TAIYO HOLDINGS CO., LTD.

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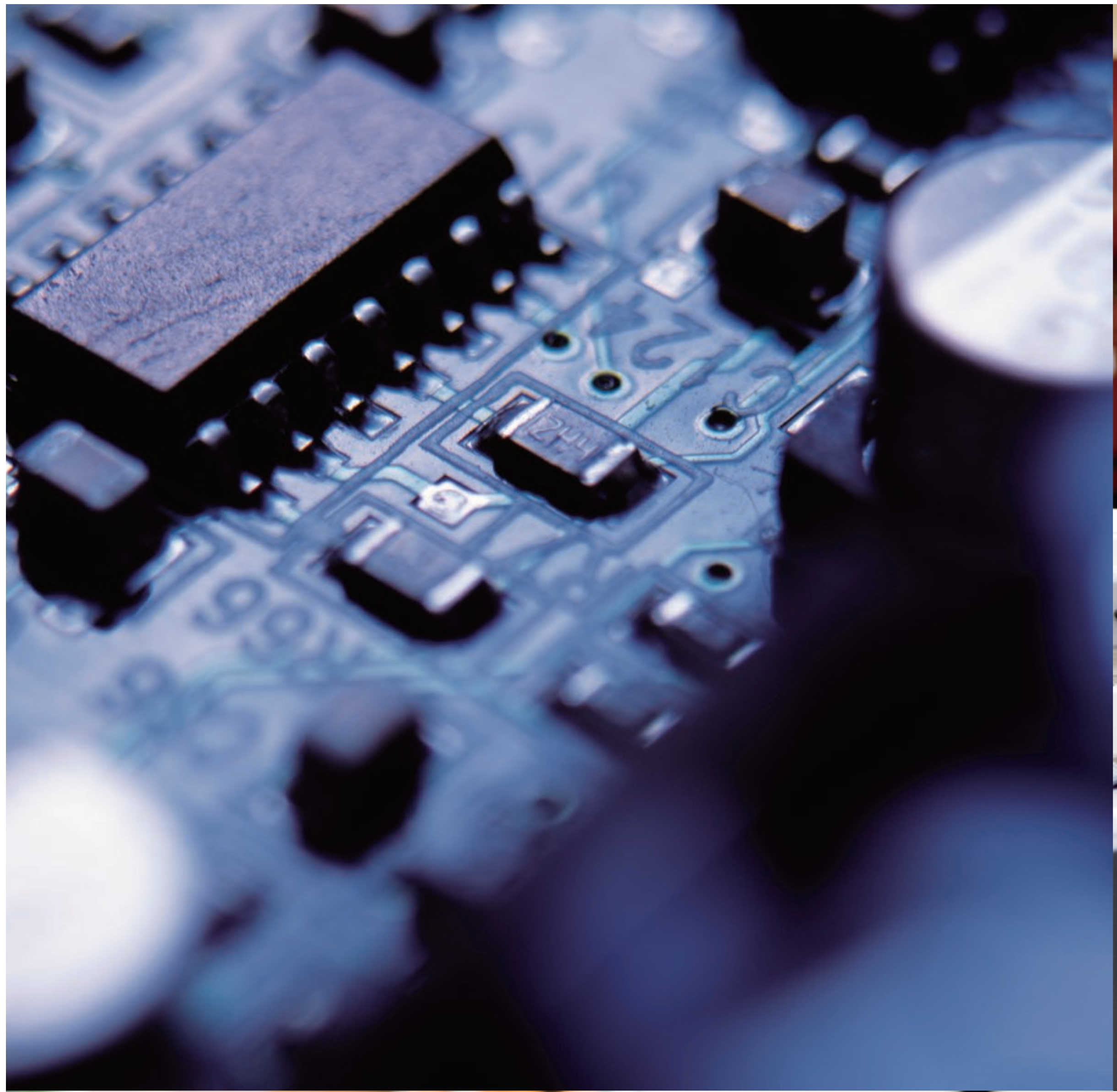
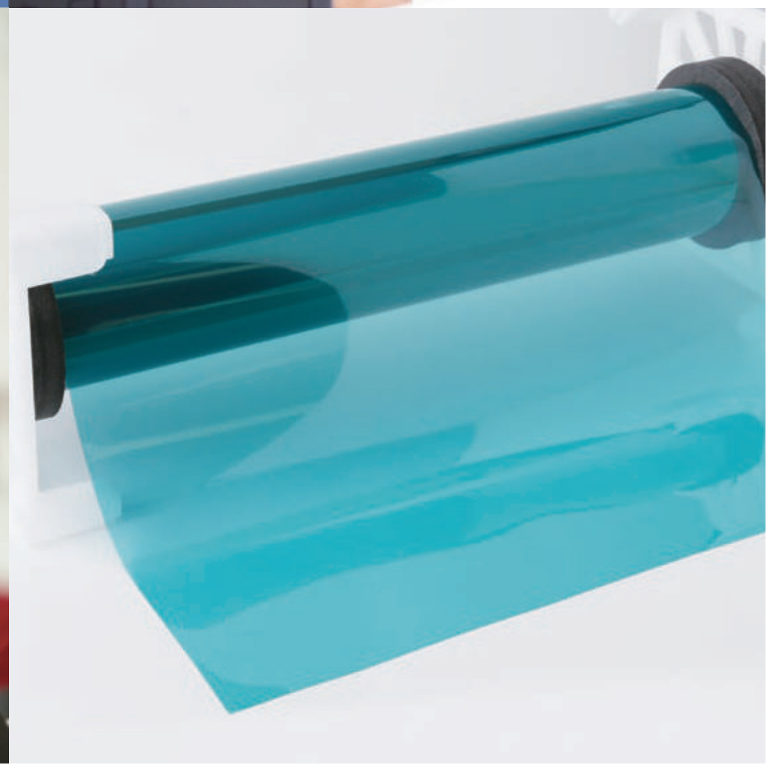
Passion for innovation

Annual Report 2017

Year Ended March 31, 2017

TAIYO HOLDINGS CO., LTD.



Management Philosophy

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

Our commitment to generating value

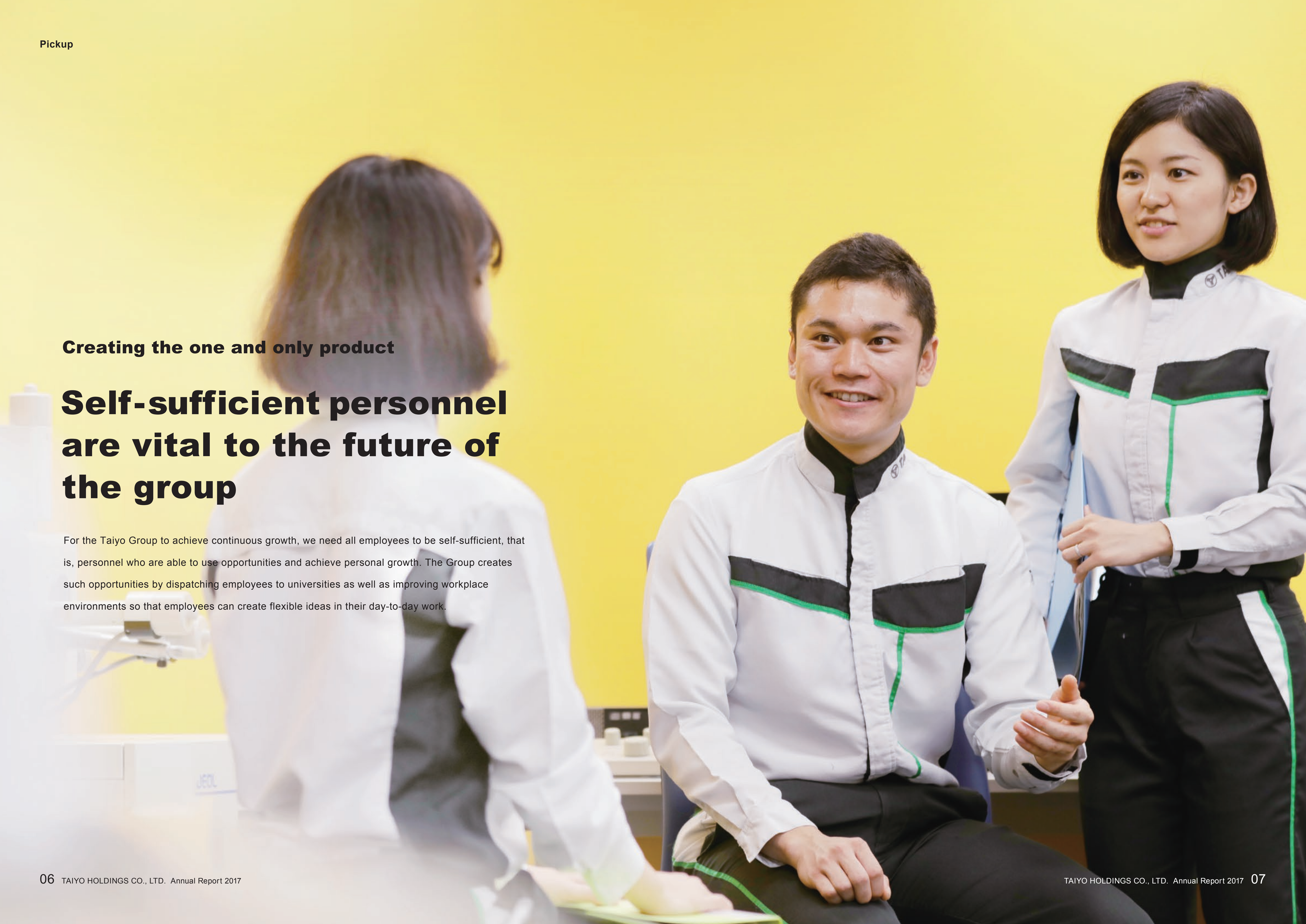
Launching new project teams to get products to market sooner

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

Leading the global industry

Everywhere you need us to be

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



Creating the one and only product

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

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

Profile

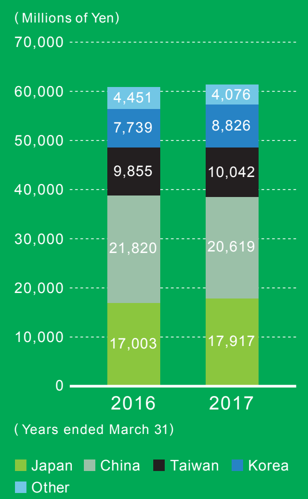
The Taiyo Group is the chemical manufacturer that commands a top-class global market share of solder resist, which is essential for the printed wiring boards (PWBs) used in a variety of electronics products, from such IT devices as mobile phones, PCs, and other digital equipment to digital household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

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

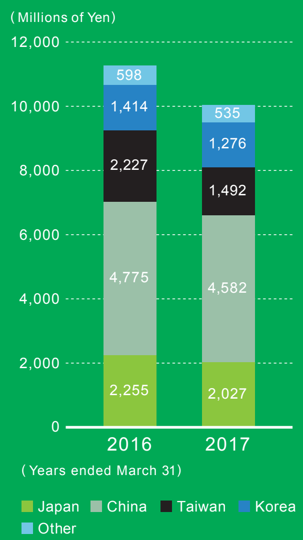
To target further growth, the Group is enhancing "every technology" of all its companies based on the technological capabilities that have been accumulated in the development and manufacture of solder resist. The Group will continue to supply across the world innovative products that go beyond solder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

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

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



Operating Income by Segment



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Basic Management Policies

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

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

Matters Regarding Forward-Looking Statements

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

Definition of Terms

"Fiscal 2016" refers to the fiscal year ended March 31, 2017, and other fiscal years are referred to in a corresponding manner in this annual report.

Growth Fundamentals Built Up over 60 Years

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

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

1953

Taiyo Ink Mfg. Co., Ltd. established

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

1976

Radical change in business policy

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

1982 Ranzan Plant (current Ranzan Facility) established.

1984 Exhibited liquid developable solder resist at the JPCA Show.

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

1988

Commenced locally-based production overseas

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

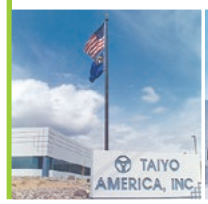
1988 Established Taiyo Ink Co., (Korea) Ltd.

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

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

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

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



2001

Listed on the First Section of the Tokyo Stock Exchange

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

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

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

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

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

2013

Commemorating our 60th anniversary, and taking on new challenges

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

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

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

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

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

2017 Established pharmaceutical business subsidiary Taiyo Pharma Co., Ltd.

Eiji Sato
President and CEO

Propelling the Group to Further Heights by Developing Self-Sufficient Personnel to Lead New Business Creation

During fiscal 2016, the Taiyo Group focused resources on investments to support dynamic leaps as a comprehensive chemical manufacturer. We believe enhancing our R&D capabilities is vital to maintaining a global top tier market share for our mainstay solder resist products. With this in mind, in May 2016 we implemented full-scale renovations to our Ranzan Lab, the first such undertaking in 24 years. With these renovations, the facility has undergone a dramatic upgrade to set it apart from typical laboratories.

In other news, the Kitakyushu Plant began shipments from the second half of fiscal 2016. Completed in October 2015, the plant was constructed to enable mass production of dry film solder resist products, which began to represent an increased percentage of our semiconductor products revenue around five years ago.

Looking ahead to the next 20 years, we are implementing growth strategies that include a focus on new businesses. We are investing in Taiyo Green Energy, which oversees a renewable energy-based power plant business and plant factory operations. We also established Taiyo Pharma, which will begin manufacturing pharmaceutical products. Although these forward-looking investments and a trend towards yen appreciation resulted in a year-on-year decline in income for fiscal 2016, it was the promising outlook for the market itself that led us to make such aggressive investments.

In January 2017, we executed a capital & business alliance with DIC Corporation, a company well-known for its advanced resin development technology and pigment dispersion technology. Taiyo Holdings is a leader on the inkjet and MID (molded interconnect device) markets and this alliance with DIC will enable us to accelerate the speed of our business expansion.

We have positioned marketing personnel in United States, the birthplace of innovation, to strengthen our global network. Through this strategy, we aim to identify the next generation of players who will achieve dramatic technological innovations such as autonomous driving in the field of IoT and develop relationship with new leaders in the electronics industry.

In order for our Group to achieve perpetual growth in our new stage as a comprehensive chemical company while responding to changes in our operating environment, the development of human resources who are both excited about new business creation and capable of thinking and acting independently will be vital. For this reason, I believe it necessary for us to maintain a positive balance between the workplace environment, fair evaluations and compensation, and work satisfaction.

To address our workplace environment, we renovated the Ranzan Lab by installing the latest in research equipment to help accelerate new business creation. Beyond just the Lab, we conducted a full-scale renovation of the entire Ranzan Facility. Interior decorations that stimulate the imagination and a cafeteria overseen by a famous Tokyo chef are leading to increased employee motivation. The cafeteria in particular has led to increased internal satisfaction and more active communication. As such, we also renovated the cafeterias at the main office and at Taiyo Ink Mfg. To promote the hiring of highly self-sufficient personnel, we are conducting joint research with universities, which had produced results in helping us secure elite personnel.

To tie these initiatives to the upcoming fiscal years, we created a three-year Medium-term Business Plan titled "Next Stage 2020" with fiscal 2017 as the first year of the plan. Based on our business development strategy centered on our chemical business, we outlined goals of an operating margin of 20% or higher, an ROE (return on equity ratio) of 11%, DOE (dividend on shareholders' equity ratio) of 5% or higher, and the general goal of achieving a new record high in terms of operating profit. Through the achievement of these goals, we will enhance profit returns to our shareholders. Viewing 2020 as a turning point, we will strengthen the profitability of our solder resist, and get new businesses such as medical, pharmaceutical, energy, and food on a growth trajectory as we aim for further and more dynamic achievements.

Medium-term Business Plan

In October 2010, the Group announced GBP 2010, a Medium-term Business Plan extending to fiscal year ended March 31, 2013, but has refrained from formulating a new Medium-term Business Plan since that time. A long-term business development strategy is important for the Group's business in materials for printed wiring boards (PWB business) because it normally takes from five to ten years to complete the cycle from development of a new product to adoption by customers and sale of the mass-produced product. We therefore thought announcing a Medium-term Business Plan that specified monetary targets as we had before would encourage short-term management limited to achieving the stated goals.

Solder Resist (SR) is the mainstay product of the Group. Overseas sales comprise more than 80% of our total SR sales and the Group commands over 50% share of the SR market. Because of these factors, the business structure is greatly affected by external factors such as fluctuation in exchange rates and market trends in smartphones, servers, and other end-products. The sluggish pace of new business development and withdrawal from the flat panel display materials business (FPD business) due to the demise of demand in fiscal year ended March 31, 2015 has increased the Group's dependence on the PWB business, and we have not been able to restructure our business to lessen our considerable dependence on SR.

We have therefore formulated the Next Stage 2020 three-year Medium-term Business Plan to extricate the Group from this business structure and make the leap to becoming a comprehensive chemical company, based on the keyword, "chemicals," which we have adopted as our guideline.

Targets

1. **Profit structure**
   Operating margin **20% or more**
2. **Profitability**
   ROE (Return on Equity ratio) **11% or more**
3. **Shareholder return**
   DOE (Dividend on Shareholders' Equity ratio) **5% or more**
4. **Operating results**
   Achieve a new record high in term of operating profit

Basic Policy

1. Improve profitability of solder resist (SR)
2. Expand into areas related to printed wiring board (PWB) other than solder resist
3. Launch a medical and pharmaceutical business
4. Move the energy and food businesses into the black
5. Strengthen basic research capabilities
6. Business alliance with DIC Corporation*
7. Execute M&A strategy
8. Expand CSR activities
9. Develop and utilize self-sufficient personnel capable of acting independently

* Taiyo Holdings Co., Ltd. concluded a business alliance with DIC Corporation on January 25, 2017.
Press release http://www.taiyo-hd.co.jp/_cms/wp-content/uploads/2017/02/20170202_01_en.pdf

Commitment to Medium-term Business Plan

Sato With this Medium-term Business Plan, what I want to emphasize most is that achieving record high operating income in the three years leading up to 2020 is a must. Also, I want to continue being aggressive in establishing new businesses. We will focus on these two points: record high operating income and new business.

Takehara I share this commitment. Posting record high operating income is not something we can achieve simply by heading forward on our existing path. We first must expand current sales and then dedicate ourselves to contributing to increased sales from new businesses. As manager of the Taiwan Region, I will work to further increase sales of the locations I manage.

Saito I too want to commit to achieving record high operating income. The Medium-term Business Plan is also an expression of our commitment to move toward becoming a comprehensive chemical company so I want to plant seeds that support this goal. I am manager of Korea Region, where the manufacturing and sales of PWB materials accounts for nearly 100% of our business. Moving forward, we will strive to capture potential sales in the electronic materials field. Also, we will foster lots of self-sufficient personnel in order to make the Medium-term Business Plan something more concrete.

Morita As manager of the China Region, which is our production center for products to customers in Asia, I believe that achieving sales goals is our mission. Looking at the fields of medical care, pharmaceuticals, and food in which we are developing new businesses, I believe there is much potential in China so I want to focus on business expansion in these areas as well.

Miwa I think developing self-sufficient personnel is critical to our company development. Over the last few years, we have been able to secure a certain level of elite self-sufficient personnel but moving forward we must further discover and develop unique human resources and create opportunities for their utilization. The current Medium-term Business Plan discusses our path as we strive to be a comprehensive chemical company but simply expanding existing businesses is not enough to achieve dynamic growth. We also will promote M&A in various fields.

Further Heights as a Comprehensive Chemical Company

Sato We are identifying energy, food, and medical and pharmaceutical businesses as the new businesses that will be our foundation as a comprehensive chemical company. Among those, I particularly want to focus on the medical and pharmaceutical businesses. In the next three to four years, I expect this will grow to be a second growth pillar. I think energy and food will require a span of 10 to 20 years and want to take the time to develop them into highly profitable businesses.

Miwa I also believe energy is very important. But the energy business can be influenced by laws and national interests rather than the quality of the technology itself, which can make it difficult to conduct business on the same level as suppliers. However, I think that tying the environment and food to regional energy and conservation activities will lead to big business in the future.

Takehara The foundation for this will be the Ranzan Floating Solar Power Plant, which undertook the challenge of building floating mega-solar plant. Our factory is also located in Ranzan so I think the first step is to establish a situation where all energy needed for operations is provided by our own power plant.

Sato I want to achieve that in around three years. Talking about new businesses at overseas locations, I have great expectations for the food business in China. Currently, Taiyo Green Energy is proceeding with plant factory tests and we are considering local management as well as cultivating in Japan and then exporting produce expected to see large demand. In fact, vegetables sold by a Japanese general electric machinery manufacturer are being sold for a high price so this possibility also exists for vegetables produced under the Taiyo Holdings brand.

Morita Presently, consumers in China are voicing growing concerns over food safety. In that sense, vegetables produced in Japan have an advantage due to reliability among consumers. If a high level of safety can be guaranteed, products can be sold at high prices. This also applies to pharmaceuticals so there is significant potential for markets in which competitors are not engaged. Looking at our existing solder resist (SR) products, in just a few years China has seen significant growth even among competitor manufacturers. We need to watch the market with a sense of urgency to ensure we do not allow competitors to take the lead when we see the next technical innovation.

Sato For both new businesses and existing businesses, how we expand business will need to involve reading global trends. Looking at technical innovation with SR, it will be vital that we are prepared for the expansion of circuit materials based on printable methods such as 3D printers. A lot of attention is paid to 3D printing but we are more than capable of engaging in the development of a durable, fast-setting SR for use in 3D printing.

Miwa As opposed to mass production, 3D printing is increasing its presence in domains requiring custom production such as figures, special effects makeup, and prosthetics. If we are to engage in this field, I can imagine a scenario where we target a major market that involves both 3D printers and medical care. As we look to the global market, we need to be more engaged with semiconductors, which are the source of technical innovation. Over the next 10 years, China's semiconductor industry is expected to explode. The arrival of the device that replaces the iPhone, robots and autonomous driving made possible through IoT. The dissemination of these products and development of semiconductors are proportional.

Takehara Looking at technology innovation in the SR domain, the growth of SR for inkjet printing has been profound but we also are working to improve the added value of existing products. In particular, we are focusing on increasing sales of automobile SR and SR for flexible boards. With SR for automobiles, it is easy to make numerical growth projections but there is also still significant room for growth in SR for flexible boards. Also, in the steering committee based on the capital partnership with DIC, which possesses core technology related to organic pigments and synthetic resins, we will need to think about what kind of synergy we can generate. We also are evaluating the possibilities for inkjet and molded interconnect devices (MID) that combine the latest technical innovations. DIC is advancing with overseas expansion as a global company and they have idle plants and equipment. I want to take advantage of resources that align with our technology. For raw materials as well, we want to conduct batch procurement as a way to reduce costs.

Saito We are mutually engaged in the production of similar products but there were cases where we had different specification definitions. As such, I think it will be important to align definitions when conducting joint development. These differences in technical approaches will lead to new findings and discoveries, which can be expected to produce even greater synergy.

Developing Self-sufficient Personnel to Drive Company Development

Sato In the electronics industry, in particular the ranking of semiconductors is changing dramatically. As we face a paradigm shift, achieving further growth will require that we focus not only on the production of conventional parts and materials, but that we also embrace new material development to forge our own path and lead global industry. And achieving this will require that we foster the development of human resources with unique creativity. I believe this will be the foundation that supports our growth. As business manager, this is a personal goal that I also believe will contribute to both our earnings and the overall development of our society.

Saito In the field of semiconductors, China will be at the forefront moving forward. There are many things we can still do to expand existing business. Taking aggressive action in those areas will require that we foster the development of many independent human resources who will support our continued growth as a company. In that sense, we must work towards organization development that ensures we possess leading potential so that we are never in a position where our technology falls behind that of our competitors.

Morita There are three routes for hiring personnel in China: hiring locally, hiring locally and having them work in Japan, and hiring Chinese workers in Japan. Currently, we have around 30 people employed with the head office. As a ratio, approximately 20% of workers are foreigners. We are implementing initiatives that will enable us to utilize these personnel locally. Rather than fostering the development of self-sufficient personnel from among the local management system, we are fostering personnel in Japan with an initial focus on developing independent thinkers. From evaluations of wage levels to workstyle changes, we are committed to being a company that is attractive to personnel with high potential, both in Japan and overseas.

Miwa Some say that one day self-learning AI will surpass humans. What elite human resources have in common is their high capacity for learning but AI is especially adept at this. Furthermore, the creativity our company requires can be defined as the ability to combine objects. This is another area in which I think AI will surpass humans. As such, companies that effectively incorporate AI into their research will come out on top. Then, what is it that only humans can do? I believe this is expressing the will to create something or achieve something. For this reason, I believe elite personnel equates to people of superior will. We must be a company that discovers people of such superior will and as a company we must create a platform that enables such personnel to fulfill their wishes. I want to entrust our future as a comprehensive chemical company to such personnel.

Profiles

Eiji Sato

President and CEO
In charge of HD & Japan

Auditor of Taiwan Taiyo Ink in 2001. Assumed role of director at Taiyo Holdings in 2008. Became executive officer and Group CFO in 2009. President and CEO since 2011.

Takayuki Morita

Director
In charge of China

After serving as a director at Taiwan Taiyo Ink since 2001, Morita became chairman and general manager of Taiyo Ink (Suzhou) in 2011. Became director at Taiyo Holdings in 2012 and President of Taiyo Ink Trading (Shenzhen) and Taiyo Ink International (HK) since 2013.

Eiji Takehara

Director
In charge of Taiwan

Became director of Taiyo Ink Mfg. in 2010. Became director at Taiyo Holdings in 2014, after which he assumed the position of director at Taiwan Taiyo Ink in 2016. Responsible for Taiyo Ink Mfg. new business projects.

Hitoshi Saito

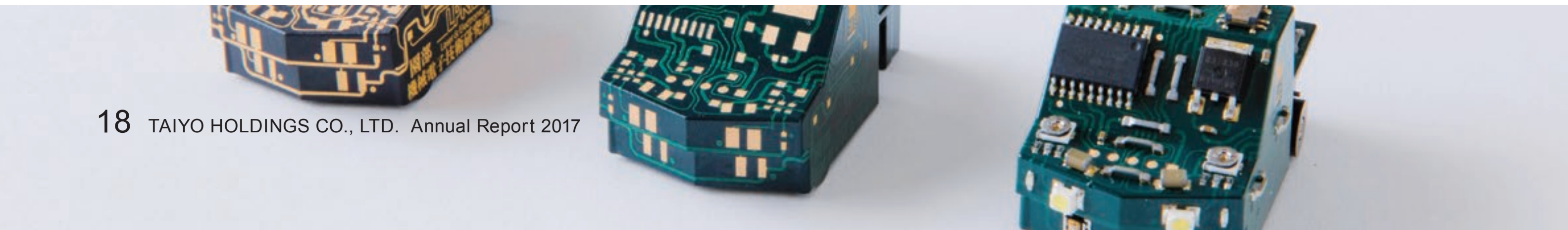
Director
In charge of Korea

Established Taiyo Ink (Thailand) in 2001. Became representative director and CEO of Taiyo Ink Products in 2015 and Taiyo Ink Mfg. (Korea) in 2016. Became a director of Taiyo Holdings in June 2016.

Takao Miwa

Director
In charge of R&D

After becoming general manager of R&D at Taiyo Holdings in 2013, Miwa became an executive managing officer in 2014. Appointed to position of representative director and chairman of Chugai Kasei in 2015. Became director of Taiyo Holdings in 2016 to oversee the R&D Division.



Capital and Business Alliance with DIC Corporation

New business opportunities are steadily emerging in technology sectors peripheral to SR than seen thus far. This is occurring due to the advent of technology such as photosensitive insulation materials for next generation PKG (semiconductor packages) required for imaging and insulation reliability at the single-digit micron level, multi-layer wiring board insulation and circuit forming materials for reducing components and making vehicles lighter, and wiring boards that use printable electronics to reduce environmental burden and manufacturing process burden, as well as insulating and conductive materials.

To seize new business opportunities in this business environment, we decided that forming a partnership with a company that could complement the business expansion of the Taiyo Group, with our superior materials development capabilities and concentration in East Asia, would enable us to target dramatic growth than relying solely on our own management resources, and we have been exploring partner companies.

The Taiyo and DIC groups determined that combining the Taiyo Group's strengths in utilizing our PWB and SR supply chains to ascertain market needs and in marketing with the strengths of the DIC Group in materials development, its manufacturing and distribution locations throughout the world, and its financial resources would enable us to seize the major business opportunities before us. We therefore chose one another as business partners and decided to enter into this capital and business alliance as a strategic business partnership with the goal of resolving the short-term management issues of the Taiyo Group and procuring the necessary capital for pursuing our medium to long-term business strategy.

Synergistic Effects from Business Alliance

1. Joint development of new components and materials for printed wiring boards such as MIDs (molded interconnect devices) using technology possessed by the Taiyo Group and DIC
2. Joint development of printable wiring board materials using DIC's advanced resin development technology and pigment dispersion technology
3. Improve products to match market needs and swiftly launch them by using the Taiyo Group's thick pipeline to the industry and evaluation technology for new businesses involving products for the electronics market that DIC is considering
4. Outsource SR production to DIC's plants overseas to reduce production costs and improve operating rates at the overseas plants

Specific Uses of Proceeds from Financing

Specific Uses	Amount (Billions of Yen)	Anticipated Timing of Expenditures
To fund rebuilding of the plant in Taiwan	7.5	April 2017 to July 2020
To fund expansion of the number of lines at the Kitakyushu plant	2.5	April 2018 to March 2020
To fund the purchase of shares in Onstatic Technology Co., Ltd., making it a wholly owned subsidiary	2.5	February 2017 to September 2017
To fund reconfiguration of the IT platform	3.0	April 2017 to March 2021
To promote streamlining of production facilities	1.0	April 2018 to March 2020
To fund R&D and M&A related to the materials and component businesses in PWB-related areas	Approx. 8.2	February 2017 to March 2019
Total	Approx. 24.7	–

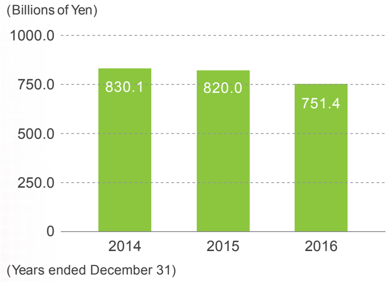
Who is DIC?

The DIC Group was founded to manufacture and sell printing ink. It then expanded the scope of its business based on the organic pigments and synthetic resins that comprise the basic materials for printing ink. The DIC Group offers a wide range of products from materials to processing, and today provides products that meet the needs of its customers and society through the five segments of printing ink, fine chemicals, polymers, compounds, and application materials in over 60 countries and regions worldwide.

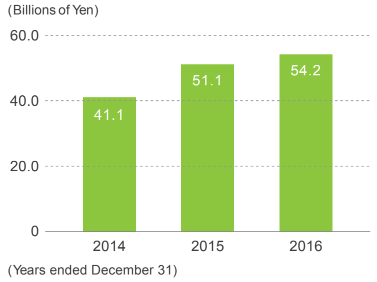
Company Name	DIC Corporation
Headquarters	DIC Building, 7-20, Nihonbashi 3-chome, Chuo-ku, Tokyo 103-8233, Japan
Established	February 15, 1908
Capital	96.6 billion yen
Number of Employees	Consolidated 20,481, Non-consolidated 3,510
Group Companies	174 (Domestic : 31, Overseas : 143)
Net sales	751.4 billion yen
Operating income	54.2 billion yen

(As of December 31, 2016)

Net Sales

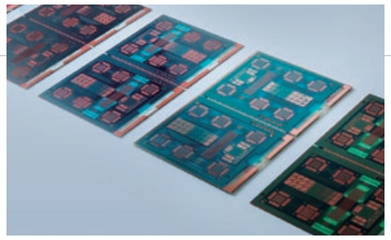


Operating Income



Classification of Products

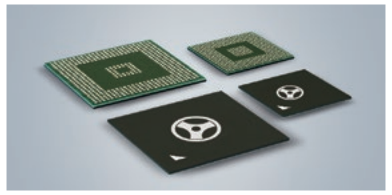
Rigid PWB Materials



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

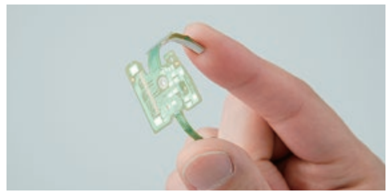
PWB Materials Other than Rigid PWB
(PKG, FPC, and build-up board materials)

Semiconductor Packaging (PKG) Materials



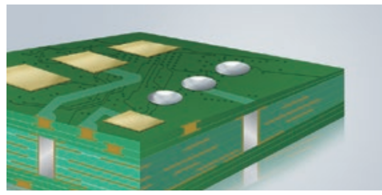
Solder resist applied to the surface of a PKG board. Two types available: liquid and dry film. A PKG board is a type of printed wiring board used as an interposer when mounting semiconductors such as computer CPUs, smartphone AP or memory.

Flexible Printed Circuit (FPC) Materials



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

Build-up Materials



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

Flat Panel Display (FPD) Materials

Main products include conductive silver paste and conductive adhesives.

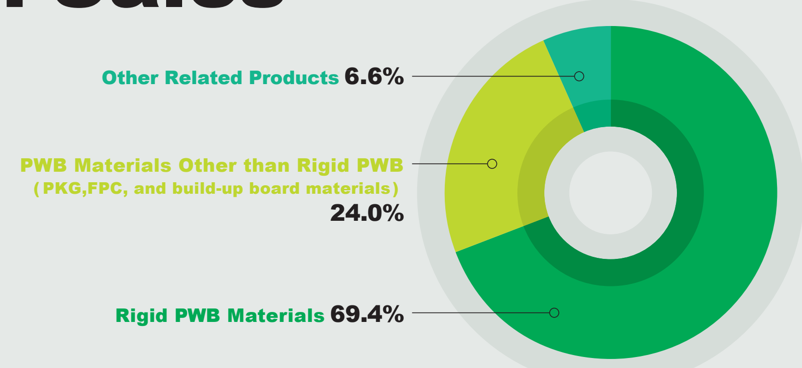
Other Related Products

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

Summary of Sales
by Product Group

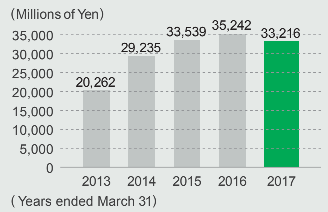
Consolidated Net Sales

¥47,866 million



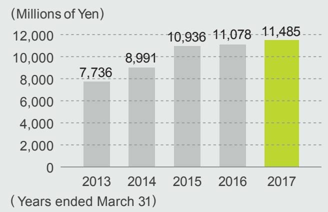
Rigid PWB Materials
¥33,216 million

Looking back on the past 5 years, between the fiscal year ended March 2013 and the fiscal year ended March 2017, sales grew by 63.9%, thanks in part to the benefits of acquiring Onstatic Technology Co., Ltd. (OTC). During the fiscal year ended March 2017, overall sales were firm, particularly for vehicle installation parts. However, net sales declined by 5.7% year on year due to the impact of yen appreciation.



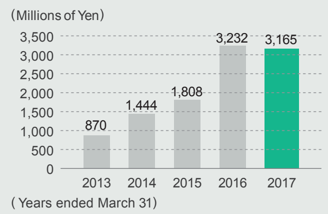
PWB Materials Other than Rigid PWB (PKG,FPC, and build-up board materials)
¥11,485 million

Looking back on the past 5 years, between the fiscal year ended March 2013 and the fiscal year ended March 2017, sales grew by 48.5%, thanks in part to favorable demand for PKG (semiconductor package) board materials. During the fiscal year ended March 2017, net sales of PKG board materials increased by 3.7% year on year thanks to firm demand for highly functional smartphone-related materials and a year on year increase sales volume for flexible board materials and build-up board materials.



Other Related Products
¥3,165 million

Beginning this fiscal year, earnings from sales of FPD materials has been reported under "Other Related Products" due to these sales representing a minor percentage of all products. This represents total net sales for products other than the above as well as net sales for Chugai Kasei Co., Ltd. and Taiyo Green Energy Co., Ltd.



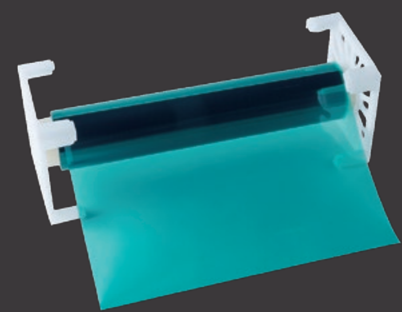
Liquid-Type SR

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

Taiyo Ink SR products

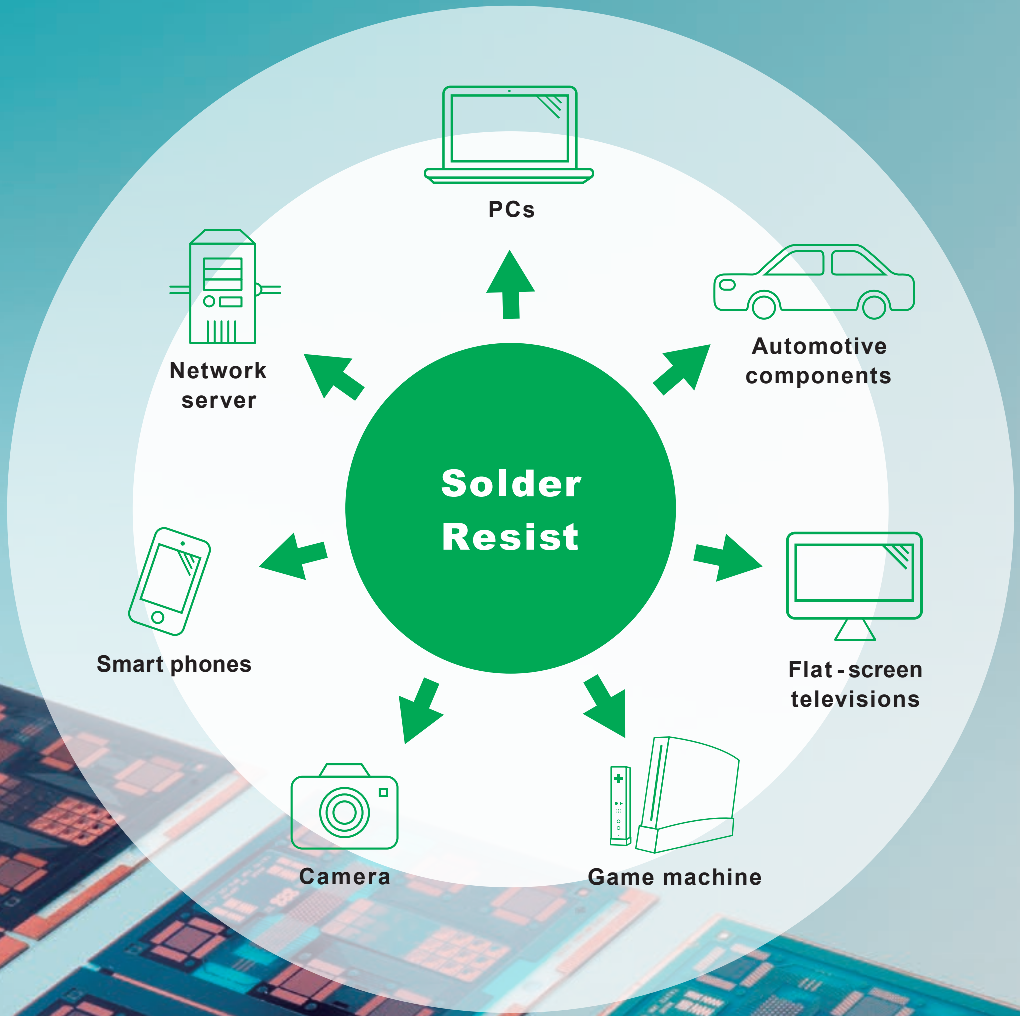
Dry Film-Type SR

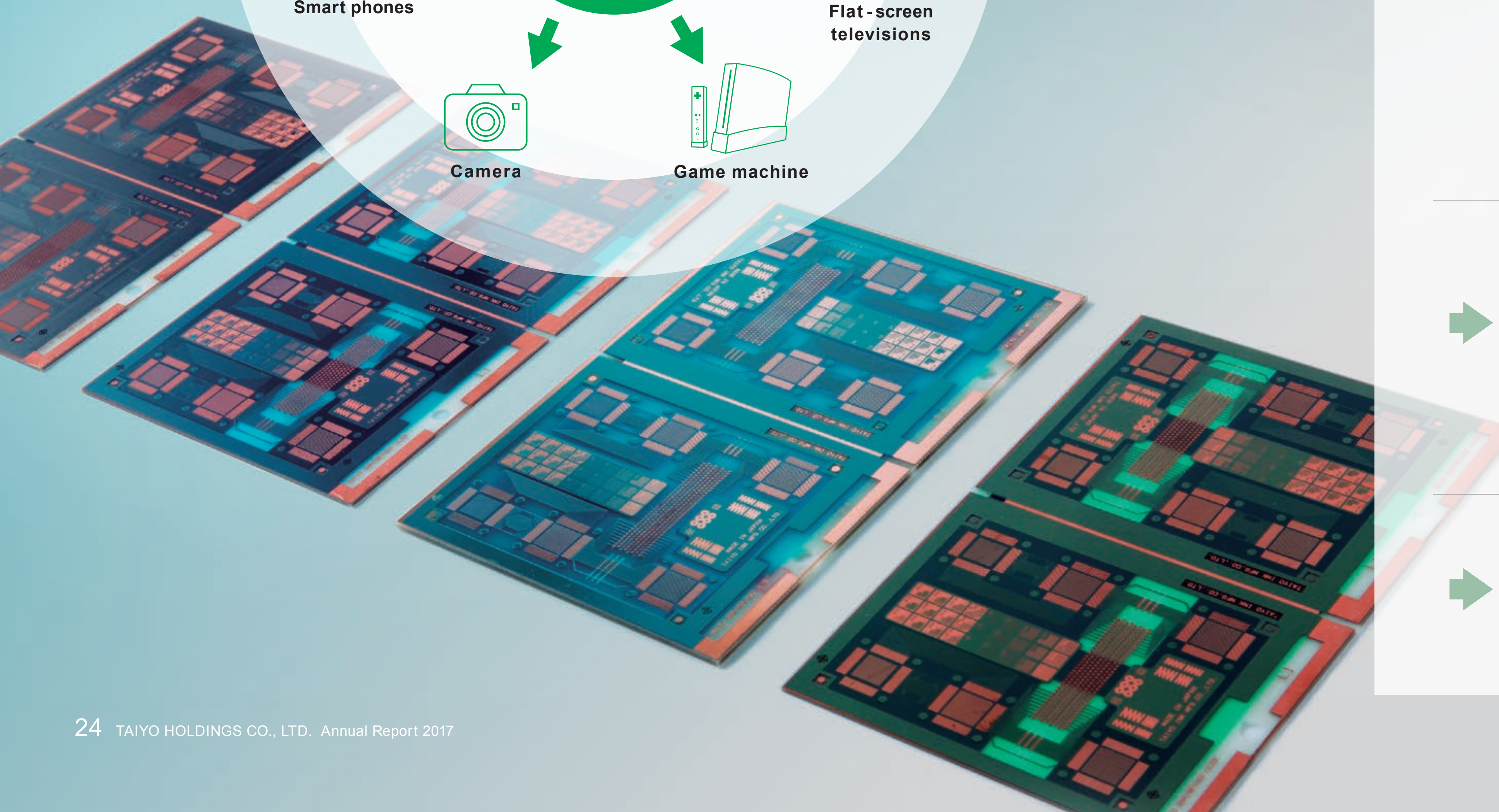
Existing liquid-type SR can be preprocessed into a film and a uniform thickness can be achieved. The use of dry film-type SR on semiconductor PKG substrates is increasing. Because the drying process, which is essential for liquid-type SR, can be eliminated, it is expected that dry film-type SR will reduce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



Solder Resist

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





Roles of Solder Resist

1 Preventing solder attachment in areas where it is not needed

We will generate profit and increase corporate value, thereby contributing to the well-being and prosperity of customers, communities, shareholders, and employees.

2 Protecting circuit patterns from dust, heat, and moisture

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

3 Maintaining electrical insulation between circuit patterns

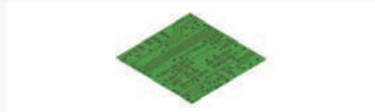
In conjunction with the miniaturization of electronic devices, package substrates are also becoming increasingly fine with circuit patterns on general circuit boards in the 50 μm to 150 μm range. SR maintains insulation between circuit patterns, preventing short circuits.

Photoimageable Solder Resist Pattern Formation Process (Photolithography)

1. Printing (coating)

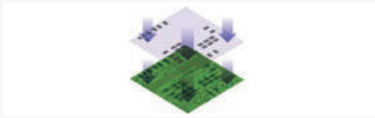
SR is applied to the entire surface.

2. Pre-curing



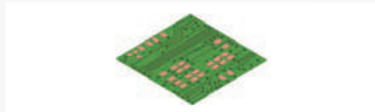
The wiring board is heated to 80°C for 20 to 30 minutes and provisionally dried.

3. Light exposure



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

4. Developing



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

5. Post-curing

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

Solder Resist for 3D Molded Interconnect Devices (3D-MID)

The boards that comprise the electronic components we use and encounter in our everyday lives aren't necessarily all flat and square in shape. As we continue our pursuit of functionality and the true shape of electronic products, there may come a time when the traditional square board design reaches its limits.

3D boards are not new to the market. However, iterations thus far have not gone so far as to replace the PCB. This is likely because, compared to PCB, there were issues such as reliability concerns, process management instability, and complexity in changing structural components. Even if manufacturers wanted to use 3D boards, it would have proven difficult to eliminate all of these concerns.

Our research indicated that we did not have a solder resist that was suitable for MID manufacturing methods. As such, we developed a 3D-MID solder resist that is compatible with various MID manufacturing methods.

Characteristics

1. Compatible with various MID manufacturing methods and various mold resin types
2. Optimized ink and application method to ensure compatibility with various 3D molded products
3. Makes weld volume control easy, improving the reliability of automated mounting (connections)
4. Improved circuit insulation and reliability of insulation between circuits to ensure reliability on par with PCB
5. Enables the use of conventional finishing methods (plating, preflux) and eliminates the need to treat components with high-cost, full gold plating. In addition to cost reductions, the ability to use trusted conventional materials ensures customer peace of mind.

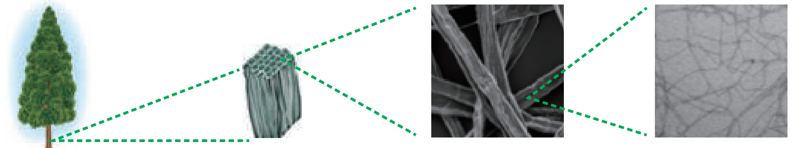
We will continue to develop new customers in search of new added value not possible with PCB. In the next few years, we will launch material sales based on mass production applications as we strive to expand our new products to global markets.

Cellulose Nanofiber Composite Insulation Material for Electronic Components

Electronic components are becoming higher in density due to the continuing pursuit of size reductions in electronics products. As a result, there is a need for the insulation material used in electronic components to be high performance and highly reliable. Through our research into characteristics such as high strength and a low coefficient of thermal expansion for cellulose nanofiber (CNF), which is garnering much attention as a plant-based, next-generation material, we succeeded in creating a highly functional material that is the world's first CNF-based insulation material for electronic components.

About CNF

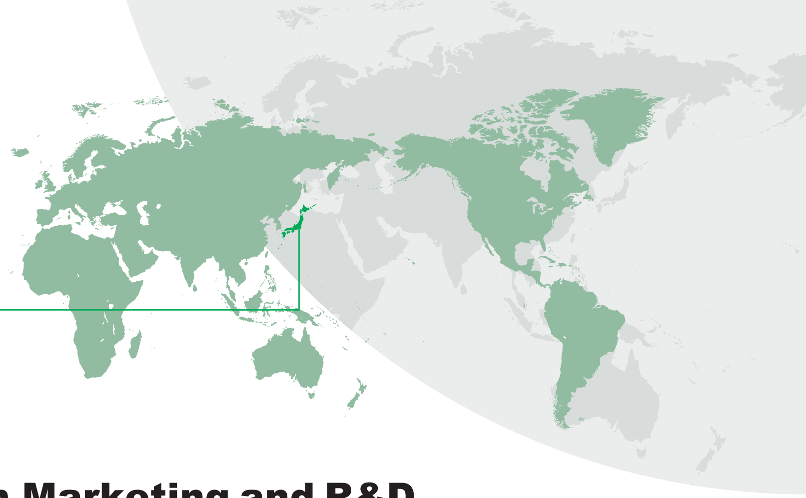
A material created by unwinding plant fibers down to the nano-level. The thinnest of these fiber strands can have a diameter of a mere 3 nanometers. The main characteristic of these fibers is that while light, they are 5 times stronger than steel and experience very light thermal transformation. And because they are a plant-based material, there is limited environment impact. With Japan's vast forest resources, this new material is expected to have applications in a variety of fields, including the automotive and construction industries.



Characteristics

Resins used as insulation material in electronic components tend to have a high coefficient of thermal expansion, which is lowered through the use of fillers. However, this method causes materials to become brittle, resulting in a limit the level at which both a low coefficient of thermal expansion and high strength are achievable. To address this, we focused on the ability of a small volume of CNF to cause large improvement on resin properties. However, due to the high hydro affinity of CNF (property of blending well with water and not blending well with oils), conventional technology could not be used to disperse CNF in resin materials. We conducted research on various combinations of CNF materials and resins as well as compounding methods to produce an electronic component insulation material that comprises both a low coefficient of thermal expansion and high strength.

This fiscal year we will begin working on samples as we aim to launch small-scale production next fiscal year.



Japan

Fulfilling the Vital Role of Asian Marketing and R&D

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

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

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

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

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

The Kitakyushu Plant, completed in October 2015, began shipping dry film solder resist in the latter half of the fiscal year ended March 2017. The plant will serve to complement BCP functions at our domestic production plants while responding to increasing demand for miniaturization. To further our efforts to accumulate Group knowhow and expand into new fields, we acquired Chugai Kasei Co., Ltd. in 2015. Chugai Kasei is involved in R&D in the fine chemical sector, a high added value area that previously we outsourced to other companies.

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

Consolidated Group Subsidiaries

TAIYO INK MFG CO., LTD

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

CHUGAI KASEI CO., LTD.

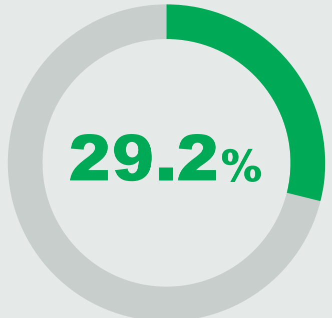
Manufacture and sale of dyes, pigments, chemicals and others

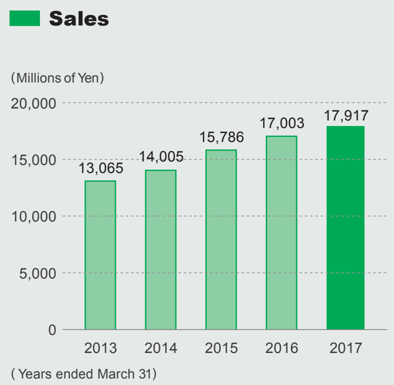
TAIYO INK MFG CO., LTD

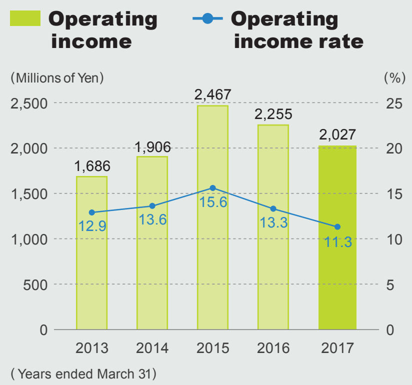
CHUGAI KASEI CO., LTD.

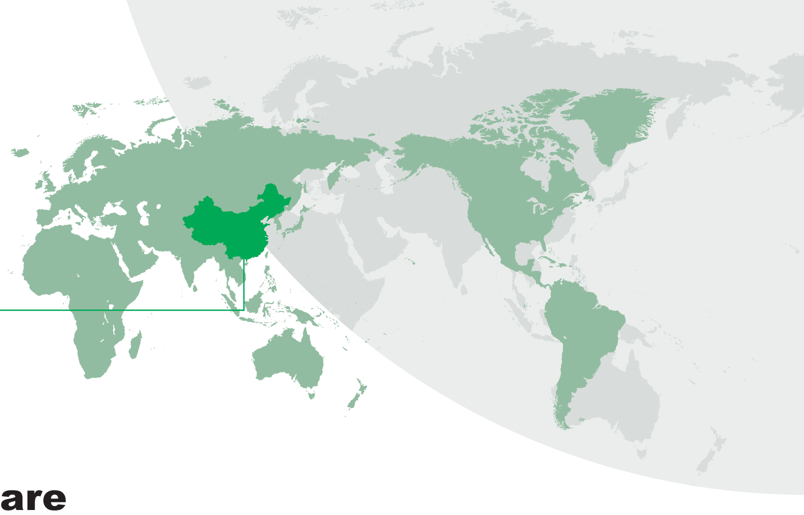
Performance Overview

Rigid board materials saw strong growth in sales, primarily for vehicle installation parts, and sales of PKG board materials were strong mainly due to demand for high function smartphone-related materials. However, the impact from appreciation of the yen resulted in sales of 17,917 million yen (up 5.4% year on year), with segment profit of 2,027 million yen (down 10.1% year on year).









China

Three Strategies to Expand Share

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

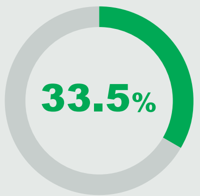
The first is the procurement of inexpensive, good-quality raw materials in the generic products sector to improve a business structure that has been susceptible to the influences of the currency market. These cost reductions will increase our superiority over competitors and expand our market share.

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

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

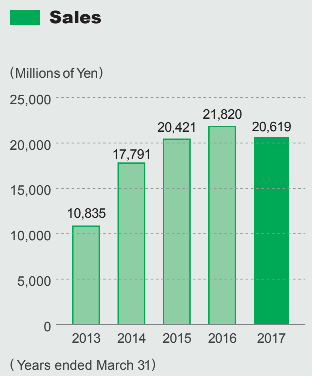
Consolidated Group Subsidiaries

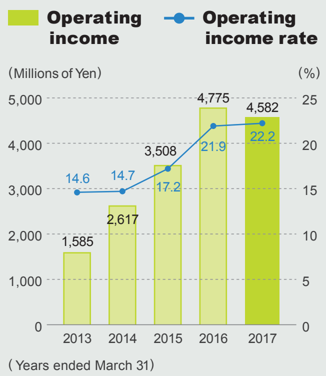
- TAIYO INK (SUZHOU) CO., LTD.
- ONSTATIC INK (SHENZHEN) CO., LTD.
- TAIYO INK INTERNATIONAL (HK) LIMITED
- TAIYO INK TRADING (SHENZHEN) CO., LTD.

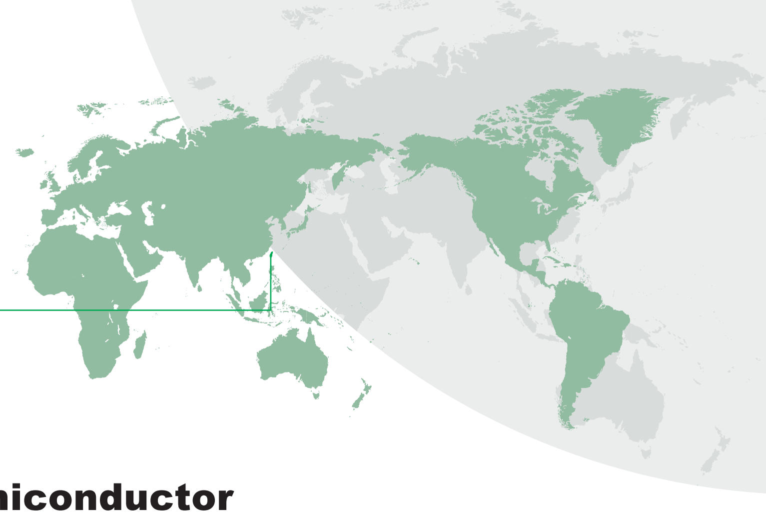


Performance Overview

Rigid board materials saw strong growth in sales, primarily for vehicle installation parts, but the impact from appreciation of the yen resulted in sales of 20,619 million yen (down 5.5% year on year), with segment profit of 4,582 million yen (down 4.0% year on year).







Taiwan

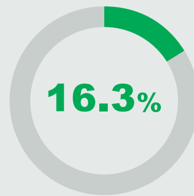
Identifying Trends Among Semiconductor Manufactures and Innovating Productivity

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

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

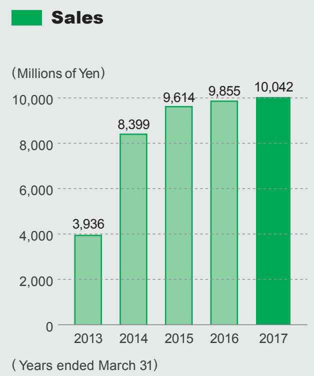
Consolidated Group Subsidiaries

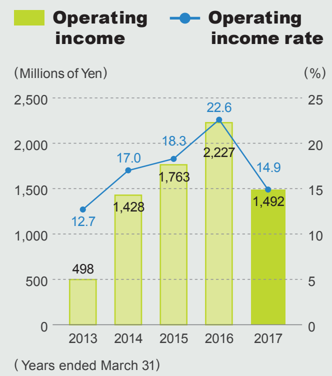
- TAIWAN TAIYO INK CO., LTD.
- ONSTATIC TECHNOLOGY CO., LTD.



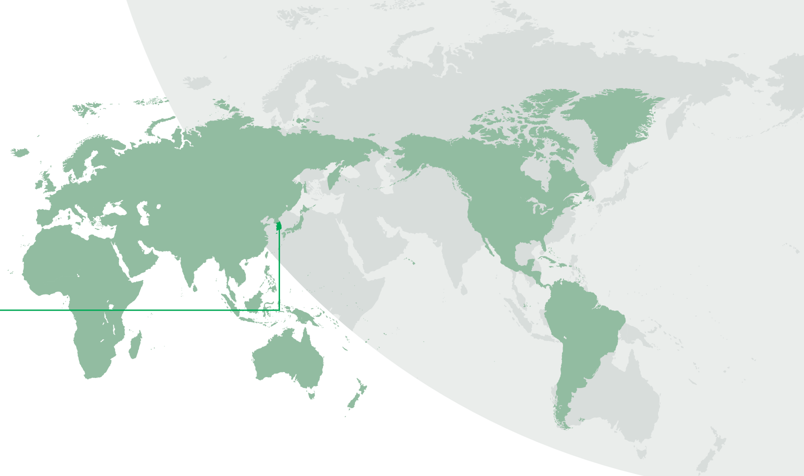
Performance Overview

Rigid board materials saw strong growth in sales, primarily for vehicle installation parts, but the impact from appreciation of the yen resulted in sales of 10,042 million yen (up 1.9% year on year), with segment profit of 1,492 million yen (down 33.0% year on year).





Korea



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

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

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

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

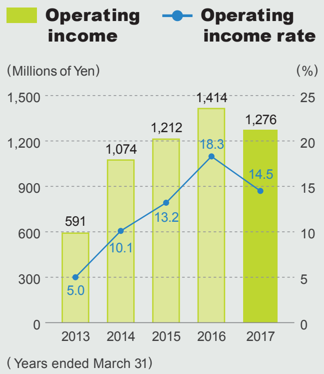
Furthermore, to promote sales growth we conducted a complete reevaluation of production processes at the product facility of Taiyo Ink Mfg. Co., (Korea) Ltd. and created a production line for high-function products expected to become mainstay products in the future.

Consolidated Group Subsidiaries

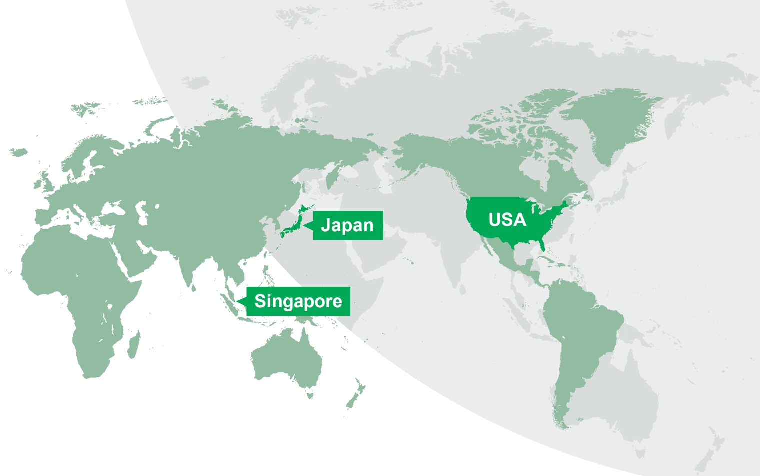
- TAIYO INK MFG. CO., (KOREA) LTD.
- TAIYO INK PRODUCTS CO., LTD.

Performance Overview

Rigid board materials saw strong growth in sales, primarily for vehicle installation parts, and sales of PKG board materials were strong due to demand for high function smartphone-related materials. However, the impact from appreciation of the yen resulted in sales of 8,826 million yen (up 14.0% year on year), with segment profit of 1,276 million yen (down 9.8% year on year).



Other



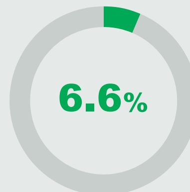
New Marketing Functions in USA and Europe, Evaluating Construction of New Plant in ASEAN

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

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

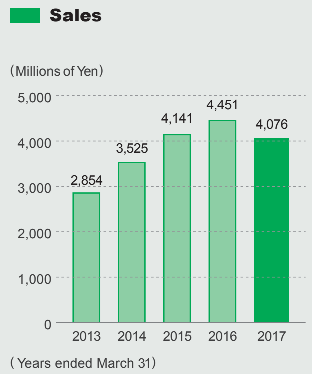
Consolidated Group Subsidiaries

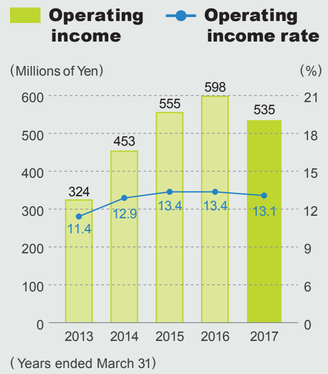
- TAIYO AMERICA, INC.
- TAIYO INK INTERNATIONAL (SINGAPORE) PTE LTD
- TAIYO GREEN ENERGY CO., LTD. (since fiscal 2016)



Performance Overview

Rigid board materials saw strong growth in sales as the market for vehicle installation parts expanded, but the impact from appreciation of the yen resulted in sales of 4,076 million yen (down 8.4% year on year), with segment profit of 535 million yen (down 10.6% year on year).





Supply Chains

Network Covering the Global Market

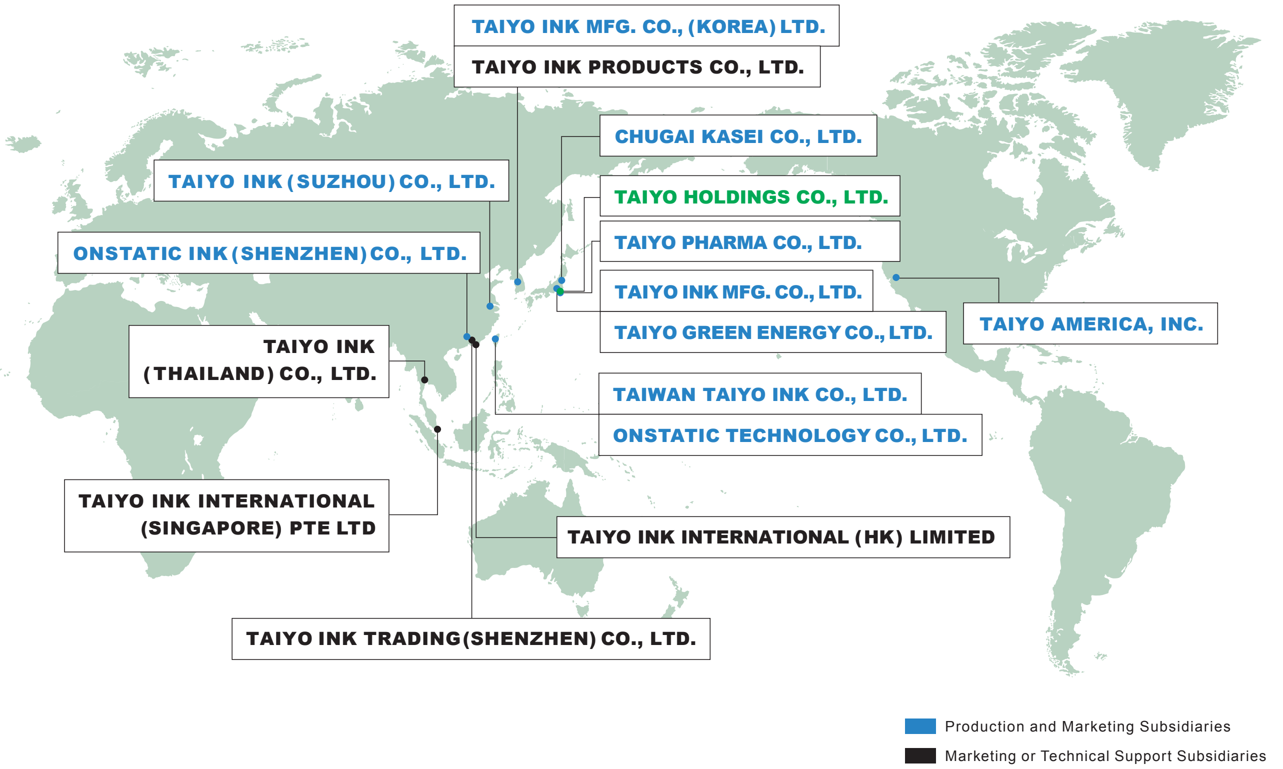
In fiscal 2016, about 93% of the Taiyo Group sales were accounted for by PWB materials. The principal centers for production of PWBs have shifted from the United States and Europe to Japan and then to emerging countries, and, in recent years, production in China has risen rapidly.

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

The quality of the Group’s products and services together with the agility of its global network has enabled the Group to secure the leading share in SR in global markets, and overseas sales have climbed to account for about 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.

Global Network



Quality Management in the Overall Supply Chain

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

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

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

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

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

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

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

CSR

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

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

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

CSR Philosophy

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

Code of Conduct

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

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

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

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

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

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

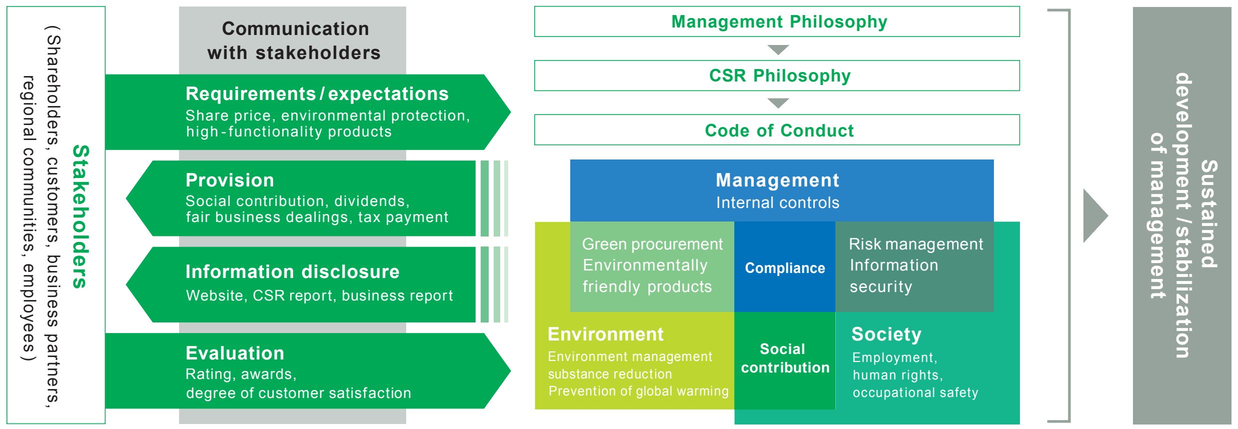
6. Ensuring Quality (Quality Policy)
We will ensure that we always provide safe, quality products that satisfy our customers.

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

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

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

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



Compliance

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

Our internal Compliance Promotion Organization spearheads awareness and educational activities to ensure that employees understand the Taiyo Group's CSR Philosophy and Code of Conduct, and to continuously ensure that the Group's activities are aligned with the spirit of our CSR Philosophy and Code of Conduct. During the fiscal year ended March 2017, we focused on compliance education and our responses to legal and regulatory revisions. At the same time, with the addition of Taiyo Ink Products and Chugai Kasei to our Group, we organized and launched ethical and legal compliance systems within each company.

Relationship with Shareholders

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

Profit Dividends

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

Transitions in shareholder's equity dividend ratio (consolidated)

Fiscal period	2012	2013	2014	2015	2016
Dividends per share (Yen)	90	90	120	110	120.1
Shareholders' equity dividend ratio (%)	6.1	7.8	5.7	6.5	5.6

Relationship with Suppliers

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

Implementation of Supplier Evaluations and On-Site Audits

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

Relationship with Local Communities and Society

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

Social Contribution Goals of the Taiyo Group

Social contribution activities

Blood donation supporters

The low birthrates and population facing Japan has resulted in a decline in people giving blood and an increase in people requiring blood transfusions, resulting in a serious blood shortage. Blood cannot be produce artificially so there is a need to continuously conduct blood drives in order to secure required blood stores. Supporting the blood donation promotional initiative launched by the MHLW, the Taiyo Ink main office encourages employees to participate in blood donation activities. Also, each year employees working at other locations in the Taiyo Group cooperate with visiting blood donation trucks.

Blood donation truck visiting a Taiyo office

Corporate Governance

Construction of Sound Management Structures

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

Basic Thinking on Corporate Governance

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

Corporate Governance Structures

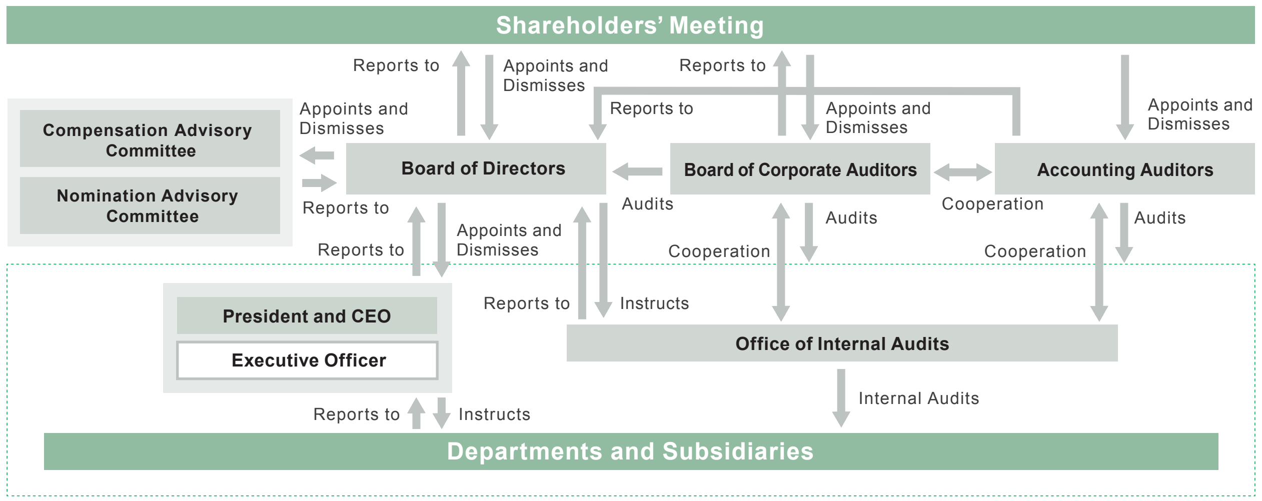
Our corporate governance system is centered on the Board of Directors and the Audit & Supervisory Board, whose members are both approved by resolutions at the Shareholders' Meeting. We have also adopted a system of executive officers to invigorate the Board of Directors and expedite operational execution.

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

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

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

System Outline



Internal Controls

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

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

During the fiscal year ended March 2017, in accordance with the Basic Plan for Internal Controls for the 71st Period, we created an internal control system and organized relevant documents for Taiyo Ink Products which started operations in 2016. System implementation was started according to schedule. Also, we conducted a full review of the internal control system at Taiyo Ink Mfg. (Korea) to improve administrative efficiency and further reduce financial reporting risks.

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.

At the Kitakyushu Plant, we implemented regular disaster drills and safety education. We also established a 6S Committee*, which conducts regular activities related to increasing safety awareness and reducing risks. The 6S Committee holds monthly meetings at which area supervisors gather to visit plants where they identify and implement measures related to improving workflow and addressing risks. This fiscal year, the committee conducted 56 improvement activities and succeeded in eliminating certain risk factors. Through 6S activities, we will aim for even safer work environments and workplaces with no accidents or injuries.

*5S activities + safety (5S = Seiri (organize) / Seiton (tidy) / Seiso (cleaning) / Seiketsu (cleanliness) / Shitsuke (discipline))

Executive Compensation

At the 71st General Shareholders' Meeting held on June 21, 2017, we received approval for a director's compensation system comprising the payment of base salary, performance cash bonus, and, as compensation to executive directors (hereinafter refers to directors as defined in each paragraph of Article 363, Section 1 of the Companies Act), a stock compensation system comprised of restricted stock and performance cash bonus deferral in restricted stock.

This director's compensation system aims to provide incentives to executive directors to strive for the sustainable growth of our Group's corporate value while further promoting value sharing between our executive directors and our shareholders.

Compensation paid to directors other than executive directors and to audit & supervisory board members consists of base salary only.

The calculation method, payment timing, distribution, and other matters concerning the base salary amount to directors as well as the performance cash bonus, restricted stock, and performance cash bonus deferral in restricted stock to executive directors shall be determined by the Board of Directors in accordance with framework approved at the General Shareholders' Meeting. Prior to making said decision, the Compensation Advisory Committee chaired by an outside director and comprised of a majority of outside committee members shall conduct an objective comparison and validation of compensation standards using executive compensation survey data from a third-party institution. The committee shall deliberate on compensation policies and compensation levels, and then issue its recommendation to the Board of Directors, which shall take said recommendation into account when making a final determination.

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

Executive compensation for the year ended March 2017 is shown below.

Executive Category	Total Amount of Compensation (Millions of Yen)	Amounts of Compensation by Type (Millions of Yen)				Number of executives
		Base compensation	Performance-based monetary compensation	Performance-based stock compensation	Retirement Benefits	
Directors (excluding outside directors)	154	72	82	-	-	8
Audit & supervisory board members (excluding outside audit & supervisory board members)	15	15	-	-	-	1
Outside officers	37	37	-	-	-	5

Board of Directors

Eiji Sato
President and CEO

Hitoshi Saito
Director

Masayuki Hizume
Outside Director

Takayuki Morita
Director

Takao Miwa
Director

Keiko Tsuchiya
Outside Director

Eiji Takehara
Director

Masaya Nakafuji
Director

Audit & Supervisory Board Members

Akihito Sakai
Outside Audit & Supervisory Board Member

Haruomi Yoshimoto
Audit & Supervisory Board Member

Kiyoshi Endo
Outside Audit & Supervisory Board Member

(As of June 30, 2017)

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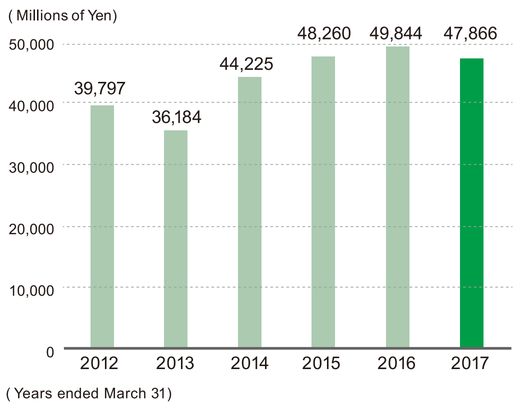
Six-Year Summary

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

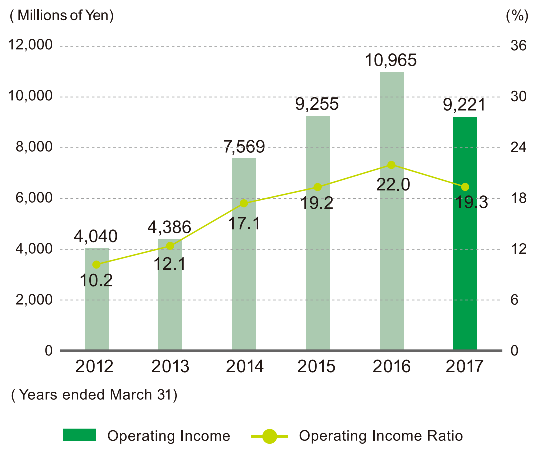
	Millions of Yen					
	2012	2013	2014	2015	2016	**2017**
For the Year :						
Net sales	¥ 39,797	¥ 36,184	¥ 44,225	¥ 48,260	¥ 49,844	**¥ 47,866**
Cost of sales		25,319	28,349	28,865	27,356	**26,220**
Selling, general and administrative expenses	5,934	6,479	8,307	10,140	11,523	**12,425**
Operating income	4,040	4,386	7,569	9,255	10,965	**9,221**
Net income attributable to owners of the parent	2,503	3,368	4,931	6,667	7,796	**6,399**
Depreciation and amortization	1,046	1,004	1,181	1,412	1,891	**2,485**
Net cash provided by operating activities	2,793	6,109	7,020	9,233	10,546	**9,042**
Net cash used in (provided by) investing activities	(1,343)	(2,478)	(3,839)	(2,913)	(6,750)	**(1,064)**
Net cash provided by (used in) financing activities	(2,979)	(2,314)	2,350	(9,920)	(2,741)	**20,343**
At year-end :						
Total assets	40,703	44,023	58,369	61,242	65,465	**92,387**
Property, plant and equipment, net	12,546	12,664	14,376	16,865	19,644	**18,390**
Total liabilities	7,227	7,213	15,713	19,929	20,214	**20,540**
Non-controlling interests	478	605	2,046	2,238	2,136	**783**
Total equity	33,476	36,810	42,656	41,312	45,251	**71,847**
Per share data :	Yen					
Basic net income	¥ 98.38	¥ 132.38	¥ 193.83	¥ 264.05	¥ 337.99	**¥ 266.46**
Cash dividends applicable to the year	90.00	90.00	120.00	90.00	110.00	**120.10**
Net assets	1,297.18	1,423.26	1,596.45	1,703.14	1,865.94	**2,468.99**
Ratios :	%					
Ratio of operating income to net sales	10.2%	12.1%	17.1%	19.2%	22.0%	**19.3%**
Return on equity	7.5	9.7	12.8	16.7	19.0	**11.2**
Equity ratio	81.1	82.2	69.6	63.8	65.9	**76.9**
Common stock :	Thousands of Shares					
Number of shares issued	27,464,000	27,464,000	27,464,000	27,464,000	27,485,600	**28,841,100**

See notes to consolidated financial statements.

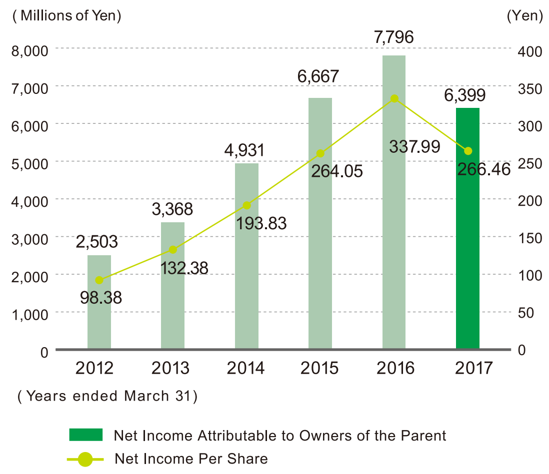
Net Sales



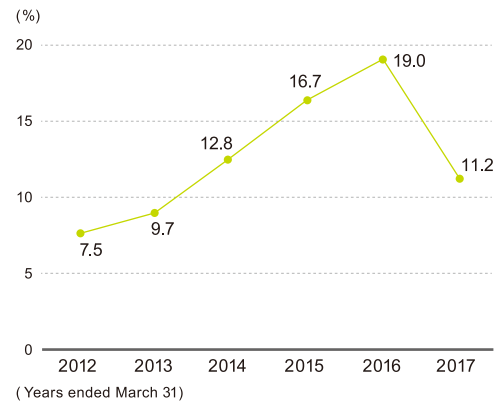
Operating Income and Operating Income Ratio



Net Income Attributable to Owners of the Parent and Net Income Per Share



Return on Equity



Management's Discussion and Analysis

(1) Overview of operating results for fiscal year ended March 31, 2017

During fiscal year ended March 31, 2017, the U.S. continued to experience a gradual economic recovery underpinned by continued strong consumer spending and a recovery in corporate investment activities. The European economy also continued to recover as consumer spending gradually improved. Steady growth in income sustained firm growth of the Chinese economy, despite the need to pay careful attention to future conditions due to the decline in rate of growth in housing investments and strong pressure to reduce excess production capacity. The Japanese economy also experienced a continual gradual rebound in its economy despite delayed improvement in some areas.

In the electronics component industry, a market related to the Taiyo Group, demand for smartphones and vehicle installation parts remained strong.

Such conditions led to net sales of 47,866 million yen (down 4.0% year on year) for the current consolidated fiscal year. This was mainly due to the trend of appreciation in the Japanese yen.

Sales of rigid board materials were flat in terms of unit volume, however, sales declined to 33,216 million yen (down 5.7% year on year), due in part to appreciation of the yen.

PKG board and flexible board materials saw unit volume growth over the previous fiscal year, however, sales barely grew to 10,348 million yen (up 3.4% year on year), due in part to continued appreciation of the yen.

Operating income consequently fell to 9,221 million yen (down 15.9% year on year), ordinary income fell to 9,202 million yen (down 17.3% year on year), and profit attributable to owners of parent fell to 6,398 million yen (down 17.9% year on year).

Sales results by product group category

The following are sales results by product group category for the fiscal year ended March 31, 2017. (Millions of Yen)

Name of product group category	Previous fiscal year results	**Current fiscal year results**	Compared to the previous fiscal year: Change	Change (%)
PWB materials				
Rigid board materials	35,242	**33,216**	(2,026)	(5.7)
PKG board and flexible printed circuit board materials	10,007	**10,348**	340	3.4
Build-up board materials	1,069	**1,136**	67	6.3
Other related products	3,523	**3,165**	(358)	(10.2)
Total	49,843	**47,866**	(1,977)	(4.0)

Notes:

Sales of FPD (Flat Panel Display) materials are reported as Other related products from the current consolidated fiscal year because they comprise a small percentage of all products.

The geographical segmentation of Taiyo Holdings' business is based its manufacturing and sales structure. There are four reportable segments: Japan, China, Taiwan, and Korea.

Results by segment are as follows (Segment sales include inter-segment sales and transactions).

1. Japan

Rigid board materials saw strong growth in sales, primarily for vehicle installation parts, and sales of PKG board materials were strong mainly due to demand for high function smartphone-related materials. However, the impact from appreciation of the yen resulted in sales of 17,917 million yen (up 5.4% year on year), with segment profit of 2,027 million yen (down 10.1% year on year).

2. China

Rigid board materials saw strong growth in sales, primarily for vehicle installation parts, but the impact from appreciation of the yen resulted in sales of 20,619 million yen (down 5.5% year on year), with segment profit of 4,582 million yen (down 4.0% year on year).

3. Taiwan

Rigid board materials saw strong growth in sales, primarily for vehicle installation parts, but the impact from appreciation of the yen resulted in sales of 10,042 million yen (up 1.9% year on year), with segment profit of 1,492 million yen (down 33.0% year on year).

4. Korea

Rigid board materials saw strong growth in sales, primarily for vehicle installation parts, and sales of PKG board materials were strong due to demand for high function smartphone-related materials. However, the impact from appreciation of the yen resulted in sales of 8,826 million yen (up 14.0% year on year), with segment profit of 1,276 million yen (down 9.8% year on year).

5. Other

Rigid board materials saw strong growth in sales as the market for vehicle installation parts expanded, but the impact from appreciation of the yen resulted in sales of 4,076 million yen (down 8.4% year on year), with segment profit of 535 million yen (down 10.6% year on year).

(2) Overview of financial position as of March 31, 2017

The following shows the status of assets, liabilities and net assets as of March 31, 2017.

	As of March 31, 2016 (Millions of yen)	**As of March 31, 2017 (Millions of yen)**	Change (Millions of yen)	Main factors (Comparison with the end of the previous fiscal year)
Current assets	39,340	**67,484**	28,144	Increases of 27,391 million yen in cash and deposits and 510 million yen in notes and accounts receivable – trade.
Non-current assets	26,125	**24,903**	(1,222)	Impairment losses of 1,019 million yen on property, plant and equipment.
Total assets	65,465	**92,387**	26,922	
Total liabilities	20,214	**20,540**	326	An increase of 405 million yen in notes and accounts payable – trade
Total net assets	45,251	**71,847**	26,596	Positive factors: 6,398 million yen in net income, 13,963 million yen in treasury shares, 2,982 million yen in capital stock, 7,519 million yen in capital surplus Negative factors: 2,544 million yen in payment of dividends
Total liabilities and net assets	65,465	**92,387**	26,922	

(3) Consolidated statements of cash flows

The following is the status of cash flows for the fiscal year ended March 31, 2017.

	Fiscal year ended March 31, 2017 (Millions of Yen)	Main factors
Net cash provided by (used in) operating activities	**9,042**	Cash inflows included 8,756 million yen in profit before income taxes and 2,485 million yen in depreciation. Payment of income taxes resulted in a cash outflow of 2,779 million yen.
Net cash provided by (used in) investing activities	**(1,064)**	Cash outflows included 1,584 million yen for acquisition of property, plant and equipment and 2,247 million yen from the deposit of cash in time deposits. Redemption of time deposits resulted in a cash inflow of 3,082 million yen.
Net cash provided by (used in) financing activities	**20,343**	Cash outflows included 2,544 million yen in payment of dividends and 1,667 million yen in acquisition of subsidiary shares. Cash inflows included 18,932 million yen from the sale of treasury shares and 5,965 million yen from the issuance of shares.
Net increase (decrease) in cash and cash equivalents	**28,232**	
Cash and cash equivalents at end of period	**46,661**	

(4) Future forecasts

In regard to the business environment for the Taiyo Group during fiscal year ending March 31, 2018, we anticipate demand to remain strong for vehicle installation parts and high function smartphone-related materials in the electronic components industry, which is a market related to the group, but expect low demand for general home electric appliances. In China, we also anticipate a steep rise in raw material costs due to stricter environmental regulations and an increase in personnel expenses.

The Taiyo Group also has a high ratio of overseas sales to net sales. We therefore expect appreciation of the yen to have an impact on earnings results for the next period.

	Net sales (Millions of Yen)	Operating income (Millions of Yen)	Ordinary income (Millions of Yen)	Profit attributable to owners of parent (Millions of Yen)	Basic earnings per share (Yen)
For the fiscal year ending March 31, 2018 (Forecast)	46,400	8,100	8,000	5,600	194.56
For the fiscal year ended March 31, 2017 (Actual results)	47,866	9,221	9,202	6,398	266.46
Rate of change (%)	(3.1)	(12.2)	(13.1)	(12.5)	(27.0)

The forecasts for fiscal year ending March 31, 2018 were calculated based on the assumption that the average exchange rate for the period will be JPY100/USD.

For purposes of reference, the earnings forecasts for fiscal year ending March 31, 2018 would be as follows if calculated based on JPY109/USD, the average exchange rate during fiscal year ended March 31, 2017.

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Six months ending September 30, 2017	24,900	6.2	4,900	7.5	4,800	4.3	3,400	(6.2)	118.13
Fiscal year ending March 31, 2018	49,700	3.8	9,700	5.2	9,600	4.3	6,700	4.7	232.78

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

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

In accordance with this policy, the Company paid an interim dividend of 55 yen per share, and a year-end dividend of 65.10 yen per share. This resulted in an annual dividend of 120.10 yen per share for the current fiscal year.

Concerning dividends of the next fiscal year, we plan to pay an interim dividend of 65.10 yen and a year-end dividend of 65.10 yen, and this will result in an annual dividend of 130.20 yen per share and a rate of return to shareholders of 66.9%.

(6) Risk factors

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

a. Technological innovation risks

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

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

b. Risks associated with patents

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

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

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

d. Risk related to procurement of raw materials

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

e. Country-specific risks related to business deployment overseas

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

f. Risk of exchange rate fluctuations

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

g. Risk of price fluctuations in key products

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

h. Risks related to fluctuations in product demand

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

i. Credit risks related to receivables

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

j. Risks related to the soaring cost of raw materials

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

Consolidated Balance Sheet

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
March 31, 2017

ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	**¥ 46,661**	¥ 18,386	**$ 415,873**
Time deposits (Note 14)	**2,139**	3,023	**19,064**
Notes and accounts receivable—trade (Notes 5 and 14)	**13,347**	12,836	**118,957**
Inventories (Note 6)	**4,418**	4,017	**39,376**
Consumption taxes receivable	**321**	248	**2,861**
Deferred tax assets (Note 12)	**82**	72	**731**
Other current assets	**615**	1,098	**5,481**
Allowance for doubtful accounts (Note 14)	**(99)**	(340)	**(882)**
Total current assets	**67,484**	39,340	**601,461**
PROPERTY, PLANT, AND EQUIPMENT (Note 7):			
Land	**3,921**	4,617	**34,947**
Buildings and structures—net	**10,359**	10,524	**92,326**
Machinery, equipment, and vehicles—net	**2,850**	2,765	**25,401**
Tools, furniture, and fixtures—net	**1,155**	1,154	**10,294**
Construction in progress (Note 8)	**101**	580	**900**
Other	**4**	4	**36**
Total property, plant, and equipment	**18,390**	19,644	**163,904**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	**1,058**	657	**9,430**
Investments in unconsolidated subsidiaries (Note 14)	**19**	39	**169**
Goodwill	**4,104**	4,433	**36,578**
Software	**305**	340	**2,718**
Net defined benefit asset (Note 10)	**333**	356	**2,968**
Deferred tax assets (Note 12)	**149**	97	**1,328**
Other assets	**700**	560	**6,239**
Allowance for doubtful accounts	**(155)**	(1)	**(1,381)**
Total investments and other assets	**6,513**	6,481	**58,049**
TOTAL	**¥ 92,387**	¥ 65,465	**$ 823,414**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term bank loans (Notes 9 and 14)	**¥ 1,275**	¥ 933	**$ 11,364**
Current portion of long-term debt (Notes 9 and 14)	**500**	440	**4,456**
Notes and accounts payable—trade (Note 14)	**6,171**	5,765	**55,000**
Accounts payable—other (Note 14)	**1,210**	1,697	**10,784**
Income taxes payable (Note 14)	**885**	776	**7,888**
Accrued expenses	**881**	710	**7,852**
Deferred tax liabilities (Note 12)	**253**	412	**2,255**
Other current liabilities	**433**	166	**3,859**
Total current liabilities	**11,608**	10,899	**103,458**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 9 and 14)	**7,170**	7,413	**63,904**
Liability for retirement benefits (Note 10)	**223**	274	**1,987**
Asset retirement obligations	**352**	331	**3,137**
Accrued liability for stock benefits	**39**	27	**348**
Deferred tax liabilities (Note 12)	**1,135**	1,259	**10,116**
Other long-term liabilities	**13**	11	**116**
Total long-term liabilities	**8,932**	9,315	**79,608**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 16)			
EQUITY (Notes 11 and 22):			
Shareholders' equity:			
Common stock—authorized, 50,200,000 shares; issued, 28,841,100 shares in 2017 and 27,485,600 shares in 2016	**9,171**	6,188	**81,738**
Capital surplus	**14,824**	7,305	**132,121**
Retained earnings	**46,308**	42,490	**412,727**
Treasury stock—at cost, 58,515 shares in 2017 and 4,379,037 shares in 2016	**(178)**	(14,142)	**(1,586)**
Total shareholders' equity	**70,125**	41,841	**625,000**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**196**	96	**1,747**
Foreign currency translation adjustments	**742**	1,190	**6,613**
Remeasurements of defined benefit plans (Note 10)	**1**	(12)	**9**
Total accumulated other comprehensive income	**939**	1,274	**8,369**
Noncontrolling interests	**783**	2,136	**6,979**
Total equity	**71,847**	45,251	**640,348**
TOTAL	**¥ 92,387**	¥ 65,465	**$ 823,414**

Consolidated Statement of Income

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	**2017**
NET SALES	**¥ 47,866**	¥ 49,844	**$ 426,613**
COST OF SALES	**26,220**	27,356	**233,690**
Gross profit	**21,646**	22,488	**192,923**
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 13)	**12,425**	11,523	**110,740**
Operating income	**9,221**	10,965	**82,183**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**98**	112	**873**
Interest expense	**(86)**	(69)	**(766)**
Foreign exchange gain—net	**14**	24	**125**
Subsidy income	**20**	23	**178**
Loss on impairment of long-lived assets (Note 8)	**(1,019)**	(32)	**(9,082)**
Commission for purchase of treasury shares		(1)	
Other—net	**509**	115	**4,537**
Other income (expenses)—net	**(464)**	172	**(4,135)**
INCOME BEFORE INCOME TAXES	**8,757**	11,137	**78,048**
INCOME TAXES (Note 12):			
Current	**2,589**	2,855	**23,075**
Deferred	**(389)**	154	**(3,467)**
Total income taxes	**2,200**	3,009	**19,608**
NET INCOME	**6,557**	8,128	**58,440**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**158**	332	**1,408**
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	**¥ 6,399**	¥ 7,796	**$ 57,032**
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.t and 19):			
Basic net income	**¥ 266.46**	¥ 337.99	**$ 2.37**
Cash dividends applicable to the year	**120.10**	110.00	**1.07**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	**2017**
NET INCOME	**¥ 6,557**	¥ 8,128	**$ 58,440**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):			
Valuation difference on available-for-sale securities	**100**	(14)	**891**
Foreign currency translation adjustments	**(519)**	(2,256)	**(4,626)**
Remeasurements of defined benefit plans	**13**	34	**116**
Total other comprehensive loss	**(406)**	(2,236)	**(3,619)**
COMPREHENSIVE INCOME	**¥ 6,151**	¥ 5,892	**$ 54,821**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥ 6,063**	¥ 5,674	**$ 54,037**
Noncontrolling interests	**88**	218	**784**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

TAIYO HOLDINGS CO., LTD.
and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen											
	Shareholders' Equity						Accumulated Other Comprehensive Income					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock—At Cost	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2015	22,942,010	¥ 6,135	¥ 7,144	¥ 36,997	¥ (14,599)	¥ 35,677	¥ 111	¥ 3,332	¥ (46)	¥ 3,397	¥ 2,238	¥ 41,312
Net income attributable to owners of the parent				7,796		7,796						7,796
Dividends from surplus				(2,303)		(2,303)						(2,303)
Issuance of shares	21,600	53	53			106						106
Purchase of treasury stock	(217)				(1)	(1)						(1)
Disposal of treasury stock	143,170		108		458	566						566
Changes of items during the year							(15)	(2,142)	34	(2,123)	(102)	(2,225)
BALANCE, MARCH 31, 2016	23,106,563	6,188	7,305	42,490	(14,142)	41,841	96	1,190	(12)	1,274	2,136	45,251
Net income attributable to owners of the parent				6,399		6,399						6,399
Dividends from surplus				(2,545)		(2,545)						(2,545)
Changes in scope of consolidation				(36)		(36)						(36)
Decrease in equity interest from acquisition of consolidated subsidiary shares			(610)			(610)						(610)
Issuance of shares	1,355,500	2,983	2,983			5,966						5,966
Purchase of treasury stock	(88)											
Disposal of treasury stock	4,320,610		5,146		13,964	19,110						19,110
Changes of items during the year							100	(448)	13	(335)	(1,353)	(1,688)
BALANCE, MARCH 31, 2017	**28,782,585**	**¥ 9,171**	**¥ 14,824**	**¥ 46,308**	**¥ (178)**	**¥ 70,125**	**¥ 196**	**¥ 742**	**¥ 1**	**¥ 939**	**¥ 783**	**¥ 71,847**

TAIYO HOLDINGS CO., LTD.
and Consolidated Subsidiaries
Year Ended March 31, 2017

	Thousands of U.S. Dollars (Note 1)										
	Shareholders' Equity					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock—At Cost	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2016	$ 55,152	$ 65,107	$ 378,699	$ (126,042)	$ 372,916	$ 856	$ 10,606	$ (107)	$ 11,355	$ 19,036	$ 403,307
Net income attributable to owners of the parent			57,032		57,032						57,032
Dividends from surplus			(22,683)		(22,683)						(22,683)
Changes in scope of consolidation			(321)		(321)						(321)
Decrease in equity interest from acquisition of consolidated subsidiary shares		(5,437)			(5,437)						(5,437)
Issuance of shares	26,586	26,586			53,172						53,172
Purchase of treasury stock											
Disposal of treasury stock		45,865		124,456	170,321						170,321
Changes of items during the year						891	(3,993)	116	(2,986)	(12,057)	(15,043)
BALANCE, MARCH 31, 2017	**$ 81,738**	**$ 132,121**	**$ 412,727**	**$ (1,586)**	**$ 625,000**	**$ 1,747**	**$ 6,613**	**$ 9**	**$ 8,369**	**$ 6,979**	**$ 640,348**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 8,757**	¥ 11,137	**$ 78,048**
Adjustments for:			
Income taxes—paid	**(2,779)**	(3,294)	**(24,768)**
Depreciation and amortization	**2,485**	1,891	**22,148**
Loss on impairment of long-lived assets	**1,019**	32	**9,082**
Increase in notes and accounts receivable—trade	**(925)**	(592)	**(8,244)**
(Increase) decrease in inventories	**(421)**	464	**(3,752)**
Increase in notes and accounts payable—trade	**567**	349	**5,053**
Increase (decrease) in accrued expenses	**36**	(25)	**321**
Other—net	**303**	584	**2,700**
Total adjustments	**285**	(591)	**2,540**
Net cash provided by operating activities	**9,042**	10,546	**80,588**
INVESTING ACTIVITIES:			
Payments into time deposits	**(2,248)**	(4,372)	**(20,036)**
Proceeds from withdrawal of time deposits	**3,082**	2,708	**27,469**
Purchases of property, plant, and equipment	**(1,585)**	(4,217)	**(14,127)**
Purchase of software	**(77)**	(160)	**(686)**
Purchase of investment securities	**(272)**	(115)	**(2,424)**
Other—net	**36**	(594)	**321**
Net cash used in investing activities	**(1,064)**	(6,750)	**(9,483)**
FINANCING ACTIVITIES:			
Increase in short-term loans	**308**	261	**2,745**
Proceeds from long-term debt	**300**	500	**2,674**
Repayments of long-term debt	**(467)**	(984)	**(4,162)**
Proceeds from redemption of corporate bond	**(100)**		**(891)**
Purchase of treasury stock		(1)	
Proceeds from disposal of treasury stock	**18,932**	1	**168,734**
Cash dividends paid	**(2,545)**	(2,303)	**(22,683)**
Cash dividends paid to noncontrolling shareholders	**(383)**	(321)	**(3,414)**
Proceeds from issuance of shares	**5,966**	106	**53,173**
Acquisition of subsidiary shares not accompanied by a change in the scope of consolidation	**(1,667)**		**(14,857)**
Other—net	**(1)**		**(9)**
Net cash provided by (used in) financing activities	**20,343**	(2,741)	**181,310**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(89)**	(1,017)	**(793)**
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	**¥ 28,232**	¥ 38	**$ 251,622**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	**¥ 28,232**	¥ 38	**$ 251,622**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**18,386**	18,183	**163,868**
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO NEW CONSOLIDATION	**43**		**383**
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO SHARE EXCHANGE (Note 20)		165	
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 46,661**	¥ 18,386	**$ 415,873**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TAIYO HOLDINGS CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2017

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TAIYO HOLDINGS CO., LTD. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥112.2 to $1, the approximate rate of exchange at March 31, 2017. 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, 2017, include the accounts of the Company and its 16 significant (15 as of March 31, 2016) subsidiaries (collectively, the "Group").

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

(Names of Consolidated Subsidiaries)

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

TAIYO GREEN ENERGY CO., LTD. is included within the scope of consolidation in the year ended March 31, 2017, because of the growing importance for management strategy.

As OTC owns four subsidiaries, the total number of consolidated subsidiaries is 16.

Investments in the remaining one (two as of March 31, 2016) unconsolidated subsidiary is stated at cost. If the equity method of accounting had been applied to the investments in this company, 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 five or 20 years.

There are no investments in associated companies accounted for using the equity method in 2017 and 2016.

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

The fiscal years of two (two as of March 31, 2016) consolidated subsidiaries end on December 31. To prepare the Company's consolidated financial statements, TAIYO INK (SUZHOU) CO., LTD. and TAIYO INK TRADING (SHENZHEN) CO., LTD. prepared a set of accounts with a closing date of March 31 and these were used for consolidation purposes. The Company used the financial statements of OTC and four companies whose fiscal year ends on December 31 for consolidation since the difference of fiscal year ends between the Company and these companies are no more than three months. The necessary adjustments for significant transactions, if any, during the intervening period are made on consolidation.

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

Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," 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. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development ("R&D"); and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. Business Combinations

Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. Cash Equivalents

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

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

e. Inventories

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

f. Marketable and Investment Securities

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

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

g. Allowance for Doubtful Accounts

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

h. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost.

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

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

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

i. Long-Lived Assets

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

j. Software

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

k. R&D Costs

R&D costs are charged to income as incurred.

l. Accrued Bonuses

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

m. Accrued Liability for Stock Benefits

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

n. Retirement and Pension Plans

The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other consolidated subsidiaries have unfunded retirement benefit plans. The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula. 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 are recognized in profit or loss over five years no longer than the expected average remaining service period of the employees.

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

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

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.

o. Asset Retirement Obligations

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

p. Income Taxes

The provision for income taxes is computed based on 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 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.

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverablity of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

q. Foreign Currency Transactions

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

r. Foreign Currency Financial Statements

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

s. Derivative Financial Instruments

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

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

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

t. Per Share Information

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

Diluted EPS is not disclosed because it is antidilutive.

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

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

u. Employee Stock Ownership Plan

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

(1) Outline of transactions

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

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

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

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

The Company's shares held by the trust were accounted for as treasury stock in net assets at book value (that do not include transaction costs paid to acquire the shares) in the trust. Under the trust, the book value and the number of shares of treasury stocks as of March 31, 2017 and 2016, were ¥178 million and 58,480 shares, and ¥226 million and 74,390 shares, respectively.

v. New Accounting Pronouncements

・"Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statement" (ASBJ Practical Issues Task Force No. 18, issued on March 29, 2017)

・"Current Treatment of Accounting Procedures for Equity-Method Affiliates" (ASBJ Practical Issues Task Force No. 24, issued on March 29, 2017)

(1) Overview

It is the amendment on the inclusion of the domestic subsidiaries or the domestic affiliates, disclosed in the securities report, based on the Financial Instruments and Exchange Act, within the scope of the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statement" by preparing the consolidated financial statements in conformity with the designated international accounting standards or the modified international standards.

(2) Scheduled date of application

These accounting standards are effective from the year beginning on April 1, 2018.

(3) Effect of the adoption of accounting standards

The impact of adopting these accounting standards and relevant regulations on consolidated financial statements is currently under assessment.

w. Changes in Presentation Methods

Consolidated Statement of Cash Flows

During the current year, the Company classified the "(increase) decrease in other current assets" within the "operating activities" section of the consolidated statement of cash flows as "other-net" in the "operating activities" section of the consolidated statement of cash flows as the amounts were immaterial.

Accordingly, the Company reclassified ¥142 million presented as "(increase) decrease in other current assets" within the "operating activities" in the consolidated statement of cash flows to "other-net" in the "operating activities" section of the consolidated statement of cash flows for the previous fiscal year ended March 31, 2016.

3. ACCOUNTING CHANGE

Change in Depreciation Method

Pursuant to an amendment to the Corporate Tax Act, the Company adopted Accounting Standards Board of Japan Practical Issues Task Force No. 32 “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The effect of this change on operating income and income before income taxes for the year ended March 31, 2017 is immaterial.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Noncurrent—			
Marketable equity securities	**¥ 597**	¥ 457	**$ 5,321**
Total	**¥ 597**	¥ 457	**$ 5,321**

The costs and aggregate fair values of marketable and investment securities as of March 31, 2017 and 2016, were as follows:

	Millions of Yen			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale—				
Equity securities	**¥ 337**	**¥ 271**	**¥ (11)**	**¥ 597**
Total	**¥ 337**	**¥ 271**	**¥ (11)**	**¥597**
March 31, 2016				
Securities classified as available for sale—				
Equity securities	¥ 320	¥ 162	¥ 25	¥ 457
Total	¥ 320	¥ 162	¥ 25	¥ 457

	Thousands of U.S. Dollars			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale—				
Equity securities	**$ 3,004**	**$ 2,415**	**$ (98)**	**$ 5,321**
Total	**$ 3,004**	**$ 2,415**	**$ (98)**	**$ 5,321**

Available-for-sale securities whose fair values were not readily determinable as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Available-for-sale—equity securities	**¥ 3**	¥ 12	**$ 27**
Available-for-sale—investments in partnership	**459**	187	**4,091**

The information for available for sale securities, which were sold during the year ended March 31, 2017, was omitted because it would not be material. There were no available-for-sale securities that were sold during the year ended March 31, 2016.

5. NOTES MATURED ON MARCH 31, 2017 AND 2016

Notes that were to mature at the consolidated balance sheet date were accounted for at the date of actual settlement. The March 31, 2016 and 2017 year ends of certain subsidiaries coincided with a bank holiday, and the following notes matured on March 31, 2017 and 2016, were included in the consolidated balance sheets as of March 31, 2017 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Notes receivable—trade	**¥ 4**	¥ 1	**$ 36**

6. INVENTORIES

Inventories as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Merchandise and finished products	**¥ 2,183**	¥ 2,013	**$ 19,456**
Work in process	**437**	410	**3,895**
Raw materials and supplies	**1,798**	1,594	**16,025**
Total	**¥ 4,418**	¥ 4,017	**$ 39,376**

7. PROPERTY, PLANT, AND EQUIPMENT

Accumulated depreciation at March 31, 2017 and 2016, was ¥27,569 million ($245,713 thousand) and ¥25,637 million, respectively.

8. LONG LIVED ASSETS

The Group reviewed its long-lived assets for impairment for the years ended March 31, 2017 and 2016.
The Group recognized impairment losses for the year ended March 31, 2017, as follows:

Location	Usage	Classification	Millions of Yen	Thousands of U.S. Dollars
Head Office (Nerima-ku, Tokyo)	Administrative	Land and buildings	**¥ 1,019**	**$ 9,082**

In principle, business use assets are grouped based on the department of the Group, and idle assets are grouped based on each asset.

The Company tackling relocation and consolidation of its management function as part of the base restructuring. Land and building of Head Office are written down to recoverable amounts because they are expected to become the idle assets.

The recoverable amount is net sales amount, calculated by a reasonable method (real estate appraisal value).

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

Location	Usage	Classification	Millions of Yen
TAIWAN TAIYO INK CO., LTD.	Business use	Construction in progress	¥ 32

Business use assets are principally grouped by the department of the Group.

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

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

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

The weighted-average interest rates applicable to the short-term borrowings at March 31, 2017 and 2016, were 0.02% and 0.68%, respectively.

Long-term debt as of March 31, 2017, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Current portion of long-term debt, with weighted-average interest of 0.60% as of March 31, 2017	**¥ 500**	**$ 4,456**
Long-term debt, due 2021 with weighted-average interest of 1.10% as of March 31, 2017	**7,170**	**63,904**
Total	**¥ 7,670**	**$ 68,360**

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

	Millions of Yen
Current portion of long-term debt, with weighted-average interest of 0.65% as of March 31, 2016	¥ 440
Long-term debt, due 2021 with weighted-average interest of 0.73% as of March 31, 2016	7,413
Total	¥ 7,853

Annual maturities of long-term debt for the next five years and thereafter as of March 31, 2017, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 500	$ 4,456
2018	4,820	42,959
2019	2,200	19,608
2020	117	1,043
2021	33	294
2022 and thereafter		
Total	**¥ 7,670**	**$ 68,360**

10. RETIREMENT AND PENSION PLANS

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

The liability for retirement benefits at March 31, 2017 and 2016, for directors and corporate auditors is ¥95 million ($847 thousand) and ¥157 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

Defined Benefit Plans

The changes in the projected benefit obligations for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at beginning of year (as restated)	**¥ 1,946**	¥ 1,856	**$ 17,344**
Service cost	**159**	152	**1,417**
Interest cost	**14**	14	**125**
Actuarial losses	**30**	20	**268**
Benefits paid	**(107)**	(81)	**(954)**
Foreign exchange difference	**10**	(15)	**89**
Balance at end of year	**¥ 2,052**	¥ 1,946	**$ 18,289**

The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 2,278**	¥ 2,195	**$ 20,303**
Expected return on plan assets	**23**	22	**205**
Actuarial losses	**15**	19	**134**
Employer contributions	**138**	136	**1,230**
Benefits paid	**(107)**	(81)	**(954)**
Foreign exchange difference	**8**	(13)	**71**
Balance at end of year	**¥ 2,355**	¥ 2,278	**$ 20,989**

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, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Funded projected benefit obligations	**¥ 2,052**	¥ 1,945	**$ 18,289**
Plan assets	**(2,355)**	(2,278)	**(20,990)**
Net asset for defined benefit obligations	**¥ (303)**	¥ (333)	**$ (2,701)**
Liability for retirement benefits	**¥ 29**	¥ 23	**$ 258**
Asset for retirement benefits	**(332)**	(356)	**(2,959)**
Net asset for defined benefit obligations	**¥ (303)**	¥ (333)	**$ (2,701)**

The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Service cost	**¥ 160**	¥ 152	**$ 1,426**
Interest cost	**14**	14	**125**
Expected return on plan assets	**(23)**	(22)	**(205)**
Recognized actuarial gains (losses)	**8**	(12)	**71**
Amortization of prior service cost	**10**	10	**89**
Net periodic benefit costs	**¥ 169**	¥ 142	**$ 1,506**

Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans before tax for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Actuarial losses	**¥ 7**	¥ 34	**$ 62**
Prior service cost	**11**	10	**98**
Total	**¥ 18**	¥ 44	**$ 160**

Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined benefit plans before tax as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Unrecognized actuarial gains	**¥ 22**	¥ 14	**$ 196**
Unrecognized prior service cost	**(21)**	(30)	**(187)**
Total	**¥ 1**	¥ (16)	**$ 9**

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
General account	**100%**	100%
Total	**100%**	100%

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

Assumptions used for the years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	**0.645 %**	0.645 %
Expected long-term rate of return on plan assets	**1.0**	1.0
Projected rate of salary increases	**14.12**	14.12

Defined Contribution Plans That Adopted the Simplified Method

The changes in net defined benefit liability for the plans that adopted the simplified method for the year ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 93**		**$ 829**
Net periodic benefit costs	**5**	¥ 2	**45**
Benefits paid		(10)	
Decrease resulting from transfer of benefit obligation relating to employees' pension fund		(34)	
Increase resulting from new consolidation		135	
Balance at end of year	**¥ 98**	¥ 93	**$ 874**

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, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Nonfunded projected benefit obligations	**¥ 98**	¥ 93	**$ 873**
Net liability for defined obligations	**98**	93	**873**
Net defined benefit liability	**98**	93	**873**
Net liability for defined obligations	**98**	93	**873**

Net periodic benefit costs calculated using the simplified method for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Net periodic benefit costs calculated using the simplified method	**¥ 5**	¥ 2	**$ 45**

Defined Contribution Plans

The required contribution amount to the defined contribution plans by the Company and its certain consolidated subsidiaries at March 31, 2017 and 2016, is ¥166 million ($1,480 thousand) and ¥106 million, respectively.

11. EQUITY

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

a. Dividends

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

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

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

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

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

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

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

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

With the issuance of Second Series Class A shares by the third-party allocation, common stock and capital surplus as of March 31, 2017, rose ¥77 million ($685 thousand).

With the issuance of shares of common stock by the third-party allocation, common stock and capital surplus as of March 31, 2017, rose ¥2,906 million ($25,901 thousand).

With the additional purchase of OTC's shares, capital surplus as of March 31, 2017, decreased ¥610 million ($5,437 thousand).

c. Treasury Stock and Treasury Stock Acquisition Rights

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

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

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

With the disposal of the treasury stocks by the third-party allocation to DIC Corporation on February 10, 2017, the grant and sale to employees by the ESOP trust, and the sale of odd-lot shares, treasury stocks as of March 31, 2017, decreased ¥13,964 million ($124,456 thousand).

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 31% and 33% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Deferred tax assets:			
Retirement benefits	**¥ 38**	¥ 43	**$ 339**
Unrealized profit	**177**	67	**1,578**
Accrued bonuses	**112**	100	**998**
Accrued business taxes	**57**	19	**508**
Tax loss carryforwards	**19**	11	**169**
Excess of depreciation and amortization	**96**	24	**856**
Assets retirement obligation	**110**	103	**980**
Impairment loss	**330**	72	**2,941**
Other	**177**	185	**1,578**
Total deferred tax assets	**1,116**	624	**9,947**
Less valuation allowance	**(514)**	(217)	**(4,581)**
Total deferred tax assets, net of valuation allowance	**602**	407	**5,366**
Deferred tax liabilities:			
Undistributed earnings of associated companies	**(1,395)**	(1,561)	**(12,433)**
Valuation difference on available-for-sale securities	**(104)**	(59)	**(927)**
Net defined benefit assets	**(101)**	(114)	**(900)**
Other	**(159)**	(175)	**(1,418)**
Total deferred tax liabilities	**(1,759)**	(1,909)	**(15,678)**
Net deferred tax liabilities	**¥ (1,157)**	¥ (1,502)	**$ (10,312)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2017, with the corresponding figures for 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	**30.75 %**	32.95 %
Tax rates difference relating to overseas subsidiaries	**(11.65)**	(12.88)
Elimination of dividend income	**1.00**	0.94
Undistributed earnings of associated companies	**(0.10)**	0.63
Nondeductible withholding income tax of dividends	**5.50**	5.97
Tax exemption for experiments and research expenses and other	**(3.76)**	(3.26)
Valuation allowance	**3.79**	0.31
Other	**(0.41)**	2.36
Actual effective tax rate	**25.12 %**	27.02 %

The "Act on the Partial Revision of the Act on the Partial Revision of the Consumption Tax Act for the Drastic Reform of the Tax System to Ensure Secure Financial Resources for Social Security" (Act No. 85, 2016) and the "Act for the Partial Revision of the Act for the Partial Revision of the Local Government Tax Act for the Drastic Reform of the Tax System to Secure Financial Resources for Social Security" (Act No. 86, 2016) were established on November 18, 2016 in the Diet and the timing to raise the consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019.

Along with these enactments, the timing of the abolition of the local corporation special tax and the restoration of the corporate enterprise tax that accompanies it, the revision of the tax rate of the local corporation tax, and the revision of the tax rate of corporate inhabitant tax will also be postponed from the consolidated fiscal year that starts on April 1, 2017 to the consolidated fiscal year that starts on October 1, 2019. There is no change in the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities, but the tax rate will be reclassified between national tax and local tax.

The effects of these changes are immaterial.

13. R&D COSTS

R&D costs charged to income for the years ended March 31, 2017 and 2016, were ¥3,236 million ($28,481 thousand) and ¥2,442 million, respectively.

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Summary of Financial Instruments Status

a. Group policy for financial instruments

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

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

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

b. Nature and extent of risks arising from financial instruments

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

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

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

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

Please see Note 15 for more details about derivatives.

c. Risk management system for risks associated with financial instruments

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

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

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

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

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

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

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

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

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

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

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

d. Fair value of financial instruments and related matters

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

(2) Fair Value of Financial Instruments

Carrying amounts, fair values, and unrealized gain (loss) as of March 31, 2017 and 2016, were as follows:
Financial instruments whose fair values are difficult to measure are excluded from the table below.

	Millions of Yen		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Loss
(1) Cash and cash equivalents	**¥ 46,661**	**¥ 46,661**	
(2) Time deposits	**2,139**	**2,139**	
(3) Notes and accounts receivable—trade	**13,347**		
Less allowance for doubtful receivables	**(100)**		
	13,247	**13,247**	
(4) Investment securities	**597**	**597**	
(5) Notes and accounts payable—trade	**6,171**	**6,171**	
(6) Accounts payable—other	**1,210**	**1,210**	
(7) Income taxes payable	**885**	**885**	
(8) Short-term bank loans	**1,275**	**1,275**	
(9) Long-term debt	**7,670**	**7,692**	**¥ (22)**
(10) Derivatives—net			
(a) Derivatives to which hedge accounting is not applied	**8**	**8**	
(b) Derivatives to which hedge accounting is applied			
March 31, 2016			
(1) Cash and cash equivalents	¥ 18,386	¥ 18,386	
(2) Time deposits	3,023	3,023	
(3) Notes and accounts receivable—trade	12,836		
Less allowance for doubtful receivables	(340)		
	12,496	12,496	
(4) Investment securities	457	457	
(5) Notes and accounts payable—trade	5,765	5,765	
(6) Accounts payable—other	1,697	1,697	
(7) Income taxes payable	776	776	
(8) Short-term bank loans	933	933	
(9) Long-term debt	7,853	7,891	¥ (38)
(10) Derivatives—net			
(a) Derivatives to which hedge accounting is not applied	17	17	
(b) Derivatives to which hedge accounting is applied			

	Thousands of U.S. Dollars		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Loss
(1) Cash and cash equivalents	**$ 415,873**	**$ 415,873**	
(2) Time deposits	**19,064**	**19,064**	
(3) Notes and accounts receivable—trade	**118,957**		
Less allowance for doubtful receivables	**(891)**		
	118,066	**118,066**	
(4) Investment securities	**5,321**	**5,321**	
(5) Notes and accounts payable—trade	**55,000**	**55,000**	
(6) Accounts payable—other	**10,784**	**10,784**	
(7) Income taxes payable	**7,888**	**7,888**	
(8) Short-term bank loans	**11,364**	**11,364**	
(9) Long-term debt	**68,360**	**68,556**	**$ (196)**
(10) Derivatives—net			
(a) Derivatives to which hedge accounting is not applied	**71**	**71**	
(b) Derivatives to which hedge accounting is applied			

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

Notes:

1. Measurement of fair value of financial instruments

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

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

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

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

(10) Derivatives
Please see Note 15.

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Investment securities—unlisted securities	**¥ 3**	¥ 12	**$ 27**
Investments in unconsolidated subsidiaries:			
Unlisted securities	**19**	39	**169**
Investments in partnership	**459**	187	**4,091**

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

	Millions of Yen	
March 31, 2017	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	**¥ 46,661**	
Time deposits	**2,139**	
Notes and accounts receivable—trade	**13,347**	

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

	Thousands of U.S. Dollars	
March 31, 2017	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	**$ 415,873**	
Time deposits	**19,064**	
Notes and accounts receivable—trade	**118,957**	

Please see Note 9 for annual maturities of long-term debt.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative transactions to which hedge accounting is not applied as of March 31, 2017 and 2016, were as follows:

	Millions of Yen			
March 31, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign exchange forward contracts:				
Selling U.S. dollar	**¥481**		**¥ 9**	**¥ 9**
Buying yen	**71**		**(1)**	**(1)**
March 31, 2016				
Foreign exchange forward contracts:				
Selling U.S. dollar	¥ 547		¥ 18	¥ 18
Buying yen	56		(1)	(1)

	Thousands of U.S. Dollars			
March 31, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign exchange forward contracts:				
Selling U.S. dollar	**$ 4,287**		**$ 80**	**$ 80**
Buying yen	**633**		**(9)**	**(9)**

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.
Derivative transactions to which hedge accounting is applied as of March 31, 2017 and 2016, were as follows:

		Millions of Yen		
March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps—Floating rate receipt, fixed-rate payment	**Long-term debt**	**¥ 2,720**	**¥ 2,380**	
March 31, 2016				
Interest rate swaps—Floating rate receipt, fixed-rate payment	Long-term debt	¥ 3,060	¥ 2,720	

		Thousands of U.S. Dollars		
March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps—Floating rate receipt, fixed-rate payment	**Long-term debt**	**$ 24,242**	**$ 21,212**	

Note:

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

16. CONTINGENT LIABILITIES

The Group's contingent liabilities as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Export bill discount	**¥ 30**	¥ 38	**$ 267**

17. BUSINESS COMBINATIONS

For the year ended March 31, 2017

a. Overview of Business Combination

(1) Name of constituent company and description of business

Name of company:	OTC
Description of business:	Manufacturing and marketing of Printed Wiring Board ("PWB") materials

(2) Date of the business combination

December 31, 2016 (acquisition date for the purpose of the consolidation)

(3) Legal form of the business combination

Stock purchase from noncontrolling shareholders

(4) Other

The Company acquired 22.38% of stocks at shares with voting rights.

b. Acquisition Cost and Compensation

	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	**¥ 1,667**	**$ 14,857**
Acquisition cost	**¥ 1,667**	**$ 14,857**

c. Changes in Shareholders' Equity

(1) Variation factor of capital surplus

Additional acquiring of stocks of subsidiary

(2) Decrease in the amount of the capital surplus

¥610 million ($5,437 thousand)

For the year ended March 31, 2016

a. Overview of Business Combination

(1) Name of acquired company and description of business

Name of acquired company:	Chugai Kasei
Description of business:	Manufacturing and distribution of dyes, pigments, chemical products and inks

(2) Purpose of the business combination

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

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

(3) Date of the business combination

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

(4) Legal form of the business combination

Share exchange

(5) Name of the company after the business combination

TAIYO HOLDINGS CO., LTD.

(6) Acquired voting rights

100%

(7) Grounds for determination of the acquiring company

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

b. Acquisition Cost and Breakdown

	Millions of Yen
Consideration for acquisition—Acquisition costs—ordinary shares of TAIYO HOLDINGS CO., LTD.	**¥ 491**

c. Goodwill

(1) Amount of goodwill

¥6 million

(2) Reason for goodwill

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

(3) Method and period of amortization of goodwill

Lump-sum amortization

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

(1) Exchange ratio by type of shares

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

(2) Calculation method of share exchange ratio

(a) Reason and Rationale for Allotment Ratio of Shares

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

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

(b) Basis for Calculation

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

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

2. Calculation methods

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

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

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

(c) Number of Shares Issued

118,800 shares

e. Detail of Acquisition Related Expenses

Advisory fees, etc.: ¥68 million

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

Please see Note 20 for supplemental cash flow information.

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

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

18. OTHER COMPREHENSIVE INCOME (LOSS)

Components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Valuation difference on available-for-sale securities:			
Gain (loss) arising during the year	**¥ 145**	¥ (25)	**$ 1,292**
Income tax effect	**(45)**	11	**(401)**
	100	(14)	**891**
Foreign currency translation adjustments—			
Loss arising during the year	**(519)**	(2,256)	**(4,626)**
Remeasurements of defined benefit plans:			
Gain arising during the year	**18**	44	**160**
Income tax effect	**(5)**	(10)	**(44)**
	13	34	**116**
Total other comprehensive loss	**¥ (406)**	¥ (2,236)	**$ (3,619)**

19. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2017 and 2016, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2017	Net Income Attributable to Owners of the Parent	Weighted-AverageShares	EPS	
Basic EPS—Net income available to common shareholders	**¥ 6,399**	**24,015**	**¥ 266.46**	**$ 2.37**
Year Ended March 31, 2016				
Basic EPS—Net income available to common shareholders	¥ 7,796	23,067	¥ 337.99	

Notes:

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

The Company's shares owned by the ESOP trust are included in treasury stock. The ESOP trust owned 63,565 and 81,912 weighted-average shares of the Company for the years ended March 31, 2017 and 2016, respectively.

20. SUPPLEMENTAL CASH FLOW INFORMATION

There was no supplemental cash flow information to be disclosed for the year ended March 31, 2017. Chugai Kasei is included within the scope of consolidation because the Company newly acquired its shares in the year ended March 31, 2016. The details of assets and liabilities of these companies at the date of consolidation and reconciliation between acquisition costs of the shares and increase in cash and cash equivalents due to share exchange are as follows:

	Millions of Yen
Current assets	**¥ 616**
Noncurrent assets	**1,452**
Goodwill	**7**
Current liabilities	**(448)**
Noncurrent liabilities	**(1,135)**
Acquisition costs	**492**
Cash and cash equivalents	**165**
Transfer value of the treasury stock	**(492)**
Increase in cash and cash equivalents due to share exchange	**¥ 165**

21. LEASES

The minimum rental commitments under noncancelable operating leases at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Due within one year	**¥ 15**	¥ 15	**$ 138**
Due after one year	**415**	430	**3,691**
Total	**¥ 430**	¥ 445	**$ 3,829**

22. SUBSEQUENT EVENT

The appropriation of retained earnings as of March 31, 2017, approved at the Company's shareholders' meeting held on June 21, 2017,was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥65.1 ($0.58) per share	**¥ 1,877**	**$ 16,729**

23. 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 manufacturing 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 its manufacturing and marketing system.

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

The accounting policies of each reportable segment are consistent with the 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, 2017	Japan	China	Taiwan	Korea	Total	Other	Total	Reconcili-ations	Consolidated
Sales:									
External customers	**¥ 9,446**	**¥ 19,924**	**¥ 6,063**	**¥ 8,459**	**¥ 43,892**	**¥ 3,974**	**¥ 47,866**		**¥ 47,866**
Intersegment	**8,471**	**695**	**3,979**	**367**	**13,512**	**102**	**13,614**	**¥ (13,614)**	
Total sales	**¥ 17,917**	**¥ 20,619**	**¥ 10,042**	**¥ 8,826**	**¥ 57,404**	**¥ 4,076**	**¥ 61,480**	**¥ (13,614)**	**¥ 47,866**
Segment profit	**¥ 2,027**	**¥ 4,582**	**¥ 1,492**	**¥ 1,276**	**¥ 9,377**	**¥ 535**	**¥ 9,912**	**¥ (691)**	**¥ 9,221**
Segment asset	**17,976**	**14,973**	**14,869**	**6,711**	**54,529**	**2,989**	**57,518**	**34,869**	**92,387**
Other items:									
Depreciation	**1,068**	**252**	**474**	**119**	**1,913**	**93**	**2,006**	**479**	**2,485**
Increase in property, plant, and equipment and intangible assets	**526**	**272**	**49**	**99**	**946**	**20**	**966**	**757**	**1,723**

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

	Thousands of U.S. Dollars								
	Reportable Segments								
Year Ended March 31, 2017	Japan	China	Taiwan	Korea	Total	Other	Total	Reconcili-ations	Consolidated
Sales:									
External customers	**$ 84,189**	**$ 177,576**	**$ 54,037**	**$ 75,392**	**$ 391,194**	**$ 35,419**	**$ 426,613**		**$ 426,613**
Intersegment	**75,499**	**6,194**	**35,464**	**3,271**	**120,428**	**909**	**121,337**	**$ (121,337)**	
Total sales	**$ 159,688**	**$ 183,770**	**$ 89,501**	**$ 78,663**	**$ 511,622**	**$ 36,328**	**$ 547,950**	**$ (121,337)**	**$ 426,613**
Segment profit	**$ 18,066**	**$ 40,838**	**$ 13,298**	**$ 11,372**	**$ 83,574**	**$ 4,768**	**$ 88,342**	**$ (6,159)**	**$ 82,183**
Segment assets	**160,214**	**133,449**	**132,522**	**59,813**	**485,998**	**26,640**	**512,638**	**310,776**	**823,414**
Other items:									
Depreciation	**9,519**	**2,246**	**4,224**	**1,061**	**17,050**	**829**	**17,879**	**4,269**	**22,148**
Increase in property, plant, and equipment and intangible assets	**4,688**	**2,424**	**437**	**882**	**8,431**	**179**	**8,610**	**6,747**	**15,357**

Notes:

(a) The "Taiwan" and "China" segments include sales and operating income of OTC (including OTC's three subsidiaries).

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

(c) Depreciation does not include goodwill amortization.

24. RELATED-PARTY DISCLOSURES

Transactions of the Company with related parties for the fiscal years ended March 31, 2017 and 2016, were as follows:

For the Year Ended March 31, 2017

Nature of Related Party	Name	Voting Shares of the Company	Description of Transaction	Transaction Amount	
Directors	**Eiji Sato**	**0.29%**	**Third-party allocation**	**¥ 99 million**	**$ 882 thousand**
	Seiki Kashima	**0.04**	**Third-party allocation**	**¥ 25 million**	**$ 223 thousand**
	Takayuki Morita	**0.03**	**Third-party allocation**	**¥ 18 million**	**$ 160 thousand**
	Eiji Takehara	**0.04**	**Third-party allocation**	**¥ 11 million**	**$ 98 thousand**

Notes:

1. The policy for determining the terms and conditions of business and business transactions:
   Being the issuance of the Second Series Class A shares related to the performance-based stock compensation of the current fiscal year, the issuance of these shares is based on the stock price of our common stock.
2. The percentage of voting shares of the Company is calculated by deducting treasury stocks.

For the Year Ended March 31, 2016

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

Notes:

1. The policy for determining the terms and conditions of business and business transactions:
   Being the issuance of the First Series Class A shares related to the performance-based stock compensation of the previous fiscal year, the issuance of these shares is based on the stock price of our common stock.
2. The percentage of voting shares of the Company is calculated by deducting treasury stocks.

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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, 2017, 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, 2017, 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 22, 2017

Member of
Deloitte Touche Tohmatsu Limited

Domestic Network

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TAIYO INK MFG. CO., LTD.
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TAIYO INK MFG. CO., LTD. Kitakyushu Plant
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TAIYO INK MFG. CO., LTD. Kansai Sales Office
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TAIYO GREEN ENERGY CO., LTD.
388 Ohkura, Ranzan-machi, Hiki-gun, Saitama 355-0222, Japan

TAIYO PHARMA CO., LTD.
3F, Otemachi Financial City Grand Cube, 1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan

Global Network

Company	Voting Shares Held	Business Description
TAIWAN TAIYO INK CO., LTD.	99.8%	Manufacture and marketing of PWB materials
TAIYO INK MFG. CO., (KOREA) LTD.	90.4%	Manufacture and marketing of PWB and FPD materials
TAIYO INK (SUZHOU) CO., LTD.	100.0%	Manufacture and marketing of PWB materials
TAIYO AMERICA, INC.	100.0%	Manufacture and marketing of PWB materials
ONSTATIC TECHNOLOGY CO., LTD.	92.5%	Manufacture and marketing of PWB materials
ONSTATIC INK (SHENZHEN) CO., LTD.	*1	Manufacture and marketing of PWB materials
TAIYO INK INTERNATIONAL(SINGAPORE) PTE LTD	100.0%	Marketing of PWB materials
TAIYO INK INTERNATIONAL(HK) LIMITED	100.0%	Marketing of PWB materials
TAIYO INK TRADING (SHENZHEN) CO., LTD.	100.0%	Marketing of PWB materials
TAIYO INK PRODUCTS CO., LTD.	100.0%	Marketing of PWB materials
TAIYO INK (THAILAND) CO., LTD.	100.0%	Technical support for PWB materials

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

Production and Marketing Subsidiaries

Taiwan

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

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

Korea

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

China

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

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

USA

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

Marketing or Technical Support Subsidiaries

Singapore

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

Hong Kong

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

Korea

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

China

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

Thailand

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

Company Overview (As of March 31, 2017)

Name	TAIYO HOLDINGS CO., LTD.	**Shares authorized**	50,200,000
Head office	2-7-1 Hazawa, Nerima-ku, Tokyo 176-8508, Japan	**Total number of issued shares**	28,841,100
Phone	81-3-5999-1511	**Stock listing**	Tokyo
Established	September 29, 1953	**Number of shareholders**	4,757
Capital	¥9,171million		

Major Shareholders

Name	Shares(Thousands)	Investment Ratio(%)
DIC Corporation	5,617	19.47
Kowa CO., LTD.	5,233	18.14
Japan Trustee Services Bank, Ltd. (Trust account)	1,466	5.08
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	3.86
The Master Trust Bank of Japan, Ltd. (Trust account)	903	3.13
JP MORGAN CHASE BANK 385632	661	2.29
SHIKOKU CHEMICALS CORPORATION	631	2.18
MISAKI ENGAGEMENT MASTER FUND	587	2.03
Toshin Yushi Co., Ltd.	538	1.86
Mitsuo Kawahara	500	1.73

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

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

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

TAIYO HOLDINGS CO., LTD.

Stock Price and Trading Volume