Consolidated Financial Results
for the Fiscal Year Ended March 31, 2019
〔Under Japanese GAAP〕

April 25, 2019

Company name:	Dexerials Corporation	Listing:	Tokyo Stock Exchange
Security code:	4980	URL:	https://www.dexerials.jp/en
Representative:	Takashi Ichinose, Representative Director		
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Date of ordinary general meeting of shareholders:	June 21, 2019
Date of payment of year-end dividends:	June 24, 2019
Annual securities report (*Yukashoken Hokokusho*) issuing date:	June 21, 2019
Preparation of supplementary briefing material on financial results:	Yes
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, 2019 (from April 1, 2018 to March 31, 2019)

(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, 2019	60,580	(13.6)	3,724	(39.7)	3,903	(31.3)	2,284	(33.3)
March 31, 2018	70,079	12.0	6,178	77.0	5,682	96.4	3,426	260.9

Note: Comprehensive income
For the fiscal year ended March 31, 2019: ¥1,588 million [(22.1) %]
For the fiscal year ended March 31, 2018: ¥2,038 million [(12.9) %]

	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, 2019	37.73	37.43	4.6	4.3	6.1
March 31, 2018	56.91	56.16	6.8	5.9	8.8

Reference: Share of profit or loss of entities accounted for using equity method
For the fiscal year ended March 31, 2019: －
For the fiscal year ended March 31, 2018: －

Note: 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, 2019	87,586	49,055	56.0	809.40
March 31, 2018	94,958	49,921	52.6	825.82

Reference: Capital (Shareholders' equity + Accumulated other comprehensive income)
As of March 31, 2019: ¥49,055 million As of March 31, 2018: ¥49,921 million

Note: 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, 2019	7,826	(6,554)	(4,564)	11,826
March 31, 2018	8,988	(8,454)	(1,734)	14,887

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, 2018	–	20.00	–	20.00	40.00	2,542	70.4	4.8
March 31, 2019	–	20.00	–	14.00	34.00	2,168	90.2	4.2
Fiscal year ending March 31, 2020 (forecast)	–	17.00	–	17.00	34.00		84.1	

Reference: Dividend payout ratio (consolidated) before amortization of goodwill
Fiscal year ending March 31, 2020 (forecast): 48.5% (For more details, please see page 5 of the attached materials.)

Notes: 1. The amounts of total dividends (annual) include the dividends (of ¥128 million for the fiscal year ended March 31, 2018 and ¥109 million for the fiscal year ended March 31, 2019) 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, 2018 and 2019, 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, 2020 (from April 1, 2019 to March 31, 2020)

(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	28,700	(5.5)	1,700	(12.9)	1,600	(29.0)	1,000	(31.7)	16.51
Fiscal year	58,000	(4.3)	4,100	10.1	3,750	(3.9)	2,450	7.2	40.46

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, 2019 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, 2019:	63,817,100 shares
As of March 31, 2018:	63,668,000 shares

(b) Number of shares of treasury stock

As of March 31, 2019:	3,209,900 shares
As of March 31, 2018:	3,217,000 shares

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

Fiscal year ended March 31, 2019:	60,540,304 shares
Fiscal year ended March 31, 2018:	60,198,945 shares

Notes: 1. As a result of the exercise of stock options during the fiscal year ended March 31, 2019, the number of shares issued as of March 31, 2019 has increased by 149,100 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 (3,209,900 shares as of March 31, 2019 and 3,217,000 shares as of March 31, 2018) 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 (3,213,625 shares for the fiscal year ended March 31, 2019 and 3,218,133 shares for the fiscal year ended March 31, 2018) 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.

(Change in the presentation method of date)

From this report on the consolidated financial results for the fiscal year ended March 31, 2019, the Company started using the Gregorian calendar year instead of the Japanese imperial calendar year to present the date.

Contents of Attached Materials

1. Overview of Operating Results, etc.

(1) Analysis of operating results

(Operating results for the current fiscal year)

During the current fiscal year (from April 1, 2018 to March 31, 2019), the global economy as a whole remained on a moderate recovery path, underpinned by solid U.S. and European economies, despite rising uncertainties over economic policies, such as Brexit related issues and the trade friction between the U.S. and China. The Japanese economy saw a continued moderate recovery overall on the back of improvements in the employment environment and corporate earnings despite recent partial slowdowns in exports and production.

Among major industries served by our products, we have been facing a prolonged difficult business environment in the consumer IT products market where the slowdown has become evident in the smartphone market although the laptop PC market has remained stable.

In such a business environment, the Dexerials Group (hereinafter "the Group") strove to promote sales of high value-added products in the fiscal year under review. In addition, following the additional investment in the Tochigi Plant in the previous fiscal year to increase the production capacity of anti-reflection films, the upgraded production facility was put into full operation, thereby developing a production system to flexibly respond to demand.

Specifically, the anti-reflection films business suffered a year-on-year decrease in sales due to the change of base films but reported a year-on-year increase in profit thanks to continued strong demand for the products for laptop PC displays and in-vehicle applications. The Surface mounted type fuses product category reported year-on-year increases in both sales and profit, driven by the strong sales of the products for electric power tools. On the other hand, the Optical solutions product category saw a substantial year-on-year decrease in sales due mainly to the withdrawal from the consumer IT products business, which accounted for a great majority of the category sales in the previous fiscal year. Furthermore, the businesses of optical elasticity resins and smart precision adhesives (SA) suffered a year-on-year decrease in profit due to a decline in sales for smartphones and other products.

Consequently, we reported net sales for the current fiscal year of ¥60,580 million (down 13.6% year-on-year) with operating profit of ¥3,724 million (down 39.7% year-on-year). Excluding the impacts of the change of base films and the Optical solutions product category described above, net sales would have been an increase by about 6% year-on-year.

Ordinary profit was ¥3,903 million (down 31.3% year-on-year) primarily due to recognition of foreign exchange gains of ¥266 million.

Profit before income taxes was ¥3,758 million (down 29.8% year-on-year) primarily due to recognition of loss on retirement of software as extraordinary losses.

Consequently, profit attributable to owners of parent amounted to ¥2,284 million (down 33.3% year-on-year).

(Note) The change of base films that we had purchased caused decline in our purchase price. As a result, the selling price of our products also declined, but this change does 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, 2019	Fiscal year ended March 31, 2018	Year-on-year change
Net sales	25,955	35,427	(26.7) %
Operating profit	1,679	2,708	(38.0) %

(Note) Net sales include inter-segment transactions.

・ The business segment reported net sales of ¥25,955 million (down 26.7% year-on-year) and operating profit of ¥1,679 million (down 38.0% year-on-year).

・ **The Optical films product category** reported a substantial year-on-year decrease due to the change of base films, but the category resulted in an increase in profit thanks to continued strong demand for the products for laptop PC displays and in-vehicle applications. Without the change of base films, the category would have resulted in an increase in sales.

- **The Optical resin materials product category** reported year-on-year decreases in both sales and profit due to a decline in sales of optical elasticity resins and smart precision adhesives (SA) for smartphones and other products.
- **The Optical solutions product category** reported a substantial year-on-year decrease in sales due primarily to the withdrawal from the consumer IT products business, which accounted for a great majority of sales in this category in the previous fiscal year. It is noted, however, that the in-vehicle displays business using our products achieved a year-on-year increase in sales with improved profitability in the current fiscal year.

Incidentally, the segment would have resulted in an approximately 15% year-on-year increase in net sales without the change of base films and the said impact of the Optical solutions product category.

2) Electronic Materials and Components business

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018	Year-on-year change
Net sales	34,838	34,900	(0.2) %
Operating profit	3,843	5,267	(27.0) %

(Note) Net sales include inter-segment transactions.

- The business segment reported net sales of ¥34,838 million (down 0.2% year-on-year) and operating profit of ¥3,843 million (down 27.0% year-on-year).
- **The Adhesive materials product category** reported nearly flat sales year-on-year but a year-on-year decrease in profit primarily because the sales composition for the current fiscal year has changed from the previous fiscal year, in which sales of highly profitable functional products for popular smartphone models contributed greatly to the category performance.
- **The Anisotropic conductive films (ACF) product category** reported flat sales year-on-year with continued strong demand for particle-arrayed anisotropic conductive film for in-vehicle applications, which was, however, offset by declining sales in the consumer IT products market.
- **The Surface mounted type fuses product category** reported year-on-year increases in both sales and profit thanks mainly to the strong sales of products for electric power tools.
- **The Micro devices product category** reported year-on-year decreases in both sales and profit due to sluggish sales of products for projectors.

(Earnings forecast for the next fiscal year)

Consolidated earnings forecasts for the fiscal year ending March 31, 2020 are presented as follows.

1) Consolidated earnings forecasts for the fiscal year ending March 31, 2020

(Millions of yen)

	Fiscal year ended March 31, 2019 (Actual)	Fiscal year ending March 31, 2020 (Forecast)	Year-on-year change
Consolidated net sales	60,580	58,000	(4.3) %
Operating profit	3,724	4,100	10.1%
Ordinary profit	3,903	3,750	(3.9) %
Profit attributable to owners of parent	2,284	2,450	7.2%

2) Consolidated earnings forecasts for the first half of the fiscal year ending March 31, 2020

(Millions of yen)

	First half of the fiscal year ended March 31, 2019 (Actual)	First half of the fiscal year ending March 31, 2020 (Forecast)	Year-on-year change
Consolidated net sales	30,378	28,700	(5.5) %
Operating profit	1,952	1,700	(12.9) %
Ordinary profit	2,253	1,600	(29.0) %
Profit attributable to owners of parent	1,463	1,000	(31.7) %

(These forecasts are based on the assumed exchange rate of ¥108 per U.S. dollar.)

Among major industries served by our products, we expect that we will continue to face a difficult business environment in the consumer IT products market where the slowdown has become evident in the smartphone market.

Against this backdrop, we will implement a range of measures in line with the policies stated in the Mid-term Management Plan, which was announced on April 25, 2019. Specifically, we strive to increase our market share of differentiating technology products and improve operational efficiency in the existing domains. Furthermore, we will push through the shift of its managerial resources to the automotive domain as a priority and expand business in new domains in order to pursue transformation of the domain portfolio.

For the next fiscal year, we forecast a year-on-year decrease in sales due to a stronger yen and other factors but a year-on-year increase in profit, reflecting increased sales in the Optical films product category and the growth of thermal conductive sheets.

(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 ¥87,586 million, a decrease of ¥7,372 million from the end of the previous fiscal year.

Current assets amounted to ¥30,118 million, a decrease of ¥4,628 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥3,060 million in cash and deposits, ¥385 million in notes and accounts receivable – trade, and ¥378 million in merchandise and finished goods.

Non-current assets amounted to ¥57,467 million, a decrease of ¥2,743 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥5,604 million in construction in progress, which was partially offset by an increase of ¥3,316 million in machinery, equipment and vehicles, net.

(Liabilities)

Total liabilities at the end of the current fiscal year amounted to ¥38,530 million, a decrease of ¥6,505 million from the end of the previous fiscal year.

Current liabilities amounted to ¥16,901 million, a decrease of ¥4,067 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥3,164 million in other payables.

Non-current liabilities amounted to ¥21,629 million, a decrease of ¥2,438 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥2,666 million in long-term debt, which was partially offset by an increase of ¥109 million in liability for retirement benefits.

Effective from the beginning of the current fiscal year, the Company applied *Partial Amendments to Accounting Standard for Tax Effect Accounting* (ASBJ Statement No. 28, February 16, 2018) and other related pronouncements. Accordingly, these pronouncements have been applied retrospectively to the prior period presented so that the financial position at the end of the current period can be comparable with that at the end of the previous fiscal year.

(Net assets)

Total nets assets at the end of the current fiscal year amounted to ¥49,055 million, a decrease of ¥866 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥491 million in remeasurements of defined benefit plans, ¥264 million in retained earnings, and ¥214 million in deferred gains or losses on hedges.

2) Summary of cash flows

Cash and cash equivalents (hereinafter “cash”) at the end of the current fiscal year decreased ¥3,060 million from the end of the previous fiscal year to ¥11,826 million. This net decrease can mainly be explained by cash inflow derived from profit before income taxes of ¥3,758 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 ¥7,826 million (down 12.9% year-on-year), which mainly consisted of profit before income taxes of ¥3,758 million and depreciation of ¥4,390 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥6,554 million (down 22.5% year-on-year) due mainly to expenditure on purchase of property, plant and equipment of ¥6,044 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥4,564 million (up 163.1% year-on-year) due mainly to expenditures on repayments of long-term debt of ¥3,083 million and payment of cash dividends of ¥2,548 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, 2020, we will follow the above basic policy and plan to pay the annual ordinary dividends of 34.0 yen per share (consisting of an interim dividend of 17.0 yen per share and a year-end dividend of 17.0 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, 2019 (actual)	50.4%	90.2%
Next fiscal year ending March 31, 2020 (forecast)	48.5%	84.1%

(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 philosophy

“Integrity: Have Integrity and Sincerity”

Under the corporate philosophy “Integrity: Have Integrity and Sincerity,” the Company strives to address its customers’ needs and challenges, generate value that exceeds their expectations, and resolve social issues through developing and providing innovative functional materials and technological solutions with a combination of outstanding and unique technologies. The Company believes that this will realize sustainable business growth and improvement in business results, thereby leading to the enhancement of corporate value as a result.

2) Target performance indicator

The Company considers ROE (return on equity) as an indicator that relates to the sustainable growth of corporate value. Specifically, we aim to achieve an ROE of 10% 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 8% 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) ROE = (Profit attributable to owners of parent / net assets) x 100
Equity spread = ROE – Cost of equity (assumed to be 8%)

From the fiscal year ending March 31, 2020, the indicators using adjusted profit, or profit before amortization of goodwill, are applied only for the purpose of describing the total payout ratio.

3) Medium to long-term corporate strategy

Toward the corporate image to be built up over a long period, the Company has formulated the Medium-term Management Plan “Challenges for Evolution” covering the five-year period from the fiscal year ending March 31, 2020 to the fiscal year ending March 31, 2024, which is positioned as a phase to ensure a sustainable growth through business expansion in new domains where social issues have surfaced. The Plan is summarized as follows:

a) Three basic policies

We will concentrate on the following three basic policies to evolve into a company that grows sustainably through business expansion in new domains.

i) Accelerate growth in new domains: Allocate resources intensively into the automotive domain to drive the growth of new domains
ii) Qualitatively change businesses in the existing domains: Shift resources by rigorously pursuing efficiency based on the principle of selection and focus, and increase market share of differentiating technology products
iii) Strengthen management base: Create an organizational structure that can support the company-wide evolution and carry out behavioral change

b) Management targets

We aim to achieve record-high net sales and operating profit of ¥80.0 billion and ¥10.0 billion, respectively, in the fiscal year ending March 31, 2024 (assuming a foreign exchange rate of ¥108 per US dollar).

Regarding the operating results for the fiscal year ending March 31, 2020, sales are expected to decrease year-on-year due primarily to the impact of stronger yen, but profits are expected to increase year-on-year thanks to an increase in sales of optical films and an expansion in the business of thermal conductive sheets. In line with the policies stated in this Mid-term Management Plan, the Company will strive to increase our market share of differentiating technology products and improve operational efficiency in the existing domains. Furthermore, the Company will push through the shift of its managerial resources to the automotive domain as a priority and expand business in the new domains in order to pursue transforming the business domain portfolio. With these initiatives in place, the Company plans to achieve net sales of ¥80.0 billion and operating profit of ¥10.0 billion for the fiscal year ending March 31, 2024.

For more details, please refer to “Notice of FY2019 – FY2023 Mid-term Management Plan ‘Challenges for Evolution’” released on April 25, 2019.

(Disclaimer)
The forward-looking statements contained in the description above on the Medium-term Management Plan are based on information currently available to the Company and certain assumptions that are believed to be reasonable, and no responsibility is borne as to the accuracy or completeness of the forward-looking statements. Actual results may differ from the results anticipated in these forward-looking statements due to a variety of factors, and the Company gives no assurance that such statements will prove to be correct. Additionally, regardless of actual results, etc., from the date of the publishing of this document, the Company has no obligation to continuously update the content of this document, nor does it have such a policy.

The description above is only disclosed with the intent of providing reference information to investors in making decisions; please make final decisions regarding investments on your own. The Company shall not be held liable for any losses resulting from the use of any part of this document in reaching an investment decision.

4) Issues to be addressed by the Company

To build up our desired corporate image, the Company is making an across-the-board effort to implement measures along with the Medium-term Management Plan. In particular for the fiscal year ending March 31, 2020, we will focus on addressing the issues and taking the initiatives that are described as follows.

i) Allocate resources intensively into the automotive business in new domains
In the automotive business, on which we put a particular focus among new domains, we will steadily expand key products given the tailwind of growing demand for in-vehicle displays in terms of both number and size, and also enhance our presence in the US and European markets through joint creation with partners.

ii) Increase market share of differentiating technology products and shift resources by rigorously pursuing efficiency based on the principle of selection and focus in the existing domains
We will increase market share by expanding sales of particle-arrayed anisotropic conductive film (ACF) and other differentiating technology products with new functionalities, and also expand new applications of products utilizing the sputtering technology. We will also reduce resources used in the existing domains by rigorously pursuing efficiency and shift them to new domains while constantly maintaining a well-balanced and lean business structure by applying the principle of selection and focus on an ongoing basis.

iii) Make efforts to create an organizational structure that can support the evolution
We will strengthen our corporate culture so that we can preempt changing business environment and continue proactively changing ourselves by means of fostering a sound sense of urgency and nurturing employees who are willing to take on challenge for change, while speeding-up business operations as well as applying the principle of selection and focus on an ongoing basis. We will also take initiatives to realize sustainability of business such as strengthening personnel development to foster next-generation talent who can assume managerial positions, as well as engineers who are drivers of innovation.

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 Company. As of the date of filing this report, we have not yet made any decision on this matter.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Assets		
Current assets:		
Cash and deposits	14,887	11,826
Notes and accounts receivable - trade	10,692	10,306
Electronically recorded monetary claims - operating	155	89
Merchandise and finished goods	2,635	2,257
Work in process	2,235	2,062
Raw materials and supplies	1,817	1,656
Other	2,325	1,923
Allowance for doubtful accounts	(4)	(4)
Total current assets	34,746	30,118
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	29,689	31,548
Accumulated depreciation	(19,396)	(20,323)
Buildings and structures, net	10,292	11,224
Machinery, equipment and vehicles	34,921	40,048
Accumulated depreciation	(29,024)	(30,835)
Machinery, equipment and vehicles, net	5,896	9,213
Land	3,661	3,682
Construction in progress	6,253	649
Other	5,487	5,936
Accumulated depreciation	(4,403)	(4,602)
Other, net	1,084	1,333
Total property, plant and equipment	27,190	26,103
Intangible assets:		
Goodwill	26,072	24,281
Patent rights	2,275	1,871
Other	1,362	1,122
Total intangible assets	29,710	27,274
Investments and other assets:		
Asset for retirement benefits	985	1,460
Deferred tax assets	1,527	1,531
Other	810	1,109
Allowance for doubtful accounts	(12)	(11)
Total investments and other assets	3,311	4,089
Total non-current assets	60,211	57,467
Total assets	94,958	87,586

(Millions of yen)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	7,599	7,212
Electronically recorded obligations - operating	1,123	1,074
Current portion of long-term debt	3,083	3,666
Other payables	5,207	2,043
Accrued expenses	551	562
Provision for bonuses	1,298	1,194
Other	2,106	1,147
Total current liabilities	20,968	16,901
Non-current liabilities:		
Long-term debt	18,000	15,333
Liability for retirement benefits	5,333	5,442
Deferred tax liabilities	83	100
Other	651	752
Total non-current liabilities	24,067	21,629
Total liabilities	45,036	38,530
Net assets		
Shareholders' equity:		
Common stock	15,934	15,977
Capital surplus	15,934	15,977
Retained earnings	19,071	18,807
Treasury stock	(3,339)	(3,331)
Total shareholders' equity	47,601	47,431
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	245	30
Foreign currency translation adjustment	1,665	1,676
Remeasurements of defined benefit plans	408	(83)
Total accumulated other comprehensive income	2,320	1,624
Total net assets	49,921	49,055
Total liabilities and net assets	94,958	87,586

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

Consolidated statements of income

(Millions of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Net sales	70,079	60,580
Cost of sales	46,705	39,395
Gross profit	23,373	21,185
Selling, general and administrative expenses	17,195	17,460
Operating profit	6,178	3,724
Non-operating income:		
Interest income	30	40
Foreign exchange gains	—	266
Rent income	45	80
Other	63	162
Total non-operating income	140	549
Non-operating expenses:		
Interest expenses	91	90
Foreign exchange losses	296	—
Depreciation	214	234
Other	33	45
Total non-operating expenses	636	370
Ordinary profit	5,682	3,903
Extraordinary income:		
Gain on sale of non-current assets	31	2
Subsidy income	157	100
Total extraordinary income	188	102
Extraordinary losses:		
Loss on sale of non-current assets	0	—
Loss on retirement of property, plant and equipment	78	160
Impairment loss	49	—
Restructuring expenses	113	—
Settlement package	275	86
Other	0	—
Total extraordinary losses	518	247
Profit before income taxes	5,352	3,758
Income taxes - current	1,099	1,141
Income taxes - deferred	827	332
Total income taxes	1,926	1,473
Profit	3,426	2,284
Profit attributable to owners of parent	3,426	2,284

Consolidated statements of comprehensive income

(Millions of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Profit	3,426	2,284
Other comprehensive income:		
Deferred gains or losses on hedges	118	(214)
Foreign currency translation adjustment	(47)	11
Remeasurements of defined benefit plans	(1,458)	(491)
Total other comprehensive income	(1,387)	(695)
Comprehensive income	2,038	1,588
Comprehensive income attributable to:		
Owners of parent	2,038	1,588
Non-controlling interests	—	—

(3) Consolidated statements of changes in net assets

Previous 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
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
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

Current fiscal year (from April 1, 2018 to March 31, 2019)

(Millions of yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance, April 1, 2018	15,934	15,934	19,071	(3,339)	47,601
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares	43	43			86
Dividends of surplus			(2,548)		(2,548)
Profit attributable to owners of parent			2,284		2,284
Disposal of treasury stock				7	7
Net change of items other than shareholders' equity					
Total changes of items during period	43	43	(264)	7	(170)
Balance, March 31, 2019	15,977	15,977	18,807	(3,331)	47,431

	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, 2018	245	1,665	408	2,320	49,921
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares					86
Dividends of surplus					(2,548)
Profit attributable to owners of parent					2,284
Disposal of treasury stock					7
Net change of items other than shareholders' equity	(214)	11	(491)	(695)	(695)
Total changes of items during period	(214)	11	(491)	(695)	(866)
Balance, March 31, 2019	30	1,676	(83)	1,624	49,055

(4) Consolidated statements of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Cash flows from operating activities:		
Profit before income taxes	5,352	3,758
Depreciation	3,799	4,390
Amortization of goodwill	1,798	1,798
Increase (decrease) in allowance for doubtful accounts	6	0
Increase (decrease) in provision for bonuses	(487)	(102)
Increase (decrease) in liability for retirement benefits	(1,423)	(1,074)
Interest and dividend income	(30)	(40)
Interest expenses	91	90
Subsidy income	(157)	(100)
Foreign exchange (gains) losses	298	(207)
(Gain) loss on sale of non-current assets	(31)	(2)
Loss on retirement of property, plant and equipment	78	160
Impairment loss	49	—
Restructuring expenses	113	—
Settlement package	275	86
(Increase) decrease in notes and accounts receivable - trade	870	476
(Increase) decrease in inventories	667	732
(Increase) decrease in other receivables	(147)	(21)
Increase (decrease) in notes and accounts payable - trade	(1,575)	(467)
Increase (decrease) in other payables	173	96
Increase (decrease) in income taxes payable (size-based business tax)	17	(20)
Other, net	(219)	(5)
Subtotal	9,519	9,547
Interest and dividend income received	33	34
Interest expenses paid	(85)	(90)
Proceeds from subsidy income	153	104
Settlement package paid	—	(361)
Income taxes paid	(631)	(1,406)
Net cash provided by (used in) operating activities	8,988	7,826
Cash flows from investing activities:		
Purchase of investment securities	(375)	(309)
Purchase of property, plant and equipment	(7,713)	(6,044)
Purchase of intangible assets	(393)	(205)
Other, net	27	4
Net cash provided by (used in) investing activities	(8,454)	(6,554)
Cash flows from financing activities:		
Proceeds from long-term debt	3,000	1,000
Repayments of long-term debt	(1,916)	(3,083)
Cash dividends paid	(3,009)	(2,548)
Repayments of lease obligations	(16)	(19)
Proceeds from exercise of stock options	208	86
Net cash provided by (used in) financing activities	(1,734)	(4,564)
Effect of exchange rate change on cash and cash equivalents	(344)	232
Net increase (decrease) in cash and cash equivalents	(1,545)	(3,060)
Cash and cash equivalents at beginning of period	16,432	14,887
Cash and cash equivalents at end of period	14,887	11,826

(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 ¥3,233 million for 3,085 thousand shares and ¥3,225 million for 3,077 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.

(Application of *Partial Amendments to Accounting Standard for Tax Effect Accounting*, etc.)
Effective from the beginning of the current fiscal year, the Company applied *Partial Amendments to Accounting Standard for Tax Effect Accounting* (ASBJ Statement No. 28, February 16, 2018) and other related pronouncements. Accordingly, deferred tax assets and deferred tax liabilities have been presented in the investments and other assets section and the non-current liabilities section of the balance sheet, 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, 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	59,219	94,958
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

Current fiscal year (from April 1, 2018 to March 31, 2019)

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	25,944	34,636	60,580	―	60,580
Intersegment sales or transfers	11	202	214	(214)	―
Total	25,955	34,838	60,794	(214)	60,580
Segment profit (loss)	1,679	3,843	5,523	(1,798)	3,724
Segment assets	21,399	15,780	37,179	50,406	87,586
Other items					
Depreciation	2,186	2,203	4,390	1,798	6,189
Increase in property, plant and equipment and intangible assets	450	1,450	1,901	935	2,837

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: ¥37,827 million

(Per share information)

	Previous fiscal year (from April 1, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Net assets per share	825.82 yen	809.40 yen
Basic earnings per share	56.91 yen	37.73 yen
Diluted earnings per share	56.16 yen	37.43 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 (3,217 thousand shares and 3,209 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 (3,218 thousand shares and 3,213 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, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Basic earnings per share		
Profit attributable to owners of parent (millions of yen)	3,426	2,284
Profit not attributable to common shareholders (millions of yen)	–	–
Profit attributable to common shareholders of parent (millions of yen)	3,426	2,284
Average number of shares of common stock during the fiscal year (shares)	60,198,945	60,540,304
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)	809,769	490,837
(Of which, number of subscription rights to shares) (share)	(809,769)	(490,837)
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.