

## Consolidated Balance Sheet

(As of March 31, 2020)

(Unit: Million Yen)

Assets		Liabilities	
Account	Amount	Account	Amount
<b>Current assets</b>	<b>78,781</b>	<b>Current liabilities</b>	<b>61,816</b>
Cash and deposits	22,475	Notes and accounts payable - trade	7,481
Notes and accounts receivable - trade	23,625	Electronically recorded obligations - operating	8,065
Electronically recorded monetary claims - operating	2,304	Short-term loans payable	27,644
Merchandise and finished goods	12,278	Current portion of long-term loans payable	5,762
Work in process	9,039	Lease obligations	2,087
Raw materials and supplies	6,889	Income taxes payable	885
Other	2,613	Provision for bonuses	1,685
Allowance for doubtful accounts	(445)	Provision for bonuses for directors (and other officers)	105
		Provision for product compensation	185
		Provision for environmental measures	50
		Electronically recorded obligations - non-operating	809
		Other	7,053
<b>Non-current assets</b>	<b>80,758</b>	<b>Non-current liabilities</b>	<b>33,554</b>
<b>Property, plant and equipment</b>	<b>60,974</b>	Long-term loans payable	21,889
Buildings and structures	15,822	Lease obligations	2,303
Machinery, equipment and vehicles	24,628	Deferred tax liabilities	1,680
Land	10,405	Provision for share-based remuneration	8
Leased assets	4,819	Provision for share-based remuneration for directors (and other officers)	16
Construction in progress	4,393	Provision for loss on guarantees	186
Other	905	Retirement benefit liability	6,967
		Asset retirement obligations	17
		Negative goodwill	0
		Other	483
<b>Intangible assets</b>	<b>12,317</b>	<b>Total Liabilities</b>	<b>95,370</b>
Goodwill	6,193	Net Assets	
Leased assets	46	<b>Shareholders' equity</b>	<b>58,204</b>
Other	6,077	Capital stock	8,413
		Capital surplus	13,114
		Retained earnings	37,693
		Treasury shares	(1,016)
<b>Investments and other assets</b>	<b>7,465</b>	<b>Accumulated other comprehensive income</b>	<b>(2,216)</b>
Investment securities	4,064	Valuation difference on available-for-sale securities	361
Long-term loans receivable	230	Foreign currency translation adjustment	(654)
Retirement benefit asset	365	Remeasurements of defined benefit plans	(1,922)
Deferred tax assets	1,794	<b>Non-controlling interests</b>	<b>8,180</b>
Other	1,067	<b>Total Net Assets</b>	<b>64,168</b>
Allowance for doubtful accounts	(56)	<b>Total Liabilities and Net Assets</b>	<b>159,539</b>
<b>Total Assets</b>	<b>159,539</b>		

(Note) Amounts are rounded down to the nearest million yen.

## Consolidated Statement of Income

( From: April 1, 2019  
To: March 31, 2020 )

(Unit: Million Yen)

Account	Amount	
<b>Net sales</b>		<b>100,159</b>
<b>Cost of sales</b>		<b>74,702</b>
<b>Gross profit</b>		<b>25,456</b>
<b>Selling, general and administrative expenses</b>		<b>21,287</b>
<b>Operating profit</b>		<b>4,168</b>
<b>Non-operating income</b>		
Interest and dividend income	188	
Foreign exchange gains	38	
Amortization of negative goodwill	0	
Share of profit of entities accounted for using equity method	146	
Other	447	821
<b>Non-operating expenses</b>		
Interest expenses	869	
Other	460	1,330
<b>Ordinary profit</b>		<b>3,660</b>
<b>Extraordinary income</b>		
Gain on sales of non-current assets	3,909	3,909
<b>Extraordinary losses</b>		
Impairment loss	2,051	
Provision for loss on guarantees	186	<b>2,237</b>
<b>Profit before income taxes</b>		<b>5,331</b>
Income taxes - current	1,855	
Income taxes - deferred	935	2,790
<b>Profit</b>		<b>2,540</b>
<b>Profit attributable to non-controlling interests</b>		<b>199</b>
<b>Profit attributable to owners of parent</b>		<b>2,740</b>

(Note) Amounts are rounded down to the nearest million yen.

## Consolidated Statements of Changes in Shareholders' Equity

( From: April 1, 2019  
To: March 31, 2020 )

(Unit: Million Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
<b>Balance at beginning of current period</b>	8,413	13,114	37,918	(0)	59,446
<b>Cumulative effects of correcting errors</b>			(1,263)		(1,263)
<b>Cumulative effects of changes in accounting policies</b>			(39)		(39)
<b>Restated balance</b>	8,413	13,114	36,616	(0)	58,143
<b>Changes of items during period</b>					
Dividends of surplus			(1,663)		(1,663)
Profit attributable to owners of parent			2,740		2,740
Purchase of treasury shares				(1,122)	(1,122)
Disposal of treasury shares				105	105
Net changes of items other than shareholders' equity					—
<b>Total changes of items during period</b>	—	—	1,077	(1,016)	60
<b>Balance at end of current period</b>	8,413	13,114	37,693	(1,016)	58,204

(Unit: Million Yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
<b>Balance at beginning of current period</b>	906	(467)	(2,100)	(1,660)	8,705	66,490
<b>Cumulative effects of correcting errors</b>		115		115	(88)	(1,236)
<b>Cumulative effects of changes in accounting policies</b>						(39)
<b>Restated balance</b>	906	(352)	(2,100)	(1,545)	8,617	65,214
<b>Changes of items during period</b>						
Dividends of surplus						(1,663)
Profit attributable to owners of parent						2,740
Purchase of treasury shares						(1,122)
Disposal of treasury shares						105
Net changes of items other than shareholders' equity	(545)	(302)	178	(670)	(436)	(1,106)
<b>Total changes of items during period</b>	(545)	(302)	178	(670)	(436)	(1,045)
<b>Balance at end of current period</b>	361	(654)	(1,922)	(2,216)	8,180	64,168

(Note) Amounts are rounded down to the nearest million yen.

## Notes to Consolidated Financial Statements

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

#### 1. Scope of consolidation

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

33 companies

##### Names of consolidated subsidiaries

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

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

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

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

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

## 2. Application of equity method

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

Names of companies	4 companies (Unconsolidated subsidiary) Korea Dry Bearing Co., Ltd. (Associates) BBL Daido Private Limited Shippo Asahi Moulds (Thailand) Co., Ltd. NPR of Europe GmbH
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### (2) Names of unconsolidated subsidiaries and associates to which the equity method was not applied

Reason for non-application of equity method	(Unconsolidated subsidiaries) Chung Yuan Daido (Guangzhou) Co., Ltd. DMS Korea Co., Ltd. Chung Yuan Daido (Guangzhou) Co., Ltd. and DMS Korea Co., Ltd. are immaterial in terms of their impact on consolidated profit and retained earnings, and are not significant overall.
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### (3) Special mention regarding the application of equity method

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

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

The closing date for Daido Metal U.S.A. Inc., DAIDO METAL KOTOR AD, Daido Industrial Bearings Europe Limited, DAIDO METAL CZECH s.r.o., Dyna Metal Co., Ltd., Chung Yuan Daido Co., PT. Daido Metal Indonesia, Dong Sung Metal Co., Ltd., Daido Precision Metal (Suzhou) Co., Ltd., Daido Metal Europe GmbH, DAIDO METAL EUROPE LIMITED, Daido Metal Russia LLC, Daido Metal Mexico, S.A. de C.V., Daido Metal Mexico Sales, S.A. de C.V., PHILIPPINE IINO CORPORATION, IINO (Foshan) Technology Co., Ltd., ISS America, Inc., ISS MEXICO MANUFACTURING S.A. de C.V., PT. IINO INDONESIA, and SUPER CUB FINANCIAL CORPORATION is December 31.  
Financial statements as of the same date are used in compiling the consolidated financial statements as of March 31, with necessary adjustment for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

## 4. Matters relating to accounting policies

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

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

##### Other securities

Securities with market value	Stated at market value based on the market price at the balance sheet date (Valuation differences are recorded directly in net assets, and the net sales cost is calculated by the moving average method.)
Securities without market value	Stated at cost using moving average method

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

Stated at market value

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

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

(a) Merchandise and finished goods	Principally by weighted average method
(b) Work in process	Principally by weighted average method
(c) Raw materials	Principally by weighted average method
(d) Supplies	Principally by moving average method

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

#### 1) Property, plant and equipment (excluding leased assets)

The Company and six domestic consolidated subsidiaries use the declining balance method (with the exception of buildings (excluding facilities annexed to buildings) acquired on or after April 1, 1998 and facilities annexed to buildings and structures acquired on or after April 1, 2016, for which the straight-line method is used), while other

subsidiaries use the straight-line method.

Estimated useful lives of major assets are as follows:

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

2) Intangible assets (excluding leased assets)

Straight-line method is used.

3) Leased assets

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

(3) Reserves and Provisions

1) Allowance for doubtful accounts

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

2) Provision for bonuses

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

3) Provision for bonuses for directors (and other officers)

An estimated amount of bonuses payable is provided.

4) Provision for product compensation

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

5) Provision for environmental measures

In order to prepare for the payment of disposal cost of PCB wastes required as stipulated by the “Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes” and for the payment of cost of soil contamination countermeasures to be incurred, the estimated disposal cost is provided.

6) Provision for loss on guarantees

In order to prepare for the loss on guarantee balance remains at the end of an Employee Shareholding Incentive Plan (E-Ship®) period, an estimated amount of loss is provided.

7) Provision for share-based remuneration, Provision for share-based remuneration for directors (and other officers)

In order to prepare for the payment of share-based remuneration for directors (and other officers), an estimated share-based remuneration amounts based on the estimated points to be granted to eligible directors (and other officers) under the Share Grant Rule of the Company is provided.

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

1) Accounting for retirement benefits

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

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

Past service cost is recorded as an expense by a pro-rated amount by the straight-line method over a period within the average remaining service years of employees (mainly 14 years) at the time of occurrence thereof.

For actuarial differences, an amount prorated by the straight-line method over a period within the average remaining service years of employees (mainly 14 years) at the time of occurrence thereof in each consolidated fiscal year is expensed starting from the consolidated fiscal year that follows the consolidated fiscal year of occurrence.

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

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

Foreign currency denominated monetary assets and liabilities are converted into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded as gains or losses.

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

3) Amortization of goodwill and the amortization period

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

4) Accounting method of consumption taxes

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

## **II. Changes in accounting policy**

1. Changes in accounts regarding proceeds from disposal of scraps

The Group previously recorded proceeds from disposal of scraps (scrap metal and waste liquid) as Gain on sales of scraps (NonOperating Income). Effective from the beginning of the fiscal year ended March 31, 2020, the Group records such proceeds as deduction of manufacturing costs. This is in line with the Group’s revision of cost management method following the increase in scrap disposal proceeds through the improvement in recycling process. The Group applied the

changes in the accounting policy retrospectively, and reclassified the consolidated financial statement for the previous period.

Cost of manufacturing is not recalculated for the past periods, as impact is not material. Gain on sales of scraps for each period is deducted from the Cost of sales. There is no cumulative effect on the opening balance of Net assets at the beginning of the fiscal year ending March 31, 2020.

#### 2. Adoption of IFRS 16, “Leases”

Effective from the beginning of the fiscal year ended March 31, 2020, the Group companies reporting under IFRS for consolidation purpose adopted IFRS 16, “Leases”. Those who don’t adopt this standard include the Company itself and its domestic subsidiaries (Japanese GAAP), and its US subsidiary (US GAAP). IFRS 16, “Leases” requires lessees, in principle, to record all leases as assets and liabilities.

Accordingly, compared with the case where the previous accounting standards would be applied, retained earnings decreased by 39 million yen at the beginning of the fiscal year ended March 31, 2020.

There is no material impact on the consolidated financial statements for the current period.

### **III. Notes on correction of errors**

During the current fiscal year, errors in part of the accounting process carried out in the past fiscal years were found at DAIDO METAL EUROPE LIMITED, the Company’s UK consolidated subsidiary, and such accounting errors for the past fiscal years were corrected by recording allowance for doubtful accounts and others.

The cumulative effect of correcting these errors has been reflected in the accounting book value of net assets at the beginning of the current consolidated fiscal year.

Accordingly, at the beginning of the fiscal year, in the consolidated statement of changes in equity, retained earnings and noncontrolling interests decreased by 1,263 million yen and 88 million yen, respectively, and foreign currency translation adjustments increased by 115 million yen.

### **IV. Additional information**

#### 1. Granting Company Stock to Employees, etc. through a Trust

In order to incentivise employees to achieve the Medium Term plan goals and raise corporate value in medium to long-term, and to enrich the employee welfare program, the Company introduced an E-Ship® Trust-Type Employee Stock Purchase Incentive Plan (hereinafter “the Incentive Plan”).

(i) The Incentive Plan Overview The Incentive Plan is available to Daido Metal group employees who participate in the Daido Metal Employee Stock Purchase Plan (hereinafter, ESPP). Under the Incentive Plan, the Company will set up a trust - Daido Metal ESPP Trust (hereinafter, “ESPP Trust”) - with a trust bank. The ESPP Trust will purchase Company shares up front for the amount ESPP will likely to purchase over a certain period, financing its transaction with bank loans. Afterwards, the ESPP Trust will sell Company shares to the ESPP for its periodical purchases. At the end of the trust period, if the ESPP Trust asset balance resulted positive with the accumulated gains on Company shares, such residual assets will be distributed to members of the ESPP who meet beneficiary eligibility criteria. As the Company will guarantee ESPP Trust for its bank borrowing in financing its purchase of Company shares, any shortfalls in repayment at the end of Trust period, due to the accumulated loss at ESPP Trust caused by the drop in Company share price.

(ii) Residual Company shares held in the ESPP Trust Any residual shares of the Company held in the ESPP Trust will be recorded at the ESPP Trust’s book value (excluding incidental expenses) as treasury stock under net assets. As of the end of the fiscal year ended March 31, 2020, book value of the treasury stock was JPY 689 million and number of shares was 917,000 shares.

(iii) Book value of debt posted through the application of the total amount method.  
As of the end of the fiscal year ended March 31, 2020: JPY 703 million

#### 2. Introduction of Performance-linked Stock-based Remuneration Scheme for Directors and Executive Officers

The Company introduced new performance-linked stock-based remuneration (“the Scheme”) for Directors (excluding Outside Directors, the same applying hereinafter) and Executive Officers (excluding a Director concurrently serving as an Executive Officer, the same applying hereinafter) in order to incentivize Directors and Executive Officers to improve the business performance of the Company and to enhance the corporate value over medium to long term.

(i) The Scheme Overview A Board Benefit Trust (“the BBT”) is created with the contribution from the Company. The BBT purchases Company shares, and the Company gives eligible Directors and Executive Officers the shares based on accumulated number of points conferred in accordance with their individual rank and their achievement in meeting goals etc., as set forth in Share Grant Rule. Beneficiaries of the BBT shall be those who serve as Directors and Executive Officers during the period. The Company shares are granted to each Director and Executive Officer when they retire from their position.

(ii) Residual Company shares held in the BBT Any residual shares of the Company held in the BBT will be recorded at the BBT’s book value (excluding incidental expenses) as treasury stock under net assets.  
As of the end of the fiscal year ended March 31, 2020, book value of the treasury stock was JPY 327 million and number of shares was 432,000 shares.

#### 3. Assumptions of Accounting Estimates for the Spread of Novel Coronavirus Infection

To deal with a decline in the number of units produced by automotive manufacturers, etc. due to the spread of the infections, the Group has adjusted production volumes by tentatively suspending factory operations across the world. Based on the information of the production forecast and the timing of the resumption of production by automotive manufacturers in each country and various economic forecasts, we expect that production volume will decline significantly in the first quarter of the next fiscal year, but will start to recover in the second quarter, and that production will recover gradually over the next fiscal year.

According to the assumptions set forth above, the Group has applied impairment accounting to noncurrent assets and estimated the recoverability of its deferred tax assets. As a result, we recorded an impairment loss of 2,051 million yen and reversed 100 million yen of deferred tax assets in the current consolidated fiscal year.

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

1. Accumulated depreciation of property, plant and equipment	97,938	million yen
2. Assets pledged as collateral, and liabilities secured by collateral		
Assets pledged as collateral		
Buildings and structures	503	million yen
Machinery, equipment and vehicles	1,382	
Land	1,908	
Other	0	
Total	<u>3,795</u>	
Liabilities secured by collateral		
Short-term loans payable	1,917	million yen
Long-term loans payable (including amounts scheduled to be repaid within one year)	1,089	
Total	<u>3,006</u>	
3. Liabilities for guarantee		
Employee housing loans, etc.	135	million yen
4. Notes receivable discounted or transferred by endorsement		
Discounted export bills	24	million yen

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

- Total number of shares issued as of the end of the period
 

Common shares	47,520	thousand shares
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- Matters relating to dividend
  - Total dividends paid

Resolution	Type of share	Dividends paid (million yen)	Dividend per share (yen)	Base date	Effective date
Annual shareholders' meeting held on June 27, 2019	Common share	712	15.00	March 31, 2019	June 28, 2019
Board of Directors' meeting held on November 8, 2019	Common share	950	20.00	September 30, 2019	December 6, 2019

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

It is scheduled to be resolved as follows:

Resolution	Type of share	Dividends paid (million yen)	Dividend per share (yen)	Base date	Effective date
Annual shareholders' meeting to be held on June 26, 2020	Common share	712	15.00	March 31, 2020	June 29, 2020

Note: The dividends paid includes 20 million yen as dividends for the Company shares held as trust property for E-Ship®, Trust Type Employee Stock Purchase Incentive Plan and a performance-linked stock-based remuneration for Directors and Executive Officers.

Dividends will be paid out of retained earnings.

## **VII. Notes on Financial Instruments**



1. Matters relating to financial instruments

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

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

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

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

2. Matters relating to market values of financial instruments

Book value, market value and differences as of March 31, 2020 are as follows:

(Unit: million yen)

	Book value (*1)	Market value (*1)	Difference
(1) Cash and deposits	22,475	22,475	—
(2) Notes and accounts receivable - trade allowance for doubtful accounts *2)	23,625 (341)		—
	1,962	1,962	
(3) Electronically recorded monetary claims - operating	2,304	2,304	—
(4) Investment securities	1,793	1,793	—
(5) Notes and accounts payable - trade	(7,481)	(7,481)	—
(6) Electronically recorded obligations - operating	(8,065)	(8,065)	—
(7) Short-term loans payable	(27,644)	(27,644)	—
(8) Income taxes payable	(885)	(885)	—
(9) Long-term loans payable (including amounts scheduled to be repaid within one year)	(27,652)	(27,742)	(89)
(10) Electronically recorded obligations - non- operating	(809)	(809)	—
(11) Lease obligations	(4,390)	(4,534)	(144)
(12) Derivatives (*3) Those not qualifying for hedge accounting	50	50	—

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

(\*2) The allowance for doubtful accounts recorded separately in accounts receivable has been deducted.

(\*3) Claims and obligations arising from derivatives are stated in net amounts.

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

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

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

(4) Investment securities

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

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

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

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

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

(12) Derivatives

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

(Note 2) As it is considered extremely difficult to obtain the market values of unlisted stocks (consolidated balance sheet amount of 2,270 million yen) because their market quotations are not available and their future cash flows cannot be estimated, they are not included in "(4) Investment securities."

## **VIII. Notes on Rental Properties**

### 1. Matters relating to rental properties

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

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

(Unit: million yen)

Book value	Market value
748	2,322

(Notes) 1. The amount recorded in the consolidated balance sheet represents the acquisition cost less accumulated depreciation and accumulated impairment loss.

2. The market value at the balance sheet date represents appraised value principally based on the “real-estate appraisal standards” .

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

### 1. Net assets per share

1,212.16 yen

### 2. Basic earnings per share

58.22 yen

## Non-Consolidated Balance Sheet

(As of March 31, 2020)

(Unit: million Yen)

Assets		Liabilities	
Account	Amount	Account	Amount
<b>Current assets</b>	<b>35,591</b>	<b>Current liabilities</b>	<b>29,762</b>
Cash and deposits	5,017	Accounts payable - trade	5,325
Notes receivable - trade	329	Electronically recorded obligations - operating	9,388
Accounts receivable - trade	16,757	Short-term loans payable	6,046
Electronically recorded monetary claims - operating	2,216	Current portion of long-term loans payable	3,531
Merchandise and finished goods	2,093	Lease obligations	329
Work in process	3,333	Accounts payable - other	1,828
Raw materials and supplies	1,902	Accrued expenses	890
Prepaid expenses	139	Income taxes payable	430
Short-term loans receivable from subsidiaries and associates	1,519	Advances received	0
Accounts receivable - other	2,195	Deposits received	77
Other	85	Unearned revenue	39
Allowance for doubtful accounts	(0)	Provision for bonuses	1,043
		Provision for bonuses for directors (and other officers)	105
		Provision for environmental measures	50
		Electronically recorded obligations - non-operating	672
		Other	1
<b>Non-current assets</b>	<b>69,587</b>	<b>Non-current liabilities</b>	<b>24,253</b>
<b>Property, plant and equipment</b>	<b>21,473</b>	Long-term loans payable	17,090
Buildings	8,231	Lease obligations	1,853
Structures	592	Deferred tax liabilities	285
Machinery and equipment	4,929	Provision for retirement benefits	4,114
Vehicles	8	Provision for share-based remuneration	8
Tools, furniture and fixtures	204	Provision for share-based remuneration for directors (and other officers)	16
Land	4,595	Provision for loss on guarantees	529
Leased assets	2,436	Asset retirement obligations	1
Construction in progress	474	Long-term accounts payable - other	352
		Other	1
<b>Intangible assets</b>	<b>2,482</b>	<b>Total Liabilities</b>	<b>54,016</b>
Software	692	Net Assets	
Leased assets	9	<b>Shareholders' equity</b>	<b>50,833</b>
Right of using facilities	13	<b>Capital stock</b>	<b>8,413</b>
Other	1,766	<b>Capital surplus</b>	<b>12,238</b>
<b>Investments and other assets</b>	<b>45,630</b>	Legal capital surplus	8,789
Investment securities	1,169	Other capital surplus	3,449
Shares of subsidiaries and associates	31,654	<b>Retained earnings</b>	<b>31,198</b>
Investments in capital of subsidiaries and associates	8,937	Legal retained earnings	743
Long-term loans receivable from subsidiaries and associates	2,266	Other retained earnings	
Long-term loans receivable from employees	21	Reserve for advanced depreciation of non-current assets	4,451
Claims provable in bankruptcy, claims provable in rehabilitation and other	2	General reserve	21,000
Long-term prepaid expenses	18	Retained earnings brought forward	5,003
Prepaid pension cost	2,509	<b>Treasury shares</b>	<b>(1,016)</b>
Other	727	<b>Valuation and translation adjustments</b>	<b>328</b>
Allowance for doubtful accounts	(1,676)	Valuation difference on available-for-sale securities	328
		<b>Total Net Assets</b>	<b>51,162</b>
<b>Total Assets</b>	<b>105,178</b>	<b>Total Liabilities and Net Assets</b>	<b>105,178</b>

(Note) Amounts are rounded down to the nearest million yen.

## Non-Consolidated Statement of Income

( From: April 1, 2019  
To: March 31, 2020 )

(Unit: million Yen)

Account	Amount	
<b>Net sales</b>		<b>62,860</b>
<b>Cost of sales</b>		<b>50,478</b>
<b>Gross profit</b>		<b>12,381</b>
<b>Selling, general and administrative expenses</b>		<b>10,949</b>
<b>Operating profit</b>		<b>1,432</b>
<b>Non-operating income</b>		
Interest and dividend income	1,264	
Other	297	1,562
<b>Non-operating expenses</b>		
Interest expenses	141	
Foreign exchange losses	71	
Other	128	341
<b>Ordinary profit</b>		<b>2,653</b>
<b>Extraordinary income</b>		
Gain on sales of non-current assets	3,909	3,909
<b>Extraordinary losses</b>		
Loss on valuation investments in capital of subsidiaries and affiliates	397	
Provision for loss on guarantees	631	1,028
<b>Profit before income taxes</b>		<b>5,534</b>
Income taxes - current	577	
Income taxes - deferred	1,050	1,628
<b>Profit</b>		<b>3,905</b>

(Note) Amounts are rounded down to the nearest million yen.

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

( From: April 1, 2019  
To: March 31, 2020 )

(Unit: million Yen)

	Shareholders' equity			
	Capital stock	Capital surplus		Retained earnings
		Legal capital surplus	Other capital surplus	Legal retained earnings
<b>Balance at beginning of current period</b>	8,413	8,789	3,449	743
<b>Cumulative effects of correcting errors</b>				
<b>Restated balance</b>	8,413	8,789	3,449	743
<b>Changes of items during period</b>				
Provision of reserve for advanced depreciation of non-current assets				
Reversal of reserve for advanced depreciation of non-current assets				
Dividends of surplus				
Profit				
Purchase of treasury shares				
Disposal of treasury shares				
Net changes of items other than shareholders' equity				
<b>Total changes of items during period</b>	-	-	-	-
<b>Balance at end of current period</b>	8,413	8,789	3,449	743

(Unit: million Yen)

	Shareholders' equity				
	Retained earnings			Treasury shares	Total shareholders' equity
	Other retained earnings		Retained earnings brought forward		
	Reserve for advanced depreciation of non-current assets	General reserve			
<b>Balance at beginning of current period</b>	2,320	21,000	5,530	(0)	50,246
<b>Cumulative effects of correcting errors</b>			(638)		(638)
<b>Restated balance</b>	2,320	21,000	4,892	(0)	49,607
<b>Changes of items during period</b>					
Provision of reserve for advanced depreciation of non-current assets	2,170		(2,170)		-
Reversal of reserve for advanced depreciation of non-current assets	(39)		39		-
Dividends of surplus			(1,663)		(1,663)
Profit			3,905		3,905
Purchase of treasury shares				(1,122)	(1,122)
Disposal of treasury shares				105	105
Net changes of items other than shareholders' equity					-
<b>Total changes of items during period</b>	2,131	-	111	(1,016)	1,225
<b>Balance at end of current period</b>	4,451	21,000	5,003	(1,016)	50,833

(Unit: million Yen)

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
<b>Balance at beginning of current period</b>	766	766	51,012
<b>Cumulative effects of correcting errors</b>			(638)
<b>Restated balance</b>	766	766	50,374
<b>Changes of items during period</b>			
Provision of reserve for advanced depreciation of non-current assets		—	—
Reversal of reserve for advanced depreciation of non-current assets		—	—
Dividends of surplus		—	(1,663)
Profit		—	3,905
Purchase of treasury shares		—	(1,122)
Disposal of treasury shares		—	105
Net changes of items other than shareholders' equity	(438)	(438)	(438)
<b>Total changes of items during period</b>	(438)	(438)	787
<b>Balance at end of current period</b>	328	328	51,162

(Note) Amounts are rounded down to the nearest million yen.

## Notes to Financial Statements

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

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

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

###### 1) Shares of subsidiaries and

associates ..... Stated at cost by the moving average method

###### 2) Other securities

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

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

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

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

###### 1) Merchandise and finished goods ....

Weighted average method

###### 2) Work in process .....

Weighted average method

###### 3) Raw materials .....

Principally by weighted average method

###### 4) Supplies .....

Principally by moving average method

#### 2. Method of depreciation of non-current assets

##### (1) Property, plant and equipment (excluding leased assets)

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

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

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

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

##### (3) Leased assets

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

#### 3. Reserves and Provisions

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

In order to prepare for any losses arising from bad debt receivables, an amount estimated to be unrecoverable is provided.

General reserve is calculated based on the past loss experience, and specific reserve is calculated by reviewing the probability of recovery in each individual case where there is concern over claims.

(2) Provision for bonuses

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

(3) Provision for bonuses for directors (and other officers)

An estimated amount of bonuses payable is provided.

(4) Provision for retirement benefits

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

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

Past service cost is recorded as an expense by a pro-rated amount by the straight-line method over a period within the average remaining service years of employees (mainly 14 years) at the time of occurrence thereof.

For actuarial differences, an amount pro-rated by the straight-line method over a period within the average remaining service years of employees (mainly 14 years) at time of the occurrence thereof in each fiscal year is expensed starting from the fiscal year that follows the fiscal year of occurrence.

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

(5) Provision for environmental measures

In order to prepare for the disposal costs of PCB wastes as stipulated by the “Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes” and for the payment of cost of soil contamination countermeasures to be incurred, the estimated disposal cost is provided.

(6) Provision for loss on guarantees

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

In order to prepare for the loss on guarantee balance remains at the end of an Employee Shareholding Incentive Plan (E-Ship®) period, an estimated amount of loss is provided.

(7) Provision for share-based remuneration, Provision for share-based remuneration for directors (and other officers)

In order to prepare for the payment of share-based remuneration for directors (and other officers), an estimated share-based remuneration amounts based on the estimated points to be granted to eligible directors (and other officers) under the Share Grant Rule of the Company is provided.

4. Other significant matters for the presentation of financial statements

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

Foreign currency denominated monetary assets and liabilities are converted into Japanese Yen at the spot exchange rates prevailing at the balance sheet date, and the resulting exchange differences are recorded as gains or losses.

(2) Accounting method for retirement benefits

The accounting method for unrecognized actuarial differences and unrecognized past service cost differs from the accounting method for the above items used in consolidated financial statements.

(3) Accounting treatment of consumption taxes

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

## **II. Changes in accounting policy**

The Company previously recorded proceeds from disposal of scraps (scrap metal and waste liquid) as Gain on sales of scraps (NonOperating Income). Effective from the beginning of the fiscal year ended March 31, 2020, the Company records such proceeds as deduction of manufacturing costs. This is in line with the Company’s revision of cost management method following the increase in scrap disposal proceeds through the improvement in recycling process. The Company applied the changes in the accounting policy retrospectively, and reclassified the consolidated financial statement for the previous period.

Cost of manufacturing is not recalculated for the past periods, as impact is not material. Gain on sales of scraps for each period is deducted from the Cost of sales. There is no cumulative effect on the opening balance of Net assets of the previous period.

## **III. Notes on correction of errors**

During the current fiscal year, errors in part of the accounting process carried out in the past fiscal years were found at DAIDO METAL EUROPE LIMITED, the Company’s UK consolidated subsidiary, and such accounting errors for the past fiscal years were corrected by recording allowance for doubtful accounts and others.

The cumulative effect of correcting these errors has been reflected in the accounting book value of net assets at the beginning of the current consolidated fiscal year.

Accordingly, at the beginning of the fiscal year, in the consolidated statement of changes in equity, the balance of retained earnings carried forward decreased by 638 million yen.

#### **IV. Additional information**

1. Granting Company Stock to Employees, etc. through a Trust

In order to incentivise employees to achieve the Medium Term plan goals and raise corporate value in medium to long-term, and to enrich the employee welfare program, the Company introduced an E-Ship® Trust-Type Employee Stock Purchase Incentive Plan (hereinafter “the Incentive Plan”).

For more details, please refer to “Notes to Consolidated Financial Statements IV. Additional information.”

2. Introduction of Performance-linked Stock-based Remuneration Scheme for Directors and Executive Officers

The Company introduced new performance-linked stock-based remuneration (“the Scheme”) for Directors (excluding Outside Directors, the same applying hereinafter) and Executive Officers (excluding a Director concurrently serving as an Executive Officer, the same applying hereinafter) in order to incentivize Directors and Executive Officers to improve the business performance of the Company and to enhance the corporate value over medium to long term.

For more details, please refer to “Notes to Consolidated Financial Statements IV. Additional information.”

#### **V. Notes to Balance Sheet**

1. Accumulated depreciation of property, plant and equipment	44,653 million yen
2. Monetary claims and monetary debts to/from subsidiaries and associates	
Short-term monetary claims	7,627 million yen
Long-term monetary claims	217
Short-term monetary debts	5,304
3. Liabilities for guarantee	
(1) For employee housing loans, etc.	135 million yen
(2) For bank borrowings	
DAIDO METAL CZECH s.r.o.	740
DAIDO METAL KOTOR AD	478
Daido Industrial Bearings Europe Limited	1,446
DAIDO METAL EUROPE LIMITED	467
Daido Metal U.S.A. Inc.	5,305
Daido Metal Mexico, S.A. de C.V.	1,581
Daido Metal Europe GmbH	1,768
DM Casting Technology (Thailand) Co., Ltd.	734
(3) For liabilities on purchases	
DAIDO METAL KOTOR AD	69
Daido Industrial Bearings Europe Limited	2
(4) For lease obligations	
Daido Metal Russia LLC	1,158
(5) For export duties	
Daido Metal Europe GmbH	5
Total	<u>13,893</u>

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

Amount of transactions with subsidiaries and associates

Operating transactions

Amount of sales	17,816 million yen
Amount of purchases	17,290
Other operating transactions	1,522
Transactions other than operating transactions	1,263

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

Type and number of treasury shares at the balance sheet date

Common shares	1,350 thousand shares
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(Note) The number of Common shares includes 1,350 thousand shares of the Company held as trust property for E-Ship®, the Trust Type Employee Stock Purchase Incentive Plan and a performance-linked stock-based remuneration for the Directors and the Executive Officers.



### **VIII. Notes on Leased Non-current Assets**

Office equipment, manufacturing facilities, etc. are being used under financial lease contracts, which do not transfer the ownership of leased assets.

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

Breakdown of the main causes of deferred tax assets and liabilities

Deferred tax assets	
Devaluation of finished goods and work in process	453 million yen
Depreciation in excess of tax allowable limit	54
Impairment losses	166
Accrued business tax	53
Loss on valuation of shares of subsidiaries and associates	2,711
Loss on valuation of golf club membership	16
Excess allowance for doubtful accounts	507
Provision for bonuses	319
Provision for loss on guarantees	162
Provision for retirement benefits	883
Long-term accounts payable - other	58
Other	187
Sub-total of deferred tax assets	<u>5,573</u>
Valuation reserves for temporary difference, etc.	<u>(3,687)</u>
Total deferred tax assets	<u>1,886</u>
Deferred tax liabilities	
Reserve for advanced depreciation of non-current assets	(1,962)
Valuation difference on available-for-sale securities	(134)
Other	(73)
Total deferred tax liabilities	<u>(2,171)</u>
Net deferred tax liability	<u>(285)</u>

## X. Notes on Transactions with Related Parties

### Subsidiaries and associates

Type	Name of company	Percentage of voting rights the Company is holding (or percentage of the Company's voting rights held)	Relation with related party	Nature of transaction	Transaction amount (million yen) Note 8	Account	Balance at the end of period (million yen) Note 8
Subsidiaries	DAIDO METAL SALES CO., LTD.	(Holding) Direct 100.0	Sale of the Company's products, rental of facilities and loans, and key management personnel service etc.	Sale of bearing products Note 1	2,871	Account receivable - trade	1,216
	NDC Co., Ltd.	(Holding) Direct 58.8	Purchase of products, etc., manufacturing of the Company's products, sales of the Company's products, etc., licensing of technology and lease of facilities, etc.	Purchase of bearing products, etc. Note 2	5,041	Account payable - trade	1,650
	Daido Plain Bearings Co., Ltd.	(Holding) Direct 100.0	Manufacturing of the Company's products, lease of facilities, and key management personnel service, etc.	Purchase of bearing products, etc. Note 2	8,794	Account payable - trade Electronically recorded obligations - operating	902 2,231
	Daido Industrial Bearings Japan Co., Ltd.	(Holding) Direct 100.0	Manufacturing of the Company's products, lease of facilities, loans and key management personnel service, etc.	—	—	Short-term loans receivable from subsidiaries and associates Long-term loans receivable from subsidiaries and associates	800 600
	Daido Metal U.S.A. Inc.	(Holding) Direct 100.0	Sale of the Company's products, etc., purchase of products, licensing of technology, rental of facilities, debt guarantees and key management personnel service, etc.	Debt guarantees Note 3	5,305	—	—
	Daido Metal Mexico, S.A. de C.V.	(Holding) Direct 99.9 (Holding) Indirect 0.0	Sale of the Company's products, rental of facilities and debt guarantees and key management personnel service, etc.	Debt guarantees Note 4	1,581	—	—
	Daido Metal Europe GmbH	(Holding) Direct 100.0	Sale of the Company's products, Rental of facilities, debt guarantees and key management personnel service, etc.	Sale of bearing products Note 1	2,924	Account receivable - trade	1,238
				Debt guarantees Note 5	1,773	—	—
	Daido Industrial Bearings Europe Limited	(Holding) Direct 100.0	Sale of the Company's products, purchase of products, licensing of technology, rental of facilities, debt guarantees and loans, etc.	Debt guarantees Note 6	1,792	—	—
Daido Metal Russia LLC	(Holding) Direct 99.8	Sale of the Company's products, etc., purchase of products, licensing of technology, debt guarantees and key management personnel service, etc.	Debt guarantees Note 7	1,158	—	—	

Transaction terms, policies for determining transaction terms, etc.

(Note 1) Prices are principally set at the sales prices of each related party to the third party multiplied by a fixed rate.

(Note 2) Prices are principally set at the sales prices of the Company to the third party multiplied by a fixed rate.

(Note 3) Debt guarantees are provided for the bank borrowings (5,305 million yen) of Daido Metal U.S.A. Inc. and guarantee fees of 0.2% per annum are received.

(Note 4) Debt guarantees are provided for the bank borrowings (1,581 million yen) of Daido Metal Mexico, S.A. de C.V. and guarantee fees of 0.2% per annum are received.

(Note 5) Debt guarantees are provided for the bank borrowings (1,768 million yen) and export duties (5 million yen) of Daido Metal Europe GmbH and guarantee fees of 0.2% per annum are received.

(Note 6) Debt guarantees are provided for the bank borrowings (1,789 million yen) and guarantee for supplier (2 million yen) of Daido Industrial Bearings Europe Limited and guarantee fees of 0.2% per annum are received. In addition, 93 million yen is provided for loss on guarantees, making the balance of provision for loss on guarantees at the end of period 343 million yen. Allowance for doubtful accounts is provided for long-term loans receivable (666 million yen).

(Note 7) Debt guarantees are provided for the lease obligations (1,158 million yen) of Daido Metal Russia LLC and guarantee fees of 0.2% per annum are received

(Note 8) Consumption taxes are not included in the transaction amounts. Consumption taxes are included in fiscal year end balances.

**XI. Notes on Per Share Information**

1. Net assets per share	1,108.13 yen
2. Basic earnings per share	82.97 yen