(Translation)

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

Financial Information and Sustainability Approach and Initiatives of Annual Securities Report

From January 1, 2023 to December 31, 2023

(The 105th Business term)

Contents

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, 2023 (from January 1, 2023 to December 31, 2023) 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, 2022	As of December 31, 2023
Assets			
Current assets			
Cash and cash equivalents	6,34	54,325	37,854
Trade and other receivables	7,34	33,225	31,267
Inventories	8	32,739	31,260
Other financial assets	15,34	381	868
Other current assets	9	4,731	6,149
Total current assets		125,403	107,401
Non-current assets			
Property, plant and equipment	10	43,720	43,169
Goodwill	11,13	21,410	20,238
Intangible assets	11,13	14,252	14,644
Right-of-use assets	12	8,840	9,693
Investments accounted for using equity method	14	763	4,539
Other financial assets	15,34	13,662	16,313
Retirement benefit asset	22	367	371
Deferred tax assets	16	1,515	1,211
Other non-current assets	9	276	270
Total non-current assets		104,809	110,451
Total assets		230,212	217,853

(Million yen)

	Note	As of December 31, 2022	As of December 31, 2023
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	17,34	39,419	28,609
Borrowings	18,34	9,450	7,823
Other financial liabilities	19,34	1,198	1,535
Lease liabilities	12	1,740	1,857
Income taxes payable, etc.	16	1,173	636
Provisions	20	95	74
Other current liabilities	21	4,552	6,055
Total current liabilities		57,631	46,592
Non-current liabilities			
Bonds and borrowings	18,34	38,158	37,225
Other financial liabilities	19,34	690	23
Lease liabilities	12	8,206	8,862
Retirement benefit liability	22	6,290	6,395
Provisions	20	62	52
Deferred tax liabilities	16	7,216	7,576
Other non-current liabilities	21	436	271
Total non-current liabilities		61,061	60,407
Total liabilities		118,693	107,000
Equity			
Share capital	23	12,119	12,119
Capital surplus	23	14,841	14,865
Retained earnings	23	75,658	69,934
Treasury shares	23	(2,632)	(4,019)
Other components of equity	23	11,565	18,013
Total equity attributable to owners of parent		111,553	110,913
Non-controlling interests		(34)	(60)
Total equity		111,518	110,852
Total liabilities and equity		230,212	217,853

2) Consolidated statements of profit or loss and comprehensive income

Consolidated statements of profit or loss

(Million yen)

	Note	Fiscal Year Ended December 31, 2022	Fiscal Year Ended December 31, 2023
Net sales	25	193,963	167,726
Cost of sales	27	(151,540)	(135,103)
Gross profit		42,422	32,622
Selling, general and administrative expenses	26,27	(31,147)	(33,000)
Other income	28	949	698
Other expenses	27,28	(2,646)	(3,894)
Share of profit (loss) of investments accounted for using equity method	14	(57)	(243)
Operating profit (loss)		9,520	(3,817)
Finance income	29	3,768	2,897
Finance costs	29	(916)	(1,842)
Profit (loss) before tax		12,373	(2,762)
Income tax expense	16	(2,253)	(252)
Profit (loss)		10,119	(3,014)
Profit (loss) attributable to:			
Owners of parent		10,140	(2,988)
Non-controlling interests		(21)	(25)
Profit (loss)		10,119	(3,014)
Earnings (loss) per share attributable to owners of parent			
Basic earnings (loss) per share (Yen)	31	203.65	(61.13)
Diluted earnings (loss) per share (Yen)	31	—	—

Consolidated statements of comprehensive income

(Million yen)

	Note	Fiscal Year Ended December 31, 2022	Fiscal Year Ended December 31, 2023
Profit (loss)		10,119	(3,014)
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	(1,075)	2,539
Remeasurements of defined benefit plans	30	633	(27)
Total of items that will not be reclassified to profit or loss		(441)	2,511
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	30	6,114	3,883
Share of other comprehensive income of investments accounted for using equity method	30	136	267
Total of items that may be reclassified to profit or loss		6,250	4,151
Total other comprehensive income		5,809	6,662
Total comprehensive income		15,928	3,647
Comprehensive income attributable to:			
Owners of parent		15,949	3,673
Non-controlling interests		(21)	(25)
Total comprehensive income		15,928	3,647

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 comprehensive income	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations	Total other components of equity	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2022		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
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
Profit (loss)		—	—	(2,988)	—	—	—	—	—	(2,988)	(25)	(3,014)
Other comprehensive income		—	—	—	—	2,539	(27)	4,151	6,662	6,662	—	6,662
Total comprehensive income		—	—	(2,988)	—	2,539	(27)	4,151	6,662	3,673	(25)	3,647
Purchase of treasury shares	23	—	—	—	(1,539)	—	—	—	—	(1,539)	—	(1,539)
Disposal of treasury shares	23	—	(24)	—	151	—	—	—	—	127	—	127
Dividends of surplus	24	—	—	(2,950)	—	—	—	—	—	(2,950)	—	(2,950)
Share-based payment transactions	23,33	—	47	—	—	—	—	—	—	47	—	47
Loss of control of subsidiaries		—	—	—	—	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	214	—	(242)	27	—	(214)	—	—	—
Total transactions with owners, etc.		—	23	(2,735)	(1,387)	(242)	27	—	(214)	(4,314)	—	(4,314)
Balance at December 31, 2023		12,119	14,865	69,934	(4,019)	7,684	—	10,329	18,013	110,913	(60)	110,852

4) Consolidated statements of cash flows

(Million yen)

	Note	Fiscal Year Ended December 31, 2022	Fiscal Year Ended December 31, 2023
Cash flows from operating activities			
Profit (loss) before tax		12,373	(2,762)
Depreciation and amortization		9,487	9,137
Impairment losses		1,461	2,722
Loss (gain) on subsidiaries liquidation		385	—
Loss (gain) on sale and retirement of fixed assets		102	8
Share of loss (profit) of investments accounted for using equity method		57	243
Finance income	29	(3,768)	(2,897)
Finance costs	29	916	1,842
Decrease (increase) in trade and other receivables		(819)	3,925
Decrease (increase) in inventories		(3,775)	3,146
Increase (decrease) in trade and other payables		1,274	(11,405)
Increase (decrease) in provisions		34	(39)
Increase (decrease) in retirement benefit asset or liability		198	239
Other		(562)	618
Subtotal		17,366	4,780
Interest received		69	455
Dividends received		409	352
Interest paid		(899)	(1,512)
Income taxes paid		(5,001)	(2,979)
Income taxes refund		95	390
Net cash provided by (used in) operating activities		12,039	1,486
Cash flows from investing activities			
Payments into time deposits		(136)	(0)
Proceeds from withdrawal of time deposits		—	130
Purchase of property, plant and equipment		(5,454)	(4,430)
Payments for retirement of property, plant and equipment		(53)	(10)
Proceeds from sale of property, plant and equipment		46	102
Purchase of intangible assets		(558)	(1,037)
Purchase of investment securities		(17)	(12)
Proceeds from sale of investment securities		2,160	891
Purchase of shares of subsidiaries and affiliates		(151)	(3,752)
Other		(219)	97
Net cash provided by (used in) investing activities		(4,385)	(8,019)

(Million yen)

	Note	Fiscal Year Ended December 31, 2022	Fiscal Year Ended December 31, 2023
Cash flows from financing activities			
Proceeds from short-term borrowings	32	3,030	5,453
Repayments of short-term borrowings	32	(1,056)	(8,939)
Repayments of lease liabilities	32	(1,915)	(2,006)
Proceeds from long-term borrowings	32	5,000	306
Repayments of long-term borrowings	32	(1,252)	(2,012)
Purchase of treasury shares	23	(837)	(1,539)
Proceeds from sale of treasury shares	23	106	126
Decrease (increase) in deposit paid for repurchase of treasury stock		—	(639)
Dividends paid to owners of parent	24	(1,992)	(2,948)
Other		(0)	(428)
Net cash provided by (used in) financing activities		1,082	(12,629)
Effect of exchange rate changes on cash and cash equivalents		3,257	2,690
Net increase (decrease) in cash and cash equivalents		11,995	(16,471)
Cash and cash equivalents at beginning of period	6	42,330	54,325
Cash and cash equivalents at end of period	6	54,325	37,854

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, 2023 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 "Material accounting policy information"
- Timing of sales recognition – "(17) Sales recognition" in Note 3 "Material accounting policy information"
- Impairment of non-financial assets – "(11) Impairment of non-financial assets" in Note 3 "Material accounting policy information," 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 "Material accounting policy information" and Note 16 "Income taxes"
- Measurement of defined benefit obligations – "(13) Employee benefits" in Note 3 "Material accounting policy information" and Note 22 "Post-employment benefits"
- Fair value measurement of financial instruments – "(4) Financial instruments" in Note 3 "Material accounting policy information" and Note 34 "Financial instruments"

(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, 2023 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	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
IAS 7 IFRS 7	Statement of Cash Flows Financial Instruments: Disclosures	January 1, 2024	Fiscal year ending December 31, 2024	Disclosure requirements to enhance the transparency of supplier finance arrangements
IFRS 16	Leases	January 1, 2024	Fiscal year ending December 31, 2024	Additional requirements to explain post-transaction accounting for sale and leaseback transactions
IAS 21	The Effects of Changes in Foreign Exchange Rates	January 1, 2025	Fiscal year ending December 31, 2025	Clarification of a consistent approach in assessing whether a currency can be exchanged into another currency and, when it cannot, in determining the exchange rate to use and the disclosures to provide.

3. Material accounting policy information

(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. When a defined benefit plan has a surplus, the net defined benefit asset is limited to the asset ceiling, which is the present value of future economic benefits available in the form of a reduction in future contributions to the plan.

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 (other than a business combination) that, at the time of the transaction, affects neither accounting profit nor taxable profit, and does not give rise to equal taxable and deductible temporary differences.
・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 apply the group tax sharing system.

(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.

(Changes in accounting policies)

Clarification of the accounting for deferred tax related to assets and liabilities arising from a single transaction

The Group had not recognized deferred tax liabilities and deferred tax assets for 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), but the application of IAS 12 Income Taxes (amended in May 2021) clarifies the accounting treatment upon initial recognition for transactions that result in taxable temporary differences and deductible temporary differences of the same amount at the time of the transaction, which resulted in a change in the method of accounting treatment to the one by which taxable temporary differences and deductible temporary differences are recognized as deferred tax liabilities and deferred tax assets, respectively, in the Company's consolidated statements of financial position.

The application of the guideline did not have a significant impact on the consolidated financial statements.

A temporary exception to the recognition and disclosure of deferred tax assets and liabilities related to the International Tax Reform—Pillar Two Model Rules

The Group has applied the International Tax Reform—Pillar Two Model Rules (amendments to IAS 12 Income Taxes) from the fiscal year ended December 31, 2023. The amendments have clarified that IAS 12 applies to income taxes arising from tax law enacted or substantially enacted to implement the BEPS Pillar Two Model Rules (the global minimum taxation rules) published by the OECD. On the other hand, the amendments provide a mandatory temporary exception from recognizing and disclosing deferred tax assets and liabilities related to income taxes arising from the global minimum taxation rules.

The Group has adopted the exceptional measure as provided in IAS 12 and thus does not recognize and disclose deferred tax assets and liabilities related to income taxes arising from the global minimum taxation rules.

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, decorative molded parts, metallized papers, sustainable molded products and others. The Devices segment manufactures and sells film-based Touch Sensors, gas sensors and others. The Medical Technologies segment provides contract design/development and manufacturing services for major medical device manufacturers especially for those in North America and Europe, along with products such as surgical instruments for minimally invasive treatments, medical wearable sensors and disposable electrocardiogram (ECG) electrodes. In addition to these, the segment manufactures and sells its own brand products to medical institutions.

(Note with regard to changes to reportable segment)

From the fiscal year ended December 31, 2023, in line with the partial revision of performance management structure within the Group, segment categories for certain consolidated subsidiaries previously recorded in the Other category were changed to the Devices category.

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 “Material accounting policy information.” 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, 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	79,968	32,457	185,984	7,978	193,963	—	193,963
Inter-segment sales	237	9	0	248	1,061	1,309	(1,309)	—
Total	73,796	79,978	32,457	186,233	9,040	195,273	(1,309)	193,963
Segment profit (loss)	3,390	8,286	490	12,167	(759)	11,407	(1,886)	9,520
Finance income	—	—	—	—	—	—	—	3,768
Finance costs	—	—	—	—	—	—	—	(916)
Profit (loss) before tax	—	—	—	—	—	—	—	12,373
Segment assets	56,779	35,870	47,166	139,817	10,334	150,151	80,060	230,212
Other								
Depreciation and amortization	4,088	2,686	1,587	8,362	751	9,114	373	9,487
Share of profit (loss) of investments accounted for using equity method	—	—	—	—	(57)	(57)	—	(57)
Impairment losses (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	604	1,097	6,138	785	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 ¥1,886 million of reconciliations in segment profit (loss) includes unallocated corporate expenses, etc. Corporate expenses 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, and corporate (R&D and administrative) property, plant and equipment, etc. not allocated to reportable segments and the negative ¥193 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.

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(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	68,762	54,862	36,011	159,637	8,088	167,726	—	167,726
Inter-segment sales	196	8	—	205	1,001	1,206	(1,206)	—
Total	68,959	54,871	36,011	159,842	9,090	168,933	(1,206)	167,726
Segment profit (loss)	93	(1,580)	1,493	6	(860)	(853)	(2,963)	(3,817)
Finance income	—	—	—	—	—	—	—	2,897
Finance costs	—	—	—	—	—	—	—	(1,842)
Profit (loss) before tax	—	—	—	—	—	—	—	(2,762)
Segment assets	54,725	34,369	50,341	139,437	10,633	150,071	67,782	217,853
Other								
Depreciation and amortization	4,023	2,325	1,651	8,000	758	8,758	378	9,137
Share of profit (loss) of investments accounted for using equity method	(139)	—	(0)	(140)	(103)	(243)	—	(243)
Impairment losses (see Note 13)	2,722	—	—	2,722	—	2,722	—	2,722
Increase in property, plant and equipment, intangible assets and right-of-use assets	3,217	2,132	1,487	6,837	419	7,256	303	7,559
Investments accounted for using equity method	2,334	—	697	3,032	1,507	4,539	—	4,539

(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 ¥2,963 million of reconciliations in segment profit (loss) includes unallocated corporate expenses, etc. Corporate expenses mainly consist of general and administrative expenses and foreign exchange loss or gain not attributable to any reportable segment.

(2) The positive ¥67,782 million of reconciliations in segment assets consists of the positive ¥67,889 million in total of cash and cash equivalents, investment securities, and corporate (R&D and administrative) property, plant and equipment, etc. not allocated to reportable segments and the negative ¥107 million of inter-segment elimination of receivables and payables.

(3) The positive ¥378 million of reconciliations in depreciation and amortization relates to corporate (R&D and administrative) property, plant and equipment, etc.

(4) The positive ¥303 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, 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.

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

1) Sales from external customers

(Million yen)

Japan	Ireland	United States	Other	Total
22,534	33,839	40,576	70,776	167,726

(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
41,167	34,009	17,378	92,555

(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, 2022	Fiscal year ended December 31, 2023
APPLE OPERATIONS LIMITED and its group companies	Devices, Industrial Materials, and Other	53,832	35,173

(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, 2022 (January 1, 2022 to December 31, 2022)

Not applicable.

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

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, 2022	As of December 31, 2023
(Cash and cash equivalents)		
Cash and deposits	49,450	32,863
Time deposits with maturities of three months or less	4,875	4,991
Cash and cash equivalents in the consolidated statements of financial position	54,325	37,854

7. Trade and other receivables

The breakdown of trade and other receivables is as follows:

(Million yen)

	As of December 31, 2022	As of December 31, 2023
Notes and accounts receivable-trade	32,754	30,824
Accounts receivable-other	703	712
Allowance for doubtful accounts	(232)	(268)
Total	33,225	31,267

(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, 2022	As of December 31, 2023
Merchandise and finished goods	13,169	11,678
Work in process	5,828	6,330
Raw materials and supplies	13,741	13,252
Total	32,739	31,260

(Notes) 1. Inventories recognized as an expense in cost of sales for the fiscal years ended December 31, 2022 and December 31, 2023 were ¥150,593 million and ¥134,154 million, respectively.

2. As a result of valuing inventories at net realizable value, write-downs of ¥854 million and ¥847 million were recognized for the fiscal years ended December 31, 2022 and December 31, 2023, respectively.

3. There was no material reversal of write-downs recognized for the fiscal years ended December 31, 2022 and December 31, 2023.

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, 2022	As of December 31, 2023
(Other current assets)		
Advance payments-other and prepaid expenses	1,613	2,071
Consumption taxes receivable	2,527	2,539
Income taxes receivable, etc.	540	1,401
Other	49	137
Total	4,731	6,149
(Other non-current assets)		
Long-term prepaid expenses	136	112
Other	140	157
Total	276	270

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, 2022	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 3)	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
Acquisitions	247	584	521	—	2,893	4,246
Disposals	(40)	(681)	(120)	—	(4)	(847)
Transfers (Note 3)	1,595	1,240	48	—	(3,294)	(409)
Foreign currency translation differences	505	2,512	196	64	165	3,443
As of December 31, 2023	65,455	64,155	13,374	8,103	2,185	153,275

(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, 2022	(38,902)	(48,906)	(9,846)	(2,126)	(19)	(99,800)
Depreciation	(2,155)	(3,173)	(876)	—	—	(6,205)
Disposals	325	4,869	644	—	1	5,841
Transfers (Note 3)	(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)
Depreciation	(2,049)	(2,776)	(861)	—	—	(5,687)
Disposals	38	576	114	—	—	729
Transfers (Note 3)	0	11	53	—	—	65
Foreign currency translation differences	(170)	(1,769)	(153)	(0)	(0)	(2,093)
As of December 31, 2023	(43,157)	(53,714)	(11,091)	(2,126)	(17)	(110,106)

(Million yen)

Book value	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of January 1, 2022	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
As of December 31, 2023	22,298	10,441	2,283	5,977	2,167	43,169

(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. Transfers principally represent transfers from construction in progress to the related accounts of property, plant and equipment.

4. 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, 2022	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
Additions from internal development	—	—	—	—	—	—	—
Acquisitions	—	—	56	—	643	311	1,011
Disposals	—	(9)	(155)	—	—	(7)	(173)
Transfers (Note 3)	—	—	140	—	—	(77)	63
Exclusion from consolidation	—	—	—	—	—	—	—
Foreign currency translation differences	2,332	325	123	338	790	64	3,973
As of December 31, 2023	31,212	4,966	8,452	3,539	12,034	1,550	61,755

(Million yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Trademark rights	Software	Technical assets	Customer-related assets	Other	Total
As of January 1, 2022	(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)
Amortization	—	—	(421)	(242)	(803)	(79)	(1,547)
Impairment losses (Note 2)	(2,692)	—	—	(12)	(16)	—	(2,722)
Disposals	—	—	149	—	—	—	149
Transfers (Note 3)	—	—	(40)	—	—	0	(40)
Exclusion from consolidation	—	—	—	—	—	—	—
Foreign currency translation differences	(812)	—	(61)	(165)	(443)	(13)	(1,496)
As of December 31, 2023	(10,974)	—	(7,093)	(1,881)	(6,378)	(545)	(26,873)

(Million yen)

Book value	Goodwill	Trademark rights	Software	Technical assets	Customer-related assets	Other	Total
As of January 1, 2022	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
As of December 31, 2023	20,238	4,966	1,358	1,658	5,655	1,004	34,882

(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, 2022 and December 31, 2023 were ¥3,973 million and ¥4,656 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, 2022 and 2023 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, 2022	As of December 31, 2023
			Book value	Book value
Nissha Metallizing Solutions N.V. and its subsidiaries	Industrial Materials	Goodwill	2,414	—
Graphic Controls Holdings, Inc. and its subsidiaries	Medical Technologies	Goodwill	17,891	19,134
		Trademark rights (Note)	4,443	4,750

(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 3.4% as of December 31, 2022 and 4.4% as of December 31, 2023.

The discount rate, which is determined based on the after-tax weighted average cost of capital, is 13.1% as of December 31, 2022 and 15.6% as of December 31, 2023.

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.

In the fiscal year ended December 31, 2023, the amount equivalent to the entire book value of goodwill of ¥2,692 million was recognized as an impairment loss since the recoverable amount decreased as a result of a rise in the discount rate attributable mainly to the inflation rates in countries in which our products are sold.

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, 2022 and 4.0% as of December 31, 2023.

The discount rate, which is determined based on the after-tax weighted average cost of capital, is 10.6% as of December 31, 2022 and 11.2% as of December 31, 2023.

The recoverable amount exceeded the book value by ¥6,685 million as of December 31, 2023. It is estimated that a 1.9% decrease in the growth rate or a 1.1% 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 ¥1,841 million as of December 31, 2022 and ¥1,816 million as of December 31, 2023, and the remaining amortization period is 8 years. For technical assets, the book value was ¥1,439 million as of December 31, 2022 and ¥1,377 million as of December 31, 2023, and the remaining amortization period is 6 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 ¥1,643 million as of December 31, 2022 and ¥1,439 million as of December 31, 2023, 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 ¥1,224 million as of December 31, 2022 and ¥1,175 million as of December 31, 2023, and the remaining amortization period is 24 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, 2022	7,671	917	115	134	0	8,840
As of December 31, 2023	8,478	958	122	132	0	9,693

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, 2022	1,396	304	46	8	1	1,758
Fiscal year ended December 31, 2023	1,461	385	45	9	0	1,903

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

(Million yen)

		As of December 31, 2022	As of December 31, 2023
Book value	Lease liabilities (current)	1,740	1,857
	Lease liabilities (non-current)	8,206	8,862
	Total lease liabilities	9,947	10,720
Contractual cash flows	Total	11,867	12,431
	1 year or less	2,055	2,127
	Over 1 year to 5 years	5,165	5,717
	Over 5 years	4,646	4,586

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

(Million yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Repayments of lease liabilities	1,915	2,006
Interest expenses on lease liabilities	288	295
Variable lease payments not included in the measurement of lease liabilities	—	39
Expenses relating to short-term leases	328	381
Expenses relating to leases of low-value assets (excluding expenses relating to short-term leases of low-value assets)	230	269
Total cash outflow for leases	2,762	2,992

(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, 2022	Fiscal year ended December 31, 2023
Finance income on the net investments in the leases	21	20

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

(Million yen)

	As of December 31, 2022	As of December 31, 2023
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	398	351
Total	635	587
Unearned finance income	(155)	(134)
Net investments in the leases	480	453

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, 2022 (January 1, 2022 to December 31, 2022)

(Goodwill)

In the fiscal year ended December 31, 2022, 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.”

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(Goodwill and intangible assets)

For goodwill, technical assets, and customer-related assets allocated to Nissha Metallizing Solutions N.V. and its subsidiaries in the Industrial Materials segment as a cash-generating unit, the Group wrote down its book value to recoverable amount and recognized impairment losses of ¥2,692 million, ¥12 million, and ¥16 million, respectively, since the recoverable amount decreased as a result of a rise in the discount rate attributable mainly to the inflation rates in countries in which our products are sold.

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

Information on the method of evaluating recoverable amounts and key assumptions used for the evaluation in the impairment test for technical assets and customer-related assets is the same as that used in the goodwill impairment test.

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, 2022	As of December 31, 2023
Book value of investments accounted for using equity method	763	4,539

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

(Million yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Share of profit	(57)	(243)
Share of other comprehensive income	136	267
Share of total comprehensive income	78	23

15. Other financial assets

The breakdown of other financial assets is as follows:

(Million yen)

	As of December 31, 2022	As of December 31, 2023
(Current assets)		
Financial assets measured at amortized cost		
Time deposits with maturities of more than three months	136	6
Advances paid	45	49
Lease receivables (see Note 12)	26	28
Deposits paid	47	693
Other	12	18
Allowance for doubtful accounts	(0)	(0)
Financial assets measured at fair value through profit or loss		
Derivatives	72	72
Debt instruments	39	—
Total	381	868
(Non-current assets)		
Financial assets measured at amortized cost		
Guarantee deposits	281	298
Long-term loans receivable	2	6
Lease receivables (see Note 12)	453	425
Other	226	226
Allowance for doubtful accounts	(226)	(226)
Financial assets measured at fair value through profit or loss		
Derivatives	47	27
Debt instruments	1,205	1,058
Financial assets measured at fair value through other comprehensive income		
Equity instruments (Note)	11,671	14,498
Total	13,662	16,313

(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, 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
Lease liabilities	2,266	356	—	13	2,635
Other	367	(61)	—	33	339
Total	4,142	1,020	—	156	5,318
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	(847)	(151)	—	(103)	(1,103)
Assets identified in business combinations	(3,639)	462	—	(412)	(3,590)
Right-of-use assets	(2,025)	(328)	—	(0)	(2,354)
Other	(665)	(320)	(9)	(11)	(1,006)
Total	(11,256)	(338)	1,104	(528)	(11,019)
Net deferred tax assets (liabilities)	(7,114)	682	1,104	(372)	(5,701)

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(Million yen)

	As of January 1, 2023	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Foreign currency translation differences	As of December 31, 2023
Deferred tax assets:					
Inventories	486	(38)	—	15	462
Property, plant and equipment and intangible assets	325	165	—	22	512
Allowance for doubtful accounts	68	(18)	—	3	53
Accrued bonuses	504	1	—	1	507
Obligation for paid absences	94	13	—	4	112
Accounts payable-other and accrued expenses, etc.	110	131	—	(1)	240
Retirement benefit liability	65	272	—	(0)	336
Unused tax losses	688	104	—	43	836
Lease liabilities	2,635	174	—	(40)	2,770
Other	339	139	—	6	485
Total	5,318	944	—	54	6,318
Deferred tax liabilities:					
Financial assets measured at fair value through other comprehensive income	(2,965)	—	(983)	—	(3,948)
Property, plant and equipment and intangible assets	(1,103)	(301)	—	(53)	(1,459)
Assets identified in business combinations	(3,590)	180	—	(262)	(3,672)
Right-of-use assets	(2,354)	(10)	—	49	(2,315)
Other	(1,006)	48	(231)	(98)	(1,287)
Total	(11,019)	(83)	(1,214)	(365)	(12,682)
Net deferred tax assets (liabilities)	(5,701)	861	(1,214)	(310)	(6,364)

(Note) The figures have been retrospectively adjusted in line with the application of IAS 12 Income Taxes (amended in May 2021), which has resulted in a change in the method of accounting treatment to the one by which taxable temporary differences and deductible temporary differences arising from transactions that give rise to equal taxable and deductible temporary differences at the time of the transaction are recognized as deferred tax liabilities and deferred tax assets, respectively, in the Company's consolidated statements of financial position.

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

(Million yen)

	As of December 31, 2022	As of December 31, 2023
Unused tax losses (Note)	8,722	10,046
Deductible temporary differences	19,116	17,761

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

(Million yen)

	As of December 31, 2022	As of December 31, 2023
1st year	109	156
2nd year	156	462
3rd year	462	733
4th year	696	1,288
5th year	1,292	384
After 5th year	6,005	7,020
Total	8,722	10,046

The above figures do not include the amount of unused tax losses for which deferred tax assets are not recognized related to local taxes (inhabitants' tax and enterprise tax), which are not subject to the group tax sharing system. As of December 31, 2023, the amount of unused tax losses for which deferred tax assets were not recognized related to local taxes (inhabitants' tax and enterprise tax) was ¥3,954 million for inhabitants' tax and ¥4,008 million for enterprise tax.

Taxable temporary differences associated with investments in the Group's subsidiaries for which deferred tax liabilities were not recognized were ¥30,618 million as of December 31, 2022 and ¥32,165 million as of December 31, 2023.

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.

The Group has adopted the temporary exception to the requirements in IAS 12 regarding deferred tax accounting published by IASB in May 2023, and thus does not recognize and disclose deferred tax assets and liabilities related to Pillar Two income taxes.

(2) Income tax expense

The breakdown of income tax expense is as follows.

(Million yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Current tax expense	2,984	1,278
Tax expense for prior periods	(49)	(164)
Deferred tax expense	(682)	(861)
Total	2,253	252

(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, 2022 and December 31, 2023 were ¥2,288 million and ¥632 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, 2022 and December 31, 2023 were ¥498 million and ¥384 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, 2022 and December 31, 2023.

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, 2022 and December 31, 2023.

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, 2022	Fiscal year ended December 31, 2023
Statutory effective tax rate	30.5 %	30.5 %
(Adjustments)		
Difference in tax rate of foreign subsidiaries	(0.7)%	7.2 %
Share of profit (loss) of investments accounted for using equity method	0.1 %	(2.7)%
Changes in recoverability of deferred tax assets	(14.3)%	(38.1)%
Permanent non-deductible expenses	1.8 %	(8.7)%
Tax credits	(1.4)%	2.6 %
Other	2.2 %	0.1 %
Actual effective tax rate	18.2 %	(9.1)%

On March 28, 2023, Japan, where the Company is incorporated, enacted the Pillar Two legislation effective April 1, 2024. Under this legislation, a parent company is subject to a top-up tax in Japan on the profits of its subsidiaries that are taxed at an effective tax rate of less than 15%. The Group is currently working to assess the impact of the Pillar Two legislation on its future financial performance. As of December 31, 2023, the impact on the Group's performance is expected to be negligible.

17. Trade and other payables

The breakdown of trade and other payables is as follows:

(Million yen)

	As of December 31, 2022	As of December 31, 2023
Notes and accounts payable-trade	28,045	19,897
Electronically recorded obligations-operating	4,660	2,277
Accounts payable-other and accrued expenses	5,990	6,041
Electronically recorded obligations-non-operating	292	260
Notes payable-facilities and accounts payable-facilities	431	133
Total	39,419	28,609

(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, 2022 (Million yen)	As of December 31, 2023 (Million yen)	Interest rate (%)	Collateral	Maturity date
Nissha Co., Ltd.	The First Series Unsecured Bonds	April 20, 2021	9,973	9,984	0.56	None	April 20, 2026

(2) Borrowings

	As of December 31, 2022 (Million yen)	As of December 31, 2023 (Million yen)	Average interest rate (Note 1) (%)	Repayment date (Note 2)
Short-term loans payable	7,642	5,524	0.77	―
Current portion of long-term loans payable	1,808	2,298	4.83	―
Long-term loans payable (excluding current portion)	28,185	27,241	2.48	2025 to 2032
Total	37,636	35,064	―	―

(Notes) 1. Average interest rate represents the weighted average interest rate on the balance as of December 31, 2023.
2. Repayment date represents the due date for the balance as of December 31, 2023.

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

(Million yen)

	As of December 31, 2022	As of December 31, 2023
Assets pledged as collateral		
Cash and cash equivalents	492	401
Trade and other receivables	5,150	5,928
Inventories	8,983	8,425
Other current assets	47	46
Property, plant and equipment	1,814	2,283
Intangible assets	63	49
Total	16,551	17,135
Corresponding liabilities		
Borrowings (current)	2,929	326
Bonds and borrowings (non-current)	1,255	1,040
Total	4,184	1,366

(Notes) 1. Of the above assets pledged as collateral, ¥12,360 million was an asset pledged as collateral by a U.S. consolidated subsidiary of the Company for a commitment line agreement (in a foreign currency) of USD 10 million with a financial institution.
2. 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, 2022; ¥5,978 million as of December 31, 2023) and trade and other receivables (¥6,303 million as of December 31, 2022; ¥9,358 million as of December 31, 2023).
3. 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, 2022	As of December 31, 2023
(Current liabilities)		
Financial liabilities measured at amortized cost		
Deposits received	693	719
Accounts payable-other and accrued expenses	429	815
Financial liabilities measured at fair value through profit or loss		
Derivatives liabilities	5	—
Contingent consideration	70	—
Total	1,198	1,535
(Non-current liabilities)		
Financial liabilities measured at amortized cost		
Accounts payable-other and accrued expenses	682	18
Other	4	4
Financial liabilities measured at fair value through profit or loss		
Derivatives liabilities	3	—
Total	690	23

20. Provisions

(1) Breakdown

The breakdown of provisions is as follows:

(Million yen)

	As of December 31, 2022	As of December 31, 2023
Asset retirement obligations	50	52
Restructuring provisions	26	—
Other	80	74
Total	157	127
Current liabilities	95	74
Non-current liabilities	62	52

(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, 2022	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
Provision	5	—	25	30
Intended use	(2)	(29)	(29)	(61)
Reversal	—	—	(3)	(3)
Foreign currency translation differences	—	2	5	8
Other	0	—	(5)	(5)
As of December 31, 2023	52	—	74	127

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, 2022 are provided for the restructuring expenses expected to be incurred at the Group’s consolidated subsidiaries in Industrial Materials segment in Europe.

21. Other liabilities

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

(Million yen)

	As of December 31, 2022	As of December 31, 2023
(Other current liabilities)		
Accrued consumption taxes	284	214
Accrued bonuses	2,033	2,312
Accrued directors' bonuses	89	52
Cash-settled share-based payment expenses for directors (see Note 33)	424	1,098
Obligation for paid absences	1,010	1,200
Advances received and unearned revenue (see Note 25)	709	1,176
Other	0	0
Total	4,552	6,055
(Other non-current liabilities)		
Cash-settled share-based payment expenses (see Note 33)	1	0
Cash-settled share-based payment expenses for directors (see Note 33)	114	—
Other long-term employee benefit obligations	202	201
Other	118	69
Total	436	271

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, 2022	As of December 31, 2023
Present value of funded defined benefit obligations	2,575	2,764
Fair value of plan assets	(2,380)	(2,478)
Subtotal	194	286
Present value of unfunded defined benefit obligations	5,728	5,715
Changes in the effect of the asset ceiling	—	22
Total	5,923	6,024
Amounts in the consolidated statements of financial position		
Retirement benefit liability	6,290	6,395
Retirement benefit asset	(367)	(371)
Net of liability and asset recorded in the consolidated statements of financial position	5,923	6,024

2) Changes in present value of defined benefit obligations

(Million yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Beginning balance of present value of defined benefit obligations	8,630	8,303
Current service cost	665	647
Interest expenses	54	140
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	175	(214)
Actuarial gains and losses arising from changes in financial assumptions	(1,097)	55
Other	50	(41)
Benefit payments	(573)	(534)
Foreign currency translation differences	123	89
Past service cost	32	28
Other	241	4
Ending balance of present value of defined benefit obligations	8,303	8,479

The weighted average duration of defined benefit obligations as of December 31, 2022 and December 31, 2023 was 10.4 years and 10.3 years, respectively.

3) Changes in fair value of plan assets

(Million yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Beginning balance of fair value of plan assets	2,337	2,380
Interest income	15	40
Remeasurements		
Return on plan assets, excluding interest income	(196)	65
Contributions by employers	128	135
Benefit payments	(174)	(130)
Foreign currency translation differences	25	40
Other	244	(52)
Ending balance of fair value of plan assets	2,380	2,478

The contributions for the following fiscal year are expected to be ¥29 million.

4) Changes in the effect of the asset ceiling

(Million yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Beginning balance of the effect of the asset ceiling	—	—
Remeasurements		
Changes in the effect of the asset ceiling	—	22
Ending balance of the effect of the asset ceiling	—	22

5) Fair value of plan assets

(Million yen)

	As of December 31, 2022		As of December 31, 2023	
	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	72	—	—	—
Japanese equities	140	—	—	—
Debt instruments				
Japanese bonds	459	—	—	—
Foreign bonds	244	—	215	—
General accounts of life insurance companies (Note 1)	—	1,254	—	2,028
Other (Note 2)	16	193	—	234
Total plan assets	933	1,447	215	2,263

(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, 2022 (%)	As of December 31, 2023 (%)
Discount rate	1.7	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, 2022	As of December 31, 2023
Discount rate	0.5% increase	(387)	(384)
	0.5% decrease	413	424

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 ¥2,462 million and ¥3,271 million for the fiscal years ended December 31, 2022 and December 31, 2023, 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, 2022 and December 31, 2023.

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, 2022	50,855	12,119	14,810
Changes during the period	—	—	30
Balance at December 31, 2022	50,855	12,119	14,841
Changes during the period	—	—	23
Balance at December 31, 2023	50,855	12,119	14,865

(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, 2022 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, 2023 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, 2022	1,041	1,929
Changes during the period	398	703
Balance at December 31, 2022	1,440	2,632
Changes during the period	804	1,387
Balance at December 31, 2023	2,244	4,019

(Notes) 1. 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.

2. Changes during the period for the fiscal year ended December 31, 2023 are mainly due to acquisition based on a resolution of the Meeting of the Board of Directors and delivery to the beneficiaries of the Stock Benefit Trust (BBT).

(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, 2023 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, 2022 (January 1, 2022 to December 31, 2022)

Resolution	Type of stock	Total amount of dividends (Million 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.

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

Resolution	Type of stock	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 14, 2023	Common shares	1,743	35.00	December 31, 2022	March 3, 2023
Meeting of the Board of Directors held on August 8, 2023	Common shares	1,233	25.00	June 30, 2023	September 1, 2023

(Notes) 1. 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.

2. The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on August 8, 2023 includes ¥12 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, 2022 (January 1, 2022 to December 31, 2022)

Resolution	Type of stock	Dividend resource	Total amount of dividends (Million 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.

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

Resolution	Type of stock	Dividend resource	Total amount of dividends (Million yen)	Dividend per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on February 14, 2024	Common shares	Retained earnings	1,226	25.00	December 31, 2023	March 4, 2024

(Note) The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on February 14, 2024 includes ¥11 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, 2022 and December 31, 2023, in the amount of ¥193,963 million and ¥167,726 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, 2023, the Group has partially changed the classification of reportable segments and the figures for the fiscal year ended December 31, 2022 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, 2022	Fiscal year ended December 31, 2023
Industrial Materials	Decoration (Mobility)	20,279	22,409
	Decoration (Home appliances and others)	19,523	17,688
	Sustainable materials (Metallized paper and others)	33,756	28,665
	Subtotal	73,558	68,762
Devices	Tablet devices	44,386	30,986
	Smartphones devices	10,349	5,106
	Gaming devices, Handheld terminals (logistics related), Mobility, Gas sensors and others	25,232	18,769
	Subtotal	79,968	54,862
Medical Technologies	Medical devices (contract design/development and manufacturing services)	16,330	19,058
	Medical devices (Own brand)	7,013	7,477
	Business media	9,113	9,475
	Subtotal	32,457	36,011
Other		7,978	8,088
Total		193,963	167,726

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 used 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, handheld terminals (logistics related), mobility components, and gaming devices 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 and manufacturing services for major medical device manufacturers, especially for those in North America and Europe, with products such as surgical instruments for minimal invasive medical treatments and medical wearable sensors used for a wide range of therapeutic areas. 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 “Material accounting policy information.” 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, 2022 and December 31, 2023 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, 2022	As of December 31, 2023
Contract liabilities		
Advances received (see Note 21)	709	1,176

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

2. Revenue recognized for the current fiscal year that was included in the beginning balance of contract liabilities was ¥391 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, 2022	Fiscal year ended December 31, 2023
Personnel expenses	12,725	14,352
Research and development expenses (see Note 11)	3,973	4,656
Packing and transportation costs	3,876	2,852
Depreciation and amortization	2,443	2,628
Other	8,128	8,510
Total	31,147	33,000

27. Employee benefit expenses

Employee benefit expenses were ¥37,893 million for the fiscal year ended December 31, 2022 and ¥39,363 million for the fiscal year ended December 31, 2023.

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, 2022	Fiscal year ended December 31, 2023
(Other income)		
Gain on sale of non-current assets	20	74
Foreign exchange gains	554	—
Government grants (Note 1)	173	306
Gain on forgiveness of debts (Note 2)	—	137
Change in fair value of contingent considerations (Note 3)	18	—
Other	183	179
Total	949	698
(Other expenses)		
Foreign exchange loss	—	414
Loss on sale and retirement of non-current assets	122	83
Impairment losses (Note 4)	1,461	2,722
Restructuring expenses (Note 5)	—	166
Loss on subsidiaries liquidation (Note 6)	385	—
Loss on closing of plants (Note 7)	24	—
Expenses related to idle assets (Note 8)	402	371
Product compensation expenses	107	—
Other	144	136
Total	2,646	3,894

(Notes) 1. Government grants

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 Materials segment.

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

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

2. Gain on forgiveness of debts

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

Gain on forgiveness of debts is attributable to a reduction in the consideration for businesses acquired (accounts payable) by a consolidated subsidiary in the Medical Technologies segment in the past fiscal year.

3. Change in fair value of contingent considerations

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.

4. Impairment losses

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

5. Restructuring expenses

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

Restructuring expenses are mainly related to a structural reform of Nissha Precision Technologies Malaysia Sdn. Bhd., a consolidated subsidiary in the Industrial Materials segment.

6. 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.

7. Loss on closing of plants

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.

8. Expenses related to idle assets

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.

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

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, 2022	Fiscal year ended December 31, 2023
(Finance income)		
Interest income		
Financial assets measured at amortized cost	52	480
Dividend income		
Financial assets measured at fair value through other comprehensive income	409	352
Gain on valuation of financial assets and financial liabilities measured at fair value through profit or loss	100	99
Foreign exchange gains	3,195	1,966
Other	10	—
Total	3,768	2,897
(Finance costs)		
Interest expenses		
Financial liabilities measured at amortized cost	900	1,579
Loss on valuation of financial assets and financial liabilities measured at fair value through profit or loss	8	254
Other	7	8
Total	916	1,842

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, 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

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(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	3,680	—	3,680	(1,141)	2,539
Remeasurements of defined benefit plans	282	—	282	(309)	(27)
Share of other comprehensive income of investments accounted for using equity method	—	—	—	—	—
Total of items that will not be reclassified to profit or loss	3,963	—	3,963	(1,451)	2,511
(Items that may be reclassified to profit or loss)					
Exchange differences on translation of foreign operations	3,883	—	3,883	—	3,883
Share of other comprehensive income of investments accounted for using equity method	267	—	267	—	267
Total of items that may be reclassified to profit or loss	4,151	—	4,151	—	4,151
Total other comprehensive income	8,114	—	8,114	(1,451)	6,662

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, 2022	Fiscal year ended December 31, 2023
Profit (loss) attributable to ordinary shareholders of the parent company (Million yen)	10,140	(2,988)
Adjustment to profit (loss) used to calculate diluted earnings per share (Million yen)	—	—
Profit (loss) used to calculate diluted earnings per share (Million yen)	—	—
Basic weighted average number of common shares outstanding (Thousand shares)	49,794	48,891
Adjustment to number of shares due to convertible bonds (bonds with stock acquisition rights) (Thousand shares)	—	—
Weighted average number of common shares outstanding used to calculate diluted earnings (loss) per share (Thousand shares)	—	—
Basic earnings (loss) per share (Yen)	203.65	(61.13)
Diluted earnings (loss) per share (Yen)	—	—

(Note) Diluted earnings (loss) per share 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, 2022	Fiscal year ended December 31, 2023
Acquisition of right-of-use assets by means of a lease (see Note 12)	1,254	988

(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, 2022	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
Remeasurements of lease liabilities	—	—	—	—
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
Changes due to cash flows from financing activities	(3,485)	(1,706)	—	(2,006)
Non-cash changes				
Acquisition of right-of-use assets	—	—	—	984
Remeasurements of lease liabilities	—	—	—	1,312
Foreign currency translation differences	295	1,228	—	690
Other	1,072	24	10	(208)
As of December 31, 2023	5,524	29,539	9,984	10,720

(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, 2022	Fiscal year ended December 31, 2023
Equity-settled	55	37
Cash-settled	244	600

(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, 2022	As of December 31, 2023
Book value of liabilities (see Note 21)	540	1,099
Vested portion thereof	421	981

(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 248,304 shares as of December 31, 2022 and December 31, 2023, respectively.

3) Changes in the number of points during the period

(Points)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Beginning balance of points	59,350	125,104
Increase due to points awarded	65,754	61,232
Decrease due to points exercised	—	(7,392)
Decrease due to points expired	—	—
Ending balance of points	125,104	178,944
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, 2022 and December 31, 2023 was ¥1,582 and ¥1,698, 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 as of grant date. While the exercise period was set at 10 years as of grant date for the fiscal year ended December 31, 2022, it was reviewed and changed to 7 years as of grant date for the fiscal year ended December 31, 2023.

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

	Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
	Number of rights (Shares)	Weighted average exercise price (Yen)	Number of rights (Shares)	Weighted average exercise price (Yen)
Beginning balance	15,521	113,263	18,124	125,681
Granted	2,732	96,495	—	—
Exercised	—	—	—	—
Expired	(129)	108,756	(47)	103,499
Ending balance	18,124	125,681	18,077	134,669
Ending balance of exercisable rights	12,812	133,249	14,501	134,977

(Notes) 1. The weighted average remaining period of the share-based payment plan as of December 31, 2022 and December 31, 2023 was 7 years and 2 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, 2022 and December 31, 2023 was ¥55,309 and ¥67,962, 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, 2022	Fiscal year ended December 31, 2023
Main underlying variables and estimation method thereof:		
Valuation of shares at measurement date	96,495 yen	177,583 yen
Exercise price	96,495 yen	103,127 yen
Expected volatility (Note)	40.06 %	36.77 %
Expected remaining period	10 years	3 years
Expected dividend yield	0 %	0 %
Risk free rate	3.88 %	4.23 %

(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 120,364 shares and 119,764 shares as of December 31, 2022 and December 31, 2023, respectively.

3) Changes in the number of points during the period

(Points)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Beginning balance of points	18,300	24,988
Increase due to points awarded	7,714	13,170
Decrease due to points exercised	(973)	(1,567)
Decrease due to points expired	(53)	(87)
Ending balance of points	24,988	36,504
Ending balance of exercisable points	17,473	27,455

4) Fair value of points awarded

The weighted average fair value of points awarded for the fiscal years ended December 31, 2022 and December 31, 2023 was ¥1,215 and ¥1,267, 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 19,100 shares and 95,500 shares as of December 31, 2022 and December 31, 2023, respectively.

3) Amount of liabilities

The amount of the liabilities related to the Plan was ¥1 million and ¥2 million as of December 31, 2022 and December 31, 2023, respectively. The fair value of the liabilities is estimated using the Monte Carlo simulation under the following assumptions:

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Main underlying variables and estimation method thereof:		
Valuation of shares at measurement date	1,670 yen	1,473 yen
Expected volatility (Note)	35.0 %	22.0 %
Expected remaining period	0 years	2 years
Expected dividend yield	2.0 %	3.0 %

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

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, 2022	As of December 31, 2023
Total liabilities	118,693	107,000
Cash and cash equivalents	54,325	37,854
Equity (equity attributable to owners of parent)	111,553	110,913
Ratio of equity attributable to owners of parent to total assets (%)	48.5	50.9

(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 ¥14,209 million as of December 31, 2023 (¥22,247 million as of December 31, 2022). There was no material 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, 2022	As of December 31, 2023
Profit before tax	(222)	(142)

(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 ¥13,809 million as of December 31, 2023 (¥11,022 million as of December 31, 2022).

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, 2022	As of December 31, 2023
Other comprehensive income	(1,102)	(1,381)

(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 ¥22,404 million as of December 31, 2023 (¥24,570 million as of December 31, 2022).

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, 2022	As of December 31, 2023
Profit before tax	(245)	(224)

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 ¥3,868 million as of December 31, 2023 (¥4,857 million as of December 31, 2022) 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, 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

The fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(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, 2023	703	32,550	203	33,457
Changes during the period	(42)	(3,518)	54	(3,506)
Reclassification to credit-impaired financial assets	—	—	—	—
Foreign currency translation differences	50	1,511	22	1,584
Balance at December 31, 2023	711	30,544	280	31,536

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, 2023	0	94	137	232
Increase	0	69	58	128
Decrease (intended use)	—	(6)	(11)	(18)
Decrease (reversal)	(0)	(74)	(20)	(95)
Reclassification to credit-impaired financial assets	—	—	—	—
Foreign currency translation differences	0	7	14	21
Balance at December 31, 2023	0	89	178	268

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, 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

(Million yen)

	As of December 31, 2023				
	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	28,609	28,609	28,609	–	–
Short-term borrowings	5,524	5,533	5,533	–	–
Long-term-borrowings	29,539	32,400	3,043	25,159	4,197
Bonds	9,984	10,157	45	10,112	–
Total	73,658	76,701	37,232	35,272	4,197

(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, 2022		As of December 31, 2023	
	Book value	Fair value	Book value	Fair value
Financial liabilities				
Financial liabilities measured at amortized cost				
Long-term borrowings	29,993	27,046	29,539	27,196
Bonds payables	9,973	9,967	9,984	9,977

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 “Material accounting policy information.” 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, 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.

(Million yen)

As of December 31, 2023	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	—	99	—	99
Debt instruments	—	—	1,058	1,058
Financial assets measured at fair value through other comprehensive income				
Equity instruments	13,809	—	689	14,498
Total	13,809	99	1,747	15,656
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives for which hedge accounting is not applied	—	—	—	—
Contingent consideration	—	—	—	—
Total	—	—	—	—

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, 2022		Fiscal year ended December 31, 2023	
	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	622	1,253	649	1,245
Total gain and loss				
Profit or loss (Note 1)	—	39	—	(133)
Other comprehensive income (Note 2)	26	—	4	—
Purchase	—	85	—	141
Sale	—	(84)	—	—
Other (Note 3)	—	(48)	36	(196)
Ending balance	649	1,245	689	1,058

(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 ¥45 million and ¥(133) million for the fiscal years ended December 31, 2022 and December 31, 2023, 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, 2022	Fiscal year ended December 31, 2023
	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss
Beginning balance	80	70
Total gain and loss		
Profit or loss (Note 1)	(16)	0
Issuance	—	—
Settlement	—	(78)
Other (Note 2)	7	7
Ending balance	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 ¥16 million and ¥0 million for the fiscal years ended December 31, 2022 and December 31, 2023, 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, 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
Kyoto Financial Group, Inc.	399
Nippon Shinyaku Co., Ltd.	315
Mitsubishi UFJ Financial Group, Inc.	297
Shimadzu Corporation	235
RIVERFIELD Inc.	208

As of December 31, 2023

(Million yen)

Issuer	Amount
Nintendo Co., Ltd.	7,809
HORIBA, Ltd.	1,315
NIDEC CORPORATION	1,282
SCREEN Holdings Co., Ltd.	1,221
Kyoto Financial Group, Inc.	598
Mitsubishi UFJ Financial Group, Inc.	405
Shimadzu Corporation	247
Mizuho Financial Group, Inc.	247
RIVERFIELD Inc.	223
Nippon Shinyaku Co., Ltd.	211

2) Dividend income

(Million yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Investments derecognized during the period	73	7
Investments held as of the fiscal year-end	336	344
Total	409	352

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

(Million yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Fair value at derecognition	2,079	891
Accumulated gain (loss) at derecognition	1,440	363

(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 gain of ¥1,440 million and gain of ¥242 million for the fiscal years ended December 31, 2022 and December 31, 2023, 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, 2022	As of December 31, 2023
Financial assets		
Trade and other receivables	9,482	4,413
Amount offset in accordance with the requirements for offsetting financial assets and financial liabilities	(1,749)	(1,305)
Net amount presented in the consolidated statements of financial position	7,733	3,107
Financial liabilities		
Trade and other payables	10,493	7,698
Amount offset in accordance with the requirements for offsetting financial assets and financial liabilities	(1,749)	(1,305)
Net amount presented in the consolidated statements of financial position	8,744	6,392

(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, 2022	Fiscal year ended December 31, 2023
Base remuneration and bonuses	296	253
Share-based payment expense	65	29
Total	362	282

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, 2022	As of December 31, 2023
Acquisition of property, plant and equipment and intangible assets	953	1,475

38. Contingent liabilities

Not applicable

39. Subsequent events

Issuance of bonds

At the Meeting of the Board of Directors held on January 19, 2024, 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:	2.0% per annum
(4)	Issue price:	¥100 per par value of ¥100
(5)	Issue period:	January 19, 2024 to January 19, 2025

Business combination by acquisition

The Company, pursuant to a resolution of the Meeting of the Board of Directors held on December 4, 2023, has decided to acquire an equity interest in Isometric Intermediate LLC (DBA Isometric Micro Molding) through its consolidated subsidiaries Graphic Controls Acquisition Corp. and Nissha Medical Technologies (Wisconsin), LLC (hereinafter, "NMT LLC") in the Medical Technologies segment. Following the acquisition, Isometric Intermediate LLC and its affiliated group companies (hereinafter, "Isometric") will become subsidiaries of the Company. On March 1, 2024, the Company completed the acquisition of the equity interest.

(1) Outline of the business combination

1) Name of the acquired company and the outline of business to be acquired

Name of the acquired company	Isometric Intermediate LLC
Outline of business to be acquired	Manufacturing and sales of micro and precision components for medical devices

2) Major reason for the business combination

In the Company's Medical Technologies segment, we offer high-quality and value-added products in medical devices and other related markets on a global scale. The business' mainstay contract design/development and manufacturing services employ a comprehensive business model that encompasses from OEMs of major medical devices to the design, development, and manufacturing, especially surgical instruments for minimal invasive medical treatments and medical wearable sensors.

We recognize the immense growth potential within the contract design/development and manufacturing organization (CDMO) market for medical devices and have focused our efforts on such services as a key area for driving growth of the business. Our goal is to secure and expand our pipeline by fortifying and broadening our capabilities to respond to the ever-evolving landscape of medical device innovation, particularly in the existing realm of minimal invasive surgical instruments, and explore exciting new business opportunities in areas like surgical robotics.

Isometric utilizes its proprietary tooling and process technologies related to micro injection molding to achieve single micron tolerances of micro and precision components (micro molded products) for medical devices and pharmaceutical markets. For over 30 years, Isometric has operated as a trusted solution provider engaged in the design and development, as well as the manufacturing and assemblies of micro molded products. Isometric is uniquely positioned in the micro molding industry with its in-house technologies and expertise, such as those in best-in-class tool making and molding process to control part-to-part and lot-to-lot variation, advanced measurement technology including CT scanning, development support for micro 3D printing, and micro assembly automation platforms. The Company offers its micro molded products for a wide range of uses, including endoscopic and other surgical instruments for minimal invasive medical treatments, diagnostic devices, microfluidic devices, medical wearables, ophthalmological implants, and patient monitoring equipment, contributing to the miniaturization of these medical devices. Miniaturization of medical devices is not only sought after in our existing field of minimal invasive surgical devices but also in new areas such as surgical robotics. Through this equity partnership, we will offer significant innovation opportunities for medical devices by acquiring Isometric's design for excellence (DfX) and development capabilities for component miniaturization, as well as processing technologies for micro molding such as silicone and micro two-shot molding.

3) Date of acquisition

March 1, 2024

4) Legal form of the business combination

Acquisition of equity with cash as consideration

5) Name of the company after the combination

The company name will not change.

6) Ratio of voting rights to be acquired

75.53%

7) Grounds for determining an acquiring company

The Company will acquire 75.53% of the voting rights through acquisition of equity with cash as consideration.

(2) Calculation of acquisition cost, etc.

1) Breakdown of acquisition cost and consideration for the acquired company by type

Consideration for the acquisition of equity USD 70,192,000 (including up to USD 6,500,000 in earn-outs)

2) Details and amount of major acquisition-related expenses

Advisory fee, etc. (estimate) USD 1,500,000

(3) Allocation of acquisition cost

1) Amount of goodwill to be incurred, reasons for the goodwill to be incurred, and the method and period of amortization

Not yet to be finalized at the present time.

2) Breakdown of assets to be acquired and liabilities to be assumed on the business combination date, and the breakdown thereof

Not yet to be finalized at the present time.

40. Approval of consolidated financial statements

The consolidated financial statements for the fiscal year ended December 31, 2023 were approved on March 21, 2024 by Junya Suzuki, Chairman of the Board, President and CEO of the Company and Hitoshi Koya, Executive Vice President, CFO of the Company.

Sustainability Approach and Initiatives

Our views and initiatives on sustainability are as follows. Forward-looking statements in this document represent the judgement of the Nissha Group as of the filing date of the Annual Securities Report.

The Nissha Group views sustainability as “initiatives for sustainable growth and development for both the company and society.” Based on this view, we consider social issues to be business opportunities. We strive not only to leverage our strengths to provide products and services that help solve these issues on an ongoing basis, but also to strengthen the management foundation underpinning our business activities, reduce risks that could hamper business continuance, and promote governance to ensure these are all carried out appropriately. These activities will create the economic and social values stated in our Mission, allowing us to enrich people’s lives.

The Nissha Group has set out where we want to be by the year 2030 in the form of our Sustainability Vision (long-term vision). With the integration and orchestration of the diverse capabilities of our people and our technologies, we are aiming to create social and economic value by contributing to solving global social issues related to medical, mobility, and the environment , and to achieve a 30% reduction in total CO_2 emissions in 2030 (versus 2020) with a view to becoming carbon-neutral by 2050

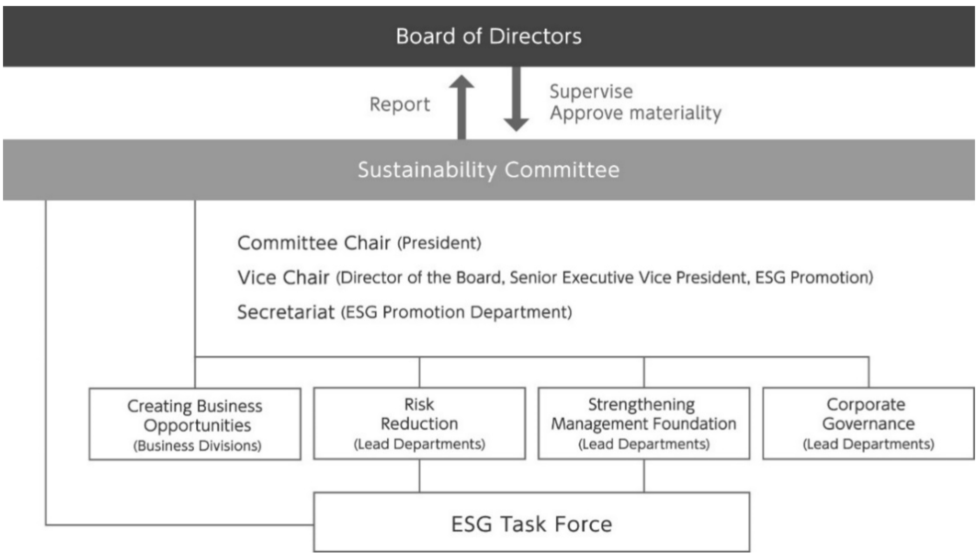
(1) Governance

Nissha has established a Sustainability Committee, chaired by the President and CEO with the Senior Executive Vice President, (ESG Promotion) as the Vice-Chair. The Committee is composed of and works in collaboration with business divisions, lead departments, and the ESG Task Force on materialities related to the themes of Creating business opportunities, Risk reduction, Strengthening management foundation, and Corporate governance.

The ESG Task Force has been established to address materialities that are considered particularly important from an ESG perspective, and is responsible for promoting activities for each of these issues.

The Sustainability Committee regularly receives and confirms progress reports on strategic items and targets (KPIs and action items) for each materiality from business divisions, lead departments, and the ESG Task Force. These activities are reported to the Board of Directors once per year.

The Board of Directors oversees the activities of the Sustainability Committee, discusses reports from the Sustainability Committee, and gives improvement instructions as necessary.



(2) Risk Management

To realize our Sustainability Vision (long-term vision), the Nissha Group have identified items of particular importance as materialities, which we are working on by setting specific strategic items, key performance indicators, and action items backcasting from 2030 as a starting point. Materialities are evaluated from the perspectives of creating business opportunities, risk reduction, strengthening management foundations, and corporate governance using the two axes of “importance to society and stakeholders”, and “importance to Nissha”. The identified issues and their position within the Group are prioritized by the Sustainability Committee, and identified through deliberations and resolutions by the Board of Directors.

The Sustainability Committee holds a general assembly once per year, in which it authorizes the strategic items and targets (KPIs and action items) set by the business divisions, lead departments, and the ESG Task Force that have primary responsibility for the materialities determined through resolutions at the Board of Directors.

Activities related to Creating business opportunities are handled by the business divisions. They report to the Chairman of the Board, President and CEO at monthly meetings (business reviews), at which the Chairman of the Board, President and CEO confirms the progress of business strategies based on KPIs and gives instructions on necessary action.

Activities related to Risk reduction, Strengthening management foundations, and Corporate governance are handled by lead departments and the ESG Task Force. They work based on the targets (KPIs and action items) approved by the Sustainability Committee and report the state of their activities to the Sustainability Committee on a quarterly basis.

(3) Strategy, organizational goals

1) Responding to Climate Change

(ⅰ) Strategy

The Nissha Group use the framework recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD) to analyze the financial impact on our business from climate change-related risks and opportunities.

Among our three main businesses, we analyzed scenarios by adding the Industrial Materials business to the Devices business, which was analyzed last year. We identified risks and opportunities on short-, medium-, and long-term time horizons, and analyzed their financial impact on our business as of 2030. We then analyzed the 1.5°C scenario, in which more progress is made in decarbonization, and the 3°C scenario, in which no progress is made in addressing climate change.

In both scenarios, although no current major risks associated with the effects of climate change were found, we will continue to implement appropriate measures to address each of these risks. As for opportunities created by the effects of climate change, we identified a growing demand that could lead to business opportunities for our company.

We will continue to monitor trends in the business environment under both the 1.5°C and 3°C scenarios and develop our business strategically.

Risk Analysis Results

<table>
<tr><th colspan="2" rowspan="2">Type</th><th rowspan="2">Changes in the external environment</th><th rowspan="2">Target business</th><th rowspan="2">Timeline</th><th rowspan="2">Risks to Nissha</th><th colspan="2">Risk magnitude [*1, 2]</th></tr>
<tr><th>3°C</th><th>1.5°C</th></tr>
<tr><td rowspan="17">Transition risk</td><td rowspan="6">Policies/laws and regulations</td><td rowspan="2">Introduction of a carbon tax</td><td rowspan="2">Industrial Materials business
Devices business</td><td rowspan="2">Medium- to long-term</td><td>Increase in production and countermeasure costs due to carbon taxation on CO_2 emissions</td><td>—</td><td>Medium</td></tr>
<tr><td>Increase in the cost of procuring raw materials needed to produce products due to the carbon taxes</td><td>—</td><td>Medium</td></tr>
<tr><td rowspan="2">Changes in national carbon emission targets and policies</td><td>Industrial Materials business
Devices business</td><td rowspan="2">Medium- to long-term</td><td>Increase in electricity procurement costs due to switch to renewable energy sources for electricity and soaring levies, etc.</td><td>Small</td><td>Small</td></tr>
<tr><td>Devices business</td><td>Increase in the cost of reducing CO_2 emissions in logistics (procurement and shipping) increases</td><td>—</td><td>Small</td></tr>
<tr><td>Introduction of plastic tax</td><td>Industrial Materials business</td><td>Medium- to long-term</td><td>Increase in the cost of procuring raw materials needed to produce products due to the progression of plastics-related regulations</td><td>—</td><td>Small</td></tr>
<tr><td>Introduction of CFC regulations</td><td>Devices business</td><td>Medium- to long-term</td><td>Restrictions on use of specified CFCs and their substitutes used at production bases increase capital investment costs</td><td>Small</td><td>Medium</td></tr>
<tr><td rowspan="4">Industries and Markets</td><td rowspan="2">Fluctuations in raw material prices</td><td rowspan="2">Industrial Materials business</td><td rowspan="2">Medium- to long-term</td><td>Increase in petrochemical material costs due to changes in crude oil demand</td><td>Medium</td><td>—</td></tr>
<tr><td>Increase in raw material costs due to increased use of reprocessed plastic</td><td>—</td><td>Small</td></tr>
<tr><td>Increase in EV sales</td><td>Industrial Materials business</td><td>Short- to long-term</td><td>Decrease in sales opportunities for EV-related products due to changes in market structure</td><td>Small</td><td>—</td></tr>
<tr><td>Changes in customer behavior (increase in requests from customers to reduce CO_2 emissions)</td><td>Devices business</td><td>Short- to medium-term</td><td>Sales decline due to lost business opportunities caused by insufficient responses to customer requests</td><td>Small</td><td>Medium</td></tr>
<tr><td rowspan="3">Technologies</td><td rowspan="3">Transition to materials and technologies with lower environmental impact</td><td rowspan="3">Devices business</td><td rowspan="3">Short- to medium-term</td><td>Costs increase due to replacing product packaging materials</td><td>—</td><td>Small</td></tr>
<tr><td>Sales decline due to substituting our products for low-carbon products made by other companies</td><td>Medium</td><td>Medium</td></tr>
<tr><td>Sales decline due to lost business opportunities resulting from delays in the development of low-carbon technologies</td><td>Medium</td><td>Medium</td></tr>
<tr><td>Reputation</td><td>Growing importance of ESG assessment in customers’ supplier selection</td><td>Devices business</td><td>Short- to medium-term</td><td>ESG assessment declines due to delays in addressing climate-related issues, and we are not chosen as a supplier resulting in a decline in sales</td><td>—</td><td>Small</td></tr>
<tr><td>Physical risks [*3]</td><td>Acute</td><td>Intensification of extreme weather</td><td>Industrial Materials business
Devices business</td><td>Short- to long-term</td><td>• Sales decline due to production delays or suspensions resulting from damage to production bases, and incidence of repair costs due to damage to company assets such as buildings, facilities, and inventory
• Sales decline due to the impact of the suspension of the supply of raw materials and parts due to disasters at suppliers</td><td>Small</td><td>Small</td></tr>
</table>

*1. Risk magnitude evaluation horizon: Annual decrease in net sales large: 20 billion yen or more, medium: 5 to 20 billion yen, small: less than 5 billion yen, annual decrease in profit: large: 3 billion yen or more, medium: 1 to 3 billion yen, small: less than 1 billion yen

*2. Scenarios in which no risks are incurred are indicated with a “—”

*3. Physical risks are evaluated by considering the degree of financial impact and frequency of occurrence

Opportunity Analysis Results

<table>
<tr><th rowspan="2">Type</th><th rowspan="2">Changes in the external environment</th><th rowspan="2">Target business</th><th rowspan="2">Timeline</th><th rowspan="2">Opportunities to Nissha</th><th colspan="2">Opportunity magnitude [*1, 2]</th></tr>
<tr><th>3°C</th><th>1.5°C</th></tr>
<tr><td rowspan="2">Policies/laws and regulations</td><td rowspan="2">Carbon price changes in national carbon emission targets and policies</td><td>Industrial Materials business
Devices business</td><td>Medium- to long-term</td><td>Expansion of demand for products that contribute to GHG emission reductions (highly recyclable decorative film moldings, gas sensor modules for refrigerant detection, etc.)</td><td>Medium</td><td>Medium</td></tr>
<tr><td>Industrial Materials business</td><td>Medium- to long-term</td><td>Increase in sales opportunities for plant-based sustainable molded products due to the progression of plastic-related regulations</td><td>—</td><td>Small</td></tr>
<tr><td rowspan="3">Industries and Markets</td><td>Increase in EV sales</td><td>Industrial Materials business
Devices business</td><td>Short- to long-term</td><td>Increase in sales opportunities for EV-related products due to changes in market structure (decorative film molded products and functional products for exteriors, touch sensors, etc.)</td><td>Small</td><td>Small</td></tr>
<tr><td>Fluctuations in raw material prices</td><td>Industrial Materials business</td><td>Medium- to long-term</td><td>Increase in sales opportunities due to increased demand for sustainable molded products as a result of the lower costs of plant-based plastics</td><td>—</td><td>Small</td></tr>
<tr><td>Arrival of a hydrogen-based society</td><td>Devices business</td><td>Medium term</td><td>Demand for fuel cell vehicles (FCVs) expands (such as hydrogen detectors)</td><td>Small</td><td>Small</td></tr>
</table>

*1. Opportunity magnitude evaluation horizon: Annual increase in net sales large: 20 billion yen or more, medium: 5 to 20 billion yen, small: less than 5 billion yen, annual increase in profit: large: 3 billion yen or more, medium: 1 to 3 billion yen, small: less than 1 billion yen

*2. Scenarios in which no opportunities are incurred are indicated with a “—”

(ⅱ) Matrics and Targets

Nissha uses total CO2 emissions as an indicator for assessing and managing risks related to climate change. In our Sustainability Vision, our goal is to reduce total CO2 emissions by 30% by 2030 (compared to 2020), with a broader aim to become carbonneutral by 2050.

2) Human capital and diversity

(ⅰ) Strategy

《Human Resources Policy》

The Human Resources Policy upon which we base our human resources strategy is taken directly from our Mission, which reflects growth both for the company and employees through diverse capabilities and passion. Nissha continues to grow by seeing changes in the market environment as business opportunities and by improving our value proposition to customers, driven by the diversification of our human resource capabilities and core technologies. Since growth through such change is at the core of the Nissha management strategy, our Human Resources Policy states clearly that management strategy and human resource strategy should be in lock-step.

Human Resources Policy

Nissha Group aims for growth both for the company and employees through diverse capabilities and passion, seeing changes in the business environment as opportunities for growth.

1. We shall develop employees who embody Nissha Philosophy and contribute to society through our business activities.
2. We shall respect diversity of employees and utilize their individuality and strengths.
3. We shall emphasize global teamwork to achieve results.
4. We shall encourage proactive actions and unconventional innovation.
5. We shall provide rich training programs and challenging growth opportunities.
6. We shall create a workplace full of energy where employees feel safe to work.

《Overall Human Resources Strategy (Strategy Map)》

The goal of our human resources strategy is to develop human resource capabilities that improve our value propositions to customers, as shown in the strategy map accompanying this section. Nissha's customers come from a wide range of industries, including mobility, medical devices, IT devices, and home appliances. Many of our customers are global companies and leaders in their industries for whom we customize important components. Servicing these customers requires human resources and teamwork to identify customer issues accurately, to combine our processing technologies, to maintain stable product quality, to make proposals, and to offer problem-solving skills that result in value to the customer. Our work is made possible by the collaboration of the Nissha group companies across countries and regions, with the cooperation of our diverse human resource capabilities.

To improve the value propositions we offer customers, we must bring together a diverse group of people with different specialties and fields of expertise to work as a team. At the same time, it is important that each individual maintains a high level of motivation. Accordingly, our human resources strategy begins with three factors: (1) improving the value propositions we offer; (2) utilizing diverse human resources; and (3) improving employee engagement. We then break down achieving these measures into factors of how to evolve our internal processes, how to change our human resources systems, how to foster an organizational culture, and other cause-and-effect relationships. Each of these measures involves KPIs and specific actions to visualize progress.

Overall Human Resources Strategy (Strategy Map)

Financial	Improving Corporate Value		
	Improving Earnings Capacity	Improving Capital Efficiency	Appropriate Disclosure of Information
Customers	Improving Value Propositions		
Internal Processes	Utilizing Diverse Human Resources	Improving Employee Engagement	
	Recruiting and Retaining Diverse Human Resources	Enhancing Opportunities for Learning and Growth	Work-Life Balance
Learning and Growth	Human Resources System That Rewards Performance	Systems That Recognize Achievements	Flexible Work Styles

(ii) Indicators and Targets

《Utilizing Diverse Human Resources》

The Nissha Group encourages all employees to express their talents fully, regardless of nationality, gender, or age. One of our Shared Values, which are principles for employee behavior, is Diversity and Inclusion. This declaration is our belief that human resources with diverse talents interact on an equal footing to enhance our organization's ability to perform. The Nissha Group identifies the ratio of female managers as one of our KPIs and a symbol of diversity. We pursue a number of initiatives to bring this ratio closer to the ratio of overall female employees in our workforce. Although the ratio of female managers in Japan remains at a relatively low level compared to overseas group companies, the percentage of female employees at the two levels immediately prior to promotion to management positions is increasing steadily. We strive to retain and develop diverse human resources through systems that encourage diverse work styles, creating comfortable workplaces and providing extensive training opportunities and practical experiences.

KPI	Target		Results	
	2023	2030	2022	2023
Female manager ratio (consolidated global)	21%	25%	21.5%	22.7%

Breakdown by Region

	(Reference) Female employee ratio	Results	
	2023	2022	2023
Consolidated global	38.5%	21.5%	22.7%
Japan (Nissha non-consolidated)	28.6%	5.9%	7.1%
North America	45.1%	32.0%	32.1%
Central & South America	68.5%	44.2%	46.5%
Europe	32.7%	19.4%	23.7%
China, Taiwan, Korea	53.2%	40.2%	42.9%
Southeast Asia	49.0%	36.4%	42.9%

《Improving Employee Engagement》

For employees to work passionately and for the company and employees to grow together, the Nissha Group believe it is important to improve employee engagement by putting in place a system that encourages this and fostering an organizational culture that is easy to work in. As one measure, we launched our first engagement survey in 2022. In the first half of 2023, the survey was expanded to include contract employees in addition to all regular employees working for the Nissha Group in Japan. In the second half of the year, we conducted a survey of overseas employees, excluding workers at factories, etc., with a total of 3,100 employees surveyed throughout the year.

The purpose of these surveys was to identify issues and improve the diverse capabilities and passions of Nissha employees, the true source of our growth. Our objective here is to move toward an ideal situation, and we intend to conduct this survey on an annual basis.

Compared to last year, there was an overall improvement in our focus indicators, indicating that the actions taken in the workplace over the past year are bearing fruit. The response rate has also improved significantly due to increased interest from employees. For further improvement, we analyze the results at the company, business, and workplace levels, linking them to specific actions. We will continue to implement initiatives to foster a corporate culture in which all employees work with passion.

KPI	Target	Results	
		2022	2023
Response rate (consolidated global)	80% or higher	83.0%	94.2%

Percentage of Positive Responses (consolidated global)	2022	2023
Will to contribute to the organization I want to contribute to Nissha	95.6%	95.5%
Organizational Commitment I am proud to work for Nissha	87.8%	89.0%
Rewarding I find my work rewarding	82.3%	83.4%
Feeling of contributing to society I feel I contribute to society through my work	78.8%	80.6%

《Enhancing Opportunities for Learning and Growth》

The Nissha Group identified developing global employees and management human resources as one of our materialities to strengthen our management foundation. Here, we continue to improve education and training, as well as provide practical opportunities for trainees. Nissha Academy, the Nissha Group in-house university, offers an extensive training program. The Business School is a selective training program within the in-house university. This is an original Nissha program that focuses on providing knowledge and skills in the proposal and execution of management strategies, with three courses available: beginner (workplace leaders), intermediate (preparation for management), and advanced (senior management). In particular, we provide opportunities for graduates of our beginner and intermediate courses to put what they have learned into practice. These opportunities include participation in important projects and the formulation of medium-term business plans. We defined the selection rate of leader candidates as a KPI to measure these efforts. Our aim is to have half of the general employees of Nissha (non-consolidated) participate in Business School (beginner and intermediate level) by the year 2030 (selection rate of 50%). In 2023, we conducted the beginnercourse for workplace leaders in two sessions, one in the first half of the year and the other in the second half. As a result, the selection rate in 2023 exceeded our target of 36%. In addition, we are expanding the Nissha Academy to overseas group companies. Nissha entities in Europe and the United States are considering their own programs. During the first half of 2023, three employees from Nissha Korea attended the beginner-level of the Business School held at the Global Headquarters in Kyoto.

The Nissha Group has various award programs for employees who have made the most of their learning, leading to the achievement of concrete results. In addition to companywide awards such as the President’s Award, which recognizes outstanding contributions to consolidated performance, we also give out the Group Company Representative Award, which honors employees who have demonstrated outstanding performance at the group companies. The global tagline, Performance Champion, honors employees who have achieved notable results, and all awards within the group use this line and iconography. We encourage employee growth, labeling employees who receive education and training through the Nissha Academy as Performance Champions who put their learning into practice in the workplace and achieve outstanding results. In this way, we aim for a future where both the company and employees grow together.

KPI	Target		Results	
	2023	2030	2022	2023
Selection rate of leader candidates (Nissha non-consolidated)	36%	50%	31.2%	43.7%