

Independent Auditor's Report

Mr. Hiroyuki Kato, the president
Not-for-Profit Organization Médecins Sans Frontières Japon

We have audited the financial statements, comprising the balance sheet, the statement of financial activities, the statement of cash flows, the notes to financial statements and the summary of assets of Not-for-Profit Organization Médecins Sans Frontières Japon as of and for the year ended December 31, 2018.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with accounting principles of public interest corporation generally accepted in Japan; and for such internal control as management determines is necessary to enable the preparation of 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 the financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the 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 presentation of the 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 financial statements referred to above are prepared, in all material respects, in accordance with the accounting standards of public interest corporation generally accepted in Japan.

Other Matter

We have no interest in the Partnership which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

KPMG AZS A LLC

March 18, 2019
Tokyo, Japan

Not-for-Profit Organization
Médecins Sans Frontières Japon

Balance Sheet

As of December 31, 2018

(Unit : JPY)

| | 2018 | 2017 | Changes | |
|---|----------------------|----------------------|--------------------|---------------|
| | | | Amount | % |
| I Assets | | | | |
| 1. Current Assets | | | | |
| Cash and deposit with banks | 1,354,727,063 | 987,841,608 | 366,885,455 | 37.1% |
| Accounts receivable (※1) | 110,361,137 | 102,488,926 | 7,872,211 | 7.7% |
| Prepaid expenses | 12,553,957 | 10,748,630 | 1,805,327 | 16.8% |
| Advances (※2) | 90,131,448 | 84,367,840 | 5,763,608 | 6.8% |
| Other current assets | 15,003,429 | 15,168,584 | -165,155 | -1.1% |
| Total Current Assets | 1,582,777,034 | 1,200,615,588 | 382,161,446 | 31.8% |
| 2. Non Current Assets | | | | |
| 1) Specific purpose funds | | | | |
| Reserve funds for grant to emergency program (※3) | 17,521,000 | - | 17,521,000 | - |
| 2) Other Non-Current Assets | | | | |
| Building structures (See Notes No.7) | 27,897,075 | 38,004,702 | -10,107,627 | -26.6% |
| Office equipment and fixtures (See Notes No.7) | 22,651,992 | 19,396,404 | 3,255,588 | 16.8% |
| Software (See Notes No.7) | 26,072,191 | 2,178,446 | 23,893,745 | 1096.8% |
| Long-term deposit | 41,573,000 | 40,813,000 | 760,000 | 1.9% |
| Total Non Current Assets | 135,715,258 | 100,392,552 | 35,322,706 | 35.2% |
| Total Assets | 1,718,492,292 | 1,301,008,140 | 417,484,152 | 32.1% |
| II Liabilities | | | | |
| 1. Current Liabilities | | | | |
| Accounts payable (※4) | 763,312,559 | 352,680,236 | 410,632,323 | 116.4% |
| Deposits received etc. | 2,074,185 | 21,070,366 | -18,996,181 | -90.2% |
| Total Current Liabilities | 765,386,744 | 373,750,602 | 391,636,142 | 104.8% |
| 2. Non Current Liabilities | | | | |
| Provisions for retirement benefits (See Notes No.8) | 39,766,900 | 37,218,300 | 2,548,600 | 6.8% |
| Total Non Current Liabilities | 39,766,900 | 37,218,300 | 2,548,600 | 6.8% |
| Total Liabilities | 805,153,644 | 410,968,902 | 394,184,742 | 95.9% |
| III Net Assets | | | | |
| Earmarked Net Assets | 17,521,000 | - | 17,521,000 | - |
| Non-earmarked Net Assets (See Notes No.15) | 895,817,648 | 890,039,238 | 5,778,410 | 0.6% |
| Total Net Assets | 913,338,648 | 890,039,238 | 23,299,410 | 2.6% |
| Total Liabilities and Net Assets | 1,718,492,292 | 1,301,008,140 | 417,484,152 | 32.1% |

Notes:

(※1) Balance of the outstanding donations as of Dec. 31, 2018, which were already debited from the donor's bank accounts, however not yet arrived at our accounts with banks due to procedures of funds transfer by the outsourced vendor.

(※2) Advances temporarily paid for the expatriates on behalf of the operational centers such as MSF France etc.

(※3) Reclassified from cash and deposit with banks of Current Assets. This fund will be allocated as a grant to emergency program in designated country in 2019 according to donor's request. See Notes to Financial Statements No. 5.

(※4) Payable includes grants payables amounting to 492,259,091 for MSF France, MSF Spain and MSF Switzerland.

Statement of Financial Activities

For the year ended December 31, 2018

(Unit : JPY)

| | 2018 | | 2017 | | Changes | |
|---|----------------------|---------------|----------------------|---------------|---------------------|---------------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| I. Non-earmarked Net Assets Changes | | | | | | |
| 1. Changes in Operating Item | | | | | | |
| (1) Operating Revenues | | | | | | |
| ① Donations | 8,490,258,305 | 100.0% | 7,882,304,555 | 100.0% | 607,953,750 | 7.7% |
| Donations from private individuals (※1) | 7,880,537,956 | 92.8% | 7,193,451,644 | 91.3% | 687,086,312 | 9.6% |
| Donations from private companies (※1) | 526,938,166 | 6.2% | 602,724,610 | 7.6% | -75,786,444 | -12.6% |
| Donations from other organizations (※1) | 82,782,183 | 1.0% | 86,128,301 | 1.1% | -3,346,118 | -3.9% |
| ② Public institutional funds etc. | 417,614,460 | | 218,494,214 | | 199,120,246 | 91.1% |
| Contributions to multilateral institutions | 149,564,903 | | - | | 149,564,903 | - |
| Grants from MSF Korea (See Notes No.14) | 268,049,557 | | 218,494,214 | | 49,555,343 | 22.7% |
| ③ Other Revenues | 2,283,095 | | 3,841,244 | | -1,558,149 | -40.6% |
| Lecture fee | - | | 21,146 | | -21,146 | -100.0% |
| Association membership fee | 605,939 | | 583,446 | | 22,493 | 3.9% |
| Interest income and revaluation gains etc. | 1,677,156 | | 3,236,652 | | -1,559,496 | -48.2% |
| Total Operating Revenues | 8,910,155,860 | | 8,104,640,013 | | 805,515,847 | 9.9% |
| (2) Operating Expenditures | | (※5) | | (※5) | | |
| Social Mission Expenditures (①+②+③+④+⑤) | 7,015,735,017 | 81.5% | 6,074,239,929 | 76.4% | 941,495,088 | 15.5% |
| ① Program & Program Support | 6,532,168,042 | 75.9% | 5,528,488,070 | 69.5% | 1,003,679,972 | 18.2% |
| Financial contribution to operational centers (Grants) (※2) | 6,520,831,042 | | 5,518,441,070 | | 1,002,389,972 | 18.2% |
| Other Program Support | 11,337,000 | | 10,047,000 | | 1,290,000 | 12.8% |
| ② Operational Support Project | 53,506,982 | 0.6% | 57,704,807 | 0.7% | -4,197,825 | -7.3% |
| Personnel expenses | 38,564,367 | | 32,858,914 | | 5,705,453 | 17.4% |
| Others (Office rent, travel & depreciation etc.) | 14,942,615 | | 24,845,893 | | -9,903,278 | -39.9% |
| ③ Field HR management | 111,352,989 | 1.3% | 96,353,705 | 1.2% | 14,999,284 | 15.6% |
| Personnel expenses | 76,753,217 | | 59,587,536 | | 17,165,681 | 28.8% |
| Others (Office rent, travel & depreciation etc.) | 34,599,772 | | 36,766,169 | | -2,166,397 | -5.9% |
| ④ Advocacy activity | 32,011,489 | 0.4% | 23,951,947 | 0.3% | 8,059,542 | 33.6% |
| Personnel expenses etc. | 32,011,489 | | 23,951,947 | | 8,059,542 | 33.6% |
| ⑤ Awareness-raising | 286,695,515 | 3.3% | 367,741,400 | 4.6% | -81,045,885 | -22.0% |
| Personnel expenses | 95,122,890 | | 94,231,647 | | 891,243 | 0.9% |
| Newsletters and event (※3) | 131,151,055 | | 213,838,579 | | -82,687,524 | -38.7% |
| Website related expenses | 5,474,839 | | 7,482,853 | | -2,008,014 | -26.8% |
| Agent service fee | 25,329,725 | | 9,932,182 | | 15,397,543 | 155.0% |
| Printing fee | 1,953,215 | | 716,571 | | 1,236,644 | 172.6% |
| Others (Office rent, travel & depreciation etc.) | 27,663,791 | | 41,539,568 | | -13,875,777 | -33.4% |
| Fundraising | 1,400,485,784 | 16.3% | 1,695,129,485 | 21.3% | -294,643,701 | -17.4% |
| Personnel expenses | 150,974,289 | | 152,720,526 | | -1,746,237 | -1.1% |
| Fundraising campaign expenses | 869,442,281 | | 1,109,684,694 | | -240,242,413 | -21.6% |
| Agency service fees and system-related costs | 181,989,048 | | 260,555,397 | | -78,566,349 | -30.2% |
| Communications and postage | 54,680,443 | | 58,845,263 | | -4,164,820 | -7.1% |
| Printing fee | 17,920,740 | | 18,669,837 | | -749,097 | -4.0% |
| Others (Office rent, travel & depreciation etc.) | 125,478,983 | | 94,653,768 | | 30,825,215 | 32.6% |
| Management & General Administration | 191,108,334 | 2.2% | 185,043,697 | 2.4% | 6,064,637 | 3.3% |
| Personnel expenses | 130,621,485 | | 125,126,376 | | 5,495,109 | 4.4% |
| Association related expenses (except personnel) | 14,568,965 | | 17,129,739 | | -2,560,774 | -14.9% |
| Others (Office rent, travel & depreciation etc.) | 45,917,884 | | 42,787,582 | | 3,130,302 | 7.3% |
| Other International Contributions (See Notes No.4.) | 297,048,315 | - | 288,286,822 | - | 8,761,493 | 3.0% |
| Contribution to DNDI | 21,759,408 | | 24,778,866 | | -3,019,458 | -12.2% |
| Contribution to Campaign for Access to Essential Medicines | 29,436,831 | | 33,343,528 | | -3,906,697 | -11.7% |
| Contributions to MSF International Office | 118,638,605 | | 124,016,364 | | -5,377,759 | -4.3% |
| Financial support to MSF Korea (See Notes No.14) | 127,213,471 | | 106,148,064 | | 21,065,407 | 19.8% |
| Total Operating Expenditures | 8,904,377,450 | 100.0% | 8,242,699,933 | 100.0% | 661,677,517 | 8.0% |
| Increase in Non-earmarked Net Assets | 5,778,410 | | -138,059,920 | | 143,838,330 | - |
| Non-earmarked Net Assets at Beginning of Year | 890,039,238 | | 1,028,099,158 | | -138,059,920 | - |
| Non-earmarked Net Assets at End of Year | 895,817,648 | | 890,039,238 | | 5,778,410 | - |
| II. Earmarked Net Assets Changes | | | | | | |
| 1. Accepted Earmarked Donations | 316,182,510 | | 855,022,421 | | -538,839,911 | - |
| 2. Transfer to Non-earmarked Net Assets (※4) | 298,661,510 | | 855,022,421 | | -556,360,911 | - |
| Changes in Earmarked Net Assets | 17,521,000 | | - | | 17,521,000 | - |
| Earmarked Net Assets at Beginning of Year | - | | - | | - | - |
| Earmarked Net Assets at End of Year | 17,521,000 | | - | | 17,521,000 | - |
| III. Net Assets at End of Year to be carried forward | 913,338,648 | | 890,039,238 | | 23,299,410 | 2.6% |

Notes :

- (※1) Transferred "Earmarked Net Assets" and In-kind donations of JPY 24,233,419 are included.
- (※2) Funds were allocated to the humanitarian aid programs (for 24 countries and districts including Central African Republic and Nigeria etc.) which were operated by MSF France etc. in 2018. See Notes to Financial Statements No.13.
- (※3) Include public event costs for awareness raising. Also include expenses reclassified from Fundraising, such as expenses for reporting current humanitarian activities in the field to the existing donors etc., which were used for fundraising campaign.
- (※4) Earmarked donations were allocated to designated programs through MSF France, MSF Spain, MSF Holland and MSF Belgium in 2018, partly to the activity in Japan, and also partly carried forward to 2019 to be allocated to designated program according to donors' request.
- (※5) From 2018, Social mission ratio etc. are calculated based on the total expenditures after deducting Other International Contributions etc. Ratios of 2017 are also recalculated accordingly to conform to 2018.

Statement of Cash Flows

For the year ended December 31, 2018

(Unit : JPY)

| | 2018 | 2017 | Changes |
|--|--------------------------------|-----------------------|---------------------|
| I. Cash flows for humanitarian aid activities | | | |
| 1. Revenues from private donors etc. | | | |
| (1) Cash flows from private donors | 8,447,002,096 | 7,856,995,693 | 590,006,403 |
| ① Donation from private individual donors | 7,837,281,747 | 7,191,349,615 | 645,932,132 |
| ② Donation from private companies | 526,938,166 | 579,517,777 | -52,579,611 |
| ③ Donation from other organizations | 82,782,183 | 86,128,301 | -3,346,118 |
| (2) Cash flow from public institutional funds etc. | 409,935,810 | 364,220,774 | 45,715,036 |
| Contributions to multilateral institutions | 149,564,903 | - | 149,564,903 |
| Funds received from other MSF entities | 260,370,907 | 364,220,774 | -103,849,867 |
| (3) Cash flow from other revenues | 2,989,508 | 2,561,919 | 427,589 |
| Net cash provided by private donations etc. ① | 8,859,927,414 | 8,223,778,386 | 636,149,028 |
| 2. Expenditures for humanitarian aid activities | | | |
| (1) Social Mission Expenditures | | | |
| a) Programs and Program Support expenditures | -6,315,707,531 | -5,803,383,125 | -512,324,406 |
| ① Financial contribution to operational centers etc. (grants) | -6,136,909,951 | -5,628,488,070 | -508,421,881 |
| ② Operational Support Project | -49,722,493 | -55,579,131 | 5,856,638 |
| ③ Field HR management | -99,700,554 | -94,517,178 | -5,183,376 |
| ④ Advocacy activity | -29,374,533 | -24,798,746 | -4,575,787 |
| b) Awareness-raising expenditures | -265,408,583 | -367,809,977 | 102,401,394 |
| Net cash used in social mission: ② | -6,581,116,114 | -6,171,193,102 | -409,923,012 |
| (2) Fundraising expenditures | ③ -1,385,069,769 | -1,704,766,139 | 319,696,370 |
| (3) Management & General administrative expenditures | ④ -178,371,979 | -190,503,551 | 12,131,572 |
| (4) Other International Contributions (See Notes No.4) | ⑤ -297,048,315 | -386,884,499 | 89,836,184 |
| (5) Adjustment to derive net cash for the humanitarian aid activities | ⑥ -9,029,729 | 86,614,062 | -95,643,791 |
| Adjustment due to changes in the other assets and liabilities | -9,029,729 | 86,614,062 | -95,643,791 |
| Total net cash used in humanitarian activities ⑦ = (②+③+④+⑤+⑥) | -8,450,635,906 | -8,366,733,229 | -83,902,677 |
| Net cash provided by humanitarian activities ⑧ = (①+⑦) | 409,291,508 | -142,954,843 | 552,246,351 |
| II. Cash flows for Investing Activities | | | |
| (1) Refund of long-term deposit | 936,000 | 7,198,780 | -6,262,780 |
| (2) Payment of long-term deposit | -1,696,000 | -1,188,000 | -508,000 |
| (3) Payment for purchase of fixed assets | -41,576,746 | -61,434,185 | 19,857,439 |
| Net cash used in investing activities: ⑨ | -42,336,746 | -55,423,405 | 13,086,659 |
| III. Cash flows for Financing Activities | | | |
| Net cash used in financing activities: ⑩ | - | - | - |
| IV. Effect of Exchange Rate Changes on Cash and Cash Equivalents | ⑪ -69,307 | 28,869 | -98,176 |
| V. Net Increase (Decrease) in Cash & Cash Equivalents ⑫ = (⑧+⑨+⑩+⑪) | 366,885,455 | -198,349,379 | 565,234,834 |
| VI. Cash and Cash Equivalents at Beginning of Year | ⑬ 987,841,608 | 1,186,190,987 | -198,349,379 |
| VII. Cash and Cash Equivalents at End of Year | ⑭ = (⑬+⑫) 1,354,727,063 | 987,841,608 | 366,885,455 |

Notes:

(※1) Scope of cash: Cash and cash equivalents are included.

(※2) Significant non-cash transaction: In-kind donations amounting to JPY 24,233,419 are adjusted.

Summary of Assets

As of December 31, 2018

(Unit: JPY)

| | 2018 | 2017 | Changes |
|--|----------------------|----------------------|--------------------|
| I. Assets | | | |
| 1. Current Assets | | | |
| Cash and cash equivalents (See Notes No.4) | 1,354,727,063 | 987,841,608 | 366,885,455 |
| Petty cash | 1,821,583 | 1,966,517 | -144,934 |
| Ordinary account (MUFG Bank, Ltd.) | 642,479,613 | 433,182,991 | 209,296,622 |
| Ordinary account (Sumitomo Mitsui Banking Corp.) | 125,631,375 | 61,941,578 | 63,689,797 |
| Ordinary account (Mizuho Bank Ltd.) | 16,795,623 | 4,759,548 | 12,036,075 |
| Transfer Saving Account (Japan Post Bank Co., Ltd.) | 463,709,078 | 376,100,995 | 87,608,083 |
| Ordinary account (Rakuten Bank Ltd.) | 3,287,927 | 8,023,412 | -4,735,485 |
| Ordinary account (SBI Sumishin Net Bank, Ltd.) | 1,001,864 | 1,866,567 | -864,703 |
| Ordinary account (Sumitomo Trust and Banking Co Ltd.) | - | - | - |
| Ordinary account (MUFG Trust and Banking Ltd.) | - | - | - |
| Fixed deposit (Sumitomo Mitsui Banking Corp.) | 100,000,000 | 100,000,000 | - |
| Accounts receivable | 110,361,137 | 102,488,926 | 7,872,211 |
| Donation receivable from outsourced vendor (※1) | 101,556,354 | 100,725,687 | 830,667 |
| Receivable from MSF Korea | 7,678,650 | - | 7,678,650 |
| Others | 1,126,133 | 1,763,239 | -637,106 |
| Prepaid expenses | 12,553,957 | 10,748,630 | 1,805,327 |
| Advances | 90,131,448 | 84,367,840 | 5,763,608 |
| MSF France (for Tokyo Cell expenses) | 35,262,017 | 28,418,660 | 6,843,357 |
| MSF International Office etc. | 13,754,211 | 19,611,692 | -5,857,481 |
| Other MSF offices (Expatriates related expenses etc.) | 41,115,220 | 36,337,488 | 4,777,732 |
| Other current assets | 15,003,429 | 15,168,584 | -165,155 |
| Gold ingot | 14,814,343 | 14,997,533 | -183,190 |
| Supplies | 37,802 | 35,358 | 2,444 |
| Suspense payment | 151,284 | 135,693 | 15,591 |
| Total Current Assets | 1,582,777,034 | 1,200,615,588 | 382,161,446 |
| 2. Non Current Assets | | | |
| 1) Specific purpose funds | | | |
| Reserve funds for grant to emergency program (※2) | 17,521,000 | - | 17,521,000 |
| 2) Other Non Current Assets | | | |
| Building structures (See Notes No.7) | 27,897,075 | 38,004,702 | -10,107,627 |
| Interior finishing (Air condition, Electricity and LAN) | 27,897,075 | 38,004,702 | -10,107,627 |
| Office equipment and fixtures (See Notes No.7) | 22,651,992 | 19,396,404 | 3,255,588 |
| Furniture | 7,251,443 | 10,374,291 | -3,122,848 |
| Equipment and fixtures | 14,178,147 | 6,390,977 | 7,787,170 |
| Video equipment | 1,222,402 | 2,631,136 | -1,408,734 |
| Software (See Notes No.7) | 26,072,191 | 2,178,446 | 23,893,745 |
| Long-term deposit | 41,573,000 | 40,813,000 | 760,000 |
| For office rent etc. | 41,573,000 | 40,813,000 | 760,000 |
| Total Non Current Assets | 135,715,258 | 100,392,552 | 35,322,706 |
| Total Assets | 1,718,492,292 | 1,301,008,140 | 417,484,152 |
| II. Liabilities | | | |
| 1. Current Liabilities | | | |
| Accounts payable (Grants etc.) | 492,259,091 | 100,000,000 | 392,259,091 |
| Grants for MSF France | 348,259,091 | 70,000,000 | 278,259,091 |
| Grants for MSF Spain | 96,000,000 | 20,000,000 | 76,000,000 |
| Grants for MSF Switzerland | 48,000,000 | 10,000,000 | 38,000,000 |
| Accounts payable (Other national expenses) | 271,053,468 | 252,680,236 | 18,373,232 |
| Fundraising campaign related expenses | 126,888,895 | 129,134,253 | -2,245,358 |
| Other expenses | 144,164,573 | 123,545,983 | 20,618,590 |
| Deposits received etc. | 2,074,185 | 21,070,366 | -18,996,181 |
| Others | 2,074,185 | 2,050,456 | 23,729 |
| Part of accepted comprehensive legacy donations to be refunded | - | 19,019,910 | -19,019,910 |
| Total Current Liabilities | 765,386,744 | 373,750,602 | 391,636,142 |
| 2. Non Current Liabilities | | | |
| Provisions for retirement benefits (See Notes No.8) | 39,766,900 | 37,218,300 | 2,548,600 |
| Total Non Current Liabilities | 39,766,900 | 37,218,300 | 2,548,600 |
| Total Liabilities | 805,153,644 | 410,968,902 | 394,184,742 |
| III. Net Assets | | | |
| Earmarked Net Assets | 17,521,000 | - | 17,521,000 |
| Non-Earmarked Net Assets (See Notes No.15) | 895,817,648 | 890,039,238 | 5,778,410 |
| Total Net Assets | 913,338,648 | 890,039,238 | 23,299,410 |
| Total Liabilities and Net Assets | 1,718,492,292 | 1,301,008,140 | 417,484,152 |

Notes:

[Balance of outstanding donations as of Dec. 31, 2018, which were already debited from the donors' bank accounts, however not yet arrived at our accounts with banks due to procedures of funds transfer by the outsourced vendor.

(※2) Reclassified from Cash and cash equivalents of Current Assets. This fund will be allocated as a grant to emergency program in designated country according to donor's request in 2019. See Notes to Financial Statements No. 5 for further information.

Notes to Financial Statements

1. Basis for presenting Financial Statements

The financial statements of Médecins Sans Frontières Japon (hereinafter "MSFJ") have been prepared in accordance with the Accounting Standards of Public Interest Corporation generally accepted in Japan (revised in October 14, 2004), which are different in certain respects from the requirements for applications and disclosures required under International Financial Reporting Standards (IFRS).

2. Significant Accounting Policies

(1) Method of depreciation of Fixed Assets

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets.

| Category of Fixed Assets | Period | Category of Fixed Assets | Period |
|--------------------------|-------------|--------------------------|---------|
| Building structures | 3 - 5 years | Equipment and fixtures | 3 years |
| Furniture | 3 - 5 years | Software | 3 years |

(2) Basis for recording provisions

Retirement benefits

In compliance with the internal "End of Service Payment Plan", MSFJ records required amount of payment as retirement benefits to staff at year-end.

(3) Revenue recognition

Donations are basically recognized on a cash basis. Certain donations are recognized as revenues when amount and timing of collection are fixed and receipt for the donations are issued to donors.

In-kind donations:

In addition to cash donations, MSFJ receives medicine, office equipment, software, mileage, stamps and complimentary coupon for a shareholder as well as the services on pro-bono basis, as in-kind donations. The in-kind donations are recognized as revenues based upon their available market prices when they are received and recorded as expenses when they are used for its activities.

(4) Operating Expenditures

The expenditures are allocated to major activities as shown in the Statement of Financial Activities. The overhead expenses are allocated to the following activities based on the total actual working hours employed in one full year.

(4)-1) Social mission

① Financial contribution to the operational centers (Grants)

This expense is related to grants allocated to each operational program handled by operational centers including MSF France, MSF Spain, MSF Switzerland, MSF Belgium and MSF Holland per finance agreements signed under the international "Resource Sharing Agreement 3".

② Operational Support Project

In order to contribute to humanitarian aid activities in Asia and globally, MSFJ initiated work on innovative research and development and improvement on medical and logistics areas, and to examine the possibility of supplying products to the fields directly from Japan.

③ Field HR management

This is related to cost of activities for recruiting field staff for the program operations and arranging required training sessions for the program operations as well as preparing for departures to the fields.

④ Advocacy activity

MSFJ appeals to various national governments, international organizations and pharmaceutical companies in cooperation with other MSF offices.

⑤ Awareness-raising activities

MSFJ informs the general public including donors about our current activities at each program via publications, MSF Japan website, exhibitions and other media.

(4) - 2) Fundraising activities

MSFJ implements fundraising activities to ensure enough funding for our operations. For this purpose, MSFJ launches several campaigns such as direct mailings and newsletter mailings.

(4) - 3) Management and administrative expenses

This includes the overhead expenses related to MSFJ's executive management and administration departments (human resources, finance, & accounting, general affairs and IT).

(4)-4) Other International Contributions

MSF International Office provides coordinative services to all MSF sections which are connected with MSF network. MSFJ, with other MSF Offices, contributes funds to MSF International Office to support its activity, and contributes to DNDi (Drugs for Neglected Diseases initiative) and the Campaign for Access to Essential Medicines having been implemented by MSF since 1999 by way of MSF International Office. Please refer to Notes to Financial Statements No.14 regarding transactions with MSF Korea.

(5) Accounting for consumption tax

All amounts stated are inclusive of national consumption and local consumption taxes.

3. Hedging foreign currency exposure

MSFJ utilizes foreign currency forward contracts to mitigate foreign currency exposure when remitting funds for humanitarian aid. MSFJ does not utilize the instruments for speculation purpose.

4. Changes of classification

(Statement of Financial Activities)

From 2018, contribution to DNDI, Campaign for Access to Essential Medicines, MSF International Office, and Financial support to MSF Korea are reclassified into Other International Contributions in (2) Operating Expenditures, due to weak relation with MSFJ's own activities, all of which were presented in 2017 as a part of ①Program & Program support, ④Advocacy activity, and Management & General Administration under Social Mission Expenditures. This change was made to classify the activities with more clarity.

(Statement of Cash Flows)

From 2018, due to the changes in Statement of Financial activities, the same expenditures are reclassified collectively into "(4) Other International Contributions etc. under "2. Expenditures for humanitarian aid activities", all of which were classified in ①Financial contribution to operational centers etc, ④Advocacy activity, in (1)Social Mission Expenditures, and also (3)Management and General administrative expenditures for 2017.

(Summary of Assets)

From 2018, balance amounts of bank deposits are comprehensively shown for each bank to improve the clarity of property location.

Due to above classification changes in 3 categories, the figures for 2017 are also reclassified respectively to conform to 2018 presentation.

5. Changes, balances and breakdown of the endowment and the special funds

The fund of JPY17,521,000 which we received from Tokyo Marathon Foundation as a part of earmarked net assets in this year, is reclassified into Specific Purpose Funds in Non-Current Assets instead of Cash and deposit with banks in Current Assets. This charity fund will be allocated in 2019 for the specific country and program in accordance with the donor's request.

6. Assets pledged as collateral

Not applicable

7. Acquisition costs, accumulated depreciations and the carrying amounts of fixed assets at the end of current year (Unit JPY)

| | Acquisition Costs | Accumulated depreciation | Carrying amounts at the end of current year |
|---|-------------------|--------------------------|---|
| Building structures | 51,494,334 | 23,697,269 | 27,897,075 |
| Office equipment and fixtures | 80,914,166 | 58,262,163 | 22,651,992 |
| Furniture | 21,031,294 | 13,779,851 | 7,251,443 |
| Equipment and fixtures | 53,873,232 | 39,695,085 | 14,178,147 |
| Video equipment | 6,009,629 | 4,787,227 | 1,222,402 |
| Software | 87,659,271 | 61,687,080 | 26,072,191 |
| Sub total | 220,067,760 | 143,446,602 | 76,621,258 |
| Leased assets (Donor management system) | 63,392,091 | 63,392,091 | - |
| Grand total | 283,459,851 | 206,838,693 | 76,621,258 |

8. Retirement benefits

(1) The outline of the retirement benefit plan: MSFJ has lump sum retirement benefit under the internal provision.

(2) Obligation for retirement benefits a) Defined benefits obligation: JPY 39,766,900 b) Provision for retirement benefits: JPY 39,766,900

(3) Retirement benefits related expenses JPY 12,874,100

9. Contingent liabilities

Not applicable

10. Details, name of provider and the current year changes in terms of subvention etc

Not applicable

11. Description of the transactions with the related parties

Not applicable

12. Significant subsequent events

Not applicable

13. Financial contribution to MSF operational centers in 2018

(Unit JPY)

| Source | Donations | Public Institutional Grants | Grant from MSF Korea (*) | Total |
|--------------------|---------------|-----------------------------|--------------------------|---------------|
| Operational Center | | | | |
| MSF France | 4,264,285,243 | 52,665,200 | 268,049,557 | 4,585,000,000 |
| MSF Spain | 1,216,000,000 | - | - | 1,216,000,000 |
| MSF Switzerland | 608,000,000 | - | - | 608,000,000 |
| MSF Holland | - | 95,754,792 | - | 95,754,792 |
| MSF Belgium | 16,076,250 | - | - | 16,076,250 |
| Total | 6,104,361,493 | 148,419,992 | 268,049,557 | 6,520,831,042 |

(*) Please refer to below 14. for further information

14. Transaction related to MSF Korea

In 2018, MSFJ provided MSF Korea (MSFK) with financial support amounting to JPY 127,213,471. MSFK allocated the funds equivalent to JPY 268,049,557 as grants to MSFJ, out of the total revenues raised in South Korea in 2018. MSFJ recognized the above grants from MSFK as "Operating Revenues" for this year, in accordance with the revised MOU signed between MSF Japan and MSF Switzerland, and allocated the same amount to operational center accordingly.

15. Reserve policy

In accordance with MSFJ Reserve Policy, MSFJ retains reserves with maximum 5 months of averaged domestic expenditures except overseas contributions like grants etc., in order to cope with emergency operations for natural disasters etc, or to mitigate negative impacts on cash flow due to unexpected income shortfall caused by economic downturn etc. Balance of reserves at end of 2018 stays at 4.9 months level.