

Supplemental Document of Financial Status of 2Q of FY 2019 of DESCENTE LTD.

[Accounting]

1. Method of preparation of quarterly consolidated financial statements

The Company's quarterly consolidated financial statements have been prepared in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007).

2. Audit certification

The Company has been audited by KPMG AZSA LLC with respect to its quarterly consolidated financial statements for the second quarter (from July 1, 2019 to September 30, 2019) and the first six months (from April 1, 2019 to September 30, 2019) of the consolidated fiscal year, pursuant to the provision of Article 193-2(1) of the Financial Instruments and Exchange Act.

1. [Quarterly Financial Statements]

(1) Quarterly Consolidated Balance Sheets

(Yen in millions)

	FY2018 (March 31, 2019)	2Q FY2019 (September 30, 2019)
Assets		
Current assets		
Cash and deposits	28,136	25,740
Notes and accounts receivable - trade	21,190	19,605
Merchandise and finished goods	23,860	23,143
Work in process	161	197
Raw materials and supplies	799	838
Other	4,762	2,852
Allowance for doubtful accounts	(859)	(837)
Total current assets	78,051	71,540
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,356	11,741
Other	12,554	16,644
Total current assets	24,910	28,385
Intangible assets	2,701	2,644
Investments and other assets		
Other	10,182	10,238
Allowance for doubtful accounts	(89)	(90)
Total investments and other assets	10,093	10,147
Total non-current assets	37,705	41,178
Total assets	115,756	112,718
Liabilities		
Current liabilities		
Notes and accounts payable – trade	18,448	14,739
Short-term loans payable	405	271
Current portion of long-term loans payable	254	564
Income taxes payable	1,183	750
Provision for bonuses	898	845
Provision for sales returns	883	1,050
Provision for loss on guarantees	121	121
Other	7,333	7,851
Total current liabilities	29,527	26,193
Non-current liabilities		
Long-term loans payable	4,133	3,368
Net defined benefit liability	952	1,085
Other	2,697	5,673
Total non-current liabilities	7,783	10,127
Total liabilities	37,310	36,320

(Yen in millions)

	FY2018 (March 31, 2019)	2Q FY2019 (September 30, 2019)
Net assets		
Shareholders' equity		
Capital stock	3,846	3,846
Capital surplus	25,281	25,316
Retained earnings	47,632	47,882
Treasury shares	(643)	(632)
Total shareholders' equity	76,115	76,412
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	739	804
Deferred gains or losses on hedges	(4)	16
Foreign currency translation adjustment	1,607	(844)
Remeasurements of defined benefit plans	(11)	8
Total accumulated other comprehensive income	2,330	(14)
Total net assets	78,446	76,398
Total liabilities and net assets	115,756	112,718

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
 Quarterly Consolidated Statements of Income
 Second Quarter of Fiscal Year ending March 31, 2020

(Yen in millions)

	2Q FY2018 (April 1, 2018-September 30, 2018)	2Q FY2019 (April 1, 2019-September 30, 2019)
Net Sales	66,768	65,926
Cost of sales	29,342	28,497
Gross profit	37,426	37,429
Reversal of provision for sales returns	93	167
Gross profit - net	37,332	37,262
Selling, general and administrative expenses	34,459	34,623
Operating profit	2,873	2,638
Non-operating income		
Interest income	152	186
Dividend income	72	63
Equity in earnings of affiliates	85	203
Foreign exchange gains	111	—
Other	97	103
Total non-operating income	518	556
Non-operating expenses		
Interest expense	64	150
Loss on retirement of non-current assets	82	45
Foreign exchange losses	—	91
Other	24	2
Total non-operating expenses	171	288
Ordinary profit	3,219	2,906
Profit before income taxes	3,219	2,906
Corporate tax, inhabitant tax and business tax	998	789
Income taxes – adjusted	(70)	(93)
Total income taxes	928	695
Quarterly profit	2,291	2,210
Quarterly profit attributable to owners of parent	2,291	2,210

Quarterly Consolidated Statements of Comprehensive Income
 Second Quarter of Fiscal Year ending March 31, 2020

(Yen in millions)

	2Q FY2018 (April 1, 2018-September 30, 2018)	2Q FY2019 (April 1, 2019-September 30, 2019)
Quarterly Profit	2,291	2,210
Other comprehensive income		
Valuation difference on available-for-sale securities	(10)	65
Deferred gains or losses on hedges	(35)	21
Foreign currency translation adjustment	(2,732)	(2,328)
Remeasurements of defined benefit plans, net of tax	58	19
Share of other comprehensive income of entities accounted for using equity method	(99)	(122)
Total other comprehensive income	(2,820)	(2,344)
Comprehensive income	(528)	(134)
(Breakdown)		
Comprehensive income attributable to owners of parent	(528)	(134)

(3) Consolidated Statements of Cash Flow

(Yen in millions)

	2Q FY2018 (April 1, 2018-September 30, 2018)	2Q FY2019 (April 1, 2019-September 30, 2019)
Cash flows from operating activities		
Profit before income taxes	3,219	2,906
Depreciation	1,709	3,027
Amortization of goodwill	59	—
Increase (decrease) in allowance for doubtful accounts	(26)	(17)
Increase (decrease) in provision for bonuses	(93)	(53)
Increase (decrease) in provision for sales returns	93	167
Increase (decrease) in net defined benefit liability	170	167
Interest and dividend income	(224)	(249)
Interest expenses	64	150
Decrease (increase) in notes and accounts receivable-trade	1,173	1,257
Decrease (increase) in inventories	332	(110)
Increase (decrease) in notes and accounts payable-trade	(2,307)	(3,445)
Other	(635)	744
Subtotal	3,535	4,543
Interest and dividend income received	224	249
Interest expenses paid	(64)	(150)
Income taxes paid	(1,370)	(1,168)
Net cash provided by (used in) operating	2,324	3,474
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	352	716
Payments into time deposits	(996)	(773)
Purchase of property, plant and equipment	(3,174)	(898)
Purchase of intangible assets	(416)	(290)
Purchase of investment securities	(99)	(5)
Payments for investments in capital of subsidiaries and associates	(178)	—
Other	(254)	18
Net cash provided by (used in) investing activities	(4,766)	(1,234)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(293)	(134)
Proceeds from long-term loans payable	10	—
Repayment of long-term loans payable	(127)	(352)
Cash dividends paid	(1,733)	(1,960)
Purchase of treasury shares	(0)	(0)
Repayment of lease obligations	(38)	(1,257)
Other	72	46
Net cash provided by (used in) financing activities	(2,109)	(3,658)
Effect of exchange rate change on cash and cash equivalents	(898)	(994)
Net increase (decrease) in cash and cash equivalents	(5,449)	(2,412)
Cash and cash equivalents at beginning of period	27,369	27,229
Cash and cash equivalents at end of period	21,920	24,817

Notes

(Changes in Accounting Policies)

Subsidiaries applying International Financial Reporting Standards adopted International Financial Reporting Standards No. 16 "Leasing" ("IFRS 16") from the 1st quarter of this fiscal year. As a result, in principle, all leases are recognized as assets and liabilities on the balance sheet. IFRS 16 is applied on a transitional basis and the cumulative effect of the adoption of IFRS is recognized on the effective date.

As a result, "Other" of property, plant and equipment as of the end of the current second quarter increased by ¥4,756 million, "Other" of current liabilities increased by ¥1,615 million and "Other" of non-current liabilities increased by ¥2,991 million. The effect on profit and loss for the first six months under review was immaterial. In the Quarterly Consolidated Statements of Cash Flow, cash outflow from operating activities decreased by ¥1,202 million and cash outflow from financing activities increased by ¥1,202 million.

(Accounting Method Specific to the Preparation of Quarterly Consolidated Financial Statements)

	First six months under review (from April 1, 2019 to September 30, 2019)
Calculation of tax expenses	For certain consolidated subsidiaries, tax expenses are calculated by multiplying quarterly profit before income taxes by an effective tax rate that was reasonably estimated by applying tax effect accounting to estimated profit before income taxes for the consolidated fiscal year including the second quarter under review.

(Quarterly Consolidated Balance Sheets)

* Contingent liabilities

Guarantee liabilities

Debt guarantees for loans of non-consolidated companies

(Yen in millions)

	FY2018 (March 31, 2019)	Second Quarter of FY2019 (September 30, 2019)
Jamach Investments AG (Notes)1	—	—
Descente China Co. Ltd. (Notes)2	—	—

(Notes) 1 The amount of debt guarantees is the balance after deduction of provision for loss on guarantees.

2 The guarantee limit amount is ¥251 million, and there is no guarantee outstanding under the debt guarantee agreement.

(Quarterly Consolidated Statements of Income)

*1 Major items and amounts in selling, general and administrative expenses are as follows.

(Yen in millions)

	2Q FY2018 (April 1, 2018 – September 30, 2018)	2Q FY2019 (April 1, 2019 – September 30, 2019)
Advertising expenses	4,585	4,438
Packing and transportation costs	2,414	2,552
Commission expenses	11,752	11,616
Salaries, allowances and bonuses	6,023	6,045
Provision for bonuses	743	765
Retirement benefit expenses	374	331

*2 The total amount of research and development expenses included in general and administrative expenses is as follows:

(Yen in millions)

	2Q FY2018 (April 1, 2018 – September 30, 2018)	2Q FY2019 (April 1, 2019 – September 30, 2019)
Research and development expenses	–	809

(Quarterly Consolidated Statements of Cash Flow)

* Cash and cash equivalents at the end of the period are reconciled to the account reported in the quarterly consolidated balance sheets as follows:

(Yen in millions)

	2Q FY2018 (April 1, 2018 – September 30, 2018)	2Q FY2019 (April 1, 2019 – September 30, 2019)
Cash and deposits	23,115	25,740
Time deposits for more than three months	(1,195)	(922)
Cash and cash equivalents	21,920	24,817

(Shareholders' Equity)

I Second Quarter (from April 1, 2018 to September 30, 2018) of FY2018

1. Cash dividends paid

Resolution	Type of share	Cash dividends paid (Million yen)	Dividends per share (Yen)	Record date	Effective date	Source of dividends
Ordinary general meeting of shareholders June 21, 2018	Common shares	1,733	23	March 31, 2018	June 22, 2018	Retained earnings

2. Dividends whose record date was in the second quarter of FY2019 under review and whose effective date will be after the last day of the second quarter of FY2019 under review

Not applicable

II Second Quarter (from April 1, 2019 to September 30, 2019) of FY2019

1. Cash dividends paid

Resolution	Type of share	Cash dividends paid (Million yen)	Dividends per share (Yen)	Record date	Effective date	Source of dividends
Ordinary general meeting of shareholders June 20, 2019	Common shares	1,960	26	March 31, 2019	June 21, 2019	Retained earnings

2. Dividends whose record date was in the second quarter of FY2019 under review and whose effective date will be after the last day of the second quarter of FY2019 under review

Not applicable

(Segment Information, Etc.)

[Segment Information]

I Second Quarter (April 1, 2018-September 30, 2018) of FY2018

Information about Net Sales, Profit (Loss) by Reportable Segment

(Yen in millions)

	Reportable Segments				Adjustment (Note 1)	Amount Shown on Quarterly Consolidated Income Statements (Note 2)
	Japan	Asia	Europe/ Americas	Total		
Net Sales						
Sales to External Customers	28,947	36,860	960	66,768	–	66,768
Intersegment Sales or Transfers	2,934	227	59	3,221	(3,221)	–
Total	31,881	37,088	1,020	69,990	(3,221)	66,768
Segment Income (Loss)	1,020	2,362	(526)	2,855	17	2,873

(Note 1) Segment income (loss) adjustment of ¥17 million includes intersegment transaction eliminations of ¥17 million and inventory adjustment of ¥(0) million.

(Note 2) Segment income (loss) is adjusted with operating income reported in the quarterly consolidated statements of income.

II Second Quarter (April 1, 2019-September 30, 2019) of FY2019

Information about Net Sales, Profit (Loss) by Reportable Segment

(Yen in millions)

	Reportable Segments				Adjustment (Note 1)	Amount Shown on Quarterly Consolidated Income Statements (Note 2)
	Japan	Asia	Europe/ Americas	Total		
Net Sales						
Sales to External Customers	29,301	35,632	993	65,926	–	65,926
Intersegment Sales or Transfers	3,120	253	90	3,463	(3,463)	–
Total	32,421	35,885	1,083	69,390	(3,463)	65,926
Segment Income (Loss)	795	2,321	(470)	2,647	(8)	2,638

(Note 1) Segment income (loss) adjustment of ¥(8) million includes intersegment transaction eliminations of ¥24 million and inventory adjustment of ¥(33) million.

(Note 2) Segment income (loss) is adjusted with operating income reported in the quarterly consolidated statements of income.

(Per Share Information)

Net income per share and the basis for its calculation are as follows.

Item	2Q FY2018 (April 1, 2018 – September 30, 2018)	2Q FY2019 (April 1, 2019 – September 30, 2019)
Net income per share (Yen)	30.40	29.31
(Basis for calculation)		
Profit attributable to owners of parent (Million yen)	2,291	2,210
Profit not attributable to common shareholders (Million yen)	–	–
Profit attributable to owners of parent relating to common shares (Million yen)	2,291	2,210
Average number of common shares during the period (Thousand shares)	75,388	75,415

(Note) Diluted net income per share is not disclosed because there are no potentially dilutive shares outstanding.

(Significant Subsequent Events)

Not applicable.

2. [Other]

Not applicable.