TAIYO HOLDINGS CO., LTD.

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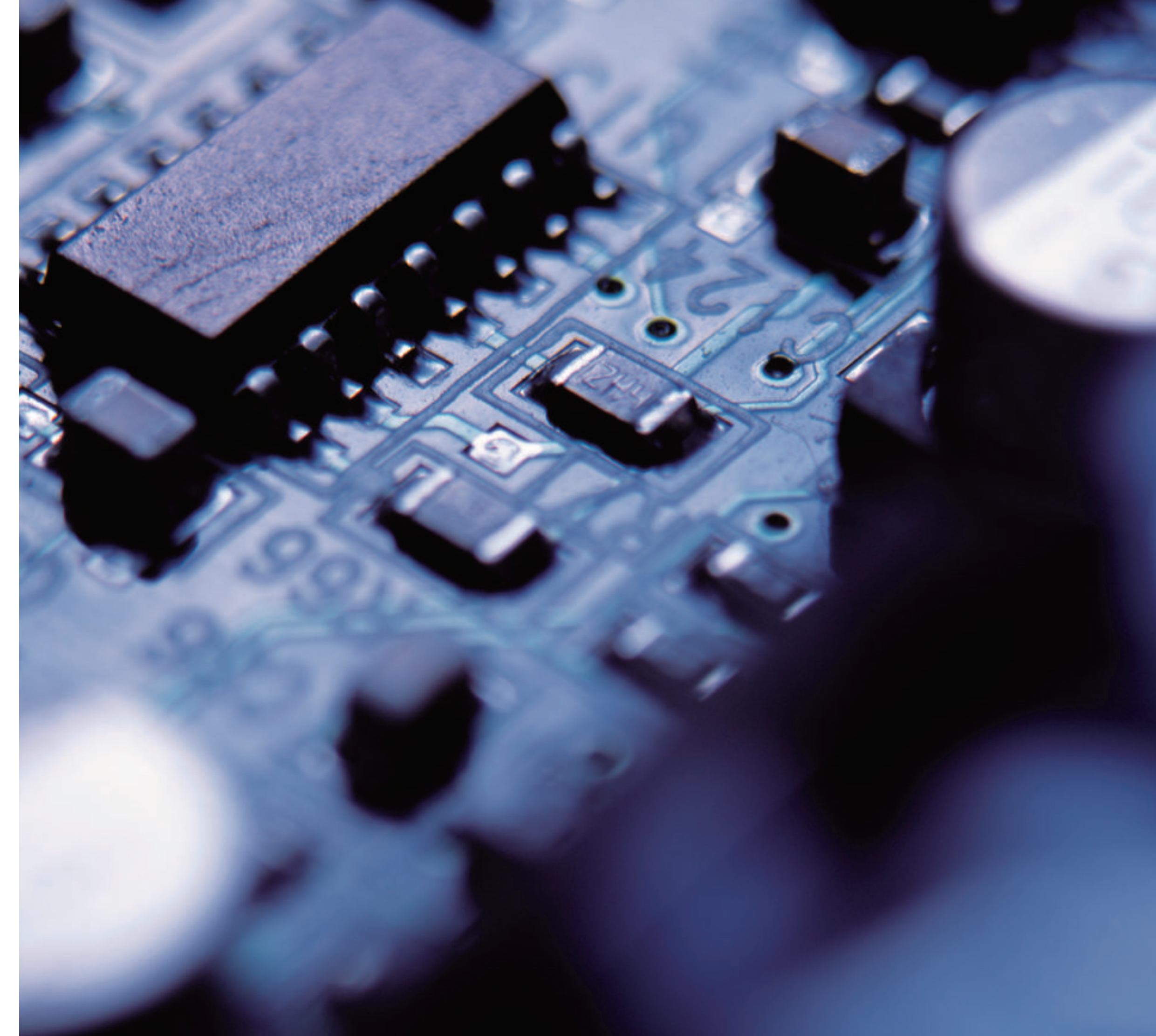
Passion for innovation

Annual Report 2016 Year Ended March 31, 2016

TAIYO HOLDINGS CO., LTD.

Management Philosophy

We will realize “a pleasant society” by further advancing “every technology” the Group has and creating a wide range of products to help fulfill the dreams for the whole world with our innovative products.



Our commitment to generating value

Launching new project teams to get products to market sooner

Development and manufacturing division personnel have been added and new project teams are being created with the aim of commercializing products within one to two years with particular emphasis on sales marketing. By fostering this type of environment where employees can devote themselves to development, we are able to create new products ahead of other companies.

Leading the global industry

Everywhere you need us to be

We are expanding our global networks so that we can supply exceptional products to customers worldwide. We have established manufacturing and sales bases in Japan, China, Taiwan, South Korea, and the United States and have marketing and technical service centers in Shenzhen and Hong Kong in China as well as in Singapore and Thailand, to cover global markets. In addition, we are actively increasing the overseas materials procurement rate to reduce risks posed by currency exchange rate fluctuations.

Creating the one and only product

Self-sufficient personnel are vital to the future of the group

For the Taiyo Group to achieve continuous growth, we need all employees to be self-sufficient, that is, personnel who are able to use opportunities and achieve personal growth. The Group creates such opportunities by dispatching employees to universities as well as improving workplace environments so that employees can create flexible ideas in their day-to-day work.

Profile

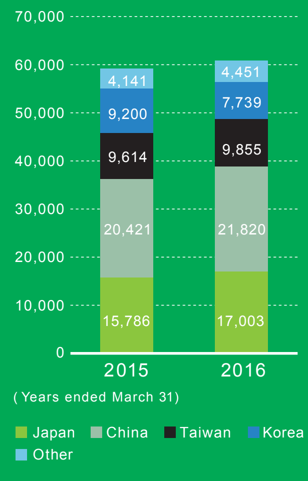
The Taiyo Group is the chemical manufacturer that commands a top-class global market share of solder resist, which is essential for the printed wiring boards (PWBs) used in a variety of electronics products, from such IT devices as mobile phones, PCs, and other digital equipment to digital household appliances and in-vehicle electronics equipment.

Established in 1953 as Taiyo Ink Manufacturing Co., Ltd., with the manufacture and sale of printing ink and related material products as its business objective, the Group undertook a major transformation of its business domains in 1976, to a business in which solder resist was made its mainstay product.

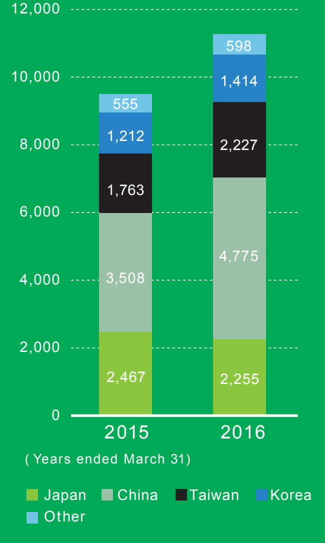
To target further growth, the Group is enhancing “every technology” of all its companies based on the technological capabilities that have been accumulated in the development and manufacture of solder resist. The Group will continue to supply across the world innovative products that go beyond solder resist.

In addition to maintaining its unwavering No.1 position in the solder resist field, in the years to come, the Group will be focusing on research and development and on the cultivation of businesses that will become pillars of new growth.

Sales by Segment (including inter-segment sales and transactions)



Operating Income by Segment



Contents

Basic Management Policies

Taiyo Holdings Co., Ltd. (“we” or “our”) has identified its objectives as a corporate group in the Management Philosophy and Basic Management Policy below. We will develop by continuing the spirit of our Management Philosophy without changes and reviewing our Basic Management Policies to match changes in the environment and strategy on a long-term basis.

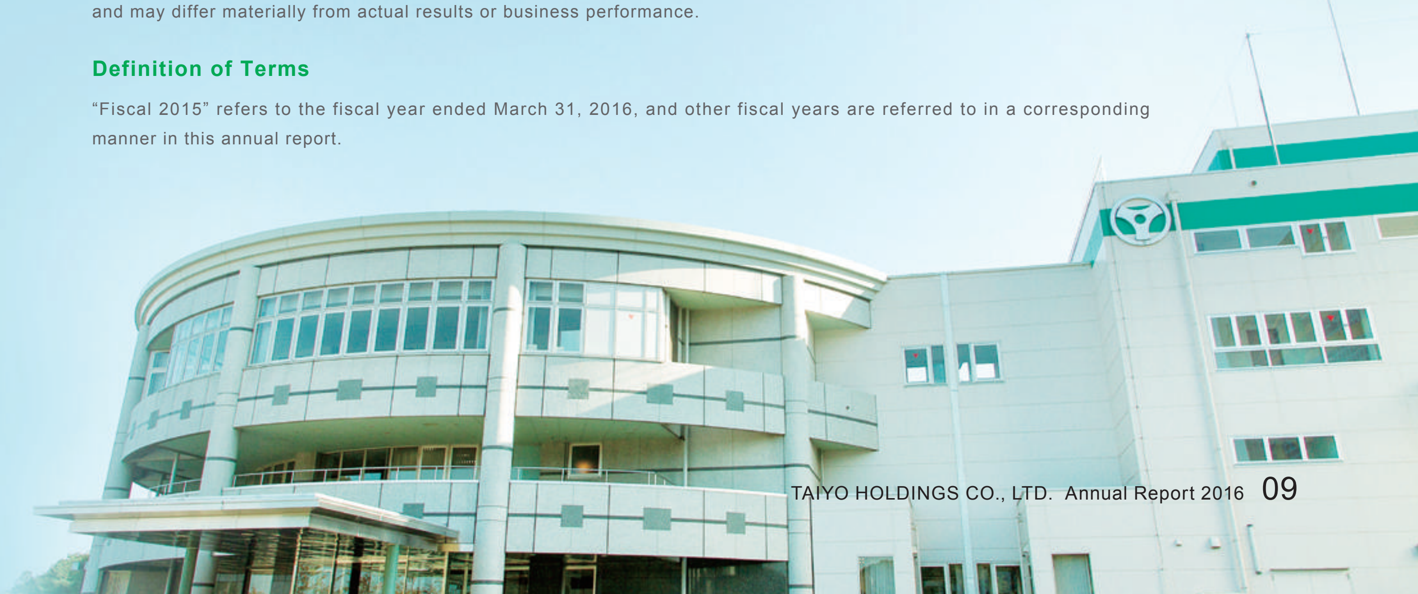
1. We will generate profit and increase corporate value, thereby contributing to the well-being and prosperity of customers, communities, shareholders, and employees.
2. We will discharge our corporate social responsibility with regard to the achievement of our Management Philosophy, including complying with the law, protecting the environment, ensuring thorough quality management, and contributing to society.
3. We will leverage our global system to always provide superior products and services.
4. We will constantly create opportunities for employees to challenge and develop themselves, aiming to have a corporate group composed of people who are highly motivated to be successful and to achieve goals set by themselves.
5. We will increase our comprehensive corporate strengths by maximizing cooperation between the Group companies and strengthen the teamwork of all employees with emphasis on “speed and communication.”
6. We aim to have a group of global companies able to contribute to the realization of a pleasant society by constantly working for technological innovation and creating new products and businesses.

Matters Regarding Forward-Looking Statements

This annual report contains forward-looking statements regarding Taiyo Holdings’ current management plans, strategies, and other matters. Readers are cautioned that these forward-looking statements hold inherent risks and uncertainties, and may differ materially from actual results or business performance.

Definition of Terms

“Fiscal 2015” refers to the fiscal year ended March 31, 2016, and other fiscal years are referred to in a corresponding manner in this annual report.



Growth Fundamentals Built Up over 60 Years

Taiyo Holdings was founded in 1953 as a manufacturer and marketer of printing ink. In 1976, the company made the major shift of focusing on solder resist products for the electronics industry.

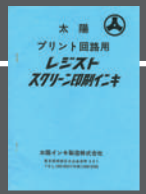
Today, having changed our company name from “Taiyo Ink Mfg. Co., Ltd.” to “Taiyo Holdings Co., Ltd.” and having revised our management philosophy in April 2013, we continue to evolve with the changing times while maintaining our founding desire to exist as a company that is useful to people everywhere and that brings light to the world like the sun. Moving forward, we will continue working to be a company that is loved by all.

1953

Taiyo Ink Mfg. Co., Ltd. established

Taiyo Ink Manufacturing was established as a manufacturing and marketing company for printing ink in Minato-ku, Tokyo. In Japanese, "taiyo" means "sun". The name was decided on because it reflects our desire to be a useful existence for people everywhere and bring light to the world like the sun, which gives its blessings to all life on earth.

1976



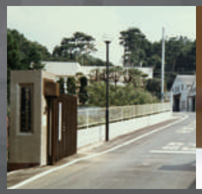
Radical change in business policy

In a radical change in business policy, the company decided to switch from printing ink, its traditional mainstay since its founding, to solder resist products and other chemical materials for the electronics industry. At the time, the chemical materials business was still in the trial and error stage and the marketability of these products was unknown; the future of the company therefore rested on this decision.

1982 Ranzan Plant (current Ranzan Facility) established.

1984 Exhibited liquid developable solder resist at the JPCA Show.

1985 The company developed the current standard liquid alkaline developable solder resist (PSR-4000) and applied for a basic patent.



1988

Commenced locally-based production overseas

In order to respond to rapidly increasing sales in Korea, Taiyo Ink Mfg. Co., (Korea) Ltd. was established and locally-based production was commenced. With locally-based production commencing in the USA, Taiwan, and China, Taiyo Ink has built up a global supply system focused on local production and local marketing.

1988 Established Taiyo Ink Co., (Korea) Ltd.

1990 Established sales subsidiary Taiyo America, Inc. in Nevada, USA.

1995 Transformed USA sales subsidiary Taiyo America, Inc. into a manufacturing and marketing company.

1996 Established local production subsidiary Taiwan Taiyo Ink Co., Ltd. in Taiwan.

1999 Established sales subsidiaries Taiyo Ink International (Singapore) Pte Ltd in Singapore and Taiyo Ink International (HK) Limited in Hong Kong.

2001

Listed on the First Section of the Tokyo Stock Exchange

Our listing on the First Section of the Tokyo Stock Exchange and the completion of the Ranzan-Kitayama Facility (current headquarters of Taiyo Ink Mfg. Co., Ltd.) enabled higher quality and more stable product supply in both Japan and overseas. Responding to the dramatically changing external environment, we also launched production and marketing in China.

2001 Opened the Ranzan-Kitayama Facility, the company's main domestic production base.

Established technical support subsidiary Taiyo Ink (Thailand) Co., Ltd. in Thailand and local production subsidiary Taiyo Ink (Suzhou) Co., Ltd. in China.

2010 Company Split implemented and corporate name changed to Taiyo Holdings Co., Ltd.

Established sales subsidiary Taiyo Ink Trading (Shenzhen) Co., Ltd. in Shenzhen, China.

2013

Commemorating our 60th anniversary, and taking on new challenges

As part of our strategy for ongoing Group growth, we are working to expand our share of the solder resist market while also creating a framework for the continuous development and rapid commercialization of new products that will grow into profit drivers to rival solder resist.

2013 Obtained Taiwanese company, "Onstatic Technology Co., Ltd."'s share and made it subsidiary company.

2014 Established photovoltaic power generation business subsidiary Taiyo Green Energy Co., Ltd. in Japan.

2015 Established Taiyo Ink Products Co., Ltd. in Korea as a sales subsidiary of Taiyo Ink Mfg. Co., Ltd.

Obtained Japanese company, "Chugai Kasei Co., Ltd."'s share by a stock swap and made it subsidiary company.

Eiji Sato, President and CEO

Focusing on Semiconductors and Other Growth Markets, Continuing to Advance Our Growth Strategies.

In fiscal 2015, Taiyo Group achieved record highs in net sales, operating income, and net income*. Specifically, net sales were 49,843 million yen (up 3.3% year on year), operating income was 10,964 million yen (up 18.5% year on year), and net income* was 7,796 million yen (up 16.9% year on year). This success was achieved through promoting the local procurement of inexpensive, good-quality raw materials and an improved cost ratio through the acquisition of former competitor Onstatic Technology Co., Ltd. (OTC). The trend towards yen depreciation also had a positive impact. Another major factor was adding Chugai Kasei Co., Ltd., which became a member of our Group in 2015, to the scope of consolidation beginning in May of this fiscal period.

For the upcoming fiscal period, we expect that the transition towards yen appreciation since the latter half of fiscal 2015 will have an impact on earnings but we will work toward achieving sustainable growth by focusing on forward-thinking management.

One such initiative we have worked towards since last fiscal year is R&D related to internalizing dry film solder resist (hereafter, dry film SR). The goal of this project was to establish technology for processing previously outsourced. The knowhow accumulated through this project greatly contributed to the creation of a dry film SR mass production line in the Kitakyushu Plant completed this year. Dry film SR is a product used in semiconductors, a sector that is expected to see significant growth in the future, and can become a new core technology for our company so we have great expectations for long-term business growth.

There are three strategies that are acting as drivers of Group growth. The first is our global network, which is vital to our Group as the company with the global top share of the solder resist market. We partner with offices around the world to ensure our constant ability to offer products and service that meet the needs of our customers. We also are seeing the continuing globalization of our transaction partners and beginning to receive more comprehensive orders. In Taiwan and Korea, we are beginning initiatives aimed at anticipating the needs of our customers.

The second strategy is the development of new products. We are fostering the seeds of future core businesses by dividing our research into three categories: research that will return results in 1-2 years, research that will lead to commercialization in 3-5 years, and research in new domains looking forward 5-10 years. May 2016 marked the completion of our renovated R&D center, the Ranzan Lab. Featuring the latest in advanced equipment, the facility provides an environment for internal R&D for semiconductors and other fields. The new Ranzan Lab will further enhance our new business development initiatives.

The third is the development of self-sufficient human resources. We participate in intern programs with universities and collaborating research institutions and implement other initiatives aimed at providing various experiences that cannot be gained at the workplace. In June 2016, a proposal by young employees led to the first update to our work uniforms in 21 years. We will continue to support such projects driven by employee feedback.

The Group is committed to our growth strategies and we will strive to enhance returns for our shareholders by applying income generated through these growth strategies to provide stable dividends. In particular, we will aim to continue achieving a medium- to long-term dividend on equity ratio (DOE) of 5%. We will work as a Group to meet expectations and constantly be worthy of the trust imparted on us by our shareholders and all our stakeholders.

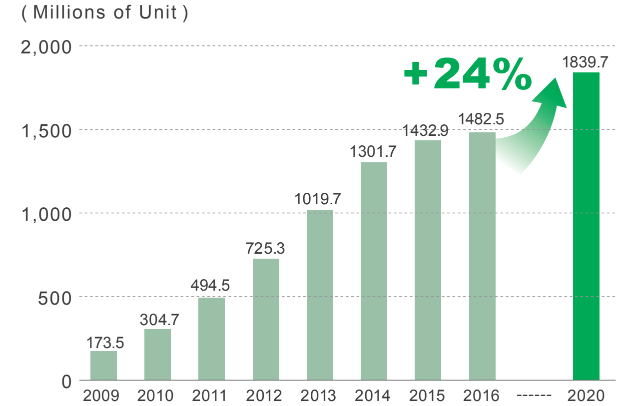
*Net income attributable to owners of parent

New Manufacturing Base in Kitakyushu to Strengthen Our BCP and Competitive Advantage

Customer needs related to our products are changing, mainly due to shift towards lighter, smaller smartphones and tablets seen in recent years. As a product that meets these needs, demand for dry film-type solder resist (dry film SR) is growing. Liquid-type solder resist (liquid SR) long dominated the market but today the focus is shifting to dry film SR, which is ideal as a solution for the continuing trend towards reduced size and low-profile products and contributes to the reduction of manufacturing steps. There are high expectations that dry film SR will find broad use in the next generation of products brought about due to the growing trend towards IoT. However, we did not have a top-to-bottom in-house production system in place for dry film processing because in the past we outsourced the dry film coating process. Recognizing the need for rapid and flexible responses to future dramatic changes in customer needs, we decided to apply our cumulative technology and experience towards establishing a mass production system and internalizing processes related to dry film products.

Global Smartphone Shipments

(Millions of Unit)



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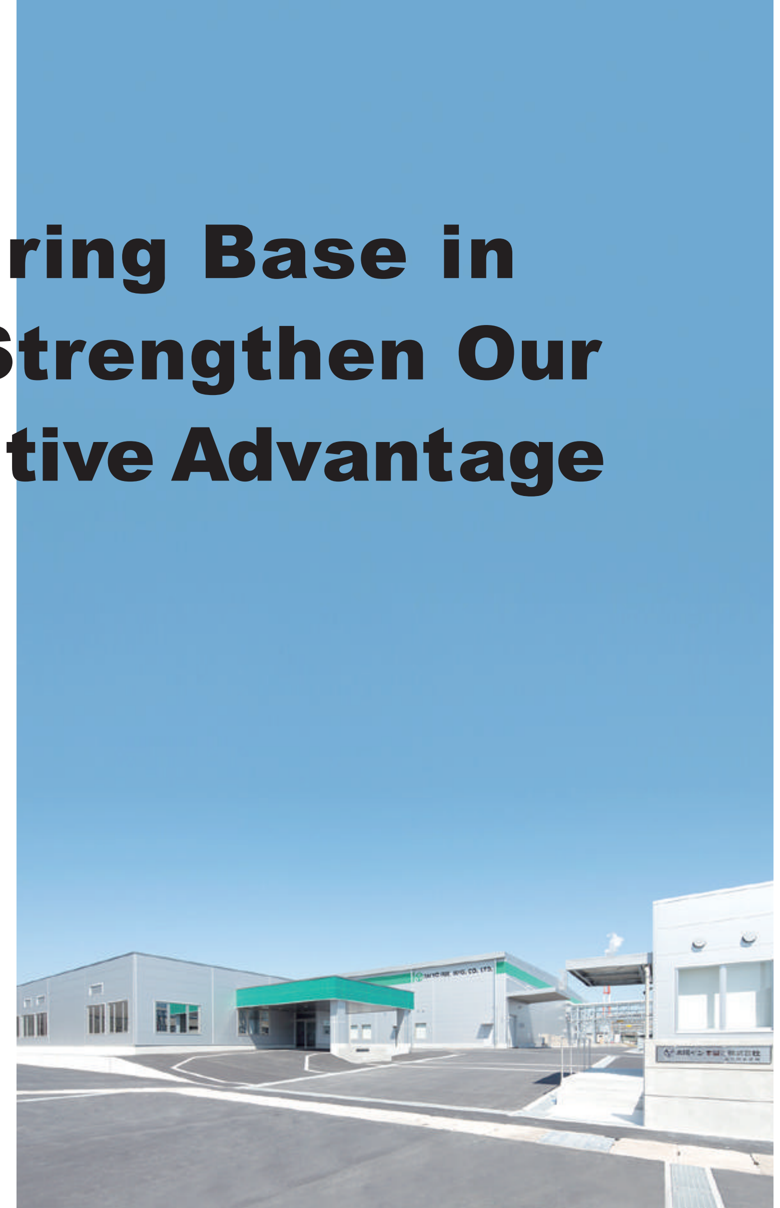
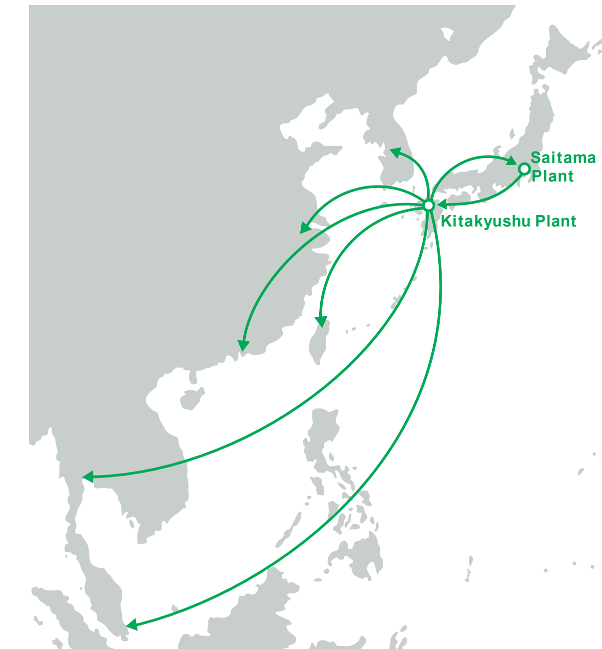


Construction of our dry film plant was completed in Kitakyushu in October 2015. There are two reasons why we chose Kitakyushu as the location of our new manufacturing base. The first is our Business Continuity Plan (BCP). Kitakyushu offers excellent access to Korea, Taiwan, and China, which are home to many of our customers. And due to its physical separation from the Kanto Region, we saw Kitakyushu as the optimal location for our No. 2 manufacturing base. This will enable stable supplies from Japan, the main manufacturing base for our high-performance products. The second reason is reestablishing Japan's technological superiority. While purely from a cost perspective it might be cheaper to establish a new plant overseas, we chose Kitakyushu because we want to focus on showing the world the strengths of Japanese technology. We are committed to delivering to global markets technology that cannot be mimicked by overseas manufacturers. We will remain committed to addressing the needs of our customers while working daily to strengthen our BCP and improve our technological competitiveness.



We gradually transition customers onto Kitakyushu products through a process that entails providing sample work until we earn customer approval. In addition to dry film SR, we simultaneously conduct sample work for liquid SR in order to further solidify our BCP and reestablish Japan's technological superiority.

Taiyo Ink Mfg Co., Ltd. Kitakyushu Plant

Location	:	Yahatanishi-ku, Kitakyushu, Fukuoka
Site area	:	approx.. 18,000m²
Product	:	Liquid-type SR and Dry film-type SR for semiconductor PKG board
Capacity	:	Liquid-type 1,500 tons per year, Dry film-type 2,800,000m² per year

Birth of the Ranzan Lab Featuring Advanced Facilities for Medium-and Long-Term Growth

Enables speedy internal R&D

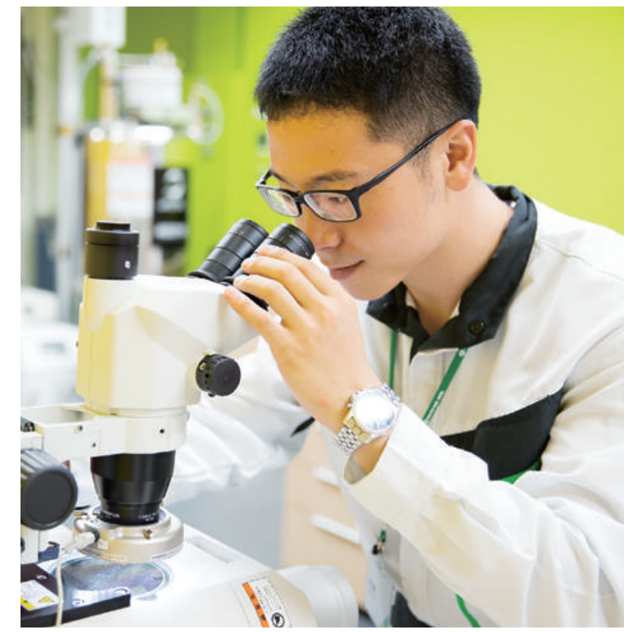
As a top manufacturer of solder resist (SR), our company aims to achieve further growth (strategy). Amid an environment of intensifying competition, moving forward it will be vital that we develop new products ahead of our competitors while adapting to hectic changes in the market. We will challenge ourselves to not focusing only on SR, but instead applying our expertise in electronic material technology and chemical technology to develop business in a diverse range of markets and industries. To achieve this, for the first time in 20 years our Group conducted a full renovation of our R&D center. The Ranzan Lab was completed on May 31, 2016.

The No.1 feature of the Ranzan Lab is the functional arrangement of advanced equipment. This includes organic synthesizers, analyzers such as NMR, GCMS, and LCMS, advanced measurement equipment such as FE-SEM and AFM, a white light interference microscope, and reliability evaluation equipment for the wide range of materials we create. The creation of a one-stop internal R&D solution enables us to conduct speedy validation and evaluations.

Ability to expand new business beyond the SR sector

Another notable point is that we now have an internal facility for conducting R&D for sectors related to semiconductors, a field that is expected to see significant growth in the future. The new construction of the Ranzan Lab enables us to conduct R&D for a wide range of semiconductor materials beyond SR.

In the past, we have outsourced evaluations to external partners but results typically took one to three weeks. Conducting this work in-house will enable us to gain results in one to two days, which will greatly reduce development time. This further increases our ability to create new business ahead of our competitors.



Optimal research environment for engineers

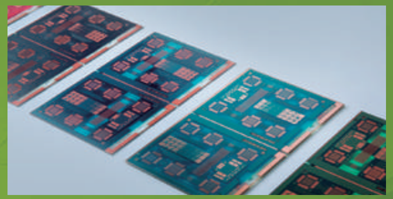
The Ranzan Lab is designed to provide a pleasant working environment for engineers. Beyond its design as an optimal facility for the use of organic solvents, we factored in necessary functionality and worker movement to emphasize size reductions and improve research efficiency.

The interior of the Ranzan Lab features a design that is far removed from the typical lab. The typical image of a research lab is a cold, inorganic environment but these renovations completely eliminate that look. We chose wood-grain lab tables and walls with vivid colors such as yellow and green to create a warm environment. The office area adjacent to the Ranzan Lab features a collection of Japanese traditional art, and drawings and calligraphy from around the world to help stimulate the imagination and creativity of our engineers. The space provides an opportunity for our engineers to experience fine art form around the world.

Engineers who have used the Ranzan Lab have provided strongly positive feedback, noting that the lab is more spacious and brighter, and that speedy test results make it possible to get started on new work. This renovation is sure to promote the development of our engineers and further accelerate the creation of new businesses.

Classification of Products

Rigid PWB Materials



A liquid solder resist that is applied to the surface of a rigid board. A mainboard is a printed wiring board (PWB) made with a rigid insulated substrate. This single board, primarily installed inside electronic devices, is mounted with LSIs, resistors, condensers and other components.

PWB Materials Other than Rigid PWB
(PKG, FPC, and build-up board materials)

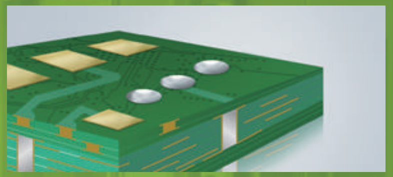
Semiconductor Packaging (PKG) Materials

Solder resist applied to the surface of a PKG board. Two types available: liquid and dry film. A PKG board is a type of printed wiring board used as an interposer when mounting semiconductors such as computer CPUs, smartphone AP or memory.

Flexible Printed Circuit (FPC) Materials

Main products include solder resist that is applied to the surface of flexible boards and a photoimageable coverlay. One of our new products, this photoimageable polyimide film offers both high resolution and high bendability. A flexible printed circuit board is a soft, flexible board made from polyester or polyimide film coated with copper foil.

Build-up Materials



Main products include hole-plugging ink and interlayer insulation materials. Build-up refers to a method of manufacturing heavily layered PWBs by alternately laminating insulated and conductive layers on a core board (or base board). The ink used to fill conductive holes in a core board is called hole-plugging ink. The laminated insulation is called interlayer insulation.

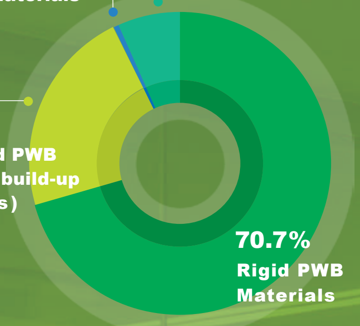
Flat Panel Display (FPD) Materials

Main products include conductive silver paste and conductive adhesives.

Other Related Products

Main products include marking ink, etching ink, plating materials, flux and solvent.

Summary of Sales
by Product Group



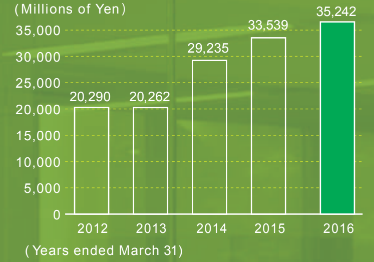
Consolidated Net Sales

¥49,844 million

Our net sales, operating income, and net income reached the highest ever results in fiscal 2015 (ended March 31, 2016).

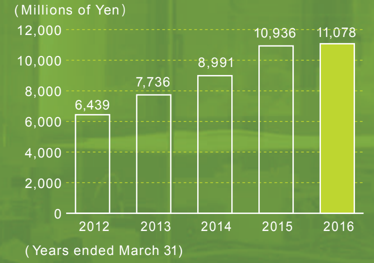
Rigid PWB Materials
¥35,242 million

Looking back over the past 5 years, demand for smartphones, communications servers and vehicle installation parts had remained strong. Combined with the benefits of acquiring Onstatic Technology Co., Ltd. (OTC), sales increased by 73.7% between fiscal 2011 and fiscal 2015. Sluggish smartphone demand in fiscal 2015 resulted in sales volume falling below numbers from the previous fiscal year but strong sales of high function products and yen depreciation resulted in an increase in year-on-year sales.



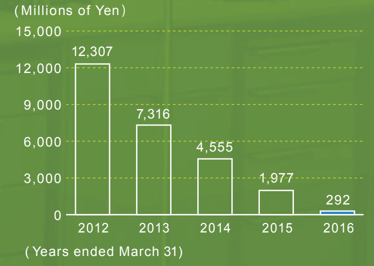
PWB Materials Other than Rigid PWB
(PKG,FPC, and build-up board materials)
¥11,078 million

Demand for PKG board materials, particularly demand for smartphone parts, has been firm over the past 5 years, resulting in fiscal 2015 sales that are up by 72.0% compared to fiscal 2011. Although smartphone sales were sluggish in fiscal 2015, sales increased slightly year-on-year by 1.3% thanks to increased sales volume for dry film solder resist and the effect of yen depreciation.

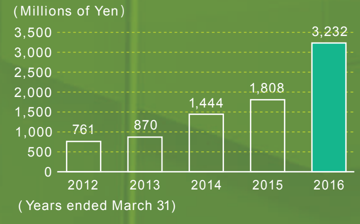


FPD Materials
¥292 million

After peaking in fiscal 2011, sales of plasma display panel (PDP) materials, previously the mainstay product of the FPD business, deteriorated and become non-existent by September 2014 as electronics manufacturers withdrew from the PDP business. Fiscal 2015 sales were further impacted by a year-on-year decline in both sales volume and amount due to the shutdown of PDP materials production. Beginning next year, this segment will be recorded under “Other Related Products”.



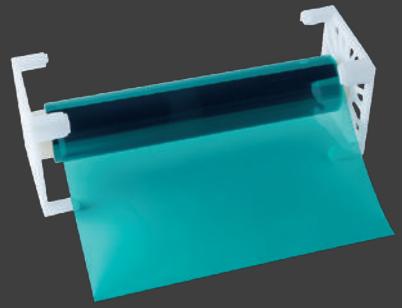
Other Related Products
¥3,232 million



Liquid-Type SR

There are various types of SR, but Taiyo Ink was a pioneer in the development of alkaline developable liquid-type SR, which has now become a leading product. It is characterized by high sensitivity as well as outstanding gold plating resistance and water-soluble flux resistance. It is also used as SR on automotive PWBs for its excellent migration resistance and pressure cooker test resistance.

Taiyo Ink SR products

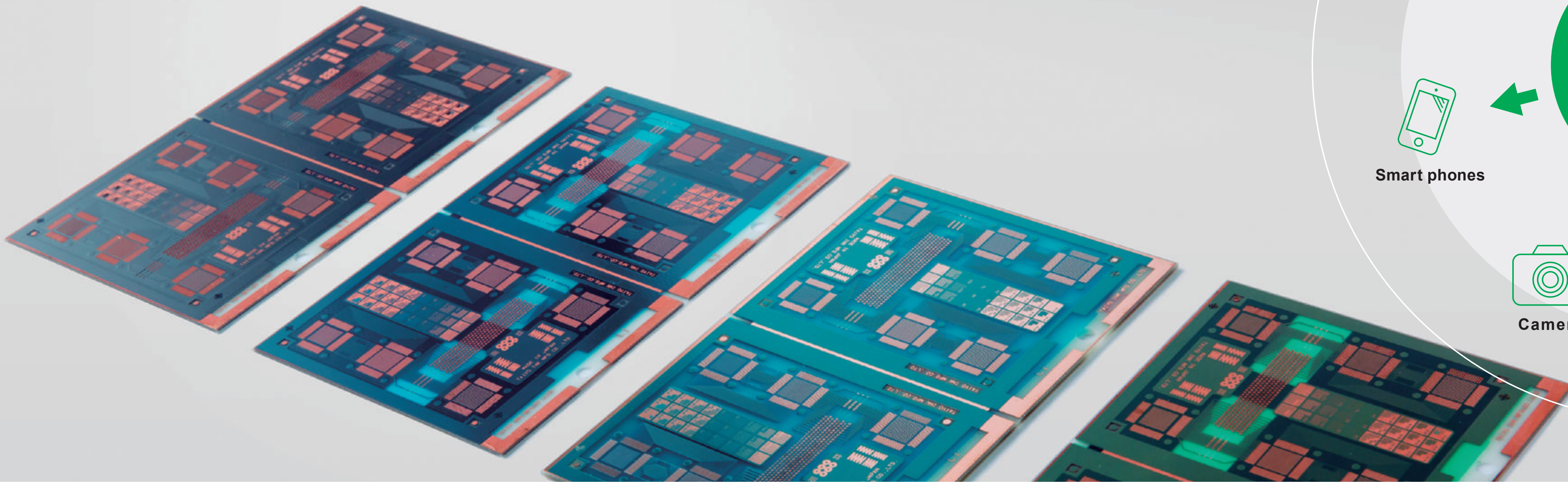


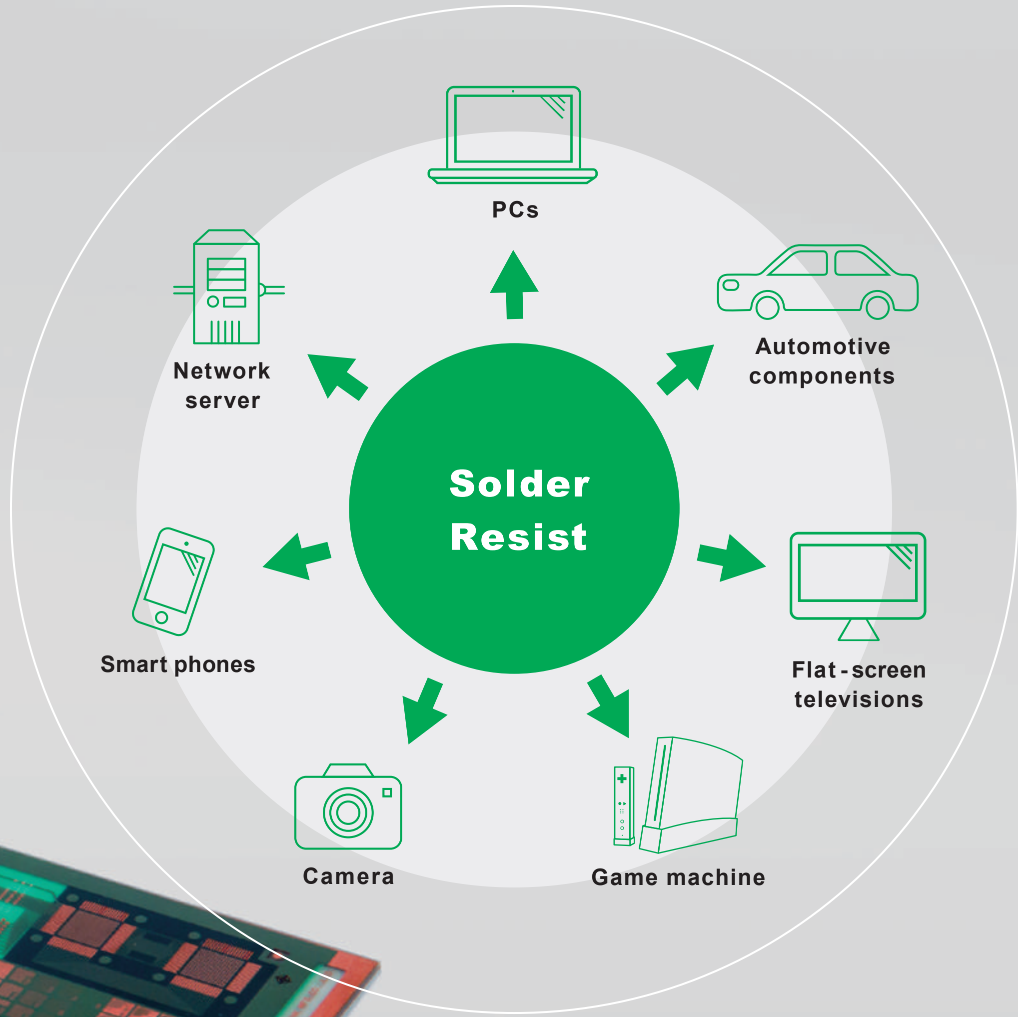
Dry Film-Type SR

Existing liquid-type SR can be preprocessed into a film and a uniform thickness can be achieved. The use of dry film-type SR on semiconductor PKG substrates is increasing. Because the drying process, which is essential for liquid-type SR, can be eliminated, it is expected that dry film-type SR will reduce manufacturing costs.

Solder Resist

Printed wiring boards (PWBs) are used in various digital consumer electronics such as mobile phones as well as electronic products such as automobile electronics equipment. Solder resist (SR), a core product of the Taiyo Group, protects PWBs by coating the surface of the conductor circuits, preventing short circuits and other product problems, and making long-term, stable use possible.





Roles of Solder Resist

1 Preventing solder attachment in areas where it is not needed

When various components are mounted on a PWB, SR plays a role in preventing short circuits that can occur as a result of solder adhering to areas other than contacts that are electrically connected.

2 Protecting circuit patterns from dust, heat, and moisture

SR protects circuit patterns from the external environment including dust, heat, and moisture. This makes it possible for electronic devices to operate stably over extended periods.

3 Maintaining electrical insulation between circuit patterns

In conjunction with the miniaturization of electronic devices, package substrates are also becoming increasingly fine with circuit patterns on general circuit boards in the 50 μm to 150 μm range. SR maintains insulation between circuit patterns, preventing short circuits.

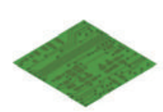
Photoimageable Solder Resist Pattern Formation Process (Photolithography)

1. Printing (coating)

SR is applied to the entire surface.

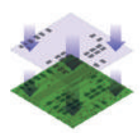
Before SR application
(Copper circuit pattern formed)

2. Pre-curing



The wiring board is heated to 80°C for 20 to 30 minutes and provisionally dried.

3. Light exposure



The wiring board is exposed to ultraviolet light passed through a negative film. The SR in areas exposed to the light hardens.

4. Developing

The unhardened SR is washed off using a developing agent (a dilute alkali water solution).

5. Post-curing

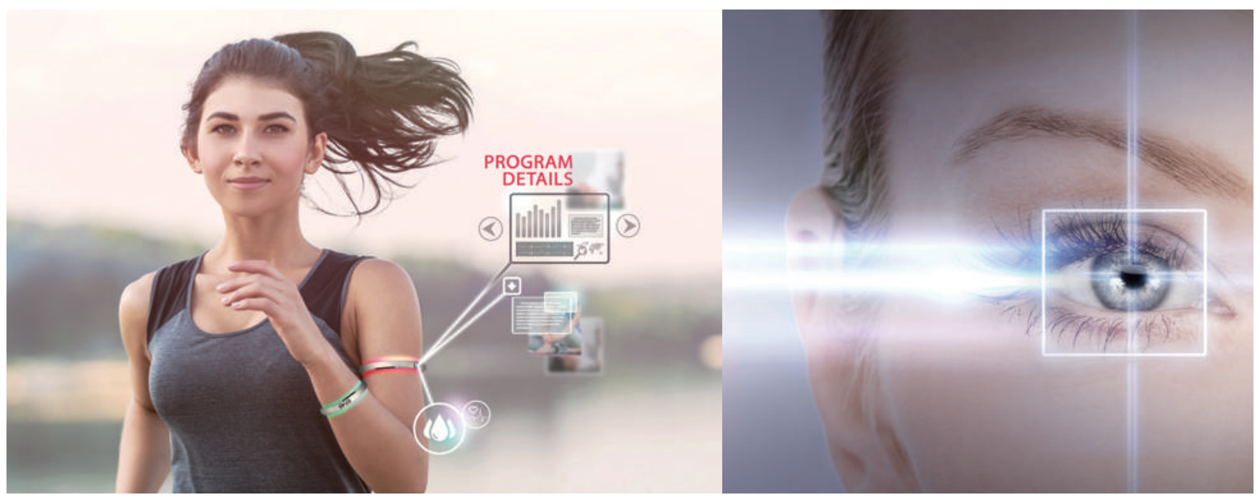
The circuit board is heated to 150°C for 50 to 60 minutes to harden the SR.The SR pattern formation process is complete.

Stretchable Conductive Paste

Today, wristbands and various other wearable terminals have developed to a point where they have reached a status of familiarity among consumers.

On the horizon is the full-scale development of the market for medical healthcare wearables, which will further drive growth on the wearable market and the need for the stretchable conductive paste that allows electrical flow even when expanded or contracted.

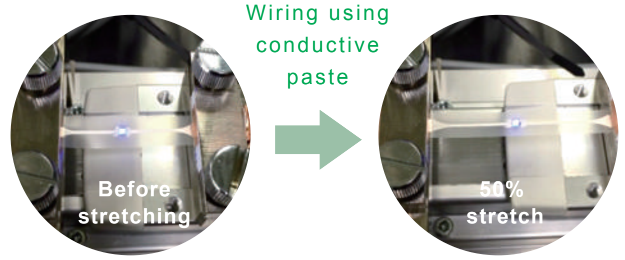
Applying the technologies we have cultivated over the years, we have succeeded in the development of stretchable conductive materials. Our objective is to achieve commercialization by working with direct customers and end customers in Japan and overseas to develop unprecedented innovative products.



Characteristics

Wearable devices are electronics that are used by wearing them on the body. This often requires stretching properties in the parts and materials used in these devices.

The stretchable conductive paste we developed is a material that allows for wiring through screen printing and processing in low-temperature conditions, and maintains high electrical conductivity when stretched.



Even at 50% stretch the LED in the center remains lit.

Going forward we will continue to develop new customers and aim to start sales of materials based on mass production application within the next few years and launch innovative new products on the global market.

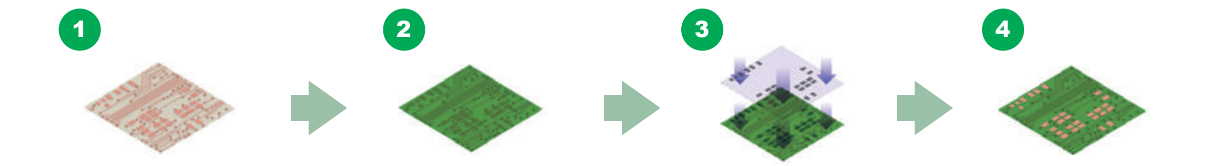
Solder Resist for Inkjet Printer

In the current PCB industry, coatings using the inkjet method have been limited to those used for printing on boards. We launched this project with the objective of leading our industry in the introduction of products for applying solder resist.

Characteristics

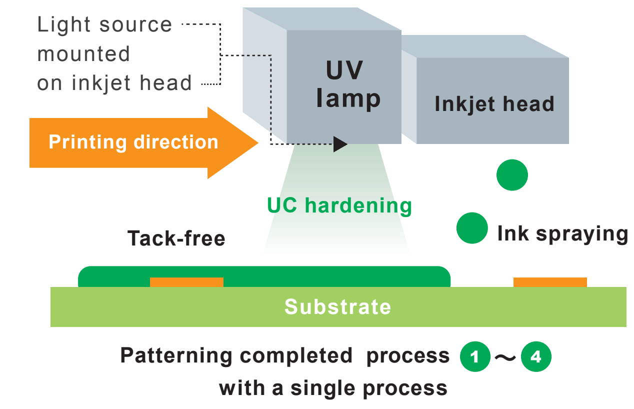
Solder resist printing using an inkjet system has the benefit of significantly reducing the number of processes compared to conventional photoimageable solder resist. There also are a number of sectors able to take advantage of the ability to form images directly using data. As such, we view this market as having significant development potential.

Current Ex.) Photoimaging SR pattern formation



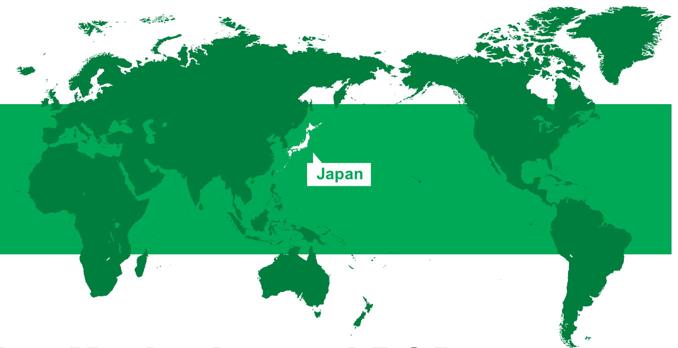
Inkjet solder resist printing method

Patterning completed solely with Inkjet printer.



Going forward we will utilize our Group strengths to engage in sales of products utilizing SR ahead of our competitors as we aim to corner the market.

Japan



Fulfilling the Vital Role of Asian Marketing and R&D

One of the major roles we fulfill as the Group holding company is the general management, implementation, and promotion of our Asia market strategy. Capturing customers before they realize their own needs requires that we constantly watch the entire Asian market and conduct marketing-backed R&D to create new products that match customer needs.

For example, in China new manufacturers of smartphone components are constantly spinning out from major companies. Because quickly ascertaining the existence of these new companies is difficult for our local subsidiary to accomplish on their own, we are applying the marketing power of our Japanese offices to directly approach promising printed wiring board (PWB) manufacturers. Once we know that the company has unconventional needs, then we move onto an evaluation of new product development.

To ensure our ability to adapt flexibly to various market, our Japanese marketing team features personnel who are knowledgeable in the markets of each country and are fluent in foreign languages. Currently, we have dedicated Indian staff who is aggressively researching Indian markets that seem poised to explode in the future.

Conversely, it is easier for us in Japan to gather the latest information related to the promising semiconductor market compared to offices in other regions. We partner with sales staff in charge of semiconductor manufacturers to pick up on developments on next-generation products ahead of our competitors and provide rapid, attentive service.

Another role we fulfill is to drive R&D. May 2016 marked the completion of our renovated R&D center, the Ranzan Lab. The Ranzan Lab features the latest in advanced equipment, from organic synthesizers to analyzers such as NMR and GCMS, measurement equipment for a white light interference microscopy, and reliability evaluation equipment for the wide range of materials we create. The facility enables researchers to conduct speedy validation and evaluations. And establishing an environment for internal R&D in the extremely promising semiconductor field will enable us to conduct R&D on a wide range of materials other than SR. The new facility will enhance all our research activities, from short-term research aimed at 1-2 years ahead to forward-looking research aimed at new business development 10 years from now.

Since 2015, our Kitakyushu Plant has been working on R&D aimed at establishing a production line for dry film solder resist used in semiconductor packages with operations scheduled to begin in 2017. To further our efforts to accumulate Group knowhow and expand into new fields, we acquired Chugai Kasei Co., Ltd. in 2015. Chugai Kasei is involved in R&D in the fine chemical sector, a high added value area that previously we outsourced to other companies.

By fulfilling our vital role as the core of Asia marketing and as a driver of R&D, we will continue to promote improved earnings in each country.

Consolidated Group Subsidiaries

TAIYO INK MFG CO., LTD

Development, manufacture, and sale of printed wiring board materials and flat panel display materials

CHUGAI KASEI CO., LTD.

Manufacture and sale of dyes, pigments, chemicals and others

Unconsolidated Group Subsidiaries

TAIYO GREEN ENERGY CO., LTD.*

Power generation via natural energy and other sources, the supply and sale of electricity, plant factory operation

*Became a consolidated subsidiary beginning in fiscal 2016.


TAIYO INK MFG CO., LTD

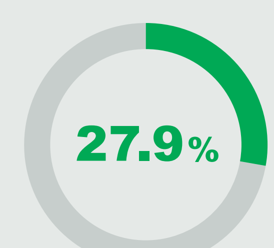

CHUGAI KASEI CO., LTD.

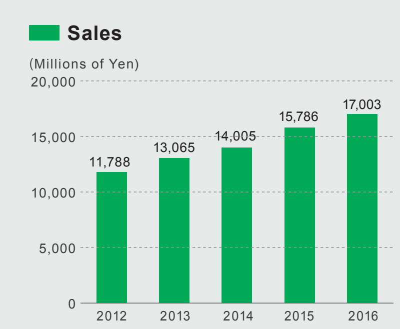

TAIYO GREEN ENERGY CO., LTD.

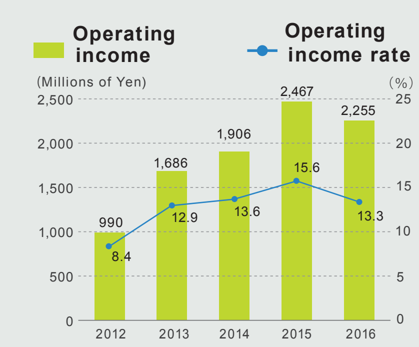
Performance Overview

Overall demand remained flat for the high function products of PWB materials. However, the inclusion of Chugai Kasei Co., Ltd. in the scope of consolidation as of this first quarter ended June 30, 2016 had an impact, with the sales amount increasing year on year. On the other hand, the impact of upfront costs related to setting up the Kitakyushu Plant, Taiyo Ink Mfg. Co., Ltd.'s new factory, led profit to drop year on year.

As a result, net sales amounted to 17,002 million yen (up 7.7% year on year) with segment profit at 2,254 million yen (down 8.6% year on year).

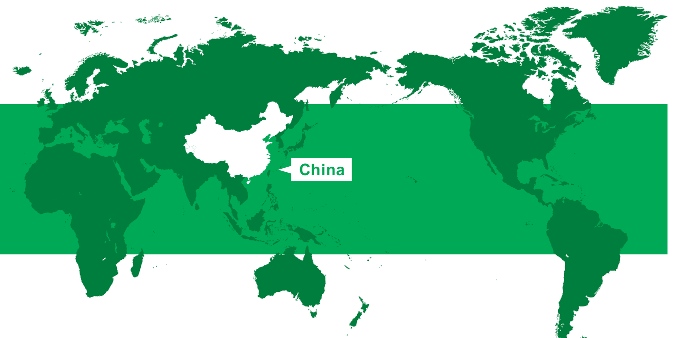






China

(including Hong Kong)



Three Strategies to Expand Share

In the China market, we are executing three strategies aimed at expanding Group market share.

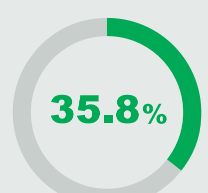
The first is the procurement of inexpensive, good-quality raw materials in the generic products sector to improve a business structure that has been susceptible to the influences of the currency market. These cost reductions will increase our superiority over competitors and expand our market share.

The second strategy is to conduct sales activities targeting automotive parts manufacturers that select and employ PWB parts. The automotive market has numerous untapped parts manufacturers and the segment appears poised for growth. We will continue our initiatives from the previous fiscal year by conducting aggressive sales activities to increase market share.

The third strategy is the development of the smartphone industry. The market is expected to see significant growth in the future and is a core market for our Group. The number of units sold by Chinese device manufacturers is expected to become the highest in the world as numbers are driven up by the country's continuously increasing population. As a result, new parts manufacturers are constantly emerging in China, with many of these companies developing into blue chip manufacturers of terminals and parts. Our Group will partner with our Japanese marketing team to identify the technical strengths and key customers of parts manufacturers we have yet to approach in order to develop new customers and increase market share. We expect these efforts will be reflected in the net sales and income for this fiscal year and beyond.

Consolidated Group Subsidiaries

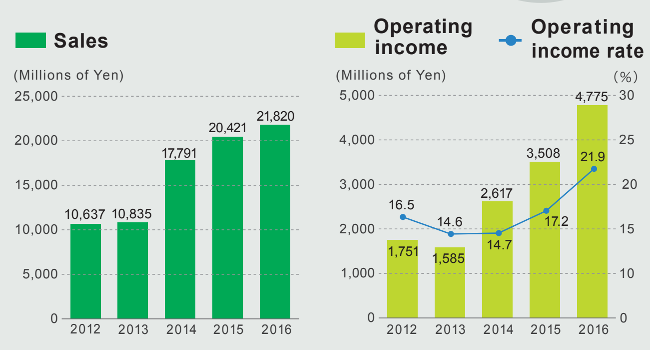
- TAIYO INK (SUZHOU) CO., LTD.
- ONSTATIC INK (SHENZHEN) CO., LTD.
- TAIYO INK INTERNATIONAL (HK) LIMITED
- TAIYO INK TRADING (SHENZHEN) CO., LTD.



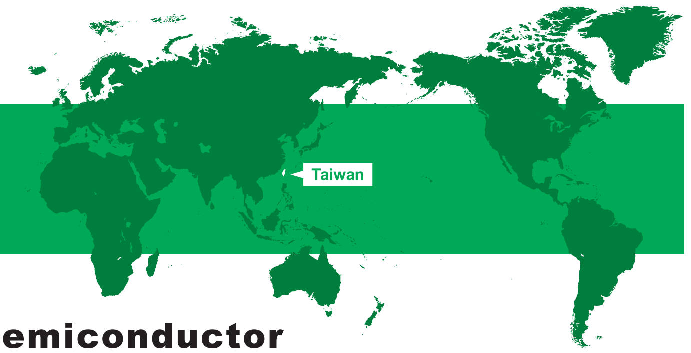
Performance Overview

In addition to firm sales of materials for lighting and vehicle installation parts, yen depreciation in foreign exchange contributed to a year-on-year increase in net sales and profit.

As a result, net sales amounted to 21,820 million yen (up 6.9% year on year) with segment profit at 4,775 million yen (up 36.1% year on year).



Taiwan



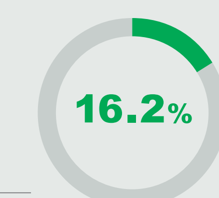
Identifying Trends Among Semiconductor Manufactures and Innovating Productivity

The economy of Taiwan is unique for its high level of dependency on exports. Among its many export products, the country's core exports are electronics products. Like many advanced nations, manufacturers in Taiwan are trending towards moving production facilities to developing nations. In particular, the majority of PWB manufacturers are now conducting production in China and other countries. However, R&D functions remain in Taiwan and, in general, decision-making concerning the selection and use of new parts and materials used in new products is being conducted in Taiwan. However, when it comes to semiconductors and the other high value-added electronic components that make up the core of finished products, everything from R&D to production continues to be conducted in Taiwan. With this in mind, our Taiwanese subsidiary is partnering with out Japanese marketing team to quickly identify trends in PWB manufacturer R&D departments, and among semiconductor and other electronics manufacturers. We will expand sales by introducing proposals that proactively target next-generation products.

To promote these activities, we are planning improvements to production processes that will improve productivity at Taiwan Taiyo Ink Co., Ltd. and other production facilities to facilitate the quick provision of products that meet the needs of our customers.

Consolidated Group Subsidiaries

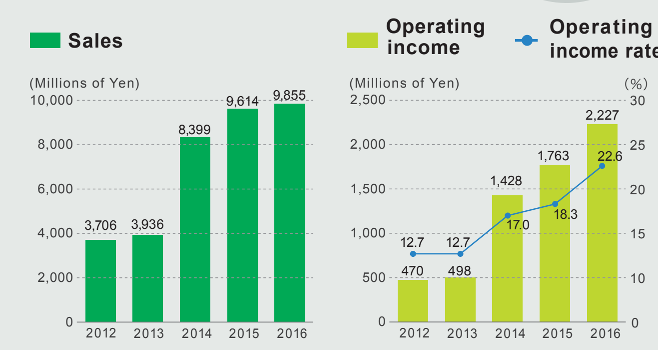
- TAIWAN TAIYO INK CO., LTD.
- ONSTATIC TECHNOLOGY CO., LTD



Performance Overview

Demand notably for materials for smartphones was lackluster. The sales amount, however, rose year on year, partly owing to the impact of yen depreciation in foreign exchange, in addition to the shift to higher-priced PWB materials from lower-priced PWB materials.

As a result, net sales amounted to 9,854 million yen (up 2.5% year on year) with segment profit at 2,227 million yen (up 26.3% year on year).



Korea

New Subsidiary to Strengthen Our Ability to Identify Semiconductor Trends and Improve Productivity

Earnings by our consolidated subsidiaries in Korea were greatly impacted by numerous PDP manufacturers pulling out of the PDP market due to a decline in PDP demand on the flat screen TV market. In fact, our manufacturing subsidiary Taiyo Ink Manufacturing (Korea) saw a decline in net sales due to a withdrawal from the PDP market by major customers.

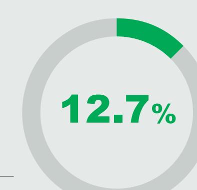
On the other hand, sales of highly profitable dry film for semiconductor packaging (PKG) materials have grown significantly in Korea and the impact of yen depreciation resulted in improved profitability and an increased profit margin.

Moving forward, Taiyo Ink Products established in 2015 will take the lead in strengthening sales of semiconductor parts. This company will take on marketing functions previously fulfilled by the Taiyo Group in Japan to conduct rapid and aggressive proposal activities to manufactures of semiconductors and other electronics products to expand sales in Korea.

Furthermore, to promote sales growth we conducted a complete reevaluation of production processes at the product facility of Taiyo Ink Mfg. Co., (Korea) Ltd. and created a production line for high-function products expected to become mainstay products in the future.

Consolidated Group Subsidiaries

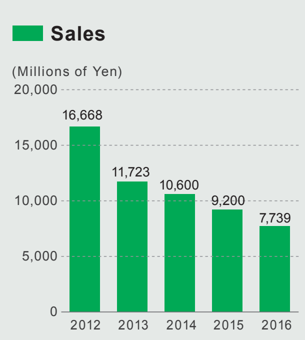
- TAIYO INK MFG. CO., (KOREA) LTD.
- TAIYO INK PRODUCTS CO., LTD.

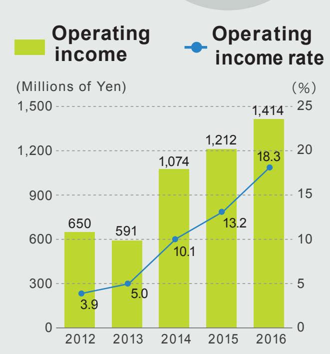


Performance Overview

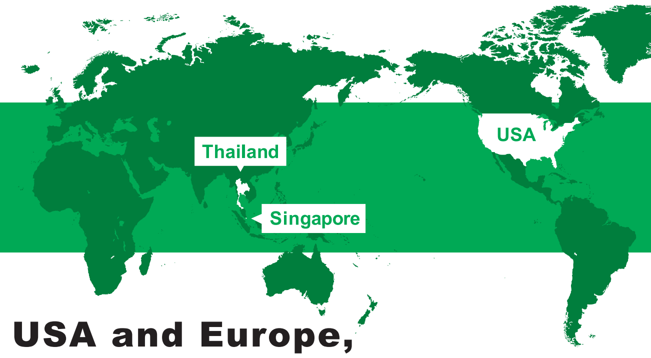
While demand for high-price PKG board materials remained firm in the PWB materials market, in the FPD materials market, net sales decreased year on year, reflecting the end of manufacturing of PDP materials. On the other hand, profit increased year on year partly due to a weaker yen in the foreign exchange market.

As a result, net sales amounted to 7,739 million yen (down 15.9% year on year) with segment profit at 1,414 million yen (up 16.6% year on year).





Other



New Marketing Functions in USA and Europe, Evaluating Construction of New Plant in ASEAN

In America, Taiyo America Inc. is securing stable sales and income. To further improve profitability, we will incorporate advanced and innovative marketing. For example, quickly identifying semiconductor market trends in Europe and the USA is vital to the development of new, forward-looking businesses. As such, we established an office with marketing functions in Silicon Valley, a hub for the latest information on semiconductors, to conduct market research. Moving forward, we will rapidly share information on promising new elements and materials with our Japanese R&D department to create a system that ties into the rapid development and production of new products.

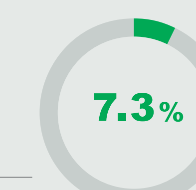
While currently we have only sales offices in ASEAN countries, moving forward we will proactively evaluate the establishment of production facility in either Thailand, Vietnam, or Malaysia. Including potential customers, each of these regions represents extremely promising business opportunities and we have been conducting full-scale market research since 2016. And considering launching a new plant requires significant knowhow and skills, we view this new plant construction as vital to our human resource development initiatives.

Consolidated Group Subsidiaries

- TAIYO AMERICA, INC.
- TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD

Unconsolidated Group Subsidiaries

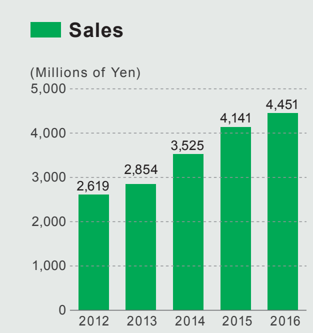
- TAIYO INK (THAILAND) CO., LTD.

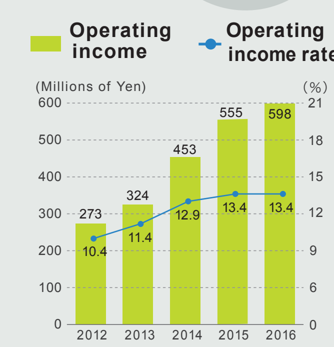


Performance Overview

Taiyo America performed at the same level as the corresponding period of the previous year. Taiyo Ink International (Singapore) performed steadily due to the expansion of the market of material for vehicle installation parts and yen depreciation in foreign exchange contributed to a year-on-year increase in net sales and profit.

As a result, net sales amounted to 4,451 million yen (up 7.5% year on year) with segment profit at 597 million yen (up 7.7% year on year).





Supply Chains

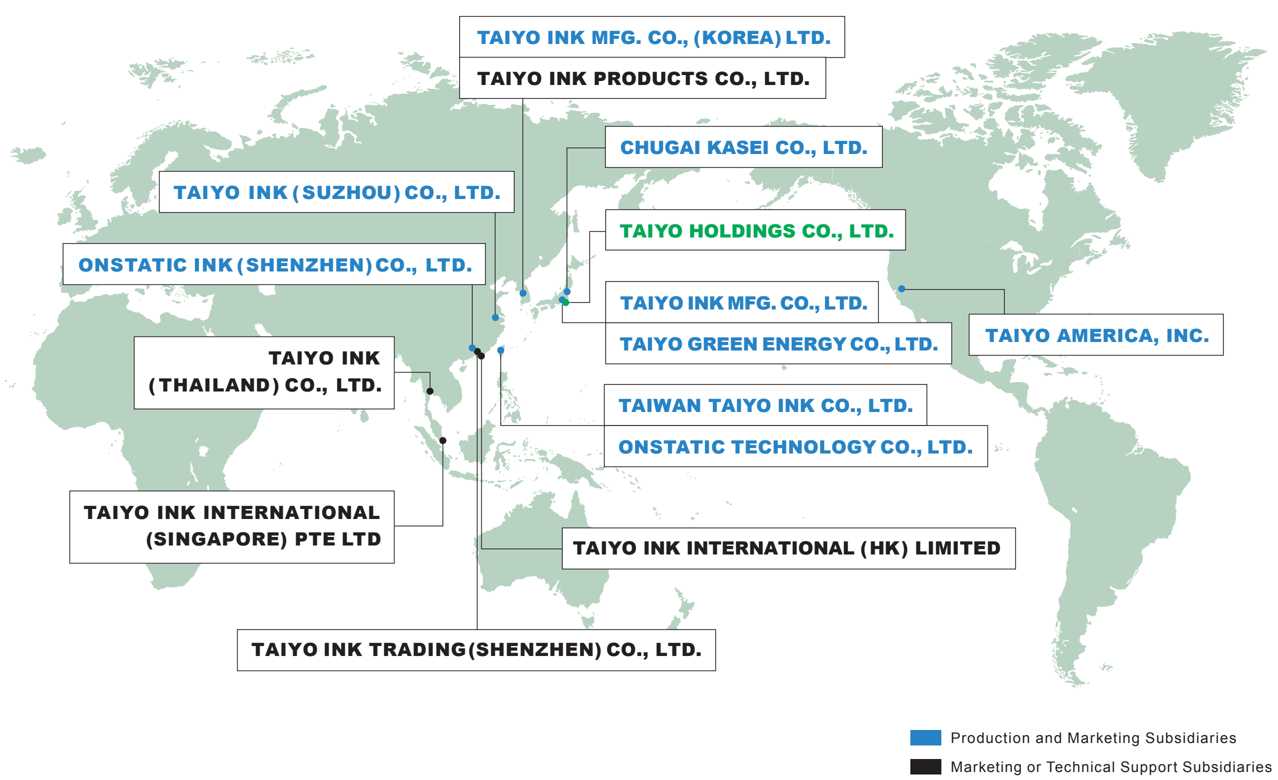
Network Covering the Global Market

In fiscal 2015, about 93% of the Taiyo Group sales were accounted for by PWB materials. The principal centers for production of PWBs have shifted from the United States and Europe to Japan and then to emerging countries, and, in recent years, production in China has risen rapidly.

While responding to these global changes in the business environment, the Group has conducted transactions with PWB manufacturers around the world. The Group has been aware that its most-important mission is to provide superior products and services at all times and has worked to expand this network to cover global markets. Today, the Group has manufacturing and marketing bases in Japan, China, Taiwan, Korea, and the United States as well as marketing and technical service centers in Shenzhen and Hong Kong in China, Singapore, and Thailand.

The quality of the Group's products and services together with the agility of its global network has enabled the Group to secure the leading share in SR in global markets, and overseas sales have climbed to account for about 79% of its net sales. Further growth is expected in the medium to long term in demand for PWB materials for use in electronics components around the world. The Group will step up its activities to develop its businesses globally and will endeavor to respond to burgeoning demand.

Global Network



Quality Management in the Overall Supply Chain

To provide superior products and services at all times to customers throughout the world, activities to improve quality through the Group's supply chain are indispensable.

First, to enable customers to select the optimal products for their needs from the diverse lineup of items the Group offers, marketing personnel in charge endeavor to match product specifications with client requirements through close communication. When client requirements exceed the specifications of existing products, this is communicated to product development divisions, designs are drawn up, and, after production process plans are prepared by the manufacturing divisions, the Group works to provide customers with products that match their specifications. To enhance quality and provide for smooth deliveries to customers, another important process is materials procurement. To ensure the stable procurement of both volumes and quantities, the Group conducts audits of supplier factories and makes periodic assessments of their operations, while also setting standards for the acceptance of raw materials and ensuring that deliveries of raw materials that are not up to standard are prevented. Moreover, the Group has structured a quality management system based on ISO 9001 at each of the Group's production bases.

Finally, the Group is aiming to win a high level of customer satisfaction by creating a detailed management system that extends from packing and shipment through to deliveries. The Group is also providing follow-up after deliveries and is asking for assessments as well as feedback from customers regarding each stage of the supply chain.

Offering Advantages to Customers through "Local Production and Local Procurement"

The Group does business with customers in virtually every country. In many cases, product sales prices are quoted in foreign currencies, and one management issue is that fluctuations in exchange rates have an impact on the Group's performance. To deal with this, the Group is promoting the implementation of "local production and local procurement" or, in other words, "products that are sold in local areas (markets) are made from materials procured in the local area and manufactured there." By increasing the percentage of raw materials that are procured locally, the Group is working to respond by having income and expenditures denominated in the same currency.

"Local production and local procurement" leads to strengthening the Group's capabilities for responding to client requests and needs. For example, through this approach, the Group can develop products that meet customers' needs in the local markets quickly, and lead time for filling orders can be shortened. This approach is also effective for facilitating business continuity plans (BCPs) because it means that prices of raw materials can be lowered and that multiple supply chains can be structured.

Especially regarding lead time, the Group is rapidly making preparations for shortening required delivery times to meet clients' requests and put into place systems that will enable the next-day delivery of orders.

Solar Power

Brighter Communities, Greener Environment : Launching a solar power business

The Taiyo Group launched the solar power business with a water-based mega-solar installation in Ranzan-machi, located in the Hiki District of Saitama Prefecture, and a rooftop generating facility on the management building rooftop of the Ranzan Facility. The Group's efforts started with the installation of generating facilities on the management building rooftop at the Ranzan Facility on February 27, 2015. This was followed in October 2015 by the lease of a regulating reservoir adjacent to the Ranzan-machi Hanamidai Industrial Park from the Ranzan-machi council and the installation of a water-based mega-solar facility. Approximately 4,500 solar panels provide enough electricity for around 370 households. In terms of reducing carbon dioxide emissions, the mega-solar facility alone is expected to cut emissions by approximately 400 tons annually.

In addition to these programs, the Group is making other active contributions to the local community through measures such as donating facilities equipped with solar panels and batteries to the Hanamidai Industrial Park Management Center, which is the designated evacuation area of Ranzan-machi, in order to provide electricity in the event of a power outage.

Environmental Initiatives

Plant Factory

Starting production of safe and secure vegetables at a clean room farm

In October of 2015, the Group began full-scale operations of a plant factory, which are increasingly common in recent years, as a part of its contributions, as a chemicals manufacturer, to a safe and secure food supply. The facility was established in a Taiyo Holdings research center and uses artificial light for hydroponic cultivation. Operations are not affected by the weather and regularly produce fresh, organic vegetables. Initially, the vegetables will help supplied the on-site employee cafeteria, and when stable production is achieved, sales channels will be expanded.Compared to outdoor cultivation, the plant factory imposes fewer physical burdens on workers, and as the population ages, we expect that it will provide employment opportunities for senior citizens.

Uniform

First update to work uniforms in over 20 years after proposal by new employees

As a company that encourages innovation in our talent, young employees are driving the development of various new projects. One such project was the updating of work uniforms. At a company gathering, new females employee proposed to the company president that we update to a trendy design that younger generations would enjoy wearing. The president immediately gave his approval and the project was kicked off immediately. At first, the employees had no idea how to go about making such a change and at one point they were ready to give up. However, through support from senior workers, they began by focusing on concept development and the project was completed after two years. The result was completely new uniforms, the first update in 21 years, combined breathability and other features with a stand-up collar and other innovative elements not normally seen in work uniforms. The new uniforms have been very popular with employees, who have commented that they are more pleasant and allow better mobility. Also, employees involved in the update commented that through this project they genuinely felt the company's culture that provides freedom to those who voice their opinions.

Creating Optimal Working Environments

Nursery School (On-Site Daycare Center)

An on-site daycare center will be opened for employees to let them focus on work without worries.

As a part of efforts to create an optimal work environment for employees, a daycare center will open at a site adjacent to the Ranzan Facility in December 2015.

The center will be equipped with security facilities to provide peace of mind. There is a forest nearby, and there will be many opportunities for the children to experience the blessings of nature including living creatures and trees. Such efforts will assist in recruiting outstanding personnel, whether mid-career employees or recent graduates.

The daycare center will also be open to local residents to enhance local options for childcare.

CSR

Since its establishment in September 1953, Taiyo Holdings has continued to grow thanks to the trust placed in it by the stakeholders, including its shareholders, customers, and business partners.

In order to continue to respond to that trust and grow together, all directors and employees of Taiyo Group will fulfill our corporate social responsibilities by taking a consistently forward-looking approach to business activities and observing ethics and laws.

In order to fulfill these responsibilities, Taiyo Group has established a corporate CSR Philosophy and a Code of Conduct, and is involved in a variety of CSR activities through its CSR organization comprising of various management systems and committees.The directors and employees of Taiyo Group will strive to create a company that is trusted by society and is actively involved in CSR activities.

CSR Philosophy

We will discharge our corporate social responsibility, including complying with the law, protecting the environment, ensuring thorough quality management, and contributing to society.

Code of Conduct

We will observe the following code to put the Group's CSR Philosophy into practice.

1. Ethical and Legal Compliance
We will observe laws and other social norms, and understanding the spirit thereof, will act openly and fairly.

2. Workplace Environment
We will respect employees' human rights, and create a workplace that is fair and free of discrimination.

3. Fair Business Dealings
We will deal with all our business partners in an honest manner and conduct business with them based on impartial and fair business conditions.

4. Respect for Stakeholders
We will always conduct business activities with respect for the viewpoints of all our stakeholders, and disclose information in a timely and appropriate manner.

5. Ensuring Confidentiality
We will work to ensure the protection of confidential information related to our business partners, the company itself, and any individual.

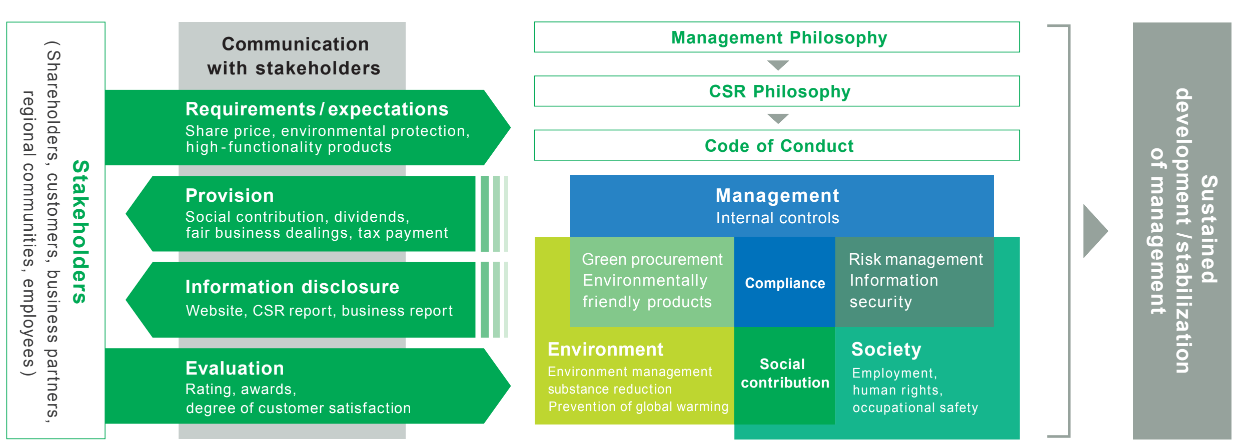
6. Ensuring Quality (Quality Policy)
We will ensure that we always provide safe, quality products that satisfy our customers.

7. Protecting the Environment (Basic Environmental Philosophy)
We will endeavor to protect the environment as part of the performance of our social responsibility, and will engage in business activities that are in harmony with the environment.

8. Social Contributions
As members of society, we will engage in activities that contribute to society.

9. Protecting Intellectual Property
We will take appropriate precautions to protect Taiyo Group's intellectual property rights, and those of third parties.

10. Exclusion of Anti-social Forces
We will take a resolute stance towards anti-social forces and will not respond in any way to illegal or improper demands.



Compliance

The Taiyo Group continuously strives to increase our credibility by promoting activities that strengthen our internal organization and increase ethics and compliance awareness among all our employees.

Our internal Compliance Promotion Organization spearheads awareness and educational activities to ensure that employees understand the Taiyo Group's CSR Philosophy and Code of Conduct, and to continuously ensure that the Group's activities are aligned with the spirit of our CSR Philosophy and Code of Conduct. During fiscal 2015, in Japan we established a Hotline for employee consultations and internal reporting and advance the development of a system for obtaining information on revisions to laws and regulations relevant to Group operations. And at our overseas Group companies, we are promoting proactive and autonomous ethics and compliance activities that give consideration to the unique cultures and customs of each country.

Relationship with Shareholders

Through profit dividends and appropriate communication, we contribute to the wealth and prosperity of all our shareholders.

Profit Dividends

Taiyo Holdings views cash-based profit returns to our investors as part of our core strategy, and distribute sustainable and stable profit returns at a high rate. Specifically, we establish shareholder's equity dividend ratio as a target indicator and aim for a medium-to long-term shareholder's equity dividend ratio of 5% or higher based on consolidated earnings.

Transitions in shareholder's equity dividend ratio (consolidated)

Fiscal period	2011	2012	2013	2014	2015
Dividends per share (Yen)	90	90	90	120	110
Shareholders' equity dividend ratio (%)	6.1	6.1	7.8	5.7	6.5

Relationship with Suppliers

Based on Green Procurement Standards, we practice the procurement of raw materials that are environmentally-conscious, safe, and that contribute to quality stability.

Implementation of Supplier Evaluations and On-Site Audits

This fiscal year, the Group continued conducting on-site audits in cooperation with suppliers in order to build and strengthen relationships of trust. Audits are conducted by teams made up primarily of personnel from the Purchasing Department and Quality Assurance Division, and in some cases employees from manufacturing technology and design divisions also participate. Audits are conducted with the aim of enhancing the quality of raw materials and secondary materials.

Relationship with Local Communities and Society

Working as a member of society to contribute to social development. This too is a vital responsibility of a corporation. All member companies of the Taiyo Group partner to conduct wide-ranging activities in order to ensure our ability to leave precious, limited resources for future generations, and to exist as a company that grows together with and enriches the hearts and minds of everyone with whom we interact.

Social Contribution Goals of the Taiyo Group

Environmental Protection Activities

This year, Taiyo Holdings began participating as a sponsoring member of the local mountain conservation group, whose activities include creating a protected environment for the great purple emperor butterfly on land owned by Taiyo Ink Manufacturing. Previously, employees participated on an individual basis but moving forward, the Company will show its support by serving as a sponsoring member while also enjoying participating in local mountain conservation activities.

In March 2016, participants planted trees on the land of the Ranzan Facility. The day's activities featured participation by employees and their families, volunteers, and local residents. Together, we planted some 50 hackberry and cherry blossom trees and made a walkway using thinning wood. Located next to the Taiyo Daycare Center that opened in December 2015, it represents the creation of a wonderful environment for the children.


National butterfly the "Great purple emperor"


Photo of planting activities

Corporate Governance

Construction of Sound Management Structures

We have a holding company structure. Having Group management and strategic functions, the holding company aims to develop and improve our strategies while optimizing the allocation of resources. The operating subsidiaries under the holding company can act promptly and autonomously. This system enables us to respond better to customers across various markets while also speeding up decision making and boosting operational efficiency. Its aim is to increase profits and help us build corporate value.

Basic Thinking on Corporate Governance

In line with our Management Philosophy and Basic Management Policy, we aim to prosper together with our customers, regional communities, shareholders, employees, business partners, and other stakeholders. We also believe it is necessary for us to embrace social responsibilities as well as seek to generate profits. To this end, we seek to promote management transparency and to fulfill our disclosure obligations to support the Company's continued prosperity.

Corporate Governance Structures

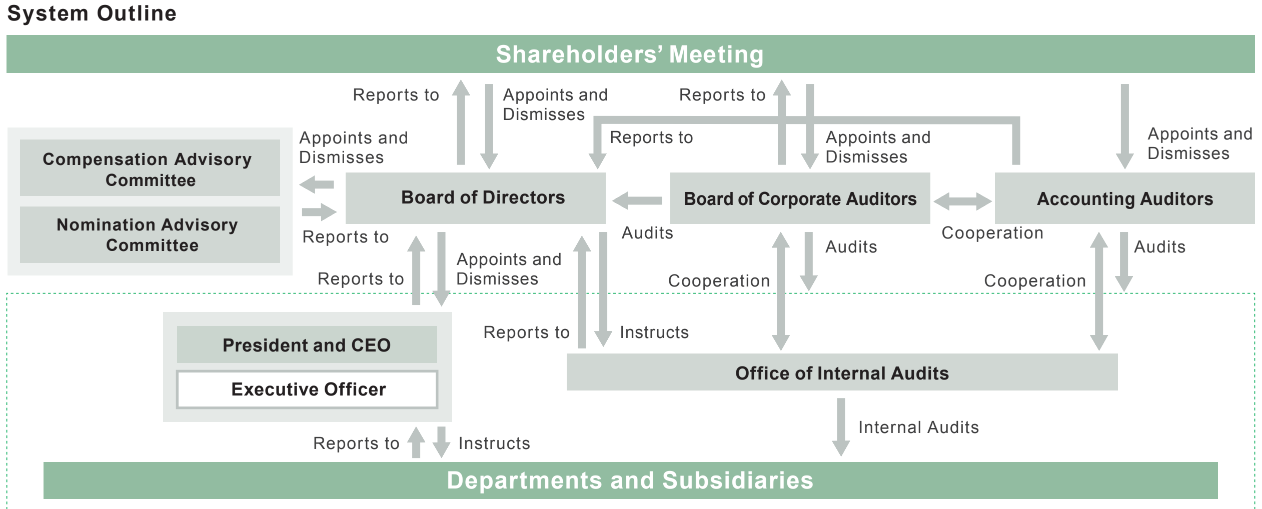
Our corporate governance system is centered on the Board of Directors and the Audit & Supervisory Board, whose members are both approved by resolutions at the Shareholders' Meeting. We have also adopted a system of executive officers to invigorate the Board of Directors and expedite operational execution.

Executive officers are granted an extensive scope of decision-making authority for carrying out their duties, and it is believed that this will enable rapid decision-making. In addition, a discretionary Compensation Advisory Committee was established as an advisory body to the Board of Directors in order to ensure objectivity and transparency in director and executive officer compensation. A discretionary Nomination Advisory Committee was also established to ensure objectivity and transparency in nominating directors and audit & supervisory board members. The results of resolutions of both of these bodies are reported to the Board of Directors. Majorities of both the Compensation Advisory Committee and Nomination Advisory Committee are outside members, and the chairmen are selected from among the outside members.

The Board of Directors is composed of seven directors, two of whom are outside directors. The Audit & Supervisory Board is composed of three audit & supervisory board members, two of whom are outside auditors. Meetings of the Board of Directors are held regularly each month, but the Board can also hold extraordinary meetings if necessary. The Board discusses and resolves important matters, and also oversees the execution of duties by the representative director. Audit & supervisory board members, including outside auditors, attend most meetings of the Board and Executive Committee, which convene on a number of occasions each year, to engage in discussions and to monitor proceedings in detail. One of the audit & supervisory board member is full-time auditor with the power to submit questions to the Group employees. The system enables the audit & supervisory board members to conduct adequate monitoring of the execution of duties by directors.

The Internal Audit Department, which has a staff of two employees, is fully independent of other Group operations. It undertakes an audit of all departments of the holding company and operating subsidiaries based on the annual audit plan approved by the Board of Directors. Results of these audits are reported to the Board of Directors and Audit & Supervisory board.

System Outline



Internal Controls

We regard the construction of a system of internal controls as a critical part of corporate governance. These controls include the five components described below.

(1) Keep all directors and employees informed about our CSR (Corporate Social Responsibility) Philosophy and the Code of Conduct.
(2) The appointment of one director as chief compliance officer to chair the Ethics Committee and lead a team promoting internal business ethics.
(3) An internal hotline to enable employees to report compliance violations or any related concerns to an external lawyer.
(4) Regular reports by the chief compliance officer to the Board of Directors concerning the ethics and compliance framework status.
(5) Establishment of an independent Internal Audit Department that reports audit findings to the Board of Directors and the Audit & Supervisory Board, and where necessary to the accounting auditors as well.

In fiscal 2015, we initiated operations related to the development of an internal controls system and the organization of relevant documents of Chugai Kasei Co., Ltd., a new member of the Taiyo Group, in accordance with the Fiscal 2015 (70th Fiscal Period) Basic Plan for Internal Controls. We also switched the individual IT systems in use at the three companies of the Onstatic Group to the same system in use at Taiyo Suzhou and Taiwan Taiyo to standardize their workflow processes. This was done to improve the efficacy and efficiency of internal control systems.

Risk Management

The Group has studied and instituted ways of mitigating, or of taking appropriate steps in response to, a variety of risks associated with business activities. One director is appointed as "the director in charge of risk management." Moreover, the department in charge of risks occurring in the course of natural work operations evaluates and responds to these risks. Furthermore, the Risk Management Committee conducts risk management in a cross-departmental manner over the entire Group.

Fiscal 2015 marked the completion of construction for the Kitakyushu Plant, Taiyo Ink's new factory. This factory will strengthen the Group's BCP (business continuity plan). With the completion of the Kitakyushu Plant, we have increased the number of manufacturing bases for our mainstay SR products to eight (2 in Japan, 6 overseas), which further strengthens our BCP structure. We believe that the stable provision of products, even in the event of a major earthquake or other emergency situation, is part of our responsibilities as the manufacturer with the world's No. 1 market share, and we will continue working to strengthen our BCP structure.

Executive Compensation

In addition to base compensation, a director compensation system that provides for the payment of performance-based monetary compensation and performance-based stock compensation to executive directors (here and hereafter, directors specified in each item of Article 363, Paragraph 1 of the Companies Act of Japan) was approved at the ordinary General Shareholders' Meeting held on June 20, 2014.

This director compensation system is intended to provide even further motivation to executive directors to raise the corporate value of the Group over the medium to long term by increasing the degree to which executive directors share interests with shareholders.

Compensation paid to directors other than executive directors and to audit & supervisory board members consists of base compensation only. The amount of base compensation paid to directors and the methods of calculating amounts of performance-based monetary compensation and performance-based stock compensation paid to to executive directors as well as the timing of payment, distribution, and so on are determined by the Board of Directors with within the range approved by the General Shareholders' Meeting. When making such decisions, the chairman of the Compensation Advisory Committee, who is an outside director, performs an objective, comparative verification of compensation levels using officer compensation survey data from an outside research organization, deliberates on compensation policies and levels, and reports to the Board of Directors. The Board makes determinations based on the Committee's report.

Compensation paid to audit & supervisory board members is determined through consultations with the audit & supervisory board members within the range approved by the General Shareholders' Meeting.

Executive compensation for the year ended March 2016 is shown below.

Executive Category	Total Amount of Compensation (Millions of Yen)	Amounts of Compensation by Type (Millions of Yen)				Number of executives
		Base compensation	Performance-based monetary compensation	Performance-based stock compensation	Retirement Benefits	
Directors (excluding outside directors)	517	75	124	317	-	6
Audit & supervisory board members (excluding outside audit & supervisory board members)	14	14	-	-	-	2
Outside officers	37	37	-	-	-	4

Front row (left to right)

Hitoshi Saito	Takayuki Morita	Eiji Sato	Eiji Takehara	Takao Miwa
Director	Director	President and CEO	Director	Director

Back row (left to right)

Haruomi Yoshimoto	Keitaro Iwaki	Masayuki Hizume	Akihito Sakai	Kiyoshi Endo
Audit & Supervisory Board Member	Outside Director	Outside Director	Outside Audit & Supervisory Board Member	Outside Audit & Supervisory Board Member

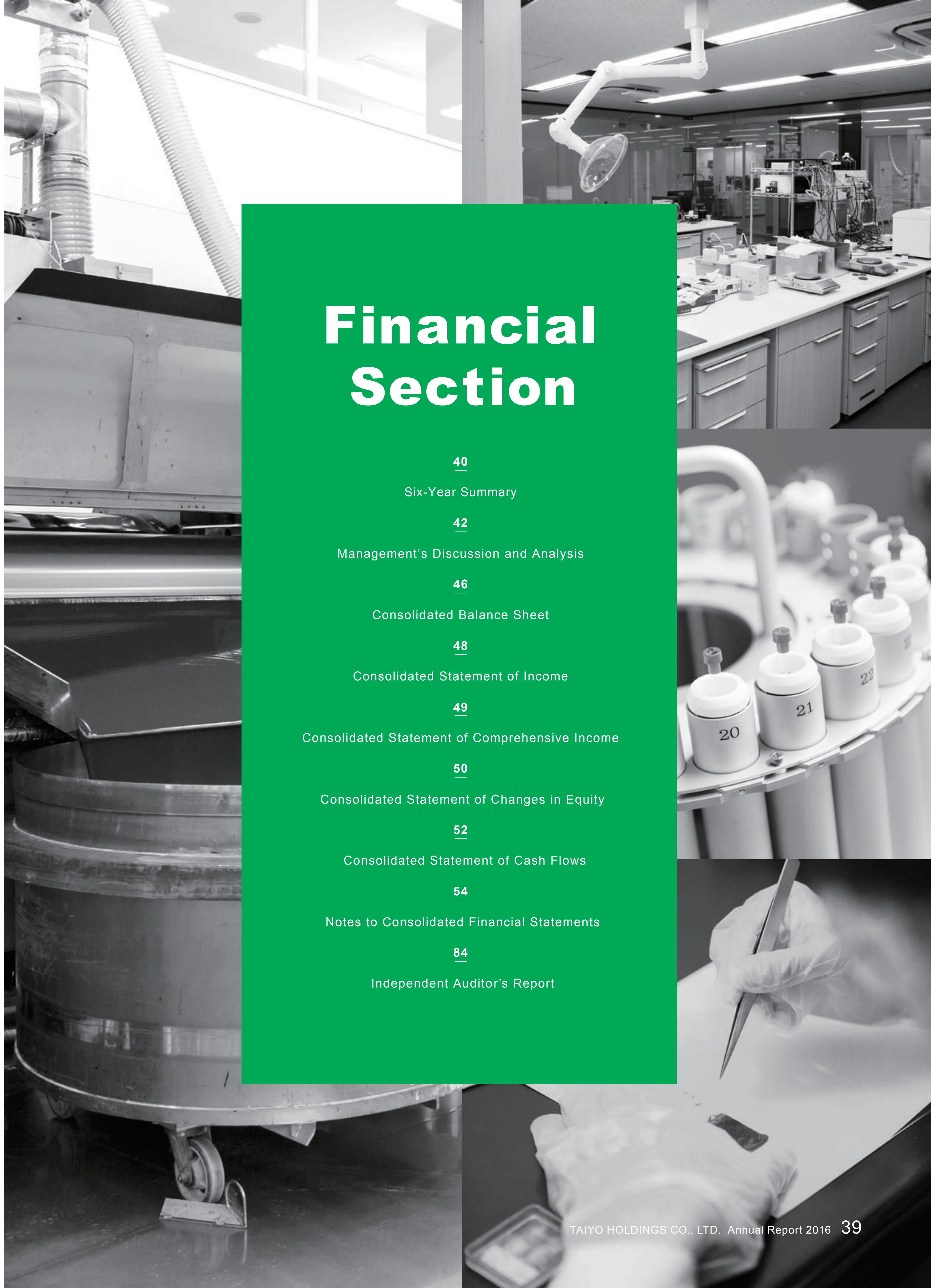
Board of Directors

Eiji Sato	President and CEO
Takayuki Morita	Director
Eiji Takehara	Director
Hitoshi Saito	Director
Takao Miwa	Director
Masayuki Hizume	Outside Director
Keitaro Iwaki	Outside Director

Audit & Supervisory Board Members

Haruomi Yoshimoto	Audit & Supervisory Board Member
Akihito Sakai	Outside Audit & Supervisory Board Member
Kiyoshi Endo	Outside Audit & Supervisory Board Member

(As of June 21, 2016)



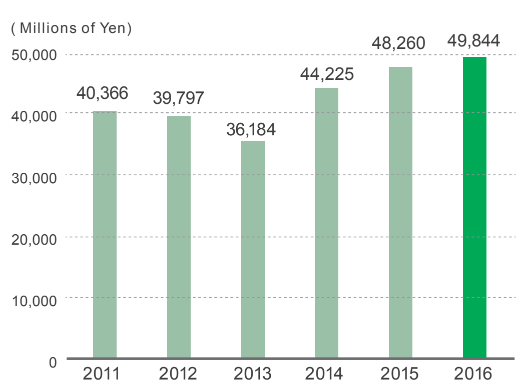
Financial Section

Six-Year Summary

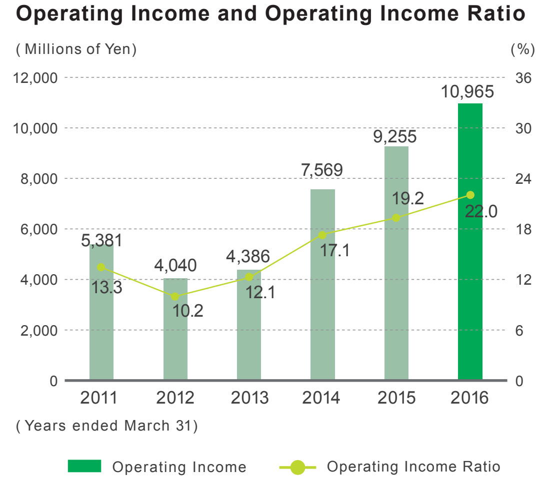
TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries The years ended March 31	2011	2012	2013	2014	2015	2016
	Millions of Yen					
For the Year :						
Net sales	¥ 40,366	¥ 39,797	¥ 36,184	¥ 44,225	¥ 48,260	**¥ 49,844**
Cost of sales	28,428		25,319	28,349	28,865	**27,356**
Selling, general and administrative expenses	6,557	5,934	6,479	8,307	10,140	**11,523**
Operating income	5,381	4,040	4,386	7,569	9,255	**10,965**
Net income	3,403	2,503	3,368	4,931	6,667	**7,796**
Depreciation and amortization	1,127	1,046	1,004	1,181	1,412	**1,891**
Net cash provided by operating activities	4,575	2,793	6,109	7,020	9,233	**10,546**
Net cash used in (provided by) investing activities	758	(1,343)	(2,478)	(3,839)	(2,913)	**(6,750)**
Net cash provided by (used in) financing activities	(3,696)	(2,979)	(2,314)	2,350	(9,920)	**(2,741)**
At year-end :						
Total assets	42,851	40,703	44,023	58,369	61,242	**65,465**
Property, plant and equipment, net	13,050	12,546	12,664	14,376	16,865	**19,644**
Total liabilities	8,664	7,227	7,213	15,713	19,929	**20,214**
Noncontrolling interests	696	478	605	2,046	2,238	**2,136**
Total equity	34,186	33,476	36,810	42,656	41,312	**45,251**
	Yen					
Per share data :						
Basic net income	¥ 131.78	¥ 98.38	¥ 132.38	¥ 193.83	¥ 264.05	**¥ 337.99**
Cash dividends applicable to the year	115.00	90.00	90.00	120.00	90.00	**110.00**
Net assets	1,316.53	1,297.18	1,423.26	1,596.45	1,703.14	**1,865.94**
	%					
Ratios :						
Ratio of operating income to net sales	13.3%	10.2%	12.1%	17.1%	19.2%	**22.0%**
Return on equity	9.9	7.5	9.7	12.8	16.7	**19.0**
Equity ratio	78.2	81.1	82.2	69.6	63.8	**65.9**
	Thousands of Shares					
Common stock :						
Number of shares issued	27,464,000	27,464,000	27,464,000	27,464,000	27,464,000	**27,485,600**

See notes to consolidated financial statements.

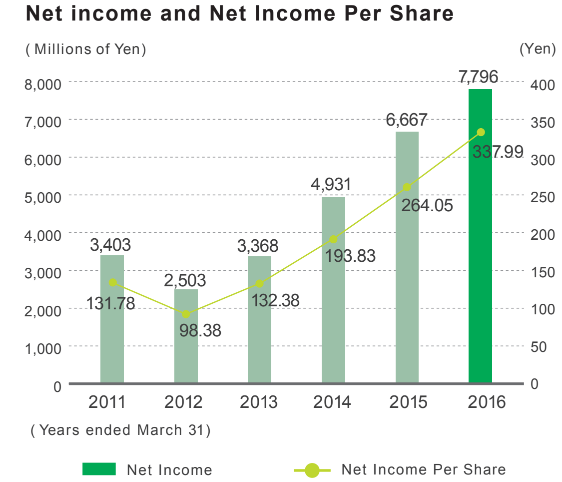
Net Sales



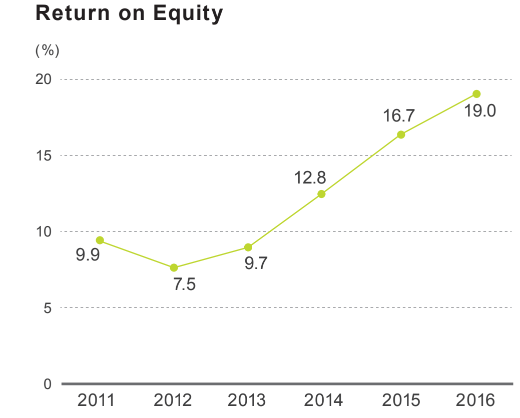
Operating Income and Operating Income Ratio



Net income and Net Income Per Share



Return on Equity



Management's Discussion and Analysis

(1) Analysis of operating results

In the global economy during the fiscal year ended March 31, 2016, the U.S. economy recovered modestly driven by low unemployment rate and a boost in consumer spending, and the European economy also continued on a recovery track. On the other hand, the trend of slowdown in the Chinese economy did not stop, and with the weakening domestic and external demands, manufacturing activities of companies also slowed down. Recovery of the Japanese economy came to a standstill, with weak consumer spending, etc.

In the electronics components industry, in which the Group operates, while demand for servers and vehicle installation parts remained firm, it was flat as a whole partly due to lackluster demand for materials for smartphones.

Under these conditions, net sales for the current fiscal year amounted to 49,843 million yen (up 3.3% year on year) mainly due to a weaker yen in the foreign exchange market.

In the PWB materials market, the sales volume for rigid board materials decreased year on year, but firm sales of high function products and yen depreciation in foreign exchange had an impact on results, which led to a year-on-year increase in net sales. As a result, net sales of PWB materials were 46,319 million yen (up 4.1% year on year).

In the FPD materials market, net sales decreased year on year, reflecting the end of manufacturing of PDP materials. As a result, net sales of FPD materials were 292 million yen (down 85.2% year on year).

As a result, operating income amounted to 10,964 million yen (up 18.5% year on year) with ordinary income at 11,129 million yen (up 16.8% year on year) and profit attributable to owners of parent at 7,796 million yen (up 16.9% year on year).

Sales results by product group category

The following are sales results by product group category for the fiscal year ended March 31, 2016. (Millions of Yen)

Name of product group category	Previous fiscal year results	**Current fiscal year results**	Compared to the previous fiscal year: Change	Rate of change (%)
PWB materials				
Rigid board materials	33,539	**35,242**	1,702	5.1
PKG board and flexible board materials	9,844	**10,007**	163	1.7
Build-up board materials	1,091	**1,069**	(21)	(2.0)
FPD materials				
PDP materials	1,976	**292**	(1,684)	(85.2)
Other related products	1,808	**3,231**	1,423	78.7
Total	48,260	**49,843**	1,583	3.3

Results by segment are as follows.

1. Japan

The consolidated companies comprising the Japan segment are Taiyo Ink Mfg. Co., Ltd. and Chugai Kasei Co., Ltd., manufacturing and marketing subsidiaries.

Overall demand remained flat for the high function products of PWB materials. However, the inclusion of Chugai Kasei Co., Ltd. in the scope of consolidation as of this first quarter ended June 30, 2016 had an impact, with the sales amount increasing year on year. On the other hand, the impact of upfront costs related to setting up the Kitakyushu Plant, Taiyo Ink Mfg. Co., Ltd.'s new factory, led profit to drop year on year.

As a result, net sales amounted to 17,002 million yen (up 7.7% year on year) with segment profit at 2,254 million yen (down 8.6% year on year).

2. China (including Hong Kong)

The consolidated companies comprising the China segment are Taiyo Ink (Suzhou) Co., Ltd. and Onstatic Ink (Shenzhen) Co., Ltd., manufacturing and marketing subsidiaries, and Taiyo Ink International (HK) Limited and Taiyo Ink Trading (Shenzhen) Co., Ltd., marketing subsidiaries operating mainly in the southern China region. Onstatic Ink (Shenzhen) Co., Ltd. is a subsidiary of Onstatic Technology Co., Ltd.

In the PWB materials market, in addition to firm sales of materials for lighting and vehicle installation parts, yen depreciation in foreign exchange contributed to a year-on-year increase in net sales and profit.

As a result, net sales amounted to 21,820 million yen (up 6.9% year on year) with segment profit at 4,775 million yen (up 36.1% year on year).

3. Taiwan

The consolidated companies comprising the Taiwan segment are manufacturing and marketing subsidiaries Taiwan Taiyo Ink Co., Ltd., and Onstatic Technology Co., Ltd. (and other three subsidiaries).

In the PWB materials market, demand notably for materials for smartphones was lackluster. The sales amount, however, rose year on year, partly owing to the impact of yen depreciation in foreign exchange, in addition to the shift to higher-priced PWB materials from lower-priced PWB materials.

As a result, net sales amounted to 9,854 million yen (up 2.5% year on year) with segment profit at 2,227 million yen (up 26.3% year on year).

4. Korea

The consolidated companies comprising the Korea segment are Taiyo Ink Co., (Korea) Ltd., a manufacturing and marketing subsidiary and Taiyo Ink Products Co., Ltd., a marketing subsidiary.

While demand for high-price PKG board materials remained firm in the PWB materials market, in the FPD materials market, net sales decreased year on year, reflecting the end of manufacturing of PDP materials. On the other hand, profit increased year on year partly due to a weaker yen in the foreign exchange market.

As a result, net sales amounted to 7,739 million yen (down 15.9% year on year) with segment profit at 1,414 million yen (up 16.6% year on year).

5. Other

The consolidated companies comprising the operations in areas other than the above are Taiyo America, Inc. and Taiyo Ink International (Singapore) Pte Ltd.

Taiyo America performed at the same level as the corresponding period of the previous year.

Taiyo Ink International (Singapore) performed steadily due to the expansion of the market of material for vehicle installation parts and yen depreciation in foreign exchange contributed to a year-on-year increase in net sales and profit.

As a result, net sales amounted to 4,451 million yen (up 7.5% year on year) with segment profit at 597 million yen (up 7.7% year on year).

(Consolidated forecasts for the next fiscal year)

The operating environment in the next fiscal year ending March 31, 2017 is expected that demand for servers and vehicle installation parts will be firm in the electronics components industry in which the Group operates, while demand for small-sized information terminals, such as smartphones and tablet devices, and general home electric appliances will be low.

Moreover, since our ratio of overseas sales to net sales is high, our business performance is forecast to be affected by a further appreciation of yen in the next period.

	Net sales (Millions of Yen)	Operating income (Millions of Yen)	Ordinary income (Millions of Yen)	Profit attributable to owners of parent (Millions of Yen)	Basic earnings per share (Yen)
For the fiscal year ending March 31, 2017 (Forecast)	45,700	8,000	7,800	5,500	238.03
For the fiscal year ended March 31, 2016 (Actual results)	49,843	10,964	11,129	7,796	337.99
Rate of change (%)	(8.3)	(27.0)	(29.9)	(29.5)	(29.6)

Forecast for fiscal year ending March 2017 is calculated with the average foreign exchange rate during the period of 105 yen/U.S. dollar.

For reference, the following is earnings forecast for fiscal year ending March 2017 calculated with the average foreign exchange rate during the period of 120 yen/U.S. dollar, an equivalent level as for fiscal year ended March 2016:

(Percentages indicate 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
Six months ending September 30, 2016	26,200	3.1	5,100	(12.2)	5,000	(15.1)	3,550	(13.2)	153.64
Fiscal year ending March 31, 2017	51,200	2.7	10,100	(7.9)	9,900	(11.0)	7,000	(10.2)	302.94

(2) Analysis of financial position

a. Positions of assets, liabilities and net assets

The following shows the positions of assets, liabilities and net assets as of March 31, 2016.

	As of March 31, 2015 (Millions of Yen)	**As of March 31, 2016 (Millions of Yen)**	Change (Millions of Yen)	Main factors (comparison with the end of the previous fiscal year)
Current assets	37,942	**39,340**	1,397	Cash and deposits increased approx. 1,600 million yen, and merchandise and finished goods decreased approx. 300 million yen.
Non-current assets	23,298	**26,124**	2,825	Construction in progress decreased approx. 1,200 million yen, buildings and structures increased approx. 2,500 million yen, machinery and equipment increased approx. 700 million yen, and tools, furniture and fixtures increased approx. 400 million yen.
Total assets	61,241	**65,464**	4,223	
Total liabilities	19,929	**20,214**	284	Asset retirement obligations increased approx. 200 million yen.
Total net assets	41,312	**45,250**	3,938	Profit increased approx. 7,700 million yen, cash dividends paid of approx. 2,300 million yen, foreign currency translation adjustment decreased approx. 2,100 million yen.
Total liabilities and net assets	61,241	**65,464**	4,223	

b. Cash flow position

The following is the position of cash flows for the fiscal year ended March 31, 2016.

	Fiscal year ended March 31, 2016 (Millions of Yen)	Main factors
Net cash provided by (used in) operating activities	**10,546**	Profit before income taxes provided approx. 11,100 million yen, depreciation provided approx. 1,800 million yen and income taxes paid used approx. 3,200 million yen.
Net cash provided by (used in) investing activities	**(6,750)**	Purchase of property, plant and equipment used approx. 4,200 million yen, payments into time deposits used approx. 4,300 million yen, proceeds from withdrawal of time deposits provided approx. 2,700 million yen.
Net cash provided by (used in) financing activities	**(2,740)**	Cash dividends paid used approx. 2,300 million yen.
Net increase (decrease) in cash and cash equivalents	**38**	
Cash and cash equivalents at end of period	**18,385**	

c. Trend of indicators

The following is the transition of cash flow indicators.

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	**Fiscal year ended March 31, 2016**
Equity ratio (%)	81.1	82.2	69.6	63.8	**65.9**
Equity ratio on mark-to-market basis (%)	138.7	156.0	133.1	158.3	**134.5**
Interest-bearing debt to cash flow ratio (year)	–	–	0.9	0.9	**0.8**
Interest coverage ratio (times)	992.5	3,850.3	331.3	304.8	**168.4**

Equity ratio:	(Net assets- Non-controlling interests)/Total assets
Equity ratio on mark-to-market basis:	Total market capitalization/Total assets
Interest-bearing debt to cash flow ratio:	Interest-bearing debt/Cash flow
Interest coverage ratio:	Operating cash flow/Interest paid

(1) The above indicators are calculated based on consolidated financial figures.
(2) Total market capitalization is calculated based on total number of issued shares at the fiscal year end (excluding treasury shares) × stock market price at the fiscal year end.
(3) Net cash provided by (used in) operating activities stated in the consolidated statement of cash flows is used for "Cash flows." "Interest paid" are the amounts stated under interest expenses paid in the consolidated statement of cash flows.

(3) Basic policy on profit distribution and dividends for the current fiscal year and next fiscal year

The Company regards profit distribution to shareholders in cash as an important policy and will effectuate a continuous, stable profit distribution at high levels. We use the dividend on equity ratio as our target index, keeping this figure at least 5% of consolidated financial results for the mid-to long-term.

In accordance with this policy, the Company paid an interim dividend of 55 yen per share.

As already announced, we also plan to pay a year-end dividend of 55 yen and this will be placed on the agenda of the next Ordinary General Meeting of Shareholders. This will result in an annual dividend of 110 yen per share for the current fiscal year.

Concerning dividends of the next fiscal year, we plan to pay an interim dividend of 55 yen and a year-end dividend of 55 yen, and this will result in an annual dividend of 110 yen per share and a rate of return to shareholders of 46.2%.

(4) Risk factors

The following are the main risks that may influence the business development of the Group.

a. Technological innovation risks

Our Group is reliant on the manufacture and sale of PWB materials, and SR in particular, as a major source of our income. If radical technological developments, such as electronic parts that do not use PWBs or PWBs that do not use SR, were to be widely adopted, this would result in a significant decrease in demand for our products.

From the viewpoint of product characteristics, operability, and economic viability, there is little possibility that such technological innovations will be widely adopted in the near future. However, the Company considers it as important issue in the field of research and development to find possible new methods for PWBs.

b. Risks associated with patents

In order for our Group to maintain a superior competitive position, efforts are being made to protect the products and technology we develop through patents and intellectual property. However, in the event a patent application, etc. does not result in the granting of rights or a third party requests invalidation, insufficient protection of our rights as a Group may result. Moreover, infringing the intellectual property rights owned by a third party could impact the performance of our Group as a result of the payment of royalties or large amounts of damages.

c. Risk of major production facilities being affected by a disaster

Our Group has manufacturing bases in Japan, Taiwan, Korea, China and the United States. In the event that any of our manufacturing bases is damaged by a natural disaster and manufacturing functions are obstructed, manufacturing and supply functions would be switched to another manufacturing base as an emergency measure. However, this would require some preparation and adjustment and our business would be affected in the interim.

d. Risk related to procurement of raw materials

The Group procures many of its raw materials from external raw material manufacturers. Problems at these raw material manufacturers or a lack of supplies that hinder the Group's production activities may affect the performance of the Group.

e. Country-specific risks related to business deployment overseas

Our Group conducts manufacturing activities in Japan, Taiwan, Korea, China, and the United States. Sales of our Group's products particularly in China, Taiwan, Korea, ASEAN countries, and other Asian markets are expanding. Accordingly, terrorist activities, destabilization of the political situation, economic fluctuations, the outbreak of earthquakes and contagion, unforeseen changes to legal, regulatory or tax systems, and other country-specific risks could impact on the business strategies and performance of our Group.

f. Risk of exchange rate fluctuations

Our ratio of overseas sales to net sales is high and there are many instances when we calculate product prices in foreign currencies. Accordingly, our business performance is affected by fluctuations in exchange rates, with a highly appreciated yen normally leading to reduced income and profits.

g. Risk of price fluctuations in key products

PWB manufacturing is shifting to other Asian countries, especially China, and we are engaged in continuing price wars with rival companies including local companies as well as other Japanese firms regarding SR. There is also pressure to lower SR prices which has resulted from price competition in the PWB market. Because of this, there is a possibility that the price of our main product, SR, may drop thus affecting the performance of our Group.

h. Risks related to fluctuations in product demand

Demand for our Group's main products is influenced by electronic components market trends, which may affect the performance of our Group.

i. Credit risks related to receivables

The Group has many customers and, although we do not concentrate an excessive amount of receivables on specific customers, the deterioration of the financial position of customers and the resulting bad debt may affect the performance of our Group.

j. Risks related to the soaring cost of raw materials

Due to the state of the oil market, the prices of certain raw materials have risen, which may affect the performance of our Group.

Consolidated Balance Sheet

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
March 31, 2016

ASSETS	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	**¥ 18,386**	¥ 18,183	**$ 163,286**
Time deposits (Note 13)	**3,023**	1,584	**26,847**
Notes and accounts receivable—trade (Notes 4 and 13)	**12,836**	13,112	**113,996**
Inventories (Note 5)	**4,017**	4,527	**35,675**
Consumption taxes receivable	**248**	169	**2,202**
Deferred tax assets (Note 11)	**72**	100	**639**
Other current assets	**1,098**	609	**9,753**
Allowance for doubtful accounts (Note 13)	**(340)**	(341)	**(3,020)**
Total current assets	**39,340**	37,943	**349,378**
PROPERTY, PLANT, AND EQUIPMENT (Note 6):			
Land	**4,617**	4,342	**41,004**
Buildings and structures—net	**10,524**	8,014	**93,464**
Machinery, equipment, and vehicles—net	**2,765**	1,970	**24,556**
Tools, furniture, and fixtures—net	**1,154**	747	**10,249**
Construction in progress (Note 7)	**580**	1,792	**5,151**
Other	**4**		**34**
Total property, plant, and equipment	**19,644**	16,865	**174,458**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	**657**	362	**5,835**
Investments in unconsolidated subsidiaries (Note 13)	**39**	39	**346**
Goodwill	**4,433**	4,850	**39,369**
Software	**340**	306	**3,020**
Net defined benefit asset (Note 9)	**356**	340	**3,162**
Deferred tax assets (Note 11)	**97**	63	**861**
Other assets	**560**	475	**4,974**
Allowance for doubtful accounts	**(1)**	(1)	**(9)**
Total investments and other assets	**6,481**	6,434	**57,558**
TOTAL	**¥ 65,465**	¥ 61,242	**$ 581,394**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 13)	**¥ 933**	¥ 730	**$ 8,286**
Current portion of long-term debt (Notes 8 and 13)	**440**	340	**3,908**
Notes and accounts payable—trade (Note 13)	**5,765**	5,661	**51,199**
Accounts payable—other (Note 13)	**1,697**	2,033	**15,070**
Income taxes payable (Note 13)	**776**	1,139	**6,892**
Accrued expenses	**715**	702	**6,350**
Deferred tax liabilities (Note 11)	**412**	403	**3,659**
Other current liabilities	**161**	49	**1,430**
Total current liabilities	**10,899**	11,057	**96,794**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 13)	**7,413**	7,686	**65,835**
Liability for retirement benefits (Note 9)	**274**	10	**2,433**
Asset retirement obligations	**331**	56	**2,940**
Accrued liability for stock benefits	**27**	42	**240**
Deferred tax liabilities (Note 11)	**1,259**	1,070	**11,180**
Other long-term liabilities	**11**	9	**98**
Total long-term liabilities	**9,315**	8,873	**82,726**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)			
EQUITY (Notes 10 and 20):			
Shareholders' equity:			
Common stock—authorized, 50,000,000 shares; issued, 27,485,600 shares in 2016 and 27,464,000 shares in 2015	**6,188**	6,135	**54,956**
Capital surplus	**7,305**	7,144	**64,876**
Retained earnings	**42,490**	36,997	**377,353**
Treasury stock—at cost, 4,379,037 shares in 2016 and 4,521,990 shares in 2015	**(14,142)**	(14,599)	**(125,595)**
Total shareholders' equity	**41,841**	35,677	**371,590**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**96**	111	**853**
Foreign currency translation adjustments	**1,190**	3,332	**10,568**
Remeasurements of defined benefit plans (Note 9)	**(12)**	(46)	**(107)**
Total accumulated other comprehensive income	**1,274**	3,397	**11,314**
Noncontrolling interests	**2,136**	2,238	**18,970**
Total equity	**45,251**	41,312	**401,874**
TOTAL	**¥ 65,465**	¥ 61,242	**$ 581,394**

Consolidated Statement of Income

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET SALES	**¥ 49,844**	¥ 48,260	**$ 442,664**
COST OF SALES	**27,356**	28,865	**242,948**
Gross profit	**22,488**	19,395	**199,716**
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 12)	**11,523**	10,140	**102,336**
Operating income	**10,965**	9,255	**97,380**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**112**	126	**995**
Interest expense	**(69)**	(30)	**(613)**
Foreign exchange gain—net	**24**	127	**213**
Subsidy income	**23**	5	**204**
Loss on impairment of long-lived assets (Note 7)	**(32)**		**(284)**
Commission for purchase of treasury shares	**(1)**	(52)	**(9)**
Refunded consumption taxes		28	
Gain on sales of investment securities		387	
Loss on valuation of golf club membership		(15)	
Other—net	**115**	89	**1,022**
Other income—net	**172**	665	**1,528**
INCOME BEFORE INCOME TAXES	**11,137**	9,920	**98,908**
INCOME TAXES (Note 11):			
Current	**2,855**	2,671	**25,355**
Deferred	**154**	277	**1,368**
Total income taxes	**3,009**	2,948	**26,723**
NET INCOME	**8,128**	6,972	**72,185**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**332**	305	**2,949**
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	**¥ 7,796**	¥ 6,667	**$ 69,236**
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.t and 18):			
Basic net income	**¥ 337.99**	¥ 264.05	**$ 3.00**
Cash dividends applicable to the year	**110.00**	90.00	**0.98**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME	**¥ 8,128**	¥ 6,972	**$ 72,185**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Valuation difference on available-for-sale securities	**(14)**	(125)	**(124)**
Foreign currency translation adjustments	**(2,256)**	3,324	**(20,036)**
Remeasurements of defined benefit plans	**34**	29	**302**
Total other comprehensive (loss) income	**(2,236)**	3,228	**(19,858)**
COMPREHENSIVE INCOME	**¥ 5,892**	¥ 10,200	**$ 52,327**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥ 5,674**	¥ 9,651	**$ 50,391**
Noncontrolling interests	**218**	549	**1,936**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2016

Millions of Yen

	Shareholders' Equity						Accumulated Other Comprehensive Income					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock—At Cost	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Noncon-trolling Interests	Total Equity
BALANCE, MARCH 31, 2014 (as previously reported)	25,437,890	¥ 6,135	¥ 7,102	¥ 32,257	¥ (5,373)	¥ 40,121	¥ 235	¥ 329	¥ (75)	¥ 489	¥ 2,046	¥ 42,656
Cumulative effects of changes in accounting policies				362		362						362
BALANCE, APRIL 1, 2014 (as restated)	25,437,890	6,135	7,102	32,619	(5,373)	40,483	235	329	(75)	489	2,046	43,018
Net income attributable to owners of the parent				6,667		6,667						6,667
Dividends from surplus				(2,289)		(2,289)						(2,289)
Purchase of treasury stock	(2,606,180)				(9,520)	(9,520)						(9,520)
Disposal of treasury stock	110,300		42		294	336						336
Changes of items during the year							(124)	3,003	29	2,908	192	3,100
BALANCE, MARCH 31, 2015	22,942,010	6,135	7,144	36,997	(14,599)	35,677	111	3,332	(46)	3,397	2,238	41,312
Net income attributable to owners of the parent				7,796		7,796						7,796
Dividends from surplus				(2,303)		(2,303)						(2,303)
Issuance of new shares	21,600	53	53			106						106
Purchase of treasury stock	(217)				(1)	(1)						(1)
Disposal of treasury stock	143,170		108		458	566						566
Changes of items during the year							(15)	(2,142)	34	(2,123)	(102)	(2,225)
BALANCE, MARCH 31, 2016	**23,106,563**	**¥ 6,188**	**¥ 7,305**	**¥ 42,490**	**¥ (14,142)**	**¥ 41,841**	**¥ 96**	**¥ 1,190**	**¥ (12)**	**¥ 1,274**	**¥ 2,136**	**¥ 45,251**

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2016

Thousands of U.S. Dollars (Note 1)

	Shareholders' Equity					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock—At Cost	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Noncon-trolling Interests	Total Equity
BALANCE, MARCH 31, 2015	$ 54,485	$ 63,446	$ 328,570	$ (129,654)	$ 316,847	$ 986	$ 29,591	$ (408)	$ 30,169	$ 19,876	$ 366,892
Net income attributable to owners of the parent			69,236		69,236						69,236
Dividends from surplus			(20,453)		(20,453)						(20,453)
Issuance of new shares	471	471			942						942
Purchase of treasury stock				(9)	(9)						(9)
Disposal of treasury stock		959		4,068	5,027						5,027
Changes of items during the year						(133)	(19,023)	301	(18,855)	(906)	(19,761)
BALANCE, MARCH 31, 2016	**$ 54,956**	**$ 64,876**	**$ 377,353**	**$ (125,595)**	**$ 371,590**	**$ 853**	**$ 10,568**	**$ (107)**	**$ 11,314**	**$ 18,970**	**$ 401,874**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 11,137**	¥ 9,920	**$ 98,908**
Adjustments for:			
Income taxes—paid	**(3,294)**	(2,033)	**(29,254)**
Depreciation and amortization	**1,891**	1,412	**16,794**
Gain on sales of investment securities		(387)	
Loss on impairment of long-lived assets	**32**		**284**
(Increase) decrease in notes and accounts receivable—trade	**(592)**	366	**(5,258)**
Decrease in inventories	**464**	275	**4,121**
Increase (decrease) in notes and accounts payable—trade	**349**	(580)	**3,099**
Increase in other current liabilities	**142**	31	**1,261**
Decrease in accrued expenses	**(25)**	(14)	**(221)**
Other—net	**442**	243	**3,925**
Total adjustments	(591)	(687)	**(5,249)**
Net cash provided by operating activities	**10,546**	9,233	**93,659**
INVESTING ACTIVITIES:			
Payments into time deposits	**(4,372)**	(2,188)	**(38,829)**
Proceeds from withdrawal of time deposits	**2,708**	1,579	**24,050**
Purchases of property, plant, and equipment	**(4,217)**	(2,711)	**(37,451)**
Purchase of software	**(160)**	(127)	**(1,421)**
Purchase of investment securities	**(115)**		**(1,021)**
Proceeds from sales of investment securities		571	
Other—net	**(594)**	(37)	**(5,275)**
Net cash used in investing activities	**(6,750)**	(2,913)	**(59,947)**
FINANCING ACTIVITIES:			
Increase in short-term loans	**261**	137	**2,318**
Proceeds from long-term debt	**500**	6,632	**4,440**
Repayments of long-term debt	**(984)**	(4,925)	**(8,739)**
Purchase of treasury stock	**(1)**	(9,201)	**(9)**
Disposal of treasury stock	**1**	18	**9**
Cash dividends paid	**(2,303)**	(2,290)	**(20,453)**
Cash dividends paid to noncontrolling shareholders	**(321)**	(291)	**(2,851)**
Proceeds from issuance of shares	**106**		**942**
Net cash used in financing activities	**(2,741)**	(9,920)	**(24,343)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(1,017)**	1,445	**(9,032)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	**¥ 38**	¥ (2,155)	**$ 337**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	**2016**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	**¥ 38**	¥ (2,155)	**$ 337**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**18,183**	20,338	**161,483**
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO SHARE EXCHANGE (Note 19)	**165**		**1,466**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 18,386**	¥ 18,183	**$ 163,286**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2016

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TAIYO HOLDINGS CO., LTD. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥112.6 to $1, the approximate rate of exchange at March 31, 2016. Such translation should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements as of March 31, 2016, include the accounts of the Company and its 15 significant (14 as of March 31, 2015) subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for using the equity method.

(Names of Consolidated Subsidiaries)

TAIYO INK MFG. CO., LTD.	TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD
CHUGAI KASEI CO., LTD.	TAIYO INK INTERNATIONAL (HK) LTD.
TAIWAN TAIYO INK CO., LTD.	TAIYO INK TRADING (SHENZHEN) CO., LTD.
TAIYO INK CO., (KOREA) LTD.	TAIYO INK PRODUCTS CO., LTD.
TAIYO INK (SUZHOU) CO., LTD.	ONSTATIC TECHNOLOGY CO., LTD. ("OTC")
TAIYO AMERICA, INC.	

CHUGAI KASEI CO., LTD. is included within the scope of consolidation because the Company newly acquired its shares in the year ended March 31, 2016.

TAIYO INK PRODUCTS CO., LTD. is included within the scope of consolidation because it was newly established in the year ended March 31, 2016.

As OTC owns four subsidiaries, the total number of consolidated subsidiaries is 15.

Investments in the remaining two (two as of March 31, 2015) unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized on a straight-line basis over a period of 5 or 20 years.

There are no investments in associated companies accounted for using the equity method in 2016 and 2015.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The fiscal years of two (two as of March 31, 2015) consolidated subsidiaries end on December 31. To prepare the Company's consolidated financial statements, TAIYO INK (SUZHOU) CO., LTD. and TAIYO INK TRADING (SHENZHEN) CO., LTD. prepared a set of accounts with a closing date of March 31 and these were used for consolidation purposes. The Company used the financial statements of OTC whose fiscal year ends on December 31 for consolidation since the difference of fiscal year ends between the Company and OTC is no more than three months. The necessary adjustments for significant transactions, if any, during the intervening period are made on consolidation.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements; (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or accounting principles generally accepted in the United States of America tentatively may be used for the consolidation process; and (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development ("R&D"); and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties, and incorporation of the cost model of accounting.

c. Business Combinations

In October 2003, the Business Accounting Council issued a statement of opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard accounts for R&D costs to be charged to income as incurred. Under the revised standard, in-process R&D costs acquired in a business combination is capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss on the acquisition date immediately after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation. This standard was applicable to business combinations undertaken on or after April 1, 2010. The Company adopted this standard on April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with noncontrolling interest

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet

In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income

In the consolidated statement of income, "net income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs

Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs that occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination that occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination that occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination that occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied prospectively.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

As a result, operating income and income before income taxes for the year ended March 31, 2016, increased by ¥68 million ($604 thousand). There is no impact on the capital surplus as of March 31, 2016.

In the consolidated statement of cash flows for the fiscal year ended March 31, 2016, cash flows related to the purchase or sales of investments in subsidiaries that do not result in changes in the scope of consolidation are stated in “net cash used in financing activities.” Cash flows for expenses associated with the purchase of investments in subsidiaries that do result in changes in the scope of consolidation and cash flows for expenses associated with the purchase or sales of investments in subsidiaries that do not result in changes in the scope of consolidation are stated in “net cash provided by operating activities.”

In addition, net assets per share as of March 31, 2016, decreased by ¥2.97 ($0.03) and net income per share for the year ended March 31, 2016, decreased by ¥2.98 ($0.03).

d. Cash Equivalents

Cash equivalents are short term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper, and bond funds, all of which mature or become due within three months of the date of acquisition.

e. Inventories

Inventories are principally stated at the lower of cost, determined by the moving-average method, or net selling value.

f. Marketable and Investment Securities

The Company classifies all marketable and investment securities as available-for-sale securities, which are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined using the moving-average method. For other -than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided for at the aggregate amounts of estimated credit losses based on the individual financial review of doubtful or troubled accounts and a general reserve for other accounts based on the Company’s historical credit loss experience of a certain past period.

h. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost.

Buildings are depreciated principally using the straight-line method, while property, plant, and equipment other than buildings are depreciated principally using the declining-balance method over the estimated useful lives of the assets.

The ranges of useful lives for major categories are as follows:

Buildings and structures:	From 7 to 60 years
Machinery, equipment, and vehicles:	From 4 to 10 years
Tools, furniture, and fixtures:	From 3 to 8 years

i. Long-Lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. Software

Software for internal use is amortized using the straight-line method over the estimated useful life of mainly five years.

k. R&D Costs

R&D costs are charged to income as incurred.

l. Accrued Bonuses

The Company and certain consolidated subsidiaries provide accrued bonuses for employees, directors, and corporate auditors based on future projections for the current fiscal year.

m. Accrued Liability for Stock Benefits

The Company accrues liability for stock benefits to be granted to employees in accordance with the "Rules on Distribution of Shares" based on the projected stock benefit liability.

n. Retirement and Pension Plans

The benefit formula basis is used to attribute expected benefits to periods of services in calculating projected benefit obligations.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are mainly amortized on a straight-line basis over five years within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(1) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 17).

(3) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (1) and (2) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (3) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (1) and (2) above, effective March 31, 2014, and for (3) above, effective April 1, 2014.

With respect to (3) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (3) above as of April 1, 2015, in retained earnings.

In calculating net defined benefit liability and net periodic benefit costs, certain consolidated subsidiaries adopt the simplified method whereby the projected benefit obligations are calculated at an amount that would be paid if all eligible employees voluntarily retired at the consolidated balance sheet date.

Certain consolidated subsidiaries received the approval from the Minister of Health, Labour and Welfare for the return of the substitutional portion of the government welfare pension fund on May 30, 2015. As a result, gain on transfer of benefit obligation relating to employees’ pension fund of ¥34 million ($302 thousand) was recorded under other income for the year ended March 31, 2016.

Liability for directors and corporate auditors is recorded to account for the payments of their retirement benefits based on the internal rules.

The Company, at the meeting of the board of directors held on April 22, 2010, resolved to abolish the directors’ retirement benefits system, and the agenda item regarding lump-sum payments resulting from said abolishment was approved at the 64th general meeting of shareholders held on June 29, 2010. These payments will be effected as retirement benefits paid at the time of retirement according to the period of service up to the abolishment of the system.

The increase in provision for directors’ retirement benefits for the year ended March 31, 2016, was due to CHUGAI KASEI CO., LTD., which became a consolidated subsidiary from the current fiscal year.

o. Asset Retirement Obligations

In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under these accounting standards, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

p. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Group files a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profit or losses of the parent company and its wholly owned domestic subsidiaries.

q. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

r. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the consolidated balance sheet date, except for equity, which is translated at the historical exchange rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rates.

s. Derivative Financial Instruments

The Company enters into derivative financial instruments to manage foreign exchange risks and interest rate risks. The Company uses long-term borrowings denominated in foreign currency to reduce foreign currency risks arising from investments in foreign subsidiaries. The Company also uses interest rate swap contracts for the purpose of hedging the interest rate risk associated with the underlying borrowings.

All derivative financial instruments are recognized at fair value in the consolidated balance sheet. For derivatives used for hedging purposes, the gains and losses are deferred until the hedged item is recognized. The Company records in "Foreign currency translation adjustments" the gains or losses on the derivative financial instruments that are designated as hedging instruments for investments in foreign subsidiaries. Exceptional treatment is applied for interest rate swap contracts that qualify for hedge accounting and meet specific matching criteria.

The Company evaluates effectiveness of hedging activities for investments in foreign subsidiary by referring the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedging transactions. The Company omits the assessment of hedge effectiveness of interest rate swaps that qualify for hedge accounting and meet specific criteria.

t. Per Share Information

Basic net income per share ("EPS") is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted EPS is not disclosed because it is antidilutive.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid at the end of the year.

First Series Class A shares have rights equivalent to common shares in terms of rights to claim dividends and those to claim residual property distribution and, therefore, are included in common shares when calculating per share information.

u. Employee Stock Ownership Plan

The Company has applied the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (Practical Issue Task Force (PITF) No. 30 issued on March 26, 2015)" for the year ended March 31, 2015.

(1) Outline of transactions

At the board of directors' meeting held on May 2, 2014, a resolution was made to introduce the Employee Stock Ownership Plan ("ESOP") trust for granting stock as an employee incentive plan. The purpose of this incentive plan is (i) to increase employee commitment and encourage involvement in the management of the business; (ii) to raise morale and give employees an incentive to behave in ways that will contribute to the Company's long-term performance and stock price; and (iii) to improve the mid- and long-term corporate value of the Company.

Under this plan, the Company establishes a trust for persons who satisfy the beneficiary requirements from among employees, and entrust money necessary for acquisition of the Company's shares. The trustee of the trust will acquire the Company's shares, to be distributed to employees in the future, from the Company in accordance with the "Rules on Distribution of Shares." Afterward, the trustee will grant a certain number of the Company's shares to beneficiaries based on "qualification grade etc." during the trust term. Beneficiaries will assume no cost in this regard since the underlying funds in the trust are fully contributed by the Company.

Assets and liabilities in relation to the trust are recorded in the consolidated balance sheet, and gains and losses therefrom are recorded in the consolidated statement of income.

(2) The Company's shares held by the trust

The Company's shares held by the trust were accounted for as treasury stock in net assets at book value (that do not include transaction costs paid to acquire the shares) in the trust. Under the trust, the book value and the number of shares of treasury stocks as of March 31, 2016 and 2015, were ¥226 million and 74,390 shares, and ¥301 million and 98,760 shares, respectively.

v. New Accounting Pronouncements

Tax Effect Accounting

On March 28, 2016, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework that included certain specific restrictions on recognizing deferred tax assets depending on the Company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

w. Changes in Presentation Methods

Consolidated Statement of Cash Flows

While the gross amounts were presented for "proceeds from short-term loans" and "repayments of short-term loans" under "financing activities" until the previous fiscal year, since they are short term and quickly revolving items, their net amounts are presented as "increase in short-term loans" for the current fiscal year. To reflect this change in presentation method, the Company has reclassified its consolidated financial statements for the previous fiscal year.

As a result, ¥1,808 million presented as "proceeds from short-term loans" and ¥(1,671) million as "repayments of short-term loans" under "financing activities" in the consolidated statement of cash flows for the previous fiscal year is reclassified as ¥137 million of "increase in short-term loans."

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Noncurrent—			
Marketable equity securities	**¥ 457**	¥ 350	**$ 4,059**
Total	**¥ 457**	¥ 350	**$ 4,059**

The costs and aggregate fair values of marketable and investment securities as of March 31, 2016 and 2015, were as follows:

	Millions of Yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale—				
Equity securities	**¥ 320**	**¥ 162**	**¥ 25**	**¥ 457**
Total	**¥ 320**	**¥ 162**	**¥ 25**	**¥ 457**
March 31, 2015				
Securities classified as available for sale—				
Equity securities	¥ 188	¥ 164	¥ 2	¥ 350
Total	¥ 188	¥ 164	¥ 2	¥ 350

	Thousands of U.S. Dollars			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale—				
Equity securities	**$ 2,842**	**$ 1,439**	**$ 222**	**$ 4,059**
Total	**$ 2,842**	**$ 1,439**	**$ 222**	**$ 4,059**

Available-for-sale securities whose fair values were not readily determinable as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Available-for-sale—equity securities	**¥ 12**	¥ 12	**$ 107**
Available-for-sale—investments in partnership	**187**		**1,661**

There were no available-for-sale securities that were sold during the year ended March 31, 2016.

The information for available-for-sale securities, which were sold during the year ended March 31, 2015, was as follows:

	Millions of Yen		
March 31, 2015	Proceeds	Realized Gains	Realized Losses
Securities classified as available for sale—			
Equity securities	¥ 572	¥ 390	¥ 4
Total	¥ 572	¥ 390	¥ 4

4. NOTES MATURING ON MARCH 31, 2016 AND 2015

Notes that were to mature at the consolidated balance sheet date were accounted for at the date of actual settlement. The year-end of March 31, 2016, of certain subsidiaries and the year-end of March 31, 2015, coincided with a bank holiday and the following notes maturing on March 31, 2016 and 2015, was included in the consolidated balance sheets as of March 31, 2016 and 2015:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Notes receivable—trade	**¥ 1**		**$ 9**

5. INVENTORIES

Inventories as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Merchandise and finished products	**¥ 2,013**	¥ 2,349	**$ 17,878**
Work in process	**410**	292	**3,641**
Raw materials and supplies	**1,594**	1,886	**14,156**
Total	**¥ 4,017**	¥ 4,527	**$ 35,675**

6. PROPERTY, PLANT, AND EQUIPMENT

Accumulated depreciation at March 31, 2016 and 2015, was ¥25,637 million ($227,682 thousand) and ¥22,864 million, respectively.

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment for the years ended March 31, 2016 and 2015.

The Group recognized impairment losses for the year ended March 31, 2016, as follows:

Location	Usage	Classification	Millions of Yen	Thousands of U.S. Dollars
TAIWAN TAIYO INK CO., LTD.	Business use	Construction in progress	**¥ 32**	**$ 284**

In principle, business use assets are grouped based on the department of the Group.

Business use assets of TAIWAN TAIYO INK CO., LTD., a consolidated subsidiary of the Company, were written down to recoverable amounts because their profitability and fair values declined drastically compared to their book values.

The recoverable amount is measured at its value in use and the recoverable amount is deemed as zero since no future cash flow is expected.

No impairment losses were recognized for the year ended March 31, 2015.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The weighted-average interest rates applicable to the short-term borrowings at March 31, 2016 and 2015, were 0.68% and 0.62%, respectively.

Long-term debt as of March 31, 2016, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Current portion of long-term debt, with weighted-average interest of 0.65% as of March 31, 2016	**¥ 440**	**$ 3,908**
Long-term debt, 2021 with weighted-average interest of 0.73% as of March 31, 2016	**7,413**	**65,835**
Total	**¥ 7,853**	**$ 69,743**

Long-term debt as of March 31, 2015, consisted of the following:

	Millions of Yen
Current portion of long-term debt, with weighted-average interest of 0.70% as of March 31, 2015	¥ 340
Long-term debt, 2020 with weighted-average interest of 0.59% as of March 31, 2015	7,686
Total	¥ 8,026

Annual maturities of long-term debt for the next five years and thereafter as of March 31, 2016, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 440	$ 3,908
2018	440	3,908
2019	4,776	42,416
2020	2,140	19,005
2021	57	506
2022 and thereafter		
Total	**¥ 7,853**	**$ 69,743**

9. RETIREMENT AND PENSION PLANS

The Company has noncontributory-funded defined benefit plans based on the point system and defined contribution plans. Certain overseas consolidated subsidiaries have defined contribution plans and other types of plans.

The liability for retirement benefits at March 31, 2016 and 2015, for directors and corporate auditors is ¥157 million ($1,394 thousand) and ¥10 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

Defined Benefit Plans

The changes in projected benefit obligations for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Balance at beginning of year (as previously reported)	**¥ 1,856**	¥ 2,772	**$ 16,483**
Cumulative effects of changes in accounting policies		(561)	
Balance at beginning of year (as restated)	**1,856**	2,211	**16,483**
Service cost	**152**	208	**1,350**
Interest cost	**14**	36	**124**
Actuarial (gains) losses	**20**	(14)	**178**
Benefits paid	**(81)**	(126)	**(720)**
Transfer to defined contribution plans		(512)	
Foreign exchange difference	**(15)**	53	**(133)**
Balance at end of year	**¥ 1,946**	¥ 1,856	**$ 17,282**

The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 2,195**	¥ 2,455	**$ 19,494**
Expected return on plan assets	**22**	42	**195**
Actuarial (gains) losses	**19**	(4)	**169**
Employer contribution	**136**	133	**1,208**
Benefits paid	**(81)**	(160)	**(720)**
Transfer to defined contribution plans		(318)	
Foreign exchange difference	**(13)**	47	**(115)**
Balance at end of year	**¥ 2,278**	¥ 2,195	**$ 20,231**

A reconciliation between the liabilities recorded in the consolidated balance sheet and the balances of projected benefit obligations and plan assets as of March 31, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Funded projected benefit obligations	**¥ 1,946**	¥ 1,855	**$ 17,283**
Plan assets	**(2,278)**	(2,195)	**(20,231)**
Net asset for defined obligations	**¥ (332)**	¥ (340)	**$ (2,948)**
Liability for retirement benefits	**¥ 23**		**$ 204**
Asset for retirement benefits	**(356)**	¥ (340)	**(3,162)**
Net asset for defined benefit obligations	**¥ (333)**	¥ (340)	**$ (2,958)**

The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Service cost	**¥ 152**	¥ 208	**$ 1,350**
Interest cost	**14**	36	**124**
Expected return on plan assets	**(22)**	(42)	**(195)**
Recognized actuarial gains (losses)	**(12)**	33	**(107)**
Amortization of prior service cost	**10**	10	**89**
Net periodic benefit costs	**¥ 142**	¥245	**$ 1,261**

Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans before tax for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Actuarial losses	**¥ 34**	¥ 46	**$ 302**
Prior service cost	**10**	10	**89**
Total	**¥ 44**	¥ 56	**$ 391**

Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined benefit plans before tax as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Unrecognized actuarial gains (losses)	**¥ 14**	¥ (18)	**$ 124**
Unrecognized prior service cost	**(30)**	(41)	**(266)**
Total	**¥ (16)**	¥ (59)	**$ (142)**

Plan assets as of March 31, 2016 and 2015, consisted of the following:

	2016	2015
General account	**100%**	100%
Total	**100%**	100%

The expected long-term rate of return on plan assets is determined considering the current and expected distribution of plan assets and the current and expected long-term rate of return derived from various components of plan assets.

Assumptions used for the years ended March 31, 2016 and 2015, were set forth as follows:

	2016	2015
Discount rate	**0.645%**	0.645%
Expected long-term rate of return on plan assets	**1.0**	1.0
Projected rate of salary increases	**14.12**	14.12

Defined Contribution Plans That Adopt Simplified Method

The changes in net defined benefit liability for the plans that adopt simplified method for the year ended March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year		
Net periodic benefit costs	¥ 2	$ 18
Benefits paid	(10)	(89)
Decrease resulting from transfer of benefit obligation relating to employees' pension fund	(34)	(302)
Increase resulting from new consolidation	135	1,199
Balance at end of year	¥ 93	$ 826

A reconciliation between the liabilities recorded in the consolidated balance sheet and the balances of projected benefit obligations and plan assets as of March 31, 2016, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Nonfunded projected benefit obligations	¥ 93	$ 826
Net liability for defined obligations	93	826
Net defined benefit liability	93	826
Net liability for defined obligations	93	826

Net periodic benefit costs calculated using the simplified method for the year ended March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net periodic benefit costs calculated using the simplified method	¥ 2	$ 18

In addition to the above, gain on transfer of benefit obligation relating to employees' pension fund of ¥34 million ($302 thousand) was recorded under other income, upon approval for the return of the substitutional portion of the government welfare pension.

Defined Contribution Plans

The required contribution amount to the defined contribution plans by the Company and its certain consolidated subsidiaries at March 31, 2016 and 2015, is ¥106 million ($941 thousand) and ¥46 million, respectively.

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, including (1) having a board of directors; (2) having independent auditors; (3) having a board of corporate auditors; and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the board of directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria, and accordingly, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account that was charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

With the issuance of First Series Class A shares by the third-party allocation, common stock and a capital surplus as of March 31, 2016, rose ¥53 million ($471 thousand), respectively.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 33% and 36% for the years ended March 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of March 31, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Deferred tax assets:			
Retirement benefits	**¥ 96**	¥ 3	**$ 853**
Unrealized profit	**67**	100	**595**
Deduction of foreign corporation tax carried forward	**2**	48	**18**
Allowance for doubtful accounts	**40**	27	**355**
Accrued expenses	**100**	97	**888**
Accrued liability for stock benefits	**8**	14	**71**
Other	**311**	259	**2,762**
Total deferred tax assets	**624**	548	**5,542**
Less valuation allowance	**(217)**	(133)	**(1,927)**
Total deferred tax assets, net of valuation allowance	**407**	415	**3,615**
Deferred tax liabilities:			
Undistributed earnings of associated companies	**(1,560)**	(1,480)	**(13,854)**
Reserve for technique and development		(24)	
Valuation difference on available-for-sale securities	**(59)**	(52)	**(524)**
Net defined benefit assets	**(114)**	(115)	**(1,013)**
Other	**(175)**	(54)	**(1,554)**
Total deferred tax liabilities	**(1,908)**	(1,725)	**(16,945)**
Net deferred tax liabilities	**¥ (1,501)**	¥ (1,310)	**$ (13,330)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2016, with the corresponding figures for 2015, is as follows:

	2016	2015
Normal effective statutory tax rate	**32.95 %**	35.52 %
Tax rates difference relating to overseas subsidiaries	**(12.88)**	(13.31)
Elimination of dividend income	**0.94**	0.85
Deduction of foreign corporation tax carried forward	**(0.08)**	(0.10)
Undistributed earnings of associated companies	**0.63**	3.67
Nondeductible withholding income tax of dividends	**5.97**	4.89
Tax exemption for experiments and research expenses and other	**(3.26)**	(2.57)
Valuation allowance	**0.31**	(0.34)
Other	**2.44**	1.10
Actual effective tax rate	**27.02 %**	29.71%

The "Act on Partial Revision of the Income Tax Act" (Act No. 15 of 2016) and "Act on Partial Revision of the Local Tax Act" (Act No. 13 of 2016) were enacted by the Japanese Diet on March 29, 2016. Accordingly, the normal effective statutory tax rates used to calculate deferred tax assets and deferred tax liabilities were changed to 30.75% for temporary differences that are expected to reverse in the consolidated fiscal year beginning on April 1, 2016, 30.76% for those in the consolidated fiscal year beginning on April 1, 2017, and 30.52% for those in the consolidated fiscal year beginning on April 1, 2018.

The effects of these changes are immaterial.

12. R&D COSTS

R&D costs charged to income for the years ended March 31, 2016 and 2015, were ¥2,442 million ($21,687 thousand) and ¥2,213 million, respectively.

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Summary of Financial Instruments Status

a. Group policy for financial instruments

The Group's policy is to fund operations internally wherever possible. With large-scale capital projects, the Group borrows funds from banks or arranges other types of funding, depending on market conditions.

Short-term surplus funds are managed conservatively using only financial instruments that provide high security.

The Group employs derivatives to mitigate known future risks, but does not use such instruments for speculative purposes as a matter of policy.

b. Nature and extent of risks arising from financial instruments

Operating receivables, such as trade notes and trade accounts, are exposed to credit risks relating to the Group's customers. Operating receivables denominated in foreign currencies that arise in the course of conducting overseas business are additionally exposed to exchange rate fluctuation risk.

Marketable and investment securities mainly comprise bonds and investments in the shares of affiliated business partners. These investments are exposed to the risk of fluctuations in market prices.

Operating liabilities, such as notes and accounts payable—trade, typically have payment due dates within four months. The Group also has some foreign currency-denominated liabilities of this kind that are exposed to exchange rate fluctuation risk.

Foreign exchange forward contracts and others are used to hedge the exchange rate fluctuation risk associated with foreign currency-denominated operating assets and others.

Please see Note 14 for more details about derivatives.

c. Risk management system for risks associated with financial instruments

Management of Credit Risk (Relating to Contractual Defaults by Business Partners)

The Company monitors the status of business partners with respect to operating assets regularly in line with internal regulations governing the management of credit limits and trade receivables. Besides managing due dates and outstanding balances by counterparty, the Company also aims to identify as early as possible and alleviate any concerns about nonpayment caused by deterioration in financial condition or other factors.

Consolidated subsidiaries also follow the Company's policy on credit risk management.

Bond investments are limited to high-rated bonds. The associated credit risk is judged to be minimal.

The Group only enters into derivative contracts with highly rated financial institutions as counterparties. The associated credit risk is regarded as negligible.

Management of Market Risk (Relating to Fluctuations in Exchange Rates, Interest Rates, Etc.)

To manage the currency fluctuation risk associated with foreign currency-denominated operating assets and liabilities and long-term debt, the Company and certain consolidated subsidiaries assess related exposures for each currency on a monthly basis.

The market values and financial condition of issuers (most of which are the Group's business partners) are assessed regularly for all marketable and investment securities. The ownership of any shares is reviewed on an ongoing basis, depending on market conditions and the relationships with relevant business partners.

With respect to the management of derivatives, the internal party responsible for the transaction must gain the approval of the authorized settlement managers to exercise any derivatives contract, in line with internal management regulations specifying the transactional authority and related limits for contractual exposures. The results of derivative transactions are reported to the board of directors periodically.

Management of Liquidity Risks Associated with Fund Procurement (Relating to Risk of Nonpayment by Due Date)

Appropriate operational funding plans are created and approved for all Group firms. The Group manages any related liquidity risks and ensures that cash on hand is maintained at adequate levels.

d. Fair value of financial instruments and related matters

The fair value of financial instruments is based on market prices where available and rational estimates in the case of unquoted instruments. Estimated values can vary depending on the assumptions employed for the various factor variables used in such calculations.

(2) Fair Value of Financial Instruments

Carrying amounts, fair values, and unrealized gain (loss) as of March 31, 2016 and 2015, were as follows:

Financial instruments whose fair values are difficult to measure are excluded from the table below.

	Millions of Yen		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Loss
(1) Cash and cash equivalents	**¥ 18,386**	**¥18,386**	
(2) Time deposits	**3,023**	**3,023**	
(3) Notes and accounts receivable—trade	**12,836**		
Less allowance for doubtful receivables	**(340)**		
	12,496	**12,496**	
(4) Investment securities	**457**	**457**	
(5) Notes and accounts payable—trade	**5,765**	**5,765**	
(6) Accounts payable—other	**1,697**	**1,697**	
(7) Income taxes payable	**776**	**776**	
(8) Short-term bank loans	**933**	**933**	
(9) Long-term debt	**7,853**	**7,891**	**¥ (38)**
(10) Derivatives—net			
(a) Derivatives to which hedge accounting is not applied	**17**	**17**	
(b) Derivatives to which hedge accounting is applied			
March 31, 2015			
(1) Cash and cash equivalents	¥18,183	¥ 18,183	
(2) Time deposits	1,584	1,584	
(3) Notes and accounts receivable—trade	13,112		
Less allowance for doubtful receivables	(341)		
	12,771	12,771	
(4) Investment securities	350	350	
(5) Notes and accounts payable—trade	5,661	5,661	
(6) Accounts payable—other	2,033	2,033	
(7) Income taxes payable	1,139	1,139	
(8) Short-term bank loans	730	730	
(9) Long-term debt	8,026	8,050	¥ (24)
(10) Derivatives—net			
(a) Derivatives to which hedge accounting is not applied			
(b) Derivatives to which hedge accounting is applied			

March 31, 2016	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Loss
(1) Cash and cash equivalents	**$ 163,286**	**$ 163,286**	
(2) Time deposits	**26,847**	**26,847**	
(3) Notes and accounts receivable—trade	**113,996**		
Less allowance for doubtful receivables	**(3,020)**		
	110,976	**110,976**	
(4) Investment securities	**4,059**	**4,059**	
(5) Notes and accounts payable—trade	**51,199**	**51,199**	
(6) Accounts payable—other	**15,071**	**15,071**	
(7) Income taxes payable	**6,892**	**6,892**	
(8) Short-term bank loans	**8,286**	**8,286**	
(9) Long-term debt	**69,742**	**70,080**	**$ (338)**
(10) Derivatives—net			
(a) Derivatives to which hedge accounting is not applied	**151**	**151**	
(b) Derivatives to which hedge accounting is applied			

The amount of allowance for doubtful receivables is deducted from receivables.
The value of assets and liabilities arising from derivatives is shown at net value.

Notes:

1. Measurement of fair value of financial instruments

(1) Cash and cash equivalents, (2) Time deposits, and (3) Notes and accounts receivable—trade
The fair values of cash and deposit and receivables approximate carrying values due to the short maturity of these instruments.

(4) Investment securities
The fair values of investment securities are measured at the quoted market price of the share exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 3.

(5) Notes and accounts payable—trade, (6) Accounts payable—other, (7) Income taxes payable, and (8) Short-term bank loans
The fair values of the above approximate carrying values due to the short maturity of these instruments.

(9) Long-term debt
For long-term debt with floating interest rates, the fair values approximate carrying value due to the variable interest rate that reflects the market rate in a short period of time and the fact that the credit status of the Company has not changed drastically since the execution of borrowings. For long-term debt with interest rate swap contracts to which hedge accounting is applied, the fair values are calculated by discounting the total amount of principal and interest at interest rates based on the expected rate of new debts.

(10) Derivatives
Please see Note 14.

2. Carrying amounts of financial instruments whose fair values cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Investment securities—unlisted securities	**¥ 12**	¥ 12	**$ 107**
Investments in unconsolidated subsidiaries:			
Unlisted securities	**39**	39	**346**
Investments in partnership	**187**		**1,661**

3. Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen	
March 31, 2016	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	**¥ 18,386**	
Time deposits	**3,023**	
Notes and accounts receivable—trade	**12,836**	
March 31, 2015		
Cash and cash equivalents	¥ 18,183	
Time deposits	1,584	
Notes and accounts receivable—trade	13,112	

	Thousands of U.S. Dollars	
March 31, 2016	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	**$ 163,286**	
Time deposits	**26,847**	
Notes and accounts receivable—trade	**113,996**	

Please see Note 8 for annual maturities of long-term debt.

14. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative transactions to which hedge accounting is not applied as of March 31, 2016 and 2015, were as follows:

	Millions of Yen			
March 31, 2016	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign exchange forward contracts:				
Selling U.S. dollar	**¥ 547**		**¥ 18**	**¥ 18**
Buying yen	**56**		**(1)**	**(1)**
March 31, 2015				
Foreign exchange forward contracts:				
Selling U.S. dollar	¥ 745		¥ 1	¥ 1
Buying yen	39			

	Thousands of U.S. Dollars			
March 31, 2016	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign exchange forward contracts:				
Selling U.S. dollar	**$ 4,858**		**$ 160**	**$ 160**
Buying yen	**497**		**(9)**	**(9)**

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

Derivative transactions to which hedge accounting is applied as of March 31, 2016 and 2015, were as follows:

		Millions of Yen		
March 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps—Floating rate receipt, fixed-rate payment	**Long-term debt**	**¥ 3,060**	**¥ 2,720**	
March 31, 2015				
Interest rate swaps—Floating rate receipt, fixed-rate payment	Long-term debt	¥ 3,400	¥ 3,060	

		Thousands of U.S. Dollars		
March 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps—Floating rate receipt, fixed-rate payment	**Long-term debt**	**$ 27,176**	**$ 24,156**	

Note:

Interest rate swaps to which exceptional treatment is applied are accounted for together with long-term debt designated as a hedged item. Therefore, their fair values are included in the fair value of long-term debt.

15. CONTINGENT LIABILITIES

The Group's contingent liabilities as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Export bill discount	**¥ 38**	¥ 29	**$ 337**

16. BUSINESS COMBINATIONS

a. Overview of Business Combination

(1) Name of acquired company and description of business

Name of acquired company:	CHUGAI KASEI CO., LTD. ("Chugai Kasei")
Description of business:	Manufacturing and distribution of dyes, pigments, chemical products and inks

(2) Purpose of the business combination

The Company believes that it can leverage management resources in a complementary and effective manner with the combination of Chugai Kasei's basic technology related to organic compounds and the Company's well established sales network by making Chugai Kasei its wholly owned subsidiary.

This combination will enable the Company to respond faster and more flexibly to customer needs by offering options for new business development, strengthening competitiveness, and deploying its product in new markets.

(3) Date of the business combination

April 30, 2015 (acquisition date for the purpose of the consolidation)

(4) Legal form of the business combination

Share exchange

(5) Name of the company after the business combination

TAIYO HOLDINGS CO., LTD.

(6) Acquired voting rights

100%

(7) Grounds for determination of the acquiring company

The Company was selected as the acquiring company by comprehensively considering several factors, such as a relatively large percentage of voting rights of its shareholders, the difference in the scale of the business and so on, as well as the fact that the Company became a wholly owning parent company.

b. Acquisition Cost and Breakdown

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition—Acquisition costs—ordinary shares of TAIYO HOLDINGS CO., LTD.	**¥ 491**	**$ 4,361**

c. Goodwill

(1) Amount of goodwill

¥6 million ($53 thousand)

(2) Reason for goodwill

Goodwill was generated as a result of acquisition costs exceeding net assets of the acquiring company.

(3) Method and period of amortization of goodwill

Lump-sum amortization

d. Exchange Ratio and the Calculation Methods by Type of Shares and Number of Shares Issued

(1) Exchange ratio by type of shares

1 ordinary share of Chugai Kasei :	0.12 ordinary shares of the Company

(2) Calculation method of share exchange ratio

a. Reason and Rationale for Allotment Ratio of Shares

In order to ensure the fairness and appropriateness of the share exchange ratio for the share exchange, the Company and Chugai Kasei decided to each obtain valuation of the share exchange ratio by KPMG FAS KK ("KPMG"), an independent third-party valuation institution, in determining the share exchange ratio. The Company carefully considered the share exchange ratio, referring to the calculation concerning the share exchange ratio conducted by the third-party valuation institution. The Company and Chugai Kasei negotiated and consulted with each other on the share exchange ratio, considering various factors, including each party's financial condition, operating performance, and the market level of the share price of the Company. As a result, the Company and Chugai Kasei came to the conclusion that the share exchange ratio (as described in d. (1) above) is fair and the share exchange with such share exchange ratio will not undermine the interests of each party's respective shareholders. At the board of directors' meeting held on April 20, 2015, the Company and Chugai Kasei determined to implement the share exchange at the share exchange ratio and entered into the share exchange agreement on the same date.

In the event any material change occurs with respect to the conditions that constitute the basis of the share exchange ratio, the Company and Chugai Kasei may consult with each other and change such ratio pursuant to the terms of the share exchange agreement.

b. Basis for Calculation

1. Name of valuation institution and its relationship with the Company and Chugai Kasei

KPMG, a third-party valuation institution of the Company and Chugai Kasei, is independent of the Company and Chugai Kasei. KPMG is not a related party to either the Company or Chugai Kasei and does not have any material interest in connection with the share exchange.

2. Calculation methods

KPMG appraised the Company's share value based on the average market price analysis given that there is a market price of the ordinary shares of the Company due to it being listed on a share exchange. The appraisal for Chugai Kasei is based on (a) the comparable companies analysis (given that there are multiple listed companies that are similar to and comparable with Chugai Kasei and it is therefore possible to infer the share value based on that method) and (b) discounted cash flow analysis ("DCF analysis") (so as to reflect the state of future business activities of Chugai Kasei in the appraisal). Substantial increase or decrease in the profit and significant changes in assets and liabilities compared to recent financial statements are not anticipated in Chugai Kasei's business plan, on which KPMG relied in appraising Chugai Kasei's share value based on the DCF analysis.

The share exchange ratio ranges calculated by KPMG when the share value per ordinary share of Chugai Kasei is set at 1 are as follows:

Method Adopted		Appraisal Results of Share Exchange
The Company	Chugai Kasei	
Average market price analysis	Comparable companies analysis DCF analysis	0.068–0.230 0.083–0.152

c. Number of Shares Issued

118,800 shares

e. Detail of Acquisition Related Expenses

Advisory fees, etc.: ¥68 million ($604 thousand)

f. The Estimated Fair Values of the Assets Acquired and Liabilities Assumed at the Acquisition Date

Please see Note 19 for supplemental cash flow information.

g. Approximate Amounts and Calculation Method of Impact on the Consolidated Statement of Income for the Year Ended March 31, 2016, Assuming That the Business Combination Had Been Completed at the Beginning of the Fiscal Year

The approximate amounts have not been disclosed since they are immaterial.

17. OTHER COMPREHENSIVE INCOME (LOSS)

Components of other comprehensive income (loss) for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Valuation difference on available-for-sale securities:			
Loss arising during the year	**¥ (25)**	¥ (203)	**$ (222)**
Income tax effect	**11**	78	**98**
	(14)	(125)	**(124)**
Foreign currency translation adjustments—			
(Loss) gain arising during the year	**(2,256)**	3,324	**(20,036)**
Remeasurements of defined benefit plans:			
Gain arising during the year	**44**	56	**391**
Income tax effect	**(10)**	(27)	**(89)**
	34	29	**302**
Total other comprehensive (loss) income	**¥ (2,236)**	¥ 3,228	**$ (19,858)**

18. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2016 and 2015, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2016	Net Income Attributable to Owners of the Parent	Weighted-AverageShares	EPS	
Basic EPS—Net income available to common shareholders	**¥ 7,796**	**23,067**	**¥ 337.99**	**$ 3.00**
Year Ended March 31, 2015				
Basic EPS—Net income available to common shareholders	¥ 6,667	25,249	¥ 264.05	

Notes:

Diluted EPS is not disclosed as there were no dilutive securities.

The Company's shares owned by the ESOP trust are included in treasury stock. The ESOP trust owned 81,912 and 84,474 weighted-average shares of the Company for the years ended March 31, 2016 and 2015, respectively.

19. SUPPLEMENTAL CASH FLOW INFORMATION

Chugai Kasei is included within the scope of consolidation because the Company newly acquired its shares in the year ended March 31, 2016. The details of assets and liabilities of these companies at the date of consolidation and reconciliation between acquisition costs of the shares and increase in cash and cash equivalents due to share exchange are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	**¥ 616**	**$ 5,471**
Noncurrent assets	**1,452**	**12,895**
Goodwill	**7**	**62**
Current liabilities	**(448)**	**(3,979)**
Noncurrent liabilities	**(1,135)**	**(10,080)**
Acquisition costs	**492**	**4,369**
Cash and cash equivalents	**165**	**1,466**
Transfer value of the treasury stock	**(492)**	**(4,369)**
Increase in cash and cash equivalents due to share exchange	**¥ 165**	**$ 1,466**

There was no supplemental cash flow information to be disclosed for the year ended March 31, 2015.

20. SUBSEQUENT EVENT

The appropriation of retained earnings as of March 31, 2016, approved at the Company's shareholders' meeting held on June 21, 2016, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥55 ($0.49) per share	**¥ 1,274**	**$ 11,314**

21. SEGMENT INFORMATION

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The Group made the transition to a holding company system on October 1, 2010. The business of the Group consists mainly of one activity, the manufacture and distribution of solder resist for printed wiring boards, among others. Each Group company formulates comprehensive strategies and deploys business activities, operating under a holding company system, whereby the Company is the holding company.

The Group is composed of four reportable segments divided by geographic area, namely "Japan," "China," "Taiwan," and "Korea," based on our manufacturing and marketing system.

(2) Method of Measurement for Information for the Amounts of Sales, Profit (Loss), Assets, Liabilities, and Other Items by Reportable Segments

The accounting policies of each reportable segment are consistent with those disclosures in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets, Liabilities, and Other Items by Reportable Segments

Year Ended March 31, 2016	Millions of Yen								
	Reportable Segments								
	Japan	China	Taiwan	Korea	Total	Other	Total	Reconciliations	Consolidated
Sales:									
External customers	**¥10,565**	**¥20,688**	**¥6,864**	**¥7,386**	**¥45,503**	**¥4,341**	**¥49,844**		**¥49,844**
Intersegment	**6,438**	**1,132**	**2,991**	**353**	**10,914**	**110**	**11,024**	**¥(11,024)**	
Total sales	**¥17,003**	**¥21,820**	**¥9,855**	**¥7,739**	**¥56,417**	**¥4,451**	**¥60,868**	**¥(11,024)**	**¥49,844**
Segment profit	**¥2,255**	**¥4,775**	**¥2,227**	**¥1,414**	**¥10,671**	**¥598**	**¥11,269**	**¥(304)**	**¥10,965**
Segment assets	**16,214**	**14,847**	**14,221**	**7,725**	**53,007**	**2,393**	**55,400**	**10,065**	**65,465**
Other items:									
Depreciation	**832**	**288**	**190**	**135**	**1,445**	**17**	**1,462**	**429**	**1,891**
Increase in property, plant, and equipment and intangible assets	**2,587**	**349**	**95**	**75**	**3,106**	**8**	**3,114**	**941**	**4,055**

Year Ended March 31, 2015	Millions of Yen								
	Reportable Segments								
	Japan	China	Taiwan	Korea	Total	Other	Total	Reconciliations	Consolidated
Sales:									
External customers	¥9,411	¥18,837	¥7,142	¥8,836	¥44,226	¥4,034	¥48,260		¥48,260
Intersegment	6,375	1,584	2,472	364	10,795	107	10,902	¥(10,902)	
Total sales	¥15,786	¥20,421	¥9,614	¥9,200	¥55,021	¥4,141	¥59,162	¥(10,902)	¥48,260
Segment profit	¥2,467	¥3,508	¥1,763	¥1,212	¥8,950	¥555	¥9,505	¥(250)	¥9,255
Segment assets	12,618	15,079	14,683	8,613	50,993	2,419	53,412	7,830	61,242
Other items:									
Depreciation	399	238	207	154	998	15	1,013	399	1,412
Increase in property, plant, and equipment and intangible assets	2,034	414	99	108	2,655	17	2,672	649	3,321

Year Ended March 31, 2016	Thousands of U.S. Dollars								
	Reportable Segments								
	Japan	China	Taiwan	Korea	Total	Other	Total	Reconciliations	Consolidated
Sales:									
External customers	**$93,828**	**$183,730**	**$60,959**	**$65,595**	**$404,112**	**$38,552**	**$442,664**		**$442,664**
Intersegment	**57,176**	**10,053**	**26,563**	**3,135**	**96,927**	**977**	**97,904**	**$(97,904)**	
Total sales	**$151,004**	**$193,783**	**$87,522**	**$68,730**	**$501,039**	**$39,529**	**$540,568**	**$(97,904)**	**$442,664**
Segment profit	**$20,026**	**$42,407**	**$19,778**	**$12,558**	**$94,769**	**$5,311**	**$100,080**	**$(2,700)**	**$97,380**
Segment assets	**143,996**	**131,856**	**126,297**	**68,606**	**470,755**	**21,252**	**492,007**	**89,387**	**581,394**
Other items:									
Depreciation	**7,389**	**2,558**	**1,687**	**1,199**	**12,833**	**151**	**12,984**	**3,810**	**16,794**
Increase in property, plant, and equipment and intangible assets	**22,975**	**3,099**	**844**	**666**	**27,584**	**71**	**27,655**	**8,357**	**36,012**

Notes:

(a) The "China" segment covers local subsidiaries in China and Hong Kong.

(b) The "Other" segment is not included in reportable segments and covers the business activities of local subsidiaries in the United States and other Asian countries.

(c) Depreciation does not include goodwill amortization.

(d) The "Taiwan" and "China" segments include sales and operating income of OTC (including OTC's four subsidiaries). As one of its subsidiaries is not engaged in any business activities, the subsidiary is not included in the segments above.
The Group liquidated one company of OTC (and five other subsidiaries) as of February 20, 2015.
As one of the subsidiaries of OTC does not operate any business, it does not constitute a reportable segment.

22. RELATED-PARTY DISCLOSURES

Transactions of the Company with related parties for the fiscal years ended March 31, 2016 and 2015, were as follows:

For the Year Ended March 31, 2016

Nature of Related Party	Name	Voting Shares of the Company	Description of Transaction	Transaction Amount	
Directors	Eiji Sato	0.25%	Third-party allocation	¥61 million	$542 thousand
	Seiki Kashima	0.03	Third-party allocation	¥21 million	$187 thousand
	Masahisa Kakinuma	0.06	Third-party allocation	¥6 million	$53 thousand
	Takayuki Morita	0.03	Third-party allocation	¥10 million	$89 thousand
	Eiji Takehara	0.04	Third-party allocation	¥6 million	$53 thousand

For the Year Ended March 31, 2015

Nature of related party:	Other related entity (shareholder)
Name:	KOWA CO., LTD.
Location:	Tokyo, Japan
Capital amount:	¥27 million
Business:	Investments in securities and real estates
Voting shares of the Company:	17.6%
Description of transaction:	Purchase of treasury stock
Transaction amount:	¥9,195 million

Note:

The Company determined the per share value of the Company's stock, taking into consideration certain discount factors, based on the average closing price of the Company's ordinary shares traded on the first section of the Tokyo Stock Exchange for the three-month period up to the business day proceeding the day on which the resolution by the board of directors of the Company was made.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of TAIYO HOLDINGS CO., LTD.:

We have audited the accompanying consolidated balance sheet of TAIYO HOLDINGS CO., LTD. and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TAIYO HOLDINGS CO., LTD. and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 24, 2016

Member of
Deloitte Touche Tohmatsu Limited

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900 Hirasawa, Ranzan-machi, Hiki-gun, Saitama 355-0215, Japan

TAIYO INK MFG. CO., LTD. Kitakyushu Plant
1-1 Kurosakishiroishi, Yahatanishi-ku, Kitakyushu-City Fukuoka 806-0004, Japan

TAIYO INK MFG. CO., LTD. Kansai Sales Office
FIS Bldg. Room 611, 403 Shimomaruya-cho, 2-chome Nijo-kudaru, Kawaramachidori, Nakagyo-ku, Kyoto 604-8006, Japan

CHUGAI KASEI CO., LTD.
35-3 Akaizawa, Nihonmatsu-shi, Fukushima 964-0982, Japan

TAIYO GREEN ENERGY CO., LTD.
388 Ohkura, Ranzan-machi, Hiki-gun, Saitama 355-0222, Japan

Global Network

Company	Voting Shares Held	Business Description
TAIWAN TAIYO INK CO., LTD.	99.8%	Manufacture and marketing of PWB materials
TAIYO INK MFG. CO., (KOREA) LTD.	90.4%	Manufacture and marketing of PWB and FPD materials
TAIYO INK (SUZHOU) CO., LTD.	100.0%	Manufacture and marketing of PWB materials
TAIYO AMERICA, INC.	100.0%	Manufacture and marketing of PWB materials
ONSTATIC TECHNOLOGY CO., LTD.	70.1%	Manufacture and marketing of PWB materials
ONSTATIC INK (SHENZHEN) CO., LTD.	*1	Manufacture and marketing of PWB materials
TAIYO INK INTERNATIONAL(SINGAPORE) PTE LTD	100.0%	Marketing of PWB materials
TAIYO INK INTERNATIONAL(HK) LIMITED	100.0%	Marketing of PWB materials
TAIYO INK TRADING (SHENZHEN) CO., LTD.	100.0%	Marketing of PWB materials
TAIYO INK PRODUCTS CO., LTD.	100.0%	Marketing of PWB materials
TAIYO INK (THAILAND) CO., LTD.	100.0%	Technical support for PWB materials

*1 ONSTATIC INK (SHENZHEN) CO.,LTD. is a wholly-owned subsidiary of ONSTATIC TECHNOLOGY CO., LTD.

Production and Marketing Subsidiaries

Taiwan

TAIWAN TAIYO INK CO., LTD.
No.7, Datong 2nd Rd., Guanyin Industry Park, Guanyin Dist., Taoyuan City 32849, Taiwan (R.O.C.)

ONSTATIC TECHNOLOGY CO., LTD.
7F., No.1, Ren' ai Rd., Yingge Dist., New Taipei City 239, Taiwan (R.O.C.)

Korea

TAIYO INK MFG. CO., (KOREA) LTD.
166, Manhae-ro, Danwon-gu, Ansan-si, Gyeonggi-do, Korea

China

TAIYO INK (SUZHOU) CO., LTD.
No.26 Taishan Road, Suzhou New District, Suzhou City, Jiangsu, P.R.China

ONSTATIC INK (SHENZHEN) CO., LTD.
Building No 38, Western Industrial Zone, Sha-Yi Village, Sha-Jing Town, Shenzhen City, Guangdong Province, P.R.China

USA

TAIYO AMERICA, INC.
2675 Antler Drive, Carson City, NV89701, U.S.A.

Marketing or Technical Support Subsidiaries

Singapore

TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD
133 New Bridge Road, #09-08 Chinatown Point, Singapore 059413

Hong Kong

TAIYO INK INTERNATIONAL (HK) LIMITED
Room 2305, 23/F, The Metropolis Tower, 10 Metropolis Drive, Hunghom, Kowloon, Hong Kong

Korea

TAIYO INK PRODUCTS CO., LTD.
7F & 8F Hanjoong Bldg. 8, Singil-ro, Danwon-gu, Ansan-si, Gyeonggi-do, Korea

China

TAIYO INK TRADING (SHENZHEN) CO., LTD.
Rm1509-1512, Office Tower, Shun Hing Square Di Wang Comm. Centre, 5002 Shen Nan Dong Road, Luo Hu District, Shenzhen City, Guangdong Province, P.R.China

Thailand

TAIYO INK (THAILAND) CO., LTD.
1199 Piyavan Tower, 14F/Room 14C Phaholyothin Rd, Samsen-Nai, Phayathai, Bangkok 10400, Thailand

Company Overview (As of March 31, 2016)

Name: TAIYO HOLDINGS CO., LTD.

Head office: 2-7-1 Hazawa, Nerima-ku, Tokyo 176-8508, Japan

Phone: 81-3-5999-1511

Established: September 29, 1953

Capital: ¥6,188 million

Shares authorized: 50,200,000

Total number of issued shares: 27,485,600

Stock listing: Tokyo

Number of shareholders: 5,623

Major Shareholders

Name	Shares (Thousands)	Investment Ratio (%)
Kowa CO., LTD.	5,233	19.04
Company's Treasury Stock	4,304	15.66
Japan Trustee Services Bank, Ltd. (shares retrusted to Sumitomo Mitsui Trust Bank, Limited, and shares entrusted to Sumitomo Mitsui Banking Corporation retirement benefit trust account)	1,116	4.06
The Master Trust Bank of Japan, Ltd. (Trust account)	934	3.40
Japan Trustee Services Bank, Ltd. (Trust account)	900	3.27
SHIKOKU CHEMICALS CORPORATION	631	2.29
MISAKI ENGAGEMENT MASTER FUND	604	2.19
Toshin Yushi Co., Ltd.	538	1.95
JP MORGAN CHASE BANK 385632	510	1.85
Mitsuo Kawahara	500	1.81

Accessing Our Investor Information Site: An Introduction to Taiyo Holdings Website

Taiyo Holdings is committed to providing a full range of information to all stakeholders including shareholders, investors, customers, and business partners.

http://www.taiyo-hd.co.jp/en/

TAIYO HOLDINGS CO., LTD.

Stock Price and Trading Volume