Dexerials

Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 〔Under Japanese GAAP〕

April 26, 2018

Company name: Dexerials Corporation   Listing: Tokyo Stock Exchange
Security code: 4980   URL: http://www.dexerials.jp/en
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Investors meeting presentation for financial results: Yes (for securities analysts and institutional investors)

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

1. Consolidated financial results for the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2018	70,079	12.0	6,178	77.0	5,682	96.4	3,426	260.9
March 31, 2017	62,598	(0.1)	3,491	(58.0)	2,893	(64.6)	949	(79.3)

Note: Comprehensive income
For the fiscal year ended March 31, 2018: ¥2,038 million [(12.9)%]
For the fiscal year ended March 31, 2017: ¥2,341 million [(10.3)%]

	Basic earnings per share	Diluted earnings per share	Return on capital	Ordinary profit to total assets	Operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2018	56.91	56.16	6.8	5.9	8.8
March 31, 2017	15.85	15.65	1.8	3.1	5.6

Reference: Share of profit or loss of entities accounted for using equity method
For the fiscal year ended March 31, 2018: —
For the fiscal year ended March 31, 2017: —

Note: 1. 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.

(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
March 31, 2018	94,969	49,921	52.6	825.82
March 31, 2017	97,368	50,682	52.1	843.56

Reference: Capital (Shareholders' equity + Accumulated other comprehensive income)
As of March 31, 2018: ¥49,921 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.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2018	8,988	(8,454)	(1,734)	14,887
March 31, 2017	5,128	(5,448)	760	16,432

2. Dividends

	Cash dividends per share					Total dividends (Annual)	Dividend payout ratio (Consolidated)	Dividend on equity (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
March 31, 2017	－	27.50	－	27.50	55.00	3,475	347.4	6.4
March 31, 2018	－	20.00	－	20.00	40.00	2,542	70.4	4.8
Fiscal year ending March 31, 2019 (forecast)	－	20.00	－	20.00	40.00		57.6	

Reference: Dividend payout ratio (consolidated) before amortization of goodwill
Fiscal year ending March 31, 2019 (forecast): 40.3% (For more details, please see page 5 of the attached materials.)

Notes: 1. The amounts of total dividends (annual) include the dividends (of ¥177 million for the fiscal year ended March 31, 2017 and ¥128 million for the fiscal year ended March 31, 2018) for the shares of the Company held by the Trust.
2. For the purpose of calculating the amounts of dividend on equity for the fiscal years ended March 31, 2017 and 2018, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

(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	30,400	(20.5)	2,100	(45.7)	2,000	(48.8)	1,100	(59.6)	18.27
Fiscal year	63,700	(9.1)	7,000	13.3	6,700	17.9	4,200	22.6	69.76

Note: 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 as at the end of the fiscal year ended March 31, 2018 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.

[Notes]

(1) Changes in significant subsidiaries during the current period (Changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) 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

(3) Number of shares of common stock issued

(a) Number of shares issued (including treasury stock)

As of March 31, 2018:	63,668,000 shares
As of March 31, 2017:	63,299,500 shares

(b) Number of shares of treasury stock

As of March 31, 2018:	3,217,000 shares
As of March 31, 2017:	3,218,900 shares

(c) Average number of shares of common stock during the period

Fiscal year ended March 31, 2018:	60,198,945 shares
Fiscal year ended March 31, 2017:	59,902,468 shares

Notes: 1. As a result of the exercise of stock options during the fiscal year ended March 31, 2018, the number of shares issued as of March 31, 2018 has increased by 368,500 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 (3,217,000 shares as of March 31, 2018 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 (3,218,133 shares for the fiscal year ended March 31, 2018; and 3,169,197 shares for the fiscal year ended March 31, 2017) 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 to be performed by certified public accountants or an audit firm.

* [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.

Contents of Attached Materials

1. Overview of Operating Results, etc.

(1) Analysis of operating results

(Operating results for the current fiscal year)

The world economy for the current fiscal year (from April 1, 2017 to March 31, 2018) continued to show a modest recovery trend on the whole, supported by the solid US and European economies despite the current rising uncertainty about the future due to impacts from trade frictions caused by the unstable US policy management. The Japanese economy remained largely on the path to moderate recovery with improved corporate earnings and employment despite the unclear future outlook, with the appreciation of yen started at the beginning of this year and volatile movements in the financial market.

In our mainstay industries in which the products of the Dexerials Group companies (hereinafter “the Group”) are involved, a tough business environment continued in the consumer IT products market, as represented by the maturity of the smartphone market and a continuing shrinkage of the demand for tablet PCs.

In such a business environment, the Group worked hard to realize the Medium-term Management Plan by promoting sales of high value-added products as well as making an additional investment to increase the capacity of the Tochigi Plant to respond to vigorous demand for antireflection films—a new growth driver.

As a result of the above, sales of antireflection films for display panels used for laptop PCs saw a large year-on-year increase due partly to a modification of transaction terms. Sales of smart precision adhesives and thermal conductive sheets rose from a year earlier as well. On the other hand, we saw decreases in sales of Optical solutions product category, which withdrew from the existing business for the consumer IT products, and also in sales of optical elasticity resins for products such as smartphones. Consequently, we reported net sales for the current fiscal year of ¥70,079 million (up 12.0% year-on-year) with operating profit of ¥6,178 million (up 77.0% year-on-year). Excluding the impact of the modification of transaction terms described above, net sales would have been an increase of about 2% year-on-year.

Ordinary profit was ¥5,682 million (up 96.4% year-on-year) primarily due to recognition of foreign exchange losses of 296 million yen.

Profit before income taxes was ¥5,352 million (up 212.4% year-on-year) primarily due to recognition of extraordinary losses.

Consequently, profit attributable to owners of parent amounted to ¥3,426 million (up 260.9% year-on-year).

(Note) The modification of transaction terms refers to changes in purchase price and selling price of our products due to a change of base films. This revision will not affect profits.

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

1) Optical Materials and Components business

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017	Year-on-year change
Net sales	35,427	31,133	13.8%
Operating profit	2,708	2,100	29.0%

(Note) Net sales include inter-segment transactions.

- The business segment reported net sales of ¥35,427 million yen (up 13.8% year-on-year) and operating profit of ¥2,708 million (up 29.0% year-on-year).
- Sales of **Optical films** saw a year-on-year increase thanks to a growth in sales of products for display panels used for laptop PCs and in-vehicle applications. Even without the impact of the modification of transaction terms described above, the product category would still have resulted in year-on-year increases in both sales and profits.
- While **Optical resin materials** saw increased sales of smart precision adhesives, sales and profits of the product category fell short of those for the previous fiscal year due to decreased sales of optical elasticity resins used mainly for smartphones.
- **Optical solutions** achieved improved earnings position as a result of efforts to improve its profitability primarily by lowering fixed costs, despite a decrease in sales because of the withdrawal from the existing business for the consumer IT products.

2) Electronic Materials and Components business

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017	Year-on-year change
Net sales	34,900	31,676	10.2%
Operating profit	5,267	3,189	65.2%

(Note) Net sales include inter-segment transactions.

・ The business segment reported net sales of ¥34,900 million (up 10.2% year-on-year) and operating profit of ¥5,267 million (up 65.2% year-on-year).
・ Sales of **Adhesive materials** increased year-on-year thanks to continued strong sales of functional products such as thermal conductive sheets driven by their adoption to smartphones.
・ Sales of **Anisotropic conductive films (ACF)** increased year-on-year thanks to solid demand for the products used for smartphones.
・ Sales of **Surface mounted type fuses** increased year-on-year thanks to strong sales of products used for electric power tools.
・ Sales of **Micro devices** also increased year-on-year thanks to continued strong sales of inorganic materials including inorganic polarizers used for projectors.

(Earnings forecast for the next fiscal year)

Consolidated earnings forecasts for the fiscal year ending March 31, 2019 are presented as follows.

1) Consolidated earnings forecasts for the fiscal year ending March 31, 2019

(Millions of yen)

	Fiscal year ended March 31, 2018 (Actual)	Fiscal year ending March 31, 2019 (Forecast)	Year-on-year change
Consolidated net sales	70,079	63,700	(9.1)%
Operating profit	6,178	7,000	13.3%
Ordinary profit	5,682	6,700	17.9%
Profit attributable to owners of parent	3,426	4,200	22.6%

2) Consolidated earnings forecasts for the first half of the fiscal year ending March 31, 2019

(Millions of yen)

	First half of the fiscal year ended March 31, 2018 (Actual)	First half of the fiscal year ending March 31, 2019 (Forecast)	Year-on-year change
Consolidated net sales	38,225	30,400	(20.5)%
Operating profit	3,867	2,100	(45.7)%
Ordinary profit	3,907	2,000	(48.8)%
Profit attributable to owners of parent	2,722	1,100	(59.6)%

(These forecasts are based on an exchange rate of 105 yen to the U.S. dollar.)

In our mainstay industries in which the Group's products are involved, we anticipate that a tough business environment will continue in the consumer IT products market, as represented by the maturity of the smartphone market.

Given such a situation and looking ahead to the next fiscal year, which is the final year of the Medium-term Management Plan that started from the previous fiscal year, the Group will focus on the sale of high-value added products in the existing business domain to ensure a stable revenue stream. At the same time, we will focus not only on doing business in the automotive industry but also on promoting aggressively our products in life science and environmental businesses as our new business domains.

Regarding the earnings forecast for the next fiscal year, we expect a substantive year-on-year increase in both sales and profits excluding the impact of the modification of transaction terms, driven by significantly expanding sales of antireflection films,.

(Disclaimer with respect to earnings forecasts)
The forward-looking statements including earnings forecast contained in this report 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) Analysis of financial position

1) Summary of assets, liabilities and net assets

(Assets)
Total assets at the end of the current fiscal year amounted to ¥94,969 million, a decrease of ¥2,398 million from the end of the previous fiscal year.

Current assets amounted to ¥35,454 million, a decrease of ¥4,189 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases in cash and deposits by ¥1,545 million, notes and accounts receivable – trade by ¥1,023 million, and deferred tax assets by ¥586 million.

Non-current assets amounted to ¥59,515 million, an increase of ¥1,790 million from the end of the previous fiscal year. This increase can mainly be explained by an increase of ¥3,712 million in property, plant and equipment primarily as a result of an increase in construction in progress, which was partially offset by a decrease of ¥2,241 million in intangible assets due primarily to amortization of goodwill.

(Liabilities)
Total liabilities at the end of the current fiscal year amounted to ¥45,047 million, a decrease of ¥1,638 million from the end of the previous fiscal year.

Current liabilities amounted to ¥21,030 million, a decrease of ¥1,993 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases in notes and accounts payable – trade by ¥1,366 million and other by ¥1,313 million, which was partially offset by an increase of ¥1,166 million in current portion of long-term debt.

Non-current liabilities amounted to ¥24,017 million, an increase of ¥355 million from the end of the previous fiscal year. This increase can mainly be explained by an increase of ¥370 million in liability for retirement benefits.

(Net assets)
Total nets assets at the end of the current fiscal year amounted to ¥49,921 million, a decrease of ¥760 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥1,458 million in remeasurements of defined benefit plans, which was partially offset by an increase of ¥416 million in retained earnings as a result of recording profit attributable to owners of parent of ¥3,426 million and a declaration of dividends of ¥3,009 million.

2) Summary of cash flows

Cash and cash equivalents (hereinafter “cash”) at the end of the current fiscal year decreased ¥1,545 million from the end of the previous fiscal year to ¥14,887 million. This net decrease can mainly be explained by cash inflow derived from profit before income taxes of ¥5,352 million, which was more than offset by cash outflow mainly from purchase of property, plant and equipment and payment of cash dividends.

A summary of each category of cash flows and main causes of changes are presented as follows.

(Cash flows from operating activities)
Net cash provided by operating activities was ¥8,988 million (up 75.3% year-on-year), which mainly consisted of profit before income taxes of ¥5,352 million, depreciation of ¥3,799 million and amortization of goodwill of ¥1,798 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥8,454 million (up 55.2% year-on-year) due mainly to expenditure on purchase of property, plant and equipment of ¥7,713 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥1,734 million (compared with ¥760 million provided by financing activities in the same period of the previous fiscal year) due mainly to proceeds from long-term debt of ¥3,000 million, which was more than offset by expenditures on repayments of long-term debt of ¥1,916 million and payment of cash dividends of ¥3,009 million.

(3) Basic policy for profit distribution and dividends for the current and next fiscal years

We regard return of profits to shareholders as one of the most important management tasks. With a recognition that increasing corporate value through investments for growth is the common interests of our shareholders, we have established a basic policy that we should first give priority to business investments leading to sustainable corporate value improvement and then make shareholder returns in line with profit growth with the target total payout ratio to consolidated profit before amortization of goodwill (See Note 1) of approximately 40%.

We determine the actual amount of dividends by comprehensively considering factors such as the amount of investments required for growth, the estimated free cash flow (See Note 2), the total payout ratio including share buyback and the importance of stable dividend distribution, while securing a sound financial base.

Regarding the profit distribution for the next fiscal year ending March 31, 2019, we will follow the above basic policy and plan to pay the annual ordinary dividends of 40.0 yen per share (consisting of an interim dividend of 20.0 yen per share and a year-end dividend of 20.0 yen per share).

As a basic policy for dividend payment from surplus, we will pay dividends twice a year in the form of an interim dividend and a year-end dividend. While it is stipulated in accordance with Article 459, Section 1 of the Companies Act that the Company can pay dividends from retained earnings based on resolution of the board of directors, the Company plans to pay a year-end dividend based on a resolution of the general shareholders' meeting.

(Reference) Distribution of profit

	Total payout ratio	
	Before amortization of goodwill	After amortization of goodwill
Current fiscal year ended March 31, 2018 (actual)	46.2%	70.4%
Next fiscal year ending March 31, 2019 (forecast)	40.3%	57.6%

(Note 1) Total payout ratio to consolidated profit before amortization of goodwill

$$= \frac{\text{Total payout amount (=Annual total dividends paid +Annual total share buyback)}}{\text{Consolidated profit + Amortization of goodwill}} \times 100$$

(Note 2) Free cash flow = Operating cash flow + Investing cash flow

(4) Management policy

1) Basic policy for corporate management

Corporate vision

"Value Matters—Unprecedented innovation, unprecedented value."

The Company fulfills its customers' needs and resolves their challenges, constantly aiming to generate values that exceed its customers' expectations with unique and innovative technologies to develop and provide sophisticated functional materials. The Company believes that this will realize business growth and improvement in business results, leading to the enhancement of corporate value as a result.

With this vision in mind, we aim to be a company that contributes to the enhancement of the quality and richness of both life and our environment through providing high value-added products.

2) Target performance indicator

We consider ROE (return on equity) as an indicator that relates to the sustainable growth of corporate value. Specifically, we aims to achieve an adjusted ROE of 15% as a medium to long-term target through balanced capital allocation among investment for business expansion, R&D activities as sources of future growth and profit distribution to our shareholders. Furthermore, we have introduced an equity spread (ES) with an assumption of 9% cost of equity as an indicator to enhance corporate value and will aim to maintain a positive ES over the medium to long-term.

(Note) Adjusted ROE = [Profit attributable to owners of parent + amortization of goodwill} / net assets] x 100
Equity spread = Adjusted ROE – Cost of equity (assumed to be 9%)

3) Medium to long-term corporate strategy

The Company formulated in the fiscal year ended March 31, 2017 the three-year Medium-term Management Plan "Change for Growth 2018" as a stage to establish a revenue and profit base required for "sustainable growth" toward realizing the desired corporate image. In April 2017, we updated the growth strategy and competitive strategy of the Plan given the progress made in the first year.

In view of recent changes in business environment and a change in the assumed exchange rate, we aim to achieve net sales of ¥63,700 million with operating profit of ¥7,000 million for the fiscal year ending March 31, 2019, the final year of the Plan (assuming an exchange rate of 105 yen to the U.S. dollar). For more detailed forecast of financial results for the fiscal year ending March 31, 2019, please refer to page 3.

4) Issues to be addressed by the Company

To achieve our corporate vision, the Group is making an across-the-board effort to implement the strategy along with the Medium-term Management Plan, and also will implement measures required to achieve sustainable growth for the fiscal year ended March 31, 2020 and thereafter. In particular for the next fiscal year ending March 31, 2019, we will focus on addressing the issues and taking the initiatives that are described as follows.

i) Initiative for Optical films to expand contribution to the Group's earnings and achieve further growth

The Optical films product category has grown rapidly as a new key driver of earnings, with the additional investment to increase the production capacity in the current fiscal year. For the next fiscal year ending March 31, 2019, we aim to greatly expand contribution to the Group's earnings by capitalizing on significantly increasing demand for our products used for display panels for laptop PCs and in-vehicle applications with the newly introduced production equipment. Moreover, to ensure sustainable growth of the business in the fiscal year ending March 31, 2020 and thereafter, we will work hard to expand the use of our antireflection films among laptop PC manufacturers that have not yet used our products and in new applications as well as develop and release products that have features other than antireflection utilizing the said production facilities.

ii) Initiative to focus on key areas in the Automotive domain

In the current fiscal year we reviewed the allocation of our resources for new business domains and decided to concentrate them into the Automotive domain. Given the increasing use of electrics in automobiles and evolution in advanced driver-assistance systems (ADAS), the Group that has achieved growth in the electronics field sees expanding opportunities to demonstrate its strength. In fact, our sales of Anisotropic Conductive Films (ACF) and antireflection films have been increasing steadily. In the next fiscal year, in addition to the above, we will prioritize development and marketing of materials for head-up displays, various sensors and heat solutions to expand our product lineup and business scale.

iii) Initiatives in the Life Science and Environment domains

As we have positioned the Life Science and Environment domains as a next growth driver following the Automotive domain, we are going to focus on the following key measures in the next fiscal year:

- Expand sales of high visibility films in markets outside Japan
  Our high visibility films have been already used in Japan as a protection sheet material for a medical eye shield that is used by a doctor to prevent infections. We will take steps in the next fiscal year to expand sales outside Japan in addition to the domestic market.
- Make a capital contribution to ORTHOREBIRTH Co., Ltd.
  We made an equity investment in the biotech firm ORTHOREBIRTH Co., Ltd. (hereinafter "ORTHOREBIRTH") in March 2018. ORTHOREBIRTH specialized in a cotton-shaped, artificial bone filling material whose main ingredients are ceramics and polymers. The technical affinity between the Company and ORTHOREBIRTH is found so high that we can support their business primarily through development activities. It is also expected that we can acquire their wealth of marketing expertise to help grow our business in the Life Science domain.
- Offer new anti-fogging and anti-fouling technical solutions
  We have developed a new material with fogging prevention as well as strong resistance to scratches and peeling by wiping, by taking advantage of our unique material compounding technology and coating process. We plan to launch this product in the market during the fiscal year ending March 31, 2019.
- Build a mass production system for water treatment agent and prepare for business development outside Japan
  We produce industrial water treatment agent that is derived from plants and thus have less environmental impact. The product features three functions: coagulation, flocculation and improved dewatering performance. In the fiscal year ending March 31, 2019, with expanding customer base in mind, we will build a mass production system and prepare for business development outside Japan.

2. Basic Policy Regarding Selection of Accounting Standards

With respect to applying International Financial Reporting Standards (IFRS), the Company is currently assessing differences between International Financial Reporting Standards (IFRS) and Japanese GAAP, as well as impacts of a change in accounting standards on the Group. As of the date of filing this report, we have not yet made any decision on this matter.

3. Consolidated Financial Statements and Notes

(1) Consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
Assets		
Current assets:		
Cash and deposits	16,432	14,887
Notes and accounts receivable - trade	11,715	10,692
Electronically recorded monetary claims - operating	74	155
Merchandise and finished goods	2,248	2,635
Work in process	2,804	2,235
Raw materials and supplies	2,308	1,817
Deferred tax assets	1,294	707
Other	2,775	2,325
Allowance for doubtful accounts	(9)	(4)
Total current assets	39,643	35,454
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	29,199	29,689
Accumulated depreciation	(18,518)	(19,396)
Buildings and structures, net	10,681	10,292
Machinery, equipment and vehicles	35,289	34,921
Accumulated depreciation	(28,826)	(29,024)
Machinery, equipment and vehicles, net	6,462	5,896
Land	3,620	3,661
Construction in progress	1,631	6,253
Other	5,363	5,487
Accumulated depreciation	(4,282)	(4,403)
Other, net	1,080	1,084
Total property, plant and equipment	23,477	27,190
Intangible assets:		
Goodwill	27,880	26,072
Patent rights	2,679	2,275
Other	1,392	1,362
Total intangible assets	31,951	29,710
Investments and other assets:		
Asset for retirement benefits	1,293	985
Deferred tax assets	554	831
Other	447	810
Allowance for doubtful accounts	—	(12)
Total investments and other assets	2,295	2,614
Total non-current assets	57,724	59,515
Total assets	97,368	94,969

(Millions of yen)

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	8,965	7,599
Electronically recorded obligations - operating	1,414	1,123
Current portion of long-term debt	1,916	3,083
Other payables	4,674	5,207
Accrued expenses	846	551
Provision for bonuses	1,785	1,298
Deferred tax liabilities	1	61
Other	3,419	2,106
Total current liabilities	23,024	21,030
Non-current liabilities:		
Long-term debt	18,083	18,000
Liability for retirement benefits	4,962	5,333
Deferred tax liabilities	169	32
Other	446	651
Total non-current liabilities	23,661	24,017
Total liabilities	46,686	45,047
Net assets		
Shareholders' equity:		
Common stock	15,830	15,934
Capital surplus	15,830	15,934
Retained earnings	18,654	19,071
Treasury stock	(3,341)	(3,339)
Total shareholders' equity	46,974	47,601
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	127	245
Foreign currency translation adjustment	1,713	1,665
Remeasurements of defined benefit plans	1,867	408
Total accumulated other comprehensive income	3,707	2,320
Total net assets	50,682	49,921
Total liabilities and net assets	97,368	94,969

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

(Millions of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Net sales	62,598	70,079
Cost of sales	41,454	46,705
Gross profit	21,143	23,373
Selling, general and administrative expenses	17,652	17,195
Operating profit	3,491	6,178
Non-operating income:		
Interest income	17	30
Other	91	109
Total non-operating income	108	140
Non-operating expenses:		
Interest expenses	82	91
Foreign exchange losses	440	296
Depreciation	81	214
Other	102	33
Total non-operating expenses	706	636
Ordinary profit	2,893	5,682
Extraordinary income:		
Gain on sale of non-current assets	6	31
Subsidy income	—	157
Total extraordinary income	6	188
Extraordinary losses:		
Loss on sale of non-current assets	96	0
Loss on retirement of property, plant and equipment	52	78
Impairment loss	106	49
Restructuring expenses	915	113
Settlement package	—	275
Other	14	0
Total extraordinary losses	1,186	518
Profit before income taxes	1,713	5,352
Income taxes - current	607	1,099
Income taxes - deferred	156	827
Total income taxes	764	1,926
Profit	949	3,426
Profit attributable to owners of parent	949	3,426

Consolidated statements of comprehensive income

(Millions of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Profit	949	3,426
Other comprehensive income:		
Deferred gains or losses on hedges	127	118
Foreign currency translation adjustment	(291)	(47)
Remeasurements of defined benefit plans	1,556	(1,458)
Total other comprehensive income	1,392	(1,387)
Comprehensive income	2,341	2,038
Comprehensive income attributable to:		
Owners of parent	2,341	2,038
Non-controlling interests	—	—

(3) Consolidated statements of changes in net assets

Previous fiscal year (from April 1, 2016 to March 31, 2017)

(Millions of yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance, April 1, 2016	15,747	15,747	21,487	(3,235)	49,747
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares	83	83			166
Dividends of surplus			(3,782)		(3,782)
Profit attributable to owners of parent			949		949
Purchase of treasury stock				(106)	(106)
Disposal of treasury stock				0	0
Net change of items other than shareholders' equity					
Total changes of items during period	83	83	(2,832)	(106)	(2,772)
Balance, March 31, 2017	15,830	15,830	18,654	(3,341)	46,974

	Accumulated Other Comprehensive Income				Total Net Assets
	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	
Balance, April 1, 2016	—	2,005	310	2,315	52,062
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares					166
Dividends of surplus					(3,782)
Profit attributable to owners of parent					949
Purchase of treasury stock					(106)
Disposal of treasury stock					0
Net change of items other than shareholders' equity	127	(291)	1,556	1,392	1,392
Total changes of items during period	127	(291)	1,556	1,392	(1,380)
Balance, March 31, 2017	127	1,713	1,867	3,707	50,682

Current fiscal year (from April 1, 2017 to March 31, 2018)

(Millions of yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance, April 1, 2017	15,830	15,830	18,654	(3,341)	46,974
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares	104	104			208
Dividends of surplus			(3,009)		(3,009)
Profit attributable to owners of parent			3,426		3,426
Purchase of treasury stock					
Disposal of treasury stock				1	1
Net change of items other than shareholders' equity					
Total changes of items during period	104	104	416	1	627
Balance, March 31, 2018	15,934	15,934	19,071	(3,339)	47,601

	Accumulated Other Comprehensive Income				Total Net Assets
	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	
Balance, April 1, 2017	127	1,713	1,867	3,707	50,682
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares					208
Dividends of surplus					(3,009)
Profit attributable to owners of parent					3,426
Purchase of treasury stock					―
Disposal of treasury stock					1
Net change of items other than shareholders' equity	118	(47)	(1,458)	(1,387)	(1,387)
Total changes of items during period	118	(47)	(1,458)	(1,387)	(760)
Balance, March 31, 2018	245	1,665	408	2,320	49,921

(4) Consolidated statements of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Cash flows from operating activities:		
Profit before income taxes	1,713	5,352
Depreciation	3,334	3,799
Amortization of goodwill	1,798	1,798
Increase (decrease) in allowance for doubtful accounts	(4)	6
Increase (decrease) in provision for bonuses	213	(487)
Increase/decrease in asset/liability for retirement benefits	(819)	(1,002)
Interest and dividend income	(17)	(30)
Interest expenses	82	91
Subsidy income	―	(157)
Foreign exchange (gains) losses	55	298
(Gain) loss on sale of non-current assets	90	(31)
Loss on retirement of property, plant and equipment	52	78
Impairment loss	106	49
Restructuring expenses	915	113
Settlement package	―	275
(Increase) decrease in notes and accounts receivable - trade	(1,405)	870
(Increase) decrease in inventories	(3,154)	667
(Increase) decrease in other receivables	(71)	(147)
Increase (decrease) in notes and accounts payable - trade	3,735	(1,575)
Increase (decrease) in other payables	482	173
Increase (decrease) in income taxes payable (size-based business tax)	10	17
Other, net	(608)	(219)
Subtotal	6,327	9,519
Interest and dividend income received	16	33
Interest expenses paid	(81)	(85)
Proceeds from subsidy income	―	153
Income taxes paid	(1,134)	(631)
Net cash provided by (used in) operating activities	5,128	8,988
Cash flows from investing activities:		
Purchase of investment securities	(50)	(375)
Purchase of property, plant and equipment	(5,046)	(7,713)
Purchase of intangible assets	(341)	(393)
Other, net	(9)	27
Net cash provided by (used in) investing activities	(5,448)	(8,454)
Cash flows from financing activities:		
Proceeds from long-term debt	17,000	3,000
Repayments of long-term debt	(12,500)	(1,916)
Purchase of treasury stock	(106)	―
Cash dividends paid	(3,782)	(3,009)
Repayments of lease obligations	(17)	(16)
Proceeds from exercise of stock options	166	208
Net cash provided by (used in) financing activities	760	(1,734)
Effect of exchange rate change on cash and cash equivalents	(267)	(344)
Net increase (decrease) in cash and cash equivalents	173	(1,545)
Cash and cash equivalents at beginning of period	16,259	16,432
Cash and cash equivalents at end of period	16,432	14,887

(5) Notes to consolidated financial statements

(Going concern assumption)

Not applicable.

(Supplemental information)

(Employee Stock Ownership Plan (“J-ESOP”))

The Company has introduced an Employee Stock Ownership Plan (“J-ESOP”) since the fiscal year ended March 31, 2016 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 fiscal year are ¥3,235 million for 3,086 thousand shares and ¥3,233 million for 3,085 thousand shares, respectively.

(Board Benefit Trust (BBT))

The Company has introduced a performance-linked stock compensation plan through a Board Benefit Trust (BBT) since the fiscal year ended March 31, 2017. 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 fiscal year are ¥106 million for 132 thousand shares and ¥106 million for 132 thousand shares, respectively.

(Segment information)

Information on amounts of net sales, profit (loss), assets, liabilities and other items by reportable segment

Previous fiscal year (from April 1, 2016 to March 31, 2017)

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	31,133	31,467	62,600	(2)	62,598
Intersegment sales or transfers	—	209	209	(209)	—
Total	31,133	31,676	62,810	(212)	62,598
Segment profit (loss)	2,100	3,189	5,289	(1,798)	3,491
Segment assets	19,259	14,946	34,205	63,162	97,368
Other items					
Depreciation	1,353	1,981	3,334	1,798	5,133
Increase in property, plant and equipment and intangible assets	3,657	1,416	5,074	4,309	9,383

Note: The amount of adjustment for segment profit of ¥1,798 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated net sales from markets other than Japan: ¥38,957 million

Current fiscal year (from April 1, 2017 to March 31, 2018)

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	35,427	34,653	70,080	(1)	70,079
Intersegment sales or transfers	0	247	247	(247)	—
Total	35,427	34,900	70,328	(249)	70,079
Segment profit (loss)	2,708	5,267	7,976	(1,798)	6,178
Segment assets	20,508	15,229	35,738	59,231	94,969
Other items					
Depreciation	1,596	2,203	3,799	1,798	5,597
Increase in property, plant and equipment and intangible assets	4,861	1,542	6,404	853	7,257

Note: The amount of adjustment for segment profit of ¥1,798 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated net sales from markets other than Japan: ¥37,595 million

(Per share information)

	Previous fiscal year (from April 1, 2016 to March 31, 2017)	Current fiscal year (from April 1, 2017 to March 31, 2018)
Net assets per share	843.56 yen	825.82 yen
Basic earnings per share	15.85 yen	56.91 yen
Diluted earnings per share	15.65 yen	56.16 yen

(Notes) 1. For the purpose of calculating the amounts of "net assets per share," the number of shares of the Company held by the Trust (3,218 thousand shares and 3,217 thousand shares at the end of the previous and current fiscal years, respectively) 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 fiscal year. For the purpose of calculating "basic earnings per share" and "diluted earnings per share," the number of shares of the Company held by the Trust (3,169 thousand shares and 3,218 thousand shares for the previous and current fiscal years, respectively) 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.

2. The calculation basis for basic earnings per share and diluted earnings per share are shown as follows.

	Previous fiscal year (from April 1, 2016 to March 31, 2017)	Current fiscal year (from April 1, 2017 to March 31, 2018)
Basic earnings per share		
Profit attributable to owners of parent (millions of yen)	949	3,426
Profit not attributable to common shareholders (millions of yen)	—	—
Profit attributable to common shareholders of parent (millions of yen)	949	3,426
Average number of shares of common stock during the fiscal year (shares)	59,902,468	60,198,945
Diluted earnings per share		
Adjustment to profit attributable to owners of parent (millions of yen)	—	—
Number of shares of common stock to be increased (share)	742,512	809,769
(Of which, number of subscription rights to shares) (share)	(742,512)	(809,769)
Summary of potentially dilutive shares not included in the calculation of diluted earnings per share due to their anti-dilutive effect	—	—

(Significant subsequent events)

Not applicable.