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Consolidated Financial Results for the Three Months Ended June 30, 2024 [Under IFRS]

August 7, 2024

Company name: Dexerials Corporation
Listing: Tokyo Stock Exchange
Security code: 4980
URL: https://www.dexerials.jp/en
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Scheduled date to commence dividend payments: –
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: Yes (for securities analysts and institutional investors)

(Note) Amounts less than one million yen have been omitted.

1. Consolidated financial results for the three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)

(1) Consolidated operating results (cumulative) (Percentage indicates year-on-year changes.)

	Net sales		Business profit (Note)		EBITDA (Note)		Operating profit		Profit before tax	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2024	27,176	30.3	9,595	78.4	11,204	67.0	9,773	81.5	9,538	84.7
June 30, 2023	20,858	–	5,378	–	6,709	–	5,385	–	5,165	–

Note: For details of business profit and EBITDA, please refer to "* Proper use of earnings forecast, and other special notes, (Business profit and EBITDA)" on the next page.

	Profit		Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	Yen
June 30, 2024	6,689	82.1	6,689	81.5	7,251	123.8	116.95	116.72
June 30, 2023	3,672	–	3,684	–	3,239	–	63.54	63.25

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity attributable to owners of parent per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
June 30, 2024	140,760	89,325	89,325	63.5	1,561.57
March 31, 2024	140,373	85,122	85,122	60.6	1,488.91

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2024	–	35.00	–	65.00	100.00
Fiscal year ending March 31, 2025	–				
Fiscal year ending March 31, 2025 (forecast)		78.00	–	26.00	–

Notes: 1. Revisions to dividend forecast published most recently: None
2. Effective October 1, 2024, the Company plans to conduct a 3-for-1 split of common shares. Accordingly, as for the dividends for the fiscal year ending March 31, 2025 (forecast), the amount of the second quarter-end dividend is that before the stock split and the amount of the fiscal year-end dividend is that after the stock split. Without considering the stock split, the fiscal year-end dividend per share for the fiscal year ending March 31, 2025 (forecast) would be 78.0 yen, and the annual dividend per share would be 156.0 yen.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2025 (from April 1, 2024 to March 31, 2025)

(Percentages indicate year-on-year changes.)

	Net sales		Business profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year	107,000	1.7	33,500	(1.7)	32,000	3.6	23,000	1.9	132.20

Notes: 1. Revisions to earnings forecast published most recently: None
2. For the purpose of calculating the amount of basic earnings per share, the number of shares of the Company held by the Trust as of the end of the fiscal year ended March 31, 2024 was included in the number of treasury shares, which was to be deducted from the calculation of the average number of common shares during the period.
3. Effective October 1, 2024, the Company plans to conduct a 3-for-1 split of common shares. Accordingly, basic earnings per share for the fiscal year ending March 31, 2025 was calculated on the assumption that the stock split had been conducted at the beginning of the fiscal year ending March 31, 2025. Without considering the stock split, basic earnings per share would be 396.60 yen.

[Notes]

(1) Significant changes in the scope of consolidation during the period: None

(2) Changes in accounting policies and changes in accounting estimates
(i) Changes in accounting policies required by IFRS: None
(ii) Changes in accounting policies due to reasons other than (i) above: None
(iii) Changes in accounting estimates: None

(3) Number of shares of common shares issued
(a) Number of shares issued (including treasury shares)

As of June 30, 2024:	60,214,200 shares
As of March 31, 2024:	60,192,200 shares

(b) Number of treasury shares

As of June 30, 2024:	3,012,045 shares
As of March 31, 2024:	3,021,311 shares

(c) Average number of common shares during the period

Three months ended June 30, 2024:	57,195,565 shares
Three months ended June 30, 2023:	57,987,315 shares

Notes: 1. The number of shares issued as of June 30, 2024 has increased by 22,000 shares as the number of shares issued increased by 22,000 shares upon the exercise of stock options during the three months ended June 30, 2024.
2. As the Company has introduced a stock compensation plan which delivers shares with restrictions on transfer, the Company's shares are included in the number of treasury shares at the end of the period (293,800 shares as of June 30, 2024 and 293,800 shares as of March 31, 2024) mainly for the purpose of allotting them as restricted shares.
3. As the Company has introduced an Employee Stock Ownership Plan ("J-ESOP") and a Board Benefit Trust (BBT), the number of shares of the Company held by the Trust is included in the number of treasury shares as of the end of the period. In addition, the number of shares of the Company held by the Trust (an average of 3,014,854 shares for the three months ended June 30, 2024 and an average of 5,105,983 shares for the three months ended June 30, 2023) was included in the number of treasury shares to be deducted in the calculation of the average number of common shares during the period.

* Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: Yes (voluntary)

* Proper use of earnings forecast, and other special notes
(Application of International Financial Reporting Standards (IFRS))
The Group has adopted IFRS from the fiscal year ending March 31, 2025. The consolidated financial statements most recently prepared in accordance with Japanese GAAP are those for the fiscal year ended March 31, 2024, and the date of transition to IFRS is April 1, 2023. For differences between IFRS and Japanese GAAP with respect to consolidated financial figures, please refer to "2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to quarterly consolidated financial statements (First-time adoption of IFRS)" on page 20 of the attached materials.

(Business profit and EBITDA)
Although business profit and EBITDA are not disclosures under IFRS, the Company believes that these disclosures provide useful information to investors. The details of business profit and EBITDA are as follows.

Business profit: A profit indicator that measures the Company's recurring operating results, which are determined by deducting cost of sales and selling, general and administrative expenses from net sales
EBITDA: A profit indictor that is determined by adding back depreciation, which is recorded as cost of sales and selling, general and administrative expenses, to business profit

(Method of obtaining supplementary materials on financial results)
Supplementary materials on financial results will be posted on our website at https://www.dexerials.jp/en/ir/library/index.html.

(Disclaimer with respect to earnings and other forecasts)
The forward-looking statements including results forecasts contained in this document are based on information currently available to the Company and certain assumptions that the Company deems reasonable. Accordingly, the Company does not intend to promise their achievement. Actual results may differ from these forecasts and forward-looking statements due to various factors.

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1. Overview of Consolidated Financial Results

The Group has adopted International Financial Reporting Standards (hereinafter, "IFRS") from the fiscal year ending March 31, 2025. In addition, financial figures for the first quarter of the previous fiscal year and the previous fiscal year have been reclassified to conform to IFRS for purposes of comparative analysis.

For differences between IFRS and Japanese GAAP with respect to financial figures, please refer to "2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to quarterly consolidated financial statements (First-time adoption of IFRS)" on page 20 of the attached materials.

(1) Operating results

The Group's operating results for the first quarter of the fiscal year ending March 31, 2025 were as follows: net sales were ¥27,176 million (up 30.3% year-on-year), business profit was ¥9,595 million (up 78.4% year-on-year), operating profit was ¥9,773 yen (up 81.5% year-on-year), and profit attributable to owners of parent was ¥6,689 million (up 81.5% year-on-year). Such a strong business performance was attributable mainly to the recovery from the supply chain inventory adjustment in the consumer IT product market in the previous fiscal year and the solid performance of business for automotive applications.

Operating results by segment and sales by product category are presented as follows.

a. Optical Materials and Components Business

During the period under review, the Optical films product category reported a year-on-year increase in sales thanks to the volume growth of anti-reflection films resulting from the recovery from the previous fiscal year's inventory adjustment of the laptop PC and other markets and an increase in the number of models adopted for automotive applications.

The Optical resin materials product category also reported a year-on-year increase in sales mainly due to an increase in quantity of products sold for smartphones for major customers in smart precision adhesives (SA).

As a result, the business segment reported net sales of ¥12,573 million (up 36.9% year-on-year) and business profit of ¥3,641 million (up 85.6% year-on-year).

b. Electronic Materials and Components Business

During the period under review, the Anisotropic conductive films (ACF) product category reported a year-on-year increase in sales thanks to an increase in particle-arrayed ACFs for smartphones in the greater China market on top of the recovery from customers' production adjustments in the previous fiscal year.

The Surface mounted type fuses product category performed at about the same level a year ago in terms of sales due to customers' inventory adjustment continuing from the previous fiscal year for high-current products such as power tools.

The Photonics product category as a whole reported a year-on-year increase in sales. Specifically, sales of micro devices increased thanks to the recovery of the supply chain inventory adjustment, whereas sales of optical semiconductors for both telecommunication and sensor applications decreased due to the delayed recovery of demand in China.

As a result, the business segment reported net sales of ¥14,765 million (up 25.0% year-on-year) and business profit of ¥5,953 million (up 74.2% year-on-year)

Note: Segment sales include inter-segment transactions.

(2) Financial position

Total assets at the end of the period under review amounted to ¥140,760 million, an increase of ¥386 million from the end of the previous fiscal year, due to increases in cash and cash equivalents and trade and other receivables, which were partially offset by decreases in other current assets and assets held for sale. Total liabilities amounted to ¥51,434 million, a decrease of ¥3,816 million from the end of the previous fiscal year, due to decreases in income taxes payable, employee benefits accruals, and interest-bearing liabilities (non-current), which were partially offset by an increase in other financial liabilities. Total equity amounted to ¥89,325 million, an increase of ¥4,203 million due to increases in retained earnings, other components of equity, and capital surplus.

(3) Forward-looking statements including consolidated earnings forecast

The full-year earnings forecast for the fiscal year ending March 31, 2025 remains unchanged from that announced in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2024" disclosed on May 13, 2024.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated statement of financial position

(Millions of yen)

	Date of transition (As of April 1, 2023)	Previous fiscal year (As of March 31, 2024)	Current quarter (As of June 30, 2024)
Assets			
Current assets			
Cash and cash equivalents	29,454	35,328	38,311
Trade and other receivables	14,099	15,588	17,056
Inventories	11,281	9,916	9,577
Other financial assets	122	60	39
Other current assets	4,469	3,025	1,208
Subtotal	59,427	63,919	66,193
Assets held for sale	–	5,522	3,760
Total current assets	59,427	69,442	69,953
Non-current assets			
Property, plant and equipment	34,308	37,390	37,579
Goodwill	21,288	21,288	21,288
Intangible assets	5,973	5,807	5,925
Investments accounted for using equity method	121	140	145
Other financial assets	1,294	1,245	1,561
Deferred tax assets	4,164	4,861	4,100
Other non-current assets	218	197	205
Total non-current assets	67,368	70,931	70,806
Total assets	126,795	140,373	140,760

(Millions of yen)

	Date of transition (As of April 1, 2023)	Previous fiscal year (As of March 31, 2024)	Current quarter (As of June 30, 2024)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	11,259	13,378	12,614
Interest-bearing liabilities	9,546	7,444	7,129
Income taxes payable	4,706	4,378	2,153
Employee benefits accruals	4,222	4,138	2,676
Other financial liabilities	6,648	2,547	4,570
Other current liabilities	1,425	1,539	1,704
Subtotal	37,808	33,426	30,849
Liabilities directly associated with assets held for sale	–	266	274
Total current liabilities	37,808	33,692	31,123
Non-current liabilities			
Interest-bearing liabilities	12,032	15,754	14,841
Retirement benefit liability	4,346	4,059	3,771
Provisions	253	275	283
Deferred tax liabilities	1,276	1,444	1,387
Other financial liabilities	2,459	–	–
Other non-current liabilities	9	23	26
Total non-current liabilities	20,379	21,558	20,311
Total liabilities	58,187	55,251	51,434
Equity			
Share capital	16,194	16,251	16,257
Capital surplus	14,582	17,700	18,352
Retained earnings	52,895	54,777	57,553
Treasury shares	(15,908)	(5,085)	(5,075)
Other components of equity	(26)	1,478	2,236
Total equity attributable to owners of parent	67,737	85,122	89,325
Non-controlling interests	870	–	–
Total equity	68,608	85,122	89,325
Total liabilities and equity	126,795	140,373	140,760

(2) Quarterly consolidated statement of profit or loss and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of profit or loss

(Millions of yen, except for per share data)

	Three months ended June 30, 2023 (From April 1, 2023 to June 30, 2023)	Three months ended June 30, 2024 (From April 1, 2024 to June 30, 2024)
Net sales	20,858	27,176
Cost of sales	(10,493)	(11,838)
Gross profit	10,365	15,338
Selling, general and administrative expenses	(4,986)	(5,742)
Other income	69	200
Other expenses	(62)	(22)
Operating profit	5,385	9,773
Finance income	32	49
Finance costs	(256)	(289)
Share of profit of investments accounted for using equity method	3	5
Profit before tax	5,165	9,538
Income tax expense	(1,492)	(2,849)
Profit	3,672	6,689
Profit attributable to:		
Owners of parent	3,684	6,689
Non-controlling interests	(12)	–
Profit	3,672	6,689
Earnings per share		
Basic earnings per share (Yen)	63.54	116.95
Diluted earnings per share (Yen)	63.25	116.72

Quarterly consolidated statement of comprehensive income

(Millions of yen)

	Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)	Three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)
Profit	3,672	6,689
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit plans	(11)	(196)
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	–	(1)
Share of other comprehensive income of investments accounted for using equity method	10	–
Total of items that will not be reclassified to profit or loss	(0)	(197)
Items that may be reclassified to profit or loss:		
Cash flow hedges	(1,426)	(133)
Hedging costs	(68)	(14)
Exchange differences on translation of foreign operations	1,061	907
Items that may be reclassified to profit or loss	(432)	759
Total other comprehensive income (after tax effect)	(433)	561
Comprehensive income	3,239	7,251
Comprehensive income attributable to:		
Owners of parent	3,248	7,251
Non-controlling interests	(9)	–
Comprehensive income	3,239	7,251

(3) Notes to quarterly consolidated financial statements

(Going concern assumption)

Not applicable.

(Reporting entity)

Dexerials Corporation (the "Company") is a joint-stock company incorporated in Japan. The address of its registered head office is Shimotsuke City, Tochigi Prefecture. The Company's quarterly consolidated financial statements comprise the financial statements of the Company and its consolidated subsidiaries (collectively, the "Group") as well as its interests in associates.

The Group is principally engaged in the manufacturing and distribution of optical materials and electronic materials. It is divided into two operating segments: Optical Materials and Components Business and Electronic Materials and Components Business.

(Material accounting policies)

The Group applies the following accounting policies to all periods presented in the consolidated financial statements for the period under review (including the consolidated statement of financial position at the date of transition to IFRS), unless otherwise provided.

(1) Basis of consolidation

(i) Subsidiaries

A subsidiary refers to an entity controlled by the Group. The Group determines that it controls an entity when the Group has variable exposures, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Financial statements of a subsidiary are included in the consolidated financial statements from the date on which the Group obtains control of the subsidiary until the date on which it loses control of the subsidiary. If any accounting policies applied by a subsidiary differ from those applied by the Group, adjustments are made to the subsidiary's financial statements as necessary. The balances of receivables and payables and transactions between Group companies, and unrealized gains or losses arising from transactions between Group companies are eliminated in the preparation of the quarterly consolidated financial statements. Comprehensive income of a subsidiary is attributed to owners of the parent and non-controlling interests, even if this results in a negative balance in non-controlling interests.

When the Company makes a partial disposal of an interest in a subsidiary and continues controlling it, the disposal is accounted for as equity transactions. Any difference between the adjustment to non-controlling interests and the fair value of consideration is directly recognized in equity as interests attributable to owners of the parent. If the Group loses control of a subsidiary, it recognizes gains or losses resulting from the loss of control in profit or loss.

(ii) Associates

An associate refers to an investee over which the Group has significant influence in terms of the finance and business policies but does not have control or joint control. If the Group holds 20% or more but no more than 50% of the voting rights of the entity, it is presumed that the Group has significant influence over the entity.

An investment in an associate is accounted for using the equity method from the date the investee is determined to be an associate until the date the investee is determined not to be an associate.

If any accounting policies adopted by an associate differ from those adopted by the Group, adjustments are made to the associate's financial statements as necessary. When an entity ceases to be an associate and is no longer accounted for by the equity method, gains or losses resulting from the cessation of applying the equity method is recognized as profit or loss.

(2) Business combinations

Business combinations are accounted for using the acquisition method. The consideration of acquisition is measured as the aggregate of assets transferred in exchange for control of an acquiree, assumed liabilities and the acquisition-date fair value of equity interests issued by the Company. If the aggregate of the consideration transferred, the amount of any non-controlling interests in an acquiree, and the fair value of any equity interests in the acquiree previously held by the acquirer exceeds the net value of the identifiable assets and liabilities acquired, goodwill is measured as the excess.

The Company selects whether to measure non-controlling interests at fair value or at their proportionate share of the recognized amount of identifiable net assets for each business combination.

The Company accounts for acquisition-related costs incurred, including brokerage fees, legal fees, and due diligence costs, when they are incurred.

If initial accounting for the business combination was not completed by the end of the consolidated fiscal year in which an business combination occurred, items that were not completed are reported at their provisional amounts. If the Company obtained facts and circumstances that had existed at the acquisition date in the period that would have affected the measurement of the amount to be recognized had they been known at an initial acquisition date (the "measurement period"), the provisional amounts recognized at the acquisition date are retrospectively adjusted to reflect that information. When newly obtained information results in a new recognition of assets and liabilities, additional assets and liabilities are recognized. The maximum measurement period is one year. Additional acquisitions of non-controlling interests after control has been obtained are accounted for as equity transactions; therefore, goodwill is not recognized because of the transactions.

The identifiable assets and liabilities of the acquiree are measured at the acquisition-date fair value, except for the following:

- Deferred tax assets or deferred tax liabilities;
- Assets and liabilities related to employee benefit arrangements, initial;
- Share-based payment arrangement of the acquiree;
- Right-of-use assets and lease liabilities associated with leases in which the acquiree is the lessee
- Assets or a disposal group classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

In the case of a business combination achieved in stages, the interest in the acquiree previously held by the Group is remeasured at fair value on the date that control is acquired, and gains or losses incurred is recognized in profit or loss.
The Group has adopted the exemption provisions of IFRS 1, and does not apply IFRS 3 *Business Combination* retrospectively to the business combinations that took place before the date of transition to IFRS (April 1, 2023). Consequently, the amount of goodwill arising from acquisitions before the date of transition is recorded based on the carrying amount as of the date of transition in accordance with the previous accounting standard (Japanese GAAP).

(3) Foreign currency translation

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each Group company using the exchange rates at the dates of the transactions.

Foreign currency monetary assets and liabilities at the closing date are translated into the functional currency at the exchange rate prevailing at the closing date. Foreign currency non-monetary assets and liabilities measured at fair value are translated into the functional currency at the exchange rate prevailing at the date of the fair value calculation.

Translation differences arising from translation or settlement are recognized in profit or loss. However, translation differences arising from cash flow hedges are recognized in other comprehensive income.

(ii) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into the Japanese yen using the exchange rates at the closing date. Revenue and expenses of the foreign operations are translated into the Japanese yen using the average exchange rates during the period unless the exchange rates fluctuate significantly. Translation differences arising from translating the financial statements of the foreign operations are recognized in other comprehensive income, and are recognized in profit or loss in the period in which the foreign operations are disposed of.

The Group has adopted the exemption provisions of IFRS 1, and the cumulative exchange differences on translating foreign operations before the date of transition to IFRS are considered to be zero and all of them are transferred to “Retained earnings” from “Other components of equity”.

(4) Financial Instruments

(i) Financial assets (excluding derivatives)

A. Initial recognition and measurement

The Group classifies financial assets into financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, or financial assets measured at amortized cost. This classification is made at initial recognition. The Group also initially recognizes financial assets at the transaction date on which it becomes a party to the contract of the financial instrument.

All financial assets are measured at fair value plus transaction costs directly attributable to the acquisition, unless the assets are classified as those measured at fair value through profit or loss. However, trade receivables that do not contain a significant financing component are measured at their transaction price.

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

- the financial assets are held based on a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as those measured at fair value.

B. Subsequent measurement

After initial recognition, financial assets are measured as follows in accordance with their classification.

(a) Financial assets measured at amortized cost

Financial assets are measured at amortized cost using the effective interest method. Interest is recognized in profit or loss as part of finance income.

(b) Financial assets measured at fair value

Changes in the fair value of financial assets measured at fair value are recognized in profit or loss.

However, changes in the fair value of equity instruments designated as those measured at fair value through other comprehensive income are recognized in other comprehensive income. Dividends from those instruments are recognized in profit or loss as part of finance income.

C. Impairment of financial assets

The Group recognizes an allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost.

At the closing date of each reporting period, the Group assesses whether credit risk on each financial asset has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the Group recognizes 12-month expected credit losses as a loss allowance. Meanwhile, if the credit risk has increased significantly since initial recognition, the Group recognizes an amount equal to lifetime expected credit losses as a loss allowance. However, the Group always recognizes lifetime expected credit losses as a loss allowance on trade receivables and lease receivables that do not contain a significant financing component.

D. Derecognition of financial assets

The Group derecognizes financial assets if the contractual rights to the cash flows from the financial assets expire, or the Group transfers substantially all the risks and rewards of ownership of the financial assets. If the Group has retained control of the financial assets transferred, it recognizes the assets and related liabilities to the extent of its continuing involvement in the financial assets.

(ii) Financial liabilities (excluding derivatives)

A. Initial recognition and measurement

The Group initially recognizes all financial liabilities at the date on which it becomes a party to the contract of the financial instrument and measures them at amortized cost. The Group also measures them at fair value less transaction costs directly attributable to their issuance upon initial recognition.

B. Subsequent measurement

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method with interest recognized in profit or loss as part of finance costs.

C. Derecognition of financial liabilities

The Group derecognizes financial liabilities when they are extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

(iii) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are offset and presented net in the quarterly consolidated statement of financial position only when the Group have the legal right to offset the balances and have the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iv) Derivatives and hedge accounting

The Group uses derivatives, including foreign currency forward contracts and foreign exchange options, to hedge foreign currency risk. These derivatives are initially recognized at fair value when the contracts are entered into, and are subsequently measured at fair value. Changes in the fair value of the derivatives are recognized in profit or loss.

When applying the hedge accounting, the Group formally designates and documents, at the inception of a hedge, the hedging relationship to which it plans to apply hedging accounting and its risk management objective and strategy for undertaking the hedge. The documentation includes the specific hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and the method of assessing the effectiveness of the hedging instrument in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Specifically, the Group determines that the hedge is effective if all of the following requirements are met:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from the economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group assesses on an ongoing basis whether the hedging relationship is effective prospectively.

The Group has appropriately established the hedge ratio in light of an economic relationship between the hedged item and the hedging instrument and its risk management strategy.

The Group readjusts the hedge ratio to make the hedging relationship effective again if the hedging relationship is deemed to be no longer effective, but its risk management objective remains unchanged. If the risk management objective for the hedging relationship has changed, hedge accounting for the hedging relationship is discontinued.

The Group accounted for hedges meeting criteria for hedge as follows:

Cash flow hedges
The effective portion of gains or losses on the hedging instrument is recognized in other comprehensive income, and the ineffective portion of them is immediately recognized in profit or loss.

If the hedging instrument is a forward exchange contract, the forward exchange contract is classified into a forward element and a spot element, and only changes in the value of the spot element are designated as the hedging instrument. Changes in the fair value of the forward element are separately accounted for as hedging costs.

When a currency option is used as the hedging instrument, the Company classifies the currency option into intrinsic value and time value and designates only changes in the intrinsic value element as the hedging instrument. Changes in the fair value of the time value element are separately accounted for as hedging costs.

The amount recorded in other comprehensive income is transferred to profit or loss at the time when the transaction for a hedged item affects profit or loss.

When a hedging instrument expires, is sold, terminated or exercised, the hedge accounting is discontinued prospectively if the hedge does not qualify for the hedge accounting. If a forecast transaction or a firm commitment is no longer expected to occur, the cumulative gains or losses recognized in equity through other comprehensive income are transferred to profit or loss. If the hedged future cash flows are still expected to occur, the amount previously recognized in equity through other comprehensive income remains in equity until the future cash flows occur.

Derivatives that do not qualify for hedge accounting are recognized at fair value, with changes in fair value recognized in net income or loss.

(v) Liabilities arising from put options written on non-controlling interests
For written put options on shares of subsidiaries granted by the Group to owners of non-controlling interests, the Group recognizes a financial liability as an obligation to purchase the non-controlling interests, and accordingly, the put option to the non-controlling shareholders is recorded as “Other financial liabilities (non-current)” and “Capital surplus” is reduced. When the non-controlling shareholders exercise their rights, “Other financial liabilities (non-current)” and “Non-controlling interests” are reversed and the difference between the amount of the reversal and the amount paid is recorded in “Capital surplus.”

(5) Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition that are readily convertible into cash and which are subject to an insignificant risk of changes in value.

(6) Inventories
Inventories are measured at the lower of cost and net realizable value. The cost includes purchase costs, processing costs, and all costs incurred until the inventories reach the current location and condition and is calculated based on the moving average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs of sale.

(7) Property, plant and equipment
Property, plant and equipment are measured using the cost model and stated at cost less any accumulated depreciation and any accumulated impairment losses. The cost includes any costs directly attributable to the acquisition of the asset and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant and equipment other than land and construction in progress are depreciated using the straight-line method over their respective estimated useful lives. The estimated useful lives of major property, plant and equipment are as follows.

- Buildings and structures: 2 to 60 years
- Machinery and vehicles: 2 to 15 years

Estimated useful lives, residual values, and depreciation methods are reviewed at each financial year-end, and any changes are applied prospectively as changes in accounting estimates.

(8) Goodwill and intangible assets

(i) Goodwill

The Group initially measures goodwill as the fair value of the consideration for transfer, including the recognized amount of any non-controlling interests in the acquiree measured as of the acquisition date, less the net recognized amount of identifiable assets acquired and liabilities assumed as of the acquisition date (usually at fair value).

Goodwill is not amortized but is allocated to a cash-generating unit or group of cash-generating units and tested for impairment once a year or whenever an indication of impairment exists. Goodwill impairment losses are recognized in the quarterly consolidated statement of profit or loss and are not subsequently reversed. Goodwill is stated at cost less any accumulated impairment losses in the quarterly consolidated statement of financial position.

(ii) Intangible assets

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

Separately acquired intangible assets are measured at cost upon initial recognition. The cost of intangible assets acquired in a business combination is measured at fair value at the date control is obtained.

Intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives. The estimated useful lives of major intangible assets are as follows:

- Software: 5 years
- Patents: 8 to 15 years
- Customer-related intangible assets (identifiable intangible assets): 17 years

Estimated useful lives and depreciation methods are reviewed at each financial year-end, and any changes are applied prospectively as changes in accounting estimates.

(9) Leases

(i) As lessee

The Group assesses contracts to determine whether a contract is, or contains, a lease. If the contract is, or contains, a lease, a right-of-use asset and a lease liability are recognized at the commencement date of the lease. The lease liability is measured at the present value of total lease payments yet to be paid. The right-of-use asset is measured at cost, adjusted to the amount of the initial measurement of the lease liability for any lease payments made at or before the commencement date, etc., any initial direct costs incurred by the lessee, and the costs to be incurred as the obligation for restoration, etc. required by the terms and conditions of the lease.

Right-of-use assets are stated at cost less any accumulated depreciation and any accumulated impairment losses and are included in property, plant and equipment in the quarterly consolidated statement of financial position. Right-of-use assets are depreciated using the straight-line method over the shorter of their estimated useful life and the lease term.

Lease liabilities are measured subsequently at an amount that reflects the interest expense on the lease liability, lease payments made and, if applicable, any reassessment of the lease liability or lease modifications. Lease liabilities are included in “Interest-bearing liabilities” in the quarterly consolidated statement of financial position.

Lease payments are allocated between finance costs and repayments of lease liabilities, with finance costs recognized in the quarterly consolidated statement of profit or loss. The lease term is the non-cancellable period of the lease plus the period covered by the extension option that the lessee is reasonably certain to exercise and the period covered by the termination option that the lessee is reasonably certain not to exercise.

However, for short-term leases with a lease term of 12 months or less and leases for which the underlying asset is of low value, the right-of-use assets and lease liabilities are not recognized, but the lease payments are recognized as expenses over the lease term on a systematic basis.

(ii) As lessor

The Group classifies leases as either finance leases or operating leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership

of an underlying asset.

In finance lease transactions, the underlying asset is derecognized and net investment in the lease is recognized as a receivable. In operating lease transactions, the underlying asset continues to be recognized and the lease payments to be received are recognized as revenue on a straight-line basis over the lease term.

(10) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, excluding inventories and deferred tax assets, are reviewed at each balance sheet date for indications of impairment. If an indication of impairment exists, the recoverable amount of the asset is estimated.

The recoverable amount of goodwill is estimated annually and whenever an indication of impairment exists.

The recoverable amount of an asset or cash-generating unit is defined as the higher of its value in use and its fair value less costs of disposal. In calculating value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the time value of money and the risks inherent in the asset.

Assets that are not tested individually in impairment testing are integrated into the smallest cash-generating unit that, through continued use, generates cash inflows that are largely independent of the cash inflows of other assets or asset groups. When testing goodwill for impairment, the cash-generating units to which goodwill is allocated are integrated so that impairment is tested to reflect the smallest unit to which the goodwill relates. Goodwill acquired through a business combination is allocated to the cash-generating unit that is expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate independent cash inflows. When there is an indication that a corporate asset may be impaired, the impairment test is performed by determining the recoverable amount of the cash-generating unit to which the corporate asset belongs.

An impairment loss is recognized in profit or loss when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses recognized in relation to a cash-generating unit are allocated first to reduce the carrying amount of goodwill allocated to that unit and then allocated to reduce the carrying amounts of other assets within the cash-generating unit in proportion to their carrying amounts.

No impairment losses related to goodwill are reversed. For assets other than goodwill, impairment losses recognized in prior periods are assessed at each balance sheet date to determine whether there is any indication that the impairment loss will decrease or disappear. If such an indication exists, the recoverable amount of the asset or cash-generating unit is estimated, and if the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the recoverable amount determined or the carrying amount (net of depreciation or amortization) that would have been determined if no impairment loss had been recognized in prior periods.

(11) Employee benefits

(i) Post-employment benefit plans

A. Defined contribution pension plans

The Company and certain consolidated subsidiaries have defined contribution pension plans. A defined contribution pension plan is a post-employment benefit plan under which the employer makes a fixed amount of contribution to another independent entity and has no legal or constructive obligation to pay more than the amount contributed. Contribution obligations for defined contribution pension plans are recognized in profit or loss as employee benefit expenses in the period in which the employees render the related services.

B. Defined benefit pension plans

The present value of defined benefit plan obligations and service cost are calculated for each plan using the projected unit credit method.

The discount rate is based on the market yield of high-quality corporate bonds at the end of the period corresponding to the discount period, which is established based on the period up to the expected date of benefit payments each year in the future.

The liability or asset for a defined benefit pension plan is calculated as the present value of the defined benefit pension plan obligation less the fair value of plan assets. The remeasurement amount arising from a defined benefit pension plan consists of actuarial gains and losses, return on plan assets (excluding interest), and changes in the effect of the asset ceiling. It is recognized in other comprehensive income in a lump sum for the period in which they arise and immediately reclassified from "Other

components of equity" to "Retained earnings." Past service cost is recognized in profit or loss in the period in which it is incurred.

(ii) Other employee benefit plans

Short-term employee benefits are not discounted, but are charged to expense when the related services are rendered. Bonuses are recognized as a liability at the amount estimated to be payable under the plan when the Group has a legal or constructive obligation to pay as a result of services provided by the employee in the past and when a reliable estimate of the obligation can be made.

The liability for long-term employee benefits other than post-employment benefit plans is recorded at the present value of the estimated future benefits earned by employees for services rendered in prior and current years.

Paid leave is recognized as a liability at the time the employee provides service that increases the right to future paid leave.

(12) Share-based payment

(i) Stock options

The Company has adopted a stock option plan as an equity-settled, share-based compensation plan. Stock options are estimated based on their fair value at the grant date and recognized as an expense in the quarterly consolidated statement of profit or loss over the vesting period, considering the number of stock options expected to ultimately vest, and the same amount is recognized as an increase in equity in the quarterly consolidated statement of financial position. The fair value of options granted is determined, considering the terms and conditions of the options. The terms and conditions are periodically reviewed and the estimate of the number of units to vest is revised.

The Group has adopted the exemption of IFRS 1 and has not applied IFRS 2 *Share-based Payment* retrospectively to stock options that vested prior to the date of transition to IFRS.

(ii) Stock benefit trusts (J-ESOP and BBT)

The Group has established two stock benefit trusts: an Employee Stock Ownership Plan ("J-ESOP") for employees and a Board Benefit Trust (BBT) for directors and executive officers (excluding directors who are Audit and Supervisory Committee members and outside directors). The Company's shares held by each trust are deducted at cost from equity. As these share-based payment plans fall into equity-settled, share-based payments, the services received and the corresponding increase in equity are measured at the fair value of the equity instrument at the grant date, expensed over the vesting period, and the same amount is recognized as an increase in capital surplus. The fair value of the Company's shares granted is determined by adjusting the market price of the shares to take into account the contractual conditions under which the shares were granted. The terms and conditions are periodically reviewed and the estimate of the number of units to vest is revised.

Since the Group meets the requirements for control over the trust, the trust is included in the scope of consolidation and deposits held by the trust are recorded as "Cash and cash equivalents."

(13) Provisions

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

When the effect of the time value of money is material, the estimated future cash flows are discounted to the present value using a pre-tax interest rate that reflects the time value of money and the risks specific to the liability. The unwinding of the discount over time is recognized as finance costs.

(14) Revenue

By applying the following steps, the Group recognizes revenue, except for interest income and other income under IFRS 9 *Financial Instruments*, when it determines, based on the terms and conditions of the contract with the customer, that the customer has obtained control over products or others sold by the Group and that the performance obligation has been satisfied.

Step 1: Identify the contract with the customer.
Step 2: Identify 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 (or as) the performance obligation is satisfied.

(15) Finance income and costs

Finnance income consists primarily of interest income, dividend income, foreign exchange gain, and changes in the fair value of financial assets measured at fair value through profit or loss such as gain on investments in investment partnerships. Interest income is recognized as incurred using the effective interest method.

Finance expenses consist primarily of interest expenses, foreign exchange loss, and changes in the fair value of financial assets measured at fair value through profit or loss such as loss on investments in investment partnerships. Interest expenses are recognized as incurred using the effective interest method.

(16) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants related to assets are recognized by deducting the grants from the cost of the assets, whereas government grants related to expenses are recognized as income on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

(17) Income taxes

Income tax expense consists of current tax expense and deferred tax expense, both of which are recognized in profit or loss, except when they arise from items recognized directly in equity or other comprehensive income, or from business combinations.

Current tax expense is measured by the amount expected to be paid to, or refunded from, the tax authorities based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax expense is recognized for temporary differences, which are differences between the tax base of an asset or liability and its carrying amount at the balance sheet date. A deferred tax asset is recognized for deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized, whereas a deferred tax liability is generally recognized for all taxable temporary differences.

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit or part of all of those deferred tax assets to be utilized. Unrecognized deferred tax assets are also reviewed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured based on tax rates expected to apply in the period in which the deferred tax assets are expected to be recovered or the deferred tax liabilities are expected to be settled based on tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on the same taxable entity.

(18) Earnings per share

Basic earnings per share is calculated by dividing profit attributable to owners of parent by the weighted average number of common shares issued adjusted for treasury shares during the period. Diluted earnings per share is calculated after adjusting for the effect of all dilutive potential shares.

(19) Segment information

An operating segment is a component of business activities from which revenues are earned and expenses are incurred including transactions with other operating segments. The business results of all operating segments, for which discrete financial information is available, are regularly reviewed by the Company's Board of Directors to make decisions about resources to be allocated to each segment and assess its performance.

(20) Assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered primarily through sale transactions rather than through continuing use, and if it is highly probable that they will be sold within one year, they are available for immediate sale in their present condition, and the Group's management is committed to a plan to sell them.

Non-current assets or disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortized after they are classified as held for sale.

(21) Equity

(i) Common shares

The common shares issued by the Company are credited to share capital and capital surplus at the issue price.

(ii) Treasury shares

Treasury shares are carried at cost and deducted from equity. No gain or loss is recognized on repurchase, sale, or retirement of treasury shares. The difference between the carrying amount and the consideration upon sale is recognized as equity.

(Quarterly consolidated statements of cash flows)

While quarterly consolidated statement of cash flows for the first quarter of the current fiscal year is not prepared, depreciation and amortization for the first quarter of the current fiscal year is as follows.

(Millions of yen)

	Three months ended June 30, 2023 (From April 1, 2023 to June 30, 2023)	Three months ended June 30, 2024 (From April 1, 2024 to June 30, 2024)
Depreciation and amortization	1,379	1,623

(Significant changes in the amount of equity attributable to owners of parent)

Not applicable.

(Segment information)

I Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

Information on net sales and profit (loss) by reportable segment

(Millions of yen)

	Reportable Segment			Adjustment	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	9,086	11,771	20,858	–	20,858
Intersegment sales and transfers	100	39	139	(139)	–
Total	9,186	11,810	20,997	(139)	20,858
Business profit (Note)	1,961	3,416	5,378	–	5,378
Other income					69
Other expenses					(62)
Operating profit					5,385
Finance income					32
Finance costs					(256)
Share of profit of investments accounted for using equity method					3
Profit before tax					5,165

(Note) Business profit is a profit indicator that measures the Group's recurring operating results, which are determined by deducting cost of sales and selling, general and administrative expenses from net sales.

Reference) Net sales by region

Japan	¥5,029 million	China	¥7,450 million	South Korea	¥2,521 million
Taiwan	¥3,157 million	Other	¥2,698 million		

II Three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)

Information on sales and profit or loss by reportable segment

(Millions of yen)

	Reportable segment			Adjustment	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	12,438	14,738	27,176	–	27,176
Intersegment sales and transfers	134	27	162	(162)	–
Total	12,573	14,765	27,339	(162)	27,176
Business profit (Note)	3,641	5,953	9,595	–	9,595
Other income					200
Other expenses					(22)
Operating profit					9,773
Finance income					49
Finance costs					(289)
Share of profit of investments accounted for using equity method					5
Profit before tax					9,538

(Note) Business profit is a profit indicator that measures the Group's recurring operating results, which are determined by deducting cost of sales and selling, general and administrative expenses from net sales.

(Reference) Net sales by region

Japan	¥5,773 million	China	¥8,849 million	South Korea	¥3,561 million
Taiwan	¥5,110 million	Other	¥3,880 million		

(Assets held for sale)

The breakdown of assets held for sale and liabilities directly associated with assets held for sale is as follows:

(Millions of yen)

	Previous fiscal year (As of March 31, 2024)	Current quarter (As of June 30, 2024)
Assets held for sale		
Cash and cash equivalents	2,396	2,029
Trade and other receivables	2,869	1,482
Other current assets	187	175
Other	68	73
Total	5,522	3,760
Liabilities directly associated with assets held for sale		
Income taxes payable	177	200
Other current liabilities	65	8
Other	22	65
Total	266	274

Assets held for sale and liabilities directly associated with assets held for sale at June 30, 2024 consist of the assets and liabilities of Dexerials Hong Kong Limited that meet the requirements to be classified as held for sale, and such assets and liabilities are included in the Optical Materials and Components segment and the Electronic Materials and Components segment.

At the Board of Directors meeting held on February 5, 2024, the Company resolved to enter into a share transfer agreement and a shareholders agreement to make Dexerials Hong Kong Limited a joint venture, and entered into such agreements with Restar Holdings Corporation (currently Restar Corporation). Dexerials Hong Kong Limited will be excluded from our consolidated subsidiaries and become an equity method associate as a result of the share transfer under these agreements on July 1, 2024.

Other components of equity associated with assets held for sale amounted to ¥475 million and ¥831 million at March 31, 2024 and June 30, 2024, respectively.

(First-time adoption of IFRS)

The Group has adopted IFRS from the fiscal year ending March 31, 2025. The most recent consolidated financial statements prepared in accordance with Japanese GAAP are for the fiscal year ended March 31, 2024, and the date of transition to IFRS is April 1, 2023.

(1) Exemptions from IFRS 1

IFRS, in principle, requires an entity applying IFRS for the first time (hereinafter, the "first-time adopter") to retrospectively apply the standards required by IFRS. However, IFRS 1 *First-time Adoption of International Financial Reporting Standards* (hereinafter, "IFRS 1") specifies optional exemptions for certain requirement in IFRS. The effect of the application of such exemptions is adjusted in retained earnings or other components of equity at the date of transition to IFRS. The exemptions applied by the Group in transitioning from Japanese GAAP to IFRS are as follows.

(i) Business combinations

The first-time adopter may choose not to apply IFRS 3 *Business Combinations* (hereinafter, "IFRS 3") retrospectively to business combinations that were entered into prior the date of transition to IFRS. Accordingly, the Group has applied this exemption and elected not to apply IFRS 3 retrospectively to business combinations that were entered into prior to the date of transition to IFRS. As a result, the amount of goodwill arising from business combinations prior to the date of transition to IFRS is based on the carrying amount as of the date of transition to IFRS in accordance with Japanese GAAP.

Goodwill was tested for impairment as of the date of transition to IFRS, regardless of whether there is any indication of impairment.

(ii) Translation differences of foreign operations

IFRS 1 permits the first-time adopter to elect to treat the cumulative translation differences for foreign operations as zero at the date of transition to IFRS. Accordingly, the Group has elected to treat the accumulated translation differences of foreign operations as zero as of the date of transition to IFRS.

(iii) Share-based compensation

IFRS 1 permits the first-time adopter to elect not to apply IFRS 2 *Share-Based Payment* (hereinafter, "IFRS 2") for share-based payments granted on or after November 7, 2002 and vested prior to the later of the date of transition to IFRS or January 1, 2005. Accordingly, the Group has elected not to apply IFRS 2 for share-based payments that vested prior to the date of transition to IFRS.

(iv) Leases

IFRS 1 permits the first-time adopter to assess at the date of transition to IFRS whether a contract contains a lease. Accordingly, the Group has applied this exemption and determines whether a contract contains a lease based on the facts and circumstances that existed at the date of transition to IFRS.

The Group measured the lease liability as of the date of transition to IFRS, which is the present value of the remaining lease payments discounted at the lessee's incremental borrowing rate as of the date of transition to IFRS. The carrying amount of right-of-use assets is measured on a lease-by-lease basis as if IFRS 16 *Leases* had been applied from the inception of each lease at an amount discounted at the lessee's incremental borrowing rate as of the date of transition to IFRS.

(2) Mandatory exceptions under IFRS 1

IFRS 1 prohibits the retrospective application of IFRS concerning "estimates," "derecognition of financial assets and financial liabilities," "hedge accounting," "non-controlling interests," "classification and measurement of financial instruments," and others. The Group has applied IFRS prospectively from the date of transition to IFRS for these items.

(3) Reconciliations

Reconciliations required to be disclosed on first-time adoption of IFRS are as follows.

In these reconciliations, the amounts under "Reclassification" include those of items that do not affect retained earnings or comprehensive income, while the amounts under "Difference in recognition and measurement" include those of items that affect retained earnings and comprehensive income.

Reconciliation of equity as of April 1, 2023 (date of transition)

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Assets						Assets
Current assets:						Current assets
Cash and deposits	29,286	–	167	29,454	H	Cash and cash equivalents
Notes and accounts receivable - trade	13,126					
Electronically recorded monetary claims - operating	342					
Allowance for doubtful accounts	(2)					
Subtotal	13,466	474	158	14,099	A, I	Trade and other receivables
Merchandise and finished goods	4,111					
Work in process	2,883					
Raw materials and supplies	4,358					
Subtotal	11,352	–	(70)	11,281		Inventories
Other	5,133	(5,010)	–	122		Other financial assets
		4,585	(116)	4,469	H	Other current assets
Total current assets	**59,238**	**49**	**138**	**59,427**		**Total current assets**
Non-current assets:						Non-current assets
Property, plant and equipment:						
Buildings and structures	13,732					
Machinery, equipment and vehicles	7,167					
Land	2,524					
Construction in progress	6,646					
Other	2,214					
Subtotal	32,284	–	2,023	34,308	J, K, L	Property, plant and equipment
Intangible assets:						
Goodwill	21,444	–	(156)	21,288	M.	Goodwill
Patent right	695					
Customer-related intangible assets	2,884					
Other	2,295					
Subtotal	5,875	–	97	5,973		Intangible assets
Investments and other assets:						
Shares of subsidiaries and associates	117	(10)	13	121		Investments accounted for using equity method
		1,703	(409)	1,294	E, N	Other financial assets
Deferred tax assets	2,389	–	1,775	4,164	O	Deferred tax assets
Retirement benefit asset	3,242					
Other	1,799					
Allowance for doubtful accounts	(13)					
Subtotal	5,028	(1,678)	(3,132)	218	P	Other non-current assets
Total non-current assets	**67,141**	**15**	**211**	**67,368**		**Total non-current assets**
Total assets	**126,379**	**65**	**350**	**126,795**		**Total assets**

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Liabilities						Liabilities
Current liabilities:						Current liabilities
Notes and accounts payable - trade	5,972					
Electronically recorded obligations - operating	2,569					
Subtotal	8,541	2,726	(8)	11,259	B	Trade and other payables
Short-term borrowings	2,000					
Current portion of long-term borrowings	6,560					
Subtotal	8,560	90	894	9,546	C, L	Interest-bearing liabilities
		6,647	0	6,648	F	Other financial liabilities
Income taxes payable	4,705	–	1	4,706		Income taxes payable
Provision for bonuses	2,558	(2,558)	–		D	
		2,558	1,664	4,222	D, Q, S	Employee benefits
Accounts payable - other	7,817	(7,817)	–			
Accrued expenses	856					
Other	2,034					
Subtotal	2,891	(1,198)	(266)	1,425	T	Other current liabilities
Total current liabilities	**35,074**	**448**	**2,285**	**37,808**		**Total current liabilities**
Non-current liabilities:						Non-current liabilities
Long-term borrowings	11,152	132	748	12,032	C, L	Interest-bearing liabilities
Retirement benefit liability	4,273	–	73	4,346	P	Retirement benefit liability
		256	(2)	253	D	Provisions
Deferred tax liabilities	1,323	–	(46)	1,276	O	Deferred tax liabilities
Other	780	(771)	0	9		Other non-current liabilities
		–	2,459	2,459	U	Other financial liabilities
Total non-current liabilities	**17,530**	**(382)**	**3,231**	**20,379**		**Total non-current liabilities**
Total liabilities	**52,605**	**65**	**5,517**	**58,187**		**Total liabilities**

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Net assets						Equity
Shareholders' equity:						
Share capital	16,194	–	–	16,194		Share capital
Capital surplus	16,147	–	(1,565)	14,582	R, U	Capital surplus
Retained earnings	52,663	–	231	52,895	W	Retained earnings
Treasury shares	(15,908)	–	–	(15,908)		Treasury shares
Total shareholders' equity	**69,097**	**–**	**(1,333)**	**67,763**		
Accumulated other comprehensive income:						
Deferred gains or losses on hedges	(26)					
Foreign currency translation adjustment	3,278					
Remeasurements of defined benefit plans	547					
Total accumulated other comprehensive income	3,799	–	(3,825)	(26)	V	Other components of equity
				67,737		**Equity attributable to owners of parent**
Non-controlling interests	878	–	(7)	870		Non-controlling interests
Total net assets	**73,774**	**–**	**(5,166)**	**68,608**		**Total equity**
Total liabilities and net assets	**126,379**	**65**	**350**	**126,795**		**Total liabilities and equity**

Reconciliation of equity as of June 30, 2023 (end of the first quarter of the previous fiscal year)

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Assets						Assets
Current assets:						Current assets
Cash and deposits	28,617	–	253	28,871	H	Cash and cash equivalents
Notes and accounts receivable - trade	14,214					
Electronically recorded monetary claims - operating	329					
Allowance for doubtful accounts	(3)					
Subtotal	14,540	183	142	14,866	A, I	Trade and other receivables
Merchandise and finished goods	4,175					
Work in process	3,115					
Raw materials and supplies	4,882					
Subtotal	12,173	–	(48)	12,124		Inventories
Other	2,364	(2,364)	–	0		Other financial assets
		2,363	(372)	1,990	H	Other current assets
Total current assets	**57,696**	**182**	**(25)**	**57,852**		**Total current assets**
Non-current assets:						Non-current assets
Property, plant and equipment:						
Buildings and structures	13,608					
Machinery, equipment and vehicles	6,985					
Land	2,524					
Construction in progress	7,196					
Other	2,249					
Subtotal	32,564	–	1,871	34,435	J, K, L	Property, plant and equipment
Intangible assets:						
Goodwill	20,873	–	414	21,288	M	Goodwill
Patent right	656					
Customer-related intangible assets	2,839					
Other	2,390					
Subtotal	5,886	–	105	5,992		Intangible assets
Investments and other assets:						
Shares of subsidiaries and associates	122	(10)	27	139		Investments accounted for using equity method
		1,733	(409)	1,324	E, N	Other financial assets
Deferred tax assets	2,431	–	1,798	4,230	O	Deferred tax assets
Retirement benefit asset	3,281					
Other	1,846					
Allowance for doubtful accounts	(14)					
Subtotal	5,113	(1,723)	(3,176)	213	P	Other non-current assets
Total non-current assets	**66,992**	**–**	**632**	**67,624**		**Total non-current assets**
Total assets	**124,688**	**182**	**606**	**125,477**		**Total assets**

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Liabilities						Liabilities
Current liabilities:						Current liabilities
Notes and accounts payable - trade	6,844					
Electronically recorded obligations - operating	2,280					
Subtotal	9,125	2,858	(25)	11,958	B	Trade and other payables
Short-term borrowings	2,000					
Current portion of long-term borrowings	6,561					
Subtotal	8,561	87	900	9,549	C, L	Interest-bearing liabilities
		9,639	0	9,640	F	Other financial liabilities
Income taxes payable	962	–	–	962		Income taxes payable
Provision for bonuses	1,058	(1,058)	–		D	
		1,058	1,659	2,717	D, Q, S	Employee benefits
Accounts payable - other	6,145	(6,145)	–			
Accrued expenses	1,212					
Other	6,864					
Subtotal	8,076	(5,830)	(719)	1,526	T	Other current liabilities
Total current liabilities	**33,929**	**609**	**1,814**	**36,353**		**Total current liabilities**
Non-current liabilities:						Non-current liabilities
Long-term borrowings	9,955	131	606	10,693	C, L	Interest-bearing liabilities
Retirement benefit liability	4,184	–	91	4,276	P	Retirement benefit liability
		257	(1)	256	D	Provisions
Deferred tax liabilities	1,395	–	(54)	1,341	O	Deferred tax liabilities
Other	827	(815)	0	11		Other non-current liabilities
		–	2,461	2,461	U	Other financial liabilities
Total non-current liabilities	**16,362**	**(426)**	**3,104**	**19,040**		**Total non-current liabilities**
Total liabilities	**50,292**	**182**	**4,919**	**55,394**		**Total liabilities**

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Net assets						Equity
Shareholders' equity:						
Share capital	16,196	–	–	16,196		Share capital
Capital surplus	16,148	–	(1,303)	14,844	R, U	Capital surplus
Retained earnings	42,380	–	776	43,156	W	Retained earnings
Treasury shares	(4,525)	–	–	(4,525)		Treasury shares
Total shareholders' equity	**70,199**	**–**	**(527)**	**69,672**		
Accumulated other comprehensive income:						
Deferred gains or losses on hedges	(1,538)					
Foreign currency translation adjustment	4,338					
Remeasurements of defined benefit plans	527					
Total accumulated other comprehensive income	3,328	–	(3,780)	(451)	V	Other components of equity
				69,220		**Equity attributable to owners of parent**
Non-controlling interests	867	–	(5)	0 861		Non-controlling interests
Total net assets	**74,395**	**–**	**(4,312)**	**70,082**		**Total equity**
Total liabilities and net assets	**124,688**	**182**	**606**	**125,477**		**Total liabilities and equity**

Reconciliation of equity as of March 31, 2024 (end of the previous fiscal year)

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Assets						Assets
Current assets:						Current assets
Cash and deposits	37,410	(2,396)	315	35,328	H	Cash and cash equivalents
Notes and accounts receivable - trade	17,436					
Electronically recorded monetary claims - operating	589					
Allowance for doubtful accounts	(7)					
Subtotal	18,019	(2,580)	149	15,588	A, I	Trade and other receivables
Merchandise and finished goods	3,691					
Work in process	2,688					
Raw materials and supplies	3,661					
Subtotal	10,040	(60)	(63)	9,916		Inventories
Other	3,593	(3,533)	–	60		Other financial assets
		3,279	(254)	3,025	H	Other current assets
		5,522	–	5,522	G	Assets held for sale
Total current assets	**69,063**	**231**	**146**	**69,442**		**Total current assets**
Non-current assets:						Non-current assets
Property, plant and equipment:						
Buildings and structures	13,969					
Machinery, equipment and vehicles	7,897					
Land	3,984					
Construction in progress	7,425					
Other	2,427					
Subtotal	35,703	(7)	1,694	37,390	J, K, L	Property, plant and equipment
Intangible assets:						
Goodwill	19,161	–	2,126	21,288	M	Goodwill
Patent right	538					
Customer-related intangible assets	2,704					
Other	2,435					
Subtotal	5,679	–	128	5,807		Intangible assets
Investments and other assets:						
Shares of subsidiaries and associates	140	(10)	9	140		Investments accounted for using equity method
		1,580	(334)	1,245	E, N	Other financial assets
Deferred tax assets	2,287	–	2,573	4,861	O	Deferred tax assets
Retirement benefit asset	4,287					
Other	1,707					
Allowance for doubtful accounts	(15)					
Subtotal	5,979	(1,570)	(4,211)	197	P	Other non-current assets
Total non-current assets	**68,952**	**(7)**	**1,987**	**70,931**		**Total non-current assets**
Total assets	**138,016**	**223**	**2,133**	**140,373**		**Total assets**

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Liabilities						Liabilities
Current liabilities:						Current liabilities
Notes and accounts payable - trade	8,658					
Electronically recorded obligations - operating	1,872					
Subtotal	10,531	2,868	(21)	13,378	B	Trade and other payables
Short-term borrowings	4,000					
Current portion of long-term borrowings	2,459					
Subtotal	6,459	85	898	7,444	C, L	Interest-bearing liabilities
		2,546	0	2,547	F	Other financial liabilities
Income taxes payable	4,555	(177)	0	4,378		Income taxes payable
Provision for bonuses	2,513	(2,513)	–		D	
		2,503	1,635	4,138	D, Q, S	Employee benefits
Accounts payable - other	4,387	(4,387)	–			
Accrued expenses	924					
Other	1,626					
Subtotal	2,550	(248)	(761)	1,539	T	Other current liabilities
		266	–	266	G	Liabilities directly associated with assets held for sale
Total current liabilities	**30,996**	**943**	**1,752**	**33,692**		**Total current liabilities**
Non-current liabilities:						Non-current liabilities
Long-term borrowings	15,276	124	354	15,754	C, L	Interest-bearing liabilities
Retirement benefit liability	4,081	0	(20)	4,059	P	Retirement benefit liability
		274	1	275	D	Provisions
Deferred tax liabilities	1,566	–	(122)	1,444	O	Deferred tax liabilities
Other	1,141	(1,117)	0	23		Other non-current liabilities
		–	–	–	U	Other financial liabilities
Total non-current liabilities	**22,065**	**(720)**	**213**	**21,558**		**Total non-current liabilities**
Total liabilities	**53,062**	**223**	**1,965**	**55,251**		**Total liabilities**

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Net assets						Equity
Shareholders' equity:						
Share capital	16,251	–	–	16,251		Share capital
Capital surplus	14,873	–	2,827	17,700	R, U	Capital surplus
Retained earnings	53,023	–	1,753	54,777	W	Retained earnings
Treasury shares	(5,085)	–	–	(5,085)		Treasury shares
Total shareholders' equity	**79,063**	**–**	**4,580**	**83,644**		
Accumulated other comprehensive income:						
Deferred gains or losses on hedges	(78)					
Foreign currency translation adjustment	4,827					
Remeasurements of defined benefit plans	1,141					
Total accumulated other comprehensive income	5,890	–	(4,412)	1,478	V	Other components of equity
				85,112		**Equity attributable to owners of parent**
Non-controlling interests	–	–	–	–		Non-controlling interests
Total net assets	**84,953**	**–**	**168**	**85,122**		**Total equity**
Total liabilities and net assets	**138,016**	**223**	**2,133**	**140,373**		**Total liabilities and equity**

Notes on reconciliation of equity

The major accounting differences associated with the transition from Japanese GAAP to IFRS are as follows:

(1) Reclassification

We have performed reconciliations to conform to IFRS. The major items of reconciliations are as follows.

A. Trade and other receivables

Accounts receivable-other, which was included in "Other (current assets)" under Japanese GAAP, has been reclassified to and presented as "Trade and other receivables" under IFRS.

B. Trade and other payables

Certain items of "Accounts payable - other," which were separately presented as current liabilities under Japanese GAAP, have been reclassified to and presented as "Trade and other payables" under IFRS.

C. Interest-bearing liabilities

"Short-term borrowings" and "Current portion of long-term borrowings," which were separately presented as current liabilities under Japanese GAAP, have been reclassified to and presented as "Interest-bearing liabilities (current liabilities)" under IFRS. "Long-term borrowings," which was separately presented as non-current liabilities under Japanese GAAP, have been reclassified to and presented as "Interest-bearing liabilities (non-current liabilities)" under IFRS.

Lease obligations included in "Other (current liabilities)" or "Other (non-current liabilities)" under Japanese GAAP have been reclassified to and presented as "Interest-bearing liabilities (current liabilities)" or "Interest-bearing liabilities (non-current liabilities)" under IFRS, respectively.

D. Provisions

"Provision for bonuses," which was separately presented as current liabilities under Japanese GAAP, has been included in "Employee benefits accruals" under IFRS. Asset retirement obligations, which were included in "Other (non-current liabilities)" under Japanese GAAP, have been reclassified to and presented as "Provisions" under IFRS.

E. Other financial assets

Investments in limited liability investment partnerships, which were included in "Other (investments and other assets)" under Japanese GAAP, have been reclassified to and presented as "Other financial assets (non-current assets)" under IFRS.

F. Other financial liabilities

Short-term derivative liabilities included in "Other (current liabilities)" under Japanese GAAP have been reclassified to and presented as "Other financial liabilities (current liabilities)" under IFRS.

Certain items of "Accounts payable - other," which were separately presented as current liabilities under Japanese GAAP, have been reclassified to and presented as "Other financial liabilities (current liabilities)" under IFRS.

G. Assets held for sale and liabilities

Assets held for sale and liabilities directly associated with assets held for sale are separately presented under IFRS. For details, please refer to "Notes to quarterly consolidated financial statements, (Assets held for sale)."

(2) Difference in recognition and measurement

H. Scope or consolidation

The Group excluded immaterial subsidiaries from the scope of consolidation and recorded them as "Shares of subsidiaries and associates" under Japanese GAAP. However, under IFRS, such subsidiaries are included in the scope of consolidation.

Under Japanese GAAP, the Employee Stock Ownership Plan ("J-ESOP") and the Board Benefit Trust (BBT) (excluding Directors serving as Audit and Supervisory Committee Members and Outside Directors) were not included in the scope of consolidation. Deposits held by these trusts were recorded under "Other (current assets)." The net amount of dividends related to the Company's shares held by the trusts, as well as any expenses related to the trusts, were recorded under "Other (current liabilities)." In contrast, under IFRS, these trusts are included in the scope of consolidation because the Group meets the requirements for control over them. Deposits held by the trusts are recorded as "Cash and cash equivalents," and income and expenses related to the trusts are recorded under "Finance income" and "Finance costs," respectively.

I. Sublease

Under Japanese GAAP, the company expensed the rent for the contracted leased company housing as rental expenses. Under IFRS, however, the head lease from an external party is recorded as a right-of-use asset. The lease to the employees is treated as a sublease transaction. In this case, sublease transactions are transferred from the right-of-use asset. The employee's share of the rent is recorded under "Trade and other receivables," while the company's share of the rent is recorded as an expense.

J. Government grants

Government grants related to assets were collectively recorded in extraordinary income as grant income under Japanese GAAP, whereas under IFRS, such grants are deducted from the cost of "Property, plant and equipment."

K. Low-value assets

According to the Group's policy, tools, furniture, and supplies with a low-value were expensed under Japanese GAAP. However, under IFRS, items expected to be useful for more than one year have been reclassified to "Property, plant and equipment."

L. Leases

Under Japanese GAAP, lessee leases were classified as either finance leases or operating leases, and operating leases were accounted for as ordinary rental transactions. Whereas under IFRS, basically all leases are accounted for as "Property, plant and equipment" and "Interest-bearing liabilities (current liabilities and non-current liablities)," since there is no distinction between finance leases and operating leases for leases as lessee.

M. Impairment on non-financial assets

Under Japanese GAAP, goodwill and shared assets were, in principle, not allocated to each asset group but were grouped into larger units. When there was an indication of a possible impairment of a fixed asset, the carrying amount of the fixed asset was compared with its estimated undiscounted future cash flows, and only if the carrying amount of the fixed asset exceeded its estimated undiscounted future cash flows, an impairment loss was recognized in the amount by which the carrying amount of the fixed asset exceeded its recoverable amount. Under IFRS, however, goodwill is allocated to each cash-generating unit as the unit that is expected to benefit from the synergies of the business combination, and corporate assets are allocated, in principle, to each cash-generating unit, and when there is an indication that a fixed asset may be impaired, the amount by which the carrying amount of the fixed asset exceeds its recoverable amount (the higher of value in use and fair value less costs of disposal) is recognized as an impairment loss on the fixed asset.

Accordingly, goodwill and corporate assets allocated to cash-generating units that were discontinued by the date of transition to IFRS were subject to retrospectively recognizing impairment losses in full, which were transferred to "Retained earnings" as of the date of transition to IFRS.

In addition, under Japanese GAAP, goodwill was amortized on a straight-line basis over the period during which the reasonably estimated effect of goodwill is expected to be realized. Under IFRS, however, goodwill is not amortized after the date of transition to IFRS.

N. Investment in limited liability investment partnerships

Under Japanese GAAP, investments in limited liability investment partnerships (the "Partnerships") were carried at each period end at an amount equal to our share of the net gain or loss based on the Partnerships' results plus the acquisition cost. Under IFRS, however, investments in the Partnerships are valued as financial assets measured at fair value through profit or loss. Accordingly, the difference between the Japanese GAAP and the IFRS valuations as of the date of transition to IFRS has been transferred to "Retained earnings."

O. Deferred taxes

With the adoption of IFRS, the Company has reassessed the recoverability of all deferred tax assets. "Deferred tax assets" and "Deferred tax liabilities" are recognized for temporary differences arising from the transition from Japanese GAAP to IFRS.

P. Retirement benefits

Under Japanese GAAP, when a defined benefit plan was overfunded, the entire excess was recorded as an "Retirement benefit asset," whereas under IFRS, the amount that can be recorded is the asset ceiling, which is the present value of available future economic benefits in the form of a cash refund or a reduction in future contributions. Accordingly, "Retirement benefit asset"

has been fully reversed as of the date of transition to IFRS.

Under Japanese GAAP, actuarial gains and losses and past service costs were recognized as "Accumulated other comprehensive income" when incurred and expensed over a period of time calculated based on employees' average remaining service period. Under IFRS, actuarial gains and losses are recognized as "Other components of equity" when incurred and immediately transferred to "Retained earnings," and past service costs are recognized as profit or loss when incurred.

Q. Unused paid leave

Unused paid leave, which was not recognized as a liability under Japanese GAAP, is recognized as a liability and included in "Employee benefits accruals" under IFRS.

R. Share-based payment

Under Japanese GAAP, the amount of shares or other benefits expected to be paid was recorded as a liability for stock benefit trusts ("J-ESOP" and BBT). Under IFRS, however, both J-ESOP and BBT are classified as equity-settled share-based payment plans, and therefore, they are measured at their fair value on the grant date and recognized as equity.

Accordingly, as of the date of transition to IFRS, "Other (current liabilities)" or "Other (non-current liabilities)" related to share-based payment recorded under Japanese GAAP was reversed. The balance measured at fair value was then recorded in "Capital surplus," and the difference was recorded in "Retained earnings."

S. Long-term employee benefits

The Company and some of its consolidated subsidiaries have an accumulated leave system that allows employees to accumulate expired annual paid leave for specific purposes, such as injury, illness, or nursing care. This leave does not expire until their retirement. Such accrued paid leave was not recognized as a liability under Japanese GAAP. Under IFRS, however, since accumulated unused annual paid leave is classified as long-term employee benefits, it is recognized as a liability in "Employee benefits accruals."

Under IFRS, however, accumulated unused annual paid leave is recognized as a liability and included in "Employee benefits accruals" by applying the provisions for defined benefit plans because such accumulated unused annual paid leave falls into long-term employee benefits under IFRS and the Company does not have the right as of the end of the reporting period to defer the settlement of the liability for at least 12 months after the end of the reporting period.

T. Levies

Under Japanese GAAP, property tax was recognized as "Other (current liabilities)" upon receipt of the payment and expensed pro rata over the months throughout the year. Under IFRS, however, the full amount is recognized as "Other current liabilities" and expensed in a lump sum on January 1, the date of imposition.

U. Liability for put option contracts to non-controlling interests

Under Japanese GAAP, no liability was recognized for written put options granted to owners of non-controlling interests. Under IFRS, however, a financial liability is recognized for these put options as an obligation to purchase non-controlling interests. Therefore, as of the date of transition to IFRS, the put option to the non-controlling shareholder is recorded as "Other financial liabilities (non-current liabilities)" and "Capital surplus" is concurrently reduced. When the non-controlling shareholders exercise their rights, "Other financial liabilities (non-current liabilities)" and "Non-controlling interests" are reversed and the difference between the amount of the reversal and the amount paid is recorded in "Capital surplus."

V. Reclassification of cumulative translation differences for foreign subsidiaries

The Company elected to adopt the exemption provided in IFRS 1 and transferred all cumulative translation differences included in "Accumulated other comprehensive income" to "Retained earnings" at the date of transition to IFRS.

W. Adjustments to retained earnings

The effect of reconciliation from Japanese GAAP to IFRS on retained earnings (after tax effect adjustment) is as follows:

(Millions of yen)

	As of April 1, 2023 (Date of transition)	As of June 30, 2023	As of March 31, 2024
Transfer of cumulative translation differences for foreign operations	3,278	3,278	3,278
Post-employment benefits	(1,735)	(1,794)	(1,802)
Low-value assets	551	558	570
Share-based compensation	(168)	(270)	(1,476)
Unused paid leave	(970)	(970)	(962)
Amortization of goodwill	–	570	2,283
Other	(724)	(596)	(138)
Total	231	776	1,753

Reconciliation of profit or loss and comprehensive income for the three months ended June 30, 2023 (end of the first quarter of the previous fiscal year)

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Net sales	20,858	–	0	20,858		Net sales
Cost of sales	10,446	–	46	10,493	C, D, E	Cost of sales
Gross profit	10,411	–	(46)	10,365		Gross profit
Selling, general and administrative expenses	5,546	(67)	(493)	4,986	C, D, E, F	Selling, general and administrative expenses
		69	0	69	A	Other income
		62	(0)	62	A	Other expenses
Operating profit	4,864	74	446	5,385		Operating profit
Non-operating income	106					
Interest income	32	(32)				
Share of profit of entities accounted for using equity method	4	(4)				
Compensation income	35	(35)				
Rental income	4	(4)				
Other	29	(29)				
Non-operating expenses	305					
Interest expenses	15	(15)				
Foreign exchange losses	235	(235)				
Depreciation	48	(48)				
Other	5	(5)				
Ordinary profit	4,665					
Extraordinary income	0					
Gain on sale of non-current assets	0	0				
Extraordinary losses	8					
Loss on retirement of property, plant and equipment	8	(8)				
		32	–	32	A	Finance income
		251	5	256	A	Finance costs
		4	(0)	3	A	Share of profit of investments accounted for using equity method
Profit before income taxes	4,657	67	440	5,165		Profit before tax
Income taxes-current	736	67	(0)			
Income taxes-deferred	709	–	(21)			
		67	(21)	1,492	B, G	Income tax expense
Profit	3,211	–	461	3,672		Profit
Profit (loss) attributable to non-controlling interests	(13)	–	1	(12)		Non-controlling interests
Profit attributable to owners of parent	3,224	–	460	3,684		Profit (attributable to owners of parent)

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Profit	3,211	–	461	3,672		Profit
Other comprehensive income						Other comprehensive income, net of tax
						Items that will not be reclassified to profit or loss:
Remeasurements of defined benefit plans	(19)	–	8	(11)	H	Remeasurements of defined benefit plans
			10	10		Share of other comprehensive income of investments accounted for using equity method
				(0)		Total of items that will not be reclassified to profit or loss
						Items that may be reclassified to profit or loss:
Deferred gains or losses on hedges	(1,511)	–	85	(1,426)		Cash flow hedges
			(68)	(68)		Hedging costs
Foreign currency translation adjustment	1,062	–	(1)	1,061		Translation differences on foreign operations
				(432)		Total of items that may be reclassified to profit or loss
Total other comprehensive income	(468)	–	34	(433)		Total other comprehensive income, net of tax
Comprehensive income	2,743	–	496	3,239		Comprehensive income
Comprehensive income attributable to:						Comprehensive income attributable to:
Owners of parent	2,753	–	494	3,248		Owners of parent
Non-controlling interests	(10)	–	1	(9)		Non-controlling interests

Reconciliation of profit or loss and comprehensive income for the fiscal year ended March 31, 2024

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Net sales	105,198	–	0	105,198		Net sales
Cost of sales	47,930	–	758	48,688	C, D, E	Cost of sales
Gross profit	57,268	–	(757)	56,510		Gross profit
Selling, general and administrative expenses	23,846	(424)	(998)	22,423	C, D, E, F	Selling, general and administrative expenses
		369	(22)	346	A	Other income
		714	(37)	677	A	Other expenses
Operating profit	33,421	79	255	33,756		Operating profit
Non-operating income	521					
Interest income	273	(273)				
Share of profit of entities accounted for using equity method	11	(11)				
Compensation income	37	(37)				
Rental income	16	(16)				
Other	183	(183)				
Non-operating expenses	3,914					
Interest expenses	67	(67)				
Foreign exchange losses	3,357	(3,357)				
Loss on investments in investment partnerships	166	(166)				
Depreciation	191	(191)				
Other	131	(131)				
Ordinary profit	30,028					
Extraordinary income	131					
Gain on sale of non-current assets	18	(18)				
Gain on sale of shares of subsidiaries and associates	112	(112)				
Extraordinary losses	225					
Loss on sale of property, plant and equipment	2	(2)				
Loss on retirement of property, plant and equipment	215	(215)				
Impairment loss	7	(7)				
		273	304	577	A	Finance income
		3,425	20	3,445	A	Finance costs
		11	(6)	4	A	Share of profit of investments accounted for using equity method
Profit before income taxes	29,935	424	531	30,891		Profit before tax
Income taxes-current	8,635	424	(9)			
Income taxes-deferred	(35)	–	(651)			
		424	(661)	8,363	B, G	Income tax expense
Profit	21,334	–	1,193	22,527		Profit
Profit (loss) attributable to non-controlling interests	(47)	–	(0)	(47)		Non-controlling interests
Profit attributable to owners of parent	21,382	–	1,193	22,575		Profit (attributable to owners of parent)

(Millions of yen)

Line item under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Line item under IFRS
Profit	21,334	–	1,193	22,527		Profit
Other comprehensive income						Other comprehensive income, net of tax
						Items that will not be reclassified to profit or loss:
Remeasurements of defined benefit plans	593	–	(482)	110	H	Remeasurements of defined benefit plans
			11	11		Share of other comprehensive income of investments accounted for using equity method
				122		Total of items that will not be reclassified to profit or loss
						Items that may be reclassified to profit or loss:
Deferred gains or losses on hedges	(51)	–	(161)	(213)		Cash flow hedges
			161	161		Hedging costs
Foreign currency translation adjustment	1,548	–	8	1,557		Translation differences on foreign operations
				1,506		Total of items that may be reclassified to profit or loss
Total other comprehensive income	2,090	–	(462)	1,628		Total other comprehensive income, net of tax
Comprehensive income	23,425	–	731	24,156		Comprehensive income
Comprehensive income attributable to:						Comprehensive income attributable to:
Owners of parent	23,473	–	729	24,202		Owners of parent
Non-controlling interests	(47)	–	1	(45)		Non-controlling interests

Notes on reconciliation of profit and loss and comprehensive income

The major accounting differences associated with the transition from Japanese GAAP to IFRS are as follows:

(1) Reclassification

We have reclassified line items to conform to IFRS Standards. The major items that were reclassified are as follows:

A. Reclassification of line items

Among the items that were included in "Non-operating income," "Non-operating expenses," "Extraordinary income," and "Extraordinary losses" under Japanese GAAP, finance-related gains and losses have been included in "Finance income" and "Finance costs," while the other items have been included in "Other income," "Other expenses," and "Share of profit of investments accounted for using equity method" under IFRS.

B. Income tax expense

Under Japanese GAAP, corporate enterprise tax (on value-added basis) was recorded in "Selling, general and administrative expenses" and corporate residents' tax (on a per capita basis) was recorded in "Income taxes-current." Under IFRS, size-based business tax (on value-added basis) has been recorded in "Income tax expense" and corporate residents' tax (on a per capita basis) in "Selling, general and administrative expenses."

(2) Difference in recognition and measurement

C. Unused paid leave

Unused paid leave, which was not recognized as a liability under Japanese GAAP, has been recorded in "Cost of sales" and "Selling, general and administrative expenses" under IFRS.

D. Share-based payment

Under Japanese GAAP, the amount of shares or other benefits expected to be paid was recorded as a liability for stock benefit trusts ("J-ESOP" and BBT). Under IFRS, however, both J-ESOP and BBT have been classified as equity-settled share-based payment plans, and therefore, they have been recognized as equity and measured at their fair value on the grant date.

Accordingly, the liability recorded under Japanese GAAP was reversed and the balance measured at fair value was recorded as "Capital surplus" and the difference was recorded in "Cost of sales" and "Selling, general and administrative expenses" for the current period.

E. Levies

Under Japanese GAAP, property tax was recognized as a liability upon receipt of the tax payment notification and the amount prorated for each month was recorded in "Cost of sales" or "Selling, general and administrative expenses" on a monthly basis. Under IFRS, however, the full amount in a lump sum has been recorded as a liability and "Cost of sales" and "Selling, general and administrative expenses" on January 1, the date of assessment.

F. Amortization of goodwill

Under Japanese GAAP, goodwill was amortized as "Selling, general and administrative expenses" on a straight-line basis over the period during which the reasonably estimated effect of goodwill is expected to be realized. Under IFRS, however, goodwill was not amortized after the date of transition to IFRS.

G. Income tax expense

The amounts of income tax expense has been adjusted due to temporary differences arising from the reconciliation of Japanese GAAP to IFRS. The tax effect of the elimination of unrealized gains and losses was calculated using the tax rate of the seller under Japanese GAAP, while the tax rate of the buyer has been used under IFRS.

H. Employee benefits

Under Japanese GAAP, actuarial gains and losses and past service costs were recognized as "Accumulated other comprehensive income" when incurred and expensed over a period of time calculated based on employees' average remaining service period. Under IFRS, actuarial gains and losses are recognized as "Other components of equity" when incurred and immediately transferred to "Retained earnings," and past service costs are recognized as profit or loss when incurred.