

Translation

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Summary of Consolidated Financial Results for the Year Ended December 31, 2017 (Based on Japanese GAAP)

February 14, 2018

Company name: EPCO Co., Ltd.
 Stock exchange listing: Tokyo
 Stock code: 2311 URL <http://www.epco.co.jp/>
 Representative: President and Group CEO Yoshiyuki Iwasaki
 Inquiries: Chief Financial Officer Shinichiro Yoshihara TEL +81-3-6853-9165
 Scheduled date of ordinary general meeting of shareholders: March 23, 2018
 Scheduled date to file Securities Report: March 23, 2018
 Scheduled date to commence dividend payments: March 26, 2018
 Preparation of supplementary material on financial results: Yes
 Holding of financial results meeting: Yes

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the year ended December 31, 2017 (from January 1, 2017 to December 31, 2017)

(1) Consolidated financial results

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended December 31, 2017	3,438	5.1	555	501.3	511	27.3	351	14.1
Year ended December 31, 2016	3,270	4.4	92	-	401	476.0	308	208.4

	Earnings per share	Diluted earnings per share	Return on equity	Ordinary profit/total assets	Operating profit/net sales
	Yen	Yen	%	%	%
Year ended December 31, 2017	39.48	-	11.9	14.8	16.2
Year ended December 31, 2016	34.57	-	10.6	12.0	2.8

(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	3,532	2,996	84.8	336.11
As of December 31, 2016	3,385	2,915	86.1	326.96

(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
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended December 31, 2017	521	(362)	(244)	1,631
Year ended December 31, 2016	802	3	(259)	1,711

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended December 31, 2016	-	25.00	-	30.00	55.00	245	79.6	8.4
Year ended December 31, 2017	-	25.00	-	30.00	55.00	245	69.7	8.3
Year ending December 31, 2018 (Forecast)	-	12.50	-	15.00	27.50		-	

3. Forecast of consolidated financial results for the year ending December 31, 2018 (from January 1, 2018 to December 31, 2018)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending June 30, 2018	1,722	4.4	226	(13.6)	189	(25.9)	110	(36.1)	12.41
Full year	3,575	4.0	557	0.4	570	11.5	381	8.6	42.86

4. Notes

(1) Changes in significant subsidiaries during the year ended December 31, 2017

(changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: No

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements after error corrections: No

(3) Number of issued shares (common shares)

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

As of December 31, 2017	9,316,000 shares	As of December 31, 2016	9,316,000 shares
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Number of treasury shares at the end of the period

As of December 31, 2017	403,962 shares	As of December 31, 2016	403,962 shares
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Average number of shares during the period

Year ended December 31, 2017	8,912,038 shares	Year ended December 31, 2016	8,917,219 shares
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Consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	2,171,162	2,065,596
Notes and accounts receivable - trade	466,690	503,523
Work in process	38,984	44,200
Prepaid expenses	29,610	41,056
Deferred tax assets	25,145	28,415
Income taxes receivable	4	–
Other	29,117	33,576
Allowance for doubtful accounts	(8,272)	(4,254)
Total current assets	2,752,442	2,712,113
Non-current assets		
Property, plant and equipment		
Buildings and structures	140,362	142,497
Accumulated depreciation	(84,550)	(96,878)
Buildings and structures, net	55,812	45,618
Tools, furniture and fixtures	280,998	291,166
Accumulated depreciation	(195,952)	(210,909)
Tools, furniture and fixtures, net	85,046	80,256
Other	6,712	6,992
Accumulated depreciation	(3,809)	(776)
Other, net	2,903	6,216
Total property, plant and equipment	143,762	132,091
Intangible assets		
Software	163,962	184,093
Software in progress	26,525	21,539
Other	388	388
Total intangible assets	190,876	206,021
Investments and other assets		
Shares of subsidiaries and associates	50,534	198,479
Investments in capital of subsidiaries and associates	135,058	148,116
Other	112,390	136,017
Total investments and other assets	297,983	482,613
Total non-current assets	632,622	820,727
Total assets	3,385,064	3,532,841

(Thousands of yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	6,383	6,763
Accounts payable - other	106,599	110,151
Income taxes payable	94,223	147,481
Advances received	16,724	20,554
Provision for bonuses	13,746	17,983
Provision for shareholder benefit program	—	13,460
Other	198,676	197,471
Total current liabilities	436,354	513,866
Non-current liabilities		
Long-term accounts payable - other	11,360	11,360
Deferred tax liabilities	11,186	4,072
Other	11,073	6,970
Total non-current liabilities	33,619	22,402
Total liabilities	469,974	536,268
Net assets		
Shareholders' equity		
Capital stock	87,232	87,232
Capital surplus	118,032	118,032
Retained earnings	2,705,520	2,790,859
Treasury shares	(202,753)	(202,753)
Total shareholders' equity	2,708,031	2,793,370
Accumulated other comprehensive income		
Deferred gains or losses on hedges	(3,755)	(2,674)
Foreign currency translation adjustment	209,591	204,748
Total accumulated other comprehensive income	205,835	202,073
Subscription rights to shares	1,223	1,128
Total net assets	2,915,090	2,996,572
Total liabilities and net assets	3,385,064	3,532,841

Consolidated statements of income and consolidated statements of comprehensive income
Consolidated statements of income

(Thousands of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Net sales	3,270,477	3,438,407
Cost of sales	2,014,134	2,138,742
Gross profit	1,256,343	1,299,664
Selling, general and administrative expenses	1,163,965	744,160
Operating profit	92,378	555,503
Non-operating income		
Interest income	3,747	4,798
Commission fee	–	3,378
Subsidy income	313,849	–
Other	6,683	1,965
Total non-operating income	324,279	10,141
Non-operating expenses		
Commission for purchase of treasury shares	122	–
Share of loss of entities accounted for using equity method	6,222	49,990
Foreign exchange losses	8,766	4,013
Other	3	274
Total non-operating expenses	15,113	54,279
Ordinary profit	401,544	511,365
Extraordinary income		
Gain on reversal of subscription rights to shares	17	94
Gain on change in equity	30,235	2,785
Gain on sales of non-current assets	–	611
Gain on sales of shares of subsidiaries and associates	38,123	–
Total extraordinary income	68,376	3,491
Extraordinary losses		
Loss on retirement of non-current assets	331	235
Total extraordinary losses	331	235
Profit before income taxes	469,589	514,622
Income taxes - current	106,629	173,762
Income taxes - deferred	54,709	(10,957)
Total income taxes	161,339	162,804
Profit	308,249	351,818
Profit attributable to owners of parent	308,249	351,818

Consolidated statements of comprehensive income

(Thousands of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Profit	308,249	351,818
Other comprehensive income		
Deferred gains or losses on hedges	(3,755)	1,080
Foreign currency translation adjustment	(50,608)	(13,009)
Share of other comprehensive income of entities accounted for using equity method	(7,901)	8,166
Total other comprehensive income	(62,265)	(3,762)
Comprehensive income	245,984	348,055
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	245,984	348,055
Comprehensive income attributable to non-controlling interests	—	—

Consolidated statements of changes in equity

Year ended December 31, 2016

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	87,232	118,032	2,642,731	(188,894)	2,659,101	–	268,101	268,101	1,240	2,928,443
Changes of items during period										
Dividends of surplus			(245,461)		(245,461)					(245,461)
Profit attributable to owners of parent			308,249		308,249					308,249
Purchase of treasury shares				(13,858)	(13,858)					(13,858)
Decrease in retained earnings due to exclusion of equity method companies			–		–					–
Net changes of items other than shareholders' equity						(3,755)	(58,509)	(62,265)	(17)	(62,283)
Total changes of items during period	–	–	62,788	(13,858)	48,930	(3,755)	(58,509)	(62,265)	(17)	(13,352)
Balance at end of current period	87,232	118,032	2,705,520	(202,753)	2,708,031	(3,755)	209,591	205,835	1,223	2,915,090

Year ended December 31, 2017

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	87,232	118,032	2,705,520	(202,753)	2,708,031	(3,755)	209,591	205,835	1,223	2,915,090
Changes of items during period										
Dividends of surplus			(245,081)		(245,081)					(245,081)
Profit attributable to owners of parent			351,818		351,818					351,818
Purchase of treasury shares				–	–					–
Decrease in retained earnings due to exclusion of equity method companies			(21,398)		(21,398)					(21,398)
Net changes of items other than shareholders' equity						1,080	(4,843)	(3,762)	(94)	(3,856)
Total changes of items during period	–	–	85,338	–	85,338	1,080	(4,843)	(3,762)	(94)	81,481
Balance at end of current period	87,232	118,032	2,790,859	(202,753)	2,793,370	(2,674)	204,748	202,073	1,128	2,996,572

Consolidated statements of cash flows

(Thousands of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Cash flows from operating activities		
Profit before income taxes	469,589	514,622
Depreciation	118,531	119,906
Increase (decrease) in allowance for doubtful accounts	(2,474)	(4,018)
Increase (decrease) in provision for bonuses	1,205	3,656
Interest and dividend income	(3,747)	(4,798)
Subsidy income	(313,849)	-
Share of (profit) loss of entities accounted for using equity method	6,222	49,990
Loss (gain) on change in equity	(30,235)	(2,785)
Loss (gain) on sales of shares of subsidiaries and associates	(38,123)	-
Loss (gain) on sales of non-current assets	-	(611)
Loss on retirement of non-current assets	331	235
Decrease (increase) in notes and accounts receivable - trade	15,835	(35,470)
Decrease (increase) in works in process	21,808	(5,215)
Increase (decrease) in notes and accounts payable - trade	4,815	379
Increase (decrease) in accounts payable - other	(60,599)	3,552
Other, net	246,173	5,398
Subtotal	435,483	644,841
Interest and dividend income received	2,921	5,100
Proceeds from subsidy income	390,130	-
Income taxes paid	(33,446)	(144,803)
Income taxes refund	6,913	16,067
Net cash provided by (used in) operating activities	802,003	521,204
Cash flows from investing activities		
Payments into time deposits	(2,202)	-
Proceeds from withdrawal of time deposits	-	8,830
Purchase of property, plant and equipment	(39,895)	(38,864)
Proceeds from sales of property, plant and equipment	-	2,870
Purchase of intangible assets	(28,031)	(80,635)
Collection of loans receivable	5,000	-
Purchase of shares of subsidiaries and associates	-	(245,000)
Proceeds from sales of shares of subsidiaries and associates	67,412	-
Other, net	1,089	(9,576)
Net cash provided by (used in) investing activities	3,372	(362,375)
Cash flows from financing activities		
Purchase of treasury shares	(13,980)	-
Cash dividends paid	(245,705)	(244,963)
Net cash provided by (used in) financing activities	(259,686)	(244,963)
Effect of exchange rate change on cash and cash equivalents	(27,608)	6,598
Net increase (decrease) in cash and cash equivalents	518,081	(79,536)
Cash and cash equivalents at beginning of period	1,193,251	1,711,332
Cash and cash equivalents at end of period	1,711,332	1,631,796