(Translation)

This document has been extracted and translated from the Japanese original for reference purpose and the translated document only includes Financial Information chapter. In the event of any discrepancy between the translated document and Japanese original, the original shall prevail.

Financial Information of Annual Securities Report

From January 1, 2022 to December 31, 2022

(The 104th Business term)

Financial Information

1. Preparation of consolidated financial statements and non-consolidated financial statements

(1) The consolidated financial statements of Nissha Co., Ltd. (the “Company”) have been prepared in accordance with International Financial Reporting Standards (“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; hereinafter referred to as the “Ordinance on Consolidated Financial Statements”).

(2) The non-consolidated financial statements of the Company have been prepared in accordance with the “Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements, etc.” (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter referred to as the “Ordinance on Financial Statements, etc.”).

The Company falls under a company which is permitted to submit non-consolidated financial statements prepared in accordance with special provisions, and prepares its non-consolidated financial statements pursuant to Article 127 of the Ordinance on Financial Statements, etc.

2. Audit certificate

The consolidated financial statements and non-consolidated financial statements of the Company for the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022) have been audited by Deloitte Touche Tohmatsu LLC in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special efforts to ensure fair presentation of consolidated financial statements, etc.

The Company has become a member of the Financial Accounting Standards Foundation and participates in seminars in order to develop a system for appropriately understanding the contents of the accounting standards and other rules and accurately reflecting changes to them in consolidated financial statements, etc.

4. Development of internal system to prepare consolidated financial statements, etc. fairly in accordance with IFRS

The Company obtains as necessary press releases and accounting standards published by the International Accounting Standards Board to keep up to date with the latest standards. In addition, the Company develops an internal system, including internal rules and manuals in compliance with IFRS, to prepare consolidated financial statements, etc. fairly in accordance with IFRS.

1 Consolidated Financial Statements, etc.

(1) Consolidated financial statements

1) Consolidated statements of financial position

(Million yen)

	Note	As of December 31, 2021	As of December 31, 2022
Assets			
Current assets			
Cash and cash equivalents	6,34	42,330	54,325
Trade and other receivables	7,34	30,233	33,225
Inventories	8	27,072	32,739
Other financial assets	15,34	145	381
Other current assets	9	3,764	4,731
Total current assets		103,546	125,403
Non-current assets			
Property, plant and equipment	10,13	42,799	43,720
Goodwill	11,13	20,186	21,410
Intangible assets	11,13	13,884	14,252
Right-of-use assets	12,13	8,820	8,840
Investments accounted for using equity method	14	533	763
Other financial assets	15,34	17,334	13,662
Retirement benefit asset	22	353	367
Deferred tax assets	16	1,496	1,515
Other non-current assets	9	318	276
Total non-current assets		105,728	104,809
Total assets		209,274	230,212

(Million yen)

	Note	As of December 31, 2021	As of December 31, 2022
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	17,34	36,106	39,419
Borrowings	18,34	6,570	9,450
Other financial liabilities	19,34	1,009	1,198
Lease liabilities	12	1,629	1,740
Income taxes payable, etc.	16	2,250	1,173
Provisions	20	64	95
Other current liabilities	21	4,943	4,552
Total current liabilities		52,573	57,631
Non-current liabilities			
Bonds and borrowings	18,34	33,315	38,158
Other financial liabilities	19,34	1,007	690
Lease liabilities	12	8,435	8,206
Retirement benefit liability	22	6,646	6,290
Provisions	20	52	62
Deferred tax liabilities	16	8,611	7,216
Other non-current liabilities	21	367	436
Total non-current liabilities		58,436	61,061
Total liabilities		111,010	118,693
Equity			
Share capital	23	12,119	12,119
Capital surplus	23	14,810	14,841
Retained earnings	23	65,445	75,658
Treasury shares	23	(1,929)	(2,632)
Other components of equity	23	7,830	11,565
Total equity attributable to owners of parent		98,278	111,553
Non-controlling interests		(13)	(34)
Total equity		98,264	111,518
Total liabilities and equity		209,274	230,212

2) Consolidated statements of profit or loss and comprehensive income

Consolidated statements of profit or loss

(Million yen)

	Note	Fiscal Year Ended December 31, 2021	Fiscal Year Ended December 31, 2022
Net sales	25	189,285	193,963
Cost of sales	27	(144,814)	(151,540)
Gross profit		44,470	42,422
Selling, general and administrative expenses	26,27	(27,161)	(31,147)
Other income	28	1,185	949
Other expenses	27,28	(1,086)	(2,646)
Share of profit (loss) of investments accounted for using equity method	14	(44)	(57)
Operating profit (loss)		17,363	9,520
Finance income	29	3,183	3,768
Finance costs	29	(1,047)	(916)
Profit (loss) before tax		19,499	12,373
Income tax expense	16	(3,658)	(2,253)
Profit (loss)		15,840	10,119
Profit (loss) attributable to:			
Owners of parent		15,859	10,140
Non-controlling interests		(18)	(21)
Profit (loss)		15,840	10,119
Earnings (loss) per share attributable to owners of parent			
Basic earnings (loss) per share (Yen)	31	318.35	203.65
Diluted earnings (loss) per share (Yen)	31	317.16	—

Consolidated statements of comprehensive income

(Million yen)

	Note	Fiscal Year Ended December 31, 2021	Fiscal Year Ended December 31, 2022
Profit (loss)		15,840	10,119
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value of financial assets measured through other comprehensive income	30	(773)	(1,075)
Remeasurements of defined benefit plans	30	(467)	633
Total of items that will not be reclassified to profit or loss		(1,241)	(441)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	30	3,501	6,114
Share of other comprehensive income of investments accounted for using equity method	30	(9)	136
Total of items that may be reclassified to profit or loss		3,491	6,250
Total other comprehensive income		2,250	5,809
Comprehensive income		18,091	15,928
Comprehensive income attributable to:			
Owners of parent		18,102	15,949
Non-controlling interests		(11)	(21)
Comprehensive income		18,091	15,928

3) Consolidated statements of changes in equity

(Million yen)

		Equity attributable to owners of parent										
						Other components of equity						
	Note	Share capital	Capital surplus	Retained earnings	Treasury shares	Net change in fair value of financial assets measured through other compre- hensive income	Remeasure- ments of defined benefit plans	Exchange differences on translation of foreign operations	Total other compo- nents of equity	Total equity attributable to owners of parent	Non- controlling interests	Total equity
Balance at January 1, 2021		12,119	14,856	51,811	(1,720)	8,416	—	(3,557)	4,859	81,926	(2)	81,924
Profit (loss)		—	—	15,859	—	—	—	—	—	15,859	(18)	15,840
Other comprehensive income		—	—	—	—	(773)	(467)	3,484	2,243	2,243	7	2,250
Total comprehensive income		—	—	15,859	—	(773)	(467)	3,484	2,243	18,102	(11)	18,091
Purchase of treasury shares	23	—	—	—	(420)	—	—	—	—	(420)	—	(420)
Disposal of treasury shares	23	—	(83)	—	211	—	—	—	—	128	—	128
Dividends of surplus	24	—	—	(1,496)	—	—	—	—	—	(1,496)	—	(1,496)
Share-based payment transactions	23,33	—	46	—	—	—	—	—	—	46	—	46
Changes in ownership interest in subsidiaries		—	(9)	—	—	—	—	—	—	(9)	—	(9)
Loss of control of subsidiaries		—	—	—	—	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	(728)	—	260	467	—	728	—	—	—
Total transactions with owners, etc.		—	(45)	(2,225)	(208)	260	467	—	728	(1,750)	—	(1,750)
Balance at December 31, 2021		12,119	14,810	65,445	(1,929)	7,903	—	(73)	7,830	98,278	(13)	98,264
Profit (loss)		—	—	10,140	—	—	—	—	—	10,140	(21)	10,119
Other comprehensive income		—	—	—	—	(1,075)	633	6,250	5,809	5,809	—	5,809
Total comprehensive income		—	—	10,140	—	(1,075)	633	6,250	5,809	15,949	(21)	15,928
Purchase of treasury shares	23	—	—	—	(837)	—	—	—	—	(837)	—	(837)
Disposal of treasury shares	23	—	(28)	—	133	—	—	—	—	105	—	105
Dividends of surplus	24	—	—	(1,993)	—	—	—	—	—	(1,993)	—	(1,993)
Share-based payment transactions	23,33	—	59	—	—	—	—	—	—	59	—	59
Changes in ownership interest in subsidiaries		—	—	—	—	—	—	—	—	—	—	—
Loss of control of subsidiaries		—	—	(8)	—	—	—	—	—	(8)	—	(8)
Transfer from other components of equity to retained earnings		—	—	2,073	—	(1,440)	(633)	—	(2,073)	—	—	—
Total transactions with owners, etc.		—	30	71	(703)	(1,440)	(633)	—	(2,073)	(2,674)	—	(2,674)
Balance at December 31, 2022		12,119	14,841	75,658	(2,632)	5,388	—	6,177	11,565	111,553	(34)	111,518

4) Consolidated statements of cash flows

(Million yen)

	Note	Fiscal Year Ended December 31, 2021	Fiscal Year Ended December 31, 2022
Cash flows from operating activities			
Profit (loss) before tax		19,499	12,373
Depreciation and amortization		9,258	9,487
Impairment losses		114	1,461
Loss (gain) on subsidiaries liquidation		—	385
Loss (gain) on sale and retirement of fixed assets		(42)	102
Share of loss (profit) of investments accounted for using equity method		44	57
Finance income	29	(3,183)	(3,768)
Finance costs	29	1,047	916
Decrease (increase) in trade and other receivables		8,122	(819)
Decrease (increase) in inventories		(533)	(3,775)
Increase (decrease) in trade and other payables		(11,927)	1,274
Increase (decrease) in provisions		13	34
Increase (decrease) in retirement benefit asset or liability		115	198
Other		387	(562)
Subtotal		22,916	17,366
Interest received		35	69
Dividends received		379	409
Interest paid		(790)	(899)
Income taxes paid		(3,839)	(5,001)
Income taxes refund		89	95
Net cash provided by (used in) operating activities		18,790	12,039
Cash flows from investing activities			
Payments into time deposits		—	(136)
Proceeds from withdrawal of time deposits		123	—
Purchase of property, plant and equipment		(6,661)	(5,454)
Payments for retirement of property, plant and equipment		(63)	(53)
Proceeds from sale of property, plant and equipment		629	46
Purchase of intangible assets		(936)	(558)
Purchase of investment securities		(312)	(17)
Proceeds from sale of investment securities		426	2,160
Purchase of shares of subsidiaries and affiliates		—	(151)
Other		(77)	(219)
Net cash provided by (used in) investing activities		(6,871)	(4,385)

(Million yen)

	Note	Fiscal Year Ended December 31, 2021	Fiscal Year Ended December 31, 2022
Cash flows from financing activities			
Proceeds from short-term borrowings	32	895	3,030
Repayments of short-term borrowings	32	(13,013)	(1,056)
Repayments of lease liabilities	32	(1,872)	(1,915)
Proceeds from long-term borrowings	32	24,854	5,000
Repayments of long-term borrowings	32	(13,565)	(1,252)
Proceeds from issuance of bonds	32	9,945	—
Redemption of bonds	32	(2,840)	—
Purchase of treasury shares	23	(420)	(837)
Proceeds from sale of treasury shares	23	120	106
Dividends paid to owners of parent	24	(1,495)	(1,992)
Other		1	(0)
Net cash provided by (used in) financing activities		2,609	1,082
Effect of exchange rate changes on cash and cash equivalents		2,735	3,257
Net increase (decrease) in cash and cash equivalents		17,263	11,995
Cash and cash equivalents at beginning of period	6	25,067	42,330
Cash and cash equivalents at end of period	6	42,330	54,325

Notes to Consolidated Financial Statements

1. Reporting entity

Nissha Co., Ltd. (the "Company") is a corporation domiciled in Japan, and the registered address of its headquarters is Nakagyo-ku, Kyoto, Japan.

The consolidated financial statements of the Company with the fiscal year-end date of December 31 are prepared by combining the financial statements of the Company and its subsidiaries (collectively, the "Group") and the Group's interest in its associates. The Group is engaged in the Industrial Materials business, the Devices business, the Medical Technologies business, and other businesses incidental thereto. The details of the Group's business and major activities are described in Note 4 "Operating segments."

2. Basis of preparation

(1) Statement of compliance with IFRS

The Company meets the requirements for a "specified company complying with designated international accounting standards" as stipulated in the Ordinance on Consolidated Financial Statements. Therefore, the Group's consolidated financial statements have been prepared in compliance with IFRS pursuant to the provisions set forth in Article 93 of the Ordinance.

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain items including the following items in the consolidated statements of financial position:

・Derivatives are measured at fair value.
・Financial instruments measured at fair value through profit or loss are measured at fair value.
・Financial instruments measured at fair value through other comprehensive income are measured at fair value.
・The net defined benefit liability (asset) is measured at the present value of defined benefit obligations less the fair value of plan assets.

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. Unless otherwise noted, amounts are rounded down to the nearest million yen.

(4) Significant accounting estimates and judgements with estimates

In preparing the consolidated financial statements in compliance with IFRS, management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the accounting period in which the estimates were revised and in any future accounting periods affected.

Accounting judgements that have significant effects on the consolidated financial statements for the fiscal year ended December 31, 2022 and accounting estimates subject to significant revisions in the consolidated financial statements for the subsequent fiscal year are as follows:

・Scope of consolidation – "(1) Basis of consolidation" in Note 3 "Significant accounting policies"
・Timing of sales recognition – "(17) Sales recognition" in Note 3 "Significant accounting policies"
・Impairment of non-financial assets – "(11) Impairment of non-financial assets" in Note 3 "Significant accounting policies," Note 11 "Goodwill and intangible assets" and Note 13 "Impairment of non-financial assets"
・Recoverability of deferred tax assets – "(19) Income taxes" in Note 3 "Significant accounting policies" and Note 16 "Income taxes"
・Measurement of defined benefit obligations – "(13) Employee benefits" in Note 3 "Significant accounting policies" and Note 22 "Post-employment benefits"
・Fair value measurement of financial instruments – "(4) Financial instruments" in Note 3 "Significant accounting policies" and Note 34 "Financial instruments"

As for the impact of COVID-19 pandemic, it is still impossible to predict when the pandemic will be contained. Accordingly, accounting estimates for impairment of non-financial assets, etc. have been made on the assumption that the impact of the pandemic will continue over a certain period in and after the next fiscal year.

(5) Standards and interpretations issued but not yet applied

Of the standards and interpretations newly established or revised by the approval date of the consolidated financial statements, those that have been issued but not yet applied as of December 31, 2022 are mainly as follows. The impact of applying these new standards and revisions on the Group's financial position and operating results is under evaluation and cannot be estimated at this point in time.

IFRS	Title	Mandatory effective date (Fiscal years beginning on and after)	Timing of initial application by the Group	Summary of new standards and revisions
IAS 1 IAS 8	Presentation of Financial Statements Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2023	Fiscal year ending December 31, 2023	Improvement of accounting policies disclosures and clarification on how to distinguish between accounting policies and accounting estimates
IAS 12	Income Taxes	January 1, 2023	Fiscal year ending December 31, 2023	Clarification on how to account for deferred tax on leases and decommissioning obligations
IAS 1	Presentation of Financial Statements	January 1, 2024	Fiscal year ending December 31, 2024	• Clarification on how payables and other liabilities are classified as current or non-current • Improvement of corporate disclosure on long-term liabilities with covenants
IFRS 16	Leases	January 1, 2024	Fiscal year ending December 31, 2024	Additional requirements to explain post-transaction accounting for sale and leaseback transactions

3. Significant accounting policies

(1) Basis of consolidation

1) Subsidiaries

A subsidiary is an entity over which the Group has control.

The Group controls an investee entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The acquisition date of a subsidiary is the date on which the Group obtains control of the subsidiary, and the subsidiary is consolidated from the acquisition date until the date on which the Group loses control over the subsidiary. When accounting policies applied by a subsidiary differ from those applied by the Group, adjustments are made to the financial statements of the subsidiary.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control 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 as equity attributable to owners of parent in equity.

In preparing the consolidated financial statements, intragroup balances of receivables and payables, intragroup transactions, and unrealized gains and losses arising from intragroup transactions are eliminated.

The fiscal year-end of all subsidiaries is the same as that of the Company.

2) Associates

An associate is an entity in which the Group has significant influence, but not control, over financial and operating policies.

Assessing and deciding whether the Group has significant influence over an entity reflects a comprehensive consideration of various elements. Such elements include the holding of voting rights (if the Group holds, directly or indirectly, 20% to 50% of the voting rights of the investee company, it is presumed that the Group has significant influence over the investee company), the existence of potential voting rights that are substantively exercisable and the percentage of directors that have been seconded from the Group.

An associate is accounted for using the equity method from the date on which the Group obtains significant influence until the date on which the Group loses such influence. When the accounting policies of an associate differ from those of the Group, adjustments are made to bring them in conformity with the accounting policies of the Group. Under the equity method, the amount of an investment in an associate is initially measured at cost and subsequently increased or decreased in proportion to changes in the Group's share of net assets of the associate after the acquisition. The Group's share of the associate's profit or loss is recognized in the Group's profit or loss, and the Group's share of the associate's other comprehensive income is recognized in the Group's other comprehensive income. Profits resulting from significant transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The fiscal year-end of all associates is the same as that of the Company.

(2) Business combinations

Business combinations are accounted for using the acquisition method.

The consideration transferred is measured at the sum of the acquisition-date fair values of the assets transferred, liabilities assumed, and equity interests issued in exchange for control over the acquiree.

The identifiable assets, liabilities and contingent liabilities in the acquiree are measured at their acquisition-date fair values, except that:

・Deferred tax assets (or deferred tax liabilities) and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively.

・Liabilities or equity instruments that are related to the acquiree's share-based payment transactions or the replacement of the acquiree's share-based payment transactions with the acquirer's share-based payment transactions are recognized and measured in accordance with IFRS 2 "Share-based Payment."

・Non-current assets or disposal groups that are classified as held for sale at the acquisition date in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that IFRS.

Goodwill is measured as the excess, if any, of the consideration transferred over the net amount of identifiable assets and liabilities as of the acquisition date. If the difference is negative, it is immediately recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the items for which the accounting is incomplete are measured at provisional amounts. In case new information obtained during the measurement period, which shall not exceed one year from the acquisition date, if known, would have affected the measurement of the amounts recognized as of the acquisition date, the provisional amounts recognized at the acquisition date are retrospectively adjusted.

Acquisition-related costs incurred to achieve a business combination are expensed as incurred. The acquisition of additional non-controlling interests is accounted for as an equity transaction without recognition of goodwill.

(3) Foreign currency translation

Transactions in foreign currencies are translated into the functional currency of each Group company using the exchange rate at the transaction date or a rate that approximates such rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of each Group company using the exchange rate at the fiscal year-end. Exchange differences arising from the translation and settlement are recognized in profit or loss. However, exchange differences arising from the translation of investments in equity instruments measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

The assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate at the fiscal year-end, and the income and expenses of foreign operations are translated into Japanese yen using the average exchange rate for the fiscal year, except in cases where the exchange rate fluctuates significantly. Exchange differences arising from the translation are recognized in other comprehensive income. On the disposal of a foreign operation that results in a loss of control or significant influence over the foreign operation, the cumulative exchange differences relating to the foreign operation are recognized in profit or loss for the period of disposal.

(4) Financial instruments

1) Non-derivative financial assets

(i) Initial recognition and measurement

The Group initially recognizes trade and other receivables on the date of occurrence and all the other financial assets on the transaction date when the Group becomes a party to the contract.

At initial recognition, all financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except when they are classified as financial assets measured at fair value through profit or loss. Transaction costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

(ii) Classification and subsequent measurement

The Group classifies its financial assets as (a) financial assets measured at amortized cost, (b) debt instruments measured at fair value through other comprehensive income, (c) equity instruments measured at fair value through other comprehensive income or (d) financial assets measured at fair value through profit or loss. The classification is determined at initial recognition, and the financial assets are subsequently measured based on their classification as follows:

(a) Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost:

・the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

・the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets measured at amortized cost are measured at amortized cost using the effective interest method, less impairment losses. Interest income based on the effective interest method is recognized as finance income in profit or loss.

(b) Debt instruments measured at fair value through other comprehensive income

A debt instrument that meets both of the following conditions is classified as a financial asset measured at fair value through other comprehensive income:

・the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

・the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, such debt instruments are measured at fair value. Subsequent changes in the fair value are recognized in other comprehensive income, except that foreign exchange gains or losses, impairment gains or losses, and interest income based on the effective interest method are recognized in profit or loss. When these debt instruments are derecognized, cumulative gains or losses recognized in other comprehensive income are reclassified from other components of equity to profit or loss as reclassification adjustments.

(c) Equity instruments measured at fair value through other comprehensive income

The Group has made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of investments in equity instruments, which are classified as financial assets measured at fair value through other comprehensive income.

After initial recognition, such equity instruments are measured at fair value. Subsequent changes in the fair value are recognized in other comprehensive income. When these equity instruments are derecognized, cumulative gains or losses recognized in other comprehensive income are reclassified from other components of equity to retained earnings.

Dividends from financial assets measured at fair value through other comprehensive income are recognized as finance income in profit or loss unless the dividend clearly represents a return of the investment.

(d) Financial assets measured at fair value through profit or loss

Financial assets other than financial assets measured at amortized cost or at fair value through other comprehensive income as mentioned above are classified as financial assets measured at fair value through profit or loss.

There are no financial assets that the Group has elected to irrevocably designate as financial assets measured at fair value through profit or loss at initial recognition.

Financial assets measured at fair value through profit or loss are recognized at fair value at initial recognition, and the transaction costs are recognized in profit or loss as incurred.

After initial recognition, such financial assets are measured at fair value. Subsequent changes in the fair value, net of dividends and interest income, are recognized in profit or loss.

(iii) Impairment of financial assets

An allowance for doubtful accounts is recognized for expected credit losses on financial assets subject to impairment, including financial assets measured at amortized cost.

The Group assesses at each fiscal year-end whether the credit risk on financial instruments has increased significantly since initial recognition.

If the credit risk on a financial instrument has not increased significantly since initial recognition, the allowance for doubtful accounts for the financial instrument is measured at an amount equal to the 12-month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition, the allowance for doubtful accounts for the financial instrument is measured at an amount equal to the lifetime expected credit losses.

When contractual payments are more than 30 days past due, the Group determines in principle that there has been a significant increase in credit risk. In assessing whether credit risk has increased significantly, the Group considers reasonably available and supportable information as well as past due information on contractual payments.

For financial assets including trade receivables that do not contain a significant financing component, the allowance for doubtful accounts is always measured at an amount equal to lifetime expected credit losses irrespective of whether there has been a significant increase in credit risk since initial recognition.

The expected credit losses of a financial instrument are measured in a way that reflects:

・an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
・the time value of money; and
・reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

A provision of allowance for doubtful accounts for financial assets is recognized in profit or loss. In the event that the recognized allowance for doubtful accounts is reduced, a reversal of allowance for doubtful accounts is recognized in profit or loss.

(iv) Derecognition of financial assets

The Group derecognizes a financial asset only when:

(a) the contractual rights to the cash flows from the financial asset expire, or
(b) it transfers the financial asset so that substantially all the risks and rewards of ownership of the financial asset are transferred.

2) Non-derivative financial liabilities

(i) Initial recognition and measurement

Financial liabilities are classified at initial recognition as (a) financial liabilities measured at amortized cost or (b) financial liabilities measured at fair value through profit or loss. Financial liabilities are initially recognized on the transaction date when the Group becomes a party to the contract. Financial liabilities measured at amortized cost are initially measured at fair value less transaction costs that are directly attributable to the financial liabilities, while financial liabilities measured at fair value through profit or loss are initially measured at fair value.

(ii) Classification and subsequent measurement

(a) Financial liabilities measured at amortized cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Interest expenses based on the effective interest method are recognized as finance costs in profit or loss.

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

After initial recognition, financial liabilities measured at fair value through profit or loss are measured at fair value. Subsequent changes in the fair value are recognized in profit or loss.

(iii) Derecognition of financial liabilities

The Group derecognizes a financial liability when it is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expires.

3) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are offset and presented on a net basis in the consolidated statements of financial position only when the Group has a legally enforceable right to set off the balances and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4) Derivative financial instruments

The Group utilizes forward exchange contracts and currency swaps to mitigate the risk of fluctuations in foreign exchange rates and utilizes interest rate swaps to mitigate the risk of fluctuations in interest rates. These derivatives are initially measured at the time when the contract is entered into, and are subsequently remeasured at fair value. Changes in the fair value of derivatives are all recognized in profit or loss.

Hedge accounting is not applied to the above derivatives. Accordingly, derivative financial instruments are classified as financial assets or financial liabilities measured at fair value through profit or loss.

5) Fair value of financial instruments

The fair value of financial instruments is determined using market information, including market prices, and appropriate valuation techniques.

Inputs used to measure fair value are categorized into the following three levels:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs (i.e., prices themselves) other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs that are not based on observable market data (i.e., unobservable inputs) for the asset or liability.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible to cash and subject to an insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

Valuation method for each inventory item is as follows:

1) Finished goods (excluding Decorative Film products, etc. of Industrial Materials) and work in process

Mainly by the specific identification method.

2) Finished goods (Decorative Film products, etc. of Industrial Materials)

By the moving average method.

3) Raw materials and supplies

Mainly by the periodic average method.

(7) Property, plant and equipment

Property, plant and equipment are measured using the cost model and are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciable property, plant and equipment are depreciated using the straight-line method over their useful lives.

The useful lives used in determining depreciation are as follow:

Buildings and structures: 15 to 50 years

Machinery and vehicles: 5 to 10 years

Tools, furniture and fixtures: 2 to 10 years

The cost includes any costs directly attributable to the acquisition of the asset; the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located; and borrowing costs eligible for capitalization.

The costs of the day-to-day servicing for the repairs and maintenance of property, plant and equipment are expensed as incurred.

When an item of property, plant and equipment consists of components with different useful lives, each component is recognized as a separate item of property, plant and equipment.

The gain or loss arising from the derecognition of property, plant and equipment is included in profit or loss when the asset is derecognized.

The depreciation method, useful life and residual value of an asset are reviewed at each fiscal year-end, and any changes are accounted for prospectively as changes in accounting estimates.

(8) Intangible assets

Intangible assets are measured using the cost model and are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite useful lives are amortized using the straight-line method over their useful lives.

The useful lives of major intangible assets are as follows:

Software: 5 years

Customer-related assets: 8 to 17 years

Technical assets: 15 years

The useful lives and amortization method are reviewed at each fiscal year-end, and any changes are accounted for prospectively as changes in accounting estimates.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized but tested for impairment individually or as part of the cash-generating unit to which the asset belongs, at least once a year or whenever there is an indication that the asset may be impaired.

The gain or loss arising from the derecognition of intangible assets is included in profit or loss when the asset is derecognized.

(9) Goodwill

The measurement of goodwill at initial recognition is as described in “(2) Business combinations.”

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but tested for impairment at least once a year or whenever there is an indication that the asset may be impaired.

(10) Leases

The Group assesses whether a contract is, or contains, a lease by considering whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

1) Lessee

For leases as lessee, in principle, right-of-use assets and the corresponding lease liabilities are recognized. For short-term leases (with a lease term of 12 months or less) and leases for which the underlying asset is of low value, the lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis.

Right-of-use assets are measured at cost at the commencement date, and lease liabilities are measured at the present value of the lease payments that are not made as of the commencement date. If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the lessee's incremental borrowing rate, which is the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain a similar asset over a similar term.

After the commencement date of the lease, the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses, and are 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. Lease liabilities are measured by increasing the book value to reflect interest on the lease liability based on the effective interest method and reducing the book value to reflect the lease payments made.

In cases such as where there is a change in the lease term or a lease modification is not accounted for as a separate lease, the lease liability is remeasured with a corresponding adjustment to the right-of-use asset.

2) Lessor

For leases as lessor, leases are classified as operating leases or finance leases. Leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership of underlying assets. Leases are classified as operating leases if they do not transfer substantially all the risks and rewards incidental to ownership of underlying assets. Whether leases are finance leases or operating leases depends on the substance of the transactions rather than the form of the contracts.

(i) Finance leases

At the commencement date, assets held under finance leases are presented as receivables at amounts equal to the net investments in the leases. The recognition method of revenue from finance leases is described in "(17) Sales recognition, 2) Revenue from finance leases (lessor)."

(ii) Operating leases

The recognition method of revenue from operating leases is described in "(17) Sales recognition, 3) Revenue from operating leases (lessor)."

(11) Impairment of non-financial assets

Non-financial assets other than inventories and deferred tax assets are assessed at the end of each reporting period whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset or the cash-generating unit (or a group of cash-generating units) is estimated. Goodwill and intangible assets with indefinite useful lives or not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication of impairment.

The recoverable amount of an asset or a cash-generating unit (or a group of cash-generating units) is the higher of its fair value less costs of disposal and its value in use. The value in use is determined by discounting the estimated future cash flows of the asset or the cash-generating unit (or a group of cash-generating units) to the present value at an after-tax discount rate that reflects the time value of money and risks specific to the asset. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired in a business combination is allocated to the cash-generating unit expected to benefit from the synergies of the business combination, and the cash-generating unit is then tested for impairment. If the recoverable amount of an asset or a cash-generating unit is less than its book value, an impairment loss is recognized in profit or loss.

At the end of each reporting period, it is assessed whether there is an indication that impairment losses recognized previously for an asset may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. If the estimated recoverable amount exceeds the book value of the asset, impairment losses are reversed. The book value after the reversal is recognized to the extent that it does not exceed the book value (net of accumulated depreciation or amortization) that would have been determined had no impairment loss been recognized previously for the asset. The amount of reversal of impairment losses is recognized in profit or loss.

Impairment losses recognized for goodwill are not reversed.

(12) Provisions

The Group recognizes a provision when the Group has a present legal or constructive obligation as a result of a past event; 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.

A provision is recognized for the best estimate of the expenditure required to settle the present obligation at the fiscal year-end. Where the effect of the time value of money is material, a provision is measured at the present value of the expenditure discounted at a discount rate that reflects the risks specific to the liability. Where discounting is applied, an increase in the provision arising from the passage of time is recognized as finance costs.

(13) Employee benefits

1) Post-employment benefits

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

(i) Defined benefit plans

The present value of defined benefit obligations and the related current service cost and past service cost are determined using the projected unit credit method for each plan separately.

The discount rate is determined by reference to yields at the fiscal year-end on high quality corporate bonds with a term to maturity corresponding to the discount period, which is set based on the period until the expected maturity of benefit payments in each future fiscal year.

The present value of defined benefit obligations less the fair value of plan assets is recognized as a liability or an asset.

Current service cost, past service cost and net interest on the net defined benefit liability (asset) are recognized in profit or loss. Remeasurements of the net defined benefit liability (asset) are recognized collectively in other comprehensive income for the period in which they are incurred and immediately reclassified to retained earnings.

(ii) Defined contribution plans

Retirement benefit expenses of the defined contribution plans are recognized as expenses for the period in which employees render the related services.

2) Short-term employee benefits

Short-term employee benefits are not discounted but are expensed at the time when employees render the related services.

When the Group has a present legal or constructive obligation to make payments as a result of past service rendered by employees, and a reliable estimate can be made of the amount of the obligation, the estimated amount to be paid is recognized as a liability.

3) Other long-term employee benefits

Long-term employee benefits other than post-employment benefits are determined by discounting to the present value the future benefits that employees have earned in return for their services rendered in the current and prior fiscal years.

(14) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the Group will comply with the conditions attaching to the grants and that the grants will be received.

Government grants related to income are recognized as income on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants related to assets are presented by deducting the grant from the cost of the asset in arriving at the book value of the asset.

(15) Equity

1) Share capital and capital surplus

Equity instruments issued by the Company are recognized at issue value in share capital and capital surplus. Transaction costs directly attributable to the issuance are deducted from capital surplus.

2) Treasury shares

Any treasury shares acquired are recognized at cost and deducted from equity. Transaction costs directly attributable to the acquisition are deducted from equity.

Any treasury shares disposed of are recognized as an increase in equity at the consideration received, and the difference between the book value and the consideration received is included in capital surplus.

(16) Share-based payment plans

The Group has adopted equity-settled and cash-settled share-based payment plans for Directors of the Board (excluding Independent Outside Directors of the Board), Corporate Officers and employees of the Company and certain directors of the board and employees of the Company's subsidiaries.

1) Equity-settled

For equity-settled share-based payments, the consideration for the services received is measured at fair value of the equity instruments at grant date and recognized as an expense, with the corresponding increase in equity.

2) Cash-settled

For cash-settled share-based payments, the services received and the liability incurred are measured at the fair value of the liability and recognized as expenses over the vesting period with the corresponding increase recognized as a liability. Until the liability is settled, the fair value of the liability is remeasured at the end of each quarterly period and at the date of settlement with any changes in fair value recognized in profit or loss.

3) Share-based payment transactions with cash alternatives

A share-based payment transaction with cash alternatives is accounted for as a cash-settled payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash or other assets, or as an equity-settled payment transaction if, and to the extent that, no such liability has been incurred.

(17) Sales recognition

1) Revenue from contracts with customers

Except for interest and dividend income and other income items under IFRS 9, the Group recognizes sales in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services to customers, based on the following five-step approach:

Step 1: Identify the contract(s) 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 each distinct performance obligation in the contract.

Step 5: Recognize sales when (or as) a performance obligation is satisfied.

For products (see Note 25 "Net sales") that the Group has promised to deliver to a customer, the performance obligation in the contract is satisfied at a point at which the customer is deemed to have obtained control of the product in light of contractual terms and conditions, and the Group recognizes net sales primarily upon delivery of the product to the customer or the customer's acceptance, or based on terms and conditions of trade. For performance obligations in service contracts and other contracts that meet the criteria for determining whether control of goods or services is transferred over time, net sales are recognized over time by measuring the progress based on input methods, such as costs incurred.

Sales are measured at the amount net of returned products, rebates and discounts.

The consideration in the sales contracts on goods is collected mainly within one year from the time when control of the goods has been transferred to the customer. Those contracts do not contain a significant financing component.

2) Revenue from finance leases (lessor)

Revenue from finance leases is recognized based on a way reflecting constant periodic rates of return on the net investments in the leases.

3) Revenue from operating leases (lessor)

Revenue from operating leases is recognized on a straight-line basis over the lease term.

(18) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are included in the cost of the asset. All other borrowing costs are recognized in profit or loss for the period in which they are incurred.

(19) Income taxes

Income tax expense is presented as the aggregate amount of current and deferred tax, and recognized in profit or loss, except for those related to business combinations and items recognized in other comprehensive income or directly in equity.

Current tax is measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the fiscal year-end.

Deferred tax is recognized primarily for temporary differences between the tax base and the accounting book value of an asset and liability at the fiscal year-end. Deferred tax assets are recognized for deductible temporary differences and the carryforward of unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which they can be utilized. Deferred tax liabilities are, in principle, recognized for all taxable temporary differences.

Deferred tax assets or liabilities are not recognized for the following temporary differences:

・Taxable 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 accounting profit (loss) nor taxable profit (tax loss).

・Deductible temporary differences associated with investments in subsidiaries and affiliates where it is probable that the temporary difference will not reverse in the foreseeable future, or taxable profit will not be available against which the temporary difference can be utilized.

・Taxable temporary differences associated with investments in subsidiaries and affiliates where it is probable that the Group is able to control the timing of the reversal of the temporary difference, and the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the fiscal year-end.

The Company and some of its domestic consolidated subsidiaries have filed a request for approval of the application of the group tax sharing system during the fiscal year ended December 31, 2022 and the system will be applied from the next fiscal year. Accordingly, starting from the fiscal year ended December 31, 2022, tax effects are accounted for based on the assumption that the group tax sharing system will be applied.

(20) Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the basic weighted average number of common shares outstanding during the period, adjusted for the number of treasury shares. Diluted earnings per share are calculated by adjusting for the effects of all dilutive potential common shares.

(21) Segment information

An operating segment is a component of business activities from which the Group earns sales and incurs expenses, including transactions with other operating segments. The operating results of all operating segments, for which separate financial information is available, are regularly reviewed by the Company's Board of Directors in order to decide the allocation of management resources to each segment and to assess its performance.

(22) Assets held for sale

A non-current asset (or a disposal group) is classified as held for sale if its book value will be recovered principally through a sale transaction rather than through continuing use.

An asset held for sale is measured at the lower of its "book value" and "fair value less costs to sell." Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

4. Operating segments

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the board of directors is being performed in order to decide the allocation of management resources and to review business results.

The Group sets up divisions by product or service. Each division draws up a plan for comprehensive strategies in Japan and overseas for the products and services it handles, and thereupon develops its business activities.

Accordingly, the Group consists of segments by product and service based on divisions. The three reportable segments are the Industrial Materials segment, Devices segment, and Medical Technologies segment.

The Industrial Materials segment manufactures and sells decorative films, molds, molded plastic products, and metallized papers. The Devices segment manufactures and sells film-based Touch Sensors, gas sensors and others. The Medical Technologies segment manufactures and sells consumable medical products such as medical electrodes, medical chart paper and others and also provides contract design/development manufacturing services for major medical device manufacturers.

(Note with regard to changes to reportable segment)

From the fiscal year ended December 31, 2022, in line with the partial revision of performance management structure within the Group, segment categories for certain consolidated subsidiaries previously recorded in the Devices segment and the Other category were changed to the Other category and the Industrial Materials segment, respectively.

Therefore, segment information for the previous fiscal year is stated according to the category following the change.

(2) Methods of measurement for the amounts of sales, profit (loss), assets, and other items for each reportable segment

The accounting methods for the reportable segments are generally the same as that set forth in Note 3 "Significant accounting policies." Segment profit is based on operating profit, and inter-segment sales is based on current market prices.

(3) Information about sales, profit (loss), assets, and other items by reportable segment

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(Million yen)

	Reportable segment				Other (Note 1)	Total	Reconcilia-tions (Note 2)	Consolidated (Note 3)
	Industrial Materials	Devices	Medical Technolo-gies	Sub-total				
Sales from external customers	60,581	96,955	24,176	181,713	7,571	189,285	—	189,285
Inter-segment sales	712	14	0	726	1,314	2,041	(2,041)	—
Total	61,294	96,969	24,176	182,440	8,886	191,326	(2,041)	189,285
Segment profit (loss)	5,155	14,328	776	20,261	(1,147)	19,114	(1,751)	17,363
Finance income	—	—	—	—	—	—	—	3,183
Finance costs	—	—	—	—	—	—	—	(1,047)
Profit (loss) before tax	—	—	—	—	—	—	—	19,499
Segment assets	51,879	37,246	39,510	128,636	10,127	138,764	70,510	209,274
Other								
Depreciation and amortization	3,801	2,907	1,436	8,145	766	8,912	346	9,258
Share of profit (loss) of investments accounted for using equity method	—	—	—	—	(44)	(44)	—	(44)
Impairment loss (see Note 13)	55	—	—	55	—	55	58	114
Increase in property, plant and equipment, intangible assets and right-of-use assets	2,615	1,658	978	5,251	844	6,096	943	7,040
Investments accounted for using equity method	—	0	—	0	533	533	—	533

(Notes) 1. The “Other” category consists of a business segment not included in the reportable segments and includes the Information and Communication, the prescription pharmaceutical manufacturing business, etc.

2. Reconciliations are as follows:

(1) The negative ¥1,751 million of reconciliations in segment profit (loss) includes unallocated corporate expenses, etc. Corporate expenses, etc. mainly consist of general and administrative expenses and foreign exchange loss or gain not attributable to any reportable segment.

(2) The positive ¥70,510 million of reconciliations in segment assets consists of the positive ¥70,728 million in total of cash and cash equivalents, investment securities, corporate (R&D and administrative) property, plant and equipment, etc., not allocated to reportable segments and the negative ¥217million of inter-segment elimination of receivables and payables.

(3) The positive ¥346 million of reconciliations in depreciation and amortization relates to corporate (R&D and administrative) property, plant and equipment, etc.

(4) The positive ¥943 million of reconciliations in increase in property, plant and equipment, intangible assets and right-of-use assets is the amount of corporate (R&D and administrative) capital investment.

3. Segment profit (loss) is reconciled with operating profit (loss) recorded in the consolidated statements of profit or loss.

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

(Million yen)

	Reportable segment				Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated (Note 3)
	Industrial Materials	Devices	Medical Technologies	Sub-total				
Sales from external customers	73,558	79,951	32,457	185,968	7,995	193,963	—	193,963
Inter-segment sales	237	9	0	247	1,078	1,326	(1,326)	—
Total	73,796	79,961	32,457	186,215	9,074	195,290	(1,326)	193,963
Segment profit (loss)	3,390	8,389	490	12,270	(757)	11,512	(1,992)	9,520
Finance income	—	—	—	—	—	—	—	3,768
Finance costs	—	—	—	—	—	—	—	(916)
Profit (loss) before tax	—	—	—	—	—	—	—	12,373
Segment assets	56,779	35,804	47,166	139,751	10,400	150,151	80,060	230,212
Other								
Depreciation and amortization	4,088	2,682	1,587	8,358	756	9,114	373	9,487
Share of profit (loss) of investments accounted for using equity method	—	—	—	—	(57)	(57)	—	(57)
Impairment loss (see Note 13)	1,461	—	—	1,461	—	1,461	—	1,461
Increase in property, plant and equipment, intangible assets and right-of-use assets	4,437	579	1,097	6,113	810	6,923	435	7,359
Investments accounted for using equity method	—	—	—	—	763	763	—	763

(Notes) 1. The “Other” category consists of a business segment not included in the reportable segments and includes the Information and Communication, the prescription pharmaceutical manufacturing business, etc.

2. Reconciliations are as follows:

(1) The negative ¥1,992 million of reconciliations in segment profit (loss) includes unallocated corporate expenses, etc. Corporate expenses, etc. mainly consist of general and administrative expenses and foreign exchange loss or gain not attributable to any reportable segment.

(2) The positive ¥80,060 million of reconciliations in segment assets consists of the positive ¥80,253 million in total of cash and cash equivalents, investment securities, corporate (R&D and administrative) property, plant and equipment, etc., not allocated to reportable segments and the negative ¥192 million of inter-segment elimination of receivables and payables.

(3) The positive ¥373 million of reconciliations in depreciation and amortization relates to corporate (R&D and administrative) property, plant and equipment, etc.

(4) The positive ¥435 million of reconciliations in increase in property, plant and equipment, intangible assets and right-of-use assets is the amount of corporate (R&D and administrative) capital investment.

3. Segment profit (loss) is reconciled with operating profit (loss) recorded in the consolidated statements of profit or loss.

(4) Information about products and services

This information is omitted since the same information is disclosed in (3) Information about sales, profit (loss), assets, and other items by reportable segment.

(5) Information by region

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

1) Sales from external customers

(Million yen)

Japan	Ireland	United States	Other	Total
22,553	74,593	30,607	61,530	189,285

(Notes) 1. Sales are categorized by country or region based on the locations of customers.
2. Sales from external customers in Ireland consists mainly of that from APPLE OPERATIONS LIMITED listed in (6) Information by major customer.

2) Non-current assets

(Million yen)

Japan	United States	Other	Total
36,436	29,609	20,497	86,543

(Notes) 1. Financial instruments, deferred tax assets, retirement benefit asset, and rights arising under insurance contracts are not included.
2. Non-current assets are categorized by country or region based on the locations of assets.

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

1) Sales from external customers

(Million yen)

Japan	Ireland	United States	Other	Total
22,683	53,338	39,654	78,287	193,963

(Notes) 1. Sales are categorized by country or region based on the locations of customers.
2. Sales from external customers in Ireland consists mainly of that from APPLE OPERATIONS LIMITED listed in (6) Information by major customer.

2) Non-current assets

(Million yen)

Japan	United States	Other	Total
37,121	32,233	19,909	89,264

(Notes) 1. Financial instruments, deferred tax assets, retirement benefit asset, and rights arising under insurance contracts are not included.
2. Non-current assets are categorized by country or region based on the locations of assets.

(6) Information by major customer

Details of sales from a major customer are as follows:

(Million yen)

Customer	Related Segment	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
APPLE OPERATIONS LIMITED and its group companies	Devices, Industrial Materials, and Other	75,214	53,832

(Note) The sales are reported under Ireland, United States and Japan in 1) Sales from external customers under (5) Information by region.

5. Business combinations

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

Finalization of provisional accounting pertaining to business combinations

For the business combination conducted on November 2, 2020; that is, the acquisition of Norwalk, Ohio manufacturing operation of Olympus Surgical Technologies America, the amounts of assets acquired and liabilities assumed were provisional as allocation of the cost was not completed in the fiscal year ended December 31, 2020. The amounts were finalized and adjusted as per the following table in the fiscal year ended December 31, 2021.

In line with the finalization, the consolidated financial statements for the fiscal year ended December 31, 2020 were retrospectively adjusted. As major changes resulting from the retrospective adjustments, intangible assets as of December 31, 2020 decreased by ¥227 million while goodwill increased by the same amount.

The impact on profit or loss is negligible.

Amounts recognized of assets acquired and liabilities assumed

(Million yen)

Items	Provisional amount	Adjusted amount	Finalized amount
Current assets			
Cash and cash equivalents	0	—	0
Inventories	877	—	877
Non-current assets			
Property, plant and equipment	1,188	—	1,188
Intangible assets (Note 1)	534	(230)	303
Total assets	2,600	(230)	2,370
Current liabilities	46	—	46
Total liabilities (Note 2)	46	—	46

(Notes) 1. Intangible assets consist of technical assets.

2. There are no contingent liabilities.

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

Not applicable.

6. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows. The balance of cash and cash equivalents in the consolidated statements of financial position matches the balance of cash and cash equivalents at end of period in the consolidated statements of cash flows.

(Million yen)

	As of December 31, 2021	As of December 31, 2022
(Cash and cash equivalents)		
Cash and deposits	38,331	49,450
Time deposits with maturities of three months or less	3,998	4,875
Cash and cash equivalents in the consolidated statements of financial position	42,330	54,325

7. Trade and other receivables

The breakdown of trade and other receivables is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Notes and accounts receivable-trade	30,199	32,754
Accounts receivable-other	369	703
Allowance for doubtful accounts	(335)	(232)
Total	30,233	33,225

(Notes) 1. Trade and other receivables are classified as financial assets measured at amortized cost.
2. Trade and other receivables are stated at net of allowance for doubtful accounts in the consolidated statements of financial position.
3. Credit risk management is described in Note 34 “Financial instruments.”

8. Inventories

The breakdown of inventories is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Merchandise and finished goods	12,143	13,169
Work in process	5,430	5,828
Raw materials and supplies	9,498	13,741
Total	27,072	32,739

(Notes) 1. Inventories recognized as an expense in cost of sales for the fiscal years ended December 31, 2021 and December 31, 2022 were ¥143,943 million and ¥150,593 million, respectively.
2. As a result of valuing inventories at net realizable value, write-downs of ¥752 million and ¥854 million were recognized for the fiscal years ended December 31, 2021 and December 31, 2022, respectively.
3. There was no material reversal of write-downs recognized for the fiscal years ended December 31, 2021 and December 31, 2022.
4. Inventories pledged as collateral of liabilities are described in Note 18 “Bonds and borrowings.”

9. Other assets

The breakdown of other current assets and other non-current assets is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
(Other current assets)		
Advance payments-other and prepaid expenses	1,401	1,613
Consumption taxes receivable	1,970	2,527
Income taxes receivable, etc.	327	540
Other	64	49
Total	3,764	4,731
(Other non-current assets)		
Long-term prepaid expenses	177	136
Other	141	140
Total	318	276

10. Property, plant and equipment

Changes in cost, accumulated depreciation and accumulated impairment losses, and the book value of property, plant and equipment are as follows:

(Million yen)

Cost	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of January 1, 2021	61,279	56,614	11,950	7,945	1,825	139,615
Acquisitions	1,311	838	320	0	2,018	4,489
Disposals	(607)	(638)	(417)	(22)	(9)	(1,695)
Transfers (Note 4)	(763)	528	85	0	(2,066)	(2,214)
Foreign currency translation differences	425	1,743	121	52	61	2,404
As of December 31, 2021	61,645	59,085	12,061	7,976	1,830	142,599
Acquisitions	828	1,389	837	0	2,585	5,642
Disposals	(361)	(4,911)	(648)	(0)	(16)	(5,937)
Transfers (Note 4)	451	1,690	272	—	(2,193)	222
Foreign currency translation differences	583	3,245	205	61	218	4,314
As of December 31, 2022	63,148	60,499	12,728	8,038	2,425	146,841

(Million yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of January 1, 2021	(36,572)	(45,335)	(9,267)	(2,126)	(20)	(93,322)
Depreciation	(2,177)	(3,007)	(886)	—	—	(6,071)
Impairment losses (Note 3)	(58)	(40)	—	—	—	(98)
Disposals	18	588	405	—	1	1,013
Transfers (Note 4)	(0)	51	(10)	—	—	40
Foreign currency translation differences	(112)	(1,162)	(87)	(0)	(0)	(1,362)
As of December 31, 2021	(38,902)	(48,906)	(9,846)	(2,126)	(19)	(99,800)
Depreciation	(2,155)	(3,173)	(876)	—	—	(6,205)
Impairment losses	—	—	—	—	—	—
Disposals	325	4,869	644	—	1	5,841
Transfers (Note 4)	(6)	(200)	(12)	—	0	(218)
Foreign currency translation differences	(237)	(2,345)	(153)	(0)	(0)	(2,737)
As of December 31, 2022	(40,976)	(49,755)	(10,244)	(2,126)	(17)	(103,120)

(Million yen)

Book value	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of January 1, 2021	24,707	11,278	2,683	5,819	1,804	46,293
As of December 31, 2021	22,743	10,179	2,214	5,850	1,811	42,799
As of December 31, 2022	22,172	10,744	2,484	5,912	2,407	43,720

(Notes) 1. Depreciation of property, plant and equipment is included in cost of sales, selling, general and administrative expenses, and other expenses in the consolidated statements of profit or loss.

2. Expenditures related to property, plant and equipment under construction are presented as construction in progress in the above tables.

3. Impairment losses are described in Note 13 "Impairment of non-financial assets."

4. Transfers principally represent transfers from construction in progress to the related accounts of property, plant and equipment or lease receivables.

5. Property, plant and equipment pledged as collateral of liabilities are described in Note 18 "Bonds and borrowings."

11. Goodwill and intangible assets

(1) Reconciliations

Changes in cost, accumulated amortization and accumulated impairment losses, and the book value of goodwill and intangible assets are as follows:

(Million yen)

Cost	Goodwill	Trademark rights	Software	Technical assets	Customer-related assets	Other	Total
As of January 1, 2021	23,983	3,640	7,741	2,829	9,548	1,629	49,373
Additions from internal development	—	—	—	—	—	17	17
Acquisitions	—	16	233	—	—	433	683
Disposals	—	—	(28)	—	—	(1)	(30)
Transfers (Note 3)	—	—	1,144	—	—	(1,218)	(73)
Exclusion from consolidation	—	—	—	—	—	—	—
Foreign currency translation differences	1,808	385	28	103	584	84	2,994
As of December 31, 2021	25,792	4,041	9,120	2,932	10,133	945	52,965
Additions from internal development	—	—	—	—	—	11	11
Acquisitions	—	6	44	—	—	400	451
Disposals	—	—	(1,216)	—	(637)	(11)	(1,866)
Transfers (Note 3)	—	—	128	—	—	(121)	6
Exclusion from consolidation	(89)	—	—	—	—	—	(89)
Foreign currency translation differences	3,177	602	211	268	1,105	36	5,401
As of December 31, 2022	28,880	4,650	8,287	3,201	10,600	1,260	56,880

(Million yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Trademark rights	Software	Technical assets	Customer-related assets	Other	Total
As of January 1, 2021	(5,428)	—	(7,004)	(904)	(3,373)	(300)	(17,011)
Amortization	—	—	(401)	(205)	(728)	(57)	(1,392)
Impairment losses (Note 2)	—	—	—	—	(15)	—	(15)
Disposals	—	—	27	—	—	—	27
Transfers (Note 3)	—	—	(4)	—	—	18	13
Exclusion from consolidation	—	—	—	—	—	—	—
Foreign currency translation differences	(177)	—	(30)	(26)	(255)	(26)	(515)
As of December 31, 2021	(5,605)	—	(7,413)	(1,136)	(4,372)	(365)	(18,893)
Amortization	—	—	(439)	(221)	(792)	(70)	(1,523)
Impairment losses (Note 2)	(1,461)	—	—	—	—	—	(1,461)
Disposals	—	—	1,194	—	637	—	1,831
Transfers	—	—	—	—	—	—	—
Exclusion from consolidation	89	—	—	—	—	—	89
Foreign currency translation differences	(493)	—	(61)	(102)	(586)	(16)	(1,260)
As of December 31, 2022	(7,469)	—	(6,720)	(1,460)	(5,114)	(452)	(21,217)

(Million yen)

Book value	Goodwill	Trademark rights	Software	Technical assets	Customer-related assets	Other	Total
As of January 1, 2021	18,555	3,640	737	1,924	6,174	1,328	32,362
As of December 31, 2021	20,186	4,041	1,706	1,796	5,760	579	34,071
As of December 31, 2022	21,410	4,650	1,567	1,741	5,486	807	35,662

(Notes) 1. Amortization of intangible assets is included in cost of sales and selling, general and administrative expenses in the consolidated statements of profit or loss.

2. Impairment losses are described in Note 13 “Impairment of non-financial assets.”

3. Transfers principally represent transfers from software in progress included in other to the related accounts of intangible assets.

4. Research and development expenses that do not meet asset recognition criteria are recognized as expenses as incurred and are recorded as selling, general and administrative expenses (see Note 26). Research and development expenses recognized as expenses for the fiscal years ended December 31, 2021 and December 31, 2022 were ¥2,947 million and ¥3,973 million, respectively.

5. Intangible assets pledged as collateral of liabilities are described in Note 18 “Bonds and borrowings.”

(2) Impairment test for goodwill and intangible assets with indefinite useful lives

Periodic impairment tests are performed at least once a year, regardless of whether there is any indication of impairment.

The book values of goodwill and intangible assets with indefinite useful lives allocated to each cash-generating unit are principally as follows.

Those that were significant as of December 31, 2021 and 2022 are attributable to the acquisitions of Nissha Metallizing Solutions N.V. and its subsidiaries in August 2015 and Graphic Controls Holdings, Inc. and its subsidiaries in September 2016.

(Million yen)

Cash-generating unit	Segment	Account	As of December 31, 2021	As of December 31, 2022
			Book value	Book value
Nissha Metallizing Solutions N.V. and its subsidiaries	Industrial Materials	Goodwill	3,558	2,414
Graphic Controls Holdings, Inc. and its subsidiaries	Medical Technologies	Goodwill	15,524	17,891
		Trademark rights (Note)	3,853	4,443

(Note) Trademark rights are expected to exist as long as the business continues. Therefore, their useful lives are considered indefinite.

Information including major assumptions used for determining the recoverable amount of each cash-generating unit is as follows:

1) Nissha Metallizing Solutions N.V. and its subsidiaries

The recoverable amount is determined based on the value in use and compared with the book value of the cash-generating unit. The value in use of the cash-generating unit, including goodwill, is calculated by discounting the estimated future cash flows to present value. Those cash flows are based on the five-year business plan approved by management, and for subsequent fiscal years, they are calculated by using growth rates of country of sale. For the calculation of the value in use, the Company relies on a report prepared by an external evaluation expert.

The above-mentioned business plan contains elements with uncertainties such as sales forecasts by region and product lineups based on demand trends and the status of product development as well as changes in the price of a base material (paper), which is a primary raw material. In addition, a growth rate and a discount rate used in determining value in use are highly uncertain and may fluctuate as they are affected by changes in the external environment such as economic conditions and interest-rate fluctuations. Therefore, when the business plan needs to be reviewed due to significant changes in the management environment and other factors or when the growth rate and the discount rate fluctuate significantly due to changes in the external environment such as economic conditions and interest-rate fluctuations, it may significantly affect the Consolidated Financial Statements in and after the next fiscal year.

The growth rate used in estimating the future cash flows is 3.1% as of December 31, 2021 and 3.4% as of December 31, 2022.

The discount rate, which is determined based on the after-tax weighted average cost of capital, is 9.5% as of December 31, 2021 and 13.1% as of December 31, 2022.

In the fiscal year ended December 31, 2022, the book value was reduced to the recoverable amount, and an impairment loss of ¥1,461 million was recognized. This was due to a decrease in the recoverable amount resulting from an increase in the discount rate affected by interest rate fluctuations.

2) Graphic Controls Holdings, Inc. and its subsidiaries

The recoverable amount is determined as the value in use and compared with the book value of the cash-generating unit. The value in use of the cash-generating unit, including goodwill and trademark rights, is calculated by discounting the estimated future cash flows to present value. Those cash flows are based on the five-year business plan approved by management, and for subsequent fiscal years, they are calculated by using growth rates determined by reference to the long-term expected growth rate of the market which the cash-generating unit belongs to. For the calculation of the value in use, the Company relies on a report prepared by an external evaluation expert.

The above-mentioned business plan contains elements with uncertainties such as sales forecasts by region and product lineups based on demand trends as well as changes in manufacturing costs. In addition, a growth rate and a discount rate used in determining value in use are highly uncertain and may fluctuate as they are affected by changes in the external environment such as economic conditions and interest-rate fluctuations. Therefore, when the business plan needs to be reviewed due to significant changes in the management environment and other factors or when the growth rate and the discount rate fluctuate significantly due to changes in the external environment such as economic conditions and interest-rate fluctuations, it may significantly affect the Consolidated Financial Statements in and after the next fiscal year.

The growth rate used in estimating the future cash flows is 4.0% as of December 31, 2021 and 4.0% as of December 31, 2022.

The discount rate, which is determined based on the after-tax weighted average cost of capital, is 9.3% as of December 31, 2021 and 10.6% as of December 31, 2022.

The recoverable amount exceeded the book value by ¥3,648 million as of December 31, 2022. It is estimated that a 1.0% decrease in the growth rate or a 0.6% increase in the discount rate would result in recognizing impairment losses.

The above presumption of thresholds for impairment losses is derived under the assumption that the decrease in the growth rate and the increase in the discount rate occur independently.

(3) Significant intangible assets

Significant intangible assets recognized in the consolidated statements of financial position are as follows:

- "Customer-related assets" and "Technical assets" that were incurred from the acquisition of Nissha Metallizing Solutions N.V. and its subsidiaries in August 2015

For customer-related assets, the book value was ¥1,875 million as of December 31, 2021 and ¥1,841 million as of December 31, 2022, and the remaining amortization period is 9 years. For technical assets, the book value was ¥1,501 million as of December 31, 2021 and ¥1,439 million as of December 31, 2022, and the remaining amortization period is 7 years.

- "Customer-related assets" that were incurred from the acquisition of Graphic Controls Holdings, Inc. and its subsidiaries in September 2016

The book value was ¥1,681 million as of December 31, 2021 and ¥1,643 million as of December 31, 2022, and the remaining amortization period is 8 years.

- "Customer-related assets" that were incurred from the acquisition of Zonnebodo Pharmaceutical Co., Ltd. in November 2019

The book value was ¥1,272 million as of December 31, 2021 and ¥1,224 million as of December 31, 2022, and the remaining amortization period is 25 years.

12. Leases

(1) Lessee

1) The balance of right-of-use assets as of each fiscal year-end is as follows:

(Million yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Intangible assets	Total
As of December 31, 2021	7,668	895	121	131	2	8,820
As of December 31, 2022	7,671	917	115	134	0	8,840

Additions to right-of-use assets are described in Note 32 “Cash flow information.”

Depreciation and amortization for right-of-use assets are as follows:

(Million yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Intangible assets	Total
Fiscal year ended December 31, 2021	1,405	328	49	7	2	1,793
Fiscal year ended December 31, 2022	1,396	304	46	8	1	1,758

2) The maturity analysis of lease liabilities is as follows:

(Million yen)

		As of December 31, 2021	As of December 31, 2022
Book value	Lease liabilities (current)	1,629	1,740
	Lease liabilities (non-current)	8,435	8,206
	Total lease liabilities	10,065	9,947
Contractual cash flows	Total	12,438	11,867
	1 year or less	1,998	2,055
	Over 1 year to 5 years	5,180	5,165
	Over 5 years	5,259	4,646

3) Expenses and cash outflows relating to leases are as follows:

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Repayments of lease liabilities	1,872	1,915
Interest expenses on lease liabilities	262	288
Expenses relating to short-term leases	347	328
Expenses relating to leases of low-value assets (excluding expenses relating to short-term leases of low-value assets)	193	230
Total cash outflow for leases	2,676	2,762

(2) Lessor

1) Finance leases

The Group leases buildings that are not used by the Group as a lessor of finance leases. For the purpose of risk management of underlying assets, the Group monitors credit risks on a periodical basis.

2) Revenue from leases based on finance lease contracts is as follows:

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Finance income on the net investments in the leases	13	21

3) The maturity analysis of lease receivables (before discount) based on finance lease contracts is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
1 year or less	47	47
Over 1 year to 2 years	47	47
Over 2 years to 3 years	47	47
Over 3 years to 4 years	47	47
Over 4 years to 5 years	47	47
Over 5 years	445	398
Total	682	635
Unearned finance income	(176)	(155)
Net investments in the leases	505	480

13. Impairment of non-financial assets

(1) Cash-generating unit

The Group carries out grouping by the smallest cash-generating unit that generates cash inflows that are largely independent of the cash inflows from other units. Assets to be disposed of (assets to be disposed of by disposal or sale, etc.) and idle assets are grouped on an individual basis.

Goodwill acquired in a business combination is allocated to the cash-generating unit that is expected to benefit from the synergies of the combination, and the cash-generating unit is tested for impairment.

(2) Impairment losses

The Group recognizes impairment losses if the recoverable amount of an asset or a group of assets has fallen below its book value. Impairment losses are included in other expenses in the consolidated statements of profit or loss (see Note 28 “Other income and other expenses”).

The amount incurred by each reportable segment is as described in Note 4 “Operating segments.”

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(Long-lived assets for business use)

For the long-lived assets for business use allocated to AR Metallizing N.V. and its subsidiaries in the Industrial Materials segment as a cash-generating unit, as the initially expected profitability is no longer expected, the book value of those assets was reduced to their recoverable amount, and impairment losses were recognized.

The recoverable amount was measured at the value in use. The value in use is determined by discounting the estimated future cash flows to present value based on the three-year business plan approved by management, with reflecting past experience and external information.

Cash-generating unit	Segment	Discount rate	Type of assets	Amount (Million yen)
AR Metallizing N.V. and its subsidiaries	Industrial Materials	10.0%	Customer-related assets	15

(Note) AR Metallizing N.V. changed its name to Nissha Metallizing Solutions N.V. as of February 2022.

(Assets to be disposed of)

For assets including idle assets not expected to be used in the future, the book value of those assets was reduced to their recoverable amount, and impairment losses were recognized.

The recoverable amount was evaluated at fair value (Level 3) less costs of disposal.

(Million yen)

Segment	Type of assets	Amount
Industrial Materials	Machinery and vehicles	40
Corporate assets	Buildings and structures	58
Total		98

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

(Goodwill)

In the current fiscal year, for goodwill allocated to Nissha Metallizing Solutions N.V. and its subsidiaries in the Industrial Materials segment as a cash-generating unit, the book value was written down to recoverable amount, and an impairment loss of ¥1,461 million was recognized since the recoverable amount decreased as a result of a rise in the discount rate driven by interest-rate fluctuations.

For information on the method of evaluating recoverable amounts and key assumptions used for the evaluation, refer to “(2) Impairment test for goodwill and intangible assets with indefinite useful lives” in Note 11. “Goodwill and intangible assets.”

14. Investments accounted for using equity method

The book value of investments in associates that are not individually material is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Book value of investments accounted for using equity method	533	763

Financial information on associates that are not individually material is as follows:

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Share of profit	(44)	(57)
Share of other comprehensive income	(9)	136
Share of total comprehensive income	(54)	78

The unrecognized share of loss on associates which the Group has stopped recognizing when applying the equity method is as follows:

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Unrecognized share of loss	—	—
Unrecognized share of accumulated loss	(757)	—

15. Other financial assets

The breakdown of other financial assets is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
(Current assets)		
Financial assets measured at amortized cost		
Time deposits with maturities of more than three months	5	136
Advances paid	40	45
Lease receivables (see Note 12)	25	26
Other	77	59
Allowance for doubtful accounts	(8)	(0)
Financial assets measured at fair value through profit or loss		
Derivatives	3	72
Debt instruments	—	39
Total	145	381
(Non-current assets)		
Financial assets measured at amortized cost		
Guarantee deposits	294	281
Long-term loans receivable	241	2
Lease receivables (see Note 12)	480	453
Other	226	226
Allowance for doubtful accounts	(464)	(226)
Financial assets measured at fair value through profit or loss		
Derivatives	—	47
Debt instruments	1,253	1,205
Financial assets measured at fair value through other comprehensive income		
Equity instruments (Note)	15,303	11,671
Total	17,334	13,662

(Note) The individual issuer and fair value of equity instruments designated as measured at fair value through other comprehensive income are as described in Note 34 “Financial instruments.”

16. Income taxes

(1) Deferred taxes

The breakdown by major cause and changes in deferred tax assets and deferred tax liabilities are as follows.

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(Million yen)

	As of January 1, 2021	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Foreign currency translation differences	As of December 31, 2021
Deferred tax assets:					
Inventories	209	87	—	11	308
Property, plant and equipment and intangible assets	408	(141)	—	26	293
Allowance for doubtful accounts	48	(15)	—	5	37
Accrued bonuses	195	(6)	—	0	189
Obligation for paid absences	70	10	—	6	87
Accounts payable-other and accrued expenses, etc.	90	(7)	—	9	91
Retirement benefit liability	55	(16)	—	2	41
Unused tax losses	449	(19)	—	27	457
Other	425	33	—	23	482
Total	1,954	(75)	—	112	1,991
Deferred tax liabilities:					
Financial assets measured at fair value through other comprehensive income	(4,390)	—	311	—	(4,078)
Property, plant and equipment and intangible assets	(600)	(49)	—	(69)	(719)
Assets identified in business combinations	(3,778)	367	—	(228)	(3,639)
Other	(538)	(138)	22	(14)	(668)
Total	(9,308)	179	334	(311)	(9,106)
Net deferred tax assets (liabilities)	(7,353)	104	334	(199)	(7,114)

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

(Million yen)

	As of January 1, 2022	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Foreign currency translation differences	As of December 31, 2022
Deferred tax assets:					
Inventories	308	157	—	20	486
Property, plant and equipment and intangible assets	293	3	—	27	325
Allowance for doubtful accounts	37	26	—	3	68
Accrued bonuses	189	312	—	1	504
Obligation for paid absences	87	(4)	—	11	94
Accounts payable-other and accrued expenses, etc.	91	1	—	17	110
Retirement benefit liability	41	22	—	2	65
Unused tax losses	457	205	—	25	688
Other	482	(34)	—	46	494
Total	1,991	690	—	156	2,838
Deferred tax liabilities:					
Financial assets measured at fair value through other comprehensive income	(4,078)	—	1,113	—	(2,965)
Property, plant and equipment and intangible assets	(719)	(153)	—	(103)	(977)
Assets identified in business combinations	(3,639)	462	—	(412)	(3,590)
Other	(668)	(317)	(9)	(11)	(1,006)
Total	(9,106)	(8)	1,104	(528)	(8,539)
Net deferred tax assets (liabilities)	(7,114)	682	1,104	(372)	(5,701)

Unused tax losses and deductible temporary differences for which deferred tax assets are not recognized

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Unused tax losses (Note)	10,100	8,722
Unused tax credits	—	—
Deductible temporary differences	22,552	19,116

(Note) Amount by expiration period of unused tax losses for which deferred tax assets are not recognized

(Million yen)

	As of December 31, 2021	As of December 31, 2022
1st year	968	109
2nd year	116	156
3rd year	597	462
4th year	547	696
5th year	1,130	1,292
After 5th year	6,738	6,005
Total	10,100	8,722

Taxable temporary differences associated with investments in the Group's subsidiaries for which deferred tax liabilities were not recognized were ¥28,820 million as of December 31, 2021 and ¥30,618million as of December 31, 2022.

This was because the Group was able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference would not reverse in the foreseeable future.

(2) Income tax expense

The breakdown of income tax expense is as follows.

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Current tax expense	3,716	2,984
Tax expense for prior periods	45	(49)
Deferred tax expense	(104)	(682)
Total	3,658	2,253

(Notes) 1. The amount of the benefits arising from previously unrecognized tax losses, tax credits or temporary differences of prior periods that were used to reduce current tax expense for the fiscal years ended December 31, 2021 and December 31, 2022 were ¥3,807 million and ¥2,288 million, respectively.

2. The amount of the benefits arising from previously unrecognized tax losses, tax credits or temporary differences of prior periods that were used to reduce deferred tax expense for the fiscal years ended December 31, 2021 and December 31, 2022 were ¥220 million and ¥498 million, respectively.

3. Deferred tax expense includes expenses arising from write-downs, or reversal of previous write-downs, of deferred tax assets. This does not cause any material changes in deferred tax expense for the fiscal years ended December 31, 2021 and December 31, 2022.

The Company is mainly subject to income taxes, inhabitants' taxes, and tax deductible enterprise taxes, based on which the statutory effective tax rate is calculated. The Company's statutory effective tax rate was 30.5% for the fiscal years ended December 31, 2021 and December 31, 2022.

The foreign subsidiaries are subject to tax rates in the jurisdiction where they operate.

The difference between the statutory effective tax rate and the average actual effective tax rate consists of the following factors:

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Statutory effective tax rate	30.5 %	30.5 %
(Adjustments)		
Difference in tax rate of foreign subsidiaries	0.7 %	(0.7)%
Share of profit (loss) of investments accounted for using equity method	0.1 %	0.1 %
Changes in recoverability of deferred tax assets	(12.6)%	(14.3)%
Permanent non-deductible expenses	0.6 %	1.8 %
Tax credits	(1.0)%	(1.4)%
Other	0.5 %	2.2 %
Actual effective tax rate	18.8 %	18.2 %

17. Trade and other payables

The breakdown of trade and other payables is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Notes and accounts payable-trade	26,826	28,045
Electronically recorded obligations-operating	3,414	4,660
Accounts payable-other and accrued expenses	5,286	5,990
Electronically recorded obligations-non-operating	135	292
Notes payable-facilities and accounts payable-facilities	442	431
Total	36,106	39,419

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

18. Bonds and borrowings

(1) Bonds

Company name	Bond name	Date of issuance	As of December 31, 2021 (Million yen)	As of December 31, 2022 (Million yen)	Interest rate (%)	Collateral	Maturity date
Nissha Co., Ltd.	The First Series Unsecured Bonds	April 20, 2021	9,962	9,973	0.56	None	April 20, 2026

(2) Borrowings

	As of December 31, 2021 (Million yen)	As of December 31, 2022 (Million yen)	Average interest rate (Note 1) (%)	Repayment date (Note 2)
Short-term loans payable	5,538	7,642	2.44	—
Current portion of long-term loans payable	1,031	1,808	3.76	—
Long-term loans payable (excluding current portion)	23,353	28,185	2.18	2024 to 2032
Total	29,923	37,636	—	—

(Notes) 1. Average interest rate represents the weighted average interest rate on the balance as of December 31, 2022.
2. Repayment date represents the due date for the balance as of December 31, 2022.

The breakdown of assets pledged as collateral and corresponding liabilities is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Assets pledged as collateral		
Cash and cash equivalents	389	492
Trade and other receivables	4,325	5,150
Inventories	6,150	8,983
Other current assets	17	47
Property, plant and equipment	1,752	1,814
Intangible assets	76	63
Total	12,712	16,551
Corresponding liabilities		
Borrowings (current)	810	2,929
Bonds and borrowings (non-current)	1,432	1,255
Total	2,242	4,184

(Notes) 1. Other than those listed above, there are assets pledged as collateral that were eliminated in the consolidated financial statements, including shares of subsidiaries and affiliates (¥5,981 million as of December 31, 2021; ¥5,981 million as of December 31, 2022) and trade and other receivables (¥3,353 million as of December 31, 2021; ¥6,303 million as of December 31, 2022).
2. Assets pledged as collateral are for a part of consolidated subsidiaries' borrowings from financial institutions. In the event of default of the principal and interest of borrowings that are due and payable, the financial institution has the right to dispose of the collateral and apply it to the repayment amount of the borrowings under the contracts.

19. Other financial liabilities

The breakdown of other financial liabilities is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
(Current liabilities)		
Financial liabilities measured at amortized cost		
Deposits received	679	693
Accounts payable-other and accrued expenses	251	429
Financial liabilities measured at fair value through profit or loss		
Derivatives liabilities	62	5
Contingent consideration	16	70
Total	1,009	1,198
(Non-current liabilities)		
Financial liabilities measured at amortized cost		
Accounts payable-other and accrued expenses	939	682
Other	4	4
Financial liabilities measured at fair value through profit or loss		
Contingent consideration	63	—
Derivatives liabilities	—	3
Total	1,007	690

20. Provisions

(1) Breakdown

The breakdown of provisions is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Asset retirement obligations	46	50
Restructuring provisions	6	26
Other	63	80
Total	116	157
Current liabilities	64	95
Non-current liabilities	52	62

(Note) Other mainly consists of provision for product warranties.

(2) Changes

Details of changes in provisions are as follows:

(Million yen)

	Asset retirement obligations	Restructuring provisions	Other	Total
As of January 1, 2021	47	14	39	100
Provision	2	—	50	52
Intended use	(2)	(9)	(8)	(20)
Reversal	—	—	(18)	(18)
Foreign currency translation differences	—	1	1	2
Other	0	—	—	0
As of December 31, 2021	46	6	63	116
Provision	3	27	26	57
Intended use	—	(6)	(10)	(16)
Reversal	—	—	(4)	(4)
Foreign currency translation differences	—	(0)	4	4
Other	0	—	—	0
As of December 31, 2022	50	26	80	157

1) Asset retirement obligations

The amount to be incurred for the restoration obligation of operating bases used by the Group are estimated based on historical experience and recognized as a provision for asset retirement obligations.

These costs are expected to be incurred principally after one year or more, but will be affected by the development of future business plans and other factors.

2) Restructuring provisions

Restructuring provisions as of December 31, 2021 are provided for the restructuring of European production bases of the Group's consolidated subsidiaries in the Medical Technologies segment. Restructuring provisions as of December 31, 2022 are provided for the restructuring expenses expected to be incurred at the Group's consolidated subsidiaries in Industrial Materials segment in Europe. The timing of an outflow of economic benefits is expected to be within one year from the end of the fiscal year, but will be affected by the progress status of restructuring plans.

21. Other liabilities

The breakdown of other current liabilities and other non-current liabilities is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
(Other current liabilities)		
Accrued consumption taxes	1,017	284
Accrued bonuses	1,867	2,033
Accrued directors' bonuses	103	89
Cash-settled share-based payment expenses for directors (see Note 33)	219	424
Obligation for paid absences	937	1,010
Advances received and unearned revenue (see Note 25)	798	709
Other	0	0
Total	4,943	4,552
(Other non-current liabilities)		
Cash-settled share-based payment expenses (see Note 33)	0	1
Cash-settled share-based payment expenses for directors (see Note 33)	49	114
Other long-term employee benefit obligations	237	202
Other	79	118
Total	367	436

22. Post-employment benefits

(1) Outline of post-employment benefit plans

The Company and certain consolidated subsidiaries have adopted funded and unfunded defined benefit plans and defined contribution plans to provide for retirement benefits to their employees. The funded defined benefit plans are contract-type corporation pension plans under the Defined Benefit Corporation Pension Act, which provide lump-sum payments or pension benefits based on a point system. The contract-type corporation pension plans are implemented under the Constitution for Corporate Pension Plan with Defined Benefits agreed between labor and management by entrusting the administration and management of plan assets to investment managers.

The contract requires recalculation of contributions at least every five years in accordance with the Defined Benefit Corporation Pension Act in order to maintain balanced finance into the future.

The unfunded defined benefit plans are retirement lump-sum payment plans, which provide lump-sum payments based on a point system or based on salary and service period.

The Company and certain consolidated subsidiaries are exposed to actuarial risks, including investment risk, interest rate risk and longevity risk, through the defined benefit plans.

(2) Defined benefit plans

Amounts related to defined benefit plans in the consolidated statements of financial position are as follows:

1) Amounts related to defined benefit plans in the consolidated statements of financial position

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Present value of funded defined benefit obligations	2,696	2,575
Fair value of plan assets	(2,337)	(2,380)
Subtotal	358	194
Present value of unfunded defined benefit obligations	5,934	5,728
Total	6,292	5,923
Amounts in the consolidated statements of financial position		
Retirement benefit liability	6,646	6,290
Retirement benefit asset	(353)	(367)
Net of liability and asset recorded in the consolidated statements of financial position	6,292	5,923

2) Changes in present value of defined benefit obligations

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Beginning balance of present value of defined benefit obligations	7,893	8,630
Current service cost	590	665
Interest expenses	43	54
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	656	175
Actuarial gains and losses arising from changes in financial assumptions	(52)	(1,097)
Other	(95)	50
Benefit payments	(450)	(573)
Foreign currency translation differences	44	123
Past service cost	—	32
Other	—	241
Ending balance of present value of defined benefit obligations	8,630	8,303

The weighted average duration of defined benefit obligations as of December 31, 2021 and December 31, 2022 was 11.3 years and 10.4 years, respectively.

3) Changes in fair value of plan assets

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Beginning balance of fair value of plan assets	2,278	2,337
Interest income	13	15
Remeasurements		
Return on plan assets, excluding interest income	17	(196)
Contributions by employers	102	128
Benefit payments	(61)	(174)
Foreign currency translation differences	8	25
Other	(20)	244
Ending balance of fair value of plan assets	2,337	2,380

The contributions for the following fiscal year are expected to be ¥116 million.

4) Changes in the effect of the asset ceiling

Not applicable

5) Fair value of plan assets

(Million yen)

	As of December 31, 2021		As of December 31, 2022	
	With market prices in active markets	No market prices in active markets	With market prices in active markets	No market prices in active markets
Equity instruments				
Foreign equities	87	—	72	—
Japanese equities	162	—	140	—
Debt instruments				
Japanese bonds	492	—	459	—
Foreign bonds	54	—	244	—
General accounts of life insurance companies (Note 1)	—	1,275	—	1,254
Other (Note 2)	9	256	16	193
Total plan assets	806	1,531	933	1,447

(Notes) 1. General accounts of life insurance companies represent the investment of plan assets through general accounts for which the life insurance companies mainly guarantee both principal and interest.

2. The major item is plan assets in Germany and consists of insurance contracts, etc.

The investment of plan assets is aimed at maximizing total returns in the long-term within acceptable risk levels in order to ensure future payments of benefits. To achieve this investment objective, the return is targeted at the expected rate of return from the plan assets with the asset allocation (the "policy asset mix") that should be maintained in the long-term. The policy asset mix is set from a medium- to long-term perspective of more than three to five years, reviewed annually, and revised as necessary if there are any changes in the underlying conditions.

The basic policy for risk management of the investment is to diversify the portfolio into asset classes with different risk-return profile and other characteristics. The status of the investment is monitored, including through the quarterly reports from the investment managers on the investment of the plan assets and the quantitative and qualitative assessment of the investment managers.

6) Significant actuarial assumption

The significant actuarial assumption (weighted average value) used to measure the fair value of defined benefit obligations is as follows:

	As of December 31, 2021 (%)	As of December 31, 2022 (%)
Discount rate	0.6	1.7

7) Sensitivity analysis of the significant actuarial assumptions

The sensitivity analysis of the significant actuarial assumptions is as follows:

(Million yen)

	Change in underlying rate	As of December 31, 2021	As of December 31, 2022
Discount rate	0.5% increase	(440)	(387)
	0.5% decrease	480	413

This analysis assumes that other variables are constant.

There are correlations between some assumptions, and it is rare for each assumption to change independently. Accordingly, the sensitivity analysis above may not necessarily show the actual change in defined benefit obligations. In addition, in the sensitivity analysis above, the present value of defined benefit obligations is determined as of the end of the reporting period using the projected unit credit method, as is the case with determining retirement benefit liability (asset) recognized in the consolidated statements of financial position.

(3) Defined contribution plans

For contributions to the defined contribution plans, the Company and certain consolidated subsidiaries recognized expenses of ¥2,209 million and ¥2,462 million for the fiscal years ended December 31, 2021 and December 31, 2022, respectively.

The above amounts include contributions to public plans recognized as expenses.

23. Share capital and other equity items

(1) Share capital and capital surplus

1) Number of shares authorized

Class	Number of shares authorized (Shares)
Common stock	180,000,000

(Note) This represents the number of shares authorized as of December 31, 2021 and December 31, 2022.

2) Number of shares issued and fully paid

Changes in the number of common shares issued and the balances of share capital and capital surplus are as follows:

	Number of common shares issued (Thousand shares)	Share capital (Million yen)	Capital surplus (Million yen)
Balance at January 1, 2021	50,855	12,119	14,856
Changes during the period	—	—	(45)
Balance at December 31, 2021	50,855	12,119	14,810
Changes during the period	—	—	30
Balance at December 31, 2022	50,855	12,119	14,841

(Notes) 1. The shares issued by the Company are common shares with no par value that have no restrictions on any rights.
2. Changes in capital surplus during the period for the fiscal year ended December 31, 2021 are mainly due to sales of treasury shares to the shareholding association and share-based payment transactions (see Note 33).
3. Changes in capital surplus during the period for the fiscal year ended December 31, 2022 are mainly due to sales of treasury shares to the shareholding association and share-based payment transactions (see Note 33).

(2) Treasury shares

Changes in the number of treasury shares and balance thereof are as follows:

	Number of shares (Thousand shares)	Amount (Million yen)
Balance at January 1, 2021	853	1,720
Changes during the period	187	208
Balance at December 31, 2021	1,041	1,929
Changes during the period	398	703
Balance at December 31, 2022	1,440	2,632

(Notes) 1. Changes during the period for the fiscal year ended December 31, 2021 are mainly due to acquisition based on a resolution of the meeting of the Board of Directors and sales to the shareholding association.
2. Changes during the period for the fiscal year ended December 31, 2022 are mainly due to acquisition based on a resolution of the meeting of the Board of Directors and sales to the shareholding association.

(3) Capital surplus

Capital surplus consists of amounts arising from equity transactions that are not included in share capital. Changes in ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Under the Companies Act, more than one-half of the paid-in capital or contributed capital upon issuance of shares shall be credited to share capital, and the remainder shall be credited to legal capital surplus included in capital surplus. Legal capital surplus may be transferred to share capital by resolution of the General Meeting of Shareholders.

(4) Retained earnings

Retained earnings consist of earnings recognized in profit or loss for the fiscal year ended December 31, 2022 and prior fiscal years and earnings reclassified from other comprehensive income.

Under the Companies Act, one-tenth of the amount to be paid as dividends of surplus shall be accumulated as legal capital surplus or legal retained earnings until the total amount of legal capital surplus and legal retained earnings reaches one-fourth of share capital. The accumulated legal retained earnings may be used to eliminate or reduce a deficit, and the legal retained earnings may also be reversed by resolution of the General Meeting of Shareholders.

(5) Other components of equity

1) Net change in fair value of financial assets measured through other comprehensive income

Net change in fair value of financial assets measured through other comprehensive income represents valuation differences in fair value of financial assets measured through other comprehensive income.

2) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans consist mainly of the effect of changes in actuarial assumptions, the effect of adjustment to the actual results, and return on plan assets (excluding the amount included in net interest expenses). These are recognized in other comprehensive income as incurred, and immediately transferred from other components of equity to retained earnings.

3) Exchange differences on translation of foreign operations

Exchange differences on translation of foreign operations are translation differences arising when consolidating the financial statements of foreign operations prepared in foreign currencies.

24. Dividends

Dividends paid are as follows:

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

Resolution	Type of stock	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 12, 2021	Common shares	755	15.00	December 31, 2020	March 1, 2021
Meeting of the Board of Directors held on August 5, 2021	Common shares	750	15.00	June 30, 2021	September 1, 2021

(Notes) 1. The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on February 12, 2021 includes ¥5 million paid to Custody Bank of Japan, Ltd. (Trust E Account) as dividends on Company shares it holds.

2. The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on August 5, 2021 includes ¥3 million paid to Custody Bank of Japan, Ltd. (Trust E Account) as dividends on Company shares it holds.

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

Resolution	Type of stock	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 14, 2022	Common shares	1,256	25.00	December 31, 2021	March 3, 2022
Meeting of the Board of Directors held on August 8, 2022	Common shares	754	15.00	June 30, 2022	September 1, 2022

(Notes) 1. The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on February 14, 2022 includes ¥11 million paid to Custody Bank of Japan, Ltd. (Trust E Account) as dividends on Company shares it holds.

2. The dividend per share based on a resolution of the Meeting of the Board of Directors held on February 14, 2022 includes the special dividend of ¥10.

3. The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on August 8, 2022 includes ¥6 million paid to Custody Bank of Japan, Ltd. (Trust E Account) as dividends on Company shares it holds.

Dividends that take effect in the following fiscal year are as follows:

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

Resolution	Type of stock	Dividend resource	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 14, 2022	Common shares	Retained earnings	1,256	25.00	December 31, 2021	March 3, 2022

(Notes) 1. The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on February 14, 2022 includes ¥11 million paid to Custody Bank of Japan, Ltd. (Trust E Account) as dividends on Company shares it holds.

2. The dividend per share based on a resolution of the Meeting of the Board of Directors held on February 14, 2022 includes the special dividend of ¥10.

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

Resolution	Type of stock	Dividend resource	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 14, 2023	Common shares	Retained earnings	1,743	35.00	December 31, 2022	March 3, 2023

(Note) The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on February 14, 2023 includes ¥13 million paid to Custody Bank of Japan, Ltd. (Trust E Account) as dividends on Company shares it holds.

25. Net sales

(1) Revenue from contracts with customers

"Net sales" recorded in the consolidated statements of profit or loss for the fiscal years ended December 31, 2021 and December 31, 2022, in the amounts of ¥189,285 million and ¥193,963 million, respectively, mainly consist of "Revenue from contracts with customers." Revenue from other sources, which is earned from leases as a lessor (operating leases and financial leases), is included in (2) Disaggregation of revenue because the balance became immaterial.

(2) Disaggregation of revenue

As described in Note 4 "Operating segments," the Group has three reportable segments, which are the Industrial Materials segment, Devices segment, and Medical Technologies segment. Net sales are disaggregated by product lineups. The following table shows how the disaggregated net sales tie in with the net sales of each reportable segment.

In the fiscal year ended December 31, 2022, the Group has partially changed the classification of reportable segments and the figures for the fiscal year ended December 31, 2021 are based on the new classification. Please see "Note with regard to changes to reportable segment" in Note 4 "Operating segments."

(Million yen)

Segment	Product lineups	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Industrial Materials	Decoration (Mobility)	20,301	20,279
	Decoration (Home appliances and others)	15,717	19,523
	Sustainable Materials (Metallized paper and others)	24,562	33,756
	Subtotal	60,581	73,558
Devices	Tablet devices	45,880	44,386
	Smartphones devices	30,424	10,349
	Portable game players, Industrial equipment (logistics related), Mobility, Gas sensors and others	20,650	25,215
	Subtotal	96,955	79,951
Medical Technologies	Medical devices (contract design/ development manufacturing services)	11,906	16,330
	Medical devices (Own brand)	5,861	7,013
	Business media	6,408	9,113
	Subtotal	24,176	32,457
Other		7,571	7,995
Total		189,285	193,963

1) Industrial Materials

In the Industrial Materials segment, the Company mainly offers proprietary technologies that enable to create added value on the surfaces of various materials. IMD, IML, and IME, which facilitate simultaneous in-mold decoration, design and function adding of plastic products, are extensively adopted in mobility components and home appliances in global markets. Also, the metallized paper, which unites the properties of metallic luster and printing friendliness, has the largest market share in the industry as sustainable materials for beverages and foods on a global basis.

2) Devices

In the Devices segment, the Company produces components and module products that pursue precision and functionality. The main products, film-based Touch Sensors are widely adopted mainly in tablets, smartphones, portable game players, industrial equipment (logistics related), mobility components, etc. in global markets. In addition, the Company offers gas sensors that can detect gas conditions, along with other products.

3) Medical Technologies

The Medical Technologies segment is a business segment that offers high-quality and value-added products in medical devices and other related markets to contribute to healthy and affluent life. The segment currently provides contract design/development manufacturing services for major medical device manufacturers, especially for those in the United States and Europe, with products such as surgical instruments for minimal invasive medical treatments and medical wearable sensors used for a wide range of conditions, primarily heart disease. In addition to these, the segment manufactures and sells its own brand products to medical institutions.

These are accounted for in accordance with policies stated in Note 3 “Significant accounting policies.” The consideration for performance obligations is collected within one year after the performance obligations are satisfied and, therefore, is accounted for as not having a significant financing component. The amount of assets recognized from the costs to obtain or fulfill contracts with customers for the fiscal years ended December 31, 2021 and December 31, 2022 was not material. By applying the practical expedient, the incremental costs of obtaining contracts are recognized as expenses as incurred if the amortization period of the assets that would otherwise have been recognized is one year or less.

(3) Contract balances

The breakdown of contract balances is as follows. Receivables from contracts with customers are notes and accounts receivable-trade included in trade and other receivables (see Note 7). The amount of contract assets is not material. Contract liabilities are advances received from customers in sale transactions of the Group’s products before the time when the customers obtain control of the products, such as upon customer acceptance.

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Contract liabilities		
Advances received (see Note 21)	798	709

(Notes) 1. Revenue recognized for the previous fiscal year that was included in the beginning balance of contract liabilities was ¥838 million.
2. Revenue recognized for the current fiscal year that was included in the beginning balance of contract liabilities was ¥616 million.

(4) Transaction price allocated to the remaining performance obligations

The Group applies the practical expedient of omitting the disclosure of information on the remaining performance obligations because it has no significant transaction with individual expected contractual terms exceeding one year. In addition, there is no significant consideration from contracts with customers that is not included in transaction prices.

26. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows:

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Personnel expenses	11,526	12,725
Research and development expenses (see Note 11)	2,947	3,973
Packing and transportation costs	3,133	3,876
Depreciation and amortization	2,626	2,443
Other	6,927	8,128
Total	27,161	31,147

27. Employee benefit expenses

Employee benefit expenses were ¥33,932 million for the fiscal year ended December 31, 2021 and ¥37,893 million for the fiscal year ended December 31, 2022.

Employee benefit expenses include salaries, bonuses, retirement benefit expenses, legal welfare expenses and non-legal welfare expenses, and are recorded in cost of sales, selling, general and administrative expenses and other expenses in the consolidated statements of profit or loss.

The above employee benefit expenses also include remuneration for key management personnel. Remuneration for key management personnel is described in Note 35 "Related parties."

28. Other income and other expenses

The breakdown of other income and other expenses is as follows:

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
(Other income)		
Gain on sale of non-current assets	123	20
Foreign exchange gains	797	554
Government grants (Note 1)	40	173
Change in fair value of contingent considerations (Note 2)	50	18
Other	173	183
Total	1,185	949
(Other expenses)		
Loss on sale and retirement of non-current assets	81	122
Impairment losses (Note 3)	114	1,461
Loss on subsidiaries liquidation (Note 4)	—	385
Loss on closing of plants (Note 5)	92	24
Expenses related to idle assets (Note 6)	709	402
Product compensation expenses	—	107
Other	89	144
Total	1,086	2,646

(Notes) 1. Government grants

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

These mainly consist of government support for capital investment by Guangzhou Nissha High Precision Plastics Co., Ltd., a consolidated subsidiary in the Industrial Materials segment.

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

These mainly consist of government support for energy prices hike at Nissha Metallizing Solutions S.r.l., a consolidated subsidiary in the Industrial Material segment.

2. Change in fair value of contingent considerations

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

This is mainly related to the acquisition of Nissha Metallizing Solutions GmbH. Of the change in fair value of contingent considerations, the portion based on changes in time value is recorded in "Finance costs" while the portion based on items other than time value is recorded in "Other income" or "Other expenses."

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

This is mainly related to the acquisition of Nissha Metallizing Solutions GmbH.

3. Impairment losses

See Note 13 “Impairment of non-financial assets.”

4. Loss on subsidiaries liquidation

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

This is a loss arising from the liquidation of the Company’s consolidated subsidiary Nissha GSI Technologies, Inc. in the Industrial Materials segment.

5. Loss on closing of plants

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

This is related to European production base integration of the Company’s consolidated subsidiary in the Medical Technologies segment.

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

This is related to European production base integration of the Company’s consolidated subsidiaries in the Medical Technologies segment.

6. Expenses related to idle assets

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

This consists of ¥578 million of depreciation of the relevant equipment and ¥131 million of the cancellation penalty in line with suspension of operations of domestic production bases of Devices segment whose operation rate is low.

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

This consists of depreciation of the relevant equipment in line with suspension of operations of domestic production bases of Devices segment whose operation rate is low.

29. Finance income and finance costs

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

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
(Finance income)		
Interest income		
Financial assets measured at amortized cost	46	52
Dividend income		
Financial assets measured at fair value through other comprehensive income	379	409
Gain on valuation of financial assets and financial liabilities measured at fair value through profit or loss	576	100
Foreign exchange gains	2,177	3,195
Other	3	10
Total	3,183	3,768
(Finance costs)		
Interest expenses		
Financial liabilities measured at amortized cost	883	900
Loss on valuation of financial assets and financial liabilities measured at fair value through profit or loss	114	8
Other	49	7
Total	1,047	916

30. Other comprehensive income

Amounts arising during the year, reclassification adjustments to profit or loss and tax effects (including non-controlling interests) for each item of other comprehensive income are as follows:

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(Million yen)

	Amount arising during the year	Reclassification adjustment	Before tax effects	Tax effects	Net of tax effects
(Items that will not be reclassified to profit or loss)					
Net change in fair value of financial assets measured through other comprehensive income	(1,106)	—	(1,106)	333	(773)
Remeasurements of defined benefit plans	(490)	—	(490)	22	(467)
Share of other comprehensive income of investments accounted for using equity method	—	—	—	—	—
Total of items that will not be reclassified to profit or loss	(1,597)	—	(1,597)	355	(1,241)
(Items that may be reclassified to profit or loss)					
Exchange differences on translation of foreign operations	3,501	—	3,501	—	3,501
Share of other comprehensive income of investments accounted for using equity method	(9)	—	(9)	—	(9)
Total of items that may be reclassified to profit or loss	3,491	—	3,491	—	3,491
Total other comprehensive income	1,894	—	1,894	355	2,250

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

(Million yen)

	Amount arising during the year	Reclassification adjustment	Before tax effects	Tax effects	Net of tax effects
(Items that will not be reclassified to profit or loss)					
Net change in fair value of financial assets measured through other comprehensive income	(1,554)	—	(1,554)	478	(1,075)
Remeasurements of defined benefit plans	643	—	643	(9)	633
Share of other comprehensive income of investments accounted for using equity method	—	—	—	—	—
Total of items that will not be reclassified to profit or loss	(911)	—	(911)	469	(441)
(Items that may be reclassified to profit or loss)					
Exchange differences on translation of foreign operations	6,503	(389)	6,114	—	6,114
Share of other comprehensive income of investments accounted for using equity method	136	—	136	—	136
Total of items that may be reclassified to profit or loss	6,639	(389)	6,250	—	6,250
Total other comprehensive income	5,728	(389)	5,339	469	5,809

31. Earnings per share

Basic earnings (loss) per share, diluted earnings (loss) per share and the basis for their calculation are as follows:

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit (loss) attributable to ordinary shareholders of the parent company (Million yen)	15,859	10,140
Adjustment to profit (loss) used to calculate diluted earnings per share (Million yen)	—	—
Profit (loss) used to calculate diluted earnings per share (Million yen)	15,859	—
Basic weighted average number of common shares outstanding (Thousand shares)	49,817	49,794
Adjustment to number of shares due to convertible bonds (bonds with stock acquisition rights) (Thousand shares)	187	—
Weighted average number of common shares outstanding used to calculate diluted earnings (loss) per share (Thousand shares)	50,005	—
Basic earnings (loss) per share (Yen)	318.35	203.65
Diluted earnings (loss) per share (Yen)	317.16	—

(Notes) 1. As to Zero Coupon Convertible Bonds due 2021 (bonds with stock acquisition rights), which was issued based on a resolution of the meeting of the Board of Directors held on February 18, 2016, the exercise period expired on February 22, 2021 and the Bonds were redeemed on its maturity date of March 8, 2021.

2. Diluted earnings per share for the fiscal year ended December 31, 2022 is not stated because there were no potential shares.

32. Cash flow information

(1) Significant non-cash transactions

Significant non-cash transactions (investing and financing transactions that do not require the use of cash or cash equivalents) are as follows:

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Acquisition of right-of-use assets by means of a lease (see Note 12)	1,848	1,254

(2) Reconciliation of liabilities arising from financing activities

Changes in main liabilities arising from financing activities are as follows:

(Million yen)

	Short-term borrowings	Long-term borrowings (Note)	Bonds	Lease liabilities
As of January 1, 2021	17,549	12,022	2,840	9,901
Changes due to cash flows from financing activities	(12,118)	11,288	7,105	(1,872)
Non-cash changes				
Acquisition of right-of-use assets	—	—	—	1,869
Foreign currency translation differences	108	1,125	—	655
Other	—	(52)	16	(488)
As of December 31, 2021	5,538	24,384	9,962	10,065
Changes due to cash flows from financing activities	1,974	3,747	—	(1,915)
Non-cash changes				
Acquisition of right-of-use assets	—	—	—	1,254
Foreign currency translation differences	129	1,837	—	795
Other	—	23	10	(252)
As of December 31, 2022	7,642	29,993	9,973	9,947

(Note) Current portion of long-term borrowings is included.

33. Share-based payment

The Group has introduced a Stock Benefit Trust (BBT: Board Benefit Trust) Plan, a Stock Benefit Trust (J-ESOP) Plan, a Stock Benefit Trust (Employee Shareholding Association Purchase-type) Plan, and a stock option plan as share-based payment plans.

The share-based payment plans are accounted for as equity-settled share-based payments or cash-settled share-based payments. Amounts recognized for share-based payment expenses and liabilities arising from share-based payments are as follows:

Share-based payment expenses

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Equity-settled	5	55
Cash-settled	47	244

(Note) Share-based payment expenses are included in cost of sales and selling, general and administrative expenses.

Liabilities arising from share-based payments

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Book value of liabilities (see Note 21)	269	540
Vested portion thereof	216	421

(1) Stock Benefit Trust (BBT) Plan

The Company has adopted a share-based payment plan comprising both an equity-settled plan and a cash-settled plan (the “Plan”) for Directors of the Board (excluding Independent Outside Directors of the Board), Corporate Officers and certain directors of the board of the Company’s subsidiaries (collectively, the “Directors”).

1) Overview of the Plan

The Plan is a share-based payment plan where shares in the Company and cash equivalents of such shares at their fair value (collectively, “Company Shares”) are paid by the Stock Benefit Trust (BBT) to the Directors pursuant to the policy on directors’ stock benefits established by the Company and its subsidiaries. The shares in the Company are acquired by the trust using funds contributed by the Company. For each fiscal year, points are determined according to the policy on directors’ stock benefits and awarded to the Directors. The time when the Directors receive Company Shares shall in principle be the date set out in the policy, that is, on or after the earlier of the date the designated beneficiary confirmation procedures set out in the policy are carried out within the three fiscal years set out in the policy or the date the Directors retire.

2) The Company’s own shares in the trust

The Company’s own shares in the trust are recorded as treasury shares in equity. The number of such treasury shares was 253,800 shares and 253,800 shares as of December 31, 2021 and December 31, 2022, respectively.

3) Changes in the number of points during the period

(Points)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Beginning balance of points	55,362	59,350
Increase due to points awarded	55,140	65,754
Decrease due to points exercised	(51,152)	—
Decrease due to points expired	—	—
Ending balance of points	59,350	125,104
Ending balance of exercisable points	—	—

4) Fair value of points awarded

The weighted average fair value of points awarded for the fiscal years ended December 31, 2021 and December 31, 2022 was ¥1,566 and ¥1,582, respectively. The fair value of points awarded is determined using the share price at grant date, which approximates the fair value of points granted.

(2) Stock option plan

Certain subsidiaries of the Company have adopted a share-based payment plan for their employees. The plan grants to employees stock options to purchase common shares in the subsidiaries as well as put options for the subsidiaries to purchase the shares issued through the exercise of the stock options. Consequently, the difference between the exercise price of the stock options and the share price at exercise date is paid in cash to the employees. Under the share-based payment plan, one plan granted rights for 4 years from December 2016 and another granted rights in December 2020. The rights granted have a vesting period of 3 years and an exercise period of 10 years as of grant date.

1) Changes in number of rights and weighted average exercise price

	Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022	
	Number of rights (Shares)	Weighted average exercise price (Yen)	Number of rights (Shares)	Weighted average exercise price (Yen)
Beginning balance	12,921	108,238	15,521	113,263
Granted	2,634	79,053	2,732	96,495
Exercised	—	—	—	—
Expired	(33)	122,831	(129)	108,756
Ending balance	15,521	113,263	18,124	125,681
Ending balance of exercisable rights	10,260	109,469	12,812	133,249

(Notes) 1. The weighted average remaining period of the share-based payment plan as of December 31, 2021 and December 31, 2022 was 8 years and 7 years, respectively.

2. The weighted average share price at exercise date of stock options exercised during the period cannot be identified because the shares granted were unlisted.

2) Fair value of stock options granted during the period and underlying assumptions

The weighted average fair value at measurement date of stock options granted during the fiscal years ended December 31, 2021 and December 31, 2022 was ¥39,056 and ¥55,309, respectively.

The fair value at measurement date of stock options granted during the period is evaluated using the Black-Scholes model under the following assumptions:

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Main underlying variables and estimation method thereof:		
Valuation of shares at measurement date	79,053 yen	96,495 yen
Exercise price	79,053 yen	96,495 yen
Expected volatility (Note)	38.06 %	40.06 %
Expected remaining period	10 years	10 years
Expected dividend yield	0 %	0 %
Risk free rate	1.52 %	3.88 %

(Note) The expected volatility is determined based on historical share prices during the period corresponding to the expected remaining period.

(3) Stock Benefit Trust (J-ESOP) Plan

The Company has adopted an equity-settled share-based payment plan (the “Plan”) for employees of the Company and some of its subsidiaries (“Eligible Employees”) who satisfy the set requirements.

1) Overview of the Plan

The Plan is an incentive plan that grants the Company’s shares to Eligible Employees who satisfy the set requirements pursuant to the policy on stock benefits prescribed in advance by the Company.

The Company awards points to Eligible Employees principally based on their individual degree of contribution, and grants the Company’s shares equivalent to the awarded points when set terms and conditions are met and vested rights are granted. The shares granted to Eligible Employees, including future shares, are acquired using cash funds contributed in advance to the trust E account established at Custody Bank of Japan, Ltd., and are managed separately as trust assets.

2) The Company’s own shares in the trust

The Company’s own shares in the trust are recorded as treasury shares in equity. The number of such treasury shares was 120,564 shares and 120,364 shares as of December 31, 2021 and December 31, 2022, respectively.

3) Changes in the number of points during the period

(Points)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Beginning balance of points	18,129	18,300
Increase due to points awarded	376	7,714
Decrease due to points exercised	(205)	(973)
Decrease due to points expired	—	(53)
Ending balance of points	18,300	24,988
Ending balance of exercisable points	10,166	17,473

4) Fair value of points awarded

The weighted average fair value of points awarded for the fiscal years ended December 31, 2021 and December 31, 2022 was ¥1,170 and ¥1,215, respectively. The fair value of points awarded is determined using the share price at the date on which the eligible employee becomes a planned recipient, which approximates the fair value of points granted.

(4) Stock Benefit Trust (Employee Shareholding Association Purchase-type) Plan

The Company has adopted a Stock Benefit Trust (Employee Shareholding Association Purchase-type) (the “Plan”) as an incentive plan for employees.

1) Overview of the Plan

The Plan is an incentive plan that returns the merits from price increases in the Company’s shares to all employees enrolled in the NISSHA Employees Shareholding Association (the “Shareholding Association”).

Custody Bank of Japan, Ltd. will be entitled to collectively acquire to the Trust E Account in advance the number of the Company’s shares equivalent to the number of shares anticipated to be purchased by the Shareholding Association in the future, and then sell the Company’s shares when the shares are purchased by the Shareholding Association. If proceeds from the sale of shares are accumulated in the trust assets up through the time of the ending of the trust through the sale of the Company’s shares from Trust E Account to the Shareholding Association, this cash shall be distributed as residual assets to the members of the Shareholding Association who satisfy the beneficiary eligibility requirements.

Such cash distribution is accounted for as a cash-settled transaction. The fair value of the liability is measured at the end of each period by discounting the estimated cash flows at the conclusion of the trust term to the present value after considering the terms of the trust agreement.

2) The Company's own shares in the trust

The Company's own shares in the trust are recorded as treasury shares in equity. The number of such treasury shares was 85,800 shares and 19,100 shares as of December 31, 2021 and December 31, 2022, respectively.

3) Amount of liabilities

The amount of the liabilities related to the Plan was ¥0 million and ¥1 million as of December 31, 2021 and December 31, 2022, respectively. The fair value of the liabilities is estimated using the Monte Carlo simulation under the following assumptions:

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Main underlying variables and estimation method thereof:		
Valuation of shares at measurement date	1,670 yen	1,670 yen
Expected volatility (Note 1)	35.0 %	35.0 %
Expected remaining period	1 years	0 year
Expected dividend yield	2.0 %	2.0 %

(Notes) 1. The expected volatility is determined based on historical share prices during the period corresponding to the expected remaining period.

2. The amount of the liabilities for the fiscal year ended March 31, 2022 is measured based on the main underlying variables and estimation method thereof of the fiscal year ended March 31, 2021, adjusted for the expected remaining period to maturity. The maturity date falls in January 2023.

34. Financial instruments

(1) Capital management

The Group's capital management policy is to establish and maintain a stable financial foundation in order to improve corporate value through sustainable growth.

The Group primarily uses the following indicators for capital management.

The Group is not subject to any significant regulatory capital requirements.

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Total liabilities	111,010	118,693
Cash and cash equivalents	42,330	54,325
Equity (equity attributable to owners of parent)	98,278	111,553
Ratio of equity attributable to owners of parent to total assets (%)	47.0	48.5

(Note) Ratio of equity attributable to owners of parent to total assets: Equity (equity attributable to owners of parent)/Total liabilities and equity

(2) Financial risk management

Risk management policy

The Group's business activities are affected by the business and financial market environments. In the course of the business activities, financial instruments held by the Group are exposed to specific risks.

Such risks primarily include 1) market risk ((a) foreign exchange risk, (b) price risk, (c) interest rate risk), 2) credit risk and 3) liquidity risk. In order to mitigate these risks, risk management is conducted.

The Group focuses on highly safe financial assets in its fund management, and procures funds mainly through loans from banks and issuance of bonds. It carries out optimum fund procurements at each time while giving full consideration to the management environment. The Group uses derivative transactions to hedge foreign exchange risk, and does not enter into derivative transactions for speculative purposes. Derivative transactions are executed and managed with approval from the authorized persons in accordance with the internal rules that stipulate transaction authority, limits, and other matters.

1) Market risk

(a) Foreign exchange risk

Trade receivables and payables denominated in foreign currencies, which arise from the Group's global business development, are exposed to the risk of foreign exchange fluctuations. Part of such risk is hedged using forward exchange contracts. These derivative transactions, for which hedge accounting is not applied, are considered to effectively offset the effects of foreign exchange fluctuations.

The exposure of trade receivables and payables, excluding the part substantively fixed in Japanese yen by forward exchange contracts, to the risk of foreign exchange fluctuations in the US dollar was ¥22,247 million as of December 31, 2022 (¥16,310 million as of December 31, 2021). There was no significant exposure to the risk of foreign exchange fluctuations in currencies other than the US dollar.

Sensitivity analysis of foreign exchange rates

With regard to financial instruments held by the Group, the table below shows the impact on profit before tax in the consolidated statements of profit or loss that would result from a 1% appreciation of the functional currency (Japanese yen) against the US dollar, assuming that all other variables remain constant. The impact of financial instruments denominated in the functional currency and the translation of the assets and liabilities of foreign operations into Japanese yen is not included in this analysis.

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Profit before tax	(163)	(222)

(b) Price risk

As the Group owns listed shares in companies with which the Group has business relationships, it is exposed to the risk of price fluctuations in equity instruments. The Group regularly assesses the fair values and financial condition of issuers (business partners) and continually reviews the holding status.

The exposure of listed shares to the risk of price fluctuations was ¥11,022 million as of December 31, 2022 (¥14,680 million as of December 31, 2021).

Sensitivity analysis of equity instruments

The sensitivity analysis of listed shares held by the Group to the risk of price fluctuations is as follows. This analysis shows the impact on other comprehensive income (before tax effects) in the consolidated statements of comprehensive income that would result from a 10% decline in the price of listed shares, assuming that all other variables remain constant.

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Other comprehensive income	(1,468)	(1,102)

(c) Interest rate risk

Of the Group's interest-bearing liabilities, those with floating rates are exposed to the risk of interest rate fluctuations.

To mitigate the risk of interest rate fluctuations, the Group continually monitors interest rate fluctuations for interest-bearing liabilities with floating rates.

The exposure of interest-bearing liabilities to the risk of interest rate fluctuations was ¥24,570 million as of December 31, 2022 (¥22,495 million as of December 31, 2021).

Sensitivity analysis of interest rates

With regard to financial instruments held by the Group, the table below shows the impact on profit before tax in the consolidated statements of profit or loss that would result from a 1% increase in interest rates.

The scope of the analysis is financial instruments subject to interest rate fluctuations, and other factors including the impact of foreign exchange fluctuations are assumed to remain constant.

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Profit before tax	(224)	(245)

2) Credit risk

The Group's trade and other receivables and other financial assets are exposed to credit risk. Credit risk is the risk of financial loss of the Group in the event that a customer or a counterparty (including financial institutions) fails to meet its contractual obligations.

The Group sets up lines of credit in accordance with Credit Management Regulations by business and country or region. In addition, the sales division and the finance division regularly monitor the credit status of counterparties of trade receivables, and manage the due dates and outstanding balances by counterparty to identify at an early stage and mitigate recoverability concerns, such as due to deterioration of a counterparty's financial condition. Derivative transactions are entered into only with highly creditworthy financial institutions in order to mitigate credit risk, and therefore the credit risk is considered to be extremely low.

The allowance for doubtful accounts for trade receivables is always measured at an amount equal to the lifetime expected credit losses. For receivables other than trade receivables and other financial assets, the allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit losses if the credit risk has not increased significantly since initial recognition, and at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition, such as upon a past due event.

When measuring the expected credit losses for trade receivables, in principle, the receivables are grouped depending on the level of credit risk, provision rates are calculated for each group by reflecting forward-looking information in historical credit loss experience, and the expected credit losses for trade receivables are determined by multiplying the outstanding balance of the assets by a corresponding provision rate. For receivables other than trade receivables and other financial assets whose credit risk has not increased significantly since initial recognition, provision rates are calculated for each group of similar assets by reflecting forward-looking information in historical credit loss experience, and the expected credit losses are determined by multiplying the outstanding balance of the assets by a corresponding provision rate. For receivables other than trade receivables and other financial assets whose credit risk has increased significantly since initial recognition as well as credit-impaired assets, the expected credit losses are determined as a difference between the book value and the present value of expected future cash flows to be received from the assets, discounted using the effective interest rate at initial recognition. If all or a portion of trade and other receivables and other financial assets are considered not to be recovered or extremely difficult to be recovered, they are determined to be credit-impaired.

The book value after impairment of financial assets stated in the consolidated statements of financial position represents the Group's maximum exposure to the credit risk of financial assets. Except for trade receivables of ¥4,857 million as of December 31, 2022 (¥4,671 million as of December 31, 2021) from APPLE OPERATIONS LIMITED and its group companies, which are the Group's major customers, the Group is not exposed to credit risk concentrated excessively in any single counterparty or group to which the party belongs.

Changes in trade and other receivables (before deducting allowance for doubtful accounts) and allowance for doubtful accounts are as follows:

The fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(Million yen)

Trade and other receivables (before deducting allowance for doubtful accounts)	Financial assets measured at an amount equal to 12-month expected credit losses	Financial assets always measured at an amount equal to lifetime expected credit losses	Credit-impaired financial assets	Total
Balance at January 1, 2021	815	36,861	288	37,966
Changes during the period	(493)	(8,060)	(73)	(8,627)
Reclassification to credit-impaired financial assets	—	—	—	—
Foreign currency translation differences	44	1,170	15	1,230
Balance at December 31, 2021	366	29,971	230	30,568

Grouping depending on the level of credit risk is almost the same for receivables measured at an amount equal to 12-month expected credit losses and receivables always measured at an amount equal to lifetime expected credit losses.

(Million yen)

Allowance for doubtful accounts	Financial assets measured at an amount equal to 12-month expected credit losses	Financial assets always measured at an amount equal to lifetime expected credit losses	Credit-impaired financial assets	Total
Balance at January 1, 2021	0	63	288	352
Increase	0	49	2	51
Decrease (intended use)	—	—	—	—
Decrease (reversal)	(0)	(11)	(76)	(88)
Reclassification to credit-impaired financial assets	—	—	—	—
Foreign currency translation differences	0	4	15	19
Balance at December 31, 2021	0	104	230	335

The fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

(Million yen)

Trade and other receivables (before deducting allowance for doubtful accounts)	Financial assets measured at an amount equal to 12-month expected credit losses	Financial assets always measured at an amount equal to lifetime expected credit losses	Credit-impaired financial assets	Total
Balance at January 1, 2022	366	29,971	230	30,568
Changes during the period	281	619	(106)	794
Reclassification to credit-impaired financial assets	—	(58)	58	—
Foreign currency translation differences	55	2,017	21	2,094
Balance at December 31, 2022	703	32,550	203	33,457

Grouping depending on the level of credit risk is almost the same for receivables measured at an amount equal to 12-month expected credit losses and receivables always measured at an amount equal to lifetime expected credit losses.

(Million yen)

Allowance for doubtful accounts	Financial assets measured at an amount equal to 12-month expected credit losses	Financial assets always measured at an amount equal to lifetime expected credit losses	Credit-impaired financial assets	Total
Balance at January 1, 2022	0	104	230	335
Increase	0	92	8	101
Decrease (intended use)	—	(10)	(102)	(112)
Decrease (reversal)	(0)	(51)	(70)	(122)
Reclassification to credit-impaired financial assets	—	(51)	51	—
Foreign currency translation differences	0	10	20	30
Balance at December 31, 2022	0	94	137	232

3) Liquidity risk

The Group is exposed to liquidity risk that the Group is unable to fulfill its repayment obligations for financial liabilities.

To manage the liquidity risk, the finance division take measures such as preparing and updating fund management plans in a timely manner, and consolidating fund flows to the Company through the cash management system (CMS) introduced across the Group companies in Japan.

The maturity analysis of financial liabilities (including derivative financial instruments) is as follows. The maturity analysis of lease liabilities is provided in Note 12 "Leases."

(Million yen)

	As of December 31, 2021				
	Book value	Contractual cash flows	1 year or less	Over 1 year to 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	36,106	36,106	36,106	—	—
Short-term borrowings	5,538	5,625	5,625	—	—
Long-term-borrowings	24,384	25,553	1,257	17,912	6,383
Bonds	9,962	10,202	45	10,157	—
Total	75,991	77,487	43,034	28,069	6,383

(Million yen)

	As of December 31, 2022				
	Book value	Contractual cash flows	1 year or less	Over 1 year to 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	39,419	39,419	39,419	—	—
Short-term borrowings	7,642	7,809	7,809	—	—
Long-term-borrowings	29,993	27,962	2,388	19,948	5,625
Bonds	9,973	10,157	45	10,112	—
Total	87,029	85,348	49,661	30,060	5,625

(3) Fair value of financial instruments

Estimation of fair value

1) Measurement of fair value of financial instruments

The Group determines the fair value of major financial assets and financial liabilities as follows. The fair value of financial instruments is estimated using available market prices, or is measured by appropriate valuation techniques when market prices are not available.

(Cash and cash equivalents, trade and other receivables, trade and other payables, short-term borrowings)

Since these are settled within a short period, the fair value approximates the book value. Therefore, the fair value is based on the relevant book value.

(Other financial assets and other financial liabilities)

The fair value of marketable equity instruments (listed shares) is measured based on market prices at the fiscal year-end. The fair value of equity instruments with no available market prices (shares that do not have a market price) and debt instruments (preference shares, etc.) classified as financial assets measured at fair value through profit or loss is measured using valuation techniques, primarily based on discounted future cash flows, market prices of similar companies or net asset values. Since other financial assets and financial liabilities are settled within a short period, the fair value approximates the book value. One of the main unobservable inputs used to measure the fair value of these financial instruments with no available market prices was valuation multiple derived from the comparable peer company analysis. The fair value increases (decreases) as the valuation multiple rises (declines).

(Derivative assets and liabilities)

The fair value of derivative assets and liabilities is measured at the market quotation of derivative transactions under the same terms and conditions as of the fiscal year-end.

(Contingent consideration)

Contingent consideration in a business combination is measured at fair value as of the acquisition date of the business combination. Contingent consideration that meets the definition of a financial liability is remeasured at fair value at each subsequent reporting date. The fair value is determined on the basis of the scenario-based method or Monte Carlo simulation model, where the key assumptions considered are the probability of meeting each performance target, the projected future operating results, and the discount rate. The fair value decreases (increases) as the discount rate rises (declines).

(Long-term borrowings)

The fair value of long-term borrowings is measured by discounting the principal and interest at an interest rate that would be applied to a new similar borrowing.

(Bonds)

The fair value of bonds is measured at market prices as of the fiscal year-end.

2) Book value and fair value of financial instruments measured at amortized cost

The book value and fair value of financial instruments measured at amortized cost, which are categorized within Level 2 of the fair value hierarchy, are as follows. Financial instruments whose book value approximates the fair value are not disclosed.

(Million yen)

	As of December 31, 2021		As of December 31, 2022	
	Book value	Fair value	Book value	Fair value
Financial liabilities				
Financial liabilities measured at amortized cost				
Long-term borrowings	24,384	23,921	29,993	27,046
Bonds payables	9,962	10,012	9,973	9,967

3) Financial instruments measured at fair value and hierarchy thereof

The table below shows an analysis on the hierarchy of financial instruments measured at fair value. Each level of the hierarchy is described in Note 3 “Significant accounting policies.” Transfers between the levels are recognized on the date of the event or change in circumstances that caused the transfer.

(Million yen)

As of December 31, 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivatives for which hedge accounting is not applied	—	3	—	3
Debt instruments	—	—	1,253	1,253
Financial assets measured at fair value through other comprehensive income				
Equity instruments	14,680	—	622	15,303
Total	14,680	3	1,876	16,560
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives for which hedge accounting is not applied	—	62	—	62
Contingent consideration	—	—	80	80
Total	—	62	80	142

The above financial assets and financial liabilities are included in “Other financial assets (current),” “Other financial assets (non-current),” “Other financial liabilities (current)” and “Other financial liabilities (non-current)” in the consolidated statements of financial position.

(Million yen)

As of December 31, 2022	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivatives for which hedge accounting is not applied	—	119	—	119
Debt instruments	—	—	1,245	1,245
Financial assets measured at fair value through other comprehensive income				
Equity instruments	11,022	—	649	11,671
Total	11,022	119	1,894	13,037
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives for which hedge accounting is not applied	—	8	—	8
Contingent consideration	—	—	70	70
Total	—	8	70	79

The above financial assets and financial liabilities are included in “Other financial assets (current),” “Other financial assets (non-current),” “Other financial liabilities (current)” and “Other financial liabilities (non-current)” in the consolidated statements of financial position.

4) Reconciliation of financial instruments categorized within Level 3

Financial instruments categorized within Level 3 are evaluated and the evaluation results are analyzed by the Company's CFO in accordance with the evaluation policies and procedures established by the Group.

The following table shows a reconciliation of the opening balance to the closing balance of financial assets whose fair value measurement is categorized within Level 3.

(Million yen)

	Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022	
	Equity instruments measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Equity instruments measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss
Beginning balance	457	779	622	1,253
Total gain and loss				
Profit or loss (Note 1)	—	461	—	39
Other comprehensive income (Note 2)	(32)	—	26	—
Purchase	198	114	—	85
Sale	(0)	—	—	(84)
Other (Note 3)	—	(101)	—	(48)
Ending balance	622	1,253	649	1,245

(Notes) 1. Profit or loss contained in total gain and loss is included in "Finance income" and "Finance costs" on the consolidated statements of profit or loss. Of profit or loss contained in total gain and loss, the amount attributable to changes in unrealized gain or loss related to financial assets measured at fair value through profit or loss held as of the fiscal year-end was ¥461 million and ¥45 million for the fiscal years ended December 31, 2021 and December 31, 2022, respectively.

2. Other comprehensive income contained in total gain and loss is related to financial assets measured at fair value through other comprehensive income as of the fiscal year-end. These gain and loss, net of tax effects, are included in "Net change in fair value of financial assets measured through other comprehensive income."

3. Other consists mainly of redemption and foreign currency translation differences.

The following table shows a reconciliation of the opening balance to the closing balance of financial liabilities whose fair value measurement is categorized within Level 3.

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss
Beginning balance	318	80
Total gain and loss		
Profit or loss (Note 1)	(39)	(16)
Issuance	—	—
Settlement	(211)	—
Other (Note 2)	13	7
Ending balance	80	70

(Notes) 1. Of profit or loss contained in total gain and loss, the portion based on changes in time value is recorded in "Finance costs" on consolidated statement of profit or loss while the portion based on changes in items other than time value is recorded in "Other income" or "Other expenses." Of profit or loss contained in total gain and loss, the amount attributable to changes in unrealized gain or loss related to financial liabilities measured at fair value through profit or loss held as of the fiscal year-end was loss of ¥48 million and loss of ¥16 million for the fiscal years ended December 31, 2021 and December 31, 2022, respectively.

2. Other consists mainly of foreign currency translation differences.

(4) Equity instruments measured at fair value through other comprehensive income

The Group designates investments in equity instruments held for the purpose of maintaining and strengthening relationships with business partners as equity instruments measured at fair value through other comprehensive income in light of the holding purpose.

1) Fair value by issuer

The fair value by major issuer of investments in equity instruments designated as financial assets measured at fair value through other comprehensive income

As of December 31, 2021

(Million yen)

Issuer	Amount
Nintendo Co., Ltd.	7,625
NIDEC CORPORATION	3,044
HORIBA, Ltd.	806
SCREEN Holdings Co., Ltd.	633
Nissin Electric Co., Ltd.	535
The Bank of Kyoto, Ltd.	363
Nippon Shinyaku Co., Ltd.	338
Shimadzu Corporation	305
Mitsubishi UFJ Financial Group, Inc.	208
RIVERFIELD Inc.	198

As of December 31, 2022

(Million yen)

Issuer	Amount
Nintendo Co., Ltd.	5,870
NIDEC CORPORATION	1,540
HORIBA, Ltd.	683
SCREEN Holdings Co., Ltd.	432
Nissin Electric Co., Ltd.	428
The Bank of Kyoto, Ltd.	399
Nippon Shinyaku Co., Ltd.	315
Mitsubishi UFJ Financial Group, Inc.	297
Shimadzu Corporation	235
RIVERFIELD Inc.	208

2) Dividend income

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Investments derecognized during the period	0	73
Investments held as of the fiscal year-end	379	336
Total	379	409

3) Equity instruments measured at fair value through other comprehensive income that were derecognized during the period

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Fair value at derecognition	335	2,079
Accumulated gain (loss) at derecognition	(260)	1,440

(Note) The Group has disposed of, through sale, and derecognized equity instruments measured at fair value through other comprehensive income mainly for the purpose of reviewing relationships with business partners.

4) Transfer to retained earnings

The Group transfers accumulated gain or loss due to changes in the fair value of equity instruments measured through other comprehensive income to retained earnings in such cases as when the investment is disposed of.

The accumulated gain or loss (net of tax) of other comprehensive income that was transferred to retained earnings was loss of ¥260 million and gain of ¥1,440 million for the fiscal years ended December 31, 2021 and December 31, 2022, respectively. This was mainly due to derecognition of securities classified as equity instruments measured at fair value through other comprehensive income by way of sale for the purpose of reviewing business relationships.

(5) Offsetting of financial assets and financial liabilities

Information on offsetting of financial assets and financial liabilities recognized for the same counterparties is as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Financial assets		
Trade and other receivables	9,798	9,482
Amount offset in accordance with the requirements for offsetting financial assets and financial liabilities	(1,752)	(1,749)
Net amount presented in the consolidated statements of financial position	8,046	7,733
Financial liabilities		
Trade and other payables	9,634	10,493
Amount offset in accordance with the requirements for offsetting financial assets and financial liabilities	(1,752)	(1,749)
Net amount presented in the consolidated statements of financial position	7,882	8,744

(Note) There are no material amounts that are not offset even though they are covered by an enforceable master netting arrangement or similar agreement because they do not meet part or all of the requirements for offsetting financial assets and financial liabilities.

35. Related parties

(1) Related party transactions

Related party transactions are priced, taking into account market prices, on terms and conditions equivalent to those that prevail in arm's length transactions. There are no significant transactions (excluding transactions eliminated in the consolidated financial statements).

(2) Remuneration for key management personnel

Remuneration for key management personnel is as follows:

(Million yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Base remuneration and bonuses	318	296
Share-based payment expense	51	65
Total	369	362

36. Significant subsidiaries

There are no subsidiaries that have non-controlling interests that are individually material to the Company.

37. Commitments

Commitments for the acquisition of property, plant and equipment and intangible assets are as follows:

(Million yen)

	As of December 31, 2021	As of December 31, 2022
Acquisition of property, plant and equipment and intangible assets	1,571	953

38. Contingent liabilities

Not applicable

39. Subsequent events

Issuance of bonds

At the meeting of the Board of Directors held on January 20, 2023, the Company passed a comprehensive resolution to issue unsecured domestic straight bonds as follows:

(1)	Maximum total amount of issue:	¥10 billion (bonds can be issued multiple times within this limit)
(2)	Redemption period:	10 years or less
(3)	Maximum interest rate:	1.5% per annum
(4)	Issue price:	¥100 per par value of ¥100
(5)	Issue period:	January 20, 2023 to January 20, 2024

40. Approval of consolidated financial statements

The consolidated financial statements for the fiscal year ended December 31, 2022 were approved on March 22, 2023 by Junya Suzuki, Chairman of the Board, President and CEO of the Company and Hitoshi Koya, Senior Vice President, CFO of the Company.