

Financial Information

1. Preparation of Consolidated Financial Statements

The consolidated financial statements of Nikon Corporation (hereinafter referred to as the “Company”) and its subsidiaries (together hereinafter referred to as the “Group”) were prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to Article 93 of the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976).

2. Special Measures to Ensure the Accuracy of Consolidated Financial Statements and a Framework to Ensure Consolidated Financial Statements are Appropriately Prepared in Accordance with IFRS

The Company has taken special measures to ensure the accuracy of the consolidated financial statements and has established a framework to ensure that the consolidated financial statements are appropriately prepared in accordance with IFRS. The details of these are as follows:

- (1) In order to establish a framework capable of comprehending accounting standards properly and adapting changes in accounting standards appropriately, the Company has joined the Financial Accounting Standards Foundation and also participates in seminars and training programs organized by associations providing professional information.
- (2) In order to ensure that the consolidated financial statements are appropriately prepared in accordance with IFRS, the Company formulated the Group accounting policies in compliance with IFRS and has been conducting accounting practices accordingly. The Company obtains the press releases and accounting standards published by the International Accounting Standards Board, learns the latest standards, assesses the relevant possible impacts on the Company, and updates the Group accounting policies in a timely manner.

Consolidated Financial Statements

Consolidated Statement of Financial Position

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2022

	Millions of yen	
	2021	2022
ASSETS		
Current assets:		
Cash and cash equivalents (Note 8)	¥ 351,798	¥ 370,277
Trade and other receivables (Note 9)	72,900	90,571
Inventories (Note 10)	235,760	238,950
Other current financial assets (Notes 11 and 35)	1,179	948
Other current assets (Note 12)	14,215	13,467
Total current assets	675,853	714,214
Non-current assets:		
Property, plant and equipment (Note 13)	86,210	88,956
Right-of-use assets (Note 17)	12,233	22,310
Goodwill and intangible assets (Note 14)	44,056	49,379
Retirement benefit asset (Note 24)	5,984	8,685
Investments accounted for using equity method (Note 16)	11,099	10,702
Other non-current financial assets (Notes 11 and 35)	91,090	93,308
Deferred tax assets (Note 18)	62,956	51,610
Other non-current assets (Note 12)	255	403
Total non-current assets	313,884	325,353
Total assets	¥ 989,737	¥ 1,039,566

Millions of yen

	2021	2022
LIABILITIES / EQUITY		
LIABILITIES		
Current liabilities:		
Trade and other payables (Note 19)	¥ 60,615	¥ 65,161
Bonds and borrowings (Notes 20 and 35)	29,943	37,347
Income taxes payable (Note 18)	1,428	4,770
Advances received (Note 27)	163,110	139,300
Provisions (Note 21)	5,458	5,403
Other current financial liabilities (Notes 22 and 35)	25,575	27,424
Other current liabilities (Note 23)	32,176	34,516
Total current liabilities	318,305	313,921
Non-current liabilities:		
Bonds and borrowings (Notes 20 and 35)	104,131	92,715
Retirement benefit liability (Note 24)	9,905	5,543
Provisions (Note 21)	5,048	5,186
Deferred tax liabilities (Note 18)	3,053	3,360
Other non-current financial liabilities (Notes 22 and 35)	8,258	16,188
Other non-current liabilities (Note 23)	2,310	2,687
Total non-current liabilities	132,706	125,679
Total liabilities	451,011	439,600
EQUITY		
Share capital (Note 25)	65,476	65,476
Capital surplus (Note 25)	46,419	46,483
Treasury shares (Note 25)	(17,529)	(17,395)
Other components of equity (Note 25)	(14,133)	2,206
Retained earnings (Note 25)	457,352	500,912
Equity attributable to owners of parent	537,585	597,681
Non-controlling interests	1,141	2,285
Total equity	538,726	599,967
Total liabilities and equity	¥ 989,737	¥ 1,039,566

Consolidated Statement of Profit or Loss

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2022

	Millions of yen			
		2021		2022
Revenue (Note 27)	¥	451,223	¥	539,612
Cost of sales (Note 10)		(295,318)		(303,541)
Gross profit		155,906		236,070
Selling, general and administrative expenses (Note 28)		(181,339)		(189,465)
Other operating income (Note 29)		3,363		5,322
Other operating expenses (Note 29)		(34,170)		(1,994)
Operating profit (loss)		(56,241)		49,934
Finance income (Note 30)		11,167		9,592
Finance costs (Note 30)		(2,238)		(3,643)
Share of profit of investments accounted for using equity method (Note 16)		1,969		1,213
Profit (loss) before tax		(45,342)		57,096
Income tax expense (Note 18)		10,832		(14,843)
Profit (loss) for year		(34,509)		42,253
Profit (loss) attributable to:				
Owners of parent		(34,497)		42,679
Non-controlling interests		(13)		(426)
Profit (loss) for year	¥	(34,509)	¥	42,253
Earnings (loss) per share:				
Basic earnings (loss) per share (Yen) (Note 31)	¥	(93.96)	¥	116.23
Diluted earnings (loss) per share (Yen) (Note 31)		(93.96)		115.58

Consolidated Statement of Comprehensive Income

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2022

	Millions of yen			
		2021		2022
Profit (loss) for year	¥	(34,509)	¥	42,253
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Gain (loss) on financial assets measured at fair value through other comprehensive income (Note 32)		24,034		7,421
Remeasurements of defined benefit plans (Notes 24 and 32)		1,235		632
Share of other comprehensive income of investments accounted for using equity method (Note 32)		47		(34)
Total of items that will not be reclassified subsequently to profit or loss		25,315		8,019
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations (Note 32)		13,551		20,331
Effective portion of cash flow hedges (Note 32)		(282)		(140)
Share of other comprehensive income of investments accounted for using equity method (Note 32)		93		183
Total of items that may be reclassified subsequently to profit or loss		13,362		20,375
Other comprehensive income, net of taxes		38,678		28,393
Total comprehensive income for year	¥	4,168	¥	70,646
Comprehensive income attributable to:				
Owners of parent		4,090		70,903
Non-controlling interests		78		(257)
Total comprehensive income for year	¥	4,168	¥	70,646

Consolidated Statement of Changes in Equity

Nikon Corporation and Consolidated Subsidiaries

Year ended March 31, 2022

Millions of yen

	Equity attributable to owners of parent													Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Other components of equity						Total	Retained earnings	Total			
				Gain (loss) on financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Share of other comprehensive income of investments accounted for using equity method	Exchange differences on translation of foreign operations	Effective portion of cash flow hedges	Total						
As of April 1, 2020	¥ 65,476	¥ 46,369	¥ (17,639)	¥ 1,108	¥ —	¥ (964)	¥ (39,699)	¥ 53	¥ (39,502)	¥ 485,948	¥ 540,652	¥ 1,108	¥ 541,760		
Profit (loss) for year	—	—	—	—	—	—	—	—	—	(34,497)	(34,497)	(13)	(34,509)		
Other comprehensive income (Note 32)	—	—	—	23,998	1,235	140	13,495	(282)	38,587	—	38,587	91	38,678		
Total comprehensive income for year	—	—	—	23,998	1,235	140	13,495	(282)	38,587	(34,497)	4,090	78	4,168		
Dividends (Note 26)	—	—	—	—	—	—	—	—	—	(7,343)	(7,343)	(43)	(7,386)		
Purchase and disposal of treasury shares (Note 25)	—	(0)	(1)	—	—	—	—	—	—	—	(1)	—	(1)		
Share-based payment transactions (Note 34)	—	51	110	—	—	—	—	—	—	—	161	—	161		
Increase (decrease) by business combination (Note 7)	—	—	—	—	—	—	—	—	—	—	—	—	—		
Changes in ownership interest in subsidiaries	—	—	—	—	—	—	—	—	—	—	—	24	24		
Transfer from other components of equity to retained earnings	—	—	—	(11,934)	(1,235)	(48)	—	—	(13,218)	13,243	26	(26)	—		
Total transactions with owners	—	51	109	(11,934)	(1,235)	(48)	—	—	(13,218)	5,901	(7,157)	(45)	(7,202)		
As of March 31, 2021	¥ 65,476	¥ 46,419	¥ (17,529)	¥ 13,172	¥ —	¥ (873)	¥ (26,204)	¥ (228)	¥ (14,133)	¥ 457,352	¥ 537,585	¥ 1,141	¥ 538,726		
Profit (loss) for year	—	—	—	—	—	—	—	—	—	42,679	42,679	(426)	42,253		
Other comprehensive income (Note 32)	—	—	—	7,451	632	150	20,131	(140)	28,224	—	28,224	170	28,393		
Total comprehensive income for year	—	—	—	7,451	632	150	20,131	(140)	28,224	42,679	70,903	(257)	70,646		
Dividends (Note 26)	—	—	—	—	—	—	—	—	—	(11,016)	(11,016)	(17)	(11,033)		
Purchase and disposal of treasury shares (Note 25)	—	(0)	(2)	—	—	—	—	—	—	—	(2)	—	(2)		
Share-based payment transactions (Note 34)	—	61	136	—	—	—	—	—	—	—	198	35	233		
Increase (decrease) by business combination (Note 7)	—	—	—	—	—	—	—	—	—	—	—	1,392	1,392		
Changes in ownership interest in subsidiaries	—	2	—	—	—	—	—	—	—	—	2	2	4		
Transfer from other components of equity to retained earnings	—	—	—	(11,285)	(632)	32	—	—	(11,885)	11,897	12	(12)	—		
Total transactions with owners	—	63	134	(11,285)	(632)	32	—	—	(11,885)	881	(10,807)	1,401	(9,406)		
As of March 31, 2022	¥ 65,476	¥ 46,483	¥ (17,395)	¥ 9,338	¥ —	¥ (691)	¥ (6,073)	¥ (368)	¥ 2,206	¥ 500,912	¥ 597,681	¥ 2,285	¥ 599,967		

Consolidated Statement of Cash Flows

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2022

Millions of yen

	2021	2022
Cash flows from operating activities:		
Profit (loss) before tax	¥ (45,342) ¥	57,096
Depreciation and amortization	28,027	24,857
Impairment losses	26,054	449
Interest and dividend income	(2,727)	(2,163)
Share of (profit) loss of investments accounted for using equity method	(1,969)	(1,213)
Losses (gains) on sale of property, plant and equipment	(141)	(3,537)
Interest expenses	1,246	1,054
Decrease (increase) in trade and other receivables	17,271	(13,321)
Decrease (increase) in inventories	13,122	2,181
Increase (decrease) in trade and other payables	(9,615)	3,067
Increase (decrease) in advances received	(13,802)	(27,697)
Increase (decrease) in provisions	25	(699)
Others, net	(3,718)	(6,234)
Subtotal	8,431	33,840
Interest and dividend income received	3,606	3,920
Interest expenses paid	(1,250)	(1,123)
Income taxes refund (paid)	(5,821)	(5,285)
Net cash provided by operating activities	4,966	31,351
Cash flows from investing activities:		
Purchase of property, plant and equipment	(16,965)	(17,981)
Proceeds from sale of property, plant and equipment	681	5,484
Purchase of intangible assets	(6,134)	(5,844)
Acquisition of businesses resulting in change in scope of consolidation (Note 7)	—	(378)
Purchase of investment securities	(1,126)	(4,224)
Proceeds from sale of investment securities	38,754	20,459
Payments into time deposits	(3)	—
Proceeds from withdrawal of time deposits	1,857	—
Others, net	960	2,098
Net cash provided by (used in) investing activities	18,024	(385)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings (Note 33)	—	13,189
Proceeds from long-term borrowings (Note 33)	1,000	—
Repayments of long-term borrowings (Note 33)	(1,000)	(10,803)
Proceeds from issuance of bonds (Note 33)	19,894	—
Redemption of bonds (Note 33)	(10,000)	(10,000)
Repayments of lease liabilities (Note 33)	(7,448)	(7,438)
Cash dividends paid (Note 26)	(7,350)	(11,024)
Cash dividends paid to non-controlling interests	(43)	(17)
Purchase of treasury shares	(1)	(2)
Others, net	(43)	(57)
Net cash used in financing activities	(4,991)	(26,151)
Effect of exchange rate changes on cash and cash equivalents	9,766	13,664
Net increase (decrease) in cash and cash equivalents	27,765	18,478
Cash and cash equivalents at beginning of year	324,034	351,798
Cash and cash equivalents at end of year (Note 8)	¥ 351,798 ¥	370,277

Notes to Consolidated Financial Statements

Nikon Corporation and Consolidated Subsidiaries
Year ended March 31, 2022

1. Reporting Entity

The Nikon Corporation (hereinafter referred to as the “Company”) is located in Japan and listed on the First Section of the Tokyo Stock Exchange. The address of the registered headquarters is 2-15-3, Konan, Minato-ku, Tokyo, Japan.

The Company, its consolidated subsidiaries (hereinafter referred to as the “Group”) and associates operate the Imaging Products Business, Precision Equipment Business, Healthcare Business, Components Business, and the businesses of Industrial Metrology and Others. The Group’s main businesses are disclosed in Note 6. Segment Information.

The consolidated financial statements are composed of the portion attributable to the Group and associates. The fiscal year-end of the Company is March 31.

The Company’s major subsidiaries and associates are described in the appendix of Note 37. Subsidiaries, Associates Companies, and Joint Ventures.

2. Basis of Preparation

(1) Compliance with IFRS

Since the Company is classified as a “Specified Company under Designated International Financial Reporting Standards (IFRS)” as provided in Article 1-2 of the Ordinance on Consolidated Financial Statements, the consolidated financial statements have been prepared in accordance with IFRS.

(2) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments that are described in Note 3. Significant Accounting Policies.

(3) Functional Currency and Presentation Currency

The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. All amounts have been rounded to the nearest millions of yen.

(4) Approval of the Consolidated Financial Statements

The consolidated financial statements were approved for issuance by Toshikazu Umatate, Representative Director and President, and Muneaki Tokunari, Director and Executive Vice President, on September 26, 2022.

(5) Early Adoption of New Standards

The Group has prepared the accompanying consolidated financial statements in accordance with IFRS that were effective as of March 31, 2022, and has no standards that were early adopted.

(6) Adoption of New Standards and Interpretations

There is no material impact on the accompanying consolidated financial statements of standards or interpretations newly adopted by the Group from the year ended March 31, 2022.

3. Significant Accounting Policies

(1) Basis of Consolidation

1) Subsidiaries

Subsidiaries are entities controlled by the Group. When the Group has more than a majority of the voting rights of an investee, it is considered that the Group controls the investee as a subsidiary. Even if the Group has less than a majority of the voting rights of an investee, it is also considered that the Group controls the investee when it is exposed, or has rights, to variable returns from involvement with the investee and has an ability to affect those returns through power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group obtains control of a subsidiary until the date when it loses control of the subsidiary. If the Group loses control of a subsidiary, the gain or loss resulting from the loss of control is recognized in profit or loss. Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control of the subsidiary are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributable to owners of parent.

In cases where the accounting policies of subsidiaries are different from those of the Group, the financial statements of subsidiaries are adjusted to bring their accounting policies consistent with the Group's accounting policies. All intragroup transaction amounts, balances, income, and expenses are eliminated in full upon consolidation.

Fiscal year-ends of some subsidiaries are different from that of the Company, as it is impracticable to unify the fiscal year-ends due to those subsidiaries' requirements under local laws and regulations to prepare financial statements with different fiscal year-ends from that of the Company. When the fiscal year-ends of subsidiaries are different from that of the Company, the financial statements that are prepared provisionally as of the consolidated fiscal year-end for such subsidiaries are used for the consolidated financial statements.

2) Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but does not have control over those policies. If the Group holds 20% or more of the voting rights, but no more than 50% of an investee, in principle, it is determined that the Group has significant influence over the investee.

A joint venture is a joint arrangement, whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results, as well as assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements of the Group using the equity method. Under the equity method, an investment in an associate or a joint venture is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of profit or loss and other comprehensive income of the associate or joint venture.

The consolidated financial statements include the financial statements of the associates or joint ventures, which have different fiscal year-ends from that of the Company. Necessary adjustments are made for the effects of significant transactions or events that occur between the fiscal year-ends of such associates or joint ventures and that of the Company.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. The consideration is measured as the sum of the acquisition-date fair values of the assets transferred in exchange for control of the acquiree, the liabilities incurred by the Group to the former owners of the acquiree, and the equity interests issued by the Group.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are measured at their fair value, except for the following:

- deferred tax assets or liabilities are recognized and measured in accordance with International Accounting standard (IAS) 12 *Income Taxes*,
- assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 19 *Employee Benefits*,
- assets (or disposal groups) that are classified as held for sale are measured in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, and
- liabilities related to share-based payment arrangements are measured in accordance with IFRS 2 *Share-based Payment*.

Goodwill is recognized as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree; over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. The Group retrospectively adjusts the provisional amounts recognized at acquisition when new information is obtained during the measurement period, within 12 months from the acquisition date, if known, which would have affected the amounts recognized at the acquisition date.

Acquisition-related costs attributable to a business combination are expensed as incurred. Additional acquisition costs of non-controlling interests after the acquisition of control by the Group are accounted for as an equity transaction, and goodwill is not recognized.

(3) Foreign Currencies

1) Functional Currency and Presentation Currency

The financial statements of each group entity are presented in such entity's functional currency, the currency of the primary economic environment in which the entity operates. The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company.

2) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate at the date of the transaction or at the foreign exchange rate that approximates the spot exchange rate at the date of the transaction.

Monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate as of the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of the transaction. Non-monetary items measured at fair value that are denominated in foreign currencies are translated into the functional currency at the exchange rate at the date when the fair value is measured. Exchange differences arising from the translation or settlement are recognized in "Finance income" and "Finance costs" in the consolidated statement of profit or loss, except for those recognized in other comprehensive income.

3) Foreign Operations

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations, including goodwill and fair value adjustments arising from the acquisition of foreign operations, are translated into Japanese yen using the exchange rate at the end of each reporting period. Income and expenses are translated into Japanese yen at the average exchange rate for the period unless exchange rates fluctuate significantly during that period. Exchange differences on translation of foreign operations are initially recognized in other comprehensive income and accumulated in "Other components of equity." On disposal of foreign operations, the

exchange differences that have been accumulated in the other components of equity shall be reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are accounted for as assets and liabilities of the foreign operation and translated at the exchange rate at the end of each reporting period.

(4) Financial Instruments

1) Non-derivative Financial Assets

(i) Initial recognition and measurement

Financial assets other than derivative financial instruments are classified as those measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification is determined at the initial recognition.

a) Financial assets measured at amortized cost

The Group classifies its financial assets as those measured at amortized cost only if both of the following conditions are met:

- the financial asset is held within a business model with an objective of collecting contractual cash flows, and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value, including transaction costs that are directly attributable to the acquisition. The carrying amount of financial assets measured at amortized cost is calculated by the effective interest method in subsequent measurement. Interest income from these financial assets measured at amortized cost is included in finance income in the consolidated statement of profit or loss.

b) Financial assets measured at fair value through other comprehensive income

For certain equity instruments held primarily for the purpose of maintaining or strengthening the business relationship with investees, the Group designates these instruments mainly as fair value through other comprehensive income at initial recognition.

Financial assets measured at fair value through other comprehensive income are initially measured at fair value, and subsequent changes in fair value are recognized in other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is transferred to retained earnings. Dividends from the financial assets measured at fair value through other comprehensive income are recognized in profit or loss when the Group's right to receive payment of the dividend is established.

c) Financial assets measured at fair value through profit or loss

Financial instruments that are not designated as those measured at fair value through other comprehensive income and debt instruments that do not meet the criteria for those measured at amortized cost are classified as those measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are initially measured at fair value, and subsequent changes in fair value are recognized in profit or loss.

(ii) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the asset to another party.

(iii) Impairment of financial assets measured at amortized cost

Allowance for doubtful accounts in respect of financial assets measured at amortized cost is recognized for expected credit losses.

At the end of each reporting period, the Group evaluates whether there has been a significant increase in credit risk of a financial asset since initial recognition. Specifically, if the credit risk of a financial asset has not significantly increased since initial recognition, an allowance for doubtful account is measured at an amount equal to the 12-month expected credit losses. However, if the credit risk has significantly increased since initial recognition, it is measured at an amount equal to the expected credit losses over the remaining term of the financial asset. An allowance for doubtful account for trade receivables without any significant financing components is measured at an amount equal to the lifetime expected credit losses since initial recognition.

Whether the credit risk has significantly increased or not depends on changes in default risk. The following factors are considered to determine if there has been a change in default risk:

- Financial condition of debtors

- Actual credit losses occurred in prior years
- Overdue information in prior years

Provision or reversal of allowance for doubtful accounts is recognized in profit or loss as “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

2) Non-derivative Financial Liabilities

(i) Initial recognition and measurement

Financial liabilities other than derivative financial instruments are classified as either those measured at amortized cost or at fair value through profit or loss. The classification is determined at initial recognition.

a) Financial liabilities measured at amortized cost

The Group classifies its financial liabilities other than those measured at fair value through profit or loss as those measured at amortized cost.

Financial liabilities measured at amortized cost are initially measured at fair value less any directly attributable transaction costs. Subsequent to the initial recognition, financial liabilities are measured at amortized cost using the effective interest rate method, whereby interest expenses are recognized as “Finance costs” in the consolidated statement of profit or loss.

b) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are initially measured at fair value and subsequent changes in fair value are recognized in profit or loss.

(ii) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation is discharged, canceled, or expired.

3) Presentation of Offsetting Financial Assets and Financial Liabilities

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

4) Fair Value Measurement of Financial Instruments

The fair values of financial instruments are measured based on quoted prices in an active market at the end of each reporting period. When a market for financial instruments is not regarded as active, or when it does not exist, the Group uses appropriate valuation techniques for fair value measurement. The financial instruments that are measured at fair value are categorized into the three levels of the fair value hierarchy determined with reference to the observability of inputs used in the valuation techniques.

The definition of each level of the fair value hierarchy is as follows:

Level 1 – Fair value measured using a quoted price in an active market for an identical asset or liability;

Level 2 – Fair value measured using inputs that are composed of observable prices, either directly or indirectly; and

Level 3 – Fair value measured using inputs that are unobservable for the assets or liabilities.

(5) Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, including foreign exchange forward contracts, interest rate swaps, cross currency swaps, and currency options, to manage its exposure to foreign exchange rate and interest rate risks.

The Group does not enter into or trade derivative financial instruments for speculative purposes.

At the inception of a hedge, the Group documents the relationships between hedging instruments and hedged items, along with its risk management objectives and strategies for undertaking various hedge transactions. Furthermore, the Group evaluates whether a hedging instrument is highly effective in offsetting changes in fair values or cash flows of the relevant hedged item on an ongoing basis during the underlying period.

Derivatives are initially recognized at the fair value on the date when the derivative contracts are entered into, and are subsequently remeasured to their fair values at the end of each reporting period. Changes in fair value of derivatives subsequent to initial recognition are accounted for as follows:

1) Fair Value Hedges

Changes in fair value of derivatives as a hedging instrument are recognized in profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

2) Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualifying as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the significantly ineffective portion is recognized immediately in profit or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or when the hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the gain or loss previously recognized in other comprehensive income and accumulated in equity is directly transferred from equity and included in the initial costs or other carrying amount of the asset or liability. For other cash flow hedges, amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the same period or periods when the hedged forecast cash flows affect profit or loss. However, if the amount is a loss that is not expected to be recoverable partially or entirely in the future, the amount that is expected to be unrecoverable is reclassified immediately to profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised; or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is reclassified to profit or loss when the transaction of the hedged item is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is reclassified immediately to profit or loss.

(6) Paid-up Capital

1) Ordinary Shares

Proceeds from the issuance of equity instruments by the Company are recognized in share capital and capital surplus. Transaction costs directly attributable to the issuance of ordinary shares are recognized as a deduction from capital surplus on a post-tax basis.

2) Treasury shares

When treasury shares are repurchased, they are measured at cost and presented as a deduction from equity. Transaction costs directly attributable to the repurchase of treasury shares are deducted from equity. When treasury shares are sold, the consideration received is recognized as an increase in equity, and the difference between the carrying amount and the consideration received is included in capital surplus.

(7) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and at banks, demand deposits with banks and other financial institutions, and short-term and highly liquid investments that are readily convertible into known amounts of cash and are not subject to significant risk of changes in value with a maturity of three months or less from the acquisition date.

(8) Inventories

Inventories are measured at the lower of cost or net realizable value. Costs of inventories are mainly calculated by the average method and comprise all costs of purchasing and processing as well as other costs incurred in bringing the inventories to their present location and condition. Fixed and variable overhead costs are allocated appropriately and included in the processing costs.

Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(9) Property, Plant and Equipment

The Group applies the cost model for measurement of property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Costs of property, plant and equipment include costs directly attributable to the acquisition of property, plant and equipment; the initial estimated costs related to removing the asset and restoring the site; and borrowing costs for qualifying assets. Property, plant and equipment, except for land and construction in progress, are depreciated using the straight-line method over the depreciable amount, which is determined as the costs less their residual values, over the estimated useful lives from the date when they are available for their intended use.

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

Buildings	30 to 40 years
Machinery and equipment	5 to 10 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period.

The gain or loss arising from derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item, and is recognized in profit or loss.

(10) Intangible Assets

The Group applies the cost model for subsequent measurement of intangible assets. Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

1) Intangible Assets Acquired Separately

Intangible assets acquired separately are measured at cost at initial recognition.

2) Intangible Assets Acquired in a Business Combination

Intangible assets acquired in a business combination are measured at their fair value at the acquisition date.

3) Internally Generated Intangible Assets

Expenditures on research activities are recognized as expenses in the period in which they are incurred.

Expenditures on development (or in the development phase of an internal project) are recognized as assets only if all of the following have been demonstrated:

- i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ii) the intention to complete the intangible asset and use or sell it;
- iii) the ability to use or sell the intangible asset;
- iv) how the intangible asset will generate probable future economic benefits;
- v) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The other expenditures are recognized as expenses as incurred.

The amount initially recognized for internally generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above.

Intangible assets with finite useful lives are amortized by the straight-line method over their estimated useful lives from the date when they are available for their intended use. Amortization methods, useful lives, and residual values are reviewed at the end of each reporting period.

The estimated useful lives of intangible assets are as follows:

Technology-related assets	13 years
Software	5 years

Intangible assets with infinite useful lives and intangible assets not yet available for use are not amortized, and are tested for impairment at least annually, and whenever there is an indication that the intangible asset may be impaired.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in profit or loss.

(11) Goodwill

With respect to the initial measurement of goodwill, please see (2) Business Combinations. After initial recognition, goodwill is stated at cost less accumulated impairment losses.

Goodwill has been allocated to cash-generating units or groups of cash-generating units, and it is tested for impairment at least annually and whenever there is an indication that a cash-generating unit to which goodwill has been allocated may be impaired. If the recoverable amount of the cash-generating unit or the group of cash-generating units is less than its carrying amount, an impairment loss for goodwill is recognized in profit or loss. The impairment loss recognized for goodwill is not reversed in subsequent periods.

Regarding impairment of goodwill, please see (13) Impairment of Non-financial Assets and Investments Accounted for Using Equity Method.

(12) Leases

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

1) As Lessee

The Group recognizes a right-of-use asset and a lease liability at the commencement date of a lease.

A right-of-use asset is initially measured at cost at the commencement date. After the commencement date, the right-of-use asset is subsequently measured applying a cost model and presented at cost less any accumulated depreciation and any accumulated impairment losses. A right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

A lease liability is initially measured at the present value of the lease payments that are not made at the commencement date. After the commencement date, the lease liability is subsequently measured to reflect interest on the lease liability and the lease payments. In cases of a contract modification, the lease liability is remeasured, and a corresponding adjustment is made to the right-of-use asset. A lease liability is included in “Other current financial liabilities” and “Other non-current financial liabilities” in the statement of financial position. Lease payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

2) As Lessor

The Group classifies each of its leases as either an operating lease or as a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease.

(a) Finance Leases

In finance lease transactions, net investments in the lease are recognized as receivables.

(b) Operating Leases

Operating lease payments are recognized as revenues on a straight-line basis over the lease terms.

(13) Impairment of Non-financial Assets and Investments Accounted for Using Equity Method

At the end of each reporting period, the Group assesses whether there is any indication that non-financial assets may be impaired.

If any impairment indication exists, the recoverable amount of the asset is estimated. However, goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use are tested for impairment at least annually regardless of whether there is any indication of impairment.

Moreover, when there is objective evidence of impairment, the investments accounted for using equity method are tested for impairment by treating the carrying amount of the entire investments as a single asset.

The recoverable amount of an asset or a cash-generating unit is the higher of fair value less costs of disposal or value in use. When the recoverable amount of an individual asset cannot be estimated, the Group estimates the recoverable amount of the cash-generating unit or the group of cash-generating units to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Since corporate assets do not generate separate cash inflows, the recoverable amount of an individual corporate asset cannot be determined. If there is an indication that a corporate asset may be impaired, the recoverable amount is determined for the cash-generating unit or the group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of this cash-generating unit or group of cash-generating units, unless the asset has been determined to be disposed of.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or the cash-generating unit is reduced to its recoverable amount, and an impairment loss is recognized.

When there are indications that an impairment loss recognized in prior periods may no longer exist or may have decreased since the last recognition of the impairment loss, the impairment loss recognized in prior years for an asset or a cash-generating unit other than goodwill

is reversed. The reversal of an impairment loss is recognized to the extent where the carrying amount of the asset or the cash-generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the cash-generating unit in prior years.

(14) Non-current Assets Held for Sale

A non-current asset (or a disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. An asset is classified as held for sale only when the asset (or the disposal group) is available for immediate sale, and when management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amount or fair value, less costs to sell, and are no longer depreciated or amortized.

(15) Employee Benefits

1) Post-employment Benefits

The Group has defined benefit plans and defined contribution plans as post-employment benefit plans.

The primary defined benefit plans adopted by group entities in Japan are contract-type defined benefit corporate pension plans and a retirement lump-sum payment plan. Certain group entities in Japan have joined the Smaller Enterprise Retirement Allowance Mutual Aid Scheme. Certain overseas group entities have adopted defined benefit plans and defined contribution plans.

(i) Defined benefit plans

The present value of defined benefit obligations and relevant current service cost, as well as past service costs of each plan, are determined using the projected unit credit method. The present value is measured at the discounted expected future payments. The discount rate is determined by reference to market yields at the fiscal year end on high-quality corporate bonds for the corresponding period in which the retirement benefits are to be paid. The net amount of defined benefit liability or asset is recognized as a liability or an asset in the consolidated financial statements, and is measured at the present value of defined benefit obligation net of the fair value of plan assets (including the effect of the asset ceiling of defined benefit plans and adjustment for minimum funding requirements, if necessary). Current service cost for defined benefit plans and net interest expense or income on the net amount of defined benefit liability (or asset) are recognized in profit or loss. Remeasurements of defined benefit plans are recognized in other comprehensive income in the period when it occurs and transferred immediately to retained earnings. Past service cost is recognized in profit or loss as incurred.

(ii) Defined contribution plans

Contributions to defined contribution retirement plans are recognized as expenses in the period in which the associated services are rendered by employees.

2) Other Long-term Employee Benefits

Liabilities recognized in respect of other long-term employee benefits, such as long-term paid absences, are measured at the present value of the estimated future benefits that are expected to be paid by the Group in exchange for the services rendered by employees up to the reporting date.

3) Short-term Employee Benefits

Short-term employee benefits are recognized as expenses when the associated services are rendered by employees at undiscounted amounts.

A liability is recognized for the expected benefit payments when the Group has a present legal or constructive obligation to pay for employee benefits as a result of the services rendered by employees and when a reliable estimate can be made for the obligation.

(16) Share-based Payment

1) Stock Option Scheme

The Company has introduced equity-settled share-based payment schemes (hereinafter referred to as the “stock options”) as remuneration granted to directors.

Stock options are measured at fair value at the grant date and recognized as an expense on a straight-line basis over the vesting period, taking into account the probability that the options may forfeit without satisfying vesting conditions, with a corresponding increase in equity. The fair value at the grant date is measured using the Black–Scholes model.

2) Performance- and Share-based Payment Scheme

The Company has introduced a performance- and share-based payment scheme for directors of the Company, namely, the Executive Compensation Board Incentive Plan (BIP) Trust in order to further enhance incentives for realizing the business prospects indicated in the medium-term management plan and for sustainably improving corporate value. The executive compensation BIP Trust is an incentive plan granting the shares of the Company or the equivalent cash as the granted shares would be sold as directors' remuneration in the last year of three-year medium-term management plans, depending on the achievement of business performance for each three years.

Considerations for the services rendered are measured based on the fair value of the granted shares of the Company and recognized as an expense with a corresponding increase in a capital reserve within equity.

(17) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation arising as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligations at the end of each reporting period.

When the impact of the time value of money is material, provisions are stated at the present value of the estimated future cash flows, which is discounted using a pre-tax rate reflecting the time value of money and the specific risks of the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as "Finance costs."

1) Provision for Product Warranties

The Group recognizes and measures the provision for future product warranties based on actual sales recorded and warranty costs incurred in prior years, whereby repair expenses can be covered for products sold in the period that the Group guarantees to provide free repair services in the contracts. The Group estimates that the outflows of the expected economic benefits will occur within a one-year period from the end of each fiscal year.

2) Asset Retirement Obligations

The Group recognizes and measures the provisions for asset retirement obligations based on past experiences, whereby the Group incurred an obligation for the restoration of leased premises, such as office buildings, and for the removal of harmful substances related to property, plant and equipment. The Group expects that the majority of the payments of these obligations will be made after one year from the end of each fiscal year.

(18) Revenue Recognition

The Group's revenue is recognized based on the following five-step model:

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the entity satisfies a performance obligation

The Imaging Products Business provides products and services of imaging products and their peripheral domain, such as digital SLR cameras, compact digital cameras, and interchangeable camera lenses. The Precision Equipment Business provides products and services with regard to the FPD lithography system and semiconductor lithography system. The Healthcare Business provides products and services for the life science solutions field, such as biological microscopes and cell culture observation systems, for the eye care solutions field such as ultra-wide field retinal imaging devices, and for the contract cell development and manufacturing field. The Components Business provides products related to the Digital Solutions Business such as optical components, optical parts, encoders, and material processing; products and services related to the Customized Products Business such as EUV-related components and space-related products; and related to the Glass Business such as photomask substrates for FPDs. The Industrial Metrology and Others provide products such as industrial microscopes, measuring instruments, X-ray/CT inspection systems, and surveying instruments. The Group also renders services related to products, such as warranty, repair and maintenance, and relocation services.

For sales of products and rendering of services, the performance obligations are identified based on contracts with customers.

Regarding the sales of products that require installation by the Group, revenue is recognized at the point when the installation is completed. For products that do not require installation by the Group, revenue is recognized at the point when the product is delivered to a customer, as the customer obtains control over the products upon completion of installation or delivery and the performance obligation is deemed to be satisfied. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates, and other items.

For the services, if the performance obligation is satisfied at a point in time, revenue is recognized at the point when the services are completed. If the performance obligation is satisfied over time, revenue is recognized on a straight-line basis or on progress over the period during which services are rendered.

(19) Government Grants

Government grants are not recognized until there is a reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. If property, plant, and equipment are acquired with the government grant, the grant is recognized as deferred revenue and reclassified to profit or loss on a systematic basis over the useful lives of the related assets.

(20) Income Taxes

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in profit or loss, except to the extent that they arise from items recognized in other comprehensive income or directly in equity, or from a business combination.

Current tax is measured at the expected tax payable or tax receivable on taxable income for the year due to, or due from, the tax authorities, applying the tax rates and tax laws and regulations that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax expenses are determined based on the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax bases at the end of the reporting period. Deferred tax assets are recognized for all deductible temporary differences, unused tax losses, and unused tax credits to the extent it is probable that taxable profits will be available against which those deductible temporary differences, unused tax losses, and unused tax credits can be utilized. Deferred tax liabilities are recognized for taxable temporary differences, in principle.

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

However, deferred tax assets and liabilities are not recognized for the following temporary differences:

- Temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit nor taxable profit (loss) at the time of the transaction;
- Deductible temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, for which it is probable that the temporary difference will not reverse in the foreseeable future or when it is less probable that taxable profit will be available against which the temporary difference can be utilized; or
- Taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, for which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if the Group has the legally enforceable right to offset current tax assets against current tax liabilities, and if income taxes are levied by the same taxation authority on the same taxable entity.

The Company and certain subsidiaries apply the consolidated tax payment system.

(21) Earnings per Share

Basic earnings per share are calculated by dividing the profit for the reporting period attributable to ordinary equity stockholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the effect of all potential dilutive ordinary shares.

4. Use of Estimates and Judgment

In the preparation of consolidated financial statements, the reported amounts of assets, liabilities, income and expenses are affected by the management's selecting the application of accounting policies and estimates. The assumptions on which the estimates are calculated are based on historical experience, available information and other factors that are reasonably assessed at the end of the reporting period according to management's best judgments. Accounting estimates are based on assumptions that take into consideration factors, such as the economy, market, and consumption trends, in addition to the changes in demand and supply in the industries which each business of the Group belongs to. However, future results may differ from these estimates and associated assumptions.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period of the revision and future periods. While the impact of COVID-19 is unpredictable as it is uncertain as to when COVID-19 will be contained, it is assumed that the impact will continue to some extent into the next fiscal year but will wane.

The following are the critical judgments the management has made in the process of the Group's accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements.

- Scope of subsidiaries, associates, and joint ventures (see (1) Basis of Consolidation in Note 3. Significant Accounting Policies)
- Revenue recognition (see (18) Revenue Recognition in Note 3. Significant Accounting Policies)

The following are the key estimates and associated assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the subsequent reporting period:

- Fair value measurement for financial instruments (see Note 3. Significant Accounting Policies (4) Financial Instruments and Note 35. Financial Instruments)
- Measurement of inventories (see Note 3. Significant Accounting Policies (8) Inventories and Note 10. Inventories)
- The useful lives of property, plant and equipment and intangible assets (see Note 3. Significant Accounting Policies (9) Property, Plant and Equipment, (10) Intangible Assets and (12) Leases)
- Significant assumptions used in the calculation of the expected discounted cash flows for the impairment test of non-financial assets (see Note 3. Significant Accounting Policies (13) Impairment of Non-financial Assets and Investments Accounted for Using Equity Method and Note 15. Impairment Losses of Non-financial Assets)
- Employee benefits (see Note 3. Significant Accounting Policies (15) Employee Benefits and Note 24. Employee Benefits)
- Share-based payments (see Note 3. Significant Accounting Policies (16) Share-based Payment and Note 34. Share-based Payment)
- Accounting treatment and valuation of provisions (see Note 3. Significant Accounting Policies (17) Provisions and Note 21. Provisions)
- Recoverability of deferred tax assets (see Note 3. Significant Accounting Policies (20) Income Taxes and Note 18. Income Taxes)
- The possibility of an outflow of economic resources of contingent liabilities (see Note 38. Contingent Liabilities)

5. New Standards and Interpretations Not Yet Adopted by the Group

The new standards, interpretations, and amendments that have been issued as of the approval date of the consolidated financial statements are not presented because the impacts are immaterial.

6. Segment Information

(1) Outline of Reportable Business Segments

The business segments that the Group reports are the business units for which the Company is able to obtain respective financial information separately for the Board of Directors to conduct periodic investigations to determine the distribution of management resources and evaluate the Group's business results.

In consideration of the similarity of economic characteristics, the Group integrated its business divisions into four reportable segments consisting of the Imaging Products Business, the Precision Equipment Business, the Healthcare Business, and the Components Business.

The Imaging Products Business provides products and services of imaging products and its peripheral domain, such as digital SLR cameras, compact digital cameras, and interchangeable camera lenses. The Precision Equipment Business provides products and services with regard to the FPD lithography system and semiconductor lithography system. The Healthcare Business provides products and services for the life science solutions field, such as biological microscopes and cell culture observation systems; for the eye care solutions field such as ultra-wide field retinal imaging devices; and for the contract cell development and manufacturing field. The Components Business provides products and services related to the Digital Solutions Business such as optical components, optical parts, encoders, and material processing; related to the Customized Products Business such as EUV-related components and space-related solutions; and related to the Glass Business such as photomask substrates for FPDs.

(Regarding Revision of Reportable Business Segments)

As of April 1, 2021, the Company has established the Components Business as a new reportable business segment with the aim of promoting business in Digital Manufacturing and Vision Systems/Robotics, which are defined as the areas of long-term growth. As part of establishing the new business segment, the Company has transferred the Digital Solutions Business, the Customized Products Business and the Glass Business, which were previously included in the Industrial Metrology and Others, to the Components Business. In addition, to promote the establishment of an effective production system across the Group, the Company has transferred some manufacturing subsidiaries related to the Imaging Products Business, the Precision Equipment Business and the Components Business to the Industrial Metrology and Others.

The segment information for the year ended March 31, 2021, has been prepared based on the revised business segments.

(2) Information on Reportable Business Segments

The accounting policies for reportable segments are consistent with those described in Note 3. Significant Accounting Policies. Profit or loss of reportable segments is based on operating profit. The intersegment revenues are based on current market prices.

The information on reportable segments is as follows:

Millions of yen

For the year ended March 31, 2021	Imaging Products	Precision Equipment	Healthcare	Components	Industrial Metrology and Others (Note 1)	Total	Reconciliation (Note 2)	Consolidated
Revenue								
External customers	150,203	184,774	62,848	25,788	27,610	451,223	—	451,223
Intersegment	1,176	378	162	6,944	75,717	84,377	(84,377)	—
Total	151,379	185,152	63,010	32,732	103,327	535,600	(84,377)	451,223
Segment profit (loss) (Note 3)	(36,391)	(643)	(3,091)	187	(1,205)	(41,143)	(15,097)	(56,241)
Finance income								11,167
Finance costs								(2,238)
Share of profit of investments accounted for using equity method								1,969
Loss before tax								(45,342)
Segment assets	68,370	191,196	93,818	31,881	73,154	458,418	531,319	989,737
Others								
Impairment losses (Note 4)	16,390	3,796	2,459	656	2,753	26,054	—	26,054
Depreciation and amortization	5,242	4,192	4,521	2,153	4,909	21,017	7,011	28,027
Increase in property, plant and equipment, right-of-use assets, goodwill and intangible assets	6,498	7,418	2,806	2,889	5,004	24,614	7,083	31,697

Notes: 1. The “Industrial Metrology and Others” category consists of operations not included in the reportable segments.

2. Regarding segment profit (loss), reconciliation is made between segment profit (loss) and operating profit (loss) reported in the consolidated statement of profit or loss. Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥3,608 million and corporate profit (loss) of ¥(18,705) million that cannot be attributed to any segments. The main components of corporate profit (loss) are fundamental research expenses, general and administrative expenses of headquarter functions, expenses incurred to establish new business, and other operating income or expenses that cannot be attributed to any segments.

Regarding segment assets, reconciliation is made between segment assets and assets reported in the consolidated statement of financial position. In addition, reconciliation of segment assets includes corporate assets of ¥546,073 million that is not attributed to any segments, and elimination of intersegment transactions of ¥(14,754) million. Principal components of corporate assets are surplus funds (cash and cash equivalents) held by the Company and its consolidated subsidiaries; long-term investments (shares); deferred tax assets; and some non-current assets and right-of-use assets used in common.

3. Out of the total restructuring costs of ¥(4,343) million recognized in “Other operating expenses” reported in the consolidated statement of profit or loss, ¥(3,400) million and ¥(943) million are recognized in the segment profit (loss) of the Imaging Products Business and the Industrial Metrology and Others, respectively.

4. The main components of the impairment losses are described in Note 15. Impairment Losses of Non-financial Assets.

Millions of yen

For the year ended March 31, 2022	Imaging Products	Precision Equipment	Healthcare	Components	Industrial Metrology and Others (Note 1)	Total	Reconciliation (Note 2)	Consolidated	
Revenue									
External customers	178,234	211,216	73,243	40,869	36,050	539,612	—	539,612	
Intersegment	720	157	189	9,793	66,166	77,025	(77,025)	—	
Total	178,954	211,373	73,432	50,662	102,216	616,637	(77,025)	539,612	
Segment profit (loss)	19,069	27,719	4,385	12,721	2,964	66,859	(16,924)	49,934	
Finance income									9,592
Finance costs									(3,643)
Share of profit of investments accounted for using equity method									1,213
Profit before tax									57,096
Segment assets	79,984	192,019	102,209	41,989	72,139	488,340	551,226	1,039,566	
Others									
Impairment losses	2	—	447	—	0	449	—	449	
Depreciation and amortization	3,088	3,952	4,116	2,382	5,105	18,643	6,214	24,857	
Increase in property, plant and equipment, right-of-use assets, goodwill and intangible assets	4,564	6,918	4,949	9,142	6,440	32,012	13,844	45,857	

Notes: 1. The “Industrial Metrology and Others” category consists of operations not included in the reportable segments.

2. Regarding segment profit (loss), reconciliation is made between segment profit (loss) and operating profit (loss) reported in the consolidated statement of profit or loss. Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥1,216 million, cumulative translation differences of ¥(56) million reclassified to profit or loss due to the liquidation of a foreign subsidiary, and corporate profit (loss) of ¥(18,084) million that cannot be attributed to any segments. Out of the corporate profit (loss) of ¥(18,084) million, gains from sale of land of ¥2,352 million are recognized in “Other operating income” reported in the consolidated statement of profit or loss. The main components of corporate profit (loss) are fundamental research expenses, general and administrative expenses of headquarter functions, expenses incurred to establish new business, and other operating income or expenses that cannot be attributed to any segments.

Regarding segment assets, reconciliation is made between segment assets and assets reported in the consolidated statement of financial position. In addition, reconciliation of segment assets includes corporate assets of ¥561,298 million that is not attributed to any segments, and elimination of intersegment transactions of ¥(10,072) million. Principal components of corporate assets are surplus funds (cash and cash equivalents) held by the Company and its consolidated subsidiaries; long-term investments (shares); deferred tax assets; and some fixed and right-of-use assets used in common.

(3) Geographic Information

Revenue from external customers

	Millions of yen	
	2021	2022
Japan	72,629	98,382
United States	114,786	129,274
Europe	71,386	72,203
China	121,058	153,471
Others	71,364	86,282
Total	451,223	539,612

Notes: Revenue is based on the geographic locations of customers, which are categorized either by country or region.

Except for Japan, the United States, and China, the countries or regions are primarily categorized as follows:

- 1) Europe: The United Kingdom, France, and Germany
- 2) Others: Canada, Asia other than Japan and China, Middle East, Oceania, and Latin America

Non-current assets

	Millions of yen	
	2021	2022
Japan	86,363	93,042
North America	5,523	12,926
Europe	43,032	45,231
China	2,151	3,192
Thailand	3,240	3,944
Others	2,446	2,713
Total	142,755	161,048

Notes: Non-current assets are based on the geographic locations of assets, which are categorized either by country or region.

Except for Japan, China, and Thailand, the countries or regions are primarily categorized as follows:

1) North America: The United States and Canada

2) Europe: The United Kingdom, France, and Germany

3) Others: Asia other than Japan, China and Thailand, Middle East, Oceania and Latin America

Financial instruments, deferred tax assets, and retirement benefit asset are not included above.

(4) Information about Major Customers

There was a customer group who contributed 10% or more to the consolidated revenue for the year ended March 31, 2021. The revenue recognized from this customer group was ¥53,230 million (Precision Equipment Business and Industrial Metrology and Others).

There was no customer group who contributed 10% or more to the consolidated revenue for the year ended March 31, 2022; therefore, the information is omitted.

7. Business Combinations

The details of a business combination occurred in the year ended March 31, 2022 are as follows:

(1) Summary of Business Combination

The Company has acquired the majority (66.65%) ownership of shares of Morf3D Inc. in cash, making it a subsidiary. Morf3D is a contract manufacturer of aerospace and aircraft components.

1) Name of Acquired Company and its Business Outline

Name of acquired company: Morf3D Inc. (“Morf3D”)

Business outline: Contract manufacturing of aerospace and aircraft components (additive manufacturing (AM))

2) Primary Reasons for Business Combination

Morf3D is a company based in California, the United States and is specialized in metal additive manufacturing (AM), generally referred to as 3D printing. The company ranks one of the nation’s leaders especially in contract manufacturing of aerospace and aircraft components. The Company has identified the material processing business as one of the key growth areas in its medium-term management plan. Morf3D serves for many of major aerospace plane manufacturers in the United States and Europe. The company also holds necessary certifications for the aerospace plane industry. Following the acquisition of the majority of shares, the Company aims to expand the material processing business, leveraging the business foundation held by Morf3D. Specifically, the Company plans to drive the contract manufacturing business combining Morf3D’s customer base and the Company’s precision processing technology such as optical processing machine, toward the market of mid- and small-sized satellites which is rapidly expanding due to demands for internet connections as well as acquisition and analysis of earth observation images, etc.

3) Legal Form of Business Combination

Acquisition of shares in exchange for cash and subscription of new shares through third-party allotment

4) Date of Business Combination

April 2, 2021

(2) Acquisition Cost of the Acquired Company and Breakdown by Type of Consideration

	Millions of yen
Cash	4,270
Total acquisition cost	4,270

(3) Details of Major Acquisition-related Costs

Acquisition-related costs for the business combination was ¥177 million and recorded as selling, general and administrative expenses in the consolidated statement of profit or loss for the year ended March 31, 2021.

(4) Fair Value of Assets and Liabilities, Non-controlling Interests, and Goodwill as of the Acquisition Date

	Millions of yen
Current assets	4,146
Non-current assets (Note 1)	2,010
Total assets	6,156
Current liabilities	1,638
Non-current liabilities	345
Total liabilities	1,983
Net assets	4,173
Non-controlling interests (Note 2)	1,392
Goodwill arising in acquisition (Note 3)	1,489

Notes: 1. Non-current assets include identifiable intangible assets of ¥807 million, consisting of customer-related assets of ¥695 million and technology-related assets of ¥112 million.

2. Non-controlling interests are measured as the ratio of non-controlling interests to the identifiable net assets of the acquired company.

3. Goodwill is the future excess earning power expected from future business development. None of the recognized goodwill is expected to be deductible for tax purposes.

(5) Expenditure to Gain Control of the Subsidiary

The reconciliation of the consideration for acquisition of shares of Morf3D with the net expenditure for acquisition is as follows:

	Millions of yen
Consideration for acquisition of shares of Morf3D	4,270
Less: Cash and cash equivalents of Morf3D (Note)	(3,892)
Net expenditures for acquisition of Morf3D	378

Note: Cash and cash equivalents of Morf3D include the paid-in amount of ¥3,703 million from capital increase through third-party allotment.

(6) Consolidated Revenue and Consolidated Profit for Year based on the Assumption that the Business Combination had been Completed at the Beginning of the Period

Consolidated revenue and profit for year based on the assumption that the business combination had been completed at the beginning of the period are omitted as their impact on the consolidated statement of profit or loss for the year ended March 31, 2022, is insignificant.

Consolidated revenue and profit for year based on the assumption that the business combination had been completed at the beginning of the period have not been audited by an auditing firm.

8. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	Millions of yen	
	2021	2022
Cash and cash equivalents		
Cash and bank deposits	246,367	245,637
Time deposits with maturities within three months at acquisition	105,431	124,639
Total	351,798	370,277

9. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

	Millions of yen	
	2021	2022
Notes and accounts receivable	61,952	77,164
Lease receivables	11,396	13,159
Other receivables	994	1,036
Less: Allowance for doubtful accounts	(1,441)	(788)
Total	72,900	90,571

Note: Trade and other receivables are classified as financial assets measured at amortized cost.

As for allowance for doubtful accounts, please see (5) Credit Risk Management in Note 35. Financial Instruments.

10. Inventories

The breakdown of inventories is as follows:

	Millions of yen	
	2021	2022
Finished goods	109,731	101,397
Work in process	91,785	96,302
Raw materials and supplies	34,245	41,251
Total	235,760	238,950

The amount of inventories that were expensed for the year ended March 31, 2021, was cost of sales of ¥295,186 million. Cost of sales includes ¥25,392 million of inventories abandoned and written down for assets whose net realizable value falls below the carrying amount.

The amount of inventories that were expensed for the year ended March 31, 2022, was cost of sales of ¥303,355 million. Cost of sales includes ¥5,258 million of inventories abandoned and written down for assets whose net realizable value falls below the carrying amount.

11. Other Financial Assets

(1) The Breakdown of Other Financial Assets is as Follows:

	Millions of yen	
	2021	2022
Derivative financial assets	1,894	4,214
Equity securities	69,247	62,732
Others	21,129	27,310
Total	92,269	94,256
Other current financial assets	1,179	948
Other non-current financial assets	91,090	93,308

As for the classification of financial assets, please see (2) Classification of Financial Instruments in Note 35. Financial Instruments.

Derivative financial assets other than those applying hedging accounting are classified as financial assets measured at fair value through profit or loss. Equity securities are mainly classified as financial assets measured at fair value through other comprehensive income.

(2) The Name and Fair Value of Major Financial Assets Measured at Fair Value through Other Comprehensive Income

Since the shares held by the Group are primarily for the purpose of maintaining or strengthening business relationships with investees, these instruments are designated at initial recognition as at fair value through other comprehensive income.

Name of Shares	Millions of yen	
	2021	2022
JEOL Ltd.	18,877	15,801
MITSUBISHI ESTATE CO., LTD.	4,693	4,417
Tokio Marine Holdings, Inc.	3,131	4,239
Mitsubishi Logistics Corporation	3,914	3,515
Ushio Inc.	2,136	2,674
Citizen Watch Co., Ltd.	1,892	2,608
Mitsubishi Electric Corporation	2,978	2,490
Avaldata Corporation	2,519	2,011
Oxford Nanopore Technologies PLC	—	1,830
HEALIOS K.K.	2,566	1,788

(3) The Fair Value at the Date of Derecognition and the Accumulated Gain or Loss Recognized as Other Comprehensive Income in Equity

For the year ended March 31, 2021

Fair value	Millions of yen	
	Fair value	Accumulated gain or loss recognized as other comprehensive income in equity
	38,410	11,934

For the year ended March 31, 2022

Fair value	Millions of yen	
	Fair value	Accumulated gain or loss recognized as other comprehensive income in equity
	20,485	11,285

Accumulated gain or loss recognized as other comprehensive income in equity was reclassified to retained earnings upon derecognition.

12. Other Assets

The breakdown of other assets is as follows:

	Millions of yen	
	2021	2022
Consumption taxes receivable	4,769	4,884
Prepaid expenses	3,013	4,614
Refundable income taxes	2,129	1,209
Others	4,560	3,163
Total	14,470	13,871
Other current assets	14,215	13,467
Other non-current assets	255	403

13. Property, Plant and Equipment

(1) Consolidated Statement of Changes in Property, Plant and Equipment

Details of changes in acquisition costs, accumulated depreciation, and accumulated impairment losses of property, plant and equipment are as follows:

Acquisition Costs

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of April 1, 2020	138,328	202,195	15,593	5,455	80,583	442,154
Acquisition	384	774	—	18,086	661	19,906
Disposals	(2,300)	(15,878)	(357)	(4)	(6,044)	(24,582)
Reclassification	2,341	4,494	31	(14,175)	3,803	(3,506)
Effect of foreign currency exchange differences	1,409	2,537	128	24	1,949	6,047
As of March 31, 2021	140,163	194,122	15,395	9,386	80,952	440,019
Acquisition	211	1,064	—	18,287	1,070	20,633
Acquisition through business combinations	81	712	—	—	10	802
Disposals	(3,688)	(10,063)	(1,387)	(1)	(3,550)	(18,691)
Reclassification	4,021	7,825	3	(19,880)	4,189	(3,842)
Effect of foreign currency exchange differences	1,547	2,203	183	96	2,075	6,104
As of March 31, 2022	142,335	195,863	14,193	7,888	84,745	445,025

Accumulated Depreciation and Impairment Losses

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of April 1, 2020	93,605	176,448	34	743	64,956	335,785
Depreciation (Note 1)	4,086	7,328	—	—	4,301	15,714
Impairment losses (Note 2)	6,615	6,253	230	2,642	5,275	21,014
Disposals	(2,292)	(15,535)	—	—	(6,024)	(23,851)
Reclassification	(26)	398	(34)	(409)	235	164
Effect of foreign currency exchange differences	1,052	2,232	—	2	1,695	4,982
As of March 31, 2021	103,040	177,124	230	2,977	70,438	353,809
Depreciation (Note 1)	3,609	5,990	—	—	3,146	12,745
Impairment losses	2	18	—	10	174	205
Disposals	(3,491)	(8,533)	—	—	(3,493)	(15,517)
Reclassification	105	1,782	—	(2,481)	614	20
Effect of foreign currency exchange differences	1,195	1,878	—	1	1,733	4,808
As of March 31, 2022	104,461	178,259	230	507	72,613	356,069

Notes: 1. Depreciation of property, plant and equipment is recognized in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

2. With respect to impairment losses, please see Note 15. Impairment Losses of Non-financial Assets.

Carrying Amount

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of March 31, 2021	37,124	16,998	15,165	6,409	10,514	86,210
As of March 31, 2022	37,875	17,604	13,963	7,381	12,133	88,956

(2) Assets Pledged as Collateral

There were no material property, plant and equipment pledged as collateral as of March 31, 2021 and 2022.

(3) Commitments

The commitments to acquire property, plant and equipment as of March 31, 2021 and 2022, were ¥4,834 million and ¥6,527 million, respectively.

14. Goodwill and Intangible Assets

(1) Consolidated Statement of Changes in Goodwill and Intangible Assets

Details of changes in acquisition costs, accumulated amortization, and accumulated impairment losses of goodwill and intangible assets are as follows:

Acquisition Costs

	Millions of yen								
	Goodwill	Technology-related assets	Customer-related assets	Trademarks	Software	Industrial property rights	Development costs	Others	Total
As of April 1, 2020	23,646	19,534	—	679	77,496	27,119	12,444	1,440	162,358
Additions through acquisition	—	—	—	—	3,908	912	—	7	4,826
Additions through internal development	—	—	—	—	—	—	1,166	—	1,166
Disposals	—	—	—	—	(5,441)	(1,864)	(2,727)	(15)	(10,046)
Reclassification	—	—	—	—	(1,202)	(537)	—	(1)	(1,740)
Effect of foreign currency exchange differences	405	362	—	35	404	42	846	68	2,162
As of March 31, 2021	24,051	19,896	—	714	75,165	25,672	11,730	1,498	158,726
Additions through acquisition	—	—	—	—	4,539	156	—	4	4,699
Acquisition through business combinations	1,489	112	695	—	4	—	—	—	2,300
Additions through internal development	—	—	—	—	—	—	1,213	—	1,213
Disposals	—	—	—	—	(2,226)	—	(656)	(2)	(2,884)
Reclassification	—	—	—	—	(1,735)	5	—	—	(1,730)
Effect of foreign currency exchange Differences	2,293	2,100	74	16	634	28	847	39	6,030
As of March 31, 2022	27,832	22,108	769	730	76,381	25,861	13,133	1,540	168,354

Accumulated Amortization and Accumulated Impairment Losses

	Millions of yen								
	Goodwill	Technology-related assets	Customer-related assets	Trademarks	Software	Industrial property rights	Development costs	Others	Total
As of April 1, 2020	3,076	7,236	—	433	71,141	25,316	7,289	973	115,463
Amortization expenses (Note 1)	—	1,173	—	—	2,196	456	1,418	58	5,301
Impairment losses (Note 2)	429	—	—	—	2,071	289	171	6	2,965
Disposals	—	—	—	—	(5,394)	(1,864)	(2,635)	(10)	(9,903)
Reclassification	—	—	—	—	(136)	(22)	(514)	(1)	(673)
Effect of foreign currency exchange differences	—	486	—	—	321	15	641	52	1,516
As of March 31, 2021	3,505	8,895	—	433	70,199	24,190	6,370	1,078	114,670
Amortization expenses (Note 1)	—	1,608	47	—	1,766	316	1,460	51	5,248
Impairment losses	—	—	—	—	174	8	—	—	182
Disposals	—	—	—	—	(2,225)	—	(656)	(2)	(2,883)
Reclassification	—	—	—	—	(400)	0	—	(3)	(403)
Effect of foreign currency exchange differences	43	1,077	4	—	529	9	462	37	2,161
As of March 31, 2022	3,547	11,580	51	433	70,044	24,523	7,636	1,160	118,975

Notes: 1. Amortization of intangible assets is recognized in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

2. With respect to impairment losses, please see Note 15. Impairment Losses of Non-financial Assets.

Carrying Amount

	Millions of yen								
	Goodwill	Technology-related assets	Customer-related assets	Trademarks	Software	Industrial property rights	Development costs	Others	Total
As of March 31, 2021	20,546	11,001	—	281	4,966	1,482	5,360	420	44,056
As of March 31, 2022	24,285	10,528	717	297	6,337	1,338	5,497	379	49,379

(2) Assets Pledged as Collateral

There were no goodwill and intangible assets pledged as collateral as of March 31, 2021 and 2022.

(3) Commitments

The commitments to acquire intangible assets as of March 31, 2021 and 2022, were ¥566 million and ¥1,579 million, respectively.

(4) Significant Intangible Assets

As of March 31, 2022, the Group's major intangible assets were those related to technology.

The carrying amount of technology-related intangible assets acquired through the acquisition of Optos Plc was ¥10,845 million and ¥10,317 million as of March 31, 2021 and 2022, respectively. The remaining useful life of the intangible assets is 6 years.

15. Impairment Losses of Non-financial Assets

(1) Impairment Losses

The Group determines the impairment of assets by cash-generating units based on the business segments, in which the assets are grouped by the minimum unit that generates largely independent cash inflows. In regard to idle assets, the future prospects or sales expectations are considered when determining impairment by cash-generating units, in which the assets are grouped by the individual asset or multiple assets. As a result of impairment determination, if the recoverable amount is lower than the carrying amount, the carrying amount is reduced to the recoverable amount and the reduction is recognized as impairment loss. The measurement of the recoverable amount of an asset or cash-generating unit is by the higher of its fair value less costs of disposal and its value in use. The impairment losses are recognized in "Other operating expenses."

(2) Impairment Losses Recognized and the Underlying Events that Led to the Recognition of Impairment Losses

[For the year ended March 31, 2021 (From April 1, 2020, to March 31, 2021)]

For the year ended March 31, 2021, the Group assessed impairment of assets based on future cash flow forecasts that take into consideration future trends in the medium- to long-term business environment as well as the impact of the spread of COVID-19 and other various factors on business operations. As a result, impairment losses of ¥26,054 million were recognized. The recoverable amount is measured at the value in use or fair value less costs of disposal. The fair value measurements are categorized within the Level 3 category of the fair value hierarchy. Impairment losses by asset are as follows:

The reportable segments have been changed from the year ended March 31, 2022. Accordingly, the information on impairment losses for the year ended March 31, 2021, has been prepared based on the revised business segments.

	Millions of yen
	2021
Property, plant and equipment	21,014
Right-of-use assets	1,672
Intangible assets	2,536
Goodwill	429
Others	403
Total	26,054

With regard to the breakdown of impairment losses by segment, please see Note 6. Segment Information.

For the Imaging Products Business, impairment losses of ¥16,390 million were recognized. After adjusting future cash flow forecasts to reflect the rapid shrinkage of the digital camera market in the first half of the fiscal year due to the spread of COVID-19, the Group conducted an impairment assessment based on reviewed future cash flow forecasts that also considers the COVID-19-related impact on other imaging-related businesses. As a result, mainly at a manufacturing subsidiary in Thailand, the Company and a manufacturing and sales subsidiary in the U.K., the recoverable amount of non-current assets, including goodwill by cash-generating unit, has been determined to be lower than the carrying amount. Therefore, impairment losses of ¥16,359 million were recognized. The recoverable amount is measured at the fair value less costs of disposal, whereas the fair value is measured at the disposal value. The impairment losses include goodwill impairment of ¥429 million related to Mark Roberts Motion Control Limited, a manufacturing and sales subsidiary in the U.K. In addition, as a result of investigating the future use of non-current assets, a consolidated subsidiary has reduced the carrying amount of its idle assets with no prospect of specific use to their recoverable amount and recognized impairment losses of ¥31 million.

For the Precision Equipment Business and the Healthcare Business, impairment losses of ¥3,796 million and ¥2,459 million were recognized, respectively. The Group assessed impairment of assets based on future cash flow forecasts that take into consideration the

impact of the spread of COVID-19 and other factors on business operations. As a result, at the Company, the recoverable amount of the cash-generating unit has been determined to be lower than the carrying amount, and therefore, impairment losses of ¥3,796 million and ¥2,246 million were recognized in the Precision Equipment Business and the Healthcare Business, respectively. The recoverable amount is measured at the fair value less costs of disposal, whereas the fair value is measured at the disposal value. In addition, as a result of investigating the future use of non-current assets, consolidated subsidiaries have reduced the carrying amount of their idle assets with no prospect of specific use to their recoverable amount and recognized impairment losses of ¥213 million in the Healthcare Business.

For the Components Business, as a result of investigating the future use of non-current assets, the Company has reduced the carrying amount of idle assets with no prospect of specific use to their recoverable amount and recognized impairment losses of ¥656 million.

For the Industrial Metrology and Others, impairment losses of ¥2,753 million were recognized. After reviewing the future plan of the Imaging Products Business considering the rapid shrinkage of the digital camera market in the first half of the fiscal year due to the spread of COVID-19, the Group conducted an impairment assessment based on future cash flow forecasts that incorporates the revised future plan. As a result, at manufacturing subsidiaries in Japan, which mainly handle imaging-related parts, the recoverable amount of non-current assets by cash-generating unit has been determined to be lower than the carrying amount, and therefore, impairment losses of ¥2,630 million were recognized. The recoverable amount is measured at the fair value less costs of disposal, whereas the fair value is measured at the disposal value. In addition, as a result of investigating the future use of non-current assets, domestic consolidated subsidiaries have reduced the carrying amount of idle assets with no prospect of specific use to their recoverable amount and recognized impairment losses of ¥123 million.

Out of the total impairment losses of ¥26,054 million, the impairment loss of ¥123 million in the Industrial Metrology and Others was recognized as restructuring costs in the consolidated statement of profit or loss.

(3) Impairment Test of Goodwill

The carrying amount of goodwill allocated to a cash-generating unit or a group of cash-generating units is as follows:

The reportable segments have been changed from the year ended March 31, 2022. Accordingly, the information on impairment losses for the year ended March 31, 2021, has been prepared based on the revised business segments.

	Millions of yen	
	2021	2022
Imaging Products Business	261	276
Healthcare Business	19,936	22,014
Components Business	349	1,995
Total	20,546	24,285

The principal goodwill of those allocated to each cash-generating unit or group of cash-generating units is the one arisen from the business combination with Optos Plc, whose cash-generating unit is included in the Healthcare Business.

(Healthcare Business)

The recoverable amount is measured at the fair value less costs of disposal. The fair value less costs of disposal is calculated by discounting the future cash flows (post-tax) for the next 10 years to present value. The future cash flows are estimated based on the growth rate and the business plan approved by management reflecting past experience and external inputs. (Income Approach)

The growth rate used in the calculation is 2.3% (2.2% for the year ended March 31, 2021), and the post-tax discount rate is 9.2% (8.4% for the year ended March 31, 2021) based on the weighted average cost of capital of the cash-generating unit. This fair value measurement is categorized within Level 3 of the fair value hierarchy in accordance with the material inputs to valuation techniques used.

(Businesses other than Healthcare)

The recoverable amount is measured at the value in use. The value in use is calculated by discounting the future cash flows less than 5 years to present value. The future cash flows are estimated based on the growth rate and the business plan approved by management reflecting past experience and external inputs.

The growth rate used in the calculation is 2.0%–2.3% (0.0%–2.1% for the year ended March 31, 2021), and the pre-tax discount rate is 8.5%–15.5% (8.4%–15.5% for the year ended March 31, 2021) based on the weighted average cost of capital of the cash-generating unit or the group of cash-generating units.

As a result of these impairment tests of goodwill, the recoverable amount is higher than the carrying amount of each cash-generating unit or group of cash-generating units. Furthermore, the Group believes it is unlikely that impairment losses will incur even if there are reasonable possible changes in the key assumptions (i.e., growth rate and discount rate) used as the basis for the recoverable amount.

16. Investments Accounted for Using Equity Method

(1) Interest in Associates

The carrying amount of interest in associates that are not individually material is as follows:

	Millions of yen	
	2021	2022
Carrying amount in total	6,080	5,439

The share of comprehensive income of associates that are not individually material is as follows:

	Millions of yen	
	2021	2022
Share of profit for year	1,024	488
Share of other comprehensive income	140	150
Share of comprehensive income for year	1,163	638

(2) Interest in Joint Ventures

The carrying amount of interest in joint ventures that are not individually material is as follows:

	Millions of yen	
	2021	2022
Carrying amount in total	5,019	5,263

The share of comprehensive income of joint ventures that are not individually material is as follows:

	Millions of yen	
	2021	2022
Share of profit for year	946	724
Share of other comprehensive income	—	—
Share of comprehensive income for year	946	724

17. Leases

(1) As Lessee

As a lessee, the Group primarily leases assets in respect to real estate such as office buildings and warehouses. Lease contracts have contract terms from 1 year to 20 years, with some contracts containing extension or termination options. Extension options are options to renew the lease for a certain amount of time after the end of the lease term. Termination options are options that allow the lessee to early terminate the lease if the lessee gives a written notice to the lessor prior to the contracted end of the lease term. These options are exercised by the Group by considering real estate price trends and business environment to determine if the lease shall be renewed or terminated for business operations.

There are no escalation clauses or restrictions on dividends, additional borrowings and additional leases provided by the lease contracts.

1) Carrying Amount, Additions and Depreciation of Right-of-use Assets

The carrying amount of right-of-use assets is as follows:

	Millions of yen	
	2021	2022
Buildings and structures	10,239	19,632
Machinery, equipment and vehicles	1,008	1,681
Others	986	997
Total	12,233	22,310

Additions to right-of-use assets amounted to ¥5,799 million and ¥17,001 million for the years ended March 31, 2021 and 2022, respectively.

Depreciation of right-of-use assets is as follows:

	Millions of yen	
	2021	2022
Buildings and structures	5,882	5,840
Machinery, equipment and vehicles	623	579
Others	507	445
Total	7,013	6,864

Note: Depreciation of right-of-use assets is recognized in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

2) Income and Expenses Relating to Leases

Income relating to leases, which is recognized in the consolidated statement of profit or loss, is as follows:

	Millions of yen	
	2021	2022
Income from subleasing right-of-use assets	3	3

Expenses relating to leases, which are recognized in the consolidated statement of profit or loss, are as follows:

	Millions of yen	
	2021	2022
Expenses relating to leases accounted as expense		
Expenses relating to short-term leases	2,447	2,297
Expenses relating to low-value leases	923	727
Variable lease payments	4	5
Interest expenses on lease liabilities	147	138

3) Cash Outflow for Leases

Cash outflow for leases, which is recognized in the consolidated statement of cash flows, is as follows:

	Millions of yen	
	2021	2022
Cash outflow related to leases	10,968	10,605

4) Lease Liability

The breakdown of lease liability by maturity is as follows:

	Millions of yen	
	2021	2022
Within 1 year	5,525	7,022
After 1 year but within 2 years	3,538	5,283
After 2 years but within 3 years	2,237	4,025
After 3 years but within 4 years	1,304	3,463
After 4 years but within 5 years	840	1,656
After 5 years	580	2,078
Total	14,025	23,526
Less: Finance expenses relating to leases	(470)	(491)
Present value of lease liability	13,555	23,036
Amount recognized in the consolidated statement of financial position		
Lease liability (current)	5,366	6,876
Lease liability (non-current)	8,189	16,160

(2) As Lessor

1) Finance Leases

The Group mainly leases ultra-wide field retinal imaging devices under finance leases.

The selling profits from finance leases for the years ended March 31, 2021 and 2022, were ¥2,665 million and ¥3,262 million, respectively.

The finance income on the net investment in the lease and the income relating to variable lease payments are as follows:

	Millions of yen	
	2021	2022
Finance income on the net investment in the lease	189	221
Income relating to variable lease payments	92	—

The breakdown of the gross investment in the lease by maturity is as follows:

	Millions of yen	
	2021	2022
Within 1 year	4,114	4,656
After 1 year but within 2 years	3,287	4,022
After 2 years but within 3 years	2,452	2,902
After 3 years but within 4 years	1,402	1,614
After 4 years but within 5 years	414	375
After 5 years	70	27
Gross investment in the lease	11,740	13,596
Unearned finance income	344	437
Net investment in the lease	11,396	13,159

2) Operating Leases

The Group mainly leases robotic motion control camera equipment under operating leases.

Lease income from operating leases of ¥364 million and ¥528 million were recognized in the consolidated statement of profit or loss for the years ended March 31, 2021 and 2022, respectively. Lease income includes income of ¥28 million and ¥28 million relating to variable lease payments that do not depend on an index or a rate for the years ended March 31, 2021 and 2022, respectively.

The breakdown of lease receivables by payment due date is as follows:

	Millions of yen	
	2021	2022
Within 1 year	125	84
After 1 year but within 2 years	57	51
After 2 years but within 3 years	45	42
After 3 years but within 4 years	42	30
After 4 years but within 5 years	32	2
After 5 years	—	—
Total	301	209

18. Income Taxes

(1) Deferred Taxes

Deferred tax assets and liabilities are attributable to the following temporary differences:

	Millions of yen	
	2021	2022
Deferred tax assets:		
Unused tax losses	4,643	2,204
Impairment losses	6,372	4,604
Inventories	25,654	23,769
Accrued bonuses	2,132	3,231
Provision for product warranties	952	675
Retirement benefit liability	2,537	752
Depreciation and amortization	21,059	21,277
Percentage of completion method	12,802	8,509
Others	14,957	17,044
Total deferred tax assets	91,110	82,064
Deferred tax liabilities:		
Equity instruments	(9,363)	(9,952)
Undistributed profits of foreign subsidiaries	(7,022)	(8,700)
Retirement benefit asset	(5,968)	(6,778)
Intangible assets identified through business combination	(2,484)	(2,603)
Others	(6,370)	(5,781)
Total deferred tax liabilities	(31,207)	(33,815)
Net deferred tax assets	59,903	48,249

The carrying amount of deferred tax assets and liabilities in the consolidated statement of financial position is as follows:

	Millions of yen	
	2021	2022
Deferred tax assets	62,956	51,610
Deferred tax liabilities	3,053	3,360
Net deferred tax assets	59,903	48,249

Details of changes in deferred tax assets and liabilities are as follows:

	Millions of yen	
	2021	2022
Opening balance	55,301	59,903
Amount recognized in profit (loss) for year	9,550	(12,628)
Amount recognized in other comprehensive income:		
Remeasurements of defined benefit plans	(482)	(159)
Gain (loss) on financial assets measured at fair value through other comprehensive income	(4,891)	740
Share of other comprehensive income of investments accounted for using equity method	(20)	(30)
Effective portion of cash flow hedges	132	50
Others	313	374
Closing balance	59,903	48,249

With regard to the amount recognized in profit (loss) for year, please see (3) Income Tax Expense in Note 18. Income Taxes.

The Group recognizes deferred tax assets by taking into account the possibility that all or part of deductible temporary differences or unused tax losses will be used against future taxable income. Recoverability of deferred tax assets is reassessed by considering the expected reversal of deferred tax liabilities, future taxable income, and tax planning. Based on the levels of taxable income in prior years and projected taxable income over the future period for which the deferred tax assets are allowed to be recognized, the Group has determined that it is probable that tax benefits of the recognized deferred tax assets will be realized.

The following are the details of unused tax losses and tax credits and deductible temporary differences for which deferred tax assets are not recognized. Unused tax losses and tax credits are presented on a tax basis.

	Millions of yen	
	2021	2022
Unused tax losses	5,699	6,434
Unused tax credits	146	236
Deductible temporary differences	67,719	64,341

The following are the amounts of unused tax losses for which deferred tax assets are not recognized and their expiry period:

	Millions of yen	
	2021	2022
1st year	—	14
2nd year	—	17
3rd year	0	45
4th year	39	80
5th year	69	120
After 5th year	5,591	6,158
Total	5,699	6,434

(2) Unrecognized Deferred Tax Liabilities

The following are the amounts of taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities are not recognized.

Deferred tax liabilities are not recognized on the temporary differences for which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

	Millions of yen	
	2021	2022
Temporary differences associated with investments in subsidiaries for which deferred tax liabilities are not recognized	5,090	8,546

(3) Income Tax Expense

The breakdown of income tax expense is as follows:

	Millions of yen	
	2021	2022
Current tax expense (benefit)	(1,282)	2,214
Deferred tax expense (benefit)	(9,550)	12,628
Total	(10,832)	14,843

With regard to deferred tax expense, please see (1) Deferred Taxes in Note 18. Income Taxes.

(4) Reconciliation of Effective Tax Rate

Reconciliations between the statutory and actual effective tax rate for each fiscal year are presented as shown below. The actual effective tax rate represents the ratio of income tax expense to profit before tax.

	(%)	
	2021	2022
Statutory effective tax rate	30.6	30.6
Tax rate differences of consolidated subsidiaries	(2.8)	(3.3)
Research and development tax credits	—	(1.2)
Changes in deferred tax liabilities related to undistributed profit of foreign subsidiaries	6.2	2.9
Foreign withholding tax arising from dividends from foreign subsidiaries	(7.9)	0.3
Impairment losses for goodwill	(0.3)	—
Share of profit of investments accounted for using equity method	1.3	(0.7)
Others	(3.3)	(2.7)
Actual effective tax rate	23.9	26.0

19. Trade and Other Payables

The breakdown of trade and other payables is as follows:

	Millions of yen	
	2021	2022
Notes and accounts payable	54,253	58,703
Other payables	6,362	6,457
Total	60,615	65,161

Trade and other payables are classified as financial liabilities measured at amortized cost.

20. Bonds and Borrowings

The breakdown of bonds and borrowings is as follows:

	Millions of yen		Average interest rate (%) (Note 1)	Repayment deadline
	2021	2022		
Current:				
Short-term borrowings	9,950	23,347	0.45	—
Current portion of long-term borrowings	10,000	14,000	0.38	January 2023– March 2023
Current portion of bonds (Note 2)	9,993	—		
Total	29,943	37,347		
Non-current:				
Long-term borrowings	74,249	62,813	0.72	March 2024– February 2032
Bonds (Note 2)	29,881	29,902		
Total	104,131	92,715		

Notes: 1. The weighted average interest rate is used to determine the average interest rate. The Group used the interest rate and the balance as of the end of each reporting period to calculate the average interest rate.

2. Conditions for issuance of the bonds are summarized as follows:

Corporate name	Issue	Date of issuance	Millions of yen		Interest rate (%)	Collateral	Maturity
			2021	2022			
NIKON CORPORATION	20th unsecured bond	March 14, 2014	9,993	—	0.652	None	March 14, 2022
NIKON CORPORATION	21st unsecured bond	March 14, 2014	9,983	9,989	0.864	None	March 14, 2024
NIKON CORPORATION	22nd unsecured bond	December 2, 2020	9,951	9,961	0.150	None	December 2, 2025
NIKON CORPORATION	23rd unsecured bond	December 2, 2020	9,947	9,952	0.470	None	December 2, 2030

The breakdown of bonds and long-term borrowings by scheduled repayment due date is described in Note 35. Financial Instruments.

21. Provisions

Details of changes in provisions are as follows:

	Millions of yen			
	Provision for product warranties	Asset retirement obligations	Others	Total
As of April 1, 2020	4,939	4,992	219	10,150
Current liabilities	4,939	3	219	5,161
Non-current liabilities	—	4,989	—	4,989
Additions during the period	2,947	185	995	4,126
Decrease during the period due to settlement for intended purposes	(3,063)	(166)	(179)	(3,409)
Decrease during the period due to reversal	(514)	(1)	(6)	(521)
Exchange differences on translation of foreign operations	105	40	15	160
As of March 31, 2021	4,413	5,049	1,044	10,507
Current liabilities	4,413	1	1,044	5,458
Non-current liabilities	—	5,048	—	5,048
Additions during the period	2,279	259	1,876	4,414
Decrease during the period due to settlement for intended purposes	(2,720)	(147)	(695)	(3,562)
Decrease during the period due to reversal	(940)	—	(150)	(1,090)
Exchange differences on translation of foreign operations	242	33	45	321
As of March 31, 2022	3,274	5,194	2,120	10,589
Current liabilities	3,274	9	2,120	5,403
Non-current liabilities	—	5,186	—	5,186

22. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

	Millions of yen	
	2021	2022
Derivative financial liabilities	1,076	1,390
Other payables	17,631	17,912
Lease liabilities	13,555	23,036
Others	1,571	1,274
Total	33,833	43,612
Other current financial liabilities	25,575	27,424
Other non-current financial liabilities	8,258	16,188

23. Other Liabilities

The breakdown of other liabilities is as follows:

	Millions of yen	
	2021	2022
Accrued expenses	29,458	32,301
Accrued consumption tax	2,127	1,698
Others	2,901	3,203
Total	34,486	37,202
Other current liabilities	32,176	34,516
Other non-current liabilities	2,310	2,687

24. Employee Benefits

(1) Summary of Retirement Benefit Plans

The Company has a contract-type defined benefit corporate pension plan (cash balance plan) and a defined contribution plan.

Domestic group entities have a contract-type defined benefit corporate pension plan and a lump-sum retirement benefit plan. Certain group entities have joined the Smaller Enterprise Retirement Allowance Mutual Aid System. In addition, certain overseas group entities have adopted the defined benefit plans and defined contribution plans. Extra payments may be contributed upon retirement of employees.

In order to ensure the funding of sufficient contributions for the pension benefits and lump-sum retirement benefits in the future, the Group has selected an asset management trust institution as a trustee for the management of the plans' pension assets. An asset management trust institution gives top priority to the interest of the plan participants, which is required by laws and decrees, and is responsible for managing the plan assets based on prescribed investment policies.

The Group is exposed to the risks arising from the changes in interest rates and other actuarial assumptions in which the defined benefit obligation is measured. Plan assets primarily consist of marketable shares and bonds as well as other interest-bearing securities, which are exposed to stock price and interest rate risks.

Under the defined contribution plans, the Company and certain subsidiaries are only responsible for contributions stipulated in the regulations on retirement benefits of each company.

During the year ended March 31, 2022, certain consolidated subsidiaries in the United States transferred their retirement benefit plans to a defined contribution plan. As a result of this transfer, gain on reversal of future obligations of ¥1,311 million was primarily recognized in retirement benefit expenses.

(2) Defined Benefit Plans

The level of benefits contributed in the defined benefit plan depends on the length of service, expected salary levels in the final years leading up to retirement, and other factors.

1) Net Amount of Liability and Asset Presented in the Consolidated Statement of Financial Position

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

	Millions of yen	
	2021	2022
Present value of defined benefit obligations	130,804	108,467
Fair value of plan assets	(143,312)	(131,983)
Subtotal	(12,507)	(23,516)
Impact of asset ceiling	13,327	16,376
Present value of defined benefit obligations of unfunded plans	3,101	3,998
Total	3,921	(3,142)
Carrying amounts presented in the consolidated statement of financial position:		
Retirement benefit liability	9,905	5,543
Retirement benefit asset	(5,984)	(8,685)
Net liability or asset presented in the consolidated statement of financial position	3,921	(3,142)

2) Defined Benefit Obligations

Movements in the present value of the defined benefit obligations over the years are as follows:

	Millions of yen	
	2021	2022
Opening balance of present value of defined benefit obligations	135,854	133,906
Current service cost	3,315	2,786
Interest expenses	1,451	1,263
Remeasurement:		
Actuarial gain or loss from changes in demographic assumptions	(627)	1,003
Actuarial gain or loss from changes in financial assumptions	922	(2,185)
Benefits paid	(8,426)	(20,725)
Past service cost	(142)	91
Effect of foreign currency exchange differences	1,583	2,006
Impact of transfer from defined benefit plans to defined contribution plan	—	(5,784)
Others	(23)	104
Closing balance of present value of defined benefit obligations	133,906	112,465

Note: The weighted average lifetime of the defined benefit obligations for the years ended March 31, 2021 and 2022 are 12.9 years and 12.1 years respectively, and there is no significant bias in the distribution.

3) Plan Assets

(i) Movements in the fair value of plan assets

Movements in the fair value of plan assets over the years are as follows:

	Millions of yen	
	2021	2022
Opening balance of fair value of plan assets	130,514	143,312
Interest income	1,278	1,273
Remeasurement:		
Return on plan assets other than interest income	14,255	2,657
Contributions by the employer	3,819	6,488
Contributions by the plan participants	(1,991)	1,399
Benefits paid	(5,864)	(20,532)
Effect of foreign currency exchange differences	1,326	1,555
Impact of transfer from defined benefit plans to defined contribution plan	—	(4,187)
Others	(26)	19
Closing balance of fair value of plan assets	143,312	131,983

Note: The Group's funding policy to the defined benefit plans is based on various factors including the tax deductibility of contributions, the funded status of plan assets and actuarial calculations. The contribution for defined benefit plans over the next fiscal year is estimated at ¥2,544 million.

(ii) The asset ceiling

Movements in impact of the asset ceiling over the years are as follows:

	Millions of yen	
	2021	2022
Opening balance	1,084	13,327
Changes in net plan assets due to the effect of the asset ceiling	12,244	3,049
Closing balance	13,327	16,376

(iii) Breakdown of the fair value of plan assets

The fair value of plan assets is as follows:

	Millions of yen			
	2021		2022	
	Plan assets that have quoted market prices in active markets	Plan assets that do not have quoted market prices in active markets	Plan assets that have quoted market prices in active markets	Plan assets that do not have quoted market prices in active markets
Life insurance company's general accounts	—	5,333	—	5,431
Shares (Japan)	—	14,723	—	14,868
Shares (Overseas)	6,975	18,260	—	14,721
Bonds (Japan)	—	43,065	—	42,541
Bonds (Overseas)	780	22,234	—	19,950
Alternatives	—	16,430	—	22,113
Others	6,448	9,065	526	11,833
Total	14,202	129,109	526	131,457

Note: The plan assets of investment in joint trust are classified as assets which do not have quoted prices in active markets. Life insurance company's general accounts represent the investment of pension funds through general accounts for which the life insurance companies mainly guarantee both principal and interest.

(iv) Management of plan assets

The Group manages its plan assets to ensure the payment of pension benefits and lump-sum retirement benefits to its beneficiaries through the Group's investment policies, which are designed for the long-term stable earnings needed to maintain sound pension plan operation in the future.

In order to achieve the investment target, the Group periodically reviews the proportions of the strategic asset portfolio. For the review, the expected return, risk, and correlation coefficient of return rate for each investment are considered based on the result of Asset and Liability Management analysis. Proportions are reviewed as necessary in cases where there have been significant changes in the market and investment environment.

4) Significant Actuarial Assumption

The significant actuarial assumption used in the calculation of the present value of defined benefit obligations is as follows:

	2021	2022
Discount rate	1.07%	1.23%

The following table is the sensitivity analysis of the impact on the present value of retirement benefit obligations when the discount rate used for the significant actuarial assumption changes, while all other assumptions are constant. For the year ended March 31, 2022, the methods and assumptions used in the sensitivity are same as the prior year.

		Millions of yen	
		2021	2022
Impact	When increased 0.5%	(7,665)	(6,192)
	When decreased 0.5%	8,446	6,756

(3) Defined Contribution Plans

The amounts of expenses incurred for defined contribution plans for the years ended March 31, 2021 and 2022, were ¥2,361 million and ¥2,681 million, respectively.

(4) Employee Benefit Expenses

The employee benefit expenses recognized in "Cost of sales," "Selling, general and administrative expenses," and "Other operating expenses" in the consolidated statement of profit or loss for the years ended March 31, 2021 and 2022, were ¥133,477 million and ¥142,406 million, respectively. Expenses related to salary, bonus, statutory benefits and post-employment benefits are included in employee benefit expenses.

25. Equity

(1) Share capital and Treasury shares

The total number of shares authorized to be issued and the total number of outstanding shares of the Company are as shown below. All the shares issued by the Company are ordinary shares without par value and are fully paid up.

	Number of shares	
	2021	2022
Shares authorized to be issued		
Ordinary shares	1,000,000,000	1,000,000,000
Shares outstanding		
Opening balance	378,336,521	378,336,521
Changes during the period	—	—
Closing balance	378,336,521	378,336,521
Treasury shares		
Opening balance	11,216,862	11,147,773
Increase during the period	1,211	1,925
Decrease during the period	(70,300)	(87,052)
Closing balance	11,147,773	11,062,646

Notes: 1. The closing balance of treasury shares includes 576,900 shares of those held by the executive compensation BIP Trust as of March 31, 2021 and 2022, respectively.
2. The increase in the number of ordinary treasury shares for the year ended March 31, 2021, of 1,211 shares is due to an increase due to purchase of shares of less than one unit.
The increase in the number of ordinary treasury shares for the year ended March 31, 2022, of 1,925 shares is due to an increase due to purchase of shares of less than one unit.
3. The decrease in the number of ordinary treasury shares for the year ended March 31, 2021, of 70,300 shares is due to a decrease of 70,200 shares arising from the exercise of stock options and a decrease of 100 shares due to sale of shares of less than one unit.
The decrease in the number of ordinary treasury shares for the year ended March 31, 2022, of 87,052 shares is due to a decrease of 87,000 shares arising from the exercise of stock options and a decrease of 52 shares due to sale of shares of less than one unit.

(2) Capital Surplus

The Companies Act of Japan requires that 50% or more of the proceeds from the issuance of shares shall be credited to share capital, and the remaining proceeds shall be credited to legal capital surplus incorporated in capital surplus. The legal capital surplus may be transferred back to share capital upon the approval of the general meeting of shareholders.

(3) Retained Earnings

The Companies Act of Japan requires that a 10% dividend of the profit for year attributable to shareholders shall be appropriated as a legal capital surplus or legal retained earnings until the aggregate amount of legal capital surplus and legal retained earnings is equal to 25% of share capital. The accumulated legal retained earnings may be used to reduce deficit or be transferred to retained earnings upon approval of the general meeting of shareholders.

(4) Other Components of Equity

1) Gain (Loss) on Financial Assets Measured at Fair Value through Other Comprehensive Income

The account represents cumulative gains or losses on financial instruments measured at fair value through other comprehensive income.

2) Remeasurements of Defined Benefit Plans

The account represents the impacts arising from the difference between actuarial assumptions and their actual results, and arising from changes in actuarial assumptions. It is recognized as other comprehensive income as incurred and immediately reclassified from other components of equity to retained earnings.

3) Share of Other Comprehensive Income of Investments Accounted for Using Equity Method

The account includes gain (loss) on financial assets measured at fair value through other comprehensive income, remeasurements of defined benefit plans, and exchange differences on translation of foreign operations.

4) Exchange Differences on Translation of Foreign Operations

The account represents translation differences arising from the translation of the financial statements of foreign operations of the Group from foreign functional currencies into Japanese yen, which is the presentation currency of the Group.

5) Effective Portion of Cash Flow Hedges

The account represents the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges.

26. Dividends

The details of dividends are as follows:

Resolution	Type of shares	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
For the year ended March 31, 2021					
General meeting of shareholders held on June 26, 2020	Ordinary shares	3,677	10.00	March 31, 2020	June 29, 2020
Board of Directors' meeting held on November 5, 2020	Ordinary shares	3,677	10.00	September 30, 2020	December 1, 2020
For the year ended March 31, 2022					
General meeting of shareholders held on June 29, 2021	Ordinary shares	3,678	10.00	March 31, 2021	June 30, 2021
Board of Directors' meeting held on November 4, 2021	Ordinary shares	7,356	20.00	September 30, 2021	December 1, 2021

Notes: 1. The dividends approved according to the resolution of the general meeting of shareholders held on June 26, 2020, included the dividends for the shares held by the executive compensation BIP Trust of ¥6 million.
2. The dividends approved according to the resolution of the Board of Directors' meeting held on November 5, 2020, included the dividends for the shares held by the executive compensation BIP Trust of ¥6 million.
3. The dividends approved according to the resolution of the general meeting of shareholders held on June 29, 2021, included the dividends for the shares held by the executive compensation BIP Trust of ¥6 million.
4. The dividends approved according to the resolution of the Board of Directors' meeting held on November 4, 2021, included the dividends for the shares held by the executive compensation BIP Trust of ¥12 million.

Dividends with effective date in the following fiscal year are as follows:

Resolution	Type of shares	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
For the year ended March 31, 2022					
General meeting of shareholders held on June 29, 2022	Ordinary shares	7,357	20.00	March 31, 2022	June 30, 2022

Note: The dividends approved according to the resolution of the general meeting of shareholders held on June 29, 2022, included the dividends for the shares held by the executive compensation BIP Trust of ¥12 million.

27. Revenue

(1) Disaggregation of Revenue

In consideration of the similarity of economic characteristics, the Group integrated its business divisions into four reportable segments consisting of the Imaging Products Business, the Precision Equipment Business, the Healthcare Business, and the Components Business.

The business segments are periodically reviewed by the Board of Directors to determine the distribution of management resources and evaluate business results, and revenue of these business units is presented as revenue.

The relationship between the disclosure of disaggregated revenue into geographical regions based on customer's location and revenue information that is disclosed for each reportable segment is as follows:

The reportable segments have been changed from the year ended March 31, 2022. Accordingly, the information on segment revenues for the year ended March 31, 2021, has been prepared based on the revised business segments. For more details, please see 6. Segment Information.

Millions of yen						
For the year ended March 31, 2021	Imaging Products	Precision Equipment	Healthcare	Components	Industrial Metrology and Others (Note 1)	Total
Japan	16,520	19,718	9,795	17,322	9,274	72,629
United States	34,750	42,203	27,244	4,899	5,690	114,786
Europe (Note 2)	41,015	13,265	12,168	669	4,270	71,386
China	23,404	86,423	6,801	1,147	3,284	121,058
Others (Note 2)	34,513	23,166	6,841	1,752	5,093	71,364
Total	150,203	184,774	62,848	25,788	27,610	451,223
Revenue from contracts with customers	149,969	184,774	59,009	25,788	27,610	447,151
Revenue from other sources (Note 3)	234	—	3,839	—	—	4,073

Notes: 1. The "Industrial Metrology and Others" category consists of operations not included in the reportable segments.

2. Except for Japan, the United States, and China, the countries or regions are primarily categorized as follows:

1) Europe: The United Kingdom, France, and Germany

2) Others: Canada, Asia other than Japan and China, Middle East, Oceania, and Latin America

3. Revenue from other sources includes revenue such as leases based on IFRS 16.

Millions of yen						
For the year ended March 31, 2022	Imaging Products	Precision Equipment	Healthcare	Components	Industrial Metrology and Others (Note 1)	Total
Japan	18,735	24,234	12,693	31,129	11,591	98,382
United States	48,991	35,144	32,391	5,377	7,370	129,274
Europe (Note 2)	41,639	10,754	13,552	870	5,389	72,203
China	25,583	115,589	6,243	1,273	4,783	153,471
Others (Note 2)	43,286	25,495	8,364	2,220	6,917	86,282
Total	178,234	211,216	73,243	40,869	36,050	539,612
Revenue from contracts with customers	177,823	211,216	68,418	40,869	36,050	534,376
Revenue from other sources (Note 3)	411	—	4,825	—	—	5,235

Notes: 1. The "Industrial Metrology and Others" category consists of operations not included in the reportable segments.

2. Except for Japan, the United States, and China, the countries or regions are primarily categorized as follows:

1) Europe: The United Kingdom, France, and Germany

2) Others: Canada, Asia other than Japan and China, Middle East, Oceania, and Latin America

3. Revenue from other sources includes revenue such as leases based on IFRS 16.

1) Details of Goods/Services and Timing of Satisfaction of Performance Obligations

(i) Sales of products

(Imaging Products Business)

The Imaging Products Business provides products for imaging and its peripheral domain, such as digital SLR cameras, compact digital cameras, and interchangeable camera lenses.

Regarding sales of products, revenue is recognized at the point when the product is delivered to the customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, and the Group is entitled to receive the payment of consideration from the customer.

(Precision Equipment Business)

The Precision Equipment Business provides products with regard to the FPD lithography system and semiconductor lithography system.

Regarding sales of products, for products that require installation by the Group, revenue is recognized at the point when the installation is completed according to the specification based on a contract at the customer's location after the product is delivered to the customer, as the customer obtains control over the products upon completion of installation, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, and the Group is entitled to receive the payment of consideration from the customer.

For products that do not require installation by the Group, revenue is recognized at the point when the product is delivered to the customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, and the Group is entitled to receive the payment of consideration from the customer.

(Healthcare Business)

The Healthcare Business provides products for the life science solutions field such as biological microscopes and cell culture observation systems; for the eye care solutions field such as ultra-wide field retinal imaging devices; and for the contract cell development and manufacturing field.

Regarding sales of products, revenue is recognized at the point when the product is delivered to a customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, and the Group is entitled to receive the payment of consideration from the customer.

For products that require customer acceptance, revenue is recognized at the point when the product is accepted by the customer after the product is delivered to the customer, as the customer obtains control over the products upon acceptance, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, and the Group is entitled to receive the payment of consideration from the customer.

(Components Business)

The Components Business provides digital solutions products such as optical components, optical parts, encoders, and material processing; products related to the Customized Products Business such as EUV-related components and space-related solutions; and related to the Glass Business such as photomask substrates for FPDs.

Regarding sales of products, revenue is recognized at the point when the product is delivered to a customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, and the Group is entitled to receive the payment of consideration from the customer.

For products that require customer acceptance, revenue is recognized at the point when the product is accepted by the customer after the product is delivered to the customer, as the customer obtains control over the products upon acceptance, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, and the Group is entitled to receive the payment of consideration from the customer.

(Industrial Metrology and Others)

Industrial Metrology and Others provides products for the industrial metrology business, such as industrial microscopes, non-contact 3D metrology systems, and X-ray / CT inspection systems enabling non-destructive inspection, which are used in industries such as automotive, aerospace, and electronic components.

Regarding the sales of products, revenue is recognized at the point when the product is delivered to a customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, and the Group is entitled to receive the payment of consideration from the customer.

For products that require customer acceptance, revenue is recognized at the point when the product is accepted by the customer after the product is delivered to the customer, as the customer obtains control over the products upon acceptance, and the performance obligation is deemed to be satisfied. In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, and the Group is entitled to receive the payment of consideration from the customer.

(ii) Rendering of Services

The Group renders services related to Group products, such as warranty, repair, and services related to FPD lithography systems and semiconductor lithography systems, such as relocation services. For services required to be accepted by a customer at the completion of said service, revenue is recognized at the point when the performance obligation is deemed to be satisfied. For services from which the customer can benefit over the period during which services are rendered, revenue is recognized on a straight-line basis or on progress over the period during which services are rendered as the performance obligation is deemed to be satisfied.

2) Determining the Transaction Price

When (or as) the Group satisfies a performance obligation, the Group recognizes revenue in the amount of transaction price allocated to the performance obligations. Transaction price may include fixed amounts, variable amounts, or both.

To determine the transaction price, the Group considers the terms of the contract and the customary business practice, such as the nature, timing and amount of consideration promised by the customer, and some amount of consideration promised by the customer may change.

The main transactions with variable amounts of consideration are rebates and discounts based on sales volume and sales amount, sales of products with a right of return, and expenses, such as sales promotion expenses provided to end users for sales of the Group's products. Estimates of these variable considerations are deducted from revenue.

Estimated rebates and discounts based on sales volume and sales amount are recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur by using the method of the most likely amount based on past information.

For sales of products with a right of return, refund liabilities estimated by considering past information are deducted from revenue. The right to recover products from a customer on settling a refund is recognized as assets by reference to the former carrying amount of the product less any expected costs to recover those products.

For expenses such as sales promotion expenses provided to end users for sales of the Group's products, the consideration is deducted from revenue when the Group pays the amount of consideration to the customers and cannot estimate the fair value.

If a warranty or a service-type warranty in addition to the assurance-type warranty is provided to a customer, the warranty is determined as a performance obligation, and revenue is recognized by allocating the transaction price.

3) Payment Terms

The Group receives payment within a short period of time after satisfying its performance obligation under separately determined payment terms. The period from satisfaction of the performance obligation to receipt consideration is usually within one year or less. As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component for receivables.

If the Group receives the payment of consideration according to a contract before satisfying the performance obligation, advances received are recognized.

(2) Contract Balances

The balances of receivables arising from an entity's contracts with customers and advances received are as follows:

	Millions of yen	
	2021	2022
Receivables arising from an entity's contracts with customers	60,839	76,715
Advances received	163,110	139,300

For significant changes in advances received during the year ended March 31, 2021, the amount increased ¥150,297 million by receipt of cash based on contracts and decreased ¥164,077 million by revenue recognition. The amount of revenue recognized from advances received, which existed at the beginning of the period, was ¥110,116 million.

For significant changes in advances received during the year ended March 31, 2022, the amount increased ¥162,157 million by receipt of cash based on contracts and decreased ¥191,120 million by revenue recognition. The amount of revenue recognized from advances received, which existed at the beginning of the period, was ¥119,039 million.

The amount of revenue recognized in the reporting period from performance obligations satisfied in previous periods is not material.

(3) Transaction Price Allocated to Remaining Performance Obligations

The transaction price allocated to performance obligations that were unsatisfied (or partially unsatisfied) was ¥203,207 million for the year ended March 31, 2021. These performance obligations will be recognized as revenue from the Precision Equipment Business mainly within two years.

The transaction price allocated to performance obligations that were unsatisfied (or partially unsatisfied) was ¥188,204 million for the year ended March 31, 2022. These performance obligations will be recognized as revenue from the Precision Equipment Business mainly within two years.

As a practical expedient, the amount does not include transactions, for the original expected term of the contract is one year or less. There are also no significant amounts that are not included in transaction prices in the consideration from contracts with customers.

28. Selling, General and Administrative Expenses

Selling, general and administrative expenses mainly consist of the following items.

	Millions of yen	
	2021	2022
Depreciation and amortization	11,827	11,321
Research and development expenses	58,789	59,884
Employee benefit expenses	51,804	54,927
Advertising and sales promotion expenses	11,965	13,932
Others	46,954	49,400
Total	181,339	189,465

29. Other Operating Income and Expenses

(1) Other Operating Income

The breakdown of other operating income is as follows:

	Millions of yen	
	2021	2022
Income from insurance	446	426
Grant income	1,184	416
Income from rents	261	280
Gain on sale of non-current assets (Note 1)	345	3,550
Others	1,127	651
Total	3,363	5,322

(2) Other Operating Expenses

The breakdown of other operating expenses is as follows:

	Millions of yen	
	2021	2022
Impairment losses (Note 2)	25,931	449
Loss on sale of non-current assets	204	13
Restructuring costs (Notes 2 and 3)	4,343	—
Land improvement costs (Note 4)	1,398	2
Others	2,295	1,529
Total	34,170	1,994

Notes: 1. For the year ended March 31, 2022, gain on sale of non-current assets includes gain on sale of land and other gains totaling ¥2,542 million, which was mainly due to the Company selling idle land in Shinagawa-ku, Tokyo, Japan.

2. With regard to impairment losses and restructuring costs, please see Note 15. Impairment Losses of Non-financial Assets.

3. Restructuring costs for the year ended March 31, 2021, are as follows: The reportable segments have been changed from the year ended March 31, 2022. Accordingly, the information on restructuring costs for the year ended March 31, 2021, has been prepared based on the revised business segments. For the year ended March 31, 2021, restructuring costs of ¥4,343 million were recognized in the below table.

For the Imaging Products Business, restructuring costs of ¥3,400 million were recognized due to factors such as additional retirement benefits that ensued following the reorganization of production and sales bases and the optimization of personnel in order to shift to a sustainable business model.

For the Industrial Metrology and Others, restructuring costs of ¥943 million were recognized due to factors such as additional retirement benefits that ensued following the reorganization of production bases.

Breakdown	Millions of yen
Additional retirement benefits	2,743
Expenses related to outside specialists	1,026
Impairment losses	123
Others	452
Total	4,343

4. Land improvement costs of ¥1,398 million and ¥2 million were recognized as expenses incurred by Hikari Glass Co., Ltd., a consolidated subsidiary, for improvement of its own land located in Yotsukaido City, Chiba, Japan, for the years ended March 31, 2021 and 2022, respectively.

30. Finance Income and Finance Costs

The breakdown of finance income and finance costs is as follows:

	Millions of yen	
	2021	2022
Finance income:		
Dividend income		
Financial assets measured at fair value through other comprehensive income (Note 1)	1,414	1,147
Interest income		
Financial assets measured at amortized cost	1,313	1,016
Foreign exchange gain	612	—
Gain on valuation of derivatives (Note 2)	—	857
Others (Note 3)	7,828	6,572
Total	11,167	9,592
Finance costs:		
Interest expenses		
Financial liabilities measured at amortized cost	1,246	1,054
Foreign exchange loss	—	2,287
Loss on valuation of derivatives (Note 2)	800	—
Others	192	302
Total	2,238	3,643

- Notes: 1. Dividend incomes arising from financial assets measured at fair value through other comprehensive income that were derecognized in the years ended March 31, 2021 and 2022, were ¥199 million and ¥99 million, respectively. With respect to financial assets measured at fair value through other comprehensive income, please see Note 11. Other Financial Assets.
2. Gain and loss on valuation of derivatives were recognized in respect of foreign currency forward contracts, interest rate and currency swaps, and currency options.
3. Gains on valuation of securities of ¥7,686 million and ¥6,493 million are included in “Others” for the years ended March 31, 2021 and 2022, respectively. Gain on valuation of securities for the year ended March 31, 2021 includes valuation gain of ¥5,796 million resulting from the initial public offer of Berkeley Lights, Inc. (Headquartered: the United States of America), one of the Group’s investees.

31. Earnings per Share

The basis for the calculation of basic earnings (loss) per share and diluted earnings (loss) per share attributable to owners of parent is as follows:

	Millions of yen, unless otherwise indicated	
	2021	2022
Basis for the calculation of basic earnings (loss) per share:		
Profit (loss) for year attributable to owners of parent	(34,497)	42,679
Profit (loss) not attributable to ordinary equity holders of parent	—	—
Profit (loss) for year used in the calculation of basic earnings per share	(34,497)	42,679
Weighted average number of ordinary shares outstanding during the period (thousands of shares)	367,144	367,209
Basic earnings (loss) per share (yen)	(93.96)	116.23
Basis for the calculation of diluted earnings (loss) per share:		
Profit (loss) for year used in the calculation of basic earnings (loss) per share	(34,497)	42,679
Adjustments to profit for year		
Adjustment for potential shares issued by subsidiaries	—	—
Profit (loss) for year used in the calculation of diluted earnings (loss) per share	(34,497)	42,679
Weighted average number of ordinary shares outstanding during the period (thousands of shares)	367,144	367,209
Increase in number of ordinary shares in respect of stock options (thousands of shares)	—	2,054
Weighted average number of dilutive ordinary shares outstanding during the period (thousands of shares)	367,144	369,263
Diluted earnings (loss) per share (yen)	(93.96)	115.58

- Notes: 1. In the computation of basic earnings (loss) per share and diluted earnings (loss) per share, the number of the Company’s shares held by the executive compensation BIP Trust is included in the number of treasury shares that are deducted from the weighted average number of ordinary shares outstanding during the period. For both of the years ended March 31, 2021 and 2022, the number of shares was 576,900.
2. For the year ended March 31, 2021, the stock options that the Company issued have no dilutive effect; therefore, they are not included in the calculation of diluted loss per share. For the year ended March 31, 2022, the stock options that a subsidiary issued have no dilutive effect; therefore, they are not included in the calculation of diluted earnings per share.

32. Reclassifications in Other Comprehensive Income and the Impact of Corporate Income Taxes

The breakdown of other comprehensive income for the years ended March 31, 2021 and 2022, including the amount arising during the period, reclassification adjustments, and the impact of corporate income taxes, is as follows:

	Millions of yen	
	2021	2022
Items that will not be reclassified subsequently to profit or loss:		
Gain (loss) on financial assets measured at fair value through other comprehensive income:		
Amount arising during the period	37,406	11,618
Corporate income taxes	(13,372)	(4,197)
After corporate income taxes	24,034	7,421
Remeasurements of defined benefit plans:		
Amount arising during the period	1,717	791
Corporate income taxes	(482)	(159)
After corporate income taxes	1,235	632
Share of other comprehensive income of investments accounted for using equity method:		
Amount arising during the period	67	(4)
Corporate income taxes	(20)	(30)
After corporate income taxes	47	(34)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations:		
Amount arising during the period	13,551	20,275
Reclassification adjustments	—	56
Before corporate income taxes	13,551	20,331
Effective portion of cash flow hedges:		
Amount arising during the period	(616)	(590)
Reclassification adjustments	202	400
Before corporate income taxes	(414)	(190)
Corporate income taxes	132	50
After corporate income taxes	(282)	(140)
Share of other comprehensive income of investments accounted for using equity method:		
Amount arising during the period	93	183
Total other comprehensive income	38,678	28,393

33. Changes in Liabilities Arising from Financing Activities

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

For the year ended March 31, 2021

Millions of yen

	As of April 1, 2020	Cash flows	Non-cash changes				As of March 31, 2021
			Newly recognized lease contracts	Foreign exchange movement	Fair value changes	Others	
Bonds and borrowings (Note)	123,728	9,894	—	409	—	42	134,073
Lease liabilities	15,408	(7,448)	3,830	402	—	1,362	13,555
Derivative financial assets	(1,017)	—	—	—	(561)	—	(1,578)

Note: The amount is the sum of “Bonds and borrowings” of current and non-current liabilities in the consolidated statement of financial position.

The change in cash flows of “Bonds and borrowings” is the net amount of “Proceeds from issuance of bonds” and “Redemption of bonds” in the consolidated statement of cash flows. “Others” includes items such as interest expenses.

“Others” of “Lease liabilities” includes changes primarily due to revisions to lease contracts.

For the year ended March 31, 2022

Millions of yen

	As of April 1, 2021	Cash flows	Non-cash changes					As of March 31, 2022
			Business combination	Newly recognized lease contracts	Foreign exchange movement	Fair value changes	Others	
Bonds and borrowings (Note)	134,073	(7,614)	811	—	2,743	—	48	130,062
Lease liabilities	13,555	(7,438)	181	16,170	734	—	(174)	23,029
Derivative financial assets	(1,578)	—	—	—	—	(2,430)	—	(4,008)

Note: The amount is the sum of “Bonds and borrowings” of current and non-current liabilities in the consolidated statement of financial position.

The change in cash flows of “Bonds and borrowings” is the net amount of “Net increase (decrease) in short-term borrowings,” “Repayments of long-term borrowings,” and “Redemption of bonds” in the consolidated statement of cash flows. “Others” includes items such as interest expenses.

“Others” of “Lease liabilities” includes changes primarily due to revisions to lease contracts.

34. Share-based Payment

The Group has a stock option share-based payment scheme and performance- and share-based payment scheme aiming to improve performance and enhance corporate value in the medium and long term.

(1) Stock Option Share-based Payment Scheme

(i) Outline of Stock Option Share-Based Payment Scheme

The exercise period of stock options is 30 years from the grant date.

If a member terminates his or her employment prior to the vesting date, only the portion equivalent to the period of service will vest.

The Company’s stock option share-based payment scheme is accounted for as the equity settlement type of share-based payment.

Details of stock option schemes that are outstanding for the years ended March 31, 2021 and 2022, were as follows:

No.	Number of shares (Shares)	Grant date	Exercise date	Exercise price (Yen)	Fair value at grant date (Yen)
5	26,100	August 27, 2007	August 27, 2037	1	3,259
6	117,900	November 25, 2008	November 25, 2038	1	734
7	68,100	August 10, 2009	August 10, 2039	1	1,408
8	66,800	July 14, 2010	July 14, 2040	1	1,527
9	99,700	March 19, 2012	March 19, 2042	1	2,037
10	108,300	August 23, 2012	August 23, 2042	1	1,726
11	119,600	August 1, 2013	August 1, 2043	1	1,632
12	177,400	August 1, 2014	August 1, 2044	1	1,183
13	207,000	July 28, 2015	July 28, 2045	1	1,040
14	198,600	July 29, 2016	July 29, 2046	1	1,213
15	115,500	July 27, 2017	July 27, 2047	1	1,681
16	121,800	April 23, 2018	April 23, 2048	1	1,644
17	220,900	April 22, 2019	April 22, 2049	1	953
18	473,800	April 17, 2020	April 17, 2050	1	374
19	222,800	August 20, 2021	August 20, 2051	1	807

(ii) Fair Value Measurement of Stock Options

Stock options granted are measured at fair value using the Black–Scholes model.

Expected volatility is calculated based on recent historical data of the share prices.

The basic data and assumptions used in the Black–Scholes model are mainly as follows:

	2021	2022
	No. 18	No. 19
Share price at the date of grant (Yen)	959	1,070
Exercise price (Yen)	1	1
Expected volatility (%)	38.235	39.106
Expected remaining option life (Years)	15	15
Expected dividend yield (Yen)	60	20
Risk-free rate (%)	0.251	0.211

(iii) Number of Stock Options and Average Exercise Prices

Details of stock options are as follows:

	2021		2022	
	Number of options (Shares)	Weighted average exercise price (Yen)	Number of options (Shares)	Weighted average exercise price (Yen)
Opening outstanding balance	1,450,800	1	1,854,400	1
Granted during the period	473,800	1	222,800	1
Forfeited or expired during the period	–	–	–	–
Exercised during the period	70,200	1	87,000	1
Ending outstanding balance	1,854,400	1	1,990,200	1
Exercisable outstanding options at the end of the year	1,854,400	1	1,990,200	1

Stock options exercised during the year ended March 31, 2021, were as follows:

No.	Number of options exercised (Shares)	Exercise period	Weighted average share price at the date of exercise (Yen)
5	1,400	April 1, 2020 to March 31, 2021	975
6	19,800	April 1, 2020 to March 31, 2021	887
8	1,600	April 1, 2020 to March 31, 2021	761
9	5,700	April 1, 2020 to March 31, 2021	823
10	5,900	April 1, 2020 to March 31, 2021	959
11	13,400	April 1, 2020 to March 31, 2021	959
12	3,800	April 1, 2020 to March 31, 2021	938
13	14,500	April 1, 2020 to March 31, 2021	886
14	4,100	April 1, 2020 to March 31, 2021	950
Total	70,200		907

Stock options exercised during the year ended March 31, 2022, were as follows:

No.	Number of options exercised (Shares)	Exercise period	Weighted average share price at the date of exercise (Yen)
6	4,300	April 1, 2021 to March 31, 2022	1,213
7	23,000	April 1, 2021 to March 31, 2022	1,182
8	13,500	April 1, 2021 to March 31, 2022	1,226
9	4,400	April 1, 2021 to March 31, 2022	1,192
10	5,000	April 1, 2021 to March 31, 2022	1,144
11	7,700	April 1, 2021 to March 31, 2022	1,148
12	3,200	April 1, 2021 to March 31, 2022	1,129
14	25,900	April 1, 2021 to March 31, 2022	1,266
Total	87,000		1,209

The exercise price of the outstanding options for the year ended March 31, 2021, was ¥1. The weighted average remaining option life for the year ended March 31, 2021, was 25.5 years.

The exercise price of the outstanding options for the year ended March 31, 2022, was ¥1. The weighted average remaining option life for the year ended March 31, 2022, was 25.2 years.

The disclosure of stock options issued by certain subsidiaries is omitted as they are insignificant.

(2) Performance- and Share-based Payment Scheme

(i) Outline of Performance- and Share-based Payment Scheme

The performance- and share-based payment scheme is the incentive plan granting the shares of the Company or the equivalent cash as the granted shares that would be sold as directors' remuneration in the last year of three-year medium-term management plans depending on the achievement of business performance for each of the three years. This compensation scheme is known as executive compensation BIP Trust (hereinafter referred to as "BIP Trust"). Each incentive plan formulated based on this scheme applies to every three years, commencing in the year when a trust is established or a trust period is extended. Under BIP Trust, the shares of the Company acquired by BIP Trust are granted to executive directors of the Company based on the attainment of performance targets, which are recognized as an equity-settled share-based payment.

Points calculated in accordance with the standard points calculation formula will be granted to the Directors as of June every year. The Company's shares will be granted to the Directors in accordance with the number of points which is calculated as of June after the end of the final fiscal year of the Medium-Term Management Plan to be resolved per each three fiscal years by multiplying the performance-based coefficient to the three-year cumulative Standard Points. One Share Granting Point equals one share.

(ii) Number of Points Granted during the Period and Weighted Average Fair Value of Points

The fair value of the shares granted in accordance with the number of points is measured by adjusting the market price of the Company's shares taking expected dividends into account. The number of points granted during the period and the weighted average fair value of the points are as follows:

	2021	2022
Number of points granted during the period	117,472	124,082
Weighted average fair value (Yen)	1,278	1,278

(3) Share-based Compensation Expenses

	Millions of yen	
	2021	2022
Stock option share-based payment	177	215
Performance- and share-based payment	(17)	18
Total	161	233

Share-based compensation expenses are mainly included in “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

As a result of the recalculation of the amount of expenses recognized for the year ended March 31, 2021, under the performance- and share-based payment scheme approved at the 155th Annual General Shareholders' Meeting held on June 27, 2019, taking into account the latest performance, an aggregate amount of ¥17 million was reversed.

35. Financial Instruments

(1) Capital Management

Under the premise that a certain level of financial stability is maintained, the Group decides its capital management policies to realize the maximization of corporate value by emphasizing operational efficiency of invested capital, aiming for an equity ratio of approximately 55% to 60%, and by utilizing funds for investments (in strategic investments, R&D, and capital expenditures) that provide expected revenue exceeding its capital cost to enable sustainable growth. At the same time, the policies seek to meet the demands of shareholders by providing stable returns to shareholders. In order to maintain or adjust the capital structure, necessary funds will be raised essentially through cash flows from operating activities generated from maintaining and enhancing the Group's earnings power, in addition to borrowings from banks and the issuance of corporate bonds and so on, which will be carried out if needed.

The Group aims to improve its capital structure by setting return on equity (ROE) (ROE attributable to owners of parent) targets as its key performance indicator and pursuing capital efficiency.

	(%)	
	2021	2022
ROE	(6.4)	7.5

ROE is computed by dividing profit for year attributable to owners of parent by the equity attributable to owners of parent (average of opening and closing balances).

The Company is not subject to any external capital regulations except for the requirements of legal retained earnings in accordance with the Companies Act of Japan.

(2) Classification of Financial Instruments

Financial instruments are classified as follows:

	Millions of yen	
	2021	2022
Financial assets:		
Cash and cash equivalents (Note 8)	351,798	370,277
Financial assets measured at amortized cost:		
Trade and other receivables (Note 9)	72,900	90,571
Other financial assets (Note 11)	3,847	4,702
Financial assets measured at fair value through profit or loss:		
Other financial assets (Note 11)	19,658	27,312
Financial assets measured at fair value through other comprehensive income:		
Other financial assets (Note 11)	68,764	62,242
Total	516,968	555,104
Financial liabilities:		
Financial liabilities measured at amortized cost:		
Trade and other payables (Note 19)	60,615	65,161
Bonds and borrowings (Note 20)	134,073	130,062
Other financial liabilities (Note 22)	32,757	42,222
Financial liabilities measured at fair value through profit or loss:		
Other financial liabilities (Note 22)	701	861
Financial liabilities measured at fair value through other comprehensive income:		
Other financial liabilities (Note 22)	376	529
Total	228,522	238,835

(3) Financial Risk Management Objectives

Financial instruments held by the Group are exposed to various risks comprising market risks (i.e., foreign currency risk, interest rate risk, and stock price risk), credit risk, and liquidity risk. In order to mitigate the aforementioned risks, the Group takes measures depending on the nature of transaction contents and trade size, as well as the geographic characteristics.

(4) Market Risk Management

The Group is exposed to market risk of changes in foreign currency exchange rates and in the price of equity instruments.

The Group uses derivative financial instruments, such as forward exchange contracts, to hedge these risks. Derivatives are held or issued based on the Group's policies on financial instruments for the exposure to foreign currency translation risk, interest rate risk, price risk, derivatives, or other financial instruments. The compliance of the Group's policies is being continuously monitored by internal auditors.

(i) Foreign Currency Risk

Trade receivables denominated in foreign currencies arising from the expansion of the Group's business worldwide are exposed to foreign currency fluctuation risk. Some trade payables, such as notes and accounts payable mainly arising from imports of materials, are denominated in foreign currencies and are also exposed to foreign currency fluctuation risk. However, the amounts of such payables are within the range of outstanding accounts receivable denominated in the same foreign currencies. Thus, the Group principally enters into forward exchange contracts mainly to hedge the position after offsetting foreign currency-denominated trade payables. Hedging transactions that qualify for hedge accounting are accounted for by applying hedge accounting. Depending on the foreign currency market condition, forward exchange contracts within nine-month maximum contract terms are made against the expected amount of foreign currency-denominated trade receivables that are deemed certain to arise based on forecast transactions of imports and exports.

a) Foreign currency sensitivity analysis

With regard to foreign currency-denominated financial instruments held by the Group as of each fiscal year-end, the following table shows the impact on profit before tax and other comprehensive income before deferred tax adjustment that would result from 1% appreciation of the yen against the U.S. dollar and euro with the assumption that the exchange rates for other currencies are constant.

	Millions of yen			
	USD		EUR	
	2021	2022	2021	2022
Profit before tax	(71)	(12)	19	35
Other comprehensive income before deferred tax adjustment	(14)	(11)	67	65

b) Derivatives

Details of currency derivatives are as follows:

Derivative transactions not accounted for using hedge accounting

	Millions of yen					
	2021			2022		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Forward exchange contracts:						
Short position						
USD	11,661	—	(477)	12,333	—	(552)
EUR	8,171	—	(87)	7,232	—	(89)
Others	3,708	—	(135)	3,682	—	(208)
Long position						
USD	5,322	—	273	3,161	—	192
Others	—	—	—	—	—	—
Total	28,862	—	(426)	26,407	—	(657)

Derivative transactions accounted for using hedge accounting

Millions of yen

	2021			2022		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Forward exchange contracts:						
Short position						
EUR	6,839	—	(179)	6,547	—	(293)
Others	2,735	—	(110)	2,974	—	(172)
Long position						
GBP	877	—	40	1,601	—	(29)
Total	10,450	—	(248)	11,122	—	(494)

The Group has entered into forward exchange contracts with financial institutions to hedge the changes in the currency market affecting foreign currency-denominated assets and liabilities. All the forward exchange contracts in relation to foreign currency-denominated accounts receivable and accounts payable, as well as forward exchange contracts for foreign currency-denominated transactions will mature within one year.

(ii) Interest Rate Risk

The Group is exposed to interest rate risk arising from the borrowings with both fixed and floating interest rates.

Most of the interest-bearing liabilities consist of bonds and borrowings at fixed interest rates. For floating-rate borrowings, the Group has entered into interest rate swap contracts to hedge exposures to achieve an effect of fixed-rate borrowings.

a) Interest rate sensitivity analysis

Regarding long-term floating-rate borrowings that are exposed to interest rate risk, the risk is mitigated by fixed cash flows using interest rate swap contracts. As the Group's exposure to interest rate risks is limited, the impact from changes in interest rates is immaterial.

b) Derivatives

Details of interest rate derivatives are as follows:

Derivative transactions not accounted for using hedge accounting

Millions of yen

	2021			2022		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Interest rate and currency swap contracts:						
Received in floating rate and paid in fixed rate	22,952	22,952	1,578	22,952	22,952	4,008
Total	22,952	22,952	1,578	22,952	22,952	4,008

Derivative transactions accounted for using hedge accounting

Millions of yen

	2021			2022		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Interest rate swap contracts:						
Received in floating rate and paid in fixed rate	5,800	3,200	(85)	3,200	2,200	(33)
Total	5,800	3,200	(85)	3,200	2,200	(33)

(iii) Other Price Risks

Investments in securities are exposed to share price risk. The Group regularly obtains information on current market prices or the financial condition of the issuer (counterparty) and reviews the status of the securities held by the Group on an ongoing basis taking into consideration the relationship with the counterparty.

The following sensitivity analysis is performed based on the exposure to share price risk at the end of the reporting periods.

For the years ended March 31, 2021 and 2022, assuming a 5% change in the stock price, other comprehensive income before deferred tax adjustments would fluctuate ¥3,216 million and ¥2,857 million, respectively, as a result of fluctuations in the fair value of equity instruments designated as those measured at fair value through other comprehensive income.

(5) Credit Risk Management

The Group is exposed to credit risk (i.e., the risk that a counterparty will default on its contractual obligations of a financial asset held by the Group, resulting in a financial loss to the Group) arising from trade and other receivables, including notes receivable, accounts receivable, lease receivables, and other receivables.

Trade receivables, including notes and accounts receivable and lease receivables, are exposed to customer credit risk. With respect to this risk, the Group manages the due dates and account balances of each customer in accordance with the Group's policies concerning settlement conditions, and it also obtains information about doubtful accounts that are mainly caused by deterioration in the financial conditions of customers at an early stage, in addition to accepting advances and utilizing transaction credit insurance according to the nature of transaction contents, trade size, and the creditworthiness of customers so as to mitigate credit risk.

Other receivables are also exposed to the credit risk of counterparties, but they are generally settled in a short period.

Derivatives are exposed to credit risk arising from default by counterparties. With respect to the execution and management of derivative transactions, the Group operates the transactions according to internal policies for trade authorization and enters into derivative transactions only with highly rated financial institutions to mitigate credit risk.

The carrying amount of the financial assets after deducting impairment losses as presented in the consolidated financial statements represents the Group's maximum exposure to credit risk without considering the valuation of the related collateral obtained.

(i) Credit Risk Exposure with Respect to Trade and Other Receivables

The Group's credit risk exposure with respect to trade and other receivables is as follows:

Regarding trade and other receivables, allowance for doubtful accounts is recognized and measured based on future expected credit losses, taking into account the recoverability and a significant increase in credit risk. The Group assesses and determines whether credit risk has significantly increased based on changes in the debtor's default risk, which is based on the debtor's financial condition and historical records of actual credit loss and past due. Allowance for doubtful accounts associated with trade receivables is always measured at lifetime expected credit losses. Further, lifetime expected credit losses may be estimated individually or collectively. Although lifetime expected credit losses are measured collectively, if one or more of the following events adversely affect the estimated future cash flows of trade receivables, an expected credit loss of the trade receivables is measured individually as an impairment of credit of trade receivables:

- Significant financial difficulties of debtors
- Contractual breach including default or delinquencies
- The increase in the possibility of bankruptcy or other financial restructuring of debtors

Trade and other receivables

Millions of yen

Carrying amount	Financial assets of which expected credit losses are always measured at their expected lifetime as allowance for doubtful accounts		Credit-impaired financial assets	Total
As of March 31, 2021		72,265	1,083	73,347
As of March 31, 2022		89,853	471	90,323

The financial assets above include notes and accounts receivable and lease receivables.

Other receivables are financial assets of which allowance for doubtful accounts are measured based on 12-month expected credit losses. The balances of other receivables as of March 31, 2021 and 2022, were ¥994 million and ¥1,036 million, respectively.

Other financial assets

Millions of yen

Carrying amount	Financial assets of which expected credit losses are measured at their expected lifetime as allowance for doubtful accounts			Total
	Financial assets of which 12-month expected credit losses are measured as allowance for doubtful accounts	Financial assets whose credit risk increased significantly since initial recognition	Credit-impaired financial assets	
As of March 31, 2021	356	6	—	362
As of March 31, 2022	537	26	—	563

(ii) Analysis of Allowance for Doubtful Accounts

The Group accounts for the impairment of financial assets through allowance for doubtful accounts rather than writing off the carrying amount of the assets. Changes in the allowance for doubtful accounts are as follows:

Trade and other receivables

Millions of yen

Allowance for doubtful accounts	Financial assets of which expected credit losses are always measured at their expected lifetime as allowance for doubtful accounts		Total
		Credit-impaired financial assets	
As of April 1, 2020	388	1,140	1,528
Increase during the period	8	177	185
Decrease during the period due to settlement for intended purposes	—	(137)	(137)
Decrease during the period due to reversal	—	(178)	(178)
Exchange differences on translation of foreign operations	12	31	43
As of March 31, 2021	407	1,033	1,441
Increase during the period	8	113	122
Decrease during the period due to settlement for intended purposes	—	(763)	(763)
Decrease during the period due to reversal	(26)	(47)	(73)
Exchange differences on translation of foreign operations	36	26	61
As of March 31, 2022	426	362	788

The allowance for doubtful accounts above is related to notes and accounts receivable and lease receivables.

There was no allowance for doubtful accounts of other receivables as of March 31, 2021 and 2022.

Other financial assets

Millions of yen

Allowance for doubtful accounts	Financial assets of which expected credit losses are measured at their expected lifetime as allowance for doubtful accounts			Total
	Financial assets of which 12-month expected credit losses are measured as allowance for doubtful accounts	Financial assets whose credit risk increased significantly since initial recognition	Credit-impaired financial assets	
As of April 1, 2020	—	6	—	6
Increase during the period	—	—	—	—
Decrease during the period due to settlement for intended purposes	—	—	—	—
Decrease during the period due to reversal	—	—	—	—
Exchange differences on translation of foreign operations	—	—	—	—
As of March 31, 2021	—	6	—	6
Increase during the period	—	17	—	17
Decrease during the period due to settlement for intended purposes	—	—	—	—
Decrease during the period due to reversal	—	—	—	—
Exchange differences on translation of foreign operations	—	2	—	2
As of March 31, 2022	—	26	—	26

(6) Liquidity Risk Management

Trade and other payables, borrowings, and other financial liabilities are exposed to liquidity risk that they cannot be paid by the due dates.

The Group manages its liquidity risk by monitoring the liquidity on hand and by maintaining and ensuring appropriate cash reserves according to conditions using a medium- and long-term cash management system, which is updated on a regular basis.

In addition, the Group has established a global cash management system to work on reducing liquidity risk by centralizing its group wide cash management of cash reserves held by domestic and overseas subsidiaries.

Liquidity and interest risk table

The following table details the Group's remaining contractual maturity for its financial liabilities and repayment periods.

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group may be required to pay. The table includes both interest and principal cash flows.

	Millions of yen				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but within 5 years	After 5 years
As of March 31, 2021					
Non-derivative financial liabilities:					
Long-term borrowings (including current portion)	84,249	85,039	10,478	55,272	19,289
Bonds (including current portion)	39,874	40,842	10,211	20,412	10,220
Short-term borrowings	9,950	9,957	9,957	—	—
Lease liabilities	13,555	14,025	5,525	7,920	580
Trade and other payables	60,615	60,615	60,615	—	—
Derivative financial liabilities:					
Derivative liabilities	1,076	1,076	1,008	67	1
As of March 31, 2022					
Non-derivative financial liabilities:					
Long-term borrowings (including current portion)	76,813	78,469	14,499	60,219	3,751
Bonds (including current portion)	29,902	30,632	148	20,311	10,173
Short-term borrowings	23,347	23,361	23,361	—	—
Lease liabilities	23,036	23,526	7,022	14,426	2,078
Trade and other payables	65,161	65,161	65,161	—	—
Derivative financial liabilities:					
Derivative liabilities	1,390	1,390	1,363	26	—

Amounts of gross commitment lines of credit and balances of used borrowings as of March 31, 2021 and 2022 are as follows:

	Millions of yen	
	2021	2022
Gross commitment lines of credit	50,500	50,500
Balances of used borrowings	—	—
Unused balances	50,500	50,500

(7) Fair Value Measurement of Financial Instruments

1) Financial Instruments Measured at Fair Value

Fair value hierarchies of financial instruments measured at fair value are as follows:

As of March 31, 2021	Millions of yen			
	Level 1	Level 2	Level 3	Total
Derivatives	—	1,894	—	1,894
Shares	64,330	—	4,917	69,247
Others	—	857	16,424	17,281
Total assets	64,330	2,751	21,341	88,422
Derivatives	—	1,076	—	1,076
Total liabilities	—	1,076	—	1,076

As of March 31, 2022	Millions of yen			
	Level 1	Level 2	Level 3	Total
Derivatives	—	4,214	—	4,214
Shares	57,134	—	5,599	62,732
Others	—	932	21,676	22,609
Total assets	57,134	5,146	27,275	89,554
Derivatives	—	1,390	—	1,390
Total liabilities	—	1,390	—	1,390

The fair value measurement in respect of major financial instruments measured at fair value is as follows:

(i) Derivatives

Certain derivative assets and liabilities with respect to foreign exchange forward contracts, interest rate swaps, currency swaps, and currency options measured at fair value using appropriate valuation techniques with reference to market prices quoted by financial institutions that enter into these contracts and to other available information are categorized as Level 2.

(ii) Shares

Shares with active markets are measured at fair value using quoted market prices in the stock exchange and are categorized as Level 1. Regarding the shares that do not have active markets, the items are categorized as Level 2 if the fair value is estimated using observable inputs, and if the fair values are measured using the market approach or the income approach that is determined by discounted future cash flows using other unobservable inputs, such items are categorized as Level 3.

(iii) Others

Other instruments without active markets are categorized as Level 2 if the fair value is estimated using observable inputs. Assets are categorized as Level 3 if the fair value is estimated using the market approach or the income approach that is determined by discounted future cash flows using unobservable inputs.

The movements of financial instruments during the years ended March 31, 2021 and 2022, measured at fair value on a recurring basis using Level 3 inputs were as follows:

	Millions of yen	
	2021	2022
Opening balance	28,048	21,341
Total gain or loss:		
In profit or loss (Note 1)	6,763	3,531
In other comprehensive income (Note 2)	(641)	823
Purchases	1,146	4,227
Disposals or settlements	(824)	(571)
Exchange differences on translation of foreign operations	10	101
Transfer out of Level 3 to other categories (Note 3)	(13,161)	(2,177)
Closing balance	21,341	27,275

Notes: 1. Gain or loss recognized in profit or loss is generated from the financial assets measured at fair value through profit or loss as of the closing date, which were recognized in "Finance income" and "Finance costs."

2. Gain or loss recognized in other comprehensive income was generated from the financial assets measured at fair value through other comprehensive income as of the closing date, which were recognized in "Gain (loss) on financial assets measured at fair value through other comprehensive income."

3. The transfers out of Level 3 to other categories for the years ended March 31, 2021 and 2022, were attributable to the listing of the investee on the stock exchange, and were transferred to Level 1.

2) Financial Instruments Measured at Amortized Cost

The carrying amount and the fair value of those financial instruments are as follows:

	Millions of yen			
	2021		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Bonds	39,874	40,170	29,902	29,919
Long-term borrowings	84,249	84,738	76,813	77,160
Total	124,123	124,908	106,715	107,079

Note: Current portion of bonds and borrowings is included.

With respect to bonds and borrowings, please see Note 20. Bonds and Borrowings.

The fair value measurement in respect of major financial instruments measured at amortized cost is as follows:

Fair value of bonds is calculated based on quoted market prices, and the fair value hierarchy is categorized as Level 1. Fair value of long-term borrowings is calculated by discounting future cash flows at an interest rate equal to an appropriate index such as the yield of government bonds plus credit spread, and the fair value hierarchy of long-term borrowings is categorized as Level 3.

Other than bonds and long-term borrowings, the carrying amounts of financial assets and liabilities are measured at amortized cost, which approximate their carrying fair values.

36. Related Party Transactions

(1) Related Party Transactions and Outstanding Balances

For the year ended March 31, 2021

Not applicable.

For the year ended March 31, 2022

Not applicable.

(2) Key Management Personnel Remuneration

Key management personnel remuneration is as follows:

	Millions of yen	
	2021	2022
Basic remuneration and bonuses	369	460
Share-based stock options	60	60
Performance- and share-based payment	(20)	1
Total	408	522

Note: As a result of the recalculation of the amount of expenses recognized for the year ended March 31, 2021, under the performance- and share-based payment scheme approved at the 155th Annual General Shareholders' Meeting held on June 27, 2019, taking into account the latest performance, an aggregate amount of ¥20 million was reversed in the year ended March 31, 2021.

37. Subsidiaries, Associated Companies, and Joint Ventures

Regarding the material subsidiaries, associated companies, and joint ventures of the Group as of March 31, 2022, please refer to the Appendix.

38. Contingent Liabilities

(1) Guarantee Obligations

Guarantee obligations have mainly arisen due to guarantees for bank borrowings, and the details are as follows:

	Millions of yen	
	2021	2022
Employees (for their mortgage loans and others)	84	54
Total	84	54

(2) Litigation

The Company and its group companies are exposed throughout their business activities to the possibility of being involved in a contentious case, becoming a defendant in a lawsuit, and being the object of inquiries by government agencies, in Japan and overseas. The Company and its group companies examine the possibility of recognizing a provision for the obligation arising from a contentious case or a lawsuit, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Company's subsidiary in India (hereinafter referred to as "Subsidiary in India") was inquired by the Indian Tax Authority regarding the import of the Company's digital cameras, and in October 2016, the imposition was confirmed in relation to the customs duty, interest, and penalty concerning those products. In January 2017, the Subsidiary in India appealed to the Customs, Excise and Service Tax Appellate Tribunal (hereinafter referred to as "CESTAT"); however, the appeal was dismissed in December 2017. To object to this decision, in January 2018, the Subsidiary in India filed an appeal to the Supreme Court of India (hereinafter referred to as the "Supreme Court"). In March 2021, the Supreme Court delivered a judgment revoking the decision of CESTAT and consequently the demand notice by the Indian Tax Authority. Subsequently in April 2021, the Indian Tax Authority filed a request for retrial. As it is currently unable to forecast the outcome of the request for retrial, the provision is not recognized in accordance with the aforementioned accounting policy.

In regard to any other cases, no significant impact on the Company's consolidated performance and financial position is expected at this point in time.

39. Significant Subsequent Events

The Group has evaluated subsequent events from March 31, 2022, through September 26, 2022.

(1) Repurchase and Cancellation of Treasury Shares

The Company decided to repurchase its own shares in accordance with the written resolution of the Board of Directors established on April 7, 2022, pursuant to Article 156 of the Companies Act of Japan as applicable through Article 165, Paragraph 3 of the Act, and to cancel treasury shares pursuant to Article 178 of the Companies Act of Japan. This resolution was made pursuant to Article 370 of the Companies Act of Japan and Article 25 of the Articles of Incorporation of the Company.

1) Reason for the Repurchase of Own Shares

The Company has decided to repurchase its own shares to enhance shareholder returns, while improving capital efficiency and ensuring a flexible capital policy.

2) Details of the Repurchase

- (i) Type of shares to be repurchased: Ordinary shares
- (ii) Total number of shares to be repurchased: 36,000,000 shares (maximum)
(Percentage to the total number of shares issued excluding treasury shares: 9.8%)
- (iii) Total amount of shares repurchased: ¥30,000 million (maximum)
- (iv) Repurchase period: From May 13, 2022, to March 24, 2023

3) Details of the Cancellation

- (i) Type of shares to be cancelled: Ordinary shares
- (ii) Total number of shares to be cancelled: 5,000,000 shares out of 10,485,746 treasury shares owned by the Company as of March 31, 2022, in addition to all the treasury shares that the Company will repurchase pursuant to the above.
- (iii) Scheduled date of cancellation: March 31, 2023

(2) Acquisition

The Company decided to acquire SLM Solutions Group AG (“SLM”), which is listed on the Frankfurt Stock Exchange in Germany, with the resolution of the Board of Directors established on September 2, 2022. The acquisition will be carried out by Nikon AM. AG, a fully owned subsidiary of the Company and special purpose company, subscribing to the capital increase of new shares of SLM, and implementing a voluntary public takeover offer under German law in the form of a cash offer to acquire all no-par value bearer shares in against payment of a cash consideration in the amount of EUR 20.00 per SLM Share accompanied by a public offer to the holders of the Convertible Bonds 2026 issued by SLM. The total amount of capital is expected to be required for the acquisition of 622 million euros, or approximately 84 billion yen. (Assuming acquisition of 100% of shares on a fully diluted basis and FX rate as 1 EUR = 135.00 JPY.)

Appendix

Information on Subsidiaries and Associates

Company name	Location	Main business	Voting right ownership (%)
(Consolidated group companies)			
Tochigi Nikon Corporation	Japan	Manufacture of interchangeable lenses, optical lenses, and optical components	100.0
Tochigi Nikon Precision Co., Ltd.	Japan	Manufacture of devices for FPD/semiconductor lithography systems	100.0
Sendai Nikon Corporation	Japan	Design and manufacture of optical products and equipment	100.0
Miyagi Nikon Precision Co., Ltd.	Japan	Manufacture of devices for FPD lithography systems	100.0
Nikon Tec Corporation	Japan	Sales of used equipment and maintenance service for FPD/semiconductor lithography systems	100.0
Nikon Imaging Japan Inc.	Japan	Sales and servicing of cameras	100.0
Nikon Solutions Co., Ltd.	Japan	Import, sales, and servicing of ultra-wide field retinal imaging device, and sales and servicing of microscopes, measuring instruments, and X-ray inspection equipment	100.0
Nikon Vision Co., Ltd.	Japan	Development, manufacture, sales, and servicing of sport optics products	100.0
Nikon Systems Inc.	Japan	Development and support of computer software	100.0
Nikon Business Service Co., Ltd.	Japan	Employee welfare activities, procurement, and logistics	100.0
Nikon CeLL innovation Co., Ltd.	Japan	Development, manufacturing and testing services for cell-based therapeutics	100.0
Hikari Glass Co., Ltd.	Japan	Manufacture and sales of optical glass and molded optical glass	100.0
Nikon Precision Inc.	USA	Import, sales, maintenance, and servicing of semiconductor lithography systems	100.0 (100.0)
Nikon Inc.	USA	Import, sales, and servicing of cameras	100.0 (100.0)
Nikon Instruments Inc.	USA	Import, sales, maintenance, and servicing of microscopes	100.0 (100.0)
Nikon Americas Inc.	USA	Centralized supply, administration, and management of funds of affiliates in the United States	100.0
Nikon Canada Inc.	Canada	Import, sales, and servicing of cameras and microscopes	100.0
Nikon Precision Europe GmbH	Germany	Maintenance and servicing of semiconductor lithography systems	100.0 (100.0)
Nikon Europe B.V.	The Netherlands	Centralized supply, administration, and management of funds of affiliates in Europe, and import, sales, and servicing of cameras and microscopes	100.0
Nikon Metrology NV	Belgium	Management of group companies in Americas and Europe for Industrial Metrology	100.0

Company name	Location	Main business	Voting right ownership (%)
Nikon (Russia) LLC.	Russian Federation	Import, sales, and servicing of cameras	100.0 (99.0)
Optos Plc	United Kingdom	Manufacture, sales, and servicing of ultra-wide field retinal imaging device	100.0
Nikon Hong Kong Ltd.	China	Import, sales, and servicing of cameras	100.0 (100.0)
Nikon Holdings Hong Kong Limited	China	Promotion of CSR and Internal Audit to affiliates in Asia and Oceania	100.0
Nikon Singapore Pte. Ltd.	Singapore	Import, sales, and servicing of cameras, microscopes and measuring instruments, maintenance and servicing of semiconductor lithography systems	100.0
Nikon Australia Pty Ltd.	Australia	Import, sales, and servicing of cameras	100.0 (100.0)
Nikon India Pvt Ltd.	India	Import, sales, and servicing of cameras	100.0 (100.0)
Nikon (Thailand) Co., Ltd.	Thailand	Manufacture of cameras, interchangeable lenses, and camera components	100.0
Nikon Precision Korea Ltd.	South Korea	Maintenance and servicing of FPD/semiconductor lithography systems	100.0
Nikon Imaging Korea Co., Ltd.	South Korea	Import, sales, and servicing of cameras	100.0
Nikon Precision Taiwan Ltd.	R.O.C	Maintenance and servicing of FPD/semiconductor lithography systems	100.0 (10.0)
Nikon Imaging (China) Sales Co., Ltd.	China	Import, sales, and servicing of cameras	100.0 (100.0)
Nikon Precision Shanghai Co., Ltd.	China	Maintenance and servicing of FPD/semiconductor lithography systems	100.0 (100.0)
Nikon Lao Co., Ltd.	Lao P.D.R.	Assembly of camera units	100.0 (100.0)
Nikon Middle East FZE	UAE	Import, sales, and servicing of cameras	100.0 (100.0)
Others (36 Companies)			
(Investments accounted for using equity method)			
Nikon-Essilor Co., Ltd.	Japan	Development, manufacture, sales, and servicing of ophthalmic lenses	50.0
Nikon-Trimble Co., Ltd.	Japan	Development, manufacture, sales, and servicing of surveying instruments	50.0
Others (13 Companies)			

Note: The percentages in parentheses under “Voting right ownership (%)” indicate the indirect ownership out of total ownership noted above.

Independent Auditor's Report



Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of NIKON CORPORATION:

Opinion

We have audited the consolidated financial statements of NIKON CORPORATION and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2022, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Member of
Deloitte Touche Tohmatsu Limited

Item	Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
Recoverability of deferred tax assets (consolidated)	<p>As described in Note 18. "Income Taxes (1) Deferred Taxes" to the consolidated financial statements, deferred tax assets as of March 31, 2022, were 51,610 million yen.</p> <p>A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which a deductible temporary difference and unused tax losses can be utilized.</p> <p>The evaluation of recoverability for deferred tax assets is based on estimates of future taxable income made by management and actual taxable income levels in the past. Revenue growth forecasts that form the basis of future taxable income, which are included in future business plans, involve uncertainties around forecasts, such as market trends for all businesses, the timing of containment of COVID-19, and market recovery after the containment. Therefore, revenue growth forecasts involve significant assumptions associated with management's judgment.</p> <p>In light of these facts, we have determined that future business plans of each business, and the forecast of future market size and market share, and the unit sales and sales prices included therein, which constitute significant management assumptions in determining deferred tax asset recoverability, are particularly significant for the audit of the consolidated financial statements for the current year, and thus, we have identified them as a key audit matter.</p>	<p>Our audit procedures for testing future business plans of each business which constitute significant management assumptions pertaining to deferred tax asset recoverability included the following, among others:</p> <ul style="list-style-type: none"> • Tested the design and operating effectiveness of controls over the process of determining deferred tax asset recoverability, including the approval process of business plans which form the basis of future taxable income forecasts. • Evaluated the recoverability of the deferred tax assets based on the deductible temporary differences and the carry forward of unused tax losses balances, timing of its reversal, and the future taxable income forecasts. • Tested the business plans used for evaluating deferred tax asset recoverability by assessing the consistency with the mid-term business plans approved by the Board of Directors as well as evaluating the preciseness of estimates based on retrospective review of the degree of achievement of the business plans for the past years. • Inquired of management about the impact of COVID-19 and evaluated their assumptions regarding when the virus would be contained and the market recovery post containment. • Evaluated the prediction of future market size and market share included in the future business plans, which constitute significant management assumptions, by assessing the consistency with the market forecasts and other publicly available information. Also tested the assumptions for the unit sales and sales prices by assessing the consistency with the future sales plans, and other relevant documents.

Other Information

Management is responsible for the other information. The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Financial Information, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

September 26, 2022