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Corporate Identity

…for Patient Comfort
for their strength to live

Our corporate identity is

“Social contribution through provision of the leading-edge optimal medical devices for patients.”

“Is it appropriate for the patient? Is it valuable for the patient?”

These questions are always at the center of our focus, and we are constantly striving to provide excellent medical devices.

To Shareholders with Voting Rights:

Keisuke Suzuki
President and CEO
Japan Lifeline Co., Ltd.
2-2-20, Higashishinagawa,
Shinagawa-ku, Tokyo

**NOTICE OF
THE 40TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

You are cordially invited to attend the 40th Ordinary General Meeting of Shareholders of Japan Lifeline Co., Ltd. (the "Company"). The meeting will be held for the purposes as described below.

In order to avoid the risk of the COVID-19 infection, we strongly recommend that shareholders refrain from visiting the venue on the day and instead exercise voting rights in writing or via the Internet. Please review the attached Reference Documents for the General Meeting of Shareholders and exercise your voting rights by no later than 5:30 p.m. on Wednesday, June 24, 2020, Japan time.

- 1. Date and Time:** Thursday, June 25, 2020 at 10 a.m. Japan time (Reception starts at 9 a.m.)
- 2. Place:** West East, B1 floor, THE STRINGS OMOTESANDOH,
3-6-8, Kita-Aoyama, Minato-Ku, Tokyo
Note: Venue is different from last year. Please be careful not to mistake the venue.
- 3. Meeting Agenda:**
 - Matters to be reported:**
 1. The Business Report, Consolidated Financial Statements for the Company's 40th Fiscal Year (April 1, 2019 - March 31, 2020) and results of audits concerning the Consolidated Financial Statements by the Accounting Auditor and the Board of Corporate Auditors
 2. Non-Consolidated Financial Statements for the Company's 40th Fiscal Year (April 1, 2019 - March 31, 2020)
 - Proposals to be resolved:**
 - Proposal No. 1:** Distribution of Surplus
 - Proposal No. 2:** Amendment of the Articles of Incorporation
 - Proposal No. 3:** Election of A Corporate Auditor

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- ◎ When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk.
 - ◎ Of the documents to be provided with this Notice, the consolidated statement of changes in equity, notes to the consolidated financial statements, the non-consolidated statement of changes in equity, and notes to the non-consolidated financial statements are posted on the Company's website (<https://www.japanlifeline.com/>) in accordance with the provisions of laws and regulations as well as Article 15 of the Articles of Incorporation, and therefore are not provided in the Appendix to this Notice. Accordingly, the consolidated financial statements and the non-consolidated financial statements provided in the Appendix to this Notice form part of the consolidated financial statements and the non-consolidated financial statements audited by Corporate Auditors when preparing the Audit Report, and part of the consolidated financial statements and the non-consolidated financial statements audited by the Accounting Auditor when preparing the Independent Auditor's Report.
 - ◎ Should circumstances arise whereby revisions are required after the dispatch of this Notice and prior to the day before the meeting date of the General Meeting of Shareholders, shareholders shall be notified by posting on the Company's website.

Guide to Exercising Voting Rights

Voting rights in ordinary general meeting are important rights for all shareholders.

We ask you to exercise your voting rights after you look through the attached Reference Documents for the General Meeting of Shareholders.

There are three ways of exercising your voting rights.

Note: We strongly recommend that shareholders exercise voting rights in writing or via the Internet.

Shareholders exercising voting rights by mail

Please mark your vote for or against the proposals on the Voting Rights Exercise Form and send it by mail without a postage stamp.

Voting Deadline

5:30 p.m., Wednesday, June 24, 2020 Japan time

Shareholders exercising voting rights by internet

Please input your vote for or against the proposals in accordance with following instructions.

Voting Deadline

5:30 p.m., Wednesday, June 24, 2020 Japan time

Shareholders attending the General Meeting of Shareholders

When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk.

Voting Deadline

Thursday, June 25, 2020 at 10 a.m. Japan time (Reception starts at 9 a.m.)

If there is no indication of being for or against a proposal in the Voting Rights Exercise Form, the Company shall respond by deeming there to have been an indication of being for the proposal.

If you exercise your voting rights both by mailing Voting Rights Exercise Form and via the Internet, your vote via the Internet shall be deemed valid.

And, if you exercise your voting rights via the Internet multiple times, the last vote shall be deemed valid.

Guide to Exercising Voting Rights

Guide to Exercising Voting Rights via the Internet, etc.

How to scan the QR code

You can log-in the website for exercise of voting rights without entering log-in ID and temporary password written in the Voting Rights Exercise Form.

1. Please scan the QR code on the Voting Rights Exercise Form.
※ QR code is a registered trademark of DENSO WAVE INCORPORATED.
- 2 Then, follow the instructions on the screen and enter your vote for or against the proposal.

Log-in used by QR code is valid for only one time.

If you exercise the voting rights again or you do not use the QR code, please read “How to enter log-in ID and temporary password”.

How to enter log-in ID and temporary password

Website for exercise of voting rights

<https://evote.tr.mufg.jp/>

- 1 Please access the website for exercise of voting rights.
- 2 Enter the “log-in ID and temporary password” printed on your Voting Rights Exercise Form and click a button.
Enter “log-in ID and temporary password”
Click “log-in”
- 3 Register a new password.
Enter a “new password”
Click “send”
- 4 Then, follow the instructions on the screen and enter your vote for or against the proposal.
※ Attached pictures are samples for instruction.

For inquiries regarding how to use your personal computer, smartphone, or mobile phone to exercise voting rights on the website, please contact the Help Desk below:

Help Desk, Stock Transfer Agency Division, Mitsubishi UFJ Trust and Banking Corporation 0120-173-027
(Toll-free, Service hours: 9:00 a.m. to 9:00 p.m.)

Institutional investors can use the Electronic Voting System Platform operated by ICJ, Inc.

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal No. 1: Distribution of Surplus

Items Related to the Year-end Dividend

The Company proposes a year-end dividend for the 40th fiscal year as follows, taking into consideration business performance in the fiscal year under review, funding demands for future business development, and other factors.

- (1) Type of dividend property
Cash
- (2) Items related to the allocation of dividend property to shareholders and its total amount
The Company proposes a dividend of 29.00 yen per common share.
Furthermore, the total dividend amount in this case will be 2,335,371,015 yen.
- (3) Date the distribution of surplus comes into effect
June 26, 2020.

| |
|---|
| Effective October 1, 2015, December 1, 2016 and January 1, 2018, the Company conducted two-for-one stock splits of its common share. Dividend per share represents the actual payment. |
|---|

Proposal No. 2: Partial Amendment to Articles of Incorporation

1. Reasons for proposal

As part of the Company’s efforts to support employees working while raising children and contribute to society, the Company proposes to add “Management of day-care centers for children” to the Company’s business objectives in order to help resolve day-care waiting list of nursery schools in local communities.

2. Details of the amendment

Details of the amendment are as follows.

(Amended parts are underlined.)

| Current Articles of Incorporation | Proposed Amendment |
|---|--|
| (Purpose) Article 2 The purpose of the Company is to conduct the following businesses: From 1. to 6. (Omissions of Provisions) (Newly created clause) <u>7. All services ancillary to the above</u> | (Purpose) Article 2 The purpose of the Company is to conduct the following businesses: From 1. to 6. (as at present) <u>7. Management of day-care centers for children</u> <u>8. All services ancillary to the above</u> |

Proposal No. 3: Election of One Corporate Auditor

The terms of office of Masahiko Nakamura as Corporate Auditor will expire at the conclusion of this Ordinary General Meeting of Shareholders.

Accordingly, the Company proposes the election of one Corporate Auditor.

The consent of the Board of Corporate Auditors has been obtained for this proposal.

The candidate for Corporate Auditor is as follows.

| Name (Date of birth) | Past experience, positions, responsibilities and significant concurrent positions | Number of shares of the Company held |
|--|---|---|
| <p>Masahiko Nakamura (October 29, 1964) (age 55)</p> <p>Reelection</p> <p>Outside</p> <p>Independent</p> | <p>Apr. 1992 Certified as Attorney, joined TMI Associates Oct. 1999 Joined Simmons & Simmons LLP Apr. 2001 Partner, TMI Associates (to the present) June 2002 Outside Auditor, Sunplanet Co., Ltd. (to the present) June 2012 Outside Corporate Auditor, the Company (to the present) May 2015 Auditor, Japan Merchandising Rights Association (to the present)</p> <p>Term of office at the conclusion of this General Meeting of Shareholders: Eight years</p> <p>Attendance at Board of Directors meetings: 100% (12/12 meetings) Attendance at Board of Corporate Auditors: 100% (14/14 meetings)</p> <p>Reasons for nomination as Outside Corporate Auditor: Masahiko Nakamura has expertise and experience as an attorney although he has no direct experience of corporate management, and has been properly executing the duties of Outside Corporate Auditor of the Company. The Company requests his election as Outside Corporate Auditor in order to continue to maintain the supervisory function.</p> | <p>0</p> |

(Notes):

1. There are no special interests between Masahiko Nakamura and the Company.
2. Masahiko Nakamura is a candidate for Outside Corporate Auditor and is a candidate for independent officer as provided for by the Tokyo Stock Exchange.
3. The Company has entered into agreements with Masahiko Nakamura to limit his liability, as stipulated in Article 423, Paragraph 1 of the Companies Act, to the amount specified by laws and regulations. If reelection of Masahiko Nakamura is approved, the Company plans to renew the aforementioned agreement with him.

Business Report

(From April 1, 2019 to March 31, 2020)

[1] Overview of the Company Group

1. Business Progress and Results

In the consolidated fiscal year under review, the number of cases related to medical devices handled by the Company has continued to increase, mainly due to the aging of the population, meanwhile, the National Health Insurance (NHI) reimbursement prices were revised in line with the increase in the rate of consumption tax as a measure to curtail medical expenses by the national government in October 2019, and the prices of all medical devices handled by the Company were reduced.

Under such business environment, the Company renewed its medium-term management plan in May 2019 and set five items as its basic policies for medium-term growth, that is, further expansion of in-house products, securing a pipeline of purchased products, strengthening research and development and production system, expansion into new fields outside the cardiovascular field, and overseas development.

Regarding the status of efforts based on this basic policy, further expansion of in-house products has been steadily progressing in response to the market expansion centering on electrophysiology (EP)/ablation products.

In addition, regarding securing a pipeline of purchased products, the Company started full-scale sales of the cardiac rhythm management (CRM) products of Boston Scientific Corporation (BSC) in September 2019, and has achieved reinforcement in the tachycardia treatment field, which had been a long-standing issue.

Regarding strengthening research and development and production system, the company completed a factory in Malaysia, the first overseas factory managed from land acquisition stage, in November 2019. In addition, the second building of the Oyama Factory was completed in February 2020, which further has strengthened its production system.

Furthermore, in regard to expansion into new fields outside the cardiovascular field, the Company started sales of a radiofrequency ablation system for liver cancer treatment in December 2019, focusing on market exploitation of the gastrointestinal field.

Concerning the overseas development, as the first step towards the North American market, we started exporting semi-finished EP catheters in limited models, as well as newly established JLL Korea Co., Ltd. as a sales base in South Korea, striving to build an overseas sales system.

Regarding the sales situation, sales doubled compared to the previous fiscal year as the Company started the full-scale sales of CRM products manufactured by Boston Scientific Japan K.K. (BSJ) in September 2019, under the exclusive sales agreement with BSJ, and successfully established a sales system in the tachycardia treatment area at an early point in time.

Meanwhile, in EP/Ablation products, sales increased for atrial fibrillation therapy-related products—especially internal atrial cardioversion catheter, a unique in-house product of the Company—as the number of cases of atrial fibrillation ablation increased. In addition, the Company has made efforts for promotion of new endoscopic laser ablation catheters introduced in 2018, in order to strengthen its portfolio of medical devices for treatment.

Meanwhile, in Cardiovascular Surgery products, sales of open stent grafts and other products, unique products of the Company, were steady among other things. However, they were not enough to make up for the impact of the end of sales of thoracic stent grafts in March 2019 and artificial heart valve-related products in May 2019, and the Company recorded a decrease in income.

Concerning Transvascular Intervention products, while there was an impact from the reduction of NHI reimbursement prices, successful expansion of sales of drug-eluting coronary stents contributed to an increase in net sales.

As a result, net sales in the fiscal year under review were 51,761 million yen (+13.7% YoY).

Regarding profits, in addition to the impact from the reduction of NHI reimbursement prices in October 2019, due to the start of sales of CRM products manufactured by BSC, the scale of sales expanded drastically, while the sales ratio of in-house products with higher profit ratios compared to purchased products declined.

In addition, the degree of contribution to profits of subcutaneous implantable cardioverter defibrillators (S-ICDs) was low temporarily in the sales period prior to other BSC products; therefore,

gross profit margins decreased by 4.7 points year on year.

Operating income in the fiscal year under review was 10,434 million yen (-0.90% YoY), due to increases research and development expenses for further enhancement of in-house products, payment to BSJ for sales support, and depreciation expenses of contract deposits in terms of SG&A expenses.

The Company also recorded non-operating income of 891 million yen, including interest income and gain on exclusive sales contract termination accompanying the end of handling of artificial heart valve-related products, as well as non-operating expenses of 900 million yen, such as interest expenses and loss on valuation of derivatives relating to currency swap transactions. As a result, ordinary income for the fiscal year under review was 10,425 million yen (-3.5% YoY).

Furthermore, the Company recorded a gain on sales of non-current assets as extraordinary income of 3 million yen, while recording a loss on sales of non-current assets as extraordinary losses of 4 million yen. As a result, net income attributable to owners of the parent for the fiscal year under review was 7,748 million yen (+0.3% YoY).

Sales by item are as follows.

| Classification | The 37th fiscal year (April 1, 2016 to March 31, 2017) | The 38th fiscal year (April 1, 2017 to March 31, 2018) | The 39th fiscal year (April 1, 2018 to March 31, 2019) | The 40th fiscal year (April 1, 2019 to March 31, 2020) (Fiscal year under review) |
|----------------------------|--|--|--|---|
| | Million yen | Million yen | Million yen | Million yen |
| Cardiac Rhythm Management | 6,617 | 7,247 | 5,862 | 11,866 |
| EP / Ablation | 17,528 | 20,364 | 23,060 | 24,696 |
| Cardiovascular Surgery | 10,251 | 11,464 | 11,730 | 10,166 |
| Transvascular Intervention | 2,783 | 3,221 | 4,872 | 5,032 |
| Total | 37,181 | 42,298 | 45,525 | 51,761 |

Cardiac Rhythm Management (implantable medical devices for treating arrhythmia)

Percent of net sales: 22.9%

- Main products:
- Cardiac pacemakers
 - Cardiac resynchronization therapy pacemakers (CRT-Ps)
 - Implantable cardioverter defibrillators (ICDs)
 - Cardiac resynchronization therapy defibrillators (CRT-Ds)
 - Subcutaneous implantable cardioverter defibrillators (S-ICDs)

In terms of CRM products, due to completion of the full switchover from the former supplier products to BSC products including all product lineup in September 2019, the Company has made huge advances in strengthening of business infrastructure in the area of arrhythmia treatment.

The sales of the pacemakers used for the treatment of bradycardia significantly increased through the efforts of sales expansion after the start of sales of BSC products by highlighting their features, such as long battery life and expansion of conditions for MRI scanning.

Regarding ICD-related systems used for treatment of tachycardia, the sales of EMBLEM MRI S-ICD, a unique product of the Company of which prior sales started in April 2019, continued steadily. As for general ICDs and CRT-Ds manufactured by BSC, through swift building of a sales system for tachycardia-related products, net sales increased drastically centering on RESONATE EL ICD and RESONATE X4 CRT-D.

As a result, net sales in the CRM product category were 11,866 million yen (+102.4% YoY).

EP / Ablation (electrode catheters for arrhythmia diagnosis and treatment)

Percent of net sales: 47.7%

- Main products:
- Electrophysiological (EP) catheters
 - Endoscopic laser ablation catheters
 - Ablation catheters
 - Internal atrial cardioversion catheters
 - Esophageal temperature monitoring catheters
 - Radio-frequency transseptal needles

In EP catheters, sales of the BeeAT internal atrial cardioversion catheter, a unique in-house product, remained robust on the back of an increase in the number of cases of atrial fibrillation. Meanwhile, sales volume of general EP catheters slightly declined due to the impact of competitive products, among other things. Esophageal temperature monitoring catheters maintained approximately the same level for the entire period as the previous period despite the impact of competitive products and other factors. Also, sales volume increased for the RF Needle radio-frequency transseptal needle, a purchased product for which the Company is the sole domestic distributor, on the back of an increase in the number of relevant cases.

In ablation catheters, sales volume of radio-frequency ablation catheters that have been traditionally sold by the Company decreased compared to the previous fiscal year. On the other hand, regarding HeartLight, an endoscopic laser ablation catheter, penetration to the medical settings has greatly improved, and its sales volume increased compared to the previous year. This product has the feature of enabling precision treatment tailored to individual cases as it is possible to check the ablation site with an endoscope. The Company aims to continue to increase its use in medical institutions.

As a result, net sales in the EP/Ablation product category were 24,696 million yen (+7.1% YoY).

Cardiovascular Surgery (medical devices for treatment by replacing blood vessels and heart valves)

Percent of net sales: 19.6 %

- Main products:
- Vascular grafts
 - Open stent grafts
 - Stent grafts
 - Artificial heart valves
 - Annuloplasty rings
 - Blood purification related products

In vascular graft-related products, the Company's unique FROZENIX open stent graft, which is a medical device used for open chest surgery for thoracic aortic diseases, saw increased sales volume year on year, because the device has seen uptake in the medical setting as it contributes to making open chest surgery for thoracic aortic diseases less invasive, and is used actively even in operations with a high level of urgency. In addition, sales volume of vascular grafts, which are also in-house products, increased year on year, in synergy with combined use with open stent grafts, as well as by expansion of sales in abdominal products among other factors.

As for stent grafts used for percutaneous treatment of aortic diseases, the sales of the AFX2 stent graft system, a product for the abdominal field, remained steady. However, as the Company finished handling products targeting the thoracic field in March 2019, net sales decreased year on year.

In addition to the above, there was an impact from the end of the exclusive distribution agreement for artificial heart valve-related products with the supplier as of the end of May 2019, and as a result, net sales in the Cardiovascular Surgery product category were 10,166 million yen (down 13.3% YoY).

Transvascular Intervention (catheters and other medical devices for treating myocardial infarction, etc.)

Percent of net sales: 9.7%

Main products:

- Balloon catheters
- Guide wires
- Penetration catheters
- Atrial septal defect closures
- Drug-eluting coronary stents
- Guide wires with a sensor for measuring intravascular pressure

In balloon catheters, net sales of existing products decreased year on year due to the effects of competing products. However, ignis, a new product launched in October 2019, showed a steady sales volume expansion. Net sales of guide wires increased year on year, owing to the contribution from Amati, which boasts advanced operability and is well received in the medical setting.

In terms of other products, sales volume of the Orsiro drug-eluting coronary stent increased compared to the previous year, as we worked hard to expand sales by highlighting the excellent features indicated in clinical trials overseas and through efforts in clinical research in Japan.

Also contributing to an increase of net sales was OptoWire, which is a guide wire with a sensor for measuring intravascular pressure and a product related to percutaneous coronary intervention (PCI) treatment. On the other hand, for penetration catheters, net sales declined year on year due to the impact of intensification of the competitive environment.

In the gastrointestinal field, we started selling the arfa radio-frequency ablation system for liver cancer treatment, which we developed through application of our own technology for arrhythmia treatment, in December 2019. We are focusing on developing the market for the only domestic product with superior performance.

As a result, net sales in the Transvascular Intervention product category were 5,032 million yen (+3.3% YoY).

2. Capital Investments

The total amount of capital investments conducted in the consolidated fiscal year under review was 2,536 million yen. The main items were investment related to the 2nd building of Oyama Factory and the Company's manufacturing facility, and required funds were allocated from funds on hand and borrowing.

3. Financing

The Company borrowed 1,740 million yen as construction funds for the second building of the Oyama Factory in the consolidated fiscal year under review.

4. Trends in Assets and Income of the Corporate Group

| Classification | The 37th fiscal year (April 1, 2016 to March 31, 2017) | The 38th fiscal year (April 1, 2017 to March 31, 2018) | The 39th fiscal year (April 1, 2018 to March 31, 2019) | The 40th fiscal year (April 1, 2019 to March 31, 2020) (Fiscal year under review) |
|---|--|--|--|---|
| Net sales (million yen) | 37,181 | 42,298 | 45,525 | 51,761 |
| Operating income (million yen) | 7,685 | 10,671 | 10,526 | 10,434 |
| Ordinary income (million yen) | 8,010 | 10,730 | 10,808 | 10,425 |
| Net income attributable to owners of the parent (million yen) | 5,350 | 7,478 | 7,723 | 7,748 |
| Earnings per share (yen) | 71.91 | 98.51 | 96.05 | 96.55 |
| Total assets (million yen) | 40,427 | 60,980 | 67,783 | 75,000 |
| Net assets (million yen) | 20,750 | 41,090 | 46,493 | 51,406 |

- (Notes) 1. Earnings per share are calculated using the average number of shares for the fiscal year.
2. Effective December 1, 2016 and January 1, 2018, the Company conducted two-for-one stock splits of its common share. Earnings per share are calculated supposing that such stock splits had been conducted at the beginning of the 37th consolidated fiscal year.

5. Issues to be Addressed

1. Business Policy

The Company's management philosophy is to make a social contribution through provision of leading-edge optimal medical devices. With the cardiovascular domain as its primary business field, the Company, as a manufacturer, develops and manufactures superior medical devices that patients and medical institutions demand. At the same time, as a specialized trading firm, the Company introduces advanced medical devices from overseas manufacturers and other firms faster than others, thereby making efforts for realization of its management philosophy.

2. Business Environment

In the domestic medical device market, where the Company is primarily engaged in business, demand for the devices is increasing due to the aging population, and for treatment in the cardiovascular field in particular, the trend of growing number of cases is continuing.

Meanwhile, as part of the government's measures to curtail rising medical expenses, NHI reimbursement prices (the official prices for medical devices) are being lowered on an ongoing basis, and the price of medical devices handled by the Company is also on a declining trend.

In addition, a number of global manufacturers are entering the domestic medical device market and competition on development of new products is becoming increasingly fierce, creating a severely competitive environment.

3. Management Strategy and Issues to be Addressed

Management Strategy

In the aforementioned business environment, the Company has expanded its business by pursuing a business model that has both a manufacturing function and a trading company function, which is unique in Japan.

By accurately and swiftly reflecting the needs of doctors active at the forefront of medical care in the development of in-house products, and providing unique products that overseas manufacturers do not have, the Company has increased its market share. Moreover, as the Company believes that it is essential to cultivate overseas markets in order to achieve further growth over the medium to long term, it strives to export in-house products overseas as well. Since in-house products are more profitable than purchased products, they are important in terms of further improving management efficiency. Therefore, the Company will focus on further expansion.

With regard to purchased products, on the other hand, it is the role of the Company as a trading company specializing in the cardiovascular field to introduce primarily cutting-edge medical devices overseas so that patients can receive the latest treatment. The purchased products also play an important role in increasing the Company's presence in specialized fields, which is difficult to achieve only with in-house products. In principle, the Company concludes exclusive sales contracts with overseas manufacturers for purchased products. Although there may be costs for obtaining regulatory approval for domestic introduction and costs for clinical research, marketing activities, and so on, the Company ensures a high profit margin for purchased products as well, compared to secondary distributors that only handle domestic distribution.

In the sales system, the Company has already built its own tight network with medical institutions through its many years of experience as an independent medical device trading company.

In addition, while many foreign-affiliated companies are consolidating their domestic business bases, the Company has been expanding its domestic business bases and promptly providing products and meticulous service through a sales network that covers all over Japan.

The fact that the Company has already established a solid business base for handling medical devices, such as a full-fledged regulatory affairs system to quickly introduce medical devices in Japan and a sales system based on a wealth of knowledge and experience in specialized fields, indicates that the Company can be a useful partner for overseas manufacturers that want to enter the Japanese market. That is an important factor for the Company to secure a product pipeline in the medium to long term.

Issues to be Addressed

Based on the aforementioned management strategy, the Company renewed its medium-term management plan in May 2019 and set five items as its basic policies for medium-term growth, that is, further expansion of in-house products, securing a pipeline of purchased products, strengthening of research and development and production system, expansion into new fields outside the cardiovascular field, and overseas development.

Status of efforts for each item is as follows.

(1) Further expansion of in-house products

The Company strives to provide superior medical devices by utilizing its network with medical institutions and reflecting the needs of doctors in product development quickly and accurately. Since in-house products are highly profitable and important for improving management efficiency, the Company strives to further expand them.

In the fiscal year under review, in-house products grew mainly in EP/Ablation and Cardiovascular Surgery fields as the number of cases increases. In addition to this, the Company strives to expand the scale of sales of in-house products by focusing on exports overseas and development of the gastrointestinal field.

(2) Securing pipeline of purchase

Although it is important to introduce highly innovative, superior medical devices to the Japanese market as soon as possible to increase the competitive advantage, regulatory approvals are required to introduce a medical device in Japan, and this can be a time-consuming process. Therefore, the Company always takes a medium- to long-term view to seek new business partners.

In the fiscal year under review, regarding CRM products, the Company started full-fledged sales of BSC products in September 2019, and has achieved reinforcement in the tachycardia treatment field, which had been an issue for quite some time.

(3) Strengthening of research and development and production system

The Company strives to further strengthen the research and development and production system of in-house products to enhance its competitive advantage as a medical device manufacturer. Expansion of the research and development base was already completed in April 2018. In the fiscal year under review, we completed construction of a factory in Malaysia in November 2019, that the Company was engaged from the beginning of the plan, including acquisition of site, and the experience is the first thing in our foreign factories. In addition, the second building of the Oyama Factory was completed in February 2020 in Japan, which further has strengthened its production system.

(4) Expansion of new field outside the cardiovascular field

The Company is expanding into other treatment fields with the application of its own technology cultivated from development of medical devices in the cardiovascular field. The Company entered the gastrointestinal field by starting sales of colonic stents in June 2017.

In the fiscal year under review, the Company started sales of a radio-frequency ablation system for liver cancer treatment in December 2019, focusing on exploiting the market in the gastrointestinal field. The Company will further expand new revenue streams outside the cardiovascular field by further developing and introducing new products.

(5) Overseas Development

Currently, the Company sells part of its EP/Ablation and blood purification-related products overseas, however, the contribution of sales of these products to business performance is limited. As in-house products are already highly praised and have gained market share in Japan, the Company will endeavor to establish its distribution system and prepare for the full-scale of the products overseas.

In the fiscal year under review, as the first step towards the North American market, we started exporting semi-finished EP catheters in limited models, as well as newly established JLL Korea Co., Ltd. as a sales base in South Korea, striving to build an overseas sales system.

6. Material Parent Companies and Subsidiaries

1) Relationship with Parent Company

There are no significant relationships with any parent company.

2) Subsidiaries

| Company name | Capital | The Company's percentage of equity participation (%) | Principal business |
|-------------------------------|-----------------|--|---|
| Synexmed (Hong Kong) Limited | 15 million HKD | 100 | Import and sale of medical devices |
| Synexmed (Shenzhen) Co., Ltd. | 2.5 million USD | 100 | Manufacture and sale of medical devices |

(Note) The Company's percentage of equity participation includes indirect holdings by subsidiaries.

7. Principal Business

| Product group | Principle products |
|----------------------------|---|
| Cardiac Rhythm Management | Cardiac pacemakers, Implantable cardioverter defibrillators (ICDs), Subcutaneous implantable cardioverter defibrillators (S-ICDs), Cardiac resynchronization therapy pacemakers (CRT-Ps), Cardiac resynchronization therapy defibrillators (CRT-Ds) |
| EP / Ablation | Electrophysiological (EP) catheters, ablation catheters, endoscopic laser ablation catheters, internal atrial cardioversion catheters, esophageal temperature monitoring catheters, radio-frequency transseptal needles |
| Cardiovascular Surgery | Vascular grafts, open stent grafts, stent grafts, artificial heart valves, annuloplasty rings, blood purification-related products |
| Transvascular Intervention | Balloon catheters, guide wires, penetration catheters, atrial septal defect closures, drug-eluting coronary stents, guide wires with a sensor for measuring intravascular pressure |

8. Principal Business Locations and Plants

1) The Company

| | |
|----------------------------|--|
| Headquarters | 2-2-20, Higashishinagawa, Shinagawa-ku, Tokyo |
| Education facility | Tennoz Accademia (Shinagawa-ku, Tokyo) |
| Logistics center | Haneda Logistics Center (Ota-ku, Tokyo) Kansai Logistics Center (Ibaraki-shi, Osaka) |
| Factories | Toda Factory (Toda-shi, Saitama) Oyama Factory (Oyama-shi, Tochigi) Ichihara Factory (Ichihara-shi, Chiba) |
| Research facility | Research Center (Toda-shi, Saitama) |
| Branches and sales offices | Sapporo Sales Office, Hokkaido Branch (Chuo-ku, Sapporo-shi, Hokkaido) Sendai Sales Office, Tohoku Branch (Aoba-ku, Sendai-shi, Miyagi) Aomori Sales Office (Aomori-shi, Aomori) Akita Sales Office (Akita-shi, Akita) Koriyama Sales Office (Koriyama-shi, Fukushima) Urawa Sales Office, Kitakanto Branch (Urawa-ku, Saitama-shi, Saitama) Gunma Sales Office (Maebashi-shi, Gunma) Tokyo Sales Office I, Tokyo Branch (Toshima-ku, Tokyo) Tokyo Sales Office II (Shinagawa-ku, Tokyo) Ibaraki Sales Office (Tsukuba-shi, Ibaraki) Tama Sales Office (Fuchu-shi, Tokyo) Chiba Sales Office (Mihama-ku, Chiba-shi, Chiba) Yokohama Sales Office, Yokohama Branch (Naka-ku, Yokohama-shi, Kanagawa) Hamamatsu Sales Office (Naka-ku, Hamamatsu-shi, Shizuoka) Nagoya Sales Office, Tokai Branch (Naka-ku, Nagoya-shi, Aichi) Mie Sales Office (Tsu-shi, Mie) Hokuriku Sales Office, Hokuriku Shinshu Branch (Kanazawa-shi, Ishikawa) Matsumoto Sales Office (Matsumoto-shi, Nagano) Osaka Sales Office, Osaka Branch (Kita-ku, Osaka-shi, Osaka) Kyoto Sales Office (Shimogyo-ku, Kyoto-shi, Kyoto) Nara Sales Office (Nara-shi, Nara) Kobe Sales Office (Chuo-ku, Kobe-shi, Hyogo) Himeji Sales Office (Himeji-shi, Hyogo) Hiroshima Sales Office, Chugoku Branch (Naka-ku, Hiroshima-shi, Hiroshima) Okayama Sales Office (Kita-ku, Okayama-shi, Okayama) Yonago Sales Office (Yonago-shi, Tottori) Takamatsu Sales Office, Shikoku Branch (Takamatsu-shi, Kagawa) Matsuyama Sales Office (Matsuyama-shi, Ehime) Fukuoka Sales Office, Kyushu Branch (Hakata-ku, Fukuoka-shi, Fukuoka) Kitakyushu Sales Office (Kokurakita-ku, Kitakyushu-shi, Fukuoka) Nagasaki Sales Office (Nagasaki-shi, Nagasaki) Kumamoto Sales Office (Chuo-ku, Kumamoto-shi, Kumamoto) Kagoshima Sales Office (Kagoshima-shi, Kagoshima) Okinawa Sales Office (Naha-shi, Okinawa) |

2) Subsidiaries (Overseas)

| Company name | Locations |
|-------------------------------|-----------------|
| Synexmed (Hong Kong) Limited | Hong Kong |
| Synexmed (Shenzhen) Co., Ltd. | Shenzhen, China |

9. Employees

1) Employees of the Corporate Group

| Classification | Number of employees (number) | Change from previous fiscal year end (number) | Average age (age) | Average years' employment (years) |
|-----------------|------------------------------|---|-------------------|-----------------------------------|
| Male | 775 | +121 | 40.4 | 9.7 |
| Female | 299 | +21 | 35.2 | 6.0 |
| Total / average | 1,074 | +142 | 38.8 | 8.6 |

2) Employees of the Company

| Classification | Number of employees (number) | Change from previous fiscal year end (number) | Average age (age) | Average years' employment (years) |
|-----------------|------------------------------|---|-------------------|-----------------------------------|
| Male | 760 | +118 | 40.5 | 9.9 |
| Female | 235 | +27 | 35.5 | 5.9 |
| Total / average | 995 | +145 | 39.2 | 8.9 |

(Note) 1. The number of employees includes persons seconded to the Company, and does not include persons seconded from the Company.

10. Principal Lenders

| Lender | Amount outstanding (million yen) |
|-------------------------------------|----------------------------------|
| MUFG Bank, Ltd. | 4,318 |
| Sumitomo Mitsui Banking Corporation | 2,785 |
| Resona Bank, Limited. | 1,740 |
| Mizuho Bank, Ltd. | 1,730 |
| The Chiba Bank, Ltd. | 300 |
| Nippon Life Insurance Company | 100 |

(Note) Of the loan amount from Sumitomo Mitsui Banking Corporation, 317 million yen was borrowed from the Japan Lifeline Employee Shareholders Association Exclusive Trust.

11. Other Important Information Concerning the Current State of the Company Group

There are no relevant matters to report.

[2] Status of Shares

1. **Total number of shares authorized to be issued** 346,400,000 shares

2. **Total number of shares outstanding** 85,419,976 shares

(Note) The total number of shares outstanding is decreased by 5,000 thousand shares due to the cancellation of treasury stock in May 31, 2019.

3. **Number of shareholders** 14,642 persons

4. Major shareholders

| Shareholder name | Number of shares | Ratio to the number of outstanding shares(excluding treasury shares) |
|--|------------------|--|
| | thousand shares | % |
| MT Shokai | 9,860 | 12.24 |
| KS Shoji | 8,609 | 10.69 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 5,521 | 6.86 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 3,739 | 4.64 |
| Keisuke Suzuki | 2,560 | 3.18 |
| THE BANK OF NEW YORK | 1,414 | 1.76 |
| JP MORGAN CHASE BANK | 1,220 | 1.52 |
| Japan Trustee Services Bank, Ltd. (Trust Account 5) | 1,186 | 1.47 |
| Japan Lifeline Employee Shareholders Association Exclusive Trust | 1,035 | 1.29 |
| STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02 505002 | 1,024 | 1.27 |

(Note) In addition to the above, there are treasury shares held by the Company (4,889 thousand shares), and they do not include shares of the Company (113 thousand shares) remained in the Board Incentive Plan trust and shares of the Company (162 thousand shares) remained in the Japan Lifeline Employee Shareholders Association Exclusive Trust.

5. Other Important Information Concerning Shares

There are no relevant matters to report.

[3] Status of Share Acquisition Rights

There are no relevant matters to report.

[4] Company Officers

1. Vice Presidents and Corporate Auditors

| Position | Name | Areas of responsibility and significant concurrent positions |
|---|-------------------|---|
| President and CEO | Keisuke Suzuki | |
| Senior Executive Vice President and COO | Atsuhiko Suzuki | Officer in charge of Corporate Administration Headquarters, R&D and Manufacturing Department, EP Business Unit, CRM Business Unit, CV Business Unit, GRI Business Promotion Division, Regulatory Affairs Administration Department, and Advertisement Planning Division |
| Senior Vice President | Shogo Takahashi | Executive Manager of Corporate Administration Headquarters |
| Senior Vice President | Kazuhiko Nogami | Executive Manager of EP Business Unit, Officer in charge of GRI Business Promotion Division |
| Vice President | Kenji Yamada | Executive Manager of R&D and Manufacturing Department, President of Synexmed (Hong Kong) Limited, President of Synexmed (Shenzhen) Co., Ltd. President, and President of JLL Malaysia Sdn. Bhd. |
| Vice President | Osamu Watanabe | Executive Manager of CRM Business Unit |
| Vice President | Toru Takamiya | Executive Manager of CV Business Unit |
| Vice President | Tadashi Idei | Executive Manager of Regulatory Affairs Administration Department |
| Vice President | Yumiko Hoshiba | General Manager of Human Resources & General Affairs Department |
| Vice President | Fumihiko Sasaki | Executive Managing Officer, XYMAX Corporation President and Representative Director, XYMAX WITH Corporation Representative Director, XYMAX VILLAGE Corporation |
| Vice President | Yoshiaki Ikei | Representative Director, MA Partners Inc. |
| Full-time Corporate Auditor | Yasunori Kamiya | |
| Corporate Auditor | Masahiko Nakamura | Partner, TMI Associates |

| Position | Name | Areas of responsibility and significant concurrent positions |
|-------------------|-------------|---|
| Corporate Auditor | Daizo Asari | Representative Partner, Seiwa Certified Public Tax Accountants' Corporation |

- (Notes)
1. Vice Presidents Fumihiro Sasaki and Yoshiaki Ikei are Outside Directors as provided for in Article 2, Item 15 of the Companies Act, and the Company has registered them as Independent Directors with the Tokyo Stock Exchange.
 2. Corporate Auditors Masahiko Nakamura and Daizo Asari are Outside Corporate Auditors as provided for in Article 2, Item 16 of the Companies Act, and the Company has registered them as Independent Auditors with the Tokyo Stock Exchange.
 3. Corporate Auditor Daizo Asari is qualified as a Certified Public Tax Accountant, and possesses a considerable level of knowledge in regard to finance and accounting.
 4. Takayuki Kuronuma retired as Vice President due to expiry of the term of office as of conclusion of the 39th Ordinary General Meeting of Shareholders held on June 26, 2019.

2. Total Amount of Compensation to Vice Presidents and Corporate Auditors

| Classification | Number of people | Total amount of compensation (million yen) |
|-------------------------------|------------------|--|
| Vice Presidents | 12 | 469 |
| Corporate Auditors | 3 | 23 |
| Total (inc. Outside Officers) | 15 (4) | 492 (23) |

- (Note)
1. The total amount of compensation includes 26 million yen in provision for directors' bonuses and 17 million yen in provision for directors' share-based compensation reported in the fiscal year under review.
 2. In addition to the total amount of compensation above, based on the resolution of the 37th Ordinary General Meeting of Shareholders held on June 28, 2017, the retirement allowance for Officers of 11 million yen was paid to one retiring Vice President. This amount includes 11 million yen in provision for Officers' retirement allowance disclosed in the Business Report of the past fiscal years.

3. Outside Officers

- 1) Status of Important Positions Held Concurrently at Other Corporations, etc. and Relationships between the Company and these Other Corporations, etc.
 - Outside Vice President Fumihiro Sasaki is an Executive Managing Officer of XYMAX Corporation, Representative Director of XYMAX WITH Corporation, and XYMAX VILLAGE Corporation. There are no special relationships between the Company and the companies where he concurrently holds positions.
 - Outside Vice President Yoshiaki Ikei is a Representative Director of MA Partners, Inc. There is no special relationship between the Company and MA Partners.
 - Outside Auditor Masahiko Nakamura is a Partner at TMI Associates. There is no special relationship between the Company and TMI Associates.
 - Outside Auditor Daizo Asari is a Representative Partner at Seiwa Certified Public Tax Accountants' Corporation. There is no special relationship between the Company and Seiwa Certified Public Tax Accountants' Corporation.
- 2) Relationship with Specified Associated Service Provider
There are no significant relationships with any specified associated service provider.

3) Main Activities in the Fiscal Year under Review

| Title | Name | Main activities |
|----------------|-----------------|---|
| Vice President | Fumihiro Sasaki | Participated in all 12 meetings of the Board of Directors during the fiscal year under review; appropriately made statements, mainly from the perspective of a manager. He also serves as a Chairman of the Nomination and Remuneration Advisory Committee. |

| Title | Name | Main activities |
|-------------------|-------------------|--|
| Vice President | Yoshiaki Ikei | Participated in all 12 meetings of the Board of Directors during the fiscal year under review; appropriately made statements, mainly from the perspective of a manager. He also serves as a member of the Nomination and Remuneration Advisory Committee. |
| Corporate Auditor | Masahiko Nakamura | Participated in all 12 meetings of the Board of Directors during the fiscal year under review, and also participated in all 14 meetings of the Board of Corporate Auditors during the fiscal year under review; appropriately made statements, mainly from his specialist position as an attorney. |
| Corporate Auditor | Daizo Asari | Participated in all 12 meetings of the Board of Directors during the fiscal year under review, and also participated in all 14 meetings of the Board of Corporate Auditors during the fiscal year under review; appropriately made statements, mainly from his specialist position as a Certified Public Tax Accountant. |

4) Summary of the Agreement on Limitation of Liability

The Company has entered into agreements with all Outside Vice Presidents and Outside Auditors to limit their liability, as stipulated in Article 423, Paragraph 1 of the Companies Act, to the amount specified by laws and regulations.

[5] Accounting Auditor

1. Accounting Auditor's Name

Ernst & Young ShinNihon LLC

2. Accounting Auditor's Compensation, etc.

| | |
|--|----------------|
| 1) Compensation, etc. payable by the Company | 45 million yen |
| 2) Cash and other profits payable by the Company or its subsidiaries | 45 million yen |

- (Notes)
1. Under the audit agreement between the Company and its Accounting Auditor, compensation for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not separated, and otherwise cannot be separated. Consequently, the above amount in item 1) shows the total of these two types of compensation.
 2. The Board of Corporate Auditors agreed on the Accounting Auditor's compensation, etc. after confirming and considering the contents of the audit plan, including the number of audit days and number of people assigned, for the fiscal year under review as explained by the Accounting Auditor, examination and evaluation of audit performance in the previous fiscal year, and the basis of calculating the compensation estimate, etc.

3. Description of Non-Audit Services

There are no relevant matters to report.

4. Policy Regarding Determination of Termination or Nonrenewal of Appointment of Accounting Auditor

In the event that the Accounting Auditor is deemed to have met any of the grounds set forth in the clauses of Article 340, Paragraph 1 of the Companies Act, the Board of Corporate Auditors shall terminate the appointment of the Accounting Auditor subject to the unanimous consent of the Board of Corporate Auditors.

In addition, should the Accounting Auditor be deemed unable to execute its duties properly, the Board of Corporate Auditors shall determine the details of a proposal to dismiss or not to reappoint the Accounting Auditor for submission to the General Meeting of Shareholders, and should the Board of Corporate Auditors judge that by replacement of the Accounting Auditor it is possible to develop a more appropriate audit system for the Company, it shall determine the details of the proposal not to reappoint the Accounting Auditor.

[6] System to Ensure Proper Business Execution

At a meeting of the Board of Directors held on May 22, 2006, the Company made a resolution regarding a "Basic Policy on Creation of Internal Control Systems," and made partial revisions to this policy on April 28, 2011, May 20, 2015, and May 24, 2019. The details of this policy are as follows.

1. System to Ensure that Vice Presidents and Employees Execute their Duties in Compliance with Laws and Regulations and the Articles of Incorporation

- 1) Vice Presidents and employees shall act in compliance with laws and regulations, social ethics, the Articles of Incorporation, and other internal regulations, with their standards comprising the "Code of Ethics," "Action Policy," and the "Compliance Guidelines."
- 2) The Company shall engage in the creation of internal compliance systems, centered on the Chief Compliance Officer and Compliance Committee, in accordance with the "Compliance Promotion Regulations."
- 3) The Company shall distribute handbooks related to compliance to all Vice Presidents and employees, in addition to conducting training, to ensure thorough awareness of compliance.
- 4) A helpline shall be established at an external institution to provide a contact point where compliance issues can be easily reported and discussed.
- 5) All relations with antisocial forces shall be blocked in accordance with the "Compliance Guidelines" and the "Regulations Regarding the Elimination of Antisocial Forces," and in the event that there is a fear of relations with antisocial forces, it shall be promptly reported to the responsible department, and the Company shall respond with a resolute stance, while collaborating with the police and other external institutions.
- 6) The Internal Audit Division shall conduct audits regarding the status of compliance with laws and

regulations, the Articles of Incorporation, and internal regulations, in accordance with the “Internal Audit Regulations.”

- 7) As an advisory body for the Board of Directors, Nomination and Remuneration Advisory Committee (voluntary) is established, that Independent Outside Vice President accounts for the majority of members and the chairman is designed to be chosen from Independent Outside Vice President, in order to evaluate Vice President and Corporate Auditor from a viewpoint of nomination and compensation, etc. and to ensure objectivity and transparency of decision making process.

[Summary of Operational Status]

- Meetings of the Compliance Committee were held regularly, and matters regarding compliance were reported and discussed.
- Training was held for all Vice Presidents.
- Compliance training was held for new employees, in addition to e-learning training for all employees.
- New employees were informed of the helpline, the contact point for internal reporting, and instructions on its use were distributed in the form of cards.
- No cases of a fear of a relationship with antisocial forces occurred.
- The Internal Audit Office conducted audits in accordance with audit plans.
- Meetings of Nomination and Remuneration Advisory Committee were held twice in the fiscal year under review, where policies and standards for selection and dismissal of Vice Presidents with officer’s posts, selection of Representative Directors and Vice Presidents with officer’s posts, the compensation system for Vice Presidents, policies for determining compensation, and the like were discussed, and the results were reported to the Board of Directors. Regarding compensation amounts for each Vice President, these were decided by the Nomination and Remuneration Advisory Committee, following delegation by the Board of Directors.

2. System for Storage and Management of Information Related to the Execution of Duties of the Vice Presidents

- 1) The Company stores and manages minutes of the General Meeting of Shareholders, the Board of Directors, and other important meetings, approval documents and applications where Vice Presidents are approvers, and other important documents pertaining to the execution of duties by Vice Presidents (including electronic records), in accordance with the Document Management Regulations.
- 2) Vice Presidents and Corporate Auditors may view the above documents at any time.

[Summary of Operational Status]

- Minutes of the General Meeting of Shareholders and the Board of Directors were created and stored.
- All approval documents and applications where Vice Presidents were approvers were stored.

3. Regulations or Any Other Systems for Management of Risk of Loss

- 1) In accordance with the Risk Management Regulations, the Company shall endeavor to create a company-wide risk management system, centered on the Chief Risk Management Officer and the Risk Management Committee.
- 2) In the event that a significant risk is discovered and a company-wide response is required, a division for responding shall be established with the President as Executive Manager, and the loss shall be minimized through a prompt response.

[Summary of Operational Status]

- The Chief Risk Management Officer conducted interviews regarding risk management issues with responsible departments.
- Meetings of the Risk Management Committee were held in accordance with the Risk Management Regulations.
- No incidences involving discovery of significant risks occurred.

4. System to Ensure that the Execution of Duties of Vice Presidents is Efficient

- 1) The Board of Directors shall establish Regulations on the Assignment of Business Operations and Regulations on Administrative Authority in order to ensure that Vice Presidents’ duties are executed in an appropriate and efficient manner.
- 2) The Board of Directors formulates annual budgets, in addition to receiving reports on the status of progress thereof from each responsible Vice President, considering any issues, and implementing

countermeasures as necessary.

[Summary of Operational Status]

- The Company revised the Regulations on the Assignment of Business Operations and the Regulations on Administrative Authority in line with organizational changes, etc., to ensure that Vice Presidents' duties are executed in an appropriate and efficient manner.
- In addition to formulating an annual budget, the Board of Directors also received regular reports on the status of progress from each Vice President, and discussed issues.

5. System to Ensure Proper Business Execution within the Corporate Group Comprising the Company and Subsidiaries

- 1) Systems related to reports to the Company on matters pertaining to the execution of duties by Vice Presidents, etc. of subsidiaries
 - a. In accordance with the "Affiliate Management Regulations," the Company shall receive reports on matters pertaining to the execution of duties by Vice Presidents, etc., in addition to financial reports, minutes of meetings, and other documents.
 - b. The Company's Vice Presidents and employees also serve concurrently as Vice Presidents or Corporate Auditors of subsidiaries, and the Company receives reports as appropriate on the status of the execution of duties at these subsidiaries from these Vice Presidents, etc.
- 2) Regulations or any other systems for management of risk of loss at subsidiaries
 - a. In accordance with the Risk Management Regulations, the Company shall endeavor to create a system for managing risk at subsidiaries, centered on the Chief Risk Management Officer and the Risk Management Committee.
 - b. In the event that a significant risk is discovered at a subsidiary, a prompt response shall be implemented, centered on the President of the subsidiary and the loss shall be minimized through the assistance of the Company, as necessary.
- 3) System to ensure efficiency of execution of duties by Vice Presidents, etc. of subsidiaries
 - a. The responsible department of the Company manages business in accordance with the Affiliate Management Regulations, and also supports the creation of systems for appropriate business execution, including establishing Regulations on the Assignment of Business Operations and Regulations on Administrative Authority at subsidiaries.
- 4) System to ensure that Vice Presidents, etc. and employees of subsidiaries execute their duties in compliance with laws and regulations and the Articles of Incorporation
 - a. The Company provides advice, guidance, and assistance as necessary, to ensure that compliance systems are created at subsidiaries, in accordance with the Affiliate Management Regulations.
 - b. The Internal Audit Office conducts audits regarding the status of compliance with laws and regulations, the Articles of Incorporation, and internal regulations at subsidiaries, in accordance with the Internal Audit Regulations.

[Summary of Operational Status]

- The Company received reports and documents from subsidiaries, in accordance with the Affiliate Management Regulations.
- Vice Presidents and employees of the Company who also serve concurrently as Vice Presidents and Corporate Auditors of subsidiaries attended important management meetings at those subsidiaries.
- The Internal Audit Office conducts audits of subsidiaries in accordance with audit plans.

6. Matters Related to Employees to Assist Duties of Corporate Auditors in the Event that Corporate Auditors have Requested such Employees

In the event that Corporate Auditors request the assignment of employees to assist them with their duties, the Company shall assign appropriately qualified persons, after consultation with Corporate Auditors.

[Summary of Operational Status]

- There are no relevant matters to report.

7. Matters Related to the Independence from Vice Presidents of Employees Described in the Preceding Item

- 1) Employees ordered by Corporate Auditors to assist them in their audit operations shall not be instructed by Vice Presidents regarding these operations.

- 2) Advance consultations with Corporate Auditors shall be held with regard to matters pertaining to personnel decisions concerning employees ordered by Corporate Auditors to assist them in their audit operations.

[Summary of Operational Status]

- There are no relevant matters to report.

8. Matters Related to Ensuring the Effectiveness of Instructions to Employees to Assist the Duties of Corporate Auditors

- 1) Employees ordered by Corporate Auditors to assist them in their audit operations shall execute operations based on the instructions from Corporate Auditors.
- 2) Vice Presidents shall endeavor to create an environment for audits to ensure that the operations of employees ordered by Corporate Auditors to assist them in their audit operations are conducted in a smooth manner.

[Summary of Operational Status]

- There are no relevant matters to report.

9. Systems for Vice Presidents and Employees of the Company and Subsidiaries to Make Reports to Corporate Auditors and Other Systems Related to Reports to Corporate Auditors

- 1) Vice Presidents and employees of the Company and subsidiaries shall provide accurate and prompt reports to Corporate Auditors on the following matters.
 - Matters that may cause significant corporate damage
 - Actions that violate laws and regulations or the Articles of Incorporation, or actions whereby there is a risk thereof
 - The status of the development and implementation of internal controls based on the Companies Act and the Financial Instruments and Exchange Act
 - Results of internal audits conducted by the Internal Audit Office
 - Any other matters about which Corporate Auditors request reports
- 2) Vice Presidents and employees of the Company and subsidiaries shall promptly provide reports on matters about which Corporate Auditors request reports.

[Summary of Operational Status]

- Vice Presidents and employees of the Company and subsidiaries made reports as requested by Corporate Auditors.

10. Systems to Ensure that Persons Making a Report to Corporate Auditors are not Treated Unfavorably on the Basis of Such Reporting

The Company shall not treat Vice Presidents, Corporate Auditors, or employee of the Company or any subsidiaries who make a report to Corporate Auditors unfavorably on the basis of such reporting.

[Summary of Operational Status]

- There were no incidences of Vice Presidents or employees of the Company or any subsidiaries who made reports to Corporate Auditors being treated unfavorably.

11. Matters Relating to Policies Concerning Procedures for Making Advance Payments or Reimbursements of Expenses Incurred in Connection with the Execution of Duties by the Company's Corporate Auditors and Treatment of Other Expenses or Obligations Associated with the Execution of Duties by These Members

If any Corporate Auditor requests the advance payment of expenses arising in regard to the execution of their duties or reimbursement, etc. of expenses paid, etc., the Company shall promptly respond to these requests, excluding cases when it is recognized that these expenses, etc. are not necessary for the execution of the Corporate Auditor's duties.

[Summary of Operational Status]

- The Company appropriately bore all expenses necessary for the execution of duties by Corporate Auditors.

12. Other Systems to Ensure Effectiveness of Audits by Corporate Auditors

- 1) Corporate Auditors may participate in internal meetings as necessary.
- 2) The Board of Corporate Auditors shall hold regular meetings to exchange views with the President.
- 3) The Internal Audit Office shall engage in advance consultations with the Board of Corporate Auditors when formulating audit plans.

[Summary of Operational Status]

- Corporate Auditors participated in internal meetings as necessary.
- The Board of Corporate Auditors engaged in regular meetings to exchange views with the President, and also engaged in consultations with the Internal Audit Office.

13. System to Ensure Reliability of Financial Reporting

- 1) The Company shall develop internal control systems to ensure the reliability of financial reporting and evaluate the status of their implementation based on the “Basic Policy on Internal Controls Related to Financial Reporting,” and shall determine a responsible department, which shall lead these initiatives.
- 2) If any deficiency is discovered in internal control systems or their implementation, it shall be reported to managers and the Board of Directors, and prompt efforts shall be made to rectify these deficiencies.

[Summary of Operational Status]

- The Internal Audit Office, which is the responsible department, developed internal control systems to ensure the reliability of financial reporting and evaluated the status of their implementation.
- No deficiencies were discovered in regard to internal control systems or their implementation.

(Note) Amounts and numbers of shares in this Business Report are rounded down to the nearest unit.
In addition, ratios are rounded off to the nearest unit.

Consolidated Financial Statements

(From April 1, 2019 to March 31, 2020)

Consolidated Balance Sheet

(As of March 31, 2020)

(Millions of yen)

| Description | Fiscal year under review | (Reference) Previous fiscal year | Description | Fiscal year under review | (Reference) Previous fiscal year |
|---------------------------------------|--------------------------|----------------------------------|---|--------------------------|----------------------------------|
| (Assets) | | | (Liabilities) | | |
| Current assets | 44,077 | 41,665 | Current liabilities | 16,093 | 14,580 |
| Cash and deposits | 9,555 | 8,018 | Notes and accounts payable - trade | 4,081 | 3,087 |
| Notes and accounts receivable - trade | 13,762 | 12,178 | Short-term loans payable | 5,600 | 5,600 |
| Inventories | 18,187 | 17,071 | Current portion of long-term loans payable | 908 | 577 |
| Other current assets | 2,571 | 4,397 | Accounts payable - other | 921 | 930 |
| Non-current assets | 30,923 | 26,117 | Income taxes payable | 1,696 | 2,027 |
| Property, plant and equipment | 11,341 | 9,920 | Provision for bonuses | 1,358 | 1,264 |
| Buildings and structures | 6,201 | 4,784 | Provision for directors' bonuses | 26 | 20 |
| Machinery, equipment and vehicles | 672 | 694 | Other current liabilities | 1,501 | 1,073 |
| Land | 3,214 | 3,214 | Long-term liabilities | 7,500 | 6,709 |
| Leased assets | 524 | 577 | Long-term loans payable | 4,465 | 3,189 |
| Construction in progress | 83 | 23 | Lease obligations | 402 | 466 |
| Other property, plant and equipment | 644 | 625 | Long-term accounts payable - other | 178 | 190 |
| Intangible assets | 493 | 558 | Provision for directors' share-based compensation | 72 | 61 |
| Other intangible assets | 493 | 558 | Net defined benefit liability | 1,735 | 2,543 |
| Investments and other assets | 19,089 | 15,638 | Other long-term liabilities | 645 | 257 |
| Investment securities | 5,516 | 3,287 | Total liabilities | 23,594 | 21,289 |
| Long-term loans receivable | 7,511 | 7,052 | (Net assets) | | |
| Long-term prepaid expenses | 3,020 | 3,295 | Shareholders' equity | 51,618 | 46,496 |
| Deferred tax assets | 1,858 | 1,484 | Capital stock | 2,115 | 2,115 |
| Other investments and other assets | 1,189 | 525 | Capital surplus | 14,853 | 15,572 |
| Allowance for doubtful accounts | (6) | (7) | Retained earnings | 35,912 | 30,499 |
| | | | Treasury shares | (1,263) | (1,691) |
| | | | Accumulated other comprehensive income | (211) | (16) |
| | | | Valuation difference on available-for-sale securities | (225) | (76) |
| | | | Foreign currency translation adjustment | 169 | 155 |
| | | | Remeasurements of defined benefit plans | (155) | (95) |
| | | | Share acquisition rights | — | 13 |
| | | | Share acquisition rights | — | 13 |
| | | | Total net assets | 51,406 | 46,493 |
| Total assets | 75,000 | 67,783 | Total liabilities and net assets | 75,000 | 67,783 |

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

Consolidated Statement of Income

(From April 1, 2019 to March 31, 2020)

(Millions of yen)

| Description | Fiscal year under review | | (Reference) Previous fiscal year | |
|---|--------------------------|--------|-------------------------------------|--------|
| | | | | |
| Net sales | | 51,761 | | 45,525 |
| Cost of sales | | 22,570 | | 17,703 |
| Gross profit | | 29,191 | | 27,822 |
| SG&A expenses | | 18,756 | | 17,295 |
| Operating income | | 10,434 | | 10,526 |
| Non-operating income | | | | |
| Interest paid | 540 | | 407 | |
| Dividend income | 64 | | 99 | |
| Foreign exchange gains | 10 | | 15 | |
| Gain on exclusive sales contract termination | 172 | | – | |
| Miscellaneous income | 102 | 891 | 48 | 571 |
| Non-operating expenses | | | | |
| Interest expenses | 141 | | 49 | |
| Loss on valuation of investment securities | 438 | | 163 | |
| Loss on valuation of derivatives | 244 | | – | |
| Miscellaneous losses | 76 | 900 | 75 | 289 |
| Ordinary income | | 10,425 | | 10,808 |
| Extraordinary income | | | | |
| Gain on sales of non-current assets | 3 | | 1 | |
| Gain on sales of investment securities | – | 3 | 3 | 5 |
| Extraordinary losses | | | | |
| Loss on sales of non-current assets | 2 | | – | |
| Loss on retirement of non-current assets | 1 | 4 | 12 | 12 |
| Net income before tax | | 10,425 | | 10,801 |
| Income taxes – current | 2,958 | | 3,182 | |
| Income taxes – deferred | (281) | 2,676 | (104) | 3,077 |
| Net income | | 7,748 | | 7,723 |
| Net income attributable to owners of the parent | | 7,748 | | 7,723 |

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

Non-Consolidated Financial Statements

(From April 1, 2019 to March 31, 2020)

Non-Consolidated Balance Sheet

(As of March 31, 2020)

(Millions of yen)

| Description | Fiscal year under review | (Reference) Previous fiscal year | Description | Fiscal year under review | (Reference) Previous fiscal year |
|---------------------------------------|--------------------------|----------------------------------|---|--------------------------|----------------------------------|
| (Assets) | | | (Liabilities) | | |
| Current assets | 44,251 | 41,733 | Current liabilities | 16,230 | 14,612 |
| Cash and deposits | 9,109 | 7,700 | Accounts payable-trade | 4,186 | 3,139 |
| Notes receivable - trade | 2,960 | 2,771 | Short-term loans payable | 5,600 | 5,600 |
| Accounts receivable - trade | 10,799 | 9,387 | Current portion of long-term loans payable | 908 | 577 |
| Merchandise | 11,898 | 10,216 | Accounts payable - other | 946 | 901 |
| Finished goods | 3,685 | 3,841 | Accrued expenses | 309 | 265 |
| Work in process | 1,619 | 1,738 | Income taxes payable | 1,697 | 2,026 |
| Raw materials | 873 | 983 | Accrued consumption taxes | 522 | 370 |
| Supplies | 138 | 181 | Provision for bonuses | 1,358 | 1,264 |
| Prepaid expenses | 699 | 514 | Provision for directors' bonuses | 26 | 20 |
| Short-term loans receivable | 608 | 1,814 | Deposits received | 118 | 133 |
| Other current assets | 1,856 | 2,581 | Other current liabilities | 555 | 313 |
| Non-current assets | 31,101 | 26,007 | Long-term liabilities | 7,262 | 6,558 |
| Property, plant and equipment | 11,070 | 9,605 | Long-term loans payable | 4,465 | 3,189 |
| Buildings | 5,860 | 4,460 | Lease obligations | 402 | 466 |
| Structures | 232 | 162 | Long-term accounts payable - other | 178 | 190 |
| Machinery and equipment | 523 | 552 | Provision for retirement benefits | 1,511 | 2,406 |
| Tools, furniture and fixtures | 567 | 562 | Provision for directors' share-based compensation | 72 | 61 |
| Land | 3,214 | 3,214 | Other long-term liabilities | 632 | 243 |
| Leased assets | 524 | 577 | Total liabilities | 23,493 | 21,171 |
| Construction in progress | 83 | 23 | (Net assets) | | |
| Other property, plant and equipment | 64 | 51 | Shareholders' equity | 52,085 | 46,633 |
| Intangible assets | 493 | 558 | Capital stock | 2,115 | 2,115 |
| Software | 437 | 485 | Capital surplus | 14,854 | 15,573 |
| Software in progress | - | 5 | Legal capital surplus | 2,133 | 2,133 |
| Telephone subscription right | 21 | 21 | Other capital surplus | 12,720 | 13,439 |
| Right of using water facilities | 2 | - | Gain on disposal of treasury shares | 12,720 | 13,439 |
| Other intangible assets | 32 | 46 | Retained earnings | 36,378 | 30,635 |
| Investments and other assets | 19,537 | 15,843 | Legal retained earnings | 528 | 528 |
| Investment securities | 2,991 | 3,012 | Other retained earnings | 35,850 | 30,106 |
| Shares of subsidiaries and associates | 2,525 | 274 | Reserve for advanced depreciation of non-current assets | 42 | 44 |
| Long-term loans receivable | 8,164 | 7,712 | General reserve | 6,000 | 6,000 |
| Long-term prepaid expenses | 3,020 | 3,295 | Retained earnings brought forward | 29,807 | 24,062 |
| Deferred tax assets | 2,079 | 1,442 | Treasury shares | (1,263) | (1,691) |
| Lease and guarantee deposits | 525 | 514 | Valuation and translation adjustments | (225) | (76) |
| Other investments and other assets | 661 | 8 | Valuation difference on available-for-sale securities | (225) | (76) |
| Allowance for doubtful accounts | (429) | (417) | Share acquisition rights | - | 13 |
| | | | Share acquisition rights | - | 13 |
| Total assets | 75,352 | 67,740 | Total net assets | 51,859 | 46,569 |
| | | | Total liabilities and net assets | 75,352 | 67,740 |

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

Non-Consolidated Statement of Income

(From April 1, 2019 to March 31, 2020)

(In millions of yen)

| Description | Fiscal year under review | | (Reference) Previous fiscal year | |
|--|--------------------------|---------------|-------------------------------------|---------------|
| | | | | |
| Net sales | | 51,700 | | 45,482 |
| Cost of sales | | 22,709 | | 17,885 |
| Gross profit | | 28,991 | | 27,597 |
| SG&A expenses | | 18,589 | | 17,169 |
| Operating income | | 10,402 | | 10,428 |
| Non-operating income | | | | |
| Interest paid | 558 | | 424 | |
| Dividend income | 64 | | 99 | |
| Reversal of allowance for doubtful accounts | – | | 62 | |
| Foreign exchange gains | 32 | | 105 | |
| Gain on exclusive sales contract termination | 172 | | | |
| Miscellaneous income | 88 | 917 | 53 | 744 |
| Non-operating expenses | | | | |
| Interest expenses | 132 | | 57 | |
| Provision of allowance for doubtful accounts | 12 | | – | |
| Loss on valuation of investment securities | 438 | | 163 | |
| Loss on valuation of derivatives | 244 | | – | |
| Miscellaneous losses | 24 | 852 | 75 | 296 |
| Ordinary income | | 10,466 | | 10,876 |
| Extraordinary income | | | | |
| Gain on sales of non-current assets | 3 | | 1 | |
| Gain on sales of investment securities | – | 3 | 3 | 5 |
| Extraordinary losses | | | | |
| Loss on sales of non-current assets | 2 | | – | |
| Loss on retirement of non-current assets | 1 | 4 | 12 | 12 |
| Net income before income taxes | | 10,466 | | 10,868 |
| Income taxes – current | 2,958 | | 3,182 | |
| Income taxes – deferred | (571) | 2,387 | (116) | 3,065 |
| Net income | | 8,078 | | 7,803 |

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

Independent Auditor's Report
(English Translation)

May 21, 2020

To the Board of Directors
Japan Lifeline Co., Ltd.

Ernst & Young ShinNihon LLC

Akinori Sato, CPA
Engagement Partner
Hisafumi Nomoto, CPA
Engagement Partner

Auditors' Opinion

We have audited, pursuant to Article 444, Paragraph 4 of the Companies Act, the consolidated financial statements, which consist of the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements of Japan Lifeline Co., Ltd. (hereinafter referred to as the "Company") for the fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2020 and the consolidated result of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Grounds for Auditor's Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility is stated in "Auditor's Responsibility in Auditing of Consolidated Financial Statements." We are independent from the Company and its consolidated subsidiaries in accordance with the regulations relating to professional ethics in Japan, and have fulfilled other ethical responsibilities as auditor. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management, Corporate Auditors and the Board of Corporate Auditors for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with accounting standards generally accepted in Japan. This responsibility includes designing and operating internal controls, which management considers necessary for the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparation of consolidated financial statements, management is responsible for reviewing whether it is

proper for consolidated financial statements to be prepared based on the going concern assumption, and if it is necessary to disclose the relevant matters in accordance with accounting standards generally accepted in Japan, management is responsible for disclosure thereof.

Corporate Auditors and the Board of Corporate Auditors are responsible for monitoring execution of duties by Vice Presidents in preparation and operation of the financial reporting process.

Auditor's Responsibility in Auditing of Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error based on the audit we performed, and to express an opinion on the consolidated financial statements from an independent standpoint in the audit report. A misstatement may occur due to fraud or error, and if, individually or in the aggregate, it is reasonably expected to affect the decision-making of users of consolidated financial statements, it is judged to be material.

We make a professional judgment in the course of the audit in accordance with the auditing standards generally accepted in Japan, and carry out the following maintaining professional skepticism.

- Identify and evaluate the risk of material misstatement due to fraud or error. In addition, plan and implement auditing procedures that address the risk of material misstatement. The selection and application of audit procedures is at our discretion. Moreover, obtain sufficient and appropriate audit evidence to form the basis of the opinion.
- Although the purpose of auditing the consolidated financial statements is not to express an opinion on the effectiveness of internal controls, in making those risk assessments, we consider internal controls in relation to audits in order to design audit procedures that are appropriate for the circumstances.
- Evaluate the adequacy of the accounting policy adopted by management and its application method, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Reach conclusions on whether it is appropriate for management to prepare consolidated financial statements on the premise of going concern, and whether there is material uncertainty about events or situations that create significant doubts about the premise of going concern based on the audit evidence obtained. If material uncertainties regarding the going concern assumption are observed, it is expected to alert on the notes to the consolidated financial statements in the audit report, or if the notes to the consolidated financial statements regarding material uncertainties are not appropriate, it is required to express a qualified opinion with exceptive items on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of the audit report, but future events and circumstances may prevent a company from continuing as a going concern.
- Assess whether the presentation of and notes to the consolidated financial statements comply with corporate accounting standards generally accepted in Japan, as well as assess the presentation, composition and contents of the consolidated financial statements including related notes, and whether the consolidated financial statements properly represent the underlying transactions or accounting events.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express opinions on the consolidated financial statements.

We are responsible for directing, supervising and implementing audits of consolidated financial statements. We are solely responsible for the audit opinion.

We give reports to the Corporate Auditors and the Board of Corporate Auditors on the scope and timing of planned audits, important audit findings including important deficiencies in internal controls identified during the audit process, and on other matters required by the auditing standard.

We give reports to the Corporate Auditors and the Board of Corporate Auditors that we are in compliance with the regulations relating to professional ethics in Japan regarding independence, as well as matters that are reasonably considered to affect our independence as the Auditor, and if safeguards are in place to eliminate or reduce obstructive factors, the specifics of the safeguards.

Relationship of Interest

We have no interests in or relationships with the Company and its consolidated subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notice to Readers:

The original consolidated financial statements, which consist of the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements, are written in Japanese.

Independent Auditor's Report
(English Translation)

May 21, 2020

To the Board of Directors
Japan Lifeline Co., Ltd.

Ernst & Young ShinNihon LLC

Akinori Sato, CPA
Engagement Partner
Hisafumi Nomoto, CPA
Engagement Partner

Auditors' Opinion

We have audited, pursuant to Article 436, Paragraph 2-1 of the Companies Act, the non-consolidated financial statements, which consist of the balance sheet, the statement of income, the statement of changes in equity and the notes to the financial statements the supplementary schedules thereof of Japan Lifeline Co., Ltd. (hereinafter referred to as the "Company") for the 40th fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the financial statements and supplementary schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2020 and the result of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Grounds for Auditor's Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility is stated in "Auditor's Responsibility in Auditing of the Financial Statements and the accompanying supplemental schedules." We are independent from the Company in accordance with the regulations relating to professional ethics in Japan, and have fulfilled other ethical responsibilities as auditor. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management, Corporate Auditors and the Board of Corporate Auditors for the Financial Statements and the accompanying supplemental schedules

Management is responsible for the preparation and fair presentation of the financial statements and the accompanying supplemental schedules in accordance with accounting standards generally accepted in Japan. This responsibility includes designing and operating internal controls, which management considers necessary for the preparation and fair presentation of the financial statements and the accompanying supplemental schedules that are free from material misstatements, whether due to fraud or error.

In preparation of the financial statements and the accompanying supplemental schedules, management is responsible for reviewing whether it is proper for the financial statements and the accompanying supplemental

schedules to be prepared based on the going concern assumption, and if it is necessary to disclose the relevant matters in accordance with accounting standards generally accepted in Japan, management is responsible for disclosure thereof.

Corporate Auditors and the Board of Corporate Auditors are responsible for monitoring execution of duties by Vice Presidents in preparation and operation of the financial reporting process.

Auditor's Responsibility in Auditing of the Financial Statements and the accompanying supplemental schedules

Our responsibility is to obtain reasonable assurance as to whether the financial statements and the accompanying supplemental schedules as a whole are free from material misstatement due to fraud or error based on the audit we performed, and to express an opinion on the financial statements and the accompanying supplemental schedules from an independent standpoint in the audit report. A misstatement may occur due to fraud or error, and if, individually or in the aggregate, it is reasonably expected to affect the decision-making of users of the financial statements, it is judged to be material.

We make a professional judgment in the course of the audit in accordance with the auditing standards generally accepted in Japan, and carry out the following maintaining professional skepticism.

- Identify and evaluate the risk of material misstatement due to fraud or error. In addition, plan and implement auditing procedures that address the risk of material misstatement. The selection and application of audit procedures is at our discretion. Moreover, obtain sufficient and appropriate audit evidence to form the basis of the opinion.
- Although the purpose of auditing the financial statements and the accompanying supplemental schedules is not to express an opinion on the effectiveness of internal controls, in making those risk assessments, we consider internal controls in relation to audits in order to design audit procedures that are appropriate for the circumstances.
- Evaluate the adequacy of the accounting policy adopted by management and its application method, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Reach conclusions on whether it is appropriate for management to prepare financial statements on the premise of going concern, and whether there is material uncertainty about events or situations that create significant doubts about the premise of going concern based on the audit evidence obtained. If material uncertainties regarding the going concern assumption are observed, it is expected to alert on the notes to the financial statements and the accompanying supplemental schedules in the audit report, or if the notes to the financial statements and the accompanying supplemental schedules regarding material uncertainties are not appropriate, it is required to express a qualified opinion with exceptive items on the financial statements and the accompanying supplemental schedules. Our conclusions are based on the audit evidence obtained up to the date of the audit report, but future events and circumstances may prevent a company from continuing as a going concern.
- Assess whether the presentation of and notes to the financial statements and the accompanying supplemental schedules comply with corporate accounting standards generally accepted in Japan, as well as assess the presentation, composition and contents of the financial statements and the accompanying supplemental schedules including related notes, and whether the financial statements and the accompanying supplemental schedules properly represent the underlying transactions or accounting events.
- We give reports to the Corporate Auditors and the Board of Corporate Auditors that we are in compliance with the regulations relating to professional ethics in Japan regarding independence, as well as matters that

are reasonably considered to affect our independence as the Auditor, and if safeguards are in place to eliminate or reduce obstructive factors, the specifics of the safeguards.

Relationship of Interest

We have no interests in or relationships with the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notice to Readers:

The original financial statements, which consist of the balance sheet, the statement of income, the statement of changes in equity and the notes to the financial statements and the accompanying supplemental schedules, are written in Japanese.

Audit Report (English Translation)

The Board of Corporate Auditors deliberated and prepared this Audit Report regarding the execution of duties by the Vice Presidents for the 40th fiscal year from April 1, 2019 to March 31, 2020, based on the Audit Reports prepared by each Corporate Auditor, and hereby submits it as follows.

1. Summary of Auditing Methods by Corporate Auditors and the Board of Corporate Auditors

(1) The Board of Corporate Auditors established auditing policies, an allocation of duties, and other relevant matters, and received reports from each Corporate Auditor regarding the status of the implementation of audits and the results thereof, in addition to receiving reports on the status of the execution of duties from Vice Presidents, etc. and the Accounting Auditor, and requesting explanations as necessary.

(2) In conformity with the auditing standards for Corporate Auditors established by the Board of Corporate Auditors, following audit policies, the allocation of duties, and other relevant matters, each Corporate Auditor communicated with Vice Presidents, the Internal Audit Office, other employees, etc., gathered information, and endeavored to create an environment for audits, in addition to conducting audits through the methods described below.

1) Corporate Auditors attended meetings of the Board of Directors and other important meetings, received reports from Vice Presidents, employees, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and financial positions at the headquarters and principal business offices. With respect to subsidiaries, we communicated with, and collected information from, Vice Presidents, Corporate Auditors and other relevant personnel of subsidiaries as well as receiving reports from subsidiaries on their business as necessary.

2) With regard to the content of resolutions of the Board of Directors regarding the creation of systems to ensure that the execution of duties by Vice Presidents complies with laws and regulations and the Articles of Incorporation set forth in the Business Report, and other systems defined in Article 100, Paragraph 1 and Paragraph 3 of the Ordinance for Enforcement of the Companies Act as necessary to ensure the propriety of business activities of the corporate group comprising the stock company and its subsidiaries, and the systems created under the resolutions (internal control systems), Corporate Auditors received regular reports on their creation and the status of their operation from Vice Presidents, employees, and other relevant personnel, sought explanations as necessary, and expressed views.

3) Corporate Auditors monitored and verified whether the Accounting Auditor maintained its independence and implemented appropriate audits, as well as received reports from the Accounting Auditor regarding the performance of its duties and sought explanations as necessary. In addition, we received notice from the Accounting Auditor that "system to ensure that duties are performed properly" (matters set forth in each item of Article 131 of the Rules of Corporate Accounting) had been prepared in accordance with the "Quality Control Standards for audit" (issued by the Business Accounting Council on October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, Corporate Auditors examined the Business Report and the supplementary schedules thereof, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity, and non-consolidated notes) and the supplementary schedules thereof, as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity and consolidated notes) related to the relevant fiscal year.

2. Results of Audit

(1) Results of Audit of Business Report and Other Relevant Documents

1) In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations, and Articles of Incorporation, and fairly represent the Company's condition.

2) We have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation, related to performance of duties by the Vice Presidents.

3) In our opinion, the contents of the resolutions of the Board of Directors related to the internal controls system are fair and reasonable. In addition, we have found no matters on which to remark regarding the description in the Business Report and the performance of duties by the Vice Presidents related to such internal controls system.

(2) Results of Audit of Non-Consolidated Financial Statements and Supplementary Schedules

In our opinion, the methods and results employed and rendered by Ernst & Young ShinNihon LLC are fair and reasonable.

(3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by Ernst & Young ShinNihon LLC are fair and reasonable.

May 21, 2020

Board of Corporate Auditors, Japan Lifeline Co., Ltd.

Full-Time Corporate Auditor
Outside Auditor
Outside Auditor

Yasunori Kamiya
Masahiko Nakamura
Daizo Asari

End