

# Notes to Consolidated Financial Statements

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 of International Financial Reporting Standards.

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 which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2019 consolidated financial statements to conform them to the classifications and presentations used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamato Holdings Co., Ltd. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥108.83 to \$1, the approximate rate of exchange at March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements as of March 31, 2020 and 2019, include the accounts of the Company and its 39 significant subsidiaries (together, 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 fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The unconsolidated subsidiaries, whose combined assets, net sales, profit and retained earnings in the aggregate are not significant to the consolidated financial statements, have not been consolidated with the Company.

There were 19 (17 in 2019) affiliates accounted for by the equity method.

Effective from the fiscal year ended March 31, 2020, GEDE ADVISORY INDONESIA and one other company are included in the scope of the equity method due to GD EXPRESS CARRIER BHD., an affiliate accounted for using equity method, newly acquiring their shares.

Investments in the unconsolidated subsidiaries and several affiliates not accounted for by equity method are stated at cost, less a valuation allowance representing possible losses on the investments that are deemed to be other than temporary. If the equity method of accounting had been applied to the investments in such 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.

**b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—

Under Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,” the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that profit is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

**c. Unification of Accounting Policies Applied to Foreign Affiliated Companies for the Equity Method**—ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments,” requires adjustments to be made to conform the affiliate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate’s financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign affiliated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that profit is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting ; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign affiliate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

**d. Recognition of Operating Revenues**—The Group recognizes freight charge income as operating revenue at the time when freight has been received from the shipping customer for transportation.

Fees from customers based on installment sales contracts are recognized by the equal installment method.

**e. Cash Equivalents**—Cash equivalents in the consolidated statement of cash flows are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents in the consolidated statement of cash flows include time deposits, certificates of deposit, and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

The difference between cash and cash equivalents in the accompanying consolidated balance sheet and cash and cash equivalents in the accompanying consolidated statement of cash flows was as follows:

|   | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|---|-----------------|----------|------------------------------|
|   | 2020            | 2019     | 2020                         |
| Cash and cash equivalents presented in the consolidated balance sheet           | ¥197,227        | ¥195,955 | \$1,812,246                  |
| Time deposits due beyond three months   | (564)           | (1,304)  | (5,184)                      |
| Cash and cash equivalents presented in the consolidated statement of cash flows | ¥196,663        | ¥194,651 | \$1,807,062                  |

**f. Inventories**—Inventories are stated at the lower of cost determined by the first-in, first-out method or net selling value.

**g. Marketable and Investment Securities**—Marketable 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 near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a 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 had no trading securities at March 31, 2020 and 2019.

Non-marketable 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.

**h. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment excluding leased assets 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 on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016. Depreciation of leased assets is computed by the straight-line method over the lease period with no residual value carried.

## Notes to Consolidated Financial Statements

The depreciation of property, plant and equipment of foreign consolidated subsidiaries is computed by the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally as follows:

|                          |            |
|--------------------------|------------|
| Buildings and structures | 7–60 years |
| Vehicles                 | 2– 7 years |
| Machinery and equipment  | 2–20 years |

Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

**i. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is 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.

**j. Other Assets**—Amortization of intangible assets is computed by the straight-line method.

Depreciation of leased assets is computed by the straight-line method over the lease period with no residual value carried.

**k. Retirement and Pension Plan**—The Company and consolidated subsidiaries mainly have a contributory trusted pension plan and an unfunded retirement benefit plan. In addition, a defined contribution retirement plan was introduced along with these defined benefit pension plans.

In calculating the retirement benefit obligations, the straight-line basis is used in determining the amount of the expected retirement benefit obligations attributed to service performed up to the end of the current fiscal year.

Past service costs are recognized in profit or loss in full in the fiscal year in which it arises. Actuarial gains and losses are amortized on a straight-line basis over a period within the average remaining service period of the eligible employees (mainly five years) on and after the fiscal year following the fiscal year in which it arises.

Actuarial gains and losses are recognized within equity on the consolidated balance sheet after adjusting for tax effects, and funded status is recognized as a liability or asset.

**l. Asset Retirement Obligations**—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as reconciliation to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**m. Leases**—For a lessee, all finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.

For a lessor, all finance leases that deem to transfer ownership of the leased property to the lessee are recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee are recognized as investments in leases.

**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 income tax rates to the temporary differences.

**o. Foreign Currency Transactions**—All short and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

**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 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 the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date.

**q. Per Share Information**—Basic earnings per share is computed by dividing profit attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted earnings per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted earnings per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

For the years ended March 31, 2020 and 2019, diluted earnings per share is not disclosed because the Company had no dilutive securities.

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

**r. Accounting Changes and Error Corrections**—Under ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections,” accounting treatments are required as follows:

(1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

**s. Assumption for Effects of the Novel Coronavirus Disease (“COVID-19”) in Accounting Estimate**—In the Group, delivery amount, particularly in individual customers and e-commerce markets, has increased due to voluntarily refraining from going out and expansion of stay-at-home consumption since the spread of COVID-19. On the other hand, delivery amount in small-lot corporate clients gradually decreased due to worldwide stagnation of the production activities in manufacturing industry and international trade and voluntarily refraining from business activities.

The spread of COVID-19 affects economy and business activities widely, and predicting when the pandemic might subside is difficult. Under these circumstances, in assessing impairment loss on fixed assets and recoverability of deferred tax assets, the Group assumed that COVID-19 affects financial performance of the business involved in corporate logistics for a certain period of time during the fiscal year ending March 31, 2021, considering the effect on receiving orders. The Group determined that the impact of COVID-19 on accounting estimates is immaterial for other business considering continuous operation of the business during COVID-19 outbreak. Based on these assumptions, the Company did not recognize impairment loss on fixed assets and reversal of deferred tax assets as a result of the effect of COVID-19.

In addition, the effect of COVID-19 on business environment is uncertain, and may impact the consolidated financial statements for the year ending March 31, 2021, if the situation changes.

## Notes to Consolidated Financial Statements

### t. New Accounting Pronouncements

**Accounting Standards for Revenue Recognition**—In March 2018, 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.” An entity should recognize revenue 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 will be applied from the beginning of the fiscal year that begins on or after April 1, 2021.

The Company is now in the process of measuring the effect of applying the accounting standard and guidance.

### 3. ACCOUNTING CHANGES

Certain subsidiaries, which apply International Financial Reporting Standards, adopted IFRS 16 Leases (“IFRS 16”) from the fiscal year ended March 31, 2020. In line with this adoption, lessees, in principle, recognize all leases as assets and liabilities on the balance sheet. In applying IFRS 16, retained earnings have been adjusted for the cumulative effect of changes in accounting policies at the beginning of the fiscal year ended March 31, 2020, resulting from the transitional treatment.

The effect of this application on the consolidated financial statements and per share information is immaterial.

### 4. INSTALLMENT RECEIVABLES

Sales recorded on the installment basis were 0.3% of operating revenues in both 2020 and 2019.

Annual maturities of installment receivables at March 31, 2020, and related amortization of deferred profit on installment sales are as follows:

| Year Ending March 31 | Millions of Yen |                                      | Thousands of U.S. Dollars |                                      |
|----------------------|-----------------|--------------------------------------|---------------------------|--------------------------------------|
|                      | Receivables     | Deferred Profit on Installment Sales | Receivables               | Deferred Profit on Installment Sales |
| 2021                 | ¥22,467         | ¥1,972                               | \$206,441                 | \$18,121                             |
| 2022                 | 10,971          | 1,359                                | 100,805                   | 12,484                               |
| 2023                 | 6,363           | 828                                  | 58,472                    | 7,612                                |
| 2024                 | 3,283           | 431                                  | 30,170                    | 3,958                                |
| 2025                 | 1,625           | 217                                  | 14,935                    | 1,998                                |
| 2026 and thereafter  | 1,379           | 221                                  | 12,669                    | 2,031                                |
| Total                | ¥46,088         | ¥5,028                               | \$423,492                 | \$46,204                             |

### 5. INVENTORIES

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

|                            | Millions of Yen |        | Thousands of U.S. Dollars |
|----------------------------|-----------------|--------|---------------------------|
|                            | 2020            | 2019   | 2020                      |
| Merchandise                | ¥ 552           | ¥ 643  | \$ 5,074                  |
| Work in process            | 166             | 194    | 1,523                     |
| Raw materials and supplies | 3,498           | 2,411  | 32,139                    |
| Total                      | ¥4,216          | ¥3,248 | \$38,736                  |

## 6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2020 and 2019, consisted of the following:

|                                  | Millions of Yen |         | Thousands of U.S. Dollars |
|----------------------------------|-----------------|---------|---------------------------|
|                                  | 2020            | 2019    | 2020                      |
| Non-current:                     |                 |         |                           |
| Marketable equity securities     | ¥26,466         | ¥33,742 | \$243,192                 |
| Non-marketable equity securities | 935             | 944     | 8,589                     |
| Other                            | 1,804           | 1,543   | 16,575                    |
| Total                            | ¥29,205         | ¥36,229 | \$268,356                 |

Information regarding each category of the securities classified as available-for-sale at March 31, 2020 and 2019, is as follows:

|                                       | Millions of Yen |                  |                   |            |
|---------------------------------------|-----------------|------------------|-------------------|------------|
|                                       | 2020            |                  |                   |            |
|                                       | Cost            | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as:             |                 |                  |                   |            |
| Available-for-sale: Equity securities | ¥14,507         | ¥12,797          | ¥838              | ¥26,466    |

|                                       | Millions of Yen |                  |                   |            |
|---------------------------------------|-----------------|------------------|-------------------|------------|
|                                       | 2019            |                  |                   |            |
|                                       | Cost            | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as:             |                 |                  |                   |            |
| Available-for-sale: Equity securities | ¥15,002         | ¥18,765          | ¥25               | ¥33,742    |

|                                       | Thousands of U.S. Dollars |                  |                   |            |
|---------------------------------------|---------------------------|------------------|-------------------|------------|
|                                       | 2020                      |                  |                   |            |
|                                       | Cost                      | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as:             |                           |                  |                   |            |
| Available-for-sale: Equity securities | \$133,302                 | \$117,592        | \$7,702           | \$243,192  |

Information for available-for-sale securities, which were sold during the years ended March 31, 2020 and 2019, is as follows:

| March 31, 2020                        | Millions of Yen |                |                 |
|---------------------------------------|-----------------|----------------|-----------------|
|                                       | Proceeds        | Realized Gains | Realized Losses |
| Available-for-sale: Equity securities | ¥1,978          | ¥1,300         | ¥—              |

| March 31, 2019                        | Millions of Yen |                |                 |
|---------------------------------------|-----------------|----------------|-----------------|
|                                       | Proceeds        | Realized Gains | Realized Losses |
| Available-for-sale: Equity securities | ¥72             | ¥37            | ¥—              |

| March 31, 2020                        | Thousands of U.S. Dollars |                |                 |
|---------------------------------------|---------------------------|----------------|-----------------|
|                                       | Proceeds                  | Realized Gains | Realized Losses |
| Available-for-sale: Equity securities | \$18,175                  | \$11,942       | \$—             |

Loss on valuation of available-for-sale equity securities for the year ended March 31, 2020 and 2019, were ¥140 million (\$1,285 thousand) and ¥39 million, respectively.

## Notes to Consolidated Financial Statements

## 7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2020 and 2019. As a result, the Group recognized an impairment loss of ¥991 million (\$9,100 thousand) as other expense for the asset groups of the Trade Logistics Service of Yamato Global Logistics Japan Co., Ltd. and 16 other asset groups for the year ended March 31, 2020, and ¥2,087 million as other expense for the asset groups of the head office and the Kansai Regional Branch of Yamato Home Convenience Co., Ltd. and 21 other asset groups for the year ended March 31, 2019, due to continuous operating losses of those units or significant declines in market prices. The carrying amounts of the relevant asset groups were written down to their recoverable amounts. In the case where the net selling prices were used as recoverable amounts, the relevant asset groups were evaluated mainly based on Real Estate Appraisal Standards, assessed value of fixed assets, and posted land prices. In the case where the recoverable amounts were measured at its value in use, the discount rates used for computation of present value of future cash flows for years ended March 31, 2020 and 2019, were 4.32% and 4.55%, respectively.

## 8. BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2020 and 2019, consisted of notes to banks and bank overdrafts. The weighted-average interest rates applicable to the bank loans as of March 31, 2020 and 2019, were approximately 0.092% and 0.040%, respectively.

Long-term debt at March 31, 2020 and 2019, consisted of the following:

|  | Millions of Yen |          | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
|  | 2020            | 2019     | 2020                      |
| 0.120% to 0.299% loans from banks due 2020 to 2022 | ¥ 19,500        |          | \$ 179,179                |
| 0.030% to 0.299% loans from banks due 2019 to 2022 |                 | ¥ 60,300 |                           |
| Lease obligations                                  | 25,339          | 22,934   | 232,828                   |
| Unsecured 0.090% bonds due in March 2021           | 10,000          | 10,000   | 91,886                    |
| Total  | 54,839          | 93,234   | 503,893                   |
| Less current portion                               | (19,079)        | (43,592) | (175,305)                 |
| Total  | ¥ 35,760        | ¥ 49,642 | \$ 328,588                |

Annual maturities of long-term debt at March 31, 2020, are as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2021                 | ¥19,079         | \$175,305                 |
| 2022                 | 16,645          | 152,946                   |
| 2023                 | 2,103           | 19,322                    |
| 2024                 | 1,931           | 17,745                    |
| 2025                 | 1,353           | 12,435                    |
| 2026 and thereafter  | 13,728          | 126,140                   |
| Total                | ¥54,839         | \$503,893                 |

## 9. RETIREMENT AND PENSION PLANS

The Group has defined benefit pension plans and defined contribution retirement plans for employees.

The defined benefit pension plans provide, under most circumstances, that employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from the consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages exceeding the standard retirement age.

### (1) Defined Benefit Pension Plans

The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

|   | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|---|-----------------|----------|------------------------------|
|   | 2020            | 2019     | 2020                         |
| Balance at beginning of year                  | ¥172,209        | ¥169,653 | \$1,582,369                  |
| Service cost                                  | 13,146          | 12,141   | 120,788                      |
| Interest cost                                 | 171             | 169      | 1,574                        |
| Actuarial loss (gain) arising during the year | 519             | (2,658)  | 4,773                        |
| Retirement benefits paid                      | (8,210)         | (7,387)  | (75,437)                     |
| Past service cost arising during the year     |                 | 291      |                              |
| Balance at end of year                        | ¥177,835        | ¥172,209 | \$1,634,067                  |

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

|   | Millions of Yen |         | Thousands of<br>U.S. Dollars |
|---|-----------------|---------|------------------------------|
|   | 2020            | 2019    | 2020                         |
| Balance at beginning of year                  | ¥97,863         | ¥94,287 | \$899,227                    |
| Expected return on plan assets                | 979             | 943     | 8,992                        |
| Actuarial (loss) gain arising during the year | (2,379)         | 295     | (21,855)                     |
| Contributions from the employer               | 4,448           | 4,386   | 40,872                       |
| Retirement benefits paid                      | (2,183)         | (2,048) | (20,057)                     |
| Balance at end of year                        | ¥98,728         | ¥97,863 | \$907,179                    |

Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2020 and 2019, were as follows:

|   | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|---|-----------------|----------|------------------------------|
|   | 2020            | 2019     | 2020                         |
| Defined benefit obligation of funded plan             | ¥ 65,656        | ¥ 65,259 | \$ 603,292                   |
| Plan assets   | (98,728)        | (97,863) | (907,179)                    |
|   | (33,072)        | (32,604) | (303,887)                    |
| Defined benefit obligation of unfunded plan           | 112,179         | 106,950  | 1,030,775                    |
| Net liability arising from defined benefit obligation | ¥ 79,107        | ¥ 74,346 | \$ 726,888                   |

|   | Millions of Yen |         | Thousands of<br>U.S. Dollars |
|---|-----------------|---------|------------------------------|
|   | 2020            | 2019    | 2020                         |
| Liability for employees' retirement benefits          | ¥79,231         | ¥74,508 | \$728,024                    |
| Asset for employees' retirement benefits              | (124)           | (162)   | (1,136)                      |
| Net liability arising from defined benefit obligation | ¥79,107         | ¥74,346 | \$726,888                    |

The amount of the liability and asset for employees' retirement benefits that are offset individually by the Company and subsidiaries are combined.

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

|                                | Millions of Yen |         | Thousands of<br>U.S. Dollars |
|--------------------------------|-----------------|---------|------------------------------|
|                                | 2020            | 2019    | 2020                         |
| Service cost                   | <b>¥13,146</b>  | ¥12,141 | <b>\$120,788</b>             |
| Interest cost                  | <b>171</b>      | 169     | <b>1,574</b>                 |
| Expected return on plan assets | <b>(979)</b>    | (943)   | <b>(8,992)</b>               |
| Recognized actuarial loss      | <b>2,029</b>    | 712     | <b>18,639</b>                |
| Past service cost              |                 | 291     |                              |
| Others                         | <b>(6)</b>      | (47)    | <b>(51)</b>                  |
| Net periodic benefit costs     | <b>¥14,361</b>  | ¥12,323 | <b>\$131,958</b>             |

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

|                       | Millions of Yen |        | Thousands of<br>U.S. Dollars |
|-----------------------|-----------------|--------|------------------------------|
|                       | 2020            | 2019   | 2020                         |
| Actuarial (loss) gain | <b>¥(869)</b>   | ¥3,665 | <b>\$(7,989)</b>             |
| Total                 | <b>¥(869)</b>   | ¥3,665 | <b>\$(7,989)</b>             |

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

|                             | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|-----------------------------|-----------------|----------|------------------------------|
|                             | 2020            | 2019     | 2020                         |
| Unrecognized actuarial loss | <b>¥(5,232)</b> | ¥(4,363) | <b>\$(48,075)</b>            |
| Total                       | <b>¥(5,232)</b> | ¥(4,363) | <b>\$(48,075)</b>            |

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

|                    | 2020        | 2019 |
|--------------------|-------------|------|
| General accounts   | <b>33%</b>  | 32%  |
| Debt investments   | <b>24</b>   | 25   |
| Equity investments | <b>18</b>   | 22   |
| Others             | <b>25</b>   | 21   |
| Total              | <b>100%</b> | 100% |

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

|  | 2020        | 2019 |
|--|-------------|------|
| Discount rate                          | <b>0.1%</b> | 0.1% |
| Expected rate of return on plan assets | <b>1.0%</b> | 1.0% |

The expected rate of return on plan assets is determined on the basis of the distribution of plan assets, past performance of respective assets that make up investments of plan assets, and market trends.

## (2) Defined Contribution Retirement Plans

The amounts contributed to the defined contribution retirement plans of the Group for the years ended March 31, 2020 and 2019, were ¥2,764 million (\$25,394 thousand) and ¥2,432 million, respectively.

## 10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2020 and 2019, were as follows:

|  | Millions of Yen |        | Thousands of<br>U.S. Dollars |
|--|-----------------|--------|------------------------------|
|  | 2020            | 2019   | 2020                         |
| Balance at beginning of year   | <b>¥8,686</b>   | ¥5,800 | <b>\$79,812</b>              |
| Additional provisions associated with the acquisition of property, plant and equipment | <b>777</b>      | 2,263  | <b>7,134</b>                 |
| Reconciliation associated with passage of time   | <b>112</b>      | 106    | <b>1,031</b>                 |
| Reconciliation associated with changes in accounting estimates                         | <b>(89)</b>     | 629    | <b>(817)</b>                 |
| Reduction associated with settlement of asset retirement obligations                   | <b>(559)</b>    | (92)   | <b>(5,133)</b>               |
| Others   |                 | (20)   | <b>(3)</b>                   |
| Balance at end of year   | <b>¥8,927</b>   | ¥8,686 | <b>\$82,024</b>              |

Changes in accounting estimates were recorded as it became evident that the estimate of the discounted cash flows required for future asset retirement would change at the beginning of the year. A reconciliation has been prepared for the change, which resulted in a decrease and increase of the asset retirement obligation for the years ended March 31, 2020 and 2019, by ¥89 million (\$817 thousand) and ¥629 million, respectively.

## 11. 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 the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash 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 the company 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 must 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 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

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. 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.

## Notes to Consolidated Financial Statements

## 12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of 30.6% for the years ended March 31, 2020 and 2019.

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

|   | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|---|-----------------|-----------|------------------------------|
|   | 2020            | 2019      | 2020                         |
| Deferred tax assets:                                      |                 |           |                              |
| Accrued expenses  | ¥ 10,961        | ¥ 10,956  | \$ 100,720                   |
| Legal welfare expense                                     | 1,811           | 1,808     | 16,639                       |
| Enterprise tax  | 2,100           | 2,309     | 19,296                       |
| Allowance for doubtful accounts                           | 679             | 623       | 6,241                        |
| Tax loss carryforwards                                    | 10,056          | 7,433     | 92,401                       |
| Liability for employees' retirement benefits              | 24,425          | 22,909    | 224,435                      |
| Loss on valuation of land                                 | 20,759          | 20,759    | 190,750                      |
| Loss on impairment of long-lived assets                   | 4,656           | 4,732     | 42,777                       |
| Loss on valuation of investment securities                | 1,145           | 1,771     | 10,519                       |
| Unrealized profit   | 3,048           | 2,763     | 28,003                       |
| Loss on valuation of telephone subscription rights        | 403             | 404       | 3,705                        |
| Other   | 7,863           | 7,719     | 72,248                       |
| Total of tax loss carryforwards and temporary differences | 87,906          | 84,186    | 807,734                      |
| Less valuation allowance for tax loss carryforwards       | (9,541)         | (7,400)   | (87,664)                     |
| Less valuation allowance for temporary differences        | (26,947)        | (27,306)  | (247,611)                    |
| Total valuation allowance                                 | (36,488)        | (34,706)  | (335,275)                    |
| Deferred tax assets                                       | ¥ 51,418        | ¥ 49,480  | \$ 472,459                   |
| Deferred tax liabilities:                                 |                 |           |                              |
| Unrealized gain on available-for-sale securities          | ¥ (3,318)       | ¥ (5,073) | \$ (30,489)                  |
| Other   | (4,553)         | (4,202)   | (41,836)                     |
| Deferred tax liabilities                                  | ¥ (7,871)       | ¥ (9,275) | \$ (72,325)                  |
| Deferred tax assets—net                                   | ¥ 43,547        | ¥ 40,205  | \$ 400,134                   |

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

| Year Ending March 31 | Millions of Yen  |  |  |
|----------------------|--|--|--|
|                      | Deferred Tax Assets Relating to Tax Loss Carryforwards | Less Valuation Allowances for Tax Loss Carryforwards | Net Deferred Tax Assets Relating to Tax Loss Carryforwards |
| 2021                 | ¥ 425  | ¥ (398)  | ¥ 27   |
| 2022                 | 398  | (398)  |  |
| 2023                 | 341  | (341)  |  |
| 2024                 | 685  | (685)  |  |
| 2025                 | 223  | (223)  |  |
| 2026 and thereafter  | 7,984  | (7,496)  | 488  |
| Total                | ¥10,056  | ¥(9,541)   | ¥515   |

| Year Ending March 31 | Thousands of U.S. Dollars                              |  |  |
|----------------------|--|--|--|
|                      | Deferred Tax Assets Relating to Tax Loss Carryforwards | Less Valuation Allowances for Tax Loss Carryforwards | Net Deferred Tax Assets Relating to Tax Loss Carryforwards |
| 2021                 | \$ 3,905   | \$ (3,654)   | \$ 251   |
| 2022                 | 3,658  | (3,658)  |  |
| 2023                 | 3,128  | (3,128)  |  |
| 2024                 | 6,297  | (6,297)  |  |
| 2025                 | 2,048  | (2,048)  |  |
| 2026 and thereafter  | 73,365   | (68,879)   | 4,486  |
| Total                | \$92,401   | \$(87,664)   | \$4,737  |

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2020, with the corresponding figures for 2019 was as follows:

|   | 2020  | 2019  |
|---|-------|-------|
| Normal effective statutory tax rate                                   | 30.6% | 30.6% |
| Per capita levy of local taxes  | 7.2   | 6.1   |
| Difference of tax rates for foreign subsidiaries                      | 1.3   | 3.6   |
| Valuation allowance   | 5.7   | 5.4   |
| Share of profit or loss of entities accounted for using equity method | 2.9   | 2.9   |
| Other—net   | 0.9   | 1.7   |
| Actual effective tax rate   | 48.6% | 50.3% |

### 13. LEASES

#### (1) Lessee

The Group leases certain building, machinery, computer equipment and other assets.

Future rental payments under non-cancelable operating leases at March 31, 2020 and 2019, were as follows:

|                     | Millions of Yen |         | Thousands of U.S. Dollars |
|---------------------|-----------------|---------|---------------------------|
|                     | 2020            | 2019    | 2020                      |
| Due within one year | ¥ 4,996         | ¥ 5,176 | \$ 45,909                 |
| Due after one year  | 25,672          | 29,339  | 235,886                   |
| Total               | ¥30,668         | ¥34,515 | \$281,795                 |

#### (2) Lessor

The net investments in lease as of March 31, 2020 and 2019, were summarized as follows:

|                               | Millions of Yen |         | Thousands of U.S. Dollars |
|-------------------------------|-----------------|---------|---------------------------|
|                               | 2020            | 2019    | 2020                      |
| Gross lease receivables       | ¥50,250         | ¥51,428 | \$461,724                 |
| Unguaranteed residual values  | 6,544           | 6,969   | 60,133                    |
| Unearned interest income      | (3,853)         | (4,246) | (35,402)                  |
| Investments in leases—current | ¥52,941         | ¥54,151 | \$486,455                 |

## Notes to Consolidated Financial Statements

Maturities of lease receivables for finance leases that deem to transfer ownership of the leased property to the lessee as of March 31, 2020, are as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2021                 | ¥ 211           | \$1,941                   |
| 2022                 | 210             | 1,929                     |
| 2023                 | 220             | 2,020                     |
| 2024                 | 228             | 2,093                     |
| 2025                 | 146             | 1,344                     |
| 2026 and thereafter  | 5               | 45                        |
| Total                | ¥1,020          | \$9,372                   |

Maturities of investments in lease for finance leases that deem not to transfer ownership of the leased property to the lessee as of March 31, 2020, are as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2021                 | ¥17,688         | \$162,530                 |
| 2022                 | 14,057          | 129,161                   |
| 2023                 | 9,980           | 91,705                    |
| 2024                 | 5,995           | 55,083                    |
| 2025                 | 2,237           | 20,555                    |
| 2026 and thereafter  | 293             | 2,690                     |
| Total                | ¥50,250         | \$461,724                 |

The minimum rental commitments under non-cancelable operating leases at March 31, 2020 and 2019, are as follows:

|                     | Millions of Yen |        | Thousands of U.S. Dollars |
|---------------------|-----------------|--------|---------------------------|
|                     | 2020            | 2019   | 2020                      |
| Due within one year | ¥3,109          | ¥4,024 | \$28,568                  |
| Due after one year  | 3,271           | 5,621  | 30,060                    |
| Total               | ¥6,380          | ¥9,645 | \$58,628                  |

## 14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt including bank loans and bonds, in order to expand its business based on its investment plan to expand its network. Cash surpluses, if any, are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to interest fluctuation risk. Certain consolidated subsidiaries conduct leasing or installment sales operations.

### (2) Nature and Extent of Risks Arising from Financial Instruments and the Risk Management for Financial Instruments

Receivables such as notes and accounts receivable and installment sales receivable are exposed to customer credit risk. Therefore, the Group minimizes customers' credit risk by monitoring collections and accrued receivables at due dates.

Marketable and investment securities are mainly equity securities of the companies with which the Group has business relationships or capital alliances. Such securities are exposed to the risk of market price fluctuations.

Most payment terms of payables such as notes and accounts payable are less than one year.

Short-term bank loans and long-term bank loans are mainly related to a financial business. Bank loans are mainly variable interest rate loans.

Accounts payable and bank loans exposed to liquidity risks are managed by each company of the Group, such as through fund settlement, bookkeeping, monitoring of the balances outstanding, and managing cash flows.



## Notes to Consolidated Financial Statements

| March 31, 2020                       | Thousands of U.S. Dollars |             |            |
|--------------------------------------|---------------------------|-------------|------------|
|                                      | Carrying Amount           | Fair Value  | Difference |
| <b>Assets:</b>                       |                           |             |            |
| Cash and cash equivalents            | \$1,812,246               | \$1,812,246 |            |
| Trade notes and accounts receivable  | 1,966,194                 |             |            |
| Allowance for doubtful accounts      | (486)                     |             |            |
|                                      | 1,965,708                 | 1,961,806   | \$ (3,902) |
| Installment sales receivable         | 423,492                   |             |            |
| Allowance for doubtful accounts      | (11,196)                  |             |            |
| Deferred profit on installment sales | (46,204)                  |             |            |
|                                      | 366,092                   | 411,729     | 45,637     |
| Available-for-sale securities        | 243,192                   | 243,192     |            |
| Shares of affiliates                 | 73,925                    | 84,803      | 10,878     |
| <b>Liabilities:</b>                  |                           |             |            |
| Trade notes and accounts payable     | 1,351,483                 | 1,351,483   |            |
| Short-term loans                     | 693,743                   | 693,717     | (26)       |
| Long-term loans                      | 128,641                   | 128,657     | 16         |

**Cash and cash equivalents**

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

**Trade notes and accounts receivable**

The fair values of receivables are measured at the amount to be received at maturity discounted at the Group's assumed corporate discount rate. A portion of these receivables is determined by discounting the future cash flows related to the receivables at the rate of government bonds.

**Installment sales receivable**

Allowances for doubtful accounts and deferred profit on installment sales are deducted from the fair values of installment sales receivable, which are determined by discounting the future cash flows related to the installment sales receivable at the market interest rate.

**Marketable and investment securities**

The fair values of marketable 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 institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 6.

**Trade notes and accounts payable**

The fair values of payables, all of which are substantially paid within one year, are measured at the amount to be paid.

**Short-term loans and long-term loans**

The fair values of short-term bank loans and long-term loans are determined by discounting the future cash flows related to the debt at the Group's assumed corporate borrowing rate.

The current portion of long-term bank loans is included in short-term loans in the above table in addition to short-term bank loans on the consolidated balance sheet. Lease payments are not included in long-term loans in the above table.

**(4) Financial Instruments Whose Fair Value Cannot Be Reliably Determined**

|                      | Millions of Yen |        | Thousands of U.S. Dollars |
|----------------------|-----------------|--------|---------------------------|
|                      | 2020            | 2019   | 2020                      |
| Shares of affiliates | ¥2,162          | ¥5,650 | \$19,867                  |
| Other                | 3,637           | 5,585  | 33,416                    |

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

| March 31, 2020                      | Millions of Yen         |                                       |                      |
|-------------------------------------|-------------------------|---------------------------------------|----------------------|
|                                     | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years |
| Cash and cash equivalents           | ¥197,227                |                                       |                      |
| Trade notes and accounts receivable | 199,214                 | ¥14,657                               | ¥ 110                |
| Installment sales receivable        | 22,467                  | 22,242                                | 1,379                |
| <b>Total</b>                        | <b>¥418,908</b>         | <b>¥36,899</b>                        | <b>¥1,489</b>        |

| March 31, 2019                      | Millions of Yen         |                                       |                      |
|-------------------------------------|-------------------------|---------------------------------------|----------------------|
|                                     | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years |
| Cash and cash equivalents           | ¥195,955                |                                       |                      |
| Trade notes and accounts receivable | 203,228                 | ¥16,898                               | ¥ 33                 |
| Installment sales receivable        | 22,667                  | 21,321                                | 814                  |
| <b>Total</b>                        | <b>¥421,850</b>         | <b>¥38,219</b>                        | <b>¥847</b>          |

| March 31, 2020                      | Thousands of U.S. Dollars |                                       |                      |
|-------------------------------------|---------------------------|---------------------------------------|----------------------|
|                                     | Due in One Year or Less   | Due after One Year through Five Years | Due after Five Years |
| Cash and cash equivalents           | \$1,812,246               |                                       |                      |
| Trade notes and accounts receivable | 1,830,514                 | \$134,669                             | \$ 1,011             |
| Installment sales receivable        | 206,441                   | 204,382                               | 12,669               |
| <b>Total</b>                        | <b>\$3,849,201</b>        | <b>\$339,051</b>                      | <b>\$13,680</b>      |

**(6) Maturity Analysis for Long-Term Loans**

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2021                 | ¥ 5,500         | \$ 50,538                 |
| 2022                 | 14,000          | 128,641                   |
| <b>Total</b>         | <b>¥19,500</b>  | <b>\$179,179</b>          |

Please see Note 8 for annual maturities of long-term loans.

**15. OTHER COMPREHENSIVE INCOME**

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

|  | Millions of Yen |                | Thousands of U.S. Dollars |
|--|-----------------|----------------|---------------------------|
|  | 2020            | 2019           | 2020                      |
| Unrealized gain on available-for-sale securities:                                  |                 |                |                           |
| Adjustments arising during the year  | ¥(5,579)        | ¥ (132)        | \$(51,265)                |
| Reclassification adjustments to profit or loss                                     | (1,086)         | (37)           | (9,977)                   |
| Amount before income tax effect  | (6,665)         | (169)          | (61,242)                  |
| Income tax effect  | 1,737           | 53             | 15,961                    |
| <b>Total</b>   | <b>¥(4,928)</b> | <b>¥ (116)</b> | <b>\$(45,281)</b>         |
| Foreign currency translation adjustments:  |                 |                |                           |
| Adjustments arising during the year  | ¥ 199           | ¥(1,661)       | \$ 1,821                  |
| Remeasurements of defined employees' retirement benefit plans:                     |                 |                |                           |
| Adjustments arising during the year  | ¥(2,898)        | ¥ 2,953        | \$(26,628)                |
| Reclassification adjustments to profit or loss                                     | 2,029           | 712            | 18,639                    |
| Amount before income tax effect  | (869)           | 3,665          | (7,989)                   |
| Income tax effect  | 256             | (1,124)        | 2,355                     |
| <b>Total</b>   | <b>¥ (613)</b>  | <b>¥ 2,541</b> | <b>\$ (5,634)</b>         |
| Share of other comprehensive income of entities accounted for using equity method: |                 |                |                           |
| Adjustments arising during the year  | ¥ (274)         | ¥ 274          | \$ (2,517)                |
| <b>Total other comprehensive (loss) income</b>                                     | <b>¥(5,616)</b> | <b>¥ 1,038</b> | <b>\$(51,611)</b>         |

## Notes to Consolidated Financial Statements

## 16. EARNINGS PER SHARE

Basic earnings per share ("EPS") for the years ended March 31, 2020 and 2019, was as follows:

| Year Ended March 31, 2020                            | Millions of Yen                         | Thousands of Shares     | Yen           | U.S. Dollars  |
|--|---|-------------------------|---------------|---------------|
|  | Profit Attributable to Owners of Parent | Weighted-average Shares | EPS           |               |
| Basic EPS—Profit attributable to common shareholders | <b>¥22,324</b>                          | <b>393,171</b>          | <b>¥56.78</b> | <b>\$0.52</b> |
| Year Ended March 31, 2019                            |   |                         |               |               |
| Basic EPS—Profit attributable to common shareholders | ¥25,682                                 | 394,275                 | ¥65.14        |               |

## 17. SEGMENT INFORMATION

*(1) Description of Reportable Segments*

The Group identifies operating segments as components of entity for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors in order to make decisions about resources to be allocated to the segments and assess their performance.

The Company, as a pure holding company, forms six reportable segments classified according to business content and manages them based on these reportable segments. Therefore, the Group has the following six reporting segments: "Delivery," "BIZ-Logistics," "Home Convenience," "e-Business," "Financial," and "Autoworks" based on the above policy.

The Group defines the reporting segments as follows:

|                   |   |
|-------------------|---|
| Delivery:         | Small-parcel delivery services such as <i>TA-Q-BIN</i> (door-to-door parcel delivery) and Kuroneko DM-Bin (posting service)             |
| BIZ-Logistics:    | Intercompany logistics services, aimed at the B2B supply-chain management market  |
| Home Convenience: | Lifestyle support services intimately connected with the needs of local markets, such as moving and household effects delivery services |
| e-Business:       | Information services targeted at the business market, including ASP services and the development of information systems                 |
| Financial:        | Financial services targeted at business customers and consumers, such as settlement and collection                                      |
| Autoworks:        | Vehicle maintenance services and fuel supply targeted at transport companies  |

*(2) Methods of Measurement for the Amounts of Segment Revenues, Segment Profit, Segment Assets, 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 Segment Revenues, Segment Profit, Segment Assets, and Other Items

| Millions of Yen  |              |               |                  |            |           |           |           |              |                |              |
|--|--------------|---------------|------------------|------------|-----------|-----------|-----------|--------------|----------------|--------------|
| 2020   |              |               |                  |            |           |           |           |              |                |              |
|  | Delivery     | BIZ-Logistics | Home Convenience | e-Business | Financial | Autoworks | Other     | Total        | Reconciliation | Consolidated |
| Segment revenues:  |              |               |                  |            |           |           |           |              |                |              |
| Segment revenues from customers                          | ¥1,310,068   | ¥143,934      | ¥27,806          | ¥30,579    | ¥77,073   | ¥24,923   | ¥15,764   | ¥1,630,147   | ¥—             | ¥1,630,147   |
| Intersegment revenues                                    | 56,763       | 13,837        | 11,399           | 43,188     | 2,815     | 30,976    | 66,018    | 224,996      | (224,996)      |              |
| Total segment revenues                                   | ¥1,366,831   | ¥157,771      | ¥39,205          | ¥73,767    | ¥79,888   | ¥55,899   | ¥81,782   | ¥1,855,143   | ¥(224,996)     | ¥1,630,147   |
| Segment profit (loss)                                    | ¥27,250      | ¥4,976        | ¥(10,062)        | ¥10,669    | ¥6,323    | ¥4,295    | ¥36,045   | ¥79,496      | ¥(34,795)      | ¥44,701      |
| Segment assets   | 687,610      | 74,998        | 12,649           | 47,452     | 245,235   | 29,567    | 22,458    | 1,119,969    | (19,229)       | 1,100,740    |
| Other:   |              |               |                  |            |           |           |           |              |                |              |
| Depreciation and amortization                            | 41,586       | 3,301         | 433              | 3,231      | 4,725     | 678       | 842       | 54,796       | 287            | 55,083       |
| Investment in entities accounted for using equity method | 440          | 1,550         |                  |            |           |           |           | 1,990        | 8,045          | 10,035       |
| Increase of tangible and intangible fixed assets         | 41,852       | 3,184         | 325              | 1,884      | 4,334     | 1,639     | 637       | 53,855       | 1,179          | 55,034       |
| Millions of Yen  |              |               |                  |            |           |           |           |              |                |              |
| 2019   |              |               |                  |            |           |           |           |              |                |              |
|  | Delivery     | BIZ-Logistics | Home Convenience | e-Business | Financial | Autoworks | Other     | Total        | Reconciliation | Consolidated |
| Segment revenues:  |              |               |                  |            |           |           |           |              |                |              |
| Segment revenues from customers                          | ¥1,297,223   | ¥147,437      | ¥33,405          | ¥26,593    | ¥79,967   | ¥25,985   | ¥14,705   | ¥1,625,315   | ¥—             | ¥1,625,315   |
| Intersegment revenues                                    | 64,137       | 12,282        | 12,623           | 41,153     | 2,856     | 31,416    | 46,298    | 210,765      | (210,765)      |              |
| Total segment revenues                                   | ¥1,361,360   | ¥159,719      | ¥46,028          | ¥67,746    | ¥82,823   | ¥57,401   | ¥61,003   | ¥1,836,080   | ¥(210,765)     | ¥1,625,315   |
| Segment profit (loss)                                    | ¥40,788      | ¥3,329        | ¥(7,765)         | ¥8,740     | ¥6,245    | ¥4,434    | ¥19,373   | ¥75,144      | ¥(16,798)      | ¥58,346      |
| Segment assets   | 718,911      | 77,463        | 12,281           | 44,136     | 257,207   | 29,379    | 22,386    | 1,161,763    | (38,103)       | 1,123,660    |
| Other:   |              |               |                  |            |           |           |           |              |                |              |
| Depreciation and amortization                            | 37,221       | 2,575         | 515              | 3,531      | 6,000     | 645       | 622       | 51,109       | 238            | 51,347       |
| Investment in entities accounted for using equity method | 426          | 4,836         |                  |            |           |           |           | 5,262        | 9,252          | 14,514       |
| Increase of tangible and intangible fixed assets         | 56,896       | 5,212         | 764              | 1,571      | 7,104     | 513       | 7,647     | 79,707       | 132            | 79,839       |
| Thousands of U.S. Dollars                                |              |               |                  |            |           |           |           |              |                |              |
| 2020   |              |               |                  |            |           |           |           |              |                |              |
|  | Delivery     | BIZ-Logistics | Home Convenience | e-Business | Financial | Autoworks | Other     | Total        | Reconciliation | Consolidated |
| Segment revenues:  |              |               |                  |            |           |           |           |              |                |              |
| Segment revenues from customers                          | \$12,037,746 | \$1,322,562   | \$255,497        | \$280,980  | \$708,195 | \$229,006 | \$144,850 | \$14,978,836 | \$—            | \$14,978,836 |
| Intersegment revenues                                    | 521,574      | 127,136       | 104,740          | 396,841    | 25,866    | 284,631   | 606,620   | 2,067,408    | (2,067,408)    |              |
| Total segment revenues                                   | \$12,559,320 | \$1,449,698   | \$360,237        | \$677,821  | \$734,061 | \$513,637 | \$751,470 | \$17,046,244 | \$(2,067,408)  | \$14,978,836 |
| Segment profit (loss)                                    | \$250,390    | \$45,720      | \$(92,456)       | \$98,030   | \$58,099  | \$39,465  | \$331,210 | \$730,458    | \$(319,716)    | \$410,742    |
| Segment assets   | 6,318,205    | 689,134       | 116,225          | 436,016    | 2,253,372 | 271,683   | 206,354   | 10,290,989   | (176,686)      | 10,114,303   |
| Other:   |              |               |                  |            |           |           |           |              |                |              |
| Depreciation and amortization                            | 382,115      | 30,333        | 3,979            | 29,686     | 43,420    | 6,228     | 7,737     | 503,498      | 2,640          | 506,138      |
| Investment in entities accounted for using equity method | 4,043        | 14,240        |                  |            |           |           |           | 18,283       | 73,925         | 92,208       |
| Increase of tangible and intangible fixed assets         | 384,567      | 29,258        | 2,986            | 17,311     | 39,821    | 15,059    | 5,851     | 494,853      | 10,833         | 505,686      |

Notes: "Other" includes JITBOX charter services and shared services.

Segment revenues and segment profit of "Other" include dividends for the years ended March 31, 2020 and 2019, of ¥37,024 million (\$340,200 thousand) and ¥18,594 million, respectively, which the Company received from its subsidiaries as a pure holding company.

Reconciliations are as follows:

- (1) Reconciliations of segment profit for the years ended March 31, 2020 and 2019, of ¥34,795 million (\$319,716 thousand) and ¥16,798 million, respectively, are intersegment eliminations and others.
- (2) Reconciliations of segment assets at March 31, 2020 and 2019, of ¥19,229 million (\$176,686 thousand) and ¥38,103 million, respectively, include intersegment eliminations of assets and liabilities of ¥151,149 million (\$1,388,855 thousand) and ¥184,580 million, and corporate assets which are not allocated to each reporting segment of ¥131,920 million (\$1,212,169 thousand) and ¥146,477 million, respectively.
- (3) Reconciliations of investments in entities accounted for using equity method at March 31, 2020 and 2019, of ¥8,045 million (\$73,925 thousand) and ¥9,252 million, respectively, are investments which are not allocated to each reporting segment.
- (4) Reconciliations of increases of tangible and intangible fixed assets at March 31, 2020 and 2019, of ¥1,179 million (\$10,833 thousand) and ¥132 million, respectively, include the Company's capital investment.

Segment profit is reconciled with operating profit in the consolidated statement of income.

As described in Note 3, "Accounting Changes," certain subsidiaries, which apply International Financial Reporting Standards, adopted IFRS 16 Leases (IFRS 16) from the fiscal year ended March 31, 2020. In line with this adoption, lessees, in principle, recognize all leases as assets and liabilities on the balance sheet. In addition, the effect of this application on segment information is immaterial.

## Notes to Consolidated Financial Statements

*[Related Information about Reporting Segments]**(1) Information about Products and Services*

Operating revenues from customers for the years ended March 31, 2020 and 2019, were as follows:

| 2020       |                 |          |            | 2019       |                 |          |            |
|------------|-----------------|----------|------------|------------|-----------------|----------|------------|
| TA-Q-BIN   | Kuroneko DM-Bin | Other    | Total      | TA-Q-BIN   | Kuroneko DM-Bin | Other    | Total      |
| ¥1,164,287 | ¥61,416         | ¥404,444 | ¥1,630,147 | ¥1,139,438 | ¥69,678         | ¥416,199 | ¥1,625,315 |

Thousands of U.S. Dollars

| 2020         |                 |             |              |
|--------------|-----------------|-------------|--------------|
| TA-Q-BIN     | Kuroneko DM-Bin | Other       | Total        |
| \$10,698,219 | \$564,329       | \$3,716,288 | \$14,978,836 |

*(2) Information about Geographical Areas*

Operating revenues for the years ended March 31, 2020 and 2019, were as follows:

| 2020       |               |         |            | 2019       |               |         |            |
|------------|---------------|---------|------------|------------|---------------|---------|------------|
| Japan      | North America | Other   | Total      | Japan      | North America | Other   | Total      |
| ¥1,599,373 | ¥11,517       | ¥19,257 | ¥1,630,147 | ¥1,595,703 | ¥12,212       | ¥17,400 | ¥1,625,315 |

Thousands of U.S. Dollars

| 2020         |               |           |              |
|--------------|---------------|-----------|--------------|
| Japan        | North America | Other     | Total        |
| \$14,696,063 | \$105,829     | \$176,944 | \$14,978,836 |

Property, plant and equipment at March 31, 2020 and 2019, were as follows:

| 2020     |               |        |          | 2019     |               |        |          |
|----------|---------------|--------|----------|----------|---------------|--------|----------|
| Japan    | North America | Other  | Total    | Japan    | North America | Other  | Total    |
| ¥421,921 | ¥403          | ¥1,512 | ¥423,836 | ¥427,384 | ¥385          | ¥1,149 | ¥428,918 |

Thousands of U.S. Dollars

| 2020        |               |          |             |
|-------------|---------------|----------|-------------|
| Japan       | North America | Other    | Total       |
| \$3,876,881 | \$3,704       | \$13,889 | \$3,894,474 |

*(3) Information about Loss on Impairment of Long-Lived Assets by Reporting Segments*

Loss on impairment of long-lived assets by reporting segments for the years ended March 31, 2020 and 2019, were as follows:

|   | Millions of Yen |               |                  |            |           |           |       |       |                           |              |
|---|-----------------|---------------|------------------|------------|-----------|-----------|-------|-------|---------------------------|--------------|
|   | 2020            |               |                  |            |           |           |       |       |                           |              |
|   | Delivery        | BIZ-Logistics | Home Convenience | e-Business | Financial | Autoworks | Other | Total | Eliminations or Corporate | Consolidated |
| Loss on impairment of long-lived assets | ¥267            | ¥678          | ¥46              |            |           |           |       | ¥991  |                           | ¥991         |

|   | Millions of Yen |               |                  |            |           |           |       |        |                           |              |
|---|-----------------|---------------|------------------|------------|-----------|-----------|-------|--------|---------------------------|--------------|
|   | 2019            |               |                  |            |           |           |       |        |                           |              |
|   | Delivery        | BIZ-Logistics | Home Convenience | e-Business | Financial | Autoworks | Other | Total  | Eliminations or Corporate | Consolidated |
| Loss on impairment of long-lived assets | ¥546            | ¥265          | ¥1,276           |            |           |           |       | ¥2,087 |                           | ¥2,087       |

|   | Thousands of U.S. Dollars |               |                  |            |           |           |       |         |                           |              |
|---|---------------------------|---------------|------------------|------------|-----------|-----------|-------|---------|---------------------------|--------------|
|   | 2020                      |               |                  |            |           |           |       |         |                           |              |
|   | Delivery                  | BIZ-Logistics | Home Convenience | e-Business | Financial | Autoworks | Other | Total   | Eliminations or Corporate | Consolidated |
| Loss on impairment of long-lived assets | \$2,450                   | \$6,225       | \$425            |            |           |           |       | \$9,100 |                           | \$9,100      |

## 18. SUBSEQUENT EVENTS

### *a. Transactions under Common Control*

At the meeting held on January 23, 2020, the Board of Directors resolved to reorganize the Company's management structure from that of a pure holding company to that of an operating company, upon conducting an absorption-type merger and absorption-type split involving eight consolidated subsidiaries, including Yamato Transport Co., Ltd., on April 1, 2021.

On the other hand, to avoid problems such as delays in various procedures due to the effect of the spread of COVID-19, resolutions were made at a meeting of the Board of Directors held on May 15, 2020, to change the details of absorption-type merger and absorption-type split, to remove the Company from the parties of the said reorganization, and to perform reorganization involving the absorption-type merger and absorption-type split between Yamato Transport Co., Ltd., which is a consolidated subsidiary of the Company, and seven consolidated subsidiaries, including Yamato Logistics Co., Ltd. and Yamato Global Logistics Japan Co., Ltd.

### *Outline of Business Combination*

#### *(1) Absorption-type merger in which Yamato Transport Co., Ltd. is the surviving company*

##### *Name and business of the companies involved in the business combination*

###### *Surviving company*

Name: Yamato Transport Co., Ltd. ("YTC")

Business: Small parcel delivery services for the general public and corporations (TA-Q-BIN, Kuroneko DM-Bin, etc.)

###### *Dissolving company*

Name: Yamato Global Express Co., Ltd. ("YGX")

Business: Small parcel delivery services for corporations (domestic air cargo transport business, etc.)

Name: Yamato Logistics Co., Ltd. ("YLC")

Business: Logistics services for corporations (total support services including logistics, medical products distribution services, maintenance support service, and recall support service)

Name: Yamato Global Logistics Japan Co., Ltd. ("YGL")

Business: International air cargo service, handling of marine cargo, import/export customs clearance services, overseas lifestyle support services including international moving, fine art transport business

Name: Yamato Packing Service Co., Ltd. ("YPC")

Business: Packing / cargo transportation services

Name: Yamato Packing Technology Institute Co., Ltd. ("YPTI")

Business: R&D and sale of packaging containers and materials

Name: Yamato Financial Co., Ltd. ("YFC")

Business: Settlement services targeting business customers and general consumers (TA-Q-BIN Collect service, Internet total settlement service, etc.)

##### *Date of the business combination*

April 1, 2021 (planned)

##### *Legal form of the business combination*

Absorption-type merger with YGX, YLC, YGL, YPC, YPTI and YFC as dissolving companies and YTC as the surviving company

##### *Name of the company after the business combination*

The name will not change.

## Notes to Consolidated Financial Statements

### *(2) Absorption-type split in which Yamato Transport Co., Ltd. is the successor company*

#### *Name and content of business involved in the business combination*

Name: Web-based Mail Order Solution Business of Yamato System Development Co., Ltd. ("YSD")  
 Content: Offering a package consisting not only of services related to launch of a mail order business, but also, to fully support the customer's business, creating a tailor-made IT system and managing it

Name: Regional Operation Management Department of YSD  
 Content: Sales department

#### *Date of the business combination*

April 1, 2021 (planned)

#### *Legal form of the business combination*

Absorption-type split with YSD as the absorbed company and YTC as the successor company

#### *Name of the company after the business combination*

The name will not change.

### *(3) Outline and purpose of business combination*

The Company has formulated the Transformation Plan "YAMATO NEXT100." This plan has been formulated as a grand design, which is the framework of the next medium-term management plan, based on the results and challenges of the current medium-term management plan "KAIKAKU 2019 for NEXT100" and changes in the external environment.

Based on this plan, in April 2021, the Company will shift its current management structure into a management structure comprising four business divisions (Retail, Corporate, Global SCM, and EC) and four function divisions, with the objective of reforming the current system of partial optimization of functional units to a fully optimized organization structured according to customer segments to further improve the speed of management.

#### *Outline of accounting treatment applied*

The transaction will be accounted for as a transaction under common control in accordance with ASBJ Statement No. 21, "Accounting Standard for Business Combinations," and ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures."

### *b. Appropriations of Retained Earnings*

The following appropriation of retained earnings at March 31, 2020, was approved at the Company's Board of Directors meeting held on May 20, 2020:

|  | Millions of Yen | Thousands of<br>U.S. Dollars |
|--|-----------------|------------------------------|
| Year-end cash dividends, ¥ 26.00 (\$0.24) per share* | <b>¥10,016</b>  | <b>\$92,030</b>              |

\* The dividend per share of ¥26.00 (\$0.24) includes commemorative dividends of ¥10.00 (\$0.09) for the 100th anniversary since the Company's founding.