TAIYO HOLDINGS CO., LTD.

People who create value

Annual Report
2014
Year Ended March 31, 2014

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.

Profile

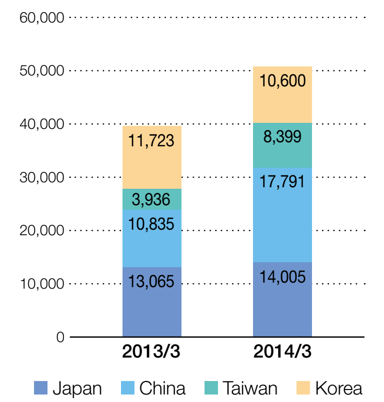
The TAIYO HOLDINGS GROUP is the chemical manufacturer that commands a global market share of more than 60% for solder resist, which is essential for the printed wiring boards (PWBs) used in a variety of electronics products, from such IT devices as cellular phones, PCs, and other digital equipment to 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 TAIYO HOLDINGS GROUP undertook a major transformation of its business domains in 1976, to a business in which solder resist was made its mainstay product.

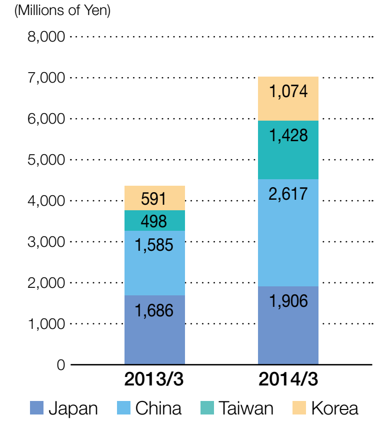
To target further growth this year, which marks the 60th anniversary of its establishment, the TAIYO HOLDINGS GROUP is enhancing “every technology” of all its companies based on the technological capabilities that have been accumulated in the development and manufacture of solder resist. The TAIYO HOLDINGS 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 TAIYO HOLDINGS 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 on the previous page and 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.

Basic Management Policies

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.

Classification of Products

Group	Category	Percentage of Net Sales
PWBs	Rigid	66.1%
	PKG & FPC	18.0%
	Build-up	2.3%
FPDs	PDPs/Touch Panels	10.3%
Others	—	3.3%

History

Growth fundamentals built up over 60 years

We are targeting further growth, based as ever on the technological capabilities accumulated in the development and manufacture of solder resist.

1963 Sept. Taiyo Ink Mfg. Co., Ltd. established.

1970 Aug. Commenced printed wiring board (PWB) marketing.

1973 May Developed and commenced marketing of epoxy resin thermally curable single-component solder resist.

1982 Mar. Ranzan Plant (current Ranzan Facility) established.

1984 June Exhibited liquid developable solder resist at the JPCA Show.

1988 Sept. Established TAIYO INK MFG. CO., (KOREA) LTD. Commenced locally based production overseas.

1990 Mar. Completed construction of Technology Development Center at the Ranzan Facility.

1990 Sept. Launched initial public offering on the over-the-counter market.

1990 Dec. Established marketing subsidiary TAIYO AMERICA, INC. in Nevada, U.S.A.

1992 Feb. Commenced research and development into plasma display panel materials.

1993 Jan. Developed and commenced marketing of package board solder resist, especially ball grid array (BGA) solder resist.

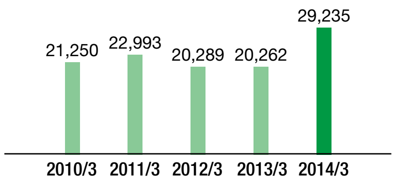
1993 Nov. Registered basic patent for alkaline developable solder resist in Japan.

1994 Dec. Acquired ISO 9001 certification for Head Office and the Ranzan Facility.

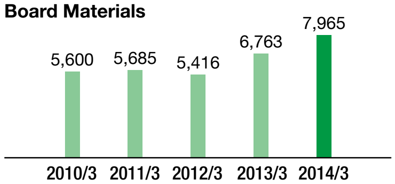
1995 Feb. Transformed U.S. marketing subsidiary TAIYO AMERICA, INC. into a manufacturing and marketing company, and commenced local production.

Sales (Millions of Yen)

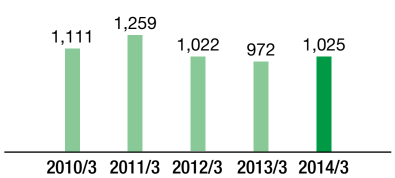
Rigid Board Materials



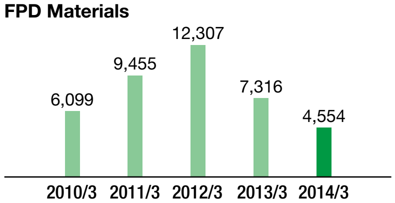
PKG Board and Flexible Printed Circuit Board Materials



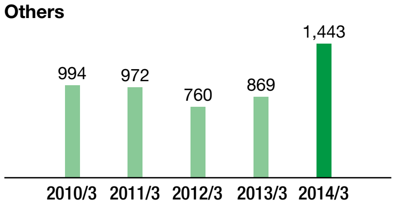
Build-up Board Materials



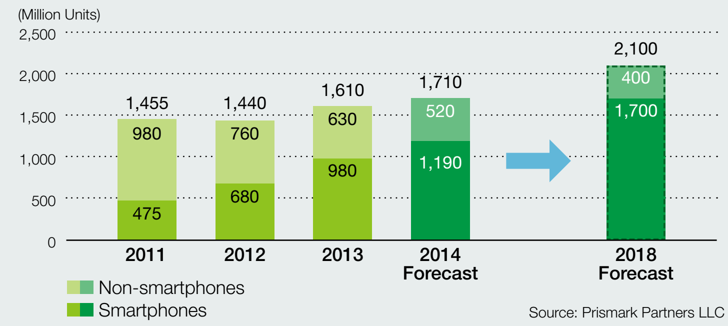
FPD Materials



Others

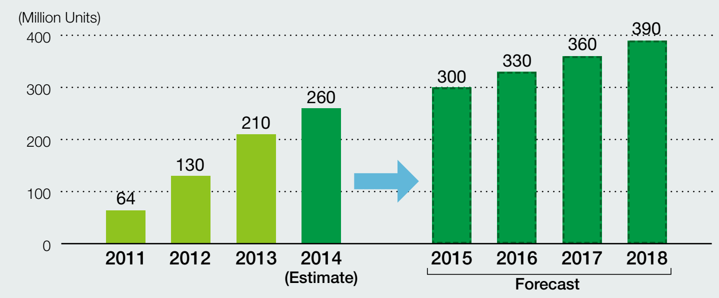


Unit Sales of Mobile Phones



Source: Prismark Partners LLC

The Media Tablet Explosion



Source: Prismark Partners LLC

Terminology

Term	Definition
PWB Materials	Chemical products for printed wiring boards
FPD Materials	Chemical products for flat panel displays
PDP Materials	Chemical products for plasma display panels
SR	“Solder resist ink” or “solder mask”
PKG Materials	Chemical products for semiconductor packages

1996 Sept. Established local production subsidiary TAIWAN TAIYO INK CO., LTD. in Taiwan.

1999 Jan. Established marketing subsidiaries TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD. in Singapore and TAIYO INK INTERNATIONAL (HK) LTD. in Hong Kong.

2001 Jan. Listed on the First Section of the Tokyo Stock Exchange.

2001 Apr. Opened the Ranzan-Kitayama Facility, the Company’s main domestic production base.

2001 July Established technical support subsidiary TAIYO INK (THAILAND) CO., LTD. in Thailand.

2001 Dec. Established local production subsidiary TAIYO INK (SUZHOU) CO., LTD. in China.

2003 Jan. Acquired ISO 14001 certification for Head Office and Ranzan-Kitayama Facility.

2010 June Approval given for resolution concerning transfer to holding company system through corporate divestiture at 64th General Meeting of Shareholders.

2010 Oct. Company split implemented and corporate name changed to TAIYO HOLDINGS CO., LTD.

2013 May Acquired Taiwanese company ONSTATIC TECHNOLOGY CO., LTD.’s shares and made it a subsidiary company.

Product Innovation

Sound technological skills enabling next-generation product breakthroughs

The World's Leading Manufacturer of Solder Resist

Printed wiring boards (PWBs) are used in a variety of electronics products, from mobile phones, PCs, and other IT equipment to digital household appliances and in vehicle electronics equipment. Solder resist is an essential element in these PWBs.

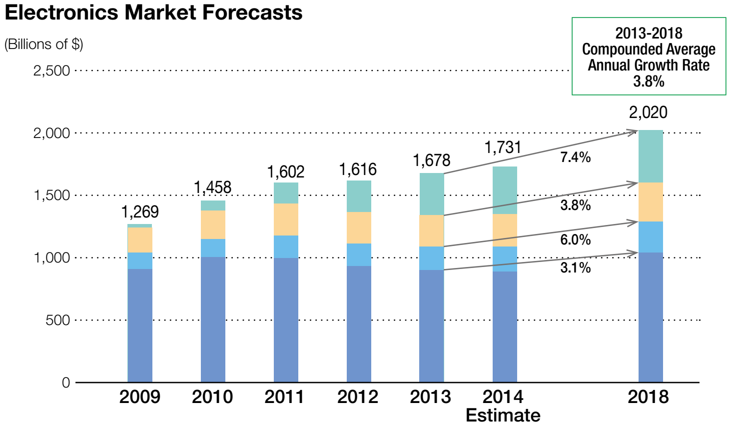
The Market Leader in the Solder Resist Field: 60% Market Share for Solder Resist

The ink, typically green, that is applied to the surfaces of PWBs is, in fact, solder resist (known in the U.S. and elsewhere as solder mask), the mainstay product of the TAIYO HOLDINGS GROUP. Solder resist is an essential material in the production of PWBs used in electronics equipment, from mobile phones and PCs to digital appliances and automotive electronic devices. The TAIYO HOLDINGS GROUP commands a global market share for solder resist of more than 60%, making it the No. 1 specialty chemical manufacturer in this field.

785: Number of Patents

Our business philosophy is to develop and supply products of the highest value based on superior technical expertise. Guided by this philosophy, we see our mission as the world's leading manufacturer as being to tirelessly research and develop high-quality products for supply to the world. Our technical expertise serves as the backbone of our operations, and we are proud to be a company with the manufacturing excellence to serve the world's needs. We aim to create products imbuing the highest value, leveraging the various technologies we have amassed as a pioneer in solder resist.

Electronics Market Forecasts



Smartphones and Tablets
Servers/Storage/Communications Infrastructure
Automotive Electronics
Other Electronics

Note: Includes value of PV modules in total electronics
Source: Prismark Partners LLC

Market

Market Trend

Miniaturization and greater component density

Required Functions

High sensitivity
High productivity
High resolution
High resistance
High insulation reliability
High modulus
High strength

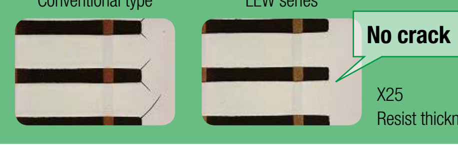
Next-Generation Products

White Color Solder Resist & Paste

Solder Resist for PWBs

Features
- Higher reflectance
- Excellent discoloration resistance against UV rays and heat
- No change in color (red) after gold plating and reflow

Crack after the reflow process



Photoimageable Solder Resist for Package Substrates

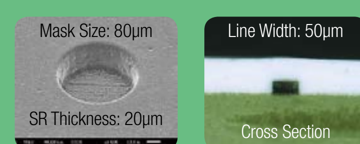
Liquid-Type Solder Resist AUS AZ1 for FC-xGA

Features
- Excellent TCT[*1] resistance
- Excellent reliability with thin coating
- Excellent HAST[*2] resistance
- Other excellent properties

Photoimageable Black Solder Resist for Package Substrates

Features
- Excellent opacity
- High photosensitivity and fast photo speed
- Available in liquid type and dry film type

Excellent resolution



High Sensitivity PSR/High Heat Resistance PSR

Solder Resist for PWBs

Features
- High sensitivity & High productivity
- High resolution

Color variation


Green Blue Black

Solder Resist for Inkjet Printers

Solder Resist for PWBs

Features
- Simplified process
- Dual cure type with good adhesion to substrates

Ink-jet printing

Before solder resist coating — Free exposure development — Finished goods

*1: Temperature Cycling Test
*2: Highly Accelerated Temperature and Humidity Stress Test

Research and Development Activities

Responding to Needs for Further Miniaturization and Greater Component Density

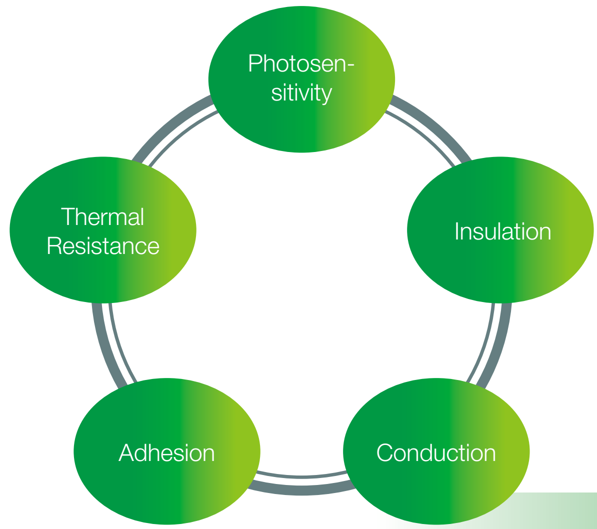
One of our key management strategies is to allocate the necessary and appropriate levels of corporate resources to R&D, in order to develop products that will be new sources of earnings along with solder resist (SR), which is our mainstay product, and to consolidate our position as a leading company. In fiscal year 2013, ended March 31, 2014, the Group's R&D expenditures were approximately ¥1,600 million (an increase of almost ¥400 million over the previous fiscal year). Taiyo is also focusing on securing highly capable R&D personnel and technicians in Japan and overseas.

The issue common to a diverse range of materials that go into printed wiring boards (PWBs), including SR, is the miniaturization of PWBs, as final electronics products become more compact and require greater component density, to accommodate ever higher ultra-miniaturized wiring and insulation patterns. Among these various materials, requirements are becoming especially more sophisticated in the area of flexible circuit boards that can be bent and folded.

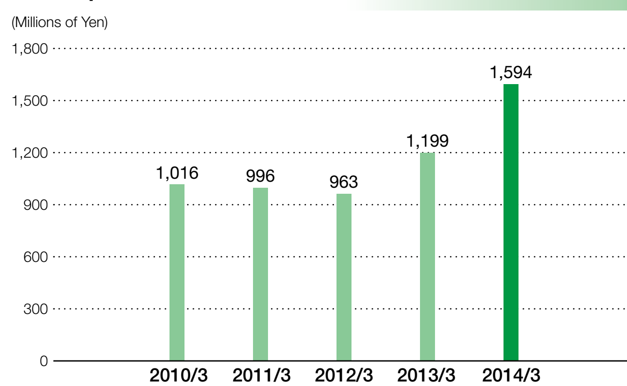
Amid these developments, in fiscal year 2013, the TAIYO HOLDINGS GROUP launched new products mainly in the fields of conductive silver paste (for use in touch panels and other applications), interlayer insulation materials (for package (PKG) substrates, etc.), and materials with excellent bending properties (for use in flexible circuits and other applications). The potential market for these products is expected to be about ¥10,000 million annually.

In addition to the developments previously mentioned, the Group reported progress in R&D that will lead to many results in the years ahead.

TAIYO HD GROUP Main Proprietary Fundamental Technology



R&D Expenditures



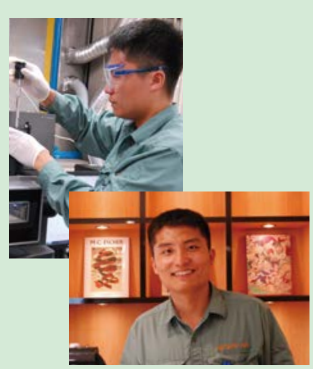
Voice of the Employee

Gao JingJie, R&D Division, TAIYO HOLDINGS CO., LTD.

Current position: Planner in R&D Department I, R&D Division

Job description: Responsible for development of new analytical methods for products

What I want to contribute to the Company in the future: I will try to develop detection and analysis techniques that are more rapid, sensitive, and efficient to provide strong support for product quality improvement and for new material research.



TAIYO HOLDINGS CO., LTD.
Ranzan Facility

Solder Resist (SR)

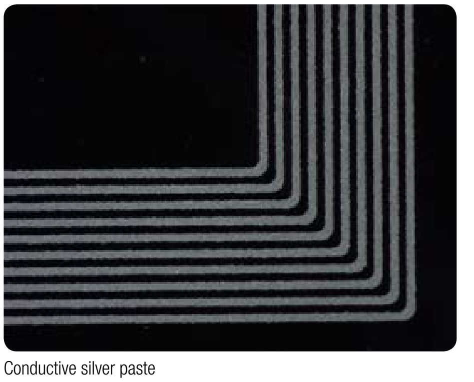
The TAIYO HOLDINGS GROUP began to supply SR adapted for the direct exposure method for wiring miniaturization at an early date. The Group supplies not only the previously existing liquid-type SR for cutting-edge package (PKG) boards but also dry film-type SR, which is advantageous for circuit miniaturization. The Group products have been adopted for use in PKG substrates that find application in smartphones.

The Group is placing special emphasis on the development of SR for PWBs used in automotive devices. Among these, an area of particular interest is PWBs used in electric vehicles. This is an area where it is necessary to overcome difficult operating conditions, since these devices must withstand high temperatures and vibration as well as sudden high voltage surges. In addition, flexible circuit boards are coming into wider use, and the Group is working to develop SR for PWB use that meets a wide range of conditions and expands the market.


SR for PWBs

Conductive Materials

Among electrode materials for use in touch panels installed in smartphones and tablet PCs, the TAIYO HOLDINGS GROUP has developed silver paste for screen printing, and this material has been adopted by manufacturers. The Group, in collaboration with its customers, is also developing a photoimageable material that makes possible pattern formation to an even-higher definition. In addition, research is also under way into conductive pastes that do not require the use of precision metals.


Conductive silver paste

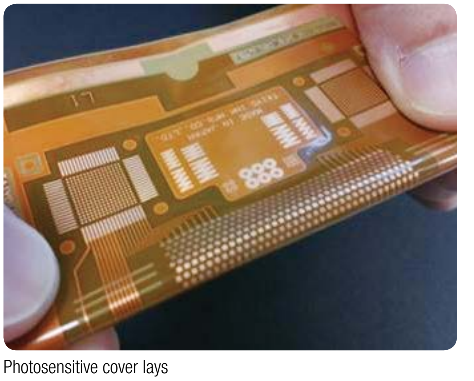
Interlayer Insulation Materials

In line with customer requests, the TAIYO HOLDINGS GROUP is developing dry film-type interlayer insulation materials for use in PKG substrates. Plans call for responding to needs for interlayer insulation materials other than dry-film types in the years ahead.


Dry film

Photoimageable Cover Lay Film

Along with the development of lighter and thinner information terminal devices, the space within PWBs has become smaller, and this is leading to the wider use of flexible substrates that can be folded and stored. To meet the needs generated by these trends, the TAIYO HOLDINGS GROUP has developed photoimageable cover lay film that excels in miniature processability, heat resistance, and bendability. The Group is collaborating with its customers to further commercialize these materials and put them into wider use.


Photosensitive cover lays

Conductive Adhesives

Information terminal devices, as typified by smartphones, make use of both hard, rigid substrates and flexible substrates, and, thus far, these have been joined with general-purpose plastic connectors. However, to respond to the need for narrow-pitch connections accompanying greater component density, manufacturers want lighter materials and want to lower connector costs. To meet these needs, the TAIYO HOLDINGS GROUP has developed an anisotropic conductive adhesive with dimensional stability that hardens quickly even at relatively low temperatures.

The TAIYO HOLDINGS GROUP reported major increases in sales and income in fiscal year 2013, ended March 31, 2014, as a result of the positive impact of the correction of the high values of the yen and the implementation of M&A deals. At fiscal year-end, the dividend on equity (DOE) ratio was 7.9%, and our dividend payout ratio stood at 61.9%. Looking ahead, we will continue our R&D activities with an emphasis on marketing and have set healthy targets for the longer term of annual net sales of ¥150,000 million and a 20% ratio of operating income to net sales.

Eiji Sato
President and CEO

A Review of Fiscal Year 2013, Ended March 31, 2014

Q: Could you please give us your analysis of the business environment and your corporate performance in fiscal year 2013?

During fiscal year 2013, a key development for the electronics parts industry was the expansion in the car electronics market. Also, demand for products from the information terminal industry, including smartphones and tablets, remains firm.

Within this operating environment, the Group's net sales rose 22.2%, to ¥44,225 million, and operating income expanded 72.6%, to ¥7,569 million. Similarly, net income increased 46.4%, to ¥4,931 million.

Our business policies leading to this growth included the positioning of ONSTATIC TECHNOLOGY CO., LTD. (OTC) as a subsidiary and consolidation of OTC's results from the second quarter of the fiscal year. Another factor leading to growth in sales and income was our success in expanding sales of high-function products, including dry film-type SR. In addition, positioning OTC, which had been a competitor, as a subsidiary helped us to attain our initial objective of stabilizing product prices. Another major factor contributing to performance, resulting from the implementation of government policies, was the downward correction in the value of the yen against other major currencies.

Preparing for Further Growth

Q: What strategies are you implementing to conduct marketing activities and structure supply chains that will increase Taiyo's ability to cope with changes in the operating environment?

The TAIYO HOLDINGS GROUP has the top market share in the global SR industry. Also, since our overseas sales are a high proportion of our consolidated net sales, we are strongly influenced by trends in the markets for final products in the electronics industry. We are also significantly influenced by the sudden rise of new entrants in the semiconductor and other electronics components industries, because these changes essentially redraw the industry map. In addition, our business portfolio is easily impacted by fluctuations in foreign currency rates.

For these reasons, we place particular emphasis on gathering information immediately, mainly through our marketing divisions in Japan, regarding development in our businesses and markets around the world as well as the latest news on new market entrants. To avert foreign currency risk, we are expanding our initiatives to create a production framework where income and expenditures are denominated in the same currencies. This means implementing the policy that "products that are sold in local areas (markets) are made from materials procured in the local area and manufactured there."

Q: Please explain how you are going to expand market share and create new products through R&D that will become major new sources of earnings.

We make a clear distinction between divisions that are responsible for "research" and those engaging in "development." Research is aimed at generating results over a medium- to long-term time span of three to five years. On the other hand, development refers to our activities to further develop and apply existing technologies over the short term. Another point is that we are expanding our R&D functions even overseas, outside Japan.

When we reach the point in the development process where a product can be commercialized between one and up to two years from now, we expand the development team to include not only technical personnel but also marketing and production people. Thereby, the team becomes a new product team focused especially on marketing issues and objectives. Previously, marketing and production members of these new product teams also had responsibilities in their principal business activities. Now, however, they are engaging full time in new product development, and their goals are to finish development and launch products that accurately meet customer needs.

Financial Results

(Millions of Yen)

	FY3/2013	FY3/2014	Year-on-year change	Rate of change
Net Sales	36,184	44,225	8,041	22%
Operating Income	4,386	7,569	3,183	73%
Net Income	3,368	4,931	1,563	46%

Q: What are your ideas about developing human resources?

I do not believe that human resources should be developed, at least by the Company alone. Human resources should proactively develop themselves. What we are emphasizing most in the development of human resources is providing the environment for people to learn and try things on their own. In more-specific terms, we instigate many projects and create opportunities for confronting the challenges of new business development. Beginning a few years ago, we started sending personnel to study in universities. The reason is that we think that getting away from the workplace for a while is necessary. To begin with, rather than reporting for work on time every day, I believe it is meaningful for people to think of new ideas outside the workplace and then use these ideas in their work. I am aiming to have this sense of values take root in our corporate culture.

Also, as one way to increase employee motivation, we made the decision to introduce an employee share ownership plan at our meeting of the Board of Directors in May.

Future Objectives and Returning Profits to Shareholders

Q: What is your outlook for performance in fiscal year 2014, ending March 31, 2015, and what is your long-term vision?

In fiscal year 2014, we are looking for increases in both sales and income. Our outlook is for net sales of ¥45,500 million, operating income of ¥7,700 million, and net income of ¥5,000 million. This will imply a ratio of operating income to net sales of 17%, but we want to return to a 20% ratio as soon as possible, and our acquisition of OTC should help us along toward this objective. In the long term, we are aiming for net sales of ¥150,000 million and a 20% ratio of operating income to net sales. Since we cannot rule out the possibility that the yen may begin to strengthen again, we have to speed up our initiatives to build a corporate structure that can cope with a stronger yen.

Q: What will be your approach to returning profits to shareholders?

We have positioned returning profits through the payment of cash dividends as an important policy, and we are returning a continuous, steady, and high level of profits to shareholders. Our basic policy is "to maintain a dividend on equity ratio of 5% or higher on a consolidated basis in the medium-to-long term." Based on this policy, we paid a regular annual dividend of ¥90 per share for fiscal year 2013 and declared a commemorative dividend of an additional ¥30, for a total of ¥120 per share for the full year. This represented a dividend on equity ratio of 7.9% and a dividend payout ratio of 61.9%.

For fiscal year 2014, we are planning on paying an annual dividend of ¥90 per share.

We operate in an industry where product life cycles can be quite short. The TAIYO HOLDINGS GROUP aims to stay at the head of its industry by continually introducing new products and achieving sustained increases in corporate performance. In addition, Taiyo strives to achieve healthy and sound growth from a multiplicity of perspectives and to contribute to the happiness and prosperity of its shareholders and other stakeholders. I would like to take this opportunity to express my heartfelt thanks to all our shareholders and other investors for their continuing interest and understanding of the TAIYO HOLDINGS GROUP.

Self-Starter Personnel Contribute to Group Company Development

For the TAIYO HOLDINGS GROUP to expand its global share of the SR market, to remain on a growth path driven by the continued development of new products and business, and to achieve sustainable growth, important conditions will be for each and every employee to be a self-starter.

To cite one example of what this means: Self-starter personnel will set their own specific goals for expanding market share and developing new products. They will be able to draw up their own road maps from R&D through manufacturing and sales. They will be able to experience the joy of realizing these plans and road maps. As the word "self-starter" implies, personnel with these qualities are not trained. Without fail, they see and seize opportunities, and train themselves.

The TAIYO HOLDINGS GROUP provides opportunities for self-development. These include sending employees to study at universities, emphasizing on-the-job training, and the active rotation of employees among Group companies. In addition, Taiyo is actively engaged in hiring a diverse range of staff members from Japan and overseas regardless of their nationality, recruiting staff graduating from foreign universities and college graduates in Japan.

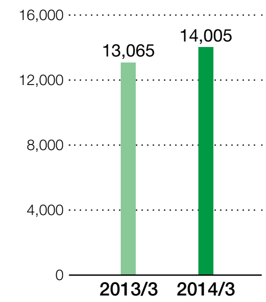
The TAIYO HOLDINGS GROUP allows its personnel to experience difficulties and successes in a broad range of countries and regions as well as in a diversity of job positions as they aim to become self-starters. As a result of their contributions, Taiyo experiences growth in many countries and regions, achieves improvement in performance, and in fiscal 2013 realized major increases in net sales and income.

Looking ahead, across the Group, Taiyo will provide opportunities for top-quality personnel to become leaders, and, in an environment where they can gain actual experience as managers, they will aim to seize opportunities to achieve further growth as self-starters, and ultimately develop themselves and become the new management responsible for the next generation.

Japan

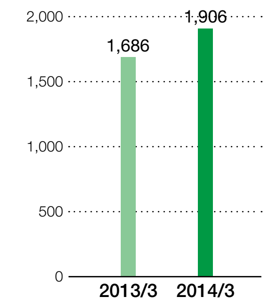
Sales

(Millions of Yen)



Operating Income

(Millions of Yen)



Core of Marketing Activities

One of the consolidated companies located in Japan is TAIYO INK MFG. CO., LTD., a manufacturing and marketing subsidiary.

In fiscal year 2013, sales of rigid substrate materials were approximately level with the previous fiscal year. Sales of PKG substrate materials were favorable, accompanying expansion in the market for smartphones. As a result, sales in Japan in fiscal year 2013 were ¥14,005 million (an increase of 7.2% year on year), and operating income was ¥1,906 million (a gain of 13.1% over the previous fiscal year).

One of the principal roles of the Group holding company is to be in overall charge of strategies for Asian markets and promote their implementation. In more-specific terms, the holding company must keep a watchful eye on the Asian markets as a whole at all times, identify needs before they emerge, and create new products that match these needs through R&D, based on marketing.

For example, in China, new entrants into the smartphone market are emerging as companies spin out or, otherwise, break away from large companies in the field. Grasping information on their presence is difficult for locally based companies acting alone. Therefore, the TAIYO HOLDINGS GROUP's base in Japan draws on its marketing capabilities and makes direct approaches to promising manufacturers. If it is discovered that these companies have needs that have not been encountered thus far, the Group turns its attention to the consideration of developing new products answering these needs.

The TAIYO HOLDINGS GROUP has earned a high reputation for both quality and price in the PWB materials market in China, and it has won a market share of about 60%. Regarding future issues, the Group conducts thoroughgoing market research and sales development activities, especially with the aim of not overlooking potential for new customers for PKG substrate materials and works to substantially raise its market share through the implementation of various strategies, including emphasis on customer service.

In this way, Japan plays the role of the core for marketing in Asia and promotes improvement in performance in the countries of the region.

Voice of the Employee

Eiji Kawai, Sales and Marketing Division, TAIYO INK MFG. CO., LTD.

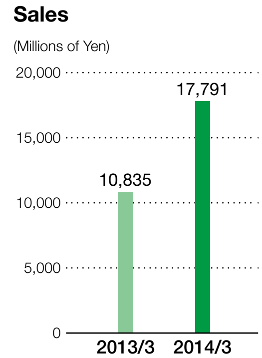
Current position: Section I, Sales Department, Sales and Marketing Division

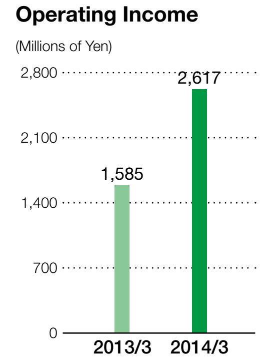
Job description: Sales and after-sales service to domestic customers

What I want to contribute to the Company in the future: I want to always grasp customers' latent needs and reflect this in new product development. I also want our products to be used throughout the world and for them to bring smiles to people's faces.

TAIYO INK MFG. CO., LTD.

China
(including Hong Kong)





Expanding Market Share through Three Strategies

The consolidated companies located in China are TAIYO INK (SUZHOU) CO., LTD., a manufacturing and marketing subsidiary that was established in 2001, and ONSTATIC INK (SHENZHEN) CO., LTD., which is a subsidiary of ONSTATIC TECHNOLOGY CO., LTD., which was acquired in 2013. In addition, the TAIYO HOLDINGS GROUP has other subsidiaries, TAIYO INK INTERNATIONAL (HK) LTD. and TAIYO INK TRADING (SHENZHEN) CO., LTD., which are marketing subsidiaries operating mainly in the southern China region.

In fiscal year 2013, sales of rigid substrate materials were strong owing to expansion of the servers and telecommunications equipment markets. In addition, the consolidation of ONSTATIC INK (SHENZHEN) CO., LTD. contributed significantly to performance. As a result, sales in China in fiscal year 2013 amounted to ¥17,791 million (up 64.2% year on year), and operating income was ¥2,617 million (an increase of 65.2% over the previous fiscal year) (These figures include transactions among Group companies.).

The TAIYO HOLDINGS GROUP has a market share of about 60% in the Chinese market, but is implementing three strategies to further increase its share. First, in the standard product field, the Group is procuring materials in the local market to reduce costs. Second, in the automotive market, the Group is marketing to automobile manufacturers that have selected and are using its PWB materials.

The Group's third strategy is to establish a deeper market position in the smartphone sector. The number of information terminals sold by Chinese manufacturers is forecast to rise to the top level in the world in view of China's population. New parts manufacturers based in China are entering the market, and, in some cases, these have developed to become top-notch companies in the terminal and parts markets. The Group is searching for new parts manufacturers, examining their technological capabilities and the customers they supply, and, in the years ahead, will tap into the vast needs of these companies.

Voice of the Employee

Niu ZhouJun, Customer Operations Department, TAIYO INK (SUZHOU) CO., LTD.

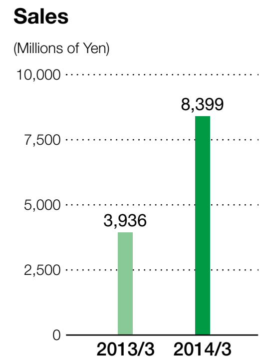
Current position: Deputy Manager of Customer Operations Department

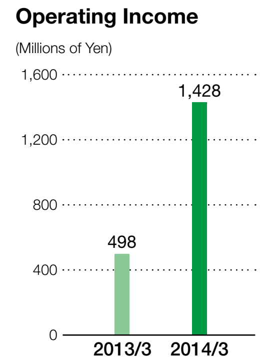
Job description: Inventory management, orders management, and logistics management

What I want to contribute to the Company in the future: I aim to be a key person to promote good communications, not only within my department but throughout the company and externally as well.

TAIYO INK (SUZHOU) CO., LTD.
Description of Business: Manufacture and marketing of PWB materials

Taiwan





Substantial Rise in Sales and Income due to Consolidation of OTC

The consolidated company located in Taiwan is TAIWAN TAIYO INK CO., LTD., a manufacturing and marketing subsidiary, which was established as the TAIYO HOLDINGS GROUP's first company in Taiwan in 1996. At present, other Group companies in Taiwan are ONSTATIC TECHNOLOGY CO., LTD. (OTC) and three other subsidiaries, which are also actively engaged in manufacturing and marketing.

In fiscal year 2013, sales of rigid substrate materials were favorable accompanying the expansion in the markets for servers and car electronics. In addition, the consolidation of OTC into the TAIYO HOLDINGS GROUP made a major contribution to financial results. As a consequence, sales in Taiwan amounted to ¥8,399 million (an increase of 113.4% year on year), and operating income amounted to ¥1,428 million (a gain of 186.7% over the previous fiscal year) (These figures include transactions among Group companies.).

The economy of Taiwan is heavily dependent on exports, and, among export products, the largest contributor is electronics devices. However, as seen in the industrialized countries, Taiwanese manufacturers are shifting their production facilities to the emerging countries. PWB producers, in particular, have moved most of their production to China and other countries. However, R&D divisions remain in Taiwan, and, in general, decision making regarding the selection and adoption of new materials to be used in new products takes place in Taiwan. In addition, for semiconductors and the other high-value-added components in core products, the processes from R&D through production continue to be located in Taiwan. Accordingly, the TAIYO HOLDINGS GROUP is working to expand its sales in Taiwan and is making aggressive product proposals to the R&D divisions of PWB manufacturers and other electronics-related and other companies, including semiconductor companies.

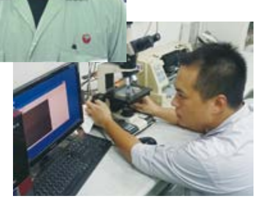
Voice of the Employee

Chieh Chun Chieh, R&D Department, ONSTATIC TECHNOLOGY CO., LTD.

Current position: Assistant and Team Leader of R&D Department

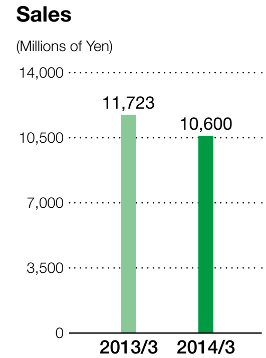
Job description: Technical operation of R&D laboratory

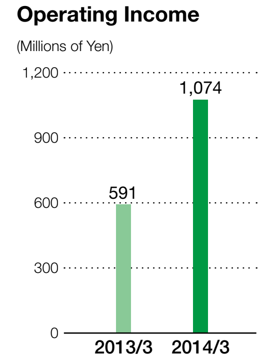
What I want to contribute to the Company in the future: I have been involved in the establishment of the technical foundation since the R&D Department was started. My experience includes manufacturing, color tuning, and lab scale experimental testing. I want to contribute to upgrading product performance through new product R&D.



ONSTATIC TECHNOLOGY CO., LTD.

Korea





Concentrating on Countermeasures for "Hollowing Out"

The TAIYO HOLDINGS GROUP's consolidated company in Korea is TAIYO INK MFG. CO., (KOREA) LTD., a manufacturing and marketing subsidiary established in 1988.

In fiscal year 2013, sales of dry film for PKG substrates, which have a high margin, were favorable owing to the expansion of the smartphone market. On the other hand, the unit sales volume of flat panel display (FPD) materials, which are lower-margin products, declined substantially. Also, sales prices of these materials, which use silver as a raw material, declined along with the drop in the market price of silver. As a result, sales and operating income decreased. As a consequence, sales in Korea amounted to ¥10,600 million (a decline of 9.6% year on year), while operating income stood at ¥1,074 million (an increase of 81.6% over the previous fiscal year) (These figures include transactions among Group companies.).

Even among other Asian countries, the stagnation in Korea has been particularly prolonged, and one of the factors that can be cited for this is the "hollowing out" of the manufacturing sector due to rising wages and other factors. Especially over about the last two years, the rate of hollowing out has been quite pronounced. This has had an impact on the TAIYO HOLDINGS GROUP, and sales of materials for FPDs have fallen to about one-third of the peak level. As a result, the ratio of the Group's sales accounted for by sales in Korea has decreased. However, the Group has maintained its share of approximately 60% in PWB materials, including dry film for use in PKG substrates. Taking account of the possibility that substantial further hollowing out may take place in Korea going forward, the Group will focus on further structuring its business strategy for that market.

Voice of the Employee

Seungchan Lee, Sales Team, TAIYO INK MFG. CO., (KOREA) LTD.

Current position: Manager of Sales Team

Job description: Sales and client management for Korean customers of products made in Korea and at overseas locations

What I want to contribute to the Company in the future: I will meet and manage customers' needs speedily to earn trust and strengthen relationships with customers and end users to prevent competitors from gaining market share. I will also expand sales of new products and raise profits. These two points are the contribution to the Taiyo Group that I want to make.

TAIYO INK MFG. CO., (KOREA) LTD.
Description of Business: Manufacture and marketing of PWB and FPD materials

Supply Chains

Network Covering the Global Market

In fiscal year 2013, about 86% of TAIYO HOLDINGS 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 TAIYO HOLDINGS 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 TAIYO HOLDINGS GROUP 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 80% 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.

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 Company's supply chain are indispensable. First, to enable customers to select the optimal products for their needs from the diverse lineup of items the TAIYO HOLDINGS 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 TAIYO HOLDINGS 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.

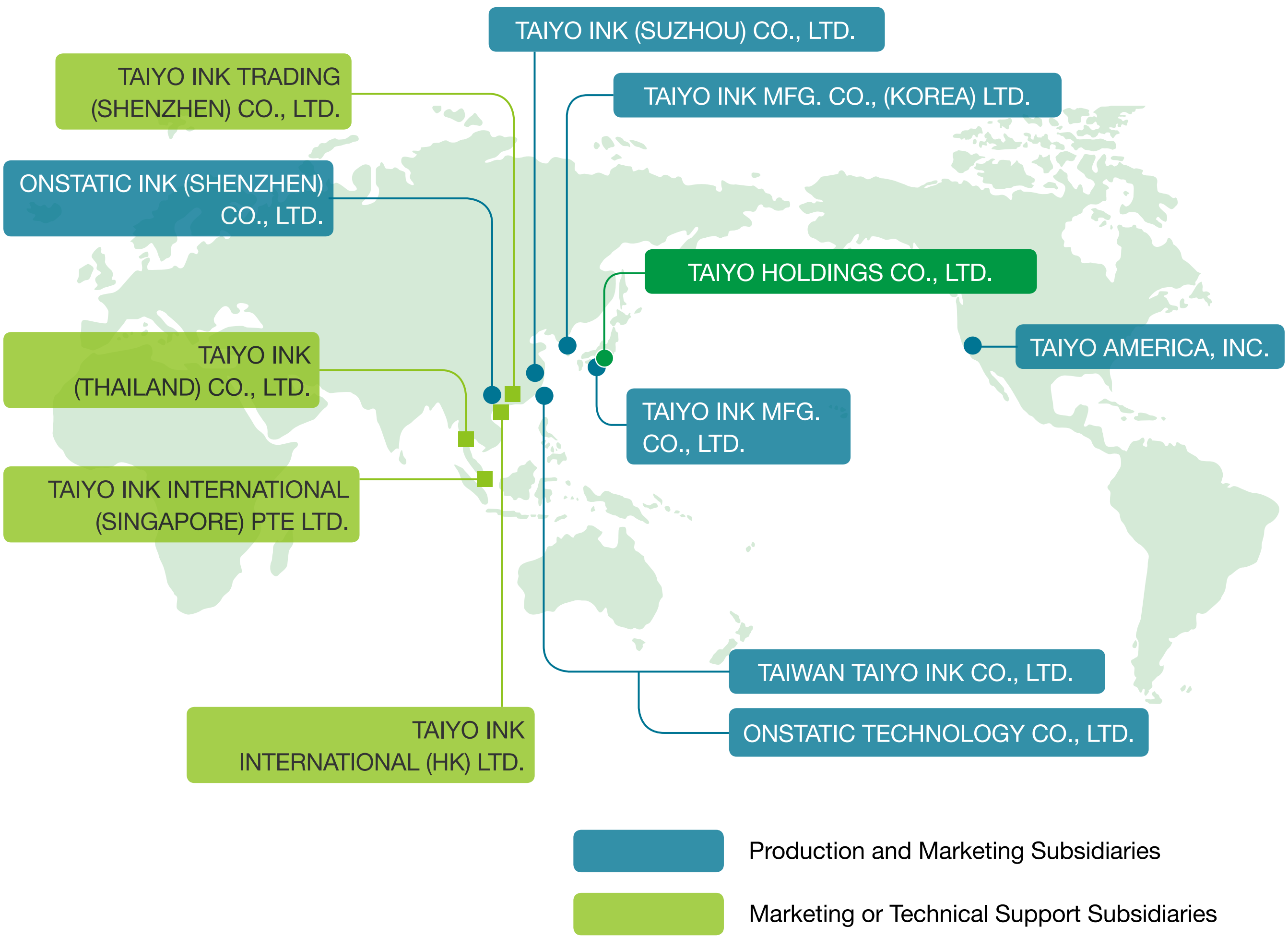
Offering Advantages to Customers through "Local Production and Local Procurement"

The TAIYO HOLDINGS 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 TAIYO HOLDINGS 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.

Global Network



Voice of the Employee

You Te Chen, Manufacturing Department, TAIWAN TAIYO INK CO., LTD.

Current position: Manager of Finishing Section, Manufacturing Department, TAIWAN TAIYO INK CO., LTD.

Job description: Management and process improvement of finishing work in manufacturing

What I want to contribute to the Company in the future:
1) Simplify production flow and improve productivity
2) Eliminate waste and lower costs
3) Make the workplace friendly and fun

Sayato Sumiyoshi, Administration Division, TAIYO INK MFG. CO., LTD.

Current position: Chief of Operation Section, Administration Department, Administration Division

Job description: Domestic and overseas order processing, domestic and overseas shipping management, inventory management

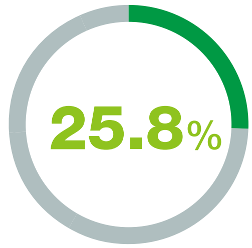
What I want to contribute to the Company in the future: I want to build a system to respond to customer requests flexibly, as we are a customer-interfacing department, and provide even better service.

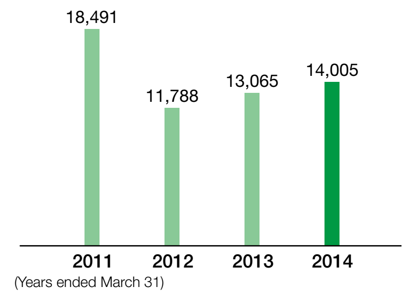
Geographical Segment Review

Breakdown of Net Sales

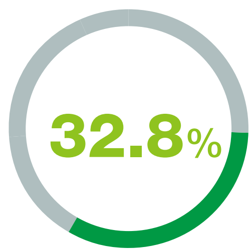
Net Sales (Millions of Yen)
(including inter-segment sales and transactions)

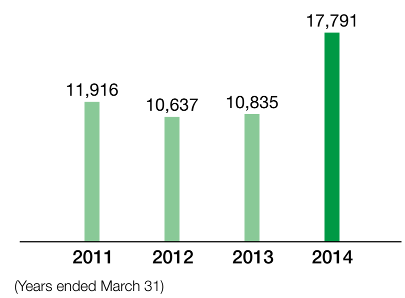
Japan



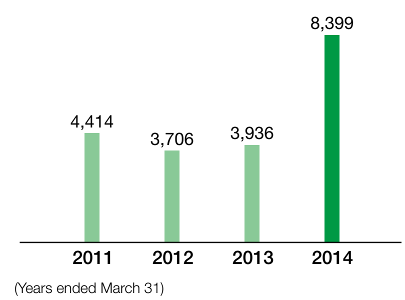


China
(including Hong Kong)

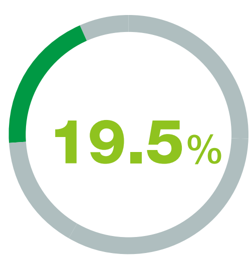


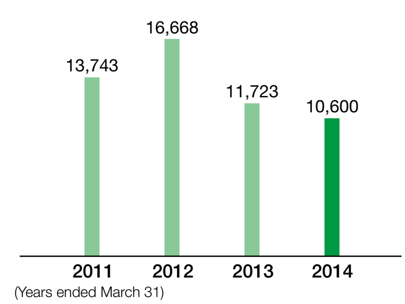


Taiwan

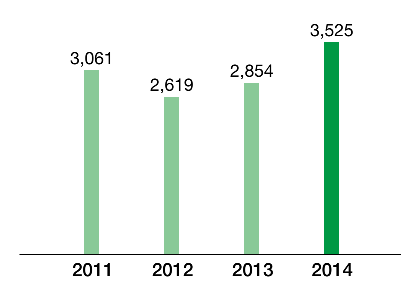


Korea

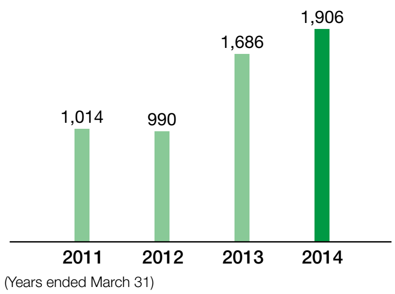




Other Regions



Segment Profit (Millions of Yen)	Performance Overview	Consolidated Group Subsidiaries

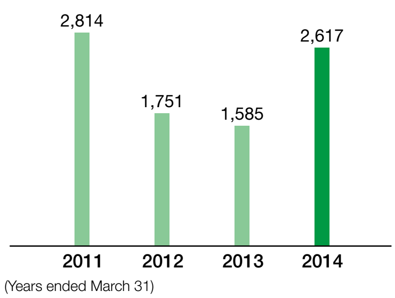


The consolidated company located in Japan is TAIYO INK MFG. CO., LTD., a manufacturing and marketing subsidiary.

Sales of rigid board materials remained unchanged, with no major fluctuations. Sales of PKG board materials were strong due to the expansion of the smartphone market.

As a result, net sales amounted to ¥14,005 million (up 7.2% year on year) with segment profit at ¥1,906 million (up 13.1% year on year).

TAIYO INK MFG. CO., LTD.

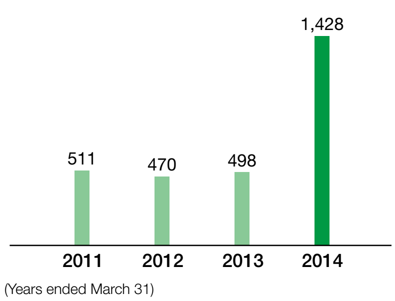


The consolidated companies located in China are TAIYO INK (SUZHOU) CO., LTD. and ONSTATIC INK (SHENZHEN) CO., LTD., manufacturing and marketing subsidiaries, and TAIYO INK INTERNATIONAL (HK) LTD. and TAIYO INK TRADING (SHENZHEN) CO., LTD., marketing subsidiaries operating mainly in the southern China region. ONSTATIC INK (SHENZHEN) CO., LTD. is a subsidiary of ONSTATIC TECHNOLOGY CO., LTD., which was acquired during the current fiscal year.

Lower-priced rigid board materials performed favorably due to the expansion of the market of products for servers and telecommunications equipment.

As a result, net sales amounted to ¥17,791 million (up 64.2% year on year) with segment profit at ¥2,617 million (up 65.2% year on year).

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

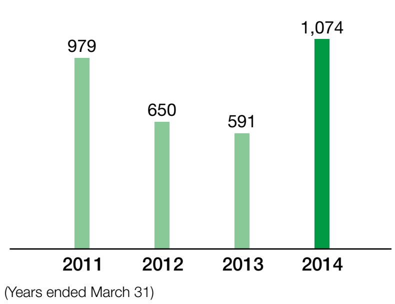


The consolidated companies located in Taiwan are TAIWAN TAIYO INK CO., LTD., and ONSTATIC TECHNOLOGY CO., LTD. (and another three subsidiaries), both manufacturing and marketing subsidiaries.

Performance was strong for rigid board materials owing to the expansion of the market of products for servers and car electronics.

As a result, net sales amounted to ¥8,399 million (up 113.4% year on year) with segment profit at ¥1,428 million (up 186.7% year on year).

ONSTATIC TECHNOLOGY CO., LTD. (OTC)
TAIWAN TAIYO INK CO., LTD.

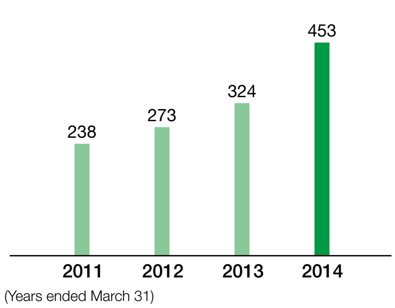


The consolidated company located in Korea is TAIYO INK MFG. CO., (KOREA) LTD., a manufacturing and marketing subsidiary.

Sales volumes of FPD materials, which have a low profit margin, declined substantially, while sales amounts were also down considerably compared with the previous fiscal year due to a fall in the price of silver, which has a connection with sale unit prices of FPD materials. On the other hand, dry film for PKG boards, which have a high-profit margin, performed favorably because of the expansion of the market for smartphone-related products, and profit increased year on year.

As a result, net sales amounted to ¥10,600 million (down 9.6% year on year) with segment profit at ¥1,074 million (up 81.7% year on year).

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



The other consolidated companies are TAIYO AMERICA, INC. and TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD.

At TAIYO AMERICA, sales were roughly at the same level with the same period of the previous fiscal year.

TAIYO INK INTERNATIONAL (SINGAPORE) performed steadily due to the expansion of the market of products for car electronics in Thailand.

As a result, net sales amounted to ¥3,525 million (up 23.5% year on year) with segment profit at ¥453 million (up 39.8% year on year).

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

Analysis of Operating Results

In the global economy during the fiscal year ended March 31, 2014, the U.S. economy remained on a moderate recovery track due to the expansion of exports and an increase in consumer spending, and the European economy showed signs of a recovery although unemployment rates are still high. On the other hand, uncertainty over China's economy was not wiped out, as seen by the continued slowdown of economic growth in that country. The Japanese economy started recovering moderately, as seen by the recovery of exports and increases in consumer spending as the correction of the strong yen advanced following proactive monetary and financial policies.

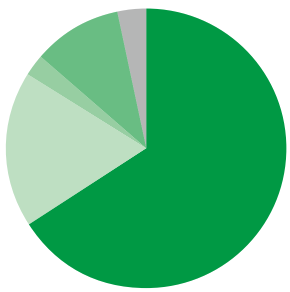
In the electronics components industry, in which the Group operates, the market of products for car electronics expanded, and demand for products for smartphones and tablet devices was firm.

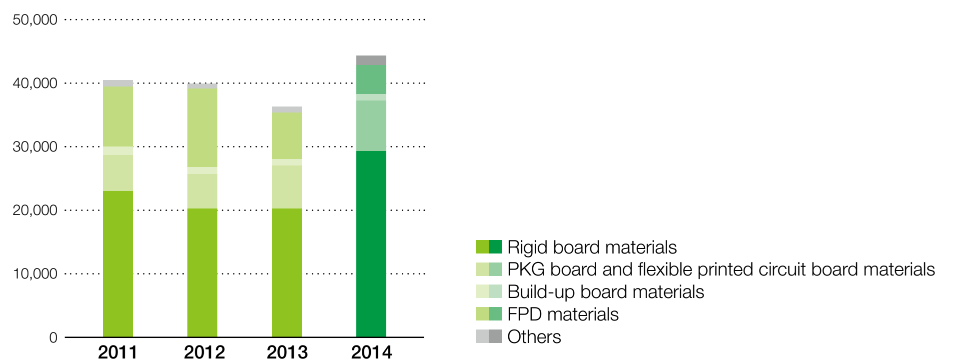
Operating under these conditions, net sales for the current fiscal year amounted to ¥44,225 million (up 22.2% year on year).

In the PWB (printed wiring board) materials market, both the sales volume and the sales amount increased year on year, partly due to contributions of the inclusion of ONSTATIC TECHNOLOGY CO., LTD. in the scope of consolidation and the weak yen, in addition to robust sales of rigid board materials. As a result, net sales of PWB materials were ¥38,226 million (up 36.5% year on year).

Net sales of FPD materials, mainly consisting of PDP materials, dropped to ¥4,554 million (down 37.7% year on year), owing to lower sales volume and a fall in the unit price driven by a significant drop in the market price of silver, which constitutes one of the products' raw materials.

Sales Results by Product Group Category (Millions of Yen)



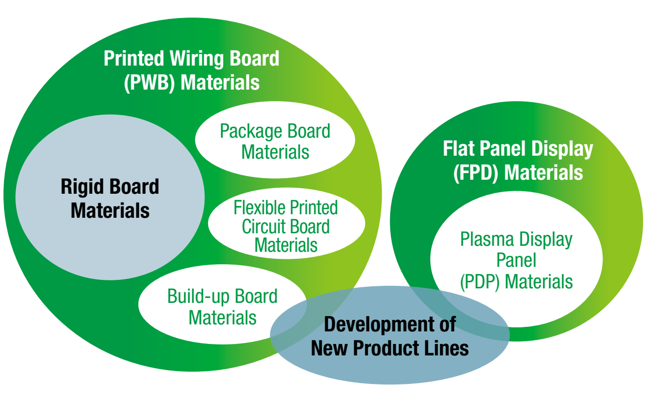


Product Description

The Group's products divide principally into the two categories of printed wiring board (PWB) materials and flat panel display (FPD) materials. The Group is also utilizing the elemental technologies cultivated in these existing segments to develop new fields and products targeting the electronic components industry.

PWB materials are grouped into the three categories of (1) rigid board materials, (2) package and flexible printed circuit board materials, and (3) build-up board materials. The key contributor is solder resist (SR), the Group's mainstay product (see chart).

TAIYO HOLDINGS GROUP Product Segments



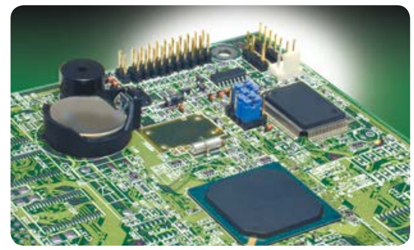
PWB Materials

PWB materials are chemicals used in PWB manufacturing processes. They have been the traditional mainstay of the Group's business. PWB materials are further classified into SR and non-SR products.

SR is masking ink applied over the surface of a PWB. It forms an insulating layer to protect the underlying board circuit pattern. SR can be divided into "photoimageable" and other types. Other important SR categories are LPI (liquid photoimageable) and DFR (dry film).

Non-SR products include (1) hole plugging ink, used to provide an insulating in-fill for the through-holes that connect electronic circuits in various PWB layers, (2) legend (or marking) ink, which is used on PWB surfaces to indicate names, numbers, positions, or other information that relates to mounted electronic components, and (3) interlayer insulation materials, which are used in build-up substrates to separate the various layers of mounted components.

SR generates a large proportion of Group sales. The Group was the pioneering inventor of alkaline developable SR, a major variant of photoimageable SR (the current mainstream type), and commands the leading share of the global SR market.



FPD Materials

Within FPD materials, plasma display panel (PDP) materials for use in flat-screen TV panels account for the majority of sales. The Group manufactures and sells conductive pastes, which function as the electrodes in plasma TV sets, and black pattern pastes to create the black patterns for generating image contrast. FPD materials now constitute the Group's second-largest product segment behind PWB materials.

New Fields and Products

TAIYO HOLDINGS is undertaking R&D initiatives to expand our product groups into the electronics and optical components fields at the same time as we develop our adhesive and thermal management technologies and other element technologies.

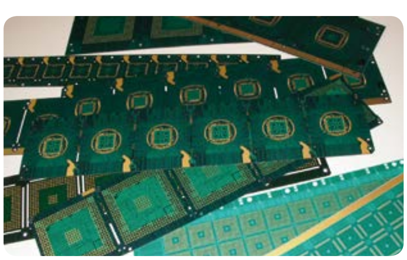
In order to exchange more data more quickly, with lighter, more-compact products, the electronics industry is demanding displays with clearer pictures and ever-smaller electronic components with improved thermal management measures. At the same time, the industry is moving away from glass materials towards polymers. TAIYO HOLDINGS proposes new products that anticipate these technological trends as well as is developing innovative products in its existing product fields.

1. Meeting Optical Demands

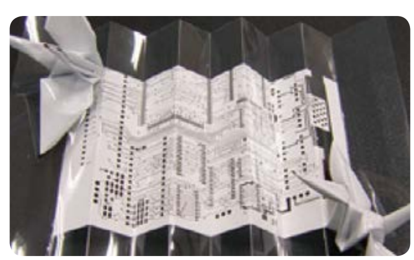
2. Meeting Needs for Miniaturization

3. Meeting Needs for Thermal Management Measures

4. Meeting Needs for Polymer Materials



Example of application: Solder resist shown in green areas



White color solder resist

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 the TAIYO HOLDINGS GROUP will fulfill its corporate social responsibilities by taking a consistently forward-looking approach to business activities and observing ethics and laws.

In order to fulfill these responsibilities, the TAIYO HOLDINGS 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 various management systems and committees.

The directors and employees of the TAIYO HOLDINGS GROUP will strive to create a company that is trusted by society and is actively involved in CSR activities.

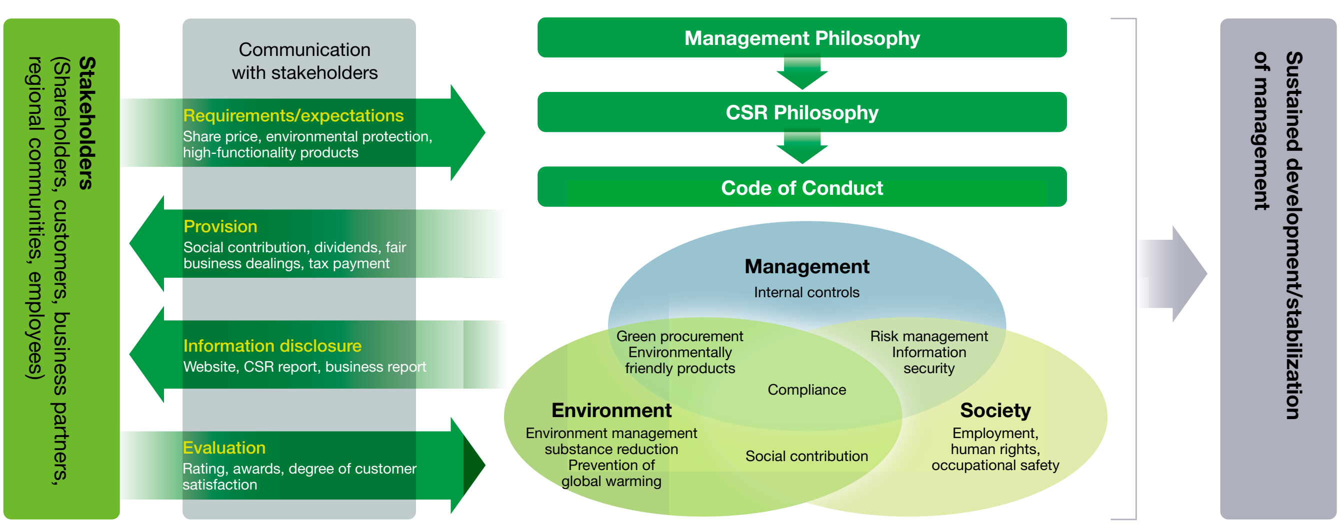
CSR Philosophy

We will promote our corporate social responsibilities, 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 Contribution	As members of society, we will engage in activities that contribute to society.
9. Respect for Intellectual Property	We will take appropriate precautions to protect our 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.



Relationship with Shareholders

Performing IR Activities

TAIYO HOLDINGS maintains a basic policy of ensuring accuracy, fairness, and promptness in the performance of IR activities. On the basis of this policy, we deliver to shareholders and investors information effective for making investment decisions.

In terms of specific IR activities, we publish an annual report, offer IR information on our website, hold financial results briefings for analysts and institutional investors, and meet individually with institutional investors, among other activities.

Relationship with Suppliers

Carry Out Supplier Assessments and On-Site Audits

In order to conduct business transactions with suppliers in a relationship of trust, the TAIYO HOLDINGS GROUP carries out supplier assessments, clarifies anything necessary, and proceeds with the cooperation of the supplier.

We carry out on-site audits of our suppliers of raw materials and products, with the understanding and approval of our suppliers, as a way to maintain and improve the quality, environmental friendliness, and delivery of procured goods.

Relationship with Local Communities and Society

Contributing to Regional Revitalization

Taiyo's Ranzan Facility and Ranzan-machi, Saitama Prefecture, where TAIYO INK MFG. CO., LTD., is located, are the birthplace of Yoshinaka Kiso, a well-known figure in Japanese history. Each year, TAIYO HOLDINGS sponsors a booth at the Ranzan Festival, which continues the history and traditions of the area.

As in the previous year, in 2013, our booth was designed to promote interchange with the people of the region, with children's toys and other playthings for sale and an area to acquaint visitors with our activities. All of the sales on the day of the festival were donated to the local social welfare council and used for welfare purposes.

Taiyo Group's booth

Environmental Protection Activities

Use of Electric Cars and Installation of Recharging Facilities

The TAIYO HOLDINGS GROUP introduced electric vehicles for corporate use in fiscal 2011 as part of its activities to reduce CO_2 emissions. In fiscal 2013, the Group added two more electric vehicles with the aim of even more effectively lowering CO_2 emissions. With the addition of the new electric cars, more employees are using these vehicles, and we expect that this will contribute to raising the awareness of contributing to the environment.

In addition, along with the increase in electric power used by these vehicles, the Group has installed battery-recharging units in various locations in Japan. This will provide a more-convenient usage environment, and employees will be able to drive from one Group location to another and use the vehicles for other purposes. Going forward, the Group will continue to actively support environmental preservation.

The battery-recharging unit

Protection of Great Purple Emperor, Japan's National Butterfly

Designated Japan's national butterfly, the great purple emperor (Sasakia charonda) is found in nettle trees (Celtis sinensis), on which it feeds during the larval stage and on which adults deposit eggs. The butterfly inhabits the densely wooded areas in the town of Ranzan in Saitama Prefecture, including on two species of oak tree, Quercus serrata and Quercus acutissima, which produce the sap on which the adult butterflies feed.

TAIYO INK undertakes protection activities in conjunction with the town, for instance by creating an environment within our Ranzan Facility site in which the butterflies can easily pass the winter. Employees also take an active part in the volunteer activity of creating secondary forest.

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 Board of Corporate Auditors, whose members are both approved by resolutions at the Shareholders' Meeting. We have also adopted a system of Executive Officers to separate management oversight from operational execution. The Executive Officers appointed to serve on the Executive Committee are General Managers of divisions of TAIYO HOLDINGS and representatives of overseas subsidiaries. This setup aims to promote faster operational execution as well as right strategic decision making.

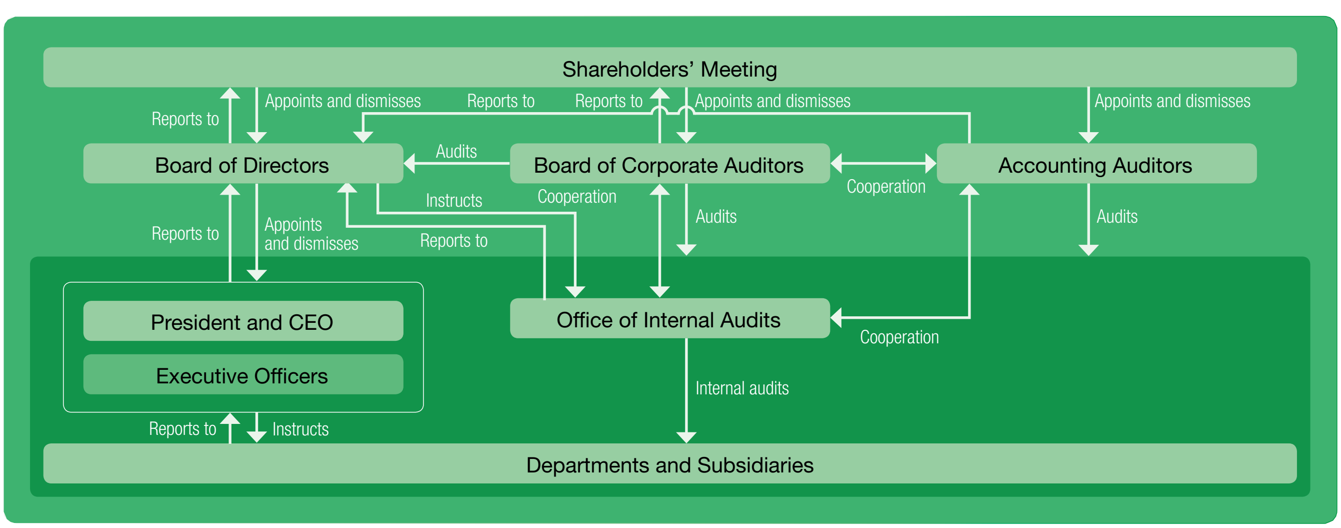
The Board of Directors is composed of seven Directors, one of whom is an outside director. The Board of Corporate Auditors is composed of four Corporate Auditors, two of whom are outside auditors. Meetings of the Board of Directors are held regularly each month, but the Board can also hold extraordinary meetings if necessary. The Board discusses and resolves important matters, and also oversees the execution of duties by the Representative Director. Corporate Auditors, 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. Two of the Corporate Auditors are full-time auditors with the power to submit questions to the Group employees. The system enables the Corporate Auditors 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 Board of Corporate Auditors.

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 Board of Corporate Auditors, and where necessary to the accounting auditors as well.

To maintain the reliability of our financial reporting, we have also developed a system of internal controls to ensure that effective and appropriate internal control reports are produced, based on the provisions of the Financial Instruments and Exchange Law.

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. As regards the detailed activities conducted during the fiscal year ended March 2012, the Group completely reviewed the *Risk Management Manual*, and also focused activities on issues related to the aftermath of the Great East Japan Earthquake that occurred in March 2011. As part of our responses in the period after the earthquake, we established an earthquake countermeasure conference framework, and arranged for domestic bases to hold frequent television conferences. As a result, the Group confirmed that it could respond rapidly in the event of an earthquake. We also verified that we had secured a method of communication to use immediately after an earthquake, and that time is needed to confirm the safety status of those employees who are on leave when an earthquake occurs.

In this context, the Risk Management Committee used this post-earthquake information as a basis to review a manual describing the emergency situation caused by a fire or earthquake, and how to respond afterwards. This manual forms part of the *Risk Management Manual*, and is meant to be used in such an emergency. We ensured that the manual is simply written and clearly lists what must be done. We also combined the antidisaster drills that had been conducted at each base hitherto, and performed a joint drill at three domestic bases.

Executive Compensation

The Group policy on executive compensation is to set in an objective and transparent way for executive compensation levels that provide incentives to executives to increase corporate value and shareholder value, while also being properly justifiable. Executive compensation is deliberated by the Compensation Committee, a body that includes an outside auditor. The Directors' compensation is decided by the Board of Directors and the Corporate Auditors' compensation is decided in collaboration with the Board of Corporate Auditors, after the aforementioned deliberation by the Compensation Committee.

Directors' compensation is made up of a base salary plus performance-based components linked to the Group earnings and the share price. The Corporate Auditors only receive a base salary.

Executive compensation for the year ended March 2014 is shown below.

Executive Compensation

Executive category	Aggregate remuneration (Millions of yen)	Aggregate remuneration by component (Millions of yen)			Total number of executives
		Base salary	Earnings-based performance	Retirement benefits	
Director	146	89	57	—	6
Corporate Auditor	11	11	—	—	3
Outside Corporate Auditor	37	37	—	—	3

Board of Directors and Corporate Auditors (As of June 20, 2014)

Front row (left to right)

Takayuki Morita	Seiki Kashima	Eiji Sato	Masahisa Kakinuma	Eiji Takehara
Director	Managing Director	President and CEO	Director	Director

Back row (left to right)

Haruomi Yoshimoto	Akihito Sakai	Takato Kawahara	Masayuki Hizume	Si Bum Yoo	Kiyoshi Endo
Corporate Auditor	Outside Corporate Auditor	Director	Outside Director	Corporate Auditor	Outside Corporate Auditor

Directors

Eiji Sato President and CEO

Seiki Kashima Managing Director

Masahisa Kakinuma Director

Takayuki Morita Director

Eiji Takehara Director

Takato Kawahara Director

Masayuki Hizume Outside Director

Corporate Auditors

Akihito Sakai Outside Corporate Auditor

Kiyoshi Endo Outside Corporate Auditor

Si Bum Yoo Corporate Auditor

Haruomi Yoshimoto Corporate Auditor

Financial Section

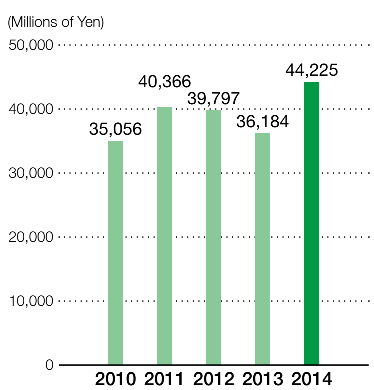
Six-Year Summary

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
The years ended March 31

	2009 (TAIYO INK MFG. CO., LTD.)
For the Year:	
Net sales	¥32,614
Cost of sales	22,635
Selling, general and administrative expenses	6,647
Operating income	3,332
Net income	1,958
Depreciation and amortization	1,396
Net cash provided by operating activities	4,581
Net cash used in (provided by) investing activities	(1,470)
Net cash provided by (used in) financing activities	(4,428)
At year-end:	
Total assets	40,869
Property, plant and equipment, net	14,664
Total liabilities	6,285
Minority interests	522
Total equity	34,584
Per share data:	
Basic net income	¥ 74.25
Cash dividends applicable to the year	90.00
Net assets	1,313.20
Ratios:	
Ratio of operating income to net sales	10.2%
Return on equity	5.4
Equity ratio	83.3
Common stock:	
Number of shares issued	28,464,000

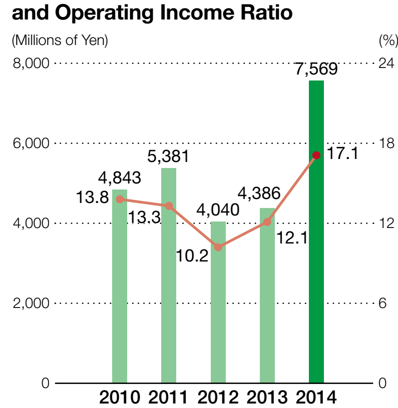
See notes to consolidated financial statements.

Net Sales



(Years ended March 31)

Operating Income and Operating Income Ratio

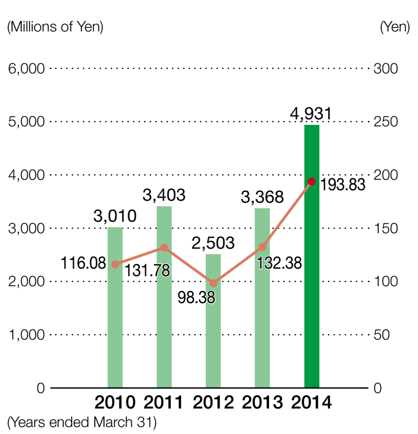


(Years ended March 31)

Operating income (left scale)
Operating income ratio (right scale)

2010	2011	2012	2013	2014
	Millions of Yen			
¥35,056	¥40,366	¥39,797	¥36,184	**¥44,225**
24,123	28,428	29,823	25,319	**28,349**
6,089	6,557	5,934	6,479	**8,307**
4,843	5,381	4,040	4,386	**7,569**
3,010	3,403	2,503	3,368	**4,931**
1,261	1,127	1,046	1,004	**1,181**
3,126	4,575	2,793	6,109	**7,020**
(70)	758	(1,343)	(2,478)	**(3,839)**
(2,366)	(3,696)	(2,979)	(2,314)	**2,350**
43,704	42,851	40,703	44,023	**58,369**
13,954	13,050	12,546	12,664	**14,376**
8,018	8,664	7,227	7,213	**15,713**
679	696	478	605	**2,046**
35,685	34,186	33,476	36,810	**42,656**
	Yen			
¥ 116.08	¥ 131.78	¥ 98.38	¥ 132.38	**¥ 193.83**
90.00	115.00	90.00	90.00	**120.00**
1,349.61	1,316.53	1,297.18	1,423.26	**1,596.45**
	%			
13.8%	13.3%	10.2%	12.1%	**17.1%**
8.7	9.9	7.5	9.7	**12.8**
80.1	78.2	81.1	82.2	**69.6**
	Thousands of Shares			
27,464,000	27,464,000	27,464,000	27,464,000	**27,464,000**

Net Income and Net Income Per Share



■ Net income (left scale)
◆ Net income per share (right scale)

Return on Equity

Management's Discussion and Analysis

Analysis of operating results

In the global economy during the fiscal year ended March 31, 2014, the U.S. economy remained on a moderate recovery track due to the expansion of exports and an increase in consumer spending, and the European economy showed signs of a recovery although unemployment rates are still high. On the other hand, uncertainty over China's economy was not wiped out, as seen by the continued slowdown of economic growth in that country. The Japanese economy started recovering moderately, as seen by the recovery of exports and increases in consumer spending as the correction of the strong yen advanced following proactive monetary and financial policies.

In the electronics components industry, in which the Group operates, the market of products for car electronics expanded, and demand for products for smartphones and tablet devices was firm.

Operating under these conditions, net sales for the current fiscal year amounted to ¥44,225 million (up 22.2% year on year).

In the PWB (printed wiring board) materials market, both the sales volume and the sales amount increased year on year, partly due to contributions of the inclusion of ONSTATIC TECHNOLOGY CO., LTD. in the scope of consolidation and the weak yen, in addition to robust sales of rigid board materials. As a result, net sales of PWB materials were ¥38,226 million (up 36.5% year on year).

Net sales of FPD materials, mainly consisting of PDP materials, dropped to ¥4,554 million (down 37.7% year on year), owing to lower sales volume and a fall in the unit price driven by a significant drop in the market price of silver, which constitutes one of the products' raw materials.

As a result, operating income amounted to ¥7,569 million (up 72.6% year on year), with net income at ¥4,931 million (up 46.4% 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, 2014.

(Millions of yen)

Name of product group category	Previous fiscal year results	Current fiscal year results	Compared to the previous fiscal year: Change	Compared to the previous fiscal year: Rate of change (%)
Rigid board materials	20,262	29,235	8,973	44.3
PKG board and flexible printed circuit board materials	6,763	7,965	1,202	17.8
Build-up board materials	972	1,025	53	5.5
FPD materials	7,316	4,554	(2,761)	(37.7)
Others	869	1,443	573	66.0
Total	36,184	44,224	8,040	22.2

Results by segment are as follows.

Japan

The consolidated company comprising the Japan segment is TAIYO INK MFG. CO., LTD., a manufacturing and marketing subsidiary.

Sales of rigid board materials remained unchanged, with no major fluctuations. Sales of PKG board materials were strong due to the expansion of the smartphone market.

As a result, net sales amounted to ¥14,005 million (up 7.2% year on year) with segment profit at ¥1,906 million (up 13.1% year on year).

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., which was acquired during the current fiscal year.

Lower-priced rigid board materials performed favorably due to the expansion of the market of products for servers and telecommunications equipment.

As a result, net sales amounted to ¥17,791 million (up 64.2% year on year) with segment profit at ¥2,617 million (up 65.2% year on year).

Taiwan

The consolidated companies comprising the Taiwan segment are manufacturing and marketing subsidiaries TAIWAN TAIYO INK CO., LTD., and ONSTATIC TECHNOLOGY CO., LTD. (and another three subsidiaries). Performance was strong for rigid board materials owing to the expansion of the market of products for servers and car electronics.

As a result, net sales amounted to ¥8,399 million (up 113.4% year on year) with segment profit at ¥1,428 million (up 186.7% year on year).

Korea

The consolidated company comprising the Korea segment is TAIYO INK MFG. CO., (KOREA) LTD., a manufacturing and marketing subsidiary. Sales volumes of FPD materials, which have a low profit margin, declined substantially, while sales amounts were also down considerably compared with the previous fiscal year due to a fall in the price of silver, which is connected with sales unit prices of FPD materials. On the other hand, dry film for PKG boards, which have a high-profit margin, performed favorably because of the expansion of the market for smartphone-related products, and profit increased year on year.

As a result, net sales amounted to ¥10,600 million (down 9.6% year on year) with segment profit at ¥1,074 million (up 81.6% year on year).

Other

The consolidated companies comprising the operations in areas other than the previously mentioned are TAIYO AMERICA, INC. and TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD. At TAIYO AMERICA, sales were roughly at the same level with the same period of the previous fiscal year. TAIYO INK INTERNATIONAL (SINGAPORE) performed steadily due to the expansion of the market of products for car electronics in Thailand.

As a result, net sales amounted to ¥3,525 million (up 23.5% year on year), with segment profit at ¥453 million (up 39.8% year on year).

Consolidated forecasts for the next fiscal year

Although the operating environment in the next fiscal year ending March 31, 2015 is expected to remain uncertain, demand for small-sized information terminals, such as smartphones and tablet devices, and car electronics-related products continues to be strong in the electronics components industry in which the Group operates, while we also expect that the sales volume of FPD materials will continue to decline.

Under these circumstances, the Group will continue to strengthen its marketing capability, expand the proportion of raw materials that it procures from overseas markets, and improve productivity. At the same time, it will actively promote the development and marketing of new products with the ultimate goal of increasing its market share and expanding earnings.

(Millions of yen)

	Net sales (Millions of yen)	Operating income (Millions of yen)	Net income (Millions of yen)	Net income per share (yen)
For the fiscal year ending March 31, 2015 (Forecast)	45,500	7,700	5,000	196.56
For the fiscal year ended March 31, 2014 (Actual results)	44,225	7,569	4,931	193.83
Rate of change (%)	2.9	1.7	1.4	1.4

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, 2014.

	As of March 31, 2013 (Millions of yen)	**As of March 31, 2014** (Millions of yen)	Change (Millions of yen)	Main factors (comparison with the end of the previous fiscal year)
Current assets	26,979	**37,798**	10,819	Cash and deposits increased approx. ¥6,400 million and notes and accounts receivable–trade increased approx. ¥3,600 million.
Non-current assets	17,043	**20,570**	3,526	Goodwill increased approx. ¥4,700 million, shares of subsidiaries and associates decreased approx. ¥2,600 million, and buildings and structures increased approx. ¥700 million.
Total assets	44,023	**58,369**	14,346	
Total liabilities	7,213	**15,713**	8,500	Long-term loans payable increased approx. ¥5,600 million, notes and accounts payable–trade increased approx. ¥900 million, and accounts payable–other increased approx. ¥700 million.
Total net assets	36,809	**42,655**	5,845	Net income was approx. ¥4,900 million, cash dividends paid increased approx. ¥3,000 million, foreign currency translation adjustments increased approx. ¥2,500 million, and minority interests increased approx. ¥1,400 million.
Total liabilities and net assets	44,023	**58,369**	14,346	

b. Cash flow position

The following is the position of cash flows for the fiscal year ended March 31, 2014.

	Fiscal year ended March 31, 2014 (Millions of yen)	Main factors
Net cash provided by (used in) operating activities	**7,020**	Income before income taxes and minority interests provided approx. ¥7,500 million, depreciation provided approx. ¥1,100 million, and income taxes paid used approx. ¥1,900 million.
Net cash provided by (used in) investing activities	**(3,839)**	Purchase of property, plant and equipment used approx. ¥1,700 million, purchase of shares of subsidiaries used approx. ¥2,700 million, and liquidation of investments in capital of subsidiaries and associates provided approx. ¥500 million.
Net cash provided by (used in) financing activities	**2,350**	Proceeds from long-term loans payable provided approx. ¥5,600 million, and cash dividends paid used approx. ¥3,000 million.
Net increase (decrease) in cash and cash equivalents	**6,571**	
Cash and cash equivalents at end of period	**20,338**	

c. Trend of indicators

The following is the transition of cash flow indicators.

	Fiscal year ended March 31, 2010	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013	**Fiscal year ended March 31, 2014**
Equity ratio (%)	80.1	78.2	81.1	82.2	**69.6**
Equity ratio on mark-to-market basis (%)	148.7	152.0	138.7	156.0	**133.1**
Interest-bearing debt to cash flow ratio (year)	—	—	—	—	**0.9**
Interest coverage ratio (times)	2,734.6	1,350.2	992.5	3,850.3	**331.3**

Equity ratio: (Net assets- Minority 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 the 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" is the amount stated under interest expenses paid in the consolidated statement of cash flows.

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 ratio of dividends to net assets as our target index, keeping this figure at least at 5% of consolidated financial results for the mid-to-long term.

In accordance with this policy, the Company paid an interim dividend of ¥75 per share: ¥45 of ordinary dividend and ¥30 of commemorative dividend.

As already announced, we also plan to pay a year-end dividend of ¥45, and this will be placed on the agenda of the next General Meeting of Shareholders. This will result in an annual dividend of ¥120 per share for the current fiscal year.

Concerning dividends of the next fiscal year, we plan to pay an interim dividend of ¥45 and a year-end dividend of ¥45, and this will result in an annual dividend of ¥90 per share.

Risk factors

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

a. Technological innovation risks

1) Risks related to PWBs

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 an important issue in the field of research and development to find possible new methods for PWBs.

2) Risks related to PDP materials

Our PDP material customers are restricted to a few panel manufacturers. As we rely heavily on certain customers, the performance of these customers could significantly impact our own sales.

As PDPs compete with LCDs and other technologies in the FPD market, the future demand of PDPs involves uncertainty.

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 on 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 our business strategies and performance of our Group.

f. Risk of exchange rate fluctuations

Our ratio of overseas sales to net sales is comparatively 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. The profitability of PDP materials, in particular, may be affected due to the rising cost of silver, one of the key raw materials used in PDP production.

k. Risk of recoverability of deferred tax assets

With respect to deductible temporary differences and tax-loss carryforwards, the Group determines recoverability after reasonably estimating future taxable income when recording deferred tax assets. However, in the event deferred tax assets are deemed unrecoverable in whole or in part as actual taxable income may differ from estimates due to changes in the business environment and other factors, or should changes in tax rates or revisions in tax systems occur in various countries, a recalculation of deferred tax assets would become necessary. If, as a result of the above, a reversal of deferred tax assets is necessary, it could impact on our operating results and financial position.

Consolidated Balance Sheets

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
March 31, 2014 and 2013

ASSETS	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥20,338	¥13,767	$197,648
Time deposits (Note 13)	811	886	7,881
Notes and accounts receivable—trade (Notes 4 and 13)	11,891	8,200	115,559
Marketable securities	1		10
Inventories (Note 5)	4,388	3,686	42,643
Consumption taxes receivable	151	123	1,468
Deferred tax assets (Note 11)	91	93	884
Other current assets	400	330	3,888
Allowance for doubtful accounts (Note 13)	(273)	(106)	(2,653)
Total current assets	37,798	26,979	367,328
PROPERTY, PLANT, AND EQUIPMENT (Note 6)**:**			
Land	4,237	4,179	41,176
Buildings and structures—net	7,626	6,872	74,110
Machinery, equipment, and vehicles—net	1,608	1,218	15,627
Tools, furniture, and fixtures—net	657	394	6,385
Construction in progress	248	1	2,410
Total property, plant, and equipment	14,376	12,664	139,708
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	749	587	7,279
Investments in unconsolidated subsidiaries and affiliates (Note 13)	19	3,201	185
Goodwill	4,745	30	46,113
Software	236	156	2,293
Deferred tax assets (Note 11)	16	73	155
Other assets	431	741	4,189
Allowance for doubtful accounts	(1)	(408)	(10)
Total investments and other assets	6,195	4,380	60,204
TOTAL	¥58,369	¥44,023	$567,240

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2014	2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:			
Short-term bank loans (Note 8)	¥ 534		$ 5,190
Notes and accounts payable—trade (Note 13)	5,433	¥ 4,487	52,799
Accounts payable—other (Note 13)	1,394	684	13,547
Income taxes payable (Note 13)	563	509	5,471
Accrued expenses	654	593	6,356
Deferred tax liabilities (Note 11)	287	254	2,789
Other current liabilities	71	198	690
Total current liabilities	8,936	6,725	86,842
LONG-TERM LIABILITIES:			
Long-term debt (Note 8)	5,658		54,985
Liability for retirement benefits (Note 9)	327	227	3,178
Asset retirement obligations	55	54	535
Deferred tax liabilities (Note 11)	702	174	6,822
Other long-term liabilities	35	33	340
Total long-term liabilities	6,777	488	65,860
COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)			
EQUITY (Notes 10 and 20)**:**			
Shareholders' equity:			
Common stock—authorized, 50,000,000 shares; issued, 27,464,000 shares in 2014 and 2013	6,135	6,135	59,621
Capital surplus	7,102	7,102	69,019
Retained earnings	32,257	30,379	313,479
Treasury stock—at cost, 2,026,110 shares in 2014 and 2,025,826 shares in 2013	(5,373)	(5,372)	(52,216)
Total shareholders' equity	40,121	38,244	389,903
Accumulated other comprehensive income (loss):			
Valuation difference on available-for-sale securities	235	135	2,284
Foreign currency translation adjustments	329	(2,174)	3,197
Defined retirement benefit plans	(75)		(729)
Total accumulated other comprehensive income (loss)	489	(2,039)	4,752
Minority interests	2,046	605	19,883
Total equity	42,656	36,810	414,538
TOTAL	¥58,369	¥44,023	$567,240

Consolidated Statements of Income

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	**2014**
NET SALES	**¥44,225**	¥36,184	**$429,786**
COST OF SALES	**28,349**	25,319	**275,500**
Gross profit	**15,876**	10,865	**154,286**
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 12)	**8,307**	6,479	**80,729**
Operating income	**7,569**	4,386	**73,557**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**150**	150	**1,458**
Interest expense	**(33)**	(2)	**(321)**
Foreign exchange gain—net	**24**	149	**233**
Loss on valuation of investments in unconsolidated subsidiaries and affiliates		(67)	
Loss on insurance cancellation		(14)	
Equity in earnings of subsidiaries and associated companies	**13**		**126**
Loss on impairment of long-lived assets (Note 7)	**(279)**		**(2,711)**
Loss on step acquisitions (Note 19)	**(73)**		**(709)**
Gain on liquidation of subsidiaries and affiliates	**59**		**573**
Other—net	**164**	97	**1,594**
Other income—net	**25**	313	**243**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**7,594**	4,699	**73,800**
INCOME TAXES (Note 11)**:**			
Current	**1,909**	1,431	**18,552**
Deferred	**485**	(167)	**4,714**
Total income taxes	**2,394**	1,264	**23,266**
NET INCOME BEFORE MINORITY INTERESTS	**5,200**	3,435	**50,534**
MINORITY INTERESTS IN NET INCOME	**269**	67	**2,614**
NET INCOME	**¥ 4,931**	¥ 3,368	**$ 47,920**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 18)**:**			
Basic net income	**¥193.83**	¥132.38	**$1.88**
Cash dividends applicable to the year	**120.00**	90.00	**1.17**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	**2014**
NET INCOME BEFORE MINORITY INTERESTS	**¥5,200**	¥3,435	**$50,534**
OTHER COMPREHENSIVE INCOME (Note 17)**:**			
Valuation difference on available-for-sale securities	**100**	57	**972**
Foreign currency translation adjustments	**2,790**	2,156	**27,114**
Total other comprehensive income	**2,890**	2,213	**28,086**
COMPREHENSIVE INCOME (Note 17)	**¥8,090**	¥5,648	**$78,620**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥7,560**	¥5,497	**$73,469**
Minority interests	**530**	151	**5,151**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years Ended March 31, 2014 and 2013	Millions of Yen					
	Shareholders' Equity					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock—At Cost	Total Shareholders' Equity
BALANCE, APRIL 1, 2012	25,438,334	¥6,135	¥7,102	¥29,301	¥(5,372)	¥37,166
Net income				3,368		3,368
Dividends from surplus				(2,290)		(2,290)
Purchase of treasury stock	(160)					
Changes of items during the year						
BALANCE, MARCH 31, 2013	25,438,174	6,135	7,102	30,379	(5,372)	38,244
Net income				**4,931**		**4,931**
Dividends from surplus				**(3,053)**		**(3,053)**
Purchase of treasury stock	**(284)**				**(1)**	**(1)**
Changes of items during the year						
BALANCE, MARCH 31, 2014	**25,437,890**	**¥6,135**	**¥7,102**	**¥32,257**	**¥(5,373)**	**¥40,121**

	Millions of Yen					
	Accumulated Other Comprehensive Income					
	Valuation Difference on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Accumulated Other Comprehensive Income (Loss)	Minority Interests	Total Equity
BALANCE, APRIL 1, 2012	¥ 78	¥(4,246)		¥(4,168)	¥ 478	¥33,476
Net income						3,368
Dividends from surplus						(2,290)
Purchase of treasury stock						
Changes of items during the year	57	2,072		2,129	127	2,256
BALANCE, MARCH 31, 2013	135	(2,174)		(2,039)	605	36,810
Net income						**4,931**
Dividends from surplus						**(3,053)**
Purchase of treasury stock						**(1)**
Changes of items during the year	**100**	**2,503**	**¥(75)**	**2,528**	**1,441**	**3,969**
BALANCE, MARCH 31, 2014	**¥235**	**¥ 329**	**¥(75)**	**¥ 489**	**¥2,046**	**¥42,656**

See notes to consolidated financial statements.

	Thousands of U.S. Dollars (Note 1)				
	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock—At Cost	Total Shareholders' Equity
BALANCE, MARCH 31, 2013	$59,621	$69,019	$295,229	$(52,206)	$371,663
Net income			**47,920**		**47,920**
Dividends from surplus			**(29,670)**		**(29,670)**
Purchase of treasury stock				**(10)**	**(10)**
Changes of items during the year					
BALANCE, MARCH 31, 2014	**$59,621**	**$69,019**	**$313,479**	**$(52,216)**	**$389,903**

	Thousands of U.S. Dollars (Note 1)					
	Accumulated Other Comprehensive Income					
	Valuation Difference on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Accumulated Other Comprehensive Income (Loss)	Minority Interests	Total Equity
BALANCE, MARCH 31, 2013	$1,312	$(21,128)		$(19,816)	$ 5,879	$357,726
Net income						**47,920**
Dividends from surplus						**(29,670)**
Purchase of treasury stock						**(10)**
Changes of items during the year	**972**	**24,325**	**$(729)**	**24,568**	**14,004**	**38,572**
BALANCE, MARCH 31, 2014	**$2,284**	**$ 3,197**	**$(729)**	**$ 4,752**	**$19,883**	**$414,538**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 7,594	¥ 4,699	$ 73,800
Adjustments for:			
Income taxes—paid	(1,956)	(1,072)	(19,009)
Depreciation and amortization	1,181	1,004	11,477
Loss on valuation of investments in unconsolidated subsidiaries and affiliates		67	
Impairment loss	279		2,711
(Increase) decrease in notes and accounts receivable—trade	(228)	1,199	(2,216)
Decrease in inventories	722	963	7,017
Decrease in notes and accounts payable—trade	(200)	(962)	(1,943)
(Decrease) increase in other current liabilities	(334)	43	(3,246)
Increase in accrued expenses	35	214	340
Other—net	(73)	(46)	(709)
Total adjustments	(574)	1,410	(5,578)
Net cash provided by operating activities	7,020	6,109	68,222
INVESTING ACTIVITIES:			
Payments into time deposits	(3,284)	(2,164)	(31,914)
Proceeds from withdrawal of time deposits	3,449	2,808	33,518
Purchases of property, plant, and equipment	(1,728)	(552)	(16,793)
Purchase of OTC, net of cash acquired	(1,928)	(2,669)	(18,737)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(862)		(8,377)
Purchase of software	(143)	(54)	(1,390)
Other—net	656	153	6,375
Net cash used in investing activities	(3,839)	(2,478)	(37,308)
FINANCING ACTIVITIES:			
Increase in long-term debt	5,619		54,607
Repayments of short-term loans payable		700	
Proceeds from short-term loans payable		(700)	
Purchase of treasury stock	(1)		(10)
Cash dividends paid	(3,053)	(2,290)	(29,670)
Cash dividends paid to minority shareholders	(215)	(24)	(2,089)
Net cash provided by (used in) financing activities	2,350	(2,314)	22,838
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	1,040	886	10,106
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,571	2,203	63,858
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,767	11,564	133,790
CASH AND CASH EQUIVALENTS, END OF YEAR	¥20,338	¥13,767	$197,648

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2014

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 conformity 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 2013 consolidated financial statements to conform to the classifications used in 2014.

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 ¥102.9 to $1, the approximate rate of exchange at March 31, 2014. 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, 2014, include the accounts of the Company and its 14 significant (8 as of March 31, 2013) subsidiaries (collectively, the "Group").

Under the control or influence concept, 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.
TAIWAN TAIYO INK CO., LTD.
TAIYO INK CO., (KOREA) LTD.
TAIYO INK (SUZHOU) CO., LTD.
TAIYO AMERICA, INC.
TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD.
TAIYO INK INTERNATIONAL (HK) LTD.
TAIYO INK TRADING (SHENZHEN) CO., LTD.
ONSTATIC TECHNOLOGY CO., LTD. ("OTC")

Since the Company acquired the additional outstanding shares of OTC, which was previously accounted for by the equity method, OTC is consolidated from the first quarter of the year ended March 31, 2014. As OTC owns 5 associated companies, the total number of consolidated subsidiaries becomes 14.

Investments in the remaining one (three as of March 31, 2013) unconsolidated subsidiary 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 2014 (one in 2013).

Since the Company acquired the additional outstanding shares of OTC, investment in this associated company is no longer accounted for using the equity method from the year ended March 31, 2014. With regard to the five associated companies owned by OTC, the Company does not count them in the number of associated companies accounted for using the equity method in consideration of the fact that OTC establishes one commercial distribution channel with the five companies, and they are considered one company as a whole.

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 three (two as of March 31, 2013) consolidated subsidiaries closed their accounts 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. As April 1, 2013, was deemed as the acquisition date for the business combination, financial results of OTC until March 31, 2013, were recorded as equity in earnings of affiliates on the consolidated financial statements for the year ended March 31, 2014.

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." 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 the accounting principles generally accepted in the United States of America tentatively may be used for the consolidation process, (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 directly recorded in the equity; (c) expensing capitalized development costs of research and development ("R&D"); (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties, and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if included.

c. Business Combination

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." The accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting only when certain specific criteria were met such that the business combination was essentially regarded as a uniting of interests. For business combinations that did not meet the uniting-of-interests criteria, the business combination was considered to be an acquisition and the purchase method of accounting was required. This standard also prescribed the accounting for combinations of entities under common control and for joint ventures.

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 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.

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. Retirement and Pension Plans

The straight-line method is used to attribute expected benefits to periods of services in calculating projected benefit obligations.

Prior-service costs are amortized using the straight-line method over five years.

Actuarial gains (losses) are amortized using the straight-line method over five years from the following year after incurrence.

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.

(a) 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).

(b) 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.

(c) 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 (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) 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 (a) and (b) above, effective March 31, 2014. As a result, liability for retirement benefits of ¥317 million ($3,081 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income (defined retirement benefit plans) for the year ended March 31, 2014, decreased by ¥75 million ($729 thousand). Net assets per share decreased by ¥2.92 ($0.03) as of March 31, 2014.

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.

n. Asset Retirement Obligations

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, 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 the 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 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 increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. 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.

p. 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.

q. 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.

r. Derivative Financial Instruments

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks.

The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value and gains or losses on derivative transactions are recognized in the consolidated statement of income.

s. 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 net 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.

t. Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively, unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations—When the presentation of consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period consolidated financial statements is discovered, those consolidated statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors, which are made from the beginning of fiscal year beginning on or after April 1, 2011.

u. Accounting Standard Issued but Not Yet Adopted

Accounting Standard for Retirement Benefits—In May 2012, the ASBJ issued ASBJ Statement No. 26 and ASBJ Guidance No. 25, 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, being followed by partial amendments from time to time through 2009.

The revised accounting standard 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 are effective for the beginning of annual periods beginning on April 1, 2014. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

As a result of applying the revised accounting standard and the guidance, operating income and income before income taxes and minority interests for the year ending March 31, 2015, are expected to decrease by ¥25 million ($243 thousand). Retained earnings at the beginning of the fiscal year ending March, 31, 2015, is expected to increase by ¥562 million ($5,462 thousand).

Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts—On December 25, 2013, the ASBJ issued PITF No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts." PITF No. 30 is effective for the beginning of annual periods beginning on or after April 1, 2014, with earlier application permitted from the beginning of annual periods first ending after the date of issuance of PITF No. 30 and applied retrospectively.

In accordance with PITF No. 30, upon transfer of treasury stock to the employee stockownership trust (the "Trust") by the entity, any difference between the book value and fair value of the treasury stock shall be recorded in capital surplus. At year-end, the entity shall record (1) the entity stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

The Company expects to apply PITF No. 30 from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying PITF No. 30 in future applicable periods.

3. Marketable and Investment Securities

Marketable and investment securities at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Noncurrent:			
Marketable equity securities	**¥731**	¥574	**$7,104**
Government and corporate bonds	**1**	1	**10**
Total	**¥732**	¥575	**$7,114**

The costs and aggregate fair values of marketable and investment securities at March 31, 2014 and 2013, were as follows:

	Millions of Yen			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥365**	**¥374**	**¥8**	**¥731**
Debt securities	**1**			**1**
Total	**¥366**	**¥374**	**¥8**	**¥732**

	Millions of Yen			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥365	¥216	¥7	¥574
Debt securities	1			1
Total	¥366	¥216	¥7	¥575

March 31, 2014	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**$3,547**	**$3,635**	**$78**	**$7,104**
Debt securities	**10**			**10**
Total	**$3,557**	**$3,635**	**$78**	**$7,114**

Available-for-sale securities whose fair values are not readily determined at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Available-for-sale—equity securities	**¥18**	¥12	**$175**

The Group had not sold available-for-sale securities during the years ended March 31, 2014 and 2013.

4. Notes Maturing on March 31, 2014 and 2013

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, 2014, of certain subsidiaries and the year-end of March 31, 2013, coincided with a bank holiday and the following notes maturing on March 31, 2014 and 2013, were included in the consolidated balance sheets at March 31, 2014 and 2013:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Notes receivable—trade		¥125	

5. Inventories

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Merchandise and finished products	**¥2,227**	¥1,816	**$21,642**
Work in process	**320**	196	**3,110**
Raw materials and supplies	**1,841**	1,674	**17,891**
Total	**¥4,388**	¥3,686	**$42,643**

6. Property, Plant, and Equipment

Accumulated depreciation at March 31, 2014 and 2013, was ¥21,024 million ($204,315 thousand) and ¥18,894 million, respectively.

7. Long-Lived Assets

The Group reviewed its long-lived assets for impairment for the year ended March 31, 2014. As a result, the Group recognized impairment losses for the year ended March 31, 2014, as follows:

Location	Usage	Classification	Millions of Yen	Thousands of U.S. Dollars
TAIYO INK CO., (KOREA) LTD.	Business use	Buildings	**¥125**	**$1,215**
		Machinery and equipment	**154**	**1,497**

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

Business use assets of TAIYO INK CO., (KOREA) 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, 2013.

8. Short-Term Bank Loans and Long-Term Debt

The weighted-average interest rate applicable to the short-term borrowings at March 31, 2014, was 0.66%.

There were no short-term bank loans at March 31, 2013.

Long-term debt as of March 31, 2014, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Long-term debt, 2018 with weighted-average interest of 0.15% as of March 31, 2014	**¥5,658**	**$54,985**
Total	**¥5,658**	**$54,985**

There was no long-term debt at March 31, 2013.

Annual maturities of long-term debt for the next five years and thereafter as of March 31, 2014, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015		
2016		
2017		
2018		
2019	**¥5,658**	**$54,985**
2020 and thereafter		
Total	**¥5,658**	**$54,985**

9. Retirement and Pension Plans

The Company has non-contributory-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, 2014 and 2013, for directors and corporate auditors is ¥10 million ($97 thousand) and ¥10 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

Year Ended March 31, 2014

Defined Benefit Plans

The changes in projected benefit obligations for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥2,541	$24,694
Service cost	169	1,642
Interest cost	42	408
Actuarial losses	76	739
Benefits paid	(122)	(1,186)
Foreign exchange difference	66	642
Balance at end of year	¥2,772	$26,939

The changes in plan assets for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥2,271	$22,070
Expected return on plan assets	34	330
Actuarial losses	12	117
Employer contribution	206	2,002
Benefits paid	(121)	(1,176)
Foreign exchange difference	53	515
Balance at end of year	¥2,455	$23,858

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, 2014, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Funded projected benefit obligations	¥2,772	$26,939
Plan assets	(2,455)	(23,858)
Net liability for defined obligations	¥ 317	$ 3,081
Liability for retirement benefits	¥ 317	$ 3,081
Net liability for defined benefit obligations	¥ 317	$ 3,081

The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥169	$1,642
Interest cost	42	408
Expected return on plan assets	(34)	(330)
Recognized actuarial losses	(8)	(78)
Amortization of prior-service cost	10	97
Net periodic benefit costs	¥179	$1,739

Accumulated other comprehensive income on defined retirement benefit plans before income tax effect as of March 31, 2014, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized actuarial losses	**¥(115)**	**$(1,118)**
Total	**¥(115)**	**$(1,118)**

Plan assets as of March 31, 2014, consisted of the following:

General account	**100%**
Total	**100%**

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

Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	**1.2%**
Expected long-term rate of return on plan assets	**1.0%**

Defined Contribution Plans

The required contribution amount to the defined contribution plans by the Company and its certain consolidated subsidiaries is ¥30 million ($292 thousand) at March 31, 2014.

Year Ended March 31, 2013

The liability for retirement benefits for employees at March 31, 2013, consisted of the following:

	Millions of Yen
Projected benefit obligations	¥(2,541)
Fair value of plan assets	2,271
Unfunded retirement benefit obligations	(270)
Unrecognized actuarial losses	43
Unrecognized prior service costs	10
Liability for retirement benefits	¥ (217)

The components of net periodic benefit costs for the year ended March 31, 2013, are as follows:

	Millions of Yen
Service cost	¥158
Interest cost	42
Expected return on plan assets	(29)
Amortization of actuarial losses	17
Amortization of prior-service costs	10
Net periodic benefit costs	¥198

In addition to the costs shown in the preceding table, other expenses for the defined contribution plans of the Company and certain overseas consolidated subsidiaries amounted to ¥27 million for the year ended March 31, 2013.

Assumptions used for the year ended March 31, 2013, are as follows:

Discount rate	1.2%
Expected rate of return on plan assets	1.0%
Amortization period of actuarial (gains) losses	Mainly 5 years
Amortization period of prior-service costs	Mainly 5 years

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. 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 is prescribed as one year rather than two years of normal 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.

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.

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 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 a normal effective statutory tax rate of approximately 38% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of March 31, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Deferred tax assets:			
Retirement benefits	**¥ 176**	¥ 114	**$ 1,710**
Unrealized profit	**96**	107	**933**
Deduction of foreign corporation tax carried forward	**72**	67	**700**
Allowance for doubtful accounts	**1**	61	**10**
Accrued expenses	**96**	106	**933**
Loss on valuation of investments in unconsolidated subsidiaries and affiliates		182	
Other	**114**	260	**1,107**
Total deferred tax assets	**555**	897	**5,393**
Less valuation allowance	**(171)**	(185)	**(1,662)**
Total deferred tax assets, net of valuation allowance	**384**	712	**3,731**
Deferred tax liabilities:			
Undistributed earnings of associated companies	**(1,083)**	(719)	**(10,525)**
Reserve for technique and development	**(57)**	(82)	**(554)**
Valuation difference on available-for-sale securities	**(130)**	(74)	**(1,263)**
Other	**4**	(99)	**39**
Total deferred tax liabilities	**(1,266)**	(974)	**(12,303)**
Net deferred tax assets	**¥ (882)**	¥(262)	**$ (8,572)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2014, with the corresponding figures for 2013, is as follows:

	2014	2013
Normal effective statutory tax rate	**37.87%**	37.87%
Tax rates difference relating to overseas subsidiaries	**(14.75)**	(13.46)
Elimination of dividend income	**0.95**	1.50
Deduction of foreign corporation tax carried forward	**(0.12)**	(1.02)
Undistributed earnings of associated companies	**2.86**	(1.79)
Nondeductible withholding income tax of dividends	**5.53**	6.44
Tax exemption for experiments and research expenses and other	**(1.82)**	(2.33)
Valuation allowance	**(0.92)**	(1.36)
Other	**1.92**	1.05
Actual effective tax rate	**31.52%**	26.90%

"Act on Partial Revision of the Income Tax Act" (Act No. 10 of 2014), "Act on Partial Revision of the Local Tax Act" (Act No. 4 of 2014) and "Act on Partial Revision of the Corporation Local Inhabitants Tax Act" (Act No. 11 of 2014) were promulgated on March 31, 2014. Accordingly, the normal effective statutory tax rates used to calculate deferred tax assets and deferred tax liabilities changed to 35.52% for temporary differences which are expected to reverse in the fiscal year beginning on April 1, 2014, and 35.53% for those in the fiscal year beginning on April 1, 2015.

The effects of this change are immaterial.

12. R&D Costs

R&D costs charged to income for the years ended March 31, 2014 and 2013, were ¥1,594 million ($15,491 thousand) and ¥1,199 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 exposed additionally 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.

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 non-payment caused by deterioration in financial condition or other factors.

Consolidated Group 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 Group 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 derivatives 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 amount, fair value, and unrealized gain (loss) at March 31, 2014 and 2013, were as follows:

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

	Millions of Yen		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain (Loss)
(1) Cash and cash equivalents	**¥20,338**	**¥20,338**	
(2) Time deposits	**811**	**811**	
(3) Notes and accounts receivable—trade	**11,891**		
Less allowance for doubtful receivables	**(273)**		
	11,618	**11,618**	
(4) Investment securities	**731**	**731**	
(5) Notes and accounts payable—trade	**5,433**	**5,433**	
(6) Accounts payable—other	**1,394**	**1,394**	
(7) Income taxes payable	**563**	**563**	
(8) Short-term bank loans	**534**	**534**	
(9) Long-term debt	**5,658**	**5,658**	
(10) Derivatives—net	**16**	**16**	
March 31, 2013			
(1) Cash and cash equivalents	¥13,767	¥13,767	
(2) Time deposits	886	886	
(3) Notes and accounts receivable—trade	8,200		
Less allowance for doubtful receivables	(106)		
	8,094	8,094	
(4) Investment securities	575	575	
(5) Notes and accounts payable—trade	4,487	4,487	
(6) Accounts payable—other	684	684	
(7) Income taxes payable	509	509	
(8) Derivatives—net	83	83	

March 31, 2014	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
(1) Cash and cash equivalents	$197,648	$197,648	
(2) Time deposits	7,881	7,881	
(3) Notes and accounts receivable—trade	115,559		
Less allowance for doubtful receivables	(2,653)		
	112,906	112,906	
(4) Investment securities	7,104	7,104	
(5) Notes and accounts payable—trade	52,799	52,799	
(6) Accounts payable—other	13,547	13,547	
(7) Income taxes payable	5,471	5,471	
(8) Short-term bank loans	5,190	5,190	
(9) Long-term debt	54,985	54,985	
(10) Derivatives—net	155	155	

The amount of allowance for doubtful receivables is deducted from receivables.

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 value 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 stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information of the fair value for the investment securities by classification is included in Note 4.

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

(9) Long-term debt
The fair value approximates carrying value due to the variable interest rate which 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.

(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
	2014	2013	2014
Investment securities—unlisted securities	¥18	¥ 12	$175
Investments in unconsolidated subsidiaries:			
Unlisted securities	19	2,702	185
Investment in partnership		499	

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

	Millions of Yen	
March 31, 2014	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	¥20,338	
Time deposits	811	
Notes and accounts receivable—trade	11,891	
Government and corporate bonds	1	

March 31, 2014	Thousands of U.S. Dollars Due in One Year or Less	Thousands of U.S. Dollars Due after One Year through Five Years
Cash and cash equivalents	$197,648	
Time deposits	7,881	
Notes and accounts receivable—trade	115,559	
Government and corporate bonds	10	

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, 2014 and 2013, were as follows:

	Millions of Yen			
March 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain
Foreign exchange forward contracts:				
Selling U.S. dollar	¥3,340		¥(10)	¥(10)
Buying yen	397		(6)	(6)
March 31, 2013				
Foreign exchange forward contracts:				
Selling U.S. dollar	¥3,113		¥(86)	¥(86)
Buying yen	282		3	3

	Thousands of U.S. Dollars			
March 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign exchange forward contracts:				
Selling U.S. dollar	$32,459		$(97)	$(97)
Buying yen	3,858		(58)	(58)

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

15. Contingent Liabilities

The Group's contingent liabilities as of March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Export bill discount	¥26	¥26	$253

16. Business Combinations

(Business Combination through Acquisition)

a. Overview of Business Combination

(1) Name of acquired company and description of business

Name of acquired company: ONSTATIC TECHNOLOGY CO., LTD.
Description of the business: Manufacturing and distribution of specialty ink for precision equipment

(2) Purpose of the business combination

The Group manufactures and distributes specialty ink for precision equipment, expanding business activities mainly in Japan, China, Taiwan, Korea, and ASEAN. Meanwhile, OTC, the acquired company, manufactures and distributes specialty ink for precision equipment mainly focusing on China and Taiwan.

The Company acquired the shares of OTC in Taiwan and made it its subsidiary, whereby the Group expects to share and use the respective management resources effectively, providing intensive services to meet customers' needs.

(3) Date of the business combination

May 16, 2013

(4) Legal form of the business combination

Acquisition of shares for cash consideration

(5) Name of the company after the business combination

Not changed

(6) Acquired voting rights

Immediately before the date of the business combination	25.5%
Additions at the date of the business combination	25.5%
After the acquisition	51.0%

(7) Grounds for determination of the acquiring company

The Company acquired 51.0% of the voting rights of OTC through the acquisition of shares for cash consideration.

b. Period for Which the Results of Operation of the Acquired Company is Included in the Consolidated Financial Statements

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. As April 1, 2013, was deemed as the acquisition date under the business combination, financial results of OTC until March 31, 2013, were recorded as equity in earnings of affiliates in the consolidated financial statements for the year ended March 31, 2014.

c. Acquisition Cost and Breakdown

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition:		
Acquisition cost of OTC held by the Company immediately before the acquisition	**¥2,669**	**$25,938**
Cash paid at the date of business combination	**2,568**	**24,956**
Transaction costs—advisory fees, etc.	**61**	**593**
Total acquisition costs	**¥5,298**	**$51,487**

d. Amount of Goodwill Recognized and Reason Thereof and the Method and Period for Amortization of Goodwill

	Millions of Yen	Thousands of U.S. Dollars
Amount of goodwill recognized	**¥3,330**	**$32,362**

Goodwill is recognized for the difference of acquisition cost and net amount of assets acquired and liabilities assumed.

Goodwill is amortized on a straight-line basis over 20 years.

e. Assets Acquired and Liabilities Assumed at the Date of the Business Combination

	Millions of Yen	Thousands of U.S. Dollars
Current assets	**¥4,998**	**$48,572**
Noncurrent assets	**414**	**4,023**
Total assets	**¥5,412**	**$52,595**
Current liabilities	**¥1,359**	**$13,207**
Noncurrent liabilities	**118**	**1,147**
Total liabilities	**¥1,477**	**$14,354**

(Transactions under Common Control)

a. Overview of the Transaction

(1) Name of combined company and description of the business

Name of combined company: ONSTATIC TECHNOLOGY CO., LTD.

Description of the business: Manufacturing and distribution of specialty ink for precision equipment

(2) Date of the business combination

August 12, 2013

(3) Legal form of the business combination

Acquisition of shares for cash consideration

(4) Name of the company after the business combination

Not changed

(5) Overview and purpose of the transaction

Shares owned by minority shareholders were acquired to share and use the respective business resources effectively.

b. Overview of Accounting Methods Applied

This business combination is accounted for as a transaction with minority shareholders among transactions under common control in accordance with ASBJ Statement No. 21 and ASBJ Guidance No. 10.

c. Acquisition Cost and Breakdown

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition—cash and deposits	**¥1,908**	**$18,542**
Transaction costs—advisory fees, etc.	**19**	**185**
Total acquisition costs	**¥1,927**	**$18,727**

d. Amount of Goodwill Recognized and Reason Thereof and the Method and Period for Amortization of Goodwill

	Millions of Yen	Thousands of U.S. Dollars
Amount of goodwill recognized	**¥1,146**	**$11,137**

Goodwill is recognized for the difference of acquisition cost and net amount of assets acquired and liabilities assumed.

Goodwill is amortized on a straight-line basis over 20 years.

17. Comprehensive Income

Components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Valuation differences on available-for-sale securities:			
Gain arising during the year	**¥ 156**	¥ 89	**$ 1,516**
Income tax effect	**(56)**	(32)	**(544)**
	100	57	**972**
Foreign currency translation adjustments:			
Gain arising during the year	**2,790**	2,156	**27,114**
Total other comprehensive income	**¥2,890**	¥2,213	**$28,086**

18. Net Income Per Share

A reconciliation of the differences between basic and diluted net EPS for the years ended March 31, 2014 and 2013, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2014	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥4,931**	**25,438**	**¥193.83**	**$1.88**
Year Ended March 31, 2013				
Basic EPS—Net income available to common shareholders	¥3,368	25,438	¥132.38	

Diluted net EPS is not disclosed because there are no dilutive securities.

19. Supplemental Cash Flow Information

The Company acquired and newly consolidated OTC and six companies during the year ended March 31, 2014.

In the third quarter of the year ended March 31, 2014, one subsidiary of OTC was liquidated.

The details of assets and liabilities of these companies at the date of consolidation and reconciliation between acquisition costs of the shares and net payment for the acquisition are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	**¥4,998**	**$48,571**
Noncurrent assets	**414**	**4,023**
Goodwill	**3,330**	**32,362**
Current liabilities	**(1,359)**	**(13,207)**
Noncurrent liabilities	**(118)**	**(1,147)**
Minority interests in consolidated subsidiaries	**(1,943)**	**(18,882)**
Valuation difference	**(24)**	**(233)**
Subtotal	**5,298**	**51,487**
Acquisition costs before consolidation	**(2,669)**	**(25,938)**
Valuation by equity method before consolidation	**(73)**	**(709)**
Loss on step acquisition	**73**	**709**
Total acquisition costs	**2,629**	**25,549**
Cash and cash equivalents held by acquired companies	**(1,767)**	**(17,172)**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**¥ 862**	**$ 8,377**

20. Subsequent Event

The appropriation of retained earnings as of March 31, 2014, approved at the Company's shareholders' meeting held on June 20, 2014, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥45 ($0.44) per share	**¥1,145**	**$11,127**

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.

From the first quarter of the year ended March 31, 2014, the Company acquired OTC, including OTC's six subsidiaries, and OTC is consolidated. In the third quarter of the year ended March 31, 2014, one subsidiary of OTC was liquidated.

(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

	Millions of Yen								
	Reportable Segments								
Year Ended March 31, 2014	Japan	China	Taiwan	Korea	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	**¥ 8,698**	**¥16,203**	**¥ 5,575**	**¥10,312**	**¥40,788**	**¥3,437**	**¥44,225**		**¥44,225**
Intersegment sales or transfers	**5,307**	**1,588**	**2,824**	**288**	**10,007**	**88**	**10,095**	**¥(10,095)**	
Total sales	**¥14,005**	**¥17,791**	**¥ 8,399**	**¥10,600**	**¥50,795**	**¥3,525**	**¥54,320**	**¥(10,095)**	**¥44,225**
Segment profit	**¥ 1,906**	**¥ 2,617**	**¥ 1,428**	**¥ 1,074**	**¥ 7,025**	**¥ 453**	**¥ 7,478**	**¥ 91**	**¥ 7,569**
Segment assets	**7,897**	**12,369**	**13,000**	**7,625**	**40,891**	**2,053**	**42,944**	**15,425**	**58,369**
Other items:									
Depreciation	**238**	**206**	**193**	**157**	**794**	**14**	**808**	**309**	**1,117**
Increase in property, plant, and equipment and intangible assets	**1,267**	**275**	**171**	**444**	**2,157**	**10**	**2,167**	**389**	**2,556**

	Millions of Yen								
	Reportable Segments								
Year Ended March 31, 2013	Japan	China	Taiwan	Korea	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 8,822	¥10,683	¥2,897	¥10,986	¥33,388	¥2,796	¥36,184		¥36,184
Intersegment sales or transfers	4,243	152	1,039	737	6,171	58	6,229	¥(6,229)	
Total sales	¥13,065	¥10,835	¥3,936	¥11,723	¥39,559	¥2,854	¥42,413	¥(6,229)	¥36,184
Segment profit	¥ 1,686	¥ 1,585	¥ 498	¥ 591	¥ 4,360	¥ 324	¥ 4,684	¥ (298)	¥ 4,386
Segment assets	7,430	8,079	4,646	7,046	27,201	1,728	28,929	15,094	44,023
Other items:									
Depreciation	193	187	150	103	633	13	646	358	1,004
Increase in property, plant, and equipment and intangible assets	165	98	91	155	509	10	519	87	606

	Thousands of U.S. Dollars								
	Reportable Segments								
Year Ended March 31, 2014	Japan	China	Taiwan	Korea	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	**$ 84,528**	**$157,464**	**$ 54,179**	**$100,214**	**$396,385**	**$33,401**	**$429,786**		**$429,786**
Intersegment sales or transfers	**51,575**	**15,432**	**27,444**	**2,799**	**97,250**	**855**	**98,105**	**$(98,105)**	
Total sales	**$136,103**	**$172,896**	**$ 81,623**	**$103,013**	**$493,635**	**$34,256**	**$527,891**	**$(98,105)**	**$429,786**
Segment profit	**$ 18,523**	**$ 25,432**	**$ 13,878**	**$ 10,437**	**$ 68,270**	**$ 4,402**	**$ 72,672**	**$ 885**	**$ 73,557**
Segment assets	**76,745**	**120,204**	**126,336**	**74,101**	**397,386**	**19,951**	**417,337**	**149,903**	**567,240**
Other items:									
Depreciation	**2,313**	**2,002**	**1,875**	**1,526**	**7,716**	**136**	**7,852**	**3,003**	**10,855**
Increase in property, plant, and equipment and intangible assets	**12,313**	**2,672**	**1,662**	**4,315**	**20,962**	**97**	**21,059**	**3,781**	**24,840**

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 U.S. and other Asian countries.

(c) Depreciation does not include goodwill amortization.

(d) From the second quarter of the year ended on March 31, 2014, 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.

(e) Segment profit of “Reconciliations” includes unallocated segment income of ¥133 million ($1,293 thousand) and unallocated segment loss of ¥266 million, which is mainly composed of the income or loss concerning the holding company in 2014 and 2013, respectively.

(f) Segment assets of “Reconciliations” include unallocated segment assets of ¥19,084 million ($185,462 thousand) and ¥16,765 million, which are mainly composed of the assets concerning the holding company in 2014 and 2013, respectively.

22. Related-Party Disclosures

There were no transactions of the Company with related parties for the fiscal year ended March 31, 2014.

Transactions of the Company with related parties for the fiscal year ended March 31, 2013 were as follows:

Nature of related party:	Unconsolidated subsidiary
Name:	TAIYO LOGISTICS CO., LTD.
Location:	Saitama, Japan
Capital amount:	¥12 million
Business:	Logistic subcontracting services to the Company
Ownership of voting rights:	100%
Description of transaction:	Receipt of dividend
Transaction amount:	¥78 million

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, 2014, 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, 2014, 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 23, 2014

Member of
Deloitte Touche Tohmatsu Limited

Domestic and Global Network

Domestic Network

TAIYO HOLDINGS CO., LTD. Head Office
2-7-1 Hazawa, Nerima-ku, Tokyo 176-8508, Japan
PHONE: 81-3-5999-1511 FAX: 81-3-5999-1501

TAIYO HOLDINGS CO., LTD. Ranzan Facility
388 Ohkura, Ranzan-machi, Hiki-gun, Saitama 355-0222, Japan
PHONE: 81-493-62-7777 FAX: 81-493-62-2330

TAIYO INK MFG. CO., LTD.
900 Hirasawa, Ranzan-machi, Hiki-gun, Saitama 355-0215, Japan
PHONE: 81-493-61-2711 FAX: 81-493-61-2701


Head Office


The Ranzan-Kitayama Facility

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.	89.8%	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.	69.2%	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) LTD.	100.0%	Marketing of PWB materials
TAIYO INK TRADING (SHENZHEN) 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 Ta Tung 2nd Road.
Kuan-Yin Industry Park,
Taoyuan, Taiwan, R.O.C.
PHONE: 886-3-483-3230
FAX: 886-3-483-3240
http://www.taiyoink.com.tw

ONSTATIC TECHNOLOGY CO., LTD.
7F., No. 1, Ren' ai Rd., Yingge
Dist., New Taipei City 239,
Taiwan, R.O.C.
PHONE: 886-2-26777481
FAX: 886-2-26777484
http://www.otcink.com.tw/

Korea
TAIYO INK MFG. CO., (KOREA) LTD.
1058-8, Singil-dong,
Danwon-gu, Ansan City,
Gyeonggi-do, Korea
PHONE: 82-31-491-9250
FAX: 82-31-491-7671
http://www.taiyoink.co.kr

China
TAIYO INK (SUZHOU) CO., LTD.
No. 26 Taishan Road, Suzhou
New District, Suzhou City,
Jiangsu, P.R. China
PHONE: 86-512-6665-5550
FAX: 86-512-6665-5011
http://www.taiyoink.com.cn

ONSTATIC INK (SHENZHEN) CO., LTD.
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Sha-Jing Town,
Shenzhen, Guangdong, China
PHONE: 86-755-8173-7288
FAX: 86-755-8173-7282

USA
TAIYO AMERICA, INC.
2675 Antler Drive, Carson City,
NV 89701, U.S.A.
PHONE: 1-775-885-9959
FAX: 1-775-885-9972
http://www.taiyo-america.com

Marketing or Technical Support Subsidiaries

Singapore
TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD.
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059413
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FAX: 86-755-8207-0989

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Samsen-Nai, Phayathai,
Bangkok 10400, Thailand
PHONE: 66-2-619-5670
FAX: 66-2-619-7527

Corporate Information

Company Overview

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: ¥6,135 million

Shares authorized: 50,000,000

Total number of issued shares: 27,464,000

Stock listing: Tokyo

Number of shareholders: 7,000

Major shareholders:

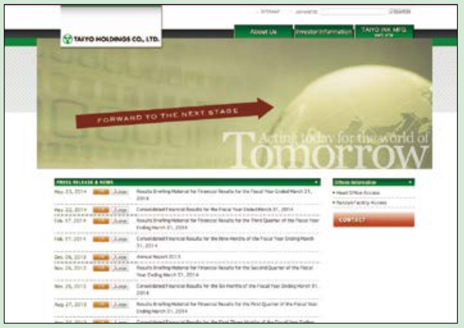
Name	Shares (thousands)	Shareholding as a percentage of total shares issued (%)
Kowa Co., Ltd.	6,554	23.86
Company's Treasury Stock	2,026	7.37
Japan Trustee Services Bank, Ltd. (Trust Account)	1,528	5.56
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,236	4.50
Japan Trustee Services Bank, Ltd. (shares retrusted to Sumitomo Mitsui Trust Bank, Limited, and shares entrusted to Sumitomo Mitsui Banking Corporation retirement benefit trust account)	1,116	4.06
SHIKOKU CHEMICALS CORPORATION	631	2.29
Toshin Yushi Co., Ltd.	538	1.96
Mitsuo Kawahara	500	1.82
Takato Kawahara	486	1.77
RBC ISB A/C DUB NON RESIDENT - TREATY RATE	460	1.67

Accessing Our Investor Information Site: An Introduction to TAIYO HOLDINGS's Website

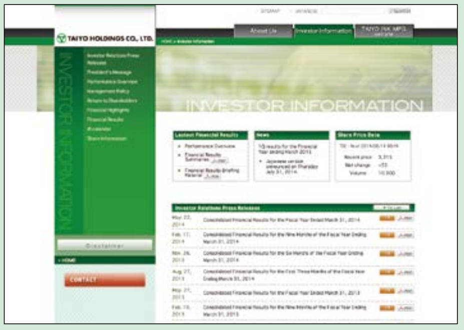
TAIYO HOLDINGS is committed to providing a full range of information to all stakeholders including shareholders, investors, customers, and business partners.

http://www.taiyo-hd.co.jp/English/Group/index.html

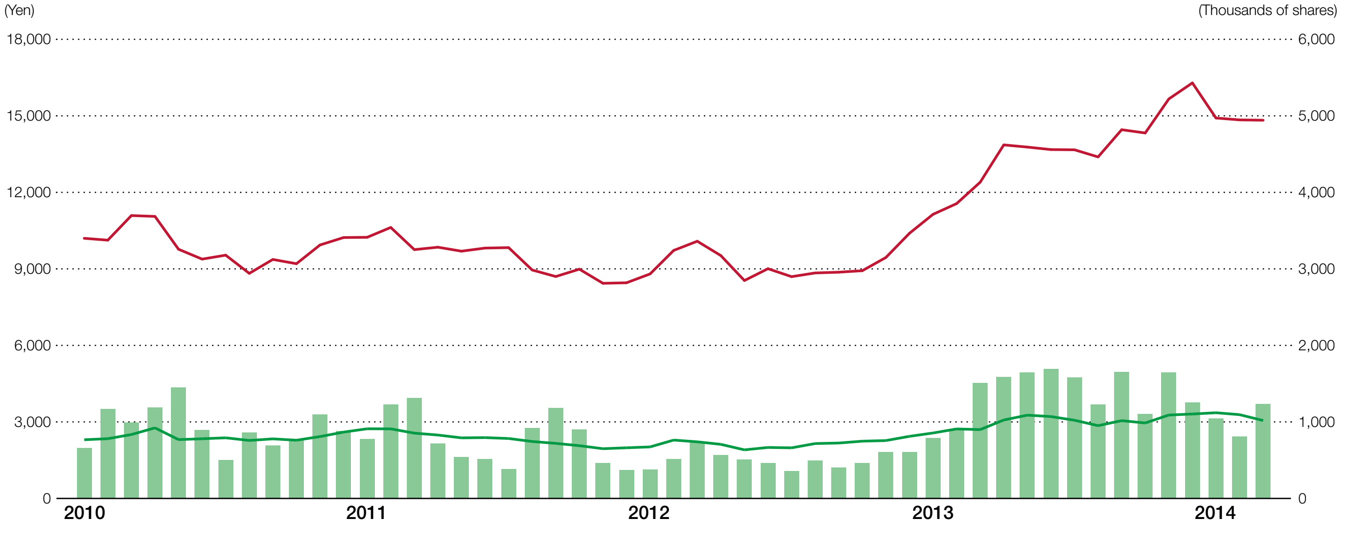
TAIYO HOLDINGS CO., LTD.



Investor Information



Stock Price and Trading Volume



— Nikkei Stock Average (left scale) — Stock Price (left scale) ■ Trading Volume (right scale)

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