Consolidated Financial Results
for the Fiscal Year Ended March 31, 2017
〔Under Japanese GAAP〕

April 27, 2017

Company name:	Dexerials Corporation	Listing:	Tokyo Stock Exchange
Security code:	4980	URL:	http://www.dexerials.jp/en

Representative: Takashi Ichinose, Representative Director and President
Contact: Naoyuki Sanada, Senior Executive Officer, Corporate Planning & Control Division Head
Phone: +81-3-5435-3941

Date of ordinary general meeting of shareholders:	June 23, 2017
Date of payment of year-end dividends:	June 26, 2017
Annual securities report (*Yukashoken Hokokusho*) issuing date:	June 23, 2017
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, 2017 (from April 1, 2016 to March 31, 2017)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2017	62,598	(0.1)	3,491	(58.0)	2,893	(64.6)	949	(79.3)
March 31, 2016	62,654	(4.4)	8,306	(13.6)	8,163	(17.3)	4,587	(57.2)

Note: Comprehensive income
For the fiscal year ended March 31, 2017: ¥2,341 million [(10.3)%]
For the fiscal year ended March 31, 2016: ¥2,609 million [(81.7)%]

	Basic earnings per share	Diluted earnings per share	Return on Capital	Ordinary income to total assets	Operating income to net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2017	15.85	15.65	1.8	3.2	5.6
March 31, 2016	73.16	71.90	8.6	9.3	13.3

Reference: Share of profit or loss of entities accounted for using equity method
For the fiscal year ended March 31, 2017: －
For the fiscal year ended March 31, 2016: －

Notes: 1. As the Company conducted a stock split of 100 shares for each 1 share of common stock with an effective date of May 27, 2015, the amounts of earnings per share were calculated based on the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2016.
2. For the purpose of calculating the amounts of earnings per share, the number of shares of the Company held by the Trust was included in the number of shares of treasury stock, which was to be deducted from the calculation of the average number of shares of common stock during the period.

(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, 2017	96,075	50,682	52.8	843.56
March 31, 2016	87,316	52,062	59.6	868.96

Reference: Capital (Shareholders' equity + Accumulated other comprehensive income)
As of March 31, 2017: ¥50,682 million As of March 31, 2016: ¥52,062 million

Notes: 1. The amounts of net assets per share were calculated based on the assumption that the stock split with an effective date of May 27, 2015 had been conducted at the beginning of the fiscal year ended March 31, 2016.
2. 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, 2017	5,128	(5,448)	760	16,432
March 31, 2016	12,115	(6,537)	(4,988)	16,259

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, 2016	−	27.50	−	32.50	60.00	3,780	82.0	6.9
March 31, 2017	−	27.50	−	27.50	55.00	3,475	347.4	6.4
Fiscal year ending March 31, 2018 (forecast)	−	20.00	−	20.00	40.00		80.1	

Reference: Dividend payout ratio (consolidated) before amortization of goodwill
Fiscal year ending March 31, 2018 (forecast): 50.1% (For more details, please see page 5 of the attached materials.)

Notes:
1. Breakdown of the year-end dividends for the fiscal year ended March 31, 2016
   Ordinary dividend: ¥27.50 per share   Commemorative dividend: ¥5.00 per share
2. The amount of total dividends (annual) includes the dividends (of ¥100 million for the fiscal year ended March 31, 2016 and ¥177 million for the fiscal year ended March 31, 2017) for the shares of the Company held by the Trust.
3. The annual dividends have been to reflect the stock split with an effective date of May 27, 2015.
4. For the purpose of calculating the dividend on equity for the fiscal years ended March 31, 2016 and 2017, 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, 2018 (from April 1, 2017 to March 31, 2018)

(Percentage indicates year-on-year changes)

	Net sales		Operating income		Ordinary income		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	35,000	27.9	2,400	66.9	2,300	148.4	1,500	−	24.96
Fiscal year	64,000	2.2	5,300	51.8	5,100	76.3	3,000	216.0	49.93

Note: For the purpose of calculating the amount 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, 2017 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, 2017: 63,299,500 shares
    As of March 31, 2016: 63,000,000 shares
  (b) Number of shares of treasury stock
    As of March 31, 2017: 3,218,900 shares
    As of March 31, 2016: 3,087,000 shares
  (c) Average number of shares of common stock during the period
    Fiscal year ended March 31, 2017: 59,902,468 shares
    Fiscal year ended March 31, 2016: 62,696,361 shares

Notes: 1. The Company conducted a stock split of 100 shares for each 1 share of common stock with an effective date of May 27, 2015. The number of shares mentioned above was calculated based on the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2016.
2. As a result of the exercise of stock options during the fiscal year ended March 31, 2017, the number of shares issued as of March 31, 2017 has increased by 299,500 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 (3,218,900 shares as of March 31, 2017 and 3,087,000 shares as of March 31, 2016) 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 (3,169,197 shares for the fiscal year ended March 31, 2017; and 303,639 shares for the fiscal year ended March 31, 2016) was included in the number of shares of treasury stock for such periods, which was to be deducted from the calculation of the average number of shares of common stock during the period.

[Reference] Summary of financial information on a non-consolidated basis

1. Non-consolidated financial results for the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

(1) Operating results (Percentage indicates year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2017	56,561	5.5	1,480	(73.7)	776	(84.9)	(525)	—
March 31, 2016	53,593	0.6	5,637	(32.4)	5,149	(42.6)	2,239	(76.3)

(2) Financial position

	Total assets	Net assets	Capital to asset ratio
As of	Millions of yen	Millions of yen	%
March 31, 2017	89,879	41,824	46.5
March 31, 2016	80,658	45,945	57.0

Note: Capital (Shareholders' equity + Accumulated other comprehensive income)
As of March 31, 2017: ¥41,824 million
As of March 31, 2016: ¥45,945 million

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

* [Proper use of earning forecasts, and other special notes]
(Disclaimer with respect to earnings and other forecasts)
The forward-looking statements including earnings forecast contained in this document are based on information currently available to us and certain assumptions that we believe are reasonable. Accordingly, we can give no assurance that such statements will prove to be correct. Actual results may differ from the results anticipated in these forward-looking statements due to a variety of factors.

Contents of Attached Materials

1. Overview of Operating Results, etc.

(1) Analysis of operating results

(Operating results for the current fiscal year)

The world economy for the current fiscal year (from April 1, 2016 to March 31, 2017) continued to show a modest recovery on the whole, supported by a moderate recovery in the European and US economies despite rising uncertainty about the future with a sign of slowdown in China and emerging economies. The Japanese economy remained largely on the path to moderate recovery with improved corporate earnings and employment despite slowing in consumer spending.

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

In such a business environment, the Group worked to promote sales of existing products as well as focused on an early launch of the Tochigi Plant to expedite restructuring with an aim to realize the Medium-term Management Plan.

As a result of the above, sales of Hybrid SVR and smart precision adhesive saw a year-on-year increase despite a drop in sales of SVR for smartphones and other products. Sales of anti-reflection films, which we have positioned as a growth driver from the current fiscal year, also increased substantially. However, sales of ACF suffered from intensified competition in applications other than display panels, resulting in a year-on-year decrease. Consequently, we reported net sales for the current fiscal year of ¥62,598 million (down 0.1% year-on-year) with operating income of ¥3,491 million (down 58.0% year-on-year) due to stronger yen and recognition of expenses associated with optimizing the business structure. Incidentally, without the impact of stronger yen, net sales would have been an increase of 7.8% year-on-year, and operating income would have been a decrease of 15.0% year-on-year.

Ordinary income was ¥2,893 million (down 64.6% year-on-year) primarily due to recognition of foreign exchange losses.

Profit before income taxes was ¥1,713 million (down 77.5% year-on-year) primarily due to recognition of restructuring expenses as extraordinary losses that were incurred to optimize the business structure.

Consequently, profit attributable to owners of parent amounted to ¥949 million (down 79.3% 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, 2017	Fiscal year ended March 31, 2016	Year-on-year change
Net sales	31,133	28,778	8.2%
Operating income	2,100	3,729	(43.7)%

(Note) Net sales include inter-segment transactions.

- The business segment reported net sales of ¥31,133 million (up 8.2% year-on-year) and operating income of ¥2,100 million (down 43.7% year-on-year).
- Sales of **Optical resin materials** fell short of those for the previous fiscal year due to a decrease in sales of SVR for smartphones and other products as well as stronger yen despite an increase in sales of Hybrid SVR.
- Sales of **Optical films** saw a year-on-year increase thanks to a growth in sales of products for display panels used for laptop PCs, which was partly affected by a modification of transaction terms.
- Sales of **Optical solutions** fell short of those for the previous fiscal year as a result of reducing the exposure to the existing consumer IT products business.

2) Electronic Materials and Components business

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016	Year-on-year change
Net sales	31,676	34,061	(7.0)%
Operating income	3,189	6,376	(50.0)%

(Note) Net sales include inter-segment transactions.

- The business segment reported net sales of ¥31,676 million (down 7.0% year-on-year) and operating income of ¥3,189 million (down 50.0% year-on-year).
- Sales of **Adhesive materials** fell short of those for the previous fiscal year due to stronger yen.
- Sales of **Anisotropic conductive films (ACF)** also fell short of those for the previous fiscal year due to intensified competition in the field of applications other than display panels as well as stronger yen.
- Sales of **Surface mounted type fuses** increased year-on-year thanks to strong sales of products used for smartphones.
- Sales of **Micro devices** also increased year-on-year thanks to continued strong sales of inorganic polarizers used for projectors, and other inorganic materials.

(Earnings forecast for the next fiscal year)

Consolidated earnings forecasts for the fiscal year ending March 31, 2018 are presented as follows.

1) Consolidated earnings forecasts for the fiscal year ending March 31, 2018

(Millions of yen)

	Fiscal year ended March 31, 2017 (Actual)	Fiscal year ending March 31, 2018 (Forecast)	Year-on-year change
Consolidated net sales	62,598	64,000	2.2%
Operating income	3,491	5,300	51.8%
Ordinary income	2,893	5,100	76.3%
Profit attributable to owners of parent	949	3,000	216.0%

2) Consolidated earnings forecasts for the first half of the fiscal year ending March 31, 2018

(Millions of yen)

	First half of the fiscal year ended March 31, 2017 (Actual)	First half of the fiscal year ending March 31, 2018 (Forecast)	Year-on-year change
Consolidated net sales	27,373	35,000	27.9%
Operating income	1,437	2,400	66.9%
Ordinary income	925	2,300	148.4%
Profit attributable to owners of parent	34	1,500	–

(These forecasts are based on an exchange rate of 110 yen to the U.S. dollar.)

In our mainstay industries in which the Group's products are involved, we anticipate that the business environment surrounding us will remain challenging because a robust growth of the consumer IT products market is hard to predict.

In such a situation, the Group has updated the Medium-term Management Plan "Change for Growth 2018" of April 27, 2016 given the progress so far. The updated plan has focused on ensuring stable revenue from the existing fields while accelerating the growth strategy, and at the same time more aggressively promoting our products in the field of automotive applications.

Regarding the earnings forecasts for the next fiscal year, we expect a year-on-year increase in both sales and profits as a result of significantly expanding sales of anti-reflection films for which we plan to make additional investment to increase capacity as well as enjoying the effect of optimizing the business structure.

(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 ¥96,075 million, an increase of ¥8,758 million from the end of the previous fiscal year.

Current assets amounted to ¥39,643 million, an increase of ¥5,919 million from the end of the previous fiscal year. This increase can mainly be explained by increases in inventories by ¥3,139 million, notes and accounts receivable - trade by ¥1,437 million and deferred tax assets by ¥354 million.

Non-current assets amounted to ¥56,431 million, an increase of ¥2,838 million from the end of the previous fiscal year. This increase can mainly be explained by an increase of ¥5,975 million in property, plant and equipment as a result of acquisition of land and construction in progress, which was partially offset by a decrease of ¥2,080 million in intangible assets due primarily to amortization of goodwill.

(Liabilities)

Total liabilities at the end of the current fiscal year amounted to ¥45,393 million, an increase of ¥10,138 million from the end of the previous fiscal year.

Current liabilities amounted to ¥23,024 million, an increase of ¥7,520 million from the end of the previous fiscal year. This increase can mainly be explained by increases in notes and accounts payable - trade and other payables by ¥3,587 million and ¥2,397 million, respectively.

Non-current liabilities amounted to ¥22,368 million, an increase of ¥2,617 million from the end of the previous fiscal year. This increase can mainly be explained by an increase of ¥5,583 million in long-term debt, which was partially offset by a decrease of ¥3,246 million in liability for retirement benefits.

(Net assets)

Total net assets at the end of the current fiscal year amounted to ¥50,682 million, a decrease of ¥1,380 million from the end of the previous fiscal year. This decrease can mainly be explained by a decrease of ¥2,832 million in retained earnings as a result of recording profit attributable to owners of parent of ¥949 million and a declaration of dividends of ¥3,782 million, which was partially offset by an increase of ¥1,556 million in remeasurements of defined benefit plans.

2) Summary of cash flows

Cash and cash equivalents (hereinafter “cash”) at the end of the current fiscal year increased ¥173 million from the end of the previous fiscal year to ¥16,432 million. This net increase can mainly be explained by cash inflow derived from profit before income taxes of ¥1,713 million and proceeds from long-term debt, which was partly offset by cash outflow 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 ¥5,128 million (down 57.7% year-on-year), which mainly consisted of profit before income taxes of ¥1,713 million, depreciation of ¥3,334 million and amortization of goodwill of ¥1,798 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥5,448 million (down 16.7% year-on-year) due mainly to expenditure on purchase of property, plant and equipment of ¥5,046 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥760 million (up ¥5,749 million year-on-year) due mainly to proceeds from long-term debt of ¥17,000 million, which was partly offset by expenditures on repayments of long-term debt of ¥12,500 and payment of cash dividends of ¥3,782 million.

(Reference) Trends in cash flow related indicators

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Capital to asset ratio (%)	45.1	61.2	59.6	52.8
Capital to asset ratio on a market value basis (%)	―	―	76.3	68.8
Interest-bearing debt to cash flow multiple (year)	2.6	1.2	1.3	3.9
Interest coverage ratio (time)	13.0	45.6	108.2	62.8

Capital to asset ratio = [Capital (Shareholders' equity + Accumulated other comprehensive income) / (Total assets)] x 100
Capital to asset ratio on a market value basis = [(Market capitalization) / (Total assets)] x 100
Interest-bearing debt to cash flow multiple = (Total interest-bearing debt) / (Operating cash flow)
Interest coverage ratio = (Operating cash flow) / (Interest expenses paid)

(Note 1) All the indicators are calculated on a consolidated basis.

(Note 2) The amount of market capitalization is calculated based on the number of shares issued excluding shares of treasury stock (that include shares of the Company held by the Trust). The figures of capital to asset ratio on a market value basis for the fiscal years ended March 31, 2014 and 2015 are not presented since the Company was not listed during the periods.

(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, 2018, we will follow the above basic policy and plan to pay the annual ordinary dividends of 40.0 yen per share (consisting of an interim dividend of 20.0 yen per share and a year-end dividend of 20.0 yen per share).

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

(Reference) Distribution of profit

	Total payout ratio	
	Before amortization of goodwill	After amortization of goodwill
Current fiscal year ended March 31, 2017 (actual)	123.9%	358.6%
Next fiscal year ending March 31, 2018 (forecast)	50.1%	80.1%

(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 vision

"Value Matters—Unprecedented innovation, unprecedented value."

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

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

2) Target performance indicator

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

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

3) Medium to long-term corporate strategy

We formulated in the fiscal year ended March 31, 2017 the three-year Medium-term Management Plan "Change for Growth 2018" as a stage to establish a revenue and profit base required for "sustainable growth" toward realizing the desired corporate image. Given the progress so far, we have updated the growth strategy and competitive strategy of the Plan at the start of the next fiscal year ending March 31, 2018, or the second year of the Plan.

We have presented an overview of the Plan, updated key strategies towards the next fiscal year and management targets as follows.

1. Three key strategies

We will focus on the following three strategies to establish a revenue and profit base required for sustainable growth.

i) Growth strategy, through which we will significantly shift our management resources to accelerate business growth in products with potential and in new domains. For the next fiscal year, we will focus on accelerating the business growth of the Optical films category by strengthening the production capacity to meet the growing demand so that the category can be established as a new key driver of revenue and profits.

ii) Competitive strategy, through which we will maintain competitive advantage to continue to secure stable revenue in mainstay products. For the next fiscal year, we will focus on further expansion of sales in smart precision adhesive used for camera modules.

iii) Optimization of business structure, through which we will construct organizational structure to support both of the growth and competitive strategies.

2. Management targets

We aim to achieve net sales of ¥65,000 million with operating income of ¥8,000 million for the fiscal year ending March 31, 2019, the final fiscal year of the Plan (assuming an exchange rate of 110 yen to the U.S. dollar).

For more details, please refer to *Update of the Medium-term Management Plan "Change for Growth 2018"* (hereinafter "this document") announced on April 27, 2017.

(Disclaimer)

The forward-looking statements contained in the description above concerning this document 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 achieve our corporate vision, the Group is making an across-the-board effort to implement the strategy along with the Medium-term Management Plan. In particular for the next fiscal year ending March 31, 2018, we will focus on addressing the issues and taking the measures that are described as follows.

i) Making an additional investment to further strengthen the production capacity of the Optical films

As we expect the demand for the Optical films, the key component for the "Growth strategy," to further increase in the future, we will make an additional investment to further strengthen the production capacity that has been strengthened since October 2016. This additional investment will double the existing capacity to help accelerate the business growth, making the Optical films category a new key driver of revenue and profits.

ii) Sustaining a stable revenue stream from mainstay products

As part of the "Competitive strategy," we will strive to sustain a stable revenue stream from the mainstay products by maintaining their competitive advantages. In particular, we will focus on expanding smart precision adhesive for camera modules, for which the demand is expected to increase, and will secure stable revenue in the Optical resin materials category.

iii) Concentrating resources into the automotive domain

We have reviewed the allocation of our resources to new business domains and decided to concentrate them into the automotive domain. Specifically, we have newly established the Automotive Devices Business Group to formulate strategy for the entire business and to enhance our ability for solution proposals by combining our products more effectively from a cross-functional perspective. In addition, with the aim of strengthening the marketing functions in Europe, we have set up a branch in Frankfurt, Germany to deepen our customer-oriented business.

2. Basic Policy Regarding Selection of Accounting Standards

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

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Assets		
Current assets:		
Cash and deposits	16,259	16,432
Notes and accounts receivable - trade	10,278	11,715
Electronically recorded monetary claims - operating	39	74
Merchandise and finished goods	1,555	2,248
Work in process	1,551	2,804
Raw materials and supplies	1,114	2,308
Deferred tax assets	939	1,294
Other	2,000	2,775
Allowance for doubtful accounts	(13)	(9)
Total current assets	33,724	39,643
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	23,079	29,199
Accumulated depreciation	(17,713)	(18,518)
Buildings and structures, net	5,366	10,681
Machinery, equipment and vehicles	34,488	35,289
Accumulated depreciation	(30,106)	(28,826)
Machinery, equipment and vehicles, net	4,381	6,462
Land	3,620	3,620
Construction in progress	3,244	1,631
Other	4,941	5,363
Accumulated depreciation	(4,053)	(4,282)
Other, net	888	1,080
Total property, plant and equipment	17,501	23,477
Intangible assets:		
Goodwill	29,679	27,880
Patent rights	3,083	2,679
Other	1,269	1,392
Total intangible assets	34,032	31,951
Investments and other assets:		
Deferred tax assets	1,649	554
Other	409	447
Total investments and other assets	2,058	1,002
Total non-current assets	53,592	56,431
Total assets	87,316	96,075

(Millions of yen)

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	5,377	8,965
Electronically recorded obligations - operating	1,202	1,414
Current portion of long-term debt	3,000	1,916
Other payables	2,277	4,674
Accrued expenses	693	846
Provision for bonuses	1,578	1,785
Deferred tax liabilities	10	1
Other	1,362	3,419
Total current liabilities	15,503	23,024
Non-current liabilities:		
Long-term debt	12,500	18,083
Liability for retirement benefits	6,915	3,669
Deferred tax liabilities	36	169
Other	299	446
Total non-current liabilities	19,751	22,368
Total liabilities	35,254	45,393
Net assets		
Shareholders' equity:		
Common stock	15,747	15,830
Capital surplus	15,747	15,830
Retained earnings	21,487	18,654
Treasury stock	(3,235)	(3,341)
Total shareholders' equity	49,747	46,974
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	—	127
Foreign currency translation adjustment	2,005	1,713
Remeasurements of defined benefit plans	310	1,867
Total accumulated other comprehensive income	2,315	3,707
Total net assets	52,062	50,682
Total liabilities and net assets	87,316	96,075

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

Consolidated statements of income

(Millions of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Net sales	62,654	62,598
Cost of sales	36,837	41,454
Gross profit	25,817	21,143
Selling, general and administrative expenses	17,510	17,652
Operating income	8,306	3,491
Non-operating income:		
Interest income	9	17
Foreign exchange gains	122	—
Other	71	91
Total non-operating income	202	108
Non-operating expenses:		
Interest expenses	112	82
Commission fee	10	18
Foreign exchange losses	—	440
Going public expenses	154	—
Other	67	165
Total non-operating expenses	344	706
Ordinary income	8,163	2,893
Extraordinary income:		
Gain on sale of non-current assets	0	6
Total extraordinary income	0	6
Extraordinary losses:		
Loss on sale of non-current assets	—	96
Loss on retirement of property, plant and equipment	41	52
Impairment loss	523	106
Restructuring expenses	—	915
Other	—	14
Total extraordinary losses	564	1,186
Profit before income taxes	7,599	1,713
Income taxes - current	1,203	607
Income taxes - deferred	1,809	156
Total income taxes	3,012	764
Profit	4,587	949
Profit attributable to owners of parent	4,587	949

Consolidated statements of comprehensive income

(Millions of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Profit	4,587	949
Other comprehensive income:		
Deferred gains or losses on hedges	(22)	127
Foreign currency translation adjustment	(910)	(291)
Remeasurements of defined benefit plans	(1,045)	1,556
Total other comprehensive income	(1,978)	1,392
Comprehensive income	2,609	2,341
Comprehensive income attributable to:		
Owners of parent	2,609	2,341
Non-controlling interests	—	—

(3) Consolidated statements of changes in net assets

Previous fiscal year (from April 1, 2015 to March 31, 2016)

(Millions of yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance, April 1, 2015	15,747	15,747	18,632	―	50,127
Changes of items during period					
Dividends of surplus			(1,732)		(1,732)
Profit attributable to owners of parent			4,587		4,587
Purchase of treasury stock				(3,235)	(3,235)
Net change of items other than shareholders' equity					
Total changes of items during period	―	―	2,854	(3,235)	(380)
Balance, March 31, 2016	15,747	15,747	21,487	(3,235)	49,747

	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, 2015	22	2,915	1,356	4,293	54,421
Changes of items during period					
Dividends of surplus					(1,732)
Profit attributable to owners of parent					4,587
Purchase of treasury stock					(3,235)
Net change of items other than shareholders' equity	(22)	(910)	(1,045)	(1,978)	(1,978)
Total changes of items during period	(22)	(910)	(1,045)	(1,978)	(2,358)
Balance, March 31, 2016	―	2,005	310	2,315	52,062

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

(Millions of yen)

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

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

(4) Consolidated statements of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Cash flows from operating activities:		
Profit before income taxes	7,599	1,713
Depreciation	2,977	3,334
Amortization of goodwill	1,799	1,798
Increase (decrease) in allowance for doubtful accounts	(1)	(4)
Increase (decrease) in provision for bonuses	(123)	213
Increase (decrease) in liability for retirement benefits	(819)	(1,002)
Interest and dividend income	(9)	(17)
Interest expenses	112	82
Foreign exchange (gains) losses	18	55
(Gain) loss on sale of non-current assets	(0)	90
Loss on retirement of property, plant and equipment	41	52
Impairment loss	523	106
Restructuring expenses	―	915
(Increase) decrease in notes and accounts receivable - trade	1,022	(1,405)
(Increase) decrease in inventories	400	(3,154)
(Increase) decrease in other receivables	(104)	(71)
Increase (decrease) in notes and accounts payable - trade	441	3,735
Increase (decrease) in other payables	(94)	482
Increase (decrease) in income taxes payable (size-based business tax)	98	10
Other, net	(713)	(608)
Subtotal	13,167	6,327
Interest and dividend income received	6	16
Interest expenses paid	(112)	(81)
Income taxes paid	(946)	(1,134)
Net cash provided by (used in) operating activities	12,115	5,128
Cash flows from investing activities:		
Purchase of investment securities	(55)	(50)
Purchase of property, plant and equipment	(5,998)	(5,046)
Purchase of intangible assets	(479)	(341)
Other, net	(4)	(9)
Net cash provided by (used in) investing activities	(6,537)	(5,448)
Cash flows from financing activities:		
Proceeds from long-term debt	3,000	17,000
Repayments of long-term debt	(3,000)	(12,500)
Purchase of treasury stock	(3,235)	(106)
Cash dividends paid	(1,732)	(3,782)
Repayments of lease obligations	(20)	(17)
Proceeds from exercise of stock options	―	166
Net cash provided by (used in) financing activities	(4,988)	760
Effect of exchange rate change on cash and cash equivalents	(786)	(267)
Net increase (decrease) in cash and cash equivalents	(197)	173
Cash and cash equivalents at beginning of period	16,456	16,259
Cash and cash equivalents at end of period	16,259	16,432

(5) Notes to consolidated financial statements

(Going concern assumption)
Not applicable.

(Supplemental information)
(Adoption of implementation guidance on recoverability of deferred tax assets)
Effective from the current period, the Company has adopted *Implementation Guidance on Recoverability of Deferred Tax Assets* (ASBJ Guidance No. 26, March 28, 2016).

(Transactions of delivering the Company's own stock to employees, etc. through trusts)
1) Overview of the transaction
The Company has established an Employee Stock Ownership Plan ("J-ESOP") as an incentive program granting employees shares of common stock of the Company to incentivize them to improve its financial results and, thus, stock prices by increasing linkage of their compensation to the stock price and financial results of the Company and sharing economic benefits with shareholders.

2) Shares of the Company remaining in the Trust
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 and current fiscal years are ¥3,235 million for 3,087 thousand shares and ¥3,235 million for 3,086 thousand shares, respectively.

(Performance-linked stock compensation plan)
In accordance with the resolution of the 4th annual general meeting of shareholders held on June 23, 2016, the Company has introduced a performance-linked stock compensation plan (hereinafter, "the System"), which 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 System, 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.

1) Overview of the transaction
The System operates under a scheme called the Board Benefit Trust (hereinafter, "the Trust"). The System enables the Company's stock and the amount of cash equivalent to the market price of the Company's stock (hereinafter "the Company's Stock, etc.") to be granted through the Trust to directors based on their respective positions and performance targets achieved in accordance with the Directors' Stock Compensation Rules established by the Company's Board of Directors. The Trust uses funds contributed by the Company to acquire the Company's Stock, etc., which will be, in principle, received by the Company's Directors upon their retirement from the Company.

2) Shares of the Company remaining in the Trust
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 current fiscal year is ¥106 million for 132 thousand shares.

(Segment information, etc.)

[Segment information]

Information on Amounts of Net Sales, Income (Loss), Assets, Liabilities and Other Items by Reportable Segment

Previous fiscal year (from April 1, 2015 to March 31, 2016)

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net Sales					
Sales to external customers	28,760	33,894	62,654	—	62,654
Intersegment sales or transfers	17	167	185	(185)	—
Total	28,778	34,061	62,840	(185)	62,654
Segment income (loss)	3,729	6,376	10,105	(1,799)	8,306
Segment assets	15,042	15,177	30,219	57,096	87,316
Other items					
Depreciation	1,048	1,928	2,977	1,799	4,776
Increase in property, plant and equipment and intangible assets	1,464	1,341	2,806	4,099	6,905

Note: The amount of adjustment for segment income of ¥1,799 million is the amount of amortization of goodwill that is not attributable to any reportable segment.

Reference: Consolidated overseas net sales: ¥45,945 million

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

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net Sales					
Sales to external customers	31,133	31,467	62,600	(2)	62,598
Intersegment sales or transfers	—	209	209	(209)	—
Total	31,133	31,676	62,810	(212)	62,598
Segment income (loss)	2,100	3,189	5,289	(1,798)	3,491
Segment assets	19,259	14,946	34,205	61,869	96,075
Other items					
Depreciation	1,353	1,981	3,334	1,798	5,133
Increase in property, plant and equipment and intangible assets	3,657	1,416	5,074	4,309	9,383

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

Reference: Consolidated overseas net sales: ¥38,957 million

(Per share information)

	Previous fiscal year (from April 1, 2015 to March 31, 2016)	Current fiscal year (from April 1, 2016 to March 31, 2017)
Net assets per share	868.96 yen	843.56 yen
Basic earnings per share	73.16 yen	15.85 yen
Diluted earnings per share	71.90 yen	15.65 yen

(Notes)
1. The Company conducted a stock split of 100 shares for each 1 share of common stock with an effective date of May 27, 2015. Net assets per share and basic earnings per share were calculated based on the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2016.
2. For the purpose of calculating the amounts of "net assets per share," the number of shares of the Company held by the Trust (3,087 thousand shares and 3,218 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 (303 thousand shares and 3,169 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.
3. The calculation basis for basic earnings per share and diluted earnings per share are shown as follows.

	Previous fiscal year (from April 1, 2015 to March 31, 2016)	Current fiscal year (from April 1, 2016 to March 31, 2017)
Basic earnings per share		
Profit attributable to owners of parent (millions of yen)	4,587	949
Profit not attributable to common shareholders (millions of yen)	—	—
Profit attributable to common shareholders of parent (millions of yen)	4,587	949
Average number of shares of common stock during the fiscal year (shares)	62,696,361	59,902,468
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)	1,097,740	742,512
(Of which, number of subscription rights to shares) (share)	(1,097,740)	(742,512)
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.