

# Financial Information

## 1. Preparation of Consolidated Financial Statements

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

## 2. Audit

The Company’s consolidated financial statements for the year ended March 31, 2020 have been audited by Deloitte Touche Tohmatsu LLC in accordance with Article 193-2-1 of the Financial Instruments and Exchange Act.

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

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

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

# Consolidated Financial Statements

## Consolidated Statement of Financial Position

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2020

	Millions of yen	
	2019	2020
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents (Note 7)	¥ 411,055	¥ 324,034
Trade and other receivables (Note 8)	115,847	87,779
Inventories (Note 9)	253,336	246,530
Other current financial assets (Notes 10 and 34)	3,145	2,901
Other current assets (Note 11)	15,306	15,960
<b>Total current assets</b>	<b>798,689</b>	<b>677,203</b>
<b>Non-current assets:</b>		
Property, plant and equipment (Note 12)	116,119	106,369
Right-of-use assets (Note 16)	—	15,265
Goodwill and intangible assets (Note 13)	59,176	46,895
Net defined benefit assets (Note 23)	5,097	4,624
Investments accounted for using the equity method (Note 15)	9,748	10,002
Other non-current financial assets (Notes 10 and 34)	91,263	84,068
Deferred tax assets (Note 17)	51,383	58,890
Other non-current assets (Note 11)	3,508	2,564
<b>Total non-current assets</b>	<b>336,296</b>	<b>328,677</b>
<b>Total assets</b>	<b>¥ 1,134,985</b>	<b>¥ 1,005,881</b>

	Millions of yen	
	2019	2020
<b>LIABILITIES / EQUITY</b>		
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Trade and other payables (Note 18)	¥ 96,493	¥ 68,856
Bonds and borrowings (Notes 19 and 34)	14,400	20,950
Income tax payable (Note 17)	8,222	1,845
Advances received (Note 26)	192,862	175,894
Provisions (Note 20)	5,619	5,161
Other current financial liabilities (Notes 21 and 34)	27,006	27,210
Other current liabilities (Note 22)	38,961	30,238
<b>Total current liabilities</b>	<b>383,564</b>	<b>330,154</b>
<b>Non-current liabilities:</b>		
Bonds and borrowings (Notes 19 and 34)	112,010	102,778
Net defined benefit liabilities (Note 23)	9,031	11,047
Provisions (Note 20)	4,944	4,989
Deferred tax liabilities (Note 17)	4,063	3,589
Other non-current financial liabilities (Notes 21 and 34)	2,140	9,232
Other non-current liabilities (Note 22)	2,507	2,332
<b>Total non-current liabilities</b>	<b>134,695</b>	<b>133,966</b>
<b>Total liabilities</b>	<b>518,259</b>	<b>464,121</b>
<b>EQUITY</b>		
Capital stock (Note 24)	65,476	65,476
Capital surplus (Note 24)	81,424	46,369
Treasury stock (Note 24)	(13,044)	(17,639)
Other components of equity (Note 24)	(19,992)	(39,502)
Retained earnings (Note 24)	502,056	485,948
Equity attributable to owners of the parent	615,920	540,652
Non-controlling interests	806	1,108
<b>Total equity</b>	<b>616,726</b>	<b>541,760</b>
<b>Total liabilities and equity</b>	<b>¥ 1,134,985</b>	<b>¥ 1,005,881</b>

## Consolidated Statement of Profit or Loss

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2020

	Millions of yen			
		2019		2020
<b>Revenue</b> (Note 26)	¥	708,660	¥	<b>591,012</b>
<b>Cost of sales</b> (Note 9)		(405,250)		<b>(368,978)</b>
Gross profit		303,410		<b>222,034</b>
Selling, general and administrative expenses (Note 27)		(238,561)		<b>(205,698)</b>
Other income (Note 28)		21,912		<b>6,447</b>
Other expenses (Note 28)		(4,107)		<b>(16,032)</b>
Operating profit		82,653		<b>6,751</b>
Finance income (Note 29)		7,333		<b>5,204</b>
Finance costs (Note 29)		(3,833)		<b>(1,908)</b>
Share of the profit of investments accounted for using the equity method (Note 15)		1,762		<b>1,816</b>
<b>Profit before income taxes</b>		87,915		<b>11,864</b>
<b>Income tax expense</b> (Note 17)		(21,318)		<b>(4,022)</b>
<b>Profit for the year</b>		66,597		<b>7,842</b>
<b>Attributable to:</b>				
Owners of the parent		66,513		<b>7,693</b>
Non-controlling interests		84		<b>149</b>
Total	¥	66,597	¥	<b>7,842</b>
<b>Earnings per share:</b>				
Basic earnings per share (Yen) (Note 30)	¥	167.86	¥	<b>19.93</b>
Diluted earnings per share (Yen) (Note 30)		167.30		<b>19.85</b>

## Consolidated Statement of Comprehensive Income

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2020

	Millions of yen			
		2019		2020
<b>Profit for the year</b>	¥	66,597	¥	<b>7,842</b>
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Gain on financial assets measured at fair value through other comprehensive income (Note 31)		(4,591)		<b>(5,699)</b>
Remeasurement of defined benefit pension plans (Notes 23 and 31)		(999)		<b>(1,998)</b>
Share of other comprehensive income (loss) of investments accounted for using the equity method (Note 31)		24		<b>2</b>
Total of items that will not be reclassified subsequently to profit or loss		(5,566)		<b>(7,695)</b>
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations (Note 31)		2,669		<b>(12,019)</b>
Effective portion of the change in fair value on cash flow hedges (Note 31)		(147)		<b>32</b>
Share of other comprehensive loss of investments accounted for using the equity method (Note 31)		(32)		<b>(129)</b>
Total of items that may be reclassified subsequently to profit or loss		2,490		<b>(12,116)</b>
Other comprehensive income, net of taxes		(3,076)		<b>(19,811)</b>
<b>Total comprehensive income for the year</b>	¥	63,520	¥	<b>(11,969)</b>
<b>Attributable to:</b>				
Owners of the parent		63,447		<b>(12,043)</b>
Non-controlling interests		73		<b>74</b>
Total comprehensive income for the year	¥	63,520	¥	<b>(11,969)</b>

# Consolidated Statement of Changes in Equity

Nikon Corporation and Consolidated Subsidiaries

Year ended March 31, 2020

Millions of yen

	Equity attributable to owners of the parent												
	Capital stock	Capital surplus	Treasury stock	Other components of equity					Total	Retained earnings	Total	Non-controlling interests	Total equity
				Gain (loss) on financial assets measured at fair value through other comprehensive income	Remeasurement of defined benefit pension plans	Share of other comprehensive income (loss) of investments accounted for using the equity method	Exchange differences on translation of foreign operations	Effective portion of the change in fair value on cash flow hedges					
<b>As of April 1, 2018</b>	¥ 65,476	¥ 81,333	¥ (13,152)	¥ 12,726	¥ —	¥ (799)	¥ (30,406)	¥ 169	¥ (18,310)	¥ 457,561	¥ 572,908	¥ 633	¥ 573,541
Profit for the year	—	—	—	—	—	—	—	—	—	66,513	66,513	84	66,597
Other comprehensive income (loss) (Note 31)	—	—	—	(4,594)	(999)	(9)	2,683	(147)	(3,066)	—	(3,066)	(10)	(3,076)
Total comprehensive income (loss) for the year	—	—	—	(4,594)	(999)	(9)	2,683	(147)	(3,066)	66,513	63,447	73	63,520
Dividends (Note 25)	—	—	—	—	—	—	—	—	—	(20,634)	(20,634)	(40)	(20,674)
Acquisition and disposal of treasury stock (Note 24)	—	(0)	(3)	—	—	—	—	—	—	—	(3)	—	(3)
Share-based payments (Note 33)	—	91	111	—	—	—	—	—	—	—	202	—	202
Changes in the ownership interest in subsidiaries	—	—	—	—	—	—	—	—	—	—	—	139	139
Transfer from other components of equity to retained earnings	—	—	—	413	999	(27)	—	—	1,384	(1,384)	—	—	—
Total transactions with owners	—	91	108	413	999	(27)	—	—	1,384	(22,018)	(20,435)	99	(20,336)
<b>As of March 31, 2019</b>	65,476	81,424	(13,044)	8,544	—	(835)	(27,723)	21	(19,992)	502,056	615,920	806	616,726
Profit for the year	—	—	—	—	—	—	—	—	—	7,693	7,693	149	7,842
Other comprehensive income (loss) (Note 31)	—	—	—	(5,666)	(1,998)	(127)	(11,976)	32	(19,736)	—	(19,736)	(75)	(19,811)
Total comprehensive income (loss) for the year	—	—	—	(5,666)	(1,998)	(127)	(11,976)	32	(19,736)	7,693	(12,043)	74	(11,969)
Dividends (Note 25)	—	—	—	—	—	—	—	—	—	(23,576)	(23,576)	(42)	(23,618)
Acquisition and disposal of treasury stock (Note 24)	—	(42)	(40,002)	—	—	—	—	—	—	—	(40,043)	—	(40,043)
Cancellation of treasury stock (Note 24)	—	(35,279)	35,279	—	—	—	—	—	—	—	—	—	—
Share-based payments (Note 33)	—	266	128	—	—	—	—	—	—	—	394	—	394
Changes in the ownership interest in subsidiaries	—	—	—	—	—	—	—	—	—	—	—	270	270
Transfer from other components of equity to retained earnings	—	—	—	(1,770)	1,998	(3)	—	—	225	(225)	—	—	—
Total transactions with owners	—	(35,055)	(4,594)	(1,770)	1,998	(3)	—	—	225	(23,801)	(63,225)	228	(62,997)
<b>As of March 31, 2020</b>	¥ 65,476	¥ 46,369	¥ (17,639)	¥ 1,108	¥ —	¥ (964)	¥ (39,699)	¥ 53	¥ (39,502)	¥ 485,948	¥ 540,652	¥ 1,108	¥ 541,760

# Consolidated Statement of Cash Flows

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2020

Millions of yen

	2019	2020
<b>Cash flows from operating activities:</b>		
Profit before income taxes	¥ 87,915	¥ 11,864
Depreciation and amortization	27,805	34,105
Impairment losses	1,023	11,275
Interest and dividend income	(5,086)	(3,911)
Share of the (profit) loss of investments accounted for using the equity method	(1,762)	(1,816)
Losses (gains) on sale of property, plant and equipment	(109)	(4,123)
Interest expenses	1,515	1,721
Decrease (increase) in trade and other receivables	(12,077)	25,788
Decrease (increase) in inventories	(18,185)	1,034
Increase (decrease) in trade and other payables	(18,739)	(24,533)
Increase (decrease) in advances received	15,149	(15,561)
Increase (decrease) in provisions	(1,173)	(224)
Other, net	7,375	(7,949)
Subtotal	83,651	27,668
Interest and dividend income received	6,321	5,498
Interest expenses paid	(1,409)	(1,693)
Income taxes (paid) refund	(19,662)	(15,054)
Net cash provided by operating activities	68,901	16,419
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(20,827)	(19,463)
Proceeds from sale of property, plant and equipment	2,807	4,505
Purchases of intangible assets	(7,566)	(5,968)
Payments for acquisition of shares of subsidiaries resulting in changes in the consolidation scope	(2,380)	—
Purchases of investment securities	(6,281)	(7,802)
Proceeds from sale of investment securities	651	5,870
Transfers to time deposits	(1,327)	(370)
Proceeds from withdrawal of time deposits	8,403	481
Other, net	1,216	1,467
Net cash used in investing activities	(25,304)	(21,281)
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in short-term loans payable (Note 32)	(50)	(2,250)
Repayment of lease obligations (Note 32)	(798)	(7,194)
Cash dividends paid (Note 25)	(20,621)	(23,552)
Cash dividends paid to non-controlling interests	(40)	(42)
Purchase of treasury shares	(3)	(40,002)
Other, net	(71)	301
Net cash used in financing activities	(21,583)	(72,739)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>603</b>	<b>(9,421)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>22,617</b>	<b>(87,021)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>388,438</b>	<b>411,055</b>
<b>Cash and cash equivalents at the end of the year (Note 7)</b>	<b>¥ 411,055</b>	<b>¥ 324,034</b>

# Notes to Consolidated Financial Statements

Nikon Corporation and Consolidated Subsidiaries  
Year ended March 31, 2020

## 1. Reporting Entity

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

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

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

The Company's major subsidiaries and associates are described in the appendix of Note 36. Subsidiaries, Associates Companies, and Joint Ventures.

## 2. Basis of Preparation

### (1) Compliance with IFRS

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

### (2) Basis of Measurement

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

### (3) Functional Currency and Presentation Currency

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

### (4) Approval of the Consolidated Financial Statements

The consolidated financial statements were approved for issuance by Toshikazu Umatate, Representative Director, President and Muneaki Tokunari, Director, Executive Vice President on June 26, 2020.

### (5) Early Adoption of New Standards

The Group has prepared the accompanying consolidated financial statements in accordance with IFRS that were effective as of March 31, 2020, and has no standards, early adopted.

## (6) Adoption of New Standards and Interpretations

The Group adopted IFRS 16 “Leases” (hereinafter, “IFRS 16”) from the year ended March 31, 2020:

Standard	Title	Reporting period beginning on or after which application is required	Reporting period of application by the Group (the reporting period ended)	Summary of new IFRS and amendments
IFRS 16	Leases	January 1, 2019	March 31, 2020	Accounting and relevant disclosure requirements for leases

In transitioning to IFRS 16, the Group chose the practical expedient detailed in IFRS 16 paragraph C3 and grandfathered its assessments of whether contracts are lease contracts or contracts that contain leases based on International Accounting Standard (IAS) 17 “Leases” (hereinafter, “IAS 17”) and International Financial Reporting Interpretation Committee (IFRIC) 4 “Determining whether an Arrangement contains a Lease.” For contracts with lease commencement dates after the date of application, assessments have been based on IFRS 16.

For leases that were previously classified as finance leases under IAS 17 and in which the Group was the lessee, the carrying amounts of right-of-use assets and lease liabilities at the date of initial application of IFRS 16 were the carrying amounts of lease assets and lease liabilities based on IAS 17 as of March 31, 2019.

For leases that were previously classified as operating leases under IAS 17 and in which the Group was the lessee, the right-of-use assets and lease liabilities were recognized at the date of initial application in accordance with IFRS 16 paragraph C8. Lease liabilities were measured at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate at the date of initial application. The weighted average of the lessee’s incremental borrowing rate was 0.9%. Right-of-use assets were initially measured at the initial measurement amount of the lease liability and were adjusted for factors such as prepaid lease payments. In addition, the Group applied the following practical expedients in the application of IFRS 16.

- As an alternative to performing an impairment review, the Group relied on its assessment of whether leases are onerous in accordance with IAS 37 “Provision, Contingent Liabilities and Contingent Assets” immediately before the date of initial application.
- Leases with lease terms that will end within 12 months of the date of initial application were accounted for in the same way as short-term leases.
- Initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application.

Upon the adoption of IFRS 16, the Group retrospectively recognized the cumulative effect of initial application as a transitional measure in accordance with IFRS 16 paragraph C5 (b), which was recognized at the date of initial application (April 1, 2019). The following table is a reconciliation of non-cancelable operating lease contracts under IAS 17 as of March 31, 2019 and lease liabilities recognized in the consolidated statement of financial position at the date of initial application.

Non-cancelable operating lease contracts	4,523
(a) Finance lease liabilities as of March 31, 2019	2,582
(b) Cancelable operating lease contracts	14,169
(c) Leases accounted as short-term leases or leases of low-value assets	(1,717)
Lease liabilities recognized in the consolidated statement of financial position at the date of initial application	19,557

(Note) Lease liabilities are included in other current financial liabilities and other non-current financial liabilities in the consolidated statement of financial position.

The right-of-use asset recognized in the Consolidated Statement of Financial Position was ¥19,729 million, using the transitional measures of IFRS 16 C5(b) at the date of initial application.

The transfer amount from finance leases included in the Property, plant and equipment in the previous consolidated fiscal year was ¥2,529 million, and the amount related to leases classified as operating lease in the previous consolidated fiscal year was ¥17,200 million.



### **3. Significant Accounting Policies**

#### **(1) Basis of Consolidation**

##### **1) Subsidiaries**

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

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

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

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

## **2) Investments in Associates and Joint Ventures**

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

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

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

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

## **(2) Business Combinations**

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

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

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

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

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

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

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

### **(3) Foreign Currencies**

#### **1) Functional Currency and Presentation Currency**

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

#### **2) Foreign Currency Transactions**

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

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

#### **3) Foreign Operations**

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

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

### **(4) Financial Instruments**

#### **1) Non-derivative Financial Assets**

##### **(i) Initial recognition and measurement**

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

##### **a) Financial assets measured at amortized cost**

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

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

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

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

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

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

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

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

(ii) Derecognition of financial assets

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

(iii) Impairment of financial assets measured at amortized cost

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

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

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

- Financial condition of debtors
- Actual credit losses occurring in prior years
- Overdue information in prior years

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

## 2) Non-derivative Financial Liabilities

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

(i) Financial liabilities measured at amortized cost

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

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

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

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

(iii) Derecognition of financial liabilities

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

## 3) Presentation of Offsetting Financial Assets and Financial Liabilities

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

#### **4) Fair Value Measurement of Financial Instruments**

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

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

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

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

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

#### **(5) Derivative Financial Instruments and Hedge Accounting**

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

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

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

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

##### **1) Fair Value Hedges**

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

##### **2) Cash Flow Hedges**

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

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

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

## **(6) Share Capital**

### **1) Ordinary Shares**

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

### **2) Treasury Stock**

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

### **(7) Cash and Cash Equivalents**

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

### **(8) Inventories**

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

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

### **(9) Property, Plant and Equipment**

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

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

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

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

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

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

## **(10) Intangible Assets**

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

### **1) Intangible Assets Acquired Separately**

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

### **2) Intangible Assets Acquired in a Business Combination**

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

### **3) Internally Generated Intangible Assets**

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

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

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

The other expenditures are recognized as expenses as incurred.

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

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

The estimated useful lives of intangible assets are as follows:

Technology-related assets	13 years
Software	5 years

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

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

## **(11) Goodwill**

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

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

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

## **(12) Leases**

### **(For the year ended March 31, 2019)**

The Group determines whether an arrangement, comprising a transaction, is or contains a lease based on an evaluation of the substance of the arrangement at the commencement of the lease term. The substance of the arrangement is determined based on whether the performance of the arrangement depends on a right to use a specific asset or assets, or whether a right to use the leased assets is entitled according to the lease arrangement.

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### **1) Finance Leases (the Group as Lessee)**

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Assets held under finance leases are depreciated using the straight-line method over the shorter of the lease term or their estimated useful lives.

Minimum lease payments are apportioned between an interest portion and a principal portion. The interest portion is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the lease term.

#### **2) Operating Leases (the Group as Lessee)**

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

#### **3) Finance Leases (the Group as Lessor)**

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

#### **4) Operating Leases (the Group as Lessor)**

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

### **(For the year ended March 31, 2020)**

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

#### **1) the Group as Lessee**

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

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

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

#### **2) the Group as Lessor**

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

##### **(a) Finance Leases**

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

##### **(b) Operating Leases**

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



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

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

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

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

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

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

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

When there are indications that an impairment loss recognized in prior periods may no longer exist or may have decreased since the last recognition of the impairment loss, the impairment loss recognized in prior years for an asset or a cash-generating unit other than goodwill is reversed. The reversal of an impairment loss is recognized to the extent where the carrying amount of the asset or the cash-generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the cash-generating unit in prior years.

### **(14) Non-current Assets Held for Sale**

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

### **(15) Employee Benefit**

#### **1) Post-employment Benefits**

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

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

##### **i) Defined benefit plans**

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

##### **ii) Defined contribution plans**

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

rendered by employees.

## **2) Other Long-term Employee Benefits**

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

## **3) Short-term Employee Benefits**

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

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

## **(16) Share-based Payment**

### **1) Stock Option Scheme**

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

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

### **2) Performance- and Share-based Payment Scheme**

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

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

## **(17) Provisions**

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

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

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

### **1) Provision for Product Warranties**

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

### **2) Asset Retirement Obligations**

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

## **(18) Revenue Recognition**

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

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The Imaging Products Business provides products for imaging and its peripheral domain, such as digital SLR cameras, compact digital cameras, and interchangeable camera lenses. The Precision Equipment Business provides products with regard to the FPD lithography system and semiconductor lithography system. The Healthcare Business provides products for bioscience and ophthalmic diagnosis fields, such as biological microscopes, cell culture observation systems, and ultra-wide field retinal imaging devices. The Industrial Metrology and Others provide products such as industrial microscopes, measuring instruments, X-ray/CT inspection systems, and surveying instruments. The Group also renders services related to products, such as warranty, repair and maintenance, and relocation services.

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

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

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

## **(19) Government Grants**

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

## **(20) Income Taxes**

Income taxes for the year comprise current and deferred income taxes. Income taxes are recognized in profit or loss except to the extent that they arise from items recognized in other comprehensive income or directly in equity, or from a business combination.

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

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

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

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

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

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

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

## **(21) Earnings per Share**

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

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

## 4. Use of Estimates and Judgment

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

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period of the revision and future periods.

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

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

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

- The useful lives of property, plant and equipment and intangible assets (see Note 3. Significant Accounting Policies (9) Property, Plant and Equipment, (10) Intangible Assets and (12) Leases)
- Significant assumptions used in the calculation of the expected discounted cash flows for the impairment test of non-financial assets (see Note 14. Impairment Losses of Non-financial Assets and 39. Additional Information)
- Recoverability of deferred tax assets (see Note 17. Income Taxes and 39. Additional Information)
- Accounting treatment and valuation of provisions (see Note 20. Provisions)
- Fair value measurement for financial instruments (see Note 34. Financial Instruments)
- Measurement of inventories (see Note 9. Inventories)
- Employee benefits (see Note 23. Employee Benefits)
- Share-based payments (see Note 33. Share-based Payment)
- The possibility of an outflow of economic resources of contingent liabilities (see Note 37. Contingent Liabilities)

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

The new standards, interpretations, and amendments that have been issued as of March 31, 2020 are not presented because the impacts are immaterial.

## **6. Segment Information**

### **(1) Outline of Reportable Business Segments**

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

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

The Imaging Products Business provides products and services of imaging and its peripheral domains, such as digital SLR cameras, compact digital cameras, and interchangeable camera lenses. The Precision Equipment Business provides products and services with regard to the FPD lithography system and semiconductor lithography system. The Healthcare Business provides products and services for bioscience and ophthalmic diagnosis fields, such as biological microscopes, cell culture observation systems, and ultra-wide field retinal imaging devices.

## (2) Information about Reportable Business Segments

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

The intersegment revenues are based on current market prices.

The information about reportable segments is as follows:

For the year ended March 31, 2019	Millions of yen						
	Imaging Products	Precision Equipment	Healthcare	Industrial Metrology and Others (Note 1)	Total	Reconciliation (Note 2)	Consolidated
Revenue							
External customers	296,169	274,540	65,434	72,518	708,660	—	708,660
Intersegment sales or transfers	1,215	398	204	61,268	63,085	(63,085)	—
Total	297,383	274,938	65,638	133,786	771,745	(63,085)	708,660
Segment profit (loss) (Note 3)	22,069	81,730	(1,937)	6,937	108,799	(26,146)	82,653
Finance income							7,333
Finance costs							(3,833)
Share of the profit of investments accounted for using the equity method							1,762
Profit before income taxes							87,915
Segment assets	139,673	198,591	101,948	132,792	573,005	561,980	1,134,985
Others							
Impairment losses (Note 4)	365	—	—	657	1,023	—	1,023
Depreciation and amortization	9,745	2,714	3,539	6,526	22,524	5,281	27,805
Increase in property, plant and equipment, goodwill and intangible assets	6,426	4,171	3,244	9,391	23,232	4,378	27,610

Notes: 1. The "Industrial Metrology and Others" category consists of operations not included in the reportable segments, such as the Industrial Metrology Business, the Glass Business, and the Customized Products Business.

2. Regarding segment profit (loss), reconciliation is made between segment profit (loss) and operating profit reported in the consolidated statement of profit or loss. Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥668 million, cumulative translation differences of ¥(545) million reclassified to profit or loss due to the liquidation of a foreign subsidiary, and corporate profit (loss) of ¥(26,269) million that cannot be attributed to any segments. The main components of corporate profit (loss) are fundamental research expenses, general and administrative expenses of headquarter functions, expenses incurred to establish new business, and other income or expenses that cannot be attributed to any segments. Regarding segment assets, reconciliation is made between segment assets and assets reported in the consolidated statement of financial position. In addition, reconciliation of segment assets includes corporate assets of ¥573,888 million that is not attributed to any segments, and elimination of intersegment transactions of ¥(11,908) million. Principal components of corporate assets are surplus funds (cash and cash equivalents) held by the Company and its consolidated subsidiaries; long-term investments (shares); deferred tax assets; and some non-current assets used in common.

3. Out of the total restructuring costs of ¥(1,841) million recognized in "Other expenses" reported in the consolidated statement of profit or loss, ¥(605) million and ¥(691) million are recognized in the segment profit (loss) for the Imaging Products Business and the Industrial Metrology and Others, respectively. Restructuring costs of ¥(545) million for the cumulative translation differences due to the liquidation of a foreign subsidiary are recognized in reconciliation of segment profit (loss).

4. The main components of the impairment losses are described in "14. Impairment Losses on Non-financial Assets."



For the year ended March 31, 2020	Millions of yen							
	Imaging Products	Precision Equipment	Healthcare	Industrial Metrology and Others (Note 1)	Total	Reconciliation (Note 2)	Consolidated	
Revenue								
External customers	225,894	239,728	62,024	63,366	591,012	—	591,012	
Intersegment sales or transfers	902	378	269	58,773	60,322	(60,322)	—	
Total	226,796	240,106	62,293	122,139	651,334	(60,322)	591,012	
Segment profit (loss) (Note 3)	(17,153)	46,774	(2,455)	3,185	30,351	(23,600)	6,751	
Finance income								5,204
Finance costs								(1,908)
Share of the profit of investments accounted for using the equity method								1,816
Profit before income taxes								11,864
Segment assets	105,285	200,767	102,941	109,089	518,082	487,798	1,005,881	
Others								
Impairment losses (Note 4)	7,458	—	—	3,816	11,275	—	11,275	
Depreciation and amortization	11,556	4,323	4,401	7,391	27,671	6,434	34,105	
Increase in property, plant and equipment, right-of-use assets, goodwill and intangible assets (Note 5)	13,629	7,875	4,523	7,197	33,224	14,007	47,231	

- Notes: 1. The "Industrial Metrology and Others" category consists of operations not included in the reportable segments, such as the Industrial Metrology Business, the Glass Business, and the Customized Products Business.
2. Regarding segment profit (loss), reconciliation is made between segment profit (loss) and operating profit reported in the consolidated statement of profit or loss. Reconciliation of segment profit (loss) includes elimination of intersegment transactions of ¥(2,134) million, cumulative translation differences of ¥(1,753) million reclassified to profit or loss due to the liquidation of a foreign subsidiary, and corporate profit (loss) of ¥(19,713) million. Out of the corporate profit (loss) of ¥(19,713) million, gains from sales of land of ¥3,888 million are recognized in "Other income" reported in the consolidated statement of profit or loss. The main components of corporate profit (loss) are fundamental research expenses, general and administrative expenses of headquarter functions, expenses incurred to establish new business, and other income or expenses that cannot be attributed to any segments. Regarding segment assets, reconciliation is made between segment assets and assets reported in the consolidated statement of financial position. In addition, reconciliation of segment assets includes corporate assets of ¥499,356 million that is not attributed to any segments, and elimination of intersegment transactions of ¥(11,557) million. Principal components of corporate assets are surplus funds (cash and cash equivalents) held by the Company and its consolidated subsidiaries; long-term investments (shares); deferred tax assets; and some non-current assets used in common.
3. Out of the total restructuring costs of ¥(4,573) million recognized in "Other expenses" reported in the consolidated statement of profit or loss, ¥(2,737) million and ¥(83) million are recognized in the segment profit (loss) for the Imaging Products Business and the Industrial Metrology and Others, respectively. Restructuring costs of ¥(1,753) million for the cumulative translation differences due to the liquidation of a foreign subsidiary are recognized in reconciliation of segment profit (loss).
4. The main components of the impairment losses are described in "14. Impairment Losses on Non-financial Assets."
5. Due to the implementation of IFRS 16, ¥17,200 million has increased at the date of initial application. Out of ¥17,200 million, ¥5,373 million for the Imaging Products Business, ¥2,327 million for the Precision Equipment Business, ¥1,706 million for the Healthcare Business, ¥2,953 million for Industrial Metrology and Others, and ¥4,840 million for corporate assets has increased.

### (3) Geographic Information

#### Revenue to external customers

	Millions of yen	
	2019	2020
Japan	92,270	87,819
United States	172,125	200,745
Europe	118,183	87,553
China	199,508	115,222
Others	126,575	99,672
Total	708,660	591,012

- Notes: Revenue is based on the geographic locations of customers, which are categorized either by country or region. Except for Japan, the United States, and China, the countries or regions are primarily categorized as follows:
1. Europe: United Kingdom, France, and Germany
  2. Others: Canada, Asia other than Japan and China, the Middle East, Oceania, and Latin America

## Non-current assets

	Millions of yen	
	2019	2020
Japan	102,841	97,775
North America	4,786	5,606
Europe	48,290	44,637
China	1,169	1,516
Thailand	19,818	18,253
Others	1,900	3,307
<b>Total</b>	<b>178,804</b>	<b>171,094</b>

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

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

1. North America: the United States and Canada

2. Europe: United Kingdom, France, and Germany

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

Financial instruments, deferred tax assets, and net defined benefit assets are not included in the above.

### (4) Information about Major Customers

There is a customer group who contributed 10% or more to the consolidated revenue for the year ended March 31, 2020. The revenue recognized from this customer group for the year ended March 31, 2019 was ¥80,602 million (Precision Equipment Business and Industrial Metrology and Others), and ¥107,347 million (Precision Equipment Business and Industrial Metrology and Others) for the year ended March 31, 2020.

## 7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	Millions of yen	
	2019	2020
Cash and cash equivalents		
Cash and bank deposits	305,805	154,665
Time deposits with maturities within three months at acquisition	105,250	169,369
<b>Total</b>	<b>411,055</b>	<b>324,034</b>

## 8. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

	Millions of yen	
	2019	2020
Notes and accounts receivable	86,593	78,116
Lease receivables	10,187	10,292
Other receivables	20,654	899
Less: allowance for doubtful accounts	(1,587)	(1,528)
<b>Total</b>	<b>115,847</b>	<b>87,779</b>

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

As for allowance for doubtful accounts, please see (5) Credit Risk Management in Note 34. Financial Instruments.

## 9. Inventories

The breakdown of inventories is as follows:

	Millions of yen	
	2019	2020
Finished goods	114,710	105,873
Work in progress	108,851	107,299
Raw materials and supplies	29,774	33,358
Total	253,336	246,530

The amount of inventories that were expensed for the year ended March 31, 2019 was cost of sales of ¥405,064 million and ¥583 million. Cost of sales includes ¥4,428 million of inventories written down to net realizable value. Other expenses include ¥583 million of losses on write-downs due to the withdrawal from low profitability in the Industrial Metrology business, which are recognized as “Restructuring costs”.

The amount of inventories that were expensed for the year ended March 31, 2020 was cost of sales of ¥368,795 million and ¥514 million. Cost of sales includes ¥2,655 million of inventories written down to net realizable value. Other expenses include ¥514 million of losses on write-downs due to review of sale’s mix in the Imaging Business.

## 10. Other Financial Assets

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

	Millions of yen	
	2019	2020
Derivative financial assets	2,219	1,502
Equity securities	75,848	64,312
Others	16,341	21,156
Total	94,409	86,970
Other current financial assets	3,145	2,901
Other non-current financial assets	91,263	84,068

As for the classification of financial assets, please see (2) Classification of Financial Instruments in Note 34. Financial Instruments.

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

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

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

Name of Shares	Millions of yen	
	2019	2020
JEOL Ltd.	8,566	11,339
MITSUBISHI ESTATE CO., LTD.	4,870	3,873
Mitsubishi Corporation	4,604	3,432
Tokio Marine Holdings, Inc.	3,188	2,943
Velodyne LiDAR, Inc.	2,775	2,721
Mitsubishi Logistics Corporation	3,573	2,523
Mitsubishi Electric Corporation	2,512	2,358
HEALIOS K.K.	2,644	2,317
Citizen Watch Co., Ltd.	3,089	1,922
Mitsubishi Materials Corporation	2,246	1,702

**(3) The Fair Value at the Date of Derecognition and the Accumulated Gain or Loss Recognized as Other Comprehensive Income in Equity**  
**For the year ended March 31, 2019**

		Millions of yen
Fair value	Accumulated gain or loss recognized as other comprehensive income in equity	
	651	(413)

**For the year ended March 31, 2020**

		Millions of yen
Fair value	Accumulated gain or loss recognized as other comprehensive income in equity	
	5,889	1,770

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

**11. Other Assets**

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

		Millions of yen	
		2019	2020
Consumption taxes receivable		3,680	5,416
Prepaid expenses		8,503	5,119
Refundable income taxes		725	3,060
Others		5,907	4,929
Total		18,815	18,524
Other current assets		15,306	15,960
Other non-current assets		3,508	2,564

## 12. Property, Plant and Equipment

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

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

#### Acquisition costs

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
<b>As of April 1, 2018</b>	138,959	203,043	15,726	7,299	86,782	451,809
Acquisition	314	823	—	17,338	1,466	19,942
Acquisition through business combinations	119	27	229	10	129	513
Disposals	(1,396)	(7,761)	—	(63)	(6,416)	(15,636)
Transfer from other accounts	2,480	6,625	—	(17,565)	3,682	(4,778)
Effect of foreign currency exchange differences	519	802	41	7	289	1,658
<b>As of March 31, 2019</b>	140,995	203,560	15,996	7,026	85,932	453,508
Changes in accounting policy	(2,226)	(1,350)	—	—	(4,451)	(8,028)
April 1, 2019 (after adjustment)	138,769	202,209	15,996	7,026	81,480	445,480
Acquisition	248	1,306	—	17,355	669	19,577
Disposals	(1,947)	(6,025)	(323)	(22)	(5,539)	(13,855)
Transfer from other accounts	2,276	6,586	—	(18,888)	5,491	(4,535)
Effect of foreign currency exchange differences	(1,018)	(1,881)	(80)	(16)	(1,518)	(4,512)
<b>As of March 31, 2020</b>	138,328	202,195	15,593	5,455	80,583	442,154

Change in accounting policy represents the financial effect from the adoption of IFRS 16 "Leases".

#### Accumulated depreciation and impairment losses

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
<b>As of April 1, 2018</b>	88,070	175,263	—	692	69,024	333,049
Depreciation	4,432	8,718	—	—	5,621	18,770
Impairment losses	102	377	154	1	112	746
Disposals	(1,395)	(7,629)	—	(40)	(6,345)	(15,410)
Transfer from other accounts	718	(1,746)	—	(52)	277	(803)
Effect of foreign currency exchange differences	227	579	—	(0)	230	1,036
<b>As of March 31, 2019</b>	92,154	175,562	154	601	68,918	337,389
Change in accounting policy	(744)	(1,261)	—	—	(3,494)	(5,499)
April 1, 2019 (after adjustment)	91,410	174,300	154	601	65,424	331,890
Depreciation	4,391	8,935	—	—	5,456	18,782
Impairment losses	444	1,183	34	93	826	2,579
Disposals	(1,852)	(5,972)	(154)	—	(5,476)	(13,454)
Transfer from other accounts	(234)	(475)	—	51	(95)	(753)
Effect of foreign currency exchange differences	(555)	(1,523)	—	(1)	(1,179)	(3,259)
<b>As of March 31, 2020</b>	93,605	176,448	34	743	64,956	335,785

With respect to impairment losses, please see Note 14. Impairment Losses of Non-financial Assets.

Depreciation of property, plant and equipment is recognized in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

Change in accounting policy represents the financial effect from the adoption of IFRS 16 "Leases".

## Carrying amount

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of March 31, 2019	48,841	27,998	15,841	6,425	17,014	116,119
As of March 31, 2020	44,724	25,747	15,559	4,712	15,627	106,369

## Leased assets held under finance leases

The carrying amounts of the leased assets under finance leases recognized in non-current assets as of March 31, 2019 were as follows:

	Millions of yen		
	Buildings and structures	Machinery, equipment and vehicles	Others
As of March 31, 2019	1,482	90	958

## (2) Assets Pledged as Collateral

There were no material property, plant and equipment pledged as collateral as of March 31, 2019 and 2020.

## (3) Commitments

The commitments to acquire property, plant and equipment as of March 31, 2019 and 2020 were ¥3,635 million and ¥5,246 million, respectively.

### 13. Goodwill and Intangible Assets

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

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

##### Acquisition costs

	Millions of yen							
	Goodwill	Technology-related assets	Trademarks	Software	Industrial property rights	Development costs	Others	Total
<b>As of April 1, 2018</b>	22,665	19,097	708	75,158	28,099	12,450	1,521	159,698
Additions through acquisition	—	—	—	4,703	262	—	30	4,996
Acquisitions through business combinations	592	—	—	18	5	—	5	620
Additions through internal development	—	—	—	—	—	1,539	—	1,539
Disposals	—	—	—	(2,917)	(17)	(721)	(65)	(3,720)
Transfer from other accounts	—	—	—	(1,036)	12	—	7	(1,017)
Effect of foreign currency exchange differences	827	876	(7)	110	(85)	(351)	(13)	1,358
<b>As of March 31, 2019</b>	24,084	19,973	701	76,036	28,277	12,918	1,486	163,474
Change in accounting policy	—	—	—	(9)	—	—	—	(9)
April 1, 2020 (after adjustment)	24,084	19,973	701	76,027	28,277	12,918	1,486	163,465
Additions through acquisition	—	—	—	4,445	254	—	29	4,728
Additions through internal development	—	—	—	—	—	1,242	—	1,242
Disposals	—	—	—	(1,367)	(1,332)	(1,264)	(40)	(4,004)
Transfer from other accounts	—	—	—	(1,302)	(8)	—	31	(1,279)
Effect of foreign currency exchange differences	(438)	(439)	(22)	(306)	(71)	(451)	(67)	(1,794)
<b>As of March 31, 2020</b>	23,646	19,534	679	77,496	27,119	12,444	1,440	162,358

Change in accounting policy represents the financial effect from the adoption of IFRS 16 "LEASES".

##### Accumulated amortization and accumulated impairment losses

	Millions of yen							
	Goodwill	Technology-related assets	Trademarks	Software	Industrial property rights	Development costs	Others	Total
<b>As of April 1, 2018</b>	—	4,136	433	62,648	23,408	7,169	918	98,713
Amortization expenses	—	1,530	—	5,208	993	1,196	108	9,035
Impairment losses	—	—	—	33	—	242	1	276
Disposals	—	—	—	(2,915)	(17)	(721)	(62)	(3,715)
Transfer from other accounts	—	—	—	60	12	—	(0)	72
Effect of foreign currency exchange differences	—	222	—	103	(69)	(331)	(8)	(83)
<b>As of March 31, 2019</b>	—	5,889	433	65,136	24,327	7,555	957	104,298
Change in accounting policy	—	—	—	(9)	—	—	—	(9)
April 1, 2020 (after adjustment)	—	5,889	433	65,128	24,327	7,555	957	104,289
Amortization expenses	—	1,500	—	4,275	978	1,117	97	7,966
Impairment losses	3,076	—	—	3,569	1,403	178	9	8,235
Disposals	—	—	—	(1,364)	(1,332)	(1,264)	(40)	(4,001)
Transfer from other accounts	—	—	—	(219)	(1)	—	1	(220)
Effect of foreign currency exchange differences	—	(153)	—	(247)	(58)	(296)	(51)	(805)
<b>As of March 31, 2020</b>	3,076	7,236	433	71,141	25,316	7,289	973	115,463

With regard to impairment losses, please see Note 14. Impairment Losses of Non-financial Assets.

Amortization of intangible assets is recognized in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

Change in accounting policy represents the financial effect from the adoption of IFRS 16 "LEASES".

## Carrying amount

Millions of yen

	Goodwill	Technology-related assets	Trademarks	Software	Industrial property rights	Development costs	Others	Total
As of March 31, 2019	24,084	14,084	268	10,900	3,950	5,363	529	59,176
As of March 31, 2020	20,570	12,298	246	6,356	1,803	5,155	467	46,895

### (2) Assets Pledged as Collateral

There were no goodwill and intangible assets pledged as collateral as of March 31, 2019 and 2020.

### (3) Commitments

The commitments to acquire intangible assets as of March 31, 2019 and 2020 were ¥1,060 million, and ¥518 million, respectively.

### (4) Significant Intangible Assets

As of March 31, 2020, the Group's major intangible assets were those related to technology.

The carrying amount of technology-related intangible assets acquired through the acquisition of Optos Plc was ¥13,907 million and ¥12,149 million as of March 31, 2019 and 2020, respectively. The remaining useful life of the intangible assets is 8 years.

## 14. Impairment Losses of Non-financial Assets

### (1) Impairment Losses

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

	Millions of yen	
	2019	2020
Property, plant and equipment	746	2,579
Right-of-use assets	—	326
Intangible assets	276	5,159
Goodwill	—	3,076
Others	—	135
Total	1,023	11,275

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

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

[For the year ended March 31, 2019 (From April 1, 2018 to March 31, 2019)]

For the year ended March 31, 2019, as a result of investigating the utilization status and future prospects for the non-current assets held by the Group, the Group recognized impairment losses for idle assets and non-current assets held for sale in which the recoverable amount is lower than the carrying amount mainly located in Japan, Thailand and Europe that did not have an expected specific use in the future. The recoverable amount was determined based on fair value less costs of disposal and the fair value is based on the disposal price. The fair value measurements are categorized within the Level 3 category of the fair value hierarchy.

Of the total impairment losses of ¥1,023 million, ¥31 million are recognized as "Restructuring costs" in "Other expenses" of the consolidated financial statements.

[For the year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)]

For the year ended March 31, 2020, the Group determined impairment of assets based on future cash flow forecasts that take into consideration the future trends of the medium- to long-term business environment and the impact of the spread of COVID-19 on business



operations. As a result of impairment determination, impairment losses of ¥11,275 million are recognized. The fair value measurements are categorized within the Level 3 category of the fair value hierarchy.

For the Imaging Products business, impairment losses of ¥7,458 million are recognized. As a result of impairment determination based on future cash flow forecasts that take into consideration the rapid shrinkage of the digital camera market and the impact of the spread of COVID-19 on business operations, the recoverable amount of the cash-generating unit is lower than the carrying amount in the Company and in a consolidated subsidiary located in Japan. Therefore, impairment losses of ¥6,621 million are recognized. The recoverable amount is measured at the value in use, and the pre-tax discount rate is 5.4%. In addition, as a result of investigating the future prospects of non-current assets, the Company and a manufacturing subsidiary located in Thailand have reduced the carrying amount of idle assets that did not have an expected specific use in the future to its recoverable amount and recognized impairment losses of ¥837 million.

For the Industrial Metrology and Others, impairment losses of ¥3,816 million are recognized. In the Industrial Metrology Business of the Industrial Metrology and Others, the Group determined impairment of assets based on future cash flow forecasts that take into consideration the impact of the spread of COVID-19 on business operations, in spite of the initially forecasted profits not being expected due to the deterioration of market conditions and business environment. As the result of impairment determination, impairment losses of ¥3,635 million are recognized, as the recoverable amount of the cash-generating unit including goodwill is lower than the carrying amount. The impairment losses of ¥3,076 million are allocated to goodwill, which are related to the Company's consolidated subsidiary, Nikon Metrology NV, and impairment losses of ¥559 million are allocated to non-current assets other than goodwill. In addition, impairment losses of ¥181 million are recognized in businesses other than the Industrial Metrology Business in the Industrial Metrology and Others. This is mainly because the Company has reduced the carrying amount of idle assets that did not have an expected specific use in the future to its recoverable amount as a result of investigating the future prospects of non-current assets.

Out of the total impairment losses of ¥11,275 million, the impairment loss of ¥862 million is recognized as restructuring costs in the consolidated statement of profit or loss. Out of the impairment losses recognized as restructuring costs, ¥830 million and ¥32 million are recognized for the Imaging Products Business, and the Industrial Metrology and Others, respectively.

### (3) Impairment Test of Goodwill

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

	Millions of yen	
	2019	2020
Imaging Products Business	673	619
Healthcare Business	19,986	19,602
Industrial Metrology and Others	3,425	349
Total	24,084	20,570

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

#### (Healthcare Business)

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

The growth rate used in the calculation is 2.0% (2.0% for the year ended March 31, 2019), and the post-tax discount rate is 6.3% (8.7% for the year ended March 31, 2019) based on the weighted average cost of capital of the cash-generating unit. This fair value measurement is categorized within Level 3 of the fair value hierarchy in accordance with the material inputs to valuation techniques used.

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

#### (Businesses other than Healthcare)

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

The growth rate used in the calculation is 0.0% - 2.0% (0.0% - 2.0% for the year ended March 31, 2019), and the pre-tax discount rate is 8.1% - 11.4% (6.9% - 13.3% for the year ended March 31, 2019) based on the weighted average cost of capital of the cash-generating unit or the group of cash-generating units.

As a result of these impairment tests of goodwill, impairment losses of ¥3,076 million are recognized which are related to the Company's consolidated subsidiary, Nikon Metrology NV, as the recoverable amount of the cash-generating unit including goodwill is lower than the carrying amount. The growth rate used in the calculation is 0.0% (0.0% for the year ended March 31, 2019), and the pre-tax discount rate is 8.1% (6.9% for the year ended March 31, 2019) based on the weighted average cost of capital of the cash-generating unit or the group of cash-generating units. Regarding the goodwill except for the Company's consolidated subsidiary, Nikon Metrology NV, the recoverable amount is higher than the carrying amount of each cash-generating unit or group of cash-generating units. Furthermore, the Group believes it is unlikely that impairment losses will incur, even if there are reasonable possible changes in the key assumptions (i.e. growth rate and discount rate) used as the basis for the recoverable amount.

## 15. Investments Accounted for Using the Equity Method

### (1) Interest in Associates

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

	Millions of yen	
	2019	2020
Carrying amount in total	5,637	5,629

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

	Millions of yen	
	2019	2020
Share of profit (loss) for the year	1,087	1,214
Share of other comprehensive income	(9)	(127)
Share of comprehensive income	1,078	1,087

### (2) Interest in Joint Ventures

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

	Millions of yen	
	2019	2020
Carrying amount in total	4,111	4,373

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

	Millions of yen	
	2019	2020
Share of profit for the year	675	602
Share of other comprehensive income	—	—
Share of comprehensive income	675	602

## 16. Leases

### (1) As Lessee

For the year ended March 31, 2019

#### (i) Finance Leases

The breakdown of finance lease obligations is as follows:

	Millions of yen	
	Minimum lease payments	Present value of minimum lease payments
	2019	2019
Within 1 year	637	630
After 1 year but within 5 years	1,438	1,426
After 5 years	529	526
Total	2,604	2,582
Less: future interest expenses	(21)	
Present value of minimum lease payments	2,582	
Amount recognized in the consolidated statement of financial position:		
Lease obligations (current)	630	
Lease obligations (non-current)	1,952	

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

#### (ii) Operating Leases

The Group has operating lease contracts mainly in respect of land, buildings and office equipment.

Lease payments recognized as expenses for the year ended March 31, 2019 were ¥12,094 million.

#### (iii) Non-cancelable Operating Leases

The breakdown of future minimum lease payments under non-cancelable operating leases by payment due date is as follows:

	Millions of yen	
	Minimum lease payments	
	2019	
Within 1 year	2,581	
After 1 year but within 5 years	2,755	
After 5 years	105	
Total	5,442	

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

### For the year ended March 31, 2020

As a lessee, the Group primarily leases assets in respect to real estate such as office buildings and warehouses. Lease contracts have contract terms from 1 to 15 years, with some contracts containing extension or termination options. Extension options are options to renew the lease for a certain amount of time after the end of the lease term. Termination options are options to terminate the lease prior to the contracted end of the lease term with written consent to the lessor. These options are exercised by the Group by considering real estate price trends and business environment to determine if the lease shall be renewed or terminated for business operations.

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

#### (i) Carrying Amount, Additions and Depreciation of Right-of-use Assets

The carrying amounts of right-of-use assets are as follows:

	Millions of yen
	<u>2020</u>
Buildings and structures	12,656
Machinery, equipment and vehicles	1,374
Others	1,236
Total	<u>15,265</u>

Right-of-use assets of ¥19,729 million were recognized at the date of initial application in the consolidated statement of financial position as a transitional measure in accordance with IFRS 16 paragraph C5 (b). Additions to right-of-use assets amounted to ¥4,485 million for the year ended March 31, 2020.

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

	Millions of yen
	<u>2020</u>
Buildings and structures	6,216
Machinery, equipment and vehicles	581
Others	554
Total	<u>7,352</u>

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

#### (ii) Income and Expenses Relating to Leases

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

	Millions of yen
	<u>2020</u>
Income from subleasing right-of-use assets	<u>3</u>

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

	Millions of yen
	<u>2020</u>
Expenses relating to leases accounted as expense	
Expenses relating to short term leases	2,641
Expenses relating to low-value leases	691
Variable lease payments	2
Interest expenses on lease liabilities	<u>199</u>

#### (iii) Cash Outflow for Leases

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

Millions of yen

	2020
Cash outflow related to leases	10,727

#### (iv) Lease Liability

The breakdown of lease liability by maturity is as follows:

	Millions of yen
	2020
Within 1 year	6,423
After 1 year but within 2 years	3,588
After 2 years but within 3 years	2,144
After 3 years but within 4 years	1,482
After 4 years but within 5 years	1,007
After 5 years	1,271
Total	15,914
Less: finance expenses relating to leases	(506)
Present value of lease liability	15,408
Amount recognized in the consolidated statement of financial position	
Lease liability (current)	6,299
Lease liability (non-current)	9,109

## (2) As Lessor

### (i) Finance Leases

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

#### For the year ended March 31, 2019

The breakdown of the gross investment in the lease and the present value of minimum lease payments receivable are as follows:

	Millions of yen	
	Gross investment in the lease	Present value of minimum lease payments receivable
	2019	2019
Within 1 year	2,989	2,814
After 1 year but within 5 years	7,364	7,152
After 5 years	225	221
Total	10,578	10,187
Unearned finance income	391	
Present value of minimum lease receivables	10,187	

Accumulated allowance for unrecoverable minimum lease receivables for the year ended March 31, 2019 was ¥236 million.

Variable lease payments recognized as income are as follows:

	Millions of yen
	2019
Variable lease payments	216

#### For the year ended March 31, 2020

The selling profit from finance leases for the year ended March 31, 2020 was ¥2,415 million.

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

	Millions of yen
	2020
Finance income on the net investment in the lease	211
Income relating to variable lease payments	49

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

	Millions of yen
	<u>2020</u>
Within 1 year	3,671
After 1 year but within 2 years	3,196
After 2 years but within 3 years	2,093
After 3 years but within 4 years	1,255
After 4 years but within 5 years	355
After 5 years	88
Gross investment in the lease	<u>10,657</u>
Unearned finance income	<u>365</u>
Net investment in the lease	<u>10,292</u>

## (ii) Operating Leases

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

### For the year ended March 31, 2020

The breakdown of minimum lease receivables under non-cancellable operating leases by payment due date is as follows:

	Millions of yen
	<u>2020</u>
Within 1 year	17
After 1 year but within 5 years	7
Total	<u>24</u>

Variable lease payments recognized as income are as follows:

	Millions of yen
	<u>2020</u>
Variable lease payments	<u>23</u>

### For the year ended March 31, 2020

Lease income from operating leases of ¥373 million was recognized in the consolidated statement of profit or loss for the year ended March 31, 2020. Lease income includes income of ¥20 million relating to variable lease payments that do not depend on an index or a rate.

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

	Millions of yen
	<u>2020</u>
Within 1 year	115
After 1 year but within 2 years	73
After 2 years but within 3 years	50
After 3 years but within 4 years	47
After 4 years but within 5 years	47
After 5 years	39
Total	<u>372</u>

## 17. Income Taxes

### (1) Deferred Taxes

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

	Millions of yen	
	2019	2020
Deferred tax assets:		
Unused tax losses	1,666	1,506
Impairment losses	3,686	4,491
Inventories	24,580	24,804
Accrued bonuses	3,799	2,238
Provision for product warranties	1,216	1,157
Net defined benefit liabilities	2,315	3,129
Depreciation and amortization	15,097	16,097
Percentage of completion method	10,972	15,979
Others	12,590	12,161
<b>Total deferred tax assets</b>	<b>75,919</b>	<b>81,563</b>
Deferred tax liabilities:		
Equity instruments	(7,457)	(4,600)
Undistributed profits of foreign subsidiaries	(9,945)	(9,835)
Net defined benefit assets	(2,574)	(2,440)
Business combination	(3,132)	(2,749)
Others	(5,491)	(6,637)
<b>Total deferred tax liabilities</b>	<b>(28,598)</b>	<b>(26,262)</b>
<b>Net deferred tax assets (liabilities)</b>	<b>47,321</b>	<b>55,301</b>

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

	Millions of yen	
	2019	2020
Deferred tax assets	51,383	58,890
Deferred tax liabilities	4,063	3,589
<b>Net deferred tax assets (liabilities)</b>	<b>47,321</b>	<b>55,301</b>

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

	Millions of yen	
	2019	2020
Opening balance	49,377	47,321
Amount recognized in profit or loss	(4,450)	4,010
Amount recognized in other comprehensive income		
Remeasurement of defined benefit pension plans	371	886
Gain (loss) on financial assets measured at fair value through other comprehensive income	1,830	3,260
Share of other comprehensive income of investments accounted for using the equity method	(10)	(1)
Effective portion of the change in fair value on cash flow hedges	58	(14)
Others	145	(161)
<b>Closing balance</b>	<b>47,321</b>	<b>55,301</b>

With regard to the income tax recognized in profit or loss for the year, please see (3) Income Tax Expenses in Note 17. Income Taxes.

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

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



Unused tax losses and tax credits are presented on a tax basis.

	Millions of yen	
	2019	2020
Unused tax losses	7,368	5,161
Unused tax credits	—	128
Deductible temporary differences	55,266	63,144

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

	Millions of yen	
	2019	2020
1st year	—	—
2nd year	—	—
3rd year	—	—
4th year	—	13
5th year	2,279	41
After 5th year	5,089	5,107
Total	7,368	5,161

## (2) Unrecognized Deferred Tax Liabilities

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

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

	Millions of yen	
	2019	2020
Temporary differences associated with investments in subsidiaries for which deferred tax liabilities are not recognized	4,353	2,857

## (3) Income Tax Expenses

The breakdown of income taxes is as follows:

	Millions of yen	
	2019	2020
Current tax expense	16,868	8,031
Deferred tax expense (benefit)	4,450	(4,010)
Total	21,318	4,022

With regard to deferred tax expenses, please see (1) Deferred Taxes in Note 17. Income Taxes.

## (4) Reconciliation of Effective Tax Rate

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

	(%)	
	2019	2020
Statutory effective tax rate	30.6	30.6
Tax rate differences of consolidated subsidiaries	(1.8)	(10.8)
Research and development tax credits	(2.8)	(6.8)
Impact of unrecognized deferred tax assets arising from unused tax losses or temporary differences	0.0	7.0
Changes in deferred tax liabilities related to undistributed profit of foreign subsidiaries	0.2	(0.9)
Foreign withholding tax arising from dividends from foreign subsidiaries	0.4	1.1
Impairment loss for goodwill	—	7.9
Liquidation of subsidiary	0.3	4.5
Others	(2.7)	1.2
Actual effective tax rate	24.3	33.9

## 18. Trade and Other Payables

The breakdown of trade and other payables is as follows:

	Millions of yen	
	2019	2020
Notes and accounts payable	90,927	64,601
Other payables	5,567	4,255
Total	96,493	68,856

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

## 19. Bonds and Borrowings

The breakdown of bonds and borrowings is as follows:

	Millions of yen		Average interest rate (%) (Note 1)	Repayment deadline
	2019	2020		
<b>Current</b>				
Short-term borrowings	12,200	9,950	0.28	—
Current portion of long-term borrowings	2,200	1,000	0.64	—
Current portion of bonds (Note 2)	—	10,000		
Total	14,400	20,950		
<b>Non-current</b>				
Long-term borrowings	82,070	82,820	1.03	March 2021 - February 2032
Bonds (Note 2)	29,940	19,958	—	—
Total	112,010	102,778		

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

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

Corporate name	Issue	Date of issuance	Millions of yen		Interest rate (%)	Collateral	Maturity
			2019	2020			
NIKON CORPORATION	19th unsecured bond	January 28, 2011	9,989	9,995	1.434	None	January 28, 2021
NIKON CORPORATION	20th unsecured bond	March 14, 2014	9,978	9,986	0.652	None	March 14, 2022
NIKON CORPORATION	21st unsecured bond	March 14, 2014	9,972	9,978	0.864	None	March 14, 2024

The breakdown of bonds and long-term borrowings by scheduled repayment due date is described in Note 34. Financial Instruments.

## 20. Provisions

Details of changes in provisions are as follows:

	Millions of yen			
	Provision for product warranties	Asset retirement obligations	Others	Total
<b>As of April 1, 2018</b>	6,503	4,870	291	11,664
Current liabilities	6,503	25	291	6,820
Non-current liabilities	—	4,844	—	4,844
Additions during the period	3,478	465	230	4,173
Decrease during the period due to settlement for intended purposes	(3,681)	(241)	(307)	(4,228)
Decrease during the period due to reversal	(1,007)	(17)	(8)	(1,033)
Effect of foreign currency exchange differences	(6)	4	(11)	(13)
<b>As of March 31, 2019</b>	5,287	5,081	195	10,563
Current liabilities	5,287	137	195	5,619
Non-current liabilities	—	4,944	—	4,944

Additions during the period	3,750	168	296	4,214
Decrease during the period due to settlement for intended purposes	(3,132)	(186)	(265)	(3,584)
Decrease during the period due to reversal	(890)	(41)	(4)	(935)
Effect of foreign currency exchange differences	(76)	(30)	(3)	(109)
<b>As of March 31, 2020</b>	<b>4,939</b>	<b>4,992</b>	<b>219</b>	<b>10,150</b>
Current liabilities	4,939	3	219	5,161
Non-current liabilities	—	4,989	—	4,989

## 21. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

	Millions of yen	
	2019	2020
Derivative financial liabilities	330	312
Other payables	24,843	19,197
Lease liabilities	2,582	15,408
Others	1,390	1,525
<b>Total</b>	<b>29,146</b>	<b>36,441</b>
Other current financial liabilities	27,006	27,210
Other non-current financial liabilities	2,140	9,232

## 22. Other Liabilities

The breakdown of other liabilities is as follows:

	Millions of yen	
	2019	2020
Accrued expenses	35,635	27,214
Accrued consumption tax	2,564	2,276
Others	3,270	3,080
Total	41,469	32,569
Other current liabilities	38,961	30,238
Other non-current liabilities	2,507	2,332

## 23. Employee Benefits

### (1) Summary of Retirement Benefit Plans

The Company has a contract-type defined benefit plan (cash balance plan) and a defined contribution plan for a part of the future portion of its retirement benefit plans.

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

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

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

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

### (2) Defined Benefit Plans

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

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

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

	Millions of yen	
	2019	2020
Present value of defined benefit obligations	134,889	132,613
Fair value of plan assets	(136,441)	(130,514)
Subtotal	(1,552)	2,099
Impact of asset ceiling	2,778	1,084
Present value of defined benefit obligations of unfunded plans	2,707	3,240
Total	3,934	6,423
Carrying amounts presented in the consolidated statement of financial position		
Net defined benefit liabilities	9,031	11,047
Net defined benefit assets	(5,097)	(4,624)
Net liability or asset presented in the consolidated statement of financial position	3,934	6,423

## 2) Defined Benefit Obligations

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

	Millions of yen	
	2019	2020
Opening balance of present value of defined benefit obligations	136,277	137,597
Current service cost	3,282	3,405
Interest expenses	1,533	1,435
Remeasurement		
Actuarial gain or loss from changes in demographic assumptions	(20)	(157)
Actuarial gain or loss from changes in financial assumptions	2,517	814
Benefits paid	(6,728)	(6,673)
Past service cost	122	—
Effect of foreign currency exchange differences	417	(1,051)
Others	198	485
Closing balance of present value of defined benefit obligations	137,597	135,854

(Note) The weighted average lifetime of the defined benefit obligations for the year ended March 31, 2019 and 2020 are 13.0 years respectively, and there is no significant bias in the distribution.

## 3) Plan Assets

(i) Movements in the fair value of plan assets

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

	Millions of yen	
	2019	2020
Opening balance of fair value of plan assets	138,068	136,441
Interest income	1,359	1,209
Remeasurement		
Return on plan assets other than interest income	(174)	(3,922)
Contributions by the employer	3,455	3,584
Benefits paid	(6,646)	(6,117)
Effect of foreign currency exchange differences	297	(805)
Others	83	125
Closing balance of fair value of plan assets	136,441	130,514

(Note) The Group's funding policy to the defined benefit plans is based on various factors including the tax deductibility of contributions, the funded status of plan assets and actuarial calculations. The contribution for defined benefit plans over the next fiscal year is estimated at ¥2,309 million.

(ii) The asset ceiling

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

	Millions of yen	
	2019	2020
Opening balance	4,080	2,778
Changes in net plan assets due to the effect of the asset ceiling	(1,302)	(1,695)
Closing balance	2,778	1,084

(iii) Breakdown of the fair value of plan assets

The fair value of plan assets is as follows:

	Millions of yen			
	2019		2020	
	Plan assets that have quoted market prices in active markets	Plan assets that do not have quoted market prices in active markets	Plan assets that have quoted market prices in active markets	Plan assets that do not have quoted market prices in active markets
Life insurance company's general accounts	—	5,419	—	5,225
Shares (Japan)	—	18,491	—	11,657
Shares (Overseas)	8,231	18,755	4,451	13,241
Bonds (Japan)	—	42,301	—	43,095
Bonds (Overseas)	456	20,418	437	21,126
Alternatives	—	16,478	—	16,721
Others	326	5,568	6,615	7,945
Total	9,013	127,428	11,504	119,010

(Note) The plan assets of investment in joint trust are classified as assets which do not have quoted prices in active markets.

Life insurance company's general accounts represent the investment of pension funds through general accounts for which the life insurance companies mainly guarantee both principal and interest.

(iv) Management of plan assets

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

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

#### 4) Significant Actuarial Assumption

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

	2019	2020
Discount rate	1.04%	1.06%

The following table is the sensitivity analysis of the impact on the present value of retirement benefit obligations when the discount rate used for the significant actuarial assumption changes, while all other assumptions are constant. For the year ended March 31, 2020, the methods and assumptions used in the sensitivity are same as the prior year.

		Millions of yen	
		2019	2020
Impact	When increased 0.5%	(8,368)	(8,165)
	When decreased 0.5%	9,279	9,049

#### (3) Defined Contribution Plans

The amounts of expenses incurred for defined contribution plans for the years ended March 31, 2019 and 2020 are ¥2,172 million and ¥2,236 million, respectively.

#### (4) Employee Benefit Expenses

The employee benefit expenses recognized in "Cost of sales," "Selling, general and administrative expenses," and "Other expenses" in the consolidated statement of profit or loss for the years ended March 31, 2019 and 2020 were ¥146,375 million and ¥138,888 million, respectively. Expenses related to salary, bonus, statutory benefits and post-employment benefits are included in employee benefit expenses.

## 24. Equity

### (1) Capital Stock and Treasury Stocks

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

	Number of shares	
	2019	2020
Shares authorized to be issued		
Ordinary shares	1,000,000,000	1,000,000,000
Shares outstanding		
Opening balance	400,878,921	400,878,921
Changes during the period	—	(22,542,400)
Closing balance	400,878,921	378,336,521
Treasury stocks		
Opening balance	4,655,476	4,620,047
Increase during the period	1,917	29,211,136
Decrease during the period	(37,346)	(22,614,321)
Closing balance	4,620,047	11,216,862

Notes: 1. The closing balance of treasury stocks includes 576,900 shares of those held by the executive compensation BIP Trust as of March 31, 2019 and 2020, respectively.  
2. The increase in the number of treasury stocks of ordinary shares for the year ended March 31, 2019 of 1,917 shares is due to a purchase of shares of less than one unit.  
The increase in the number of treasury stocks of ordinary shares for the year ended March 31, 2020 of 29,211,136 shares is due to an increase of 29,209,600 shares arising from acquisition of treasury stock resolved at the Board of Directors' meetings held on May 9, 2019 and November 7, 2019 and an increase of 1,536 shares due to a purchase of shares of less than one unit.  
3. The decrease in the number of treasury stocks of ordinary shares for the year ended March 31, 2019 of 37,346 shares is due to a decrease of 37,200 shares arising from the exercise of stock options and a decrease of 146 shares due to an additional purchase request of shares of less than one unit.  
The decrease in the number of treasury stocks of ordinary shares for the year ended March 31, 2020 of 22,614,321 shares is due to a decrease of 22,542,400 shares arising from the cancellation of treasury stock resolved at the Board of Directors' meeting held on November 7, 2019, a decrease of 71,700 shares arising from the exercise of stock options and a decrease of 221 shares due to an additional purchase request of shares of less than one unit.

### (2) Capital Surplus

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

### (3) Retained Earnings

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

### (4) Other Components of Equity

#### 1) Gain (loss) on financial assets measured at fair value through other comprehensive income

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

#### 2) Remeasurement of defined benefit pension plans

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

#### 3) Share of other comprehensive income of investments accounted for using the equity method

The account includes gains or losses on financial assets measured at fair value through other comprehensive income, remeasurement of defined benefit pension plans, and exchange differences on translation of foreign operations.

#### 4) Exchange differences on translation of foreign operations

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

## 5) Effective portion of changes in the fair value on cash flow hedges

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

## 25. Dividends

The details of dividends are as follows:

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
<b>For the year ended March 31, 2019</b>					
General meeting of shareholders held on June 28, 2018	Ordinary shares	8,730	22.00	March 31, 2018	June 29, 2018
Board of Directors' meeting held on November 8, 2018	Ordinary shares	11,904	30.00	September 30, 2018	December 3, 2018
<b>For the year ended March 31, 2020</b>					
General meeting of shareholders held on June 27, 2019	Ordinary shares	11,905	30.00	March 31, 2019	June 28, 2019
Board of Directors' meeting held on November 7, 2019	Ordinary shares	11,705	30.00	September 30, 2019	December 2, 2019

Notes: 1. The dividends approved according to the resolution of the general meeting of shareholders held on June 28, 2018, included the dividends for the shares held by the executive compensation BIP Trust of ¥13 million.  
2. The dividends approved according to the resolution of the Board of Directors' meeting held on November 8, 2018, included the dividends for the shares held by the executive compensation BIP Trust of ¥17 million.  
3. The dividends approved according to the resolution of the general meeting of shareholders held on June 27, 2019, included the dividends for the shares held by the executive compensation BIP Trust of ¥17 million.  
4. The dividends approved according to the resolution of the Board of Directors' meeting held on November 7, 2019, included the dividends for the shares held by the executive compensation BIP Trust of ¥17 million.

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

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
<b>For the year ended March 31, 2020</b>					
General meeting of shareholders held on June 26, 2020	Ordinary shares	3,677	10.00	March 31, 2020	June 29, 2020

Note: The dividends approved according to the resolution of the general meeting of shareholders held on June 26, 2020, included the dividends for the shares held by the executive compensation BIP Trust of ¥6 million.



## 26. Revenue

### (1) Disaggregation of Revenue

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

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

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

For the year ended March 31, 2019	Millions of yen				
	Imaging Products	Precision Equipment	Healthcare	Industrial Metrology and Others (Note 1)	Total
Japan	34,929	13,123	8,506	35,711	92,270
United States	82,338	46,254	30,036	13,498	172,125
Europe	64,954	38,174	10,573	4,482	118,183
China	39,602	145,912	7,055	6,939	199,508
Others	74,346	31,078	9,264	11,888	126,575
Total	296,169	274,540	65,434	72,518	704,660
Revenue from contracts with customers	295,857	274,540	61,407	72,518	704,321
Revenue from its other sources (Note 2);	312	—	4,027	—	4,339

Notes: 1. The "Industrial Metrology and Others" category consists of operations not included in the reportable segments, such as the Industrial Metrology Business, the Glass Business, and the Customized Products Business.

2. Revenue from other source includes revenue such as leases based on IAS\_17.

For the year ended March 31, 2020	Millions of yen				
	Imaging Products	Precision Equipment	Healthcare	Industrial Metrology and Others (Note 1)	Total
Japan	26,238	20,097	8,647	32,838	87,819
United States	63,685	96,217	28,610	12,233	200,745
Europe	55,067	17,355	10,033	5,098	87,553
China	25,024	78,801	6,437	4,959	115,222
Others	55,880	27,257	8,296	8,239	99,672
Total	225,894	239,728	62,024	63,366	591,012
Revenue from contracts with customers	225,615	239,728	58,614	63,366	587,323
Revenue from its other sources (Note 2);	279	—	3,409	—	3,688

Notes: 1. The "Industrial Metrology and Others" category consists of operations not included in the reportable segments, such as the Industrial Metrology Business, the Glass Business, and the Customized Products Business.

2. Revenue from other source includes revenue such as leases based on IFRS\_16.

#### 1) Details of goods/services and satisfaction of performance obligations

##### (i) Sales of products

##### (Imaging Products Business)

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

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

##### (Precision Equipment Business)

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

Regarding sales of products, for products that require installation by the Group, revenue is recognized at the point when the installation is completed according to the specification based on a contract at the customer's location after the product is delivered to

the customer, as the customer obtains control over the products upon completion of installation and the performance obligation is deemed to be satisfied. In other words, as such data, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer, the Group is entitled to receive the payment of consideration from the customer.

For products that do not require installation by the Group, revenue is recognized at the point when the product is delivered to the customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied.

In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer and the Group is entitled to receive the payment of consideration from the customer.

#### (Healthcare Business)

The Healthcare Business provides products for bioscience and ophthalmic diagnosis fields, such as biological microscopes, cell culture observation systems, and ultra-wide field retinal imaging devices.

Regarding sales of products, revenue is recognized at the point when the product is delivered to a customer, as the customer obtains control over the products upon delivery, and the performance obligation is deemed to be satisfied.

In other words, at that point, legal title, physical possession, and significant risks and rewards of ownership of products have been transferred to the customer and the entity is entitled to receive the payment of consideration from the customer.

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

#### (Industrial Metrology and Others)

Industrial Metrology and Others provides products for the industrial metrology business, such as industrial microscopes, non-contact 3D metrology systems, and X-ray / CT inspection systems, that enable non-destructive inspection, are used in industries such as automotive, aerospace, and electronic components, and products for the glass business, such as photomask substrates, and products for customized product businesses such as space-related products, and products for the encoder business and others.

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

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

#### (ii) Services

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

## 2) Determining the transaction price

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

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

may change.

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

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

For sales of products with a right of return, refund liabilities estimated by considering past information are deducted from revenue.

The right to recover products from a customer on settling a refund is recognized as assets by reference to the former carrying amount of the product less any expected costs to recover those products.

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

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

### 3) Payment terms

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

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

## (2) Contract Balances

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

	Millions of yen	
	2019	2020
Receivables arising from an entity's contracts with customers	85,243	76,877
Advances received	192,862	175,894

For significant changes in advances received during the year ended March 31, 2019, the amount increased ¥315,951 million by receipt of cash based on contracts, and decreased ¥300,804 million by revenue recognition. The amount of revenue recognized from advances received which existed at the beginning of the period was ¥143,598 million.

For significant changes in advances received during the year ended March 31, 2020, the amount increased ¥213,328 million by receipt of cash based on contracts, and decreased ¥228,664 million by revenue recognition. The amount of revenue recognized from advances received which existed at the beginning of the period was ¥133,519 million.

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

## (3) Transaction Price Allocated to Remaining Performance Obligations

The transaction price allocated to performance obligations that were unsatisfied (or partially unsatisfied) was ¥448,545 million for the year ended March 31, 2019. These performance obligations will be recognized as revenue within three years.

The transaction price allocated to performance obligations that were unsatisfied (or partially unsatisfied) was ¥266,940 million for the year ended March 31, 2020. These performance obligations will be recognized as revenue within two years.

As a practical expedient, the amount does not include transactions, for the original expected term of the contract is one year or less.

There are also no significant amounts that are not included in transaction prices in the consideration from contracts with customers.

## 27. Selling, General and Administrative Expenses

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

Millions of yen

	<b>2019</b>	<b>2020</b>
Depreciation and amortization	11,638	<b>14,190</b>
Research and development expenses	62,424	<b>61,052</b>
Employee benefit expenses	59,003	<b>55,700</b>
Advertising and sales promotion expenses	30,049	<b>19,868</b>
Others	75,447	<b>54,888</b>
Total	238,561	<b>205,698</b>

## 28. Other Income and Expenses

### (1) Other Income

The breakdown of other income is as follows:

	Millions of yen	
	2019	2020
Income from insurance	804	478
Grant income	512	301
Income from rents	217	204
Gain on sales of non-current assets (Note 1)	135	4,140
Settlement income from legal proceedings over patents (Note 2)	18,740	—
Others	1,504	1,324
<b>Total</b>	<b>21,912</b>	<b>6,447</b>

### (2) Other Expenses

The breakdown of other expenses is as follows:

	Millions of yen	
	2019	2020
Impairment losses (Note 3)	991	10,413
Loss on sales of non-current assets	26	17
Restructuring costs (Notes 3, 4 and 5)	1,841	4,573
Others	1,249	1,029
<b>Total</b>	<b>4,107</b>	<b>16,032</b>

Notes: 1. For the year ended March 31, 2020, gains on sales of non-current assets include gains from sales of land of 3,929 million yen, mainly from the sales of idle land located in Takatsu-ku, Kawasaki, Kanagawa, Japan by the Company.

2. For the year ended March 31, 2019, settlement income from legal proceedings over patents was recorded in the Semiconductor Lithography Business.

3. With regard to impairment losses and restructuring costs, please see Note 14. Impairment Losses of Non-financial Assets.

4. Restructuring costs for the year ended March 31, 2019 are as follows:

As the final year of the restructuring announced in November 2016, the Group has been carrying out measures to promote portfolio based management and to enhance management DNA such as reducing fixed costs, in order to create corporate value consistently. For the year ended March 31, 2020, the Group has decided to withdraw from products with low profitability in the Industrial Metrology Business and has completed the liquidation of NIKON DO BRASIL LTDA., a sales subsidiary in Brazil.

Breakdown	Millions of yen
Inventory write-downs	583
Cumulative translation differences reclassified to profit or loss due to the liquidation of a foreign subsidiary	545
Expenses of transferring manufacturing equipment	507
Others	206
<b>Total</b>	<b>1,841</b>

5. Restructuring costs for the year ended March 31, 2020 are as follows:

For the year ended March 31, 2020, restructuring costs of ¥4,573 million are recognized as the below table.

For the Imaging Products Business, restructuring costs of ¥2,737 million are recognized due to factors such as additional retirement benefits and impairment losses related to reforms to production and sales bases, in order to shift to a business structure that can secure a certain amount of profit even in a shrinking market.

For the Industrial Metrology and Others, restructuring costs of ¥83 million are recognized, due to factors such as reforms to the function of overseas bases.

In addition, as a result of completing the liquidation of the manufacturing subsidiary, Nikon Imaging (China) Co., Ltd. whose operations were discontinued in 2017, restructuring costs of ¥1,753 million are recognized related to the cumulative translation differences reclassified to profit or loss due to the liquidation of a foreign subsidiary.

Breakdown	Millions of yen
Cumulative translation differences reclassified to profit or loss due to the liquidation of a foreign subsidiary	1,753
Additional retirement benefits	1,140
Impairment losses	862
Others	818
<b>Total</b>	<b>4,573</b>

## 29. Finance Income and Finance Costs

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

	Millions of yen	
	2019	2020
Finance income:		
Dividend income		
Financial assets measured at fair value through other comprehensive income (Note 1)	2,089	1,647
Interest income		
Financial assets measured at amortized cost	2,997	2,264
Foreign exchange gains	—	82
Gain on remeasurement of derivatives (Note 2)	1,216	—
Others	1,032	1,211
<b>Total</b>	<b>7,333</b>	<b>5,204</b>
Finance costs:		
Interest costs		
Financial liabilities measured at amortized cost	1,515	1,721
Foreign exchange losses	1,986	—
Loss on remeasurement of derivatives (Note 2)	—	8
Others	332	179
<b>Total</b>	<b>3,833</b>	<b>1,908</b>

Notes: 1. Dividend incomes arising from financial assets measured at fair value through other comprehensive income that were derecognized in the years ended March 31, 2019 and 2020 were ¥12 million and ¥73 million, respectively. With respect to financial assets measured at fair value through other comprehensive income, please see Note 10. Other Financial Assets.

2. Gain (loss) on remeasurement of derivatives was recognized in respect of foreign currency forward contracts, interest rate and currency swaps, and currency options.

## 30. Earnings per Share

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

	2019	2020
Basis for the calculation of basic earnings per share		
Profit for the year attributable to owners of the parent (millions of yen)	66,513	7,693
Profit not attributable to ordinary equity holders of the parent (millions of yen)	—	—
Profit for the year used in the calculation of basic earnings per share (millions of yen)	66,513	7,693
Weighted average number of ordinary shares outstanding during the period (thousands of shares)	396,235	386,016
Basic earnings per share (yen)	167.86	19.93
Basis for the calculation of diluted earnings per share		
Profit for the year used in the calculation of basic earnings per share (millions of yen)	66,513	7,693
Adjustments to profit for the year (millions of yen)	—	—
Profit for the year used in the calculation of diluted earnings per share (millions of yen)	66,513	7,693
Weighted average number of ordinary shares outstanding during the period (thousands of shares)	396,235	386,016
Increase in number of ordinary shares in respect of stock options (thousands of shares)	1,325	1,506
Weighted average number of dilutive ordinary shares outstanding during the period (thousands of shares)	397,561	387,522
Diluted earnings per share (yen)	167.30	19.85
Summary of dilutive potential ordinary shares that are antidilutive and excluded from the weighted average number of dilutive ordinary shares	—	—

Note: In the computation of basic earnings per share and diluted earnings per share, the number of the Company's shares held by the executive compensation BIP Trust is included in the number of treasury stocks that are deducted from the weighted average number of ordinary shares outstanding during the period. For the years ended March 31, 2019 and 2020, the number of shares was 576,900.

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

The breakdown of other comprehensive income for the years ended March 31, 2019 and 2020, including the reclassifications and the impact of corporate income taxes is as follows:

	Millions of yen	
	2019	2020
Items that will not be reclassified to profit or loss:		
Net changes in fair value of financial assets measured at fair value through other comprehensive income		
Amount arising during the period	(6,421)	(7,975)
Corporate income taxes	1,830	2,276
After corporate income taxes	(4,591)	(5,699)
Remeasurement of defined benefit pension plans		
Amount arising during the period	(1,369)	(2,884)
Corporate income taxes	371	886
After corporate income taxes	(999)	(1,998)
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the period	34	3
Corporate income taxes	(10)	(1)
After corporate income taxes	24	2
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations		
Amount arising during the period	2,124	(13,772)
Reclassification adjustments	545	1,753
Effective portion of changes in the fair value of cash flow hedges		
Amount arising during the period	325	372
Reclassification adjustments	(530)	(326)
Before corporate income taxes	(205)	46
Corporate income taxes	58	(14)
After corporate income taxes	(147)	32
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the period	(32)	(129)
Total other comprehensive income (loss)	(3,076)	(19,811)

## 32. Changes in Liabilities Arising from Financing Activities

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

**For the year ended March 31, 2019**

Millions of yen

	As of April 1, 2018	Cash flows	Non-cash changes					As of March 31, 2019
			Acquisition	Newly recognized lease contracts	Foreign exchange movement	Fair value changes	Others	
Bonds and borrowings (Note)	125,340	(50)	50	—	1,032	—	38	126,410
Lease obligations	2,974	(798)	—	407	(0)	—	—	2,582
Derivative financial assets	(936)	—	—	—	—	(785)	—	(1,721)

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

The cash flows of "Bonds and borrowings" is the net amount of "Net decrease in short-term borrowings" and "Repayment of long-term borrowings and bonds" under the consolidated statement of cash flows.

"Others" includes items such as interest expenses.

**For the year ended March 31, 2020**

Millions of yen

	As of April 1, 2019	Adjustment for application of IFRS 16 (Note 2)	As of April 1, 2019 (after adjustment)	Cash flows	Non-cash changes				M
					Newly recognized lease contracts	Foreign exchange movement	Fair value changes	Others	
Bonds and borrowings (Note 1)	126,410	—	126,410	(2,250)	—	(470)	—	38	
Lease obligations	2,582	16,975	19,557	(7,194)	4,138	(334)	—	(759)	
Derivative financial assets	(1,721)	—	(1,721)	—	—	—	704	—	

Note 1: The amount is the sum of "Bonds and borrowings" of current and non-current liabilities under the consolidated statement of financial position.

Note 2: The amount in the row "Adjustment for application for IFRS 16" is not related to cash flow.

The cash flows of "Bonds and borrowings" is the net amount of "Net decrease in short-term borrowings" and "Repayment of long-term borrowings and bonds" under the consolidated statement of cash flows.

"Others" includes items such as interest expenses.

## 33. Share-based Payment

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

### (1) Stock Option Share-based Payment Scheme

#### 1) Outline of stock option share-based payment scheme

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

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

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



Details of stock option schemes that are outstanding for the years ended March 31, 2019 and 2020 were as follows:

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

## 2) Fair value measurement of stock options

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

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

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

	2019	2020
	No.16	No.17
Share price at the date of grant (Yen)	1,897	1,569
Exercise price (Yen)	1	1
Expected volatility (%)	39.075	38.085
Expected remaining option life (Years)	15	15
Expected dividends yield (Yen)	18	52
Risk-free rate (%)	0.278	0.177

## 3) Number of stock options and average exercise prices

Details of stock options are as follows:

	2019		2020	
	Number of options (Shares)	Weighted average exercise price (Yen)	Number of options (Shares)	Weighted average exercise price (Yen)
Opening outstanding balance	1,244,900	1	1,301,600	1
Granted during the period	121,800	1	220,900	1
Forfeited or expired during the period	27,900	1	—	—
Exercised during the period	37,200	1	71,700	1
Ending outstanding balance	1,301,600	1	1,450,800	1
Exercisable outstanding options at the end of the years	1,301,600	1	1,450,800	1

Stock options exercised during the year ended March 31, 2019 were as follows:

No.	Number of options exercised (Shares)	Exercise period	Weighted average share price at the date of exercise (Yen)
5	6,200	April 1, 2018 to March 31, 2019	1,849
6	11,100	April 1, 2018 to March 31, 2019	1,732
7	3,900	April 1, 2018 to March 31, 2019	1,627
8	1,900	April 1, 2018 to March 31, 2019	1,599
9	1,500	April 1, 2018 to March 31, 2019	1,583
12	3,800	April 1, 2018 to March 31, 2019	2,146
13	4,700	April 1, 2018 to March 31, 2019	2,146
14	4,100	April 1, 2018 to March 31, 2019	2,146
Total	37,200		1,869

Stock options exercised during the year ended March 31, 2020 were as follows:

No.	Number of options exercised (Shares)	Exercise period	Weighted average share price at the date of exercise (Yen)
6	23,500	April 1, 2019 to March 31, 2020	1,284
7	8,300	April 1, 2019 to March 31, 2020	1,089
8	2,900	April 1, 2019 to March 31, 2020	1,083
9	15,700	April 1, 2019 to March 31, 2020	1,127
10	16,000	April 1, 2019 to March 31, 2020	1,090
11	5,300	April 1, 2019 to March 31, 2020	931
Total	71,700		1,150

The exercise price of the outstanding options for the year ended March 31, 2019 was ¥1. The weighted average remaining option life for the year ended March 31, 2019 was 25.2 years.

The exercise price of the outstanding options for the year ended March 31, 2020 was ¥1. The weighted average remaining option life for the year ended March 31, 2020 was 25.1 years.

## (2) Performance- and Share-based Payment Scheme

### 1) Outline of performance- and share-based payment scheme

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

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

Along with the implementation of the fundamental restructuring announced in November 2016, the Company has decided to discontinue the Medium-Term Management Plan covering the period from the fiscal year ended March 31, 2016 to the fiscal year ended March 31, 2018 and thereafter engaged in the restructuring up to the year ended March 31, 2019, which resulted in that the performance- and share-based payment was not granted. On the other hand, the company formulated the new Medium-Term Management Plan in May 2020, covering the period from the fiscal year ended March 31, 2020 to the fiscal year ended March 31, 2022 and resumed the incentive plan to further enhance the incentive of the Directors toward achieving the plan.

### 2) Number of points granted during the period and weighted average fair value of points

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

	2019	2020
Number of points granted during the period	—	143,535
Weighted average fair value (Yen)	—	1,278

## (3) Share-based Compensation Expenses

	Millions of yen	
	2019	2020
Stock option share-based payment	202	211
Performance- and share-based payment	—	183
Total	202	394

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

## 34. Financial Instruments

### (1) Capital Management

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

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

	(%)	
	2019	2020
ROE	11.2	1.3

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

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

### (2) Classification of Financial Instruments

Financial instruments are classified as follows:

	Millions of yen	
	2019	2020
<b>Financial assets:</b>		
Cash and cash equivalents (Note 7)	411,055	324,034
Financial assets measured at amortized cost		
Trade and other receivables (Note 8)	115,847	87,779
Other financial assets (Note 10)	6,163	5,490
Financial assets measured at fair value through profit or loss		
Other financial assets (Note 10)	16,928	21,808
Financial assets measured at fair value through other comprehensive income		
Other financial assets (Note 10)	71,318	59,672
Total	621,310	498,782
<b>Financial liabilities:</b>		
Financial liabilities measured at amortized cost		
Trade and other payables (Note 18)	96,493	68,856
Bonds and borrowings (Note 19)	126,410	123,728
Other financial liabilities (Note 21)	28,815	36,130
Financial liabilities measured at fair value through profit or loss		
Other financial liabilities (Note 21)	111	168
Financial liabilities measured at fair value through other comprehensive income		
Other financial liabilities (Note 21)	219	144
Total	252,049	229,026

### (3) Financial Risk Management Objectives

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

#### (4) Market Risk Management

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

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

##### 1) Foreign Currency Risk

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

##### a) Foreign currency sensitivity analysis

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

	Millions of yen			
	USD		EUR	
	2019	2020	2019	2020
Profit before income taxes	(75)	(192)	18	20
Other comprehensive income before deferred tax adjustment	(40)	(50)	77	81

##### b) Derivatives

Details of currency derivatives are as follows:

Derivative transactions not accounted for using hedge accounting

	Millions of yen					
	2019			2020		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Forward exchange contracts:						
Short position						
USD	10,894	—	14	8,682	—	(86)
EUR	24,114	—	112	7,890	—	19
Others	4,222	—	(29)	1,830	—	78
Long position						
USD	5,957	—	36	13,554	—	85
Others	1,143	—	4	—	—	—
Total	46,329	—	136	31,957	—	95

Derivative transactions accounted for using hedge accounting

Millions of yen

	2019			2020		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Forward exchange contracts:						
Short position						
USD	—	—	—	—	—	—
EUR	7,903	—	234	8,195	—	85
Others	3,851	—	(29)	2,852	—	120
Long position						
GBP	669	—	(9)	1,254	—	(8)
Total	12,422	—	196	12,301	—	197

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

## 2) Interest Rate Risk

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

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

### a) Interest rate sensitivity analysis

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

### b) Derivatives

Details of currency derivatives are as follows:

Derivative transactions not accounted for using hedge accounting

Millions of yen

	2019			2020		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Interest rate and currency swap contracts:						
Received in floating rate and paid in fixed rate	22,952	22,952	1,721	22,952	22,952	1,016
Total	22,952	22,952	1,721	22,952	22,952	1,016

## Derivative transactions accounted for using hedge accounting

Millions of yen

	2019			2020		
	Total notional amount	The notional amount more than one year	Fair value	Total notional amount	The notional amount more than one year	Fair value
Interest rate swap contracts:						
Received in floating rate and paid in fixed rate	5,300	5,300	(164)	5,800	5,800	(119)
Total	5,300	5,300	(164)	5,800	5,800	(119)

### 3) Other Price Risks

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

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

For the years ended March 31, 2019 and 2020, assuming a 5% change in the stock price, other comprehensive income before deferred tax adjustments would fluctuate ¥3,234 million and ¥2,560 million, respectively, as a result of fluctuations in the fair value of equity instruments designated as those measured at fair value through other comprehensive income.

### (5) Credit Risk Management

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

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

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

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

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

#### 1) Credit Risk Exposure with Respect to Trade and Other Receivables

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

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

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

## Trade and other receivables

Millions of yen

Carrying amount	Financial assets of which expected credit losses are always measured at their expected lifetime as allowance for doubtful accounts	Credit-impaired financial assets	Total
As of March 31, 2019	95,496	1,284	96,780
As of March 31, 2020	<b>87,211</b>	<b>1,198</b>	<b>88,409</b>

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

Other receivables are financial assets of which allowance for doubtful accounts are measured based on 12-months expected credit losses. The balance of other receivables as of March 31, 2019 and 2020 were ¥ 20,654million and ¥899 million, respectively.

## Other financial assets

Millions of yen

Carrying amount	Financial assets of which 12-month expected credit losses are measured as allowance for doubtful accounts	Financial assets whose credit risk increased significantly since initial recognition	Credit-impaired financial assets	Total
As of March 31, 2019	125	6	—	131
As of March 31, 2020	<b>181</b>	<b>6</b>	—	<b>187</b>

### 2) Analysis of Allowance for Doubtful Accounts

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

## Trade and other receivables

Millions of yen

Allowance for doubtful accounts	Financial assets of which expected credit losses are always measured at their expected lifetime as allowance for doubtful accounts	Credit-impaired financial assets	Total
<b>As of April 1, 2018</b>	308	1,196	1,504
Increase during the period	45	368	413
Decrease during the period due to settlement for intended purposes	(3)	(228)	(231)
Decrease during the period due to reversal	(8)	(140)	(148)
Exchange differences on translation of foreign operations	14	34	48
<b>As of March 31, 2019</b>	357	1,230	1,587
Increase during the period	44	249	293
Decrease during the period due to settlement for intended purposes	(1)	(241)	(242)
Decrease during the period due to reversal	(1)	(71)	(72)
Exchange differences on translation of foreign operations	(11)	(27)	(38)
<b>As of March 31, 2020</b>	<b>388</b>	<b>1,140</b>	<b>1,528</b>

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

There was no allowance for doubtful accounts of other receivables as of March 31, 2019 and 2020.



## Other financial assets

Millions of yen

Allowance for doubtful accounts	Financial assets of which expected credit losses are measured at their expected lifetime as allowance for doubtful accounts			Total
	Financial assets of which 12-month expected credit losses are measured as allowance for doubtful accounts	Financial assets whose credit risk increased significantly since initial recognition	Credit-impaired financial assets	
<b>As of April 1, 2018</b>	—	10	—	10
Increase during the period	—	—	—	—
Decrease during the period due to settlement for intended purposes	—	—	—	—
Decrease during the period due to reversal	—	(3)	—	(3)
Exchange differences on translation of foreign operations	—	—	—	—
<b>As of March 31, 2019</b>	—	6	—	6
Increase during the period	—	—	—	—
Decrease during the period due to settlement for intended purposes	—	—	—	—
Decrease during the period due to reversal	—	—	—	—
Exchange differences on translation of foreign operations	—	—	—	—
<b>As of March 31, 2020</b>	—	6	—	6

### (6) Liquidity Risk Management

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

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

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

### Liquidity and interest risk table

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

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

	Millions of yen				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year but within 5 years	After 5 years
<b>As of March 31, 2019</b>					
Non-derivative financial liabilities					
Long-term borrowings (including current portion)	84,270	89,120	3,295	31,141	54,683
Bonds (including current portion)	29,940	30,883	295	30,588	—
Short-term borrowings	12,200	12,233	12,233	—	—
Lease obligations	2,582	2,604	637	1,438	529
Trade and other payables	96,493	96,493	96,493	—	—
Derivative financial liabilities					
Derivative liabilities	330	330	166	164	—
<b>As of March 31, 2020</b>					
Non-derivative financial liabilities					
Long-term borrowings (including current portion)	<b>83,820</b>	<b>87,058</b>	<b>1,848</b>	<b>51,716</b>	<b>33,494</b>
Bonds (including current portion)	<b>29,958</b>	<b>30,588</b>	<b>10,270</b>	<b>20,318</b>	—
Short-term borrowings	<b>9,950</b>	<b>9,957</b>	<b>9,957</b>	—	—
Lease liabilities	<b>15,408</b>	<b>15,914</b>	<b>6,423</b>	<b>8,221</b>	<b>1,271</b>
Trade and other payables	<b>68,856</b>	<b>68,856</b>	<b>68,856</b>	—	—
Derivative financial liabilities					
Derivative liabilities	<b>312</b>	<b>312</b>	<b>192</b>	<b>120</b>	—

Amounts of gross commitment lines of credit and balances of used borrowings as of March 31, 2019 and 2020 are as follows:

	Millions of yen	
	2019	2020
Gross commitment lines of credit	50,500	<b>50,500</b>
Balances of used borrowing	—	—
Unused balances	50,500	<b>50,500</b>

## (7) Fair Value Measurement of Financial Instruments

### 1) Financial Instruments Measured at Fair Value

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

	Millions of yen			
As of March 31, 2019	Level 1	Level 2	Level 3	Total
Derivatives	—	2,219	—	2,219
Shares	64,669	17	11,162	75,848
Others	—	774	9,404	10,178
Total assets	64,669	3,010	20,566	88,245
Derivatives	—	330	—	330
Total liabilities	—	330	—	330

  

	Millions of yen			
As of March 31, 2020	Level 1	Level 2	Level 3	Total
Derivatives	—	1,502	—	1,502
Shares	51,198	—	13,113	64,312
Others	—	731	14,935	15,666
Total assets	51,198	2,233	28,048	81,480
Derivatives	—	312	—	312
Total liabilities	—	312	—	312

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

#### (i) Derivatives

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

#### (ii) Shares

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

#### (iii) Others

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

The movements of financial instruments during the years ended March 31, 2019 and 2020 measured at fair value on a recurring basis using Level 3 inputs were as follows:

	Millions of yen	
	2019	2020
Opening balance	14,461	20,566
Total gain or loss		
In profit or loss (Note 1)	(167)	123
In other comprehensive income (Note 2)	(33)	(362)
Purchases	6,281	7,802
Disposals or settlements	(12)	(62)
Effects of exchange rate fluctuations	36	(18)
Transfer out of Level 3 to other categories (Note 3)	—	—
Closing balance	20,566	28,048

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

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

## 2) Financial Instruments Measured at Amortized Cost

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

	Millions of yen			
	2019		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bonds	29,940	30,747	29,958	30,431
Long-term borrowings	84,270	85,412	83,820	84,740
Total	114,210	116,159	113,778	115,171

(Note) Current portion of bonds and borrowings is included.

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

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

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

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

## 35. Related Party Transactions

### (1) Related Party Transactions and Outstanding Balances

For the year ended March 31, 2019

Not applicable.

For the year ended March 31, 2020

Not applicable.

### (2) Key Management Personnel Remuneration

Key management personnel remuneration is as follows:

	Millions of yen	
	2019	2020
Basic remuneration and bonuses	479	419
Share-based stock options	85	101
Performance- and share-based payment	—	99
Total	564	619

## 36. Subsidiaries, Associated Companies, and Joint Ventures

Regarding the material subsidiaries, associated companies, and joint ventures of the Group as of March 31, 2020, please refer to the Appendix.

## 37. Contingent Liabilities

### (1) Guarantee Obligations

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

	Millions of yen	
	2019	2020
Employees (for their mortgage loans and others)	149	102
Total	149	102

### (2) Litigation

#### For the year ended March 31, 2020

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

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

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

## 38. Significant Subsequent Event

The Group has evaluated subsequent events from March 31, 2020 through June 26, 2020. There were no significant subsequent events that would require recognition or disclosure in the consolidated financial statements.

## 39. Additional Information

(Accounting estimates that take into consideration the impact of the spread of COVID-19)

The Group's consolidated financial results for the year ended March 31, 2020 were affected by the consequences of the spread of COVID-19, such as the decline in demand and delays in parts supply in the Imaging Products Business, in addition to the delay in installations of FPD lithography system in the Precision Equipment Business. The impact of the business environment due to the spread of COVID-19 is also expected to affect the Group's consolidated financial results for the succeeding fiscal years.

Under these circumstances, future plans and assumptions that are used for accounting estimates for the year ended March 31, 2020 take into consideration factors such as the economy, market, and consumption trends, in addition to the changes in demand and supply in the industries each business of the Group belongs to. Although it is uncertain when the spread of COVID-19 will come to an end, the accounting estimates are based on the assumption that economic activity will recover from the latter half of the fiscal year ending March 31, 2021.

The group has estimated future cash flow and future profit based on the above future plans and assumptions, and has determined

the impairment of non-financial assets and the collectability of deferred tax assets. As a result, for the year ended March 31, 2020, impairment losses related to property, plant and equipment, right-of use assets, intangible assets, goodwill and other non-current assets are recognized. For more information about the recognized segments and impacts of the loss, please see Note 14. Impairment Losses of Non-financial assets.

# Appendix

## Information on Subsidiaries and Associates

Company name	Location	Main Business	Voting right ownership (%)
(Consolidated Group companies)			
Tochigi Nikon Corporation	Japan	Manufacture of interchangeable lenses, optical lenses and optical components	100.0
Tochigi Nikon Precision Co., Ltd.	Japan	Manufacture of devices for FPD/semiconductor lithography systems	100.0
Sendai Nikon Corporation	Japan	Manufacture of cameras	100.0
Miyagi Nikon Precision Co., Ltd.	Japan	Manufacture of devices for FPD/semiconductor lithography systems	100.0
Nikon Tec Corporation	Japan	Sales of used equipment and maintenance service for FPD/semiconductor lithography systems	100.0
Nikon Imaging Japan Inc.	Japan	Sales and servicing of cameras	100.0
Nikon Instech Co., Ltd.	Japan	Sales, maintenance and servicing of microscopes, measuring instruments and X-ray/CT inspection systems	100.0
Nikon Vision Co., Ltd.	Japan	Development, manufacture, sales and servicing of sport optics products	100.0
Nikon Systems Inc.	Japan	Development and support of computer software	100.0
Nikon Business Service Co., Ltd.	Japan	Employee welfare activities, procurement and logistics	100.0
Nikon CeLL innovation Co., Ltd.	Japan	Development, manufacturing and testing services for cell-based therapeutics	100.0
Hikari Glass Co., Ltd.	Japan	Manufacture and sales of optical glass and molded optical glass	100.0
Nikon Precision Inc.	U.S.A.	Import, sales, maintenance and servicing of semiconductor lithography systems	100.0 (100.0)
Nikon Inc.	U.S.A.	Import, sales and servicing of cameras	100.0 (100.0)
Nikon Instruments Inc.	U.S.A.	Import, sales, maintenance and servicing of microscopes	100.0 (100.0)
Nikon Americas Inc.	U.S.A.	Centralized supply, administration and management of funds of affiliates in the United States	100.0
Nikon Canada Inc.	Canada	Import, sales and servicing of cameras and microscopes	100.0
Nikon Precision Europe GmbH	Germany	Maintenance and servicing of semiconductor lithography systems	100.0 (100.0)
Nikon Europe B.V.	The Netherlands	Import, sales and servicing of cameras	100.0 (100.0)
Nikon Instruments Europe B.V.	The Netherlands	Import, sales, maintenance and servicing of microscopes	100.0 (100.0)
Nikon U.K. Ltd.	United Kingdom	Import, sales and servicing of cameras and microscopes	100.0 (100.0)
Nikon France S.A.S.	France	Import, sales and servicing of cameras and microscopes	100.0 (100.0)
Nikon GmbH	Germany	Import, sales and servicing of cameras and microscopes	100.0 (100.0)
Nikon CEE GmbH	Austria	Import, sales and servicing of cameras and microscopes	100.0 (100.0)



Company name	Location	Main Business	Voting right ownership (%)
Nikon Metrology NV	Belgium	Management of group companies in Americas and Europe for Industrial Metrology	100.0
Nikon Holdings Europe B.V.	The Netherlands	Centralized supply, administration and management of funds of affiliates in Europe	100.0
Nikon (Russia) LLC.	Russian Federation	Import, sales and servicing of cameras	100.0 (100.0)
Optos Plc	United Kingdom	Manufacture, sales and servicing of ultra-wide field retinal imaging device	100.0
Nikon Hong Kong Ltd.	China	Import, sales and servicing of cameras	100.0 (100.0)
Nikon Holdings Hong Kong Limited	China	Promotion of CSR and Internal Audit to affiliates in Asia and Oceania	100.0
Nikon Singapore Pte. Ltd.	Singapore	Import, sales and servicing of cameras, microscopes and measuring instruments	100.0 (1.4)
Nikon Australia Pty Ltd.	Australia	Import, sales and servicing of cameras	100.0 (100.0)
Nikon India Pvt Ltd.	India	Import, sales and servicing of cameras, and maintenance and servicing of measuring instruments	100.0 (100.0)
Nikon (Thailand) Co., Ltd.	Thailand	Manufacture of cameras, interchangeable lenses, and camera components	100.0
Nikon Precision Korea Ltd.	South Korea	Maintenance and servicing of FPD/semiconductor lithography systems	100.0
Nikon Imaging Korea Co., Ltd.	South Korea	Import, sales and servicing of cameras	100.0
Nikon Precision Taiwan Ltd.	R.O.C	Maintenance and servicing of FPD/semiconductor lithography systems	100.0 (10.0)
Nikon Imaging (China) Sales Co., Ltd.	China	Import, sales and servicing of cameras	100.0 (100.0)
Nikon Precision Shanghai Co., Ltd.	China	Maintenance and servicing of FPD/semiconductor lithography systems	100.0 (100.0)
Nikon Lao Co., Ltd.	Lao P.D.R.	Assembly of camera units	100.0 (100.0)
Nikon Middle East FZE	UAE	Import, sales and servicing of cameras	100.0 (100.0)
Others (41 Companies)			
(Investments accounted for using the equity method)			
Nikon-Essilor Co., Ltd.	Japan	Development, manufacture, sales and servicing of ophthalmic lenses	50.0
Nikon-Trimble Co., Ltd.	Japan	Development, manufacture, sales and servicing of surveying instruments	50.0
Others (14 Companies)			

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

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of NIKON CORPORATION

### Opinion

We have audited the consolidated financial statements of NIKON CORPORATION and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### Basis for Opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

*Deloitte Touche Tohmatsu LLC*

June 26, 2020