Consolidated Financial Statements

Consolidated Balance Sheet

MANDOM CORPORATION and Its Consolidated Subsidiaries
As of March 31, 2020

	Millions of Yen	
	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 14)	¥ 11,658	¥ 22,780
Short-term investments (Notes 5 and 14)	4,022	3,562
Receivables (Note 14):		
Trade notes and accounts	11,754	11,597
Unconsolidated subsidiaries and associated companies	184	184
Other	56	68
Allowance for doubtful accounts	(12)	(21)
Inventories (Note 6)	15,191	13,518
Prepaid expenses and other current assets	1,190	1,238
Total current assets	44,043	52,926
PROPERTY, PLANT, AND EQUIPMENT:		
Land	1,196	511
Buildings and structures	23,897	23,413
Machinery and equipment	21,315	19,996
Furniture and fixtures	7,391	6,950
Lease assets (Note 13)	18	18
Right-of-use asset	546	
Construction in progress	7,583	549
Total	61,946	51,437
Accumulated depreciation	(36,310)	(33,297)
Net property, plant, and equipment	25,636	18,140
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 5 and 14)	11,192	11,308
Investments in unconsolidated subsidiaries and associated companies	955	840
Goodwill	3,174	3,408
Trademarks	970	1,042
Customer-related assets	1,514	1,626
Asset for retirement benefits		0
Deferred tax assets (Note 10)	514	511
Software	2,249	2,351
Other assets	1,414	1,250
Total investments and other assets	21,982	22,336
TOTAL	¥ 91,661	¥ 93,402

See notes to consolidated financial statements.

	Millions of Yen	
	2020	2019
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank loans (Notes 7 and 14)	¥ 43	¥ 106
Payables (Note 14):		
Trade notes and accounts	7,771	7,170
Unconsolidated subsidiaries and associated companies	35	52
Other	381	132
Accrued income taxes (Note 14)	556	1,119
Accrued expenses	2,416	2,512
Other current liabilities	537	693
Total current liabilities	11,739	11,784
LONG-TERM LIABILITIES:		
Liability for retirement benefits (Note 8)	2,569	2,180
Deferred tax liabilities (Note 10)	2,565	2,488
Other long-term liabilities	1,335	1,140
Total long-term liabilities	6,469	5,808
COMMITMENTS (Note 13)		
EQUITY (Notes 9 and 16):		
Common stock—authorized, 81,969,700 shares; issued, 48,269,212 shares in 2020 and 2019	11,395	11,395
Capital surplus	11,014	11,016
Retained earnings	51,912	50,037
Treasury stock—at cost, 3,386,851 shares and 1,483,926 shares in 2020 and 2019, respectively	(6,826)	(1,828)
Accumulated other comprehensive income (loss):		
Unrealized gain on available-for-sale securities	5,379	5,407
Foreign currency translation adjustments	(5,543)	(5,879)
Defined retirement benefit plans	(214)	(148)
Total	67,117	70,000
Noncontrolling interests	6,336	5,810
Total equity	73,453	75,810
TOTAL	¥ 91,661	¥ 93,402

Consolidated Financial Statements

Consolidated Statement of Income

MANDOM CORPORATION and Its Consolidated Subsidiaries
For the Year Ended March 31, 2020

	Millions of Yen	
	2020	2019
NET SALES	¥ 81,775	¥ 78,998
COST OF SALES	39,494	37,115
Gross profit	42,281	41,883
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 11, 12, and 13)	36,310	34,747
Operating income	5,971	7,136
OTHER INCOME (EXPENSES):		
Interest and dividend income	386	426
Interest expense	(26)	(7)
Foreign exchange gain (loss)	(0)	38
Loss on disposal of property, plant, and equipment	(18)	(393)
Gain on sales of property, plant, and equipment	15	8
Gain on sales of investment securities	96	
Commission for purchase of treasury shares	(30)	(0)
Claim of insurance		204
Compensation expenses	(19)	(23)
Sale discounts	(15)	(19)
Equity in earnings of associated company	274	370
Impairment loss		(23)
Other – net	165	241
Other income – net	828	822
INCOME BEFORE INCOME TAXES	6,799	7,958
INCOME TAXES (Note 10):		
Current	1,720	2,425
Deferred	134	(33)
Total income taxes	1,854	2,392
NET INCOME	4,945	5,566
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	500	479
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 4,445	¥ 5,087

	Yen	
	2020	2019
PER SHARE OF COMMON STOCK (Note 2.r):		
Basic net income	¥ 97.68	¥ 108.76
Cash dividends applicable to the year	62.00	60.00

Diluted net income per share is not presented because no dilutive securities exist.

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

MANDOM CORPORATION and Its Consolidated Subsidiaries
For the Year Ended March 31, 2020

	Millions of Yen	
	2020	2019
NET INCOME	¥ 4,945	¥ 5,566
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):		
Unrealized gain on available-for-sale securities	(28)	(12)
Foreign currency translation adjustments	529	(1,762)
Defined retirement benefit plans	(100)	223
Share of other comprehensive loss in associates	(4)	(15)
Total other comprehensive income (loss)	397	(1,566)
COMPREHENSIVE INCOME	¥ 5,342	¥ 4,000
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	¥ 4,688	¥ 3,785
Noncontrolling interests	654	215

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

MANDOM CORPORATION and Its Consolidated Subsidiaries
For the Year Ended March 31, 2020

	Thousands	Millions of Yen			
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, APRIL 1, 2018	46,753	¥ 11,395	¥ 11,235	¥ 47,967	¥ (1,867)
Net income attributable to owners of the parent				5,088	
Cash dividends, ¥65.0 per share				(3,018)	
Purchase of treasury stock	(0)				(1)
Disposal of treasury stock	33		82		40
Change in the parent's ownership interest due to transactions with noncontrolling interests			(301)		
Net change in the year					
BALANCE, MARCH 31, 2019	46,786	11,395	11,016	50,037	(1,828)
Cumulative effect of accounting change				230	
BALANCE, APRIL 1, 2019 (as restated)	46,786	11,395	11,016	50,267	(1,828)
Net income attributable to owners of the parent				4,445	
Cash dividends, ¥60.0 per share				(2,800)	
Purchase of treasury stock	(1,905)				(5,001)
Disposal of treasury stock	1		2		3
Change in the parent's ownership interest due to transactions with noncontrolling interests			(4)	(0)	
Net change in the year					
BALANCE, MARCH 31, 2020	44,882	¥ 11,395	¥ 11,014	¥ 51,912	¥ (6,826)

See notes to consolidated financial statements.

	Millions of Yen					
	Accumulated Other Comprehensive Income (Loss)					
	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2018	¥ 5,419	¥ (4,467)	¥ (269)	¥ 69,413	¥ 6,337	¥ 75,750
Net income attributable to owners of the parent				5,088		5,088
Cash dividends, ¥65.0 per share				(3,018)		(3,018)
Purchase of treasury stock				(1)		(1)
Disposal of treasury stock				122		122
Change in the parent's ownership interest due to transactions with noncontrolling interests				(301)		(301)
Net change in the year	(12)	(1,412)	121	(1,303)	(527)	(1,830)
BALANCE, MARCH 31, 2019	5,407	(5,879)	(148)	70,000	5,810	75,810
Cumulative effect of accounting change		(44)		186	120	306
BALANCE, APRIL 1, 2019 (as restated)	5,407	(5,923)	(148)	70,186	5,930	76,116
Net income attributable to owners of the parent				4,445		4,445
Cash dividends, ¥60.0 per share				(2,800)		(2,800)
Purchase of treasury stock				(5,001)		(5,001)
Disposal of treasury stock				5		5
Change in the parent's ownership interest due to transactions with noncontrolling interests				(4)		(4)
Net change in the year	(28)	380	(66)	286	406	692
BALANCE, MARCH 31, 2020	¥ 5,379	¥ (5,543)	¥ (214)	¥ 67,117	¥ 6,336	¥ 73,453

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

MANDOM CORPORATION and Its Consolidated Subsidiaries
For the Year Ended March 31, 2020

	Millions of Yen	
	2020	2019
OPERATING ACTIVITIES:		
Income before income taxes	¥ 6,799	¥ 7,958
Adjustments for:		
Income taxes paid	(2,402)	(2,485)
Depreciation and amortization	4,370	3,584
Amortization of goodwill	225	
Loss on disposal of property, plant, and equipment	18	393
Gain on sales of property, plant, and equipment	(15)	(8)
Gain on sales of investment securities	(96)	
Changes in assets and liabilities:		
Increase in receivables	(10)	(668)
Increase in inventories	(1,492)	(2,373)
Decrease in interest payables	(26)	(7)
Increase (decrease) in payables	40	(113)
Increase (decrease) in liability for retirement benefits	314	(1)
Other – net	(788)	308
Total adjustments	138	(1,370)
Net cash provided by operating activities	6,937	6,588
INVESTING ACTIVITIES:		
Transfers to time deposits other than cash equivalents	(4,386)	(4,040)
Proceeds from maturity of time deposits other than cash equivalents	3,801	4,821
Proceeds from sales of property, plant, and equipment	20	16
Acquisition of property, plant, and equipment	(8,386)	(3,966)
Acquisition of intangible fixed assets	(1,082)	(1,197)
Payments for purchases of investment securities	(32)	(9)
Proceeds from sales and redemptions of investment securities	203	
Proceeds from sales and redemptions of short-term investment securities		21,300
Payments for purchases of short-term investment securities		(3,500)
Purchase of investments in subsidiaries with a change in scope of consolidation		(6,491)
Other – net	26	(13)
Net cash provided by (used in) investing activities	(9,836)	6,921
FINANCING ACTIVITIES:		
Repayments of short-term bank loans – net	(63)	(148)
Repayments of finance lease obligations	(171)	(5)
Repurchase of treasury stock	(5,001)	(1)
Dividends paid	(3,049)	(3,280)
Purchase of investments in subsidiaries without a change in scope of consolidation	(24)	(586)
Net cash used in financing activities	(8,308)	(4,020)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	85	(350)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,122)	9,139
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,780	13,641
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 11,658	¥ 22,780

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

MANDOM CORPORATION and Its Consolidated Subsidiaries
As of and for the Year Ended March 31, 2020

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards (IFRS).

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which MANDOM CORPORATION (the "Company") is incorporated and operates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of March 31, 2020, include the accounts of the Company and its 16 significant subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for under the equity method.

Investment in one associated company is accounted for under the equity method.

Investment in two unconsolidated subsidiaries is stated at cost. If the equity method of accounting had been applied to the investment in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated in consolidation.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Short-Term Investments and Investment Securities — Securities included in short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: 1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value with the related unrealized gains and losses included in earnings; 2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and 3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The Group's securities (included in "short-term investments" and "investment securities") are all classified as available for sale.

Nonmarketable available-for-sale securities are stated at cost, determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

d. Inventories — Inventories are stated at the lower of cost or net selling value, cost being determined primarily by the weighted-average method.

e. Property, Plant, and Equipment — Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, and lease assets of the Company and its domestic consolidated subsidiaries. The straight-line method is principally applied to the property, plant, and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 15 to 50 years for buildings and structures and from 4 to 12 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

f. Long-Lived Assets — The Group assesses its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Goodwill — Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired associated company at the date of acquisition. Goodwill is reported in the consolidated balance sheet as other assets and is amortized using the straight-line method over a reasonable number of years within 20 years.

h. Trademarks and Customer Related Assets — Trademarks and customer-related assets are carried at cost less accumulated amortization. Trademarks and customer-related assets are amortized using the straight-line method over a reasonable number of years within 20 years.

i. Software — Software is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over three to five years.

j. Business Combinations — Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred.

k. Retirement Benefits and Pension Plans — The Company and certain consolidated subsidiaries have funded defined benefit pension plans and defined contribution pension plans, which cover substantially all of their employees.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects. Actuarial gains and losses are mainly amortized by the declining-balance method over seven years within the average remaining service period, and past service costs are mainly amortized by the straight-line method over seven years within the average remaining service period.

l. Research and Development Costs — Research and development costs are charged to income as incurred.

m. Right-of-Use Assets — The straight-line method is used based on the useful life of the assets or the lease term, whichever is shorter.

n. Income Taxes — The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax rates to the temporary differences.

o. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

p. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

q. Derivatives and Hedging Activities — The Company uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates. Foreign exchange forward contracts are utilized by the Company to reduce foreign currency exchange risks. The Company does not enter into derivatives for trading or speculative purposes.

r. Per Share Information — Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common stocks outstanding for the period.

Diluted net income per share is not disclosed because no dilutive securities exist.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

s. New Accounting Pronouncements:

Revenue Recognition – On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Fair Value Measurement – On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement," and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised "Accounting Standard for Measurement of Inventories" and "Accounting Standard for Financial Instruments."

In order to improve the comparability between the international accounting standards and Japanese accounting standards, ASBJ has developed the "Accounting Standard for Fair Value Measurement" and the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter "Fair Value Measurement Accounting Standard, etc."), and has prescribed the guidance on the method of fair value measurement. The Fair Value Measurement Accounting Standard, etc. is applied to the fair values of the following items:

・Financial instruments in the "Accounting Standard for Financial Instruments."
・Inventories held for trading purposes in the "Accounting Standard for Measurement of Inventories."

The accounting standards are effective for annual periods beginning on or after April 1, 2020.

The Company expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2020, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3. ACCOUNTING CHANGE

Foreign consolidated subsidiaries apply IFRS 16 "Leases."

Since January 1, 2019, the Group has applied IFRS 16 "Leases" for foreign consolidated subsidiaries. Accordingly, regarding operating leases (borrower) covered by IAS No. 17, the Group recognizes right-of-use assets and lease liabilities on the date of adoption. Regarding the adoption of this accounting standard, the Group adopted a method regarded as a transitory measure whereby the cumulative effect is recognized on the date of adoption.

The effects of this accounting policy change for 2020 were as follows: Consolidated statement of balance sheet for the year ended March 31, 2020 — "land of property, plant, and equipment" increased by ¥685 million, "right-of-use asset of property, plant, and equipment" increased by ¥329 million, "others of investments and others assets" decreased by ¥360 million, "others of current liabilities" increased by ¥104 million, "others of long-term liabilities" increased by ¥218 million, "retained earnings" increased by ¥220 million, and "noncontrolling interests" increased by ¥120 million.

The impact of this change on income for the current consolidated fiscal year was not material.

4. ADDITIONAL INFORMATION

Accounting estimates of the impact of the spread of COVID-19

The Group assumes that the impact of the new coronavirus infection will continue for at least a certain period of time in Japan and Southeast Asian countries, such as Indonesia and Malaysia, which account for the top sales of the Group.

Under these assumptions, we made accounting estimates for impairment of investments and fixed assets based on the information available at the end of the current consolidated fiscal year, the impact of which on the estimates is not significant.

However, there are many uncertainties regarding the impact of COVID-19, which could affect the financial condition and business performance of the Group in the next consolidated fiscal year.

5. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2020 and 2019 consisted of the following:

	Millions of Yen	
	2020	2019
Short-term investments:		
Time deposits other than cash equivalents	¥ 4,022	¥ 3,562
Total	¥ 4,022	¥ 3,562
Investment securities:		
Marketable equity securities	¥ 11,165	¥ 11,303
Nonmarketable equity securities	27	4
Total	¥ 11,192	¥ 11,307

Information regarding securities classified as available for sale as of March 31, 2020 and 2019 is as follows:

March 31, 2020	Millions of Yen			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Equity securities	¥ 3,416	¥ 7,750	¥ (1)	¥ 11,165

March 31, 2019	Millions of Yen			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Equity securities	¥ 3,514	¥ 7,789	¥ (0)	¥ 11,303

Available-for-sale securities whose fair value could not be reliably determined as of March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Equity securities	¥ 27	¥ 4

There was no sales of available-for-sale securities for the years ended March 31, 2019.

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the year ended March 31, 2020 were as follows:

March 31, 2020	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 202	¥ 95	¥
Total	¥ 202	¥ 95	¥

6. INVENTORIES

Inventories as of March 31, 2020 and 2019 consisted of the following:

	Millions of Yen	
	2020	2019
Merchandise	¥ 3,966	¥ 3,666
Finished products	7,393	6,363
Work in process	448	479
Raw materials and supplies	3,384	3,010
Total	¥ 15,191	¥ 13,518

7. SHORT-TERM BANK LOANS

Short-term bank loans at March 31, 2020 and 2019, consisted of the credit facilities from banks. The average interest rates applicable to the short-term bank loans as of March 31, 2020 and 2019 were 5.40% and 5.70%, respectively.

8. RETIREMENT BENEFITS AND PENSION PLANS

The Company and certain domestic consolidated subsidiaries have funded defined benefit pension plans and defined contribution pension plans, which cover substantially all of their employees, and also unfunded defined benefit pension plans.

The funded defined benefit pension plans provide a lump-sum severance payment or annuity payments determined based on the salary at the time of termination, years of service, and certain other factors for employees who terminated their employment.

The unfunded defined benefit pension plans provide premium lump-sum severance pay for employees who meet the prescribed requirements.

The Company and its domestic consolidated subsidiaries participate in a contributory multiemployer pension plan (the "Plan"), which is accounted for in the same way as defined contribution pension plans.

Certain foreign consolidated subsidiaries have funded defined benefit pension plans, unfunded benefit pension plans, and defined contribution pension plans.

Defined Benefit Pension Plans

(1) The changes in defined benefit obligations for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Balance at beginning of year	¥ 5,397	¥ 5,472
Current service cost	329	346
Interest cost	189	172
Actuarial (gain) loss	118	(209)
Past service cost	(94)	2
Benefits paid	(249)	(213)
Increase by a change in scope of consolidation		17
Foreign currency translation	84	(197)
Other	7	7
Balance at end of year	¥ 5,781	¥ 5,397

(2) The changes in plan assets for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Balance at beginning of year	¥ 3,218	¥ 3,150
Expected return on plan assets	85	80
Actuarial loss	(162)	(21)
Contributions from the employer	147	146
Benefits paid	(94)	(114)
Other	18	(23)
Balance at end of year	¥ 3,212	¥ 3,218

(3) Reconciliations between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Funded defined benefit obligations	¥ 3,469	¥ 3,416
Plan assets	(3,212)	(3,218)
	257	198
Unfunded defined benefit obligations	2,312	1,981
Net liability arising from defined benefit obligations	¥ 2,569	¥ 2,179

	Millions of Yen	
	2020	2019
Liability for retirement benefits	¥ 2,569	¥ 2,179
Asset for retirement benefits		0
Net liability arising from defined benefit obligations	¥ 2,569	¥ 2,179

(4) The components of net periodic retirement benefit costs for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Service cost	¥ 329	¥ 346
Interest cost	189	172
Expected return on plan assets	(85)	(80)
Recognized actuarial loss	63	52
Amortization of past service cost	(1)	0
Net periodic retirement benefit costs	¥ 495	¥ 490

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Prior service cost	¥ (93)	¥ 1
Actuarial (gain) loss	225	(281)
Total	¥ 132	¥ (280)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Unrecognized prior service cost	¥ (91)	¥ 2
Unrecognized actuarial loss	531	303
Total	¥ 440	¥ 305

(7) Plan assets

(a) Components of plan assets

Plan assets as of March 31, 2020 and 2019 consisted of the following:

	2020	2019
Debt investments	48%	46%
Equity investments	28	30
General accounts	14	14
Cash and cash equivalents	8	7
Other	2	3
Total	100%	100%

(b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined by considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2020 and 2019 were mainly set forth as follows:

	2020	2019
Discount rate	0.6%	0.4%
Expected rate of return on plan assets	2.0%	2.0%
Expected salary/wage increment	2.1%	2.1%

Defined Contribution Pension Plans

The Company and its consolidated subsidiaries recognized a defined contribution cost of ¥117 million and ¥113 million for the years ended March 31, 2020 and 2019, respectively.

Multiemployer Pension Plan

The Company and its domestic consolidated subsidiaries participate in the Plan covering substantially all of their employees, for which the Company cannot reasonably calculate the amount of plan assets corresponding to the contributions made by it and its domestic consolidated subsidiaries. Therefore, it is accounted for using the same method as a defined contribution plan.

Contributions to the Plan, which are accounted for using the same method as a defined contribution plan, were ¥199 million and ¥192 million for the years ended March 31, 2020 and 2019, respectively.

(1) The funded status of the Plan as of March 31, 2019 and 2018 was as follows:

	Millions of Yen	
	2019	2018
Plan assets	¥ 13,233	¥ 12,422
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	(18,545)	(18,605)
Net balance	¥ (5,312)	¥ (6,183)

The net balance above was mainly caused by past service cost of ¥9,402 million and ¥9,768 million for the years ended March 31, 2020 and 2019, respectively. Past service cost under the Plan was amortized on a straight-line basis more than 10 years and more than 11 years for the years ended March 31, 2020 and 2019, respectively. The special contributions of ¥136 million and ¥131 million for the years ended March 31, 2020 and 2019, respectively, which are utilized for such amortization, were expensed in the consolidated statements of income of the Group.

(2) The contribution ratios of the Group in the Plan for the years ended March 31, 2020 and 2019 were as follows:

	2020	2019
The contribution ratio of the Group in the Plan	13.1%	13.0%

The ratios above do not represent the actual actuarial liability ratio of the Group.

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if companies have prescribed so in their articles of incorporation. The Company meets all of the above criteria. The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of companies so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the amount of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.58% each for the years ended March 31, 2020 and 2019. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Deferred tax assets:		
Tax loss carryforwards	¥ 180	¥ 192
Accrued bonuses	269	280
Enterprise tax	45	69
Inventories	167	153
Liability for retirement benefits	681	591
Long-term liabilities	80	80
Property, plant, and equipment	34	34
Other	523	641
Total of tax loss carryforwards and temporary differences	1,979	2,040
Less valuation allowance for tax loss carryforwards	(180)	(192)
Less valuation allowance for temporary differences	(79)	(73)
Total valuation allowance	(259)	(265)
Deferred tax assets	1,720	1,775
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	2,370	2,382
Intangible assets associated with business combinations	642	690
Other	759	680
Deferred tax liabilities	3,771	3,752
Net deferred tax liabilities	¥ (2,051)	¥ (1,977)

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2020 and 2019, were as follows:

	Millions of Yen						
March 31, 2020	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 0	¥ 25	¥ 41	¥ 61	¥ 0	¥ 53	¥ 180
Less valuation allowances for tax loss carryforwards	(0)	(25)	(41)	(61)	(0)	(53)	(180)
Net deferred tax assets relating to tax loss carryforwards							

	Millions of Yen						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 14	¥ 0	¥ 25	¥ 41	¥ 61	¥ 51	¥ 192
Less valuation allowances for tax loss carryforwards	(14)	(0)	(25)	(41)	(61)	(51)	(192)
Net deferred tax assets relating to tax loss carryforwards							

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2020 reflected in the accompanying consolidated statement of income is as follows:

	2020
Normal effective statutory tax rate	30.58%
Expenses not deductible for income tax purposes	2.15
Dividends and incomes not taxable for income tax purpose	(0.37)
Difference in subsidiaries' tax rates	(3.70)
Retained earnings of subsidiaries	1.34
Tax credit for research and development costs and others	(2.56)
Change in valuation allowance	0.13
Amortization of goodwill	0.86
Capital levy on inhabitant tax	0.33
Other – net	(1.49)
Actual effective tax rate	27.27%

* Information for the year ended March 31, 2019 was not provided because the difference between the statutory tax rate and the effective income tax rate was less than 5% of the statutory tax rate.

Consolidated Financial Statements

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2020 and 2019 were ¥1,855 million and ¥1,827 million, respectively.

12. ADVERTISING COSTS

Advertising costs charged to income for the years ended March 31, 2020 and 2019 were ¥4,725 million and ¥5,156 million, respectively.

13. LEASES

The Group leases office space, office equipment, and certain other assets.

Total rental expenses for the years ended March 31, 2020 and 2019 were ¥1,634 million and ¥1,647 million, respectively. The minimum rental commitments under noncancelable operating leases at March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Due within one year	¥	¥ 35
Due after one year		130
Total	¥	¥ 165

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments to invest cash surplus amounts in low-risk and highly liquid financial instruments. Derivatives are used to achieve higher yields within specified limits on the amounts, but not for speculative purposes.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Short-term investments and investment securities, mainly debt securities with maturities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are mainly less than three months.

Receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring on a regular basis of payment terms and balances of major customers by the sales planning division to identify the default risk of customers in the early stages.

With respect to financial investments with maturities, since the Group manages its exposure to credit risk by limiting its funding to high-credit-rating bonds in accordance with its internal guidelines, the credit risk associated with this investment is not considered to be significant.

Market risk management

With respect to foreign currency trade receivables and payables, the Group monitors on a regular basis foreign exchange risk recognized monthly for each currency.

Short-term investments and investment securities are managed by monitoring market values and the financial position of issuers on a regular basis, and the securities, except for government bonds, are managed by reviewing the condition continuously in view of the market trends and relationships of business partners.

Derivatives have been utilized in accordance with internal policies, which regulate authorization and credit limit amounts. The conditions and results of such transactions are regularly communicated to the Management Committee.

Liquidity risk management

The Group manages its liquidity risk by holding adequate volumes of liquid assets along with adequate financial planning prepared by the financial management division based on each department's reports.

(4) Concentration of Credit Risk

As of March 31, 2020, 51.7% of total receivables is from two major customers of the Group.

(5) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

March 31, 2020	Carrying Amount (Millions of Yen)	Fair Value (Millions of Yen)
Cash and cash equivalents	¥ 11,658	¥ 11,658
Short-term investments and investment securities	15,187	15,187
Receivables	11,983	11,983
Total	¥ 38,828	¥ 38,828
Short-term bank loans	¥ 43	¥ 43
Payables	8,188	8,188
Accrued income taxes	556	556
Total	¥ 8,787	¥ 8,787

March 31, 2019	Carrying Amount (Millions of Yen)	Fair Value (Millions of Yen)
Cash and cash equivalents	¥ 22,780	¥ 22,780
Short-term investments and investment securities	14,865	14,865
Receivables	11,829	11,829
Total	¥ 49,474	¥ 49,474
Short-term bank loans	¥ 106	¥ 106
Payables	7,354	7,354
Accrued income taxes	1,119	1,119
Total	¥ 8,579	¥ 8,579

Cash and cash equivalents

The carrying amounts of cash and cash equivalents approximate fair value because of their short maturities.

Short-term investments and investment securities

The fair values of short-term investments and investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institutions for certain debt instruments. The carrying amounts of short-term investments and investment securities are equal to the fair values. Fair value information for short-term investments and investment securities by classification is included in Note 5.

Receivables, short-term bank loans, payables, and accrued income taxes

The carrying amounts of receivables, short-term bank loans, payables, and accrued income taxes approximate fair value because of their short maturities.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	2020 (Millions of Yen)	2019 (Millions of Yen)
Investments in equity instruments that do not have a quoted market price in an active market	¥ 27	¥ 4

(6) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

March 31, 2020	Due in 1 Year or Less (Millions of Yen)
Cash and cash equivalents	¥ 11,658
Short-term investments and investment securities:	
Other	4,022
Receivables	11,982
Total	¥ 27,662

March 31, 2019	Due in 1 Year or Less (Millions of Yen)
Cash and cash equivalents	¥ 22,780
Short-term investments and investment securities:	
Other	3,562
Receivables	11,829
Total	¥ 38,171

15. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen	
	2020	2019
Unrealized gain (loss) on available-for-sale securities:		
Gains (losses) arising during the year	¥ 55	¥ (18)
Reclassification adjustments to profit or loss	(96)	
Amount before income tax effect	(40)	(18)
Income tax effect	12	6
Total	¥ (28)	¥ (12)
Deferred gain on derivatives under hedge accounting:		
Gains (losses) arising during the year	¥	¥ (191)
Reclassification adjustments to profit or loss		133
Amount before income tax effect		(58)
Income tax effect		58
Total	¥	¥
Foreign currency translation adjustments:		
Adjustments arising during the year	¥ 529	¥ (1,762)
Total	¥ 529	¥ (1,762)
Defined retirement benefit plans:		
Adjustments arising during the year	¥ (177)	¥ 228
Reclassification adjustments to profit or loss	45	52
Amount before income tax effect	(132)	280
Income tax effect	32	(57)
Total	¥ (100)	¥ 223
Share of other comprehensive loss in associates:		
Gains (losses) arising during the year	¥ (4)	¥ (15)
Total	¥ (4)	¥ (15)
Total other comprehensive income (loss)	¥ 397	¥ (1,566)

16. SUBSEQUENT EVENTS

Appropriation of Retained Earnings

The following appropriation of retained earnings as of March 31, 2020 is expected to be approved at the Company's annual general shareholders' meeting to be held on June 23, 2020 (the "General Meeting of Shareholders"):

	Millions of Yen
Year-end cash dividends, ¥31 per share	¥ 1,391

17. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available, and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group mainly produces and sells cosmetic products. The Company and its domestic consolidated subsidiaries oversee activities in Japan; PT Mandom Indonesia Tbk oversees activities in Indonesia; and other overseas subsidiaries, including Malaysia, Thailand, and China, oversee activities in each of their respective countries. Each overseas subsidiary is an independent management unit, which develops product strategies and business activities in its respective region. Therefore, the Group consists of the geographical segments based on production and sales structures, which are identified as Japan, Indonesia, and other foreign countries ("Other").

(2) Methods of Measurement for the Amount of Sales, Profit, Assets, Liabilities, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of significant accounting policies."

(3) Information about Sales, Profit, Assets, Liabilities, and Other Items

Millions of Yen

	2020					
	Reportable Segment					
	Japan	Indonesia	Other	Total	Reconciliations*	Consolidated
Sales:						
Sales to external customers	¥ 46,176	¥ 17,792	¥ 17,807	¥ 81,775		¥ 81,775
Intersegment sales or transfers	5,007	3,442	366	8,815	¥ (8,815)	
Total	¥ 51,183	¥ 21,234	¥ 18,173	¥ 90,590	¥ (8,815)	¥ 81,775
Segment profit**	¥ 3,015	¥ 645	¥ 2,311	¥ 5,971		¥ 5,971
Assets	49,362	20,101	22,198	91,661		91,661
Other:						
Depreciation	2,479	1,388	503	4,370		4,370
Amortization of goodwill			225	225		225
Investments in an associated company under the equity method			924	924		924
Increase in property, plant, and equipment and intangible assets	8,692	1,184	538	10,414		10,414

Millions of Yen

	2019					
	Reportable Segment					
	Japan	Indonesia	Other	Total	Reconciliations*	Consolidated
Sales:						
Sales to external customers	¥ 48,442	¥ 17,045	¥ 13,510	¥ 78,997		¥ 78,997
Intersegment sales or transfers	5,009	3,209	403	8,621	¥ (8,621)	
Total	¥ 53,451	¥ 20,254	¥ 13,913	¥ 87,618	¥ (8,621)	¥ 78,997
Segment profit**	¥ 4,248	¥ 682	¥ 2,206	¥ 7,136		¥ 7,136
Assets	54,260	18,020	21,122	93,402		93,402
Other:						
Depreciation	2,292	1,195	97	3,584		3,584
Investments in an associated company under the equity method			809	809		809
Increase in property, plant, and equipment and intangible assets	3,005	1,425	6,337	10,767		10,767

Notes: *"Reconciliations" represent eliminations of intersegment sales or transfers.
**"Segment profit" represents operating income included in the consolidated statement of income.

(4) Information about Products and Services

Millions of Yen

	2020			
	Products for Men	Products for Women	Other	Total
Sales to external customers	¥ 47,389	¥ 25,974	¥ 8,412	¥ 81,775

Millions of Yen

	2019			
	Products for Men	Products for Women	Other	Total
Sales to external customers	¥ 49,581	¥ 22,433	¥ 6,984	¥ 78,998

(5) Information about Geographical Areas

(a) Sales

Millions of Yen

2020				2019			
Japan	Indonesia	Other	Total	Japan	Indonesia	Other	Total
¥ 45,396	¥ 15,764	¥ 20,615	¥ 81,775	¥ 47,557	¥ 14,822	¥ 16,619	¥ 78,998

Note: Sales are classified by country or region based on the locations of customers.

(b) Property, plant, and equipment

Millions of Yen

2020				2019			
Japan	Indonesia	Other	Total	Japan	Indonesia	Other	Total
¥ 17,360	¥ 7,524	¥ 752	¥ 25,636	¥ 10,713	¥ 6,931	¥ 496	¥ 18,140

(6) Information about Major Customers

Millions of Yen

	2020	
Name of Customer	Sales	Related Segment Name
PALTAC Corporation	¥ 26,626	Japan
PT Asia Paramita Indah	15,766	Indonesia

Millions of Yen

	2019	
Name of Customer	Sales	Related Segment Name
PALTAC Corporation	¥ 26,713	Japan
PT Asia Paramita Indah	15,185	Indonesia

(7) Information about Goodwill

Millions of Yen

	2020			
	Japan	Indonesia	Other	Total
Amortization of goodwill			¥ 225	¥ 225
Goodwill at March 31, 2020			3,174	3,174

Millions of Yen

	2019			
	Japan	Indonesia	Other	Total
Amortization of goodwill				
Goodwill at March 31, 2019			¥ 3,408	¥ 3,408

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1 Imabashi, Chuo-ku
Osaka 541-0042
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of MANDOM CORPORATION:

Opinion

We have audited the consolidated financial statements of MANDOM CORPORATION and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Member of
Deloitte Touche Tohmatsu Limited

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 17, 2020