Media Do

More Content for More People!

MEDIA DO Report 2020

MEDIA DO Co., Ltd.

MEDIA DO's Mission

"Unleashing a Virtuous Cycle of Literary Creation"

MEDIA DO bases its business on the concept of digital distribution of written works in order to fulfill its mission of unleashing a virtuous cycle of literary creation and achieve its vision of "More Content for More People!"

Gross Transaction Value

No.1 in Japan

More than

¥100.0 billion

WHOLESALE

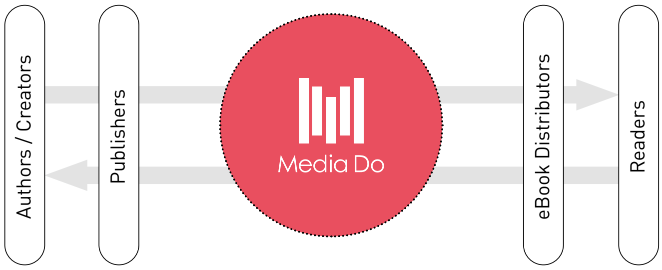
Invigoration of the industry

Using our crucial role as a wholesaler, we offer a variety of support services and proposals for eBook distribution. Our primary mission is to invigorate the publishing industry by unleashing a virtuous cycle of literary creation. This cycle means that MEDIA DO functions as a reliable partner to all creators, publishers, and eBook distributors and appropriately returns profits to these parties.

eBook wholesale:

A core element of digital content distribution

The MEDIA DO Group's core business is eBook wholesale, an area in which we develop and deliver solutions to meet the digital distribution needs of stakeholders around the world. We see part of our mission as being to use our cutting-edge technologies and expertise to develop healthy digital distribution networks that protect the rights and interests of creators and publishers and allow for the appropriate return of profits.



ENGINEERS

Development and supply of systems for innovating markets

The development and utilization of reliable systems with high availability is imperative for protecting and distributing the written works with which we have been entrusted and appropriately returning profits to all involved parties. Accordingly, MEDIA DO's ultimate goal is to shape the future through its development projects. This process includes continually updating our technologies and development systems to bring innovation to markets.

MEDIA DO's Mission

Contributions to Publishing Industry Growth through Intellectual Creation Support

MEDIA DO is contributing to the development of the publishing industry through support of new forms of intellectual creation, protecting the rights of creators and publishers while delivering the content they create to distributors and readers, and returning the profits generated through this process to the appropriate parties.

Publisher Accounts

More than **2,200**

eBook Distributor Partners

More than **150**

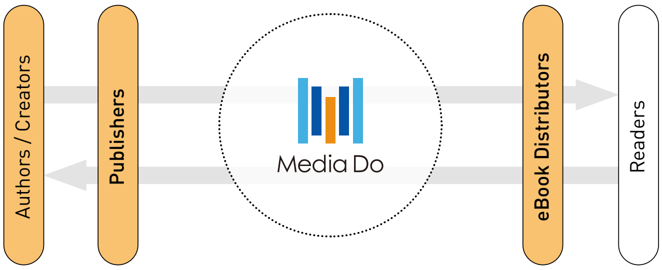
AUTHORS AND CREATORS

Systems enabling creators and writers to focus on producing works together with publishers

A strength of the eBook format is that it allows works to be delivered to readers from anywhere, by anyone, and at any time. Moreover, a unique strength of digital media is increased opportunities for feedback to be received directly from readers, a situation that has brought great joy to creators, authors, and editors alike. We hope that frameworks facilitating eBook distribution will encourage creators and writers and inspire them to produce their next work.

Our contribution:

Ongoing supply of safe and reliable eBook distribution networks



eBooks, which can be purchased anywhere and at any time, are driving the strong growth of their own market while contributing to higher sales of paper books by virtue of the catalog effect.* The MEDIA DO Group is using its human resources, IT, and strategies to contribute to the growth and advancement of the overall publishing market as a next-generation Publishing Platformer.

* Effect in which readership of digital content contributes to sales of both paper and digital content

PUBLISHERS

The best partner for eBook distribution businesses

eBook publication needs are rising on a daily basis. In conjunction with this trend, MEDIA DO's core systems have become an indispensable tool, because they facilitate the integrated management of data on both the works we handle and their sales. With this tool, we aspire to always serve as the best partner to publishers by offering support for complex business processes ranging from the development of sales strategies that incorporate customer needs to the digitization of written works.

eBOOK DISTRIBUTORS

One-stop provision of all services necessary for eBook distribution

The distribution of eBooks requires a wide range of functions, such as payment and advertisement systems, in addition to the eBooks themselves. Even as a wholesaler, MEDIA DO can provide all of the necessary services for eBook distribution on a one-stop basis. The ability to deliver diverse expertise and various planning services pertaining to customer attraction and sales for developing appealing distribution venues also contributes important solutions functions.

MEDIA DO's Mission

More Content for More People!

Guided by its vision of "More Content for More People!" MEDIA DO is contributing to the development of culture and the enrichment of society.

Content Library

More than 2 million eBooks

READERS

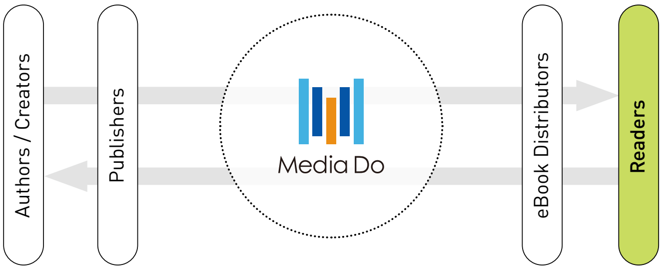
More promising links between people and content

MEDIA DO uses its technologies to deliver content to readers. However, our role goes beyond mere participation in the distribution flow; our goal is to help bring about a brighter future by creating new content distribution.

Our contribution:

Support of social development through fair use and distribution of written works

Written works, condensed forms of human wisdom, are something with which everyone is familiar and has learned from since a young age. Internet technologies, meanwhile, are an integral part of the social infrastructure in today's society. These technologies underpin how we communicate with others and shape our opportunities for interaction with written works. The MEDIA DO Group boasts unique strengths in the forms of its position and technologies. By capitalizing on these strengths, we aim to function as a medium that makes ongoing contributions to the evolution and development of society.



MEDIA DO's Mission

Media Do

Origin of the Company Name

All value created in society is the product of the union of forms of value that would not have come together otherwise.

MEDIA DO's name encapsulates the Company's desire to become a medium that unites forms of value that would not have come together otherwise and thereby make ongoing contributions to the evolution and development of society.

MEDIA DO aims to be an ever-present organization that continues to contribute to society while adapting to contemporary trends and changes.

Corporate Creed

Growth and Potential

All people have limitless potential and can grow with time.
The passage of time is equal for everything.
This passage makes us aware of our own growth and
equally aware of the great potential of others.

At MEDIA DO, we vow to respect our colleagues, value them,
and find joy in their growth and potential.
We believe that this spirit of comradery will strengthen
our organization and help us to
accomplish the impossible.

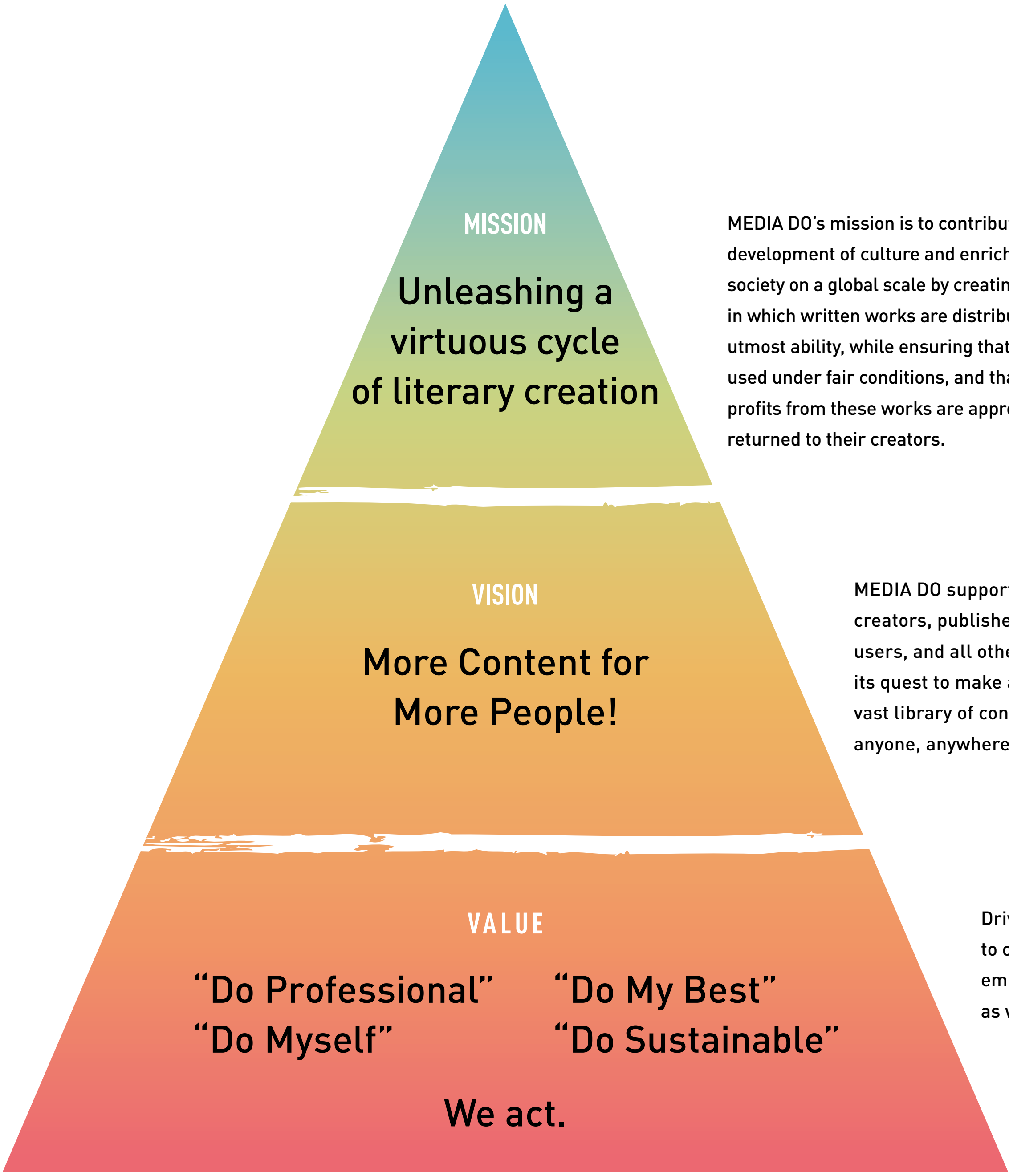
MEDIA DO will continue to grow so long as its people grow.
By growing and adapting in any era,
we will contribute to society.

Corporate Philosophy

MEDIA DO's Foundation

Without creative written works, our culture and society would stagnate.

With roots in the mobile phone and music distribution businesses, MEDIA DO is supporting the publishing industry with businesses centered on eBook distribution. In this position, we treat humanity's vast library of content (written works) with the utmost respect.



MEDIA DO's mission is to contribute to the development of culture and enrichment of society on a global scale by creating a system in which written works are distributed to our utmost ability, while ensuring that they are used under fair conditions, and that the profits from these works are appropriately returned to their creators.

MEDIA DO supports content creators, publishers, distributors, users, and all other stakeholders in its quest to make all of humanity's vast library of content available to anyone, anywhere in the world.

Driven by commitment to our mission, we will embrace our four values as we pursue our vision.

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What We DO

Why We DO It

How We DO It

Fact Data

Editorial Policy

MEDIA DO Report 2020 has been prepared as an integrated report to function as a tool for comprehensive communication with stakeholders. This report describes the strategic directives based on which all employees, united by a strong sense of conviction, will pursue the realization of our vision.

Through this, our first integrated report, we hope to provide a view of MEDIA DO in its entirety through a look at its past, present, and future.

Unless other noted, "the Company," when used in this report, refers to the former MEDIA DO HOLDINGS Co., Ltd., and to MEDIA DO Co., Ltd., its current form, and "the Group" refers to the conglomerate comprised of the Company and its consolidated subsidiaries and associates as well as jointly controlled companies.

Reporting Period

Fiscal year ended February 29, 2020 (fiscal 2019)

This report includes information on some activities taking place before or after this period.

Letter to Our Stakeholders

To All of Our Stakeholders

Behold Our Story of the Future

The MEDIA DO Group is in the business of distributing books—something with which everyone is familiar and has learned from since childhood—via the Internet. The advance of IT has caused the Internet to permeate our society as a piece of social infrastructure. As a result, our opportunities for communicating with people and engaging with written works have come to be supported by Internet technologies. Books and other written works are condensed forms of people's knowledge. In the past, it was only possible to distribute these works via physical media such as paper. Today, however, we can access such works at any time of day, merely by logging on to the Internet. Ensuring that this digital distribution flow can be maintained into the future will, of course, require the development of sustainable business models. However, there are also a number of other tasks we must address in this pursuit. For example, we must gain the understanding of content creators, promote readership, establish rules, and develop and implement the technologies necessary to support these undertakings. As content distribution professionals, we at the MEDIA DO Group have addressed these tasks for years. In Japan, we are currently acting as an intermediary between all of the more than 2,200 publishers conducting eBook distribution as well as nearly all of the more than 150 eBook distributors. In this position, we act as a content platform provider, providing all of the services and infrastructure necessary for the distribution of eBook content.

Guided by our vision of "More Content for More People!" we envision a society in which we have constant access to a wide variety of life-enriching content. We are thus working to contribute to the realization of such a society by delivering, to the greatest extent possible, books and other digitized written works (digital content) to as many people as we can. All members of the MEDIA DO Group are united in their commitment to working to help move us toward this lofty goal through their daily business.

MEDIA DO has always been dedicated to enhancing information disclosure. However, we seek to go further to provide a more complete picture of the Company and its position and in the industry while responding to the social demand for purer forms of disclosure. This desire prompted us to prepare this integrated report. Going forward, we hope to further enhance our communication of the thoughts and commitments that MEDIA DO Group members have toward their work through venues such as this. In this way, we aim to engage in a more substantial dialogue with shareholders, investors, and other stakeholders.

Yasushi Fujita

Yasushi Fujita
President and CEO

Path of the MEDIA DO Group's Ambitions and Evolution

OUR HISTORY

1994—

- June 1994 Founded by now Representative Director, President and CEO Yasushi Fujita while he was still in college
- Apr. 1996 Fuji Techno Limited Company established in Nakamura-ku, Nagoya City, Aichi Prefecture
- Apr. 1999 MEDIA DO Co., Ltd., established in Meieki, Nakamura-ku, Nagoya
- Oct. 2000 Developed the Pake-wari! system for reducing packet communication traffic volume
- Nov. 2001 Merged with Fuji Techno Co., Ltd., and moved the head office to Meiekiminami, Nakamura-ku, Nagoya City, Aichi Prefecture
- Nov. 2003 Established the Tokyo Office in Nishi-Shinjuku, Shinjuku-ku, Tokyo
- July 2004 Launched online ringtone distribution service

2006—

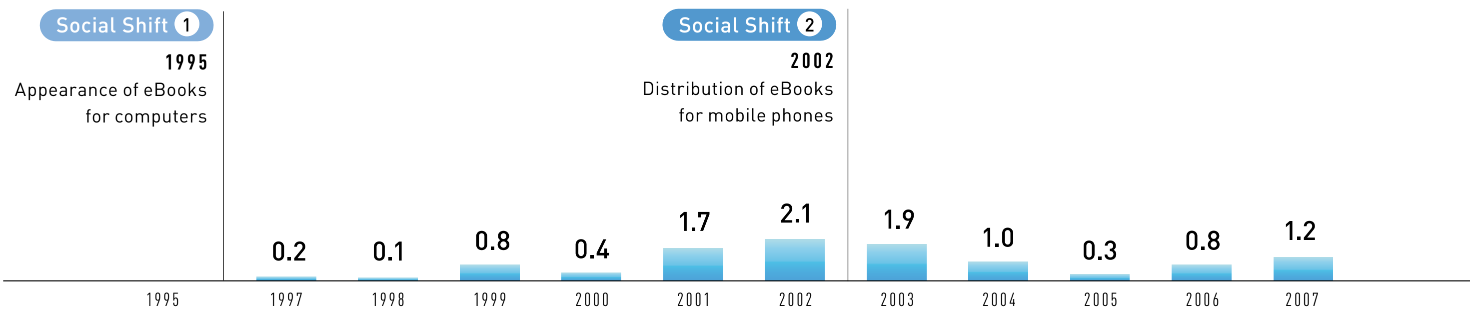
- Oct. 2006 Developed the md-dc content distribution system
- Nov. 2006 Launched the eBook distribution service
- Feb. 2007 Launched the Contents Agency System (CAS) content distribution platform
- Oct. 2007 Established the Tokushima Kito Office in Naka-Machi, Naka-gun, Tokushima Prefecture
- Sep. 2010 Commenced provision of the IMenu Books DOCOMO eBook portal
- Feb. 2012 Launched Japan's first DRM-free MP3 music distribution service for smartphones
- May 2012 Launched the CAS eBook distribution store solution for smartphones

2013—

- Apr. 2013 Began supply of content for the LINE MANGA service of LINE Corporation
- Nov. 2013 Listed on the Mothers section of the Tokyo Stock Exchange (securities code: 3678)
- May 2014 Commenced a strategic business partnership with OverDrive, Inc., of the United States
- Aug. 2014 Relocated the head office to Hatsudai, Shibuya-ku, Tokyo
- Oct. 2014 Established LINE Book Distribution Corporation as a joint venture together with LINE Corporation, KODANSHA LTD., and Shogakukan Inc. to promote the global provision of the LINE MANGA service
- Feb. 2016 Stock transferred to the First Section of the TSE
- Apr. 2016 Received a patent for the MD Viewer viewer app in Japan and applied for an overseas patent
- June 2016 Founded MEDIA DO INTERNATIONAL, INC., in San Diego, California in the United States
- July 2016 Relocated the head office to Takebashi, Chiyoda-ku, Tokyo
- Nov. 2016 Acquired shares in Flier Inc., a supplier of book summarization services, and converted this company into a subsidiary

Net Sales (Billions of yen)

For the years ended February 28/29



OUR ESSENCE

Development of new content distribution methods in response to changes in social needs

1994—
Origin as a tech company, start of the content distribution business

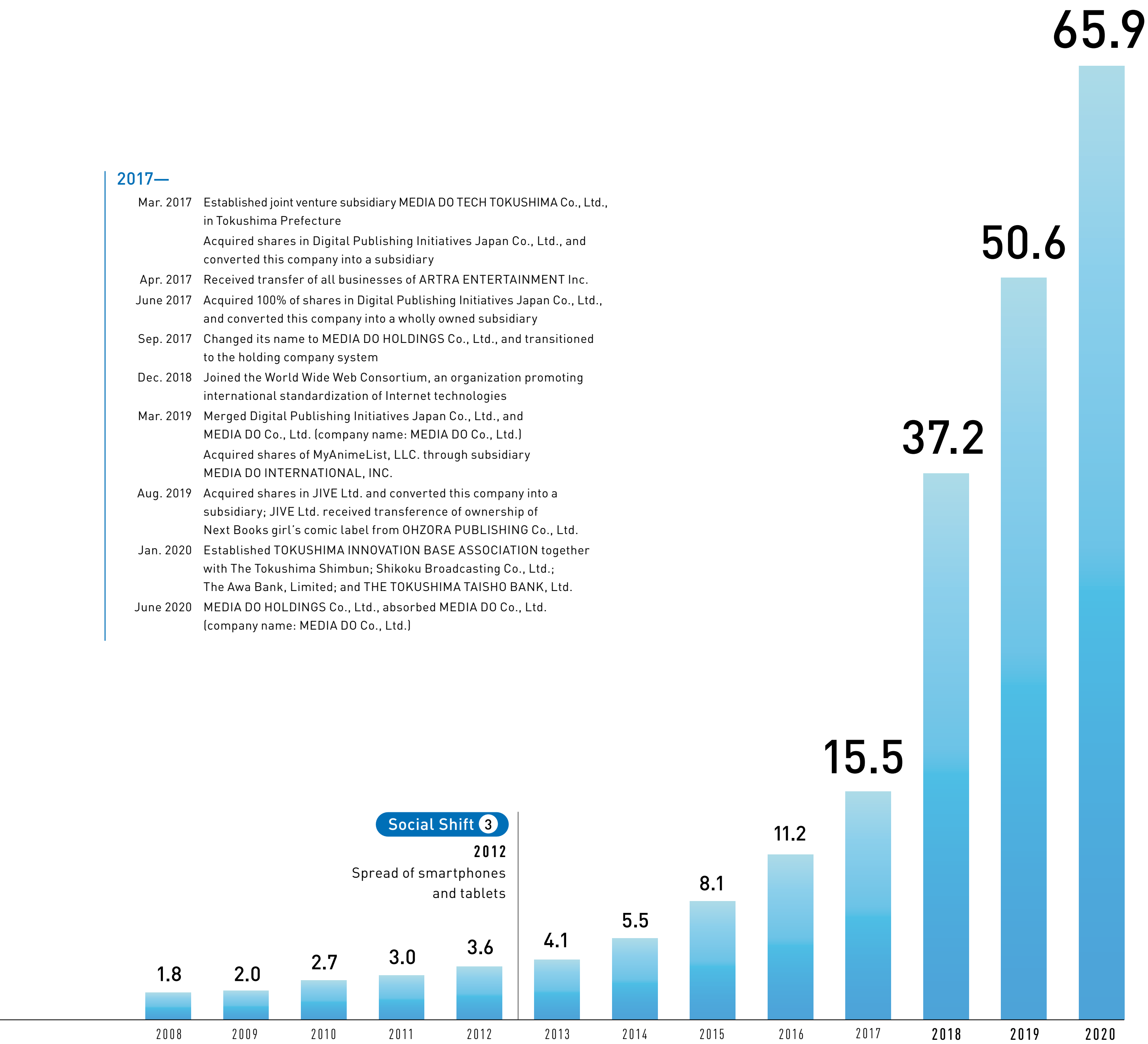
Now Representative Director, President and CEO Yasushi Fujita founded MEDIA DO's predecessor in June 1994 while he was still in college, entering the mobile phone business at this time. MEDIA DO Co., Ltd., was established in April 1999. It was this company that launched the Pake-wari! system for reducing packet communication traffic volume in October 2000, before starting a content distribution business by releasing a ringtone distribution service in July 2004. This service enjoyed popularity centered on specific genres.

2006—
Shift from music to eBooks and entry into the eBook wholesale business

Using the IT and content business insight gained through the provision of Pake-wari! and its ringtone distribution service, the Company developed the md-dc content distribution service in October 2006 for the eBook distribution market, which enjoyed great potential for share growth, and launched its eBook distribution service in November of the same year.

2017—

Mar. 2017	Established joint venture subsidiary MEDIA DO TECH TOKUSHIMA Co., Ltd., in Tokushima Prefecture
	Acquired shares in Digital Publishing Initiatives Japan Co., Ltd., and converted this company into a subsidiary
Apr. 2017	Received transfer of all businesses of ARTRA ENTERTAINMENT Inc.
June 2017	Acquired 100% of shares in Digital Publishing Initiatives Japan Co., Ltd., and converted this company into a wholly owned subsidiary
Sep. 2017	Changed its name to MEDIA DO HOLDINGS Co., Ltd., and transitioned to the holding company system
Dec. 2018	Joined the World Wide Web Consortium, an organization promoting international standardization of Internet technologies
Mar. 2019	Merged Digital Publishing Initiatives Japan Co., Ltd., and MEDIA DO Co., Ltd. (company name: MEDIA DO Co., Ltd.)
	Acquired shares of MyAnimeList, LLC. through subsidiary MEDIA DO INTERNATIONAL, INC.
Aug. 2019	Acquired shares in JIVE Ltd. and converted this company into a subsidiary; JIVE Ltd. received transference of ownership of Next Books girl's comic label from OHZORA PUBLISHING Co., Ltd.
Jan. 2020	Established TOKUSHIMA INNOVATION BASE ASSOCIATION together with The Tokushima Shimbun; Shikoku Broadcasting Co., Ltd.; The Awa Bank, Limited; and THE TOKUSHIMA TAISHO BANK, Ltd.
June 2020	MEDIA DO HOLDINGS Co., Ltd., absorbed MEDIA DO Co., Ltd. (company name: MEDIA DO Co., Ltd.)



2013—

Business growth in conjunction with smartphone-driven market growth, listing of stock on the Mothers section and then the First Section of the TSE

The popularization of smartphones drove the rapid growth of the eBook distribution market. MEDIA DO took advantage of this rapid market growth through means such as commencing the supply of content for the LINE MANGA service in April 2013, boosting its sales as a result. The Company was thus able to list its stock on the Mothers section in November 2013 and then transfer its stock to the First Section of the TSE in February 2016.

2017—

Conversion of Digital Publishing Initiatives Japan into a subsidiary, acquisition of the No. 1 position in the domestic eBook wholesale market, and pursuit of further growth

MEDIA DO acquired Digital Publishing Initiatives Japan as a subsidiary in March 2017 and then proceeded to convert it into a wholly owned subsidiary in June of that year. This move earned the MEDIA DO Group the No. 1 position in the domestic eBook wholesale market. Over the next several years, we undertook the integration of the companies' prior systems into a new system, the consolidation and restructuring of their organizations, and the merging of their corporate culture. This process of post-merger integration* was completed with the merger of MEDIA DO HOLDINGS and MEDIA DO in June 2020.

* Process integration and management procedures aimed at realizing the intended synergies from business combinations

The MEDIA DO Group at a Glance

The MEDIA DO Group aspires to popularize written works through distribution in the form of eBooks and other digital content, to make the largest possible contribution to the growth of the entire publishing industry. For this reason, we are developing businesses that support the creation and sale of such works while providing information and services to promote increased readership of these works.

Strengths Cultivated since MEDIA DO's Foundation

Position

- Core distribution functions
- Global presence
- Dominating share
- Industry support

×

Technology

- Exceptional development capabilities
- One-stop service for system and data management and other services

Gross transaction value

More than ¥100.0 billion

Total managed campaigns (annual)

More than 10,000

Engineer team

100 members

Domestic eBook distribution market share*

The 34% share of the domestic eBook distribution market was claimed by leveraging a position as an intermediary between more than 2,200 publishers and more than 150 major eBook distributors.

34%

* Source: Calculation by the Company based on *eBook Marketing Report 2019*, Impress Research Institute

Ability to conduct transactions

We conduct transactions with almost all Japanese publishers offering eBooks.

99% of Japanese publishers offering eBooks

The only Asian company

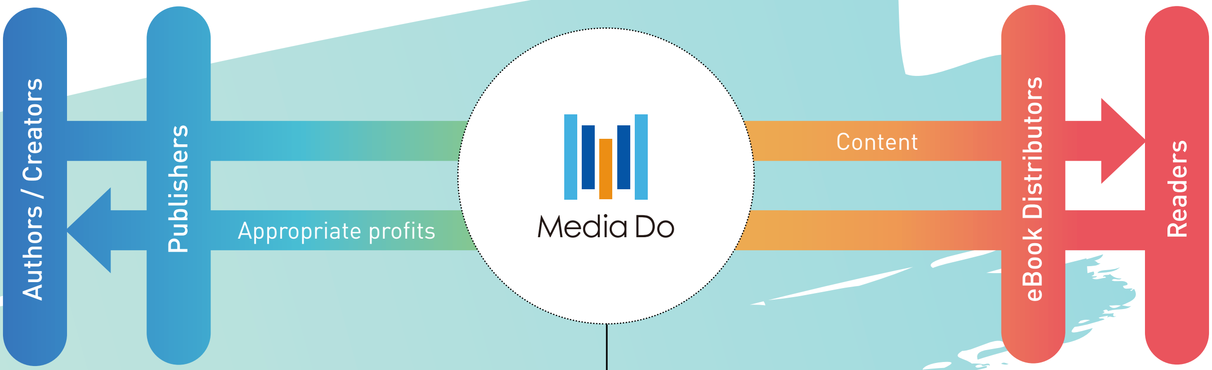
We are the only Asian company to dispatch an employee to serve as co-chair of the Publishing Business Group of the World Wide Web Consortium, an organization promoting the international standardization of Internet technologies.

In-house development of all core systems

These range from eBook distribution platforms to new platforms using blockchain technologies.

The Role Played by the MEDIA DO Group with Its Strengths

The MEDIA DO Group's core eBook distribution business has a rare position in the publishing industry as a wholesaler. By capitalizing on this position and on the expertise and cutting-edge technologies amassed thus far, we can provide comprehensive distribution support.



eBook Distribution Business

Contribution to a virtuous cycle of literary creation through support for content creators, publishers, distributors, users, and all other stakeholders

Functions provided through eBooks wholesale

- Sales distribution
- Contract intermediation
- System supply
- Campaign management

❶ Process coordination between publishers and eBook distributors

- Individual contract intermediation between publishers and eBook distributors
- Contract digital data verification services for individual eBook distributors

❷ Integrated management of sales, eBook uploads, and other data

- Coordination of data received from publishers with eBook distributors
- Integrated management of aggregated sales reports (increased accounting efficiency)
- Tracking and provision of information on trends in book sales by eBook distributors (provision of publisher dashboard programs)

❸ Formation of relationships with eBook distributors and sales promotion campaigns

- Provision of information on best-selling works to eBook distributors
- Proposal of sales promotion campaigns (price reductions, discounts, etc.) to maximize sales opportunities to eBook distributors (campaign management)

Other Businesses

Leveraging of MEDIA DO's strengths to help maximize the potential of the publishing market

MD-i Media Do International · flier Inc. · MyAnimeList · ARTRA ENTERTAINMENT · and others

Performance Highlights

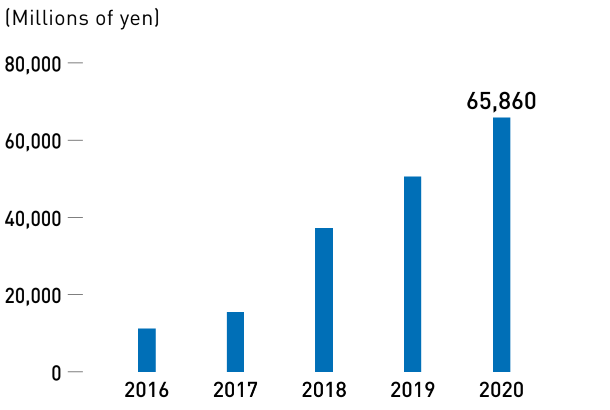
For the years ended / As of February 28/29

(Millions of yen)

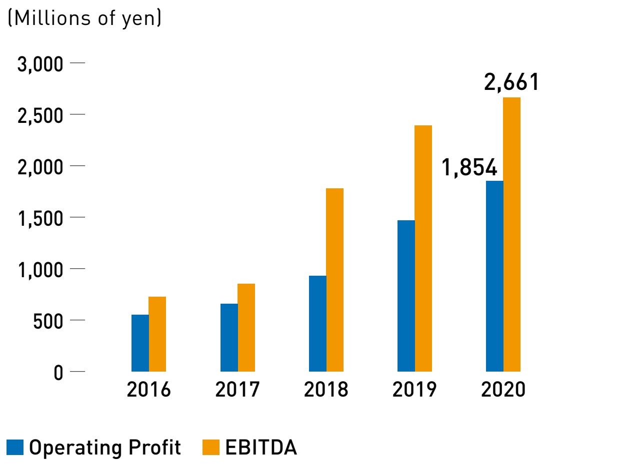
	2016 (Non-consolidated)	2017 (Non-consolidated)	2018 (Consolidated)	2019 (Consolidated)	2020 (Consolidated)	Year-on-year change
Financial Performance:						
Net sales	¥11,243	¥15,533	¥37,213	¥50,568	¥65,860	+15,292
eBook distribution business*1	—	—	—	50,162	64,529	+14,367
Other businesses*1	—	—	—	403	1,329	+926
Cost of sales; selling, general and administrative expenses	10,689	14,874	36,280	49,098	64,004	+14,906
Royalties	8,338	12,240	31,182	43,223	56,869	+13,646
Commissions	415	325	203	197	206	+9
Advertising expenses	572	546	407	522	627	+105
Personnel expenses	724	850	1,817	2,729	3,460	+731
Depreciation and amortization	171	196	846	918	806	–112
Other	459	708	1,817	1,502	2,027	+525
Operating profit	552	656	930	1,468	1,854	+386
Profit (loss) attributable to owners of parent	335	415	358	(1,243)	885	+2,128
EBITDA*2	724	855	1,777	2,392	2,661	+269
Financial Position (as of February 28/29 of each fiscal year):						
Total assets*3	¥ 5,486	¥ 8,683	¥26,700	¥ 30,943	¥34,063	+3,120
Total liabilities	3,247	5,916	22,481	26,481	28,225	+1,744
Total net assets	2,238	2,767	4,218	4,462	5,838	+1,376
Total equity	2,234	2,716	4,096	4,369	5,791	+1,422
Interest-bearing debt (short-term and long-term)	—	1,460	11,387	10,063	8,241	–1,822
Cash flows:						
Net cash provided by (used in) operating activities	¥ 1,031	¥ 950	¥ 1,470	¥ 2,458	¥ 1,929	–529
Net cash provided by (used in) investing activities	(793)	(2,083)	(7,961)	(482)	(77)	+405
Net cash provided by (used in) financing activities	47	1,465	9,944	(364)	(1,507)	–1,143
Free cash flow	238	(1,133)	(6,491)	1,977	1,851	–126
Cash and cash equivalents at end of year	2,325	2,057	5,686	7,747	8,090	+343
Per Share Information (Yen):						
Net income (loss)	¥ 34.06	¥ 41.65	¥ 32.56	¥(106.02)	¥ 64.58	+170.60
Dividends	7.20	8.80	10.50	10.50	13.00	+2.50
Dividend payout ratio (%)	21.1	21.1	33.3	—	20.1	—
Net assets	224.78	270.33	359.67	353.96	408.61	+54.65
Major Indicators:						
Return on assets (ROA) (%)	11.5	9.3	3.1	5.2	5.4	+0.2
Return on equity (ROE) (%)	16.4	16.8	8.7	(29.4)	17.4	—
Equity ratio*3 (%)	40.7	31.3	15.3	14.1	17.0	+2.9
Financial leverage (times)	2.45	3.14	6.33	6.94	5.83	–1.11
D/E ratio (times)	—	0.54	2.78	2.30	1.42	–0.88
Number of employees (consolidated)	100	130	279	362	350	–12

*1. The Company's business segments were reorganized in the fiscal year ended February 28, 2019. Accordingly, segment figures are not displayed for prior fiscal years.
*2. EBITDA = Operating profit + (Depreciation and amortization + Amortization of goodwill)
*3. "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) was adopted effective March 1, 2019. Figures for the fiscal year ended February 28, 2019 have been restated to reflect this change.

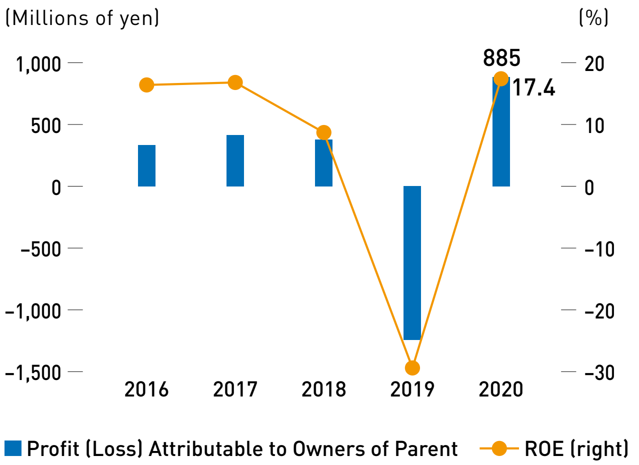
Net Sales



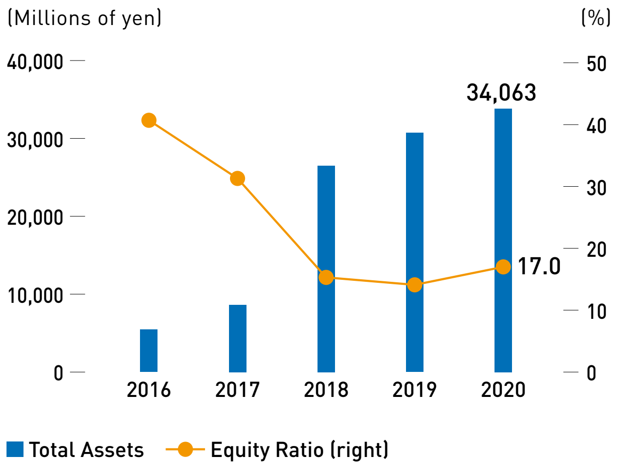
Operating Profit / EBITDA



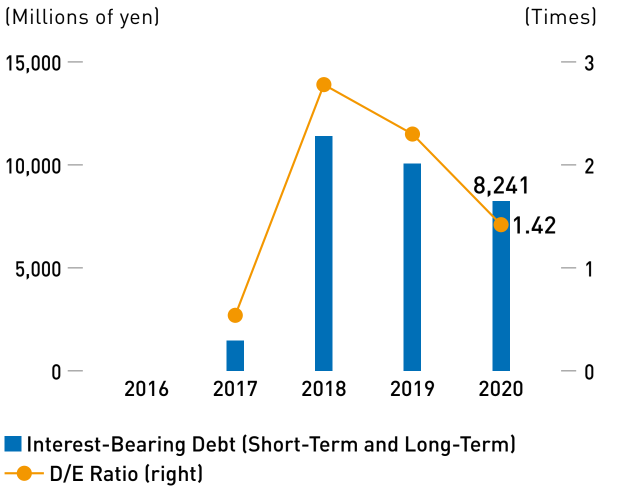
Profit (Loss) Attributable to Owners of Parent / ROE



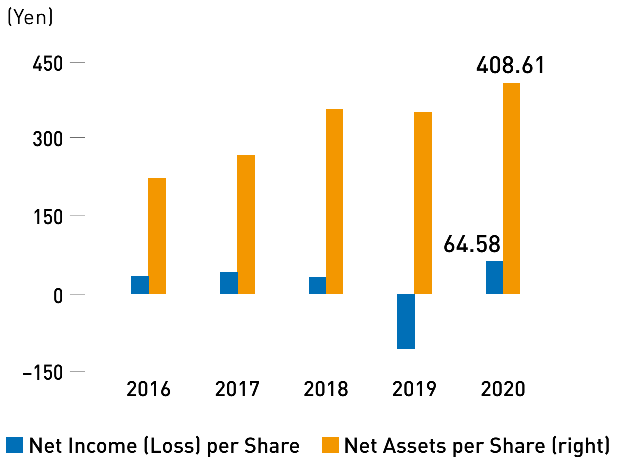
Total Assets / Equity Ratio



Interest-Bearing Debt (Short-Term and Long-Term) / D/E Ratio



Net Income (Loss) per Share / Net Assets per Share



Message from the CEO

> “Having completed the post-merger integration with Digital Publishing Initiatives Japan, the MEDIA DO Group has solidified its position and is poised to pursue new growth. Moreover, we are committed to driving the further development of the publishing industry by leveraging the unique strengths of our position and technologies.”

Values of Management

Our management is founded on the principle of pursuing original value that our competitors cannot replicate.

My first foray as an entrepreneur took place 27 years ago. I was still at university at the time and only 20 years old. Looking ahead to the massive life change that joining the workforce represents, I realized that my path differed from others. This realization prompted me to take my first step on the path of entrepreneurship. I had no experience at the time and knew nothing about management. What I did have, however, was the ability to make decisions founded on a firm resolve and a commitment to creating value that others could not replicate. These values, which provide a firm base for making management decisions, live on in the management of MEDIA DO today.

When launching a music business in 2004 and entering into the eBook distribution business in 2006, we also started from zero, with no industry support or experience. In these new undertakings, it was our management values that guided the blazing of new trails. Dedication to these values was also shown in our entry into the eBook distribution business. At the time, we devoted significant energy to formulating the strategies that would allow us to establish a unique position, as well as the business model that would enable us to capture the greatest market share. In the volatile world of business, if a company is unable to secure market share and continue to transform the market, it will eventually fall by the wayside as technological progress advances.

Pondering this challenge, we arrived at a business scheme that brought us to the MEDIA DO of today, a company aiming to develop a unique intermediary platform in the eBook distribution chain through a software as a service (SaaS) business model that is unprecedented in the publishing industry and employs cutting-edge technologies. I am confident that it was this process that led MEDIA DO to carve out a position that sets it apart from any other company in the industry. From the outside, it is easy to see a company's performance figures but not the framework employed to achieve those figures, and companies with similar figures may have radically different frameworks. A core element of management is thus the ability to craft those frameworks and to formulate and implement the strategies that shape a business which cannot be replicated by others.

Climate of the eBook Distribution Market and MEDIA DO's Direction

Market growth that exceeds expectations requires expectation-defying aspirations.

Today, the eBook distribution market is growing at a rate that exceeds even our expectations. This growth is a product of the combined effects of the spread of smartphones and other electronic devices, the resulting changes in user lifestyles, and the increase in content and campaigns offered by eBook distributors and publishers. As a result, eBooks have come to account for more than 60% of the domestic comic market, and this market growth trend is expected to continue in the years ahead. Conversely, eBooks only represent about 5% of the market for non-graphic books, such as novels and self-help books. Given that non-graphic eBooks account for between 30% and 40% of the publishing markets in the United States and China, it can be anticipated that the Japanese eBook market will continue to grow. Furthermore, the transition from paper media is gaining steam as the global COVID-19 pandemic prompts creators and publishers to reassess their paper-centric approach.

However, we are not focused solely on the growth potential of existing eBook distribution frameworks. Rather, we feel that there are still numerous possibilities to speed the evolution of the eBook market through technologies and leadership. The digitization trend has transformed the way in which people in the digital content distribution chain interact with such content. Some, meanwhile, claim that the only change is the platforms used, and that no fundamental shift has been achieved. Nevertheless, MEDIA DO aims to be a company that facilitates the growth of the eBook distribution market. We will accomplish this goal by going beyond what others can imagine, accomplishing through completely new approaches and businesses the things that were previously deemed impossible. In this process, it will also be important to team up with other members of the publishing industry to

Message from the CEO

work toward mutual growth. Through our efforts, we hope to grow the eBook distribution market as well as the overall publishing market, while bringing joy to all stakeholders that are touched by the content we handle. This is the vision of a Publishing Platformer described in our medium-term management plan.

Review of the Fiscal Year Ended February 29, 2020
Both our businesses and our organizations are prepared to move to a new stage.

In the fiscal year ended February 29, 2020 (fiscal 2019), we posted consolidated net sales of ¥65,860 million, accomplishing the target of the medium-term management plan formulated in July 2018 a year ahead of schedule, thanks to the impressive growth of our core eBook distribution business. Factors contributing to this feat included the growth of the eBook market and the recovery of sales at our business partners following the closure in April 2018 of a major piracy website that had been impeding their operations. Together with net sales, we achieved substantial growth in operating profit and earnings before interest, taxes, depreciation, and amortization (EBITDA), which reached ¥1,854 million and ¥2,661 million, respectively.

Steady results were also achieved with regard to progress in the priorities defined at the outset of the fiscal year. For example, we completed the long and involved process of developing and transitioning to a core cloud system for eBook distribution for our business in this area. This transition bolstered operational efficiency while heightening the performance and augmentability of our system and improving it in terms of redundancy. We also undertook a new development project aimed at the creation of a revolutionary distribution platform that utilizes blockchain technologies. Preparations advanced steadily, with the goal of launching new services offered through this platform in the third quarter of the fiscal year ending February 28, 2021. In other businesses, we saw massive increases in both private and corporate user numbers for the business book summary service offered by Flier Inc., while steady progress was made in the post-merger integration of MyAnimeList, LLC., which operates a globally top-tier Japanese anime and manga community website, following its acquisition in 2019. In addition, we launched an imprint business that handles the provision of the Group's unique eBook publishing functions. Through ventures such as these, we laid the groundwork for new earnings pillars.

Perhaps one of our most significant successes in the fiscal year ended February 29, 2020 was the completion of the integration of our organizations with those of Digital Publishing Initiatives Japan Co., Ltd., a process that had been proceeding since this company was converted to a subsidiary in March 2017. The result was the birth of a new MEDIA DO Co., Ltd., in June 2020, uniting the organizational structures of the Group. This integration solidified our position to tackle new challenges in the years ahead.

Based on these accomplishments, we undertook a review of and reexamined the medium-term management plan in terms of its progression. In addition, we decided to conduct additional investments to accelerate growth in September 2019, recognizing that the current market climate and our strong performance represented a prime opportunity to expand our business. Through these investments, we expect to be able to achieve more robust growth from a medium- to long-term perspective, looking five to 10 years ahead, while accelerating initiatives to invigorate the publishing industry as a whole. In this way, we aim to live up to the expectations shareholders and of investors and of all stakeholders related to digital content.

Priority Measures for the Fiscal Year Ending February 28, 2021
MEDIA DO will accelerate its transformation into a Publishing Platformer.

Founded on the accomplishments of the fiscal year ended February 29, 2020, and the momentum gained through this preparatory period, the fiscal year ending February 28, 2021 has been positioned as the first year of our full-fledged pursuit of the creation of new value. Even as we embark on this new journey, however, there will be no significant changes to the direction pursued by the MEDIA DO Group. The medium-term management plan defines three policies for capitalizing on the Group's position—its greatest strength—and its technologies. These policies are "stimulate the growth of eBook markets," which entails supporting the growth of the eBook market through existing frameworks; "invent future eBook markets," which will involve utilizing cutting-edge technologies to develop the market; and "aggressively invest in business expansion." By acting in accordance with these three policies, we will accelerate our transformation into a Publishing Platformer.

To stimulate the growth of eBook markets, we will develop additional features for our new wholesaling system, which is currently in full-fledged operation. By incorporating information on user needs pertaining to the operation of this system garnered from publishers and eBook distributors, we will work to improve user convenience and reduce the user burden to secure an even larger share of the eBook distribution market. As for our prior system, which is being operated alongside the new one, we plan to discontinue use of this system in February 2021. This will be done after we confirm that the new system has been implemented effectively. The discontinuation of the prior system is expected to cut costs by ¥350 million. At the same time, we plan to invest aggressively in Comic navi, our directly operated eBook distributor, with the goal of having it generate substantial levels of profit three years from now. This decision was made to respond to the massive growth of the eBook market and our goal of developing systems that reflect the needs of our clientele.

Our efforts to invent future eBook markets will revolve around the construction of new digital content distribution and asset models. Specifically, the MEDIA DO Group is advocating a digital content asset model. The true value of this model comes from its ability to use blockchain technologies to give digital content a concept of finiteness that conventional digital content does not have. Grounded in this newfound concept of finiteness, the wealth of digital content available on the Internet will come to have value as an asset in the same way as automobiles and land.

Currently there are two predominant business models regarding the supply of digital content via the Internet. The first is the content sale model, which involves collecting fees from the provision of specific content or advertisement revenue based on the extent to which this content is accessed. The second is the subscription model, which offers users unlimited access to a provider's content library for a set fee. Both models allow for the provision of services that have significant value for users. However, as the global COVID-19 pandemic limits our ability to engage with the physical world, authors, artists, and other content creators are finding it increasingly difficult to sustain and revitalize conventional monetization and business models. In light of this environment and the currently opaque outlook, the MEDIA DO Group advocates a third digital content model: the digital content asset model. Transforming into actual assets the digital content that, to users, had previously been nothing more than something to be consumed, this model provides a new, third option for digital content businesses to artists and other creators.

Our plans to aggressively invest in business expansion entail investments in the ongoing invigoration of the publishing industry as a whole, centered on the business of Flier and MyAnimeList as well as our imprint business. Flier performed quite well in the fiscal year ended February 29, 2020. We will ramp up advertising activities with the goal of raising user numbers to one million in the fiscal year ending February 28, 2023. At the same time, we will pursue coordination between MyAnimeList and our existing businesses through means such as deploying asset models. Imprint business initiatives, meanwhile, will be aimed at supporting digital transformations at the small to medium-sized publishers that represent 70% of the publishing market in terms of sales. To offer this support, we will develop operational systems, enhance our lineup of imprint labels, and work to accommodate the expression of intellectual property in video, voice, and other media. Through these efforts, we will work to invigorate and fundamentally strengthen the publishing market as a whole.

Reinforcement of the Management Foundation

The MEDIA DO Group has been preparing steadily for its transformation into a Publishing Platformer.

At the MEDIA DO Group, we have been continually reinforcing the organizational capabilities that provide the foundation for our efforts to create value. For example, we undertook a phased integration with Digital Publishing Initiatives Japan

> "The fiscal year ending February 28, 2021, has been positioned as the first year of our full-fledged pursuit of the creation of new value."

Message from the CEO

based on our plan of completing the post-merger integration with this company over a three-year period beginning with its conversion into a subsidiary in 2017 and ending in 2020. The three pillars of this integration were management integration, business integration, and awareness integration.

When the prior MEDIA DO Co., Ltd., converted Digital Publishing Initiatives Japan into a subsidiary, both companies had eBook wholesaling as a mainstay business. However, these businesses varied with regard to numerous areas, including corporate cultures, systems, organizations, and IT infrastructure. For this reason, we could not immediately integrate the operations of these business. Rather, we first had to position the former MEDIA DO and Digital Publishing Initiatives Japan as subsidiaries under holding company MEDIA DO HOLDINGS Co., Ltd., so that we could integrate these companies gradually. Following the integration of businesses, systems, and IT infrastructure, these two subsidiaries were merged in 2019. The management integration was eventually completed with the June 2020 merger of MEDIA DO HOLDINGS and the former MEDIA DO, a move that was aimed at expediting management decisions and improving managerial efficiency by cutting operating costs. Also in June, we transitioned to a new management team with a number of chief officers assigned responsibility for specific areas of operation, to accelerate management and decision making and clarify roles and authority in management.

In business integration, the greatest obstacle was maximizing our ability to integrate the IT systems of both companies. Our IT systems are the heart of our eBook distribution operations. Should these systems malfunction, it would have a significant impact on both publishers and eBook distributors. We approached the integration of systems through a process of ongoing discussion between engineers and sales staff. The integration is progressing more or less on schedule, and the end of this process is in sight. In addition to a feeling of relief, I have a clear sense that this process has heightened our organizational capabilities. With this integration of systems nearly complete, we are positioned to dedicate our efforts to our mission of invigorating, to the fullest of our capabilities, the publishing market while using our dominant share in the eBook distribution market to accelerate the growth of this market. Through an ongoing process of self-transformation while providing new services backed by cutting-edge technologies, we will contribute to the realization of a society with increased book readership.

An important part of completing this post-merger integration process was awareness integration. We want everyone at the MEDIA DO Group to be able to unite and create innovation for society, so that we can achieve sustainable growth. Accomplishing this will require that all employees be fully aware of the reason why they are working together to carry out the tasks placed before them and to function as a team with an overarching view of the situation. Concurrently, the rapid growth of our organization has made us aware of the difficulty of entrenching our corporate identity in every corner of the organization. We therefore recognized the need for frameworks that would allow officers to act with a sense of autonomy. It was for this reason that we defined a set of values to serve as the unifying principles of the new MEDIA DO as we approached the final stage of the post-merger integration process. The values were defined through a project team comprising members from a range of backgrounds from the former MEDIA DO and Digital Publishing Initiatives Japan. This team engaged in extensive discussion on the values that would gain the support and understanding of all employees. We also introduced new human resource systems that incorporate these values, including evaluation and compensation systems, and I personally explained to all employees the background of the new systems and the purpose of their introduction. The fiscal year ending February 28, 2021 is the first year of implementation for the new human resource systems, and we are in the process of adapting the systems to match the actual circumstances surrounding their implementation. However, the systems are already becoming fixtures within the organization.

Policies for Sustainability

By fulfilling its mission and working toward its vision, the MEDIA DO Group will contribute to the resolution of social issues and achieve sustainable growth.

As indicated by the 2015 adoption of the United Nations Sustainable Development Goals, companies are expected to contribute to the realization of a sustainable society while practicing creativity and ingenuity to resolve social issues through their businesses. At the same time, there is a need to accurately assess business opportunities and risks from the perspectives of environmental, social, and governance factors and to continue to address these opportunities and risks. We recognize that this approach will be imperative to the sustainable growth of the MEDIA DO Group from a medium- to long-term perspective.

For this reason, it is crucial for us to think about what exactly constitutes a sustainable society and to incorporate this idea into management. Article 1 under Section 1 General Rules of Chapter I General Provisions of the Copyright Act of Japan, which serves as the inspiration for MEDIA DO's corporate philosophy, refers to how authors' rights contribute to cultural development and speaks of ensuring protection for the rights of authors while according attention to the fair exploitation of cultural products. I believe that the essence of these statements speaks to how the development of frameworks which allow the authors, artists, and other creators to maintain a passion for creation, and which make it possible for users to enjoy the fruits of their creativity, helps

> “We implemented reforms from the perspective of our management decision-making framework.”

contribute to the development of fulfilling cultures and societies. Based on this belief, I view MEDIA DO's mission to society to be unleashing a virtuous cycle of literary creation founded on digital technologies.

Furthermore, I believe that the fundamental role of companies is to help resolve the issues faced by society. I think, therefore, that MEDIA DO is tasked with earnestly addressing the issues faced by creators, publishers, eBook distributors, content users, and all other stakeholders that touch digital content. In this quest, we must utilize the strength of our position in the eBook market and our technology. This is something that only MEDIA DO can do, and it is the approach through which we should contribute to the resolution of social issues and achieve sustainable growth.

In Closing

Having moved to a new growth stage, we see new possibilities that exceed all expectations.

Throughout its history, the MEDIA DO Group has continued to exercise its corporate philosophy by utilizing its information distribution platform to unleash a virtuous cycle of literary creation and to enrich people's lives. In past stages of growth, however, we faced the need to develop MEDIA DO's presence by reinforcing our corporate constitution and financial base. This process, which entailed earning the trust of industry stakeholders and fostering a solid sense of identity, was necessary to build the foundation for making full-fledged strides toward our goal of being a Publishing Platformer. It required to shift toward a more proactive approach. Today, the Group has finally become united as a single MEDIA DO and thus we are poised at the starting line that we have been discussing with internal and external stakeholders for quite some time.

Having moved to this next stage, we see new possibilities that exceed all expectations. The MEDIA DO Group is currently in a position at which I feel it is entirely feasible to target net sales of ¥100.0 billion through growth in our existing businesses. In June 2020, the Company's stock price reached a new record for the first time in six years and four months, and our market capitalization climbed to nearly ¥70.0 billion. Going forward, the Group will work as one in its efforts to boost corporate value and contribute to the development of society. I hope that shareholders, investors, and all of our other stakeholders will look forward to not only our performance growth but also the possibilities to be unlocked through our strategies and services.

June 2020

Yasushi Fujita

Yasushi Fujita
President and CEO

Special Feature

Some people devote their lives to making comics.
Others devote their lives to writing books.
And there are those devote their lives to supporting these people
and transforming their wisdom into content.
At MEDIA DO, we protect the content that people devote their lives to producing
and the people who produce it, as we work toward our vision of
"More Content for More People!"

This is our mission as a company shaping the future of content distribution.

About This Special Feature

As advances are made in IT, the potential of digital content is growing, as are the expectations of its users. At the same time, new markets are transforming themselves in the wake of the global COVID-19 pandemic. MEDIA DO is also witnessing the transformation of the scope of its varied service lineup following the merger and post-merger integration with Digital Publishing Initiatives Japan Co., Ltd. In this special feature, we will look at how MEDIA DO sees these transformations, its goals in response to these developments, and how it will transform such change into business opportunities. These factors will be looked at through concrete initiatives and a clear timetable for MEDIA DO's advance as a company shaping the future of content distribution.

Interview with the COO

Shin Niina
Director, Vice President, and COO

Q. What do you see as MEDIA DO's purpose and strengths in the publishing industry?

This question is easier to answer if we take a look back at the history of the publishing industry. I have been involved in the publishing industry as an editor for 30 years now. This period has been a time of change that, for the publishing industry and the culture of publishing in Japan, was greater than the change brought about by the Meiji Restoration. After World War II, the publishing industry continued to enjoy strong growth through 1996, when record-breaking sales were posted. The trend was reversed after reaching this peak, however, resulting in a downward trend that continues today.

This might lead you to ask: What happened in 1996? This was the year that the Japanese-version of Yahoo! was launched. Moreover, Amazon.com, Inc., was established two years before. Yes, 1996 was when the Internet started gaining popularity. Japan also felt the impact of this trend as people began increasingly using websites to gather information, as opposed to books and magazines.

The spread of the Internet was a global trend, but overseas publishing industries did not suffer the negative growth experienced by the Japanese publishing industry. This is because these industries transformed themselves in response to the Internet, incorporating it into their industry to boldly embrace digital technologies through the distribution of electronic books as well as of paper books. These technologies were even used in marketing.

Sensing that it was facing a crisis, the Japanese publishing industry accepted support from the industry reform institution of a government finance fund as well as from Dai Nippon Printing Co., Ltd., and Toppan Printing Co., Ltd., to establish Digital Publishing Initiatives Japan, where I would eventually serve as president. With this backing and technological support from major companies, the company came to handle a wide range of content from numerous publishers. At the same time, a promising venture company had developed flexible systems with a small team of genius engineers and was rapidly growing through the distribution of Japanese manga and other content. This company was MEDIA DO. These two companies were polar opposites in terms of their characteristics and strengths, but they were united by their shared vision of breathing new life into Japan's publishing industry with digital technologies. Their merger gave rise to the industry leader in eBook distribution: the MEDIA DO of today.

MEDIA DO's purpose is thus to leverage its strengths to promote the digital transformation of Japan's publishing industry.

Q. What digital trends are currently affecting the publishing industry?

The Internet brought about one large change in particular, not limited to the publishing industry. This change was in how we connect with one another. The current climate is one in which the power of the individual is growing. By using the Internet, people are now broadcasting their thoughts and feelings to others, and society can respond instantly, creating a situation in which such statements can easily take off and trend. Individuals also have increased their power in the business sphere. For example, we are seeing the rise of business models such as those of Uber Technologies Inc. and Airbnb, Inc. Now, all one needs is a car to become a taxi driver or an unused room to rent to operate a hotel. The Internet makes it easy for people to connect with other people. These connections no longer need capital or companies.

Special Feature
Interview with the COO

This, of course, holds true for the publishing industry. There is no denying how much the gap between creators and readers has shrunk. Under conventional methods, having one's work read required a process that included editing, printing, publishing, and distribution. This process entailed a need for capital and labor. The result was an industry structure that made it easy for creators to flock to large publishers capable of effectively managing this process. Technological progress has decreased the disparity between large and small to medium-sized publishers. However, it is not as though all small to medium-sized publishers are benefiting equally from this situation. For example, there are some that suffer due to a lack of expertise with digital transformations. MEDIA DO looks to extend a helping hand to such publishers.

Moreover, the Internet and digital transformations are not all a publisher needs to prosper. The world of today is one in which an individual can connect with other people all across the globe. As a result, even Japanese publishers, which are generally thought to be part of a domestic industry, face the risk of suddenly finding themselves involved in international issues. Examples of such issues include the development of international standards and the threat of piracy.

The movement to develop international standards for eBooks has created a situation in which it is crucial to adapt Japanese-language displays and unique cultural expressions to conform with such international standards. MEDIA DO acts as an advocate for the digital publishing industry in this movement through means such as sending a representative to serve as the co-chair of a working group of the World Wide Web Consortium, which is guiding the movement toward international standardization.

Meanwhile, pirated versions of Japanese manga come almost exclusively from overseas. MEDIA DO is participating in initiatives to combat such piracy. In fact, I was the first representative director of Authorized Books of Japan, an organization established in April 2020* that is playing a central role in the fight against piracy.

* An organization established by authors, book distributors, and publishers to advance continual measures to prevent piracy of eBooks.

Q. How is the global COVID-19 pandemic impacting MEDIA DO and the publishing industry as a whole?

The trend toward at-home consumption stimulated by the global COVID-19 pandemic resulted in eBook sales exceeding forecasts over the period from March to May 2020. This was an increase similar to that seen for use of video streaming sites. In fact, our digital library business received a year's worth of inquiries from both public and school libraries in only one month during this period. The trends surrounding the pandemic created an opportunity for a wider range of readers to engage with eBooks and understand their benefits. It could be said that this development led to a fundamental rise in the number of eBook readers.

Conversely, traditional paper books were hit pretty hard. For example, bookstores in large-scale commercial facilities were forced to suspend their operations as these facilities closed temporarily. In addition, the closure of movie theaters resulted in the cancellation of book campaigns that had been scheduled to take place in conjunction with the release of movies.

As the distribution of paper books was stifled by the extreme circumstances, it was eBooks that supported the distribution of published works. A major significance of the advent of eBooks was the diversification of venues for distributing published works. People often mistakenly assume that eBooks are a new form of media. Quite the contrary, the content of eBooks is almost identical to that of their paper counterparts. The main, and revolutionary, difference from paper books is the form of distribution. We are not looking to overturn the publishing industry with digital content. Rather, we feel that digital distribution has an important role to play when there are issues with the distribution of paper books.

Q. What exactly is MEDIA DO's vision of becoming a Publishing Platformer?

We aim to create a platform that can help to invigorate the entire publishing industry through digital transformations. Many Japanese publishers are locked into the conventions of distributing the intellectual property (IP) that authors and editors worked so hard to create in the form of printed paper books sold in local bookstores. MEDIA DO, however, feels that there is more untapped potential for published IP.

Japan is advocating a view for the future of society in its Society 5.0 vision. As we move toward the realization of this vision, it will likely become increasingly common for new services and culture to emerge through the use of the Internet. In this society, the ongoing survival and growth of the publishing industry will hinge on the ability to create platforms to support both digital and electronic publication. We view our role at MEDIA DO as being to support digital transformations in the publishing industry throughout the entire publishing process, ranging from the discovery of writers to the creation of paper and digital content, the promotion of sales, and the acquisition of reader data.

Overseas, large-scale publishers dominate the market. In Japan, however, small to medium-sized independent publishers account for roughly 70% of the market in terms of sales. This situation has led to the creation of diverse publishing cultures. However, as such independent publishers lack the human and capital resources of large-scale publishers, they tend to be slower in implementing digital transformations. The imprint business launched by MEDIA DO in 2019 is a scheme for achieving digital transformations easily and inexpensively by allowing such publishers to jointly use a business process platform developed by the Company.

One example would be MEDIA DO's Picassol service. This service converts digital content into tagged text files based on defined rules through a process designed to help get the most use out of published IP. The result is a framework in which digital files are first produced to create content that can then be used for both paper and digital publication and that can even be applied to whatever new services may appear in the future. Moreover, this service comes equipped with incredibly potent proofreading functions. Other services include our PUBRID print on demand service, which helps to alleviate issues pertaining to inventories of paper books, as well as NetGalley, a service that enables extensive online marketing of pre-release books.

Looking ahead, we plan to begin offering an audiobook service in the autumn of 2020 to help publishers make even better use of IP. We are also developing a system for integrating the management of the sales and royalties of eBooks with the royalties of paper books, using subsidies from the Ministry of Economy, Trade and Industry. Both services will be cloud-based and capable of use for a low monthly fee, with no need for troublesome server maintenance or specialized technical knowledge.

The term "Publishing Platformer" that we use to describe our vision refers to the amalgamation of these services. We believe that, in this capacity, we can help publishers of all sizes to provide the world with amazing books by having small and medium-sized publishers compete in terms of editing and sales, while sharing the systems for the non-competitive aspects of business such as marketing and back-office support.

Q. What do you see as your role as COO, and how do you see the future of MEDIA DO?

As CEO, President Yasushi Fujita is responsible for management strategies. He is thus directing businesses to create a sustainable legacy for exploring new markets with blockchain and other new technologies. Meanwhile, as COO I am responsible for businesses designed to take our eBook legacy to the next level, which have our content distribution systems as their core. The systems themselves require ongoing evolution, and new needs from publishers and eBook distributors are continually arising around these systems. My job is to transform these needs into businesses.

As a member of the publishing industry, I started my career with letterpress printing and then moved on to phototypesetting and Adobe InDesign and other desktop publishing methods, electronic printing, and finally print on demand and audiobooks. I have experienced all of the printing technologies that arose over the roughly 570 years following Gutenberg's invention of the printing press. I am also very familiar with the sentiments that authors and editors have toward their work. With this background, I cannot help but feel that it was fate for me to arrive at the position of COO of MEDIA DO, a company that is committed to contributing to the publishing industry through digital technologies. Given the great changes taking place in the publishing industry as the Internet permeates society, as the move toward international standardization advances, I hope my experience will help to endow MEDIA DO with strengths not found in our peers.

I am confident that MEDIA DO is a company that can continue to treasure the traditional culture of the publishing industry and its history as it supports writers, publishers, distributors, and other members of the publishing industry dedicated to pioneering this new era of publishing with digital transformations that go beyond mere digitization, standing by their side throughout the process.

Special Feature

Messages from Chief Officers

In June 2020, MEDIA DO transitioned to an operating holding company system. In conjunction with this change, the Company adopted an executive officer system to strengthen Group management and expedite decision-making. On the following pages, you will find messages from the Group's chief officers in which they explain what they see as necessary to accelerate the Group's business growth and what their role is within the organization.

Guidance for drawing out the maximum performance from management resources as an accounting professional

I joined the Company in 2007, right around the time when the eBook business was approaching the end of its first year. Now, just over a decade later, the scale of our sales is more than 40 times larger than it was back then. I witnessed this rapid growth firsthand, and our momentum has been palpable throughout the process.

MEDIA DO handles written works, which are incredibly important for enriching our lives. At the same time, we are using digital technologies to rapidly create new methodologies and value within the Company. Accordingly, we accountants have had to go beyond simply performing our basic accounting duties to investigate new possibilities and tackle new challenges, thereby growing together with the Company. This experience is a precious asset to me and the rest of the accounting team, a treasure in which we take pride. I am confident that I have contributed to the corporate value of the Company by dispensing with preconceptions to examine a number of strategies to maintain the brisk speed of our growth.

I hope to help fulfill our mission of "unleashing a virtuous cycle of literary creation" in the future by maintaining openness to change, as necessitated by the times, and disclosing relevant numerical data both inside and outside of the organization.

Yoshiyuki Suzuki
Director and CAO
(Chief Accounting Officer)

A never-ending ambition to combine MEDIA DO assets and technologies to raise the value and distribution of written works

A look at history shows that written works have changed continually in conjunction with the emergence of new communications technologies, and users have thus found themselves interacting with such works in a variety of ways. Communications technologies are now on the cusp of the 5G era, a new phase that is seeing the emergence of technologies for the Internet of Things as well as virtual reality, augmented reality, and other reality-altering technologies. At the same time, the Internet, previously merely a channel for distributing written works, is becoming a venue that can attach new and different value to these works via blockchain technologies.

Against this backdrop, my mission is to use technology to transform Japan's IP into forms suited to the times, and into digital content assets to blaze the trail that will lead IP holders to new revenue sources. To accomplish this, I aim to create new businesses that defy conventions by combining MEDIA DO's relationships with publishers, and its expertise in dealing in written works, with the technology capabilities that have been refined to handle these assets.

By proposing new value through this process, I hope to enrich our world by providing people with sources of amazement and inspiration. Chasing this vision for the future is my duty and my mission.

Atsushi Mizoguchi
Director, Executive Officer, and CBDO
(Chief Business Development Officer)

Stimulation of industry growth through impeccable internal and external communication

In Japan eBook services emerged in 2002, five years before the Amazon Kindle in the United States. As Japan was the first in the world to embrace this medium, the domestic eBook industry has grown into a market boasting a scale of nearly ¥400.0 billion today, as members of this industry continue to pursue growth through experimentation and collaboration. In this industry, MEDIA DO acts as an intermediary between more than 2,200 publishers and over 150 eBook distributors to provide system solutions and distribution services to optimize the distribution of eBooks.

Our goal is to decrease the burden of eBook distribution while improving its accuracy. Today, we are No. 1 in gross transaction value for eBooks in Japan and second only to Amazon on a global scale. MEDIA DO is thereby now in a position in which it must go further by acting as a central figure in resolving issues that arise and thereby spurring the growth of the industry. As the head of eBook distribution, I recognize that I have been entrusted with an important role. I also hope to enable the employees who support me in this role to feel pride in their work. I will therefore undertake to fulfill my role as CEDO through impeccable internal and external communication.

Kayoko Hanamura
Executive Officer and CEDO (Chief eBook Distribution Officer)

Exploration of new growth fields and global markets to provide the ideal services for content creators and content lovers alike

MEDIA DO is Japan's largest provider of digital publishing and distribution services, and we help to deliver countless written works into the hands of users every day in the form of eBooks. As we pursue future growth, we will expand our operations in relation to both content and consumers while maintaining distribution as the heart of our business. The nature of our business puts us in a position of interacting with many partners and amassing large quantities of data. The advantage of this position is that it helps us to access a wealth of content and develop services for consumers. One of the goals of MEDIA DO is thus to become a company that provides solutions covering all areas of the supply chain, from upstream to downstream areas.

At the same time, the range of areas in which we can contribute is expanding as we develop our business on a global scale. We ally ourselves with numerous domestic and overseas companies in a variety of forms. Our aim is to generate synergies with these companies. Synergies, after all, are the catalyst for explosive growth.

In the past, I served at major distributors and major publishers. I look to accomplish our goals by calling on the experience gained at these companies and the networks formed over the course of two decades involved in overseas business.

Susumu Tsukamoto
Executive Officer and CPSO (Chief Publication Solutions Officer)

Special Feature
Messages from Chief Officers

Digital transformation of the publishing industry driven by MEDIA DO's technologies and position

I joined MEDIA DO in 2018, right in the middle of an important project that was imperative for the solidification of our business foundation: the conversion of Digital Publishing Initiatives Japan into a subsidiary and the integration of its eBook wholesale system into MEDIA DO's. This process was anything but smooth. I was therefore tasked with reevaluating and deciding our integration strategy and approaches while guiding a massive overhaul of our technological systems, which entailed shifting completely from on-premise systems to cloud systems. Our new eBook wholesale system was released roughly six months later, and the system integration was more or less complete by June 2020.

However, this system integration was not our end goal; it merely established the foundation for our next step. This next step will see MEDIA DO utilizing its technologies and its position as the domestic eBook wholesale share leader to promote digital transformations in the eBook as well as in other fields, and develop and supply systems that evolve and benefit the wider publishing industry.

Junichiro Izumi
Executive Officer and CTO (Chief Technology Officer)

Ongoing improvements in corporate value achieved through a virtuous cycle of financial base reinforcement, growth investments, and appropriate shareholder return

In the fiscal year ended February 29, 2020, we set new records for net sales and operating profit. In addition, the equity ratio, D/E ratio, and goodwill/shareholders' equity ratio, indicators of our financial health, all showed steady improvement from the fiscal year ended February 28, 2018, when these ratios took a negative turn due to the acquisition of Digital Publishing Initiatives Japan. Moreover, the post-merger integration of this company is now complete. We also achieved our target for shareholder return of a total return ratio of 20.1%.

As CFO, I am charged with the important tasks of reinforcing our financial base and promoting aggressive growth investments. M&A activities are one effective method to accomplish these tasks, but they can also be a double-edged sword with the potential to adversely impact a company's financial health. In my capacity as CFO, I will draw on my two decades of experience in business development to identify promising acquisition candidates with a high degree of accuracy and consideration for capital costs, while seeking to improve our financial base, and I will work to ensure effective post-merger integration. I thereby hope to guide the Company in executing measures to reinforce its financial base.

By creating a virtuous cycle that sees us striking a balance between growth investment and reinforcement of the financial base over the medium term, and using the results generated to issue appropriate shareholder return, I aim to support ongoing improvements in corporate value.

Ryo Yamada
Executive Officer and CFO (Chief Financial Officer)

Business growth and corporate value improvement through enhancement of intangible assets

I joined MEDIA DO in January 2019 as the general manager of its Human Resources Division. My first act in this position was to design and implement new human resource systems that would guide the growth of employees based on the Company's mission, vision, and values. Since June 2020, I have been enhancing our multifaceted business support systems as the CHRO in charge of overseeing the human resources, general affairs, and legal affairs divisions.

As we move ahead with digital transformations, intangible assets will become increasingly important as sources of corporate value and competitiveness. My personal mission is therefore to create an environment that is conductive to the ongoing growth of the Company and its people by enhancing its major intangible assets, including its corporate culture, employee skills and motivation, compliance, and the non-tangible benefits of facilities.

The global COVID-19 pandemic is serving to accelerate workstyle reforms, bringing about the possibility of a major transformation in workstyles. Given this environment, efforts to build frank and open corporate cultures and systems, effective corporate governance, and efficient and comfortable workplaces, all of which are appealing to diverse human resources, will contribute to improved corporate value and competitiveness.

Sophisticated corporate strategy frameworks and execution guidance, along with accountability to stakeholders

The MEDIA DO Group's growth strategies include efforts to accomplish the targets of the five-year medium-term management plan established in 2018 as well as those efforts that look toward the period after this plan from a medium- to long-term perspective.

Initiatives for accomplishing the medium-term management plan's targets are being advanced through coordination with other chief officers while managing progress toward those targets. Initiatives from a medium- to long-term perspective, meanwhile, need to be carried out based on a diverse range of intricately connected themes. These themes include developing our mainstream eBook distribution business, conducting investments and M&A activities to create new businesses, expanding operations overseas, formulating capital strategies and determining management resource allocations to support these efforts, and addressing environmental, social, and governance issues. My duty as CSO is to develop sophisticated corporate strategy frameworks that integrate these themes and offer related execution guidance while exercising accountability to stakeholders. We have been ramping up engagement with and disclosure for stakeholders since 2019. As a result, we have seen an increase in investment in the Company based on the assumption of maintaining investment in the Company for the long term. The MEDIA DO Group is united in its commitment to advancing with steps that will make stakeholders look to its future with anticipation.

Yoichi Chihara
Executive Officer and CHRO (Chief Human Resources Officer)

Hiroshi Kanda
Executive Officer and CSO (Chief Strategy Officer)

Medium-Term Management Plan Overview and Progress

Overview of the Medium-Term Management Plan

In July 2018, the MEDIA DO Group established and unveiled its five-year medium-term plan. Through the steady implementation of this plan, we aim to create a next-generation platform to spread eBooks throughout society and to achieve further growth, while unlocking new possibilities and contributing to the expansion of the entire publishing industry.

Strengths Cultivated since MEDIA DO's Foundation

Position × Technology

See pages 14–15

1 MEDIA DO's Current Position

- Growth outpacing the market
- Promising market environment

2 Growth-Oriented Strategies

First Step toward Our Goal

Medium-Term Management Plan FY2018–2023

3 Goal

Publishing Platformer

The MEDIA DO Group aims to transform itself into an entity that supports the entire eBook distribution industry by combining its unique, dominant position in eBook distribution—its greatest strength—and its cutting-edge technologies.

1 MEDIA DO's Current Position

Growth Outpacing the Market, Achieved with Strategies That Leverage Our Strengths

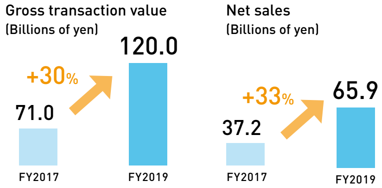
The Japanese electronic publishing market was estimated at ¥362.2 billion in 2019, in terms of the total for books, comics, and magazines, and this market has boasted a compound average growth rate (CAGR) of more than 15% for the past three years. The market's scale is projected to reach ¥461.0 billion in 2023, which will represent growth of nearly 30% from 2019, an incredibly swift rate of expansion. Concurrently, the MEDIA DO Group has enjoyed growth outpacing the market, with increases of around 30% in gross transaction value and net sales over the same three-year period.

MEDIA DO's Performance

(FY2019)

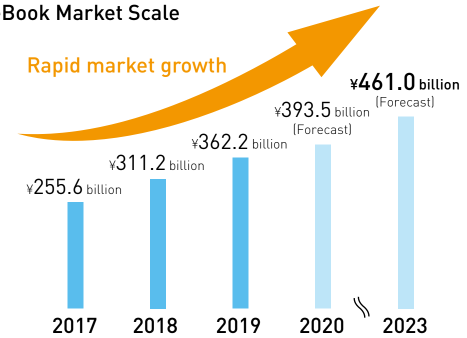
Gross transaction value	¥120.0 billion
Net sales	¥65.9 billion
Operating profit	¥1.9 billion
EBITDA	¥2.7 billion
Net income per share	¥64.58

CAGR from FY2017–FY02019



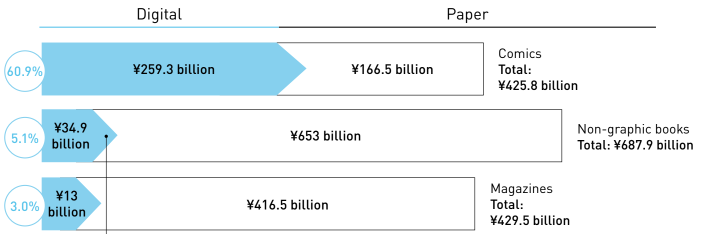
Promising Market Environment for MEDIA DO

eBook Market Scale



Source: *eBook Marketing Report 2019 on Japanese Market*, Impress Research Institute

Publishing Market Scale by Genre (2019)

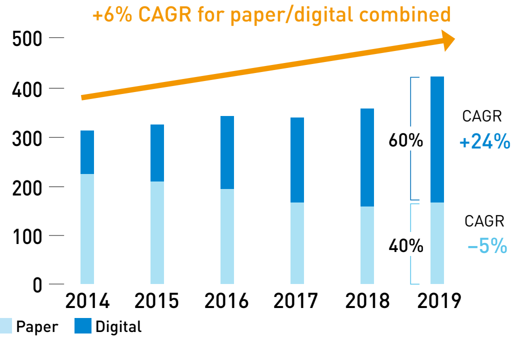


30%–40% share of total publishing market represented by eBooks in the United States and China / Significant room for the Japanese market to grow

◯ Figures in circles represent the share of eBooks in the market for the respective category.
Source: All-Japan Magazine and Book Publishers and Editors Association

Market for Comics (Standalone Publications)

(Billions of yen)



Source: *Annual Report on the Publications Market 2019*, All-Japan Magazine and Book Publishers and Editors Association

Digital comics surpass paper comics due to the digital advantage: They can be purchased anywhere at any time

Slowed pace of downward sales growth of paper comics by virtue of the catalog effect from consumers being exposed to digital comics

Growth in eBook distribution directly linked to the revitalization of the publishing market

2 Growth-Oriented Strategies

Growth and Contributions to Publishing Market Expansion, Achieved through Unique Strengths

Japan's publishing market has been on the decline since 1996. Conversely, the eBook market has been growing rapidly as an increasingly large number of people come to own smartphones and tablets and the methods of delivering content grow more diverse. Given this backdrop, the MEDIA DO Group aims to achieve further growth through business strategies that go beyond simply accommodating and supporting the shift toward eBooks, to contribute to the expansion of the entire publishing market.

Three Strategic Themes for Realizing Our Goal

1. Stimulate the growth of eBook markets
2. Invent future eBook markets
3. Aggressively invest in business expansion

See pages 34–39

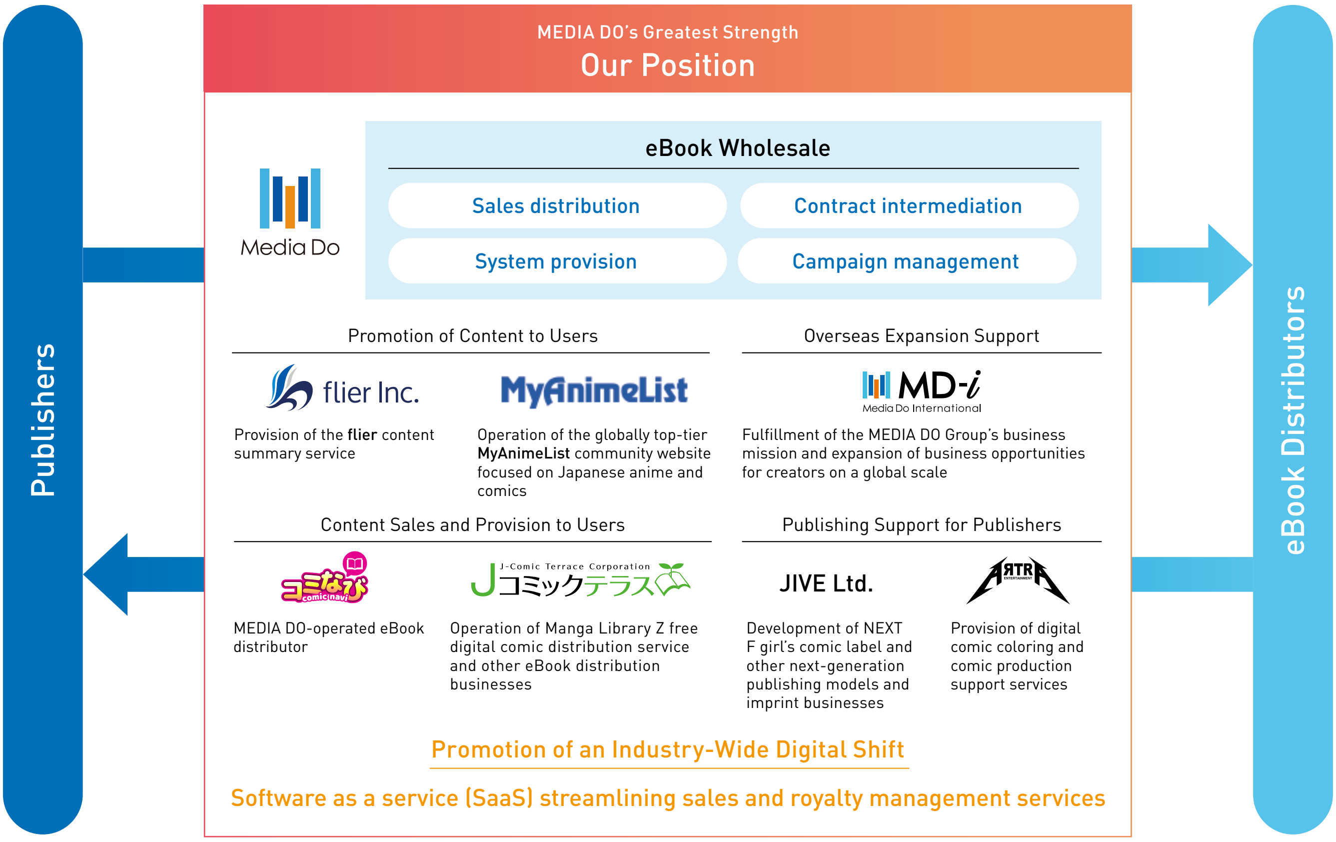
Numerical Targets of the Medium-Term Management Plan

	Gross transaction value	Net sales	Operating profit	EBITDA	Net income per share
Targets for FY2020 (third year of the plan)	¥140.0 billion	¥77.0 billion	¥2.2 billion	¥3.0 billion	¥77
Targets for FY2022 (fifth year of the plan)	¥165.0 billion	¥90.0 billion	¥5.0 billion	¥6.0 billion	¥135

Medium-Term Management Plan Overview and Progress

Priorities of the Medium-Term Management Plan

In its medium-term management plan, the MEDIA DO Group has defined three strategic themes based on its position, its greatest strength. The first theme is "stimulate the growth of eBook markets," which entails growing the eBook market and reducing the amount of energy used for distribution. The second theme is "invent future eBook markets," which will involve utilizing cutting-edge technologies to further the growth of the publishing market. The third and final theme is "aggressively invest in business expansion." By carrying out strategies based on these themes, we will seek to become the Publishing Platformer described in the medium-term management plan.



Milestones toward Accomplishing Our Goal

		Priority Measures	First year (FY2018)	Second year (FY2019)	Third year (FY2020)	Fourth year (FY2021)	Fifth year (FY2022)
eBook Distribution Business	Stimulate the growth of eBook markets	Building the content distribution platform	Developed a new system, completed system migration in April 2020			Realize cost reduction Upgrade to the new system	
eBook Distribution Business	Invent future eBook markets	Providing metadata marketing	Create a proof of concept	Develop the platform		Launch our service in 3Q FY2020	
		Vitalizing the media promotion business					
Other Businesses	Aggressively invest in business expansion	Creating services by leveraging advanced technologies	Continue to invest in advertising and competitiveness enhancement in pursuit of further expansion				Achieve profitability
		Deploying new services across publishers	Launched business in 3Q FY2019		Strengthen publishing functions, offer multiple imprint levels		

Completed measures / Targets of additional investment / Anticipated future benefits

Stimulate the growth of eBook markets

Building the content distribution platform

After converting Digital Publishing Initiatives Japan Co., Ltd., into a subsidiary in March 2017, this company was merged with wholly owned subsidiary MEDIA DO Co., Ltd. in March 2019, making the MEDIA DO Group the largest eBook wholesaler in Japan. Going forward, we will continue to help grow the eBook distribution market by responding to the needs of publishers, eBook distributors, and readers. At the same time, we will implement measures to streamline and reinforce our team in pursuit of cost reductions.

Expansion of the eBook market

Reduction of energy used for distribution

Team
Publisher Sales, Distributor Sales, Operation Management
Approx. 300 team members
(Including 100 engineers)

Results
Total managed campaigns (annual) More than 10,000
eBooks offered via wholesale More than 2 million

Foundation Development / Upfront Investment

- Development of the new eBook wholesaling system
- Integration of wholesale operations

First year of the medium-term management plan
FY2018

New Growth Phase

- Efficient and reinforced operations realized through a new team

Second year of the medium-term management plan
FY2019

Structural Reforms Aimed at Improving Efficiency

- Introduction of the new eBook wholesaling system (server expense redundancy)
- Start of cost reduction measures

Third year of the medium-term management plan
FY2020

Completion of Post-Merger Integration of Digital Publishing Initiatives Japan after 2017 Conversion into a Subsidiary

1. Management Integration
- Merger of MEDIA DO HOLDINGS Co., Ltd., and MEDIA DO Co., Ltd.
- New management team comprised of 10 chief officers

2. Business Integration
- Integration of the eBook wholesale business (acquisition of a dominant share of the domestic market)
- Completion of integration into the new system

3. Awareness Integration
- Establishment of our mission, vision, values, and creed
- Consolidation and introduction of human resource and other systems

Measures to Improve Our Corporate Constitution

- Transference of operations to MEDIA DO TECH TOKUSHIMA
- Integration of systems to lower infrastructure costs
- Entrenchment of cost awareness (establishment of a cost reduction project team)

Medium-Term Management Plan Overview and Progress

Transition from the Cost Reduction Phase to the Additional Feature Development Phase of the New System

Seeking to reduce the amount of energy consumed by distribution, we have consolidated our previously multiple, on-premise content uploading and distribution systems into a single new cloud system and started the transition toward this system. In FY2020, we began conducting additional development investments in this system with the aim of growing MEDIA DO's share in the eBook distribution market.

Previous eBook wholesaling system (On-premise)

Transition of the eBook distributors is almost complete

Completion in March 2019

Full discontinuation of the previous system scheduled for February 2021

New eBook wholesaling system (Cloud-based)

Cost Reduction Benefit: ¥100 Million in FY2020

An additional ¥35 million reduction is projected in FY2021 (from lower outsourcing costs and server and other infrastructure expenses)

New Feature Development

Expansion of the eBook distribution market share by developing additional features matched to publisher and distributor needs

Next-generation eBook distribution system

Start of development of the next-generation system to improve efficiency in wholesale and throughout the publishing industry (J-LOD* subsidized project)

* Japan content LOcalization and Distribution: a Ministry of Economy, Trade and Industry subsidy program for projects that stimulate global content demand

Initiatives Targeting Growth

Transference of Operations to MDTT

We are currently in the process of transferring certain operations, such as those pertaining to managing campaigns and the uploading and distribution of eBooks, to MEDIA DO TECH TOKUSHIMA Co., Ltd. (MDTT). This transition is scheduled for completion in April 2021. By entrusting work that can be performed efficiently in Tokushima Prefecture to MDTT and focusing on the work that can only be done in Tokyo, MEDIA DO aims to improve operational efficiency.

Enhancement of Marketing of Comic navi, Our Directly Operated eBook Distributor

In light of the continuously robust growth of the digital comic market, MEDIA DO is investing in Comic navi, its directly operated eBook distributor, in a bid to expand it to a sufficient scale. This undertaking will enable MEDIA DO to overhaul its systems to create a large-scale system that is able to take it beyond its prior role of tracking market trends to respond to the needs of its wide-ranging clientele. In this way, we aim to increase the number of customers to which we supply our new system.

Joint Development of SaaS Sales and Royalty Management Services

MEDIA DO has partnered with KOWA COMPUTER CO., LTD., a company with a wealth of experience in developing systems related to paper books and other media, to jointly develop services for integrated management of sales and royalties for eBooks and royalties on paper books. This service will be offered on a software as a service (SaaS) basis. This development project has been deemed applicable for the J-LOD subsidies offered by the Ministry of Economy, Trade and Industry. By offering a service that will be affordable and easy to introduce even for small to medium-sized publishers, we aim to help such publishers streamline their administrative operations and cut costs.

Entry into the Audiobook Market

The market for audiobooks is growing rapidly overseas, and it can therefore be expected that the number of audiobook users as well as the selection of content available in Japan will grow in the years ahead. At MEDIA DO, we have begun efforts to support publishers in their production of audiobooks and supply these services to Audible, Inc., an Amazon.com, Inc., subsidiary that offers one of the world's largest audiobook and voice content production and distribution services.

Invent Future eBook Markets | Creating new markets with new technologies

Proposal of New eBook Possibilities to Further Expand the Publishing Market

The eBook market continues to experience strong growth, but paper books still offer features and value that eBooks cannot. If we can improve user convenience by addressing this issue and enrich eBooks with new forms of value, we should be able to contribute to the further growth of the publishing market. With this as our goal, we are building new digital content distribution platforms using blockchain technologies.

Frameworks for Providing Security and Convenience, Capitalizing on the Benefits of Digital and Paper Media
Proposal of New Forms of eBook Distribution

	Purchase	Storage / Transportation	Spread	Ownership
Digital	· Can be purchased anywhere at any time	· Can carry an indefinite amount	· In principle, cannot lend to others	· Can only be viewed, has no asset value · Access is lost should the distributor close
Paper	· Declining number of distributors · Delivery costs incurred when purchased online	· Storage space required · Limit in the number that can be carried at one time	· Can be accessed through libraries, rentals, manga cafes, and various other services	· Entail ownership rights* (can be sold or lent) · Access is not lost should the distributor close

* New services are expected to offer the ability to sell access rights that differ from traditional ownership rights.

+

Periods during and after the COVID-19 pandemic

There is a need for frameworks able to generate unprecedented value and earnings from digital content after the COVID-19 pandemic

Digital
Subscription models
(Spotify, etc.)

+

Physical	Digital
Concerts, etc.	Assets

New Possibilities for Digital Content Envisioned by MEDIA DO

Current Digital Content Services: Central Server Platforms

Music Books Visual Media Others

- Content Sales Models (No limits)
- Subscription Models

Spotify, Kindle, YouTube, Netflix, etc.

New Content Services Proposed by MEDIA DO: Blockchain Platforms

Music Books Visual Media

Asset Model
DCA
Digital Content Asset

Digital content with a concept of finiteness granting a premium quality

Content businesses have continued to transform themselves in conjunction with the technological evolution of smartphones and other terminals and installation and enhancement of the Internet infrastructure. Meanwhile, as phenomena such as the global COVID-19 pandemic have limited our abilities to engage with the physical world, a rapid shift toward digital content is taking place. Given these trends, MEDIA DO sees a need for frameworks able to generate unprecedented value and earnings from digital content. Guided by this recognition, we are seeking to create business schemes that attach new value to books and other content through platforms without centralized authority that differ from conventional central server platforms.

Medium-Term Management Plan Overview and Progress

Potential for Content Businesses Made Possible by Blockchain Technologies

Blockchain technologies are expected to transform the Internet from a venue that revolutionizes information to a tool for revolutionizing value. These technologies have the potential to make eBooks safer and more convenient by preventing the reproduction and alteration of information, and by enabling dispersed management to improve reliability while facilitating traceability. Furthermore, blockchain technologies can contribute to higher levels of convenience for both content providers and users. In this area, MEDIA DO has developed a new consortium-type platform able to provide high-processing speeds with a capacity that can cover annual distribution volumes in the trillions of yen. We have also constructed a new service platform that ensures competitiveness. The official release of the resulting services is in preparation.

Characteristics of Blockchain

High security (fraud protection)	Transparency (information sharing)
Traceability	Low operating costs (fast throughput)

Media Do

- Copyright management
- Payment management
- Tracing (transaction history management)
- Transaction automation / efficiency improvement
- User protections (user rights management)
- Royalty visibility

Stronger functions for content creators

Enhanced transaction functions

Improved functions for users

Future Service Deployment Guidelines

Done — Goal setting

Done — PoC (proof of concept)

Done — Platform development — 100% (development complete)

Production environment

New content distribution platform
3Q FY2020 service launch

Service application development: 50% done

Overseas Markets

MyAnimeList + Business Partners

Develop services that leverage MyAnimeList's data and user base (13 million active users monthly, 190 million monthly page views)

- Verify the digital content purchase proof of concept
- Enhance and promote digital marketing
- Globally disseminate Japanese content (direct to consumers)
- Win the fight against rampant piracy sites

▶ Collaboration planned with multiple Japanese publishers

Domestic Market

Create a new market for a wide range of digital content, including music, visual media, and eBooks

Develop a new framework for the creation of a premium digital content market

Aggressively Invest in Business Expansion

MEDIA DO aims to become an entity that supports the entire eBook distribution industry. For this reason, investing in future profitability and corporate value improvements is crucial. In addition to expanding our share of the wholesale business, we are aggressively investing in strengthening our corporate constitution to develop future pillars of growth, as well as in the enhancement of the services provided by the MEDIA DO Group.

Priority Targets of Growth Investments

JIVE

JIVE Ltd. has a role in developing the imprint business, which supports the digital transformations of small and medium-sized publishers. MEDIA DO launched an imprint business in October 2019 with the aim of using the Group's technologies and publishing infrastructure functions to achieve next-generation publishing. This imprint business constitutes a new type of publishing business that contributes to the expansion of the overall publishing industry, including both paper and digital publishing. This is accomplished by supporting the process of creating products in the form of written works that is a cornerstone of publishing culture, along with market-oriented distribution that utilizes eBooks and print on demand. Through this business, we aim to improve medium- to long-term performance while contributing to the growth of the publishing industry and the development of publishing culture.

MyAnimeList

Business Overview: MyAnimeList, LLC. operates a globally top-tier Japanese anime and manga community website. Established in 2005, information on this website is registered and updated by the community of users. MyAnimeList was converted into a subsidiary in March 2019.

Future Strategies: Going forward, MyAnimeList will seek to improve its earnings by diversifying its monetization model while ramping up coordination with MEDIA DO to expand the Group's overseas operations. Moreover, this company aims to contribute to the further popularization of Japanese content in overseas markets. Efforts to this end will include offering planning, development, and operating support to companies looking to deploy their intellectual property in overseas markets and developing services that draw on MyAnimeList's user base and data as part of MEDIA DO's blockchain business.

MyAnimeList

Globally Top-Tier Anime and Manga Community Site

Monthly Active Users	Monthly Page Views	Ratio of Overseas Users
13 million	190 million	99%

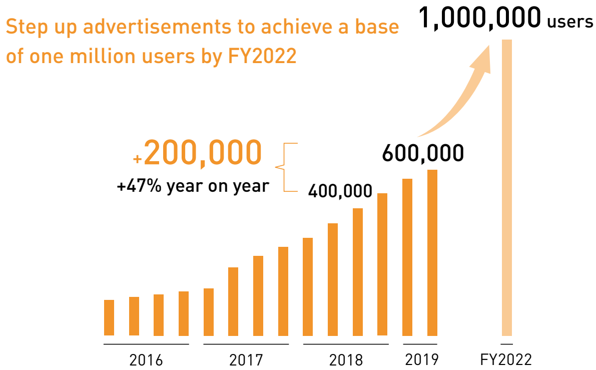
Acceleration of coordination with existing businesses (MEDIA DO) while leveraging MyAnimeList's user base and brand power

Flier

Business Overview: Flier Inc. provides a service accessible via websites and smartphone applications that condenses a carefully curated selection of business and self-help books into summaries that allow an entire book to be previewed in about 10 minutes. The high-quality summaries are prepared by a professional writer under the supervision of the publisher, and audio versions of these summaries are also available. Through this service, Flier proposes a new reading style in which people learn of the appeal of books through summaries.

Future Strategies: The flier book labo online readers community launched in May 2020 is proving incredibly popular. Both private and corporate usership of this service is growing rapidly through the introduction of corporate plans for large-scale companies and collaboration with companies. This community advocates a new entry point for reading experiences in the form of summaries and is thereby attracting new readership for these books in Japan. Flier's medium- to long-term goal is to make new discoveries and ideas a part of our daily life by providing a range of services for highly receptive businesspeople.

flier Inc.



Sustainability for the MEDIA DO Group

Basic Policy

The MEDIA DO Group's mission is "unleashing a virtuous cycle of literary creation" and its vision is "More Content for More People!" These principles exemplify our commitment to building a social ecosystem founded on co-creation among the creators and publishers who produce written works, the users of these works, the eBook distributors that serve as points of contacts between these two, and the Group, which functions as an intermediary between these parties.

Accordingly, sustainability for the MEDIA DO Group entails a concerted effort by all officers and employees to carry out their business activities based on a sense of responsibility and pride toward the contributions made by the Group's businesses and services. These contributions support the development of a healthy economy and the cultural advances stimulated by written works. Based on this belief, we seek to address social and environmental issues, such as those identified by the United Nations Sustainable Development Goals, through management practices and strategies founded on our mission and vision. In addition, we view business opportunities and risks through the lens of environmental, social, and governance issues as we pursue increased corporate value by helping to resolve social issues while achieving steady growth.

Priority Activity Themes

Goals

- Minimization of adverse impacts of business activities
- Expansion of business opportunities through harmonious coexistence with society

→ Ongoing improvement of corporate value

	E	S			G
Major Tasks	Reduction of environmental impacts	Unleashing of a virtuous cycle of literary creation	Community contribution and regional development (contributions to social enrichment)	Empowerment of diverse human resources	Establishment of sound and highly transparent corporate governance systems
Major Initiatives	· Improvement of resource/energy-efficiency of Group business activities · Reduction paper usage and distribution-related energy consumption by expanding the use of the eBook market	· Advance of business activities in accord with our corporate philosophy · Development and reinforcement of frameworks that can be reliably and confidently used by authors, publishers, and users (readers) · Participation in establishment of international standards	· Fair use and distribution of written works · Support for entrepreneurship to contribute to regional development · Creation of employment opportunities outside of major urban centers	· Promotion of diversity and development of workplace environments that enable everyone to succeed · Diversification of employment schemes and recruitment of talented human resources · Introduction of commitment-based evaluation systems	· Enhancement of corporate governance through engagement with a range of stakeholders · Entrenchment of compliance · Improvement of the risk management system
Benefits for MEDIA DO	· Reduction of the impact on the environment · Development of a sustainable infrastructure for the distribution of written works	· Capitalization on business opportunities in growing markets · Ongoing growth achieved through expansion of the business portfolio · Trusting relationships with stakeholders	· Harmonic coexistence with local communities · Improved brand power · Performance contributions from nearshore development	· Stronger competitiveness · Development of self-driven organizations · Improved labor productivity	· Greater growth opportunities and reduced business risks · A more robust corporate constitution
Value for Stakeholders	· Reduction of environmental impacts through the utilization of information and communications technology (ICT) · Contributions to reduction of society's CO_2 emissions	· Growth of the overall publishing market through new distribution platforms · Mutual growth of creators and business partners	· Contributions to social and cultural development and the enrichment of society · Invigoration of local economies	· Provision of opportunities for growth and development of skills, and fair evaluation · Contribution to the realization of a society that accepts diversity	· Enhanced management effectiveness · Improved corporate value

Basic Policy

The reduction of environmental impacts is a task of utmost importance. This task is crucial to advancing the MEDIA DO Group's quest to become an entity that is still operating a century from now and to ensuring that we can pass on a sustainable global environment to future generations. The global society is thus increasingly advocating the pursuit of a low-carbon, circular society to limit climate change.

A long-term approach toward activities to reduce environmental impacts is imperative to support sustainable development on a global scale. The MEDIA DO Group is not limiting its efforts to tracking the use of resources and energy in its business activities and taking steps to improve efficiency. We go further, contributing to the reduction of adverse impacts on the environment on an industry-wide scale.

Reduction of Environmental Impacts

Technology-Power Reduction of Distribution Energy Use

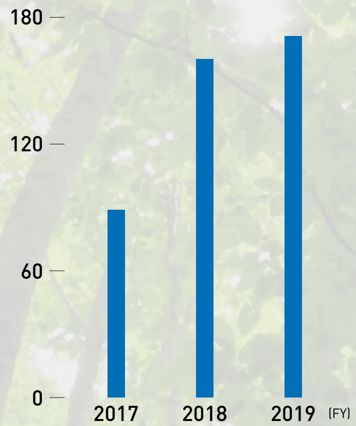
The MEDIA DO Group itself has a relatively low dependency on natural capital, given the characteristics of its business. The publishing industry as a whole, however, impacts the environment through the consumption of paper, the use of energy for distribution, and the return and disposal of written works.

Given this situation, the goal of expanding the eBook distribution market, set forth in the Group's medium-term management plan, has the potential to contribute to reduced distribution energy use for publications and the publishing industry. This strategy will also benefit the Group through direct contributions to corporate value achieved by increasing the recognition and use of eBooks. We are therefore maximizing our technological prowess to improve the convenience of eBooks and thereby develop and supply a sustainable infrastructure for the distribution of written works.

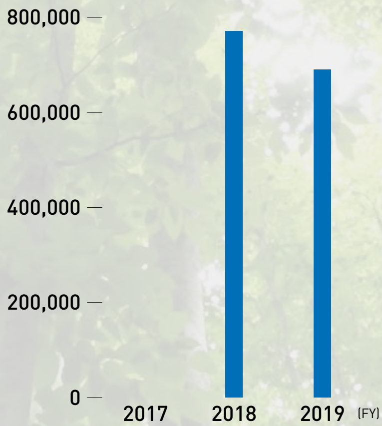
By contributing to the enrichment of society through efforts to reduce environmental impacts, the MEDIA DO Group will realize its vision of "More Content for More People!"

Environmental Data

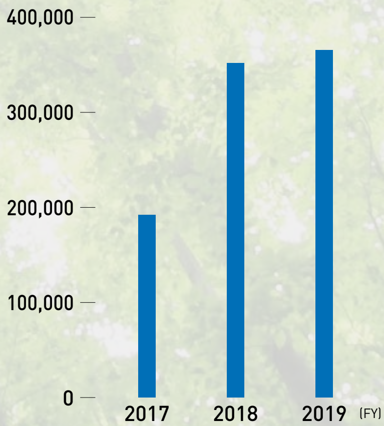
CO_2 Emissions
(t-CO_2)



Office Paper Use
(Sheets)



Electricity Consumption
(kWh)



Notes:
1. Scope: The Company and subsidiaries involved in the utilization of the MEDIA DO head office site.
2. Increases in figures after the fiscal year ended February 28, 2019 are the result of the merger with the former Digital Publishing Initiatives Japan Co., Ltd., and the relocation and expansion of the head office site.
3. CO_2 emissions volumes were calculated with reference to *GHG Emissions Accounting and Reporting Manual Ver. 4.6*, which was published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry and is based on the Act on Promotion of Global Warming Countermeasures.

Sustainability for the MEDIA DO Group

Social — Pursuit of Harmony and Mutual Development with Society

Basic Policy

MEDIA DO's name encapsulates the Company's desire to become a medium that unites forms of value that would not have come together otherwise and thereby contribute continually to the evolution and development of society. Moreover, we are committed to creating a system in which written works, which are condensed forms of human wisdom, are distributed to our utmost ability, while ensuring that they are used under fair conditions, and that the profits from these works are appropriately returned to their creators. This is our mission as well as part of our corporate philosophy.

Given this stance, harmonious and mutual development is indispensable to the business growth of the MEDIA DO Group. At the same time, we believe that our business activities and services contribute to healthy economic development as well as to the enrichment of culture and society.

Going forward, everyone at the MEDIA DO Group will continue their concerted efforts to realize business growth through dynamic corporate activities while leveraging the strengths and characteristics of the Group to generate social value.

Unleashing of a Virtuous Cycle of Literary Creation

Development and Reinforcement of Frameworks That Can Be Reliably and Confidently Used by Authors, Publishers, Distributors, and Users (Readers)

As the No. 1 domestic eBook distribution company, MEDIA DO is involved in the development of international standards for eBooks, the fight against piracy websites, research on reader accessibility, and other initiatives to develop frameworks that enable all stakeholders to use eBooks confidently and reliably.

The EPUB* format, developed by the International Digital Publishing Forum (IDPF), is widely used as the international standard for eBooks. As the IDPF has been incorporated into the World Wide Web Consortium (W3C), this organization is now responsible for the maintenance of the EPUB format. To lend further strength to this movement, MEDIA DO established the Advanced Publishing Laboratory, in concert with the Keio Research Institute at SFC, the East Asian arm of W3C, and four major publishers. Through this organization, we are promoting research and education on the expansion of online Japanese character displays, improvement of reader accessibility, and other aspects concerned with the future of publishing. Furthermore, we officially joined W3C in December 2018, ramping up our efforts to provide advice on the development of international eBook standards through means such as having a Group employee appointed as the Asian co-chair of the Publishing Business Group of W3C. We are also seeking to inject a perspective based on non-Western culture into the digitization efforts of the overall publishing industry.

MEDIA DO is charged with the mission of continuously protecting the frameworks that support the ongoing creation of high-quality content and provide users with a safe environment that can be used with confidence to enjoy this content. This mission shapes our dedication to combating piracy websites. In tandem with government regulatory reform, the publishing industry has been engaged in a campaign to have the Authorized Books of Japan (ABJ) certification mark displayed on websites that distribute authorized eBooks. Another step forward was taken in this campaign against piracy with the establishment of ABJ, an organization tasked with advancing anti-piracy measures that go beyond ABJ mark certification. A director of the Company serves as representative director of this organization, and we are also taking other steps to accelerate joint initiatives with the industry.

MEDIA DO is keenly aware of the responsibility that its position in the eBook publishing industry entails, a responsibility that it fulfills with resolute determination. Coordinating with publishers, eBook distributors, Internet providers, telecommunications companies, and other allies, we fight to eradicate piracy websites and develop an environment in which creators can feel at ease in producing high-quality content. In this way, we aim to contribute to the growth of the overall publishing industry.

* An open file format for eBooks

Community Contribution and Regional Development (Contributions to Social Enrichment)

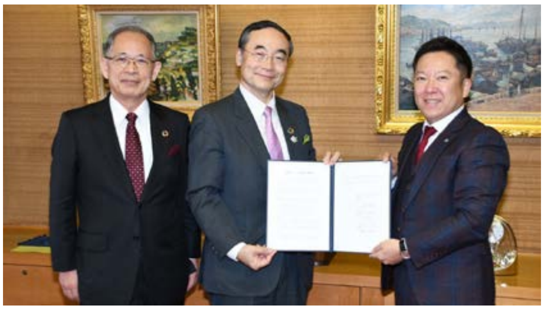
Support for Entrepreneurship to Contribute to Regional Development (TIB)

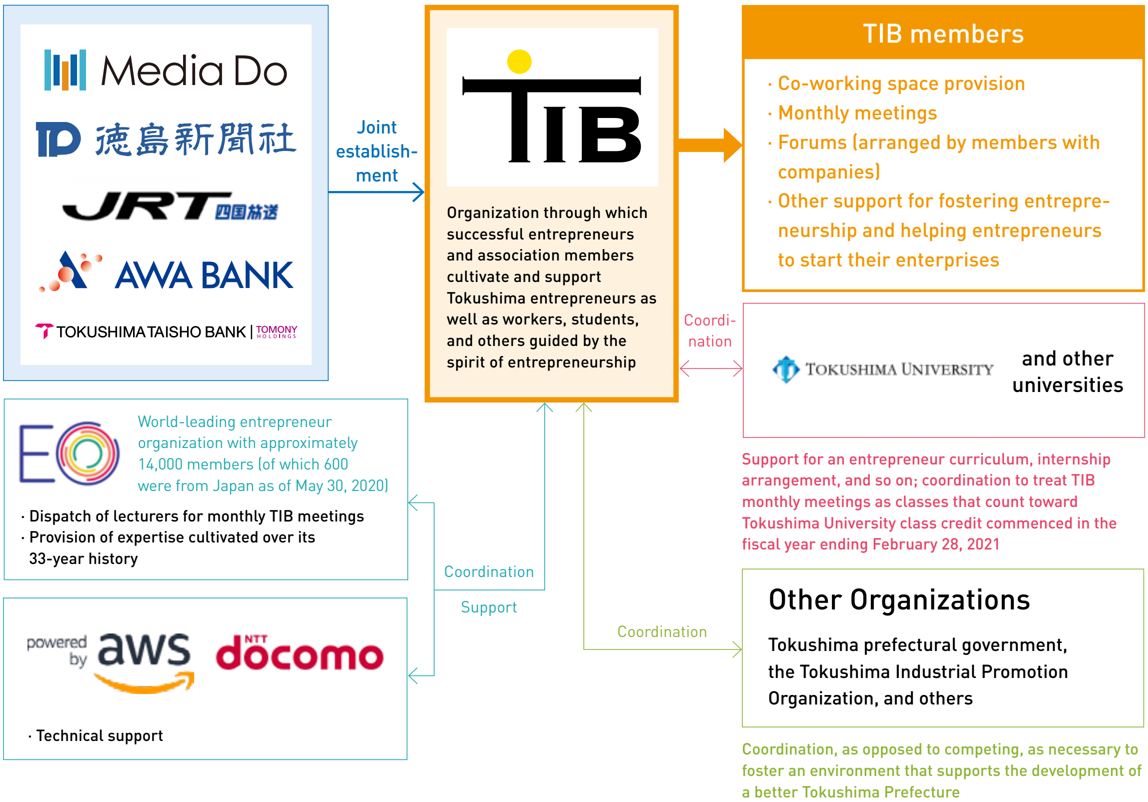
Japan currently faces a number of serious social issues, including the contraction of its workforce and the rapid aging of its population. Recognizing these issues, MEDIA DO is actively promoting regional development to ensure that Japan can hand down an energized society with the potential to grow to future generations. In this endeavor, an issue that needs to be addressed can be seen in the trend toward people and companies gathering in major urban centers as high-quality information is accumulated therein, a situation that results in a reverse trend in regions outside of such urban centers, causing widening information gaps between these areas.

Part of MEDIA DO's efforts to address this issue was the establishment in January 2020 of TOKUSHIMA INNOVATION BASE ASSOCIATION (TIB) in Tokushima Prefecture, where Founder and President Yasushi Fujita was born. Created jointly with local media and financial institutions, TIB is charged with the mission of supporting entrepreneurs. TIB seeks to become a place where people driven by an entrepreneurial spirit can gather to form trusting relationships and provide mutual support. To this end, TIB offers co-working spaces as well as opportunities for learning from entrepreneurs who have already achieved success.

Furthermore, TIB coordinates with universities and government organization with the intent of concentrating information and insight in Tokushima Prefecture and thereby attracting people to the region. TIB also collaborates with the Entrepreneurs' Organization, a global entrepreneur organization that has attracted participation by approximately 14,000 entrepreneurs from across the world and generates annual revenue in excess of ¥100 million.

TIB is actively developing an environment that will enable entrepreneurs to foster their peers and that gives form to the concept on which it was established: encouraging Tokushima entrepreneurs to change Japan from their home region and eventually amaze the world.





Social

Human Resource Management

Basic Policies

MEDIA DO's corporate creed states that "all people have limitless potential and can grow with time" and that "MEDIA DO will continue to grow so long as its people grow." As indicated by these statements, we view human resources as indispensable to the ongoing growth of the Company.

Moreover, we seek to fulfill our mission of "unleashing a virtuous cycle of literary creation" and thereby realize our vision of "More Content for More People!" To achieve this, we need to fully capitalize on the growth and potential of our people. These efforts must be supported by the foundation formed from the business infrastructure, expertise, experience, and corporate culture we have cultivated thus far. Acting in accordance with this basic policy, we will seek to create environments that allow all employees to achieve independence and demonstrate their growth and potential as they take the initiative in tackling new challenges.

Human Resource Recruitment and Development Strategies

As our business grows, we leave the door open for engineers, sales personnel, back-office staff, and a wide range of other personnel year-round, actively welcoming individuals with specialized skills from a variety of backgrounds. We have continued to recruit new university graduates each year for more than a decade, and such individuals are nurtured so that they can become core members of the Company after joining.

In addition, we have reinvented our human resource evaluation and compensation systems to stimulate the growth of both our business and our people in a manner that exceeds the boundaries between organizations and areas of work responsibility. The new systems define action expectations for specific positions and ranks and clearly identify the experience, specialized knowledge, and other qualities required for each position and level. This degree of clarity makes readily apparent the direction that each individual should pursue in his or her desired career path and the next step to take. Supervisors set action expectations to guide the growth of subordinates. These action expectations are used in a wide range of situations, such as when assigning work, providing daily instruction, and requesting training program participation. Through such provisions, we are cultivating human resources and developing frameworks that will contribute to the reinforcement of MEDIA DO's operational foundation.

Three-Year Human Resource Strategy Framework

2022
- Development of a new human resource portfolio
- Establishment of diverse employment standards
- Formulation of development programs based on human resource types
- Enhancement of shared Groupwide services

2021
- Establishment of systems and frameworks that accommodate new workstyles
- Transformation of the concept of workhours
- Introduction of the management succession plan
- Development of diverse compensation schemes

2020
- Entrenchment of new human resource evaluation and compensation systems
- Introduction of new promotion assessment standards
- Cultivation of highly capable managers
- Integration of human resource systems and regulations

Medium- to Long-Term Directives

Development of a Human Resource Base Matched to the Business Portfolio
- eBook distribution business → Transfer skills in conjunction with transition to MEDIA DO TECH TOKUSHIMA Co., Ltd.
- New businesses → Expand the human resource base suited to SaaS businesses

Active Use of Recruitment Tactics and a Shift to Flexible Employee Schemes
- Eliminate de facto new graduate hiring agreements to shift to year-round recruitment
- Employ diverse recruitment tools and tactics

Adoption of Flexible Work Schemes to Accommodate Diverse Workstyles
- Expand flextime systems while examining possible introduction of a discretionary work system
- Introduce a telecommuting system and establish satellite offices

Diversification of Compensation Schemes
- Transition from purely cash-based compensation to increase the degree of variability in compensation through a mix of equity and other compensation forms, to bolster job market competitiveness

New Values and Human Resource Evaluation and Compensation Systems

Following the March 2019 merger of the former MEDIA DO Co., Ltd., and Digital Publishing Initiatives Japan Co., Ltd., the Company established a set of values to be shared throughout the organization, to clarify the stance and principles we will embrace in our efforts to fulfill our mission and realize our vision. In conjunction with the introduction of these values, new human resource evaluation and compensation systems were introduced with our mission, vision, and values (MVV) at the core of evaluations. These systems were put into effect in the fiscal year ending February 28, 2021.

One of the characteristics subject to evaluation under the new systems is the degree to which an employee acts in accordance with MEDIA DO's 18 Stances, which indicate our stances toward business and were defined together with our values. This approach was taken to create frameworks that enable the growth of both our business and individuals and encourage employee independence, and that otherwise help us to develop a human resource base that is suited to our business portfolio.

New Human Resource Evaluation and Compensation Systems

- Annual salary scheme
- Commitment-based evaluations
- MVV evaluations and position-specific action evaluations

Human resource systems that encourage employee independence and enable the growth of both the Company and individuals

Employee Surveys

MEDIA DO aims to build frank and open corporate cultures and systems, as well as efficient and comfortable workplaces, that appeal to diverse human resources. To facilitate these efforts, we issue regular surveys to employees. Enjoying high response rates of around 90%, followed by swift action taken in response to survey findings, the surveys are generating a virtuous cycle of improvement. The surveys are also being used to improve business continuity provisions for extreme circumstances such as the global COVID-19 pandemic, specifically to guide the formulation and implementation of measures to allow employees to adopt their ideal workstyles. Through the surveys, we will continue our efforts to flexibly adapt how we utilize our human resources in response to changes in social trends and workstyles.

Employee Mindset Tracking via Frequent Surveys

Survey	Employee response rate
Comprehensive Employee Net Promoter Score® survey (January 2020)	92%
Survey on telecommuting-related infrastructure needs (April 2020)	98%
Supplementary survey on telecommuting status and the full-scale telecommuting system rollout (May 2020)	89%

Virtuous cycle of high response rates and swift action

Swift and Extensive COVID-19 Countermeasures

Quick Introduction of a Telecommuting System

· A staggered workhour system was implemented in February 2020, a telecommuting system was introduced in March, and all employees transitioned to telecommuting following the Japanese government's state of emergency declaration in April

Provision of a Virtual Private Network and Other Mobile Work Infrastructure to All Employees (Full-Time and Dispatch)

Establishment of Employee Support Systems

· Telecommuting allowance
· Telecommuting office set-up reimbursement
· Opening of office spaces of flexible use
· Support for employee-to-employee communication

Telecommuting rate of more than 98% seen immediately after the Japanese government's state of emergency declaration

Corporate Governance

Basic Policy

MEDIA DO Co., Ltd., recognizes the following as important management issues to be addressed as its management grows increasingly more global: The expedition and streamlining of management decisions to facilitate the further broadening of its business and the improvement of corporate value and the improvement of management health and transparency through enhanced corporate governance. Entrenching corporate ethics and awareness of these principles throughout the Company will be imperative to improving the health of management. By fostering such awareness, MEDIA DO aims to develop a corporate culture in which all internal institutions, officers, and employees make fair and accurate decisions. Improving management transparency, meanwhile, will require prompt and proactive disclosure of information. Systems for information disclosure are therefore being enhanced toward this end.

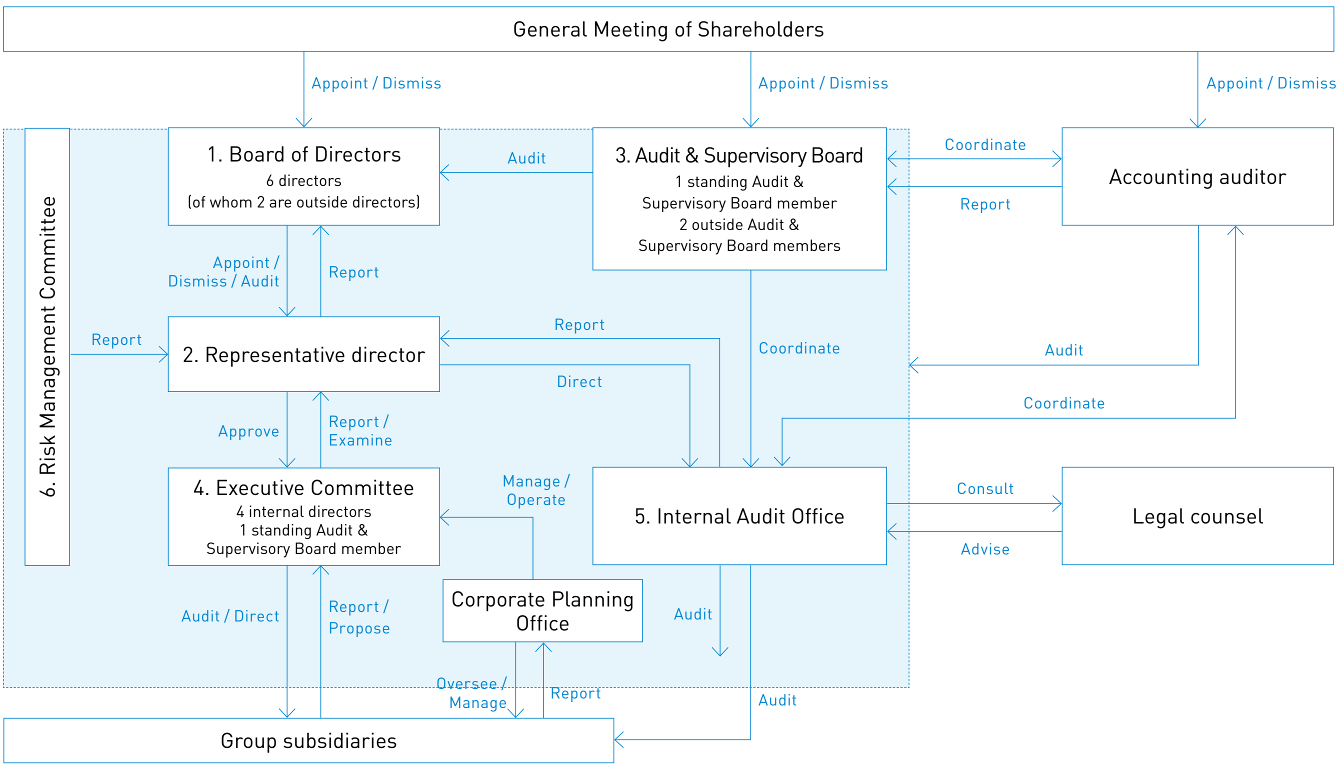
Going forward, the Company will continue to enhance its organization in the pursuit of more effective corporate governance.

Corporate Governance System

At the Company, the Board of Directors has the highest authority for management decision-making while the Audit & Supervisory Board carries out the management oversight function. In addition, the Company's Executive Committee is a committee of similar standing to the Board of Directors, with the former associated with the operational execution functions of directors and executive officers and the latter involved in management decision-making and operation oversight functions. This division of functions contributes to increased efficiency in operational execution. All outside Audit & Supervisory Board members have been designated as independent auditors as stipulated by the Tokyo Stock Exchange, while the two outside directors are designated as independent directors.

This composition makes it possible for outside Audit & Supervisory Board members to audit the operational execution of directors with operational execution functions (executive directors) from the perspectives of legal compliance and appropriateness. Similarly, outside directors are able to exert influence on executive directors through the supervision of their exercise of voting rights at meetings of the Board of Directors and the appropriateness of these decisions. With all officers performing their functions in this manner, the Company is working to improve management health and transparency so that it can enhance corporate value through the exercise of its corporate philosophy while paying due consideration to the interests of general shareholders.

Corporate Governance System (As of May 28, 2020)



Functions and Role of Corporate Governance System Constituents

Name	Overview	Number of Meetings / Frequency in FY2019
1. Board of Directors	The Board of Directors is the Company's highest management decision-making body. Based on the internal regulations for the Board of Directors, the Board of Directors makes decisions on important matters (management policies, business plans, acquisition and disposal of important assets, etc.) and supervises the status of operational execution. Regular meetings of the Board of Directors are held once a month, in principle, and special meetings are convened as necessary.	17 times a year
2. Representative Director	As the chief executive and the head of management, the representative director directs discussions at Board of Directors meetings and oversees all aspects of operational execution at the Company.	—
3. Audit & Supervisory Board	Audit & Supervisory Board members attend meetings of the Board of Directors to maintain an understanding of conditions within the Company and perform audits of operations along with accounting audits by interviewing directors and review of relevant documents. Standing Audit & Supervisory Board members also attend important meetings other than those of the Board of Directors to provide for sufficient oversight of the status of operational execution by directors. The Audit & Supervisory Board meets once a month. At meetings, the three Audit & Supervisory Board members establish audit plans and review the status of audit implementation and audit results and perform other tasks to ensure effective and efficient audits. Moreover, information is shared between Audit & Supervisory Board members, the Internal Audit Office, and the accounting audit to ensure efficient and synergetic audits.	17 times a year
4. Executive Committee	The Executive Committee meets once a week, in principle, primarily to discuss matters pertaining to business operation and to facilitate efficient operational execution through the examination and decision of matters pertaining to regulations for divisions of authority and basic operational execution items related to management that are not decided by the Board of Directors.	Once a week
5. Internal Audit Office	The Internal Audit Office is an organization under the direct jurisdiction of the representative director, president and CEO that performs internal audits in accordance with the plans approved by the representative director, president and CEO. In this manner, the office audits the Company's business activities while supervising the actions of directors and employees from the perspective of legal compliance.	—
6. Risk Management Committee	The Risk Management Committee is chaired by the director in charge of the General Affairs Department and comprised of representatives from business divisions and other relevant divisions. Meetings of the Risk Management Committee are convened as necessary, with meetings being held on a quarterly basis, in principle. At these meetings, committee members identify the risks that may impact the Company, examine possible countermeasures, and discuss related matters. Information on decisions by the committee is communicated throughout the Company.	Three times a year

Policies for Appointment of Directors and Audit & Supervisory Board Members

The articles of incorporation of MEDIA DO stipulate that the Board of Directors is to be comprised of eight or fewer directors and that the Audit & Supervisory Board is to consist of four or fewer Audit & Supervisory Board members. The Company's basic policy is to select individuals to fill positions as directors and Audit & Supervisory Board members that are appropriate for the positions with consideration paid to the balance of insight, experience, and skills pertaining to the Company's businesses. Director candidates are selected through comprehensive evaluation of their experience, insight, specialized expertise, and other attributes based on MEDIA DO's corporate philosophy and business strategies. Candidates for positions as outside directors and outside Audit & Supervisory Board members are expected to meet the requirements for these positions described in the Companies Act of Japan as well as the conditions for designation as independent directors and independent auditors stipulated by the Tokyo Stock Exchange. Moreover, outside director and outside Audit & Supervisory Board members candidates must be judged to effectively present no risk of conflicts of interest with general shareholders. Going forward, the Company will continue to adhere to this policy while examining potential policies and procedures for securing a more diverse staff of directors and Audit & Supervisory Board members in terms of gender, nationality, and other characteristics.

Director	Reason for Appointment	Attendance at Board of Directors Meetings
Yasushi Fujita President and CEO	As the founder of the Company, Yasushi Fujita is well versed in all of its business and has a wealth of experience and exceptional insight as a manager. He was appointed to his current position so that his wealth of experience and exceptional insight can be utilized in the management of the Company.	17/17
Shin Niina Director, Vice President, and COO	Shin Niina is knowledgeable in the publishing industry and in the eBook industry and has been involved in a wide range of business within these industries and also possesses a wealth of experience and exceptional insight as a manager. He was appointed to his current position so that his wealth of experience and exceptional insight can be utilized in the management of the Company.	17/17
Yoshiyuki Suzuki Director	Since joining the Company, Yoshiyuki Suzuki has been involved in a wide range of administrative divisions, including those pertaining to administrative management, accounting, and human resources and general affairs. He therefore possesses plentiful experience and exceptional insight into finance, accounting, human resource strategy, and other administrative matters. He was appointed to the position of director so that his wealth of experience and exceptional insight can be utilized in the management of the Company.	17/17
Atsushi Mizoguchi Director	Atsushi Mizoguchi has a breadth of experience in digital distribution, digital libraries, new business development, and other businesses that are central to the Company as well as deep insight into mobile communications and IT. He was appointed to the position of director so that his wealth of experience and exceptional insight can be utilized in the management of the Company.	Appointed to current position in May 2020
Keiichi Enoki Outside Director*	Keiichi Enoki has extensive knowledge and experience in the fields of communications and digital content as well as extensive experience and in-depth knowledge as a corporate manager. He was appointed to the position of director so that his wealth of experience and insight can be utilized in the management of the Company.	17/17
Ken Takayama Outside Director*	Ken Takayama is deeply acquainted with the corporate finance and financial fields and has extensive experience and broad knowledge pertaining to all aspects of corporate management of global Internet businesses. He has been judged to be capable of providing appropriate advice on the general management of the Company by calling on this experience and insight as well as the familiarity with the Company's business operations gained through his experience as an outside Audit & Supervisory Board member of the Company. He is also expected to exercise the influence of his position as an outside director, which is based on the supervision of the execution of voting rights and the suitability of such decisions, on executive directors and thereby serve to strengthen the corporate governance of the Company. He was appointed to the position of director so that he can fulfill such a role.	13/13

Audit & Supervisory Board Member	Reason for Appointment	Attendance at Board of Directors Meetings	Attendance at Audit & Supervisory Board Meetings
Kazuyoshi Ohwada Standing Audit & Supervisory Board Member	Kazuyoshi Ohwada has experience in the human resource, general affairs, and finance and accounting divisions of the Company and possesses the insight necessary for facilitating the healthy and appropriate operation of the Company. He was appointed to the position of Audit & Supervisory Board member because it was judged that he is capable of effectively fulfilling this role.	17/17	17/17
Toshiaki Morifuji Outside Audit & Supervisory Board Member*	Toshiaki Morifuji is qualified as a certified public accountant and therefore has considerable insight pertaining to finance and accounting. He was appointed to the position of outside Audit & Supervisory Board member out of consideration for this insight.	17/17	17/17
Tsuyoshi Shiina Outside Audit & Supervisory Board Member*	Tsuyoshi Shiina is qualified as a lawyer and a tax accountant and therefore has considerable insight pertaining to corporate legal affairs, finance, and accounting. He was appointed to the position of outside Audit & Supervisory Board member out of consideration for this insight.	17/17	17/17

* Notification has been submitted designating the individuals in question as independent directors or auditors as stipulated by the Tokyo Stock Exchange.

Corporate Governance

Compensation of Directors and Audit & Supervisory Board Members

At the 12th Annual General Meeting of Shareholders held on May 25, 2011, the upper limit for annual compensation of directors was set at ¥170 million. In addition, the limit for restricted stock compensation was set at ¥50 million to be issued as an amount separate from standard compensation at the 19th Annual General Meeting of Shareholders held on May 30, 2018. The compensation to be paid to individual directors in a given fiscal year is decided based on comprehensive consideration of the role, degree of contribution, performance, and other factors pertaining to the director by the representative director, president and CEO based on authority delegated by the Board of Directors.

Compensation of Audit & Supervisory Board members, meanwhile, is determined through discussion among auditors. The amounts of compensation paid in the fiscal year ended February 29, 2020 were decided through this process.

	Total Compensation (Millions of yen)	Compensation by Type (Millions of yen)				Number of Recipients
		Basic Compensation	Restricted Stock Compensation	Bonuses	Retirement Benefits	
Directors (excluding outside directors)	¥77	¥64	¥13	¥–	¥–	¥4
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	6	6	–	–	–	1
Outside directors and auditors	15	15	–	–	–	6

Evaluation of Effectiveness of the Board of Directors

Self-evaluations and analyses of the effectiveness of the Board of Directors are performed for the purpose of improving the functionality of the Board of Directors and subsequently the corporate value of the Company. Advice from third-party institutions has been received in performing the self-evaluations and analyses, which were performed through the following procedures.

In March 2020, questionnaires were issued to all directors and Audit & Supervisory Board members on the Board of Directors. Responses were submitted directly to the contracted third-party institution to maintain anonymity, and the institution submitted a report aggregating these responses. This report was analyzed, discussed, and evaluated at the regular meeting of the Board of Directors held in May 2020. The findings of this review process were as follows.

The responses to the questionnaires indicated that the membership of the Board of Directors, including the portion of outside directors, was appropriate and that the Company is effectively managing conflicts of interest with management, majority shareholders, and other parties related to the Company. In addition, it was determined that open, frank, and constructive discussions were being held at meetings of the Board of Directors and that outside directors were fulfilling their oversight function. Based on this general positive evaluation, it has been determined that the Board of Directors is effective overall.

Conversely, issues were identified including the need for documents to be provided at timings that allow for review prior to Board of Directors meetings and for more sufficient time to be secured at meetings for discussing matters such as the formulation of Groupwide corporate philosophies. Information on such issues was shared to facilitate the improvement of the functionality of the Board of Directors and to enhance discussions at meetings.

Based on this evaluation of the effectiveness of the Board of Directors, swift action will be taken after sufficient discussion of the identified issues to continuously heighten the functionality of the Board of Directors.

Risk Management

MEDIA DO has established risk management regulations to mitigate risks and minimize the potential losses by the Company, and its risk management system is being strengthened accordingly. In addition, the Risk Management Committee has been established. This commitment is chaired by the director in charge of the General Affairs Department and comprised of representatives from business divisions and other relevant divisions. Meetings of the Risk Management Committee are convened as necessary, with meetings held on a quarterly basis, in principle. At these meetings, committee members identify the risks that may impact the Company, examine possible countermeasures, and discuss related matters. Information on decisions by the committee is communicated throughout the Company.

In the event of a crisis, the Company will act in accordance with the Management Crisis Response Manual by assembling a response headquarters and communicating the necessary information inside and outside the Company to furnish swift and accurate responses to a crisis. In addition, consultant contracts have been formed with law firms, enabling the Company to receive accurate advice and suggestions through consultations pertaining to legal issues.

Messages from the Outside Directors

Quantitatively and Qualitatively Monitoring the Executive Branch to Enhance Corporate Governance

I became an outside director of the MEDIA DO three years ago. This was the same year that MEDIA DO converted industry giant Digital Publishing Initiatives Japan Co., Ltd., into a subsidiary. At this time, when the Company was transforming and approaching a turning point through the incorporation of different cultures and systems, MEDIA DO undertook ambitious corporate governance reforms through the reflection of outside perspectives, insight, and expertise in the Board of Directors. I feel that a major factor supporting this ambition is the strong leadership of President Yasushi Fujita, founder of the Company.

Such strong leadership and swift decisive decisions are major characteristics and strengths of corporate governance at MEDIA DO. However, there is still a clear need to install internal controls and reinforce Group governance from the perspective of management's supervision of the executive branch. Such efforts should be integrated into the process of growing the Company's business while reforming business portfolios and engaging in new businesses. I therefore hope to contribute to rapid growth for MEDIA DO through quantitative evaluations of investment benefits and thorough qualitative monitoring of processes.

Keiichi Enoki
Outside Director

Ken Takayama
Outside Director

Support for Ongoing Value Creation Based on Awareness of Business Potential and Risks

I have been involved in the management of MEDIA DO for two years as an Audit & Supervisory Board member and one year as a director. In each year of my involvement in management, the foundations for incorporating outside perspectives and input into management have become increasingly solid. When the Japanese government announced a state of emergency in response to the global COVID-19 pandemic, I saw the Company take a flexible approach toward business operations through measures such as shifting to remote work environments for various processes.

MEDIA DO needs to evolve in a variety of other ways, for example, by expanding operations and shaping risk management from the perspective of the ongoing improvement in corporate value. The Company is currently performing well. This is therefore an ideal time for exhaustive discussion and action to accomplish tasks such as breaking away from earnings structures that are overly dependent on specific businesses. The recognition of this fact is shared among the members of the Board of Directors. New ventures necessarily entail new risks. However, there is also a risk to inaction. Mindful of the Company's medium- to long-term vision for MEDIA DO, I hope to contribute to ongoing improvements in corporate value based on an awareness of business potential and risks.

Corporate Governance

Management Team (As of May 28, 2020)

A. Yasushi Fujita
Representative Director, President and CEO

Apr. 1996	Established Fuji Techno Limited Company (merged into the Company in November 2001), Representative Director of the Company
Apr. 1999	Established the Company, Representative Director and President of the Company
Mar. 2017	Representative Director and Chairman of Digital Publishing Initiatives Japan Co., Ltd. (changed its company name to MEDIA DO Co., Ltd., in March 2019) (current position)
Sep. 2017	Representative Director and Group CEO of the Company
Mar. 2018	Representative Director and Chairman of MEDIA DO Co., Ltd. (ceased to exist in March 2019 due to the merger with Digital Publishing Initiatives Japan Co., Ltd.) Representative Director, President, Executive Officer, and CEO of the Company
Mar. 2019	Representative Director and Chairman of Digital Publishing Initiatives Japan Co., Ltd. (current position)
May 2019	Representative Director, President and CEO (current position)

B. Shin Niina
Director, Vice President, and COO

Apr. 2003	General Manager of Books Business Department of Kadokawa Shoten Co., Ltd.
Jan. 2007	Managing Director of Kadokawa Shoten Co., Ltd. (currently KADOKAWA CORPORATION)
Jan. 2008	Representative Director of Kadokawa Editorial Co., Ltd.
Apr. 2013	Assistant Secretary General of Kadokawa Culture Promotion Foundation
Oct. 2013	Secretary General of Kadokawa Culture Promotion Foundation
June 2014	Representative Director and President of Digital Publishing Initiatives Japan Co., Ltd. (changed its company name to MEDIA DO Co., Ltd., in March 2019) (current position)
Mar. 2018	Representative Director and President of MEDIA DO Co., Ltd. (ceased to exist in March 2019 due to the merger with Digital Publishing Initiatives Japan Co., Ltd.) Vice President, Executive Officer, and COO of the Company
May 2018	Director, Vice President, Executive Officer, and COO of the Company
Mar. 2019	Representative Director and President of Digital Publishing Initiatives Japan Co., Ltd. (current position)
May 2019	Director, Vice President, and COO of the Company (current position)

C. Yoshiyuki Suzuki
Director

Dec. 1986	Joined Takahashi Accounting Office
Mar. 1997	Joined Red Hot Company Co., Ltd.
Oct. 1997	Joined ASAHI INTECC CO., LTD.
Jan. 2001	Joined World Bridal Co., Ltd.
Nov. 2007	Joined the Company
Mar. 2008	General Manager of the Accounting and Finance Department of the Company
July 2008	Executive Officer and General Manager of the Accounting and Finance Department of the Company
Mar. 2014	Executive Officer and General Manager of the Business Administration Department of the Company
May 2015	Resigned from the Company
Nov. 2015	Joined the Company, Executive Officer and General Manager of the Administration Division
May 2016	Director and General Manager of the Administration Division of the Company
Mar. 2017	Audit & Supervisory Board Member of Digital Publishing Initiatives Japan Co., Ltd. (changed its company name to MEDIA DO Co., Ltd. in March 2019)
Sep. 2017	Audit & Supervisory Board Member of MEDIA DO Co., Ltd. (ceased to exist in March 2019 due to the merger with Digital Publishing Initiatives Japan Co., Ltd.)
Mar. 2018	Director, Executive Officer, and CAO of the Company
May 2019	Director of the Company (in charge of the Finance and Accounting Department) (current position)

D. Atsushi Mizoguchi
Director

Apr. 2000	Joined NTT DoCoMo, Inc. (currently NTT DOCOMO, INC.)
July 2008	Joined the Company, Executive Officer and General Manager of the Content & Media Business Division of the Company
Sep. 2009	Executive Officer and General Manager of the Sales Division of the Company
May 2010	Director and General Manager of the Sales Division of the Company
Mar. 2013	Director and General Manager of the Business Headquarters of the Company
Sep. 2016	Director and General Manager of the Business Development Division of the Company
Mar. 2017	Director of Digital Publishing Initiatives Japan Co., Ltd. (changed its company name to MEDIA DO Co., Ltd. in March 2019)
Sep. 2017	Director and Group COO of the Company Director of MEDIA DO Co., Ltd. (ceased to exist in March 2019 due to the merger with Digital Publishing Initiatives Japan Co., Ltd.)
Mar. 2018	Director, Executive Officer and CBO of the Company
May 2018	Executive Officer and CBO of the Company
June 2019	Executive Officer and General Manager of the New Service Promotion Office of the Company (current position)

E. Keiichi Enoki
Outside Director

Apr. 1974	Joined Nippon Telegraph and Telephone Public Corporation
July 1992	Joined NTT Mobile Communications Network, Inc. (currently NTT DOCOMO, INC.)
Mar. 1995	General Manager of the Tochigi Branch of NTT Mobile Communications Network, Inc.
Jan. 1997	General Manager of the Corporate Sales and Marketing Department of NTT Mobile Communications Network, Inc.
Aug. 1997	General Manager of the Gateway Business Department of NTT Mobile Communications Network, Inc.
June 2000	Director and General Manager of the Gateway Business Department of NTT DOCOMO, INC.
July 2001	Director and General Manager of the i-mode Business Division of NTT DOCOMO, INC.
June 2003	Managing Director and General Manager of the i-mode Business Division of NTT DOCOMO, INC.
June 2004	Managing Director and General Manager of the Products & Services Division of NTT DOCOMO, INC.
June 2005	Representative Director and President of NTT DoCoMo Tokai, Inc. (currently the Tokai Regional Office of NTT DOCOMO, INC.)
June 2008	Representative Director and President of DOCOMO Engineering Inc.
June 2012	Advisor of DOCOMO Engineering Inc.
June 2013	Outside Auditor of NDS Co., Ltd.
Nov. 2016	Outside Director of UNIMEDIA INC. (current position)
May 2017	Outside Director of the Company (current position)

Major Concurrent Position
Outside Director of UNIMEDIA INC.

F. Ken Takayama
Outside Director

Apr. 1988	Joined The Industrial Bank of Japan, Limited (currently Mizuho Bank, Ltd.)
Nov. 1999	Managing Director of Rakuten, Inc.
June 2001	Outside Auditor of TECHMATRIX CORPORATION
Feb. 2010	Chief Financial Officer of Rakuten, Inc.
Mar. 2013	Advisor of Rakuten, Inc.
July 2014	Outside Director of STAR FESTIVAL INC.
June 2015	Outside Director (Audit and Supervisory Committee Member) of TECHMATRIX CORPORATION (current position)
Nov. 2016	Outside Director (Audit and Supervisory Committee Member from November 2018) of Metaps Inc. (current position)
May 2017	Outside Audit & Supervisory Board Member of the Company
May 2018	Outside Director of Linkers Corporation
Sep. 2018	Outside Director of Mercari, Inc. (current position)
May 2019	Outside Director of the Company (current position)

Major Concurrent Positions
Outside Director (Audit and Supervisory Committee Member) of TECHMATRIX CORPORATION
Outside Director (Audit and Supervisory Committee Member) of Metaps Inc.
Outside Director of Mercari, Inc.

G. Kazuyoshi Ohwada
Standing Audit & Supervisory Board Member

June 1969	Joined Sony Audio Corporation (currently Sony Global Manufacturing & Operations Corporation)
Mar. 2002	Joined the Company, General Manager of the Administration Department of the Company
July 2003	Director and General Manager of the Administration Department of the Company
Mar. 2008	Director and General Manager of the Administration Division of the Company
May 2012	Senior Managing Director and General Manager of the Administration Division of the Company
Sep. 2013	Director and General Manager of the Administration Division of the Company
May 2014	Audit & Supervisory Board Member of the Company (current position)

H. Toshiaki Morifuji
Outside Audit & Supervisory Board Member

Oct. 2003	Joined ChuoAoyama Audit Corporation
June 2007	Registered as a certified public accountant
July 2007	Joined KPMG AZSA & Co. (currently KPMG AZSA LLC)
July 2009	Established MORIFUJI Certified Public Account Office, Director of MORIFUJI Certified Public Account Office (current position)
May 2010	Outside Audit & Supervisory Board Member of the Company (current position)
Mar. 2013	Established Nagoya Tax Corporation, Representative of Nagoya Tax Corporation (current position)

Major Concurrent Positions
Director of MORIFUJI Certified Public Account Office
Representative of Nagoya Tax Corporation

I. Tsuyoshi Shiina
Outside Audit & Supervisory Board Member

Oct. 2002	Registered as a lawyer Joined Kimura Law Office
Mar. 2003	Joined Kandabashi Law Office (currently White & Case LLP)
July 2005	Joined Nagashima Ohno & Tsunematsu
Oct. 2011	Joined Industrial Growth Platform, Inc.
Jan. 2012	Advisor to the House of Representatives (transferred from Industrial Growth Platform, Inc., appointed to the National Diet of Japan Fukushima Nuclear Accident Independent Investigation Commission)
Dec. 2012	Member of the Lower House of Representatives
Nov. 2014	Registered as a tax accountant
Dec. 2014	Representative of Tsuyoshi Shiina Legal and Tax Accountant Office (current position)
Jan. 2017	Outside Director of Phone Appli Inc.
May 2017	Outside Audit & Supervisory Board Member of the Company (current position)

Major Concurrent Position
Representative of Tsuyoshi Shiina Legal and Tax Accountant Office

Financial Section

CONSOLIDATED BALANCE SHEETS

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries
As of February 29, 2020 and February 28, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets			
Current assets			
Cash and deposits (Notes 4 and 17)	¥ 8,090	¥ 7,747	$ 73,925
Accounts receivable - trade (Note 4)	16,022	12,313	146,417
Other	878	1,159	8,019
Allowance for doubtful accounts	(1)	(1)	(8)
Total current assets	24,989	21,218	228,353
Non-current assets			
Property, plant and equipment			
Buildings	331	349	3,022
Tools, furniture and fixtures	369	778	3,369
Other	14	21	134
Accumulated depreciation	(373)	(638)	(3,408)
Total property, plant and equipment	341	510	3,117
Investments and other assets			
Goodwill (Notes 3 and 18)	5,416	5,807	49,493
Investment securities (Notes 4 and 5)	2,504	2,376	22,885
Shares of associates (Note 4)	455	526	4,154
Guarantee deposits (Note 4)	322	335	2,945
Software	262	193	2,392
Software in progress	38	100	344
Long-term prepaid expenses	5	14	42
Deferred tax assets (Note 10)	166	110	1,518
Allowance for doubtful accounts	(498)	(337)	(4,547)
Other	63	91	577
Total investments and other assets	8,733	9,215	79,803
Total assets	¥34,063	¥30,943	$311,273

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Liabilities			
Current liabilities			
Accounts payable - trade (Note 4)	¥18,248	¥14,481	$166,754
Current portion of long-term borrowings (Notes 4 and 6)	1,663	1,323	15,195
Income taxes payable	519	357	4,746
Provision for bonuses	203	196	1,853
Provision for point certificates	47	45	426
Provision for bonuses for directors and other officers	—	5	0
Provision for loss on business liquidation	16	—	143
Provision for loss on office closings	—	14	0
Other (Note 6)	700	1,141	6,406
Total current liabilities	21,396	17,562	195,523
Non-current liabilities			
Long-term borrowings (Notes 4 and 6)	6,579	8,740	60,117
Retirement benefit liability (Note 7)	—	54	—
Provision for retirement benefits for directors and other officers	—	39	—
Deferred tax liabilities (Note 10)	177	10	1,618
Other (Note 6)	73	76	665
Total non-current liabilities	6,829	8,919	62,400
Total liabilities	28,225	26,481	257,923
Net assets (Note 11)			
Shareholders' equity			
Share capital (Note 11)	1,900	1,651	17,356
Capital surplus	2,779	2,546	25,392
Retained earnings	665	(90)	6,077
Treasury shares (Note 11)	(1)	(0)	(6)
Total shareholders' equity	5,343	4,107	48,819
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	443	255	4,055
Foreign currency translation adjustment	6	7	50
Total accumulated other comprehensive income	449	262	4,105
Share acquisition rights (Note 8)	48	72	443
Non-controlling interests	(2)	21	(17)
Total net assets	5,838	4,462	53,350
Total liabilities and net assets	¥34,063	¥30,943	$311,273

The accompanying notes are an integral part of these financial statements.

Financial Section

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries
Years ended February 29, 2020 and February 28, 2019

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Net sales	¥65,860	¥50,568	$601,846
Cost of sales	59,169	44,829	540,698
Gross profit	6,691	5,739	61,148
Selling, general and administrative expenses (Note 12)	4,837	4,271	44,208
Operating profit (Note 18)	1,854	1,468	16,940
Other income (expenses)			
Interest and dividend income	10	12	90
Subsidy income	27	51	245
Share of profit of entities accounted for using equity method	—	20	—
Interest expenses and sales discounts	(42)	(49)	(387)
Provision for allowance for doubtful accounts	(9)	—	(84)
Share of loss of entities accounted for using equity method	(68)	—	(619)
Loss on investments in investment partnership	(1)	(6)	(13)
Gain on sales of non-current assets (Note 13)	1	12	5
Gain on reversal of share acquisition rights	1	4	11
Gain on sales of investment securities	295	9	2,696
Gain on bargain purchase	—	85	—
Loss on retirement of non-current assets (Note 14)	(24)	(11)	(217)
Loss on valuation of investment securities	(180)	(1,217)	(1,647)
Special provision of allowance for doubtful accounts	(151)	(337)	(1,384)
Impairment loss (Note 15)	(56)	(484)	(508)
Special amortization of goodwill (Note 3)	—	(260)	0
Loss on sale of businesses	(32)	—	(294)
Provision for loss on business liquidation	(16)	—	(143)
Other	(9)	(6)	(70)
Profit (loss) before income taxes	1,600	(709)	14,621
Income taxes - current	696	544	6,359
Income taxes - deferred	28	(4)	258
Total income taxes	724	540	6,617
Profit (loss)	876	(1,249)	8,004
Profit (loss) attributable to non-controlling interests	(9)	(6)	(82)
Profit (loss) attributable to owners of parent	¥ 885	¥ (1,243)	$ 8,086

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Profit (loss)	¥ 876	¥(1,249)	$8,004
Other comprehensive income (Note 16)			
Valuation difference on available-for-sale securities	188	199	1,719
Foreign currency translation adjustment	(1)	(2)	(13)
Total other comprehensive income	187	197	1,706
Comprehensive income	1,063	(1,052)	9,710
Comprehensive income attributable to:			
Owners of parent	¥1,072	¥(1,046)	$9,792
Non-controlling interests	(9)	(6)	(82)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries

Years ended February 29, 2020 and February 28, 2019

Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at March 1, 2018	¥ 928	¥1,831	¥ 1,273	¥(0)	¥4,032
Changes during period					
Issuance of new shares - exercise of share acquisition rights	518	517			1,035
The issuance of restricted shares	34	34			68
Dividends of surplus			(120)		(120)
Profit (loss) attributable to owners of parent			(1,243)		(1,243)
Purchase of treasury shares				(0)	(0)
Increase by share exchanges	171	164			335
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Net changes in items other than shareholders' equity					—
Total changes during period	723	715	(1,363)	(0)	75
Balance at February 28, 2019	¥1,651	¥2,546	¥ (90)	¥(0)	¥4,107
Changes during period					
Issuance of new shares - exercise of share acquisition rights	249	249			498
The issuance of restricted shares					
Dividends of surplus			(130)		(130)
Profit (loss) attributable to owners of parent			885		885
Purchase of treasury shares				(1)	(1)
Increase by share exchanges					
Change in ownership interest of parent due to transactions with non-controlling interests		(16)			(16)
Net changes in items other than shareholders' equity					
Total changes during period	249	233	755	(1)	1,236
Balance at February 29, 2020	¥1,900	¥2,779	¥ 665	¥(1)	¥5,343

Millions of yen

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at March 1, 2018	¥ 56	¥ 9	¥ 65	¥100	¥ 22	¥ 4,219
Changes during period						
Issuance of new shares - exercise of share acquisition rights						1,035
The issuance of restricted shares						68
Dividends of surplus						(120)
Profit (loss) attributable to owners of parent						(1,243)
Purchase of treasury shares						(0)
Increase by share exchanges						335
Change in ownership interest of parent due to transactions with non-controlling interests						(0)
Net changes in items other than shareholders' equity	199	(2)	197	(28)	(1)	168
Total changes during period	199	(2)	197	(28)	(1)	243
Balance at February 28, 2019	¥255	¥ 7	¥262	¥ 72	¥ 21	¥ 4,462
Changes during period						
Issuance of new shares - exercise of share acquisition rights						498
The issuance of restricted shares						
Dividends of surplus						(130)
Profit (loss) attributable to owners of parent						885
Purchase of treasury shares						(1)
Increase by share exchanges						
Change in ownership interest of parent due to transactions with non-controlling interests						(16)
Net changes in items other than shareholders' equity	188	(1)	187	(24)	(23)	140
Total changes during period	188	(1)	187	(24)	(23)	1,376
Balance at February 29, 2020	¥443	¥ 6	¥449	¥ 48	¥ (2)	¥ 5,838

Thousands of U.S. dollars (Note 1)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at February 28, 2019	$15,083	$23,265	$ (825)	$(3)	$37,520
Changes during period					
Issuance of new shares - exercise of share acquisition rights	2,273	2,273			4,546
The issuance of restricted shares					
Dividends of surplus			(1,184)		(1,184)
Profit (loss) attributable to owners of parent			8,086		8,086
Purchase of treasury shares				(3)	(3)
Increase by share exchanges					
Change in ownership interest of parent due to transactions with non-controlling interests		(146)			(146)
Net changes in items other than shareholders' equity					
Total changes during period	2,273	2,127	6,902	(3)	11,299
Balance at February 29, 2020	$17,356	$25,392	$ 6,077	$(6)	$48,819

Thousands of U.S. dollars (Note 1)

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at February 28, 2019	$2,336	$ 63	$2,399	$ 658	$ 191	$40,768
Changes during period						
Issuance of new shares - exercise of share acquisition rights						4,546
The issuance of restricted shares						
Dividends of surplus						(1,184)
Profit (loss) attributable to owners of parent						8,086
Purchase of treasury shares						(3)
Increase by share exchanges						
Change in ownership interest of parent due to transactions with non-controlling interests						(146)
Net changes in items other than shareholders' equity	1,719	(13)	1,706	(215)	(208)	1,283
Total changes during period	1,719	(13)	1,706	(215)	(208)	12,582
Balance at February 29, 2020	$4,055	$ 50	$4,105	$ 443	$ (17)	$53,350

The accompanying notes are an integral part of these financial statements.

Financial Section

CONSOLIDATED STATEMENTS OF CASH FLOWS

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries
Years ended February 29, 2020 and February 28, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities			
Profit (loss) before income taxes	¥ 1,600	¥ (709)	$ 14,621
Depreciation	345	401	3,153
Amortization of goodwill	462	781	4,225
Gain on bargain purchase	—	(85)	—
Increase in allowance for doubtful accounts	161	336	1,468
Increase in provision for bonuses	31	51	282
Increase in provision for point certificates	2	3	19
Interest and dividend income	(10)	(12)	(90)
Subsidy income	(27)	(51)	(244)
Interest expenses	42	49	387
Impairment loss	56	484	508
Gain on sales of investment securities	(295)	(7)	(2,696)
Loss on valuation of investment securities	180	1,217	1,647
Loss on investments in investment partnerships	1	6	13
Share of loss (profit) of entities accounted for using equity method	68	(20)	619
Gain on reversal of share acquisition rights	(1)	(4)	(11)
Increase in trade receivables	(3,843)	(3,698)	(35,122)
(Decrease) increase in advances received	(6)	25	(55)
Decrease (increase) in inventories	44	(57)	405
Increase in prepaid expenses	(26)	(43)	(237)
Decrease in long-term prepaid expenses	8	10	73
Increase in trade payables	3,756	4,610	34,321
Increase in accounts payable - other	66	65	600
(Decrease) increase in deposits received	(511)	378	(4,667)
Increase (decrease) in accrued consumption taxes	68	(32)	620
Increase in consumption taxes refund receivable	(223)	(155)	(2,037)
Other, net	40	(396)	367
Subtotal	1,988	3,147	18,169
Interest and dividends received	11	4	100
Subsidies received	22	32	204
Interest paid	(41)	(49)	(382)
Income taxes paid	(556)	(676)	(5,083)
Income taxes refund	505	—	4,616
Net cash provided by (used in) operating activities	1,929	2,458	17,624
Cash flows from investing activities			
Purchase of property, plant and equipment	(25)	(129)	(233)
Purchase of intangible assets	(303)	(366)	(2,766)
Proceeds from sales of investment securities	333	13	3,046
Purchase of investment securities	(86)	(68)	(784)
(Payments for) proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	(27)	26	(249)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	32	—	291
Purchase of shares of subsidiaries and associates	—	(13)	—
Proceeds from sale of businesses	5	—	46
Payments of guarantee deposits	(13)	(2)	(123)
Refund of guarantee deposits received	9	57	79
Other, net	(2)	0	(15)
Net cash provided by (used in) investing activities	(77)	(482)	(708)
Cash flows from financing activities			
Proceeds from long-term borrowings	—	1,200	—
Repayments of long-term borrowings	(1,822)	(2,523)	(16,650)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(30)	—	(271)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	475	1,011	4,341
Proceeds from issuance of restricted shares	—	68	—
Dividends paid	(130)	(120)	(1,184)
Purchase of treasury shares	(0)	(0)	(3)
Net cash provided by (used in) financing activities	(1,507)	(364)	(13,767)
Effect of exchange rate change on cash and cash equivalents	(2)	7	(19)
Net increase (decrease) in cash and cash equivalents	343	1,619	3,130
Cash and cash equivalents at beginning of period	7,747	5,686	70,795
Increase in cash and cash equivalents resulting from share exchanges	—	442	—
Cash and cash equivalents at end of period (Note 17)	¥ 8,090	¥ 7,747	$ 73,925

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries
Years ended February 29, 2020 and February 28, 2019

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying consolidated financial statements have been reformatted and translated into English with some expanded explanations from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act.

As explained in Note 22 "Significant Subsequent Events," on June 1, 2020, the Company merged with the former MEDIA DO Co., Ltd., its consolidated subsidiary, in an absorption-type merger with the Company as the surviving company. Further, the Company changed its business name to MEDIA DO Co., Ltd. on the same date. Please see Note 22 "Significant Subsequent Events" for details.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at February 29, 2020, which was ¥109.43 to U.S.$1.00. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

Consolidated financial statements include the accounts of the Company and 10 significant subsidiaries and two associates accounted for by the equity method.

Under the control or influence concept, those companies in which the Company, either directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for using the equity method. Investment in one associate which is not accounted for by the equity method is excluded from the scope of the equity method since profit or loss (for the holding interest) and retained earnings (for the holding interest) are insignificant, and the impact is insignificant as a whole.

Two of the Company's subsidiaries have a fiscal year-end of December 31. Significant transactions occurring from January 1 to February 28/29 are adjusted in these consolidated financial statements.

Financial Section

Significant subsidiaries and associates as of February 29, 2020 are as follows:

Company name	Share capital (Millions of yen)	Ownership interest (%)	Main business
Consolidated subsidiaries:			
The former MEDIA DO Co., Ltd.	100	100.0 (Direct)	eBook agency
Digital Publishing Initiatives Japan Co., Ltd.	10	100.0 (Direct)	Copyright management
MEDIA DO INTERNATIONAL, INC.	(Thousands of U.S. dollars) 2,473	100.0 (Direct)	eBook agency
Flier Inc.	71	100.0 (Direct)	Text summary site operation
ARTRA ENTERTAINMENT Inc.	10	100.0 (Direct)	Coloring, eComics
MEDIA DO TECH TOKUSHIMA Co., Ltd.	45	100.0 (Direct)	Operation outsourcer
J-Comic Terrace Corporation	95	70.5 (Direct)	Online eBook distribution
JIVE Ltd.	10	100.0 (Direct)	Planning, editing, publishing, and sales of books and magazines
MyAnimeList, LLC.	(Thousands of U.S. dollars) 1,246	100.0 (Indirect)	Anime/manga community site operation
MangaNews Inc.	11	100.0 (Direct)	Manga review site operation
Associates accounted for by the equity method:			
A.I. Squared, Inc.	186	20.1 (Direct)	Various IT services and consulting using artificial intelligence (AI)
TEC INFORMATION CORP.	230	25.0 (Direct)	Software development

LINE Book Distribution Inc., an associate of the Company, is not accounted for by the equity method due to insignificancy.

As stated in Note 21 "Business Combinations," on March 1, 2019 the Company carried out an absorption-type merger between its wholly owned subsidiaries: the former Digital Publishing Initiatives Japan Co., Ltd. (the former "DPIJ") as the surviving company and the former MEDIA DO Co., Ltd. as the dissolving company. On the same date, the former DPIJ changed its business name to the former MEDIA DO Co., Ltd. Further, on the same date, the Company established a new wholly-owned company named Digital Publishing Initiatives Japan Co., Ltd. as shown on the list above.

(b) Securities

Equity securities issued by subsidiaries and associates which are not consolidated nor accounted for by the equity method are stated at moving-average cost. Available-for-sale securities with readily available market values are stated at market value based on the average prices for a period of one month before the balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Costs of securities sold are determined by the moving-average method.

Available-for-sale securities with no readily available market values are stated at moving-average cost. Investment in partnerships is stated at the amount equivalent to the holding share of the partnerships' assets.

(c) Property, plant and equipment (excluding leased assets)

Property, plant and equipment of the Group are carried at cost. Depreciation is mainly computed using the straight-line method. The useful lives of major assets are as follows:

Buildings	8 to 18 years
Tools, furniture and fixtures	3 to 10 years

(d) Intangible assets (excluding leased assets)

Internal-use software is amortized using the straight-line method over a useful life of 3 to 5 years. Capitalized digital content is amortized using the straight-line method over a useful life of 1 to 2 years.

(e) Leased assets
Leased assets under finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero based on the straight-line method over a useful life period corresponding to the lease contract period.

(f) Allowance for doubtful accounts
The allowance for doubtful accounts is provided at the amount determined based on the historical experience of bad debt with respect to ordinary receivables and an estimate of uncollectible amounts determined by reference to specific doubtful receivables of customers experiencing financial difficulties.
For the years ended February 29, 2020 and February 28, 2019, the Company provided provisions for its holding convertible bond-type bonds with share acquisition rights at the amount deemed to be uncollectible, and recorded as special provision for allowance for doubtful accounts in the consolidated statements of income.

(g) Provision for point certificates
As to the amount of points purchased in advance by customers to download or view content, the provision for point certificates is provided for the balance of unused points at the fiscal year-end at the amount of points expected to be used in the future.

(h) Provision for bonuses
The provision for employees' bonuses is provided at the estimated amounts which the Company is obligated to pay to employees after the fiscal year-end based on services provided for the year.

(i) Provision for loss on business liquidation
Certain domestic consolidated subsidiaries provide the provision for loss on business liquidation based on a reasonable estimate.

(j) Translation of foreign currencies
Available-for-sale securities denominated in foreign currencies are translated into Japanese yen at the year-end spot exchange rates, and translation differences are included in valuation difference on available-for-sale securities under net assets.

The balance sheets of overseas consolidated subsidiaries are translated into Japanese yen at the spot exchange rate on the year-end closing date except that net assets accounts are translated at historical rates and the statements of income are translated at the average exchange rate for the fiscal year. Translation differences are included in foreign currency translation adjustment under net assets.

(k) Goodwill
Goodwill is amortized equally within a period of 5 to 20 years by the straight-line method.

(l) Cash and cash equivalents
Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less that are readily convertible into known amounts of cash and are not exposed to significant risk of changes in value.

(m) Consumption taxes
The accounting method for national and local consumption taxes is based on the tax-exclusive method.

Financial Section

(n) Accounting standards and guidance issued but not yet applied

"Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No. 29, March 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

(1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") in the United States conducted a joint project to clarify the comprehensive principles for recognizing revenues and published the "Revenue from Contracts with Customers" (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. IFRS 15 will be applied from a fiscal period beginning on or after January 1, 2018 and Topic 606 will be applied from a fiscal period beginning on or after December 15, 2017. Under these circumstances, ASBJ also developed a comprehensive accounting standard for revenue recognition and published a new standard together with its implementation guidance.

As a basic policy for the development of the new standard, ASBJ determined to adopt the core principles of IFRS 15 to enhance the comparability of financial statements, which is one of the benefits of ensuring consistency with IFRS 15. In addition, for any practical issue to be considered in Japan, ASBJ is supposed to add alternative treatment to the extent that comparability is not impaired.

(2) Scheduled date of adoption

The Company expects to adopt the aforementioned standard and guidance from the beginning of the year ending February 28, 2023.

(3) Effect of adoption

The effect of adoption of the aforementioned standard and guidance on the Company's consolidated financial statements is under evaluation.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)

(1) Overview

IASB and FASB provide detailed guidance on fair value measurements that is almost identical (IFRS 13 by IASB and Topic 820 by FASB). In order to improve comparability with the provisions of these international accounting standards, ASBJ has developed accounting standards for the calculation of fair value, which have been published along with the applicable guidelines.

The basic policy of ASBJ in developing accounting standards for the calculation of fair value is to basically incorporate all the provisions of IFRS 13 to improve the comparability of financial statements between domestic and foreign companies by using a uniform calculation method. However, in consideration of the practices that have been taken in Japan, other treatments for individual items are to be prescribed to the extent that they do not significantly impair comparability between financial statements.

(2) Scheduled date of adoption

The Company expects to adopt the aforementioned standard and guidance from the beginning of the year ending February 28, 2023.

(3) Effect of adoption

The effect of adoption of the aforementioned standard and guidance on the Company's consolidated financial statements is under evaluation.

(o) Change in presentation

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the year ended February 29, 2020, the Company and its subsidiaries changed the presentation of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of "Investments and other assets" and "non-current liabilities," respectively.

As a result, ¥132 million of deferred tax assets, which was previously included in "Other" under "Current assets," is included in "Deferred tax assets" under "Investments and other assets" in the consolidated balance sheets.

3. GOODWILL

Goodwill arises from the acquisition of interests in subsidiaries and associates. Most of the Company's goodwill resulted from the acquisition of the former DPIJ in March 2017. The amortization of goodwill is included in selling, general and administrative expenses.

For the year ended February 28, 2019, in connection with recognizing loss on valuation of investments in associates on its unconsolidated financial statements, the Company recorded lump-sum special amortization of goodwill in the amount of ¥260,433 thousand in accordance with the "Practical Guideline for Consolidation Procedures for Preparation of Consolidated Financial Statements" (Paragraph 32, Report No. 7, Accounting System Committee of the Japanese Institute of Certified Public Accountants, last revised on November 28, 2014).

4. FINANCIAL INSTRUMENTS

(a) Qualitative information on financial instruments

(1) Policy for financial instruments

The Group invests excess funds other than those necessary for its business operations in highly stable financial instruments such as short-term bank deposits. As a policy, the Group finances funds by bank loans.

(2) Details of financial instruments, their risks and risk management system

Operating receivables such as accounts receivable–trade are exposed to credit risk. To mitigate such risk, the Group reviews customers' credit status by monitoring their credit conditions in accordance with the credit management rules, while monitoring the due dates and balances by customer.

Investment securities mainly consist of shares of companies with business relationships or capital tie-ups. The Group has a policy to hold them in the medium-to-long term. The Group regularly reviews the issuers' financial conditions and continuously evaluates the holding status taking the business relationship into account.

Operating payables such as accounts payable–trade are mostly due within three months and exposed to liquidity risk. The Group manages such risk by preparing the cash management plan on a monthly basis and checking account balances on a daily basis.

Long-term borrowings are mainly made for the purpose of mergers and acquisitions. They are variable interest rate borrowings and exposed to interest rate fluctuation risk.

In addition, there is a risk that the Company may be required to make early repayments of certain borrowings due to infringement of financial covenants.

(3) Concentration of credit risk of financial instruments

As of February 29, 2020, over 60.0% of operating receivables are from five major customers.

(4) Supplemental information on fair values of financial instruments

Fair values of financial instruments include values based on market prices and values which are reasonably calculated in case market prices are not readily available. Since certain assumptions are used for the calculation, values may vary when different assumptions are applied.

Financial Section

(b) Fair values of financial instruments

Millions of yen

	2020		
	Carrying value	Fair value	Difference
1) Cash and deposits	¥ 8,090	¥ 8,090	¥—
2) Accounts receivable–trade	16,022	16,022	—
3) Investment securities			
Available-for-sale securities	767	767	—
Total assets	¥24,879	¥24,879	¥—
1) Accounts payable–trade	¥18,248	¥18,248	¥—
2) Long-term borrowings, including current portion	8,241	8,241	—
Total liabilities	¥26,489	¥26,489	¥—

Millions of yen

	2019		
	Carrying value	Fair value	Difference
1) Cash and deposits	¥ 7,747	¥ 7,747	¥—
2) Accounts receivable–trade	12,313	12,313	—
3) Investment securities			
Available-for-sale securities	658	658	—
Total assets	¥20,718	¥20,718	¥—
1) Accounts payable–trade	¥14,481	¥14,481	¥—
2) Long-term borrowings, including current portion	10,063	10,063	—
Total liabilities	¥24,544	¥24,544	¥—

Thousands of U.S. dollars

	2020		
	Carrying value	Fair value	Difference
1) Cash and deposits	$ 73,925	$ 73,925	$—
2) Accounts receivable–trade	146,417	146,417	—
3) Investment securities			
Available-for-sale securities	7,007	7,007	—
Total assets	$227,349	$227,349	$—
1) Accounts payable–trade	$166,754	$166,754	$—
2) Long-term borrowings, including current portion	75,312	75,312	—
Total liabilities	$242,066	$242,066	$—

Notes: 1. Fair value measurement of financial instruments
Assets:
1) Cash and deposits and 2) Accounts receivable–trade
The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.
3) Investment securities
The fair value is based on the price at securities exchanges.
Liabilities:
1) Accounts payable–trade
The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.
2) Long-term borrowings, including current portion
The fair value approximates the carrying value since these borrowings bear variable interest rates which reflect market rates in a short period of time. Thus, the carrying value is deemed as the fair value. The current portion of long-term borrowings is included in long-term borrowings.

2. The following financial instruments are not included in the table above since their fair value is extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Investment securities:			
Unlisted securities	¥ 270	¥ 236	$ 2,464
Convertible bond-type bonds with share acquisition rights	1,468	1,481	13,413
Shares of associates	455	526	4,154
Guarantee deposits	322	334	2,945

With regard to unlisted securities, convertible bond-type bonds with share acquisition rights and shares of associates, their market prices are not readily available and it is extremely difficult to determine their fair value.

As to guarantee deposits, their future cash flows cannot be estimated and it is extremely difficult to determine their fair value.

(c) The redemption schedule for monetary claims

Millions of yen

	2020			
	Due within 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
1) Cash and deposits	¥ 8,090	¥—	¥—	¥—
2) Accounts receivables–trade	16,022	—	—	—
Total	¥24,112	¥—	¥—	¥—

Millions of yen

	2019			
	Due within 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
1) Cash and deposits	¥ 7,747	¥—	¥—	¥—
2) Accounts receivables–trade	12,313	—	—	—
Total	¥20,060	¥—	¥—	¥—

Thousands of U.S. dollars

	2020			
	Due within 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
1) Cash and deposits	$ 73,925	$—	$—	$—
2) Accounts receivables–trade	146,417	—	—	—
Total	$220,342	$—	$—	$—

Please see Note 6 "Long-Term Borrowings and Lease Obligations," for long-term borrowings.

5. SECURITIES

(a) Available-for-sale securities

Securities with carrying values exceeding acquisition costs

Millions of yen

	2020			2019		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
1) Equity securities	¥ 588	¥ 23	¥565	¥ 324	¥ 45	¥279
2) Bonds						
Corporate bonds	1,027	957	70	1,041	957	84
3) Other	—	—	—	52	50	2
Total	¥1,615	¥980	¥635	¥1,417	¥1,052	¥365

Financial Section

	Thousands of U.S. dollars		
	2020		
	Carrying value	Acquisition cost	Difference
1) Equity securities	$ 5,370	$ 208	$5,162
2) Bonds			
Corporate bonds	9,383	8,742	641
3) Other	—	—	—
Total	$14,753	$8,950	$5,803

Securities with carrying values not exceeding acquisition costs

	Millions of yen					
	2020			2019		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
1) Equity securities	¥275	¥1,675	¥(1,400)	¥435	¥1,652	¥(1,217)
2) Bonds						
Corporate bonds	441	441	—	441	441	—
3) Other	174	180	(6)	83	88	(5)
Total	¥890	¥2,296	¥(1,406)	¥959	¥2,181	¥(1,222)

	Thousands of U.S. dollars		
	2020		
	Carrying value	Acquisition cost	Difference
1) Equity securities	$2,507	$15,304	$(12,797)
2) Bonds			
Corporate bonds	4,030	4,030	—
3) Other	1,594	1,648	(54)
Total	$8,131	$20,982	$(12,851)

(b) Available-for-sale securities sold

	Millions of yen					
	2020			2019		
	Sales proceeds	Gain	Loss	Sales proceeds	Gain	Loss
Equity securities	¥333	¥292	¥—	¥7	¥9	¥2

	Thousands of U.S. dollars		
	2020		
	Sales proceeds	Gain	Loss
Equity securities	$3,046	$2,671	$—

(c) Impairment loss on securities

For the year ended February 29, 2020, the Company recognized an impairment loss of ¥180 million ($1,647 thousand) on investment securities (available-for-securities).

For the year ended February 28, 2019, the Company recognized an impairment loss of ¥1,529 million on investment securities (available-for-sale securities: ¥1,217 million and shares of subsidiaries and associates: ¥312 million).

For securities whose fair value is extremely difficult to determine, an impairment loss is recognized when their actual value significantly declines due to deterioration of financial conditions or other reasons after taking into account collectibility.

6. LONG-TERM BORROWINGS AND LEASE OBLIGATIONS

Long-term borrowings as of February 29, 2020 and February 28, 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unsecured long-term borrowings, weighted-average interest rates of 0.44% and 0.46% in 2020 and 2019, maturing through 2027	¥8,242	¥10,063	$75,312
Less: amounts due within one year	1,663	1,323	15,195
Long-term borrowings	¥6,579	¥ 8,740	$60,117

Lease obligations, maturing through 2021, are included in "Other" under current liabilities and non-current liabilities as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Amount included in Other under current liabilities	¥3	¥3	$27
Amount included in Other under non-current liabilities	1	4	11

The redemption schedule for long-term borrowings and lease obligations

Millions of yen

	2020					
	Due within 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term borrowings	¥1,663	¥1,174	¥1,019	¥1,000	¥1,000	¥2,386
Lease obligations	3	1	—	—	—	—

Thousands of U.S. dollars

	2020					
	Due within 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term borrowings	$15,195	$10,726	$9,313	$9,135	$9,135	$21,808
Lease obligations	27	11	—	—	—	—

7. RETIREMENT BENEFITS

(a) Outline of the retirement benefit plan

The Company and certain consolidated subsidiaries have adopted the defined contribution plan. Certain consolidated subsidiaries participate in the Smaller Enterprise Retirement Allowance Mutual Aid ("SERAMA")Scheme.

A consolidated subsidiary, which had the defined benefit plan applying the simplified method, was excluded from the scope of consolidation in the year ended February 29, 2020.

(b) Defined benefit plan applying the simplified method

(1) Movement in retirement benefit liability for plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of the year	¥ 54	¥—	$491
Retirement benefit expenses	4	—	35
Increase due to newly consolidated subsidiaries	—	54	—
Decrease due to exclusion from consolidation	(58)	—	(526)
Balance at end of the year	¥ —	¥54	$ —

Financial Section

(2) Reconciliation from retirement benefit obligation and plan assets to retirement benefit liability

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligation	¥—	¥54	$—
Plan assets	—	(0)	—
Retirement benefit liability at end of the year	—	54	—
Retirement benefit liability	—	54	—
Retirement benefit liability at end of the year	¥—	¥54	$—

(3) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit expenses calculated using the simplified method	¥4	¥—	$35

(c) Defined contribution plan

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Contributions paid to the defined contribution plan	¥25	¥22	$225
Contributions paid to SERAMA	11	15	104
Total	¥36	¥37	$329

8. STOCK OPTIONS

The Company adopts stock options as a strong incentive for management and employees to perform at a higher level, which will rapidly improve corporate value of the Company in the fast-growing eBook market. For each stock option, the vesting condition and exercise period are strategically determined in detail, with consultation of an independent third-party professional, based on the very high-level performance target in a short run.

The following summarizes the status of the Company's stock options.

(a) Outline of stock options

	2012 stock option The 8th share acquisition rights	2013 stock option The 10th share acquisition rights	2015 stock option The 14th share acquisition rights
Date of resolution	Board of Directors' meeting held on February 20, 2012	General shareholders' meeting held on May 22, 2012 Board of Directors' meeting held on February 15, 2013	Board of Directors' meeting held on July 22, 2015
Grantee	3 directors of the Company 2 auditors of the Company 39 employees of the Company	14 employees of the Company	3 directors of the Company 6 employees of the Company
Number of stock options by class of shares (Note 1)	Common share 384,000 shares	Common share 88,000 shares	Common share 50,000 shares
Date of grant	February 25, 2012	February 25, 2013	August 10, 2015
Exercise period	From February 26, 2014 to February 25, 2022	From February 26, 2015 to February 25, 2023	From May 31, 2018 to August 9, 2023

	2016 treasury stock option The 15th share acquisition rights	2016 stock option The 16th share acquisition rights	2017 stock option The 17th share acquisition rights
Date of resolution	Board of Directors' meeting held on April 7, 2016	Extraordinary shareholders' meeting held on October 28, 2016	Extraordinary shareholders' meeting held on July 31, 2017
Grantee	FIBC Co., Ltd. (Note 2)	5 directors of the Company 5 auditors of the Company 1 external collaborator	4 directors of the Company 15 employees of the Company 2 directors of subsidiaries 12 employees of subsidiaries FIBC Co., Ltd. (Note 2)
Number of stock options by class (Note 1)	Common share 1,059,000 shares	Common share 1,500,000 shares	Common share 496,500 shares
Date of grant	April 25, 2016	November 16, 2016	August 17, 2017
Exercise period	From April 26, 2016 to April 25, 2019	From March 1, 2019 to June 30, 2019	From June 1, 2020 to December 30, 2020

Notes: 1. The number of stock options presents the number of respective shares. For 2012 and 2013 stock options, the number of shares is calculated after the stock splits carried out on September 14, 2013 (100-for-1), March 1, 2014 (2-for-1), and December 1, 2014 (2-for-1).
2. FIBC Co., Ltd. is an asset management company held by Yasushi Fujita, President and Chief Executive Officer of the Company.

(b) Number of stock options and treasury stock options

	2012 stock option The 8th share acquisition rights	2013 stock option The 10th share acquisition rights	2015 stock option The 14th share acquisition rights
Non-vested (shares)			
February 28, 2019 – Outstanding	—	—	46,000
Granted	—	—	—
Expired	—	—	—
Vested	—	—	46,000
February 29, 2020 – Outstanding	—	—	—
Vested (shares)			
February 28, 2019 – Outstanding	6,400	6,800	—
Vested	—	—	—
Exercised	—	—	2,000
Expired	1,200	—	—
February 29, 2020 – Outstanding	5,200	6,800	44,000

	2016 treasury stock option The 15th share acquisition rights	2016 stock option The 16th share acquisition rights	2017 stock option The 17th share acquisition rights
Non-vested (shares)			
February 28, 2019 – Outstanding	—	1,493,500	487,500
Granted	—	—	—
Expired	—	—	11,500
Vested	—	1,493,500	—
February 29, 2020 – Outstanding	—	—	476,000
Vested (shares)			
February 28, 2019 – Outstanding	338,500	—	—
Vested	—	—	—
Exercised	338,500	1,493,500	—
Expired	—	—	—
February 29, 2020 – Outstanding	—	—	—

The number of stock options expired in the table shows the actual number of stock options expired, since it is difficult to estimate the number of stock options which will expire in the future on a reasonable basis.

For unexercised and expired stock options, the Company recognized a gain on reversal of share acquisition rights in the amounts of ¥1 million ($11 thousand) and ¥4 million for the years ended February 29, 2020 and February 28, 2019, respectively.

(c) Price of options

	2012 stock option The 8th share acquisition rights		2013 stock option The 10th share acquisition rights		2015 stock option The 14th share acquisition rights	
	Yen	U.S. dollars	Yen	U.S. dollars	Yen	U.S. dollars
Exercise price	¥250	$2.28	¥250	$2.28	¥1,843	$16.84
Average stock price at exercise	—		—		3,830	35.00
Fair value on the date of grant	—		—		10.00	0.09

	2016 treasury stock option The 15th share acquisition rights		2016 stock option The 16th share acquisition rights		2017 stock option The 17th share acquisition rights	
	Yen	U.S. dollars	Yen	U.S. dollars	Yen	U.S. dollars
Exercise price	¥1,388	$12.68	¥ 1	$ 0.01	¥ 850	$7.77
Average stock price at exercise	2,973	27.17	3,205	29.29	—	—
Fair value on the date of grant	33.03	0.30	7.50	0.07	100.87	0.92

Regarding 2012 and 2013 stock options, the prices are calculated after the stock splits carried out on September 14, 2013 (100-for-1), March 1, 2014 (2-for-1), and December 1, 2014 (2-for-1). In addition, the fair values on the date of grant are not reasonably estimated for these stock options since the Company's shares have not yet listed at the stock exchange on the grant date of 2012 and 2013 stock options. Thus, for these stock options, the fair value on the date of grant presents the intrinsic value of respective option.

According to ASBJ Statement No. 8, the intrinsic value for an unlisted company's stock option is calculated by subtracting an exercise price from the value of the company's shares. The Company applied both the transaction-based approach and the discounted cash flow ("DCF") method to estimate the value of the Company's shares on the date of grant. As a result, the estimated value of the Company's shares was equal to the paid-in amount upon exercise of the share acquisition rights; therefore, the intrinsic value resulted in zero. Thus, the fair value of stock options is to be zero.

The breakdown of share acquisition rights on the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Share acquisition rights as stock option	¥48	¥61	$443
Share acquisition rights as treasury stock option	—	11	—
Total	¥48	¥72	$443

9. ASSET RETIREMENT OBLIGATIONS

The Company recognizes asset retirement obligations primarily related to future restoration obligation under real estate leases for buildings such as offices.

The Company calculates its asset retirement obligations by assuming the occupancy period to be 2 to 10 years and applying discount rates of 0.0% to 0.6%.

Changes in asset retirement obligations, included in "Other" under current liabilities, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of the year	¥64	¥ 58	$582
Increase due to acquisition of property, plant and equipment	—	27	—
Adjustments due to the passage of time	0	0	0
Decrease due to performance of asset retirement obligations	—	(21)	—
Balance at end of the year	¥64	¥ 64	$582

10. INCOME TAXES

Significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Excess depreciation	¥ 58	¥ 97	$ 530
Accrued enterprise tax	32	24	294
Loss on valuation of investment securities and investments in associates	603	508	5,509
Asset retirement obligations	20	20	178
Provision for point certificates	14	15	130
Provision for bonuses	64	62	589
Excess allowance for doubtful accounts	163	114	1,488
Tax loss carryforwards	280	291	2,558
Impairment loss	30	—	277
Other	26	7	232
Subtotal	1,290	1,138	11,785
Valuation allowance	(1,091)	(908)	(9,970)
Total deferred tax assets	199	230	1,815
Deferred tax liabilities:			
Cost capitalized corresponding to asset retirement obligations	(14)	(16)	(124)
Valuation difference on available-for-sale securities	(196)	(113)	(1,790)
Other	0	(1)	0
Total deferred tax liabilities	(210)	(130)	(1,914)
Net deferred tax assets	¥ (11)	¥ 100	$ (99)

(a) Reconciliation between the statutory tax rate and the effective tax rate

	2020	2019
Statutory tax rate	30.6%	—%
Adjustments:		
Permanent differences such as entertainment expenses	0.1	—
Inhabitants' tax	0.6	—
Amortization of goodwill	7.1	—
Share of loss of entities accounted for using equity method	1.3	—
Change in valuation allowance	7.0	—
Gain on sales of investment securities	1.5	—
Loss on valuation of investment securities	(3.3)	—
Other	0.1	—
Effective tax rate	45.2%	—%

11. NET ASSETS

Under the Companies Act of Japan ("the Act"), the entire amount paid for new shares is required to be designated as share capital. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The Act provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus (other than additional paid-in capital) and retained earnings (other than legal earnings reserve) be transferred to additional paid-in capital and the legal earnings reserve, respectively, until the total of additional paid-in capital and the legal earnings reserve equals 25% of the share capital account.

Such distributions can be made at any time by resolution of the shareholders' meeting, or by resolution of the Board of Directors if certain conditions are met.

Financial Section

Under the Act, additional paid-in capital and the legal earnings reserve may not be distributed as dividends; the Act allows all additional paid-in capital and all legal earnings reserve to be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

The following tables summarize the dividends paid for the years ended February 29, 2020 and February 28, 2019:

	2020						
		Total amount of dividends		Dividends per share			
Resolution	Class of share	(Millions of yen)	(Thousands of U.S. dollars)	(Yen)	(U.S. dollars)	Record date	Effective date
Board of Directors' meeting held on April 25, 2019	Common share	¥130	$1,184	¥10.50	$0.10	February 28, 2019	May 13, 2019

	2019				
		Total amount of dividends	Dividends per share		
Resolution	Class of share	(Millions of yen)	(Yen)	Record date	Effective date
Board of Directors' meeting held on April 26, 2018	Common share	¥120	¥10.50	February 28, 2018	May 15, 2018

Dividends with a record date during the year ended February 29, 2020, but with an effective date subsequent to the year ended February 29, 2020, are as follows:

		Total amount of dividends			Dividends per share			
Resolution	Class of share	(Millions of yen)	(Thousands of U.S. dollars)	Source	(Yen)	(U.S. dollars)	Record date	Effective date
Board of Directors' meeting held on April 23, 2020	Common share	¥184	$1,684	Retained earnings	¥13.0	$0.12	February 29, 2020	May 12, 2020

As of February 29, 2020 and February 28, 2019, the number of the Company's authorized shares is 44,329,600 share. The following table summarizes the number of shares of common shares, issued and outstanding, and treasury shares:

	Number of shares	
	2020	2019
Common shares, issued and outstanding:		
At the beginning of the year	12,341,100	11,389,200
Increase due to exercise of stock options	1,834,000	762,100
Increase due to issuance of new shares in connection with the share exchange with Tokushima Data Service Co., Ltd.	—	161,900
Increase due to issuance of new shares in connection with granting shares with certain transfer restrictions	—	27,900
At the end of the year	14,175,100	12,341,100
Treasury shares:		
At the beginning of the year	152	89
Increase due to purchase of odd lot shares	1,684	63
At the end of the year	1,836	152

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major items of selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salaries and wages	¥1,189	¥959	$10,868
Commissions	967	745	8,836
Retirement benefit expenses	31	29	280
Amortization of goodwill	462	781	4,225
Bonuses and provision for bonuses	330	257	3,019

13. GAIN ON SALES OF NON-CURRENT ASSETS

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Digital content	¥—	¥12	$—
Buildings	1	0	5
Total	¥ 1	¥12	$ 5

14. LOSS ON RETIREMENT OF NON-CURRENT ASSETS

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Software	¥ 0	¥ 7	$ 3
Software under development	22	2	195
Tools, furniture and fixtures	0	2	0
Leased assets	2	—	19
Total	¥24	¥11	$217

15. IMPAIRMENT LOSS

For the years ended February 29, 2020 and February 28, 2019, the Company recognized an impairment loss as follows:

For the year ended February 29, 2020

Company	Location	Use of assets	Type	Millions of yen	Thousands of U.S. dollars
The former MEDIA DO Co., Ltd.	Head Office, Chiyoda-ku, Tokyo	Business assets	Tools, furniture and fixtures	¥56	$508

As the profitability of these assets has declined due to its limited useful life, the Company reduced its book value to zero and recognized the amount of ¥56 million ($508 thousand) as an impairment loss.

For the year ended February 28, 2019

Company	Location	Use of assets	Type	Millions of yen
The former MEDIA DO Co., Ltd.	Head Office, Chiyoda-ku, Tokyo	Business assets	Software under development	¥314
The former DPIJ	Head Office, Chiyoda-ku, Tokyo	Business assets	Software under development	170

Financial Section

As there is no longer a plan for future use of these assets, the Company reduced its book value to zero and disposed them. Thus, the total amount of ¥484 million was recognized as an impairment loss.

The Group classifies its holding assets primarily based on the grouping used for managerial accounting purposes.

Measuring the recoverable amount at the value of use, the Company deems the recoverable amount to be zero since the values measured based on the future cash flows were zero for the assets impaired for the years ended February 29, 2020 and February 28, 2019.

16. OTHER COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation difference on available-for-sale securities:			
Amounts incurred for the year	¥ 405	¥(221)	$ 3,702
Reclassification adjustments	(134)	508	(1,225)
Before tax effect adjustment	271	287	2,477
Tax effect	(83)	(88)	(758)
Valuation difference on available-for-sale securities	188	199	1,719
Foreign currency translation adjustment:			
Amounts incurred for the year	(1)	(2)	(13)
Other comprehensive income, total	¥ 187	¥ 197	$ 1,706

17. CASH FLOW STATEMENTS

Reconciliations of cash and cash equivalents in the consolidated statements of cash flows to accounts and amounts in the accompanying consolidated balance sheets as of February 29, 2020 and February 28, 2019, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and deposits	¥8,090	¥7,747	$73,925
Time deposits with maturity in excess of three months	—	—	—
Cash and cash equivalents	¥8,090	¥7,747	$73,925

For the year ended February 29, 2020, MyAnimeList, LLC. and JIVE Ltd. newly became consolidated subsidiaries of the Company due to share acquisition. The breakdown of assets and liabilities at the beginning of consolidation and the reconciliation between the acquisition cost and the amount paid for the acquisition is as follows:

	Millions of yen	Thousands of U.S. dollars
MyAnimeList, LLC.	2020	2020
Current assets	¥ 103	$ 941
Non-current assets	1	10
Goodwill	29	269
Current liabilities	(12)	(113)
Acquisition cost of a newly consolidated subsidiary due to share acquisition	121	1,107
Balance of cash and cash equivalents of the newly consolidated subsidiary	(101)	(920)
Difference: Amount paid for the acquisition	¥ (20)	$ (187)

	Millions of yen	Thousands of U.S. dollars
JIVE Ltd.	2020	2020
Current assets	¥ 5	$ 46
Goodwill	2	17
Current liabilities	(1)	(5)
Acquisition cost of a newly consolidated subsidiary due to share acquisition	6	58
Difference: Amount paid for the acquisition	¥(6)	$(58)

For the year ended February 29, 2020, the Company sold all shares of Tokushima Data Service Co., Ltd. to TEC INFORMATION CORP., an associate of the Company. The breakdown of assets and liabilities at the time of sale and the reconciliation between the sale price and net proceeds from the sale is as follows:

	Millions of yen	Thousands of U.S. dollars
Tokushima Data Service Co., Ltd.	**2020**	**2020**
Current assets	¥ 580	$5,298
Non-current assets	47	428
Current liabilities	(102)	(929)
Non-current liabilities	(98)	(893)
Gain on sales of investment securities	3	25
Sale price	430	3,929
Balance of cash and cash equivalents	(398)	(3,638)
Difference: Net proceeds from the sale	¥ 32	$ 291

For the year ended February 28, 2019, J-Comic Terrace Corporation and Tokushima Data Service Co., Ltd. newly became consolidated subsidiaries of the Company due to share acquisition. The breakdown of assets and liabilities at the beginning of consolidation and the reconciliation between the acquisition cost and net proceeds from the acquisition is as follows:

	Millions of yen
J-Comic Terrace Corporation	2019
Current assets	¥ 47
Non-current assets	1
Gain on bargain purchase	(25)
Current liabilities	(13)
Non-current liabilities	—
Non-controlling interests	(10)
Acquisition cost of a newly consolidated subsidiary due to share acquisition	0
Balance of cash and cash equivalents of the newly consolidated subsidiary	(26)
Difference: Net proceeds from the acquisition	¥ 26

	Millions of yen
Tokushima Data Service Co., Ltd.	2019
Current assets	¥ 579
Non-current assets	72
Gain on bargain purchase	(58)
Current liabilities	(158)
Non-current liabilities	(92)
Acquisition cost of a newly consolidated subsidiary due to share acquisition	343
Balance of cash and cash equivalents of the newly consolidated subsidiary	(443)
Issue price of the Company's shares through the share exchange	(343)
Difference: Net proceeds from the acquisition	¥ 443

18. SEGMENT INFORMATION

(Segment information)

(a) Overview of reportable segments

The Group defines its reportable segments as a component of the Group for which separate financial information is available and whose operating results are regularly evaluated by the Board of Directors to make decisions about how resources are to be allocated among the Group and assess their performance.

The Group consists of the following two reportable segments: "eBook distribution" and "Other." The major segment of the Group is the "eBook distribution" business for mobile devices such as smartphones and tablet devices. The "Other" segment engages in adverting and advertising agency consulting business and digital contents distribution business including music, video, and games.

(b) Basis of measurement about reported net sales, segment income or loss, segment assets, and other material items

Accounting policies of the reportable segments are substantially the same as the ones mentioned in Note 2 "Summary of Significant Accounting Policies." Segment income (loss) is based on operating profit (loss).

(c) Information on reportable segment income or loss, segment assets, segment liabilities and other material items

Millions of yen

	2020				
	Reportable segments				
	eBook distribution	Other	Total	Adjustments	Consolidated
Net sales					
Outside customers	¥64,530	¥1,330	¥65,860	¥ 0	¥65,860
Intersegment	40	108	148	(148)	—
Total	¥64,570	¥1,438	¥66,008	¥(148)	¥65,860
Segment income (loss)	¥ 1,862	¥ (287)	¥ 1,575	¥ 279	¥ 1,854
Other items:					
Amortization of goodwill	¥ 341	¥ 121	¥ 462	¥ —	¥ 462
Depreciation	278	16	294	51	345

Thousands of U.S. dollars

	2020				
	Reportable segments				
	eBook distribution	Other	Total	Adjustments	Consolidated
Net sales					
Outside customers	$589,689	$12,153	$601,842	$ 4	$601,846
Intersegment	370	986	1,356	(1,356)	—
Total	$590,059	$13,139	$603,198	$(1,352)	$601,846
Segment income (loss)	$ 17,011	$ (2,621)	$ 14,390	$ 2,550	$ 16,940
Other items:					
Amortization of goodwill	$ 3,120	$ 1,105	$ 4,225	$ —	$ 4,225
Depreciation	2,544	145	2,689	464	3,153

Notes: 1. Assets and liabilities by each reportable segment are not disclosed since the Group does not allocate its assets and liabilities to each reportable segment for management reporting purposes.
2. Adjustment to segment income (loss) of ¥279 million ($2,550 thousand) includes revenue from subsidiaries of ¥1,415 million ($12,930 thousand) and corporate expenses of ¥(1,119) million ($(10,223) thousand). Corporate expenses are those relating to Head Office administrative divisions and not attributable to each reportable segment.
3. Segment income (loss) is reconciled to operating profit in the consolidated statements of income.

Millions of yen

	2019				
	Reportable segments				
	eBook distribution	Other	Total	Adjustments	Consolidated
Net sales					
Outside customers	¥50,165	¥ 403	¥50,568	¥ —	¥50,568
Intersegment	6	117	123	(123)	—
Total	¥50,171	¥ 520	¥50,691	¥(123)	¥50,568
Segment income (loss)	¥ 1,618	¥(148)	¥ 1,470	¥ (2)	¥ 1,468
Other items:					
Amortization of goodwill	¥ 341	¥ 440	¥ 781	¥ —	¥ 781
Depreciation	333	23	356	45	401

Notes: 1. Assets and liabilities by each reportable segment are not disclosed since the Group does not allocate its assets and liabilities to each reportable segment for management reporting purposes.
2. Adjustment to segment income (loss) of ¥(2) million includes revenue from subsidiaries of ¥945 million and corporate expenses of ¥(862) million. Corporate expenses are those relating to Head Office administrative divisions and not attributable to each reportable segment.
3. Amortization of goodwill in the other segment includes amortization of goodwill of ¥260 million.
4. Segment income (loss) is reconciled to operating profit in the consolidated statements of income.

(Related information)

(a) Information on products and services

Information on products and services is omitted since applicable information is disclosed in the segment information section.

(b) Information on geographical areas

(1) Net sales

Net sales information by geographical area is omitted since sales in Japan accounted for more than 90% of consolidated net sales of the Company. Net sales are classified by company or region on the basis of the end users' location.

(2) Property, plant and equipment

Property, plant and equipment information by geographical area is omitted since there is no property, plant and equipment located outside Japan.

(c) Information on net sales by major customers

	Millions of yen		Thousands of U.S. dollars	
Company name	**2020**	2019	**2020**	**Related segment**
LINE Digital Frontier Corporation	¥13,786	¥7,778	$125,976	eBook distribution
Amazon Services International Inc.	8,450	6,212	77,214	eBook distribution
BookLive Co., Ltd.	7,542	6,100	68,920	eBook distribution

(Information on impairment loss)

Millions of yen

	2020				
	Reportable segments				
	eBook distribution	Other	Total	Adjustments	Consolidated
Impairment loss	¥56	¥—	¥56	¥—	¥56

Financial Section

Millions of yen

	2019				
	Reportable segments				
	eBook distribution	Other	Total	Adjustments	Consolidated
Impairment loss	¥484	¥—	¥484	¥—	¥484

Thousands of U.S. dollars

	2020				
	Reportable segments				
	eBook distribution	Other	Total	Adjustments	Consolidated
Impairment loss	$508	$—	$508	$—	$508

(Information on amortization and unamortized balances of goodwill)

Millions of yen

	2020				
	Reportable segments				
	eBook distribution	Other	Total	Adjustments	Consolidated
Amortization	¥ 341	¥121	¥ 462	¥—	¥ 462
Unamortized balances	4,564	852	5,416	—	5,416

Millions of yen

	2019				
	Reportable segments				
	eBook distribution	Other	Total	Adjustments	Consolidated
Amortization	¥ 341	¥440	¥ 781	¥—	¥ 781
Unamortized balances	4,905	902	5,807	—	5,807

Thousands of U.S. dollars

	2020				
	Reportable segments				
	eBook distribution	Other	Total	Adjustments	Consolidated
Amortization	$ 3,120	$ 1,105	$ 4,225	$—	$ 4,225
Unamortized balances	41,703	7,790	49,493	—	49,493

(Information on gain on bargain purchase)
For the year ended February 28, 2019, J-Comic Terrace Corporation became a consolidated subsidiary of the Company and was included in the "eBook distribution segment. As a result of this, a gain on bargain purchase of ¥28 million was recorded. Similarly, Tokushima Data Service Co., Ltd. became a consolidated subsidiary of the Company and was included in the "Other" segment. As a result of this, a gain on bargain purchase of ¥58 million was recorded. As of February 29, 2020, Tokushima Data Service Co., Ltd. is no longer a consolidated subsidiary since it was sold to an associate of the Company in the year ended February 29, 2020.

Gain on bargain purchase is not included in segment income since it is under extraordinary income.

19. RELATED-PARTY INFORMATION

FIBC Co., Ltd. ("FIBC") is an asset management company in which Yasushi Fujita, President and Chief Executive Officer of the Company, holds the majority of its voting rights. FIBC is located in Tokyo with share capital of ¥100 million ($914 thousand). FIBC directly held the Company's voting rights of 13.2% and 25.2% as of February 29, 2020 and February 28, 2019, respectively.

For the years ended February 29, 2020 and February 28, 2019, FIBC exercised the treasury stock option of the Company and paid in the amounts of ¥470 million ($4,294 thousand) and ¥1,000 million, respectively.

20. PER SHARE INFORMATION

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net assets per share	¥408.62	¥ 353.96	$3.73
Profit (loss) per share	64.59	(106.02)	0.59
Diluted profit per share	60.85	—	0.56

Profit per share is not stated for the year ended February 28, 2019 since loss per share was reported while diluted shares existed.

The following summarizes the basis of calculation of net assets per share.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total net assets	¥5,838	¥4,462	$53,350
Amounts deducted from the amount of total net assets	46	93	426
[Of which, share acquisition rights]	[48]	[72]	[443]
[Of which, non-controlling interests]	[(2)]	[21]	[(17)]
Net assets associated with common shares	5,792	4,369	52,924
Number of shares of common shares for the calculation of net assets per share (Share)	14,173,264	12,340,948	—

The following summarizes the basis of calculation of profit (loss) per share and diluted profit per share.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Profit (loss) per share:			
Profit (loss) attributable to shareholders of the parent company	¥ 885	¥ (1,243)	$8,086
Amounts not attributable to common shareholders	—	—	—
Profit (loss) attributable to common shareholders of the parent company	885	(1,243)	8,086
Weighted-average number of common shares (Shares)	13,699,905	11,726,514	—
Diluted profit per share:			
Adjustments to profit attributable to shareholders of the parent company	¥ —	¥ —	$ —
Increase in number of common shares (Shares)	841,875	—	
[Of which, share acquisition rights (Shares)]	[841,875]	[—]	
Details of diluted shares not included in the calculation of diluted profit per share due to no dilutive effect	—	—	—

Financial Section

21. BUSINESS COMBINATIONS

At a meeting of the Board of Directors held on January 15, 2019, the Company resolved to conduct an absorption-type merger between its wholly owned subsidiaries: The former Digital Publishing Initiatives Japan Co., Ltd.("DPIJ"), which engaged in eBook agency, eLibrary, and print on demand business, as the surviving company and the former MEDIA DO Co., Ltd., which engaged in eBook agency, eLibrary, international, and new business, as the dissolving company. The merger was completed on March 1, 2019. On the same day, the former DPIJ, the surviving company, changed its business name to the former MEDIA DO Co., Ltd.

This merger aims to improve the efficiency and profitability of the Group's business by improving the operational efficiency of the content distribution platform, speeding up the application of advanced technologies such as blockchain, and promoting the development of infrastructure for the entire publishing industry, including eBook formats and publishing databases.

Based on "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019), the Company accounted for this business combination as a transaction under common control.

22. SIGNIFICANT SUBSEQUENT EVENTS

At a meeting of the Board of Directors held on April 23, 2020, the Company resolved to conduct an absorption-type merger with the former MEDIA DO Co., Ltd., a wholly owned subsidiary of the Company. On the same date, the Company and the former MEDIA DO Co., Ltd. entered into the merger agreement.

Based on the agreement, the Company, the surviving company, absorbed the former MEDIA DO Co., Ltd. on June 1, 2020. Further, the Company changed its business name to MEDIA DO Co., Ltd. on the same date.

The merger aims to speed up decision-making, reduce additional operating costs by eliminating duplication of management and human resources, improve management transparency by simplifying the Group's management structure, and strengthen corporate governance.

Based on "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019), the Company accounted for this business combination as a transaction under common control.

Independent Auditor's Report

To the Board of Directors of MEDIA DO Co., Ltd.:

We have audited the accompanying consolidated financial statements of MEDIA DO Co., Ltd. (formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries, which comprise the consolidated balance sheets as at February 29, 2020 and February 28, 2019, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MEDIA DO Co., Ltd. (formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries as at February 29, 2020 and February 28, 2019, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 29, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August 7, 2020
Tokyo, Japan

Corporate and Stock Information

(As of February 29, 2020)

Company Overview

Name	MEDIA DO Co., Ltd. (name changed on June 1, 2020)
Date of foundation	April 1, 1996
Date of establishment	April 1, 1999
Capital	¥1,900 million
Location	Head Office: 5F, PALACESIDE Bldg., 1-1-1 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003, Japan
Number of employees	Consolidated: 350 Non-consolidated: 58
Number of consolidated subsidiaries	10
Number of associated accounted for by the equity method	2
Fiscal year	March 1–February 28/29
Annual General Meeting of Shareholders	May
Share unit number	100 shares
Shareholder registrar	Sumitomo Mitsui Trust Bank, Limited
Number of common shares issued	14,175,100
Number of shareholders	3,085
Securities code	3678
Stock listing	Tokyo Stock Exchange, First Section

Media Do

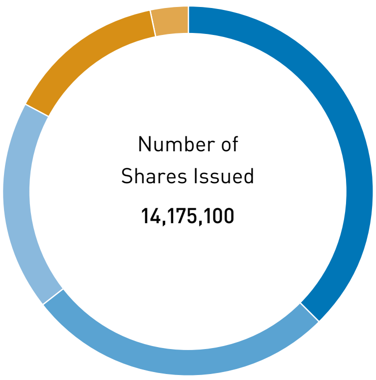
The vertical lines in MEDIA DO's corporate logo represent each of our employees as they exercise independence in how they think, create, and act. This logo symbolizes the endless potential of growth between autonomous individuals and mutually supportive colleagues. Our corporate colors are blue and orange. Blue symbolizes the sea and sky through which MEDIA DO will distribute and transmit knowledge across the globe, while orange represents the curiosity of people—the sun that fosters knowledge.

Major Shareholders

Name	Number of shares	Percentage of total shares issued (%)
Yasushi Fujita	2,718,700	19.18
FIBC Co., Ltd.	1,872,700	13.21
Japan Trustee Services Bank, Ltd. (Trust Account)	1,318,400	9.30
Shogakukan Inc.	564,800	3.98
KODANSHA LTD.	544,000	3.83
Kazuyoshi Ohwada	477,400	3.36
SHUEISHA Inc.	444,000	3.13
The Master Trust Bank of Japan, Ltd. (Trust Account)	424,000	2.99
MSIP CLIENT SECURITIES	228,500	1.61
The Awa Bank, Limited	196,176	1.38

Note: Treasury stock (1,836 shares) has been eliminated from the total number of shares issued in calculating the percentage of total shares issued.

Distribution of Shares Held by Shareholder Type



- **37.60%** Individuals and others
- **26.85%** Japanese companies
- **18.51%** Japanese financial institutions
- **13.93%** Foreign institutions and individuals
- **3.11%** Securities companies

Cautionary Notice regarding Forward-Looking Statements

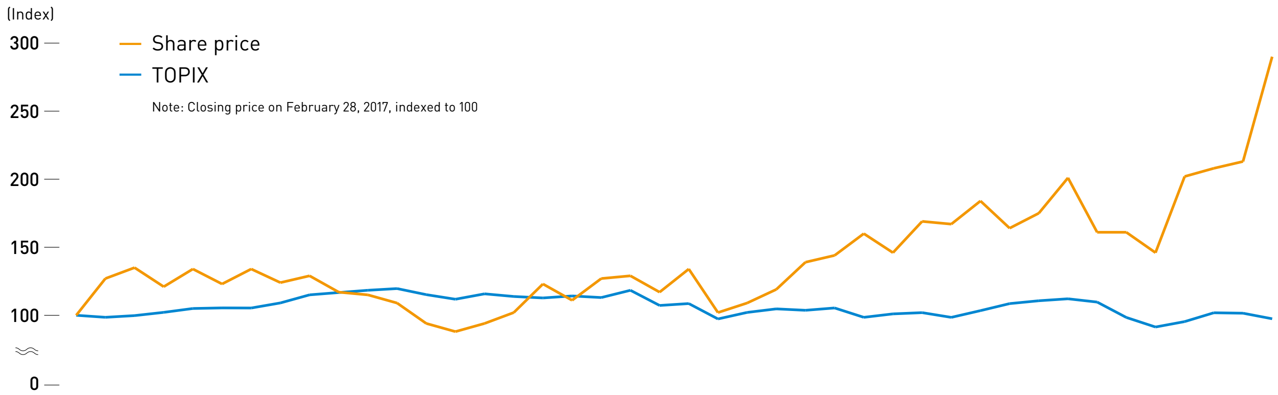
Information on plans, forecasts, and strategies contained in this report are forward-looking statements that represent the Company's best judgments based on information available at the time of this report's publication.

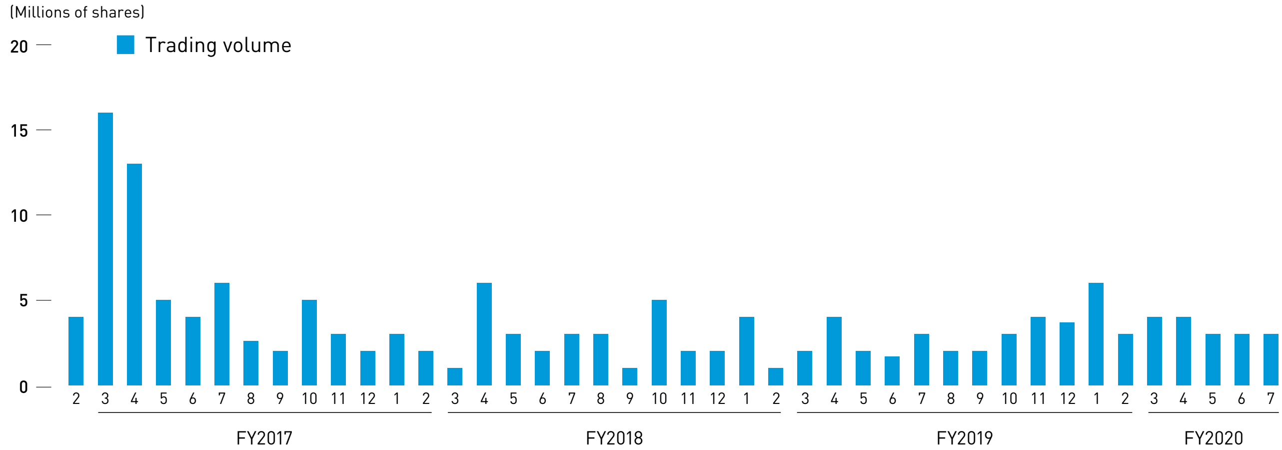
It is possible that actual performance could differ materially from these forecasts due to a variety of factors. Risks and uncertain factors with the potential to impact performance include economic conditions, competition, foreign exchange rates, and taxation and other systems pertaining to the Company's operating environment.

Total Shareholder Return

Investment period	One year	Two years	Three years	Four years	Five years
	Aggregate annual return rate	Aggregate annual return rate	Aggregate annual return rate	Aggregate annual return rate	Aggregate annual return rate
MEDIA DO Co., Ltd.	64.6%	104.4%	98.9%	125.5%	159.5%
TOPIX (including dividends)	86.8	105.0	82.8	114.8	110.6
TOPIX (Information and Communication)	117.8	132.4	145.3	146.4	153.5

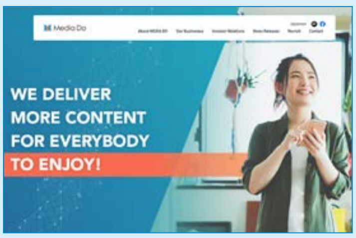
Share Price and Trading Volume (Tokyo Stock Exchange)





Corporate Website

MEDIA DO's corporate website features corporate information, explanations of the Company's businesses, up-to-date financial information, press releases, and other resources (some information is available in Japanese only).



Corporate website
https://mediado.jp/english/

Investor relations website
https://mediado.jp/english/ir/

MEDIA DO Co., Ltd.
5F, PALACESIDE Bldg., 1-1-1 Hitotsubashi,
Chiyoda-ku, Tokyo 100-0003, Japan
https://mediado.jp/english/companyinformation/

Contact Us ir@mediado.jp

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