

Consolidated Financial Results
for the Three Months Ended June 30, 2017
[Under Japanese GAAP]



July 27, 2017

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

1. Consolidated financial results for the three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2017	19,147	49.2	1,955	253.1	1,995	—	1,239	—
June 30, 2016	12,832	(13.2)	553	(69.6)	158	(91.7)	91	(92.7)

Notes: 1. Comprehensive income
 For the three months ended June 30, 2017: ¥1,196 million [—%]
 For the three months ended June 30, 2016: ¥(1,078) million [—%]

	Basic earnings per share	Diluted earnings per share
Three months ended June 30, 2017	Yen 20.63	Yen 20.39
June 30, 2016	1.52	1.50

Notes: 2. For the purpose of calculating the amounts of earnings per share, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the calculation of the average number of shares of common stock during the period.
 3. The year-on-year changes of ordinary profit and profit attributable to owners of parent for the three months ended June 30, 2017 are indicated as “—” because the figures have exceeded one thousand percent.

(2) Consolidated financial position

	Total assets	Net assets	Capital to asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2017	92,537	50,130	54.2	834.14
March 31, 2017	96,075	50,682	52.8	843.56

Reference: Capital (Shareholders' equity + Accumulated other comprehensive income):
 As of June 30, 2017: ¥50,130 million As of March 31, 2017: ¥50,682 million

Note: 1. For the purpose of calculating the amounts of net assets per share, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the number of shares issued at the end of the period.

2. Dividends

	Cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year	Yen	Yen	Yen	Yen	Yen
Ended March 31, 2017	—	27.50	—	27.50	55.00
Ending March 31, 2018	—				
Ending March 31, 2018 (forecast)		20.00	—	20.00	40.00

Note: 1. Revisions to dividend forecast published most recently: None

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

(Percentage indicates year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	37,000	35.2	3,700	157.3	3,600	288.8	2,500	—	41.60
Fiscal year	71,500	14.2	6,600	89.0	6,400	121.2	4,400	363.4	73.21

Notes: 1. Revisions to earnings forecast published most recently: Yes

2. For the purpose of calculating the amounts of earnings per share for the first half and the fiscal year, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the calculation of the average number of shares during the period.

[Notes]

- (1) Changes in significant subsidiaries during the current period (Changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of accounting methods used specifically for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements
- (a) Changes in accounting policies due to application of new or revised accounting standards: None
- (b) Changes in accounting policies due to reasons other than above (a): None
- (c) Changes in accounting estimates: None
- (d) Restatements of prior period financial statements: None
- (4) Number of shares of common stock issued
- (a) Number of shares issued (including treasury stock)
- As of June 30, 2017: 63,316,900 shares
- As of March 31, 2017: 63,299,500 shares
- (b) Number of shares of treasury stock
- As of June 30, 2017: 3,218,700 shares
- As of March 31, 2017: 3,218,900 shares
- (c) Average number of shares of common stock during the period
- Three months ended June 30, 2017: 60,083,767 shares
- Three months ended June 30, 2016: 59,913,000 shares

Notes: 1. As a result of the exercise of stock options during the three months ended June 30, 2017, the number of shares issued as of June 30, 2017 has increased by 17,400 shares.

2. 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 (3,218,700 shares as of June 30, 2017 and 3,218,900 shares as of March 31, 2017) was included in the number of shares of treasury stock as of such dates. In addition, the number of shares of the Company held by the Trust (3,218,785 shares for the three months ended June 30, 2017; and 3,087,000 shares the three months ended June 30, 2016) was included in the number of shares of treasury stock for such periods, which was to be deducted from the calculation of the average number of shares of common stock during the period.

* This financial results report is not subject to audit procedures.

* [Proper use of earning forecasts, and other special notes]
(Disclaimer with respect to earnings and other forecasts)

The forward-looking statements including earnings forecast contained in this document are based on information currently available to us and certain assumptions that we believe are reasonable. Accordingly, we can give no assurance that such statements will prove to be correct. Actual results may differ from the results anticipated in these forward-looking statements due to a variety of factors.

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1. Qualitative Information on Quarterly Financial Statements

(1) Explanation of operating results

Regarding the operating results of the Dexerials Group companies (hereinafter, “the Group”) for the three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017; hereinafter, “the current period”), the Group reported net sales of ¥19,147 million (up 49.2% year-on-year) and operating profit of ¥1,955 million (up 253.1% year-on-year). These results were caused by an increase in sales of the Optical films and the Adhesive materials product categories, which was partly offset by a decrease in sales of the Optical resin materials product category.

Meanwhile, the Group reported ordinary profit of ¥1,995 million (compared with ¥158 million for the same period of the previous fiscal year) primarily due to recognition of foreign exchange gains. Consequently, profit attributable to owners of parent amounted to ¥1,239 million (compared with ¥91 million for the same period of the previous fiscal year).

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

1) Optical Materials and Components business

(Millions of yen)

	Three months ended June 30, 2017 (the current period)	Three months ended June 30, 2016 (the same period of previous fiscal year)	Year-on-year change
Net sales	10,489	5,583	87.9%
Operating profit	931	307	202.5%

Note: Net sales include inter-segment transactions.

During the current period, the Optical films product category saw a substantial year-on-year increase in sales thanks to a growth in sales of products for laptop PC displays, which was partly affected by a modification of transaction terms. Nevertheless even without the modification of transaction terms, the product category would still have resulted in year-on-year increases in both sales and profits owing to a continued increase in demand for the products used for in-vehicle applications as well.

On the other hand, the Optical resin materials product category reported a decrease in sales but an increase in profits year on year owing to an increase in sales of smart precision adhesives and a weaker yen, which were partly affected by a decrease in sales of the existing SVR used mainly for smartphones.

Consequently, the segment reported net sales and operating profit of ¥10,489 million (up 87.9% year-on-year) and ¥931 million (up 202.5% year-on-year), respectively.

2) Electronic Materials and Components business

(Millions of yen)

	Three months ended June 30, 2017 (the current period)	Three months ended June 30, 2016 (the same period of previous fiscal year)	Year-on-year change
Net sales	8,701	7,282	19.5%
Operating profit	1,473	695	111.9%

Note: Net sales include inter-segment transactions.

During the current period, the Adhesive materials product category saw increases in both sales and profits mainly because functional products such as thermal conductive sheets and thermosetting tapes were newly adopted for smartphones.

Furthermore, the Anisotropic conductive films (ACF) and the Micro devices product categories reported year-on-year increases in both sales and profits as the former category enjoyed a solid demand for products for smartphones and the latter category experienced continued strong sales of inorganic materials for projectors.

Consequently, the segment reported net sales and operating profit of ¥8,701 million (up 19.5% year-on-year) and ¥1,473 million (up 111.9% year-on-year), respectively.

(2) Explanation of financial position

(Assets)

Total assets at the end of the current period amounted to ¥92,537 million, a decrease of ¥3,537 million from the end of the fiscal year ended March 31, 2017 (hereinafter, “the end of the previous fiscal year”).

Current assets amounted to ¥36,948 million, a decrease of ¥2,694 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥2,337 million in cash and deposits, ¥1,158 million in other and ¥365 million in deferred tax assets, which were partly offset by an increase of ¥1,419 million in notes and accounts receivable-trade.

Non-current assets amounted to ¥55,588 million, a decrease of ¥842 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥628 million in intangible assets due primarily to amortization of goodwill and ¥124 million in deferred tax assets.

(Liabilities)

Total liabilities at the end of the current period amounted to ¥42,406 million, a decrease of ¥2,986 million from the end of the previous fiscal year.

Current liabilities amounted to ¥19,757 million, a decrease of ¥3,266 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥2,045 million in other payables and ¥1,001 million in provision for bonuses.

Non-current liabilities amounted to ¥22,649 million, an increase of ¥280 million from the end of the previous fiscal year. This increase can mainly be explained by an increase of ¥750 million in long-term debt, which was partly offset by a decrease of ¥437 million in liability for retirement benefits.

(Net assets)

Total net assets at the end of the current period amounted to ¥50,130 million, a decrease of ¥551 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥518 million in retained earnings as a result of recording profit attributable to owners of parent of ¥1,239 million and a declaration of dividends of ¥1,740 million.

(3) Explanation of forward-looking statements including consolidated earnings forecast

In view of the recent business trends, we have revised the earnings forecast announced on April 27, 2017 as follows.

First-half consolidated forecast for the fiscal year ending March 31, 2018

(Millions of yen, unless otherwise stated)

	Net sales	Operating profit	Ordinary profit	Profit (loss) attributable to owners of parent	Basic earnings (loss) per share (yen)
Previous forecast (A)	35,000	2,400	2,300	1,500	24.96
Revised forecast (B)	37,000	3,700	3,600	2,500	41.60
Change (B – A)	2,000	1,300	1,300	1,000	—
Change in percentage (%)	5.7%	54.2%	56.5%	66.7%	—
(Reference) Results for the first half of the fiscal year ended March 31, 2017	27,373	1,437	925	34	0.57

Full-year consolidated forecast for the fiscal year ending March 31, 2018

(Millions of yen, unless otherwise stated)

	Net sales	Operating profit	Ordinary profit	Profit (loss) attributable to owners of parent	Basic earnings (loss) per share (yen)
Previous forecast (A)	64,000	5,300	5,100	3,000	49.93
Revised forecast (B)	71,500	6,600	6,400	4,400	73.21
Change (B – A)	7,500	1,300	1,300	1,400	—
Change in percentage (%)	11.7%	24.5%	25.5%	46.7%	—
(Reference) Results for the fiscal year ended March 31, 2017	62,598	3,491	2,893	949	15.85

Reason for revision

As net sales and operating profit for the three months ended June 30, 2017 both exceeded those in the previous forecast announced in April owing to continued strong sales of functional products in the Adhesive materials product category and winning of a new contract for smart precision adhesive in the Optical resin materials product category. Accordingly, ordinary profit and profit attributable to owners of parent also exceeded those in the previous forecast announced in April. Given this

result, we have decided to make an upward revision to the first-half consolidated forecast for the fiscal year ending March 31, 2018, reflecting the more-than-expected results for the three months ended June 30, 2017.

Regarding the forecast for the second half, we initially factored in a decrease in purchase price due to a change of base films and a corresponding decrease in selling price of our products in the Optical films product category. However, as the timing of a change of base films was postponed, we have decided that forecast net sales will be revised upwards from the previous forecast announced in April. This revision will not affect profits.

Given the revision to forecast net sales for the second half as described above and the revision to the first-half consolidated forecast for the fiscal year ending March 31, 2018, we have revised the full-year consolidated forecast for the fiscal year ending March 31, 2018 as shown above.

(Disclaimer with respect to earnings forecasts)

The forward-looking statements including earnings forecast contained in this document are based on information currently available to us and certain assumptions that we believe are reasonable. Accordingly, we can give no assurance that such statements will prove to be correct. Actual results may differ from the results anticipated in these forward-looking statements due to a variety of factors.

2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

	(Millions of yen)	
	Previous fiscal year (As of March 31, 2017)	Current quarter (As of June 30, 2017)
Assets		
Current assets:		
Cash and deposits	16,432	14,095
Notes and accounts receivable - trade	11,715	13,134
Electronically recorded monetary claims - operating	74	94
Merchandise and finished goods	2,248	2,451
Work in process	2,804	2,568
Raw materials and supplies	2,308	2,074
Deferred tax assets	1,294	928
Other	2,775	1,617
Allowance for doubtful accounts	(9)	(15)
Total current assets	39,643	36,948
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	29,199	29,199
Accumulated depreciation	(18,518)	(18,659)
Buildings and structures, net	10,681	10,540
Machinery, equipment and vehicles	35,289	35,236
Accumulated depreciation	(28,826)	(28,970)
Machinery, equipment and vehicles, net	6,462	6,266
Land	3,620	3,620
Construction in progress	1,631	1,940
Other	5,363	5,295
Accumulated depreciation	(4,282)	(4,268)
Other, net	1,080	1,026
Total property, plant and equipment	23,477	23,394
Intangible assets:		
Goodwill	27,880	27,430
Patent rights	2,679	2,578
Other	1,392	1,314
Total intangible assets	31,951	31,322
Investments and other assets:		
Deferred tax assets	554	430
Other	447	440
Total investments and other assets	1,002	870
Total non-current assets	56,431	55,588
Total assets	96,075	92,537

(Millions of yen)

	Previous fiscal year (As of March 31, 2017)	Current quarter (As of June 30, 2017)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	8,965	8,159
Electronically recorded obligations - operating	1,414	1,495
Current portion of long-term debt	1,916	1,916
Other payables	4,674	2,628
Accrued expenses	846	1,313
Provision for bonuses	1,785	783
Deferred tax liabilities	1	34
Other	3,419	3,425
Total current liabilities	23,024	19,757
Non-current liabilities:		
Long-term debt	18,083	18,833
Liability for retirement benefits	3,669	3,231
Deferred tax liabilities	169	102
Other	446	481
Total non-current liabilities	22,368	22,649
Total liabilities	45,393	42,406
Net assets		
Shareholders' equity:		
Common stock	15,830	15,835
Capital surplus	15,830	15,835
Retained earnings	18,654	18,135
Treasury stock	(3,341)	(3,341)
Total shareholders' equity	46,974	46,466
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	127	46
Foreign currency translation adjustment	1,713	1,786
Remeasurements of defined benefit plans	1,867	1,832
Total accumulated other comprehensive income	3,707	3,664
Total net assets	50,682	50,130
Total liabilities and net assets	96,075	92,537

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income

Quarterly consolidated statements of income

(Millions of yen)

	For the three months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)	For the three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017)
Net sales	12,832	19,147
Cost of sales	8,007	12,996
Gross profit	4,824	6,151
Selling, general and administrative expenses	4,270	4,195
Operating profit	553	1,955
Non-operating income:		
Interest income	1	0
Foreign exchange gains	—	92
Other	12	22
Total non-operating income	13	116
Non-operating expenses:		
Interest expenses	22	21
Foreign exchange losses	374	—
Other	12	55
Total non-operating expenses	408	76
Ordinary profit	158	1,995
Extraordinary income:		
Gain on sale of non-current assets	—	13
Total extraordinary income	—	13
Extraordinary losses:		
Loss on sale of non-current assets	—	0
Loss on retirement of property, plant and equipment	0	22
Restructuring expenses	—	81
Other	—	0
Total extraordinary losses	0	104
Profit before income taxes	158	1,904
Income taxes - current	146	159
Income taxes - deferred	(79)	505
Total income taxes	66	665
Profit	91	1,239
Profit attributable to owners of parent	91	1,239

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the three months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)	For the three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017)
Profit	91	1,239
Other comprehensive income:		
Deferred gains or losses on hedges	—	(80)
Foreign currency translation adjustment	(1,164)	72
Remeasurements of defined benefit plans	(5)	(35)
Total other comprehensive income	(1,170)	(42)
Comprehensive income	(1,078)	1,196
Comprehensive income attributable to:		
Owners of parent	(1,078)	1,196
Non-controlling interests	—	—

(3) Notes to quarterly consolidated financial statements

(Going concern assumption)

Not applicable.

(Significant changes in shareholders' equity)

Not applicable.

(Supplemental information)

(Employee Stock Ownership Plan ("J-ESOP"))

The Company has introduced an Employee Stock Ownership Plan ("J-ESOP") as an incentive program granting employees shares of common stock of the Company to incentivize them to improve its financial results and, thus, stock prices by increasing linkage of their compensation to the stock price and financial results of the Company and sharing economic benefits with shareholders.

The shares of the Company remaining in the Trust are presented as shares of treasury stock in the net assets section at their carrying amount (excluding the amount of incidental expenses) in the Trust. The carrying amount and the number of shares of treasury stock at the end of the previous fiscal year and at the end of the current period are ¥3,235 million for 3,086 thousand shares and ¥3,234 million for 3,086 thousand shares, respectively.

(Board Benefit Trust (BBT))

The Company has introduced a performance-linked stock compensation plan through a Board Benefit Trust (BBT). The plan more clearly links the compensation of directors (excluding outside directors; the same applies hereinafter) to the Company's results of operations and its share value. Under the plan, directors experience both the benefit of high share prices and the risk of low share prices with the Company's shareholders. Such plan thus would lead directors to continuously aim for better performances over a medium- to long-term period and more contributions to increasing corporate value.

The shares of the Company remaining in the Trust are presented as shares of treasury stock in the net assets section at their carrying amount (excluding the amount of incidental expenses) in the Trust. The carrying amount and the number of shares of treasury stock at the end of the previous fiscal year and at the end of the current period are ¥106 million for 132 thousand shares and ¥106 million for 132 thousand shares, respectively.

(Segment information)

1) For the three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

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

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	5,583	7,248	12,832	—	12,832
Intersegment sales or transfers	—	34	34	(34)	—
Total	5,583	7,282	12,866	(34)	12,832
Segment profit (loss)	307	695	1,003	(449)	553

Note: The amount of adjustment for segment profit of ¥449 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated overseas net sales: ¥9,513 million

2) For the three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

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

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	10,489	8,658	19,147	—	19,147
Intersegment sales or transfers	—	42	42	(42)	—
Total	10,489	8,701	19,190	(42)	19,147
Segment profit (loss)	931	1,473	2,405	(449)	1,955

Note: The amount of adjustment for segment profit of ¥449 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated overseas net sales: ¥9,409 million