

Securities Code No 6146

June 2, 2011

To: Shareholders

2-13-11 Omori-Kita, Ota-ku, Tokyo

## **Disco Corporation**

Kazuma Sekiya Representative Director/President

### Notice on the 72nd Ordinary General Meeting of Shareholders

We wish to offer our sincere condolences to all those affected by the Great East Japan Earthquake, and hope for the speediest recovery.

We are pleased to announce our 72nd Ordinary General Meetings of Shareholders and cordially invite you to attend this Meeting. Further information is provided below in detail.

In the event that you are unable to attend the Meeting, please review the Reference Materials for the General Meeting of Shareholders contained below, indicate your approval or disapproval for each Proposal on the enclosed Form for the Exercise of Voting Rights, and return the Form to us by close of business (5:45 p.m.) on Thursday, June 23, 2011.

1. Date & Time:           2 P.M, June 24, 2011 (Friday)
  
2. Place:                   Disco Corporation Headquarters/R&D Center, Building A  
Conference Room on the 8th Floor  
2-13-11 Omori-Kita, Ota-ku, Tokyo

### 3. Purposes of the Meeting

- Reporting:
1. The Business Report, Consolidated Financial Statements, and the Audit Reports from the accounting auditor and the Board of Corporate Auditors on the Consolidated Financial Statements for the 72nd fiscal year (from April 1, 2010 to March 31, 2011)
  2. Financial Statements for the 72nd fiscal year (from April 1, 2010 to March 31, 2011)

Agenda:

- Proposal 1 Appropriation of Retained Earnings
- Proposal 2 Election of Six Directors
- Proposal 3 Election of Three Corporate Auditors
- Proposal 4 Resolution to approve the payment of bonuses to the members of the Board of Directors
- Proposal 5 Issuance of Share Acquisition Rights on Company Shares for the Purpose of Granting Stock Options upon Especially Favorable (Free) Terms

.....

- ◎ The reception desk for the general meeting will open at 1:00 p.m. on the day.
- ◎ Please make sure to bring the Form for the Exercise of Voting Rights enclosed here to the Reception Desk on the day of the Meeting.
- ◎ Exercise of voting rights can be made by proxy through the appointment of another shareholder eligible for voting rights, subject to the submission of documentation certifying this voting by proxy.
- ◎ Notice of the Meeting is also provided on the Company's website (<http://www.disco.co.jp/>) for your reference.

If any parts of the Reference Materials for the General Meeting of Shareholders, business reports, financial statements and/or consolidated financial statements require modification or revision, notification of such will be made on the website indicated above.

# Consolidated Balance Sheet

(As of March 31, 2011)

(in Millions of Yen)

Assets		Liabilities	
Items	Amount	Items	Amount
<b>Current Assets</b>	<b>77,778</b>	<b>Current Liabilities</b>	<b>29,355</b>
Cash and cash equivalents	20,314	Notes and accounts payable – trade	13,609
Notes and accounts receivable - trade	28,322	Long-term loans payable in one year	249
Merchandise and finished goods	6,259	Accrued income taxes	5,286
Work in progress	8,487	Reserve for employee's bonuses	2,548
Raw materials and supplies	9,031	Reserve for director's and corporate auditor's bonuses	145
Deferred tax assets	2,264	Allowances for warranties	303
Others	3,135	Others	7,212
Allowance for doubtful accounts	△37	<b>Long-term Liabilities</b>	<b>12,251</b>
<b>Fixed Assets</b>	<b>61,444</b>	Convertible bonds	10,000
<b>Tangible Fixed Assets</b>	<b>53,511</b>	Long-term loans payable	537
Buildings and structures	29,355	Reserve for employee's retirement benefits	1,093
Machinery, vehicles and delivery equipment	9,056	Reserve for director's retirement allowance	48
Tools, furniture and fixtures	658	Negative goodwill	29
Land	12,853	Asset retirement obligation	36
Construction in progress	1,587	Others	506
<b>Intangible Fixed Assets</b>	<b>771</b>	<b>Total Liabilities</b>	<b>41,606</b>
Others	771	<b>Net Assets</b>	
<b>Investments and Other Assets</b>	<b>7,160</b>	<b>Shareholders' Equity</b>	<b>98,287</b>
Investment securities	597	Capital stock	14,517
Deferred tax assets	220	Capital surplus	15,644
Long-term deposits	5,200	Retained earnings	68,988
Others	1,203	Treasury stock	△862
Allowance for doubtful accounts	△60	<b>Accumulated miscellaneous broad-based income</b>	<b>△1,647</b>
<b>Deferred Assets</b>	<b>17</b>	Unrealized gain / loss on available-for-sale securities	6
Bond issue expenses	17	Foreign currency translation adjustment	△1,654
<b>Total Assets</b>	<b>139,240</b>	<b>Share acquisition rights</b>	<b>767</b>
		<b>Minority interests</b>	<b>225</b>
		<b>Total Net Assets</b>	<b>97,633</b>
		<b>Total Liabilities and Net Assets</b>	<b>139,240</b>

Note: Figures are rounded down to the nearest million yen.

## Consolidated Income Statement

( From April 1, 2010  
To March 31, 2011 )

(in Millions of yen)

Items	Amount
Net Sales	99,700
Cost of Goods Sold	52,775
Gross profit on sales	46,925
Selling, general and administrative expenses	31,009
Operating Income	15,915
Non-Operating Income	1,615
Interest income	50
Amortization of negative goodwill	89
Equity in earnings of affiliates	117
Subsidy income	1,206
Others	150
Non-operating Expenses	340
Interest expenses	30
Losses on changes in foreign exchange rates	161
Depreciation allowance	110
Others	36
Ordinary Income	17,190
Extraordinary Income	62
Gain on prior-term adjustment	23
Gain on sales of fixed assets	11
Reversal of allowance for doubtful accounts	24
Others	3
Extraordinary Expenses	683
Gain on prior-term adjustment	28
Loss on sales and disposal of fixed assets	167
Impairment loss	263
Loss on sales of investment securities	40
Special severance payments for early retired employees	80
Effect of application of accounting standards for asset retirement obligation	45
Others	58
Income before income taxes and minority interests	16,569
Income taxes - current	6,345
Income taxes - deferred	△677
Income before minority shareholder loss / gain adjustment	10,901
Minority interests	△44
Net income	10,945

Note: Figures are rounded down to the nearest million yen.

## Consolidated Statement of Changes in Net Assets

( From April 1, 2010  
To March 31, 2011 )

(in Millions of Yen)

Shareholders' equity	
Capital stock	
Balance at the end of the prior period	14,517
Change during the current period	<u>14,517</u>
Capital surplus	
Balance at the end of the prior period	15,604
Change during the current period	
Disposal of treasury stock	<u>40</u>
Total change during the current period	<u>40</u>
Balance at the end of the current period	<u>15,644</u>
Retained earnings	
Balance at the end of the prior period	59,141
Change during the current period	
Dividends	△1,176
Net income	10,945
Change of consolidated sphere	<u>77</u>
Total change during the current period	<u>9,846</u>
Balance at the end of the current period	<u>68,988</u>
Treasury stock	
Balance at the end of the prior period	△1,065
Change during the current period	
Acquisition of treasury stock	△0
Disposal of treasury stock	<u>203</u>
Total change during the current period	<u>202</u>
Balance at the end of the current period	<u>△862</u>
Total shareholders' equity	
Balance at the end of the prior period	88,197
Change during the current period	
Dividends	△1,176
Net income	10,945
Change of consolidated sphere	77
Share buyback	△0
Disposal of treasury stock	<u>243</u>
Total change during the current period	<u>10,090</u>
Balance at the end of the current period	<u>98,287</u>

(in Millions of Yen)

Accumulated miscellaneous broad-based income	
Unrealized gain or loss on available-for-sale securities	
Balance at the end of the prior	11
Change during the current period	
Change in non-shareholders' equity items during the current period (net)	<u>△5</u>
Total change during the current period	<u>△5</u>
Balance at the end of the current period	<u>6</u>
Foreign currency translation adjustment	
Balance at the end of the prior period	△841
Change during the current period	
Change in non-shareholders' equity items during the current period (net)	<u>△812</u>
Total change during the current period	<u>△812</u>
Balance at the end of the current period	<u>△1,654</u>
Accumulated miscellaneous broad-based income total	
Balance at the end of the prior period	△829
Change during the current period	
Change in non-shareholders' equity items during the current period (net)	<u>△817</u>
Total change during the current period	<u>△817</u>
Balance at the end of the current period	<u>△1,647</u>
Share acquisition rights	
Balance at the end of the prior period	589
Change during the current period	
Change in non-shareholders' equity items during the current period (net)	<u>178</u>
Total change during the current period	<u>178</u>
Balance at the end of the current period	<u>767</u>
Minority interests	
Balance at the end of the prior period	134
Change during the current period	
Change in non-shareholders' equity items during the current period (net)	<u>90</u>
Total change during the current period	<u>90</u>
Balance at the end of the current period	<u>225</u>
Total net assets	
Balance at the end of the prior period	88,091
Change during the current period	
Dividends	△1,176
Net income	10,945
Change of consolidated sphere	77
Share buyback	△0
Disposal of treasury stock	243
Change in non-shareholders' equity items during the current period (net)	<u>△548</u>
Total change during the current period	<u>9,541</u>
Balance at the end of the current period	<u>97,633</u>

Note: Figures are rounded down to the nearest million yen.

## Balance Sheet

(As of March 31, 2011)

(in Millions of Yen)

Assets		Liabilities	
Items	Amount	Items	Amount
<b>Current Assets</b>	<b>63,430</b>	<b>Current Liabilities</b>	<b>25,791</b>
Cash and cash equivalents	14,712	Notes payable - trade	4,112
Notes receivable - trade	1,366	Accounts payable - trade	8,240
Accounts receivable - trade	21,349	Accounts payable - other	4,908
Merchandise and finished goods	3,947	Accrued expenses	677
Work in progress	8,249	Accrued income taxes	4,774
Raw materials and supplies	8,481	Reserve for employee's bonuses	2,105
Deferred tax assets	1,815	Reserve for director's and corporate auditor's bonuses	145
Others	3,515	Allowances for warranties	190
Allowance for doubtful accounts	△6	Others	637
<b>Fixed Assets</b>	<b>64,546</b>	<b>Long-term Liabilities</b>	<b>11,610</b>
<b>Tangible Fixed Assets</b>	<b>50,366</b>	Convertible bonds	10,000
Buildings	27,919	Long-term loans payable	200
Structures	448	Reserve for employees' retirement benefits	887
Machinery and equipment	7,446	Asset retirement obligation	36
Vehicles and delivery equipment	64	Others	487
Tools, furniture and fixtures	569		
Land	12,349	<b>Total Liabilities</b>	<b>37,401</b>
Construction in progress	1,568	<b>Net Assets</b>	
<b>Intangible Fixed Assets</b>	<b>519</b>	Shareholders' equity	89,818
Patents	166	Capital stock	14,517
Software	246	Capital surplus	15,644
Others	106	Additional paid-in capital	15,599
<b>Investments and Other Assets</b>	<b>13,660</b>	Other capital surplus	45
Investment securities	297	Retained earnings	60,518
Stocks of subsidiaries/affiliates	5,174	Retained earnings reserve	594
Investment in subsidiaries/affiliates	1,255	Other retained earnings	59,924
Deferred tax assets	578	Reserve for reduction of replacement assets	4
Long-term deposits	5,200	Reserve for reduction of government subsidies	2
Others	1,165	Other reserves	16,970
Allowance for doubtful accounts	△10	Retained earnings brought forward	42,946
<b>Deferred Assets</b>	<b>17</b>	<b>Treasury stock</b>	<b>△862</b>
Bond issue expenses	17	Valuation / translation gains (losses)	6
		Unrealized gain or loss on available-for-sale securities	6
		Share acquisition rights	767
<b>Total Assets</b>	<b>127,994</b>	<b>Total net assets</b>	<b>90,592</b>
		<b>Total Liabilities and Net Assets</b>	<b>127,994</b>

Note: Figures are rounded down to the nearest million yen.

## Income Statement

( From April 1, 2010  
To March 31, 2011 )

(in Millions of Yen)

Item	Amount
Net sales	84,570
Cost of goods sold	47,072
Gross profit on sales	37,497
Selling, general and administrative expenses	26,277
Operating Income	11,220
Non-operating income	1,990
Interest income	53
Dividend income	514
Subsidy income	1,206
Others	215
Non-operating expenses	436
Interest expenses	28
Loss on changes in foreign exchange rates	283
Depreciation allowance	99
Others	26
Ordinary Income	12,773
Extraordinary income	9
Gain on sales of fixed assets	5
Others	3
Extraordinary expenses	527
Loss on sales and disposal of fixed assets	143
Loss on sales of investments in securities	39
Special severance payments for early retired employees	53
Loss on business reorganization	224
Effect of application of accounting standards for asset retirement obligation	45
Others	20
Income before income taxes	12,255
Income taxes - current	5,076
Income taxes - deferred	△855
Net Income	8,034

Note: Figures are rounded down to the nearest million yen.



## Statement of Changes in Net Assets

( From April 1, 2010  
To March 31, 2011 )

(in Millions of Yen)

Shareholders' equity	
Capital stock	
Balance at the end of the prior period	14,517
Balance at the end of the current period	<u>14,517</u>
Capital surplus	
Additional paid-in capital	
Balance at the end of the prior period	15,599
Balance at the end of the current period	<u>15,599</u>
Other capital surplus	
Balance at the end of the prior period	5
Balance at the end of the current period	
Disposal of treasury stock	<u>40</u>
Change during the current period	<u>40</u>
Balance at the end of the current period	<u>45</u>
Total capital surplus	
Balance at the end of the prior period	15,604
Change during the current period	
Disposal of treasury stock	<u>40</u>
Total change during the current period	<u>40</u>
Balance at the end of the current period	<u>15,644</u>
Retained earnings	
Retained earnings reserve	
Balance at the end of the prior period	594
Balance at the end of the current period	<u>594</u>
Other retained earnings	
Reserve for reduction of replacement assets	
Balance at the end of the prior period	5
Change during the current period	
Reversal of reserve for reduction of replacement assets	<u>△0</u>
Total change during the current period	<u>△0</u>
Balance at the end of the current period	<u>4</u>
Reserve for reduction of government subsidies	
Balance at the end of the prior period	2
Change during the current period	
Reversal of reserve for reduction of government subsidies	<u>△0</u>
Total change during the current period	<u>△0</u>
Balance at the end of the current period	<u>2</u>
Other reserves	
Balance at the end of the prior period	16,970
Change during the current period	<u>16,970</u>
Retained earnings brought forward	
Balance at the end of the prior period	36,087
Change during the current period	
Reversal of reserve for reduction of replacement assets	0
Reversal of reserve for reduction of government subsidies	0
Dividends	△1,176
Net income	<u>8,034</u>
Total change during the current period	<u>6,858</u>
Balance at the end of the current period	<u>42,946</u>

(in Millions of Yen)

Total retained earnings	
Balance at the end of the prior period	53,600
Change during the current period	
Reversal of reserve for reduction of replacement assets	-
Reversal of reserve for reduction of government subsidies	-
Dividends	△1,176
Net income	8,034
Total change during the current period	<u>6,857</u>
Balance at the end of the current period	<u>60,518</u>
Treasury stock	
Balance at the end of the prior period	△1,065
Change during the current period	
Acquisition of treasury stock	△0
Disposal of treasury stock	<u>203</u>
Total change during the current period	<u>202</u>
Balance at the end of the current period	<u>△862</u>
Total shareholders' equity	
Balance at the end of the prior period	82,717
Change during the current period	
Reversal of reserve for reduction of replacement assets	-
Reversal of reserve for reduction of government subsidies	-
Dividends	△1,176
Net income	8,034
Acquisition of treasury stock	△0
Disposal of treasury stock	<u>243</u>
Total change during the current period	<u>7,101</u>
Balance at the end of the current period	<u>89,818</u>
Valuation / translation gains (losses)	
Unrealized gain or loss on available-for-sale securities	
Balance at the end of the prior period	12
Change during the current period	
Change in non-shareholders' equity items during the current period (net)	<u>△6</u>
Total change during the current period	<u>△6</u>
Balance at the end of the current period	<u>6</u>
Share acquisition rights	
Balance at the end of the prior period	589
Change during the current period	
Change in non-shareholders' equity items during the current period (net)	<u>178</u>
Total change during the current period	<u>178</u>
Balance at the end of the current period	<u>767</u>
Total net assets	
Balance at the end of the prior period	83,319
Change during the current period	
Reversal of reserve for reduction of replacement assets	-
Reversal of reserve for reduction of government subsidies	-
Dividends	△1,176
Net income of the current period	8,034
Acquisition of treasury stock	△0
Disposal of treasury stock	243
Change in non-shareholders' equity items during the current period (net)	<u>171</u>
Total change during the current period	<u>7,272</u>
Balance at the end of the current period	<u>90,592</u>

Note: Figures are rounded down to the nearest million yen.

## Reference Materials for the General Meeting of Shareholders

### Proposal 1 Appropriation of Retained Earnings

It is proposed that the appropriation of retained earnings be as follows.

Matters related to the year-end dividend:

With respect to the dividend, the Company's fundamental policy is to pay dividends according to its business performance and to maintain an annual dividend level of at least ¥20 to ensure stable dividend payments even if its profitability is at a low level. Based on this fundamental policy, the Company proposes that the year-end dividend for the current year be ¥40 per share. (The annual amount will be ¥65 including the interim dividend).

The Company has a dividend policy to pay an additional dividend by using part of the excess of the balance of cash and cash equivalent over the budgeted funds necessary in the relevant year. As there was no such excess in the current fiscal year, however, no additional dividend will be provided.

(i) Type of assets to be distributed

Cash.

(ii) Matters on the allocation of assets to be distributed and the total amount thereof  
¥40 per share of the Company's common stock

The total distribution is to be ¥1,347,314,880.

(iii) Effective date of the dividend from retained earnings

It is proposed that the dividend become effective on June 27, 2011

## Proposal 2 Election of Six Directors

The term of office of all the six Directors expires at the close of this ordinary General Meeting of Shareholders. It is proposed that six Directors be elected.

Candidates for Directors are as follows.

Candidate No.	Name (Date of Birth)	Career Summary, Title, Responsibilities (Key concurrent posts)	Number of the Company's Shares Owned
1	Hitoshi Mizorogi (February 20, 1939)	<p>March 1983    Joined the Company.</p> <p>April 1984    Director of the Company.</p> <p>June 1989    Managing Director of the Company.</p> <p>July 1993    Senior Managing Director of the Company.</p> <p>July 1998    Representative Director and Vice President of the Company.</p> <p>July 1998    President of PS Company of the Company.</p> <p>June 2001    Representative Director and President of the Company.</p> <p>April 2009    Representative Director and Chairman of the Company (current position).</p>	12,043 shares
2	Kazuma Sekiya (February 14, 1966)	<p>July 1989    Joined the Company.</p> <p>April 1994    General Manager of Engineering Development Department, PS Division of the Company.</p> <p>June 1995    Director of the Company.</p> <p>July 1998    Vice President of PS Company of the Company.</p> <p>July 2002    Managing Director of the Company.</p> <p>April 2003    President of PS Company of the Company.</p> <p>April 2009    Representative Director, President and General Manager of Engineering R&amp;D Division of the Company (current position)</p> <p>(Key concurrent posts)</p> <p>Representative Director and President of DISCO ABRASIVE SYSTEMS K.K.</p> <p>Representative Director and President of DAIICHI COMPONENTS, LTD.</p>	608,197 shares

Candidate No.	Name (Date of Birth)	Career Summary, Title, Responsibilities (Key concurrent posts)	Number of the Company's Shares Owned
3	Hideyuki Sekiya (January 12, 1952)	<p>April 1974    Joined Dai-ichi Seitoshō Co., Ltd. (now Disco Corporation).</p> <p>April 1985    Director of the Company (current position).</p> <p>April 1999    Deputy General Manager of Hiroshima Works of the Company.</p> <p>July 1999     General Manager of General Affairs Department of Hiroshima Works of the Company (current position).</p> <p>June 2002    General Manager of Hiroshima Works of the Company (current position).</p> <p>December 2010   Environmental Management Office Manager of the Company (current position).</p>	303,997 shares
4	Takao Tamura (September 16, 1955)	<p>April 1977    Joined the Company.</p> <p>June 1995    Director of the Company (current position).</p> <p>July 1997     General Manager of the General Affairs Department of the Corporate Support Division of the Company.</p> <p>April 1999    General Manager of the General Affairs Department of the Company and General Manager of the Corporate Support Division of the Company.</p> <p>April 2009    General Manager of the Accounting Department, of the General Affairs Department and of the Corporate Support Division of the Company.</p> <p>April 2011    General Manager of the Corporate Support Division of the Company (current position).</p> <p>(Key concurrent posts) Representative Director of KKM INVESTMENT Co., Ltd.</p>	2,000 shares

Candidate No.	Name (Date of Birth)	Career Summary, Title, Responsibilities (Key concurrent posts)	Number of the Company's Shares Owned
5	Keiichi Kajiyama (December 11, 1954)	<p>April 1977    Joined the Company.</p> <p>June 1995    Director of the Company (current position).</p> <p>January 1999    Representative Director and President of Disco Hi-Tec America, Inc.</p> <p>August 2002    General Manager of Application Development Department, PS Company of the Company.</p> <p>April 2009    General Manager of Application R&amp;D Division of the Company (current position).</p>	497 shares
6	Keizo Sekiya (March 21 1965)	<p>July 1989    Joined the Company.</p> <p>June 1995    Director of the Company.</p> <p>July 1998    Vice President of AS Company of the Company.</p> <p>April 1999    Officer for Precision Diamonds, Vice President of PS Company of the Company.</p> <p>August 2000    General Manager of Precision Diamond Planning Department, PS Company of the Company</p> <p>June 2001    General Manager of Operations Department, PS Company of the Company</p> <p>July 2002    Managing Director of the Company (current position)</p> <p>April 2003    General Manager of Corporate Planning Division of the Company</p> <p>July 2008    General Manager of Corporate Planning Division and General Manager of IR and Public Relations Department of the Company</p> <p>April 2009    Responsible for TECNISCO (current position)</p> <p>(Key concurrent posts) Representative Director and President of TECNISCO, LTD.</p>	794,997 shares

Note: There are no special interests between the candidates and the Company.

### Proposal 3 Election of Three Corporate Auditors

The term of office of the Corporate Auditors Tadao Takayanagi, Yoshihisa Asaumi and Tadahiko Kuronuma expires at the close of this ordinary General Meeting of Shareholders. It is proposed that three Corporate Auditors be elected.

This proposal has the agreement of the board of auditors.

The candidates for Corporate Auditors are as follows.

Candidate No.	Name (Date of Birth)	Career Summary, Title, Responsibilities (Key concurrent posts)	Number of the Company's Shares Owned
1	Tadao Takayanagi (March 28, 1952)	<p>April 1974      Joined Sanwa Bank, Ltd. (now the Bank of Tokyo-Mitsubishi UFJ, Ltd.).</p> <p>July 2005      Retired from the above bank.</p> <p>July 2005      Operating Officer and Business Manager of the Zenitaka Corporation.</p> <p>March 2007     Retired from Zenitaka Corporation.</p> <p>June 2007      Permanent Corporate Auditor for the Company (current position).</p>	0 shares
2	Tadahiko Kuronuma (February 28, 1944)	<p>April 1968      Joined Mitsubishi Bank, Ltd. (now the Bank of Tokyo-Mitsubishi UFJ, Ltd.).</p> <p>March 1997      Retired from the above bank.</p> <p>March 1997      Director of Japan Racing Lease, Ltd.</p> <p>October 1998    Managing Director of the above company.</p> <p>March 2007      Non-executive participating advisor of the above company.</p> <p>June 2007      Corporate Auditor for the Company (current position).</p>	0 shares
3	* Kuniko Tanabe (April 1, 1945)	<p>April 1973      Registered as a lawyer.</p> <p>February 1982    Joined Tanabe &amp; Partners Law Office as a Partner (current position).</p> <p>June 2003      Corporate Auditor for Daido Metal Co., Ltd. (current position).</p> <p>(Key concurrent posts) Corporate Auditor for Daido Metal Co., Ltd. (current position).</p>	0 shares

- Note:
1. The person marked with an asterisk is a candidates for new auditors.
  2. There are no special interests between the candidates and the Company.

3. All three are candidates for the position of outside auditors.
4. Reasons for the nomination of these candidates as outside auditors.
  - (1) Mr. Tadao Takayanagi and Mr. Tadahiko Kuronuma have served for four years as corporate auditors for the Company. They are nominated for the position of outside auditors due to their high level of knowledge in their respective fields to retain their auditing of our overall business operations, and to provide us with effective advice and suggestions utilizing their depth of experience.
  - (2) Ms. Kuniko Tanabe is experience as an outside auditor for DAIDO METAL CO., LTD. and has extensive knowledge of corporate law due to her work as a lawyer, making her well placed to give beneficial advice to the Board of Directors and audit its exercise of company administration from an objective and neutral position of legality. For these reasons, she is nominated for the position of outside auditor.
5. Ms. Kuniko Tanabe has expert knowledge as a lawyer and is judged capable of effectively carrying out the tasks of an outside auditor.
6. Mr. Tadao Takayanagi and Mr. Tadahiko Kuronuma are registered as independent officers based on the regulations of the Tokyo Stock Exchange. Upon their nomination, the Company intends to reaffirm their position as independent officers. Ms. Kuniko Tanabe meets the conditions for being an independent officer based on the regulations of the Tokyo Stock Exchange, and shall be registered with the said Exchange as an independent officer.

#### Proposal 4 Resolution to approve the payment of bonuses to the members of the Board of Directors

It is proposed that the bonuses to the members of the Board of Directors be as follows taking the business performance for the current period into account.

The bonus to each member of the Board of Directors has been calculated by first determining a base amount per position and then by multiplying the base amount by a coefficient correlated with the single and consolidated recurring profit margin. It is proposed that for the bonuses to the members of the Board of Directors for the current period, the sum of 139,810,000 yen calculated through this method, by multiplying the base amount for the 5 of 6 Directors as of the end of the period (except the director in charge of the Company's subsidiary) by a coefficient correlated with the business performance for the current period, is to be paid. It is proposed, however, that the bonus to be paid to each Director be determined solely by the Board of Directors.



**Proposal 5 Issuance of Share Acquisition Rights on Company Shares for the Purpose of Granting Stock Options upon Especially Favorable (Free) Terms**

We hereby ask for your approval to let the Board of Directors decide upon matters concerning the offering to issue Share Acquisition Rights with especially favorable terms to employees of the Company and directors and employees of the Company's subsidiaries (including second-generation subsidiaries) in accordance with the following outline, for the purpose of granting stock options pursuant to the provisions of Articles 236, 238 and 239 of the Companies Act.

1. Outline of Issuance of Share Acquisition Rights:

- (1) Persons to whom Share Acquisition Rights will be allocated:

Employees of the Company and directors and employees of the Company's subsidiaries (including second-generation subsidiaries) ("Eligible Persons")

- (2) Class and number of shares to be issued upon exercise of Share Acquisition Rights:

Not more than 120,000 shares of the Company's common stock.

If any adjustment to the Exercise Price, as defined in (5), is made, after the issuance of Share Acquisition Rights, the number of shares to be issued upon the exercise of Share Acquisition Rights will be adjusted according to the following formula, provided, however, that such adjustment will pertain only to the number of shares subject to the Share Acquisition Rights that is not yet exercised at the relevant time and that any fractional shares of less than one arising from such adjustment will be rounded down.

$$\text{Number of Shares after adjustment} = \frac{\text{Number of shares before adjustment} \times \text{Exercise Price before adjustment}}{\text{Exercise Price after adjustment}}$$

- (3) Total number of Share Acquisition Rights:

Not more than 1,200.

(The number of shares per share acquisition right is 100 shares. If an adjustment to the number of shares prescribed in the foregoing (2) is made, then the same adjustment will be made to the number of shares per share acquisition right.)

- (4) Paid-in amount upon issuance of Share Acquisition Rights:

Free of charge.

- (5) Method of calculating the amount to be paid per share acquisition right upon exercising Share Acquisition Rights:

- (i) The amount to be paid upon exercising Share Acquisition Rights will be an amount equal to the product of multiplying the paid-in amount per share to set forth below ("Exercise Price") by the number of shares per Share Acquisition Right.

The initial Exercise Price will be an amount equal to the product of multiplying 1.05 by the average of the closing share prices of the Company in regular transactions on the Tokyo Stock Exchange on the days

(excluding the days on which transactions are not effected) in the calendar month immediately prior to the month including the issue date of Share Acquisition Rights, and any fraction of less than one yen will be rounded down, provided, however, that if such amount is less than the closing price on the issue date (or the closing price of the day immediately preceding the issue date if no transaction is effected on the issue date), the closing price on the issue date will be the initial Exercise Price.

- (ii) If a share split or consolidation is carried out by the Company after the issuance of Share Acquisition Rights, the Exercise Price will be adjusted in accordance with the following formula, and any fraction of less than one yen arising from such adjustment will be rounded up.

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

- (iii) If, after the issuance of Share Acquisition Rights, the Company issues new shares at a price lower than the market price (except the issuance of new shares by exercising Share Acquisition Rights), disposes of its own shares, or issues of Share Acquisition Rights or securities with Share Acquisition Rights attached that enable the acquisition of the Company's common stocks at a price lower than the market price, an adjustment to the Exercise Price will be made in accordance with the following formula, and any fraction of less than one yen arising from such adjustment will be rounded up.

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times \left( \text{Number of outstanding shares} + \frac{\text{Number of new shares} \times \text{Paid-in amount per share}}{\text{Market price prior to issuance of new shares}} \right)}{\text{Number of outstanding shares} + \text{Number of new shares}}$$

In the formula above, the "number of outstanding shares" is the total number of outstanding shares of the Company less the total number of treasury shares held by the Company, and in the event of disposal of any treasury shares, the "number of new shares," "paid-in amount per share" and "market price prior to issuance of new shares" are regarded as "number of shares disposed of," "disposition amount per share" and "market value before disposition," respectively.

- (iv) If the Company decides to reduce its capital stock or otherwise after the issuance of Share Acquisition Rights, the Company will, as required or applicable, make an appropriate adjustment to the Exercise Price to a reasonable and necessary extent.
- (6) Period during which Share Acquisition Rights may be exercised: From November 12, 2013 to November 11, 2019. However, the exercise of Share Acquisition Rights during the said period by agreements on the allocation of Share Acquisition Rights individually entered into between an Eligible

Person and the Company (hereafter referred to as the "Agreement on the Allocation of Share Acquisition Rights") is limited.

- (7) Matters concerning an increase in capital stock and additional paid-in capital in the case of an issuance of shares upon exercise of Share Acquisition Rights
  - (i) The increase in capital stock caused by the issuance of shares upon exercise of Share Acquisition Rights will be an amount equal to one half of the maximum increase in capital stock or the like calculated in accordance with Article 17, Paragraph 1 of the Corporate Accounting Regulations, and any fraction less than one yen arising from such calculation will be rounded up.
  - (ii) The increase in additional paid-in capital caused by the issuance of shares upon exercise of Share Acquisition Rights will be an amount calculated by deducting the increase in capital stock pursuant to (i) above from the maximum increase in capital stock or the like set forth in (i) above.
- (8) Terms of exercising Share Acquisition Rights:
  - (i) Eligible Persons need to be directors or employees (including advisers or consultants) of the Company, or directors or employees of the Company's subsidiaries (including advisers or consultants) at the time of the exercise of Share Acquisition Rights, unless Eligible Persons have good reasons such as any resignation due to expiration of term of office or mandatory retirement. If Eligible Persons who are temporarily transferred from companies other than the Company or Company's subsidiaries to the Company or Company's subsidiaries return to their respective company due to cancellation of temporary transfer, they will be treated as they lost their position of directors or employees of the Company or Company's subsidiaries. If Eligible Persons who resigned due to expiration of term of office or mandatory retirement are re-employed as employees of the Company or Company's subsidiaries, they will not be treated as they lost their position of employees of the Company or directors or employees of Company's subsidiaries.
  - (ii) In the event of the death of an Eligible Person, any of their heirs may exercise the Share Acquisition Rights of the Eligible Person that have not been exercised at the time of death of the Eligible Person in accordance with the Agreement on the Allocation of Share Acquisition Rights.
  - (iii) Pledge or other dispositions of Share Acquisition Rights are not accepted.
  - (iv) When it is not reasonable to allow an Eligible Person to exercise Share Acquisition Rights for the purposes of issuance of Share Acquisition Rights, for example when an Eligible Person violates laws or internal disciplines (including but not limited to the case when an Eligible Person is convicted due to criminal act, the case when an Eligible Person is liable for compensation to the Company pursuant to the provisions of Paragraph 1, Article 423 of the Companies Act, or the case when an Eligible Person is punitively dismissed), or when an Eligible Person becomes a director,

auditor, employee, temporary worker, adviser or consultant of the Company's competitor, the Eligible Person is not able to exercise Share Acquisition Rights thereafter.

(v) Other terms and conditions for the exercise of Share Acquisition Rights shall be governed by the provisions of the Agreement on the Allocation of Share Acquisition Rights.

(9) Restriction on acquisition of Share Acquisition Rights through transfer  
Acquisition of Share Acquisition Rights through transfer must be approved by the Board of Directors of the Company.

(10) Restriction on transfer of Share Acquisition Rights  
Transfer of Share Acquisition Rights must be approved by the Board of Directors of the Company. However, this will not prevent setting other restrictions on transfer of Share Acquisition Rights in Agreement on the Allocation of Share Acquisition Rights.

(11) Termination of Share Acquisition Rights  
If an Eligible Person has violated the terms of exercising Share Acquisition Rights, or has abandoned some or all of his or her Share Acquisition Rights, the said rights shall be deservingly terminated.

2. Reasons for the Necessity of Issuance of Share Acquisition Rights upon Especially Favorable Terms to Employees of the Company and Directors and Employees of the Company's Subsidiaries (including second-generation subsidiaries):

The free issuance of these Share Acquisition Rights to the Eligible Persons may be viewed as advantageous conditions. The Company believes, however, that it is necessary and will benefit the shareholders' interests because it is intended to improve the business performance of the Company by linking it with the interests of employees of the Company and directors and employees of the Company's subsidiaries (including second-generation subsidiaries), and thereby providing them with incentives to raise their motivation and willingness to work to improve the business performance of the Company and making their interests coincide as much as possible with those of the shareholders.

Given that Share Acquisition Rights are issued for the purpose of granting stock options with which the Eligible Persons will receive profits through the exercise of their Rights according to the Company's business performance, the amount to be paid when the Share Acquisition Rights are exercised is to be the amount determined based on the market price of the Company's shares at the time of the issuance of Share Acquisition Rights as described in the above outline. In addition, the nature of the Share Acquisition Rights meets the purpose of stock options on the grounds of the restricted assignment of Share Acquisition Rights and the requirement for the Eligible Persons to be in the position of a director or an employee (including an adviser or an consultant) of the Company or a director or employee (including an adviser or an consultant) of the Company's subsidiaries at the time of the exercise of Share Acquisition Rights.