                           | 3,221,948 |                   |
| Income taxes-deferred                                                      | (344,252) | 2,877,696         |
| <b>Income before minority interests</b>                                    |           | <b>5,687,923</b>  |
| <b>Minority interests in earnings of consolidated subsidiaries</b>         |           | <b>1,228,027</b>  |
| <b>Net income</b>                                                          |           | <b>4,459,895</b>  |

(Note) Amounts are presented by rounding down fractions under 1,000 yen.

## **Consolidated Statements of Changes in Shareholders' Equity**

( From: April 1, 2014  
To: March 31, 2015 )

(Unit: 1,000 Yen)

|                                                                                    | Stockholders' equity |                 |                   |                 |                            |
|------------------------------------------------------------------------------------|----------------------|-----------------|-------------------|-----------------|----------------------------|
|                                                                                    | Capital stock        | Capital surplus | Retained earnings | Treasury stocks | Total stockholders' equity |
| Balance at the beginning of the current year                                       | 7,273,178            | 7,946,245       | 24,578,832        | (1,411,900)     | 38,386,356                 |
| Cumulative effects of changes in accounting policies                               |                      |                 | (190,914)         |                 | (190,914)                  |
| Restated balance                                                                   | 7,273,178            | 7,946,245       | 24,387,918        | (1,411,900)     | 38,195,441                 |
| Changes during the current year                                                    |                      |                 |                   |                 |                            |
| Dividend of surplus                                                                |                      |                 | (796,424)         |                 | (796,424)                  |
| Net income                                                                         |                      |                 | 4,459,895         |                 | 4,459,895                  |
| Acquisition of treasury stocks                                                     |                      |                 |                   | (8,112)         | (8,112)                    |
| Changes (net) in the items other than stockholders' equity during the current year |                      |                 |                   |                 |                            |
| Total changes during the current year                                              | —                    | —               | 3,663,470         | (8,112)         | 3,655,358                  |
| Balance at the end of the current year                                             | 7,273,178            | 7,946,245       | 28,051,389        | (1,420,012)     | 41,850,799                 |

(Unit: 1,000 Yen)

|                                                                                    | Accumulated other comprehensive income   |                                          |                                         |                                              | Minority interests in consolidated subsidiaries | Total net assets |
|------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|-----------------------------------------|----------------------------------------------|-------------------------------------------------|------------------|
|                                                                                    | Net unrealized gain (loss) on securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                                                 |                  |
| Balance at the beginning of the current year                                       | 958,119                                  | 782,742                                  | (1,286,311)                             | 454,551                                      | 7,892,403                                       | 46,733,310       |
| Cumulative effects of changes in accounting policies                               |                                          |                                          |                                         |                                              |                                                 | (190,914)        |
| Restated balance                                                                   | 958,119                                  | 782,742                                  | (1,286,311)                             | 454,551                                      | 7,892,403                                       | 46,542,396       |
| Changes during the current year                                                    |                                          |                                          |                                         |                                              |                                                 |                  |
| Dividend of surplus                                                                |                                          |                                          |                                         |                                              |                                                 | (796,424)        |
| Net income                                                                         |                                          |                                          |                                         |                                              |                                                 | 4,459,895        |
| Acquisition of treasury stocks                                                     |                                          |                                          |                                         |                                              |                                                 | (8,112)          |
| Changes (net) in the items other than stockholders' equity during the current year | 292,787                                  | 558,001                                  | 425,569                                 | 1,276,358                                    | 1,619,808                                       | 2,896,166        |
| Total changes during the current year                                              | 292,787                                  | 558,001                                  | 425,569                                 | 1,276,358                                    | 1,619,808                                       | 6,551,525        |
| Balance at the end of the current year                                             | 1,250,907                                | 1,340,744                                | (860,741)                               | 1,730,909                                    | 9,512,211                                       | 53,093,921       |

(Note) Amounts are presented by rounding down fractions under 1,000 yen.

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

### 1. Matters relating to scope of consolidation

|                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (1) Number of consolidated subsidiaries          | 21 companies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Names of consolidated subsidiaries               | Daido Logitech Co., Ltd.<br>Daido Metal Sales Co., Ltd.<br>Daido Plain Bearings Co., Ltd.<br>Daido Industrial Bearings Japan Co., Ltd.<br>Daido Metal U.S.A. Inc.<br>Daido Metal Kotor AD<br>Daido Industrial Bearings Europe Ltd.<br>Daido Metal Czech s.r.o.<br>Dyna Metal Co., Ltd.<br>Chung Yuan Daido Co., Ltd.<br>P.T. Daido Metal Indonesia<br>Dongsung Metal Co., Ltd.<br>NDC Co., Ltd.<br>NDC Sales Co., Ltd.<br>Daido Precision Metal (Suzhou) Co., Ltd.<br>Daido Metal Germany GmbH<br>Asia Kelmet Co., Ltd.<br>Daido Metal Europe Ltd.<br>Daido Metal Russia LLC<br>Daido Metal Mexico S.A. de C.V.<br>Daido Metal Mexico Sales, S.A. de C.V. |
| (2) Names of unconsolidated subsidiaries         | Korea Dry Bearing Co., Ltd.<br>Chung Yuan Daido (Guangzhou) Co., Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Reason for exclusion from scope of consolidation | Korea Dry Bearing Co., Ltd. and Chung Yuan Daido (Guangzhou) Co., Ltd. have been excluded from the scope of consolidation because all these companies are small in size and none of their total assets, sales, net income or loss (amount corresponding to the equity share) and retained earnings (amount corresponding to the equity share) does not have a material effect on the consolidated financial statements.                                                                                                                                                                                                                                   |

2. Matters relating to application of equity method
- (1) Number of unconsolidated subsidiaries and affiliated companies to which the equity method was applied
- |                    |                                                                                                        |
|--------------------|--------------------------------------------------------------------------------------------------------|
|                    | 2 companies                                                                                            |
| Names of companies | (Unconsolidated subsidiary) Korea Dry Bearing Co., Ltd.<br>(Affiliated company) BBL Daido Private Ltd. |
- (2) Names of unconsolidated subsidiaries and affiliated companies to which the equity method was not applied
- |  |                                                                         |
|--|-------------------------------------------------------------------------|
|  | (Unconsolidated subsidiaries)<br>Chung Yuan Daido (Guangzhou) Co., Ltd. |
|--|-------------------------------------------------------------------------|
- Reason for non-application of equity method
- |  |                                                                                                                                                                                                                                                                                                            |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | Chung Yuan Daido (Guangzhou) Co., Ltd. has been excluded from the range of application of the equity method, because their effect on net income or loss (amount corresponding to the equity share), retained earnings (amount corresponding to the equity share), etc. is minor and immaterial as a whole. |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
- (3) Matters of special mention regarding the procedures for application procedures of equity method
- |  |                                                                                                                                                                                                        |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | For companies to which the equity method is applicable and of which closing dates are different from the consolidated closing date, financial statements for the fiscal year of each company are used. |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
3. Matters relating to the fiscal year, etc. of consolidated subsidiaries
- Among the consolidated subsidiaries, the closing date for Daido Metal U.S.A. Inc., Daido Metal Kotor AD, Daido Industrial Bearings Europe LTD., Daido Metal Czech s.r.o., Dyna Metal Co., Ltd., Chung Yuan Daido Co., P.T. Daido Metal Indonesia, Dongsung Metal Co., Ltd., Daido Precision Metal (Suzhou) Co., Ltd., Daido Metal Germany GmbH, Daido Metal Europe LTD, Daido Metal Russia LLC, Daido Metal Mexico S.A. de C.V. and Daido Metal Mexico Sales S.A. de C.V. is December 31.
- In the preparation of consolidated financial statements, financial statements as of the same date are used. However, required adjustments for consolidation were made for important transactions that occurred during the period up to the consolidated closing date.
4. Matters relating to accounting standards
- (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, etc. at balance sheet date (Valuation differences are included directly in net assets, and the net sales value is calculated by the moving average method.) |
| Securities without market value | Stated at cost determined by the 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 (method of writing down the carrying value based on any decreased profitability).
- |                                    |                                      |
|------------------------------------|--------------------------------------|
| (a) Merchandise and finished goods | Gross average method                 |
| (b) Work in process                | Gross average method                 |
| (c) Raw materials                  | Principally by gross average method  |
| (d) Supplies                       | Principally by moving average method |
- (2) Method of depreciation of important depreciable assets
- 1) Tangible fixed assets (excluding lease assets)
- The Company and 5 companies among the domestic consolidated subsidiaries use the declining balance method (with the exception of buildings (excluding facilities annexed to buildings) acquired on or after April 1, 1998, for which the straight-line method is used), while other subsidiaries use the straight-line method.
- Useful lives for major assets are as follows:
- |                          |            |
|--------------------------|------------|
| Buildings and structures | 3-60 years |
|--------------------------|------------|

Machinery, equipment and carriers 4-10 years

2) Intangible fixed assets (excluding lease assets)

Straight-line method is used.

3) Lease assets

- Lease assets relating to finance lease transactions which transfer the ownership of lease assets

The same depreciation method as applied to self-owned fixed assets is used.

- Lease assets relating to finance lease transactions which do not transfer the ownership of lease assets

Straight-line method based on the useful life equal to the lease period and residual value of zero is used.

(3) Basis of recording important reserves

1) Allowance for doubtful accounts

In order to prepare for any losses by bad debt receivables, an amount estimated to be unrecoverable is provided based on the calculation of past actual bad debt ratio for general reserves and from reviewing the probability of recovery in individual cases for specific receivable 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, etc. is provided.

3) Reserve for Directors' bonuses

In order to prepare for future payment of Directors' bonuses, an estimated amount of bonuses payable is provided.

4) Reserve for compensation for products

In order to prepare for any expenditure of warranty expenses relating to the quality of products, an estimated amount required to be paid in future is provided.

5) Provision for environmental measures

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

(4) Other significant matters which are the basis for presentation of consolidated financial statements

1) Accounting treatment for retirement benefits

When calculating retirement benefit obligation, the benefit formula basis is used to allocate estimated retirement benefits in the period up to the end of the current consolidated fiscal year.

A pro-rated amount of differences arising from accounting changes is expensed in 15 years.

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 time of occurrence thereof.

For actuarial differences, an amount prorated by the straight-line method over the average remaining service years of employees at 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., an amount that would be required to be paid if all eligible officers retired at the balance sheet date is provided.

(Change in accounting policy)

Effective from the current consolidated fiscal year, the Company adopted the provisions prescribed in the main part of Paragraph 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, issued on May 17, 2012, hereinafter "Retirement Benefits Accounting Standard") and the main part of Paragraph 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on March 26, 2015, hereinafter "Guidance on Retirement Benefits") and reviewed the method of calculating retirement benefit obligation and service cost.

Method of allocating estimated retirement benefits in the period up to the end of the current consolidated fiscal year has changed from the straight-line basis to the benefit formula basis, while the method of determining a discount rate has been changed from a method using the yield of bonds whose maturity period comes near the period determined based on the average remaining service years of employees to a method using the single weighted average discount rate that reflects estimated periods of retirement benefit payments and the payment amounts for each estimated payment period.

In accordance with transitional treatment as stipulated in Paragraph 37 of the Retirement Benefits Accounting Standard, the effect of the change in calculation methods of retirement benefit obligation and service cost is recognized in retained earnings as of the beginning of the current consolidated fiscal year.

As a result, a net defined benefit liability at the beginning of the current consolidated fiscal year increased by 299,267 thousand yen, and retained earnings at the beginning



of the current consolidated fiscal year decreased by 190,914 thousand yen. The effect of this change for the current consolidated fiscal year has a minor impact on operating income, ordinary income, and income before income taxes.

2) Standard for conversion of foreign currency denominated assets and liabilities into Japanese Yen

Foreign currency denominated receivables and payables are translated into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded in gains or losses. Assets and liabilities, income and expenses of overseas subsidiaries, etc. are translated into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are included in the foreign currency adjustments and minority interests in consolidated subsidiaries in net assets.

3) Accounting method for important hedges

(a) Hedge accounting

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

(b) Hedging instruments

Derivative transactions (interest rate swaps)

(c) Hedged items

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

(d) Hedge policies

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

(e) Evaluation of effectiveness of hedges

The judgment on the evaluation of the effectiveness at the balance sheet date is omitted because the conditions of special treatment of interest swaps are met.

4) Matters relating to the amortization of goodwill and the amortization period

Goodwill is amortized by the straight-line method within a period of 12 years based on the estimated period during which the effect thereof is being developed.

5) Accounting treatment of consumption taxes

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

## **II. Additional Information**

Revision to the amount of deferred tax assets and deferred tax liabilities due to changes in the rate of income taxes

Following the promulgation of “Act for Partial Amendment of the Income Tax Act, etc.” (Act No.9 of 2015) and “Act for Partial Amendment of the Local Taxation Act, etc.” (Act No.2 of 2015) on March 31, 2015, the corporation tax rate was lowered effective from the consolidated fiscal year beginning on or after April 1, 2015.

In accordance with this change, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been changed from previous 35.3% to 33.0% for the temporary differences expected to be eliminated in the consolidated fiscal year beginning on April 1, 2015, and to 32.2% for the temporary differences expected to be eliminated in the consolidated fiscal year beginning on or after April 1, 2016, respectively.

As a result of this change, deferred tax assets (net of deferred tax liabilities), income taxes-deferred (credit), and unrealized gain (loss) on securities (credit) increased by 58,400 thousand yen, 36,411 thousand yen, and 60,688 thousand yen, respectively, while remeasurements of defined benefit plans (credit) decreased by 38,699 thousand yen.

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

|                                                                                       |                  |              |
|---------------------------------------------------------------------------------------|------------------|--------------|
| 1. Accumulated amount of depreciation of tangible fixed assets                        | 76,505,283       | thousand yen |
| 2. Assets pledged as collateral and liabilities corresponding to pledged assets       |                  |              |
| Assets pledged as collateral                                                          |                  |              |
| Buildings and structures                                                              | 623,700          | thousand yen |
| Machinery, equipment and carriers                                                     | 1,558,327        |              |
| Land                                                                                  | 885,813          |              |
| Other tangible fixed assets                                                           | 19,287           |              |
| Total                                                                                 | <u>3,087,128</u> |              |
| Liabilities corresponding to pledged assets                                           |                  |              |
| Short-term borrowings                                                                 | 1,700,000        | thousand yen |
| Long-term borrowings<br>(including amounts scheduled to be repaid<br>within one year) | 993,312          |              |
| Total                                                                                 | <u>2,693,312</u> |              |
| 3. Liabilities for guarantee                                                          |                  |              |
| Amount of employee housing loans, etc.                                                | 217,761          | thousand yen |
| 4. Discounted notes receivable and transfer by<br>endorsement of notes receivable     |                  |              |
| Discounted export bills                                                               | 22,276           | thousand yen |

**IV. Notes to Consolidated Statement of Changes in Shareholders' Equity**

1. Total number of issued shares as of the end of current consolidated fiscal year  
Ordinary shares 44,956 thousand shares
2. Matters relating to dividend

(1) Total amount of dividend paid

| Resolution                                            | Kind of share  | Total amount of dividend (1,000 yen) | Amount of dividend per share (yen) | Base date          | Effective date   |
|-------------------------------------------------------|----------------|--------------------------------------|------------------------------------|--------------------|------------------|
| Annual shareholders' meeting held on June 27, 2014    | Ordinary share | 398,235                              | 10.00                              | March 31, 2014     | June 30, 2014    |
| Board of Directors' meeting held on November 13, 2014 | Ordinary share | 398,189                              | 10.00                              | September 30, 2014 | December 8, 2014 |

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

| Resolution                                               | Kind of share  | Total amount of dividend (1,000 yen) | Amount of dividend per share (yen) | Base date      | Effective date |
|----------------------------------------------------------|----------------|--------------------------------------|------------------------------------|----------------|----------------|
| Annual shareholders' meeting to be held on June 26, 2015 | Ordinary share | 398,173                              | 10.00                              | March 31, 2015 | June 29, 2015  |

Fiscal resource of dividends is planned to be retained earnings.

## V. Notes to Financial Instruments

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

The Group limits its investment of funds to short-term deposits only, and the required funds are procured from financial institutions such as banks.

Credit risks of customers relating to notes and accounts receivable-trade are mitigated in line with the credit management regulations. Investment securities consist mainly of shares, and the market values of listed shares are reviewed in each quarterly period.

Borrowings are used for the working capital (mainly short-term) and capital investment funds (long-term), and interest swap transactions are made for a part of long-term borrowings in order to fix the interest expense against the risk of interest rate fluctuations. Derivative transactions are made within the scope of actual demand in accordance with the internal management regulations.

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

Consolidated balance sheet amounts, market values and differences as of March 31, 2015 are as follows:  
(Unit: 1,000 yen)

|                                                                                     | Consolidated balance sheet amount (*) | Market value (*) | Difference |
|-------------------------------------------------------------------------------------|---------------------------------------|------------------|------------|
| (1) Cash and deposits                                                               | 13,001,801                            | 13,001,801       | —          |
| (2) Notes and accounts receivable-trade                                             | 24,056,431                            | 24,056,431       | —          |
| (3) Investment securities                                                           | 2,569,636                             | 2,569,636        | —          |
| (4) Notes and accounts payable-trade                                                | (6,727,599)                           | (6,727,599)      | —          |
| (5) Electronically recorded obligations - operating                                 | (8,754,378)                           | (8,754,378)      | —          |
| (6) Short-term borrowings                                                           | (8,623,421)                           | (8,623,421)      | —          |
| (7) Long-term borrowings (including amounts scheduled to be repaid within one year) | (21,699,462)                          | (21,703,312)     | (3,849)    |
| (8) Electronically recorded obligations - non-operating                             | (1,141,544)                           | (1,141,544)      | —          |
| (9) Lease liabilities                                                               | (643,162)                             | (650,493)        | (7,330)    |

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

(Note 1) Matters relating to the method of calculation of market values of financial instruments, and securities and derivative transactions

(1) Cash and deposits and (2) Notes and accounts receivable-trade

These are stated at their carrying values because they are settled in a short period and their market values are almost equal to their carrying values.

(3) Investment securities

Market values of investment securities are based on quotations in the stock exchange, and the market values of debentures are calculated based on the present values obtained by discounting the total amount of principal by a rate determined in consideration of the remaining period of such debentures.

(4) Notes and accounts payable-trade, (5) Electronically recorded obligations – operating, (6) Short-term borrowings and (8) 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 almost equal to their carrying values.

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

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. Long-term borrowings subject to the special treatment of interest rate swaps and their market values are calculated by discounting the amount of principal and interest treated as a unit with such interest rate swaps, by a rate reasonably estimated and applicable if the same borrowings were newly made.

(Note 2) Since it is considered extremely difficult to obtain the market values of unlisted stocks (consolidated balance sheet amount of 901,873 thousand yen) because their market quotations are not available and their future cash flows cannot be estimated, they are not included in “(3) Investment securities.”

## VI. Notes to Rental Properties

### 1. Matters relating to the status of rental properties

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

### 2. Matters relating to market values of rental properties

(Unit: 1,000 yen)

| Consolidated balance sheet amount | Market value |
|-----------------------------------|--------------|
| 774,097                           | 4,839,239    |

(Notes) 1. The amount recorded in the consolidated balance sheet represents the acquisition cost deducted by accumulated amount of 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.”

## VII. Notes to Per Share Information

### 1. Amount of net assets per share

1,094.54 yen

### 2. Net income per share

112.00 yen

## Non-Consolidated Balance Sheet

(As of March 31, 2015)

(Unit: 1,000 Yen)

| Assets                                                      |                   | Liabilities                                         |                    |
|-------------------------------------------------------------|-------------------|-----------------------------------------------------|--------------------|
| Account                                                     | Amount            | Account                                             | Amount             |
| <b>Current assets</b>                                       | <b>39,436,581</b> | <b>Current liabilities</b>                          | <b>23,797,113</b>  |
| Cash and deposits                                           | 4,734,078         | Accounts payable-trade                              | 5,698,299          |
| Notes receivable-trade                                      | 1,690,059         | Electronically recorded obligations - operating     | 10,882,877         |
| Accounts receivable-trade                                   | 20,400,360        | Current portion of long-term borrowings             | 1,310,000          |
| Merchandise and finished goods                              | 1,959,670         | Lease liabilities                                   | 265,369            |
| Work in process                                             | 3,491,475         | Other accounts payable                              | 1,489,780          |
| Raw materials and supplies                                  | 1,468,538         | Accrued expenses                                    | 848,434            |
| Prepaid expenses                                            | 136,485           | Accrued income taxes                                | 1,150,978          |
| Deferred tax assets                                         | 851,653           | Advances received                                   | 6,233              |
| Short-term loans to affiliated companies                    | 1,841,834         | Deposits received                                   | 56,054             |
| Accounts receivable-other                                   | 2,764,062         | Unearned revenue                                    | 22,017             |
| Others                                                      | 98,762            | Reserve for bonuses                                 | 1,115,991          |
| Allowance for doubtful accounts                             | (400)             | Reserve for Directors' bonuses                      | 147,000            |
|                                                             |                   | Electronically recorded obligations - non-operating | 803,285            |
|                                                             |                   | Others                                              | 791                |
| <b>Fixed assets</b>                                         | <b>37,606,046</b> | <b>Non-current liabilities</b>                      | <b>13,943,884</b>  |
| <b>Tangible fixed assets</b>                                | <b>14,957,320</b> | Long-term borrowings                                | 10,300,000         |
| Buildings                                                   | 3,673,789         | Lease liabilities                                   | 316,988            |
| Structures                                                  | 534,907           | Long-term accounts payable                          | 210,544            |
| Machinery and equipment                                     | 5,855,913         | Reserve for retirement benefits                     | 3,002,133          |
| Cars and carriers                                           | 11,186            | Deferred tax liabilities                            | 62,166             |
| Tools, furniture and fixtures                               | 292,980           | Provision for environmental measures                | 9,280              |
| Land                                                        | 3,639,137         | Asset retirement obligations                        | 1,800              |
| Lease assets                                                | 604,381           | Others                                              | 40,971             |
| Construction in progress                                    | 345,025           |                                                     |                    |
| <b>Intangible fixed assets</b>                              | <b>787,129</b>    | <b>Total Liabilities</b>                            | <b>37,740,998</b>  |
| Software                                                    | 383,248           | Net Assets                                          |                    |
| Lease assets                                                | 48,120            | <b>Stockholders' equity</b>                         | <b>38,182,056</b>  |
| Right for using facilities                                  | 15,657            | <b>Capital stock</b>                                | <b>7,273,178</b>   |
| Others                                                      | 340,103           | <b>Capital surplus</b>                              | <b>7,946,245</b>   |
|                                                             |                   | Legal capital surplus                               | 7,649,095          |
| <b>Investments and other assets</b>                         | <b>21,861,595</b> | Other capital surplus                               | 297,150            |
| Investment securities                                       | 2,058,927         | <b>Retained earnings</b>                            | <b>24,382,645</b>  |
| Stocks of affiliated companies                              | 10,035,295        | Legal retained earnings                             | 743,443            |
| Investments of capital in affiliated companies              | 7,526,346         | Other retained earnings                             | 23,639,201         |
| Long-term loans to employees                                | 30,544            | Reserve for compressed entry of fixed assets        | 1,458,004          |
| Long-term loans receivable from subsidiaries and associates | 25,865            | General reserve                                     | 17,000,000         |
| Bankruptcy and reorganization claims, etc.                  | 2,083             | Retained earnings brought forward                   | 5,181,197          |
| Long-term prepaid expenses                                  | 6,098             | <b>Treasury stocks</b>                              | <b>(1,420,012)</b> |
| Prepaid pension expenses                                    | 1,096,290         | <b>Valuation, translation adjustments and other</b> | <b>1,119,573</b>   |
| Others                                                      | 1,093,268         | Net unrealized gain (loss) on securities            | 1,119,573          |
| Allowance for doubtful accounts                             | (13,123)          |                                                     |                    |
|                                                             |                   | <b>Total Net Assets</b>                             | <b>39,301,630</b>  |
| <b>Total Assets</b>                                         | <b>77,042,628</b> | <b>Total Liabilities and Net Assets</b>             | <b>77,042,628</b>  |

(Note) Amounts are presented by rounding down fractions under 1,000 yen.

## Non-Consolidated Statement of Income

( From: April 1, 2014  
To: March 31, 2015 )

(Unit: 1,000 Yen)

| Account                                             | Amount    |                   |
|-----------------------------------------------------|-----------|-------------------|
| <b>Net sales</b>                                    |           | <b>67,269,447</b> |
| <b>Cost of sales</b>                                |           | <b>52,975,243</b> |
| <b>Gross profit on sales</b>                        |           | <b>14,294,203</b> |
| <b>Selling, general and administrative expenses</b> |           | <b>8,997,696</b>  |
| <b>Operating income</b>                             |           | <b>5,296,507</b>  |
| <b>Non-operating income</b>                         |           |                   |
| Interest and dividend income                        | 703,389   |                   |
| Proceeds on sale of scraps                          | 273,475   |                   |
| Others                                              | 312,488   | 1,289,353         |
| <b>Non-operating expenses</b>                       |           |                   |
| Interest expense                                    | 105,140   |                   |
| Retirement benefit expenses                         | 199,283   |                   |
| Foreign exchange losses                             | 21,649    |                   |
| Others                                              | 39,046    | 365,119           |
| <b>Ordinary income</b>                              |           | <b>6,220,742</b>  |
| <b>Extraordinary gains</b>                          |           |                   |
| Subsidy income                                      | 300,000   | 300,000           |
| <b>Extraordinary losses</b>                         |           |                   |
| Loss on valuation of stocks of affiliated companies | 388,757   | 388,757           |
| <b>Income before income taxes</b>                   |           | <b>6,131,984</b>  |
| Corporation tax, inhabitant tax and business tax    | 1,907,489 |                   |
| Income taxes-deferred                               | 223,816   | 2,131,306         |
| <b>Net income</b>                                   |           | <b>4,000,678</b>  |

(Note) Amounts are presented by rounding down fractions under 1,000 yen.

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

( From: April 1, 2014  
To: March 31, 2015 )

(Unit: 1,000 Yen)

|                                                                                | Shareholders' equity |                       |                       |                         |
|--------------------------------------------------------------------------------|----------------------|-----------------------|-----------------------|-------------------------|
|                                                                                | Capital stock        | Capital surplus       |                       | Retained earnings       |
|                                                                                |                      | Legal capital surplus | Other capital surplus | Legal retained earnings |
| Balance at the beginning of the current year                                   | 7,273,178            | 7,649,095             | 297,150               | 743,443                 |
| Cumulative effects of changes in accounting policies                           |                      |                       |                       |                         |
| Restated balance                                                               | 7,273,178            | 7,649,095             | 297,150               | 743,443                 |
| Changes during the current year                                                |                      |                       |                       |                         |
| Provision of reserve for advanced depreciation of non-current assets           |                      |                       |                       |                         |
| Reversal of reserve for compressed entry of fixed assets                       |                      |                       |                       |                         |
| Reversal of general reserve                                                    |                      |                       |                       |                         |
| Dividend of surplus                                                            |                      |                       |                       |                         |
| Net income                                                                     |                      |                       |                       |                         |
| Acquisition of treasury stocks                                                 |                      |                       |                       |                         |
| Changes (net) in items other than shareholders' equity during the current year |                      |                       |                       |                         |
| Total changes during the current year                                          | —                    | —                     | —                     | —                       |
| Balance at the end of the current year                                         | 7,273,178            | 7,649,095             | 297,150               | 743,443                 |

(Unit: 1,000 Yen)

|                                                                                | Shareholders' equity                         |                 |                                   |                 |                            |
|--------------------------------------------------------------------------------|----------------------------------------------|-----------------|-----------------------------------|-----------------|----------------------------|
|                                                                                | Retained earnings                            |                 |                                   | Treasury stocks | Total shareholders' equity |
|                                                                                | Other retained earnings                      |                 |                                   |                 |                            |
|                                                                                | Reserve for compressed entry of fixed assets | General reserve | Retained earnings brought forward |                 |                            |
| Balance at the beginning of the current year                                   | 1,210,954                                    | 15,000,000      | 4,422,589                         | (1,411,900)     | 35,184,511                 |
| Cumulative effects of changes in accounting policies                           |                                              |                 | (198,596)                         |                 | (198,596)                  |
| Restated balance                                                               | 1,210,954                                    | 15,000,000      | 4,223,993                         | (1,411,900)     | 34,985,914                 |
| Changes during the current year                                                |                                              |                 |                                   |                 |                            |
| Provision of reserve for advanced depreciation of non-current assets           | 257,208                                      |                 | (257,208)                         |                 | —                          |
| Reversal of reserve for compressed entry of fixed assets                       | (10,159)                                     |                 | 10,159                            |                 | —                          |
| Reversal of general reserve                                                    |                                              | 2,000,000       | (2,000,000)                       |                 | —                          |
| Dividend of surplus                                                            |                                              |                 | (796,424)                         |                 | (796,424)                  |
| Net income                                                                     |                                              |                 | 4,000,678                         |                 | 4,000,678                  |
| Acquisition of treasury stocks                                                 |                                              |                 |                                   | (8,112)         | (8,112)                    |
| Changes (net) in items other than shareholders' equity during the current year |                                              |                 |                                   |                 |                            |
| Total changes during the current year                                          | 247,049                                      | 2,000,000       | 957,204                           | (8,112)         | 3,196,141                  |
| Balance at the end of the current year                                         | 1,458,004                                    | 17,000,000      | 5,181,197                         | (1,420,012)     | 38,182,056                 |

(Unit: 1,000 Yen)

|                                                                                | Valuation, translation adjustments and other |                                                    | Total net assets |
|--------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------------|------------------|
|                                                                                | Net unrealized gain (loss) on securities     | Total valuation, translation adjustments and other |                  |
| Balance at the beginning of the current year                                   | 855,276                                      | 855,276                                            | 36,039,787       |
| Cumulative effects of changes in accounting policies                           |                                              |                                                    | (198,596)        |
| Restated balance                                                               | 855,276                                      | 855,276                                            | 35,841,191       |
| Changes during the current year                                                |                                              |                                                    |                  |
| Provision of reserve for advanced depreciation of non-current assets           |                                              |                                                    | —                |
| Reversal of reserve for compressed entry of fixed assets                       |                                              |                                                    | —                |
| Reversal of general reserve                                                    |                                              |                                                    | —                |
| Dividend of surplus                                                            |                                              |                                                    | (796,424)        |
| Net income                                                                     |                                              |                                                    | 4,000,678        |
| Acquisition of treasury stocks                                                 |                                              |                                                    | (8,112)          |
| Changes (net) in items other than shareholders' equity during the current year | 264,297                                      | 264,297                                            | 264,297          |
| Total changes during the current year                                          | 264,297                                      | 264,297                                            | 3,460,438        |
| Balance at the end of the current year                                         | 1,119,573                                    | 1,119,573                                          | 39,301,630       |

(Note) Amounts are presented by rounding down fractions under 1,000 yen.



## **I. Matters Relating to Significant Accounting Policies**

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

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

##### 1) Stocks of subsidiaries and

stocks of affiliated companies..... 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 included directly in net assets, and the net sales value is calculated by the moving average method.)

###### Securities without market value

Stated at cost determined by the moving average method

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

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

##### 1) Merchandise and finished goods

Gross average method

##### 2) Work in process

Gross average method

##### 3) Raw materials

Gross average method (Moving average method for a part of raw materials)

##### 4) Supplies

Moving average method

### 2. Method of depreciation of fixed assets

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

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

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

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

Straight-line method is used. Useful life for software for in-house use is mainly 5 years, and useful lives for right of using facilities are mainly 15-20 years.

#### (3) Lease assets

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

### 3. Basis of recording reserves

#### (1) Allowance for doubtful accounts

In order to prepare for any losses by bad debt receivables, an amount estimated to be unrecoverable is provided based on the calculation of past actual bad debt ratio for general reserves and from reviewing the probability of recovery in individual cases for specific receivable 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

In order to prepare for future payment of Directors' bonuses, an estimated amount of bonuses payable is provided.

#### (4) Reserve for retirement benefits

When calculating retirement benefit obligation, the benefit formula basis is used to allocate estimated retirement benefits in the period up to the end of the current fiscal year.

A pro-rated amount of differences arising from accounting changes is expensed in 15 years.

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 time of occurrence thereof.

For actuarial differences, an amount prorated by the straight-line method over the average remaining service years of employees at time of 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., an amount that would be required to be paid if all eligible officers retired at the balance sheet date is provided.

#### (Change in accounting policy)

Effective from the current fiscal year, the Company adopted the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, issued on May 17, 2012, hereinafter "Retirement Benefits Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on March 26, 2015, hereinafter "Guidance on Retirement Benefits"), and reviewed the method of calculating retirement benefit obligation and service cost. Method of allocating estimated retirement benefits in the period up to the end of the current fiscal year has changed from the straight-line basis to the benefit formula basis, while the method of determining a discount rate has been changed from a method using the yield of bonds whose maturity period comes near the period determined based on the average remaining service years of employees to a method using the single weighted average discount rate that reflects estimated periods of retirement benefit payments and the payment amounts for each estimated payment period.

In accordance with transitional treatment as stipulated in Paragraph 37 of the Retirement Benefits Accounting Standard, and the effect of the change in calculation methods of retirement benefit obligation and service cost is recognized in retained earnings brought forward as of the beginning of the current fiscal year.

As a result, prepaid pension expenses and reserve for retirement benefits at the beginning of the current fiscal year increased by 254,288 thousand yen and 561,237 thousand yen, respectively, while retained earnings brought forward decreased by 198,596 thousand yen. The

effect of this change for the current fiscal year has a minor impact on operating income, ordinary income, and income before income taxes.

(5) Provision for environmental measures

In order to prepare for payment of disposal cost of PCB wastes required to be treated as stipulated by the “Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes,” an estimated amount of disposal cost to be paid is provided.

4. Other significant matters which are the basis for the presentation of financial statements

(1) Standard for conversion of foreign currency denominated assets and liabilities into Japanese Yen

Foreign currency denominated receivables and payables are translated into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded in gains or losses.

(2) Accounting method for hedges

1) Hedge accounting

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

2) Hedging instruments

Derivative transactions (interest rate swaps)

3) Hedged items

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

4) Hedge policies

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

5) Evaluation of effectiveness of hedges

The judgment on the evaluation of the effectiveness at the balance sheet date is omitted because the conditions of special treatment of interest swaps are met.

(3) Accounting method for retirement benefits

The accounting method for unrecognized actuarial differences, unrecognized past service costs and differences arising from accounting changes that are yet to be recognized differs from the accounting method for the above items used in consolidated financial statements.

(4) Accounting treatment of consumption taxes

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

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

|                                                                                                           |                         |
|-----------------------------------------------------------------------------------------------------------|-------------------------|
| 1. Accumulated amount of depreciation of tangible fixed assets                                            | 40,630,208 thousand yen |
| 2. Monetary claims and monetary debts to/from affiliated companies                                        |                         |
| Short-term monetary claims                                                                                | 10,881,994 thousand yen |
| Long-term monetary claims                                                                                 | 465,093                 |
| Short-term monetary debts                                                                                 | 6,006,556               |
| 3. Liabilities for guarantee                                                                              |                         |
| (1) For employee housing loans, etc.                                                                      | 217,761 thousand yen    |
| (2) For bank borrowings                                                                                   |                         |
| Daido Metal Czech s.r.o.                                                                                  | 2,092,588               |
| Daido Metal Kotor AD                                                                                      | 398,779                 |
| Daido Industrial Bearings Europe Ltd.                                                                     | 1,887,542               |
| Daido Metal Europe Ltd.                                                                                   | 1,229,573               |
| Daido Metal U.S.A. Inc.                                                                                   | 2,163,060               |
| Daido Metal Mexico S.A. de C.V.                                                                           | 3,364,760               |
| Daido Precision Metal (Suzhou) Co., Ltd.                                                                  | 1,249,768               |
| Daido Plain Bearings Co., Ltd.                                                                            | 372,900                 |
| Daido Metal Russia LLC                                                                                    | 385,531                 |
| (3) For liabilities on purchases                                                                          |                         |
| Daido Metal Kotor AD                                                                                      | 71,094                  |
| (4) Relating to letter of awareness on management guidance, etc.<br>submitted relating to bank borrowings |                         |
| Daido Industrial Bearings Europe Ltd.                                                                     | 80,623                  |
| Total                                                                                                     | <u>13,513,982</u>       |

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

Amount of transactions with affiliated companies

Operating transactions

Amount of sales 23,418,408 thousand yen

Amount of purchases 18,254,991 thousand yen

Transactions other than operating transactions 752,445 thousand yen

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

Kinds and number of treasury stocks at the balance sheet date

Ordinary shares 5,139 thousand shares

### **V. Notes to Fixed Assets Used for Leases**

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

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

### 1. Breakdown of deferred tax assets and liabilities by major causes for occurrence

| Deferred tax assets                                 |                      |
|-----------------------------------------------------|----------------------|
| Devaluation of finished goods and work in process   | 343,914 thousand yen |
| Depreciation in excess of tax limit                 | 62,445               |
| Impairment losses                                   | 178,945              |
| Accrued business tax                                | 97,028               |
| Loss on valuation of stocks of affiliated companies | 1,372,585            |
| Loss on valuation of golf club memberships          | 17,875               |
| Reserve for bonuses                                 | 368,277              |
| Reserve for retirement benefits                     | 1,037,571            |
| Long-term accounts payable                          | 61,238               |
| Others                                              | 140,195              |
| Sub-total of deferred tax assets                    | <u>3,680,076</u>     |
| Valuation reserves                                  | <u>(1,685,301)</u>   |
| Total deferred tax assets                           | <u>1,994,774</u>     |
| Deferred tax liabilities                            |                      |
| Reserve for compressed entry of fixed assets        | (692,634)            |
| Unrealized gain (loss) on securities                | (511,707)            |
| Others                                              | (944)                |
| Total deferred tax liabilities                      | <u>(1,205,287)</u>   |
| Net deferred tax assets                             | <u>789,487</u>       |

### 2. Revision to the amount of deferred tax assets and deferred tax liabilities due to changes in the rate of income taxes

Following the promulgation of “Act for Partial Amendment of the Income Tax Act, etc.” (Act No.9 of 2015) and “Act for Partial Amendment of the Local Taxation Act, etc.” (Act No.2 of 2015) on March 31, 2015, the corporation tax rate was lowered effective from the fiscal year beginning on or after April 1, 2015.

In accordance with this change, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been changed from previous 35.3% to 33.0% for the temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2015, and to 32.2% for the temporary differences expected to be eliminated in the fiscal year beginning on or after April 1, 2016, respectively.

As a result of this change, deferred tax assets (net of deferred tax liabilities) decreased by 52,219 thousand yen, while income taxes-deferred (debit) and unrealized gain (loss) on securities (credit) increased by 101,483 thousand yen and 49,263 thousand yen, respectively.

## VII. Notes to Transactions with Related Parties

Subsidiaries and affiliated companies, etc.

| Type                                     | Name of company, etc.                         | Ratio (%) of holding (held) of voting rights, etc.                                                                                                                         | Relation with related party                                                                                                                                                | Content of transaction                    | Amount of transaction (1,000 yen) Note 11 | Account                                       | Balance at fiscal year end (1,000 yen) Note 11 |
|------------------------------------------|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|-----------------------------------------------|------------------------------------------------|
| Subsidiaries                             | Daido Metal Sales Co., Ltd.                   | (Holding) Direct 100.0                                                                                                                                                     | Sale of Company's products, rental of facilities, etc. and interlocking of officers                                                                                        | Sale of bearing products, etc. Note 1     | 3,559,411                                 | Account receivable-trade                      | 1,655,854                                      |
|                                          | NDC Co., Ltd.                                 | (Holding) Direct 39.8                                                                                                                                                      | Purchase of Company's products, etc., consignment of manufacture of Company's products, sale of Company's products, etc., licensing of technology and lease of facilities  | Purchase of bearing products, etc. Note 2 | 5,957,832                                 | Account payable-trade                         | 2,007,920                                      |
|                                          | Daido Plain Bearings Co., Ltd.                | (Holding) Direct 100.0                                                                                                                                                     | Consignment of manufacture of Company's products, lease of facilities, debt guarantees, etc. and interlocking of officers                                                  | Purchase of bearing products, etc. Note 2 | 7,926,059                                 | Account payable-trade                         | 978,310                                        |
|                                          |                                               |                                                                                                                                                                            |                                                                                                                                                                            | –                                         | –                                         | Electronically recorded obligations-operating | 2,558,417                                      |
|                                          | Daido Metal U.S.A. Inc.                       | (Holding) Direct 100.0                                                                                                                                                     | Sale of Company's products, etc., licensing of technology, rental of facilities, loans, debt guarantees and interlocking of officers                                       | Dividend income                           | 300,000                                   | Accounts receivable-other                     | –                                              |
|                                          |                                               |                                                                                                                                                                            |                                                                                                                                                                            | –                                         | –                                         | –                                             | –                                              |
|                                          | Daido Metal S.A. de C.V.                      | (Holding) Direct 99.9 (Holding) Indirect 0.0                                                                                                                               | Sale of Company's products, rental of facilities, loans, debt guarantees and interlocking of officers                                                                      | Sale of bearing products, etc. Note 1     | 6,090,491                                 | Account receivable-trade                      | 2,159,835                                      |
|                                          |                                               |                                                                                                                                                                            |                                                                                                                                                                            | Underwriting of capital increase Note 10  | 814,000                                   | –                                             | –                                              |
|                                          | Daido Metal Mexico S.A. de C.V.               | (Holding) Direct 99.9 (Holding) Indirect 0.0                                                                                                                               | Sale of Company's products, rental of facilities, loans, debt guarantees and interlocking of officers                                                                      | Debt guarantees Note 3                    | 2,163,060                                 | –                                             | –                                              |
|                                          |                                               |                                                                                                                                                                            |                                                                                                                                                                            | –                                         | –                                         | –                                             | –                                              |
|                                          | Daido Metal Czech s.r.o.                      | (Holding) Direct 100.0                                                                                                                                                     | Sale of Company's products, etc., purchase of Company's products, licensing of technology, rental of facilities, loans, debt guarantees, etc. and interlocking of officers | Debt guarantees Note 4                    | 3,364,760                                 | –                                             | –                                              |
| Daido Metal Czech s.r.o.                 | (Holding) Direct 100.0                        | Sale of Company's products, etc., purchase of Company's products, licensing of technology, rental of facilities, loans, debt guarantees, etc. and interlocking of officers | Debt guarantees Note 5                                                                                                                                                     | 2,092,588                                 | –                                         | –                                             |                                                |
| Daido Industrial Bearings Europe Ltd.    | (Holding) Direct 100.0                        | Sale of Company's products, purchase of Company's products, licensing of technology, rental of facilities, debt guarantees, etc. and interlocking of officers              | Debt guarantees Note 6                                                                                                                                                     | 1,968,165                                 | –                                         | –                                             |                                                |
| Daido Metal Europe Ltd.                  | (Holding) Direct 100.0                        | Sale of Company's products, rental of facilities, debt guarantees, etc. and interlocking of officers                                                                       | Sale of bearing products, etc. Note 1                                                                                                                                      | 5,269,444                                 | Account receivable-trade                  | 1,820,931                                     |                                                |
|                                          |                                               |                                                                                                                                                                            | Debt guarantees Note 7                                                                                                                                                     | 1,229,573                                 | –                                         | –                                             |                                                |
| Dyna Metal Co., Ltd.                     | (Holding) Direct 50.0                         | Sale of Company's products, etc., purchase of Company's products, licensing of technology, rental of facilities and interlocking of officers                               | Dividend income                                                                                                                                                            | 160,950                                   | Accounts receivable-other                 | 111,000                                       |                                                |
| Daido Precision Metal (Suzhou) Co., Ltd. | (Holding) Direct 74.0 (Holding) Indirect 16.2 | Sale of Company's products, etc., purchase of Company's products, licensing of technology, rental of facilities, loans, debt guarantees, etc. and interlocking of officers | Loans Note 9                                                                                                                                                               | 1,117,106                                 | Short-term loans to affiliated companies  | 1,189,683                                     |                                                |
|                                          |                                               |                                                                                                                                                                            | Debt guarantees Note 8                                                                                                                                                     | 1,249,768                                 | –                                         | –                                             |                                                |

Transaction terms, policies for determination of transaction terms, etc.

(Note 1) Transaction prices are amounts equal to sales prices to customers of each related party multiplied by fixed rates.

(Note 2) Transaction prices are principally amounts equal to sales prices to Company's customers multiplied by fixed rates.

(Note 3) Debt guarantees are provided for bank borrowings (2,163,060 thousand yen) of Daido Metal U.S.A. Inc. and guarantee fees of 0.2% per annum are received.

(Note 4) Debt guarantees are provided for bank borrowings (3,364,760 thousand yen) of Daido Metal Mexico S.A. de C.V. and guarantee fees of 0.2% per annum are received.

(Note 5) Debt guarantees are provided for bank borrowings (2,092,588 thousand yen) of Daido Metal Czech s.r.o. and guarantee fees of 0.2% per annum are received.

(Note 6) Debt guarantees are provided for bank borrowings (1,887,542 thousand yen) and management guidance promise notes (80,623 thousand yen) of Daido Industrial Bearings Europe Ltd. and guarantee fees of 0.2% per annum are received.

(Note 7) Debt guarantees are provided for bank borrowings (1,229,573 thousand yen) of Daido Metal Europe Ltd. and guarantee fees of 0.2% per annum are received.

(Note 8) Debt guarantees are provided for bank borrowings (1,249,768 thousand yen) of Daido Precision Metal (Suzhou) Co., Ltd. and guarantee fees of 0.2% per annum are received.

(Note 9) Loan interest rates are reasonably determined in consideration of market interest rates.

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

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

**VIII. Notes to Per Share Information**

|                         |            |
|-------------------------|------------|
| 1. Net assets per share | 987.04 yen |
| 2. Net income per share | 100.46 yen |

**Independent Auditor's Report on Audit of Consolidated Financial Statements**

Independent Auditor's Report on  
Consolidated Financial Statement Audit

May 15, 2015

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

Deloitte Touche Tohmatsu LLC

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

We have audited the accompanying consolidated financial statements, i.e. consolidated balance sheet, consolidated statement of income, consolidated statement of changes in shareholders' equity and significant matters that form the basis of presenting consolidated financial statements and other notes, of Daido Metal Co., Ltd. for the 107th fiscal year from April 1, 2014 to March 31, 2015, in accordance with Article 444, paragraph 4 of the Companies Act.

**Management's responsibility for the consolidated financial statements**

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

**Independent auditors' responsibility**

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

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

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



**Audit opinion**

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

**Interests in the Company**

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

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

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

**Independent Auditor's Report on Audit of Non-consolidated Financial Statements**

**Independent Auditor's Report on  
Non-consolidated Financial Statement Audit**

May 15, 2015

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

**Deloitte Touche Tohmatsu LLC**

|                                          |                                |               |      |
|------------------------------------------|--------------------------------|---------------|------|
| Designated Partner<br>Engagement Partner | Certified Public<br>Accountant | Norio Hattori | Seal |
|------------------------------------------|--------------------------------|---------------|------|

|                                          |                                |                |      |
|------------------------------------------|--------------------------------|----------------|------|
| Designated Partner<br>Engagement Partner | Certified Public<br>Accountant | Yasuteru Miura | Seal |
|------------------------------------------|--------------------------------|----------------|------|

We have audited the accompanying non-consolidated financial statements, i.e. balance sheet, statement of income, statement of changes in shareholders' equity, and the matters relating to significant accounting policies and other notes as well as the supporting schedules of Daido Metal Co., Ltd. for the 107th fiscal year from April 1, 2014 to March 31, 2015, in accordance with Article 436, paragraph 2, item 1 of the Companies Act.

**Management's responsibility for the non-consolidated financial statements**

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

**Independent auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and supporting schedules. The procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and supporting schedules, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the Company's internal control. However, in making those 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

### 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 107th fiscal year from April 1, 2014 to March 31, 2015, 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

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 from the Directors, etc. and the Accounting Auditors reports on the performance of their duties and, when necessary, requested explanations regarding such reports.

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 also 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. Furthermore, 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, will be in compliance with 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 system established by such resolutions (internal control system), each Audit & Supervisory Board Member periodically received from Directors and employees reports on the status of development and operating situation of such systems and, when necessary, requested explanations regarding such reports and expressed the opinion. Regarding the basic policies prescribed in Article 118, item 3, a of the Companies Act Enforcement Regulations and each task prescribed in b of the same item, that are described in the business report, we studied the content thereof based on the deliberation at the board of Directors and other meetings. With respect to the major 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 the subsidiaries and to share information among them and, when necessary, received reports from the subsidiaries regarding their businesses. Based on the foregoing method, we examined the business report and the supplementary schedules for this fiscal year.

In addition, the Audit & Supervisory Board Members also audited and examined whether the independent auditors maintain their independence and carry out audits in an appropriate manner. The Audit & Supervisory Board Members received from the Accounting Auditors reports 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 notification. Based on the foregoing method, the Audit & Supervisory Board Members reviewed the non-consolidated financial statements for this fiscal year (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statements of changes in shareholders' equity) and supplementary schedules thereto and the consolidated financial statements for this fiscal year (consolidated balance sheet, consolidated statement of income, consolidated statements of changes in shareholder's equity).

## 2. Results of Audit

### (1) Audit Results on the Business Report, etc.

- a. 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.
- b. 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.
- c. 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.
- d. There are no matters to be pointed out regarding the basic 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 the said basic policies, that it does not undermine the common interests of the Company's shareholders, and that it does not aim at maintaining 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 21, 2015

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 No. 1 Disposition of Surplus

For the current fiscal year, the Company proposes to make the following disposition of surplus:

The Company's basic policy is to return appropriate profits to our shareholders in consideration of the results of operations and payout ratio, and to maintain a stable and long-lasting level of dividend of surplus in overall consideration of the internal reserve funds for future business development, expansion of research and development, reinforcement of business base and changes on business environment.

In comprehensive consideration of all the factors including the consolidated performance for the full year based on the above basic policy, the year-end dividend would be 10 yen per share for the current fiscal year.

As a result, the annual dividend, including the interim dividend of 10 yen per share (actual), would be 20 yen per share.

To attain sufficient internal reserves necessary for reinforcing the business base to provide for future business development and changes in business environment, the Company proposes to reverse retained earnings carried forward and to accumulate general reserve as stated below.

#### 1. Items regarding the year-end dividend

##### (1) Type of dividend property

Money

##### (2) Items related to allocation of dividend property to shareholders and the total amount

10 yen per ordinary share of the Company

Total amount: 398,173,410 yen

##### (3) Date when dividends from surplus become effective

June 29, 2015

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

##### (1) Item and amount of surplus that increases

General reserve 2,000,000,000 yen

##### (2) Item and amount of surplus that decreases

Retained earnings carried forward 2,000,000,000 yen

## Agenda No. 2 Partial Amendments to the Articles of Incorporation

### 1. Purpose of Amendments to the Articles of Incorporation

As the scope of persons with whom a company may enter into a liability limitation agreement was expanded under the Act for Partial Revision of the Companies Act, the Company proposes to amend its Articles of Incorporation, adding Article 31, paragraph 2 and making a necessary change to Article 40, paragraph 2, in order to develop a system that allows the Company to invite and secure capable human resources as non-executive Directors and Audit & Supervisory Board Members within and outside the Company.

All of the Audit & Supervisory Board Members have approved that the Company will propose the new provision of Article 31, paragraph 2 of the Articles of Incorporation at this Shareholders' Meeting. Regarding a liability limitation agreement with a non-executive Director, it has been confirmed at the Board of Directors of the Company that the Company may enter into such agreement only if the collection of internal information of the Company by a non-executive Director is limited as in the case that said Director is an Outside Director or a part-time Director.

### 2. Details of the Amendments

The details of the amendments are as follows:

(The underlined parts indicate the amendments.)

| Existing Articles of Incorporation                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Proposed amendments                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(Exemption from Liability of Directors)</p> <p>Article 31 (Omitted)</p> <p>(New provision)</p>                                                                                                                                                                                                                                                                                                                                                                                                            | <p>(Exemption from Liability of Directors)</p> <p>Article 31 (Unchanged)</p> <p><u>2. The Company may enter into an agreement with a non-executive Director to the effect that the liability of said non-executive Director as set forth in Article 423, paragraph 1 of the Companies Act shall be limited to the amount stipulated by laws and regulations if he/she acts in good faith and without gross negligence.</u></p>                                                                 |
| <p>(Exemption from Liability of Audit &amp; Supervisory Board Members)</p> <p>Article 40 (Omitted)</p> <p>2. The Company may enter into an agreement with an <u>Outside Audit &amp; Supervisory Board Member</u> to the effect that the liability of said <u>Outside Audit &amp; Supervisory Board Member</u> as set forth in Article 423, paragraph 1 of the Companies Act shall be limited to the amount stipulated by laws and regulations if he/she acts in good faith and without gross negligence.</p> | <p>(Exemption from Liability of Audit &amp; Supervisory Board Members)</p> <p>Article 40 (Unchanged)</p> <p>2. The Company may enter into an agreement with an <u>Audit &amp; Supervisory Board Member</u> to the effect that the liability of said <u>Audit &amp; Supervisory Board Member</u> as set forth in Article 423, paragraph 1 of the Companies Act shall be limited to the amount stipulated by laws and regulations if he/she acts in good faith and without gross negligence.</p> |

### Agenda No. 3 Election of Six Directors

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

The candidates for the position of Director are as follows:

| Candidate No. | Name<br>(Date of birth)          | Personal history, positions at the Company, and important positions at other corporations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Number of shares of the Company held by the candidate |
|---------------|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| (1)           | Seigo Hanji<br>(January 2, 1942) | <p>April, 1965 Joined the Company</p> <p>April, 1980 General Manger of Tokyo Sales Office, Sales HQ of the Company</p> <p>April, 1991 General Manager of Management Planning Department, Management Planning Office of the Company</p> <p>April, 1993 Deputy General Manager of Business Division No. 3 of the Company</p> <p>June, 1993 Director and Deputy General Manager of Business Division No. 3 of the Company</p> <p>April, 1994 Director and General Manager of Business Division No. 1 of the Company</p> <p>June, 1995 President of the Company</p> <p>June, 2005 President &amp; CEO of the Company</p> <p>June, 2007 Chairman &amp; CEO of the Company (to present)</p> <p>May, 2008 HQ Executive/Vice Chairman of Japan Auto Parts Industries Association and Branch Manager of Chubu Branch of the same Association (to present)</p> <p>June, 2010 Outside Director of Nichirei Co., Ltd. (to present)</p> <p>[Important positions at other corporations]<br/>                     HQ Executive/Vice Chairman of Japan Auto Parts Industries Association and Branch Manager of Chubu Branch of the same Association<br/>                     Outside Director of Nichirei Co., Ltd.</p> | 138,326 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 |
|---------------|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| (2)           | Kotaro Kashiya<br>(March 28, 1947) | <p>April, 1971 Joined the Company</p> <p>April, 1993 General Manager of Product Planning Department, Production Engineering Laboratory of the Company</p> <p>April, 1994 Manager of Machara Plant of the Company</p> <p>April, 1996 Deputy General Manager of Business Division No. 2, and Manager of Machara Plant of the Company</p> <p>April, 1999 Head of Heavywall Bearings, RPB, Heavy Industrial Bearings, Fluid Systems &amp; New Products Division of the Company</p> <p>April, 2000 Head of Polymer Bearings Division of the Company</p> <p>June, 2003 Director and Head of Polymer Bearings Division of the Company</p> <p>April, 2005 Director and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division of the Company</p> <p>July, 2005 Director and Executive Officer, and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division of the Company</p> <p>June, 2007 Managing Director and Executive Officer, and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division of the Company</p> <p>July, 2007 Managing Director and Senior Executive Officer, and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division of the Company</p> <p>June, 2009 Managing Director and General Manager of Strategy Development Division of the Company</p> <p>June, 2010 Senior Managing Director and Senior Executive Officer, and General Manager of Strategy Development Division of the Company</p> <p>April, 2011 Chairman &amp; COO of Daido Plain Bearings Co., Ltd. Senior Managing Director and Senior Executive Officer, and General Manager of Global Strategy Division and Head of Technology Unit of the Company</p> <p>June, 2011 Chairman &amp; COO of Daido Plain Bearings Co., Ltd. President &amp; Chief Operating Officer (COO) of the Company</p> <p>Head of Global Strategy Division and Technology Division</p> <p>April, 2012 President &amp; Chief Operating Officer (COO) of the Company (to present)</p> | 70,199 shares                                         |

| Candidate No. | Name<br>(Date of birth)                | Personal history, positions at the Company, and important positions at other corporations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Number of shares of the Company held by the candidate |
|---------------|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| (3)           | Toshiyuki Sasaki<br>(December 7, 1950) | <p>April, 1974 Joined Tokai Bank Ltd.</p> <p>April, 1997 Manager of Taipei Branch of the same bank</p> <p>March, 2001 Manager of Americas, Manager of New York Branch, Manager of Cayman Branch and Manager of Chicago Office of the same bank</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 of the Company</p> <p>April, 2005 General Manager of Corporate Planning Department, Corporate Planning Division of the Company</p> <p>June, 2005 Director and General Manager of Corporate Planning Department, Corporate Planning Division of the Company</p> <p>July, 2005 Director and Executive Officer, and General Manager of Corporate Planning Department, Corporate Planning Division of the Company</p> <p>June, 2007 Director and Executive Officer, and General Manager of Corporate Planning Division of the Company</p> <p>April, 2008 Director and Executive Officer, and Head of Corporate Planning Division of the Company</p> <p>July, 2008 Director and Senior Executive Officer, and Head of Corporate Planning Division of the Company</p> <p>July, 2009 Director and Senior Executive Officer, and Head and General Manager of Corporate Planning Department of Corporate Planning Division of the Company</p> <p>October, 2009 Director and Senior Executive Officer, and Head of Corporate Planning Division of the Company</p> <p>April, 2010 Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division of the Company</p> <p>June, 2010 Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division of the Company</p> <p>June, 2011 Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division and Head of Human Resources Planning Division of the Company</p> <p>April, 2012 Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division of the Company</p> <p>April, 2015 Managing Director and Senior Executive Officer, and Head of Corporate/Financial Planning Division of the Company<br/>President of DAIDO METAL SAGA CO., LTD. (part-time) (to present)</p> | 57,321 shares                                         |
| (4)           | Yasuo Kawamura<br>(December 13, 1949)  | <p>April, 1973 Joined the Company</p> <p>April, 1999 General Manager of Tokyo Branch of the Company</p> <p>July, 2005 Executive Officer and General Manager of Tokyo Branch of the Company</p> <p>April, 2006 Vice-Head of Thinwall Bearings &amp; Turbo Charging Bearings Division of the Company</p> <p>July, 2008 Senior Executive Officer of the Company<br/>Director-President of Dyna Metal Co., Ltd. (Thailand)</p> <p>April, 2010 Senior Executive Officer and Head of Sales Division of the Company</p> <p>April, 2011 Senior Executive Officer and Head of Polymer Bearings Division of the Company</p> <p>June, 2011 Director and Senior Executive Officer, and Head of Polymer Bearings Division of the Company</p> <p>April 2015 Director and Senior Executive Officer, and Head of Thinwall Bearings &amp; Turbo Charging Bearings Division of the Company (to present)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 22,582 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 |
|---------------|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| (5)           | Masaki Ikawa (December 12, 1950)     | <p>April, 1973 Joined the Company</p> <p>April, 2001 General Manager of Overseas Sales and Concerned Office of Company No. 1 of the Company</p> <p>September, 2005 President of Daido Metal U.S.A. Inc. Bellefontaine H.Q.</p> <p>July, 2008 Executive Officer of the Company President of Daido Metal U.S.A. Inc. Bellefontaine H.Q.</p> <p>October, 2009 Executive Officer and General Manager of Corporate Planning Department, Corporate Planning Unit of the Company</p> <p>April, 2010 Executive Officer and General Manager of Bimetal Division of the Company</p> <p>April, 2011 Executive Officer and General Manager of Quality Management &amp; Planning Department of the Company</p> <p>July, 2011 Senior Executive Officer, General Manager of Quality Management &amp; Planning Department and General Manager of Inuyama Site of the Company</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 of the Company</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 of the Company</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 of the Company</p> <p>April, 2014 Director and Senior Executive Officer, Head of Human Resources Planning Division and Head of Daido Metal College of the Company (to present)</p> | 22,788 shares                                         |
| * (6)         | Toshikazu Takei (September 22, 1953) | <p>April, 1976 Joined the Bank of Japan</p> <p>July, 1989 Director of Nagoya Branch of the Bank of Japan</p> <p>November, 1991 Director of Secretary Office and Secretariat of the Policy Board of the Bank of Japan</p> <p>June, 1994 Deputy General Manager for Europe of the Bank of Japan</p> <p>April, 1998 Director of Diet Liaison Division, Secretariat of the Policy Board of the Bank of Japan</p> <p>May, 1999 General Manager of Matsuyama Branch of the Bank of Japan</p> <p>February, 2002 Director-General, Senior Secretary to the Governor, Secretariat of the Bank of Japan</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 of the Bank of Japan</p> <p>July, 2006 Chief Representative in Europe of the Bank of Japan (stationed in London)</p> <p>June, 2008 Retired from 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 (to present)</p> <p>[Important positions at other corporations]<br/>Managing Director of Japan Center for International Finance</p>                                                                                                                                                                                                                                                                                                                                                                           | 0 share                                               |

- (Notes)
- \* indicates a new candidate.
  - There are no special conflicts of interest between each candidate and the Company.
  - As for each candidate's position in charge, please refer to "4. Matters Relating to Company Officers, (1) Directors and Audit & Supervisory Board Members" on pages 14-16.
  - Mr. Toshikazu Takei is a candidate for an Outside Director.
  - Mr. Toshikazu Takei was long engaged in business execution and served 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 insights. We therefore propose the election of Mr. Takei as an Outside Director. Although he has no experience of engaging in the management of a company, we judge for the reason above that he is able to appropriately oversee and supervise the management of the Company as an Outside Director.
  - The Company will enter into a liability limitation agreement with Mr. Toshikazu Takei if he is elected as an Outside Director and he assumes office, subject to approval of the agenda No. 2 as proposed.  
The outline of the agreement is as follow:
    - 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 is scheduled to be registered as an "Independent Officer" pursuant to the provisions of the Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc. if he is elected as an Outside Director and he assumes office.

## Agenda No. 4 Election of Three Audit & Supervisory Board Members

The terms of office for three Audit & Supervisory Board Members, Messrs. Masaaki Tamaya, Kuniko Tanabe and Kazuo Matsuda, expire at the close of this Shareholders' Meeting. We therefore propose the election of three Audit & Supervisory Board Members.

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

The candidates for the position of Audit & Supervisory Board Member are as follows:

| Candidate No. | Name<br>(Date of birth)              | Personal history, positions at the Company, and important positions at other corporations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Number of shares of the Company held by the candidate |
|---------------|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| (1)           | Masaaki Tamaya<br>(February 4, 1947) | <p>April, 1965 Joined the Company</p> <p>April, 1999 Vice-Head of Thinwall Bearings &amp; Turbo Charging Bearings Division of the Company</p> <p>April, 2002 General Manager of General Affairs Department of the Company</p> <p>July, 2005 Executive Officer and General Manager of General Affairs Department of the Company</p> <p>July, 2008 Senior Executive Officer and General Manager of General Affairs Department of the Company</p> <p>April, 2011 Senior Executive Officer assistant to President of the Company</p> <p>June, 2011 Full-time Audit &amp; Supervisory Board Member of the Company (to present)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 19,155 shares                                         |
| (2)           | Kuniko Tanabe<br>(April 1, 1945)     | <p>April, 1973 Registered as a lawyer (registered with Dai-Ichi Tokyo Bar Association)</p> <p>Joined Sakaki Tadatsune Law Office (to January 1982)</p> <p>February, 1982 Joined Tanabe &amp; Partners (to present)</p> <p>June, 2003 Audit &amp; Supervisory Board Member of the Company (to present)</p> <p>June, 2011 Outside Auditor of Disco Corporation (to present)</p> <p>June, 2015 Outside Director of KDDI CORPORATION (scheduled)</p> <p>[Important positions at other corporations]</p> <p>Partner, Lawyer of Tanabe &amp; Partners</p> <p>Outside Director of KDDI CORPORATION (scheduled to assume office on June 17, 2015)</p> <p>Outside Auditor of Disco Corporation (scheduled to retire on June 23, 2015)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 24,074 shares                                         |
| (3)           | Kazuo Matsuda<br>(November 11, 1948) | <p>April, 1971 Joined The Fuji Bank, Limited</p> <p>October, 1994 Director and General Manager of Capital Markets Division of Fuji Securities Co., Ltd.</p> <p>June, 1995 Managing Director and General Manager of Capital Markets Division of Fuji Securities Co., Ltd.</p> <p>June, 1996 Senior Managing Director of Fuji Securities Co., Ltd.</p> <p>May, 1997 General Manager of Kabutocho Branch of The Fuji Bank, Limited</p> <p>April, 2000 Senior Managing Executive Officer in charge of Capital Markets Division of Fuji Securities Co., Ltd.</p> <p>October, 2000 Managing Executive Officer and General Manager of Capital Markets Group of Mizuho Securities Co., Ltd.</p> <p>December, 2002 Administration Officer of Mizuho Securities Co., Ltd.</p> <p>May, 2003 Administration Officer of NSK Ltd. Seconded to NSK-Warner K.K.</p> <p>June, 2003 Director of NSK-Warner K.K.</p> <p>June, 2004 Vice President of NSK Ltd. Managing Director of NSK-Warner K.K.</p> <p>June, 2006 Senior Vice President, Head of Business Planning Division HQ and Head of Compliance Division HQ of NSK Ltd.</p> <p>September, 2007 President of NSK (China) Investment Co., Ltd.</p> <p>June, 2008 Executive Vice President, Head of Corporate Strategy Division HQ, Head of Business Planning Division HQ and Head of Compliance Division HQ of NSK Ltd.</p> <p>June, 2009 Representative Executive Officer and Executive Vice President, Head of Corporate Strategy Division HQ and Head of Business Planning Division HQ of NSK Ltd.</p> <p>June, 2011 Special Advisor of NSK Ltd. (to present)<br/>Corporate Auditor of NSK-Warner K.K. (to present)<br/>Outside Audit &amp; Supervisory Board Member of the Company (to present)</p> <p>June, 2015 Outside Corporate Auditor of Sumitomo Bakelite Company Limited (scheduled)</p> <p>[Important positions at other corporations]</p> <p>Special Advisor of NSK Ltd.<br/>Corporate Auditor of NSK-Warner K.K.<br/>Outside Corporate Auditor of Sumitomo Bakelite Company Limited (scheduled to assume office on June 25, 2015)</p> | 5,060 shares                                          |

- (Notes) 1. There are no special conflicts of interest between each candidate and the Company.  
2. Ms. Kuniko Tanabe and Mr. Kazuo Matsuda are both candidates for Outside Audit & Supervisory Board Members.  
3. Mr. Kazuo Matsuda is scheduled to be registered as an "Independent Officer" pursuant to the provisions of the Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc. if he is reelected as an Audit & Supervisory Board Member.  
4. Reason for appointment as candidates for the position of Outside Audit & Supervisory Board Member and liability limitation agreement

- (1) Reason for appointment as candidates for the position of Outside Audit & Supervisory Board Member
- i) Although Ms. Kuniko Tanabe has no experience of engaging in the management of a company, she is familiar with corporate legal affairs as a lawyer and has rich insights on governance of corporate management. Accordingly, we judge that she is capable of conducting audit from a viewpoint of compliance with laws and regulations and is able to continue to appropriately perform the duties as an Outside Audit & Supervisory Board Member.  
She has taken office as an Audit & Supervisory Board Member of the Company for twelve years at the close of this Annual Shareholders' Meeting.
  - ii) Mr. Kazuo Matsuda has rich insights on governance of the overall management of a company as he is familiar with finance and international businesses through his experience at financial institutions for many years and has experiences and knowledge which he gained through serving as a director and an executive officer for other business entities. Accordingly, we judge that he is able to appropriately perform the duties as an Outside Audit & Supervisory Board Member.  
He has taken office as an Audit & Supervisory Board Member of the Company for four years at the close of this Annual Shareholders' Meeting.
- (2) Liability limitation agreement
- The Company will enter into a liability limitation agreement with Mr. Masaaki Tamaya if he is elected as an Audit & Supervisory Board Member and he assumes office, subject to approval of the agenda No. 2 as proposed.
- The Company has entered into liability limitation agreements with Ms. Kuniko Tanabe and Mr. Kazuo Matsuda. The Company plans to continue such liability limitation agreements with them.
- The outline of the liability limitation agreements 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.
5. Mr. Kazuo Matsuda served as a director for NSK Ltd. from June 2009 through June 2011. NSK Ltd. was alleged to violate the Antimonopoly Act in connection with its trade of bearing products and was subject to an on-site inspection by the Japan Fair Trade Commission (JFTC) in July 2011. The Tokyo District Court ruled in February 2013 that the company was punishable by a fine. The company received a cease and desist order and a surcharge payment order by the JFTC in March 2013.
- In addition, NSK Ltd. and its subsidiaries have been investigated by the relevant authorities of several countries in connection with the competition laws. The company agreed with the U.S. Department of Justice in September 2013 on a plea bargain to the effect that the company would pay a fine. The company subsequently was subject to decisions of fine payment, etc. by the courts and relevant authorities: in Canada in January 2014; in Europe in March 2014; in Australia and Singapore in May 2014; and in China in August 2014. Furthermore, the Korea Fair Trade Commission decided in November 2014 that the company violated the Korean Antimonopoly Law, and the JFTC decided in September 2014 that a subsidiary of NSK Ltd., Amatsuji Steel Ball Mfg. Co., Ltd., violated the Antimonopoly Act. In both the latter two cases, the fine payment was waived due to the full cooperation of the companies in the investigations by the authorities.
- Administrative actions issued by the relevant authorities and rulings by the courts in Japan, the U.S., Canada, Europe, Australia, Singapore, Korea and China were concerned with the business operations of NSK Ltd. during Mr. Matsuda's term of the office of director. There is a possibility that the ongoing investigations by the relevant authorities are concerned with the business operations of NSK Ltd. during Mr. Matsuda's term of the office of director.

## Agenda No. 5 Election of One Substitute Audit & Supervisory Board Member

We propose to elect one substitute Audit & Supervisory Board Member in advance, just in case we lack the number of Audit & Supervisory Board Members stipulated in laws and regulations. The effect of this resolution shall last until the commencement of the next Annual Shareholders' Meeting.

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

The candidate for the positions of substitute Audit & Supervisory Board Member is as follows:

| Name<br>(Date of birth)                 | Personal history, positions at the Company, and important positions at other corporations                                                                                                             | Number of shares of the Company held by the candidate |  |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--|
| Nobuyuki<br>Ishiwata<br>(July 12, 1945) | April, 1971                                                                                                                                                                                           | 0 share                                               |  |
|                                         | April, 1975                                                                                                                                                                                           |                                                       |  |
|                                         | January, 1976                                                                                                                                                                                         |                                                       |  |
|                                         | March, 1978                                                                                                                                                                                           |                                                       |  |
|                                         | April, 1978                                                                                                                                                                                           |                                                       |  |
|                                         | April, 1988                                                                                                                                                                                           |                                                       |  |
|                                         | August, 1999                                                                                                                                                                                          |                                                       |  |
|                                         | July, 2003                                                                                                                                                                                            |                                                       |  |
|                                         | [Important positions at other corporations]<br>Representative Partner of Seishin & Co. Audit Corporation<br>Representative Partner of Seishin & Co. Tax Corporation<br>Outside auditor of Adecco Ltd. |                                                       |  |

- (Notes) 1. There are no special 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 adequately perform 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 reflect such knowledge in the audit of the Company if he assumes the office of Audit & Supervisory Board Member.
- (2) Reason for judging that the candidate is able to adequately perform the duties as an Outside Audit & Supervisory Board Member  
Although Mr. Nobuyuki Ishiwata has no experience of engaging in the management of a company, he has been engaging in the practical business of entities as a certified public accountant and a licensed tax accountant, and we judge that he is able to appropriately perform the duties 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 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 No. 6 Payment of Bonuses to Directors

The Company requests approval for the payment of bonuses, amounting to 147 million yen to the five Directors at the end of this fiscal year based on the specified standard of the Company in duly consideration of business performance, etc. during the fiscal year. (Please refer to page 17 in this Notice.)

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

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