

Consolidated Financial Results
for the Fiscal Year Ended March 31, 2023
[Under Japanese GAAP]

May 10, 2023

Company name: Dexerials Corporation Listing: Tokyo Stock Exchange
Security code: 4980 URL: <https://www.dexerials.jp/en>
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Date of payment of year-end dividends: June 26, 2023
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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, 2023 (from April 1, 2022 to March 31, 2023)

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

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2023	106,167	10.9	32,288	21.2	30,174	20.6	20,685	24.1
March 31, 2022	95,712	45.4	26,642	135.0	25,023	130.8	16,669	212.8

Note: Comprehensive income

For the fiscal year ended March 31, 2023: ¥21,419 million [19.6%]
For the fiscal year ended March 31, 2022: ¥17,909 million [199.6%]

Note: EBITDA

For the fiscal year ended March 31, 2023: ¥39,101 million [20.4%]
For the fiscal year ended March 31, 2022: ¥32,478 million [84.6%]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on capital	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
March 31, 2023	350.62	348.78	30.3	23.7	30.4
March 31, 2022	274.61	272.78	28.5	22.3	27.8

Reference: Share of profit or loss of entities accounted for using equity method

For the fiscal year ended March 31, 2023: ¥16 million
For the fiscal year ended March 31, 2022: ¥(431) million

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 treasury shares, which was to be deducted from the calculation of the average number of shares of common stock during the period.

(2) Consolidated financial position

As of	Total assets	Net assets	Capital to asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2023	126,379	73,774	57.7	1,257.14
March 31, 2022	128,785	64,576	49.5	1,063.24

Reference: Capital (Shareholders' equity + Accumulated other comprehensive income)

As of March 31, 2023: ¥72,896 million As of March 31, 2022: ¥63,735 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 treasury shares, which was to be deducted from the number of shares issued at the end of the period.

(3) Consolidated cash flows

Fiscal year ended	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2023	21,339	(9,447)	(12,535)	29,286
March 31, 2022	25,804	(12,434)	(5,783)	29,363

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, 2022	–	30.00	–	30.00	60.00	3,810	21.8	6.2
March 31, 2023	–	30.00	–	35.00	65.00	3,993	18.5	5.6
Fiscal year ending March 31, 2024 (forecast)	–	35.00	–	40.00	75.00		24.6	

Reference: Total payout ratio (consolidated) before amortization of goodwill

For the fiscal year ended March 31, 2023: 56.6% (For more details, please see page 6 of the Attached Materials.)

- Notes: 1. Breakdown of fiscal year-end dividends for the fiscal year ended March 31, 2023: 30.00 yen for ordinary dividend and 5.00 yen for commemorative dividend
2. The amounts of total dividends (annual) include the dividends (of ¥179 million for the fiscal year ended March 31, 2022 and ¥178 million for the fiscal year ended March 31, 2023) for the shares of the Company held by the Trust.
3. For the purpose of calculating the amounts of dividend on equity for the fiscal years ended March 31, 2022 and 2023, the number of shares of the Company held by the Trust was included in the number of treasury shares.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2024 (from April 1, 2023 to March 31, 2024) (Percentage indicates year-on-year changes.)

Fiscal year	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
	100,000	(5.8)	25,000	(22.6)	26,300	(12.8)	18,000	(13.0)	305.09

Notes: For the purpose of calculating the amount of basic earnings per share, the number of shares of the Company held by the Trust as of the end of the fiscal year ended March 31, 2023 was included in the number of treasury shares, which was to be deducted from the calculation of the average number of shares of common stock during the period.

For more information on the consolidated financial results for the fiscal year ended March 31, 2023, please refer to the supplementary briefing material on financial results, Annual Securities Report (available in Japanese only) to be filed on June 23, 2023, and other materials, which you can find on our website at <https://www.dexerials.jp/en/ir/library/index.html>.

[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: Yes
- (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
- Note: For further details, please see “3. Consolidated Financial Statements and Notes, (5) Notes to consolidated financial statements (Changes in accounting policies)” on page 16 of the Attached Materials.

- (3) Number of shares of common stock issued
- (a) Number of shares issued (including treasury shares)
- As of March 31, 2023: 64,575,000 shares
- As of March 31, 2022: 64,493,400 shares
- (b) Number of treasury shares
- As of March 31, 2023: 6,589,029 shares
- As of March 31, 2022: 4,548,709 shares
- (c) Average number of shares of common stock during the period
- Fiscal year ended March 31, 2023: 58,997,371 shares
- Fiscal year ended March 31, 2022: 60,700,276 shares

- Notes: 1. As a result of the exercise of stock options during the fiscal year ended March 31, 2023, the number of shares issued as of March 31, 2023 has increased by 81,600 shares.
2. As the Company has introduced a stock compensation plan which delivers shares with restrictions on transfer, the Company’s shares are included in the number of treasury shares at the end of the period (293,800 shares as of March 31, 2023 and 293,800 shares as of March 31, 2022) mainly for the purpose of allotting them as restricted shares.
3. As the Company has introduced an Employee Stock Ownership Plan (“J-ESOP”) and a Board Benefit Trust (BBT), the number of shares of the Company held by the trust account is included in the number of treasury shares as of the end of the period. In addition, the number of shares of the Company held by the Trust (an average of 5,533,989 shares for the fiscal year ended March 31, 2023 and an average of 3,682,050 shares for the fiscal year ended March 31, 2022) was included in the number of treasury shares to be deducted in the calculation of the average number of shares of common stock during the period.

[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(1) Non-consolidated operating results (Percentage indicates year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2023	94,003	6.6	28,495	27.2	26,447	15.4	18,274	25.3
March 31, 2022	88,189	45.6	22,405	145.1	22,918	104.5	14,579	133.1

(2) Non-consolidated financial position

	Total assets	Net assets	Capital to asset ratio
As of	Millions of yen	Millions of yen	%
March 31, 2023	108,399	59,935	55.3
March 31, 2022	111,751	53,497	47.9

Reference: Capital (Shareholders’ equity + Valuation and translation adjustments)

As of March 31, 2023: ¥59,935 million As of March 31, 2022: ¥53,497 million

* This consolidated financial results report is not subject to audit procedures to be performed by certified public accountants or an audit firm.

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

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

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1. Overview of Operating Results, etc.

(1) Analysis of operating results

(Operating results for the current fiscal year)

During the current fiscal year (from April 1, 2022 to March 31, 2023), the global economy showed only a modest recovery under the influence of negative factors such as the rising prices of resources resulting from the prolonged Russia-Ukraine conflict, the ongoing worldwide inflation, and lockdowns in China under the government authority's zero corona policy, despite the gradual ease of movement restrictions imposed to control the outbreak of the novel coronavirus infection (COVID-19) and the resumption of economic activity.

The consumer IT product market, which involves products of the Dexerials Group (hereinafter "the Group"), saw a decline in production quantity of smartphones due to the suspension of customer plants in China as well as significant inventory adjustments of laptop PCs and tablets in the supply chain, which reflected a concern about a possible economic setback. Consequently, the Group faced a challenging business environment.

In this business climate, the Group worked to shift to a business portfolio that is less susceptible to changes in its business environment, in accordance with the Medium-term Management Plan. In a new domain, the Group made efforts to improve the productivity of Kyoto Semiconductor Co., Ltd., which had become its consolidated subsidiary in March 2022. The Group also expanded businesses other than consumer IT products, resulting in increased sales of products for automobiles. Meanwhile, in the existing domain, the Group's efforts to develop and propose products that anticipate technological evolution led to increased sales of high-value-added products.

Consequently, we saw increases in sales of differentiating technology products such as smart precision adhesives (SA), anisotropic conductive films (ACF), and optical films, as well as a contribution made by newly consolidated Kyoto Semiconductor Co., Ltd.

As a result of the above, we reported net sales for the current fiscal year of ¥106,167 million (up 10.9% year-on-year) with operating profit of ¥32,288 million (up 21.2% year-on-year).

Ordinary profit was ¥30,174 million (up 20.6% year-on-year) primarily due to an increase in foreign exchange losses.

Profit before income taxes was ¥29,632 million (up 24.6% year-on-year) primarily due to a decrease in the amount of loss on retirement of property, plant and equipment in extraordinary losses. Consequently, profit attributable to owners of parent amounted to ¥20,685 million (up 24.1% year-on-year).

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, 2023	Fiscal year ended March 31, 2022	Year-on-year change
Net sales	55,384	49,159	12.7%
Operating profit	17,969	13,127	36.9%

(Note) Net sales include inter-segment transactions.

- The business segment reported net sales of ¥55,384 million (up 12.7% year-on-year) and operating profit of ¥17,969 million (up 36.9% year-on-year).
- **The Optical films product category** reported year-on-year increases in both sales and profit because of increased sales of phosphor films on top of an increase in products sold for automotive displays in anti-reflection films, despite a decline in sales of such films for laptop PC displays.
- **The Optical resin materials product category** reported year-on-year increases in both sales and profit mainly due to an increase in quantity of products sold for smartphones for major customers in smart precision adhesives (SA).

2) Electronic Materials and Components business

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022	Year-on-year % change
Net sales	51,495	47,195	9.1%
Operating profit	16,106	15,304	5.2%

(Note) Net sales include inter-segment transactions.

- The business segment reported net sales of ¥51,495 million (up 9.1% year-on-year) and operating profit of ¥16,106 million (up 5.2% year-on-year).
- **The Adhesive materials product category** reported year-on-year decreases in both sales and profit due to the termination of sales of unprofitable products, mainly general-purpose items, in the previous fiscal year as a result of the re-evaluation of our business, in addition to a decline in quantity of products for laptop PCs.
- **The Anisotropic conductive films (ACF) product category** reported year-on-year increases in both sales and profit primarily due to the robust performance of particle-arrayed ACF for displays of high-end smartphone models and also due to increased sales of pre-cut ACF for sensor modules mainly for cameras.
- **The Surface mounted type fuses product category** reported year-on-year decreases in both sales and profit due to a decline in quantity of products for power tools and laptop PCs resulting from customers' inventory adjustments.
- **The Micro devices product category** reported year-on-year increases in both sales and profit due to the strong performance of models that adopt our products on top of a recovery of demand for projectors.
- **The Optical semiconductor product category** newly consolidated net sales and profits of Kyoto Semiconductor Co., Ltd., effective from the current fiscal year.

(Earnings forecast for the next fiscal year)

Consolidated earnings forecasts for the fiscal year ending March 31, 2024 are presented as follows.

Consolidated earnings forecasts for the fiscal year ending March 31, 2024

(Millions of yen)

	Fiscal year ended March 31, 2023 (Actual)	Fiscal year ending March 31, 2024 (Forecast)	Year-on-year change
Consolidated net sales	106,167	100,000	(5.8)%
Operating profit	32,288	25,000	(22.6)%
Ordinary profit	30,174	26,300	(12.8)%
Profit attributable to owners of parent	20,685	18,000	(13.0)%

(These forecasts are based on the assumed exchange rate of ¥125.0 per U.S. dollar.)

For the fiscal year ending March 31, 2024, we anticipate that the business environment surrounding the Group will remain challenging based on our demand outlook in the face of the worldwide economic downturn and ongoing inflation. Specifically, among major industries served by the Group's products, demand for laptop PCs will slow down, whereas demands for tablets, smartphones, and automobiles are projected to remain unchanged from the previous fiscal year. We expect that inventory adjustments of finished products in the supply chain will complete sequentially by application in the second quarter and beyond.

Under the said circumstances, we aim to achieve the earnings forecasts set forth above by focusing on expanding sales of products for high-end smartphone models such as particle-arrayed anisotropic conductive films (ACF) for displays, and smart precision adhesives (SA) and pre-cut ACF for their sensor modules, as well as by accelerating growth in new domains, namely products for automobiles and optical semiconductors. Meanwhile, the assumed exchange rate for the next fiscal year is ¥125.0 per U.S. dollar, compared to the actual exchange rate of ¥135.5 per U.S. dollar for the current fiscal year.

(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 ¥126,379 million, a decrease of ¥2,405 million from the end of the previous fiscal year.

Current assets amounted to ¥59,238 million, a decrease of ¥5,847 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥6,013 million in notes and accounts receivable – trade and ¥681 million in work in process, which were partially offset by increases of ¥316 million in merchandise and finished goods and ¥664 million in other (current assets).

Non-current assets amounted to ¥67,141 million, an increase of ¥3,441 million from the end of the previous fiscal year. This increase can mainly be explained by increases of ¥3,137 million in buildings and structures, net and ¥3,025 million in construction in progress, which were partially offset by decreases of ¥2,283 million in goodwill and ¥1,110 million in land.

(Liabilities)

Total liabilities at the end of the current fiscal year amounted to ¥52,605 million, a decrease of ¥11,603 million from the end of the previous fiscal year.

Current liabilities amounted to ¥35,074 million, a decrease of ¥14,729 million from the end of the previous fiscal year. This decrease can mainly be explained by decreases of ¥7,115 million in notes and accounts payable – trade, ¥4,500 million in short-term borrowings, and ¥4,068 million in other (current liabilities).

Non-current liabilities amounted to ¥17,530 million, an increase of ¥3,125 million from the end of the previous fiscal year. This increase can mainly be explained by increases of ¥2,684 million in long-term borrowings and ¥464 million in other (non-current liabilities).

(Net assets)

Total net assets at the end of the current fiscal year amounted to ¥73,774 million, an increase of ¥9,198 million from the end of the previous fiscal year. This increase can mainly be explained by increases of ¥16,929 million in retained earnings, ¥587 million in foreign currency translation adjustment, and ¥333 million in deferred gains or losses on hedges, which were partially offset by an increase of ¥8,463 million in treasury shares.

2) Summary of cash flows

Cash and cash equivalents (hereinafter “cash”) at the end of the current fiscal year decreased ¥77 million from the end of the previous fiscal year to ¥29,286 million.

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 ¥21,339 million (down 17.3% year-on-year), which can be explained by income tax paid of ¥10,705 million as a negative factor, and profit before income taxes of ¥29,632 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥9,447 million (down 24.0% year-on-year) due mainly to purchase of property, plant and equipment of ¥10,705 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥12,535 million (up 116.7% year-on-year) due mainly to proceeds from long-term borrowings of ¥10,000 million, which were partially offset by purchase of treasury shares of ¥8,999 million, repayments of long-term borrowings of ¥5,220 million, and a net decrease in short-term borrowings of ¥4,500 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 attributable to owners of parent 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.

As for year-end dividends for the fiscal year ended March 31, 2023, the Board of Directors' meeting held on May 10, 2023 resolved to pay 35.0 yen, consisting of an ordinary dividend of 30.0 yen plus 5.0 yen per share commemorative dividends to mark the 10th anniversary of the founding. As a result, together with the interim dividend of 30.0 yen per share already paid, the total annual dividend will be 65.0 yen per share (compared to 60.0 yen per share for the previous fiscal year).

Regarding the profit distribution for the next fiscal year ending March 31, 2024, we will follow the above basic policy and plan to pay the annual ordinary dividends of 75.0 yen per share (consisting of an interim dividend of 35.0 yen per share and a year-end dividend of 40.0 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 meeting of shareholders.

(Reference) Distribution of profit (Note 3)

	Total payout ratio	
	Before amortization of goodwill	After amortization of goodwill
Current fiscal year ended March 31, 2023 (actual)	56.6%	62.8%

$$\begin{aligned} \text{(Note 1)} \quad & \text{Total payout ratio to consolidated profit attributable to owners of parent before amortization of goodwill} \\ & = \frac{\text{Total payout amount (=Annual total dividends paid + Annual total share buyback)}}{\text{Consolidated profit attributable to owners of parent + Amortization of goodwill}} \times 100 \end{aligned}$$

$$\text{(Note 2)} \quad \text{Free cash flow} = \text{Operating cash flow} + \text{Investing cash flow}$$

(Note 3) For the next fiscal year, we maintain the current shareholder return policy of distributing profit with the target total payout ratio to annual profit before amortization of goodwill of approximately 40% through the payment of cash dividends and share buyback.

(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.

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 achieves sustainable growth by addressing social issues through the delivery of high value-added products and technological solutions.”

2) Medium- to long-term corporate strategy

Toward the corporate image to be built up over a long period, the Company has formulated the Mid-term Management Plan “Challenges for Evolution” covering the five-year period from the fiscal year ended 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. We are proud to acknowledge that, during the fiscal year ended March 31, 2022, we achieved the management targets for the last fiscal year of the updated Mid-term Management Plan released on May 10, 2021 two years earlier than expected, and in the fiscal year ended March 31, 2023, we posted record profits for the third consecutive year.

In the fiscal year ending March 31, 2024, as a preparatory period for the next Mid-term Business Plan, under the basic policy, we will further strengthen our management base and implement our growth strategies ahead of schedule to achieve sustainable growth and enhance corporate value.

a) Three basic policies

Based on the following three basic policies, we will continue to engage in initiatives to evolve into a company that grows sustainably through business expansion in new domains.

- (i) Accelerate growth in new domains
- (ii) Qualitatively change businesses in the existing domains
- (iii) Strengthen the management base

b) Performance indicators

The Company considers ROE (return on equity) as an indicator that relates to the sustainable growth of corporate value, and EBITDA as an indicator that measures the Company’s earning strength. Furthermore, starting from the fiscal year ended March 31, 2022, we have introduced ROIC as a new performance indicator.

(Note) EBITDA (Indicator to measure earning strength/cash generating ability) = Operating profit + Depreciation recorded as operating expenses + Amortization of goodwill

ROIC (Indicator to measure investment efficiency) = (Operating profit x (1 - Effective tax rate)) / (Net assets + Interest-bearing debts) x 100

ROE (Indicator to measure capital efficiency) = Profit attributable to owners of parent / Net assets x 100

(Disclaimer)

The forward-looking statements contained in the description above on the Mid-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.

3) Issues to be addressed by the Company

The Company seeks sustainable growth through continuing to work on various measures under the basic policy set forth in the current Mid-term Management Plan, while developing the necessary measures to achieve sustainable growth in the fiscal year ending March 31, 2025 and beyond. During the fiscal year ending March 31, 2024 in particular, we will focus on addressing the issues and initiatives described as follows.

i) Accelerate growth in new domains

Leveraging our technologies cultivated through our business in the consumer IT product market, we will support the evolution of digital technologies, including IoT, to promote business expansion in new domains. In the automotive domain, which is becoming increasingly digital and becoming one of the IoT application sectors, we will ramp up our production system for anti-reflection film to respond to increasing demand. The film helps improve the safety of in-vehicle displays that are essential for monitoring advanced driver assistance systems (ADAS) and other applications. Kyoto Semiconductor Co., Ltd, which manufactures optical semiconductors for next-generation communication, sensing, and other applications indispensable for the digitalization of society, will work to further expand sales of products for optical communications, while further improving its profit structure by steadily promoting a large-scale deal it won in the previous fiscal year.

ii) Qualitatively change businesses in the existing domains

We aim to maximize earnings from existing businesses by creating differentiated technology products with technology development that anticipates technological advances in the world, which is one of our strengths. In particular, for high-end smartphone models, we expect to see the continued growth of the following products: 1) for displays, particle-arrayed ACF, which has become the de facto technology for flexible OLED displays as their adoption increases; and 2) in non-display applications, smart precision adhesives (SA) for the assembly of sensor modules as sensor modules become larger and the number of modules mounted increases, as well as pre-cut ACF developed to accommodate the increasingly complex mounting surface as modules have become larger.

iii) Strengthen management base

In order to achieve sustainable growth even in a rapidly changing business environment, we will continue to strengthen our focus on non-financial capital and intangible assets that support sustainable growth. In particular, as a measure to strengthen our human capital, which is one of our most important business resources, we introduced a job-type personnel system for management level employees in Japan as of April 1, 2023. By introducing such system, which is a global standard, we aim to secure excellent and motivated human resources both in Japan and overseas. In addition, we will promote DX (Digital Transformation) at the company-wide level, with initiatives including the shift to IoT at manufacturing sites, system investment, and the development of digital talent, aiming to maximize the value of human resources by improving productivity and operational efficiency.

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 and Notes

(1) Consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2022)	Current fiscal year (As of March 31, 2023)
Assets		
Current assets:		
Cash and deposits	29,363	29,286
Notes and accounts receivable - trade	19,140	13,126
Electronically recorded monetary claims - operating	289	342
Merchandise and finished goods	3,794	4,111
Work in process	3,565	2,883
Raw materials and supplies	4,465	4,358
Other	4,468	5,133
Allowance for doubtful accounts	(2)	(2)
Total current assets	65,086	59,238
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	32,288	27,709
Accumulated depreciation	(21,693)	(13,976)
Buildings and structures, net	10,595	13,732
Machinery, equipment and vehicles	38,755	40,475
Accumulated depreciation	(31,651)	(33,308)
Machinery, equipment and vehicles, net	7,103	7,167
Land	3,634	2,524
Construction in progress	3,620	6,646
Other	7,664	8,672
Accumulated depreciation	(5,915)	(6,458)
Other, net	1,749	2,214
Total property, plant and equipment	26,703	32,284
Intangible assets:		
Goodwill	23,728	21,444
Patent right	831	695
Customer-related intangible assets	3,247	2,884
Other	1,541	2,295
Total intangible assets	29,348	27,320
Investments and other assets:		
Shares of subsidiaries and associates	160	117
Retirement benefit asset	3,250	3,242
Deferred tax assets	2,661	2,389
Other	1,586	1,799
Allowance for doubtful accounts	(12)	(13)
Total investments and other assets	7,647	7,535
Total non-current assets	63,699	67,141
Total assets	128,785	126,379

(Millions of yen)

	Previous fiscal year (As of March 31, 2022)	Current fiscal year (As of March 31, 2023)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	13,087	5,972
Electronically recorded obligations - operating	2,928	2,569
Short-term borrowings	6,500	2,000
Current portion of long-term borrowings	4,465	6,560
Accounts payable - other	5,935	7,817
Accrued expenses	877	856
Income taxes payable	6,822	4,705
Provision for bonuses	3,084	2,558
Other	6,102	2,034
Total current liabilities	49,803	35,074
Non-current liabilities:		
Long-term borrowings	8,467	11,152
Retirement benefit liability	4,385	4,273
Deferred tax liabilities	1,235	1,323
Other	316	780
Total non-current liabilities	14,405	17,530
Total liabilities	64,209	52,605
Net assets		
Shareholders' equity:		
Share capital	16,170	16,194
Capital surplus	16,170	16,147
Retained earnings	35,733	52,663
Treasury shares	(7,444)	(15,908)
Total shareholders' equity	60,629	69,097
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	(359)	(26)
Foreign currency translation adjustment	2,691	3,278
Remeasurements of defined benefit plans	774	547
Total accumulated other comprehensive income	3,105	3,799
Non-controlling interests	840	878
Total net assets	64,576	73,774
Total liabilities and net assets	128,785	126,379

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

Consolidated statements of income

(Millions of yen)

	Previous fiscal year (From April 1, 2021 to March 31, 2022)	Current fiscal year (From April 1, 2022 to March 31, 2023)
Net sales	95,712	106,167
Cost of sales	50,525	51,996
Gross profit	45,186	54,170
Selling, general and administrative expenses	18,543	21,882
Operating profit	26,642	32,288
Non-operating income:		
Interest income	8	87
Share of profit of entities accounted for using equity method	–	16
Rental income	67	20
Compensation income	36	–
Other	172	235
Total non-operating income	285	359
Non-operating expenses:		
Interest expenses	49	73
Foreign exchange losses	1,130	2,019
Share of loss of entities accounted for using equity method	431	–
Depreciation	160	85
Loss on investments in investment partnerships	43	61
Other	90	232
Total non-operating expenses	1,904	2,472
Ordinary profit	25,023	30,174
Extraordinary income:		
Gain on sale of non-current assets	51	14
Gain on liquidation of subsidiaries	242	–
Subsidy income	–	64
Total extraordinary income	293	78
Extraordinary losses:		
Loss on sale of property, plant and equipment	5	–
Loss on retirement of property, plant and equipment	825	508
Impairment loss	202	12
Loss on valuation of investment securities	–	59
Head office relocation expenses	155	–
Loss on tax purpose reduction entry of non-current assets	–	39
Compensation for damage	349	–
Total extraordinary losses	1,539	620
Profit before income taxes	23,777	29,632
Income taxes - current	7,918	8,590
Income taxes - deferred	(809)	321
Total income taxes	7,108	8,911
Profit	16,669	20,721
Profit attributable to non-controlling interests	–	35
Profit attributable to owners of parent	16,669	20,685

Consolidated statements of comprehensive income

(Millions of yen)

	Previous fiscal year (From April 1, 2021 to March 31, 2022)	Current fiscal year (From April 1, 2022 to March 31, 2023)
Profit	16,669	20,721
Other comprehensive income:		
Deferred gains or losses on hedges	227	333
Foreign currency translation adjustment	883	591
Remeasurements of defined benefit plans	128	(227)
Total other comprehensive income	1,239	697
Comprehensive income	17,909	21,419
Comprehensive income attributable to:		
Owners of parent	17,909	21,379
Non-controlling interests	–	39

(3) Consolidated statements of changes in net assets

Previous fiscal year (from April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total
Balance, April 1, 2021	16,106	16,106	22,717	(3,491)	51,439
Cumulative effects of changes in accounting policies			(3)		(3)
Restated balance	16,106	16,106	22,714	(3,491)	51,435
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	64	64			128
Dividends of surplus			(3,650)		(3,650)
Profit attributable to owners of parent			16,669		16,669
Purchase of treasury shares				(4,000)	(4,000)
Disposal of treasury shares				46	46
Capital increase of consolidated subsidiaries					-
Purchase of shares of consolidated subsidiaries					-
Net change of items other than shareholders' equity					-
Total changes of items during period	64	64	13,019	(3,953)	9,193
Balance, March 31, 2022	16,170	16,170	35,733	(7,444)	60,629

	Accumulated Other Comprehensive Income				Non-controlling interests	Total Net Assets
	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total		
Balance, April 1, 2021	(587)	1,807	645	1,866	-	53,305
Cumulative effects of changes in accounting policies						(3)
Restated balance	(587)	1,807	645	1,866	-	53,302
Changes of items during period						
Issuance of new shares - exercise of share acquisition rights						128
Dividends of surplus						(3,650)
Profit attributable to owners of parent						16,669
Purchase of treasury shares						(4,000)
Disposal of treasury shares						46
Capital increase of consolidated subsidiaries						-
Purchase of shares of consolidated subsidiaries						-
Net change of items other than shareholders' equity	227	883	128	1,239	840	2,080
Total changes of items during period	227	883	128	1,239	840	11,274
Balance, March 31, 2022	(359)	2,691	774	3,105	840	64,576

Current fiscal year (from April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total
Balance, April 1, 2022	16,170	16,170	35,733	(7,444)	60,629
Cumulative effects of changes in accounting policies					–
Restated balance	16,170	16,170	35,733	(7,444)	60,629
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	24	24			48
Dividends of surplus			(3,756)		(3,756)
Profit attributable to owners of parent			20,685		20,685
Purchase of treasury shares				(8,999)	(8,999)
Disposal of treasury shares				535	535
Capital increase of consolidated subsidiaries		(9)			(9)
Purchase of shares of consolidated subsidiaries		(38)			(38)
Net change of items other than shareholders' equity					–
Total changes of items during period	24	(23)	16,929	(8,463)	8,467
Balance, March 31, 2023	16,194	16,147	52,663	(15,908)	69,097

	Accumulated Other Comprehensive Income				Non-controlling interests	Total Net Assets
	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total		
Balance, April 1, 2022	(359)	2,691	774	3,105	840	64,576
Cumulative effects of changes in accounting policies						–
Restated balance	(359)	2,691	774	3,105	840	64,576
Changes of items during period						
Issuance of new shares - exercise of share acquisition rights						48
Dividends of surplus						(3,756)
Profit attributable to owners of parent						20,685
Purchase of treasury shares						(8,999)
Disposal of treasury shares						535
Capital increase of consolidated subsidiaries						(9)
Purchase of shares of consolidated subsidiaries						(38)
Net change of items other than shareholders' equity	333	587	(227)	693	37	731
Total changes of items during period	333	587	(227)	693	37	9,198
Balance, March 31, 2023	(26)	3,278	547	3,799	878	73,774

(4) Consolidated statements of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2021 to March 31, 2022)	Current fiscal year (From April 1, 2022 to March 31, 2023)
Cash flows from operating activities:		
Profit before income taxes	23,777	29,632
Depreciation	4,207	4,615
Amortization of goodwill	1,788	2,283
Interest and dividend income	(8)	(87)
Interest expenses	49	73
Foreign exchange (gains) losses	(35)	23
(Gain) loss on sale of non-current assets	(45)	(14)
Loss on retirement of property, plant and equipment	825	508
Loss on tax purpose reduction entry of non-current assets	—	39
Impairment loss	202	12
(Gain) loss on investments in investment partnerships	43	61
Loss (gain) on liquidation of subsidiaries	(242)	—
Compensation income	(36)	—
Subsidy income	—	(64)
Loss on compensation for damage	349	—
Head office relocation expenses	155	—
Increase (decrease) in provision for bonuses	551	(537)
Changes in retirement benefit asset/liability	(188)	(430)
Share of loss (profit) of entities accounted for using equity method	431	(16)
Loss (gain) on valuation of investment securities	—	59
(Increase) decrease in notes and accounts receivable - trade	(4,583)	6,418
(Increase) decrease in inventories	(3,318)	775
Increase (decrease) in notes and accounts payable - trade	3,440	(8,139)
(Increase) decrease in other receivables	17	87
Increase (decrease) in other payables	859	(43)
Increase (decrease) in income taxes payable (size-based business tax)	143	(27)
Other, net	1,005	(3,237)
Subtotal	29,390	31,992
Interest and dividends received	8	76
Interest paid	(48)	(70)
Subsidies received	—	45
Compensation for damage paid	(348)	—
Income taxes paid	(3,197)	(10,705)
Net cash provided by (used in) operating activities	25,804	21,339
Cash flows from investing activities:		
Purchase of investment securities	(158)	(168)
Purchase of property, plant and equipment	(4,742)	(10,705)
Purchase of intangible assets	(509)	(1,087)
Proceeds from sale of property, plant and equipment	53	2,570
Purchase of shares of subsidiaries	—	(60)
Purchase of shares of subsidiaries resulting in change in scope of	(7,074)	—
Other, net	(3)	4
Net cash provided by (used in) investing activities	(12,434)	(9,447)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	6,500	(4,500)
Proceeds from long-term borrowings	—	10,000
Repayments of long-term borrowings	(4,677)	(5,220)
Purchase of treasury shares	(4,000)	(8,999)
Cash dividends paid	(3,650)	(3,756)
Repayments of lease obligations	(84)	(119)
Proceeds from exercise of stock options	128	59
Net cash provided by (used in) financing activities	(5,783)	(12,535)
Effect of exchange rate change on cash and cash equivalents	1,246	566
Net increase (decrease) in cash and cash equivalents	8,832	(77)
Cash and cash equivalents at beginning of period	20,531	29,363
Cash and cash equivalents at end of period	29,363	29,286

(5) Notes to consolidated financial statements

(Going concern assumption)

Not applicable.

(Significant changes in shareholders' equity)

(Repurchase of treasury shares)

The Company repurchased 2,288,000 treasury shares worth 7,999 million yen during the current fiscal year based on the resolutions adopted at the Board of Directors' meeting held on May 10, 2022 and October 31, 2022. In addition, following the additional contribution of funds to the Board Benefit Trust (BBT) system according to a resolution taken at the meeting of the Board of Directors on May 10, 2022, 252,900 shares of the Company that the Trust purchased for the price of 999 million yen in total in the current fiscal year were recognized as treasury shares. As a result, treasury shares amounted to 15,908 million yen at the end of the current fiscal year.

(Acquisition of additional shares in subsidiary)

The Company acquired additional shares in Kyoto Semiconductor Co., Ltd., its consolidated subsidiary, in the current fiscal year. The amount of capital surplus decreased 47 million yen due to this additional acquisition. This reflects the effect of the determination of a provisional accounting process related to a business combination in the current fiscal year. To complete the relevant transaction, a conditional stock transfer agreement was concluded effective as of March 24, 2022 between the holders of acquisition rights for the shares of Kyoto Semiconductor Co., Ltd. and Kyoto Semiconductor Co., Ltd., whereby such holders of stock acquisition rights transfer shares to the Company after they exercise their rights. Based on this agreement, shares were transferred to the Company on May 16, 2022 subsequent to the exercise of rights on April 22, 2022.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company started to apply the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter the "Fair Value Measurement Implementation Guidance") at the beginning of the current fiscal year and decided to implement the new accounting policy stipulated in the Fair Value Measurement Implementation Guidance according to the provisional treatment provided for in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance into the future.

The impact of applying this Implementation Guidance on the consolidated financial statements for the current fiscal year is minor.

(Application of the FASB Accounting Standards Codification (ASC) Topic 842 - Leases)

Starting from the beginning of the current fiscal year, the Company's overseas consolidated subsidiaries that adopt the U.S. accounting standard applied the "FASB Accounting Standards Codification (ASC) Topic 842 - Leases," which dictates that lessees recognize assets and liabilities for all leases in the balance sheet, in principle.

As a result, as of the beginning of the first quarter, "Other" under "Property, plant and equipment," "Other" under "Current liabilities" and "Other" under "Non-current liabilities" increased by 180 million yen, 79 million yen, and 100 million yen, respectively.

The amount of impact of applying this accounting standard on the consolidated statement of income for the current fiscal year is minor.

(Business combinations)

(Determination of a provisional accounting related to a business combination)

In the previous fiscal year, the Company performed a provisional accounting process for the business combination with Kyoto Semiconductor Co., Ltd. on March 24, 2022 (the deemed acquisition date is March 31, 2022). The provisional accounting was determined in the current fiscal year.

A significant revision to the allocation of the acquisition cost due to the determination of the provisional accounting is reflected in the comparative information included in the consolidated financial statements for the current fiscal year. Details are as follows.

(Millions of yen, unless otherwise stated)

Type		Provisional amount	Determined amount	Change	Amortization period
Goodwill		6,825	4,960	(1,864)	10 years
Customer-related intangible assets	Order backlog	–	182	182	1 year
	Other than order backlog	–	3,065	3,065	17 years
	Total	–	3,247	3,247	–
Land		210	271	61	–
Deferred tax liabilities		–	1,007	1,007	–
Non-controlling interests		404	840	435	–

(Supplemental information)

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

The Company has introduced an Employee Stock Ownership Plan (“J-ESOP”) as an incentive program to grant employees the Company’s shares for the purpose of increasing their motivation and morale to improve the Company’s stock price and business performance by more strongly linking their compensation to the Company’s stock price and financial results and sharing economic benefits with shareholders.

Shares of the Company held by the J-ESOP trust are presented as treasury shares in the section of net assets in the consolidated balance sheet. The book value and the number of the treasury shares at the end of the previous fiscal year and at end of the current fiscal year are 3,065 million yen, 2,925 thousand shares and 2,544 million yen, 2,428 thousand shares, respectively.

(Board Benefit Trust (BBT))

The Company has introduced a Board Benefit Trust (BBT) as a performance-based stock compensation plan for directors and executive officers (excluding directors who are Audit and Supervisory Committee members and outside directors; the same applies hereinafter) to more clearly link their compensation to the Company’s financial results and stock value and increase their awareness of contributing to better business performance and enhancing corporate value continuously over the medium to long terms by sharing the benefits of rising stock price and the risks of falling stock prices.

Shares of the Company held by BBT are presented as treasury shares in the section of net assets in the consolidated balance sheet. The book value and the number of the treasury shares are 54 million yen, 67 thousand shares at the end of the previous fiscal year, and 1,038 million yen, 316 thousand shares, at the end of the previous fiscal year and at the end of the current fiscal year.

(Segment information)

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

Previous fiscal year (from April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reportable Segment			Adjustment (Note 1)	Consolidated (Note 3)
	Optical Materials and Components	Electronic Materials and Components (Notes 2 & 3)	Total		
Net sales					
Sales to external customers	49,049	46,662	95,712	–	95,712
Intersegment sales or transfers	109	532	642	(642)	–
Total	49,159	47,195	96,354	(642)	95,712
Segment profit	13,127	15,304	28,431	(1,788)	26,642
Segment assets	25,921	28,792	54,714	74,070	128,785
Other items					
Depreciation	2,377	1,829	4,207	1,788	5,995
Increase in property, plant and equipment and intangible assets	1,429	10,998	12,428	1,089	13,518

- Notes: 1. The amount of adjustment for segment profit of ¥1,788 million is the amount of amortization of goodwill that does not belong to any reportable segment.
2. Assets of Kyoto Semiconductor Co., Ltd., which became a consolidated subsidiary in March 2022, are included in the assets of the “Electronic Materials and Components business.”
3. Segment information for the previous fiscal year includes amounts that reflect a significant revision to the initial allocations of the acquisition cost due to the determination of a provisional accounting process related to a business combination.

(Reference) Net sales by region: Japan ¥25,577 million China ¥24,809 million South Korea ¥14,000 million
 Taiwan ¥20,771 million Other ¥10,553 million

Current fiscal year (from April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable Segment			Adjustment (Note 1)	Consolidated
	Optical Materials and Components	Electronic Materials and Components (Note 2)	Total		
Net sales					
Sales to external customers	54,967	51,199	106,167	0	106,167
Intersegment sales or transfers	416	296	712	(712)	–
Total	55,384	51,495	106,879	(712)	106,167
Segment profit	17,969	16,106	34,075	(1,787)	32,288
Segment assets	25,223	18,884	44,108	82,271	126,379
Other items					
Depreciation	2,211	2,900	5,111	1,787	6,898
Increase in property, plant and equipment and intangible assets	8,510	1,764	10,275	3,651	13,926

- Notes: 1. The amount of adjustment for segment profit of ¥1,787 million is the amount of amortization of goodwill that does not belong to any reportable segment.
2. The Group made Kyoto Semiconductor Co., Ltd. its consolidated subsidiary in March 2022. Accordingly, the company’s optical semiconductor business was included in the Electronic Materials and Components segment.

(Reference) Net sales by region: Japan ¥27,279 million China ¥27,520 million South Korea ¥17,873 million
 Taiwan ¥22,735 million Other ¥10,757 million

(Per share information)

	Previous fiscal year (from April 1, 2021 to March 31, 2022)	Current fiscal year (from April 1, 2022 to March 31, 2023)
Net assets per share	1,063.24 yen	1,257.14 yen
Basic earnings per share	274.61 yen	350.62 yen
Diluted earnings per share	272.78 yen	348.78 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 Account E (2,992 thousand shares and 2,744 thousand shares at the end of the previous and current fiscal years, respectively) was included in the number of treasury shares, 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 (3,008 thousand shares and 2,864 thousand shares for the previous and current fiscal years, respectively) was included in the number of treasury shares, which was to be deducted from the calculation of the average number of shares of common stock during the period.

2. Net assets per share, basic earnings per share, and diluted earnings per share for the previous fiscal year were determined using the amounts that reflected a significant revision to the allocation of the acquisition cost due to the determination of the provisional accounting as described in “Business combinations” in the notes to consolidated financial statements.
3. The calculation basis for basic earnings per share and diluted earnings per share are shown as follows.

(Millions of yen, unless otherwise indicated)

	Previous fiscal year (from April 1, 2021 to March 31, 2022)	Current fiscal year (from April 1, 2022 to March 31, 2023)
Basic earnings per share		
Profit attributable to owners of parent	16,669	20,685
Profit not attributable to common shareholders	–	–
Profit attributable to common shareholders of parent	16,669	20,685
Average number of shares of common stock during the fiscal year (shares)	60,700,276	58,997,371
Diluted earnings per share		
Adjustment to profit attributable to owners of parent	–	–
Number of shares of common stock to be increased (share)	407,119	311,312
(Of which, number of subscription rights to shares) (share)	(407,119)	(311,312)
Summary of potentially dilutive shares not included in the calculation of diluted earnings per share due to their anti-dilutive effect	–	–

(Significant subsequent events)

(Decision regarding details of retirement of treasury shares)

At the Board of Directors' meeting held on May 10, 2023, the Company resolved matters pertaining to the retirement of its treasury shares pursuant to Article 178 of the Companies Act.

Details of retirement of treasury shares

- (i) Class of shares to be retired: Common stock of the Company
- (ii) Total number of shares to be retired: 3,550,600 shares
(5.5% of outstanding shares before the retirement)
- (iii) Scheduled date of retirement: May 24, 2023

(Note) The Company continues to hold treasury shares held for the incentive plans for employees and officers because we believe that the plans contribute to the Company's sustainable growth and corporate value enhancement.

(For reference) The number of treasury shares held as of May 10, 2023

- (i) Number of shares issued (excluding treasury shares): 57,985,971 shares
- (ii) Number of treasury shares: 6,589,029 shares

(Note) The treasury shares above include the 2,744,500 shares of the Company held by the Board Benefit Trust for directors and the Employee Stock Ownership Plan (J-ESOP) for domestic employees. In addition, as the Company has introduced a stock compensation plan which delivers shares with restrictions on transfer, 293,800 treasury shares are included in the number of treasury shares above mainly for the purpose of allotting them as restricted shares.

4. Other

(1) Appointment of directors

At the Board of Directors' meeting held on May 10, 2023, the Company resolved to propose the following candidates for Director at the Annual General Meeting of Shareholders to be held in June 2023. The appointment of representative directors will officially be made by the resolution at the Board of Directors' meeting to be held after the conclusion of the Annual General Meeting of Shareholders.

1) Directors (excluding Directors serving as Audit & Supervisory Committee Members)

	Name	Current position
(Reappointment)	Yoshihisa Shinya	Representative Director and President
(Reappointment)	Toshiya Satake	Representative Director
(Reappointment)	Takashi Yokokura	Outside Director
(Reappointment)	Satoshi Taguchi	Outside Director

* Mr. Takashi Yokokura and Mr. Satoshi Taguchi do not fall under any of the cases where they may have conflicts of interest with general shareholders, the criteria defined by the Tokyo Stock Exchange and the Company for determining independence. Accordingly, the Company intends to designate Mr. Takashi Yokokura and Mr. Satoshi Taguchi as Independent Officers if they are elected and assume office as Directors.

2) Directors serving as Audit & Supervisory Committee Members

	Name	Current position
(Reappointment)	Rika Sato	Outside Director
(New appointment)	Masato Taniguchi	Director
(Reappointment)	Tetsuyuki Kagaya	Outside Director

* Ms. Rika Sato and Mr. Tetsuyuki Kagaya do not fall under any of the cases where they may have conflicts of interest with general shareholders, a criteria stipulated by the Tokyo Stock Exchange and the Company for determining independence. Accordingly, the Company intends to designate Ms. Rika Sato and Mr. Tetsuyuki Kagaya as Independent Officers if they are elected and assume office as Directors.

* Director and Standing Audit & Supervisory Committee Member Mr. Masahiro Kuwayama will retire from his position at the conclusion of the Annual General Meeting of Shareholders scheduled to be held in June 2023.

3) Substitute Director serving as Audit & Supervisory Committee Member

	Name	Current position
(Reappointment)	John C. Roebuck	Substitute Director serving as Audit & Supervisory Committee Member