

Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 [Japanese GAAP]



February 9, 2018

Company name: Roland DG Corporation
 Securities Code: 6789
 URL: <http://www.rolanddg.co.jp/>
 Stock exchange listing: Tokyo Stock Exchange
 Representative: Hidenori Fujioka, President
 Contact: Toshiharu Uwai, Executive Officer and President of Corporate Division
 Phone: +81-53-484-1400
 Scheduled date of Ordinary General Meeting of Shareholders: March 23, 2018
 Scheduled date of filing annual securities report: March 26, 2018
 Scheduled date of commencing dividend payments: March 26, 2018
 Availability of supplementary briefing material on consolidated financial results: Available
 Schedule of consolidated financial results briefing session: Scheduled (for institutional investors and analysts)

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal year ended December 31, 2017	43,573	(1.2)	3,853	(11.6)	3,804	(7.3)	1,918	(29.1)
Fiscal year ended December 31, 2016	44,112	—	4,358	—	4,104	—	2,705	—

(Note) Comprehensive income: Fiscal year ended December 31, 2017: 2,556 million yen [32.7%]
 Fiscal year ended December 31, 2016: 1,926 million yen [—%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen			
Fiscal year ended December 31, 2017	153.19	—	8.9	10.4	8.8
Fiscal year ended December 31, 2016	206.73	—	12.4	11.0	9.9

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal Year Ended December 31, 2017: - million yen
 Fiscal Year Ended December 31, 2016: - million yen

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of December 31, 2017	36,570	22,521	61.6	1,798.32
As of December 31, 2016	36,341	20,617	56.7	1,647.59

(Reference) Equity: As of December 31, 2017: 22,521 million yen
 As of December 31, 2016: 20,617 million yen

(3) Consolidated Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Fiscal year ended December 31, 2017	2,446	(827)	(2,005)	9,748
Fiscal year ended December 31, 2016	5,369	(1,427)	(3,879)	9,936

2. Dividends

	Annual dividends				
	1st quarter end	2nd quarter end	3rd quarter end	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2016	–	30.00	–	30.00	60.00
Fiscal year ended December 31, 2017	–	25.00	–	35.00	60.00
Fiscal year ending December 31, 2018 (Forecast)	–	25.00	–	30.00	55.00

	Total dividends paid (annual)	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	Millions of Yen	%	%
Fiscal year ended December 31, 2016	759	29.0	3.7
Fiscal year ended December 31, 2017	759	39.2	3.5
Fiscal year ending December 31, 2018 (Forecast)		31.3	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2018 (From January 1, 2018 to December 31, 2018)

(% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
First half	21,500	0.4	1,300	(5.1)	1,300	(4.5)	900	–	71.86
Full year	43,600	0.1	3,400	(11.8)	3,200	(15.9)	2,200	14.7	175.67

*** Notes**

- (1) Significant changes of subsidiaries during the fiscal year ended December 31, 2017 (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Changes in accounting policies, changes in accounting estimates and corrections of errors
- 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Any changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Corrections of errors: No

- (3) Total number of issued shares (common shares)

- 1) Total number of issued shares at the end of the period (including treasury shares):

Fiscal year ended December 31, 2017	12,656,311 shares
Fiscal year ended December 31, 2016	12,656,311 shares

- 2) Total number of treasury shares at the end of the period:

Fiscal year ended December 31, 2017	132,595 shares
Fiscal year ended December 31, 2016	142,595 shares

- 3) Average number of shares during the period:

Fiscal year ended December 31, 2017	12,520,783 shares
Fiscal year ended December 31, 2016	13,088,786 shares

(Note) The total number of treasury shares at the end of the fiscal year ended December 31, 2017 and at the end of the fiscal year ended December 31, 2016 includes 132,400 shares and 142,400 shares of the Company held by the Director Stock Benefit Trust and J-ESOP Trust, respectively. The number of treasury shares excluded from calculation of the average number of shares during the period for the fiscal year ended December 31, 2017 and ended December 31, 2016 includes 135,333 shares and 142,850 shares of the Company held by the Director Stock Benefit Trust and J-ESOP Trust, respectively.

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

- (1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal year ended December 31, 2017	30,402	(2.1)	3,986	29.9	4,490	33.2	2,380	(0.2)
Fiscal year ended December 31, 2016	31,055	16.1	3,069	(25.2)	3,371	(23.8)	2,384	(22.3)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended December 31, 2017	190.12	—
Fiscal year ended December 31, 2016	182.21	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of December 31, 2017	30,723	20,359	66.3	1,625.66
As of December 31, 2016	30,526	18,626	61.0	1,488.49

(Reference) Equity: As of December 31, 2017: 20,359 million yen
As of December 31, 2016: 18,626 million yen

* These consolidated financial results are outside the scope of audit.

* Explanation of the proper use of financial results forecast and other notes

1. Financial results forecast was prepared based on available information at the time of the release of this document, and the Company does not in any way guarantee the achievement of the projections. Actual results may be different from the projections due to various factors. For the notes concerning the use of financial results forecast, please refer to "Future Outlook" on page 12.
2. The Company plans to hold a briefing session for institutional investors and analysts on February 16, 2018 (Friday). Materials to be distributed at the session will be posted on the Company's website.

Table of Contents of Appendix

1. Overview of Results of Operations, etc.	6
(1) Overview of Results of Operations	6
(2) Overview of Financial Position	11
(3) Future Outlook	12
2. Management Policy	13
(1) Basic Company Management Policy	13
(2) Target Management Benchmarks	13
(3) Medium to Long Term Business Strategy and Issues to be Addressed	13
3. Basic Policy on Selection of Accounting Standards	15
4. Consolidated Financial Statements	16
(1) Consolidated Balance Sheets	16
(2) Consolidated Statements of Operations and Comprehensive Income	18
(3) Consolidated Statements of Changes in Net Assets	21
(4) Consolidated Statements of Cash Flows	23
5. Others	25
Changes to Officers	25

1. Overview of Results of Operations, etc.

(1) Overview of Results of Operations

During the fiscal year ended December 31, 2017, despite concerns over impacts of heightened geopolitical risks in various areas, the United Kingdom's exit from the European Union (EU), and policy trends in the United States, the world economy was on a moderate recovery trend mainly in developed countries such as the United States, Europe, and Japan. The market in China also steadily increased. The emerging markets including Brazil and Russia also showed a trend of economic upturn.

The group formulated a five-year medium-term business plan beginning in FY 2016, and has been implementing the plan since the previous term. The medium-term business plan emphasizes "GrowthOne: Sustainable growth through innovation" as the basic policy, and by working toward the three major issues of (1) accelerating new business developments in growing markets, (2) transforming to a solutions provider, and (3) transforming into an innovation-focused group, we aim to create a high value-added market and achieve sustainable growth.

During the fiscal year under review, the group has promoted "accelerating new business developments in growing markets," one of the major issues in the medium-term business plan. In April 2017, DGSHAPE Corporation, which engages in the group's 3D business such as 3D milling machines for the 3D monozukuri market and dental milling machines in the dental (dental medical) market, started business operations and has been promoting activities to expand the 3D business with an emphasis on the newly growing dental market. As for the printer business, we focused on expansion in the retail market where we create original products, etc., in addition to our conventional mainstay sign (advertising and sign production) market. The group has also made efforts to recover sales of printers such as improving price competitiveness and conducting aggressive promotion activities in various areas in order to respond to the increasingly competitive environment.

As stated above, we actively conducted business operations in order to promote accelerating new business developments in growing markets, mainly resulting in expansion of the 3D business such as for the dental market and 3D monozukuri market. Sales for the fiscal year ended December 31, 2017 decreased by 1.2% over the previous term to 43,573 million yen, due to lower sales of printers in the sign market, despite benefits from a weaker yen in addition to growth of 3D products associated with expansion of the 3D business. Regarding costs, cost of sales rose by 1.0% from the previous term due to the effects of factors such as the drop in unit sales price. Selling, general and administrative expenses were lower than in the previous term due to factors such as lower labor costs; however, the ratio to sales was flat compared to the previous term. As a result, operating profit decreased by 11.6% compared with the previous term to 3,853 million yen, and ordinary profit decreased by 7.3% compared with the previous term to 3,804 million yen. Profit attributable to owners of parent decreased by 29.1% compared with the previous term to 1,918 million yen due to the settlement package of a patent infringement case in the United States being recorded as extraordinary losses and other factors.

The exchange rates for major currencies during the fiscal year ended December 31, 2017 (average rate during the period from January 2017 to December 2017) were 112.20 yen to the U.S. dollar (108.88 yen for the previous term) and 126.70 yen to the euro (120.40 yen for the previous term).

As the business of the Company and its consolidated subsidiaries is the manufacture and sale of computer peripheral devices and there are no other segments, it is represented as a single segment. Sales by product are as follows.

Net sales by product

(Millions of Yen)

Product	Fiscal year ended December 31, 2016		Fiscal year ended December 31, 2017		Changes	Changes in composition ratio (%)	Year-on year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Printers	18,027	40.9	16,110	37.0	(1,916)	(3.9)	89.4
Plotters	1,292	2.9	1,491	3.4	198	0.5	115.4
3D products	4,188	9.5	5,005	11.5	817	2.0	119.5
Supplies	13,623	30.9	13,676	31.4	52	0.5	100.4
Others	6,980	15.8	7,288	16.7	308	0.9	104.4
Total	44,112	100.0	43,573	100.0	(539)	—	98.8

[Printers]

In the mainstay sign (advertising and sign production) market, as the market moves toward maturity, we are working on maintaining and expanding market share through improving customer satisfaction via providing high value-added products and superior service and support. In addition, as a future growth sector, we are actively working on expanding into new markets such as the retail market where we provide printing of original designs including pictures and illustrations on products such as smartphone cases, home appliances, and novelty items.

In the sign market, during the fiscal year ended December 31, 2017, sales of VG-640/540 and SG-540/300 in the TrueVIS series, new eco-solvent printer models introduced to the market in the previous term, have been steady. However, sales have continued to be slow particularly for high-price models as market demand continues to shift from high-price products to low-price products against a backdrop of a maturing sign market and intensifying competition due to entry of major competitors. Meanwhile, in retail markets, although sales of LEF-200, a new model of small UV printers launched in February 2017 were steady, sales of UV printers decreased, affected by lethargic sales of existing models. In response to such sales decrease of printers, we made efforts to recover sales of printers through a promotion campaign for maintaining/expanding shares during the fourth quarter of the term.

As a result, printer sales were 16,110 million yen, or 89.4% of the previous fiscal year, as positive effects of the campaign could not offset a decrease of printers, particularly in the sign market.

[Plotters]

Sales of cutters for the sign market, including the GR-640/540/420, new models launched from March to April 2017, showed solid growth mainly in developed countries. Consequently, Plotter sales were 1,491 million yen, or 115.4% of the previous fiscal year.

[3D products]

To accelerate new business development in the growing dental market, DGSHAPE Corporation, engaged in the 3D business including 3D monozukuri and dental businesses, started operation in April 2017. It aims to offer solutions responding to the latest trends in digitalization by making use of our accumulated digital technologies and know-how of monozukuri. While securing a solid footing in the 3D monozukuri market such as the manufacturing and sculpture industries as well as educational institutions, we will expand our 3D business by creating new value propositions in a wider range of fields, in addition to accelerating growth in the dental market where further digitalization is expected. In the 3D monozukuri market, sales of the new MDX-50 3D milling machine that went on sale in October 2016 remained substantial due to adoption in the manufacturing industry for prototype production and at educational institutions. In the dental market, sales of the DWX-52DC launched in March 2017 have been favorable as it has been widely adopted in dental technician offices in developed countries including Japan, Europe, and the U.S. that seek more productivity. The DWX-52DC incorporates an automatic disc changer function to automatically change processing materials.

Accordingly, sales of 3D products reached 5,005 million yen, or 119.5% of the previous fiscal year since new models of 3D milling machines and dental milling machines contributed to sales.

[Supplies]

Although sales of printer ink for the sign market were sluggish, sales of printer ink for UV printers and textile printers grew. As a result, sales of supplies were 13,676 million yen, or 100.4% of the previous fiscal year.

[Others]

Maintenance services, service parts, and other sales were 7,288 million yen, or 104.4% of the previous fiscal year, due to steady sales of service parts.

Sales by region are as follows.

Net sales by region

(Millions of Yen)

Region	Fiscal year ended December 31, 2016		Fiscal year ended December 31, 2017		Changes	Changes in composition ratio (%)	Year-on year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Japan	5,305	12.0	5,043	11.6	(262)	(0.4)	95.1
North America	12,360	28.0	11,930	27.4	(429)	(0.6)	96.5
Europe	15,331	34.8	15,878	36.4	547	1.6	103.6
Asia	4,094	9.3	3,681	8.4	(413)	(0.9)	89.9
Others	7,021	15.9	7,039	16.2	18	0.3	100.3
Total	44,112	100.0	43,573	100.0	(539)	—	98.8

[Japan]

In 3D products, sales of the MDX series were significantly higher than in the previous fiscal year, since sales of the new model MDX-50 and other 3D milling machines were favorable in the manufacturing industry for prototype production and at educational institutions. In dental milling machines, sales of the new model DWX-52DC were strong, while sales of the DWX-4 grew significantly following the expanded scope of insurance coverage for CAD/CAM crowns (dental fillings/crowns created by using digital data) during the fourth quarter of the term. In printers, although sales of UV printers with a print width of 30-54 inches showed a solid increase for use in packaging prototyping, sales of small UV printers for the retail market and printers for the sign market decreased.

As a result, net sales in Japan were 5,043 million yen, or 95.1% of the previous fiscal year.

[North America]

In 3D products, sales of the DWX-52DC, a new model of dental milling machine, were strong particularly for mid-scale dental labs that seek more productivity. Sales of the MDX-50, a new model of 3D milling machine, were strong for uses such as for design prototypes. Meanwhile, in printers, although sales of small UV printers were higher than the previous fiscal year as a result of gradual development of the retail market, sales of printers for the sign market decreased.

As a result, net sales in North America were 11,930 million yen, or 96.5% of the previous fiscal year.

[Europe]

In printers, sales of printers for the sign market, small UV printers, and other mainstay models were slow. However, in 3D products, sales of the DWX-52DC, a new model of dental milling machine, were favorable, with a solid increase of sales of 3D milling machines and metal printers that can print pictures, illustrations, and letters on metal materials.

As a result, net sales in Europe were 15,878 million yen, or 103.6% of the previous fiscal year.

[Asia]

In China, sales of 3D products were strong. However, sales of printers for the sign market were at low levels and sales of service parts decreased significantly. In South Korea, sales of printers for the sign market were steady and sales of dental milling machines increased thanks to development of a new sales channel. In the ASEAN region, sales of printers for the sign market that account for a large portion of sales declined.

As a result, net sales in Asia were 3,681 million yen, or 89.9 % of the previous fiscal year.

[Other Regions]

In Australia, sales of 3D milling machines were favorable. In the Central and South America region, sales of printers for the sign market decreased, while sales of small UV printers, textile printers, and dental milling machines increased.

As a result, net sales in these regions were 7,039 million yen, or 100.3% of the previous fiscal year.

Basic Policy on Earnings Distributions and Dividend for Current and Next Fiscal Years

We believe in prioritizing profit returns for shareholders, and therefore we will work to maintain the stability of those returns in light of our performance. At the same time, from a mid-to-long term standpoint, since we must allocate funds for future investments in equipment, R&D and sales, we are working to bolster our internal reserves, prepare the required capital, and strengthen the constitution of our business.

In terms of actual policy, based on the profit returns in accordance with our performance, we keep our goal of maintaining dividends at 30% of consolidated profits, and incorporating that into the future of our business development.

As for dividends in the current term, term end dividends will be 35 yen, which makes the annual payout 60 yen, the same as that of the previous term. While the payout ratio is based on the basic policy targeting 30%, the actual annual payout ratio is 39.2% of consolidated profit, since special factors not attributable to the current term such as a litigation settlement package are excluded from the calculation basis for the current term.

In terms of dividends in the following term, interim and year-end payouts are set to be 25 yen and 30 yen per share, respectively, based on the above basic policy, resulting in the annual payout of 55 yen.

(2) Overview of Financial Position

Summary of Consolidated Statements of Cash Flows

(Millions of Yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017	Changes
Net cash provided by (used in) operating activities	5,369	2,446	(2,922)
Net cash provided by (used in) investing activities	(1,427)	(827)	599
Net cash provided by (used in) financing activities	(3,879)	(2,005)	1,873
Effect of exchange rate change on cash and cash equivalents	(378)	189	568
Net increase (decrease) in cash and cash equivalents	(316)	(197)	119
Increase in cash and cash equivalents from newly consolidated subsidiary	243	10	(233)
Cash and cash equivalents at end of period	9,936	9,748	(187)

[Net cash provided by (used in) operating activities]

Net cash provided by operating activities for the fiscal year under review was 2,446 million yen, a decrease of 2,922 million yen from the previous fiscal year. Main positive factors for the cash flows include a decrease in notes and accounts receivable - trade and inventories. Main negative factors include payment of 1,341 million yen for settlement package.

[Net cash provided by (used in) investing activities]

Net cash used in investing activities for the fiscal year under review was 827 million yen, a decrease in outflow of 599 million yen from the previous fiscal year's outflow of 1,427 million yen. The purchase of property, plant and equipment as well as intangible assets decreased, resulting in lower outflow.

[Net cash provided by (used in) financing activities]

Net cash used in financing activities for the fiscal year under review was 2,005 million yen, a decrease of 1,873 million yen from an outflow of 3,879 million yen in the previous fiscal year. During the previous fiscal year, an outflow of 3,418 million yen due to the purchase of treasury shares and an outflow resulting from repayments of long-term loans payable were recorded, offset by an inflow of 2,880 million yen due to proceeds from long-term loans payable for the purchase of treasury shares. For the fiscal year under review, outflows as a whole decreased despite an outflow resulting from repayments of long-term loans payable, etc.

(3) Future Outlook

As for the future economic outlook, while there are concerns such as heightened geopolitical risks in various areas and policy trends in the United States, the economic recovery is expected to continue mainly in developed countries.

Regarding the outlook for the next fiscal year, sales are expected to be flat from the previous fiscal year, since the group will make efforts to expand the retail market where we create original products and the 3D business with an emphasis on the dental market, while the mainstay sign markets for printers will continue to be exposed to intensified competition. In regard to profits, operating profit and ordinary profit are expected to decrease due to increases in R&D expenses for strengthening technical capabilities and expenses for expanding businesses in growing markets. Profit attributable to owners of parent for the next fiscal year is expected to increase since a settlement package of a patent infringement case in the United States was recorded under extraordinary losses in the current term, which was a major negative factor.

(Millions of Yen)

	Fiscal year ended December 31, 2017	Fiscal year ending December 31, 2018	Change (%)
Net sales	43,573	43,600	100.1
Operating profit	3,853	3,400	88.2
Ordinary profit	3,804	3,200	84.1
Profit attributable to owners of parent	1,918	2,200	114.7

Estimated exchange rates of major currencies for the fiscal year ending December 31, 2018

1USD = 110 yen, 1EUR = 130 yen

2. Management Policy

(1) Basic Company Management Policy

We have focused our efforts on developing digital technologies and providing creative devices that make it possible for our customers around the world to “Transform Imagination into Reality,” based on our vision. With the rapid advances of digitalization, our customers’ needs are growing more advanced and diverse, and it is critical to proactively and rapidly develop new technologies to support these needs. We believe that we can gain the trust of our customers, developing together, not by simply aiming to achieve greater sales volume, but by supplying high quality products and services.

Led by this philosophy, we are working to create a unified operation system, consisting of our sales and development departments and affiliated companies, with the common mission of collecting customer information and developing new products. We are constantly launching development projects, which continually share information and generate awareness as they strive to develop products based on new research themes.

At the same time, the results of this high value development work must be commercialized using optimal production systems. We consider improving quality and production efficiency our greatest missions as a manufacturer, and are dedicated to develop our structures and systems. Our “Digital Yatai (digitally-controlled cell production system),” which fully leverages IT equipment, has reduced lead time and ensured reliability in quality.

We consider the effort we put into this manufacturing to be one of the joys of creation, and will continue to engage in proactive, unified company operations in the future.

(2) Target Management Benchmarks

We are firm in our belief that customer and shareholder trust can be created through stable corporate growth. We have set as our basic targets an annual net sales growth rate of 10% or more, and an operating profit to net sales of 10% or more, focusing on our core group-wide business activities from the perspective of global management.

(3) Medium to Long Term Business Strategy and Issues to be Addressed

Our group has continued to grow by creating high value-added markets globally based on color & 3D digital control technology. Currently, we are working on creating new markets in response to the maturing of mainstay markets. In addition, we will reform our solutions while responding to structural changes of the digital network society aggressively, and reform the business structure for sustainable growth.

1) Response to Maturing of Mainstay Markets

The mainstay sign markets in developed countries are maturing in line with the widespread use of inkjet printers. Through creation of business opportunities with customers via development of various other usages and the strengthening of solution proposals, we will focus on maximizing customer value, while also leveraging our global sales network to create customer bases in emerging countries with the intent of creating profitable and continuous business models.

2) Commercialization of Growth Fields

Aiming to achieve sustainable growth, we are promoting business diversification from the business structure centered on the sign market into creation and nurturing of new unique fields. Redefining the business areas as “Imaging & Healthcare,” we will further create high added values in growth fields such as digital printing, dental and 3D monozukuri fields that allow us to leverage our digital technology and aim at prompt commercialization.

3) Response to Changes of Markets and Customer Needs

Considering value creation and market creation as the core of growth, flexibility to market changes including diversification of customer needs is critical. Based on our group-wide corporate structure “GlobalOne,” which enables speedy responses to changes, we will aggressively invest in our core technology innovation, and realize sustainable growth by looking to ICT (Information Communication Technology) and addressing group-wide solution reform that positions everything that generates customer values as “services.”

4) Strengthening R&D and Production Structure

In terms of the structure behind R&D and production, our company thinking is based in the “digital factory” concept, which ensures speedy and effective development and production by sharing 3D data company-wide as well as suppliers. Multiple products are realized by concurrent engineering, and assembled with cell production system which is optimized for low-volume, high-variety production work.

Furthermore, we are currently aggressively conducting research and development investment to strengthen our technological base in order to respond to rapid changes in the market environment and the diversification of needs. Through unique technological proposals taking advantage of our core technologies, we will advance the creation of additional customer value and added value markets.

In production and procurement, we aim to improve cost competitiveness and production lead times through our two bases at the domestic plant and the Thai plant, at the same time strengthen our capabilities to respond to changes in demand for the realization of further optimization.

5) Improving Business Sustainability

As part of our natural disaster preparedness, we are striving to improve the continuity of our business activities through means such as multi-faceted review of BCP (business continuity planning) that includes supply chains, and decentralization of risk. We are implementing the latter by extending our production system across plants in Japan and Thailand, and by promoting overseas parts procurement.

6) Environmental Protection

We are taking a number of initiatives to ensure the protection of the environment. This includes considering environmental impact during product development, preparing our facilities to prevent contamination, efforts to reduce energy consumption, and company-wide education on efficient usage and recycling of materials. Going forward, we will continue to make sustainable environmental efforts that can contribute to development of a sustainable society

7) Enhancing Corporate Governance and Strengthening Internal Control

As a listed company, corporate governance is our responsibility to society, and to realize this, we must strengthen the internal control of our company. We have set “Basic Policies on the Internal Control System” as sought by the Companies Act and maintain a risk management structure. Furthermore, regarding internal control for financial reports as instituted by the Financial Instruments and Exchange Act, we are planning structural and organizational measures to ensure the appropriateness of such reports in accordance with the above basic policy.

Furthermore, “Japan’s Corporate Governance Code” has been applied to companies listed on the Tokyo Stock Exchange from June 2015. While understanding the purpose and spirit of this code fully and enhancing corporate governance, we will strive for sustainable growth and the increase of corporate value over the medium to long term through active dialogue with shareholders and investors, etc., by establishing the “Policy for Constructive Dialogue with Shareholders”.

3. Basic Policy on Selection of Accounting Standards

The Group applies Japanese Accounting Standards.

Concerning the future adoption of International Financial Reporting Standards (IFRS), the Group will consider its application while taking into consideration factors such as global adoption and domestic trends.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of Yen)

	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	10,003,132	9,766,525
Notes and accounts receivable - trade	4,919,547	4,621,555
Merchandise and finished goods	5,900,492	6,009,230
Work in process	76,976	28,229
Raw materials and supplies	2,391,214	2,392,219
Deferred tax assets	1,080,446	1,099,656
Other	1,334,151	2,520,292
Allowance for doubtful accounts	(53,872)	(66,155)
Total current assets	25,652,088	26,371,553
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,928,375	7,054,128
Accumulated depreciation	(4,054,575)	(4,333,086)
Buildings and structures, net	2,873,800	2,721,041
Machinery, equipment and vehicles	1,053,186	1,039,846
Accumulated depreciation	(711,924)	(717,813)
Machinery, equipment and vehicles, net	341,262	322,033
Tools, furniture and fixtures	3,620,466	3,624,684
Accumulated depreciation	(2,906,050)	(2,905,322)
Tools, furniture and fixtures, net	714,416	719,362
Land	3,107,278	3,130,077
Construction in progress	21,061	48,019
Total property, plant and equipment	7,057,818	6,940,534
Intangible assets		
Goodwill	410,076	372,297
Software	1,376,535	1,237,933
Telephone subscription right	12,162	8,598
Total intangible assets	1,798,774	1,618,829
Investments and other assets		
Investment securities	33,784	31,403
Deferred tax assets	789,882	672,679
Other	1,032,222	953,524
Allowance for doubtful accounts	(23,224)	(18,018)
Total investments and other assets	1,832,664	1,639,589
Total non-current assets	10,689,258	10,198,953
Total assets	36,341,346	36,570,506

(Thousands of Yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,923,210	1,908,452
Short-term loans payable	—	138,400
Current portion of long-term loans payable	1,440,000	1,440,000
Income taxes payable	246,996	130,486
Provision for bonuses	716,485	664,512
Provision for directors' bonuses	80,000	—
Provision for product warranties	552,306	538,417
Other	3,301,061	3,524,561
Total current liabilities	8,260,061	8,344,831
Non-current liabilities		
Long-term loans payable	4,680,000	3,240,000
Provision for employee stock ownership plan trust	91,256	102,876
Provision for management board incentive plan trust	223,132	253,692
Provision for loss on dissolution of employees' pension fund	—	51,732
Net defined benefit liability	960,630	642,269
Long-term accounts payable - other	117,622	42,213
Other	1,391,075	1,371,196
Total non-current liabilities	7,463,716	5,703,980
Total liabilities	15,723,778	14,048,811
Net assets		
Shareholders' equity		
Capital stock	3,668,700	3,668,700
Capital surplus	3,700,608	3,700,608
Retained earnings	14,808,134	16,030,080
Treasury shares	(623,301)	(579,561)
Total shareholders' equity	21,554,142	22,819,827
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,056	7,786
Foreign currency translation adjustment	(466,234)	(154,073)
Remeasurements of defined benefit plans	(473,444)	(151,913)
Total accumulated other comprehensive income	(936,622)	(298,200)
Non-controlling interests	48	68
Total net assets	20,617,567	22,521,695
Total liabilities and net assets	36,341,346	36,570,506

(2) Consolidated Statements of Operations and Comprehensive Income
Consolidated Statements of Operations

(Thousands of Yen)

	For the fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)
Net sales	44,112,327	43,573,215
Cost of sales	24,070,932	24,226,340
Gross profit	20,041,394	19,346,874
Selling, general and administrative expenses		
Transportation and warehousing expenses	906,139	958,003
Advertising and promotion expenses	1,109,340	1,125,002
Provision of allowance for doubtful accounts	—	15,198
Provision for product warranties	118,739	79,930
Salaries and bonuses	7,776,714	7,656,276
Provision for bonuses	376,327	392,166
Provision for directors' bonuses	80,000	—
Provision for employee stock ownership plan trust	20,353	10,614
Provision for management board incentive plan trust	72,146	69,278
Retirement benefit expenses	318,695	372,898
Traveling and transportation expenses	717,818	647,268
Depreciation	815,942	758,824
Commission fee	1,284,235	1,204,694
Other	2,086,126	2,203,432
Total selling, general and administrative expenses	15,682,581	15,493,589
Operating profit	4,358,812	3,853,284
Non-operating income		
Interest income	16,235	15,564
Gain on valuation of investments in money held in trust	34,120	62,575
Commission fee	—	26,402
Other	47,006	58,988
Total non-operating income	97,361	163,531
Non-operating expenses		
Interest expenses	31,742	19,816
Sales discounts	174,787	168,370
Foreign exchange losses	130,243	9,262
Other	14,613	14,847
Total non-operating expenses	351,387	212,297
Ordinary profit	4,104,787	3,804,518

(Thousands of Yen)

	For the fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)
Extraordinary income		
Gain on sales of non-current assets	10,398	11,238
Total extraordinary income	10,398	11,238
Extraordinary losses		
Loss on sales and retirement of non-current assets	31,990	23,005
Settlement package	—	1,381,457
Provision for dissolution of benefit obligation relating to employees' pension fund	—	51,732
Total extraordinary losses	31,990	1,456,196
Profit before income taxes	4,083,194	2,359,560
Income taxes - current	922,702	810,093
Refund of income taxes	—	(352,466)
Income taxes - deferred	454,637	(16,112)
Total income taxes	1,377,340	441,515
Profit	2,705,854	1,918,045
Profit attributable to non-controlling interests	19	13
Profit attributable to owners of parent	2,705,835	1,918,031

(Consolidated Statements of Comprehensive Income)

(Thousands of Yen)

	For the fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)
Profit	2,705,854	1,918,045
Other comprehensive income		
Valuation difference on available-for-sale securities	(457)	4,730
Foreign currency translation adjustment	(475,936)	312,167
Remeasurements of defined benefit plans, net of tax	(302,532)	321,530
Total other comprehensive income	(778,927)	638,428
Comprehensive income	1,926,927	2,556,473
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,926,910	2,556,453
Comprehensive income attributable to non-controlling interests	17	20

(3) Consolidated Statements of Changes in Net Assets

For the fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)

(Thousands of Yen)

	Shareholder's equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,668,700	3,867,377	16,167,288	(635,105)	23,068,260
Changes of items during period					
Dividends of surplus			(811,163)		(811,163)
Profit attributable to owners of parent			2,705,835		2,705,835
Purchase of treasury shares				(3,411,415)	(3,411,415)
Retirement of treasury shares		(166,768)	(3,253,826)	3,420,594	—
Treasury stock transfer of stock ownership plan trust			0	2,624	2,624
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	(166,768)	(1,359,153)	11,803	(1,514,118)
Balance at end of current period	3,668,700	3,700,608	14,808,134	(623,301)	21,554,142

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	3,513	9,700	(170,911)	(157,697)	30	22,910,593
Changes of items during period						
Dividends of surplus				—		(811,163)
Profit attributable to owners of parent				—		2,705,835
Purchase of treasury shares				—		(3,411,415)
Retirement of treasury shares				—		—
Treasury stock transfer of stock ownership plan trust				—		2,624
Net changes of items other than shareholders' equity	(457)	(475,934)	(302,532)	(778,925)	17	(778,907)
Total changes of items during period	(457)	(475,934)	(302,532)	(778,925)	17	(2,293,026)
Balance at end of current period	3,056	(466,234)	(473,444)	(936,622)	48	20,617,567

For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

(Thousands of Yen)

	Shareholder's equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,668,700	3,700,608	14,808,134	(623,301)	21,554,142
Changes of items during period					
Dividends of surplus			(696,086)		(696,086)
Profit attributable to owners of parent			1,918,031		1,918,031
Treasury stock transfer of stock ownership plan trust				43,740	43,740
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	—	1,221,945	43,740	1,265,685
Balance at end of current period	3,668,700	3,700,608	16,030,080	(579,561)	22,819,827

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	3,056	(466,234)	(473,444)	(936,622)	48	20,617,567
Changes of items during period						
Dividends of surplus				—		(696,086)
Profit attributable to owners of parent				—		1,918,031
Treasury stock transfer of stock ownership plan trust				—		43,740
Net changes of items other than shareholders' equity	4,730	312,160	321,530	638,421	20	638,442
Total changes of items during period	4,730	312,160	321,530	638,421	20	1,904,127
Balance at end of current period	7,786	(154,073)	(151,913)	(298,200)	68	22,521,695

(4) Consolidated Statements of Cash Flows

(Thousands of Yen)

	For the fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)
Cash flows from operating activities		
Profit before income taxes	4,083,194	2,359,560
Depreciation	1,253,831	1,150,891
Amortization of goodwill	126,498	78,239
Increase (decrease) in allowance for doubtful accounts	(106,069)	4,193
Increase (decrease) in provision for bonuses	44,546	(53,219)
Increase (decrease) in provision for directors' bonuses	10,000	(80,000)
Increase (decrease) in provision for product warranties	33,021	(15,728)
Increase (decrease) in provision for employee stock ownership plan trust	29,932	49,236
Increase (decrease) in provision for management board incentive plan trust	72,859	36,683
Increase (decrease) reserve for loss on dissolution of employees pension fund	—	51,732
Increase (decrease) in net defined benefit liability	44,600	142,351
Interest and dividend income	(16,753)	(16,046)
Interest expenses	31,742	19,816
Settlement package	—	1,381,457
Loss (gain) on sales and retirement of intangible assets	13,209	4,017
Loss (gain) on sales of property, plant and equipment	8,382	7,750
Decrease (increase) in notes and accounts receivable - trade	(750,000)	515,414
Decrease (increase) in inventories	592,666	201,672
Decrease (increase) in other current assets	335,198	(925,194)
Decrease (increase) in other non-current assets	13,065	24,984
Increase (decrease) in notes and accounts payable - trade	479,317	(518,296)
Increase (decrease) in other current liabilities	174,986	187,448
Increase (decrease) in other non-current liabilities	164,386	(93,067)
Other, net	62,820	41,771
Subtotal	6,701,439	4,555,669
Interest and dividend income received	35,699	19,423
Interest expenses paid	(33,164)	(19,834)
Settlement package paid	—	(1,341,705)
Income taxes paid	(1,334,426)	(766,636)
Net cash provided by (used in) operating activities	5,369,548	2,446,916
Cash flows from investing activities		
Payments into time deposits	(47,163)	(17,200)
Proceeds from withdrawal of time deposits	57	68,580
Purchase of property, plant and equipment	(757,894)	(547,769)
Proceeds from sales of property, plant and equipment	22,969	25,409
Purchase of intangible assets	(648,171)	(356,312)
Purchase of investment securities	(885)	(841)
Purchase of shares of subsidiaries and associates	(10,000)	—
Other, net	13,273	261
Net cash provided by (used in) investing activities	(1,427,814)	(827,872)

(Thousands of Yen)

	For the fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	132,400
Proceeds from long-term loans payable	2,880,000	—
Repayments of long-term loans payable	(2,520,000)	(1,440,000)
Purchase of treasury shares	(3,418,598)	—
Cash dividends paid	(813,402)	(698,043)
Other, net	(7,405)	90
Net cash provided by (used in) financing activities	(3,879,406)	(2,005,553)
Effect of exchange rate change on cash and cash equivalents	(378,764)	189,260
Net increase (decrease) in cash and cash equivalents	(316,437)	(197,248)
Cash and cash equivalents at beginning of period	10,009,074	9,936,096
Increase in cash and cash equivalents from newly consolidated subsidiary	243,460	10,000
Cash and cash equivalents at end of period	9,936,096	9,748,848

5. Other

Changes to Officers

(Scheduled on March 23, 2018)

(1) Change to Representative Director

Not applicable.

(2) Changes to Other Officers

1) New candidate for Director

Kohei Tanabe, Director (Currently President and Representative Director of DGSHAPE Corporation)

2) Director scheduled for promotion

Koichi Hashimoto, Managing Director (Currently Director)

3) Director scheduled for retirement

Masahiro Tomioka, Chairman and Director

Shuji Hotta, Managing Director

Chieko Okuda, Outside Director