Consolidated Financial Statements

for the Year Ended March 31, 2022 and Independent Auditor's Report

EIZO Corporation and Subsidiaries

EIZO Corporation

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of EIZO Corporation:

Opinion

We have audited the consolidated financial statements of EIZO Corporation and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

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

Key Audit Matter

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

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
Measurement of impairment loss on goodwill for Carina System Corporation As described in Note 2.i "Long-Lived Assets" to the consolidated financial statements, the Group recognized an impairment loss on goodwill of ¥1,136 million for Carina System Corporation, for the year ended March 31, 2022. The Group recognized goodwill for Carina System Corporation when it acquired shares of Carina System Corporation in March 2018 to increase its market share in the healthcare market as a part of its business expansion. Goodwill is amortized using the straight-line method, and tested for impairment whenever there is any indication of impairment, and an impairment loss is recognized when required. As of March 31, 2022, there was an indication of impairment of the goodwill for Carina System Corporation, and the Group evaluated whether impairment loss should be recognized. As a result of the evaluation, its undiscounted cashflow was less than the carrying amount. The Group reduced the carrying amount to its recoverable amount, and recognized the difference as an impairment loss. The recoverable amount was determined to be zero. The future cashflow projection used to calculate the recoverable amount is based on the Group's business plan. Among others, revenue forecasts include assumptions such as future sales projections, product development plans, and impacts of the spread of COVID-19 infection to its operations, which involves management's subjective judgments and uncertainties in the forecasts. We identified the measurement of impairment loss on goodwill for Carina System Corporation as a key audit matter because of complexity of measurement of impairment loss, auditor professional judgments involved, and material amount of the impairment loss.	Our audit procedures related to the measurement of impairment loss on the goodwill included the following, among others: • We evaluated the design and operating effectiveness of internal controls over management's measurement of impairment loss on goodwill, especially internal control over projection of future cashflows. • We evaluated management's ability to accurately forecast future revenues and operating income by comparing management's historical forecasts to actual results. • We performed the following procedures to assess significant assumptions used in developing revenue forecasts, among other underlying data and assumptions used in future cashflow projection: —Inquired of the management regarding recent orders, sales activities, and progress of product development as well as inspected underlying evidences of the recent bidding and sales order status to test assumptions used in its future sales projections and product development plans. —Evaluated the reasonableness of the sales forecast in light of the market trends described in industry reports published by third-party research organizations. —Inquired of the management regarding impacts of staggering economic activities resulted from the spread of COVID-19 infection on its operations and evaluate the reasonableness of its sales forecast.

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

September 14, 2022

EIZO Corporation and Subsidiaries

Consolidated Balance Sheet
March 31, 2022

ASSETS	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2022
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥ 22,388	¥ 18,883	$ 183,508
Short-term investments (Notes 7 and 16)	300	1,000	2,459
Notes, accounts receivable and contract assets (Note 16):			
Trade notes	32	42	262
Trade accounts	20,079	17,035	164,582
Contract assets	2,925		23,975
Other	247	256	2,025
Allowance for doubtful receivables	(103)	(72)	(844)
Electronically recorded monetary claims	1,779	2,335	14,582
Inventories (Note 8)	31,749	31,247	260,238
Prepaid expenses and other current assets	1,115	781	9,139
Total current assets	80,511	71,507	659,926
PROPERTY, PLANT AND EQUIPMENT:			
Land	4,326	3,837	35,459
Buildings and structures	22,366	20,947	183,328
Machinery and equipment	6,649	6,381	54,500
Furniture and fixtures	8,620	8,421	70,656
Right-of-use assets	1,706	1,601	13,984
Construction in progress	91	85	745
Total	43,758	41,272	358,672
Accumulated depreciation	(23,584)	(22,414)	(193,311)
Net property, plant and equipment	20,174	18,858	165,361
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 7 and 16)	52,825	56,149	432,992
Goodwill		1,515	
Deferred tax assets (Note 12)	659	588	5,402
Other assets	1,290	1,445	10,573
Total investments and other assets	54,774	59,697	448,967
TOTAL	¥155,459	¥150,062	$1,274,254

LIABILITIES AND EQUITY	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2022
CURRENT LIABILITIES:			
Short-term bank loans (Notes 9 and 16)	¥ 2,051	¥ 1,947	$ 16,811
Current portion of long-term debt (Notes 9 and 16)	336	326	2,754
Accounts payable (Note 16):			
Trade accounts	7,522	6,283	61,656
Other	1,965	1,876	16,107
Income taxes payable	2,399	1,818	19,664
Accrued expenses	4,847	4,485	39,730
Other current liabilities	1,606	1,194	13,163
Total current liabilities	20,726	17,929	169,885
LONG-TERM LIABILITIES:			
Long-term debt (Notes 9 and 16)	2,172	2,212	17,803
Liability for retirement benefits (Note 10)	3,086	3,272	25,295
Deferred tax liabilities (Note 12)	9,810	11,084	80,410
Other long-term liabilities	1,083	1,112	8,877
Total long-term liabilities	16,151	17,680	132,385
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 15 and 17)			
EQUITY (Notes 11 and 19):			
Common stock—authorized, 65,000,000 shares; issued, 22,731,160 shares in 2022 and 2021	4,426	4,426	36,279
Capital surplus	4,314	4,314	35,361
Retained earnings	82,040	76,803	672,458
Treasury stock—at cost, 1,411,088 shares in 2022 and 1,410,935 shares in 2021	(2,665)	(2,664)	(21,844)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	28,801	31,409	236,074
Foreign currency translation adjustments	1,439	43	11,795
Defined retirement benefit plans	227	122	1,861
Total equity	118,582	114,453	971,984
TOTAL	¥155,459	¥150,062	$1,274,254

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
NET SALES	¥86,789	¥76,566	$711,385
COST OF SALES	55,929	50,015	458,434
Gross profit	30,860	26,551	252,951
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 13 and 14)	19,561	18,616	160,336
Operating income	11,299	7,935	92,615
OTHER INCOME (EXPENSES):			
Interest and dividend income	933	780	7,648
Interest expense	(22)	(17)	(180)
Foreign exchange (loss) gain—net	(203)	89	(1,664)
Loss on valuation of investment securities (Note 7)		(273)	
Gain on sale of investment securities (Note 7)	420	29	3,443
Loss on impairment of long-lived assets	(1,243)		(10,189)
Other—net	103	28	843
Other (expense) income—net	(12)	636	(99)
INCOME BEFORE INCOME TAXES	11,287	8,571	92,516
INCOME TAXES (Note 12):			
Current	3,722	2,552	30,508
Deferred	(230)	(136)	(1,885)
Total income taxes	3,492	2,416	28,623
NET INCOME	7,795	6,155	63,893
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 7,795	¥ 6,155	$ 63,893

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥365.61	¥288.71	$3.00
Cash dividends applicable to the year	120.00	110.00	0.98

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
NET INCOME	¥7,795	¥ 6,155	$63,893
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):			
Unrealized (loss) gain on available-for-sale securities	(2,608)	13,523	(21,377)
Foreign currency translation adjustments	1,396	1,111	11,443
Defined retirement benefit plans	105	29	861
Total other comprehensive (loss) income	(1,107)	14,663	(9,073)
COMPREHENSIVE INCOME	¥6,688	¥20,818	$54,820
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—			
Owners of the parent	¥6,688	¥20,818	$54,820

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2022

	Thousands	Millions of Yen							
						Accumulated Other Comprehensive Income			
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, APRIL 1, 2020	21,320	¥4,426	¥4,314	¥72,992	¥(2,663)	¥17,886	¥(1,068)	¥ 93	¥ 95,980
Net income				6,155					6,155
Cash dividends, ¥110 per share				(2,344)					(2,344)
Purchase of treasury stock					(1)				(1)
Net increase in unrealized gain on available-for-sale securities						13,523			13,523
Net change in foreign currency translation adjustments							1,111		1,111
Net change in defined retirement benefit plans								29	29
BALANCE, APRIL 1, 2021	21,320	4,426	4,314	76,803	(2,664)	31,409	43	122	114,453
Net income				7,795					7,795
Cash dividends, ¥120 per share				(2,558)					(2,558)
Purchase of treasury stock					(1)				(1)
Net decrease in unrealized loss on available-for-sale securities						(2,608)			(2,608)
Net change in foreign currency translation adjustments							1,396		1,396
Net change in defined retirement benefit plans								105	105
BALANCE, MARCH 31, 2022	21,320	¥4,426	¥4,314	¥82,040	¥(2,665)	¥28,801	¥ 1,439	¥227	¥118,582

	Thousands of U.S. Dollars (Note 1)							
					Accumulated Other Comprehensive Income			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, APRIL 1, 2021	$36,279	$35,361	$629,533	$(21,836)	$257,451	$ 352	$1,000	$938,140
Net income			63,893					63,893
Cash dividends, $0.98 per share			(20,968)					(20,968)
Purchase of treasury stock				(8)				(8)
Net decrease in unrealized loss on available-for-sale securities					(21,377)			(21,377)
Net change in foreign currency translation adjustments						11,443		11,443
Net change in defined retirement benefit plans							861	861
BALANCE, MARCH 31, 2022	$36,279	$35,361	$672,458	$(21,844)	$236,074	$11,795	$1,861	$971,984

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
OPERATING ACTIVITIES:			
Income before income taxes	¥11,287	¥8,571	$92,516
Adjustments for:			
Income taxes—paid	(3,242)	(1,792)	(26,574)
Depreciation and amortization	2,234	2,655	18,311
Amortization of goodwill	379	379	3,107
Provision of allowance for doubtful receivables	27	(14)	221
Foreign exchange gain—net	(156)	(234)	(1,279)
Loss on valuation of investment securities		273	
Gain on investment securities sold	(420)	(29)	(3,443)
Loss on impairment of long-lived assets	1,243		10,189
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(4,863)	(401)	(39,861)
Decrease (increase) in inventories	342	(1,158)	2,803
Increase (decrease) in accounts payable	1,179	(2,071)	9,664
Increase in accrued expenses	302	332	2,475
(Decrease) increase in liability for retirement benefits	(96)	126	(787)
Other—net	214	(36)	1,756
Total adjustments	(2,857)	(1,970)	(23,418)
Net cash provided by operating activities	8,430	6,601	69,098
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,769)	(3,103)	(22,697)
Purchases of software and other long-lived assets	(504)	(414)	(4,131)
Proceeds from sales of short-term investments and investment securities	1,666	882	13,656
Purchases of short-term investments and investment securities	(902)	(781)	(7,393)
Decrease in other assets	115	83	942
Net cash used in investing activities	(2,394)	(3,333)	(19,623)
FINANCING ACTIVITIES:			
Repayments of long-term debt	(131)	(62)	(1,074)
Dividends paid	(2,558)	(2,346)	(20,967)
Repayments of lease obligations	(209)	(240)	(1,713)
Repurchases of treasury stock	(1)	(1)	(8)
Net cash used in financing activities	(2,899)	(2,649)	(23,762)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	368	322	3,016
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 3,505	¥ 941	$28,729

(Continued)

EIZO Corporation and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2022	2021	2022
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 3,505	¥ 941	$ 28,729
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,883	17,942	154,779
CASH AND CASH EQUIVALENTS, END OF YEAR	¥22,388	¥18,883	$183,508

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2021 consolidated financial statements to conform to the classifications used in 2022.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which EIZO Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥122 to $1, the approximate rate of exchange at March 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation***—The consolidated financial statements as of March 31, 2022, include the accounts of the Company and its 16 (16 in 2021) subsidiaries (together, the "Group") listed below.

Consolidated Subsidiaries	Location	Equity Ownership Percentage (%)*1
EIZO MS Corporation	Ishikawa, Japan	100
Irem Software Engineering Inc.	Tokyo, Japan	100
EIZO Support Network Corporation	Ishikawa, Japan	100
Carina System Corporation	Hyogo, Japan	100
EIZO Agency Corporation	Ishikawa, Japan	100
EIZO Engineering Corporation	Ishikawa, Japan	100
EIZO GmbH	Rülzheim, Germany	100
EIZO Technologies GmbH	Geretsried, Germany	100 (100)*2
EIZO Rugged Solutions Inc.	Altamonte Springs, FL, U.S.A.	100 (100)*2
EIZO Display Technologies (Suzhou) Co., Ltd.	Suzhou, China	100
EIZO Inc.	Cypress, CA, U.S.A.	100
EIZO Nordic AB	Väsby, Sweden	100
EIZO AG	Wädenswil, Switzerland	100
EIZO Limited	Ascot, U.K.	100
EIZO Europe GmbH	Mönchengladbach, Germany	100
EIZO Austria GmbH	Vienna, Austria	100 (100)*2

*1 As of March 31, 2022

*2 The percentages in "Equity Ownership Percentage" indicate indirect ownership ratio included in the total.

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements***—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development ("R&D"); (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. ***Business Combinations***—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, and commercial paper, all of which mature or become due within three months of the date of acquisition.

e. ***Inventories***—Inventories are stated at the lower of cost, determined by the average method for finished products and work in process and by the moving-average method for raw materials, or net selling value.

f. ***Short-Term Investments and Investment Securities***—Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; and (2) available-for-sale securities, which are not classified as either trading securities or held to maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed substantially by the declining balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company and its domestic subsidiaries acquired after April 1, 1998, buildings improvements and structures acquired on or after April 1, 2016, and all property, plant and equipment of foreign subsidiaries. The range of useful lives is principally from 15 to 50 years for buildings and structures, from 7 to 10 years for machinery and equipment, and from 2 to 6 years for furniture and fixtures.

h. ***Goodwill***—Goodwill is amortized over 10 years or less by the straight-line method. Immaterial goodwill may be charged entirely to income at acquisition. Amortization of goodwill is ¥379 million ($3,107 thousand) and ¥379 million for the years ended March 31, 2022 and 2021, respectively.

i. ***Long-Lived Assets***—The Group reviewed its long-lived assets for impairment as of March 31, 2022. As a result, the Group recognized an impairment loss of ¥1,136 million ($9,311 thousand) as other expenses for goodwill of Carina System Corporation. As a result of reviewing the future business plans as the actual results are lower than the business plans estimated at the time of the acquisition, the Group determined that it will be difficult to achieve the business plans and recorded the entire amount of goodwill as an impairment loss. In addition, the business assets held by Carina System Corporation were determined to be unprofitable for investment recovery, and the entire book value of the long-lived assets of ¥107 million ($877 thousand) was recorded as an impairment loss.

j. ***Retirement and Pension Plans***—The Company and certain of its domestic subsidiaries have a defined contribution pension plan and unfunded retirement benefit plans. Other domestic subsidiaries have a defined benefit pension plan and unfunded retirement benefit plans. Certain foreign subsidiaries have either a defined contribution plan or defined benefit plan. Additionally, the Company or its subsidiaries may add premium severance pay.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses and prior service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over five years, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

Retirement benefits to directors and the Audit and Supervisory Committee members are recorded at the amount that would be required if the directors and the Audit and Supervisory Committee members retired at the consolidated balance sheet date. In June 2004, the retirement benefit system was abolished and the amount required to be paid at the time of the abolishment will be paid to directors and the Audit and Supervisory Committee members upon their retirement.

k. ***R&D Costs***—R&D costs are charged to income as incurred.

l. ***Revenue Recognition***—The Group's principal business is the development, manufacture, and sale of visual displays and related products. For product sales, the Group recognizes revenue at the time of delivery of the products because the Group determines that the customer obtains control of the products and the performance obligation is satisfied at the time of delivery. Revenue from sales of customized software for amusement and costs of development of the customized software should be recognized in stages over a certain period of time from the start of development to the time of acceptance based on the cost recovery basis. When it is probable that the total costs will exceed total revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on development contracts. Revenue is measured at the amount of consideration promised in the contract with the customer, less discounts and rebates.

m. ***Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate tax system in Japan, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

With regard to the transition to the Group Tax Sharing System established based on "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8, 2020) and to the items reconsidered on the Non-consolidated Tax Return Filing System in accordance with this transition to the Group Tax Sharing System, the Company and certain subsidiaries calculate the amounts of deferred tax assets and deferred tax liabilities based on the provisions of the Income Tax Act before the amendment, without applying the provisions of Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) pursuant to Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Tax Return Filing System to the Group Tax Sharing System" (Practical Issues Task Force No. 39, March 31, 2020).

Effective from the beginning of the next fiscal year, we plan to apply "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Practical Issues Task Force No. 42, August 12, 2021).

n. ***Foreign Currency Transactions***—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

o. ***Foreign Currency Financial Statements***—The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" under accumulated other comprehensive income as a separate component of equity.

Revenue and expense accounts of foreign subsidiaries are translated into Japanese yen at the average exchange rate.

p. ***Derivatives***—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: all derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statement of income.

q. ***Per Share Information***—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share shown in the consolidated statement of income are presented on an accrual basis, and include interim dividends paid and year-end dividends to be approved after the consolidated balance sheet date.

Diluted net income per share of common stock is not disclosed herein because the Company has not issued any securities that are potentially dilutive for the years ended March 31, 2022 and 2021.

3. SIGNIFICANT ACCOUNTING ESTIMATE

Valuation of Inventories

(1) Amounts recognized in the consolidated financial statements for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Finished products	¥10,038	¥11,323	$ 82,279
Work in process	1,730	5,259	14,180
Raw materials and supplies	19,981	14,665	163,779
Total	¥31,749	¥31,247	$260,238

(2) Information on the significant accounting estimate

The necessary write-downs are recorded by estimating future cash flows that inventories will generate from estimated future sales based on market demand and net sales value. If actual market demand or net selling prices fall beyond our estimates, additional write-downs may be required.

It is difficult to objectively predict the impact of inventory valuation on the consolidated financial statements for the following fiscal year at this time. According to the past results, the Group estimates the maximum increase or decrease will be about 3% of total inventories. Estimates are based on information available at the end of the current fiscal year. In determining accounting estimates, the Group assumes that the impact of COVID-19 will continue for a certain period including the fiscal year ending March 31, 2023. However, if future sales are expected to be lower than initially estimated, the book value of the subject inventory assets may be devalued.

4. ACCOUNTING CHANGE

(**1**) ***Accounting Standard for Revenue Recognition***

Effective from the beginning of the current fiscal year, the Company adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and recognizes revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for satisfying performance obligations to transfer the goods or services promised in contracts with customers.

The cumulative effect of the retrospective application of the new accounting policy prior to the beginning of the current fiscal year was added to or deducted from retained earnings at the beginning of the current fiscal year. However, there was no addition to or subtraction from retained earnings, and there was no effect on the beginning balance of retained earnings.

In accordance with the application of the Accounting Standard for Revenue Recognition, the Company changed its method of recognizing revenue from contracted amusement software development from recognizing all revenue at the time of customer acceptance to recognizing revenue in stages over a certain period from the start of development to the time of acceptance.

Mainly as a result of this change, net sales decreased by ¥419 million ($3,434 thousand) in the current fiscal year, but there was no impact on operating income, ordinary income, and income before income taxes and minority interests because cost of sales decreased by the same amount. Until the previous period, the cost of software development prior to acceptance by the customer was recorded as work in process; however, beginning with the current fiscal year, it is recorded as cost of sales and recorded as revenue and contract assets when the Company fulfills its performance obligation. There is no impact on per share information.

Due to the application of the Accounting Standard for Revenue Recognition, "Notes and account receivables," which were included in "Current assets" in the consolidated balance sheet in the previous fiscal year, are included in "Notes, accounts receivable and contract assets" in the current fiscal year. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous consolidated fiscal year using the new presentation.

(**2**) ***Accounting Standard for Fair Value Measurement***

The Group applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) from the beginning of the current fiscal year and decided to apply the new accounting policies prescribed by the ASBJ Statement and others prospectively in accordance with the transitional treatments prescribed in Paragraph 19 of ASBJ Statement of "Accounting Standard for Fair Value Measurement" and Paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). This change has no impact on the financial statements.

In addition, the Company has decided to make a note on Financial Instruments Categorized by Fair Value Hierarchy in the "FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES" note. However, in accordance with the transitional treatment prescribed in Paragraph 7-4 of the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), no such note is included for the previous fiscal year.

5. CHANGES IN PRESENTATION

"Electronically recorded monetary claims," which was included in "Trade accounts" under the current assets in the previous fiscal year, is presented as a separate line item in the current fiscal year as the amount became material. To reflect this change in presentation, the financial statements for the previous fiscal year have been reclassified.

As a result, the ¥19,370 million presented as "Trade accounts" in the consolidated balance sheet for the previous fiscal year was reclassified into "Trade accounts" of ¥17,035 million and "Electronically recorded monetary claims" of ¥2,335 million.

6. ADDITIONAL INFORMATION

There were no significant changes in the assumptions used to estimate the future performance of the Group related to COVID-19 during the current fiscal year. Accounting estimates for the impairment of long-lived assets and the recoverability of deferred tax assets were made based on information available at the end of the current fiscal year. In determining accounting estimates, the Group assumes that the impact of COVID-19 will continue for a certain period including the fiscal year ending March 31, 2023.

7. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Short-term investments:			
Debt securities	¥ 300	¥ 1,000	$ 2,459
Others			
Total	¥ 300	¥ 1,000	$ 2,459
Investment securities:			
Marketable equity securities	¥52,560	¥55,805	$430,820
Nonmarketable equity securities	17	44	139
Debt securities		300	
Others	248		2,033
Total	¥52,825	¥56,149	$432,992

The cost and aggregate fair value of short-term investments and investment securities at March 31, 2022 and 2021, were as follows:

	Millions of Yen			
March 31, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available for sale:				
Equity securities	¥11,284	¥42,092	¥816	¥52,560
Debt securities	300			300
Others	248			248
Total	¥11,832	¥42,092	¥816	¥53,108
March 31, 2021				
Securities classified as:				
Available for sale:				
Equity securities	¥10,850	¥45,546	¥591	¥55,805
Debt securities	1,300		1	1,299
Others				
Total	¥12,150	¥45,546	¥592	¥57,104

	Thousands of U.S. Dollars			
March 31, 2022	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available for sale:				
Equity securities	$92,492	$345,016	$6,688	$430,820
Debt securities	2,459			2,459
Others	2,033			2,033
Total	$96,984	$345,016	$6,688	$435,312

The proceeds from sales of available-for-sale securities for the years ended March 31, 2022 and 2021, were ¥614 million ($5,033 thousand) and ¥184 million. The gross realized gains on these sales for the years ended March 31, 2022 and 2021, were ¥420 million ($3,443 thousand) and ¥30 million, respectively.

8. INVENTORIES

Inventories at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Finished products	¥10,038	¥11,323	$ 82,279
Work in process	1,730	5,259	14,180
Raw materials and supplies	19,981	14,665	163,779
Total	¥31,749	¥31,247	$260,238

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2022 and 2021, consisted of notes to banks. The weighted-average annual interest rate applicable to the short-term bank loans was 0.07% at March 31, 2022 and 2021.

Long-term debt at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Loans from banks, due 2030, with interest rates of 0.15% at March 31, 2022 and 2021	¥1,162	¥1,233	$9,525

Annual maturities of long-term debt, as of March 31, 2022, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2023	¥ 137	$1,123
2024	137	1,123
2025	137	1,123
2026	137	1,123
2027	137	1,123
2028 and thereafter	477	3,910
Total	¥1,162	$9,525

10. RETIREMENT AND PENSION PLANS

The Company and certain of its subsidiaries have severance payment plans for employees, directors, and the Audit and Supervisory Committee members.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are given in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from the Company, certain subsidiaries, or a trustee. Employees of the Company or certain subsidiaries are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

(1) The changes in defined benefit obligation for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥4,245	¥4,000	$34,795
Current service cost	219	242	1,795
Interest cost	16	12	131
Actuarial losses (gains)	198	(53)	1,623
Benefits paid	(269)	(80)	(2,205)
Prior service cost	(4)	(4)	(33)
Others	(208)	128	(1,704)
Balance at end of year	¥4,197	¥4,245	$34,402

(2) The changes in plan assets for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Balance at beginning of year	¥1,075	¥ 974	$8,811
Expected return on plan assets	15	14	123
Actuarial gains	62	47	508
Contributions from the employer	27	25	221
Benefits paid	(27)	(23)	(221)
Others	31	38	255
Balance at end of year	¥1,183	¥1,075	$9,697

(3) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2022 and 2021, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Funded defined benefit obligation	¥1,933	¥2,068	$15,845
Plan assets	(1,183)	(1,075)	(9,697)
Total	750	993	6,148
Unfunded defined benefit obligation	2,265	2,177	18,565
Net liability for defined benefit obligation	¥3,015	¥3,170	$24,713

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Liability for retirement benefits	¥3,015	¥3,170	$24,713
Net liability for defined benefit obligation	¥3,015	¥3,170	$24,713

(4) The components of net periodic benefit costs for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Service cost	¥219	¥242	$1,795
Interest cost	16	12	131
Expected return on plan assets	(15)	(14)	(123)
Recognized actuarial gains	(61)	(43)	(500)
Amortization of prior service cost	(4)	(4)	(33)
Others	3	30	25
Net periodic benefit costs	¥158	¥223	$1,295

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Actuarial gains	¥(89)	¥(19)	$(730)
Prior service cost	4	(8)	33
Total	¥(85)	¥(27)	$(697)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Unrecognized actuarial gains	¥ (247)	¥ (157)	$ (2,024)
Unrecognized prior service cost	(4)	(8)	(33)
Total	¥ (251)	¥ (165)	$ (2,057)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2022 and 2021, consisted of the following:

	2022	2021
Debt investments	52%	51%
Equity investments	16	16
Cash and cash equivalents	5	5
Others	27	28
Total	100%	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2022 and 2021, are set forth as follows:

	2022	2021
Discount rate	0.3%–1.7%	0.3%–1.0%
Expected rate of return on plan assets	2.5%	2.8%

The expected raise rate is based on the index of the raise calculated by age as of March 31, 2018.

(9) Defined contribution plan

The required contribution amounts of the Group for the years ended March 31, 2022 and 2021, were ¥301 million ($2,467 thousand) and ¥269 million, respectively.

The liability for retirement benefits at March 31, 2022 and 2021, for directors and the Audit and Supervisory Committee members was ¥72 million ($590 thousand) and ¥102 million, respectively.

11. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, including (1) having a board of directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the board of directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the board of directors of companies with an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by their nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 23, 2016. The Company meets all the above criteria, and accordingly, the board of directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in normal effective statutory tax rate of approximately 30.4% for the years ended March 31, 2022 and 2021.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2022 and 2021, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets:			
Inventories	¥ 930	¥ 825	$ 7,623
Liability for retirement benefits	860	850	7,049
Tax loss carryforwards	1,114	1,059	9,131
Accrued expenses	991	887	8,123
Other	1,233	1,236	10,107
Less valuation allowance	(1,747)	(1,736)	(14,320)
Total	3,381	3,121	27,713
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(12,475)	(13,547)	(102,254)
Other	(56)	(71)	(459)
Total	(12,531)	(13,618)	(102,713)
Net deferred tax liabilities	¥ (9,150)	¥ (10,497)	$ (75,000)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2022, with the corresponding figures for 2021, is as follows:

	2022	2021
Normal effective statutory tax rate		30.4%
Tax credit for research expenses		(2.6)
Increase in valuation		2.0
Impairment of goodwill		
Amortization of goodwill		1.5
Other—net		(3.1)
Actual effective tax rate		28.2%

Notes are omitted because the difference between the statutory tax rate and the effective tax rate was less than or equal to 5% of the statutory tax rate for the year ended March 31, 2022.

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2022 and 2021, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Salaries for employees	¥6,417	¥6,217	$52,598
Provision for bonuses	446	441	3,656
Retirement benefit expenses	243	248	1,992
Provision for product warranty liabilities	635	520	5,205
R&D expenses	5,514	5,334	45,197
Provision for loss on recycling of monitors	(22)	(5)	(180)
Provision of allowance for doubtful accounts	44	(4)	361

14. R&D COSTS

R&D costs charged to income were ¥5,835 million ($47,828 thousand) and ¥5,643 million for the years ended March 31, 2022 and 2021, respectively.

15. LEASES

The minimum rental commitments under noncancelable operating leases at March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Due within one year	¥58	¥ 60	$475
Due after one year	2	46	16
Total	¥60	¥106	$491

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group uses financial instruments based on its capital expenditure plan. Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Short-term investment and investment securities, mainly equity instruments of customers and suppliers of the Group, debt securities and funds in trust are exposed to credit risk and the risk of fluctuation in market price and interest rate.

All payment terms of payables, such as trade accounts, are within one year. Although payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency, as noted above.

Short-term bank loans are used to hedge the exchange risk for nontrade receivables denominated in foreign currency. The payment term is within three months after the consolidated balance sheet date. The long-term bank loan is used to finance for construction of new buildings at EIZO GmbH which is a consolidated subsidiary. All the loans are traded in foreign currency and have variable interest rates. Thus, they are exposed to the market risk of fluctuation in exchange rates and interest rates.

Derivatives mainly include forward foreign currency contracts that are used to manage exposure to risk of changes in foreign currency exchange rates of receivables and payables. Please see Note 17 for more details about derivatives.

(**3**) ***Risk Management for Financial Instruments***

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to debt securities, the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with its internal guidelines. Please see Note 17 for information about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2022.

Market risk management (foreign exchange rate risk and interest rate risk)

Foreign currency trade receivables, payables, short-term bank loans, and long-term debt are exposed to fluctuations in foreign currency exchange rates. Such foreign exchange rate risk is hedged occasionally by forward foreign currency contracts.

Marketable and investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.

The basic policies regarding derivative transactions have been approved by the director in charge of accounting based on internal guidelines that prescribe the authority and the limit for each transaction by the corporate treasury department. Reconciliation of the transactions and balances with customers is made and the transaction data is reported to the director in charge of accounting on a monthly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding an adequate volume of liquid assets along with adequate financial planning by the corporate treasury department.

(**4**) ***Concentration of Credit Risk***

As of March 31, 2022, 17.8% of total receivables are from specific major customers of the Group.

(**5**) ***Fair Values of Financial Instruments***

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. The fair values of cash and cash equivalents, notes and account receivable, account payable and short-term bank loan are not disclosed because their maturities are short and the carrying values approximate fair value.

(*a*) *Fair value of financial instruments*

	Millions of Yen		
March 31, 2022	Carrying Amount	Fair Value	Unrealized Gain/Loss
Short-term investments and investment securities	¥53,108	¥53,108	
Total	¥53,108	¥53,108	
Long-term bank loan	1,162	1,162	
Total	¥ 1,162	¥ 1,162	
Derivatives	¥ (134)	¥ (134)	
March 31, 2021			
Short-term investments and investment securities	¥57,105	¥57,105	
Total	¥57,105	¥57,105	
Long-term bank loan	1,233	1,233	
Total	¥ 1,233	¥ 1,233	
Derivatives	¥ (44)	¥ (44)	

	Thousands of U.S. Dollars		
March 31, 2022	Carrying Amount	Fair Value	Unrealized Gain/Loss
Short-term investments and investment securities	$ 435,311	$ 435,311	
Total	$ 435,311	$ 435,311	
Long-term bank loan	$ 9,525	$ 9,525	
Total	$ 9,525	$ 9,525	
Derivatives	$ (1,098)	$ (1,098)	

(*b*) *Carrying amount of financial instruments that do not have a quoted market price in an active market*

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Investments in equity instruments that do not have a quoted market price in an active market	¥17	¥44	$ 139
Debt securities that do not have a quoted market price in an active market			

(**6**) ***Maturity Analysis for Financial Assets and Securities with Contractual Maturities***

	Millions of Yen			
March 31, 2022	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥22,386			
Receivables	20,079			
Investment securities:				
Debt securities	300			
Others	88	¥160		
Total	¥42,853	¥160		
March 31, 2021				
Cash and cash equivalents	¥18,881			
Receivables	19,668			
Investment securities—Debt securities	1,000	¥300		
Total	¥39,549	¥300		

	Thousands of U.S. Dollars			
March 31, 2022	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 183,492			
Receivables	164,582			
Investment securities:				
Debt securities	2,459			
Others	721	$1,311		
Total	$ 351,254	$1,311		

(**7**) ***Financial Instruments Categorized by Fair Value Hierarchy***

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(*a*) *The financial assets and liabilities measured at the fair values in the consolidated balance sheet*

March 31, 2022	Millions of Yen Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities:				
Equity securities	¥52,560			¥52,560
Corporate bonds		¥300		300
Other		247		247
Total assets	¥52,560	¥547		¥53,107
Derivative transactions:				
Foreign currency forward contracts		¥134		¥ 134
Total liabilities		¥134		¥ 134

March 31, 2022	Thousands of U.S. Dollars Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities:				
Equity securities	$430,820			$430,820
Corporate bonds		$2,459		2,459
Other		2,025		2,025
Total assets	$430,820	$4,484		$435,304
Derivative transactions:				
Foreign currency forward contracts		$1,098		$ 1,098
Total liabilities		$1,098		$ 1,098

(*b*) *The financial assets and liabilities not measured at the fair values in the consolidated balance sheet*

March 31, 2022	Millions of Yen Level 1	Level 2	Level 3	Total
Long-term bank loan		¥1,025		¥1,025
Total liabilities		¥1,025		¥1,025

March 31, 2022	Thousands of U.S. Dollars Level 1	Level 2	Level 3	Total
Long-term bank loan		$8,402		$8,402
Total liabilities		$8,402		$8,402

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Marketable and Investment Securities

The fair values of listed equity securities, corporate bonds and others are measured at the quoted market prices. Since listed equity securities are traded in active markets, the fair values of listed equity securities are categorized as Level 1. Whereas the quoted market prices of corporate bonds and others are not considered to be in active markets due to low market transactions, the fair values of corporate bonds and others are categorized as Level 2.

Derivatives

The fair values of foreign currency forward contracts are measured at the quoted market prices considering observable inputs such as foreign currency exchange rate, and are categorized as Level 2.

Long-Term Bank Loan

The fair values of long-term bank loan are measured by using discounted present value techniques considering assumptions including expected future cash flows and discount rates taking into account maturity and credit risk, and are categorized as Level 2.

17. DERIVATIVES

The Group enters into derivative contracts, including foreign currency forward contracts, to hedge foreign exchange rate risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies that regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied

Derivative transactions to which hedge accounting is not applied at March 31, 2022 and 2021, were as follows:

	Millions of Yen			
March 31, 2022	Contract Amount	Contract Amount Due after 1 Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Selling Euro	¥3,150		¥(134)	¥(134)
March 31, 2021				
Foreign currency forward contracts—Selling Euro	¥2,099		¥ (44)	¥ (44)

March 31, 2022	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after 1 Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—				
Selling Euro	$25,820		$(1,098)	$(1,098)

The fair value of derivative transactions is measured at the quoted price obtained from financial institutions.

18. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen 2022	Millions of Yen 2021	Thousands of U.S. Dollars 2022
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥(3,290)	¥18,971	$(26,967)
Reclassification adjustments to profit or loss	(389)	244	(3,189)
Amount before income tax effect	(3,679)	19,215	(30,156)
Income tax effect	1,071	(5,692)	8,779
Total	¥(2,608)	¥13,523	$(21,377)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 1,396	¥ 1,111	$ 11,443
Amount before income tax effect	1,396	1,111	11,443
Total	¥ 1,396	¥ 1,111	$ 11,443
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 147	¥ 64	$ 1,205
Reclassification adjustments to profit or loss	(62)	(37)	(508)
Amount before income tax effect	85	27	697
Income tax effect	20	2	164
Total	¥ 105	¥ 29	$ 861
Total other comprehensive (loss) income	¥(1,107)	¥14,663	$ (9,073)

19. SUBSEQUENT EVENTS

(1) *Dividends*

The following appropriation of retained earnings at March 31, 2022, was approved at the board of directors' meeting held on May 19, 2022:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥60 ($0.5) per share	¥1,279	$10,484

(2) *Introduction of Restricted Stock Compensation Plan*

At a meeting of the board of directors held on May 11, 2022, the Company reviewed its executive compensation system and resolved to introduce a restricted stock compensation plan and decided to submit a proposal for its introduction to the 55th Ordinary General Meeting of Shareholders to be held on June 22, 2022.

Outline of the plan

(a) Total amount of monetary claims to be paid to eligible directors under the plan

Within ¥50 million per year (not including the employee's portion of salary of directors who concurrently serve as employees)

(b) The total number of shares of common stock to be newly issued or disposed of by the Company to the subject director

Within 20,000 shares per year

However, in the event of a stock split (including gratis allotment of shares of common stock of the Company) or reverse stock split of shares of common stock of the Company or any other event requiring adjustment of the total number of shares of common stock of the Company to be issued or disposed of as shares with restrictions on transfer, such total number shall be adjusted within reasonable limits.

(c) Stock consideration

The subject director will pay all of the monetary claims to be paid in accordance with this proposal as assets contributed in kind based on the resolution of the board of directors of the Company. The amount to be paid in per share shall be the amount of the common stock of the Company as of the business day immediately preceding the date of resolution of each board of directors' meeting. The amount to be paid per share will be determined by the board of directors based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of each board of directors resolution (or the closing price of the immediately preceding trading day if no trading was effected on that date) to the extent not particularly favorable to the subject directors who will subscribe for such common stock.

(3) ***Purchase and Cancellation of Treasury Stock***

At a meeting of the board of directors held on May 11, 2022, the Company resolved to purchase treasury stock in accordance with the provisions of the Articles of Incorporation pursuant to Article 459, Paragraph 1, Item 1 of the Companies Act, and to cancel treasury stock in accordance with the provisions of Article 178 of the Companies Act. The cancellation of treasury stock was carried out as follows:

(a) Reason for the purchase and cancellation of treasury stock

To improve capital efficiency and shareholder returns

(b) Details of matters associated with the purchase

(1)	Class of shares to be purchased:	Common shares of the Company
(2)	Total number of shares to be purchased:	Up to 750,000 shares (3.52% of the total issued shares excluding treasury stock)
(3)	Total value of shares to be purchased:	Up to ¥4 billion
(4)	Purchase period:	From May 20, 2022 to December 30, 2022
(5)	Purchase method:	Market purchase on the Tokyo Stock Exchange

(c) Details of matters associated with the cancellation

(1)	Class of shares to be cancelled:	Common shares of the Company
(2)	Total number of shares to be cancelled:	750,000 shares (3.30% of the total issued shares before cancellation including treasury stock)
(3)	Date of cancellation:	May 31, 2022
(4)	Total number of shares outstanding after cancellation:	21,981,160 shares

20. REVENUE

(1) *Information Regarding Disaggregated Revenue from Contracts with Customers*

	Millions of Yen		
	2022		
	Geographical Areas		
	Overseas	Japan	Total
Reportable Segment:			
Business & Plus	¥12,123	¥ 5,421	¥17,544
Healthcare	19,445	12,460	31,905
Creative Work	5,231	1,048	6,279
Vertical & Specific	4,373	3,965	8,338
Amusement		18,142	18,142
Other	654	3,927	4,581
Total	¥41,826	¥44,963	¥86,789

	Thousands of U.S. Dollars		
	2022		
	Geographical Areas		
	Overseas	Japan	Total
Reportable Segment:			
Business & Plus	$ 99,369	$ 44,434	$ 143,803
Healthcare	159,385	102,131	261,516
Creative Work	42,877	8,590	51,467
Vertical & Specific	35,844	32,500	68,344
Amusement		148,705	148,705
Other	5,361	32,189	37,550
Total	$ 342,836	$ 368,549	$ 711,385

(2) *Basic Information to Understand Revenues from Contracts with Customers*

Although the Group is effectively a single segment consisting mainly of visual products and related products, revenue is divided into sales of products and entrusted development of amusement software due to differences in the timing of fulfillment of performance obligations. Product sales are included in Business & Plus, Healthcare, Creative Work, Vertical & Specific and Amusement, and entrusted development of amusement software is included in others.

The sales of products

We determine that the performance obligations to customers for the sales of the products is satisfied when the products are delivered to the customers and the customers obtains control of the products. Therefore, the Company recognizes the revenue at a point in time of delivery of the products.

The transaction price is measured by the amount promised in contracts with customers, which is the amount deducting the amount of discount and rebate. The amount of consideration does not include any significant financial component.

Entrusted development of amusement software

We determine that performance obligations to customers for an entrusted development will be satisfied over a certain period of time from the start of development based on the customer's request to the provision of the software deliverables to the customers and the completion of the inspection. Therefore, the Company recognizes the revenue over the period from the start of development to the completion of acceptance. Revenue recognition is based on cost recovery method when it is not possible to reasonably estimate the degree of progress regarding satisfied performance obligations, but it is expected to recover the costs. The transaction price is based on the amount of consideration promised in contracts with customers and does not include any significant financial component.

(**3**) ***Information to Understand the Amount of Revenue for the Current Consolidated Fiscal Year and the Next Consolidated Fiscal Year***

(*a*) *The balances of contract assets, contract liabilities and receivables from contracts with customers*

	Millions of Yen	Thousands of U.S. Dollars
	2022	2022
Receivables from contracts with customers:		
Balance at beginning of year	¥19,413	$159,123
Balance at end of year	21,890	179,426
Contract assets:		
Balance at beginning of year	3,292	26,984
Balance at end of year	2,925	23,975
Contract liabilities:		
Balance at beginning of year	745	6,107
Balance at end of year	895	7,336

Contract assets relate to the Company's rights to consideration for the development deliverables of the entrusted development of amusement software with customers. The contract assets will be transferred to the receivables from contracts with customers when the Company's right to consideration becomes unconditional. The consideration for the entrusted development is invoiced at the time of delivery of the deliverable to the customer and the completion of acceptance in accordance with the contractual terms and is generally received in the second month following the billing month.

Contract liabilities are related to advance payments for which the maintenance period has not elapsed out of the maintenance price received after concluding the maintenance contracts with customers. Contract liabilities are reversed when revenue is recognized.

(*b*) *Transaction price allocated to remaining performance obligations*

The total transaction price allocated to the remaining performance obligations related to the entrusted development of amusement software by the Company is ¥3,063 million. Revenue will be recognized over the next 13 months as its development is completed.

21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available, and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) *Description of Reportable Segments*

The Group is primarily engaged in the manufacture, development, and sale of visual products and related products. The Group consists of this single industry, and therefore, it is not required to disclose separate financial information by segment.

(2) *Information about Products and Services*

	Millions of Yen						
	2022						
	Business & Plus	Healthcare	Creative Work	Vertical & Specific	Amusement	Other	Total
Sales to external customers	¥17,544	¥31,905	¥6,279	¥8,338	¥18,142	¥4,581	¥86,789

	Millions of Yen						
	2021						
	Business & Plus	Healthcare	Creative Work	Vertical & Specific	Amusement	Other	Total
Sales to external customers	¥16,865	¥26,925	¥5,486	¥8,665	¥14,446	¥4,179	¥76,566

	Thousands of U.S. Dollars						
	2022						
	Business & Plus	Healthcare	Creative Work	Vertical & Specific	Amusement	Other	Total
Sales to external customers	$143,803	$261,516	$51,467	$68,344	$148,705	$37,550	$711,385

(3) *Information about Geographical Areas*

(*a*) *Sales*

Millions of Yen				
2022				
Japan	Europe	North America	Other	Total
¥44,963	¥30,502	¥5,979	¥5,345	¥86,789

Millions of Yen				
2021				
Japan	Europe	North America	Other	Total
¥39,504	¥27,724	¥5,157	¥4,181	¥76,566

Thousands of U.S. Dollars				
2022				
Japan	Europe	North America	Other	Total
$ 368,549	$ 250,016	$ 49,008	$ 43,812	$ 711,385

Note: Sales are classified by country or region based on the location of customers.

(*b*) *Property, plant and equipment*

Millions of Yen				
2022				
Japan	Europe	North America	Other	Total
¥11,744	¥6,820	¥1,519	¥91	¥20,174

Millions of Yen				
2021				
Japan	Europe	North America	Other	Total
¥12,065	¥6,712	¥36	¥45	¥18,858

Thousands of U.S. Dollars				
2022				
Japan	Europe	North America	Other	Total
$ 96,262	$ 55,902	$ 12,451	$ 746	$ 165,361

(**4**) ***Information about Major Customers***

Name of Customers	Millions of Yen 2022 Sales
JT Japan Technicals	¥21,408

Name of Customers	Millions of Yen 2021 Sales
JT Japan Technicals	¥17,200

Name of Customers	Thousands of U.S. Dollars 2022 Sales
JT Japan Technicals	$ 175,475

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