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CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

YEAR ENDED MARCH 31, 2020

CONTENTS

Consolidated Statement of Financial Position

FY2019 (As of March 31, 2020)

	Notes	Millions of yen		Thousands of U.S. dollars
		FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Assets				
Current assets				
Cash and cash equivalents	8, 41	131,152	168,422	1,545,156
Trade and other receivables	9, 41	101,498	95,067	872,174
Other financial assets	10, 41	7,970	11,277	103,459
Inventories	11	128,517	117,858	1,081,266
Other current assets	12	15,633	15,554	142,697
Subtotal		384,772	408,179	3,744,761
Non-current assets classified as held for sale	13	157	601	5,514
Total current assets		384,930	408,780	3,750,275
Non-current assets				
Property, plant and equipment	14, 17	115,997	104,204	956,000
Right-of-use assets	17, 22	−	25,727	236,028
Investment property	15	6,040	8,122	74,514
Goodwill and intangible assets	16, 17	146,203	134,409	1,233,110
Investments accounted for using the equity method	18	1,538	1,594	14,624
Other financial assets	10, 19, 41	32,799	27,871	255,697
Deferred tax assets	20	14,827	14,533	133,330
Other non-current assets	12, 25	6,265	6,229	57,147
Total non-current assets		323,673	322,692	2,960,477
Total assets		708,604	731,472	6,710,752

	Notes	Millions of yen FY2018 (As of March 31, 2019)	Millions of yen FY2019 (As of March 31, 2020)	Thousands of U.S. dollars FY2019 (As of March 31, 2020)
Liabilities and Equity				
Liabilities				
Current liabilities				
Trade and other payables	23, 41	62,216	51,041	468,266
Bonds and borrowings	21, 41	19,560	50,361	462,028
Other financial liabilities	21, 22, 24, 41	2,382	8,482	77,817
Income tax payables		8,071	3,455	31,697
Provisions	26	3,806	3,349	30,725
Contract liabilities	30	4,299	4,413	40,486
Other current liabilities	27	49,507	48,813	447,826
Total current liabilities		149,844	169,918	1,558,881
Non-current liabilities				
Bonds and borrowings	21, 41	77,232	56,650	519,725
Other financial liabilities	21, 22, 24, 41	9,666	28,540	261,835
Retirement benefits liabilities	25	17,585	20,261	185,881
Provisions	26	3,160	2,986	27,394
Deferred tax liabilities	20	6,456	5,564	51,046
Contract liabilities	30	890	1,189	10,908
Other non-current liabilities	27	2,174	1,188	10,899
Total non-current liabilities		117,166	116,382	1,067,725
Total liabilities		267,010	286,300	2,626,606
Equity				
Capital stock	28	19,209	19,209	176,229
Capital surplus	28	17,577	17,632	161,761
Retained earnings		462,244	491,803	4,511,954
Treasury stock	28	(2,694)	(2,597)	(23,826)
Other components of equity		(71,577)	(97,526)	(894,734)
Equity attributable to owners of the parent company		424,759	428,520	3,931,376
Non-controlling interests		16,833	16,650	152,752
Total equity		441,593	445,171	4,084,138
Total liabilities and equity		708,604	731,472	6,710,752

Consolidated Statement of Income

FY2019 (Year Ended March 31, 2020)

	Notes	Millions of yen		Thousands of U.S. dollars
		FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Revenue	6, 15, 30	683,972	637,259	5,846,413
Cost of sales	11, 14, 15, 16, 25, 31,34	(391,893)	(354,987)	(3,256,761)
Gross profit		292,079	282,272	2,589,651
Selling, general and administrative expenses	14, 16, 25, 32, 40	(220,105)	(215,330)	(1,975,505)
Other income	33, 34, 41	4,875	3,264	29,945
Other expenses	17, 25,33, 41	(4,924)	(2,876)	(26,385)
Operating profit	6	71,925	67,329	617,697
Finance income	35	4,039	2,289	21,000
Finance expenses	35	(3,800)	(2,700)	(24,771)
Share of profit/(loss) of investments accounted for using the equity method	18	109	128	1,174
Profit before income taxes		72,274	67,046	615,101
Income tax expenses	20	(18,097)	(17,347)	(159,147)
Profit for the year		54,177	49,699	455,954
Profit for the year attributable to:				
Owners of the parent company		53,902	49,566	454,734
Non-controlling interests		274	132	1,211
Profit for the year		54,177	49,699	455,954

	Notes	Yen		U.S. dollars
		FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Earnings per share				
Basic earnings per share	36	207.54	190.80	1.75
Diluted earnings per share	36	206.90	190.21	1.75

Consolidated Statement of Comprehensive Income

FY2019 (Year Ended March 31, 2020)

	Notes	Millions of yen		Thousands of U.S. dollars
		FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Profit for the year		54,177	49,699	455,954
Other comprehensive income, net of income tax				
Items that will not be reclassified subsequently to profit or loss				
Gains/(Losses) on investments in equity instruments designated as FVTOCI	37,41	(2,665)	(1,948)	(17,872)
Remeasurement of the net defined benefit liability	37	(953)	(1,933)	(17,734)
Share of other comprehensive income of investments accounted for using the equity method	18, 37	11	(17)	(156)
Total of items that will not be reclassified subsequently to profit or loss		(3,607)	(3,899)	(35,771)
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	37	(5,329)	(25,973)	(238,284)
Total of items that may be reclassified subsequently to profit or loss		(5,329)	(25,973)	(238,284)
Other comprehensive income for the year, net of income tax		(8,937)	(29,873)	(274,064)
Comprehensive income for the year		45,239	19,826	181,890
Comprehensive income for the year attributable to:				
Owners of the parent company		45,115	19,729	181,000
Non-controlling interests		124	96	881
Comprehensive income for the year		45,239	19,826	181,890

Consolidated Statement of Changes in Equity

FY2018 (Year Ended March 31, 2019)

(Millions of yen)

	Notes	Equity attributable to owners of the parent company					
						Other components of equity	
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations	Gains/(losses) on investments in equity instruments designated as FVTOCI
Balance as of March 31, 2018		19,209	17,517	427,842	(2,800)	(66,255)	―
Cumulative effect of adoption of the new accounting standards		―	―	(393)	―	―	―
Balance as of April 1, 2018		19,209	17,517	427,449	(2,800)	(66,255)	―
Profit for the year		―	―	53,902	―	―	―
Other comprehensive income/(loss)		―	―	―	―	(5,321)	(2,525)
Total comprehensive income/(loss) for the year		―	―	53,902	―	(5,321)	(2,525)
Acquisition of treasury stock		―	―	―	(11)	―	―
Disposal of treasury stock		―	(78)	(39)	117	―	―
Dividends paid	29	―	―	(15,603)	―	―	―
Share-based payment transaction	40	―	137	―	―	―	―
Reclassification to retained earnings		―	―	(3,464)	―	―	2,525
Total transactions with owners		―	59	(19,107)	106	―	2,525
Balance as of March 31, 2019		19,209	17,577	462,244	(2,694)	(71,577)	―

	Notes	Equity attributable to owners of the parent company			Non-controlling interests	Total equity
		Other components of equity		Total		
		Remeasurement of the net defined benefit liability (asset)	Total			
Balance as of March 31, 2018		―	(66,255)	395,514	16,980	412,494
Cumulative effect of adoption of the new accounting standards		―	―	(393)	―	(393)
Balance as of April 1, 2018		―	(66,255)	395,120	16,980	412,101
Profit for the year		―	―	53,902	274	54,177
Other comprehensive income/(loss)		(939)	(8,786)	(8,786)	(150)	(8,937)
Total comprehensive income/(loss) for the year		(939)	(8,786)	45,115	124	45,239
Acquisition of treasury stock		―	―	(11)	―	(11)
Disposal of treasury stock		―	―	0	―	0
Dividends paid	29	―	―	(15,603)	(270)	(15,873)
Share-based payment transaction	40	―	―	137	―	137
Reclassification to retained earnings		939	3,464	―	―	―
Total transactions with owners		939	3,464	(15,476)	(270)	(15,747)
Balance as of March 31, 2019		―	(71,577)	424,759	16,833	441,593

FY2019 (Year Ended March 31, 2020)

(Millions of yen)

	Notes	Equity attributable to owners of the parent company					
						Other components of equity	
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations	Gains/(losses) on investments in equity instruments designated as FVTOCI
Balance as of March 31, 2019		19,209	17,577	462,244	(2,694)	(71,577)	—
Cumulative effect of adoption of the new accounting standards		—	—	(494)	—	—	—
Balance as of April 1, 2019		19,209	17,577	461,749	(2,694)	(71,577)	—
Profit for the year		—	—	49,566	—	—	—
Other comprehensive income/(loss)		—	—	—	—	(25,949)	(1,927)
Total comprehensive income/(loss) for the year		—	—	49,566	—	(25,949)	(1,927)
Acquisition of treasury stock		—	—	—	(10)	—	—
Disposal of treasury stock		—	(76)	(18)	107	—	—
Dividends paid	29	—	—	(15,607)	—	—	—
Share-based payment transaction	40	—	131	—	—	—	—
Reclassification to retained earnings		—	—	(3,887)	—	—	1,927
Total transactions with owners		—	54	(19,513)	97	—	1,927
Balance as of March 31, 2020		19,209	17,632	491,803	(2,597)	(97,526)	—

	Notes	Equity attributable to owners of the parent company			Non-controlling interests	Total equity
		Other components of equity		Total		
		Remeasurement of the net defined benefit liability (asset)	Total			
Balance as of March 31, 2019		—	(71,577)	424,759	16,833	441,593
Cumulative effect of adoption of the new accounting standards		—	—	(494)	(8)	(503)
Balance as of April 1, 2019		—	(71,577)	424,264	16,825	441,090
Profit for the year		—	—	49,566	132	49,699
Other comprehensive income/(loss)		(1,959)	(29,836)	(29,836)	(36)	(29,873)
Total comprehensive income/(loss) for the year		(1,959)	(29,836)	19,729	96	19,826
Acquisition of treasury stock		—	—	(10)	—	(10)
Disposal of treasury stock		—	—	12	—	12
Dividends paid	29	—	—	(15,607)	(270)	(15,877)
Share-based payment transaction	40	—	—	131	—	131
Reclassification to retained earnings		1,959	3,887	—	—	—
Total transactions with owners		1,959	3,887	(15,474)	(270)	(15,744)
Balance as of March 31, 2020		—	(97,526)	428,520	16,650	445,171

(Thousands of U.S. dollars)

	Notes	Equity attributable to owners of the parent company					
						Other components of equity	
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations	Gains/(losses) on investments in equity instruments designated as FVTOCI
Balance as of March 31, 2019		176,229	161,257	4,240,771	(24,716)	(656,670)	—
Cumulative effect of adoption of the new accounting standards		—	—	(4,532)	—	—	—
Balance as of April 1, 2019		176,229	161,257	4,236,229	(24,716)	(656,670)	—
Profit for the year		—	—	454,734	—	—	—
Other comprehensive income/(loss)		—	—	—	—	(238,064)	(17,679)
Total comprehensive income/(loss) for the year		—	—	454,734	—	(238,064)	(17,679)
Acquisition of treasury stock		—	—	—	(92)	—	—
Disposal of treasury stock		—	(697)	(165)	982	—	—
Dividends paid	29	—	—	(143,183)	—	—	—
Share-based payment transaction	40	—	1,202	—	—	—	—
Reclassification to retained earnings		—	—	(35,661)	—	—	17,679
Total transactions with owners		—	495	(179,018)	890	—	17,679
Balance as of March 31, 2020		176,229	161,761	4,511,954	(23,826)	(894,734)	—

	Notes	Equity attributable to owners of the parent company			Non-controlling interests	Total equity
		Other components of equity		Total		
		Remeasurement of the net defined benefit liability (asset)	Total			
Balance as of March 31, 2019		—	(656,670)	3,896,872	154,431	4,051,312
Cumulative effect of adoption of the new accounting standards		—	—	(4,532)	(73)	(4,615)
Balance as of April 1, 2019		—	(656,670)	3,892,330	154,358	4,046,697
Profit for the year		—	—	454,734	1,211	455,954
Other comprehensive income/(loss)		(17,972)	(273,725)	(273,725)	(330)	(274,064)
Total comprehensive income/(loss) for the year		(17,972)	(273,725)	181,000	881	181,890
Acquisition of treasury stock		—	—	(92)	—	(92)
Disposal of treasury stock		—	—	110	—	110
Dividends paid	29	—	—	(143,183)	(2,477)	(145,661)
Share-based payment transaction	40	—	—	1,202	—	1,202
Reclassification to retained earnings		17,972	35,661	—	—	—
Total transactions with owners		17,972	35,661	(141,963)	(2,477)	(144,440)
Balance as of March 31, 2020		—	(894,734)	3,931,376	152,752	4,084,138

Consolidated Statement of Cash Flows

FY2019 (Year Ended March 31, 2020)

	Notes	Millions of yen FY2018 (Year ended March 31, 2019)	Millions of yen FY2019 (Year ended March 31, 2020)	Thousands of U.S. dollars FY2019 (Year ended March 31, 2020)
Cash flows from operating activities				
Profit before income taxes		72,274	67,046	615,101
Depreciation and amortization		33,674	40,197	368,780
Impairment losses		188	429	3,936
Finance expenses/(income)		(239)	411	3,771
Share of (profit)/loss of investments accounted for using the equity method		(109)	(128)	(1,174)
Losses/(gains) on sale or disposal of fixed assets		2,154	289	2,651
Decrease/(increase) in trade and other receivables		2,133	1,658	15,211
Decrease/(increase) in inventories		(12,179)	6,053	55,532
Increase/(decrease) in trade and other payables		(6,879)	(9,366)	(85,927)
Decrease/(increase) in retirement benefit assets		1,651	66	606
Increase/(decrease) in retirement benefit liabilities		361	3,161	29,000
Other		(3,148)	(1,323)	(12,138)
Subtotal		89,880	108,496	995,376
Interest received		984	1,028	9,431
Dividends received		378	360	3,303
Interest paid		(502)	(1,365)	(12,523)
Income taxes paid		(17,459)	(20,772)	(190,569)
Net cash provided by operating activities		73,280	87,748	805,028
Cash flows from investing activities				
Purchases of property, plant and equipment		(17,673)	(16,872)	(154,789)
Proceeds from sales of property, plant and equipment		387	1,172	10,752
Purchases of intangible assets		(7,794)	(9,212)	(84,514)
Purchases of investments in equity instruments		(1,022)	(834)	(7,651)
Proceeds from sales of investments in equity instruments		1,117	859	7,881
Purchases of investments in debt instruments		(4,782)	(7,537)	(69,147)
Proceeds from sales or redemption of investments in debt instruments		8,077	7,666	70,330
Payments for acquisition of business	7	—	(2,030)	(18,624)
Other		(934)	(1,166)	(10,697)
Net cash used in investing activities		(22,624)	(27,955)	(256,468)
Cash flows from financing activities				
Proceeds from short-term borrowings	38	—	29,873	274,064
Repayment of short-term borrowings	38	(1,042)	—	—
Proceeds from long-term borrowings	38	—	200	1,835
Repayment of long-term borrowings	38	(296)	(20,197)	(185,294)
Redemption of bonds	38	(20,231)	(92)	(844)
Repayment of lease obligations	38	(1,590)	(8,813)	(80,853)
Dividends paid	29	(15,603)	(15,607)	(143,183)
Dividends paid to non-controlling interests		(270)	(270)	(2,477)
Other		(7)	(8)	(73)
Net cash provided by (used in) financing activities		(39,040)	(14,916)	(136,844)
Effect of exchange rate changes on cash and cash equivalents		(1,847)	(7,606)	(69,780)
Net increase/(decrease) in cash and cash equivalents		9,767	37,270	341,927
Cash and cash equivalents at the beginning of the year	8	121,384	131,152	1,203,229
Cash and cash equivalents at the end of the year	8	131,152	168,422	1,545,156

Notes to the Consolidated Financial Statements

1. Reporting Entity

BROTHER INDUSTRIES, LTD. (hereinafter referred to as the "Company") is a corporation located in Japan. The consolidated financial statements of the Company consist of the financial statements of the Company, its consolidated subsidiaries (collectively, the "Group") and its share of interests in associates.

The Group operates six businesses, consisting of the Printing & Solutions Business, Personal & Home Business, Machinery Business, Network & Contents Business, Domino Business and Others Business. The details of the principal businesses of the Group are described in Note 6 "Segment Information."

2. Basis of Preparation

(1) Compliance with IFRS

The Group meets all of the requirements for a "Specified Company for the designated International Financial Reporting Standards (“IFRSs”)" to prepare its consolidated financial statements by applying the designated IFRSs as stipulated under Article 1-2 of the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance of Japan Regulation No. 28, 1976, hereafter "the Regulation"). Hence, in accordance with Article 93 of the Regulation, the Group's consolidated financial statements have been prepared in accordance with IFRS.

The Group's consolidated financial statements for the year ended March 31, 2020, were approved on June 24, 2020 by Ichiro Sasaki, Representative Director & President of the Company.

(2) Basis of measurement

The Group's consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statement of financial position:

- Derivative financial instruments are measured at their fair values.
- Non-derivative financial assets to be measured at fair value are measured at their fair values.
- Defined benefit pension plan assets and liabilities are measured at the present value of defined benefit obligations less the fair value of the plan assets.
- When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, its right to reimbursement is recognized as a separate asset and is measured at fair value.

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. The units are in millions of yen, and figures less than one million yen are rounded down.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan using the rate of ¥109 to $1, the foreign exchange rate 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.

3. Significant Accounting Policies

Unless otherwise indicated, the accounting policies stated below have been consistently applied to all the periods reported in the consolidated financial statements.

(Changes in accounting policies)

The Group has adopted the following standard and interpretation since the year ended March 31, 2020.

IFRS		Description of new standard and amendment
IFRS 16	Leases	Provides accounting treatment for leases and the disclosure thereof

Under IFRS 16, a lessee shall account for a lease as the acquisition of a right-of-use asset and recognize a right to use the leased asset (a right-of-use asset) and obligation to pay the consideration (a lease liability) of all leases at the commencement date.

In accordance with the transition requirements, the Group retrospectively applied IFRS 16 at the date of initial application, April 1, 2019, and recognized the cumulative effect of initially applying this standard at the date of initial application as an adjustment to the opening balance of "Retained earnings" for the year ended March 31, 2020. Comparative figures for the year ended March 31, 2019 are not restated, complying with International Accounting Standard 17 "Leases" (hereafter "IAS 17"). In transitioning to IFRS16, the Group has chosen the practical expedient detailed in IFRS 16 paragraph C3 and grandfathered its assessments of whether contracts contain leases based on IAS 17 and International Financial Reporting Interpretations Committee ("IFRIC") 4 "Determining whether an Arrangement contains a Lease."

For leases that the Group as a lessee previously classified as operating leases applying IAS 17, lease liabilities are recognized at the date of initial application of IFRS 16. These lease liabilities have been measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. The weighted average of the lessee's incremental borrowing rates applied to lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 2.6%.

The following is a reconciliation of operating lease contracts disclosed applying IAS 17 as of March 31, 2019 and lease liabilities recognized in the consolidated statement of financial position at the date of initial application.

	(Millions of yen)	(Thousands of U.S. dollars)
Non-cancellable operating lease contracts as of March 31, 2019 (discounted)	14,414	132,239
Finance lease liabilities as of March 31, 2019	4,004	36,734
Cancellable operating lease contracts, etc.	14,839	136,138
Lease liabilities as of April 1, 2019	33,258	305,119

The following practical expedients are used in the application of IFRS 16.

- Leases for which the lease term ends within 12 months of the date of initial application are accounted for in the same way as short-term leases.
- For leases for which the underlying asset is of low value, right-of-use assets and lease liabilities are not recognized.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.

With the adoption of IFRS 16, leases previously classified as operating leases applying IAS 17 were recognized as "Right-of-use assets" and "Lease liabilities" in the consolidated statement of financial position as of March 31, 2020, and "Total assets" and "Total liabilities" at the date of initial application increased by ¥28,750 million ($263,761 thousand) and ¥29,253 million ($268,376 thousand), respectively.

In accordance with the transition requirements, the Group retrospectively adopted IFRS 16 and applied the method of recognizing the cumulative effect of initially applying this standard at the date of initial application. As a result, the opening balance of "Retained earnings" for the year ended March 31, 2020 decreased by ¥494 million ($4,532 thousand).

Due to the recognition of "Right-of-use assets," lease payments, which were previously recognized as rents, are recognized as depreciation charge in the consolidated statement of income for the year ended March 31, 2020. In addition, due to the recognition of "Lease liabilities," interest expense on lease liabilities is recognized. Compared with the application of the former accounting standard, the impact on “Operating profit” and “Profit for the year” in the consolidated statement of income for the year ended March 31, 2020 was not material.

Also, depreciation charge for right-of-use assets of ¥8,927 million ($81,899 thousand) was recognized in the consolidated statement of income for the year ended March 31, 2020.

In the consolidated statement of cash flows for the year ended March 31, 2020, lease payments, which were previously included as rents in “Cash flows from operating activities,” are included in “Repayment of lease obligations” under “Cash flows from financing activities.” There was no new cash inflow or cash outflow recognized due to this presentation change.

(1) Basis of consolidation

<1> Subsidiaries

A subsidiary is an entity that is controlled by the Group. As a result of such control, the Group has exposure and rights to variable returns from its involvement with an entity and has the ability to affect those returns through its power over such entity.

The subsidiary is consolidated from the date of acquisition of the control to the date of loss of the control by the Group.

If accounting policies applied by subsidiaries are different from those applied by the Group, adjustments are made to the subsidiary’s financial statements, if necessary. All intra-Group balances, transactions, unrealized gains and losses are eliminated on consolidation.

Changes in an interest of a subsidiary without losing control are accounted for as equity transactions. If there is a difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, the difference is recognized directly in equity and attributed to the owners of the parent company.

If a loss in control of a subsidiary occurs, the Group recognizes in profit or loss the gains and losses arising from the transaction.

<2> Associates and joint ventures

An associate is an entity over which the Group does not have control or joint control but has significant influence over its financial and operating policies.

A joint venture is an entity based on contractual agreements in which two or more parties have been bounded to conduct significant economic activities through joint control.

Investments in associates are accounted for using the equity method. Under the equity method, the investments in an associate or a joint venture are initially recognized at acquisition cost and the carrying amount is increased or decreased to recognize the Group's share of the net assets of the associate or the joint venture after the date of acquisition. The amount of goodwill recognized at the date of acquisition has been included in the carrying amount of investments without any amortization.

The accounting policies for associates and joint ventures are adjusted as required in order to comply with the accounting policies adopted by the Group.

(2) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group in exchange for control of the acquiree. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Acquisition-related costs including finder's fees, legal, due-diligence and other professional fees are recognized in profit or loss as incurred.

Non-controlling interests measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted during the 'measurement period' (which cannot exceed one year from the acquisition date) or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at the date.

Additional acquisitions of non-controlling interests are accounted for as equity transactions, and no goodwill is recognized. When a business combination is achieved in stages, the Group's previously-held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with International Accounting Standard ("IAS") 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree, or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and,
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

(3) Foreign currencies

<1> Foreign currency transaction

Foreign currency transactions are translated into the functional currency of each company in the Group at the rates of exchange prevailing at the date of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was originally determined.

Differences arising from the translation or settlement are recognized in profit or loss, as presented in "Other income" or "Other expenses" in the consolidated statement of income. However, differences relating to financial activities are presented in "Finance income" or "Finance expenses" in the consolidated statement of income. Also, differences arising from financial assets carried at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

<2> Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period. Foreign exchange differences arising from the translation are initially recognized as "Exchange differences on translating foreign operations" in other comprehensive income and accumulated in "Other components of equity", which are reclassified from equity to profit or loss on disposal.

Goodwill and fair value adjustments resulting from the acquisition of foreign operations are retranslated as assets and liabilities of such foreign operations as at the end of the reporting period. The exchange differences are recognized in "Exchange differences on translating foreign operations" in other comprehensive income and accumulated in "Other components of equity".

(4) Financial instruments

<1> Financial assets

(i) Initial recognition and measurement

Financial assets are classified into financial assets measured at fair value through profit or loss or other comprehensive income and those measured at amortized cost. The classification is determined at the time of initial recognition.

All financial assets other than those measured at fair value through profit or loss are measured at fair value and transaction costs.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

Equity instruments are in principle irrevocably designated as measured at fair value through other comprehensive income ("FVTOCI"). Debt instruments measured at fair value are classified as financial assets measured at fair value through other comprehensive income if the objective of business model has been achieved by both collecting contractual cash flows and selling financial assets.

(ii) Subsequent measurement

After initial recognition, financial assets are measured based on the classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the net carrying amount. Interest income based on the effective interest method is recognized in profit or loss and included in "Finance income" in the consolidated statement of income. In cases where a financial asset measured at amortized cost is derecognized, the difference between the carrying amount and the consideration received or receivable is recognized in profit or loss and included in "Other income" or "Other expenses" in the consolidated statement of income.

(b) Financial assets measured at fair value

Changes in the fair value or gains or losses on disposal of financial assets measured at fair value other than derivatives are recognized in profit or loss and included in "Other income" or "Other expenses" in the consolidated statement of income. However, remeasurement of fair value and gains or losses on disposal of investments in equity instruments designated as at FVTOCI are recognized as other comprehensive income, and the accumulated amount is reclassified into retained earnings. Dividends from the financial assets are recognized in profit or loss as part of "Finance income" in the consolidated statement of income.

(iii) Impairment on financial assets

An allowance for doubtful accounts is recognized for expected credit losses for financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, and lease receivables.

The Group assesses, at the end of each reporting period, whether the credit risk of financial instruments has increased significantly since initial recognition. If certain financial assets are deemed to have low credit risk as of the reporting date, the Group determines that the credit risk on the financial instruments has not significantly increased after the initial recognition.

If the credit risk on financial assets has significantly increased since the initial recognition, or with respect to the credit-impaired financial assets, a loss allowance is recognized for the lifetime expected credit losses. If such risk has not significantly increased, a loss allowance is recognized for the 12-month expected credit losses. Expected credit losses are measured based on the present value of the difference between the contractual cash flows to be received and the cash flows expected to be received.

The Group directly reduces the total carrying amount of financial assets if it does not reasonably expect to collect all or part of certain financial assets.

In regards to operating receivables and lease receivables, lifetime expected credit losses are recognized since the initial recognition.

The amount of expected credit losses (or reversal) that is required to adjust the loss allowance is recognized in profit or loss and included in “Other expenses” or “Other income” in the consolidated statement of income.

(iv) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers substantially all the risks and rewards of ownership of the financial asset. If the Group retains control over the transferred financial asset, the Group recognizes its retained interest on the financial asset and an associated liability for amounts it may have to pay to the extent of its continuing involvement in the financial asset.

<2> Financial liabilities

(i) Initial recognition and measurement

The Group classifies all financial liabilities other than derivatives into financial liabilities measured at amortized cost.

All financial liabilities are measured at fair value at initial recognition. However, those other than derivatives are measured at fair value after deducting transaction costs that are directly attributable to the issuance of financial liabilities.

(ii) Subsequent measurement

Financial liabilities other than derivatives are measured at amortized cost using the effective interest method after initial recognition. Interest expenses using the effective interest method are included in “Finance expenses” in the consolidated statement of income, and gains or losses on derecognition are recognized in profit or loss and included in “Other income” or “Other expenses,” respectively.

(iii) Derecognition of financial liabilities

The Group derecognizes a financial liability when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expired.

<3> Presentation of financial assets and liabilities

Financial assets are offset against financial liabilities and the net amounts are presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize assets and settle the liabilities simultaneously.

<4> Hedge accounting and derivatives

Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The Group utilizes derivatives such as foreign exchange contracts to fix cash flows regarding the recognized financial assets and liabilities or the future transactions. The Group does not hold any derivatives for speculative or dealing purposes in accordance with the Group's rule.

The Group has derivatives that are held for hedging purposes but do not qualify for hedge accounting. The fluctuation of the fair value of these derivatives is recognized in profit or loss immediately, and included in "Other income" or "Other expenses" in the consolidated statement of income. However, the fluctuation of the fair value of derivatives related to financial activities are included in "Finance income" or "Finance expenses" in the consolidated statement of income. The effective portion of cash flow hedges is recognized in other comprehensive income.

To assess whether the hedging relationship qualifies for hedge accounting, at the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategies for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group assesses whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

Hedges are determined effective when all of the following requirements are met:

(i)There is an economic relationship between the hedged item and the hedging instrument;

(ii)The effect of credit risk does not dominate the value changes that result from that economic relationship; and

(iii)The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged items that the Group actually hedges and the quantity of the hedging instruments that the Group actually uses to hedge that quantity of hedged items.

If a hedging relationship ceases to meet the hedge effectiveness requirements relating to the hedge ratio, but the risk management objective remains the same, the Group shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Cash flow hedge accounting is applied only for highly probable forecast transactions.

Hedging relationships that meet qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The Group uses only cash flow hedges.

The portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognized in other comprehensive income, and any remaining gain or loss on the hedging instruments that is determined to be an ineffective hedge is recognized in profit or loss immediately in the consolidated statement of income.

If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group directly transfers the cash flow hedge reserve to the initial cost or other carrying amount of the asset or liability.

Cash flow hedge reserve on cash flow hedges other than those stated above is reclassified to profit or loss in the same period during which the hedged expected future cash flows affect profit or loss.

However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, the amount that is not expected to be recovered is immediately reclassified into profit or loss.

When the Group discontinues hedge accounting, if the hedged future cash flows are still expected to occur, the unrealized gain or loss on the cash flow hedge remains as another component of equity until the future cash flows occur. If the hedged future cash flows are no longer expected to occur, the unrealized gain or loss on the hedge is immediately reclassified to profit or loss.

(5) Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposit and other short-term, highly-liquid investments with original maturities of approximately three months or less and insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined mainly using the weighted-average method.

(7) Property, plant and equipment

Property, plant and equipment are measured by using the cost model and are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

The cost includes any costs directly attributable to the acquisition of the assets, any cost related to their dismantlement, removal or restoration of land and any borrowing costs eligible for capitalization.

Property, plant and equipment other than land and construction in progress are depreciated using the straight-line method over the estimated useful life of each component of the assets.

The estimated useful lives of major property, plant and equipment are as follows:

- Buildings and structures: 3 to 60 years
- Machinery and equipment: 3 to 20 years
- Tools, equipment and fixtures: 2 to 20 years

The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed at each year end and changed as necessary.

Property, plant and equipment are derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of property, plant and equipment is recognized in profit or loss when the item is derecognized and is included in "Other income" or "Other expenses" in the consolidated statement of income.

(8) Investment property

Investment properties are properties held to earn rental income and/or for capital appreciation.

Investment properties are measured by using the cost model and are initially stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of investment properties is principally computed under the straight-line method over the following estimated useful lives:

Buildings and structures: 3 to 60 years

The estimated useful lives, residual values and depreciation methods are reviewed at each year end and changed as necessary.

(9) Goodwill and Intangible assets

<1> Goodwill

Goodwill is measured at the sum of the consideration transferred, the amount of non-controlling interest and the fair value of equity interests in the acquiree held previously by the Group, less the net amount of identifiable assets and liabilities at the acquisition date. Goodwill is recognized at acquisition cost less accumulated impairment losses.

Goodwill is not amortized, but instead tested for impairment annually or whenever there is any indication of impairment. An impairment loss on goodwill is included in “Other expenses” in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in a subsequent period.

<2> Capitalization of development cost

Expenditures on research activities to gain new scientific or technical knowledge are recognized as expenses as incurred. Expenditures on development activities are capitalized as internally-generated intangible assets only if the Group can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
(b) its intention to complete the intangible asset and use or sell it;
(c) its ability to use or sell the intangible asset;
(d) how the intangible asset will generate probable future economic benefits;
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Initial recognition of the internally-generated intangible assets is the total expenditure incurred from the date when all the above conditions are satisfied to the date when the developments are finished. The internally-generated intangible assets are amortized using the straight-line method over a period in which the funds spent for the development are expected to be recovered (i.e., 2 to 5 years) and are presented in the consolidated statement of financial position at cost, net of accumulated amortization and accumulated impairment losses.

Expenditures on development activities that do not meet the conditions above and research activities are recognized as expenses as incurred.

<3> Other intangible assets

Separately acquired intangible assets are measured at the acquisition at the time of initial recognition. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Intangible assets other than goodwill are amortized using the straight-line method over the estimated useful life of each component of the assets and are stated at the acquisition cost less any accumulated amortization and accumulated impairment losses. The estimated useful lives of major intangible assets are as follows:

- Software: 2 to 5 years
- Patents: 8 to 10 years
- Customer related assets: 15 years

The estimated useful lives, residual values and amortization methods are reviewed at each year-end and changed as necessary.

Intangible assets with indefinite useful lives are recognized at acquisition cost less accumulated impairment losses and are not amortized, but instead tested for impairment annually or whenever there is any indication of impairment.

Intangible assets are derecognized on disposal or when no future economic benefits are expected from their continued use or disposal. The gain or loss arising from the derecognition of intangible assets is included in profit or loss when the item is derecognized and is included in “Other income” or “Other expenses” in the consolidated statement of income.

(10) Non-current assets held for sale

Non-current assets (or disposal groups) for which the carrying amount is expected to be recovered through a sale transaction rather than through continuing use are classified as non-current assets (or disposal groups) held for sale when the following conditions are met: it is highly probable that the asset or disposal group will be sold within one year, the assets (or disposal groups) are available for immediate sale in their present condition, and the Group management commits to the sale plan. In such cases, they are not depreciated or amortized and are measured at the lower of their carrying amount and the fair value less costs to sell.

(11) Leases

For the year ended March 31, 2019

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership are transferred to lessee. All other leases are classified as operating leases.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement in accordance with IFRIC 4 "Determining whether an Arrangement contains a Lease," even if the arrangement does not take the legal form of a lease.

In finance lease transactions as the lessee, lease assets and lease obligations are initially recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Subsequent to the initial recognition, the assets are depreciated based on the applicable accounting policies applied to the assets.

Lease payments are allocated to finance expenses and repayment amounts of lease obligations based on the interest method, and finance expenses are included in the consolidated statement of income.

Lease receivables arising from finance lease transactions as lessor are recognized at the amounts of the net investment in the relevant lease transactions.

In operating lease transactions as lessee, lease payments are recognized as an expense over the lease terms using the straight-line method in the consolidated statement of income. Variable lease payments are recognized as an expense over the period in which they are incurred.

In operating lease transactions as lessor, income from operating leases are recognized in profit or loss using the straight-line method over the lease term, and the initial direct cost incurred within the Group at the conclusion of the operating lease agreement is added to the carrying amount of the lease asset and recognized in profit or loss over the lease term under the same criteria as lease income. Variable lease payments receivables are recognized in profit or loss over the period in which they are incurred.

For the year ended March 31, 2020

(As lessee)

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. It is determined that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

When a contract is assessed to be, or contain, a lease, a right-of-use asset and a lease liability are recognized at the commencement date. Lease liabilities are measured at the present value of the total accrued lease payments. Right-of-use assets are measured at the initial amount of the lease liability adjusted for any prepaid lease payments and any initial direct costs incurred by the lessee, plus any costs including restoration obligations under the lease contracts.

After initial recognition, right-of-use assets are depreciated on a straight-line basis over the shorter of their useful lives and lease terms.

Lease payments are apportioned between the finance expenses and the reduction of the outstanding liability using the interest method. Finance expenses are recognized in the consolidated statement of income.

For short-term leases with a lease term of 12 months or less and leases for which the underlying asset is of low value, right-of-use assets and lease liabilities are not recognized. Lease payments associated with these leases are recognized as expenses on either a straight-line basis or another systematic basis over the lease term.

(As lessor)

The Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

In finance leases, at the commencement date, assets held under a finance lease are recognized in the consolidated statement of financial position and presented as a lease receivable at an amount equal to the net investment in the leases.

In operating leases, assets subject to an operating lease are recognized in the consolidated statement of financial position and lease payments are recognized as income on a straight-line basis over the lease term in the consolidated statement of income.

(12) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amount of its non-financial assets, except for inventories and deferred tax assets, and assesses whether there is any indication of impairment regarding each asset or cash-generating unit (or group) to which the asset belongs. Impairment tests are performed if indications of impairment exist. The cash-generating unit (or group) to which an impairment test is performed is the smallest unit (or group) that is identified to generate cash inflows independently of cash inflows from other assets or asset groups. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units. Goodwill and intangible assets with indefinite useful lives are allocated to appropriate cash-generating units and tested for impairment at least annually, irrespective of whether there is any indication of impairment or whenever there is an indication of impairment.

The recoverable amount of assets or cash-generating units is the higher of the value in use and the fair value less costs of disposal. In calculating value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. In measuring fair value less costs of disposal, appropriate valuation models evidenced by available fair value indicators are used.

When the carrying amount of the asset or the cash-generating unit exceeds its recoverable amount, the exceeding amount is recognized as impairment losses in “Other expenses” in the consolidated statement of income. The impairment loss recognized in relation to the cash-generating unit (or group) is allocated first to reduce the carrying amount of goodwill allocated to the unit and then to allocate the impairment loss that exceeds the carrying amount of goodwill to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit (or group).

An impairment loss is reversed if the indication that an impairment loss previously recognized may no longer exist and the recoverable amount exceeds the carrying amount as a result of an estimation of the recoverable amount. The increased carrying amount by the reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in prior years. The impairment loss for goodwill is not reversed.

(13) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of the qualifying assets, which are assets that necessarily take a substantial period of time to get ready for the intended use or sale are added to the costs of those assets, until the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(14) Employee benefits

<1> Post-employment benefits

The Company and certain consolidated subsidiaries provide defined benefit plans and defined contribution plans as employees' post-employment benefit plans.

Defined contribution plans are post-employment benefit plans under which the companies pay fixed contributions into separate entities and will have no legal or constructive obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans.

The Company and certain consolidated subsidiaries calculate the present value and the service cost of defined benefit obligations mainly using the projected unit credit method.

The discount period is determined based on the period until the expected date of future benefit payment in each reporting period, and the discount rate is determined by reference to market yields on high quality corporate bonds at the fiscal year-end corresponding to the discount period.

Net defined benefit liabilities or assets are the present value of defined benefit obligations less the fair value of plan assets and presented as “Retirement benefit liabilities” or included in “Other non-current assets” in the consolidated statement of financial position. When there is a funding surplus, net defined benefit asset is recognized up to the ceiling of the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

If it is virtually certain that some or all of the expenditure required to settle defined benefit obligations is expected to be reimbursed by another party, the right of such reimbursement is recognized as an asset and included as part of "insurance reserve funds" in "Other non-current assets" in the consolidated statement of financial position.

The differences arising from the remeasurement of net defined benefit liabilities (assets) are collectively recognized as other comprehensive income in the period in which they occur and are immediately reclassified from other components of equity to retained earnings.

Past service cost, which is the change in the present value of defined benefit obligations resulting from the amendment or curtailment of the plan, is recognized in profit or loss in the period in which it is incurred.

Contributions to the defined contribution plan are recognized as an expense when employees provide related services.

<2> Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the service is rendered.

Accruals are recognized as a liability when the companies have present legal or constructive obligations to pay as a result of past employee service and when reliable estimates of the obligation can be made.

<3> Other employee benefits

Long-term employee benefit obligations other than retirement benefit obligations are determined by discounting the estimated amount of future benefits obtained as a result of past and current employee service to its present value.

(15) Share-based payments

The Group has adopted a stock option scheme as an equity-settled share-based payment scheme. The fair value determined at the grant date is expensed over the vesting period in the consolidated statement of income, taking into account the estimated number of stock options that will eventually vest, and the same amount is recognized as an increase in capital in the consolidated statement of financial position. The fair value of the option granted is calculated using the Black-Scholes Model or other methods considering the terms and conditions.

(16) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle such obligations and reliable estimates can be made of the amounts. The amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation, discounting to the present value using a pre-tax discount rate that reflects the effect of the time value of money and risks specific to the obligation. Interest expense associated with the passage of time are recognized as finance expenses.

<1> Asset retirement obligations

When legal or contractual obligations are imposed in relation to the retirement of property, plant and equipment due to the acquisition, construction, development or normal operation of the property, plant and equipment, the amount calculated by discounting expected future expenditures required for the retirement to the present value is recognized as a liability in the consolidated statement of financial position, and the amount corresponding to the liability is accounted for as part of property, plant and equipment and investment property. Estimated future expenses and the applied discount rate are reviewed annually and added to or subtracted from the respective accounts if adjustments are deemed necessary.

<2> Provision for product warranty

Provision for product warranty is estimated and recognized based on past experience of the occurrence of detective goods and the expected after-sales service costs in the warranty period. The provision of allowance for product warranty is included in "Selling, general and administrative expenses" in the consolidated statement of income.

<3> Other provisions

Other provisions include a provision for environmental measures.

(17) Revenue

With the adoption of IFRS 15, the Group recognizes revenue based on the following five-step model.

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 Group mainly sells printers, communication/printing equipment (such as multifunctional machines), domestic sewing machines, industrial sewing machines, machine tools, reducers, gears and commercial online karaoke systems, as well as industrial printing equipment. For sales of such products, because the customer obtains control over the products upon delivery, the performance obligation is satisfied, and revenue is therefore recognized, upon delivery of the products. Rendering of Services, such as content distribution services, maintenance and operation, relating to these products may be provided to the customer. Revenue is recognized based on the contractual period because the performance obligations relating to these services are generally satisfied with the passage of time.

Also, revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates, returns and other items.

(18) Government grants

Government grants are recognized at fair value until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grant associated with an expense are recognized as revenue in the same accounting period when the expense is incurred. Government grant related to assets are recognized as deferred revenue and transferred to profit or loss on a systematic basis over the useful lives of the related assets.

(19) Income taxes

Income taxes represents the sum of the current taxes and deferred taxes. These income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and those arising from business combinations.

Current taxes are measured at the amount expected to be paid to or refunded from local taxation authorities. For the calculation of the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period based on the taxable profit or loss for the Group's operating activity in each country.

Deferred taxes are recognized over the temporary differences between the carrying amounts of assets and liabilities and their tax basis, unused tax losses and unused tax credits at the end of each reporting period. The deferred tax assets or liabilities are not recognized for the following temporary differences:

- temporary differences arising from the initial recognition of goodwill;
- temporary differences arising from the initial recognition of assets or liabilities in transactions that do not affect either accounting profit or taxable profit, except business combination;
- taxable temporary differences arising from investments in subsidiaries and associates and interests in joint

ventures to the extent that the timing of the reversal of the temporary difference is controlled and that it is not probable that the temporary difference will reverse in the foreseeable future; and

- deductible temporary differences arising from investments in subsidiaries and associates and interests in joint ventures to the extent that it is not probable that the temporary difference will reverse in the foreseeable future.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets for deductible temporary differences are only recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that there will be sufficient taxable profit against which all or part of the deferred tax assets can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and recognized only to the extent that it is probable that the deferred tax assets can be recovered by future taxable profits.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the year when the assets are realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

The Group recognizes an asset or liability for the effect of uncertainty in income taxes measured at the reasonable estimate for uncertain tax positions when it is probable, based on the Group's interpretation of tax laws in which the tax positions will be sustained.

(20) Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury stock. Diluted earnings per share is calculated by adjusting the effects of all dilutive potential ordinary shares.

(21) Equity

(Common stock)

The amount of common stock issued by the Company is recognized as “Capital stock” and “Capital surplus” in the consolidated statement of financial position. Direct costs related to the issuance of common stock and stock options are deducted from "Capital surplus."

(Treasury stock)

Treasury stock is measured at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of treasury stock. Any difference between the carrying amount and the consideration on sale is recognized as capital surplus.

(22) Dividends

Dividends to the shareholders of the Company are recognized as liabilities in the period in which the Board of Directors’ meeting approves the distribution.

(23) Fair value measurements

Certain assets and liabilities are measured at fair value. The fair values of these assets and liabilities have been determined using valuation methodologies such as the market approach, the income approach and the cost approach.

There are three levels of inputs that may be used to measure fair value.

Level 1 – quoted prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

The fair value of financial instruments categorized as Level 3 is measured in accordance with the Group's accounting policies. In measuring the fair value, the valuation methodologies and inputs which reflect the nature, characteristics and risks of each financial instrument most appropriately are used. The results of the fair value measurement of financial instruments at the end of each reporting period are reviewed and approved by management.

4. Significant Accounting Estimates and Judgments involving estimations

In preparing the consolidated financial statements in accordance with IFRS, management is required to make judgments, estimates and assumptions that have an effect on the application of accounting policies as well as the reported amounts of assets, liabilities, revenues and expenses. Actual operating results may differ from these estimates.

The estimates and the underlying assumptions are continuously reviewed. The effects of revisions to the accounting estimates are recognized in the period in which such estimates are revised as well as in the future periods.

Significant estimates and assumptions that have material effects on the consolidated financial statements of the Group are as follows:

- Scope of consolidation: Note 3 “Significant Accounting Policies” (1) Basis of consolidation
- Revenue recognition and measurement: Note 3 “Significant Accounting Policies” (17) Revenue
- Collectability of trade and other receivables: Note 3 “Significant Accounting Policies” (4) Financial instruments, Note 9 “Trade and Other Receivables” and Note 41 “Financial Instruments”
- Valuation of inventories: Note 3 “Significant Accounting Policies” (6) Inventories and Note 11 “Inventories”
- Estimates of useful lives and residual values of non-current assets: Note 3 “Significant Accounting Policies” (7) Property, plant and equipment to (11) Leases, Note 14 “Property, Plant and Equipment,” Note 15 “Investment Property,” Note 16 “Goodwill and Intangible Assets” and Note 22 “Leases”
- Lease terms of right-of-use assets: Note 3 “Significant Accounting Policies” (11) Leases and Note 22 “Leases”
- Impairment losses of property, plant and equipment, right-of-use assets, intangible assets, including goodwill, and investment property: Note 3 “Significant Accounting Policies” (12) Impairment of non-financial assets and Note 17 "Impairment of Non-Financial Assets”
- Fair value of financial instruments: Note 3 “Significant Accounting Policies” (4) Financial instruments and (23) Fair value measurements and Note 41 “Financial Instruments”
- Recoverability of deferred tax assets: Note 3 “Significant Accounting Policies” (19) Income taxes and Note 20 “Income Taxes”
- Recognition and measurement of provisions: Note 3 “Significant Accounting Policies” (16) Provisions and Note 26 “Provisions”
- Measurement of defined benefit obligation: Note 3 “Significant Accounting Policies” (14) Employee benefits and Note 25 “Employee Benefits”

Regarding the impact of COVID-19, it is impossible to predict how it will spread and when it will end. GDP growth rates are expected to be negative worldwide due to the pandemic. There is growing uncertainty over the Group’s future business activities.

The Group has made estimates and judgements involving estimations that the current situation will affect its consolidated financial performance for the year ending March 31, 2021 and the situation will be serious, especially, in the first half of the year. The Group’s consolidated financial statements for the year ending March 31, 2021 and onwards (particularly, impairment losses of property, plant and equipment, right-of-use assets, intangible assets, including goodwill, and investment property) may be significantly affected depending on the actual outcome.

5. New Standards Not Yet Adopted

Of the standards and interpretations newly established or revised by the date of approval of the consolidated financial statements, those not applied by the Group would not significantly affect the consolidated financial statements.

6. Segment Information

(1) Outline of reportable segments

Reportable segments of the Group are the components of the Group for which discrete financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate management resources and in assessing performance.

The Group's reportable segments are consistent with its businesses. The Group formulates comprehensive strategies for its products and services in Japan and overseas to develop business activities in six segments: “Printing & Solutions”, “Personal & Home”, “Machinery”, “Network & Contents”, “Domino”, and “Others”.

“Printing & Solutions” consists of sale and production of communications and printing equipment such as printers and All-in-Ones, and of sale and production of electronic stationery products. “Personal & Home” consists of sale and production of home sewing machines. “Machinery” consists of sale and production of industrial sewing machines, garment printers, machine tools, reducers and gears. “Network & Contents” consists of sale and production of online karaoke systems, and of content distribution services. “Domino” consists of sale and production of industrial printing equipment.

Reportable segment profit or loss is measured on the basis of operating profit in the consolidated statement of income. Business segment profit or loss is calculated by subtracting the cost of sales and selling, general and administrative expenses from Revenue for each reportable segment.

(2) Segment revenue and results

The Group's revenue and results by reportable segment are as follows.

Intersegment revenues are based on prevailing market prices.

FY2018 (Year Ended March 31, 2019)

(Millions of yen)

	Reportable segment						Total	Reconciliations (Note 2)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Revenue									
Customers	403,036	45,445	104,130	47,926	71,234	12,198	683,972	—	683,972
Intersegment	—	—	—	—	—	12,503	12,503	(12,503)	—
Total	403,036	45,445	104,130	47,926	71,234	24,701	696,476	(12,503)	683,972
Segment profit	52,181	4,037	9,753	1,778	3,948	436	72,135	(161)	71,973
Other income and expenses	721	(9)	157	(184)	(1,083)	349	(48)	—	(48)
Operating profit	52,903	4,028	9,910	1,593	2,864	786	72,086	(161)	71,925
Finance income and expenses									239
Share of profit/(loss) of investments accounted for using the equity method									109
Profit before income taxes									72,274

Other items

	Reportable segment						Total	Reconciliations (Note 4)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Depreciation	16,871	1,119	4,026	5,718	4,766	1,170	33,674	—	33,674
Impairment losses	—	—	22	145	21	—	188	—	188
Capital expenditure (Note 3)	9,563	949	3,992	5,205	3,053	504	23,269	3,761	27,030

(Note)

1) "Others" consists of real estate and other areas of business.

2) Reconciliation amount of ¥(161) million for segment profit (operating profit) is for the elimination of intersegment transactions.

3) Capital expenditure represents increases in property, plant and equipment, intangible assets, and investment property.

4) Reconciliation amount of ¥3,761 million for capital expenditure is mainly for corporate assets which are not allocated to reportable segments.

FY2019 (Year Ended March 31, 2020)

(Millions of yen)

	Reportable segment						Total	Reconciliations (Note 2)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Revenue									
Customers	390,687	40,864	74,814	49,108	67,537	14,247	637,259	—	637,259
Intersegment	—	—	—	—	656	11,223	11,880	(11,880)	—
Total	390,687	40,864	74,814	49,108	68,193	25,471	649,139	(11,880)	637,259
Segment profit	57,105	3,129	694	2,087	3,786	397	67,199	(257)	66,942
Other income and expenses	(24)	45	(81)	(222)	131	539	387	—	387
Operating profit	57,080	3,174	612	1,864	3,918	936	67,587	(257)	67,329
Finance income and expenses									(411)
Share of profit/(loss) of investments accounted for using the equity method									128
Profit before income taxes									67,046

Other items

	Reportable segment						Total	Reconciliations (Note 4)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Depreciation	17,805	1,190	4,422	9,839	5,604	1,785	40,197	—	40,197
Impairment losses	162	—	—	264	—	2	429	—	429
Capital expenditure (Note 3)	11,963	621	2,734	9,203	2,380	1,247	28,151	4,357	32,508

(Note)

1) “Others” consists of real estate and other areas of business.

2) Reconciliation amount of ¥(257) million for segment profit (operating profit) is for the elimination of intersegment transactions.

3) Capital expenditure represents increases in property, plant and equipment, right-of-use assets, intangible assets, and investment property.

4) Reconciliation amount of ¥4,357 million for capital expenditure is mainly for corporate assets which are not allocated to reportable segments.

FY2019 (Year Ended March 31, 2020)

(Thousands of U.S. dollars)

	Reportable segment						Total	Reconciliations (Note 2)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Revenue									
Customers	3,584,284	374,899	686,367	450,532	619,606	130,706	5,846,413	—	5,846,413
Intersegment	—	—	—	—	6,018	102,963	108,991	(108,991)	—
Total	3,584,284	374,899	686,367	450,532	625,624	233,679	5,955,404	(108,991)	5,846,413
Segment profit	523,899	28,706	6,367	19,147	34,734	3,642	616,505	(2,358)	614,147
Other income and expenses	(220)	413	(743)	(2,037)	1,202	4,945	3,550	—	3,550
Operating profit	523,670	29,119	5,615	17,101	35,945	8,587	620,064	(2,358)	617,697
Finance income and expenses									(3,771)
Share of profit/(loss) of investments accounted for using the equity method									1,174
Profit before income taxes									615,101

Other items

	Reportable segment						Total	Reconciliations (Note 4)	Consolidated
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others (Note 1)			
Depreciation	163,349	10,917	40,569	86,138	51,413	16,376	368,780	—	368,780
Impairment losses	1,486	—	—	2,422	—	18	3,936	—	3,936
Capital expenditure (Note 3)	109,752	5,697	25,083	84,431	21,835	11,440	258,266	39,972	298,239

(Note)
1) “Others” consists of real estate and other areas of business.
2) Reconciliation amount of $(2,358) thousand for segment profit (operating profit) is for the elimination of intersegment transactions.
3) Capital expenditure represents increases in property, plant and equipment, right-of-use assets, intangible assets, and investment property.
4) Reconciliation amount of $39,972 thousand for capital expenditure is mainly for corporate assets which are not allocated to reportable segments.

(3) Information about products and services

Revenue from customers by product and service is as follows:

	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
Printing & Solutions			
Communications and printing equipment	353,120	341,698	3,134,844
Electronic stationery	49,916	48,988	449,431
Printing & Solutions total	403,036	390,687	3,584,284
Personal & Home	45,445	40,864	374,899
Machinery			
Industrial sewing machines	32,626	27,648	253,651
Machine tools	51,768	29,823	273,606
Industrial parts	19,735	17,342	159,101
Machinery total	104,130	74,814	686,367
Network & Contents	47,926	49,108	450,532
Domino	71,234	67,537	619,606
Others	12,198	14,247	130,706
Total	683,972	637,259	5,846,413

(4) Information about geographical areas

Revenue and non-current assets by geographical area are as follows.

Revenue from customers

	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
Japan	124,421	122,494	1,123,798
U.S.A.	162,657	158,490	1,454,037
China	76,013	56,783	520,945
Others	320,880	299,491	2,747,624
Total	683,972	637,259	5,846,413

(Note) Revenue is classified into countries and regions based on the location of customers.

Non-current assets

	FY2018 (As of March 31, 2019)	(Millions of yen) FY2019 (As of March 31, 2020)	(Thousands of U.S. dollars) FY2019 (As of March 31, 2020)
Japan	83,534	93,395	856,835
Overseas			
The Americas			
U.S.A.	7,563	10,874	99,761
Others	1,443	1,536	14,092
The Americas total	9,007	12,410	113,853
Europe			
U.K.	136,157	124,390	1,141,193
Others	5,212	7,486	68,679
Europe total	141,370	131,876	1,209,872
Asia and others			
China	11,827	12,790	117,339
Vietnam	12,418	10,938	100,349
Philippines	11,380	11,076	101,615
Others	2,054	3,330	30,550
Asia and others total	37,681	38,136	349,872
Overseas total	188,059	182,423	1,673,606
Total	271,594	275,819	2,530,450

(Note) Non-current assets are presented based on the physical location of assets. Financial instruments, deferred tax assets and retirement benefit assets are not included.

(5) Information about major customers

The description is omitted because there is no external customer whose revenue exceeds 10% or more of the Group's revenue.

(Adoption of IFRS 16 “Leases”)

The Group has adopted IFRS 16 from the year ended March 31, 2020, as stated in “Changes in accounting policies.” In accordance with the transition requirements, the cumulative effect of initially applying this standard is recognized as an adjustment to the opening balance of “Retained earnings” for the year ended March 31, 2020, and segment information for the year ended March 31, 2019 is not restated.

7. Business Combinations

FY2018 (Year ended March 31, 2019)

Not applicable.

FY2019 (Year ended March 31, 2020)

Disclosure is omitted due to the immateriality.

8. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	FY2018 (As of March 31, 2019)	(Millions of yen) FY2019 (As of March 31, 2020)	(Thousands of U.S. dollars) FY2019 (As of March 31, 2020)
Cash and cash equivalents			
Cash and deposits	131,152	168,422	1,545,156
Total	131,152	168,422	1,545,156

The balance of "Cash and cash equivalents" in the consolidated statement of financial position as of March 31, 2019 and March 31, 2020, respectively, reconciles the balance of "Cash and cash equivalents" stated in the consolidated statement of cash flows.

9. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

	FY2018 (As of March 31, 2019)	(Millions of yen) FY2019 (As of March 31, 2020)	(Thousands of U.S. dollars) FY2019 (As of March 31, 2020)
Notes receivable	7,862	6,575	60,321
Accounts receivable	94,376	89,282	819,101
Other	1,356	1,197	10,982
Allowance for doubtful accounts	(2,097)	(1,988)	(18,239)
Total	101,498	95,067	872,174

The receivables expected to be collected more than one year after March 31, 2019 and March 31, 2020 are ¥810 million and ¥1,410 million ($12,936 thousand), respectively.

10. Other Financial Assets

The breakdown of other financial assets is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Current assets			
Financial assets measured at amortized cost	7,196	10,223	93,789
Financial assets measured at FVTPL			
Derivatives	774	1,053	9,661
Items other than derivatives	0	0	0
Allowance for doubtful accounts	(0)	(0)	(0)
Total	7,970	11,277	103,459
Non-current assets			
Financial assets measured at amortized cost	13,535	11,799	108,248
Financial assets measured at FVTPL			
Items other than derivatives	3,125	3,011	27,624
Financial assets measured at FVTOCI			
Equity instruments	16,276	13,118	120,349
Allowance for doubtful accounts	(137)	(58)	(532)
Total	32,799	27,871	255,697

Refer to Note 41 “Financial Instruments” for the names and fair values of major securities held as financial assets measured at fair value through other comprehensive income.

11. Inventories

The breakdown of inventories is as follows:

	FY2018 (As of March 31, 2019) (Millions of yen)	FY2019 (As of March 31, 2020) (Millions of yen)	FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)
Merchandise and finished goods	84,615	74,646	684,826
Work in process	10,413	10,800	99,083
Raw materials and supplies	33,488	32,411	297,349
Total	128,517	117,858	1,081,266

The amounts of the inventories recognized in cost of sales for the years ended March 31, 2019 and 2020 are ¥388,402 million and ¥351,255 million ($3,222,523 thousand), respectively.

Also, the amounts of the write-down of inventories recognized as cost of sales are as follows:

	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
Write-down	4,490	4,559	41,826

12. Other Assets

The breakdown of other assets is as follows:

(Millions of yen) (Thousands of U.S. dollars)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Other current assets			
Prepaid expenses	6,282	6,458	59,248
Advance payments	823	866	7,945
Consumption taxes receivable	5,245	5,176	47,486
Income taxes receivable	180	207	1,899
Other	3,101	2,845	26,101
Total	15,633	15,554	142,697
Other non-current assets			
Long-term prepaid expenses	2,586	2,958	27,138
Retirement benefit assets	348	281	2,578
Insurance funds	2,565	2,591	23,771
Other	765	398	3,651
Total	6,265	6,229	57,147

13. Non-current Assets or Disposal Groups classified as Held for Sale

The breakdown of non-current assets or disposal groups that are classified as held for sale is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Non-current assets held for sale			
Property, plant and equipment	157	601	5,514
Total	157	601	5,514

Non-current assets held for sale as of March 31, 2020 are mainly related to property, plant and equipment of the Company and Brother International GmbH that meet the criteria for assets classified as held for sale. The sale will be completed during the year ending March 31, 2021.

14. Property, Plant and Equipment

(1) Movement

The movement of the carrying amount of property, plant and equipment is as follows:

(Millions of yen)

Cost	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2018	15,466	119,094	85,419	129,800	1,962	351,743
Acquisitions	—	3,185	3,928	8,909	3,147	19,170
Sales or disposals	—	(2,755)	(2,687)	(8,927)	(76)	(14,447)
Foreign exchange differences	(21)	662	280	(403)	(55)	463
Other	24	2,028	2,352	365	(4,504)	267
Balance as of March 31, 2019	15,470	122,216	89,293	129,744	472	357,197
Effect of adoption of the new accounting standards (Note 2)	—	(6,511)	(21)	(3,164)	—	(9,696)
Balance at the beginning of the year, reflecting the effect	15,470	115,705	89,272	126,580	472	347,500
Acquisitions	—	2,065	3,351	8,354	3,135	16,907
Acquisitions through business combinations	—	28	31	3	—	63
Sales or disposals	(113)	(438)	(3,229)	(8,014)	(60)	(11,855)
Foreign exchange differences	(329)	(1,772)	(1,665)	(1,669)	(13)	(5,451)
Other	(508)	(2,103)	880	198	(2,185)	(3,718)
Balance as of March 31, 2020	14,518	113,485	88,641	125,453	1,348	343,447

(Note)

1) Transfers from construction in progress to each item are included in "Other."

2) The effect is due to the adoption of IFRS 16 "Leases."

(Thousands of U.S. dollars)

Cost	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of March 31, 2019	141,927	1,121,248	819,018	1,190,312	4,330	3,277,037
Effect of adoption of the new accounting standards (Note 2)	—	(59,734)	(193)	(29,028)	—	(88,954)
Balance at the beginning of the year, reflecting the effect	141,927	1,061,514	819,009	1,161,284	4,330	3,188,073
Acquisitions	—	18,945	30,743	76,642	28,761	155,110
Acquisitions through business combinations	—	257	284	28	—	578
Sales or disposals	(1,037)	(4,018)	(29,624)	(73,523)	(550)	(108,761)
Foreign exchange Differences	(3,018)	(16,257)	(15,275)	(15,312)	(119)	(50,009)
Other	(4,661)	(19,294)	8,073	1,817	(20,046)	(34,110)
Balance as of March 31, 2020	133,193	1,041,147	813,220	1,150,945	12,367	3,150,890

(Note)
1) Transfers from construction in progress to each item are included in “Other.”
2) The effect is due to the adoption of IFRS 16 “Leases.”

(Millions of yen)

Accumulated depreciation and accumulated impairment losses	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2018	(837)	(61,500)	(63,233)	(105,847)	(3)	(231,422)
Depreciation	—	(4,803)	(5,886)	(12,169)	—	(22,859)
Impairment losses	—	(120)	(41)	(21)	—	(183)
Sales or disposals	—	2,452	2,410	8,519	—	13,382
Foreign exchange differences	—	(163)	(193)	329	0	(26)
Other	—	(90)	2	(6)	3	(90)
Balance as of March 31, 2019	(837)	(64,225)	(66,940)	(109,196)	—	(241,199)
Effect of adoption of the new accounting standards (Note 2)	—	4,066	14	1,978	—	6,059
Balance at the beginning of the year, reflecting the effect	(837)	(60,158)	(66,926)	(107,217)	—	(235,140)
Depreciation	—	(4,541)	(5,428)	(10,205)	—	(20,176)
Impairment losses	—	(183)	(12)	(9)	—	(205)
Sales or disposals	—	296	2,896	7,581	—	10,774
Foreign exchange differences	—	809	1,123	1,369	—	3,302
Other	—	2,176	(0)	25	—	2,201
Balance as of March 31, 2020	(837)	(61,600)	(68,348)	(108,456)	—	(239,242)

(Note)

1) Depreciation of property, plant and equipment is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.
2) The effect is due to the adoption of IFRS 16 “Leases.”

(Thousands of U.S. dollars)

Accumulated depreciation and accumulated impairment losses	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of March 31, 2019	(7,679)	(589,220)	(614,128)	(1,001,798)	—	(2,212,835)
Effect of adoption of the new accounting standards (Note 2)	—	37,303	128	18,147	—	55,587
Balance at the beginning of the year, reflecting the effect	(7,679)	(551,908)	(614,000)	(983,642)	—	(2,157,248)
Depreciation	—	(41,661)	(49,798)	(93,624)	—	(185,101)
Impairment losses	—	(1,679)	(110)	(83)	—	(1,881)
Sales or disposals	—	2,716	26,569	69,550	—	98,844
Foreign exchange differences	—	7,422	10,303	12,560	—	30,294
Other	—	19,963	(0)	229	—	20,193
Balance as of March 31, 2020	(7,679)	(565,138)	(627,046)	(995,009)	—	(2,194,881)

(Note)
1) Depreciation of property, plant and equipment is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.
2) The effect is due to the adoption of IFRS 16 “Leases.”

(Millions of yen)

Carrying amount	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2018	14,629	57,594	22,185	23,952	1,958	120,320
Balance as of March 31, 2019	14,632	57,991	22,352	20,548	472	115,997
Balance as of March 31, 2020	13,681	51,884	20,293	16,996	1,348	104,204

(Thousands of U.S. dollars)

Carrying amount	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of March 31, 2019	134,239	532,028	205,064	188,514	4,330	1,064,193
Balance as of March 31, 2020	125,514	476,000	186,174	155,927	12,367	956,000

(2) Lease assets

The carrying amount of capitalized finance leases included in property, plant and equipment is as follows:

(Millions of yen)

Carrying amount	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
Balance as of April 1, 2018	2,378	11	1,674	4,064
Balance as of March 31, 2019	2,444	7	1,185	3,637

15. Investment Property

(1) Movement

The movement of the carrying amount of investment property and the fair value are as follows:

Cost	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
Balance at the beginning of the year	11,254	10,928	100,257
Effect of adoption of the new accounting standards (Note)	—	2,164	19,853
Balance at the beginning of the year, reflecting the effect	11,254	13,093	120,119
Acquisitions	64	21	193
Sales or disposals	(25)	(15)	(138)
Reclassifications	(350)	390	3,578
Foreign exchange differences	(15)	(3)	(28)
Balance at the end of the year	10,928	13,486	123,725

(Note) The effect is due to the adoption of IFRS 16 "Leases."

Accumulated depreciation and accumulated impairment losses	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
Balance at the beginning of the year	(4,788)	(4,888)	(44,844)
Depreciation	(206)	(400)	(3,670)
Sales or disposals	24	15	138
Reclassifications	78	(92)	(844)
Foreign exchange differences	3	0	0
Balance at the end of the year	(4,888)	(5,364)	(49,211)

(Note) The effect is due to the adoption of IFRS 16 "Leases."

Carrying amount and fair value	FY2018 (As of March 31, 2019) (Millions of yen)		FY2019 (As of March 31, 2020) (Millions of yen)		FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property	6,040	20,533	8,122	22,037	74,514	202,174

The fair value of investment property is calculated based mainly on the external appraiser's valuation techniques using market prices of comparable assets. The measurement is categorized within Level 3 of the fair value hierarchy.

(2) Income from and expenses for investment property

	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
Rental income	1,552	1,861	17,073
Direct operating expenses arising from investment property that generated rental income	(667)	(803)	(7,367)
Direct operating expenses arising from investment property that did not generate rental income	(5)	(4)	(37)

The amount of income from investment property and related direct operating expenses are included in “Revenue” and “Cost of sales” in the consolidated statement of income.

16. Goodwill and Intangible Assets

The movement of the carrying amount of goodwill and intangible assets is as follows:

(Millions of yen)

Cost	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of April 1, 2018	109,527	75,008	12,749	3,176	26,175	24,953	251,591
Acquisitions	—	3,023	33	—	—	3,920	6,976
Internal generation	—	—	—	818	—	—	818
Sales or disposals	—	(1,842)	(1,208)	(1,336)	—	(20)	(4,407)
Foreign exchange differences	(2,618)	(247)	—	(98)	(665)	(350)	(3,980)
Other	—	2,768	—	—	—	(2,681)	86
Balance as of March 31, 2019	106,909	78,710	11,573	2,559	25,510	25,820	251,084
Effect of adoption of the new accounting standards (Note)	—	—	—	—	—	(1,094)	(1,094)
Balance at the beginning of the year, reflecting the effect	106,909	78,710	11,573	2,559	25,510	24,726	249,990
Acquisitions	—	4,727	793	—	—	3,120	8,641
Internal generation	—	—	—	571	—	—	571
Acquisitions through business combinations	926	12	—	—	171	0	1,110
Sales or disposals	—	(1,906)	(471)	—	—	(16)	(2,394)
Foreign exchange differences	(7,890)	(866)	—	(225)	(2,011)	(1,138)	(12,132)
Other	—	2,101	—	—	—	(2,057)	44
Balance as of March 31, 2020	99,945	82,779	11,895	2,905	23,669	24,635	245,830

(Note) The effect is due to the adoption of IFRS 16 "Leases."

(Thousands of U.S. dollars)

Cost	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of March 31, 2019	980,817	722,110	106,174	23,477	234,037	236,881	2,303,523
Effect of adoption of the new accounting standards (Note)	—	—	—	—	—	(10,037)	(10,037)
Balance at the beginning of the year, reflecting the effect	980,817	722,110	106,174	23,477	234,037	226,844	2,293,486
Acquisitions	—	43,367	7,275	—	—	28,624	79,275
Internal generation	—	—	—	5,239	—	—	5,239
Acquisitions through business combinations	8,495	110	—	—	1,569	0	10,183
Sales or disposals	—	(17,486)	(4,321)	—	—	(147)	(21,963)
Foreign exchange differences	(72,385)	(7,945)	—	(2,064)	(18,450)	(10,440)	(111,303)
Other	—	19,275	—	—	—	(18,872)	404
Balance as of March 31, 2020	916,927	759,440	109,128	26,651	217,147	226,009	2,255,321

(Note) The effect is due to the adoption of IFRS 16 “Leases.”

(Millions of yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of April 1, 2018	(8,519)	(61,340)	(12,263)	(283)	(4,748)	(10,522)	(97,677)
Amortization	—	(5,774)	(175)	(251)	(1,714)	(2,693)	(10,608)
Impairment losses	(2)	(2)	—	—	—	(0)	(5)
Sales or disposals	—	1,718	1,207	11	—	0	2,937
Foreign exchange differences	3	221	—	7	127	115	475
Other	—	(0)	—	—	—	(1)	(2)
Balance as of March 31, 2019	(8,517)	(65,177)	(11,230)	(515)	(6,335)	(13,102)	(104,880)
Effect of adoption of the new accounting standards (Note 1)	—	—	—	—	—	153	153
Balance at the beginning of the year, reflecting the effect	(8,517)	(65,177)	(11,230)	(515)	(6,335)	(12,949)	(104,727)
Amortization	—	(6,183)	(211)	(236)	(1,644)	(2,418)	(10,694)
Impairment losses	—	(3)	—	—	—	(2)	(6)
Sales or disposals	—	1,786	471	—	—	5	2,263
Foreign exchange differences	3	694	—	49	560	418	1,726
Other	—	(0)	—	—	—	16	16
Balance as of March 31, 2020	(8,514)	(68,884)	(10,970)	(702)	(7,420)	(14,928)	(111,420)

(Note)
1) The effect is due to the adoption of IFRS 16 “Leases.”
2) Amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.

(Thousands of U.S. dollars)

Accumulated amortization and accumulated Impairment losses	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of March 31, 2019	(78,138)	(597,954)	(103,028)	(4,725)	(58,119)	(120,202)	(962,202)
Effect of adoption of the new accounting standards (Note 1)	―	―	―	―	―	1,404	1,404
Balance at the beginning of the year, reflecting the effect	(78,138)	(597,954)	(103,028)	(4,725)	(58,119)	(118,798)	(960,798)
Amortization	―	(56,725)	(1,936)	(2,165)	(15,083)	(22,183)	(98,110)
Impairment losses	―	(28)	―	―	―	(18)	(55)
Sales or disposals	―	16,385	4,321	―	―	46	20,761
Foreign exchange differences	28	6,367	―	450	5,138	3,835	15,835
Other	―	(0)	―	―	―	147	147
Balance as of March 31, 2020	(78,110)	(631,963)	(100,642)	(6,440)	(68,073)	(136,954)	(1,022,202)

(Note)
1) The effect is due to the adoption of IFRS 16 “Leases.”
2) Amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.

(Millions of yen)

Carrying amount	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of April 1, 2018	101,008	13,667	486	2,892	21,427	14,430	153,913
Balance as of March 31, 2019	98,391	13,532	342	2,043	19,174	12,718	146,203
Balance as of March 31, 2020	91,431	13,894	924	2,202	16,249	9,706	134,409

(Thousands of U.S. dollars)

Carrying amount	Goodwill	Intangible assets					Total
		Software	Patents	Development assets	Customer related assets	Other	
Balance as of March 31, 2019	902,670	124,147	3,138	18,743	175,908	116,679	1,341,312
Balance as of March 31, 2020	838,817	127,468	8,477	20,202	149,073	89,046	1,233,110

(Note) Significant intangible assets as of March 31, 2020 are customer related assets. The carrying amount is ¥16,249 million ($149,073 thousand) and the remaining amortization period is 10.25 years.

The research and development expenses are as follows:

	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
Research and development expenses	43,259	42,811	392,761

17. Impairment of Non-Financial Assets

The details of assets recognized impairment losses are as follows:
The impairment losses are included in "Other expenses" in the consolidated statement of income.

	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
Property, plant and equipment			
Buildings and structures	120	183	1,679
Machinery, equipment and vehicles	41	12	110
Tools, furniture and fixtures	21	9	83
Right-of-use assets			
Buildings and structures	—	203	1,862
Machinery, equipment and vehicles	—	0	0
Tools, furniture and fixtures	—	12	110
Intangible assets			
Goodwill	2	—	—
Software	2	3	28
Other intangible assets	0	2	18
Other	0	0	0
Total of impairment losses	188	429	3,936

(1) Cash-generating units

Non-financial assets are grouped into each minimum unit which can be identified as generating relatively independent cash inflows. Each unit has been set based on the operating business segment.

For any assets held for sale or investment property, the individual assets are tested for impairment.

(2) Impairment loss

For the years ended March 31, 2019 and 2020, there was no significant impairment loss.

(3) Impairment test for goodwill

At the Group level, goodwill is tested for impairment annually or whenever there is any indication of impairment. The recoverable amount of goodwill is measured at the value in use.

Goodwill is allocated to cash-generating units or groups of cash-generating units on acquisition dates based on the allocation of expected benefits from business combinations for the purpose of impairment testing.

The carrying amounts of goodwill allocated to each cash-generating unit are as follows.

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Domino	97,903	90,224	827,743
Other	487	1,206	11,064
Total	98,391	91,431	838,817

The value in use of goodwill in the Domino business is calculated by discounting the estimated cash flows based on the business plan for the next five years approved by management to the present value by the weighted-average cost of capital (WACC) of the cash-generating unit. The pre-tax discount rate used for the calculation of the value in use is 10.78% for the year ended March 31, 2019 and 9.66% for the year ended March 31, 2020.

Future cash flows are estimated on the basis of the long-term average growth rate, etc., projected in each product market. The growth rate range used to measure going-concern value is 3.31 to 7.26% for the year ended March 31, 2019 and 3.26 to 7.30% for the year ended March 31, 2020.

The recoverable amount of goodwill exceeds the carrying amount by ¥5,735 million and ¥25,320 million ($232,294 thousand) as of March 31, 2019 and 2020, respectively. However, impairment loss may arise if changes are made to the key assumptions which are the basis of value in use. Such loss may be incurred if the discount rate had increased by 0.25% or the growth rate had decreased by 0.48% for the year ended March 31, 2019, or the discount rate had increased by 0.99% or the growth rate had decreased by 1.99% for the year ended March 31, 2020.

There is no significant goodwill other than that presented above.

18. Investments Accounted for Using the Equity Method

For associates in which the Group holds less than 20% of the voting rights, the Group has judged that it has significant influence over them by its involvement with their Boards of Directors and/or management.

The carrying amount of investments in associates is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Carrying amount total	1,538	1,594	14,624

The share amount of comprehensive income for the year from associates is as follows:

	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
The share amount of earnings of associates from continuing operations	109	128	1,174
The share amount of other comprehensive income from associates	11	(17)	(156)
The share amount of comprehensive income from associates	121	111	1,018

19. Interests in Unconsolidated Structured Entities

The Group has investment funds as unconsolidated structured entities. The Company invests in investment funds in the United States, Japan and other Asian countries mainly for the purpose of new business development and information collection.

Those funds are formed as a limited partnership venture fund, or investment limited partnership, and the Company invests in the fund as a limited liability partner.

The size of the unconsolidated structured entities, the carrying amount of the Company's investment in the entities and the potential maximum loss exposure to the Company are as follows:

	FY2018 (As of March 31, 2019) (Millions of yen)	FY2019 (As of March 31, 2020) (Millions of yen)	FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)
Total assets of unconsolidated structured entities	61,259	70,754	649,119
The Company's maximum exposure to loss			
The carrying amount of the investments recognized by the Company	2,817	3,011	27,624
Commitments related to additional investments	543	679	6,229
Total	3,360	3,691	33,862

The Company recognizes investments in "Other financial assets (non-current assets)" in the consolidated statement of financial position. The Company recognizes no liabilities for the unconsolidated structured entities.

The potential maximum exposure to loss resulting from the interests in the structured entities is limited to the sum of the carrying amount of the Company's investments and commitments related to additional investments.

The Company's maximum exposure to loss indicates a possible maximum loss amount and does not represent the amount of loss expected from the interests in the structured entities.

The Company neither has provided nor intends to provide financial support or other significant support to the unconsolidated structured entities without a contractual obligation.

20. Income Taxes

(1) Deferred tax assets and deferred tax liabilities

The breakdown of changes in deferred tax assets and deferred tax liabilities is as follows:

FY2018 (Year ended March 31, 2019)

(Millions of yen)

	Balance as of April 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Other	Balance as of March 31, 2019
Deferred tax assets					
Inventories	8,431	1,469	—	(10)	9,891
Retirement benefit liabilities	5,794	128	429	(2,486)	3,865
Property, plant and equipment	3,549	(473)	—	(14)	3,060
Accrued bonuses	2,608	(121)	—	(6)	2,480
Accrued unused paid absences	2,038	(32)	—	(1)	2,005
Accrued expenses	921	604	—	21	1,547
Provisions	911	(85)	—	(10)	816
Other	3,572	543	(5)	147	4,258
Subtotal	27,828	2,034	423	(2,361)	27,924
Deferred tax liabilities					
Assets identified by business combinations	(6,151)	539	—	158	(5,454)
Property, plant and equipment	(3,762)	(555)	—	(17)	(4,335)
Equity instruments designated as FVTOCI	(3,738)	—	826	—	(2,911)
Securities withdrawn from retirement benefit trust	(2,453)	(10)	—	—	(2,464)
Reserve for deferred gains on fixed assets	(1,952)	155	—	—	(1,797)
Retirement benefit Assets	(2,590)	103	11	2,401	(72)
Other	(1,947)	(578)	—	6	(2,518)
Subtotal	(22,596)	(345)	838	2,549	(19,553)
Total	5,232	1,688	1,261	187	8,370

FY2019 (Year ended March 31, 2020)

(Millions of yen)

	Balance as of April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations	Other	Balance as of March 31, 2020
Deferred tax assets						
Inventories	9,891	(1,930)	—	—	(89)	7,871
Retirement benefit liabilities	3,865	498	909	—	(106)	5,167
Property, plant and equipment	3,060	(371)	—	—	(43)	2,645
Accrued bonuses	2,480	(43)	—	—	(26)	2,411
Accrued unused paid absences	2,005	(22)	—	3	(19)	1,966
Accrued expenses	1,547	177	—	—	(54)	1,670
Provisions	816	(70)	—	—	(22)	722
Other	4,258	(938)	(363)	317	(14)	3,259
Subtotal	27,924	(2,701)	546	320	(376)	25,714
Deferred tax liabilities						
Assets identified by business combinations	(5,454)	495	—	—	409	(4,549)
Property, plant and equipment	(4,335)	569	—	—	32	(3,733)
Securities withdrawn from retirement benefit trust	(2,464)	—	—	—	—	(2,464)
Equity instruments designated as FVTOCI	(2,911)	—	1,056	—	—	(1,855)
Reserve for deferred gains on fixed assets	(1,797)	59	—	—	—	(1,737)
Retirement benefit Assets	(72)	(37)	(1)	—	—	(112)
Other	(2,518)	188	—	—	36	(2,293)
Subtotal	(19,553)	1,275	1,054	—	478	(16,745)
Total	8,370	(1,425)	1,600	320	102	8,968

(Thousands of U.S. dollars)

	Balance as of April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations	Other	Balance as of March 31, 2020
Deferred tax assets						
Inventories	90,743	(17,706)	—	—	(817)	72,211
Retirement benefit liabilities	35,459	4,569	8,339	—	(972)	47,404
Property, plant and equipment	28,073	(3,404)	—	—	(394)	24,266
Accrued bonuses	22,752	(394)	—	—	(239)	22,119
Accrued unused paid absences	18,394	(202)	—	28	(174)	18,037
Accrued expenses	14,193	1,624	—	—	(495)	15,321
Provisions	7,486	(642)	—	—	(202)	6,624
Other	39,064	(8,606)	(3,330)	2,908	(128)	29,899
Subtotal	256,183	(24,780)	5,009	2,936	(3,450)	235,908
Deferred tax liabilities						
Assets identified by business combinations	(50,037)	4,541	—	—	3,752	(41,734)
Property, plant and equipment	(39,771)	5,220	—	—	294	(34,248)
Securities withdrawn from retirement benefit trust	(22,606)	—	—	—	—	(22,606)
Equity instruments designated as FVTOCI	(26,706)	—	9,688	—	—	(17,018)
Reserve for deferred gains on fixed assets	(16,486)	541	—	—	—	(15,936)
Retirement benefit Assets	(661)	(339)	(9)	—	—	(1,028)
Other	(23,101)	1,725	—	—	330	(21,037)
Subtotal	(179,385)	11,697	9,670	—	4,385	(153,624)
Total	76,789	(13,073)	14,679	2,936	936	82,275

	FY2018 (As of March 31, 2019) (Millions of yen)	FY2019 (As of March 31, 2020) (Millions of yen)	FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)
Deferred tax assets	14,827	14,533	133,330
Deferred tax liabilities	(6,456)	(5,564)	(51,046)
Net amount	8,370	8,968	82,275

Deductible temporary differences and unused tax losses for which no deferred tax assets are recognized are as follows:

	FY2018 (As of March 31, 2019) (Millions of yen)	FY2019 (As of March 31, 2020) (Millions of yen)	FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)
Deductible temporary differences	61,503	71,364	654,716
Unused tax losses	14,396	7,449	68,339
Total	75,900	78,813	723,055

Expiration of unused tax losses for which no deferred tax assets are recognized are as follows:

	FY2018 (As of March 31, 2019) (Millions of yen)	FY2019 (As of March 31, 2020) (Millions of yen)	FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)
1st year	7,583	1,187	10,890
2nd year	1,316	913	8,376
3rd year	934	513	4,706
4th year	106	452	4,147
5th year and thereafter	4,455	4,382	40,202
Total	14,396	7,449	68,339

The aggregate amounts of taxable temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities are not recognized as of March 31, 2019 and March 31, 2020 are ¥147,847 million and ¥157,819 million ($1,447,881 thousand), respectively. Deferred tax liabilities are not recognized for the above temporary differences as the Group is able to control the timing of the reversal of such temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

(2) Income tax expenses

The breakdown of income tax expenses is as follows:

	FY2018 (Year ended March 31, 2019) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Millions of yen)	FY2019 (Year ended March 31, 2020) (Thousands of U.S. dollars)
Current tax expenses	19,786	15,921	146,064
Deferred tax expenses			
Origination and reversal of temporary differences	(1,497)	1,348	12,367
Other	(191)	77	706
Subtotal	(1,688)	1,425	13,073
Total	18,097	17,347	159,147

Current tax expenses include previously unrecognized tax benefits from tax loss carryforwards, tax credits and deductible temporary differences. Current tax expenses decreased by those tax benefits by ¥922 million and ¥1,277 million ($11,716 thousand) for the years ended March 31, 2019 and 2020, respectively.

The reconciliation between the statutory tax rates and the average effective tax rates is as follows:

	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)
Statutory tax rate	30.47%	30.60%
Tax credit for R&D expenses	(4.20)%	(4.22)%
Lower income tax rates applicable to income in certain foreign subsidiaries	(4.22)%	(3.94)%
Expenses not deductible for tax purposes	2.73%	3.25%
Withholding taxes on distributions	0.49%	0.66%
Other	(0.23)%	(0.48)%
Average effective tax rate	25.04%	25.87%

The Company and its domestic subsidiaries are subject mainly to corporate tax, residential tax and enterprise tax, and the effective tax rate calculated based on these for the years ended March 31, 2019 and 2020 is 30.47% and 30.60%, respectively. Overseas subsidiaries are subject to income tax at their respective locations.

21. Bonds and borrowings

(1) Breakdown of financial liabilities

The breakdown of bonds and borrowings is as follows:

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020) (Millions of yen)	FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)	Average interest rate (%)	Maturity date
Short-term bank borrowings	122	30,012	275,339	0.26	—
Current portion of long-term borrowings	19,189	200	1,835	0.58	—
Current portion of bonds	248	20,148	184,844	0.28	—
Long-term borrowings	57,243	56,650	519,725	0.78	2021 to 2026
Bonds	19,989	—	—	—	—
Short-term lease obligations	1,275	7,967	73,092	2.83	—
Long-term lease obligations	2,729	22,021	202,028	2.61	2021 to 2074
Other	8,044	7,033	64,523	—	—
Total	108,842	144,035	1,321,422	—	—
Bonds and borrowings					
Current liabilities	19,560	50,361	462,028	—	—
Non-current liabilities	77,232	56,650	519,725	—	—
Other financial liabilities					
Current liabilities	2,382	8,482	77,817	—	—
Non-current liabilities	9,666	28,540	261,835	—	—
Total	108,842	144,035	1,321,422	—	—

(Note)

1) The average interest rate represents the weighted-average interest rate to the ending balance of bonds, borrowings and lease obligations.

2) The Group uses interest rate swaps, etc. to manage interest rate risk. The average interest rate of long-term borrowings after conversion to a fixed rate is 0.33%.

3) Of the Group’s long-term borrowings, ¥56,250 million ($516,055 thousand) is subject to financial covenants. The Group complies with major financial covenants as follows:

- The total equity in the Group’s consolidated statement of financial position at the end of the fiscal year should not be below 75% of the total equity in the consolidated statement of financial position for the most recent fiscal year, or should not be below 75% of the total equity in the consolidated balance sheet as of March 31, 2015 under Japanese GAAP.
- Loss before income taxes in the consolidated statement of income for each reporting period should not be recognized for two consecutive fiscal years.

A summary of terms and conditions for the issuance of corporate bonds is as follows:

Name	Type	Issue date	FY2018 (As of March 31, 2019) (Millions of yen)	FY2019 (As of March 31, 2020) (Millions of yen)	FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)	Interest rate (%)	Collateral	Maturity date
BROTHER INDUSTRIES, LTD.	The 6th unsecured straight bond	November 26, 2015	19,989	20,007 (20,007)	183,550 (183,550)	0.285	None	November 26, 2020
BROTHER INDUSTRIES, LTD.	Loan Notes 2020 (unsecured bonds)	June 18, 2015	248 (248) [1,712 thousand Pound Sterling]	141 (141) [1,062 thousand Pound Sterling]	1,294 (1,294)	—	None	June 18, 2020
Total			20,237 (248)	20,148 (20,148)	184,844 (184,844)	—	—	—

(Note) Figures in parentheses represent current portion of bonds.

(2) Assets pledged as collateral

There are no assets pledged as collateral for bonds and borrowings.

22. Leases

For the year ended March 31, 2019

(1) Finance lease obligations
As lessee
The details of finance lease obligations are as follows:

(Millions of yen)

	Minimum lease payments	Present value of minimum lease payments
	FY2018 (As of March 31, 2019)	FY2018 (As of March 31, 2019)
Within 1 year	1,335	1,275
1 to 5 years	2,827	2,729
Over 5 years	—	—
Total	4,162	4,004
Prospective finance expenses	(158)	—
Present value of lease obligations	4,004	4,004

(2) Operating lease contracts
<1> As lessee
Future minimum lease payments under non-cancellable operating leases are as follows:

(Millions of yen)

	FY2018 (As of March 31, 2019)
Within 1 year	4,424
1 to 5 years	9,401
Over 5 years	1,647
Total	15,473

Minimum lease payments and contingent rents for operating lease contracts recognized as expenses are as follows:

(Millions of yen)

	FY2018 (Year ended March 31, 2019)
Minimum lease payments	6,443
Sublease payments	514
Contingent lease payments	67
Total	7,025

<2> As lessor
Income relating to future minimum lease payments under non-cancellable operating leases is as follows:

(Millions of yen)

	FY2018 (As of March 31, 2019)
Within 1 year	1,765
1 to 5 years	3,684
Over 5 years	121
Total	5,572

For the year ended March 31, 2020

(1) As lessee
The Group leases assets, such as buildings, as a lessee.

<1> Carrying amount
The breakdown of right-of-use assets is as follows:

(Millions of yen)

	Buildings and structures	Other	Total
Balance as of March 31, 2020	20,991	4,735	25,727

(Thousands of U.S. dollars)

	Buildings and structures	Other	Total
Balance as of March 31, 2020	192,578	43,440	236,028

<2> Income and expenses relating to right-of-use assets
Income and expenses relating to right-of-use assets are as follows:

	(Millions of yen) FY2019 (Year ended March 31, 2020)	(Thousands of U.S. dollars) FY2019 (Year ended March 31, 2020)
Depreciation charge for right-of-use assets		
Buildings and structures	7,191	65,972
Other	1,735	15,917
Total	8,927	81,899
Expenses relating to short-term leases and leases of low-value assets	1,123	10,303
Interest expense on lease liabilities	853	7,826

<3> Cash outflow for leases
The total cash outflow for leases for the year ended March 31, 2020 is ¥10,853 million ($99,569 thousand).

<4> Extension options and termination options
Options to extend leases are exercised if it is determined that exercising options is necessary upon considering the

necessity of assets subject to contracts in business, difficulty in obtaining replacement assets and terms to exercise options comprehensively. When the Group determines that it is reasonably certain to exercise extension options at the commencement date, lease payments during the optional lease term are included in the measurement of the lease liabilities.

Of the above-mentioned contracts, lease contracts, mainly of land, buildings (offices and space) and other equipment, are granted options for the lessee to extend the leases for the purpose of ensuring flexibility in the Group's business locations and staffing.

(2) As lessor

<1> Income relating to operating leases

Income relating to operating leases is as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Lease income	11,412	104,697

<2> Maturity analysis of lease payments relating to operating leases

The maturity analysis of lease payments relating to non-cancellable operating leases is as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Within 1 year	1,875	17,202
1 to 2 years	1,345	12,339
2 to 3 years	931	8,541
3 to 4 years	650	5,963
4 to 5 years	330	3,028
Over 5 years	131	1,202
Total	5,265	48,303

23. Trade and Other Payables

The breakdown of trade and other payables is as follows:

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Notes payable - trade	1,121	259	2,376
Accounts payable - trade	38,948	34,274	314,440
Accounts payable - other	22,146	16,506	151,431
Total	62,216	51,041	468,266

24. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

	FY2018 (As of March 31, 2019)	(Millions of yen) FY2019 (As of March 31, 2020)	(Thousands of U.S. dollars) FY2019 (As of March 31, 2020)
Current liabilities			
Lease obligations	1,275	7,967	73,092
Financial liabilities measured at amortized cost	414	172	1,578
Financial liabilities measured at FVTPL			
Derivatives	692	342	3,138
Total	2,382	8,482	77,817
Non-current liabilities			
Lease obligations	2,729	22,021	202,028
Financial liabilities measured at amortized cost	1,997	2,109	19,349
Financial liabilities measured at FVTPL			
Derivatives	4,940	4,408	40,440
Total	9,666	28,540	261,835

25. Employee Benefits

The Company, and certain domestic and foreign subsidiaries provide funded and unfunded defined benefit plans and defined contribution plans.

Other certain domestic and foreign subsidiaries provide funded and unfunded defined benefit plans or defined contribution plans.

(1) Defined benefit plans

The Company has adopted a cash balance plan as a defined benefit plan. Benefits are calculated based on pay credit and interest credit provided according to employees' length of service, job category and grade.

A specified percentage of pay credit and interest credit is accumulated and contributed to the defined benefit plan for future pension payments.

Certain domestic and foreign subsidiaries also provide defined benefit plans.

The Company and certain domestic subsidiaries have a fund-type pension plan based on a pension agreement, and enter into an agreement with an insurance company for the payment of premiums and benefits and with a trust bank for the management of the fund.

The Company, certain domestic subsidiaries, the pension fund board and the pension investment fund are required by law to act giving the highest priority to benefits of plan participants and assume a responsibility of managing plan assets in accordance with prescribed policies.

<1> Reconciliations of defined benefit obligations and plan assets

The relationship between defined benefit obligations and plan assets and the net balance of liabilities and assets recognized in the consolidated statement of financial position is as follows:

Domestic plan

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Present value of defined benefit obligations	50,688	52,193	478,835
Fair value of plan assets	(50,660)	(48,929)	(448,890)
Subtotal	27	3,264	29,945
Present value of the unfunded defined benefit obligation	5,368	5,480	50,275
Net defined benefit liabilities	5,395	8,744	80,220
Balance in the consolidated statement of financial position			
Retirement benefit liabilities	5,741	9,015	82,706
Retirement benefit assets	(345)	(270)	(2,477)
Net balance	5,395	8,744	80,220

Overseas plan

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Present value of defined benefit obligations	25,127	23,341	214,138
Fair value of plan assets	(15,251)	(14,250)	(130,734)
Subtotal	9,876	9,091	83,404
Present value of the unfunded defined benefit obligation	1,964	2,144	19,670
Net defined benefit liabilities	11,840	11,235	103,073
Balance in the consolidated statement of financial position			
Retirement benefit liabilities	11,843	11,246	103,174
Retirement benefit assets	(2)	(11)	(101)
Net balance	11,840	11,235	103,073

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of Mach 31, 2020)
Retirement benefit liabilities	17,585	20,261	185,881
Retirement benefit assets	(348)	(281)	(2,578)
Net defined benefit liabilities recognized in the consolidated statement of financial position	17,236	19,980	183,303

Net defined benefit liabilities are presented as "Retirement benefit liabilities" in the consolidated statement of financial position. Net defined benefit assets are included in "Other non-current assets" in the consolidated statement of financial position.

<2> Reconciliations of the present value of defined benefit obligations

The movement of the present value of defined benefit obligations is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)	(Millions of yen)		(Thousands of U.S. dollars)
	Domestic plan			Overseas plan		
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Balance at the beginning of the year	54,153	56,056	514,275	27,429	27,092	248,550
Current service cost	2,589	2,587	23,734	552	561	5,147
Interest expense	365	298	2,734	575	537	4,927
Remeasurement	794	543	4,982	493	(317)	(2,908)
Actuarial gains or losses arising from changes in demographical assumptions	(640)	400	3,670	144	(163)	(1,495)
Actuarial gains or losses arising from changes in financial assumptions	1,059	(238)	(2,183)	501	(23)	(211)
Actuarial gains or losses arising from experience adjustments	375	380	3,486	(151)	(131)	(1,202)
Past service cost	—	—	—	126	(15)	(138)
Benefits paid	(1,866)	(1,809)	(16,596)	(1,292)	(982)	(9,009)
Foreign exchange differences	—	—	—	(794)	(1,341)	(12,303)
Business combinations	—	—	—	—	—	—
Effect by transfer of plans	—	—	—	—	—	—
Other	20	(1)	(9)	2	(47)	(431)
Balance at the end of the year	56,056	57,674	529,119	27,092	25,486	233,817

The weighted-average durations of the defined benefit obligations for the year ended March 31, 2019 were 14.4 years for domestic and 18.3 years for overseas plans. For the year ended March 31, 2020, the durations were 14.6 years for domestic and 17.2 years for overseas plans.

<3> Reconciliations of the fair value of plan assets

The movement of the fair value of plan assets is as follows:

	Domestic plan (Millions of yen)		Domestic plan (Thousands of U.S. dollars)	Overseas plan (Millions of yen)		Overseas plan (Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Balance at the beginning of the year	50,664	50,660	464,771	15,308	15,251	139,917
Interest income	363	286	2,624	328	303	2,780
Remeasurement	(568)	(2,160)	(19,817)	454	(459)	(4,211)
Return on plan assets excluding interest income	(568)	(2,160)	(19,817)	454	(459)	(4,211)
Employer contributions	1,629	1,515	13,899	670	759	6,963
Benefits paid	(1,508)	(1,460)	(13,394)	(1,155)	(768)	(7,046)
Foreign exchange differences	—	—	—	(418)	(835)	(7,661)
Effect by transfer of plans	—	—	—	—	—	—
Other	81	88	807	62	(0)	(0)
Balance at the end of the year	50,660	48,929	448,890	15,251	14,250	130,734

The Group expects to make a contribution of ¥2,023 million ($18,560 thousand) to the defined benefit plans during the year ending March 31, 2021.

The Company and certain domestic subsidiaries are planning to pay the necessary amount of contributions based on regulatory requirements if the amount of funds is less than the minimum amount of funds required at the time of fund calculation for each reporting period.

<4> Reconciliation of the effect of the asset ceiling

Not applicable.

<5> Reconciliations of reimbursement rights related to defined benefit plans

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Balance at the beginning of the year	1,879	1,833	16,817
Interest income	7	6	55
Remeasurement	7	4	37
Return on reimbursement rights excluding interest income	7	4	37
Employer contributions	71	71	651
Benefits paid	(112)	(55)	(505)
Foreign exchange differences	(19)	(16)	(147)
Balance at the end of the year	1,833	1,842	16,899

Reimbursement rights are insurance policies required for settlement of defined benefit obligations.

<6> The breakdown of fair value of plan assets

The breakdown of fair value of plan assets is as follows:

Domestic plan

FY2018 (As of March 31, 2019) (Millions of yen)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	2,557	2,557
Equity instruments	12,342	—	12,342
Domestic stocks	6,778	—	6,778
Foreign stocks	5,563	—	5,563
Debt instruments	15,432	—	15,432
Domestic bonds	9,251	—	9,251
Foreign bonds	6,181	—	6,181
Investments in life insurance company general accounts (Note 1)	—	11,323	11,323
Alternatives (Note 2)	—	9,004	9,004
Other	—	—	—
Total	27,775	22,885	50,660

(Note)
1) Investments in life insurance company general accounts are life insurers' products managed as one account together with individual insurance, corporate pension assets, etc. A fixed rate and return of capital are guaranteed and life insurers assume risks in managing such accounts.
2) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

FY2019 (As of March 31, 2020) (Millions of yen)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	3,651	3,651
Equity instruments	9,591	—	9,591
Domestic stocks	5,555	—	5,555
Foreign stocks	4,036	—	4,036
Debt instruments	14,951	—	14,951
Domestic bonds	8,979	—	8,979
Foreign bonds	5,972	—	5,972
Investments in life insurance company general accounts (Note 1)	—	11,732	11,732
Alternatives (Note 2)	—	9,001	9,001
Other	—	—	—
Total	24,543	24,386	48,929

(Note)
1) Investments in life insurance company general accounts are life insurers' products managed as one account together with individual insurance, corporate pension assets, etc. A fixed rate and return of capital are guaranteed and life insurers assume risks in managing such accounts.
2) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	33,495	33,495
Equity instruments	87,991	—	87,991
Domestic stocks	50,963	—	50,963
Foreign stocks	37,028	—	37,028
Debt instruments	137,165	—	137,165
Domestic bonds	82,376	—	82,376
Foreign bonds	54,789	—	54,789
Investments in life insurance company general accounts (Note 1)	—	107,633	107,633
Alternatives (Note 2)	—	82,578	82,578
Other	—	—	—
Total	225,165	223,725	448,890

(Note)
1) Investments in life insurance company general accounts are life insurers' products managed as one account together with individual insurance, corporate pension assets, etc. A fixed rate and return of capital are guaranteed and life insurers assume risks in managing such accounts.
2) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

Overseas plan

FY2018 (As of March 31, 2019) (Millions of yen)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	1,333	1,333
Equity instruments	3,746	—	3,746
Domestic stocks	—	—	—
Foreign stocks	3,746	—	3,746
Debt instruments	1,815	—	1,815
Domestic bonds	—	—	—
Foreign bonds	1,815	—	1,815
Insurance	—	2,955	2,955
Alternatives (Note)	—	4,900	4,900
Other	—	499	499
Total	5,561	9,689	15,251

(Note) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

FY2019 (As of March 31, 2020) (Millions of yen)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	760	760
Equity instruments	2,637	—	2,637
Domestic stocks	—	—	—
Foreign stocks	2,637	—	2,637
Debt instruments	1,468	—	1,468
Domestic bonds	—	—	—
Foreign bonds	1,468	—	1,468
Insurance	—	3,438	3,438
Alternatives (Note)	—	5,455	5,455
Other	—	490	490
Total	4,105	10,145	14,250

(Note) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)

	Quoted market price in an active market is available	No quoted market price in an active market is available	Total
Cash and cash equivalents	—	6,972	6,972
Equity instruments	24,193	—	24,193
Domestic stocks	—	—	—
Foreign stocks	24,193	—	24,193
Debt instruments	13,468	—	13,468
Domestic bonds	—	—	—
Foreign bonds	13,468	—	13,468
Insurance	—	31,541	31,541
Alternatives (Note)	—	50,046	50,046
Other	—	4,495	4,495
Total	37,661	93,073	130,734

(Note) Alternatives are investments managed by investment funds, such as hedge funds, multi-assets and insurance products.

Plan assets are managed for the purpose of securing a total return required within acceptable risks for a long period of time in order to ensure future payments of pension benefits and lump-sum retirement payments.

Based on this purpose, the Company strives to maintain an appropriate asset mix, taking the expected rate of return and risks of investment assets into consideration.

<7> Assumptions used for actuarial valuation

The principal assumption used for the purpose of the actuarial valuation is as follows:

Domestic plan

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Weighted-average discount rate	0.2 to 0.9%	0.3 to 0.6%

Overseas plan

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Weighted-average discount rate	0.7 to 3.7%	0.3 to 3.0%

<8> Sensitivity analysis

If the discount rate used for actuarial valuation changes by 0.5%, the present value of defined benefit obligations would increase or decrease, as shown below. The sensitivity analysis below have been determined based on reasonably possible change of the assumption occurring at the end of the reporting period, while holding all other assumptions constant. In practice, the sensitivity analysis presented below may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Domestic plan

(Millions of yen) (Thousands of U.S. dollars)

If the discount rate:	The defined benefit obligation would:		
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
increases by 0.5%	decrease by 3,637	decrease by 3,814	decrease by 34,991
decreases by 0.5%	increase by 4,108	increase by 4,317	increase by 39,606

Overseas plan

(Millions of yen) (Thousands of U.S. dollars)

If the discount rate:	The defined benefit obligation would:		
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
increases by 0.5%	decrease of 2,159	decrease of 2,056	decrease of 18,862
decreases by 0.5%	Increase of 2,000	Increase of 2,039	increase of 18,706

(2) Defined contribution plans

The total expenses recognized in profit or loss in relation to defined contribution plan were ¥12,466 million and ¥12,565 million ($115,275 thousand) for the years ended March 31, 2019 and 2020, respectively.

The amounts above included the expense recognized in profit or loss in relation to state pension plans.

(3) Employee benefit expenses

The amounts of employee benefit expenses included in "Cost of sales", "Selling, general and administrative expenses" and “Other expenses” in the consolidated statement of income were ¥154,212 million and ¥149,950 million ($1,375,688 thousand) for the years ended March 31, 2019 and 2020, respectively.

26. Provisions

The breakdown and movement in provisions are as follows:

(Millions of yen)

	Asset retirement obligations	Provision for product warranties	Other	Total
Balance as of April 1, 2018	1,631	4,223	2,109	7,964
Increase	316	3,288	1,061	4,666
Decrease (used)	(50)	(3,610)	(1,387)	(5,048)
Decrease (reversal)	—	(79)	(440)	(520)
Increase due to passage of time	10	—	—	10
Foreign exchange differences	(2)	(95)	(7)	(105)
Balance as of March 31, 2019	1,904	3,726	1,335	6,966
Increase due to business combinations	21	—	—	21
Increase	188	2,294	975	3,458
Decrease (used)	(55)	(2,643)	(1,080)	(3,780)
Decrease (reversal)	—	(19)	(70)	(90)
Increase due to passage of time	7	—	—	7
Foreign exchange differences	(26)	(168)	(52)	(247)
Balance as of March 31, 2020	2,040	3,189	1,106	6,336

(Thousands of U.S. dollars)

Balance as of March 31, 2019	17,468	34,183	12,248	63,908
Increase due to business combinations	193	—	—	193
Increase	1,725	21,046	8,945	31,725
Decrease (used)	(505)	(24,248)	(9,908)	(34,679)
Decrease (reversal)	—	(174)	(642)	(826)
Increase due to passage of time	64	—	—	64
Foreign exchange differences	(239)	(1,541)	(477)	(2,266)
Balance as of March 31, 2020	18,716	29,257	10,147	58,128

(Note)

1) Asset retirement obligations

If legal or contractual obligations are imposed in relation to the retirement of property, plant and equipment due to the acquisition, construction, development or normal operation of the property, plant and equipment, future expenses necessary for such retirement are recognized.

The outflow of economic benefits in the future is expected to occur after one year from the end of each reporting period, and it will be affected by future business plans.

2) Provision for product warranty

To provide for costs of after-sales services of products, estimated costs of after-sales services are recognized based on historical records.

The decrease (reversal) during the year is the reversal amount of the unused portion of the provision during the year as the estimate is less than the actual amount.

3) Other provisions

Other provisions include a provision for environmental measures. The decrease (reversal) during the year is the reversal amount of the unused portion of the provision during the year as the estimate was less than the actual amount.

The breakdown of provisions in the consolidated statement of financial position is as follows:

	FY2018 (As of March 31, 2019) (Millions of yen)	FY2019 (As of March 31, 2020) (Millions of yen)	FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)
Current liabilities	3,806	3,349	30,725
Non-current liabilities	3,160	2,986	27,394
Total	6,966	6,336	58,128

27. Other Liabilities

The breakdown of other liabilities is as follows:

	FY2018 (As of March 31, 2019) (Millions of yen)	FY2019 (As of March 31, 2020) (Millions of yen)	FY2019 (As of March 31, 2020) (Thousands of U.S. dollars)
Other current liabilities			
Accrued bonuses	12,804	12,210	112,018
Accrued unused paid absences	7,995	7,905	72,523
Accrued expenses	23,379	22,800	209,174
Other	5,328	5,897	54,101
Total	49,507	48,813	447,826
Other non-current liabilities			
Other long-term employee benefits	525	525	4,817
Deferred income	768	641	5,881
Long-term accrued expenses	604	—	—
Other	275	22	202
Total	2,174	1,188	10,899

28. Equity and Other Equity Items

(1) Capital stock and capital surplus

Under the Companies Act of Japan (the "Companies Act"), at least 50% of the proceeds of certain issues of common shares shall be credited to "Capital stock". The remainder of the proceeds may be credited to "Capital surplus". The Companies Act permits, upon approval at the general meeting of shareholders, the transfer of amounts from "Capital surplus" to "Capital stock".

The number of authorized shares, the number of outstanding shares and the amount of capital stock, etc., are as follows:

	Number of authorized shares (Shares)	Number of outstanding shares (Shares)	Capital stock (Millions of yen)	Capital surplus (Millions of yen)	Capital stock (Thousands of U.S. dollars)	Capital surplus (Thousands of U.S. dollars)
Balance as of April 1, 2018	600,000,000	262,220,530	19,209	17,517		
Increase	―	―	―	59		
Balance as of March 31, 2019	600,000,000	262,220,530	19,209	17,577	176,229	161,257
Increase	―	―	―	54	―	495
Balance as of March 31, 2020	600,000,000	262,220,530	19,209	17,632	176,229	161,761

(Note) The shares issued by the Company are common shares with no par value and no restriction on the content of rights. Outstanding shares are fully paid.

(2) Retained earnings

The Companies Act of Japan provides that a 10% dividend of retained earnings should be accumulated as “Capital surplus” or a legal reserve until the sum of “Capital surplus” or a legal reserve equal to 25% of “Capital stock”. Accumulated legal reserve can be applied to capital deficit and can be reversed upon resolution of the shareholders’ meeting.

Retained earnings include the transferred amount of the accumulated gains and losses recognized through other comprehensive income when selling financial assets measured at fair value through other comprehensive income.

(3) Treasury stock

The Companies Act allows Japanese companies to purchase and hold treasury stock. Japanese companies are allowed to decide the number, amount and other aspects of the treasury stock to be acquired, not exceeding the amount available for distribution, upon resolution at the shareholders' meeting. The Companies Act also allows Japanese companies to purchase treasury stock through market transactions or tender offers by resolution of the board of directors, as long as it is allowed under the articles of incorporation, subject to limitations imposed by the Companies Act.

The movement of the number and the amount of treasury stock is as follows:

	Number of shares (Shares)	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)
Balance as of April 1, 2018	2,541,709	(2,800)	
Increase	6,295	(11)	
Decrease	(84,120)	117	
Balance as of March 31, 2019	2,463,884	(2,694)	(24,716)
Increase	5,145	(10)	(92)
Decrease	(80,719)	107	982
Balance as of March 31, 2020	2,388,310	(2,597)	(23,826)

The increase in treasury stock by 6,295 shares for the year ended March 31, 2019 represents the Company’s purchase of odd lots of 3,821 shares and the portion of treasury stock acquired by associates of 2,474 shares. The decrease in treasury stock by 84,120 shares was due to the exercise of stock options of 84,000 shares and the transfer of odd lots in response to purchase requests of 120 shares.

The increase in treasury stock by 5,145 shares for the year ended March 31, 2020 represents the Company’s purchase of odd lots of 3,692 shares and the portion of treasury stock acquired by associates of 1,453 shares. The decrease in treasury stock by 80,719 shares was due to the exercise of stock options of 75,300 shares, the portion of treasury stock sold by associates of 5,385 shares and the transfer of odd lots in response to purchase requests of 34 shares.

(4) Other capital surplus

Stock acquisition rights

The Company adopts stock option plans and issues stock acquisition rights based on the Company Act. The contractual terms and the amounts, etc., are provided in Note 40 "Shared-Based Payments."

(5) Other components of equity

Cumulative translation differences for foreign operations

Cumulative translation differences for foreign operations are the foreign exchange differences which are recognized when consolidating the financial statements of foreign operations to the Group.

Effective portion of net changes in the fair value of cash flow hedges

This is the effective portion of changes in the fair value of derivative transactions designated as cash flow hedges.

Gains/(Losses) on investments in equity instruments designated as FVTOCI

This is the valuation difference of Gains/(Losses) on investments in equity instruments designated as FVTOCI.

Remeasurements of the net defined benefit liabilities (assets)

Remeasurements of the net defined benefit liabilities (assets) comprise actuarial gains and losses on defined benefit obligations, the return on plan assets excluding the interest income and changes in the effect of the asset ceiling.

29. Dividends

The Company distributes dividends paid within the limit provided by the Companies Act. The dividend limit is calculated based on the amount of retained earnings in the Company’s accounting books prepared in accordance with Japanese GAAP.

Dividends paid were as follows:

FY2018 (Year ended March 31, 2019)

Resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
The Board of Directors Meeting held on May 17, 2018	7,800	30.00	March 31, 2018	June 5, 2018
The Board of Directors Meeting held on November 6, 2018	7,802	30.00	September 30, 2018	November 30, 2018

FY2019 (Year ended March 31, 2020)

Resolution	Total amount of dividends (Millions of yen)	Total amount of dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
The Board of Directors Meeting held on May 31, 2019	7,803	71,587	30.00	0.28	March 31, 2019	June 4, 2019
The Board of Directors Meeting held on November 5, 2019	7,803	71,587	30.00	0.28	September 30, 2019	November 29, 2019

Dividends whose record date is in the current fiscal year but whose effective date is in the following fiscal year are as follows:

FY2018 (Year ended March 31, 2019)

Resolution	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
The Board of Directors Meeting held on May31, 2019	7,803	30.00	March 31, 2019	June 4, 2019

FY2019 (Year ended March 31, 2020)

Resolution	Total amount of dividends (Millions of yen)	Total amount of dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Record date	Effective date
The Board of Directors Meeting held on May 28, 2020	7,805	71,606	30.00	0.28	March 31, 2020	June 9, 2020

30. Revenue

(1) Disaggregation of revenue

The relationship between disaggregated revenue by geographic region and revenue by segment is as follows:

FY2018 (Year Ended March 31, 2019)

(Millions of yen)

	Reportable segment						Total
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others	
Japan	34,055	3,554	26,965	46,893	809	12,143	124,421
The Americas	152,815	25,800	12,920	64	17,314	0	208,916
Europe	130,840	11,116	8,236	—	30,147	—	180,341
Asia and others	48,249	4,029	26,029	338	15,628	4	94,279
China	37,074	944	29,979	630	7,335	49	76,013
Consolidated	403,036	45,445	104,130	47,926	71,234	12,198	683,972
Leases	50	—	132	15,264	2,300	1,575	19,323
Revenue from IFRS 15	402,985	45,445	103,998	32,662	68,934	10,623	664,648

(Note) Revenue is geographically disaggregated by customer location.

FY2019 (Year Ended March 31, 2020)

(Millions of yen)

	Reportable segment						Total
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others	
Japan	33,761	3,143	23,075	48,325	8	14,179	122,494
The Americas	148,403	22,285	11,617	69	17,414	—	199,789
Europe	127,989	10,786	7,957	—	27,711	—	174,444
Asia and others	47,223	3,804	16,753	230	15,704	30	83,747
China	33,309	845	15,409	482	6,699	36	56,783
Consolidated	390,687	40,864	74,814	49,108	67,537	14,247	637,259
Leases	48	3	138	8,637	2,158	1,611	12,598
Revenue from IFRS 15	390,639	40,861	74,675	40,470	65,378	12,635	624,660

(Note) Revenue is geographically disaggregated by customer location.

(Thousands of U.S dollars)

	Reportable segment						Total
	Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others	
Japan	309,734	28,835	211,697	443,349	73	130,083	1,123,798
The Americas	1,361,495	204,450	106,578	633	159,761	—	1,832,927
Europe	1,174,211	98,954	73,000	—	254,229	—	1,600,404
Asia and others	433,239	34,899	153,697	2,110	144,073	275	768,321
China	305,587	7,752	141,367	4,422	61,459	330	520,945
Consolidated	3,584,284	374,899	686,367	450,532	619,606	130,706	5,846,413
Leases	440	28	1,266	79,239	19,798	14,780	115,578
Revenue from IFRS 15	3,583,844	374,872	685,092	371,284	599,798	115,917	5,730,826

(Note) Revenue is geographically disaggregated by customer location.

For sales of products of the Group, the performance obligation in a contract is satisfied when the customer obtains control over the products based on contract terms. Thus, revenue is recognized upon delivery to the customer, at the time of customer acceptance, or based on contract terms. Services, such as maintenance and operation, relating to these products may be provided to the customer. Revenue is recognized based on the contractual period because the performance obligation relating to these services is generally satisfied with the passage of time. Also, rebates that are subject to achievement of a certain target, such as sales quantity and sales amount, may be added when products are sold. In that case, transaction price is determined at the consideration promised in a contract with a customer, less rebates and other estimated items. Rebates and other estimated items are calculated based on the past actual, etc., and revenue is recognized only when it is highly probable that a significant reversal in the amount will not occur.

(2) Contract balances

The balances of receivables and contract liabilities from contracts with customers are as follows:

			(Millions of yen)	(Thousands of U.S. dollars)
	Date of initial application (As of April 1, 2018)	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Receivables from contracts with customers	105,382	102,239	95,857	879,422
Contract liabilities	5,186	5,189	5,603	51,404

Revenue recognized in the years ended March 31, 2019 and 2020 that was included in the contract liability balance at the beginning of the period is ¥4,066 million and ¥4,147 million ($38,046 thousand), respectively.

Revenue recognized in the years ended March 31, 2019 and 2020 from performance obligations satisfied in previous periods was not material.

(Note)
1) "Contract liabilities" are mainly related to advances received from customers.
2) There are no significant changes in "Contract liabilities."

(3) Transaction price allocated to the remaining performance obligations

The aggregate amount of the transaction price allocated to the remaining performance obligations is not material.

Also, the Group applies Paragraph 121 of IFRS 15 and omits the disclosure of transactions with contractual periods of one year or less or transactions applying the practical expedient in Paragraph B16 of IFRS 15. In addition, there are no significant amounts in consideration from contracts with customers that are not included in transaction prices.

The Group applies the practical expedient in Paragraph B63 of IFRS 15. When the period between when a good or service is transferred to a customer and when the consideration is paid is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

31. Cost of Sales

The breakdown of cost of sales is as follows:

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Raw materials costs	290,444	249,292	2,287,083
Employee benefit expenses	57,196	55,844	512,330
Depreciation and amortization	21,499	23,352	214,239
Other	22,752	26,496	243,083
Total	391,893	354,987	3,256,761

32. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
	(Millions of yen)		(Thousands of U.S. dollars)
Employee benefit expenses	95,944	93,916	861,615
Depreciation and amortization	12,174	16,844	154,532
Freight expenses	19,903	18,503	169,752
Advertising expenses	14,064	13,690	125,596
Other	78,018	72,374	663,982
Total	220,105	215,330	1,975,505

(Note) Due to the recognition of "Right-of-use assets" under IFRS 16, lease payments, which were previously recognized as rents, are recognized as depreciation and amortization from the year ended March 31, 2020.

33. Other Income and Other Expenses

The breakdown of other income is as follows:

	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
	(Millions of yen)		(Thousands of U.S. dollars)
Gain on sales of fixed assets	103	617	5,661
Net gain in the fair value of financial instruments measured at FVTPL			
Derivatives	1,953	307	2,817
Other	853	230	2,110
Insurance revenue	447	424	3,890
Foreign exchange gains	329	—	—
Income from government grants	412	828	7,596
Other	774	855	7,844
Total	4,875	3,264	29,945

The breakdown of other expenses is as follows:

	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
	(Millions of yen)		(Thousands of U.S. dollars)
Loss on sales and disposal of fixed assets	2,258	906	8,312
Impairment losses	188	429	3,936
Foreign exchange losses	—	461	4,229
Disaster losses	188	64	587
Credit losses	612	484	4,440
Structural reform expenses (Note)	1,071	189	1,734
Other	605	340	3,119
Total	4,924	2,876	26,385

(Note) Structural reform expenses for the years ended March 31, 2019 and 2020 are mainly special retirement payments of certain consolidated subsidiaries in the Printing & Solutions business.

34. Government Grants

The Company received government grants to acquire property, plant and equipment in association with the transfer of a factory in China. The government grants received, which are accounted for as deferred income and proportionally recognized as a reduction of “Cost of sales” in profit or loss over the useful lives of the facilities subject to such grants in the consolidated statement of income, are ¥46 million for the year ended March 31, 2019 and ¥40 million ($367 thousand) for the year ended March 31, 2020. Otherwise, “Other income” includes the government grants of ¥412 million for the year ended March 31, 2019 and ¥828 million ($7,596 thousand) for the year ended March 31, 2020 as profit or loss.

There are no unsatisfied conditions and contingencies incidental to the government grants.

35. Finance Income and Finance Expenses

The breakdown of finance income is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Interest income			
Financial assets measured at amortized cost	936	996	9,138
Net gain in the fair value of financial instruments measured at FVTPL			
Derivatives (Note)	2,786	33	303
Dividend income	304	296	2,716
Foreign exchange gains (Note)	—	955	8,761
Other	12	6	55
Total	4,039	2,289	21,000

The breakdown of finance expenses is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Interest expense			
Financial liabilities measured at amortized cost	1,679	1,555	14,266
Interest expense on lease liabilities	—	853	7,826
Net interest expense on net defined benefit liability	240	240	2,202
Foreign exchange losses (Note)	1,790	—	—
Other	89	50	459
Total	3,800	2,700	24,771

(Note) Foreign exchange gains or losses resulted primarily from corporate bonds and borrowings denominated in foreign currencies. The Company has entered into currency interest rate swap contracts to avoid the effect of fluctuations in the exchange rates of foreign currency-denominated borrowings on profit or loss, and the differences in valuation are recognized as finance income or expenses.

36. Earnings per Share

	FY2018 (Year ended March 31, 2019)	(Millions of yen) FY2019 (Year ended March 31, 2020)	(Thousands of U.S. dollars) FY2019 (Year ended March 31, 2020)
Profit attributable to ordinary shareholders of the parent company	53,902	49,566	454,734
Net income used in the calculation of diluted earnings per share	53,902	49,566	454,734
Average number of shares – basic	259,719,758	259,781,183	
Increase of shares – basic			
Stock acquisition rights (shares)	798,634	810,746	
Average number of shares – diluted	260,518,392	260,591,929	

		(Yen)	(U.S dollars)
Basic earnings per share	207.54	190.80	1.75
Diluted earnings per share	206.90	190.21	1.75

37. Other Comprehensive Income

The amount arising during the year, reclassification adjustments to profit or loss and the income tax effect for each item in other comprehensive income, including non-controlling interests, are as follows:

FY2018 (Year ended March 31, 2019)

(Millions of yen)

	The amount arising during the year	Reclassification adjustments	Before income tax effect	Income tax effect	After income tax effect
Items that will not be reclassified to profit or loss					
Gains/(Losses) on investments in equity instruments designated as FVTOCI	(3,593)	－	(3,593)	927	(2,665)
Remeasurements of the net defined benefit liability (asset)	(1,394)	－	(1,394)	441	(953)
Share of other comprehensive income of investments accounted for using the equity method	11	－	11	－	11
Subtotal	(4,976)	－	(4,976)	1,368	(3,607)
Items that may be reclassified to profit or loss					
Exchange differences on translating foreign operations	(5,222)	－	(5,222)	(106)	(5,329)
Subtotal	(5,222)	－	(5,222)	(106)	(5,329)
Total	(10,199)	－	(10,199)	1,261	(8,937)

FY2019 (Year ended March 31, 2020)

(Millions of yen)

	The amount arising during the year	Reclassification adjustments	Before income tax effect	Income tax effect	After income tax effect
Items that will not be reclassified to profit or loss					
Gains/(Losses) on investments in equity instruments designated as FVTOCI	(2,977)	－	(2,977)	1,029	(1,948)
Remeasurements of the net defined benefit liability (asset)	(2,841)	－	(2,841)	907	(1,933)
Share of other comprehensive income of investments accounted for using the equity method	(17)	－	(17)	－	(17)
Subtotal	(5,836)	－	(5,836)	1,936	(3,899)
Items that may be reclassified to profit or loss					
Exchange differences on translating foreign operations	(25,637)	－	(25,637)	(335)	(25,973)
Subtotal	(25,637)	－	(25,637)	(335)	(25,973)
Total	(31,474)	－	(31,474)	1,600	(29,873)

(Thousands of U.S. dollars)

	The amount arising during the year	Reclassification adjustments	Before income tax effect	Income tax effect	After income tax effect
Items that will not be reclassified to profit or loss					
Gains/(Losses) on investments in equity instruments designated as FVTOCI	(27,312)	—	(27,312)	9,440	(17,872)
Remeasurements of the net defined benefit liability (asset)	(26,064)	—	(26,064)	8,321	(17,734)
Share of other comprehensive income of investments accounted for using the equity method	(156)	—	(156)	—	(156)
Subtotal	(53,541)	—	(53,541)	17,761	(35,771)
Items that may be reclassified to profit or loss					
Exchange differences on translating foreign operations	(235,202)	—	(235,202)	(3,073)	(238,284)
Subtotal	(235,202)	—	(235,202)	(3,073)	(238,284)
Total	(288,752)	—	(288,752)	14,679	(274,064)

Of the above items, the amounts attributable to non-controlling interests (after income tax effect) are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Gains on investments in equity instruments designated as FVTOCI	(140)	(20)	(183)
Remeasurements of the net defined benefit liability (asset)	(2)	8	73
Exchange differences on translating foreign operations	(7)	(24)	(220)
Total	(150)	(36)	(330)

38. Liabilities Arising from Financing Activities

The changes in liabilities arising from financing activities are as follows:

FY2018 (Year ended March 31, 2019)

(Millions of yen)

	As of March 31, 2018	Cash flow	Non-cash changes					As of March 31, 2019
			Foreign exchange differences	Fair value	New leases	Amortized cost	Business combinations	
Short-term borrowings	1,176	(1,042)	(12)	—	—	—	—	122
Long-term borrowings								
Long-term borrowings	74,801	(296)	1,881	—	—	45	—	76,432
Derivatives	6,240	—	—	(1,828)	—	—	—	4,411
Subtotal	81,042	(296)	1,881	(1,828)	—	45	—	80,844
Bonds	40,468	(20,231)	(16)	—	—	17	—	20,237
Lease obligations	4,579	(1,590)	(0)	—	1,015	—	—	4,004
Total	127,266	(23,159)	1,852	(1,828)	1,015	62	—	105,209

FY2019 (Year ended March 31, 2020)

(Millions of yen)

	As of March 31, 2019	Cash flow	Non-cash changes					As of March 31, 2020
			Foreign exchange differences	Fair value	New leases	Amortized cost	Business combinations	
Short-term borrowings	122	29,873	(14)	—	—	—	31	30,012
Long-term borrowings (Note 1)								
Long-term borrowings	76,432	(18,700)	(946)	—	—	64	—	56,850
Derivatives	4,411	(1,296)	—	947	—	—	—	4,062
Subtotal	80,844	(19,997)	(946)	947	—	64	—	60,913
Bonds	20,237	(92)	(13)	—	—	17	—	20,148
Lease obligations (Note 2)	4,004	(8,813)	(815)	—	35,573	—	40	29,989
Total	105,209	970	(1,790)	947	35,573	82	71	141,064

(Note)
1) "Repayment of long-term borrowings" in the consolidated statement of cash flows includes derivatives paid or received.
2) Changes in "Lease liabilities" at the date of the initial application of IFRS 16 are included in new leases.

(Thousands of U.S. dollars)

	As of March 31, 2019	Cash flow	Non-cash changes					As of March 31, 2020
			Foreign exchange differences	Fair value	New leases	Amortized cost	Business combinations	
Short-term borrowings	1,119	274,064	(128)	—	—	—	284	275,339
Long-term borrowings (Note 1)								
Long-term borrowings	701,211	(171,560)	(8,679)	—	—	587	—	521,560
Derivatives	40,468	(11,890)	—	8,688	—	—	—	37,266
Subtotal	741,688	(183,459)	(8,679)	8,688	—	587	—	558,835
Bonds	185,661	(844)	(119)	—	—	156	—	184,844
Lease obligations (Note 2)	36,734	(80,853)	(7,477)	—	326,358	—	367	275,128
Total	965,220	8,899	(16,422)	8,688	326,358	752	651	1,294,165

(Note)

1) “Repayment of long-term borrowings” in the consolidated statement of cash flows includes derivatives paid or received.
2) Changes in “Lease liabilities” at the date of the initial application of IFRS 16 are included in new leases.

39. Non-Financial Transactions

The purchases of property, plant and equipment related to finance leases are as follows:

	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
	(Millions of yen)		(Thousands of U.S. dollars)
Property, plant and equipment related to finance leases	572	—	—
Right-of-use assets related to leases	—	6,366	58,404

40. Shared-Based Payments

(1) Description of the share-based payment system

The Company has adopted a stock option scheme for directors (excluding external directors) and executive officers (excluding executive officers concurrently working as director) with an aim to increase incentives for the improvement of long-term performance.

Stock options of the Company are all equity-settled, share-based payment and granted on the basis of matters approved at the board of directors' meeting. The exercise period is prescribed in the allocation agreement, and stock options not exercised during such period expire. No vesting conditions are set in the scheme, and stock options are vested on the grant date.

Stock acquisition rights holders may, during the exercise period, exercise their stock acquisition rights until the day on which five years have elapsed from the day on which one year has elapsed from the following day after the date on which they resign as director, corporate auditor, executive officer or administration officer of the Company, its subsidiaries or companies of which the Company or its subsidiaries hold more than 40% of the voting rights of all shareholders. However, in cases in which the first day of the exercise period does not arrive by 30 years after the following day of the allocation date of stock acquisition rights, on which the subscription requirements for stock acquisition rights are determined, the holders may exercise such rights within one year from the following day.

Details of the Company's stock options are as follows:

Date of grant	Number of options granted	(Shares)	Exercise period	Exercise price (Yen)	Exercise price (U.S. dollars)	Fair value price at grant date	(Yen)	(U.S. dollars)
March 19, 2007	The Company directors	46,000	30 years starting on the day following the stock option grant date	1	0.01	The Company directors	1,350	12.39
March 24, 2008	The Company directors	65,100	Same as above	1	0.01	The Company directors	915	8.39
March 23, 2009	The Company directors	114,500	Same as above	1	0.01	The Company directors	642	5.89
March 23, 2010	The Company directors	51,900	Same as above	1	0.01	The Company directors	899	8.25
	The Company executive officers	49,600				The Company executive officers	912	8.37
March 23, 2011	The Company directors	43,200	Same as above	1	0.01	The Company directors	1,018	9.34
	The Company executive officers	40,300				The Company executive officers	1,034	9.49
March 23, 2012	The Company directors	44,600	Same as above	1	0.01	The Company directors	929	8.52
	The Company executive officers	61,800				The Company executive officers	957	8.78
March 21, 2013	The Company directors	36,600	Same as above	1	0.01	The Company directors	850	7.80
	The Company executive officers	69,500				The Company executive officers	880	8.07
March 27, 2014	The Company directors	30,800	Same as above	1	0.01	The Company directors	1,169	10.72
	The Company executive officers	49,600				The Company executive officers	1,157	10.61

Date of grant	Number of options granted (Shares)		Exercise period	Exercise price		Fair value price at grant date		
				(Yen)	(U.S. dollars)		(Yen)	(U.S. dollars)
March 18, 2015	The Company directors	37,300	Same as above	1	0.01	The Company directors	1,615	14.82
	The Company executive officers	28,800				The Company executive officers	1,655	15.18
March 24, 2016	The Company directors	52,200	Same as above	1	0.01	The Company directors	1,089	9.99
	The Company executive officers	66,000				The Company executive officers	1,089	9.99
March 24, 2017	The Company directors	29,700	Same as above	1	0.01	The Company directors	1,981	18.17
	The Company executive officers	43,500				The Company executive officers	1,944	17.83
March 26, 2018	The Company directors	28,300	Same as above	1	0.01	The Company directors	2,014	18.48
	The Company executive officers	33,200				The Company executive officers	1,967	18.05
July 19, 2018	The Company directors	37,900	Same as above	1	0.01	The Company directors	1,892	17.36
	The Company executive officers	35,600				The Company executive officers	1,855	17.02
July 17, 2019	The Company directors	41,400	Same as above	1	0.01	The Company directors	1,669	15.31
	The Company executive officers	35,400				The Company executive officers	1,596	14.64

(2) Number of stock options and weighted-average exercise price

	FY2018 (Year ended March 31, 2019)		FY2019 (Year ended March 31, 2020)		
	Number of shares (Share)	Weighted-average exercise price (Yen)	Number of shares (Share)	Weighted-average exercise price (Yen)	Weighted-average exercise price (U.S. dollars)
Unexercised balance at beginning of year	793,100	1	782,600	1	0.01
Granted	73,500	1	76,800	1	0.01
Forfeited	—	—	—	—	—
Exercised	84,000	1	75,300	1	0.01
Matured	—	—	—	—	—
Unexercised balance at end of year	782,600	1	784,100	1	0.01
Exercised balance at end of year	123,100	1	124,300	1	0.01

The weighted-average stock price on the exercise date is ¥2,158 for the stock options exercised during the year ended March 31, 2019 and ¥1,910 ($17.52) for those exercised during the year ended March 31, 2020.

The exercise price of unexercised stock options is ¥1 as of March 31, 2019, and ¥1($0.01) as of March 31, 2020. The weighted-average remaining contractual term was 19 years for the year ended March 31, 2019 and 20 years for the year ended March 31, 2020.

(3) Fair value of stock options granted during the period and valuation method used

The weighted-average fair value of the stock options granted is ¥1,874 for the year ended March 31, 2019 and ¥1,635 ($15.00) for the year ended March 31, 2020.

The fair value of the stock options granted during the period is assessed using the Black-Scholes Model based on the following:

(Yen) (U.S. dollars)

	FY 2018 (Year ended March 31, 2019)		FY 2019 (Year ended March 31, 2020)		FY 2019 (Year ended March 31, 2020)	
	The Company directors	The Company executive officers	The Company directors	The Company executive officers	The Company directors	The Company executive officers
Stock price at the date of grant	2,247	2,247	2,046	2,046	18.77	18.77
Exercise price	1	1	1	1	0.01	0.01
Expected volatility	34.08%	34.20%	34.08%	33.78%		
Expected life	8 years	9 years	7 years	9 years		
Expected dividend	2.14%	2.12%	2.25%	2.25%		
Risk-free interest rate	(0.04)%	0.00%	(0.22)%	(0.17)%		

(Note) Expected volatility is calculated based on daily stock prices during the period corresponding to the expected life. The expected life is estimated based on the average length of tenure of the Company’s directors and executive officers and the exercise conditions. Expected dividends are computed on the basis of actual dividends paid during the period corresponding to the expected life. The risk-free rate is based on the yield of government bonds during the period corresponding to the expected life.

(4) Share-based compensation expenses

The amount of share-based compensation expenses included in “Selling, general and administrative expenses” in the consolidated statement of income is ¥137 million for the year ended March 31, 2019 and ¥131 million ($1,202 thousand) for the year ended March 31, 2020.

41. Financial Instruments

(1) Capital management

The Group manages capital for the purpose of maximizing corporate value through sustainable growth.

The comparison between net interest-bearing debt (interest-bearing debt less cash and cash equivalents) and capital (equity attributable to owners of the parent company) is as follows:

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Interest-bearing debt	96,792	107,012	981,761
Cash and cash equivalents	(131,152)	(168,422)	(1,545,156)
Net interest-bearing debt	(34,359)	(61,409)	(563,385)
Capital (equity attributable to owners of the parent company)	424,759	428,520	3,931,376

(Note)
1) The Group is not subject to any externally imposed capital requirements.
2) Interest-bearing debt is calculated as the sum of “Bonds and borrowings” in the consolidated statement of financial position.

(2) Financial risk management

The Group is exposed to a variety of financial risks such as market risk (including currency exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk in the course of its business activities and conducts risk management to mitigate such financial risks.

The Group enters into derivative financial instruments in order to reduce foreign currency exchange rate risk and interest rate risk and does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

<1> Credit risk management

a. Risk management activities

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group manages such risk by setting credit limits for counterparties based on its credit management policy.

Trade receivables are due from a large number of customers, spread across diverse industries and geographical areas. The Group does not have significant credit risk exposure or concentration of credit risk to any single counterparty or groups of counterparties.

The Group’s maximum exposure to credit risk before considering the estimated value of the collateral obtained is the carrying amount of financial assets after deducting impairment losses, which is reported in the consolidated financial statements.

The Company enters into derivative financial instruments only with creditworthy financial institutions to reduce counterparty risk.

b. Credit risk management practice

The assessment of whether there has been a significant increase in credit risk is based on internal and external credit ratings and other information. If a contractual payment is more than 30 days past due, it is generally deemed that there has been a significant increase in credit risk.

The Group determines that a debtor is in default if its credit has been impaired, which is judged based on any events occurring that may have an adverse impact on expected future cash flows of financial assets.

Expected credit losses are assessed individually or by group, in which case debtors are categorized into groups based on common risk characteristics indicating their capabilities. In assessing 12-month and lifetime expected credit losses, the current situation and projection for future losses are considered on the basis of credit impairment history.

c. Changes in allowance for doubtful accounts and subject financial assets

The Group provides an allowance for doubtful accounts taking into consideration the recoverability of operating receivables, etc., according to the credit status of counterparties.

Changes in the allowance for doubtful accounts in relation to trade receivables and other assets are as described below. Assets whose recoverability is likely to be low are classified into credit-impaired financial assets (e.g., when only partial payment is made and interest has occurred or payment for assets 30 days past due is made irregularly).

Changes in allowance for doubtful accounts are as follows:

Trade receivables

(Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of April 1, 2018	445	2,066	2,512
Reclassification to non-credit-impaired financial assets	608	(608)	—
Reclassification to credit-impaired financial assets	(3)	3	—
Increase(decrease) resulting from new financial assets and derecognized financial assets	(743)	909	165
Write-offs	(4)	(440)	(444)
Foreign exchange differences	(14)	(35)	(49)
Balance as of March 31, 2019	289	1,894	2,184
Reclassification to credit-impaired financial assets	(10)	10	—
Increase(decrease) resulting from new financial assets and derecognized financial assets	164	102	267
Write-offs	(1)	(303)	(304)
Foreign exchange differences	(16)	(133)	(150)
Other	40	(40)	—
Balance as of March 31, 2020	465	1,531	1,996

(Thousands of U.S. dollars)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of March 31, 2019	2,651	17,376	20,037
Reclassification to credit-impaired financial assets	(92)	92	—
Increase(decrease) resulting from new financial assets and derecognized financial assets	1,505	936	2,450
Write-offs	(9)	(2,780)	(2,789)
Foreign exchange differences	(147)	(1,220)	(1,376)
Other	367	(367)	—
Balance as of March 31, 2020	4,266	14,046	18,312

Receivables other than trade receivables

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses Credit-impaired financial assets	Total
Balance as of April 1, 2018	3	357	360
Increase (decrease) resulting from new financial assets and derecognized financial assets	(0)	(3)	(3)
Write-offs	(0)	(302)	(302)
Foreign exchange differences	(0)	(4)	(4)
Balance as of March 31, 2019	3	47	50
Increase (decrease) resulting from new financial assets and derecognized financial assets	(0)	—	(0)
Write-offs	(0)	—	(0)
Foreign exchange differences	(0)	0	(0)
Balance as of March 31, 2020	2	47	50

(Thousands of U.S. dollars)

	12-month expected credit losses	Lifetime expected credit losses Credit-impaired financial assets	Total
Balance as of March 31, 2019	28	431	459
Increase (decrease) resulting from new financial assets and derecognized financial assets	(0)	—	(0)
Write-offs	(0)	—	(0)
Foreign exchange differences	(0)	0	(0)
Balance as of March 31, 2020	18	431	459

Changes in receivables for which an allowance for doubtful accounts is provided are as follows:

Trade receivables

(Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of April 1, 2018	104,461	2,683	107,144
Reclassification to non-credit-impaired financial assets	1,041	(1,041)	—
Reclassification to credit-impaired financial assets	(320)	320	—
New financial assets and derecognized financial assets	(2,532)	255	(2,277)
Write-offs	(35)	(444)	(479)
Foreign exchange differences	(652)	(47)	(700)
Other	(820)	820	—
Balance as of March 31, 2019	101,141	2,546	103,687
Reclassification to non-credit-impaired financial assets	736	(736)	—
Reclassification to credit-impaired financial assets	(295)	295	—
New financial assets and derecognized financial assets	(1,259)	(81)	(1,341)
Write-offs	(12)	(341)	(354)
Foreign exchange differences	(4,720)	(187)	(4,908)
Other	(614)	614	—
Balance as of March 31, 2020	94,974	2,108	97,083

(Thousands of U.S. dollars)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of March 31, 2019	927,899	23,358	951,257
Reclassification to non-credit-impaired financial assets	6,752	(6,752)	—
Reclassification to credit-impaired financial assets	(2,706)	2,706	—
New financial assets and derecognized financial assets	(11,550)	(743)	(12,303)
Write-offs	(110)	(3,128)	(3,248)
Foreign exchange differences	(43,303)	(1,716)	(45,028)
Other	(5,633)	5,633	—
Balance as of March 31, 2020	871,321	19,339	890,670

Receivables other than trade receivables

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses		Total
		Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of April 1, 2018	5,263	0	397	5,662
New financial assets and derecognized financial assets	766	(0)	(8)	756
Write-offs	(0)	―	(306)	(306)
Foreign exchange differences	(59)	(0)	(4)	(64)
Balance as of March 31, 2019	5,970	―	77	6,047
New financial assets and derecognized financial assets	477	―	0	477
Write-offs	(0)	―	―	(0)
Foreign exchange differences	(213)	―	(2)	(215)
Other	1,383	―	―	1,383
Balance as of March 31, 2020	7,617	―	75	7,692

(Thousands of U.S. dollars)

	12-month expected credit losses	Lifetime expected credit losses		Total
		Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance as of March 31, 2019	54,771	―	706	55,477
New financial assets and derecognized financial assets	4,376	―	0	4,376
Write-offs	(0)	―	―	(0)
Foreign exchange differences	(1,954)	―	(18)	(1,972)
Other	12,688	―	―	12,688
Balance as of March 31, 2020	69,881	―	688	70,569

Of financial assets that are written off, there are no financial assets for which collecting activities continue in the year ended March 31, 2020.

d. Risk profile

The description of credit risk profiles by external credit ratings, etc., is as follows:

FY2018 (As of March 31, 2019)

Trade receivables

(Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	89,171	266	89,438
Within 30 days past due	8,119	24	8,143
31 to 60 days past due	1,591	20	1,611
61 to 90 days past due	887	13	901
Over 90 days past due	1,371	2,220	3,591
Total	101,141	2,546	103,687

Receivables other than trade receivables

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses	Total
		Credit-impaired financial assets	
Within due date	5,970	37	6,008
Over 90 days past due	—	39	39
Total	5,970	77	6,047

Bonds

(Millions of yen)

	12-month expected credit losses
Rating AAA-AA	6,314
Rating A	6,813
Total	13,127

FY2019 (As of March 31, 2020)

Trade receivables

(Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	82,668	145	82,813
Within 30 days past due	7,703	79	7,783
31 to 60 days past due	2,016	27	2,044
61 to 90 days past due	1,008	49	1,057
Over 90 days past due	1,578	1,806	3,384
Total	94,974	2,108	97,083

(Thousands of U.S. dollars)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	758,422	1,330	759,752
Within 30 days past due	70,670	725	71,404
31 to 60 days past due	18,495	248	18,752
61 to 90 days past due	9,248	450	9,697
Over 90 days past due	14,477	16,569	31,046
Total	871,321	19,339	890,670

Receivables other than trade receivables

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses	Total
		Credit-impaired financial assets	
Within due date	7,617	37	7,655
Over 90 days past due	—	37	37
Total	7,617	75	7,692

(Thousands of U.S. dollars)

	12-month expected credit losses	Lifetime expected credit losses	Total
		Credit-impaired financial assets	
Within due date	69,881	339	70,229
Over 90 days past due	—	339	339
Total	69,881	688	70,569

Bonds

(Millions of yen)

	12-month expected credit losses
Rating AAA-AA	5,701
Rating A	5,905
Total	11,606

(Thousands of U.S. dollars)

	12-month expected credit losses
Rating AAA-AA	52,303
Rating A	54,174
Total	106,477

e. Credit risk exposure

The maximum exposure to credit risk as of March 31, 2020 is the carrying amount of financial assets. No credit enhancement is provided by taking collateral, etc., as a guarantee.

<2> Liquidity risk management

a. Risk management activities

Liquidity risk is the risk that the Group may be unable to meet its repayment obligations on financial liabilities which are due for settlement.

The Group’s policy in financial activities is to keep liquidity at an appropriate level for present and future business activities and to ensure flexible and efficient funding. In accordance with this policy, the Group, mainly its financial subsidiaries, establishes and manages a cash management system to efficiently utilize the Group's funding. The Group also manages liquidity risk by regularly preparing and updating funding plans and ensuring various means of funding.

b. Maturity analysis

The following table details the Group's expected maturity for its financial liabilities:

FY2018 (As of March 31, 2019)

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	62,216	62,216	62,216	—	—	—	—	—
Borrowings	76,555	76,740	19,326	200	19,204	19,004	19,004	—
Bonds	20,237	20,248	248	20,000	—	—	—	—
Lease obligations	4,004	4,162	1,335	837	589	852	548	—
Other	2,411	2,411	414	263	75	11	16	1,630
Derivative financial liabilities								
Foreign exchange forward contracts/Currency option contracts	668	668	668	—	—	—	—	—
Interest-rate and currency swaps/Interest rate swaps/Currency swaps	4,964	4,964	23	1,010	1,161	1,298	1,470	—
Total	171,058	171,412	84,233	22,311	21,030	21,166	21,040	1,630

FY2019 (As of March 31, 2020)

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	51,041	51,041	51,041	—	—	—	—	—
Borrowings	86,863	86,984	30,212	18,990	18,790	18,790	—	200
Bonds	20,148	20,141	20,141	—	—	—	—	—
Lease obligations	29,989	32,317	8,160	6,601	4,553	3,811	3,017	6,174
Other	2,282	2,282	172	243	91	51	79	1,642
Derivative financial liabilities								
Foreign exchange forward contracts/Currency option contracts	342	342	342	—	—	—	—	—
Interest-rate and currency swaps/Interest rate swaps/Currency swaps	4,408	4,408	—	1,330	1,458	1,620	—	—
Total	195,076	197,518	110,070	27,166	24,894	24,273	3,096	8,017

FY2019 (As of March 31, 2020)

(Thousands of U.S. dollars)

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Non-derivative financial liabilities								
Trade and other payables	468,266	468,266	468,266	—	—	—	—	—
Borrowings	796,908	798,018	277,174	174,220	172,385	172,385	—	1,835
Bonds	184,844	184,780	184,780	—	—	—	—	—
Lease obligations	275,128	296,486	74,862	60,560	41,771	34,963	27,679	56,642
Other	20,936	20,936	1,578	2,229	835	468	725	15,064
Derivative financial liabilities								
Foreign exchange forward contracts/Currency option contracts	3,138	3,138	3,138	—	—	—	—	—
Interest-rate and currency swaps/Interest rate swaps /Currency swaps	40,440	40,440	—	12,202	13,376	14,862	—	—
Total	1,789,688	1,812,092	1,009,817	249,229	228,385	222,688	28,404	73,550

c. Commitment lines

Total amounts of commitment lines and their usage are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Total commitment lines	10,000	—	—
Drawn	—	—	—
Undrawn	10,000	—	—

<3> Foreign currency exchange rate risk management

a. Risk management activities

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed utilizing derivative financial instruments such as foreign exchange forward contracts and currency options.

b. Exchange sensitivity analysis

The following table details the Group's sensitivity of profit before income taxes in the consolidated statement of income and comprehensive income for the year in the consolidated statement of comprehensive income from financial assets and financial liabilities to a 1% increase in the Japanese yen against the relevant foreign currencies (i.e., the US dollar, Euro, British pound and Chinese yuan for each reporting period). Note that this analysis holds all other variables such as balance and interest rate constant.

	(Millions of yen)				(Thousands of U.S. dollars)	
	FY2018 (Year ended March 31, 2019)		FY2019 (Year ended March 31, 2020)		FY2019 (Year ended March 31, 2020)	
	Profit before income taxes	Comprehensive income for the year (before tax effects)	Profit before income taxes	Comprehensive income for the year (before tax effects)	Profit before income taxes	Comprehensive income for the year (before tax effects)
USD	200	199	44	43	404	394
EUR	112	112	119	119	1,092	1,092
GBP	(99)	(99)	(87)	(87)	(798)	(798)
CNY	30	30	39	39	358	358

<4> Interest risk management

a. Risk management activities

The Group is exposed to interest rate risk, which influences borrowing costs and the fair value of bonds. This risk is managed by the use of derivative financial instruments such as interest rate swaps in accordance with predetermined policies to minimize the risk.

b. Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the end of each reporting period. If interest rates had been 1% higher and all other variables such as balance and exchange rate were held constant, the Group's profit before income taxes in the consolidated statement of income and comprehensive income for the year in the consolidated statement of comprehensive income would be as follows.

Note that this analysis holds all other variables such as balance and interest rate constant.

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Profit before income taxes	1,299	1,671	15,330
Comprehensive income for the year (before tax effects)	1,299	1,671	15,330

<5> Market risk management

a. Risk management activities

The Group is exposed to equity price risks arising from equity instruments.

The Group holds the equity instruments for strategic rather than trading purposes and regularly checks the market value of the equity instruments and financial situation of issuers.

b. Price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of each reporting period. If equity prices had been 1% higher and all other variables were held constant, comprehensive income for the year before tax effect accounting would be as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Comprehensive income for the year (before tax effects)	162	131	1,202

(3) Classification of financial assets and financial liabilities

The classification of financial assets and liabilities is as follows:

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Assets:			
Financial assets measured at amortized cost			
Cash and cash equivalents	131,152	168,422	1,545,156
Trade and other receivables	101,498	95,067	872,174
Other financial assets	20,594	21,965	201,514
Financial assets measured at FVTPL			
Other financial assets	3,900	4,065	37,294
Equity instruments measured at FVTOCI			
Other financial assets	16,276	13,118	120,349
Total	273,421	302,638	2,776,495
Liabilities:			
Lease obligations			
Other financial liabilities	4,004	29,989	275,128
Financial liabilities measured at amortized cost			
Trade and other payables	62,216	51,041	468,266
Bonds and borrowings	96,792	107,012	981,761
Other financial liabilities	2,411	2,282	20,936
Financial liabilities measured at FVTPL			
Other financial liabilities	5,633	4,751	43,587
Total	171,058	195,076	1,789,688

(4) Fair value of financial instruments

<1> Fair value at the end of the period

a. Fair values and carrying amounts by class at the end of the period

The carrying amounts and fair values of financial instruments are as shown below.

Financial instruments measured at fair value and financial instruments of which the carrying amount approximates the fair value are not included.

	(Millions of yen)				(Thousands of U.S. dollars)	
	FY2018 (As of March 31, 2019)		FY2019 (As of March 31, 2020)		FY2019 (As of March 31, 2020)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets:						
Other financial assets	20,594	20,592	21,965	21,944	201,514	201,321
Liabilities:						
Bonds and borrowings	96,792	96,821	107,012	107,117	981,761	982,725
Other financial liabilities	6,416	6,416	32,271	32,271	296,064	296,064

b. Fair value measurement method

The method of measuring the fair value of a financial instrument is as follows.

(Cash and cash equivalents, trade and other receivables, other financial assets, trade and other payables, and other financial liabilities)

For the items that are settled in a short period of time, the carrying amounts are deemed to be the fair value because the fair values approximate the carrying amounts. The other items are measured at the present value of the future cash flow that is discounted by using a rate reflecting the period up to the due date and credit risk. They are classified in Level 2 of the fair value hierarchy.

(Other financial assets and other financial liabilities)

The fair value of listed shares and corporate bonds is the market price at the end of the period and is categorized as Level 1 or Level 2 of the fair value hierarchy depending on whether or not an active market is available. The fair value of non-listed shares, etc., is measured mainly by the multiple method or the net asset value method using unobservable inputs such as valuation multiples and is classified in Level 3 of the fair value hierarchy. The fair value of financial instruments categorized as Level 3 is measured in accordance with related internal regulations by using valuation techniques and inputs that can reflect the nature, characteristics and risks of the relevant financial instruments in the most appropriate manner. The results of fair value measurement are reviewed by senior managers. The EBIT multiple and the net asset multiple are the major unobservable inputs that are used to measure the fair value of financial instruments in Level 3. The EBIT multiple and the net asset multiple used for fair value measurement in the current fiscal year are between 4.2x and 18.1x and between 0.8x and 2.7x, respectively. The fair value increases (decreases) by an increase (decrease) in the EBIT multiple or the net asset multiple.

With respect to financial instruments categorized in Level 3, there are no significant changes in the fair value when changing unobservable inputs to reasonably possible alternative assumptions.

The fair value of derivatives, etc., is measured based on observable market data such as interest rates and exchange rates offered by counterparty financial institutions, etc. and is classified in Level 2 of the fair value hierarchy.

(Bonds and borrowings)

The fair value of bonds and borrowings is the present value calculated by discounting future cash flows at a rate assumed when executing a new similar contract. This is classified in Level 2 as observable market data is used.

<2> Financial instruments measured at fair value on a recurring basis

a. Fair value hierarchy

FY2018 (As of March 31, 2019)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at FVTPL				
Other financial assets	—	1,083	2,817	3,900
Financial assets measured at FVTOCI				
Other financial assets	14,816	—	1,459	16,276
Total	14,816	1,083	4,276	20,176
Liabilities:				
Financial liabilities measured at FVTPL				
Other financial liabilities	—	5,633	—	5,633
Total	—	5,633	—	5,633

FY2019 (As of March 31, 2020)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at FVTPL				
Other financial assets	—	1,053	3,011	4,065
Financial assets measured at FVTOCI				
Other financial assets	11,085	—	2,032	13,118
Total	11,085	1,053	5,044	17,184
Liabilities:				
Financial liabilities measured at FVTPL				
Other financial liabilities	—	4,751	—	4,751
Total	—	4,751	—	4,751

(Thousands of U.S. dollars)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at FVTPL				
Other financial assets	—	9,661	27,624	37,294
Financial assets measured at FVTOCI				
Other financial assets	101,697	—	18,642	120,349
Total	101,697	9,661	46,275	157,651
Liabilities:				
Financial liabilities measured at FVTPL				
Other financial liabilities	—	43,587	—	43,587
Total	—	43,587	—	43,587

b. Changes in financial assets of Level 3

The following are changes in financial instruments measured at fair value that are categorized as Level 3.

FY2018 (Year ended March 31, 2019)

(Millions of yen)

	Fair value measurement at the end of the reporting period		
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Total
Balance as of April 1, 2018	2,631	2,262	4,893
Total gains and losses	374	(827)	(452)
Profit or loss (Note 1)	374	—	374
Other comprehensive income (Note 2)	—	(827)	(827)
Purchase	316	41	357
Sale, etc.	—	(6)	(6)
Foreign exchange differences	40	(0)	40
Other	(546)	(10)	(556)
Balance as of March 31, 2019	2,817	1,459	4,276

(Note 1) Gains and losses included in profit or loss are related to financial assets measured at fair value through profit or loss at each reporting date. These gains and losses are included in “Other income” and “Other expenses” in the consolidated statement of income. Of these gains and losses, the amount associated with financial assets held as of March 31, 2019 is ¥374 million.

(Note 2) Gains and losses included in other comprehensive income are related to financial assets measured at fair value through other comprehensive income at each reporting date. These gains and losses are included in “Gains on investments in equity instruments designated as FVTOCI” in the consolidated statement of comprehensive income.

FY2019 (Year ended March 31, 2020)

(Millions of yen)

	Fair value measurement at the end of the reporting period		
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Total
Balance as of April 1, 2019	2,817	1,459	4,276
Total gains and losses	237	192	429
Profit or loss (Note 1)	237	—	237
Other comprehensive income (Note 2)	—	192	192
Purchase	298	508	807
Sale, etc.	—	(127)	(127)
Foreign exchange differences	(11)	(0)	(11)
Other	(329)	—	(329)
Balance as of March 31, 2020	3,011	2,032	5,044

(Note 1) Gains and losses included in profit or loss are related to financial assets measured at fair value through profit

or loss at each reporting date. These gains and losses are included in “Other income” and “Other expenses” in the consolidated statement of income. Of these gains and losses, the amount associated with financial assets held as of March 31, 2020 is ¥237 million.
(Note 2) Gains and losses included in other comprehensive income are related to financial assets measured at fair value through other comprehensive income at each reporting date. These gains and losses are included in “Gains on investments in equity instruments designated as FVTOCI” in the consolidated statement of comprehensive income.

FY2019 (Year ended March 31, 2020)

(Thousands of U.S. dollars)

	Fair value measurement at the end of the reporting period		
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Total
Balance as of April 1, 2019	25,844	13,385	39,229
Total gains and losses	2,174	1,761	3,936
Profit or loss (Note 1)	2,174	—	2,174
Other comprehensive income (Note 2)	—	1,761	1,761
Purchase	2,734	4,661	7,404
Sale, etc.	—	(1,165)	(1,165)
Foreign exchange differences	(101)	(0)	(101)
Other	(3,018)	—	(3,018)
Balance as of March 31, 2020	27,624	18,642	46,275

(Note 1) Gains and losses included in profit or loss are related to financial assets measured at fair value through profit or loss at each reporting date. These gains and losses are included in “Other income” and “Other expenses” in the consolidated statement of income. Of these gains and losses, the amount associated with financial assets held as of March 31, 2020 is $2,174 thousand.
(Note 2) Gains and losses included in other comprehensive income are related to financial assets measured at fair value through other comprehensive income at each reporting date. These gains and losses are included in “Gains on investments in equity instruments designated as FVTOCI” in the consolidated statement of comprehensive income.

<3> Financial instruments not measured at fair value

With regard to financial instruments not measured at fair value, fair value measurements are classified in Level 1, 2 and 3 based on the observability and significance of inputs used for the measurement.

FY2018 (As of March 31, 2019)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Other financial assets	—	20,592	—	20,592
Total	—	20,592	—	20,592
Liabilities:				
Bonds and borrowings	—	96,821	—	96,821
Other financial liabilities	—	6,416	—	6,416
Total	—	103,237	—	103,237

FY2019 (As of March 31, 2020)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Other financial assets	—	21,944	—	21,944
Total	—	21,944	—	21,944
Liabilities:				
Bonds and borrowings	—	107,117	—	107,117
Other financial liabilities	—	32,271	—	32,271
Total	—	139,388	—	139,388

(Thousands of U.S. dollars)

	Level 1	Level 2	Level 3	Total
Assets:				
Other financial assets	—	201,321	—	201,321
Total	—	201,321	—	201,321
Liabilities:				
Bonds and borrowings	—	982,725	—	982,725
Other financial liabilities	—	296,064	—	296,064
Total	—	1,278,789	—	1,278,789

(5) Investments in equity instruments designated as at FVTOCI

The investments in equity instruments are held not for trading. Instead, they are held for strategic purposes in order to ensure smooth business operations. Accordingly, the Company has elected to designate these investments in equity instruments as at FVTOCI. Major investments in equity instruments and their fair values are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Nidec Corporation	4,586	3,666	33,633
Zeon Corporation	2,648	1,925	17,661
Toho Gas Co., Ltd.	994	980	8,991
Citizen Watch Co., Ltd.	942	586	5,376
Makita Corporation	1,150	511	4,688
Other	5,954	5,449	49,991
Total	16,276	13,118	120,349

The breakdown of dividends received that are recognized from equity instruments is as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Financial assets held at the end of the period	268	281	2,578
Financial assets derecognized during the period	35	14	128

Equity instruments are sold taking into consideration the fair value status and operational needs. The fair value of the items sold during the period at the date of derecognition and the cumulative gain or loss recognized in other comprehensive income are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Fair value	1,117	859	7,881
Cumulative gain or loss	(50)	426	3,908

Changes in the fair value of equity instruments recognized in other comprehensive income are reclassified in retained earnings immediately when they occur. The cumulative amount of gain or loss on such reclassification is the negative amount of ¥2,525 million and the negative amount of ¥1,927 million ($17,679 thousand) for the years ended March 31, 2019 and 2020, respectively.

(6) Offsetting financial assets and financial liabilities

The following tables show the amounts of financial assets and liabilities offset in the consolidated statement of financial position and those that are subject to enforceable master netting agreements or similar agreements with counterparties as of March 31, 2019 and 2020:

FY2018 (As of March 31, 2019)

(Millions of yen)

Financial assets	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other receivables	110,139	(8,640)	101,498	—	101,498
Derivatives	774	—	774	274	500
Total	110,913	(8,640)	102,273	274	101,998

The aforementioned "Derivatives" are included in "Other financial assets" in the consolidated statement of financial position.

(Millions of yen)

Financial liabilities	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other payables	70,856	(8,640)	62,216	—	62,216
Derivatives	5,633	—	5,633	274	5,359
Total	76,489	(8,640)	67,849	274	67,575

The aforementioned "Derivatives" are included in "Other financial liabilities" in the consolidated statement of financial position.

FY2019 (As of March 31, 2020)

(Millions of yen)

Financial assets	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other receivables	103,211	(8,144)	95,067	—	95,067
Derivatives	1,053	—	1,053	111	942
Total	104,265	(8,144)	96,121	111	96,009

The aforementioned "Derivatives" are included in "Other financial assets" in the consolidated statement of financial position.

(Thousands of U.S. dollars)

Financial assets	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other receivables	946,890	(74,716)	872,174	—	872,174
Derivatives	9,661	—	9,661	1,018	8,642
Total	956,560	(74,716)	881,844	1,018	880,817

The aforementioned "Derivatives" are included in "Other financial assets" in the consolidated statement of financial position.

(Millions of yen)

Financial liabilities	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other payables	59,185	(8,144)	51,041	—	51,041
Derivatives	4,751	—	4,751	111	4,639
Total	63,937	(8,144)	55,792	111	55,680

The aforementioned "Derivatives" are included in "Other financial liabilities" in the consolidated statement of financial position.

(Thousands of U.S. dollars)

Financial liabilities	Gross amount	Offset amount in the consolidated statement of financial position	Recognized amount in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other payables	542,982	(74,716)	468,266	—	468,266
Derivatives	43,587	—	43,587	1,018	42,560
Total	586,578	(74,716)	511,853	1,018	510,826

The aforementioned "Derivatives" are included in "Other financial liabilities" in the consolidated statement of financial position.

Financial assets and collateral pledged subject to enforceable master netting arrangements and similar agreements are to be set off at the net amounts, if a certain condition, such as a default or cancellation in the arrangement, is met.

(7) Gains and losses arising on financial instruments

The total amounts of gains and losses arising on financial instruments are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Financial instruments measured at FVTPL (derivatives)	4,740	340	3,119
Financial instruments measured at FVTPL (other than derivatives) (Note)	865	237	2,174
Equity instruments measured at FVTOCI	304	296	2,716
Financial assets measured at amortized cost	324	512	4,697
Financial liabilities measured at amortized cost	(1,726)	(1,590)	(14,587)
Total	4,508	(203)	(1,862)

(Note) Net gains and losses arising on financial instruments other than derivatives measured at FVTOCI include interest income.

42. Significant Subsidiaries

Details of significant consolidated subsidiaries as of March 31, 2020, are as follows:

	Capital in thousands of local currency		Principal business	Equity ownership percentage As of March 31, 2020	
				Directly	Indirectly
Brother International Corporation (U.S.A.)	US$	7,034	P&S, P&H, Machinery	100.0 %	—
Brother International Corporation (Canada) Ltd.	C$	11,592	P&S, P&H	—	100.0 %
Brother International De Mexico, S.A. De C.V.	MEX$	125,926	P&S, P&H	—	100.0
Brother Industries (U.S.A.) Inc.	US$	14,000	P&S, Macinery	—	100.0
Brother International Corporation Do Brazil, Ltda.	R$	49,645	P&S, P&H	—	100.0
Brother Sewing Machines Europe Gmbh	EURO	25	P&H	100.0	—
Brother Nordic A/S	DKr.	42,000	P&S	—	100.0
Brother International Europe Ltd.	Stg.£	145,198	P&S	100.0	—
Brother U.K. Ltd.	Stg.£	17,400	P&S	—	100.0
Brother Internationale Industriemachinen GmbH	EURO	9,000	Machinery	100.0	—
Brother France SAS	EURO	12,000	P&S	—	100.0
Brother International GmbH	EURO	25,000	P&S	—	100.0
Brother Italia S.p.A.	EURO	3,700	P&S	—	100.0
Domino Printing Sciences plc	Stg.£	5,733	Domino	100.0	—
Domino UK Ltd.	Stg.£	0.1	Domino	—	100.0
Domino Amjet, Inc.	US$	1	Domino	—	100.0
Brother Industries (U.K.) Ltd.	Stg.£	9,700	P&S	100.0	—
Brother Finance (U.K.) Plc	Stg.£	2,500	Other (Finance)	100.0	—
Brother Industries (Slovakia) s.r.o.	EURO	5,817	P&S	—	100.0
Taiwan Brother Industries, Ltd.	NT$	242,000	P&H	100.0	—
Zhuhai Brother Industries, Co., Ltd.	US$	7,000	P&S, Domino	100.0	—
Brother International (HK) Ltd.	US$	11,630	P&S	100.0	—
Brother International (Aust.) Pty. Ltd.	A$	2,500	P&S, P&H	100.0	—
Brother International Singapore Pte. Ltd.	S$	15,100	P&S, P&H	—	100.0
Brother Machinery (Asia) Ltd.	US$	37,000	Machinery	100.0	—
Brother Machinery Xian Co., Ltd.	US$	47,000	Machinery	100.0	—
Brother (China) Ltd.	US$	20,500	P&S, P&H	100.0	—
Brother Industries (Vietnam) Ltd.	US$	80,000	P&S	100.0	—
Brother Technology (Shenzhen) Ltd.	US$	42,000	P&S	—	100.0
Brother Machinery Shanghai Ltd.	CNY	50,000	Machinery	—	100.0
Brother Industries Saigon, Ltd.	US$	28,000	P&H	100.0	—
Brother Industries (Philippines), Inc.	PHP	5,626,250	P&S	100.0	—
Nissei Gear Motor Mfg (Changzhou) Co., Ltd.	US$	17,200	Machinery	—	100.0
Brother Machinery Vietnam Co., Ltd.	US$	41,000	Machinery	100.0	—

	Capital in thousands of local currency	Principal business	Equity ownership percentage As of March 31, 2020	
			Directly	Indirectly
Brother International Corporation (Japan)	JPY 630 million	P&S, P&H	100.0	—
Brother Real Estate, Ltd.	JPY 300 million	Other (Real estate)	100.0	—
Xing Inc.	JPY 7,122 million	N&C	100.0	—
Brother Sales, Ltd.	JPY 3,500 million	P&S, P&H	100.0	—
Teichiku Entertainment, Inc.	JPY 123 million	N&C	—	96.1
Nissei Corporation	JPY 3,475 million	Machinery	60.2	—
Standard Corp.	JPY 90 million	N&C	—	100.0

(Note) “P&S” represents Printing & Solutions Business, “P&H” Personal & Home Business, and “N&C” Network & Contents Business.

The Company recognizes a significant non-controlling interest in Nissei Corporation.
Details of the non-controlling interest in Nissei Corporation are as follows:

Ownership ratio and voting rights ratio of the non-controlling interest

FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
39.8%	39.8%

Profit allocated to the non-controlling interest

(Millions of yen)		(Thousands of U.S. dollars)
FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
219	91	835

Accumulated amount attributable to the non-controlling interest

(Millions of yen)		(Thousands of U.S. dollars)
FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
17,001	16,816	154,275

The summarized financial statements of Nissei Corporation are as follows. Amounts in the summarized financial statements are before the elimination of intra-group transactions.

	(Millions of yen)		(Thousands of U.S. dollars)
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Current assets	18,963	22,404	205,541
Non-current assets	27,128	22,750	208,716
Current liabilities	3,256	2,862	26,257
Non-current liabilities	400	343	3,147

	(Millions of yen)		Thousands of U.S. dollars)
	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Revenue	18,392	15,777	144,743
Profit for the year	551	209	1,917
Comprehensive income for the year	193	179	1,642
Cash dividends paid to non-controlling interests	265	265	2,431
Net cash provided by operating activities	1,841	2,064	18,936
Net cash used in investing activities	(1,118)	6,020	55,229
Net cash used in financing activities	(688)	(720)	(6,606)
Net cash flow	34	7,365	67,569

43. Related Parties

(1) Related party transactions

FY2018 (Year ended March 31, 2019)

(Millions of yen)

Category	Name	Contents of related party relationship	Amount of transaction	Outstanding balance at the end of the period
Associates	Showa Seiki Co., Ltd.	Outsourcing of manufacturing of the Company's products	2,813	113
	Abeam Systems Corporation	Outsourcing of software developments	5,121	1,331
Close relative of director	Close relative of Tadashi Ishiguro (Note 3)	Contract work of housing	52	—

(Note)
1) Related party transactions are negotiated and decided separately.
2) No collateral is set for balance at the end of the period. All settlement is done in cash.
3) The close relative is the spouse of Tadashi Ishiguro, Representative Director & Senior Managing Executive Officer of the Company.

FY2019 (Year ended March 31, 2020)

(Millions of yen)

Category	Name	Contents of related party relationship	Amount of transaction	Outstanding balance at the end of the period
Associates	Showa Seiki Co., Ltd.	Outsourcing of manufacturing of the Company's products	722	156
	Abeam Systems Corporation	Outsourcing of software developments	4,999	1,190

(Note)
1) Related party transactions are negotiated and decided separately.
2) No collateral is set for balance at the end of the period. All settlement is done in cash.

(Thousands of U.S. dollars)

Category	Name	Contents of related party relationship	Amount of transaction	Outstanding balance at the end of the period
Associates	Showa Seiki Co., Ltd.	Outsourcing of manufacturing of the Company's products	6,624	1,431
	Abeam Systems Corporation	Outsourcing of software developments	45,862	10,917

(Note)
1) Related party transactions are negotiated and decided separately.
2) No collateral is set for balance at the end of the period. All settlement is done in cash.

(2) Compensation for key management personnel

(Millions of yen) (Thousands of U.S. dollars)

	FY2018 (Year ended March 31, 2019)	FY2019 (Year ended March 31, 2020)	FY2019 (Year ended March 31, 2020)
Short-term employee benefits	336	324	2,972
Share-based payments	71	72	661
Total	408	396	3,633

44. Commitments

Commitments related to expenditures after the end of the reporting period are as follows:

(Millions of yen) (Thousands of U.S. dollars)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	FY2019 (As of March 31, 2020)
Acquisition of property, plant and equipment	2,082	5,796	53,174
Acquisition of intangible assets	220	350	3,211
Total	2,303	6,147	56,394

45. Contingent Liabilities

Not applicable.

46. Subsequent Events

No material subsequent events were identified for the period up to June 24, 2020.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of BROTHER INDUSTRIES, LTD.:

Opinion

We have audited the consolidated financial statements of BROTHER INDUSTRIES, LTD. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position 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, all expressed in Japanese yen.

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 International Financial Reporting Standards ("IFRSs").

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2(3) to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside 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 IFRSs, 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 IFRSs 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.

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 IFRSs, 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 24, 2020

BROTHER INDUSTRIES, LTD.

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Published in September 2020

Brother Earth

Working with you for a better environment
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