(Translation)

Annual Securities Report

for the 73rd business term (April 1, 2018 to March 31, 2019)

Filed pursuant to Article 24-1 of the Financial Instruments and Exchange Act of Japan

388 Ohkura, Ranzan-machi, Hiki-gun, Saitama 355-0222, Japan

TAIYO HOLDINGS CO., LTD.

Contents

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Company name in Japanese:	太陽ホールディングス株式会社　Taiyō hōrudingusu kabushiki-gaisha
Company name in English:	TAIYO HOLDINGS CO., LTD.
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Part I About Taiyo Holdings and the Taiyo Group

I. Overview of Taiyo Holding and the Taiyo Group

1. Key financial data

(1) Consolidated financial data

Business term		69th	70th	71st	72nd	73rd
Year ended		Mar 31, 2015	Mar 31, 2016	Mar 31, 2017	Mar 31, 2018	Mar 31, 2019
Net sales	million yen	48,260	49,843	47,866	52,241	59,389
Ordinary profit	" "	9,529	11,129	9,202	11,199	8,014
Profit attributable to owners of parent	" "	6,667	7,796	6,398	4,856	4,396
Comprehensive income	" "	10,199	5,891	6,151	5,014	3,869
Net assets	" "	41,312	45,250	71,846	73,023	70,520
Total assets	" "	61,241	65,464	92,386	111,490	105,666
Net assets per share	yen	1,703.14	1,865.94	2,468.99	2,520.68	2,475.36
Basic earnings per share	" "	264.05	337.99	266.46	168.55	152.71
Diluted earnings per share	" "	–	–	–	–	–
Equity ratio	%	63.8	65.9	76.9	65.2	66.4
Return on equity	" "	16.7	19.0	11.2	6.8	6.2
Price earnings ratio	times	16.0	11.3	18.3	27.1	23.9
Net cash provided by (used in) operating activities	million yen	9,232	10,546	9,042	8,100	5,907
Net cash provided by (used in) investing activities	" "	(2,913)	(6,750)	(1,063)	(24,161)	(5,487)
Net cash provided by (used in) financing activities	" "	(9,919)	(2,740)	20,342	11,319	(12,001)
Cash and cash equivalents at the end of period	" "	18,183	18,385	46,661	41,816	30,101
Number of employees (not including average number of non-fulltime) Average number of non-fulltime (excluded)	persons	1,122 [–]	1,202 [–]	1,249 [–]	1,268 [–]	1,614 [–]

(Notes)
1. Net sales do not include consumption tax.
2. Series I Class A Shares and Series II Class A Shares possess the same rights as common shares in regard to the right to receive dividends of surplus and the right to receive distribution of residual assets. Accordingly, when calculating the net assets per share and basic earnings per share, we include Class A-I and Class A-II shares in the number of outstanding shares at period-end as well as in the average number of outstanding shares during the period.
3. We have not shown diluted earnings per share because this item included no dilutive stock after we adjusted for dilutive stock.
4. We have not stated the average number of non-fulltime employees because such employees accounted for less than 10% of total employees.

(2) Non-consolidated financial data (Taiyo Holdings Co., Ltd.)

Business term		69th	70th	71st	72nd	73rd
Year ended		Mar 31, 2015	Mar 31, 2016	Mar 31, 2017	Mar 31, 2018	Mar 31, 2019
Operating revenue	million yen	7,212	8,844	10,251	8,108	12,403
Ordinary profit	" "	4,702	6,125	7,247	4,832	8,318
Profit	" "	4,403	5,468	5,827	262	6,771
Capital stock	" "	6,134	6,188	9,171	9,232	9,331
Total issued shares	shares	27,464,000	27,485,600	28,841,100	28,865,194	28,910,436
Net assets	million yen	22,618	26,539	54,987	51,938	52,115
Total assets	" "	32,392	35,658	64,415	77,258	73,080
Net assets per share	yen	985.90	1,148.56	1,910.44	1,801.83	1,838.13
Dividend per share	" "	90.00	110.00	120.10	160.20	130.20
(interim dividend per share)	(" ")	(45.00)	(55.00)	(55.00)	(65.10)	(65.10)
Basic earnings per share	" "	174.40	237.06	242.65	9.12	235.20
Diluted earnings per share	" "	–	–	–	–	–
Equity ratio	%	69.8	74.4	85.4	67.2	71.3
Return on equity	" "	16.9	22.2	14.3	0.5	13.0
Price earnings ratio	times	24.2	16.1	20.1	501.0	15.5
Dividend payout ratio	%	51.6	46.4	49.5	1,756.2	55.4
Number of employees (not including average number of non-fulltime)	persons	80	80	85	81	107
Average number of non-fulltime (excluded)		[–]	[–]	[–]	[–]	[–]
Total shareholder return	%	141.2	131.3	169.7	165.3	139.3
(relative to TOPIX)	%	(130.7)	(116.5)	(133.7)	(154.9)	(147.1)
Highest share price	yen	4,445	5,360	5,200	5,790	4,925
Lowest share price	yen	2,870	3,380	2,951	4,315	2,847

(Notes) 1. Operating revenue does not include consumption tax.
2. Series I Class A Shares and Series II Class A Shares possess the same rights as common shares in regard to the right to receive dividends of surplus and the right to receive distribution of residual assets. Accordingly, when calculating the net assets per share and basic earnings per share, we include Class A-I and Class A-II shares in the number of outstanding shares at period-end as well as in the average number of outstanding shares during the period.
3. We have not shown diluted earnings per share because this item included no dilutive stock after we adjusted for dilutive stock.
4. We have not stated the average number of non-fulltime employees because such employees accounted for less than 10% of total employees.
5. Number of employees indicates the number of full-time employees (this excludes employees that we second to other companies, but includes employees that other companies second to us).
6. The dividend per share for the 72nd business term included a ¥30 portion commemorating our 65th anniversary.
7. Highest and lowest share prices indicate the prices on the First Section of the Tokyo Stock Exchange.

2. Our history

Month/Year	History
September, 1953	Taiyo Ink Mfg. Co., Ltd. (our forerunner) was established in Minato-ku, Tokyo, as a printing ink manufacturer and marketer
August, 1970	Launched sales of printed wiring board materials
May, 1973	Developed and launched sales of an epoxy resin-based and thermally curable single-component solder resist
March, 1982	Established Ranzan Plant (now Ranzan Facility) in Ranzan-machi, Hiki-gun, Saitama
June, 1984	Exhibited a liquid photo imageable solder resist ink at a JPCA trade fair
September, 1988	Established a joint-venture in South Korea— Taiyo Ink Mfg. Co., (Korea) Ltd.
September, 1990	Made initial public offering in over-the-counter market
December, 1990	Established a sales subsidiary in Nevada, US— Taiyo America, Inc.
March, 1992	Relocated head office to Nerima-ku, Tokyo
November, 1993	Registered basic patent for an alkaline developable solder resist ink in Japan
February, 1995	Transformed Taiyo America, Inc. (sales subsidiary) into a manufacturing and sales subsidiary
September, 1996	Established a production subsidiary— Taiwan Taiyo Ink Co., Ltd.
July, 1998	Made Taiyo Ink Mfg. Co., (Korea) Ltd. a consolidated subsidiary and changed its name to Taiyo Ink Co., (Korea) Ltd.
January, 1999	Established a sales subsidiary in Singapore— Taiyo Ink International (Singapore) Pte Ltd
January, 1999	Established a sales subsidiary in Hong Kong— Taiyo Ink International (HK) Limited
August, 1999	Established a subsidiary in Japan— Taiyo Japan Co., Ltd.
January, 2001	Listed on the First Section of Tokyo Stock Exchange
April, 2001	Opened production base in Ranzan-Kitayama, Saitama Prefecture (Ranzan-Kitayama Facility)
July, 2001	Established a technological support subsidiary in Thailand— Taiyo Ink (Thailand) Co., Ltd.
December, 2001	Established a production subsidiary in China—Taiyo Ink (Suzhou) Co., Ltd.
May, 2013	Acquired Taiwanese company Onstatic Technology Co., Ltd. as our subsidiary
December, 2014	Established a photovoltaic power generation business subsidiary in Japan—Taiyo Green Energy Co., Ltd.
April, 2015	Taiyo Ink Mfg. Co., Ltd. established a sales subsidiary in South Korea— Taiyo Ink Products Co., Ltd.
June, 2015	Acquired Japanese company Chugai Kasei Co., Ltd. as our subsidiary
October, 2015	Taiyo Ink Mfg. Co., Ltd. opened a production base (its second) in Kitakyushu, Fukuoka Prefecture (Kitakyushu Facility)
January, 2017	Entered a capital and business alliance with DIC Corporation
August, 2017	Established a pharmaceuticals development and sales subsidiary—Taiyo Pharma Co., Ltd.
January, 2018	Relocated head office to Toshima-ku, Tokyo
April, 2018	Established sales company in Thailand—Taiyo Trading (Thailand) Co., Ltd.
April, 2018	Acquired Japanese company Micro Network Technologies Corp. as our subsidiary
July, 2018	Acquired all shares of Japan-based operating company Thou-Management Corporation.

3. Our businesses

Note: We abbreviate printed wiring boards as PWBs.

Our group comprises Taiyo Holdings (the filing company), 23 subsidiaries, one affiliated company, and one other associate. We primarily engage in the electronics materials business. In this business, we manufacture, stock, and market chemicals for PWBs and other electronic components. Recently, we expanded into the medical and pharmaceuticals business.

In our electronics materials business segment, we provide PWB materials to the PWB production teams of electronics manufacturers as well as to manufacturers specializing in PWBs. The PWBs play vital roles in many home and commercial digital appliances. Examples include tablets and similar devices. They are also used in audiovisual appliances such as flat screen TVs and automotive parts such as ECUs.

Our medical and pharmaceutical business kicked off in January 2018, when Taiyo Pharma acquired manufacturing and marketing rights/authorizations for 13 long-listed pharmaceutical products.

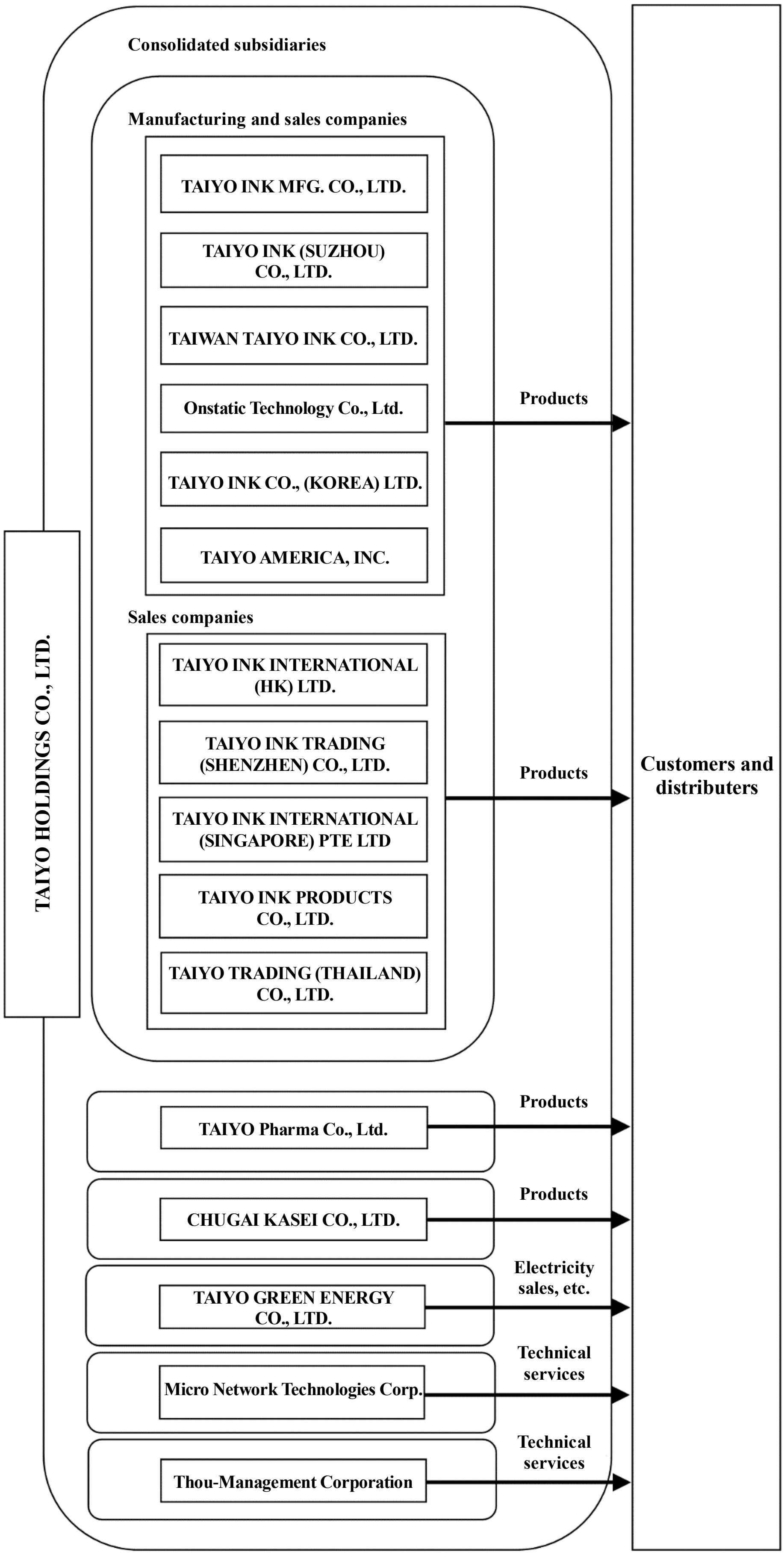
The table below lists our business segments and the subsidiaries / other associate who engage in them. The segment titles “electronics materials” and “medical and pharmaceuticals” match the titles in the consolidated statements (see page 93).

We are a listed company as defined in Article 49-2 of the Cabinet Office Ordinance on Restrictions on Securities Transactions. When determining “minor criteria” facts (facts that could potentially influence an investment decision), we use consolidated rather than non-consolidated figures.

Segment	Business operations	Main company/ies	
– Note	· Sets the group’s broad strategic direction · Manages subsidiaries · Researches and develops chemicals for electronic components	Japan	The filing company
Electronics materials	· Manufactures, stocks, and markets chemicals for PWBs and other electronic components	Japan	Taiyo Ink Mfg. Co., Ltd.
		Other	Taiyo Ink (Suzhou) Co., Ltd. Taiwan Taiyo Ink Co., Ltd. Onstatic Technology Co., Ltd. Taiyo Ink Co., (Korea) Ltd. Taiyo America, Inc.
	· Stocks and markets associates’ chemicals for PWBs and other electronic components	Other	Taiyo Ink International (HK) Limited Taiyo Ink Trading (Shenzhen) Co., Ltd. Taiyo Ink International (Singapore) Pte Ltd Taiyo Ink Products Co., Ltd. Taiyo Trading (Thailand) Co., Ltd.
Medical and pharmaceuticals	· Develops, manufactures, and markets pharmaceuticals and quasi-drugs	Japan	Taiyo Pharma Co., Ltd.
Other	· Manufactures and markets dyes, pigments, and other chemical products	Japan	Chugai Kasei Co., Ltd.
	· Supplies renewable energy	Japan	Taiyo Green Energy Co., Ltd.
	· Provides systems engineering services	Japan	Micro Network Technologies Corp.
	· Develops systems	Japan	Thou-Management Corporation

(Note) We do not include Taiyo Holdings Co., Ltd. (the filing company) among the reportable segments.

This is our organizational chart:



4. Our associates

(1) Consolidated subsidiaries

Name	Address	Capital	Main business	Ownership ratio (%)	Nature of relationship
Taiyo Ink Mfg. Co., Ltd. (See Note 3)	Ranzan-machi, Hiki-gun, Saitama Prefecture, Japan	450 million JPY	Manufactures and markets solder resists for PWBs	100.0	· We license the company to use our trademarks · We have interlocking directorates with the company · We lease real estate to the company · We lend to the company
Chugai Kasei Co., Ltd. (See Note 11)	Nihonmatsu-shi, Fukushima Prefecture, Japan	49 million JPY	Manufactures and markets dyes, pigments, and other chemical products	100.0	· We lend to the company
Taiyo Ink (Suzhou) Co., Ltd. (See Notes 1 and 4)	Suzhou, Jiangsu Province, China	20 million USD	Manufactures and markets solder resists for PWBs	100.0	· We license the company to use our trademarks · We have interlocking directorates with the company
Taiwan Taiyo Ink Co., Ltd. (See Note 1)	Guanyin District, Taoyuan City, Taiwan	310 million TWD	Manufactures and markets solder resists for PWBs	100.0	· We license the company to use our trademarks · We have interlocking directorates with the company
Onstatic Technology Co., Ltd. (See Note 1)	Yingge District, New Taipei City, Taiwan	313 million TWD	Manufactures and markets solder resists for PWBs	100.0	· We have interlocking directorates with the company
Taiyo Ink Co., (Korea) Ltd.	Ansan-si, Gyeonggi Province, South Korea	2,698 million KRW	Manufactures and markets solder resists for PWBs	90.4	· We license the company to use our trademarks · We have interlocking directorates with the company
Taiyo America, Inc.	Carson City, Nevada, United States	2 million USD	Manufactures and markets solder resists for PWBs	100.0	· We license the company to use our trademarks
Taiyo Ink International (HK) Limited (See Note 5)	Hunghom, Kowloon, Hong Kong	10 million HKD	Markets solder resists for PWBs	100.0	· We have interlocking directorates with the company
Taiyo Ink Trading (Shenzhen) Co., Ltd.	Shenzhen, Guangdong Province, China	0.8 million USD	Markets solder resists for PWBs	100.0	· We have interlocking directorates with the company
Taiyo Ink International (Singapore) Pet Ltd	Chinatown Point, Singapore	2 million SGD	Markets solder resists for PWBs	100.0	· We have interlocking directorates with the company

Name	Address	Capital	Main business	Ownership ratio (%)	Nature of relationship
Taiyo Ink Products Co., Ltd. (See Notes 2 and 6)	Ansan-si, Gyeonggi Province, South Korea	100 million KRW	Markets solder resists for PWBs	100.0 (100.0)	· We have interlocking directorates with the company
Taiyo Trading (Thailand) Co., Ltd. (See Note 7)	Thailand	10 million THB	Markets solder resists for PWBs	100.0	· We lend to the company
Taiyo Green Energy Co., Ltd.	Ranzan-machi, Hiki-gun, Saitama Prefecture, Japan	10 million JPY	Supplies renewable energy	100.0	· We have interlocking directorates with the company · We lend to the company
Taiyo Pharma Co., Ltd. (See Note 8)	Marunouchi, Chiyoda-ku, Tokyo, Japan	450 million JPY	Develops, manufactures, and markets pharmaceuticals and quasi-drugs	100.0	· We have interlocking directorates with the company · We lend to the company
Micro Network Technologies Corp. (See Note 9)	Otemachi, Chiyoda-ku, Tokyo, Japan	59 million JPY	Provides systems engineering services	100.0	· We lend to the company
Thou-Management Corporation (See Note 10)	Takadanobaba, Shinjuku-ku, Tokyo, Japan	5 million JPY	Develops systems	100.0	· We lend to the company
(The four remaining companies are not shown here)					

(Notes) 1. Taiyo Ink (Suzhou) Co., Ltd., Taiwan Taiyo Ink Co., Ltd., and Onstatic Technology Co., Ltd. are specified subsidiaries as defined in the Cabinet Office Ordinance on the Disclosure of Corporate Affairs.

2. The parenthesized figure indicates the indirect ownership ratio.

3. Taiyo Ink Mfg. Co., Ltd.'s sales account for more than 10% of the group's consolidated sales (excluding inter-company sales).

Taiyo Ink Mfg. Co., Ltd.'s financial data

Sales:	¥19,705 million
Ordinary profit:	¥3,710 million
Profit:	¥2,679 million
Net assets:	¥9,164 million
Total assets:	¥19,452 million

4. Taiyo Ink (Suzhou) Co., Ltd.'s sales account for more than 10% of the group's consolidated sales (excluding inter-company sales).

Taiyo Ink (Suzhou) Co., Ltd.'s key financial data

Sales:	¥12,412 million
Ordinary profit:	¥3,304 million
Profit:	¥2,819 million
Net assets:	¥7,543 million
Total assets:	¥9,264 million

5. Taiyo Ink International (HK) Limited's sales account for more than 10% of the group's consolidated sales (excluding inter-company sales).
   Taiyo Ink International (HK) Limited's key financial data
   Sales: ¥6,642 million
   Ordinary profit: ¥376 million
   Profit: ¥312 million
   Net assets: ¥1,052 million
   Total assets: ¥2,141 million
6. Taiyo Ink Products Co., Ltd.'s sales account for more than 10% of the group's consolidated sales (excluding inter-company sales).
   Taiyo Ink Products Co., Ltd.'s key financial data
   Sales: ¥6,639 million
   Ordinary profit: ¥554 million
   Profit: ¥435 million
   Net assets: ¥1,625 million
   Total assets: ¥2,786 million
7. We incorporated Taiyo Trading (Thailand) Co., Ltd. , into the scope of consolidation after newly founding the company.
8. Taiyo Pharma Co., Ltd.'s sales account for more than 10% of the group's consolidated sales (excluding inter-company sales).
   Taiyo Ink Products Co., Ltd.'s key financial data
   Sales: ¥7,661 million
   Ordinary losses: ¥417 million
   Net losses: ¥318 million
   Net assets: ¥568 million
   Total assets: ¥28,359 million
9. We incorporated Micro Network Technologies Corp. into the scope of consolidation after newly founding the company
10. We incorporated Thou-Management Corporation into the scope of consolidation after newly founding the company
11. Chugai Kasei Co., Ltd., will change its business name to Taiyo Fine Chemicals Co., Ltd., on July 1, 2019.

(2) Other associates

Name	Address	Capital	Main business	Ownership ratio (%)	Nature of relationship
DIC Corporation	Itabashi-ku, Tokyo, Japan	96,557 million JPY	Manufactures and markets organic pigments and synthetic resins	19.7%	· We procure raw materials from the company · We have interlocking directorates with the company

5. Our employees

(1) Consolidated (group-wide)

As of March 31, 2019

Segment	Number of employees
Electronics Materials	1,132
Medical and Pharmaceuticals	30
Other	345
Trans-segment i.e., employees of Taiyo Holdings Co., Ltd. (the holding and filing company)	107
Total	1,614

(Notes) 1. Number of employees indicates the number of full-time employees.

2. We have not stated the average number of non-fulltime employees because such employees account for less than 10% of total employees.

3. There are 346 more employees compared to the end of the previous consolidated fiscal year. This increase is because we acquired Micro Network Technologies Corp. in the current consolidated fiscal year and incorporated the company, together with a subsidiary of the company, in the scope of consolidation. Another reason is that the number of employees in the Other segment increased by 245.

(2) Non-consolidated (Taiyo Holdings Co., Ltd.)

As of March 31, 2019

Number of employees	Average age	Average years of service	Average annual remuneration (¥)
107	40.0	9.8	7,835,886

(Notes) 1. Number of employees indicates the number of full-time employees (this excludes employees that we second to other companies, but includes employees that other companies second to us).

2. We have not stated the average number of non-fulltime employees because such employees account for less than 10% of total employees

3. Average annual remuneration includes:

- Extra wages
- Bonuses
- Shares provided under the employee stock ownership plan
- Annual amount set aside for the defined benefit pension plan
- Installments for the defined contribution pensions plan

(3) Labor organizations

Other than those employed in our mainland Chinese companies—Taiyo Ink (Suzhou) and Taiyo Ink Trading (Shenzhen)—our employees do not belong to any labor organization. We enjoy strong employee relations.

II. Trends and Outlooks

1. Policies, climate, challenges

The information below includes projections and other forward-looking statements. These forward-looking are based on information available to us as of the end of the current consolidated fiscal year. They are not guarantees of future performance.

(1) Business policies

We remain steadfastly committed to our goal of creating a pleasant society (as stated in "our core values" below). With this objective in mind, we will continue to grow while adapting to changes in the business environment.

Our core values

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 basic management policies

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

(2) Key performance indicators

The following key performance indicators are outlined in Next Stage 2020, our three-year medium-term business plan (which began in the fiscal year ended March 31, 2018).

Key performance indicator	Target
Operating margin	20% or more
Return on equity ratio (ROE)	11% or more
Dividend on equity ratio (DOE)	5% or more
Operating income	New record high

(3) The business climate, our strategies, and our operating and financial challenges

Electronics materials segment

The segment's mainstay is solder resists. We hold a global top share in the solder resists market, and 80% of solder resist sales are in overseas countries. As such, the segment's sales and profit depend to a large extent on global solder market trends—in other words, demand for products that use PWBs and semiconductors. The segment is also vulnerable to global currency fluctuations.

We intend to further expand our market share in solder resist materials, but we also want to offset the above risks. Accordingly, we will keep developing new products that can serve a secondary source of revenue. We will also put in place a business structure to help us bring new innovations to market as quickly as possible. Steadily implemented measures along this line will enable us to achieve sustained growth.

1) Strengthening R&D

   We understand that to keep innovating and developing new products, we need an effective research & development structure. Our strategy is to divide R&D operations between basic research and product development based on timelines. To enable more effective basic research, a basic research team will dedicate itself to the mid-to-long-term scope, rather than focusing only on a particular project. Meanwhile, a product development will focus on bringing our innovations to market and adding new applications to existing technologies. This R&D structure will enhance our ability to translate the outcomes of basic research into new products. We will also invest heavily in R&D facilities and make a determined effort to hire and train the very best researchers and technicians from Japan and around the world.

2) Bringing new products to market swiftly

   Developing a new product is like developing a new business—make it commercially viable, and you will gain profits. When we have a potentially marketable product on our hands, we will make a concerted effort to clear all the hurdles toward commercial production. We will set up a taskforce consisting of hand-picked personnel from marketing, manufacturing, and product development, and assign this taskforce powers and duties in such a way that it can fully devote itself to a successful market launch.

3) Building a self-motivated workforce

   Our strategy for achieving sustained growth is to expand our share in the solder resist market while constantly creating new businesses and putting them on track. However, we can only do this if we have a large body of employees who relish a challenge and who take pleasure in accomplishing their goals. To build this self-motivated workforce, we will rotate employees' assigned jobs so that they can take on fresh challenges and experience success in different work situations. At the same time, we will appoint promising employees—whether Japanese or otherwise—to leadership positions where they can accumulate executive experience. In this way, we will train up a self-motivated workforce while also preparing the next generation of executives.

4) Managing exchange rate risk

   Since many of our transactions are denominated in a foreign currency, foreign exchange fluctuations can easily affect our business results. We therefore consider it important to mitigate exchange risk. One way we do this is to produce products close to where we sell them. Another policy is to step up local procurement so as to match revenue and expenditure to the currency.

   In addition to mitigating exchange risk, these measures will help us develop the products our customers need even more efficiently and to cut order lead times. Moreover, these measures will cut raw materials costs and diversify our supply chain, thereby mitigating business continuity risks.

<u>Medical and pharmaceuticals segment</u>

This segment faces an uncertain business climate in Japan. The rapidly aging and declining population has overburdened the nation's healthcare budget. In an attempt to relieve the pressure, the government has started curbing the prices of original drugs and encouraging the population to use generics. It is also considering further reforms to the healthcare system.

To address these challenges, we are exploring a business model that is resilient to this volatile environment, establishing business units that can deliver a stable supply of existing drugs in the years ahead, and new drugs that will meet the needs of medical institutions and patients.

1) Acquiring a pharmaceuticals production base

Faced with an uncertain business climate (e.g., drug pricing regulations), we are focusing on developing our manufacturing capacity. That means working to acquire a production base to deliver a stable supply of existing drugs in the years ahead.

2) Raising brand recognition

Taiyo Pharma is poorly recognized in pharmaceuticals markets. We need to make ongoing efforts to raise the company's profile among pharmaceutical wholesalers and healthcare providers. To this end, we will examine the optimum branding strategy, and our medical sales representatives will conduct direct marketing and advertising campaigns.

3) Official authorizations for newly acquired drugs, marketing under own name

In March 2019, Taiyo Pharma acquired manufacturing and marketing rights for the long-listed products it inherited in January 2018. Having obtaining these rights, the company will start marketing the pharmaceuticals under its own name. In the meantime, the company will prepare for the market launch and file the necessary paperwork to the authorities. It will also conduct an information campaign to prevent confusion in the market.

4) Product liability

When you manufacture pharmaceuticals and quasi-drugs, you run the risk of being held responsible for any injuries the products may cause. We will take out product liability insurance to minimize the financial damage from any product liability claims.

5) Recruiting and training staff

After it first inherited long-listed products in January 2018, Taiyo Pharma hired seasoned industry veterans and borrowed other personnel through secondment agreements. Assembling such a team was a necessary step to smoothly acquire manufacturing and marketing rights and start marketing the drugs under the company's name. However, to ensure the sustainability of its operations, Taiyo Pharma will aim for a lower average employee age and higher percentage of non-seconded home-grown talent.

A key challenge for Taiyo Pharma is to build a workforce that can help the company grow in the years to come. Taiyo Pharma is working to train up goal-oriented and self-motivated employees. The company will rotate employees' assigned jobs and provide them training so that employees get opportunities to challenge themselves and grow.

2. Business risks

The following are the main risks that may influence the business development of the Group. The information below includes projections and other forward-looking statements. These forward-looking are based on information available to us as of the end of the current consolidated fiscal year. They are not guarantees of future performance.

(1) Credit risk

We have a large customer base, and we avoid concentrating our receivables on a handful of large customers. Nonetheless, if our debtors fall into financial difficulties, the resulting bad debt may negatively affect our consolidated performance.

(2) Procurement risk

We procure many of our raw materials from outside the group. If these external suppliers suffer a disaster or other problems in the supply chain arise, it may impair our production activities and in turn affect our performance.

(3) Risk of rise in raw material prices

We use many different kinds of raw materials. Some of these materials are derived from crude oil. Oil market trends may cause the price of some raw materials to rise, which may in turn affect our performance.

(4) Technological innovation risk

In our electronics materials segment, we rely heavily on PWB materials—especially solder resists. The majority of the segment's sales stem from manufacturing and marketing these items. Technological progress may generate manufacturing techniques that do not rely on our products (such as techniques for making electronic parts without PWBs or making PWBs without solder resists). If such techniques were to be widely adopted, demand for our products would plummet.

This eventuality is unlikely to occur in the foreseeable future given the attributes, operability, and economic viability of the products in question. Nonetheless, we have made exploring the potential for new PWB techniques a top priority in our R&D efforts.

(5) Patent risk

In the electronics materials segment, we use patents and other forms of intellectual property rights to protect our products and technologies from unauthorized use. However, we may not always succeed in this. For example, a patent application might ultimately fail to give us the rights we require, or someone might file a request for the patent to be invalidated. Moreover, if we infringe another's intellectual property rights, we might have to pay royalties or a vast amount of compensation. Such an eventuality would adversely affect our consolidated performance.

(6) Country-specific risks

In the electronic materials segment, we have production bases in Japan, Taiwan, South Korea, China, and the USA, and we are expanding sales globally—particularly in China, Taiwan, South Korea, and the ASEAN region. Risks particular to these countries may impact our business strategy or consolidated performance. Examples of such country-specific risks include terrorist incidents, political strife, economic turbulence, natural disasters, epidemics, or sudden changes in the country's legal, regulatory, or tax environment.

(7) Exchange rate risk

In the electronics materials segment, overseas sales account for a large share of total net sales, and we often denominate sales prices in a foreign currency. As such, exchange rate fluctuations may impact our performance. In our case, a high yen usually spells lower revenue and profits.

(8) Risk of price fluctuations in key products

With PWB production increasingly shifting to China and elsewhere in Asia, the electronics materials segment's solder resists are subject to intense price competition with local and Japanese-owned firms. Solder resist prices may be driven down further by competition over PWB prices. Since solder resists are a mainstay for us, a decline in their prices may impact our consolidated performance.

(9) Demand risk

Trends in the electronics component market affect demand for the electronics materials segments' main products, and may by extension impact our consolidated performance.

(10) Side-effects of pharmaceuticals

The medical and pharmaceuticals segment markets pharmaceuticals in compliance with all applicable laws and standards. Nonetheless, once sold, the segment's pharmaceuticals might end up being associated with side-effects. Unanticipated side-effects might impact our performance.

(11) Pharmaceutical regulation

The medical and pharmaceuticals segment is vulnerable to changes in the regulatory environment, including government policies to regulate pharmaceutical prices or reform the healthcare insurance system. Such changes might impact our performance.

(12) Risk of non-current asset loss

If group assets markedly decline in fair value, or if the group's businesses become unprofitable, we would apply loss accounting and record impairment loss for the non-current assets. This eventuality may impact the group's performance and financial position.

3. Financial position, operating results, cash flows

(1) Performance overview

This section describes the financial position, operating results, and cash flows of the group (Taiyo Holdings and our consolidated subsidiaries) in the current consolidated fiscal year.

1) Financial position

The table below shows year-on-year changes in assets, liabilities, net assets, as well as the main factors for the changes.

	Previous year (million yen)	Current year (million yen)	Change (million yen)	Main factors (YoY change)
Current assets	68,373	58,136	(10,236)	Cash and deposits down ¥13,247 million, merchandise and finished goods up ¥1,176 million, and raw materials and supplies ¥1,233 million.
Non-current assets	43,116	47,529	4,412	Buildings and structures up ¥900 million, machinery, equipment and vehicles, net, up ¥1,213 million, and construction in progress ¥2,249 million.
Total assets	111,490	105,666	(5,824)	
Total liabilities	38,467	35,146	(3,320)	Long-term loans payable down ¥3,479 million.
Total net assets	73,023	70,520	(2,503)	Profit attributable to owners of parent down ¥4,396 million, dividends of surplus down ¥4,627 million, and purchase of treasury shares down ¥1,992 million.
Total liabilities and net assets	111,490	105,666	(5,824)	

2) Operating results

Electronics materials:

Sales of PKG board materials benefitted from brisk demand for memory-related materials. However, sales on the whole were hampered by factors in the electronic components industry, including slowing growth in the smartphone and tablet markets, customer inventory adjustments due to trade friction between the U.S. and China, and the steep rise in material prices due to strengthening of environmental regulations in China. As a result, net sales fell 3.5% year on year to 48,086 million yen, and segment profit fell 13.3% year on year to 10,501 million yen. Segment assets declined 3.2% to ¥50,747 million, reflecting reductions in cash/cash equivalents and trade receivables.

Medical and Pharmaceuticals:

Taiyo Pharma Co., Ltd., which was established in August 2017, acquired marketing authorizations, including marketing and manufacturing rights, on 13 long-term listed products and fully launched the medical and pharmaceutical business in January 2018. The long-term listed products were gradually transferred in several product group and the transfer of all products to Taiyo Pharma Co., Ltd. was completed in the consolidated fiscal year under review. This resulted in net sales of 7,661 million yen and a segment loss of 351 million yen. There is no comparison of the fiscal year under review to the previous fiscal year due to the difference in operating periods. Segment assets increased 6.5% to ¥28,313 million, reflecting increases in trade receivables and inventory assets.

The consolidated results were as follows:

Net sales:	¥59,389 million (up 13.7%)
Operating income:	¥8,099 million (down 28.6%)
Ordinary profit:	¥8,014 million (down 28.4%)
Profit attributable to owners of parent:	¥4,396 million (down 9.5%)

Reasons for decline in profit attributable to owners of parent:

In April 2018, we acquired all outstanding shares in Micro Network Technologies Corp., with the aim of overhauling our IT systems. During its first year as our consolidated subsidiary, the company performed below the level expected. Accordingly, we estimated the company’s business value prudently and conservatively, and wrote off unamortized goodwill.

3) Cash flows

The following table shows the cash flows in the current consolidated fiscal year as well as the factors behind these cash flows.

	Previous year (million yen)	Current year (million yen)	Main factors
Net cash provided by (used in) operating activities	8,100	5,907	Cash inflows included ¥6,703 million in profit before income taxes and ¥3,357 million in depreciation. Payment of income taxes resulted in a cash outflow of ¥3,757 million.
Net cash provided by (used in) investing activities	(24,161)	(5,487)	Cash outflows included ¥4,183 million for acquisition of property, plant and equipment and ¥1,227 million for acquisition of intangible assets.
Net cash provided by (used in) financing activities	11,319	(12,001)	Cash outflows included ¥4,625 million in payment of dividends and ¥6,622 million for repayments of long-term loans payable.
Net increase (decrease) in cash and cash equivalents	(4,844)	(11,715)	
Cash and cash equivalents at end of period	41,816	30,101	

4) Production, sales contracts, sales results

a. Production volume

The following table shows segment-specific production volume in the current consolidated fiscal year.

(million yen)

Segment	Current (April 1, 2018, to March 31, 2019)	Year-on-year (%)
Electronics materials	36,122	94.6
Medical and pharmaceuticals	–	–
Segments combined	36,122	94.6
Other	1,865	127.5
Total	37,987	95.8

(Notes) 1. The monetary amounts above are based on sales prices, and they describe production volume prior to inter-segment transfer pricing.
2. The monetary amounts above exclude consumption tax.
3. Production in the medical and pharmaceuticals segment is entirely outsourced.

b. Sales contracts

Since we rely primarily on estimated production volume, we have omitted the data on sales contracts.

c. Sales results

The following table shows segment-specific sales results in the current consolidated fiscal year.

(million yen)

Segment	Current (April 1, 2018, to March 31, 2019)	Year-on-year (%)
Electronics materials	48,086	96.5
Medical and pharmaceuticals	7,661	934.4
Segments combined	55,747	110.0
Other	3,642	232.4
Total	59,389	113.7

(Notes) 1. The monetary amounts above exclude inter-segment transactions.
2. The monetary amounts above exclude consumption tax.

(2) How we appraise consolidated performance

In this section, we describe the criteria we use to evaluate the group’s business performance.

The information below includes projections and other forward-looking statements. These forward-looking are based on information available to us as of the end of the current consolidated fiscal year. They are not guarantees of future performance.

1) Key accounting policies and accounting estimates

Our consolidated financial statements are based on generally accepted accounting principles in Japan (GAAP). In compiling these statements, we aggregate year-end assets and liabilities and reasonably account for earnings and expenses during the fiscal period. To do so, we rely on estimates and hypothetical figures. The following accounting policies underpin and shape our consolidated financial statements, and we rely on them when making some of our more important executive decisions or when estimating amounts.

a. Allowance for doubtful accounts

To provide reserve for potential losses from bad debts, we generally recognize and record allowance for doubtful accounts based on historical uncollectible rate for general accounts receivables, and on an estimate of collectability of specific accounts for which collection appears doubtful. We might increase this reserve if we think that debtors will struggle to make repayments in view of financial difficulties they may be experiencing.

b. Impairment of non-current assets

When circumstances indicate that an asset will entail losses because of its market price (fair value) or its usage in business activities, we will decide whether we should recognize the asset as impaired in view of our future business plans. If we recognize impairment, we will write down the asset to the extent of the recoverable amount. We may also write assets down if we change our future business plans to reflect a downturn in the business climate.

c. Investment securities

We hold available-for-sale and non-available-for-sale securities.

For available-for-sale securities, we determine their fair value as of the end of each accounting period (usually, as of the settlement date) and compare it with the price for which we originally acquired it, adjusting for tax effects. We report this difference in net assets as "valuation difference on available-for-sale securities." If the end-of-period fair value has declined by more than 50% of the acquisition price, we will usually write down the asset. If the difference is between 30% and 50%, we will write it down to the extent we deem necessary in light of its importance and recoverability. As for non-available-for-sale securities, if the asset's value (usually, it's net value) has declined by more than 50% of the acquisition price, we will write it down to the extent of its recoverability. We may also write these assets down if we think that a future market downturn or poor performances among our investees will incur losses that do not reflect in the carrying value.

d. Deferred tax assets

When there is a difference between our balance sheet statements and our tax liabilities and assets, we report the tax effects pertaining to the temporary difference to be deducted in the future. The title we use is "deferred tax assets." If there is a possibility that we will not realize a portion of the deferred tax asset, we deduct this uncertain portion and report it as "valuation allowance." The amount of valuation allowance varies depending on the realizability of the deferred tax asset, and may impact the balance sheet.

e. Net-defined benefit assets/liabilities

Generally speaking, we report net-defined benefit assets/liabilities and retirement benefit costs at their actuarial value. Actuarial valuations are based on discount rate, expected long-term rate of return, rate of salary increase, and employee turnover rate. Any changes in these metrics would impact the consolidated financial statements. If the discount rate declines, or if the pension assets undergo a change in their expected or actual long-term rate of return, this might impact retirement benefit costs from the next business term onward.

2) Consolidated results and outlook

a. Consolidated results

This is reported in "2) Operating results", on page 18.

b. Factors that significantly affect consolidated results

In markets where we operate, we see rising raw material prices and falling sales prices. Furthermore, product lifecycles are shortening amid fast technological advances. Meanwhile, research & development equipment is growing increasingly high-priced.

As we expand globally, we also face mounting risks in connection with our overseas operations. Examples of such risks include exchange rate fluctuations and major changes to local laws (which we may struggle to comply with).

c. Reserves and fluidity

Our financial policy is to maintain reasonable reserves for business activities, reasonable fluidity, and a healthy balance sheet. We acquired our reserves from regular business operations, bank loans, and other sources, and we feel that we have enough reserves for now. As of the end of the current consolidated fiscal year, our short-term and long-term loans payable amount to ¥20,307 million. There is no significant seasonal change in the amount of loans that Our group requires.

We retain a sum of ¥30,101 million in cash and cash equivalents. This amount is primarily on a yen basis, but we also hold foreign currency. The level of cash and cash equivalents we hold is approximately equivalent to 6.1 months of sales revenue. We feel that this level provides sufficient fluidity to enable our Group to conduct business. However, we understand we may lose some of our fluidity if a recession occurs and causes markets to shrink or causes financial or currency markets to experience chaos. To prepare for such an eventuality, we have signed an agreement for an overdraft facility of up to ¥7,500 million.

d. The objective metrics we use to shape business policies and measure success

We have outlined key performance indicators in NEXT STAGE 2020, our three-year medium-term business plan (which began in the fiscal year ended March 31, 2018). The following table shows how successful we were in achieving the key performance indices for the said fiscal year.

KPI	Target	Progress (FYE Mar 2018)	Progress (FYE Mar 2019)
Operating margin	20% or more	21.7% (met)	13.6% (missed)
Return on equity (ROE)	11% or more	6.8% (missed)	6.2% (missed)
Dividend on equity ratio (DOE)	5% or more	6.5% (met)	5.3% (met)
Operating income	New record high (FYE Mar 2016: ¥10,964 million)	¥11,337 million (met)	¥8,099 million (missed)

As the table shows, we did not achieve our ROE target. We have moved this target to the fiscal year ending March 31, 2020. To achieve the target by that time, we will:

- Make our solder resist operations more profitable
- Expand our non-solder resist PWB operations
- Implement our strategy for the medical and pharmaceuticals business
- Pursue a dynamic capital stock policy (return profits to shareholders while responding flexibly to changes in the business climate)

e. How we appraise the financial position and performance of each segment

This is reported in “2) Operating results”, on page 18.

4. Key agreements

(1) Business combination through share acquisition

In the Board of Directors meeting held on January 31, 2019, the Taiyo Group approved the acquisition of all shares in a new company created by the spin-off of Takatsuki Plant owned by Daiichi Sankyo Propharma Co., Ltd., a subsidiary of Daiichi Sankyo Company, Limited, in a company split. A basic agreement concerning share transfer was concluded with Daiichi Sankyo Company, the same day.

For more details, see “Business combination through share acquisition”, on page 73.

(2) During the consolidated fiscal year under review, the following agreement (under which we received technical assistance, among other things) terminated upon the expiration of the patent life.

Signed with	Agreement concerns	Effective date	Agreement stipulates on	Effective term
Hitachi Chemical Co., Ltd. (Japan)	Manufacture and sale of like products (solder resists for high-end equipment)	June 2006	Patent license	November 2018

5. Research & development

Guided by our core values (see page 13), we conduct our electronics materials business with the aim of contributing toward an advanced information society and a more pleasant environment. To this end, we facilitate research & development activities on insulating materials and conductive materials.

In the current consolidated fiscal year, we spent a total of ¥3,116 million on research & development—¥26 million more than in the previous year.

In this section, we describe the focal areas of research and the outcomes.

(1) Solder resists

Solder resists, a mainstay of the group, are used extensively in rigid boards (PWBs with a rigid insulated substrate) and package substrates (PWBs used as an interposer when mounting dies). The performance requirements for these products grow tougher each year. Accordingly, in developing our solder resists, we emphasize communicating with clients effectively and streamlining the development process so as to accommodate market demand in a timely manner.

<u>Rigid boards</u>

In developing solder resists for rigid boards, we focus on:

- High-density interconnection (HDI) substrates used in smartphones
- Vehicle installation substrates

<u>Solder resist for HDI substrates</u>

Manufacturers have recently adopted a modified semi-additive process as a method for manufacturing HDI substrates. This development has sparked an unprecedented level of demand for positioning accuracy, making direct imaging exposure systems (which use digital exposure) mainstream. Moreover, many manufacturers have shifted from green to black as their preferred color for solder resists used in HDI substrates. In response, we made an early start in developing a high-sensitivity solder resist in a color of black that is compatible with direct imaging exposure systems. We also took steps to secure intellectual property rights. As a result, the solder resist is now in wide use among customers. Looking ahead, we anticipate that manufacturers will shift their preference from liquid to dry film solder resists in an attempt to produce thinner materials. We have therefore started developing a dry film solder resist and introducing it to customers.

<u>Solder resist for vehicle installation substrates</u>

Across the globe, we see a rapid shift from conventional vehicles to hybrid and electric vehicles. Amid this shift, solder resists for vehicle installation substrates are expected to perform an increasingly diverse array of functions. They must withstand harsh conditions, and their thermal cycling—the ability to cycle through two temperature extremes—is particularly important. By altering the raw materials, we succeeded in producing a solder resist with the desired characteristics. We are now working to get this next-generation solder resist approved by the end customer.

Solder resists for package substrates

Package substrates are crucial for protecting semiconductor chips and ensuring the solid connections with the semiconductors and performance. The package substrate market has grown, particularly for mobile devices such as smartphones and tablets. Package substrates need solder resists that can both insulate the circuit pattern and ensure the reliability of the package substrate. Our solder resists are increasingly used in package substrates for the application processors that control smartphones and for major semiconductor devices such as DRAM and NAND flash memory. As smartphones become thinner, their parts are getting smaller and more efficient. Amid this trend, a smartphone's reliability will increasingly hinge upon the solder resists used on its chips and other parts. A solder resist must demonstrate sufficient opening accuracy, among other things, to enable accurate thickness, flatness, and compatibility with the latest chips, and thus ensure that the package substrate has a high degree of dimensional accuracy and solid adhesion. To meet these requirements, companies are increasingly using DF solder resists. DF solder resists can do more than conventional liquid-based solder resists can. They benefit the package substrate makers whom we supply, because they increase quality as well as productivity. Our DF solder resists can contribute to the development of circuit technology for the 5G and IoT applications set to expand globally. Leveraging our core technology, we aim to generate new value and to forge new markets by developing products with added function. In recent product development, for example, we are matting products using a DF that processes concavity and convexity on the surface.

(2) Interlayer insulating materials

We have launched a range of dry interlayer insulation films that enable the highly integrated wiring seen in recent package substrates. Amid the increasing demand for substrates for 5G communications, we are developing new of interlayer insulating materials. We are also working on photosensitive DF solutions for next-gen micro wiring. To enhance the added value of our interlayer insulation materials, we are pooling the group's technology to develop a copper foil-based film. In this way, we will continue to develop and market products that address emerging needs.

(3) Photoimageable coverlay

As smartphones and tablets become lighter and thinner, the internal space where circuit boards are installed is shrinking. This trend has prompted demand to shift from traditional rigid substrates to more soft and foldable substrates. Our photoimageable coverlay enables fine processing and mechanical properties such as heat resistance and flexibility, and it is beginning to see use in a number of electronics. We will continue to expand the applications for the new material by working on technical solutions in a wide range of fields.

(4) Conductive adhesives

We developed anisotropic conductive adhesives (adhesives that can be cured quickly at low temperatures) for bonding substrates used in smartphones, tablets, and similar devices. The use of soldering powder as conductive particles provides better bonding reliability, while altering the solder powder's particle diameter enables the adhesive to adapt to the electrode shape. We are aggressively working customer evaluation by differentiating the product from the anisotropic conductive films which are already in the market.

(5) Materials for wearable devices

The market for wearable devices is emerging, particularly in the healthcare sector—where there are now a number of applications. Wearable devices in this sector include in-body devices such as skin patchables. Such devices must be stretchable. Hence, our stretchable conductive materials have started being used in the devices.

(6) Inkjet solder resist

We have started mass producing an inkjet coater-compatible solder resist after a customer decided to use the product in its automotive rigid boards. An inkjet coater significantly streamlines the coating process, thus minimizing substrate production costs as well as carbon footprint. We will continue refining the performance for rigid board applications. We will also develop applications for flexible boards and semiconductors, the markets for which are set to expand. We are developing inkjet coater-compatible products for a range of applications in addition to solder resists, including photo resists, etching resists, and display materials.

(7) Display materials

Companies around the world are researching micro LED and mini LED displays to meet the demand for high resolution and energy-efficient displays. We are developing shielding material for LED displays. This shielding material uses a black matrix to prevent backlight leakage and RGB color contamination. We are working on material that can be produced using both the conventional process as well as the more efficient and environmentally friendly inkjet coating process. We are also working on LED reflector material (for enhancing and sustaining brightness) that can be produced using inkjet coating.

III. Our Facilities

1. Capital investment overview

In the current fiscal year, we invested a total of ¥6,840 million in property, plant and equipment, as well as in software. The investments were primarily for renewing or developing production and research facilities.

The following table shows the breakdown of the capital investments.

Segment	Amount of investment in current fiscal year (million yen)
Electronics materials	4,714
Medical and pharmaceuticals	106
Other	1,484
Trans-segment (primarily Taiyo Holdings Co., Ltd., —i.e., the holding and filing company)	535
Total	6,840

2. Key facilities

(1) Filing company (Taiyo Holdings Co., Ltd.)

As of March 31, 2019

Facility (address)	Segment *Note 2	Facility description	Carrying amount (million yen)					Employees
			Buildings and structures	Machinery, equipment, and vehicles	Land	Other *Note 4	Total	
Ranzan-Kitayama Facility (Ranzan-machi, Hiki-gun, Saitama) *Note 3	–	Rented office, factory	2,906	–	2,025 (33,410 m^2)	5	4,937	15
Ranzan Facility (Ranzan-machi, Hiki-gun, Saitama)	–	R&D facility	1,291	6	290 (12,528 m^2)	161	1,749	40
Head Office (Toshima-ku, Tokyo)	–	General headquarters	84	–	–	17	101	52
Marunouchi Kitaguchi Building (Chiyoda-ku, Tokyo) *Note 3	–	Office	70	–	–	8	79	–
Former Head Office (Nerima-ku, Tokyo)	–	Office	165	–	370 (801 m^2)	0	536	–
Other	–	Property	0	–	4 (1,322 m^2)	33	39	–

(Notes)
1. Carrying amount excludes construction in progress. The monetary amounts exclude consumption tax.
2. We do not include the filing company's assets in reportable segments.
3. Ranzan-Kitayama Facility and Marunouchi Kitaguchi Building serve primarily as offices for domestic subsidiaries. We rent them out to the subsidiaries.
4. "Other" in the carrying amount indicates tools, furniture, and fixtures.

(2) Domestic subsidiaries

As of March 31, 2019

Company name	Facility (address)	Segment	Facility description	Carrying amount (million yen)					Employees
				Buildings and structures	Machinery, equipment, and vehicles	Land	Other *Note 2	Total	
Taiyo Ink Mfg. Co., Ltd.	Head Office (Ranzan-machi, Hiki-gun, Saitama)	Elec.	Office, factory, R&D facility	335	370	–	235	941	246
	Kitakyushu Plant (Kitakyushu-shi, Fukuoka)	Elec.	Factory	1,952	483	–	84	2,520	25
	Ranzan Facility (Ranzan-machi, Hiki-gun, Saitama)	Elec.	R&D facility	–	5	–	15	21	3
Chugai Kasei Co., Ltd.	Head Office (Nihonmatsu-shi, Fukushima)	Other	Office, factory, R&D facility	506	92	306 (62,260)	18	925	38
	Urawa Plant (Saitama-shi, Saitama)	Other	Factory	49	72	50 (797)	8	180	11
	Tokyo Sales Office (Toshima-ku, Tokyo)	Other	Office	–	–	–	0	0	6
Taiyo Green Energy Co., Ltd.	Head Office (Ranzan-machi, Hiki-gun, Saitama)	Other	Office, factory, Power generation facility	81	37	–	1	119	22
	Ranzan Hydro-Solar Plant (Ranzan-machi, Hiki-gun, Saitama)	Other	Power generation facility	0	397	–	–	397	–
	Ranzan Onuma Hydro-Solar Plant (Ranzan-machi, Hiki-gun, Saitama)	Other	Power generation facility	0	86	–	–	86	–
	Anazawaike Hydro-Solar Plant (Inami-cho, Kako-gun, Hyougo)	Other	Power generation facility	–	247	–	–	247	–
	Uozumiike-Kusatani Hydro-Solar Plant (Inami-cho, Kako-gun, Hyougo)	Other	Power generation facility	–	403	–	–	403	–
	Kobayashiike Hydro-Solar Plant (Yamatokori-shi, Nara)	Other	Power generation facility	–	142	–	–	142	–
Taiyo Pharma Co., Ltd.	Head Office (Chiyoda-ku, Tokyo)	Med / pharm	Office	–	–	–	7	7	30

(Notes) 1. Carrying amount excludes construction in progress. The monetary amounts exclude consumption tax.
2. "Other" in the carrying amount indicates tools, furniture, and fixtures.

(3) Overseas subsidiaries

As of March 31, 2019

Company name	Facility (address)	Segment	Facility description	Carrying amount (million yen)					Employees
				Buildings and structures	Machinery, equipment, and vehicles	Land	Other *Note 2	Total	
Taiyo Ink (Suzhou) Co., Ltd.	Suzhou, Jiangsu Province, China	Elec.	Office, factory, R&D facility	537	1,148	–	96	1,782	225
Taiwan Taiyo Ink Co., Ltd.	Guanyin District, Taoyuan City, Taiwan	Elec.	Office, factory, R&D facility	390	168	626 (11,846)	29	1,214	127
Onstatic Technolog y Co., Ltd.	Yingge District, New Taipei City, Taiwan	Elec.	Office, factory, R&D facility	11	21	33 (170)	14	80	115
Taiyo Ink Mfg. Co., (Korea) Ltd.	Ansan-si, Gyeonggi Province, South Korea	Elec.	Office, factory, R&D facility	1,087	104	147 (10,185)	77	1,418	103
Taiyo America, Inc.	Carson City, Nevada, United States	Elec.	Office, factory, R&D facility	76	33	40 (17,038)	6	155	40

(Notes) 1. Carrying amount excludes construction in progress. The monetary amounts exclude consumption tax.
2. "Other" in the carrying amount indicates tools, furniture, and fixtures.

3. Capital investment plans

We and our consolidated subsidiaries indicate planned invest figures separately for each segment.

For the one-year period following the current consolidated fiscal year, we plan property, plant and equipment, as well as in software (building new facilities or developing existing ones) totaling ¥4,996 million. The following table shows the segment breakdown.

Segment	Planned investments (fiscal year ended March 31, 2019) (million yen)	Main purposes	Source of funds
Electronics materials	3,465	Construct facilities, renew existing facilities	Self-funded, borrowings
Medical and pharmaceuticals	39	Introduce control systems	Self-funded
Other	870	Acquire physical assets	Self-funded, borrowings
Trans-segment (primarily Taiyo Holdings Co., Ltd.—i.e., the holding and filing company)	622	Construct facilities, renew existing facilities	Self-funded, borrowings
Total	4,996		

IV. The Filing Company

1. Share information

(1) Number of shares

1) Total shares

Class	Total shares authorized to be issued
Common shares	50,000,000
Series I Class A shares	100,000
Series II Class A shares	100,000
Total	50,200,000

(Note) Article 6 of our Articles of Incorporation state the following:
We have a total of 50,200,000 shares authorized to be issued and two kinds of class shares. The breakdown is as follows. Common shares: 50,000,000, Series I Class A shares: 100,000, Series II Class A shares: 100,000)

2) Outstanding shares

Class of shares	Shares outstanding (as of March 31, 2019)	Shares outstanding as of filing date (June 24, 2019)	Stock exchanges where the shares are listed (or authorized financial instruments associations)	Description
Common shares	28,867,536	28,867,536	First Section of Tokyo Stock Exchange	Number of shares per unit: 100
Series I Class A shares	–	–	Unlisted	Number of shares per unit: 100 *Note
Series II Class A shares	42,900	42,900	Unlisted	Number of shares per unit: 100 *Note
Total	28,910,436	28,910,436	–	–

(Notes) 1. As resolved by the Board of Directors on July 5, 2018, we issued 45,242 new shares on July 20, 2018, to provide for the restricted stock system and performance-linked remuneration. The details are follows.

(1)	Pay-in date	July 20, 2018
(2)	Number and class of shares	45,242 shares of common stock
(3)	Issue price	¥4,410 per share
(4)	Total value of issued shares	¥199,517,220
(5)	Solicitation / allotment method	The 27,642 shares for the restricted stock system will be allotted as specified transfer-restricted shares. The 17,600 shares for performance-linked remuneration will be offered in a third-party allotment.
(6)	Contribution method	Specified transfer-restricted shares: In-kind contribution of receivables Third-party allotment: Cash payment
(7)	Recipients (number) and number of shares allotted	Specified transfer-restricted shares: Executive directors (5), 27,642 shares Third-party allotment: Executive directors (5), 17,600 shares

2. Pursuant to Article 12-2 of our Articles of Incorporation, we acquired all the Series I Class A shares on June 26, 2018, which is three years after the date on which we first issued said class shares. In exchange, we issued common shares to the holders of the class shares, on a one-for-one basis. We cancelled all shares underlying the class shares at the time of the acquisition.
3. Series II Class A shares are as follows.
   (i) Transfer restriction
   We only transfer Series II Class A shares with permission of the Board of Directors.
   (ii) Exchanging for common shares
   We will acquire all the Series II Class A shares three years after we first issued them, and issue common shares in exchange. We will award one common share for every Series II Class A share held.
   (iii) Right to acquire common shares in exchange
   Series II Class A shares grant the right to acquire common shares. Holders of these shares can transfer some or all of them to us, and we will deliver common shares in return. Each Series II Class A share is exchanged for one common share. Holders can exercise their put options attached to Series II Class A shares after the shares are issued, but only for those shares that they have started inheriting.
   (iv) Provision in Article 322-2 of the Companies Act (kaisha hō)
   This article stipulates as follows:
   A company with class shares may provide in the articles of incorporation that, as a feature of a certain class of shares, a resolution of the class meeting…shall not be required.
   Our Articles of Incorporation contains no such provision.
4. The Board of Directors resolved (at a meeting on June 22, 2019) that Series II Class A shares may be acquired (as per Article 12-2 of our Articles of Incorporation) on condition that we cancel our shares pertaining to these class shares pursuant to Article 178 of the Companies Act.

Article 178

(1) A stock company may cancel its treasury shares. In such cases, the stock company shall determine the number of the treasury shares it intends to cancel (or, for a company with class shares, the classes of the shares and the number of treasury shares for each class).

(2) For a company with board of directors, the determination under the provisions of the second sentence of the preceding paragraph shall be made by resolution of a board of directors meeting.

(2) Stock options

1) System of stock options

Nothing to disclose.

2) Shareholder rights plan

Nothing to disclose.

3) Other stock options-related information

Nothing to disclose.

(3) Convertible bonds with equity-purchase warrants

Nothing to disclose.

(4) Outstanding shares and capital stock

Date	Increase (decrease) in total outstanding shares (shares)	Balance of outstanding shares (shares)	Increase (decrease) in capital stock (million yen)	Balance of capital stock (million yen)	Increase (decrease) in capital surplus (million yen)	Balance of capital surplus (million yen)
Jun 26, 2015 *Note 1	21,600	27,485,600	53	6,188	53	7,155
Jun 27, 2016 *Note 2	42,900	27,528,500	76	6,265	76	7,232
Feb 10, 2017 *Note 3	1,312,600	28,841,100	2,906	9,171	2,906	10,138
Jul 14, 2017 *Note 4	24,094	28,865,194	60	9,232	60	10,199
Jul 14, 2018 *Note 5	45,242	28,910,436	99	9,331	99	10,299

(Notes)

1. Capital stock and capital surplus both increased by ¥53 million after we issued Series I Class A shares in a third-party allotment.
   Third-party allotment with consideration (Series I Class A shares)
   Issue price: ¥4,935
   Paid-in capital: ¥2,468
   Recipient (title): Eiji Sato (President and CEO), Seiki Kashima *, Masahisa Kakinuma *, Takayuki Morita (Director), Eiji Takehara (Director)
   * No longer in office as of June 21, 2016
2. Capital stock and capital surplus both increased by ¥76 million after we issued Series II Class A shares in a third-party allotment.
   Third-party allotment with consideration (Series II Class A shares)
   Issue price: ¥3,585
   Paid-in capital: ¥1,792.5
   Recipient (title): Eiji Sato (President and CEO), Seiki Kashima *, Takayuki Morita (Director), Eiji Takehara (Director), Masahisa Kakinuma *
   * No longer in office as of June 21, 2016
3. Capital stock and capital surplus both increased by ¥2,906 million after we issued common shares in a third-party allotment.
   Third-party allotment with consideration (common shares)
   Issue price: ¥4,428
   Paid-in capital: ¥2,214
   Recipient: DIC Corporation
4. Capital stock and capital surplus both increased by ¥60 million after we offered additional shares as part of specified transfer-restricted share compensation.
   Specified transfer-restricted share compensation
   Issue price: ¥5,060
   Paid-in capital: ¥2,530
   Recipient (title): Eiji Sato (President and CEO), Takayuki Morita (Director), Eiji Takehara (Director), Hitoshi Saito (Director), Takao Miwa (Director)
5. Capital stock and capital surplus both increased by ¥99 million after we offered additional shares as part of specified transfer-restricted share compensation and performance-linked remuneration.
   Specified transfer-restricted share compensation, third-party allotment method
   Issue price: ¥4,410
   Paid-in capital: ¥2,205
   Recipient (title): Eiji Sato (President and CEO), Takayuki Morita (Director), Eiji Takehara (Director), Hitoshi Saito (Director), Takao Miwa (Director)

(5) Share ownership

1) Common shares

As of March 31, 2019

	Number of shareholders (100-share units)								Fractional shares Total
	National or local public organizations	Financial institutions	Financial instruments operators	Other organizations	Overseas		Individuals, other	Total	
					Organizations	Individuals			
Number of shareholders	–	37	29	73	141	5	5,821	6,106	–
Total share units held	–	67,651	1,561	115,219	46,431	21	57,488	288,371	30,436
Ownership ratio (%)	–	23.46	0.54	39.96	16.10	0.01	19.94	100.00	–

(Notes) 1. .Of the 375,278 treasury shares, 375,200 share units are under “individuals, other,” and 78 shares are under “fractional shares.”

2. The total share units held by “other organizations” includes units held in the name of Japan Securities Depository Center, Inc.

2) Series I Class A shares

As of March 31, 2019

	Number of shareholders (100-share units)								Fractional shares Total
	National or local public organizations	Financial institutions	Financial instruments operators	Other organizations	Overseas		Individuals, other	Total	
					Organizations	Individuals			
Number of shareholders	–	–	–	–	–	–	–	–	–
Total share units held	–	–	–	–	–	–	–	–	–
Ownership ratio (%)	–	–	–	–	–	–	–	–	–

(Note) We acquired all the Series I Class A shares on June 26, 2018. In exchange, we issued common shares to the holders of the class shares, on a one-for-one basis. We cancelled all shares underlying the class shares at the time of the acquisition.

3) Series I Class A shares

As of March 31, 2019

	Number of shareholders (100-share units)								Fractional shares Total
	National or local public organizations	Financial institutions	Financial instruments operators	Other organizations	Overseas		Individuals, other	Total	
					Organizations	Individuals			
Number of shareholders	–	–	–	–	–	–	5	5	–
Total share units held	–	–	–	–	–	–	429	429	–
Ownership ratio (%)	–	–	–	–	–	–	100.00	100.00	–

(6) Major shareholders

As of March 31, 2019

Name of individual or organization	Address	Shares held	% of outstanding shares (excluding treasury shares)
DIC Corporation	35-38 Sakashita 3-chome, Itabashi-ku, Tokyo, Japan	5,617,000	19.69
Kowa Co., Ltd.	4-8 Nakamura-kita 3-chome, Nerima-ku, Tokyo, Japan	3,936,000	13.80
Japan Trustee Services Bank, Ltd. (manages our trust account)	8-11 Harumi 1-chome, Chuo-ku, Tokyo, Japan	1,601,000	5.61
The Master Trust Bank of Japan, Ltd. (manages our trust account)	MTBJ Building, 2-11-3 Hamamatsucho, Minato-ku, Tokyo, Japan	1,416,000	4.97
Misaki Engagement Master Fund HSBC (proxy)	190 Elgin Avenue, George Town, Grand Cayman, KY 1-9005, Cayman Islands HSBC Building, 11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan	1,415,000	4.96
SMBC Trust Bank Ltd. (shares entrusted to Sumitomo Mitsui Banking Corporation retirement benefit trust account)	3-1 Nishi-Shimbashi 1-chome, Minato-ku, Tokyo, Japan	1,116,000	3.91
SHIKOKU CHEMICALS CORPORATION	8-537-1 Doki-cho-higashi, Marugame-shi, Kagawa, Japan	745,000	2.61
Mitsuo Kawahara	Nerima-ku, Tokyo, Japan	620,000	2.18
Toshin Yushi Co., Ltd.	5-14-11 Umeda, Adachi-ku, Tokyo, Japan	538,000	1.89
THE BANK OF NEW YORK MELLON 140042 (Standing proxy: Mizuho Bank, Ltd.)	240 Greenwich Street, New York, NY 10286, U.S.A. (Shinagawa Intercity Tower A, 2-15-1 Konan, Minato-ku, Tokyo)	460,000	1.61
Total		17,468,000	61.22

(Notes) 1. Of the 1,601,000 held by Japan Trustee Services Bank, Ltd., 1,582,000 pertain to the trust account we keep with this bank.

2. Of the 1,416,000 held by The Master Trust Bank of Japan, Ltd., 1,250,000 pertain to the trust account we keep with this bank.

(7) Voting rights

1) Outstanding shares

As of March 31, 2019

Class of shares	Number		Voting rights	Description
Non-voting shares		–	–	–
Voting shares: treasury		–	–	–
Voting shares: other		–	–	–
Full-voting shares: treasury	Common shares	557,800	1,826	*Note 1
Full-voting shares: other	Common shares	28,279,300	282,793	*Note 2 *Note 3
	Series I Class A shares	—	—	
	Series II Class A shares	42,900	429	
Fractional shares	Common shares	30,436	–	*Note 4
Total outstanding shares		28,910,436	–	–
Total voting rights		—	285,048	–

(Notes) 1. We hold 375,200 of these shares directly. The remaining 182,600 are held by The Master Trust Bank of Japan, Ltd. (in the ESOP trust).
2. Of the 28,279,300 shares, 100 are held in the name of Japan Securities Depository Center, Inc. The center holds 1 of the 282,793 voting rights.
3. See page 28 (“Outstanding shares”) for more information on the Series I and II Class A shares.
4. Of the 30,436 shares, we hold 78 and The Master Trust Bank of Japan, Ltd. holds 80 (in the ESOP trust).

2) Treasury shares

As of March 31, 2019

Name of person or organization	Address	Shares held in own name	Shares held in trust	Total shares held	% of outstanding shares
Taiyo Holdings Co., Ltd.	388 Ohkura, Ranzan-machi, Hiki-gun, Saitama,	375,200	182,600	557,800	1.93
Total	–	375,200	182,600	557,800	1.93

(Notes) 1. The above amounts exclude 158 factional shares (80 of which are treasury shares that we have entrusted to The Master Trust Bank of Japan, Ltd. for the ESOP trust)
2. We entrusted the 182,600 treasury shares as part of our ESOP. The trustee is The Master Trust Bank of Japan, Ltd. (address: MTBJ Building, 2-11-3 Hamamatsucho, Minato-ku, Tokyo, Japan).

(8) Employee stock ownership

1) Overview of employee stock ownership plan

Since we want our employees to dedicate themselves to improving our mid-to-long term corporate value, we have introduced an ESOP and a trust to administer it.

ESOPs are common forms of employee ownership in the US. By adopting the ESOP model, a company can offer a greater amount of stock compensation to its employees.

The Company will establish a trust into which it will contribute funds for the acquisition of the Company's stock, of which the beneficiaries will be employees of the Company who meet certain criteria. The trust will acquire stock of the Company from the Company or from the market in the number expected to be delivered to employees of the Company based on the regulations for the delivery of stock established in advance. Following this, the trust will deliver stock of the Company to employees, without contribution, in accordance with the regulations for the delivery of stock, based on the eligibility of the Company's employees during the trust period and other such criteria, during the period in service of such employees. As the full amount of the acquisition funds for the stock of the Company to be acquired through the trust will be contributed by the Company, there will be no contribution to be made by employees of the Company.

With an ESOP trust, our employees benefit financially when our stock price rises. Therefore, they will keep our stock price in mind as they go about their duties and work all the harder.

Another benefit of an ESOP trust is that the voting rights from the shares underlying the trust property are exercised in way that reflects the will of the recipient employees. In this way, the ESOP trust encourages the employees to participate in management and thus help boost the corporate value.

2) Total number of shares we expect employees to receive

104,500 shares

3) Beneficiaries of the ESOP trust and those who eligible for related benefits

Employees who meet the beneficiary requirements.

2. Treasury share purchases

Classes of shares

We purchase common shares as defined in Article 155-3 of the Companies Act, and common shares as defined in Article 155-7 of said Act.

(1) Purchases approved by General Shareholders' Meeting

Nothing to disclose

(2) Purchases approved by Board of Directors

	Shares purchased	Total purchase price (yen)
Purchase plan approved on Mar 23, 2018 Purchase period: Apr 2, 2018, to Mar 22, 2019	375,000	1,500,000,000
Treasury stock purchased before the current fiscal year	–	–
Treasury stock purchased during the current fiscal year	375,000	1,377,089,493
Outstanding approved purchases	–	122,910,507
Unexercised portion as of end of the current fiscal year	–	8.2%
Treasury stock purchased during purchase period	–	–
Unexercised portion as of filing date	–	8.2%

	Shares purchased	Total purchase price (yen)
Purchase plan approved on Mar 22, 2019 Purchase period: Apr 1, 2019, to Mar 19, 2020	375,000	1,500,000,000
Treasury stock purchased before the current fiscal year	–	–
Treasury stock purchased during the current fiscal year	–	–
Outstanding approved purchases	375,000	1,500,000,000
Unexercised portion as of end of the current fiscal year	100%	100%
Treasury stock purchased during purchase period	–	–
Unexercised portion as of filing date	100%	100%

(3) Purchases approved by neither of the above

	Shares purchased	Total purchase price (yen)
Treasury shares purchased during the current fiscal year	123	480,480
Treasury shares purchased during purchase period	—	—

(Notes) 1. Treasury purchased during purchase period excludes factional share purchases occurring between June 1, 2019, and the date we filed this annual securities report.
2. The amount of treasury shares purchased excludes treasury shares that the ESOP trust acquired.

(4) Treasury shares disposed, treasury shares held

	Current fiscal year		Purchase period	
	Shares	Total disposition value (yen)	Shares	Total disposition value (yen)
Treasury stock for which we solicited subscriptions	—	—	—	—
Treasury stock we disposed of	—	—	—	—
Treasury stock we transferred as part of a merger, stock swap, or split	—	—	—	—
Other: Treasury stock we purchased for ESOP trust	23,480	71,572,965	—	—
Other: Treasury stock we transferred in third-party allotment	—	—	—	—
Other: Treasury stock we transferred following claim for fractional shares	—	—	—	—
Treasury shares we continue to hold *Note 1	557,958	—	—	—

(Notes) 1. "Treasury shares we continue to hold" includes shares in our ESOP trust, which we purchased as follows:
Current fiscal year: 182,680 Purchase period: 182,680
The amount of treasury shares held in the ESOP trust during the current fiscal year excludes those shares that we transferred from the trust to employees between June 1, 2019, and the date we filed this annual securities report.
2. The treasury shares we continued to hold during the fiscal year does not reflect any purchases or transfers of fractional shares occurring between June 1, 2019, and the date we filed this annual securities report.

3. Shareholder returns

Returning profits to shareholders is a top priority for us. We deliver high returns to shareholders consistently and sustainably. Our benchmark for shareholder returns is dividend on equity ratio. We aim for a dividend on consolidated equity ratio of 5% or more over the mid-to-long term.

Guided by this policy, we have set the dividends for the current fiscal year as follows:
Mid-term (end of second quarter) dividend: ¥65.10 per share
End-of-term dividend: ¥65.10 per share
Accordingly, the dividend for the current fiscal year amounts to ¥130.20 per share.

The dividend for the next fiscal year will be ¥130.20 per share (¥65.10 mid-term + ¥65.10 end-of-term). The dividend payout ratio will be 63.5%.

The following table shows the dividends of surplus for the current fiscal year:

Date resolved	Total dividend (million yen)	Dividend per share (yen)
November 2, 2018 (resolved by Board of Directors)	1,882	65.10
June 22, 2019 (resolved at Ordinary General Meeting of Shareholders)	1,857	65.10

4. Corporate governance

(1) Outline of corporate governance system

1) Our basic approach to corporate governance

- Our core values and basic management policies (see page 13) describe the kind of group we strive to be, and they underlie everything we do as a group.
- These texts clarify our mission, which is to make people's lives easier and happier by delivering dream products across the globe. They also clarify our basic approach to achieving this mission, which is to continually refine every technology of the group so that we can deliver innovative products as well as existing/established ones.
- Our basic management policies state the following:
  In pursuing our corporate values, we will also fulfill our corporate social responsibility—this includes complying with the law, protecting the environment, developing a thorough quality management system, and contributing to society. In other words, we make corporate social responsibility, as well as making a profit, a core part of our corporate values.
- A listed company will only achieve sustained growth if it enjoys the trust and support of its stakeholders. We understand that we can only realize our core values and basic management policies if we make our business processes transparent, clearly delineate responsibilities, and disclose information forthrightly.

2) Corporate governance structures and the reasons for adopting them

- Outline of corporate governance structures

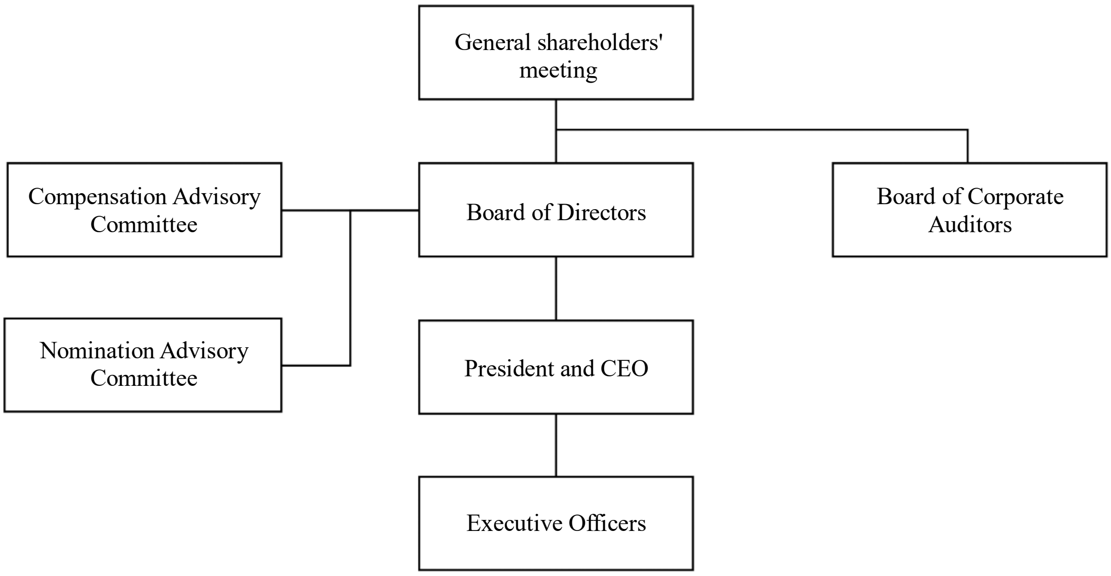
  Boards
  Our Board of Directors and our Board of Corporate Auditors lie at the core of our corporate governance system. The members of each board are elected by shareholders.
  The Board of Directors serves two key roles:
  - Deliberates on and resolve business matters
  - Supervises the CEO's performance

  Executive officers
  We adopted an executive officer system to energize the Board of Directors and streamline the decision-making process. Executive officers, by exercising discretionary power over a wide range of business matters, help us adapt swiftly to changes in the business climate.

  Advisory committees

We have voluntarily established two advisory committees:
<u>Compensation Advisory Committee</u>
Advises the Board of Directors on how much compensation to award directors and executive officers.
<u>Nomination Advisory Committee</u>
Advises the Board of Directors on whom to nominate as director and Audit & Supervisory Board member candidates.

In both committees, the chairman and the majority of the members are from outside Taiyo Group. By fulfilling their roles, the two committees help us ensure that our compensation and nomination processes are fair and transparent. The following figure shows the relationships between the above bodies, and the table below shows the members of the two committees.



Members of the Compensation Advisory Committee		Members of the Nomination Advisory Committee	
Chair	Masayuki Hizume (outside director)	Chair	Masayuki Hizume (outside director)
	Eiji Sato (President and CEO)		Eiji Sato (President and CEO)
	Toshifumi Tamaki (director)		Takayuki Morita (director)
	Keiko Tsuchiya (outside director)		Toshifumi Tamaki (director)
	Jinichiro Yamada (outside director)		Keiko Tsuchiya (outside director)
	Akihito Sakai (outside director)		Jinichiro Yamada (outside director)
	Hidenori Sugiura (outside director)		Akihito Sakai (outside director)
	Asako Aoyama (outside director)		Hidenori Sugiura (outside director)
	Masahiko Todo (attorney)		Asako Aoyama (outside director)
			Masahiko Todo (attorney)

• Why we have this system

We aim for a modern, advanced form of corporate governance, and we always look for ways to improve our system. Many Japanese companies have become “companies with an audit & supervisory committee” (*kansa-tō i’inkai secchi kaisha*). At this point in time, we feel that the traditional Japanese *kansayaku* system suits us better, but we will keep open the possibility of adopting this corporate structure in the future.

3) Other corporate governance matters

- Internal controls and risk management

The Companies Act and the Ordinance for Enforcement of the Companies Act specify certain compliance matters for which companies should develop structures and measures. Described below are the structures and measures that we have developed for each compliance matter.

Rules and measures for ensuring that directors and employees perform their duties in compliance with laws and the articles of incorporation

a. We have established the CSR Philosophy and Code of Conduct, and we make sure that our directors and employees fully understand the contents.
b. We designate one of our directors as compliance officer. An ethics committee (consisting of directors, Audit & Supervisory Board members, and employees) reviews important matters involving ethical and legal compliance. We also elect ethics officers from among employees.
c. We provide a whistleblowing system. Employees can discuss grievances with an internal officer and report suspected malpractice to an external attorney.
d. The compliance officer regularly reports to the Board of Directors about the state of ethical and legal compliance.
e. We have established the Office of Internal Audits, which is independent of executive influence. The office reports the results of its audits to the Board of Directors, the Board of Corporate Auditors, and, if necessary, to our accounting auditors.

Rules and measures for protecting and managing records of the duties directors perform

In accordance with our record-keeping rules, we keep physical and digital records of the duties our directors perform. Directors and Audit & Supervisory Board members can access these records at any time.

Rules and measures for managing the risk of loss

a. We designate one of our directors as a risk manager.
b. The business division responsible for managing this risk assesses the risks related to day to day business operations and then draws up countermeasures. If necessary, a risk management committee will be formed to manage risks across the group.

Rules and measures for ensuring that directors perform effectively

a. The Board of Directors holds regular monthly meetings (some meetings are merged into a meeting of an adjacent month) and irregular meetings as necessary. Directors engage in these meetings actively, stating their opinions on important business matters.
b. To delineate directorial responsibilities and executive processes, we have established organizational regulations, segregation of duties, and rules on official duties.
c. We hold directors accountable for achieving our medium-term and annual business plans as well our organization-specific missions and medium-short term goals.

Rules and measures for ensuring appropriate work processes throughout the company and its subsidiaries

a. We assign a director to each of our major subsidiaries to provide management guidance.
b. We have the Executive Council, which consists of our executive officers and representatives of the subsidiaries. The council holds regular quarterly meetings in which it reviews group-wide matters.
c. While we allow our subsidiaries to manage themselves to some extent, we also maintain careful stewardship of them. We do this by exercising discretionary powers and requiring the subsidiaries to report to us (as per our rules on subsidiary management and common rules on official duties).
d. Our subsidiaries are audited as necessary by members of the Office of Internal Audits, Finance and Accounting Department, Audit & Supervisory Board, as well as by the accounting auditors during their audits.

e. We established the CSR Philosophy to ensure that the directors and employees of our subsidiaries perform their duties in compliance with laws and the Articles of Incorporation. This philosophy applies throughout the group, and it shapes the particular rules of each group company.

Rules and measures concerning employees who assist the "Kansayaku-kai" (in our case, the Board of Corporate Auditors) if it requests such assistants Rules and measures for ensuring that such employees are independent of directors

a. We designate employees to assist the Board of Corporate Auditors as the board requests. Such employees serve the board exclusively and act under its command.
b. We obtain the consent of the Board of Corporate Auditors toward any performance evaluations of these assistants.

Rules and measures concerning reports that directors and employees provide to the Board of Corporate Auditors; other rules and measures concerning reports to the Board of Corporate Auditors

a. Directors, in addition to their mandatory reporting, report to the Board of Corporate Auditors any breaches of a law or the Articles of Incorporation, or any material circumstances that impact our performance or that of a group company.
b. Employees can report directly to the Board of Corporate Auditors any breaches of a law or the Articles of Incorporation, or any material circumstances that threatens to damage us or a group company. We strictly uphold whistleblower anonymity, and we do not allow whistleblowers to be maltreated by reason of their reporting.

Other rules and measures for ensuring that the Board of Corporate Auditors audits/supervises effectively

a. Audit & Supervisory Board members attend meetings of the Board of Directors, the Executive Council, and other important bodies. They also access important records concerning work and business operations and question directors and employees as necessary.
b. Audit & Supervisory Board members liaise with our accounting auditors to discuss auditing plans, audit results, and other matters related to their duties.
c. The Office of Internal Audits (which is independent of executive influence) cooperates closely with the Audit & Supervisory Board members. For example, it reports the results of its internal audits to the members and discusses the results with the members.
d. We provide an annual reserve to cover expenses that Audit & Supervisory Board members incur in their duties. We also spend formidable amounts on emergency audit & supervisory expenses.

Rules and measures for ensuring reliable financial reporting

We have put in place internal controls to ensure that our internal control reports, which we are required to submit under the Financial Instruments and Exchange Act, are effective and apposite. We continually monitor whether these controls are working effectively and take corrective action as necessary.

Basic policy on eschewing all dealings with "anti-social forces" (organized crime syndicates) Measures for achieving this policy

Crime syndicates can threaten public order and bedevil business. We will never acquiesce to any unlawful or improper demands that crime syndicates or unsavory characters may bring. Instead, we will report them straight to the police.

- Agreements limiting personal liability for damages

Under Article 423-1 of the Companies Act, corporate officers are personally liable for any damages resulting from breaches or non-performance of their fiduciary duties. As permitted by Article 427-1, we have signed agreements with our non-executive directors and Audit & Supervisory Board members limiting such liability to the extent permitted by law. These agreements exclude cases where the breach or non-performance constitutes willful misconduct or gross negligence.

- Number of directors

Our Articles of Incorporation stipulates the number of directors must be no more than ten.

- Stipulations on electing directors

Our Articles of Incorporation stipulates that shareholders elect director candidates through a majority vote with at least one third of the shareholder electorate in attendance. The Articles of Incorporation prohibit cumulative voting.

- Acquiring treasury shares

As permitted by Article 165-2 of the Companies Act, we have included a stipulation in the Articles of Incorporation to the effect that we can acquire treasury shares with a resolution of the Board of Directors. We included this stipulation because acquiring treasury shares through a market transaction allows us to pursue capital policies flexibly according to business conditions.

- Mid-term dividend

As permitted by Article 454-5 of the Companies Act, we have included a stipulation in the Articles of Incorporation to the effect that we can provide a mid-term dividend to shareholders and registered pledgees of shareholders with a resolution of Board of Directors. The Articles of Incorporation further stipulates that the reference date for the mid-term dividend is September 30.

(2) Corporate officers

1) List of corporate officers

We have 11 male and 2 female corporate officers (female executive recruitment rate: 15.4%).

Title	Name	Date of birth	Career history (Bold font indicates ongoing positions)			Term of office	Shares held (thousand)
President Group CEO	Eiji Sato (male)	May 3, 1969	1992 April	Tohmatsu & Co. (now Deloitte Touche Tohmatsu LLC)	(Joined)	Two years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	(Common) 89 (Series I Class A) – (Series II Class A) 27
			1995 July	Eiji Sato Certified Public Accountancy	(Founded)		
			1999 October	es Networks Co., Ltd.	(Founded) CEO		
			2001 May	Taiwan Taiyo Ink Co., Ltd.	Auditor		
			2008 June	Taiyo Holdings Co., Ltd.	Director		
			2009 October	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	Executive Officer Group CEO		
			2010 April	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	Executive Vice President		
			2010 May	Taiyo Ink Co., (Korea) Ltd.	Director		
			2010 July	Taiyo Ink International (HK) Limited	Director		
				Taiyo Ink International (Singapore) Pet Ltd	Director		
			2010 October	Taiyo Ink Mfg. Co., Ltd.	Director		
			2011 March	es Holdings Co., Ltd. (now es Networks Co., Ltd.)	Director		
			2011 April	Taiyo Holdings Co., Ltd.	President Group CEO Officer in charge of R&D Div.		
			2011 June	Taiyo Ink Trading (Shenzhen) Co., Ltd.	Director		
			2012 April	Taiyo Ink (Suzhou) Co., Ltd.	Director		
			2012 June	Taiyo Holdings Co., Ltd.	Officer in charge of risk management		
			2012 December	Onstatic Technology Co., Ltd.	Director		
			2014 April	Taiyo Ink Mfg. Co., Ltd.	President and Representative Director		
			2017 August	Taiyo Pharma Co., Ltd.	Chairman of the Board Representative Director		
			2018 June	Taiyo Ink Mfg. Co., Ltd.	Director		
			2019 April	Taiyo Pharma Tech Co., Ltd.	Director		
Director	Takayuki Morita (male)	January 23, 1963	1985 April	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	(Joined)	Two years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	(Common) 14 (Series I Class A) – (Series II Class A) 4
			2001 May	Taiwan Taiyo Ink Co., Ltd.	Director		
			2008 August	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	General Manager of Sales and Marketing Dept.		
			2011 April	Taiyo Holdings Co., Ltd.	Executive Officer		
				Taiyo Ink (Suzhou) Co., Ltd.	Chairman of the Board General Manager		
			2012 June	Taiyo Holdings Co., Ltd.	Director Senior Executive Officer Officer in charge of: Taiyo Ink International (HK) Limited Taiyo Ink Trading (Shenzhen) Co., Ltd.		
				Taiyo Ink Trading (Shenzhen) Co., Ltd.	Director		
				Taiyo Ink International (HK) Limited	Director		
			2013 April	Taiyo Ink International (HK) Limited	Managing Director		
				Taiyo Ink Trading (Shenzhen) Co., Ltd.	Chair of the Board General Manager		
			2018 October	Taiyo Ink Trading (Shenzhen) Co., Ltd.	Chairman of the Board		
			2019 January	Onstatic Technology Co., Ltd.	Chairman of the Board		
				Onstatic Ink (Shenzhen) Co., Ltd.	Chairman of the Board		

Title	Name	Date of birth	Career history (Bold font indicates ongoing positions)			Term of office	Shares held (thousand)
Director	Eiji Takehara (male)	September 7, 1963	1986 April	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	(Joined)	Two years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	(Common) 18 (Series I Class A) – (Series II Class A) 3
			1999 May	Taiyo Ink Mfg. Co., (Korea) Ltd.	Director		
			2001 November	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	General Manager of Development Department 1		
			2006 July	Taiwan Taiyo Ink Co., Ltd.	Director		
			2008 September	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	General Manager of Development Department 2		
			2010 October	Taiyo Ink Mfg. Co., Ltd.	Director		
			2012 June	Taiyo Ink Mfg. Co., Ltd.	Executive Vice President		
			2013 April	Taiyo Holdings Co., Ltd.	Executive Managing Officer		
			2014 June	Taiyo Holdings Co., Ltd.	Director Compliance Officer		
			2014 July	Taiyo Holdings Co., Ltd.	Senior Executive Officer		
			2016 May	Onstatic Technology Co., Ltd.	Director		
			2016 June	Taiyo Ink Mfg. Co., Ltd.	Director		
				Taiwan Taiyo Ink Co., Ltd.	Chairman of the Board		
				Taiyo Green Energy Co., Ltd.	President and Representative Director		
			2017 April	Taiyo Green Energy Co., Ltd.	Director		
			2017 May	Onstatic Technology Co., Ltd.	Director		
			2018 April	Taiwan Taiyo Ink Co., Ltd.	Chair of the Board General Manager		
			2018 June	Taiyo Holdings Co., Ltd.	Officer in charge of Taiyo Green Energy Co., Ltd.		
			2018 July	Taiwan Taiyo Ink Co., Ltd.	Chair of the Board		
			2019 April	Taiyo Holdings Co., Ltd.	Officer in charge of R&D Div.		
Director	Hitoshi Saito (male)	April 21, 1965	1995 November	Win System Inc. (Win System Europe)	Marketing Manager	Two years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	(Common) 11
			1996 September	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	(Joined)		
			2001 June	Taiyo Ink International (Singapore) Pte Ltd	Managing Director		
			2010 July	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	General Manager of International Business Department		
			2012 June	Taiyo Ink Mfg. Co., Ltd.	Director		
			2015 April	Taiyo Ink Products Co., Ltd.	President and CEO		
			2016 May	Taiyo Ink Mfg. Co., (Korea) Ltd.	President and CEO		
			2016 June	Taiyo Holdings Co., Ltd.	Director		
			2016 July	Taiyo Holdings Co., Ltd.	Senior Executive Officer		
			2019 April	Taiyo Holdings Co., Ltd.	Officer in charge of Taiyo America, Inc.		
			1995 November	Win System Inc. (Win System Europe)	Marketing Manager		

Title	Name	Date of birth	Career history (Bold font indicates ongoing positions)			Term of office	Shares held (thousand)
Director	Takao Miwa (male)	July 27, 1957	1982 April 2001 April 2006 April 2007 April 2012 April 2013 April 2014 April 2015 June 2016 June 2016 July 2019 April	Hitachi Ltd. Hitachi Ltd. Hitachi Cable Ltd. Hitachi Cable Ltd. Taiyo Holdings Co., Ltd. Taiyo Holdings Co., Ltd. Taiyo Holdings Co., Ltd. Chugai Kasei Co., Ltd. Taiyo Holdings Co., Ltd. Taiyo Holdings Co., Ltd. Taiyo Holdings Co., Ltd.	(Joined) General Manager of Electronic Materials Research Department Head of Research Head of Technical Planning Center Head of Platform Technology Center (Joined) General Manager of R&D Division Executive Managing Officer Chairman of the Board Representative Director Director Officer in charge of R&D Division Senior Executive Officer Officer in charge of group HR	Two years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	(Common) 11
Director	Toshifumi Tamaki (male)	January 30, 1956	1980 April 2010 October 2012 April 2016 January 2018 January 2018 March 2018 June	Dainippon Ink and Chemicals, Incorporated (now DIC Corporation) DIC Corporation DIC Corporation DIC Corporation DIC Corporation DIC Corporation Taiyo Holdings Co., Ltd.	(Joined) General Manager of Polymer Technical Division 2 Executive Officer General Manager of R&D Management Unit, Color Science Laboratories, and Central Research Laboratories Managing Executive Officer Officer in charge of Technical Segment General Manager of Technical Management Unit Managing Executive Officer Head of Corporate Strategy Unit Officer in charge of Kawamura Memorial DIC Museum of Art Director Managing Executive Officer Head of Corporate Strategy Unit Officer in charge of Kawamura Memorial DIC Museum of Art Director	Two years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	–
Director	Masayuki Hizume (male)	March 2, 1963	1988 October 1994 January 1994 June 2001 January 2003 January 2012 June 2012 July	Tohmatsu Awoki & Sanwa (now Deloitte Touche Tohmatsu LLC) Hizume Certified Public Accounting Office Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.) Masayuki Hizume Certified Public Accounting Office Taiyo Ink Mfg. Co., (Korea) Ltd. Taiyo Holdings Co., Ltd. Taiyo Ink Mfg. Co., (Korea) Ltd.	(Joined) (Joined) Audit & Supervisory Board Member Head Auditor Outside Director Director	Two years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	(Common) 0

Title	Name	Date of birth	Career history (Bold font indicates ongoing positions)			Term of office	Shares held (thousand)
Director	Keiko Tsuchiya (female)	May 13, 1960	1981 April	Dentsu Inc.	(Joined)	Two years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	(Common) 0
			1989 April	Ferag Japan Co., Ltd.	Executive Secretary		
			1991 April	Australian Trade Commission, Tokyo	Executive Secretary		
			1994 January	Becton Dickinson Co., Ltd.	HR Planning & Organizational Effectiveness Director		
			2004 July	Human Value Co., Ltd.	Chief Researcher & Producer		
			2005 October	GE Toshiba Silicones Co., Ltd. (now Momentive Performance Materials Japan LLC)	General Manager of Human Resources for Pacific Region		
			2009 January	Cisco Systems LLC	Senior HR Manager		
			2011 February	Johnson & Johnson Medical Company	Director Vice President (Human Resources)		
			2015 August	Adecco Ltd.	Director General Manager of Human Resources, Japan		
			2016 January	Adecco Ltd.	General Manager of People Value, Japan		
			2017 June	Taiyo Holdings Co., Ltd.	Outside Director		
Director	Jinichiro Yamada (male)	December 13, 1970	1997 April	Young Scientists of Japan Society of the Promotion of Science (Hokkaido University)	Research Fellow	Two years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	–
			2001 April	Faculty of Economics, Kagawa University	Assistant Professor		
			2006 September	Bordeaux Management School (BEM), France	Affiliate Professor		
			2011 April	Graduate School of Business, Osaka City University	Associate Professor		
			2012 April	National Institute of Science and Technology Policy, Ministry of Education, Culture, Sports, Science and Technology	Visiting Research Officer		
			2015 April	Graduate School of Business, Osaka City University	Professor		
			2018 June	Taiyo Holdings Co., Ltd.	Outside Director		
			2019 March	Griffith University	Visiting professor		
Full-time Audit & Supervisory Board Member (outside)	Akihito Sakai (male)	January 2, 1953	1975 April	Tokio Marine Insurance Co., Ltd (now Tokio Marine & Nichido Fire Insurance Co., Ltd.)	(Joined)	Four years from the close of the 69th Ordinary General Shareholders' Meeting (June 19, 2015)	–
			2003 July	Tokio Marine Anshin Life Insurance Co., Ltd. (now Tokio Marine & Nichido Anshin Life Insurance Co., Ltd.)	(Seconded to)		
			2007 July	Tokio Marine Anshin Life Insurance Co., Ltd. (now Tokio Marine & Nichido Anshin Life Insurance Co., Ltd.)	J-SOX Officer (Human Resources and General Affairs Department)		
			2008 July	Tokio Marine Anshin Life Insurance Co., Ltd. (now Tokio Marine & Nichido Anshin Life Insurance Co., Ltd.)	J-SOX Officer (Legal Compliance Department)		
			2011 January	Taiyo Holdings Co., Ltd.	Management Consultant		
			2011 June	Taiyo Holdings Co., Ltd.	Full-time Audit & Supervisory Board Member		
			2012 May	Taiyo Ink Mfg. Co., (Korea) Ltd.	Auditor		

<table>
<tr><th>Title</th><th>Name</th><th>Date of birth</th><th colspan="3">Career history
(Bold font indicates ongoing positions)</th><th>Term of office</th><th>Shares held
(thousand)</th></tr>
<tr><td rowspan="11">Full-time Audit & Supervisory Board Member (outside)</td><td rowspan="11">Hidenori Sugiura (male)</td><td rowspan="11">March 20, 1961</td><td>1984 April</td><td>The Long-Term Credit Bank of Japan, Ltd.</td><td>(Joined)</td><td rowspan="11">Four years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)</td><td rowspan="11">–</td></tr>
<tr><td>1998 July</td><td>UBS Trust & Banking (Japan) Ltd.</td><td>(Joined)</td></tr>
<tr><td>2000 July</td><td>IBJ Securities Co., Ltd. (now Mizuho Securities Co., Ltd.)</td><td>(Joined)</td></tr>
<tr><td>2003 October</td><td>Mizuho Securities Co., Ltd.</td><td>General Manager of Investment Banking Division No. 4 (Investment Banking Group)</td></tr>
<tr><td>2004 April</td><td>Mizuho Securities Co., Ltd.</td><td>General Manager of Corporate Finance Division No. 1 (Capital Markets Group)</td></tr>
<tr><td>2005 April</td><td>Mizuho Securities Co., Ltd.</td><td>Senior Fellow of Strategic Research Department (now Markets Strategic Intelligence Department) (Management Planning Group)</td></tr>
<tr><td>2006 April</td><td>Graduate School of Management, Kyoto University</td><td>Associate Professor</td></tr>
<tr><td>2007 October</td><td>Graduate School of Commerce and Management, Hitotsubashi University</td><td>Part-time Lecturer</td></tr>
<tr><td>2008 April</td><td>Graduate School of Management, Kyoto University</td><td>Distinguished Professor</td></tr>
<tr><td>2018 June</td><td>Taiyo Holdings Co., Ltd.</td><td>Full-time Audit & Supervisory Board Member</td></tr>
<tr><td>2019 April</td><td>Taiyo Pharma Tech Co., Ltd</td><td>Audit & Supervisory Board Member</td></tr>
<tr><td rowspan="9">Audit & Supervisory Board Member (internal)</td><td rowspan="9">Masaru Oki (male)</td><td rowspan="9">February 18, 1958</td><td>1980 April</td><td>Sharp Corporation</td><td>(Joined)</td><td rowspan="9">Four years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)</td><td rowspan="9">(Common)
25</td></tr>
<tr><td>1982 August</td><td>Taiyo Ink Mfg. Co., Ltd.
(now Taiyo Holdings Co., Ltd.)</td><td>(Joined)</td></tr>
<tr><td>1998 April</td><td>Taiyo Ink Mfg. Co., Ltd.
(now Taiyo Holdings Co., Ltd.)</td><td>Manager of Marketing Division</td></tr>
<tr><td>2010 April</td><td>Taiyo Ink Mfg. Co., Ltd.
(now Taiyo Holdings Co., Ltd.)</td><td>General Manager of Corporate Planning Department</td></tr>
<tr><td>2011 April</td><td>Taiyo Holdings Co., Ltd.</td><td>General Manager of Accounting and Finance Department</td></tr>
<tr><td>2012 April</td><td>Taiyo Holdings Co., Ltd.</td><td>Executive Officer</td></tr>
<tr><td></td><td>Taiyo Ink (Thailand) Co., Ltd.</td><td>Managing Director</td></tr>
<tr><td></td><td>Taiyo Ink International (Singapore) Pte Ltd</td><td>Managing Director</td></tr>
<tr><td>2018 June</td><td>Taiyo Holdings Co., Ltd.</td><td>Audit & Supervisory Board Member</td></tr>
</table>

Title	Name	Date of birth	Career history (Bold font indicates ongoing positions)			Term of office	Shares held (thousand)
Audit & Supervisory Board Member (outside)	Asako Aoyama (female)	March 14, 1972	1994 April	Tohmatsu & Co. (now Deloitte Touche Tohmatsu LLC)	(Joined)	Four years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)	–
			2001 September	Merrill Lynch Japan Securities Co., Ltd.	(Joined)		
			2004 October	Coca-Cola (Japan) Company, Limited	(Joined)		
			2008 August	Coca-Cola (Japan) Company, Limited	General Manager of Business Strategy Promotion		
			2010 October	Coca-Cola (Japan) Company, Limited	Manager of Commercial Finance CCL & Franchise Finance, Finance Headquarters		
			2011 March	Tokyo Coca-Cola Bottling Co., Ltd.	Director Chief Financial Officer		
			2013 July	Coca-Cola East Japan Co., Ltd.	Executive Officer Finance and Accounting General Manager		
			2016 January	Coca-Cola East Japan Co., Ltd.	Executive Officer Commercial Finance General Manager		
			2017 May	Coca-Cola Bottlers Japan Inc.	Executive Officer Transformation Project Leader		
			2018 June	Taiyo Holdings Co., Ltd.	Audit & Supervisory Board Member		
			2019 February	Coca-Cola Bottlers Japan Holdings Inc.	Head of Business Development		
Total of shares held							(Common) 172 (Series I Class A) – (Series II Class A) 35

(Notes)
1. Masayuki Hizume, Keiko Tsuchiya, and Jinichiro Yamada are outside directors.
2. Akihito Sakai, Hidenori Sugiura, and Asako Aoyama are outside members of the Audit & Supervisory Board.
3. We introduced an executive officer system to energize the Board of Directors and streamline work processes. The executive officers are as follows. Four of the executive officers are directors mentioned above.

Director	Takayuki Morita	Senior Executive Officer	Chairman of the Board, General Manager, Taiyo Ink (Suzhou) Co., Ltd, Managing Director, Taiyo Ink International (HK) Limited, Chairman of the Board, Taiyo Ink Trading (Shenzhen) Co., Ltd., Chairman of the Board, Onstatic Technology Co., Ltd., and Chairman of the Board, Onstatic Ink (Shenzhen) Co., Ltd., and
Director	Eiji Takehara	Senior Executive Officer	Chairman of the Directors Board, Taiwan Taiyo Ink Co., Ltd.
Director	Hitoshi Saito	Senior Executive Officer	President and CEO, Taiyo Ink Co., (Korea) Ltd., and President and CEO, Taiyo Ink Products Co., Ltd.
Director	Takao Miwa	Senior Executive	Officer in charge of Group HR
	Kazuhiro Hashimoto	Senior Executive Officer	Chairman and Representative Director, Taiyo Ink Mfg Co., Ltd.
	Masao Arima	Managing Executive Officer	President and Representative Director, Taiyo Pharma Co., Ltd.
	Taiyen Tsai	Managing Executive Officer	Director, General Manager, Onstatic Technology Co., Ltd., and Director, General Manager, Taiyo Ink Trading (Shenzhen) Co., Ltd.
	Harutomo Kaiho	Managing Executive Officer	Chairman of the Board and Representative Director, Micro Network Technologies Corp., and Chairman of the Board and Representative Director, Thou-Management Corporation
	Atsushi Miura	Managing Executive Officer	Director, General Manager, Taiwan Taiyo Ink Co., Ltd.
	Daisuke Mishima	Managing Executive Officer	Director, General Manager, Taiyo Ink Trading (Shenzhen) Co., Ltd.
	Shuichi Omi	Managing Executive Officer	Global Chief of Finance & Accounting
	Fumihiko Kojin	Executive Officer	President and Representative Director, Taiyo Green Energy Co., Ltd.
	Shoji Minegishi	Executive Officer	President and Representative Director, Taiyo Ink Mfg. Co., Ltd.
	Hideyuki Goto	Executive Officer	Chairman and Representative Director, Chugai Kasei Co., Ltd.
	Sayaka Tomioka	Executive Officer	General Manager, Pharmaceuticals Division
	Kazuyuki Nishikawa	Executive Officer	Managing Director, Taiyo Ink International (Singapore) Pte Ltd, and Managing Director, Taiyo Trading (Thailand) Co., Ltd.
	Takuji Maekawa	Executive Officer	President and Director, Taiyo America, Inc.

2) Outside board members

We have three outside directors and three Audit & Supervisory Board members.

- Masayuki Hizume (outside director)
  Heads Masayuki Hizume Certified Public Accounting Office
  We have no special relationship with this public accountancy.
- Keiko Tsuchiya (outside director)
  Serves as director of Adecco Ltd.
  We have no special relationship with this company.
- Jinichiro Yamada (outside director)
  Has roles in the following organizations:
  - National Institute of Science and Technology Policy, Ministry of Education, Culture, Sports, Science and Technology (Visiting Research Officer)
  - Graduate School of Business, Osaka City University (Professor)
  - Griffith University (Visiting Scholar)

  We have no special relationship with any of the above organizations.
- Hidenori Sugiura (outside Audit & Supervisory Board member)
  Serves on the Audit & Supervisory Board of Taiyo Pharma Tech Co., Ltd.
  Our relationship with said company is disclosed in "Business combination through share acquisition", on page 73.
- Asako Aoyama
  Serves as Head of Business Development at Coca-Cola Bottlers Japan Holdings Inc.
  We buy beverages from said company to provide to visitors.

We have no codified standards or policies for determining whether outside directors and outside Audit & Supervisory Board members are independent. However, we do look for certain qualities in potential nominees. Examples include:

- Expert insights and extensive experience with which the person could supervise the management objectively and appositely
- The qualities necessary to perform their audit and supervisory role
- Absence of any potential conflict of interest with general shareholders.

3) How outside directors and outside Audit & Supervisory Board members coordinate with internal auditors and the accounting auditor, and how they interact with the Office of Internal Audits

The outside directors and outside Audit & Supervisory Board members liaise with our accounting auditors as necessary and actively exchange information and opinions. They also work closely with the Office of Internal Audits so as to perform their audit and supervisory duties effectively.

(3) Auditing and supervision

1) Corporate auditors

- Board of Corporate Auditors
  Audit & Supervisory Board members perform their duties according to an audit plan they draw up (the Board of Corporate Auditor's Audit Plan). They audit and supervise our business operations and financial position and that of the group as a whole. One way they do this is by participating in meetings of Taiyo Holdings' key bodies, including the Board of Directors and the Executive Council. They also question our corporate officers and midlevel managers and inspect our Japan and overseas group companies.
- Tripartite audits
  Audit & Supervisory Board members work closely with the accounting auditors and the Office of Internal Audits to realize tripartite (three-party) audits. This approach makes accounting and operational audits more effective and efficient.
- Board meetings
  The Board of Corporate Auditors holds monthly meetings to discuss and resolve audit and supervisory matters and to share information about the group as a whole.

• Board members

The Board of Corporate Auditors has four members, three of whom are from outside the company. Akihito Sakai (outside member) has extensive insight in finance, accounting, and legal affairs, which he gained from his experience in the business world. Hidenori Sugiura (outside member) has extensive insight in finance and accounting. He worked as a university lecturer drawing on the financial expertise he gained in the business world. Masaru Oki (internal member) has broad business knowledge and experience, which he developed during his service as an executive officer for Taiyo Holdings. Asako Aoyama (outside member)'s executive experience has given her insight in finance, accounting, and M&A activities. As a certified public accountant, she is particularly competent in financial and accounting matters.

2) Office of Internal Audits

• The Office of Internal Audits has two members. The office audits Taiyo Holdings' divisions and group companies according to its audit plan (the Office of Internal Audits Plan). The Board of Directors may order the office to conduct special audits if necessary. The office will report the results of such audits to the Board of Directors and Board of Corporate Auditors.

3) Accounting auditor

a. Name of accounting auditor

Deloitte Touche Tohmatsu LLC

b. Certified accountants who conduct the accounting audits

Toru Nakatsuka

Hiroshi Waseda

c. Accounting auditor's assistants

The accounting auditor is assisted by six certified public accountants, three persons who have passed the certified public accountant exam, and two other assistants.

d. Why we chose this firm as our accounting auditor

In selecting Deloitte Touche Tohmatsu LLC as our accounting auditor, we followed the Criteria for Selecting the Accounting Auditor. We chose Deloitte because, among other reasons, it has the necessary expertise, independence, quality controls, as well as the ability to audit global operations in a unified manner.

The accounting auditor may be dismissed, with the unanimous consent of the Audit and Supervisory Board, if it falls under any of items in Article 340 (1) of the Companies Act. If the accounting auditor is dismissed in this way, the Audit and Supervisory Board will appoint one of its members to inform shareholders of the dismissal, as well as the reasons for the dismissal, at the next general shareholders' meeting. If the Audit and Supervisory Board determines that the accounting auditor cannot discharge its duties or is otherwise unfit for its role, the office will submit a motion to general shareholders' meeting to dismiss, or to not re-elect, the accounting auditor.

e. Audit and Supervisory Board members' evaluation of the accounting auditor

Audit and Supervisory Board members evaluate the accounting auditor according to the Criteria for Evaluating the Accounting Auditor. The members have determined that Deloitte Touche Tohmatsu LLC is fit to serve as accounting auditor in view of the following factors: The firm is independent; it has robust quality controls; it has robust workflow processes; and it effectively discharged its auditing duties in the year in the reporting year.

4) Remuneration for audit services

a. Breakdown of remuneration paid for audit services rendered by accounting auditor

	Previous fiscal year (million yen)		Current fiscal year (million yen)	
	Remuneration for certified audits	Remuneration for non-audit services	Remuneration for certified audits	Remuneration for non-audit services
Filing company (Taiyo Holdings)	49	–	48	–
Consolidated subsidiaries	–	–	20	–
Total	49	–	68	–

b. Breakdown of remuneration (other than that in a.) paid for audit services rendered by an organization analogous to a certified public accountant (in this case, Deloitte Touche Tohmatsu)

	Previous fiscal year (million yen)		Current fiscal year (million yen)	
	Remuneration for certified audits	Remuneration for non-audit services	Remuneration for certified audits	Remuneration for non-audit services
Filing company (Taiyo Holdings)	–	–	–	–
Consolidated subsidiaries	65	6	67	11
Total	65	6	67	11

The non-audit services for which consolidated subsidiaries paid 6 million yen include professional advice on transfer pricing regulation and personal income tax.

c. Other notable remuneration for certified audits

Previous fiscal year

Nothing to disclose.

Current fiscal year

Nothing to disclose.

d. Criteria for determining remuneration for audit services

We consider the size of the company providing the services, the nature of the services, and the number of days the audit takes.

e. Basis on which the members of the Audit and Supervisory Committee unanimously consented to the accounting auditor's remuneration

The members unanimously consented pursuant to Article 399 (1) of the Companies Act following a review in which they referred to the Japan Audit & Supervisory Board Members Association's guidelines on establishing criteria for evaluating and selecting an accounting auditor. Specifically, after obtaining the necessary data from directors, other internal parties, and the accounting auditor, the members reviewed the audit workflows, timeframe, and estimated remuneration as stated in the audit plan.

(4) Remuneration for corporate officers

1) Compensation amounts for corporate officers / policy for determining how to calculate these amounts and how these amounts were determined

At the 71st Ordinary General Shareholders Meeting on June 21, 2017, the shareholders approved our plan to provide a share compensation package to executive directors (meaning directors specified in Article 363-1 of the Companies Act) in addition to their base salary and performance-linked cash compensation.

The approved share package consists of:

- Transfer-restricted share compensation
- Performance-linked share compensation

The purpose of the share compensation package is to further motivate executive directors to sustainably enhance Taiyo Group's corporate value. Another purpose is to increase their mutual interest with shareholders.

Non-executive directors and Audit & Supervisory Board members receive base salary only.

Directors:

At successive shareholder meetings, the shareholders have approved remuneration for directors as follows:

- June 29, 2010 (64th Ordinary General Shareholders' Meeting—six directors at close of meeting)
  A total of 300 million yen to be paid to directors as base salary.
- June 20, 2014 (68th Ordinary General Shareholders' Meeting—five executive directors at close of meeting)
  Executive directors to receive performance-linked cash compensation capped at 1.6 percent of net income (see note) for the relevant business term.
- June 21, 2017 (71st Ordinary General Shareholders Meeting—five executive directors at close of meeting)
  Executive directors to receive performance-linked cash compensation capped at 3.4 percent of profit attributable to owners of parent for the relevant business term (provided that the recipients use this compensation to buy common shares that the Company issues or disposes of).
  Executive directors to receive receivables exchangeable for transfer-restricted share compensation capped at 300 million yen.

Note: In the 70th business term, we renamed "net income" (in the consolidated statements of income) to "profit attributable to owners of parent" to reflect a revision of the Japanese Accounting Standards made in September 2013. Accordingly, in the 70th business term, the metric for performance cash pay became profit attributable to owners of parent. However, this change was only nominal; the metric for performance cash remained the same in effect.

The Board of Directors determines, to the extent approved by shareholders, the amount of each form of compensation (directors' base salary and executive directors' performance-linked cash compensation, performance-linked share compensation, and transfer-restricted share compensation) as well as the methods and timing of payment, and how to allocate the compensation.

Audit and Supervisory Committee members: June 28, 2011 (65th Ordinary General Shareholders' Meeting—four members at close of meeting, three of whom were from outside the Company)

A total of 5 million yen to be paid to Audit and Supervisory Committee members.

The Audit and Supervisory Committee members negotiate the amount of compensation, as well as the methods and timing of payment and how to allocate the compensation, within the extent approved by shareholders.

Below, we describe the key aspects of our system of director compensation and provide a detailed outline.

Key aspects of director compensation

- The balance between fixed and variable compensation policy is to weighted toward the latter. We keep the fixed portion relatively low so that the majority of the compensation consists of variable compensation—and is thus linked to performance and share price, especially over the long term.
- Profit attributable to owners of parent is the only metric for performance cash pay and performance-linked share compensation. We consider this metric reasonable in that it encourages executive directors to identify with the interests of shareholders. It does so because executive directors receive a portion of the benefits that we deliver to shareholders (after having allocated benefits to trading partners, employees, banks, national and local governments, and other interested parties).
- The amounts of both performance-linked cash compensation and performance-linked share compensation vary according to profit attributable to owners of parent. We pay neither form of compensation if profit attributable to owners of parent is in negative territory. Therefore, when profit attributable to owners of parent is low or negative, executive directors' compensation will be low also.
- Because it delivers shares to executive directors, the share compensation package fosters share-consciousness (executive directors would earn less in effect if the share price declines), which could not be achieved with stock options.
- By providing short, mid, and long-term incentives, the share compensation package motivates executive directors to contribute to our mid-to-long term corporate value, and thus helps us recruit and retain top-level managers.

Outline of director compensation

(I) Base salary

The maximum amount of base salary is ¥300 million. The monthly amount we pay each director depends on their officer status.

(II) Performance-linked cash compensation (short-term incentive)

i) Overview

We determine the total amount based on profit attributable to owners of parent as of the fiscal year preceding that in which the payment date falls. We then determine the amounts for each recipient according to their officer status and pay these amounts in cash.

At a meeting on June 22, 2019, the Board of Directors resolved to calculate the compensation according to the four points below. The Audit & Supervisory Board has issued a written certificate confirming that the majority of its members support the method. These members agreed that basing the amount on profit attributable to owners of parent is objective and fair way in that it makes compensation reflect profit in the relevant fiscal year.

ii) Calculation method

The total amount is 1.6% of profit attributable to owners of parent. However, this amount will be capped (see the following point). Moreover, none of this compensation will be provided if profit attributable to owners of parent is in negative territory. The amount of profit attributable to owners of parent will be rounded down to the nearest million yen.

iii) Defined amount (cap)

Article 34-1-3-b (1) of the Corporation Tax Act requires us to limit the maximum amount of compensation to a "defined amount." Our defined amount is ¥188,800,000.

iv) Eligible officers

The compensation is only for executive directors (those defined as "executive officers" in Article 34-1-3 of the Corporation Tax Act). Non-executive directors and Audit & Supervisory Board members are excluded.

v) Dividing the compensation among eligible recipients

We assign points to each executive director according to their officer status. We then multiply the total performance-linked cash compensation by an amount equivalent to the point awarded for each director. We then divide this amount by the total points awarded for all directors. The table below describes how we award the points.

Officer status	Points
Chairman of the Board	101
President and CEO	169
Deputy President	108
Senior Managing Director	101
Managing Director	78
Director	66

For the 74th business term (fiscal year ending March 31, 2020), we will prepare performance-linked cash compensation for the following executive directors incumbent as of June 22, 2019.

Officer status	Persons
President and CEO	1
Director	4

(Note) We also pay the compensation to any executive directors who left their office (i.e., resigned from the company or lost their executive director status) during the period they were eligible for the compensation (i.e., after the Ordinary General Shareholders' Meeting held in the year occurring two years prior to the year of payment, and before the Ordinary General Shareholders' Meeting held in the year preceding the year of payment). In such case, we will pay the ex-executive director according to the average monthly points he or she earned during the period from the month following the month in which he or she became an eligible recipient until the month in which he or she left office.

(III) Performance-linked share compensation (mid-term incentive)

i) Overview

We determine the total amount of performance-linked share compensation based on profit attributable to owners of parent as of the fiscal year preceding that in which the payment date falls. We then determine the amounts for each recipient according to their officer status and pay these amounts in two forms: (1) property to be exchanged for common shares, and (2) cash. We allot common shares for the eligible executive directors by issuing new shares or by disposing of treasury shares. We then deliver to each recipient an amount of the shares corresponding to the cash amount we paid them.

However, we exclude from the cash amount all portions corresponding to:

- Income tax, resident tax, and other taxes
- Social security premiums
- Payment handling fees
- Fractional portion (the rounded-off portion)

The executive directors have signed agreements confirming that they will use the cash we pay them under the performance-linked share compensation plan to purchase the allotted common shares (allotted by issuing new shares or disposing of treasury stock). The terms of these agreements are shown below.

However, it is possible that a law or judicial judgment might prevent us from allotting the common shares to the executive directors in this way. In such case, the recipients will receive the compensation in cash only (without exchanging this cash for common shares). We will also pay cash, as opposed to shares, for any portion of the compensation that exceeds the "annual allotment cap" or the "recipient cap" (both of which are described in the allotment terms on page 55).

Furthermore, if an executive director transfers their right to receive performance-linked share compensation to another person, this person will receive the compensation in cash only.

Performance-linked Share Compensation Agreement

a) *You must purchase the common shares we allot you pursuant to this agreement (the "Allotted Shares") within three years from the payment date (the Transfer Period). The Allotted Shares are subject to "Transfer Restrictions"—meaning that you cannot transfer, hypothecate, or otherwise dispose of them.*
b) *Notwithstanding the previous paragraph, we reserve the right to remove the Allotted Shares' Transfer Restrictions by resolution of the Board of Directors if during the Transfer Period:*
   - *the shareholders (or the Board of Directors if shareholder approval is unnecessary) approve any of the following:*
   - *a merger in which Taiyo Holdings becomes a non-surviving company,*
   - *a share exchange agreement or a share transfer plan under which Taiyo Holdings becomes a wholly-owned subsidiary of another company, or*
   - *a similar corporate reorganization event, or if*
   - *Taiyo Holdings' controlling shareholders change.*

At a meeting on June 22, 2019, the Board of Directors resolved to calculate the compensation according to the four points below. The Board of Corporate Auditors has issued a written certificate confirming that the majority of its members support the method. These members agreed that basing the amount on profit attributable to owners of parent is objective and fair way in that it makes compensation reflect profit in the relevant fiscal year.

ii) Calculation method

The total amount is 3.4% of profit attributable to owners of parent. However, this amount will be capped (see the following point) and none of this compensation will be provided if profit attributable to owners of parent is in negative territory. The amount of profit attributable to owners of parent will be rounded down to the nearest million yen.

iii) Defined amount (cap)

Article 34-1-3-b (1) of the Corporation Tax Act requires us to limit the maximum amount of compensation to a "defined amount." Our defined amount is ¥401,200,000

iv) Eligible officers

The compensation is only for executive directors (those defined as "executive officers" in Article 34-1-3 of the Corporation Tax Act). Non-executive directors and Audit & Supervisory Board members are excluded.

v) Allocating among the recipients

We assign points to each executive director according to their officer status. We multiply the total performance-linked share compensation by an amount equivalent to the points awarded to each director. We then divide this amount by the total points awarded to all directors. The table below describes how we award the points.

Officer status	Points
Chairman of the Board	36
President and CEO	120
Deputy President	48
Senior Managing Director	36
Managing Director	24
Director	12

For the 74th business term (fiscal year ending March 31, 2020), we will prepare performance-linked share compensation for the following executive directors incumbent as of June 22, 2019.

Officer status	Persons
President and CEO	1
Director	4

(Note) We also pay the compensation to any executive directors who left their office (i.e., resigned from the company or lost their executive director status) during the period they were eligible for the compensation (i.e., after the Ordinary General Shareholders' Meeting held in the year occurring two years prior to the year of payment, and before the Ordinary General Shareholders' Meeting held in the year preceding the year of payment). In such case, we will pay the ex-executive director according to the average monthly points he or she earned during the period from the month following the month in which he or she became an eligible recipient until the month in which he or she left office.

(IV) Transfer-restricted share compensation (long-term incentive)

The maximum amount of the compensation is ¥300 million. We provide each executive director with monetary claims with which they purchase the transfer-restricted shares. The amount of the monetary claims is commensurate with the value of the recipient's executive role as represented by their officer status during the time they are eligible for the compensation (after the Ordinary General Shareholders' Meeting held in the year preceding the year of payment, and before the day before the Ordinary General Shareholders' Meeting held in the year of payment).

The executive directors have signed agreements confirming that they will exchange the entirety of the monetary claims they receive for the allotted common shares (allotted by issuing new shares or disposing of treasury stock). The terms of these agreements are shown below.

Executive directors can only receive the compensation if:

- They remained incumbent as executive directors immediately before the date they purchase the common stock
- There is an absence of any circumstances in which we cancel issuing new shares or disposing of treasury stock (such as an order to revoke or cease)

Transfer-restricted Share Compensation Agreement

a) *The common shares we allot you pursuant to this agreement (the "Allotted Shares") are subject to "Transfer Restrictions"—meaning that you cannot transfer, hypothecate, or otherwise dispose of them for 10 years following the date you purchased them (the "Transfer-restricted Period").*
b) *We will lift the Transfer Restrictions on the entirety of your Allotted Shares after the Transfer-restricted Period, provided that you remained incumbent as an executive director throughout the Transfer-restricted Period (if you die during this period, we will adjust the period accordingly). However, if you leave office (leave the company or lose your status as executive officer) during the Transfer-restricted Period, we will acquire a portion of your Allotted Shares. In such case, we will define the number of your Allotted Shares whose Transfer Restrictions would be lifted in the future. This number will be based on the days you remained in office following the date you first became eligible for the compensation. We will then acquire the remaining Allotted Shares as a matter of course and for no consideration immediately after you leave office.*
c) *Notwithstanding the previous paragraph, we reserve the right to remove the Allotted Shares' Transfer Restrictions by resolution of the Board of Directors if during the Transfer Period:*
   - *the shareholders (or the Board of Directors if shareholder approval is unnecessary) approve any of the following:*
   - *a merger in which Taiyo Holdings becomes a non-surviving company,*
   - *a share exchange agreement or a share transfer plan under which Taiyo Holdings becomes a wholly-owned subsidiary of another company, or*
   - *a similar corporate reorganization event, or*
   - *Taiyo Holdings' controlling shareholders change.*

   If any of the above events occur, we will acquire a portion of your Allotted Shares. In such case, we will define the number of your Allotted Shares whose Transfer Restrictions would be lifted in the future. This number will be based on the number of days between the date you first became eligible for the compensation and the date of the event (the date the corporate reorganization was approved or the date *that Taiyo Holdings' controlling shareholders changed). We will then acquire the remaining Allotted Shares as a matter of course and for no consideration.*

Allotment terms for transfer-restricted and performance-linked share compensation
We have adopted the following four allotment terms for both transfer-restricted and performance-linked share compensation. However, please note the following differences between the two plans:
Transfer-restricted share compensation
Allotment method: Allot shares with specified transfer restrictions
Those eligible: Executive directors incumbent as of the date we allocated common shares under the plan
Performance-linked share compensation
Allotment method: Third-party allotment
Those eligible: Executive directors who remained in office throughout the period beginning on the date of the Ordinary General Shareholders' Meeting held in the year occurring two years prior to the year of payment, and ending in the date of the Ordinary General Shareholders' Meeting held in the year preceding the year of payment

Allotment terms

a) Annual allotment cap
For each shareholder plan, we cap the annual allotment (the total common shares we allot in a given calendar year under the plan) at 0.5% of the "reference share number" (rounding off fractions)
The reference share number is:
The number of outstanding shares as of the day preceding the "resolution date"
(the date the Board of Directors resolved terms of the allotment for the fiscal year) minus
The number of treasury shares ten days prior to the resolution date (if the allotment would clearly alter this number, we will use the altered number instead)。
b) Recipient cap
For each annual allotment, we cap the number of shares we allot to each eligible director at 5% of the reference share number (rounding off fractions), which we determine after aggregating the common shares and Series I and II Class A shares as of the day preceding the resolution date.
We plan to acquire all Series II Class A shares on June 27, 2019, in exchange for common shares. At a meeting on June 22, 2019, the Board of Directors resolved to cancel all Series II Class A shares on June 27, 2019, on the premise that we acquire the entirety of the Series II Class A shares.
c) Order of priority in determining the allocation amount
We determine the amount of common shares to allocate for transfer-restricted share compensation plan before we determine the amount for performance-linked share compensation.
d) Pay-in contribution per share
We determine the amount that executive directors pay in for each common share allotted to them. Generally, the amount is the closing price of our common shares on the Tokyo Stock Exchange as of the business day preceding the resolution date (or if no trading is reported on that day, the day preceding such). The amount will always remain within a range that gives no significant advantage to the executive directors receiving the common shares.

2) Compensation amounts (total and breakdown) for each officer status and the number of recipients in each officer status

Officer status	Total compensation (million yen)	Breakdown (million yen)					Number of recipients
		Basic salary	Performance-linked cash compensation	Performance-linked share compensation	Transfer-restricted share compensation	Retirement bonus	
Director (excluding outside directors)	446	105	70	149	121	–	7
Audit & Supervisory Board members (excluding outside members)	9	9	–	–	–	–	2
Outside officer	59	59	–	–	–	–	7

(Notes) 1. At a meeting on April 22, 2010, the Board of Directors resolved to end the program of retirement benefits for outgoing corporate officers. At the 64th Ordinary General Shareholders Meeting on June 29, 2010, the shareholders approved the board's proposal to make final payment of these benefits.
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.
2. The figure for transfer-restricted share compensation indicates the amount we accrued in the current fiscal year.

3) Consolidated compensation amounts for officers earning more than ¥100 million on consolidated basis

Name	Consolidated total (million yen)	Officer status	Company	Consolidated breakdown (million yen)				
				Basic salary	Performance-linked cash compensation	Performance-linked share compensation	Transfer-restricted share compensation	Retirement bonus
Eiji Sato	226	Director	Filing company (Taiyo Holdings Co., Ltd.)	38	27	106	44	–
		Director	Taiyo Ink Mfg. Co., Ltd.	9	–	–	–	–

(Note) The figure for transfer-restricted share compensation indicates the amount we accrued in the current fiscal year.

4) Results for the performance-linked compensation metric in the most recent business term

In the Consolidated Financial Results we released on May 2, 2018, we projected ¥6,700 million in profit attributable to owners of parent for the 73rd business term (year ending March 31, 2019). The result was ¥4,396 million.

In the Consolidated Financial Results we released on May 10, 2019, we projected ¥5,900 million in profit attributable to owners of parent for the 74th business term (year ending March 31, 2020). The following table shows amounts we would provide in performance-linked cash compensation and performance-linked share compensation for the 74th business term under five hypothetical scenarios.

Profit attributable to owners of parent (million yen)		¥0	2,950	5,900	8,850	11,8000
Performance-linked cash compensation	President and CEO	–	18	36	55	73
	Director (4)	–	28	57	86	115
	Total	–	47	94	141	188
Performance-linked share compensation	President and CEO	–	71	143	214	286
	Director (4)	–	28	57	85	114
	Total	–	100	200	300	401

5) Description/scope of authority invested in each party that exercises authority in the process for determining corporate officers' remuneration (amounts and formulas)

The Board of Directors has the final say in determining directors' remuneration (amounts and formulas), but it considers the advice of the Compensation Advisory Committee. This committee is chaired by an outside director, and the majority of its members are from outside the Company. These members compare wages across different companies using survey data of an independent organization, and then advise the board on appropriate compensation formulas and levels in light of this data.

More specifically, each year, the committee members check compensation benchmarks among companies similar to ours (in terms of scale and categories of business) using the Willis Towers Watson Database. They then review the Company's director compensation in light of this data, including the level of compensation and the share of compensation that is performance-linked.

The committee's meetings are convened by the chair, and the findings of the committee are resolved by a majority of members in attendance representing the majority of all members. The chair submits the committee's findings or proposals to the Board of Directors.

In the latest business term, the Compensation Advisory Committee and Board of Directors acted as follows in regard to determining compensation for corporate officers.

Compensation Advisory Committee

• The committee met seven times since October 2017. During these meetings, the members reviewed director compensation (the approach for and level of such compensation) for the fiscal year ended March 31, 2019, including the formulas for calculating performance-linked cash compensation and performance-linked share compensation, for which they referred to compensation benchmarks in the Willis Towers Watson Database. The committee then reported its findings to the Board of Directors.

Board of Directors

• Respecting the findings of the Compensation Advisory Committee, the Board of Directors determined the compensation for the fiscal year ended March 31, 2019, within the scope approved by shareholders and in accordance with the committee's findings.
• The board considered the Compensation Advisory Committee advice with regard to the formulas for calculating the performance-linked cash compensation and performance-linked share compensation for said fiscal year.

(5) Shareholdings

1) Criteria for categorizing investments

We classify equity securities in which we invest as “held-to-maturity” or “held-for-trading” when the purpose of the investment is to obtain profit from share price movements or share returns. We classify the same as being held for “purposes other than pure investment” when the purpose is otherwise.

2) Equity securities held for purposes other than pure investment

a. Shareholding policy, criteria for determining whether shareholdings are justified, Board of Directors’ reviews of whether to hold shares in a particular company’s stock

Our basic policy is to hold shares in companies if the holdings will contribute to our corporate value over the medium to long term. In each case, we review whether the issuing company has growth potential, whether it is profitable, and whether the holding would strengthen our trading relationship with the company. The Board of Directors will approve or report the holding depending on the price of the acquired shares. The board will also review holdings regularly to check whether they are justified.

b. Number of companies in which shares are held; carrying value of the holdings

Nothing to disclose.

Company stocks in which holdings increased in the current fiscal term

Nothing to disclose.

Company stocks in which holdings decreased in the current fiscal term

Nothing to disclose.

c. Specified equity securities and deemed holdings of equity securities by each company stock, and the carrying value of the holdings

Specified equity securities

Nothing to disclose.

Deemed holdings of equity securities

Nothing to disclose.

3) Active investing / held-for-trading equity securities

	Current fiscal year (million yen)		Previous fiscal year (million yen)	
	Number of company stocks in which shares are held	Total carrying value	Number of company stocks in which shares are held	Total carrying value
Unlisted shares	4	249	3	102
Other shares	8	1,095	8	1,451

	Current fiscal year (million yen)		
	Total dividend income	Gain (loss) on sale	Appraisal gain (loss)
Unlisted shares	–	–	–
Other shares	21	–	111

(Note) We do not show appraisal gain (loss) for unlisted equity securities because in the absence of a market value, they have no readily determinable fair value.

4) Equity securities whose purpose switched from “held-to-maturity / held-for-trading” to “purposes other than pure investment” during the current fiscal term

   None.

5) Equity securities whose purpose switched from “purposes other than pure investment” to “held-to-maturity / held-for-trading” during the current fiscal term

   None.

V. Financial Information

1. How we prepare consolidated and non-consolidated financial statements

(1) Consolidated financial statements

We prepare our consolidated financial statements according to the Ordinance on Terminology, Forms, and Preparation Methods for Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of October 30, 1976).

(2) Non-consolidated financial statements

We prepare our non-consolidated financial statements according to the Ordinance on Terminology, Forms, and Preparation Methods for Non-Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 59 of October 30, 1963).

We are classed as a “Special Financial Statement Reporting Company,” meaning that we prepare financial statements pursuant to Article 127 of the Ordinance on the Terminology, Forms, and Preparation Methods of Financial Statements, etc.

2. Audit certificate

Under Article 193-2(1) of the Financial Instruments and Exchange Act, our financial statements require an audit certificate. Deloitte Touche Tohmatsu has certified our consolidated financial statements for the current consolidated fiscal year (April 1, 2018, to March 31, 2019) and our non-consolidated financial statements for the current fiscal year (April 1, 2018 to March 31, 2019).

3. Special measures for ensuring that our consolidated financial statements are accurate and fair

We are members of the Financial Accounting Standards Foundation. This membership helps us keep abreast of accounting standards and thus enables us to develop the necessary structures for ensuring that our consolidated financial statements are accurate and fair.

We also participate in the Financial Accounting Standards Foundation’s training programs.

1. Consolidated financial statements and other consolidated financial information

(1) Consolidated financial statements

1) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	44,588	31,340
Notes and accounts receivable - trade	*1 15,509	*1 16,610
Merchandise and finished goods	3,499	4,676
Work in process	405	495
Raw materials and supplies	2,042	3,275
Other	2,456	1,825
Allowance for doubtful accounts	(127)	(87)
Total current assets	68,373	58,136
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	*2 9,990	*2 10,891
Machinery, equipment and vehicles, net	2,791	4,005
Tools, furniture and fixtures, net	*2 989	*2 900
Land	3,906	4,022
Construction in progress	240	2,489
Other	5	3
Total property, plant and equipment	*3 17,923	*3 22,313
Intangible assets		
Goodwill	674	691
Sales rights	20,555	19,732
Other	589	1,013
Total intangible assets	21,818	21,436
Investments and other assets		
Investment securities	2,231	2,125
Shares of subsidiaries and associates	19	295
Deferred tax assets	264	225
Retirement benefit asset	326	319
Other	677	1,006
Allowance for doubtful accounts	(144)	(193)
Total investments and other assets	3,374	3,779
Total non-current assets	43,116	47,529
Total assets	111,490	105,666

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,769	6,285
Short-term loans payable	2,145	4,011
Current portion of long-term loans payable	6,116	3,852
Accounts payable - other	1,853	4,100
Income taxes payable	1,448	610
Provision for bonuses	510	499
Other	648	1,353
Total current liabilities	20,491	20,714
Non-current liabilities		
Deferred tax liabilities	1,458	1,190
Long-term loans payable	15,923	12,443
Retirement benefit liability	116	117
Asset retirement obligations	397	570
Other	79	109
Total non-current liabilities	17,975	14,431
Total liabilities	38,467	35,146
Net assets		
Shareholders' equity		
Capital stock	9,232	9,331
Capital surplus	14,717	14,817
Retained earnings	47,415	47,229
Treasury shares	(121)	(2,042)
Total shareholders' equity	71,244	69,336
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	321	94
Foreign currency translation adjustment	1,084	730
Remeasurements of defined benefit plans	9	22
Total accumulated other comprehensive income	1,415	846
Non-controlling interests	363	337
Total net assets	73,023	70,520
Total liabilities and net assets	111,490	105,666

2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net sales	52,241	59,389
Cost of sales	*2 27,304	*2 33,043
Gross profit	24,937	26,346
Selling, general and administrative expenses	*1, *2 13,599	*1, *2 18,247
Operating profit	11,337	8,099
Non-operating income		
Interest income	78	81
Dividend income	18	23
Subsidy income	45	40
Other	71	70
Total non-operating income	214	215
Non-operating expenses		
Interest expenses	127	196
Commission expenses	–	23
Foreign exchange losses	208	21
Loss on investments in partnership	–	32
Other	17	25
Total non-operating expenses	352	300
Ordinary profit	11,199	8,014
Extraordinary income		
Subsidy income	24	–
Gain on sales of investment securities	16	–
Total extraordinary income	40	–
Extraordinary losses		
Amortization of goodwill	*4 3,278	–
Impairment loss	–	*3 1,311
Other	19	–
Total extraordinary losses	3,298	1,311
Profit before income taxes	7,941	6,703
Income taxes - current	3,040	2,387
Income taxes - deferred	(24)	(127)
Total income taxes	3,016	2,259
Profit	4,925	4,443
Profit attributable to non-controlling interests	69	46
Profit attributable to owners of parent	4,856	4,396

Consolidated statement of comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Profit	4,925	4,443
Other comprehensive income		
Valuation difference on available-for-sale securities	125	(227)
Foreign currency translation adjustment	(45)	(358)
Remeasurements of defined benefit plans, net of tax	8	12
Total other comprehensive income	* 89	* (573)
Comprehensive income	5,014	3,869
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,333	3,827
Comprehensive income attributable to non-controlling interests	(318)	42

3) Consolidated statement of changes in equity

Fiscal year ended March 31, 2018

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	9,171	14,824	46,308	(178)	70,125
Changes of items during period					
Dividends of surplus			(3,748)		(3,748)
Profit attributable to owners of parent			4,856		4,856
Purchase of shares of consolidated subsidiaries		(167)			(167)
Issuance of new shares	60	60			121
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				57	57
Net changes of items other than shareholders' equity					
Total changes of items during period	60	(106)	1,107	56	1,118
Balance at end of current period	9,232	14,717	47,415	(121	71,244

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	195	741	0	938	782	71,846
Changes of items during period						
Dividends of surplus						(3,748)
Profit attributable to owners of parent						4,856
Purchase of shares of consolidated subsidiaries						(167)
Issuance of new shares						121
Purchase of treasury shares						(0)
Disposal of treasury shares						57
Net changes of items other than shareholders' equity	125	342	8	476	(418)	58
Total changes of items during period	125	342	8	476	(418)	1,177
Balance at end of current period	321	1,084	9	1,415	363	73,023

Fiscal year ended March 31, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	9,232	14,717	47,415	(121)	71,244
Changes of items during period					
Dividends of surplus			(4,627)		(4,627)
Profit attributable to owners of parent			4,396		4,396
Issuance of new shares	99	99			199
Purchase of treasury shares				(1,992)	(1,992)
Disposal of treasury shares				71	71
Effect resulting from change of accounting period of consolidated subsidiaries			44		44
Net changes of items other than shareholders' equity					
Total changes of items during period	99	99	(186)	(1,921)	(1,907)
Balance at end of current period	9,331	14,817	47,229	(2,042)	69,336

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	321	1,084	9	1,415	363	73,023
Changes of items during period						
Dividends of surplus						(4,627)
Profit attributable to owners of parent						4,396
Issuance of new shares						199
Purchase of treasury shares						(1,992)
Disposal of treasury shares						71
Effect resulting from change of accounting period of consolidated subsidiaries						44
Net changes of items other than shareholders' equity	(227)	(354)	12	(569)	(26)	(595)
Total changes of items during period	(227)	(354)	12	(569)	(26)	(2,503)
Balance at end of current period	94	730	22	846	337	70,520

4) Consolidated statement of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from operating activities		
Profit before income taxes	7,941	6,703
Depreciation	2,284	3,357
Impairment loss	–	1,311
Amortization of goodwill	3,535	350
Commission expenses	–	23
Loss (gain) on investments in partnership	–	32
Loss (gain) on sales of short-term and long-term investment securities	(16)	–
Subsidy income	(24)	–
Decrease (increase) in retirement benefit asset	15	18
Increase (decrease) in retirement benefit liability	(10)	1
Increase (decrease) in allowance for doubtful accounts	14	(72)
Increase (decrease) in provision for bonuses	72	18
Interest and dividend income	(97)	(105)
Interest expenses	127	196
Decrease (increase) in consumption taxes refund receivable	(1,759)	1,571
Decrease (increase) in notes and accounts receivable - trade	(2,030)	(1,205)
Decrease (increase) in inventories	(1,508)	(2,478)
Increase (decrease) in notes and accounts payable - trade	1,653	(1,341)
Other, net	(171)	1,396
Subtotal	10,025	9,778
Interest and dividend income received	92	106
Interest expenses paid	(123)	(219)
Proceeds from subsidy income	24	–
Income taxes paid	(1,918)	(3,757)
Net cash provided by (used in) operating activities	8,100	5,907
Cash flows from investing activities		
Payments into time deposits	(4,379)	(2,103)
Proceeds from withdrawal of time deposits	3,846	3,536
Purchase of property, plant and equipment	(1,381)	(4,183)
Purchase of intangible assets	(21,192)	(1,227)
Purchase of investment securities	(1,021)	(597)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(10)	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	*3 (844)
Other, net	(22)	(66)
Net cash provided by (used in) investing activities	(24,161)	(5,487)

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,097	1,254
Proceeds from long-term loans payable	15,100	–
Repayments of long-term loans payable	(502)	(6,622)
Purchase of treasury shares	–	(2,016)
Cash dividends paid	(3,748)	(4,625)
Dividends paid to non-controlling interests	(85)	(68)
Proceeds from issuance of common shares	–	77
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(538)	–
Other, net	(3)	(1)
Net cash provided by (used in) financing activities	11,319	(12,001)
Effect of exchange rate change on cash and cash equivalents	(102)	(134)
Net increase (decrease) in cash and cash equivalents	(4,844)	(11,715)
Cash and cash equivalents at beginning of period	46,661	41,816
Cash and cash equivalents at end of period	*1 41,816	*1 30,101

Notes on consolidated financial statements

Basic factors underlying our consolidated financial statement

1. Scope of consolidation

(1) Major consolidated subsidiaries

We have 20 consolidated subsidiaries.

The names of these subsidiaries are shown on page 9 (“our associates”).

Taiyo Trading (Thailand) Co., Ltd., was founded and incorporated into the scope of consolidation in the current fiscal term. Micro Network Technologies Corp. was incorporated into the scope of consolidation in the current fiscal term after we bought out the company together with a subsidiary of the company. Thou-Management Corporation was incorporated into the scope of consolidation in the current fiscal term after we bought out the company.

(2) Major non-consolidated subsidiaries

We have three non-consolidated subsidiaries

The major non-consolidated subsidiary is Taiyo Ink (Thailand) Co., Ltd.

We exclude these non-consolidated subsidiaries from the scope of consolidation because:

- They are small in scale.
- Their total assets, net sales, current net profit (as corresponds to equity), and retained earnings (as corresponds to equity) do not significantly impact our consolidated financial statements.

2. Consolidated subsidiaries

Of our consolidated subsidiaries, Onstatic Technology Co., Ltd., and two of its subsidiaries used to have December 31 as their settlement date. In the current fiscal term, they changed the date to March 31. Before this change, we would refer to the company and its subsidiaries financial statements as of December 31 and adjustment as necessary for any major transactions occurring between then and March 31 (the consolidated settlement date).

Two of our consolidated subsidiaries—Taiyo Ink (Suzhou) Co., Ltd. and Taiyo Ink Trading (Shenzhen) Co., Ltd.—have December 31 as their settlement date. In our consolidated financial statements, the financial information for these subsidiaries is based on a provisional settlement as of the consolidated settlement date.

Onstatic Ink (Shenzhen) Co., Ltd. used to have December 31 as its consolidated settlement date. Because this settlement date was no more than three months apart from the consolidated settlement date, we would prepare consolidated financial statements pertaining to the subsidiary based on the non-consolidated financial statements as of December 31, adjusting as necessary for any major transactions occurring between then and March 31. However, the subsidiary changed its settlement date to March 31 to help us to track business data and disclose consolidated financial statements more effectively. For this consolidated fiscal term, the financial information for the subsidiary is based on a provisional settlement as of the consolidated settlement date.

With the above changes, in the current consolidated fiscal term, the fiscal terms for the above subsidiaries are consolidated as April 1, 2018, to March 31, 2019.

The profit/loss the subsidiaries recorded for the period from January 1, 2018, to March 31, 2018, have been reconciled by recording them as change in retained earnings.

No other consolidated subsidiary has a fiscal year-end that differs from the consolidated fiscal year-end.

3. Applying the equity method

We do not apply the equity method to our non-consolidated subsidiaries and affiliates because they only have minimal impact on current net profit (as corresponds to equity), and retained earnings (as corresponds to equity).

4. Accounting policies

(1) How we state major assets, and how we determine the stated value

1) Securities

Shares of the non-consolidated subsidiaries and affiliates, to which we do not apply the equity method

We state at cost, as determined by the moving average method

Other securities

Securities with determinable fair value:

We state at fair value, as determined by the market price on the last day of the consolidated fiscal period (we process valuation discrepancies by the total direct capitalization method, and determine cost of sales by the moving average method)

Securities with no determinable fair value:

We state at cost, as determined by the moving average method

For our contributions to investment partnerships (only those defined as securities under Article 2-2 of the Financial Instruments and Exchange Act), we state the net value of our equity interest (as gleaned from available financial statements) according to the partnership's settlement date.

2) Derivatives

We state at fair value.

3) Inventories

Generally, we state at cost, as determined by the moving average method (we reduce the carrying value when the contribution to profits declines).

(2) How we depreciate major depreciable assets

1) Property, plant and equipment

Buildings	Generally, we use the straight-line method.
Other	Generally, we use the declining-balance method.

The useful life of these assets is generally as follows.

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

2) Intangible assets

Software (for internal use)	We use the straight-line method based on the period for which we expect to use the software (namely, five years).
Other	We use the straight-line method.

The useful life of these assets is generally as follows.

Sales rights:	10–15 years

(3) How we account for major reserves

1) Allowance for doubtful accounts

We provide a bad debt reserve to cover the bad debt we expect to arise from our accounts receivable as a whole. We estimate the amount based on the doubtful accounts rate. If we have concerns with particular debtors, we will consider how much we are likely to recover from the debtor in question and then add the unrecoverable portion to the bad debt reserve.

2) Provision for bonuses

We and some of our consolidated subsidiaries provide a reserve to cover the bonuses we expect to pay in the relevant consolidated fiscal year.

(4) How we account for retirement benefits

1) Attributing projected retirement benefits to periods of service

We use a benefit formula to estimate the amount of retirement benefit obligations we will pay until the end of the consolidated fiscal year. We then attribute this projected amount to the consolidated fiscal year in question.

2) Amortizing actuarial gains/losses and prior service cost

To recognize prior service costs, we amortize the amount using the straight-line method. The amortization period will always be shorter than the employees' average remaining service period (it is usually five years).

We amortize actuarial gains/losses using the straight-line method and starting from the fiscal year following that in which we recognized the gain/loss. The amortization period will always be shorter than the employees' average remaining service period (it is usually five years).

For unrecognized actuarial gains/losses and unrecognized prior service cost, we adjust for tax effects and then report them as "remeasurements of defined benefit plans" under the "accumulated other comprehensive income" entry in the net assets section.

3) Simplified accounting procedures for smaller companies

Some of our consolidated subsidiaries use a simplified method for calculating net-defined benefit liability and retirement benefits. Under this method, the amount of retirement benefits paid for voluntary resignations is included in retirement benefit obligations.

(5) How we redenominate major foreign assets/liabilities

Foreign currency-denominated monetary claims and liabilities are translated to yen with the spot exchange rate of the consolidated balance sheet date with translation differences charged to profit and loss in the corresponding fiscal year.

Assets and liabilities of overseas consolidated subsidiaries are translated to yen with the spot exchange rate of the consolidated balance sheet date. Revenue and expenses thereof are translated to yen with the average exchange rate during the period. Exchange differences are included in foreign currency translation adjustment and non-controlling interests in the section of net assets.

(6) How we account for major hedges

1) Hedge accounting

Interest rate swaps qualify for special accounting treatment, so we treat them accordingly.

2) Hedging instruments and hedged items

Hedging instrument	Hedged item
Interest rate swaps	Long-term loans payable (including current portion of long-term loans payable)

3) Hedging policy

We use hedging instruments to hedge against adverse interest rate movements to the extent appropriate for the hedged item.

4) Evaluating hedge performance

We do not evaluate the performance of interest rate swaps because they are subject to special accounting treatments.

(7) Method and period for amortizing goodwill

Goodwill is amortized by the straight-line method over 5 years or 20 years.

(8) Scope of cash and cash equivalents on the consolidated statement of cash flows

Consists of cash on hand, deposits that can be quickly accessed, and easily convertible short-term investments that are only mildly affected by market price fluctuations, that mature within three months of acquisition, or the redemption date is not more than three months away.

(9) Other key matters that determine how we prepare our consolidated financial statements

1) Consumption taxes

We account for consumption taxes using the tax excluded method.

2) Applying the consolidated tax system.

We apply this system.

(Accounting standards not yet applied)

1. Filing company and Japan-based consolidated subsidiaries
   - Accounting standard for revenue recognition (Statement No. 29, Accounting Standards Board of Japan, March 30, 2018)
   - Guidance on implementing accounting standard for revenue recognition (Statement No. 30, Accounting Standards Board of Japan, March 30, 2018)

(1) Outline

In May 2014, after working together on converged accounting standards for recognizing revenue, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) issued converged accounting standards for recognizing revenue from contracts with customers. The IFRS standard is IFRS 15, and the FASB standard is Topic 606. IFRS 15 applies to financial statements for business periods beginning on or after January 1, 2018. Topic 606 applies to financial statements for business periods beginning after December 15, 2017. In line with this development, the Accounting Standards Board of Japan (ASBJ) has developed its own converged accounting standard for revenue recognition, and it issued this standard together with guidance on how to apply it.

An advantage of converged accounting standards is that they make it easier to compare financial statements from different countries. To promote such international comparability, the ASJB decided to incorporate all the key provisions of IFRS 15 into its own standard. However, it also decided to provide companies that report under Japanese generally accepted practices with alternative treatments for certain items, but only to the extent that these alternatives do not undermine international comparability.

(2) Effective date

The standard will apply to our financial statements starting in the fiscal year ending in March 31, 2022.

(3) Impact

We are currently investigating how the standard will affect our consolidated financial statements.

2. Overseas consolidated subsidiaries

IFRS 16 Leases

(1) Outline

The application of IFRS 16 means that the lessee must recognize all its right-of-use assets and lease liabilities in the balance sheet. The application does not significantly affect the lessor's accounting.

(2) Effective date

The standard will apply to financial statements starting in the fiscal year ending in March 31, 2022.

(3) Impact

We are currently investigating how the standard will affect our consolidated financial statements.

Additional information

Delivering treasury shares to employs through a trust

The Company has applied the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (ASBJ PITF No. 30, March 26, 2015).

(1) Overview of transactions

On May 2, 2014, the Board of Directors resolved to introduce an ESOP trust with the aim of (1) fostering feelings of “belongingness” or solidarity and a willingness to participate in management, (2) raising employees’ morale and motivating them to contribute to our long-term performance and stock price, and (3) encouraging employees to contribute to our long-term corporate value. We record the ESOP trust’s assets/liabilities on the balance sheet as our own assets/liabilities, and we record its income on statements of income as our own income (using the aggregate method).

(2) Total number of shares we expect employees to receive

The stock of the Company that remains in the trust is stated as treasury shares under net assets, in an amount equivalent to the trust’s carrying value (minus ancillary costs). In the current consolidated fiscal term, said stock consists of 182,680 shares, with a carrying value of ¥664 million.

Business combination through share acquisition

In the Board of Directors meeting held on January 31, 2019, the Taiyo Group approved the acquisition of all shares in a new company (hereafter, “new company”) created by the spin-off of Takatsuki Plant owned by Daiichi Sankyo Propharma Co., Ltd. (hereafter, “Daiichi Sankyo Propharma”), a subsidiary of Daiichi Sankyo Company, Limited (hereafter, Daiichi Sankyo), in a company split. A basic agreement concerning share transfer was concluded with Daiichi Sankyo the same day.

(1) Overview of business combination

1) Name and business description of the company to be acquired

Name:	Taiyo Pharma Tech Co., Ltd.
Business description:	Business in the manufacture and sale of pharmaceutical drugs

2) Main reason for the business combination

As stated in NEXT STAGE 2020, the Taiyo Group medium-term business plan, we are implementing various initiatives aimed at growing the medical and pharmaceutical business into the second pillar of our business. Our subsidiary Taiyo Pharma Co., Ltd. has acquired long-listed products and has begun the manufacture and sale of pharmaceuticals as part of those initiatives, and we recently made the decision to acquire the Takatsuki Plant of Daiichi Sankyo Propharma to acquire a new manufacturing location for the company.

The Takatsuki Plant of Daiichi Sankyo Propharma, a pharmaceutical manufacturer in the Daiichi Sankyo Group, began operations in 1933. It has maintained advanced manufacturing that meets GMP standards and a quality control system in manufacturing solid preparations and injectables since that time.

With the acquisition of this plant, the Taiyo Group will begin the manufacture of pharmaceuticals on consignment in addition to the business of Taiyo Pharma Co., Ltd. and further solidify the foundation of our medical and pharmaceutical business. We will continue to take orders for manufacturing from the Daiichi Sankyo Group and expand this business. In the future, we plan to make effective use of the technological capabilities and production capacity of the Takatsuki Plant to secure orders from companies outside of the Daiichi Sankyo Group and meet the diverse needs of pharmaceutical companies in Japan and overseas.

3) Date of business combination

Scheduled for October 1, 2019

4) Legal form of business combination

Share acquisition paid in cash

5) Company name after combination
   Same as before.

6) Percentage of voting rights acquired
   100%

7) Main basis for corporate acquisition decision
   Taiyo Holdings will pay cash to acquire the shares.

(2) Breakdown of acquisition cost and form of payment for the acquired company

Acquisition payment	Cash	¥37,600 million
Acquisition cost		¥37,600 million

(3) Amount of goodwill generated, reason for goodwill, and method and period of amortization
   To be determined

(4) Amounts of assets and liabilities acquired on the date of the business combination and main breakdown
   To be determined

Consolidated balance sheets

*1 Trade notes maturing on the closing date of the consolidated fiscal year

We treat such trade notes on the basis that they are settled on the clearing date.

Since the closing date of the current consolidated fiscal year fell on a bank holiday, we included the following trade notes (maturing on the closing date of the consolidated fiscal year) in the current consolidated balance sheet.

	Previous consolidated balance sheet (March 31, 2018)	Current consolidated balance sheet (March 31, 2019)
Notes receivable – trade	¥86 million	¥96 million

*2 Reduction entries

We subtracted the following reduction entry amounts from the purchase prices of assets that we purchased using government subsidies.

	Previous consolidated balance sheet (March 31, 2018)	Current consolidated balance sheet (March 31, 2019)
Buildings and structures	¥4 million	¥3 million
Tools, furniture, and fixtures	¥0	¥0

*3 Accumulated amortization

	Previous consolidated balance sheet (March 31, 2018)	Current consolidated balance sheet (March 31, 2019)
Accumulated amortization for property, plant and equipment	¥29,050 million	¥29,329 million

*4 Overdraft facility

We concluded an overdraft agreement with a bank to help ensure efficient cash flow management. The unused portion of the overdraft as of the closing date was as follows.

	Previous consolidated balance sheet (March 31, 2018)	Current consolidated balance sheet (March 31, 2019)
Used portion of overdraft	¥7,500 million	¥7,550 million
Unused portion of overdraft	–	50
Balance due	¥7,500 million	¥7,500 million

(Consolidated statement of income)

*1 Selling, general / administrative expenses

The key entries and amounts under this category are as follows.

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
Salary	¥2,028 million	¥2,498 million
Provision for bonuses	¥225 million	¥241 million
Commissions paid	¥966 million	¥1,194 million
Depreciation	¥770 million	¥1,807 million
Exploratory R&D	¥3,010 million	¥3,037 million
Retirement allowance obligations	¥164 million	¥164 million

*2 R&D expenses

The portion of general / administrative expenses and current total manufacturing expenses pertaining to R&D expenses is as follows.

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
	¥3,089 million	¥3,116 million

*3 Impairment loss

Previous fiscal year (April 1, 2017, to March 31, 2018)

Nothing to disclose

Current fiscal year (April 1, 2018, to March 31, 2019)

We recorded impairment loss in the following asset group.

Location	Purpose	Asset group	Impairment loss
Micro Network Technologies Corp. (Chiyoda-ku, Tokyo)	—	Goodwill	¥1,311 million

We recorded goodwill upon the acquisition of Micro Network Technologies Corp. on the basis that the acquisition would entail excess earnings. However, the consolidated subsidiary failed to perform as well as initially anticipated. Accordingly, we estimated the company's business value prudently and conservatively. In view of our findings, we wrote off all unamortized goodwill. The write-off amounted to ¥1,311 million, and in the current fiscal year under review, we recorded this sum as an impairment loss under extraordinary losses. In estimating recoverability, we assumed a value-in-use of zero.

*4 Amortization of goodwill

Previous fiscal year (April 1, 2017, to March 31, 2018)

We amortized goodwill on a one-off basis according to Paragraph 32 of the *Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements* (the Japanese Institute of Certified Public Accountants [JICPA] Accounting Practice Committee Report No. 7, November 28, 2014)

Current fiscal year (April 1, 2018, to March 31, 2019)

Nothing to disclose

Consolidated statement of comprehensive income

* Reclassification adjustments and tax effects of other comprehensive income

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
Valuation difference on available-for-sale securities:		
Occurring in current period	¥197 million	(¥327 million)
Reclassification adjustment	(¥16 million)	¥0
Before tax effect	¥180 million	(¥327 million)
Tax effect	(¥54 million)	¥100 million
Valuation difference on available-for-sale securities	¥125 million	(¥227 million)
Foreign currency translation adjustment:		
Occurring in current period	(¥45 million)	(¥358 million)
Remeasurements of defined benefit plans, net of tax		
Occurring in current period	¥9 million	¥12 million
Reclassification adjustment	¥2 million	¥4 million
Before tax effect	¥11 million	¥16 million
Tax effect	(¥2 million)	(¥4 million)
Remeasurements of defined benefit plans, net of tax	¥8 million	¥12 million
Total other comprehensive income	¥89 million	(¥573 million)

Consolidated statement of changes in equity

Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)

1. Outstanding shares and treasury shares (classes and amounts)

Class	Amount			
	Beginning of fiscal year	Increase	Decrease	End of fiscal year
Outstanding shares				
Common shares *Note 1	28,776,600	24,094	–	28,800,694
Series I Class A shares	21,600	–	–	21,600
Series II Class A shares	42,900	–	–	42,900
Treasury shares				
Common shares *Notes 2, 3, 4	58,515	120	18,820	39,815

(Notes)
1. Common shares increased by 24,094 after we issued new shares in a third-party allotment.
2. The amounts for common treasury shares include the portion that we have entrusted to The Master Trust Bank of Japan, Ltd. for our ESOP (there were 58,480 such shares at the beginning of the fiscal year and 39,660 at the end).
3. Common treasury shares increased by 120 after we acquired fractional shares.
4. Common treasury shares decreased by 18,820 after we delivered 18,000 shares from the ESOP trust, and disposed of 820 of the ESOP trust shares.

2. Dividends

(1) Amounts paid in dividend

Resolution	Class of shares	Total dividend [million yen]	Dividend per share [yen]	Reference date	Effective date
Ordinary General Shareholders' Meeting June 21, 201	Common shares	1,873	65.1	Mar 31,2017	Jun 22, 2017
	Series I Class A shares	1	65.1	Mar 31,2017	Jun 22, 2017
	Series II Class A shares	2	65.1	Mar 31,2017	Jun 22, 2017
Meeting of Board of Directors October 31, 2017	Common shares	1,874	65.1	Sep 30,2017	Dec 1,2017
	Series I Class A shares	1	65.1	Sep 30,2017	Dec 1,2017
	Series II Class A shares	2	65.1	Sep 30,2017	Dec 1,2017

(Note) Of the total dividend resolved at the Ordinary General Shareholders' Meeting on June 21, 2017, ¥3 million pertains to shares that we have entrusted to The Master Trust Bank of Japan, Ltd. for the ESOP.
Of the total dividend resolved at the meeting of the Board of Directors on October 31, 2017, ¥2 million pertains to such shares.

(2) Dividends with a reference date in the current consolidated fiscal year and an effective date in the next

Resolution	Class of shares	Total dividend [million yen]	Source of dividend	Dividend per share [yen]	Reference date	Effective date
Ordinary General Shareholders' Meeting June 23, 2018	Common shares	2,738	Retained earnings	95.1	Mar 31, 2018	Jun 25, 2018
	Series I Class A shares	2	Retained earnings	95.1	Mar 31, 2018	Jun 25, 2018
	Series II Class A shares	4	Retained earnings	95.1	Mar 31, 2018	Jun 25, 2018

(Note) Of the total dividend resolved at the Ordinary General Shareholders' Meeting on June 23, 2018, ¥5 million pertains to shares that we have entrusted to The Master Trust Bank of Japan, Ltd. for the ESOP.

Current consolidated fiscal year (April 1, 2018, to March 31, 2019)

1. Outstanding shares and treasury shares (classes and amounts)

Class	Amount			
	Beginning of fiscal year	Increase	Decrease	End of fiscal year
Outstanding shares				
Common shares *Note 1	28,800,694	66,842	–	28,867,536
Series I Class A shares *Note 1	21,600	–	21,600	–
Series II Class A shares	42,900	–	–	42,900
Treasury shares				
Common shares *Notes 3, 4, 5	39,815	541,623	23,480	557,958

(Notes)
1. The 66,842 increase in common shares occurred after we converted 21,600 Series I Class A shares and issued 45,242 shares in a third-party allotment.
2. The 21,600 decrease in Series I Class A shares occurred because we converted that amount into common shares.
3. The amounts for common treasury shares include the portion that we have entrusted to The Master Trust Bank of Japan, Ltd. for our ESOP (there were 39,660 such shares at the beginning of the fiscal year and 182,680 at the end).
4. Common treasury shares increased by 541,623 after we acquired treasury shares and fractional shares with the resolution of the Board of Directors.
5. Common treasury shares decreased by 23,480 after we delivered 22,700 shares from the ESOP trust and disposed of 780 of the ESOP trust shares.

2. Dividends

(1) Amounts paid in dividend

Resolution	Class of shares	Total dividend (million yen)	Dividend per share (yen)	Reference date	Effective date
Ordinary General Shareholders' Meeting June 23, 2018	Common shares	2,738	95.1	Mar 31, 2018	Jun 25, 2018
	Series I Class A shares	2	95.1	Mar 31, 2018	Jun 25, 2018
	Series II Class A shares	4	95.1	Mar 31, 2018	Jun 25, 2018
Meeting of Board of Directors November 2, 2018	Common shares	1,879	65.1	Sep 30, 2018	Dec 3, 2018
	Series II Class A shares	2	65.1	Sep 30, 2018	Dec 3, 2018

(Note) Of the total dividend resolved at the Ordinary General Shareholders' Meeting on June 23, 2018, ¥3 million pertains to shares that we have entrusted to The Master Trust Bank of Japan, Ltd. for the ESOP.
Of the total dividend resolved at the meeting of the Board of Directors on November 2, 2018, ¥1 million pertains to such shares.

(2) Dividends with a reference date in the current consolidated fiscal year and an effective date in the next

Resolution	Class of shares	Total dividend (million yen)	Source of dividend	Dividend per share (yen)	Reference date	Effective date
Ordinary General Shareholders' Meeting June 22, 2019	Common shares	1,854	Retained earnings	65.1	Mar 31, 2019	Jun 24, 2019
	Series II Class A shares	2	Retained earnings	65.1	Mar 31, 2019	Jun 24, 2019

(Note) Of the total dividend resolved at the Ordinary General Shareholders' Meeting on June 22, 2019, ¥11 million pertains to shares that we have entrusted to The Master Trust Bank of Japan, Ltd. for the ESOP.

Consolidated statement of cash flows

*1 Ending balance of cash and cash equivalents, and the consolidated balance sheet entries from which this balance is derived

	Previous fiscal year (April 1, 2017, to March 31, 2018)	Current fiscal year (April 1, 2018, to March 31, 2019)
Cash and deposits	¥44,588 million	¥31,340 million
Time deposits exceeding 3 months	(¥2,771 million)	(¥1,239 million)
Cash and cash equivalents	¥41,816 million	¥30,101 million

*2 Key assets/liabilities of companies that ceased to be consolidated subsidiaries following the sale of shares

Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)

We have omitted to disclose the assets/liabilities because they are not significant enough to warrant disclosure.

Current consolidated fiscal year (April 1, 2018, to March 31, 2019)

Nothing to disclose

*3 General breakdown of assets and liabilities of newly bought-out consolidated subsidiaries

Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)

Nothing to disclose

Current consolidated fiscal year (April 1, 2018, to March 31, 2019)

The following table shows Micro Network Technologies Corp.'s assets, liabilities, and share price upon consolidation, as well as the net amount we spent on the acquisition.

Current assets	¥430 million
Non-current assets	¥221 million
Goodwill	¥1,605 million
Current liabilities	(¥720 million)
Non-current liabilities	(¥537 million)
Share price	¥1,000 million
Cash and cash equivalents	(¥193 million)
Net expenditure on acquisition	¥806 million

The following table shows the same for Thou-Management Corporation.

Current assets	¥192 million
Non-current assets	¥57 million
Goodwill	¥105 million
Current liabilities	(¥18 million)
Non-current liabilities	(¥325 million)
Share price	¥10 million
Cash and cash equivalents	¥26 million
Net expenditure on acquisition	¥37 million

Lease transactions

1. Finance lease transactions

We have omitted to disclose these transactions because they are not significant enough to warrant disclosure.

2. Operating lease transactions

The following table shows the future payments for non-cancellable unexpired leases.

(million yen)

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
Due within one year	15	15
Due after one year	398	383
Total	414	398

Financial instruments

1. Overview

(1) Our policy on financial instruments

We generally try to self-fund our operations. However, if a project requires a large sum of capital, we will fund it through a bank loan or other means after considering market conditions.

When procuring temporary surplus funds, we will only use financial instruments that are sufficiently stable.

For derivatives, we minimize the associated risks (we discuss these risks in the following section) by refraining from speculative transactions.

(2) Our financial instruments and the risks they entail

Trade receivables: “notes and accounts receivable – trade” entails customer credit risk. Foreign currency-denominated trade receivables (which occur in relation to our overseas business operations) entail exchange risk.

Investment securities: Most of our investment securities pertain to our business associates. As such, they are vulnerable to fluctuations in market prices.

Trade payables: Most of our “notes and accounts payable – trade” are due within four months. Those that are denominated in a foreign currency entail exchange risk.

Derivatives: We use forward foreign exchange contracts to hedge the exchange risk associated with our foreign currency-denominated trade receivables. Please refer back to page 71 “How we account for major hedges” to see our accounting policies on hedging instruments and hedged items, our hedging policy, and how we evaluate hedge performance.

(3) Our rules and measures for managing these risks

1) Managing credit risk (the risk that our trading partners will fail to perform their contractual obligations to us)

Trade receivables: Under our credit control rules, we regularly monitor the financial position of our trading partners and manage their payment dates and balances accordingly. In this way, we try to identify as quickly as possible cases where a trading partner will struggle to repay due to financial difficulties, and provide repayment relief as necessary. Our consolidated subsidiaries follow the same policy.

Derivatives: We acquire all our derivatives from financial institutions, which have stable credit. Therefore, we believe that credit risk associated with our derivatives is negligible.

2) Managing market fluctuation risk (exchange and interest risks)

Foreign currency-denominated trade and long-term loan payables: We and some of our consolidated subsidiaries manage the foreign exchange risk associated with these receivables/payables by analyzing them in relation to the monthly trends of each currency concerned.

Investment securities: We regularly monitor the fair value and the financial position of the issuer (who is usually a business associate). As regards shares, we continually revise our share ownership in consideration of market conditions and our relationships with our trading partners.

Enacting and managing derivative transactions: We have established rules defining who has authority to sanction derivative transactions and the maximum amounts of the derivatives to be traded. Under these rules, a business division must obtain sanction from a designated officer before enacting a derivative transaction. The Board of Directors is regularly updated on the derivative transactions enacted.

3) Managing funding liquidity risk (the risk that we cannot settle obligations in bank money by the payment date)

All companies in the Taiyo Group prepare cash-flow plans as necessary to ensure that they can settle obligations in a timely manner.

(4) Additional note on fair value

We determine the fair value of our financial instruments by referring to their market value, or if they lack a readily determinable fair value, by using fair and reasonable calculation methods. In determining fair value, we consider variables that change over time. Therefore, the resulting fair value will reflect the particular assumptions we adopted at the time of calculation.

2. Fair value, consolidated carrying value, valuation difference

The following tables show the fair value, consolidated carrying value, and the difference between them for our financial instruments as of the previous and current consolidated fiscal years. We have omitted financial instruments whose fair value we could not determine (see Note 2).

Previous consolidated fiscal year (ended March 31, 2018)

	Consolidated carrying value (*Note 3) (million yen)	Fair value (*Note 3) (million yen)	Difference (million yen)
(1) Cash and deposits	44,588	44,588	–
(2) Notes and accounts receivable - trade	15,509		
Allowance for doubtful accounts (*Note 1)	(127)		
	15,382	15,382	–
(3) Investment securities			
Other securities	1,529	1,529	–
(4) Notes and accounts payable - trade	(7,769)	(7,769)	–
(5) Accounts payable - other	(1,853)	(1,853)	–
(6) Income taxes payable	(1,448)	(1,448)	–
(7) Short-term loans payable	(2,145)	(2,145)	–
(8) Long-term loans payable (including current portion of long-term loans payable)	(22,039)	(22,049)	(9)
Derivative transactions			
Transactions that do not qualify for hedge accounting	0	0	–
Transactions that qualify for hedge accounting	–	–	–
Total derivative transactions (*Note 2)	0	0	–

(Notes) 1. We have omitted the portion of “notes and accounts receivable – trade” that pertains to allowance for doubtful accounts.
2. We show the receivables/payables arising from derivative transactions on a net basis.
3. Parenthesized figures indicate liabilities.

Current consolidated fiscal year (ended March 31, 2019)

	Consolidated carrying value (*Note 3) (million yen)	Fair value (*Note 3) (million yen)	Difference (million yen)
(1) Cash and deposits	31,340	31,340	—
(2) Notes and accounts receivable - trade	16,610		
Allowance for doubtful accounts (*Note 1)	(87)		
	16,523	16,523	—
(3) Investment securities			
Other securities	1,204	1,204	—
(4) Notes and accounts payable - trade	(6,285)	(6,285)	—
(5) Accounts payable - other	(4,100)	(4,100)	—
(6) Income taxes payable	(610)	(610)	—
(7) Short-term loans payable	(4,011)	(4,011)	—
(8) Long-term loans payable (including current portion of long-term loans payable)	(16,295)	(16,291)	4
Derivative transactions			
Transactions that do not qualify for hedge accounting	(3)	(3)	—
Transactions that qualify for hedge accounting	—	—	—
Total derivative transactions (*Note 2)	(3)	(3)	—

(Notes) 1. We have omitted the portion of "notes and accounts receivable – trade" that pertains to allowance for doubtful accounts.
2. We show the receivables/payables arising from derivative transactions on a net basis.
3. Parenthesized figures indicate liabilities.

Additional notes:

1. Method for calculating the fair value of financial instruments, and securities and derivative transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade

We state at the carrying amount. Reason: Since these instruments are settled quickly, their fair value is similar to their carrying value.

(3) Investment securities

Shares: We state the price quoted on the relevant exchange. Bonds: We state the price quoted on the relevant exchange or the price indicated by the relevant financial institution.

Liabilities

(4) Notes and accounts payable – trade, (5) Accounts payable – other, (6) Income taxes payable, (7) Short-term loans payable

We state at the carrying amount. Reason: Since these instruments are settled quickly, their fair value is similar to their carrying value.

(8) Long-term loans payable (including current portion of long-term loans payable)

Long-term loans payable with variable interest rates: We state at the carrying amount. Reason: Since they reflect short-term market interest rate trends, and since our credit rating has not markedly changed after we took them on, their fair value is similar to their carrying value.

Long-term loans payable with fixed interest rates: We calculate the present value by discounting the sum of the principal and interest for each period by what would be reasonable a yield for a similar loan.

Long-term loans payable associated with interest rate swaps qualifying for special accounting treatment: After calculating the sum of the principal and interest together with the cash flows from the swap, we discount this sum at what would be reasonable a yield for a similar loan.

Derivatives

See the section on derivative transactions on page 87.

2. Financial instruments whose fair value we could not determine

(million yen)

	Previous consolidated fiscal year (ended March 31, 2018)	Current consolidated fiscal year (ended March 31, 2019)
Unlisted shares	102	249
Associate shares	19	295
Contributions to investment partnerships	579	671

The above financial instruments lack a readily determinable fair value because they have no market price. Hence, we have not included them in (3) investment securities.

3. Redemption schedule for monetary claims and securities-with-maturities due after the consolidated closing date

Previous consolidated fiscal year (ended March 31, 2018)

	Due within one year (million yen)	Due between one and five years (million yen)
Cash and deposits	44,588	–
Notes and accounts receivable - trade	15,509	–

Current consolidated fiscal year (ended March 31, 2019)

	Due within one year (million yen)	Due between one and five years (million yen)
Cash and deposits	31,340	–
Notes and accounts receivable - trade	16,610	–

4. Repayment schedule for short-term and long-term loans payable due after the consolidated closing date

Previous consolidated fiscal year (ended March 31, 2018)

	Due within one year (million yen)	Due between one and two years (million yen)	Due between two and three years (million yen)	Due between three and four years (million yen)	Due between four and five years (million yen)	Due after five years (million yen)
Short-term loans payable	2,145	–	–	–	–	–
Long-term loans payable	6,116	3,725	1,640	3,357	7,200	–
Total	8,261	3,725	1,640	3,357	7,200	–

Current consolidated fiscal year (ended March 31, 2019)

	Due within one year (million yen)	Due between one and two years (million yen)	Due between two and three years (million yen)	Due between three and four years (million yen)	Due between four and five years (million yen)	Due after five years (million yen)
Short-term loans payable	4,011	–	–	–	–	–
Long-term loans payable	3,852	1,709	3,367	7,366	–	–
Total	7,864	1,709	3,367	7,366	–	–

Securities

1. Other securities

Previous consolidated fiscal year (ended March 31, 2018)

	Type of security	Consolidated carrying value (million yen)	Acquisition price (million yen)	Valuation difference (million yen)
Securities whose consolidated carrying value exceeds their acquisition price	(1) Shares	1,452	984	468
	(2) Other	–	–	–
	Subtotal	1,452	984	468
Securities whose consolidated carrying value does not exceed their acquisition price	(1) Shares	95	130	(35)
	(2) Other	–	–	–
	Subtotal	95	130	(35)
Total		1,548	1,115	433

(Note) The above data excludes the unlisted shares (consolidated carrying value: ¥102 million) and contributions to investment partnerships (consolidated carrying value: ¥579 million). These financial instruments lack a readily determinable fair value because they have no market price.

Current consolidated fiscal year (ended March 31, 2018)

	Type of security	Consolidated carrying value (million yen)	Acquisition price (million yen)	Valuation difference (million yen)
Securities whose consolidated carrying value exceeds their acquisition price	(1) Shares	1,202	1,065	136
	(2) Other	–	–	–
	Subtotal	1,202	1,065	136
Securities whose consolidated carrying value does not exceed their acquisition price	(1) Shares	2	4	(2)
	(2) Other	–	–	–
	Subtotal	2	4	(2)
Total		1,204	1,070	133

(Note) The above data excludes the unlisted shares (consolidated carrying value: ¥249 million) and contributions to investment partnerships (consolidated carrying value: ¥671 million). These financial instruments lack a readily determinable fair value because they have no market price.

2. Other securities that we have sold

Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)

Type of security	Sale price (million yen)	Total gain on sale (million yen)	Total loss on sale (million yen)
(1) Shares	60	16	–
(2) Other	–	–	–
Total	60	16	–

Current consolidated fiscal year (April 1, 2018, to March 31, 2019)

Nothing to disclose

Derivative transactions

1. Transactions that do not qualify for hedge accounting

Currency-related

Previous consolidated fiscal year (ended March 31, 2018)

Type of transaction	Transaction	Contract value (million yen)	Contract value for contracts exceeding one year (million yen)	Fair value (million yen)	Valuation difference (million yen)
Off-market transactions	Foreign exchange transactions				
	USD denominated sales	539	–	0	0
	JPY denominated purchases	80	–	(0)	(0)

(Note) How we determine the fair value:
We base fair value on the market price that the relevant financial institution quotes.

Current consolidated fiscal year (ended March 31, 2019)

Type of transaction	Transaction	Contract value (million yen)	Contract value for contracts exceeding one year (million yen)	Fair value (million yen)	Valuation difference (million yen)
Off-market transactions	Foreign exchange transactions				
	USD denominated sales	471	–	(4)	(4)
	JPY denominated purchases	61	–	0	0

(Note) How we determine the fair value:
We base fair value on the market price that the relevant financial institution quotes.

2. Transactions that qualify for hedge accounting

Interest-related

Previous consolidated fiscal year (ended March 31, 2018)

Method of hedge accounting	Type of hedge transaction	Main hedged item	Contract value (million yen)	Contract value for contracts exceeding one year (million yen)	Fair value (million yen)
Special accounting treatment for interest rate swaps	Receive-floating pay-fixed interest rate swaps	Long-term loans payable	2,380	2,040	(Note)

(Note) Under the special accounting treatment for interest rate swaps, we process the swap together with the hedged long-term loan payable to which it pertains. Accordingly, we have included the fair value of the swaps in the fair value of the relevant long-term loans payable.

Current consolidated fiscal year (ended March 31, 2019)

Methods of hedge accounting	Type of hedge transaction	Main hedged item	Contract value (million yen)	Contract value for contracts exceeding one year (million yen)	Fair value (million yen)
Special accounting treatment for interest rate swaps	Receive-floating pay-fixed interest rate swaps	Long-term loans payable	2,040	–	(Note)

(Note) Under the special accounting treatment for interest rate swaps, we process the swaps together with the hedged long-term loans payable to which they pertain. Accordingly, we have included the fair value of the swaps in the fair value of the relevant long-term loans payable.

Retirement benefits

1. Our system of retirement benefits

We provide a points-based retirement allowance system that accords with the defined-benefit corporation pension system and a defined contribution plan.

Some of our consolidated subsidiaries use a defined contribution plan in addition to a defined-benefit corporate pension plan.

Some of our consolidated subsidiaries use a simplified method for calculating net-defined benefit liability and retirement benefit costs. Under this method, the amount of retirement benefits paid for voluntary resignations at the fiscal year end is included in retirement benefit obligations.

2. Defined-benefit systems (other than those that use the simplified accounting method)

(1) Opening/closing balance of retirement benefit obligations and adjusting entries

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
Opening balance of retirement benefit obligations	2,051 million yen	2,089 million yen
Service cost	161	160
Interest cost	14	15
Actuarial differences	(10)	(0)
Retirement benefit payments	(125)	(115)
Exchange differences	(2)	(2)
Closing balance of retirement benefit obligations	2,089	2,146

(2) Opening/closing balance of pension assets and adjusting entries

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
Opening balance of pension assets	2,355 million yen	2,386 million yen
Expected rate of return	28	29
Actuarial differences	(7)	6
Employer's contribution	139	135
Retirement benefit payments	(125)	(115)
Exchange differences	(2)	(2)
Closing balance of pension assets	2,386	2,440

(3) Closing balance of retirement benefit obligations and pension assets, and adjusting entries for net-defined benefit asset/liability reported on the consolidated balance sheet

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
Funded retirement benefit obligations	2,089 million yen	2,146 million yen
Pension assets	(2,386)	(2,440)
Asset (liability) reported on the consolidated balance sheet	(296)	(293)
Net-defined benefit liability	29	26
Net-defined benefit asset	(326)	(319)
Asset (liability) reported on the consolidated balance sheet	(296)	(293)

(4) Breakdown of retirement benefit costs

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
Service cost	161 million yen	160 million yen
Interest cost	14	15
Expected rate of return	(28)	(29)
Adjustment for actuarial differences	(11)	(6)
Adjustment for past service cost	10	10
Retirement benefit cost for defined-benefit systems	146	149

(5) Remeasurements of defined benefit plans, net of tax

The following table shows the breakdown of "remeasurements of defined benefit plans, net of tax" (before tax effects).

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
Past service cost	10 million yen	10 million yen
Actuarial differences	1	6
Total	11	16

(6) Cumulative remeasurements of defined benefit plans

The following table shows the cumulative effects of the adjusting entries for retirement benefits (before tax effects).

	Previous consolidated fiscal year (ended March 31, 2018)	Current consolidated fiscal year (ended March 31, 2019)
Unrecognized past service cost	(10) million yen	– million yen
Unrecognized actuarial gain or loss	23	29
Total	12	29

(7) Notes on pension assets

1) Key pension assets

The following table shows the main constituent asset of total pension assets.

	Previous consolidated fiscal year (ended March 31, 2018)	Current consolidated fiscal year (ended March 31, 2019)
General accounts assets	100 %	100 %
Total	100	100

2) How we determine the expected long-term rate of return for pension assets

We consider how we currently distribute the pension assets and how we expect to do so in the future. We also consider the present and expected long-term rate of return for each constituent asset.

(8) Criteria for determining actuarial gains/losses

The following table shows the main criteria we use to determine actuarial gains/losses (the figures indicate weighted averages).

	Previous consolidated fiscal year (ended March 31, 2018)	Current consolidated fiscal year (ended March 31, 2019)
Discount rate	0.645 %	0.645 %
Expected long-term rate of return	1.0 %	1.0 %
Expected salary increase rate	14.12 %	14.12 %

3. Defined-benefit systems that use the simplified accounting method

(1) Opening/closing balance of net defined benefit liability subject to the simplified accounting method and adjusting entries

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
Opening balance of net defined benefit liability	98 million yen	87 million yen
Retirement benefit costs	6	6
Retirement benefit payments	(17)	(2)
Closing balance of net defined benefit liability	87	91

(2) Closing balance of retirement benefit obligations and pension assets, and adjustment entries for net-defined benefit asset/liability reported on the consolidated balance sheet

	Previous consolidated fiscal year (April 1, 2017, to March 31, 2018)	Current consolidated fiscal year (April 1, 2018, to March 31, 2019)
Non-funded retirement benefit obligations	87 million yen	91 million yen
Asset (liability) reported on the consolidated balance sheet	87	91
Net defined benefit liability	87	91
Asset (liability) reported on the consolidated balance sheet	87	91

(3) Retirement benefit costs

Retirement benefit costs determined using simplified accounting method

Previous consolidated fiscal year: ¥6 million
Current consolidated fiscal year: ¥6 million

4. Defined contribution plans

The contribution that we and some of our consolidated subsidiaries has made amounted to ¥165 million in the previous consolidated fiscal year, and ¥167 million in the current consolidated fiscal year.

Stock options

Nothing to disclose.

Tax effect accounting

1. Breakdown of the main factors that generate deferred tax assets and deferred tax liabilities

	Previous consolidated fiscal year (ended March 31, 2018)	Current consolidated fiscal year (ended March 31, 2019)
Deferred tax assets		
Net defined benefit liability	35 million yen	35 million yen
Deferred tax assets for unrealized gains	144	123
Denial of accrued employees' bonuses	117	130
Denial of accrued enterprise tax	63	38
Loss carried forward *3	38	209
Over-depreciation	93	84
Asset retirement obligations	124	179
Impairment loss	321	318
Other	244	349
Deferred tax assets subtotal	1,183	1,468
Valuation allowance for tax loss carried forward *3	(38)	(209)
Valuation allowance for total future tax consequences of temporary differences	(505)	(585)
Valuation allowance subtotal *2	(543)	(795)
Deferred tax assets total	639	673
Deferred tax liabilities		
Deferred tax liabilities for subsidiaries' retained earnings	1,423	1,287
Valuation difference on available-for-sale securities	158	50
Assets related to retirement benefit payments	98	105
Other	152	194
Deferred tax liabilities total	1,833	1,637
Net deferred tax liabilities *1	1,193	964

(Notes) 1. The net deferred tax assets (liabilities) for the current and previous consolidated fiscal year are included in the following consolidated balance sheet entries.

	Previous consolidated fiscal year (ended March 31, 2018)	Current consolidated fiscal year (ended March 31, 2019)
Non-current assets–Deferred tax assets	264 million yen	225 million yen
Non-current liabilities–Deferred tax liabilities	1,458	1,190

2. Valuation allowance has not changed significantly.
3. Tax loss carried forward and deferred tax assets by carry-forward period

Previous consolidated fiscal year (ended March 31, 2018)

	Within 3 years (million yen)	Between 3 and 4 years (million yen)	Between 4 and 5 years (million yen)	Between 5 and 6 years (million yen)	Between 6 and 7 years (million yen)	Between 7 and 8 years (million yen)	Between 8 and 9 years (million yen)	Total (million yen)
Tax loss carried forward (*1)	0	4	5	–	1	8	18	38
Valuation allowance	(0)	(4)	(5)	–	(1)	(8)	(18)	(38)
Deferred tax assets	–	–	–	–	–	–	–	(*2) –

(Notes) 1. Tax loss carried forward is multiplied by the legally effective tax rate.
2. We judged that the tax loss carried forward is unrecoverable.

Current consolidated fiscal year (ended March 31, 2019)

	Within 2 years (million yen)	Between 2 and 3 years (million yen)	Between 3 and 4 years (million yen)	Between 4 and 5 years (million yen)
Tax loss carried forward (*1)	0	4	5	–
Valuation allowance	(0)	(4)	(5)	–
Deferred tax assets	–	–	–	–

	Between 5 and 6 years (million yen)	Between 6 and 7 years (million yen)	Between 7 and 8 years (million yen)	Between 8 and 9 years (million yen)	Total (million yen)
Tax loss carried forward (*1)	1	8	18	171	209
Valuation allowance	(1)	(8)	(18)	(171)	(209)
Deferred tax assets	–	–	–	–	(*2) –

(Notes) 1. Tax loss carried forward is multiplied by the legally effective tax rate.
2. We judged that the tax loss carried forward is unrecoverable.

2. Breakdown of the main factors underlying any differences between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting

	Previous consolidated fiscal year (ended March 31, 2018)	Current consolidated fiscal year (ended March 31, 2019)
Legally effective tax rate	30.75%	30.62%
(Adjusting entries)		
Tax rate differences with overseas subsidiaries	(13.48)	(13.40)
Tax rate differences associated with offset of dividend income	1.34	1.57
Tax adjustments for overseas subsidiaries' retained earnings	1.55	(1.73)
Tax rate differences associated with permanent differences such as social expenses	0.52	0.47
Differences on withholding tax on dividends not included in expenses	7.24	8.33
Tax adjustments for amortization of goodwill	(8.03)	1.43
Tax deductions for testing and research expenses	(2.91)	(2.35)
Valuation allowance	22.11	10.28
Other	(1.10)	(1.50)
Actual effective tax rate after applying tax effect accounting	37.98	33.71

Asset retirement obligations

Closing date of previous consolidated fiscal year (March 31, 2018)

We have omitted to disclose the obligations because they are not significant enough to warrant disclosure.

Closing date of current consolidated fiscal year (March 31, 2019)

We have omitted to disclose the obligations because they are not significant enough to warrant disclosure.

Rentals and other real-estate assets

Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)

We have omitted to disclose the assets because they are not significant enough to warrant disclosure.

Current consolidated fiscal year (April 1, 2018 to March 31, 2019)

We have omitted to disclose the assets because they are not significant enough to warrant disclosure.

Segment information and related information

Segment information

1. Overview of reportable segments

The reportable segments of the Group are components of the Group whose separate financial information is available. These segments are periodically evaluated by the Board of Directors in deciding how to allocate management resources and in assessing the performance.

The Group has operating companies in each product and service category. Each operating company markets its products and services based on comprehensive business strategies that cover both Japanese and overseas markets.

The Group divides its business into two segments, Electronics Materials and Medical and Pharmaceuticals, based on operating subsidiaries.

Companies in the Electronics Materials segment manufacture, stock, and market PWB materials and other chemical products for use in electronic components. Companies in the Medical and Pharmaceuticals segment develop and market pharmaceutical drugs, quasi-drugs (i.e., non-medical drugs), and similar items.

2. How we calculate net sales, profit or loss, assets and liabilities, and other items for each reportable segment

Accounting method applied to data in the reportable segment is mostly the same as the method stated in the "Basic factors underlying our consolidated financial statements."

Profit by reportable segment represents operating income.

Inter-segment revenue and transfers are based on the market prices.

3. Information regarding net sales, profit or loss, assets and liabilities, and other items by reportable segment

Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)

(million yen)

	Reportable segment			Other (Note) 1	Total
	Electronics materials	Medical and pharmaceuticals business	Total		
Net sales					
External sales	49,854	819	50,673	1,567	52,241
Inter-segment sales or transfers	–	–	–	3	3
Total	49,854	819	50,673	1,570	52,244
Segment income	12,114	8	12,123	97	12,220
Segment assets	52,411	26,580	78,992	2,819	81,811
Other items					
Depreciation (Note) 2	1,331	353	1,684	145	1,830
Increase in property, plant and equipment and intangible assets	993	20,948	21,942	195	22,137

(Notes) 1. "Other" indicates business segments that we do not include among the reportable segments. Examples include our business of manufacturing dyes, pigments, and other chemical products, and our business of generating renewable energy.

2. Depreciation does not include amortization of goodwill.

Current consolidated fiscal year (April 1, 2018, to March 31, 2019)

(million yen)

	Reportable segment			Other (Note) 1	Total
	Electronics materials	Medical and pharmaceuticals business	Total		
Net sales					
External sales	48,086	7,661	55,747	3,642	59,389
Inter-segment sales or transfers	–	–	–	106	106
Total	48,086	7,661	55,747	3,748	59,496
Segment income (loss)	10,501	(351)	10,149	(175)	9,973
Segment assets	50,747	28,313	79,061	5,539	84,600
Other items					
Depreciation (Note) 2	1,278	1,453	2,731	179	2,910
Increase in property, plant and equipment and intangible assets	4,733	706	5,440	1,484	6,924

(Notes) 1. “Other” indicates business segments that we do not include among the reportable segments. Examples include our business of manufacturing dyes, pigments, and other chemical products; our business of developing software; and our business of generating renewable energy.

2. Depreciation does not include amortization of goodwill.

4. Differences between reportable segment totals and amounts reported on consolidated financial statements, and the breakdown of the main factors underlying these differences (notes on adjusting for differences)

(million yen)

Net sales	Previous consolidated fiscal year	Current consolidated fiscal year
Reportable segment total	50,673	55,747
“Other” net sales	1,570	3,748
Inter-segment eliminations	(3)	(106)
Net sales reported in consolidated statement of income	52,241	59,389

(millions of yen)

Profit	Previous consolidated fiscal year	Current consolidated fiscal year
Reportable segment total	12,123	10,149
“Other” profit	97	(175)
Inter-segment eliminations	–	(65)
Amortization of goodwill	(257)	(350)
Profit/loss not allocated to business segments (Note)	(626)	(1,458)
Other adjustments	–	–
Operating income reported in consolidated statement of income	11,337	8,099

(Note) Profit/loss primarily related to the holding company (company filing the consolidated financial statements).

(millions of yen)

Assets	Previous consolidated fiscal year	Current consolidated fiscal year
Reportable segment total	78,992	79,061
"Other" assets	2,819	5,539
Inter-segment eliminations	(4)	(74)
Assets not allocated to business segment (Note)	29,735	21,227
Tax effect conversion	(52)	(86)
Total assets reported in consolidated balance sheet	111,490	105,666

(Note) Assets primarily related to the holding company (company filing the consolidated financial statements).

(millions of yen)

Other items	Reportable segment total		Other		Adjustments (Note)		Consolidated carrying amount	
	Previous consolidated fiscal year	Current consolidated fiscal year	Previous consolidated fiscal year	Current consolidated fiscal year	Previous consolidated fiscal year	Current consolidated fiscal year	Previous consolidated fiscal year	Current consolidated fiscal year
Depreciation	1,684	2,731	145	179	454	418	2,284	3,329
Increase in property, plant and equipment, and intangible assets	21,942	5,440	195	1,484	375	535	22,513	7,460

(Note) Primarily related to the holding company (company filing the consolidated financial statements).

Related information

I Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)

1. Products and services

We have omitted this information because external sales in single products/services segments accounted for more than 90% of net sales in the consolidated statement of income.

2. Regional breakdowns

(1) Net sales

(millions of yen)

Japan	China	Taiwan	Korea	Other	Total
8,187	23,179	6,662	9,405	4,806	52,241

(Note) Net sales are based on the location of the relevant customers and segmented by country/region.

(2) Property, plant and equipment

(millions of yen)

Japan	China	Taiwan	Korea	Other	Total
13,174	1,835	1,365	1,408	139	17,923

3. Major customers

We have omitted this information because, of our external sales, no customer accounts for 10% or more of the net sales in the consolidated statement of income.

II Current consolidated fiscal year (April 1, 2018 to March 31, 2019)

1. Products and services

(millions of yen)

	Electronics Materials	Medical and Pharmaceuticals	Other	Total
Sales to external customers	48,086	7,661	3,642	59,389

2. Regional breakdowns

(1) Net sales

(millions of yen)

Japan	China	Taiwan	Korea	Other	Total
17,029	21,985	6,298	9,240	4,835	59,389

(Note) Net sales are based on the location of the relevant customers and segmented by country/region.

(2) Property, plant and equipment

(millions of yen)

Japan	China	Taiwan	Korea	Other	Total
16,034	2,005	2,678	1,432	162	22,313

3. Major customers

We have omitted this information because, of our external sales, no customer accounts for 10% or more of the net sales in the consolidated statement of income.

Impairment loss of non-current assets in each reportable segment

Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)

Nothing to disclose.

Current consolidated fiscal year (April 1, 2018 to March 31, 2019)

(millions of yen)

	Reportable segment			Other	Corporate and elimination	Total
	Electronics materials	Medical and pharmaceuticals business	Total			
Impairment loss	–	–	–	–	1,311	1,311

(Note) “Corporate and elimination” indicates impairment loss for organization-wide assets that do not belong to any segment.

Amortization of goodwill and unamortized balance in each reportable segment

Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)

We do not assign these items to any reportable segment. Amortization of goodwill amounted to ¥3,535 million, and the unamortized balance was ¥674 million.

Note: Amortization of goodwill includes the ¥3,278 million of amortization of goodwill recorded under extraordinary losses.

Current consolidated fiscal year (April 1, 2018 to March 31, 2019)

We do not assign these items to any reportable segment. Amortization of goodwill amounted to ¥ 350 million, and the unamortized balance was ¥691 million.

Note: In the current fiscal term, we recorded goodwill impairment of ¥1,311 million.

Gains on negative goodwill in each reportable segment

Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)

Nothing to disclose.

Current consolidated fiscal year (April 1, 2018 to March 31, 2019)

Nothing to disclose.

Business combinations

Business combinations resulting from acquisition

1. Overview of business combination
   (1) Name and business description of the company to be acquired
   Name: Micro Network Technologies Corp. (MNT)
   Business description: Software development, network design, systems engineering
   (2) Main reason for business combination
   Having gone without any major funding injection for some 20 years, our IT infrastructure was in desperate need of an overhaul to address rising maintenance costs (for hardware and software) and increasing risk of malfunction. However, efforts to overhaul the IT infrastructure were stymied by chronic shortages of IT professionals.
   MNT is a software developer that develops core systems to smartphone apps. The company also designs and builds server and network infrastructure, and provides technical support using its system engineering tech. Acquiring MNT as our subsidiary will enable us to deploy the IT professionals we need at the right times, thus expediting our efforts to address the major task of overhauling our IT infrastructure.
   (3) Date of business combination
   April 30, 2018 (deemed acquisition date)
   (4) Legal form of business combination
   Acquisition of equity for a cash consideration
   (5) Name of combined entity after combination
   Same as before.
   (6) Voting interest from acquisition
   100%
   (7) Why the Company became the combining entity
   Because we acquired equity for a cash consideration.

2. Period of combined entity's accounting term that is included in the Company's quarterly consolidated statements of income

   May 1, 2018, to March 31, 2019.

3. Cost of acquiring the company concerned and the breakdown thereof

Consideration for acquisition	Cash	1,000 million yen
Acquisition price		1,000 million yen

4. Breakdown of costs associated with acquisition

   We have omitted this information because the acquisition has only a negligible impact on the consolidated statements of income for the current consolidated fiscal term.

5. Amount of goodwill generated, reason for goodwill, and method and period of amortization
   (1) Amount
   ¥1,605 million
   (2) Reason
   The main reason is that we expect excess earnings as MNT's business develops.
   (3) Method and period for amortizing goodwill
   Straight-line method over five years.

6. Amounts of assets and liabilities acquired on the date of the business combination and main breakdown

Current assets	430 million yen
Non-current assets	221 million yen
Total assets	651 million yen
Current liabilities	720 million yen
Non-current liabilities	537 million yen
Total liabilities	1,257 million yen

7. Estimated impact of business combination on the consolidated income statements for the current consolidated fiscal term in the hypothetical case that the business combination were completed on the first day of said term; method for calculating such

Net sales	1,096 million yen
Operating income	(110) million yen
Ordinary profit	(112) million yen
Profit before income taxes	(124) million yen

Method for calculating estimated impact

The figures for net sales and operating income indicate the difference between…

- what net sales and operating income would be if the business combination were completed on the first day of the current consolidated fiscal term, and
- the net sales and operating income as stated in the consolidated income statement.

The above figures have not been audited.

Business combinations resulting from acquisition

1. Overview of business combination

(1) Name and business description of the company to be acquired

Name: Thou-Management Corporation (TMC)

Business description: Systems engineering/integration, network design/operation, systems-related services, advisory services for aerospace businesses

(2) Main reason for business combination

Having gone without any major funding injection for some 20 years, our IT infrastructure was in desperate need of an overhaul to address rising maintenance costs (for hardware and software) and increasing risk of malfunction. However, efforts to overhaul the IT infrastructure were stymied by chronic shortages of IT professionals. TMC is developing an AI business that will run on IoT platforms, IoT security systems, and data (research) science. TMC's efforts in this area are underpinned by its expertise in system integration (in which it develops business-use systems under contract, including servers, databases, and software for PCs, smartphones, and tablets) as well as in ASP data security.

Acquiring TMC as our subsidiary will expedite our efforts to address the major task of overhauling our IT infrastructure. With the collaboration of TMC together with MNT, we can streamline the processes for building IT infrastructure (from planning to operation) in the Group, which will contribute to sustainable growth of our share price and corporate value. By creating a relationship that is mutually complementary for us, TMC, and MNT, the combination will open up many new business opportunities.

(3) Date of business combination

July 31, 2018 (deemed acquisition date)

(4) Legal form of business combination

Acquisition of equity for a cash consideration

(5) Name of entity after combination

Same as before.

(6) Voting interest from acquisition

100%

(7) Why the Company became the combining entity

Because we acquired equity for a cash consideration.

2. Period of combined entity's accounting term that is included in the Company's quarterly consolidated statements of income

   August 1, 2018, to March 31, 2019.

3. Cost of acquiring the company concerned and the breakdown thereof

Consideration for acquisition	Cash	10 million yen
Acquisition price		10 million yen

4. Breakdown of costs associated with acquisition

   We have omitted this information because the acquisition has only a negligible impact on the consolidated statements of income for the current consolidated fiscal term.

5. Amount of goodwill generated, reason for goodwill, and method and period of amortization

   (1) Amount

   ¥105 million

   (2) Reason

   The main reason is that we expect excess earnings as TMC's business develops.

   (3) Method and period for amortizing goodwill

   Straight-line method over five years.

6. Amounts of assets and liabilities acquired on the date of the business combination and main breakdown

Current assets	192 million yen
Non-current assets	57 million yen
Total assets	249 million yen
Current liabilities	18 million yen
Non-current liabilities	325 million yen
Total liabilities	343 million yen

7. Estimated impact of business combination on the consolidated income statements for the current consolidated fiscal term in the hypothetical case that the business combination were completed on the first day of said term; method for calculating such

Net sales	44 million yen
Operating income	(45) million yen
Ordinary profit	(47) million yen
Profit before income taxes	(47) million yen

Method for calculating estimated impact

The figures for net sales and operating income indicate the difference between…

- what net sales and operating income would be if the business combination were completed on the first day of the current consolidated fiscal term, and
- the net sales and operating income as stated in the consolidated income statement.

The above figures have not been audited.

Related parties

Transactions with related parties

Transactions between us (the filer of the consolidated financial statements) and related parties

(1) Transactions with parent and major shareholders (corporate shareholders only)
Nothing to disclose.

(2) Transactions with non-consolidated subsidiaries and affiliates
Nothing to disclose.

(3) Transactions with corporate officers and major shareholders (individual shareholders only)

Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)

Party	Name	Address	Capital stock or contribution (million yen)	Business description / job title	Holding/held ratio (%)	Our relationship with the party	Transaction	Transaction amount (million yen)	Entry	Closing balance (million yen)
Corporate officer	Eiji Sato	–	–	President and CEO (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.32	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	44	–	–
	Takayuki Morita	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.03	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	19	–	–
	Eiji Takehara	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.05	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	19	–	–
	Hitoshi Saito	–	–	–	(Directly held by the party) 0.01	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	19	–	–
	Takao Miwa	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.00	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	19	–	–

(Notes) 1. Information about the transactions and how we determined them:
The transactions concerned common shares that we issued as part of the performance-linked share compensation for the 71st fiscal period. We determined the transactions based on the common share price.
2. We calculated the ratios held by the parties after subtracting treasury shares.

Current consolidated fiscal year (April 1, 2018 to March 31, 2019)

Party	Name	Address	Capital stock or contribution (million yen)	Business description / job title	Holding/held ratio (%)	Our relationship with the party	Transaction	Transaction amount (million yen)	Entry	Closing balance (million yen)
Corporate officer	Eiji Sato	–	–	President and CEO (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.41	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	96	–	–
	Takayuki Morita	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.07	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	28	–	–
	Eiji Takehara	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.08	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	25	–	–
	Hitoshi Saito	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.04	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	25	–	–
	Takao Miwa	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.04	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	25	–	–

(Notes) 1. Information about the transactions and how we determined them:
The transactions concerned common shares that we issued as part of the performance-linked share compensation for the 72nd fiscal period. We determined the transactions based on the common share price.
2. We calculated the ratios held by the parties after subtracting treasury shares.

Per share information

	Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)	Current consolidated fiscal year (April 1, 2018 to March 31, 2019)
Net assets per share	¥2,520.68	¥2,475.36
Basic earnings per share	¥168.55	¥152.71

(Notes) 1. The above table does not include basic earnings per share after adjusting for potentially dilutive shares. This is because there were no potentially dilutive shares.

2. .In calculating net assets per share, we subtracted treasury shares. The treasury shares we subtracted include shares held in the ESOP trust (there were 39,660 such shares in the previous and 182,680 in the current consolidated fiscal year).

3. Basis for calculating basic earnings per share is shown below.

	Previous consolidated fiscal year (April 1, 2017 to March 31, 2018)	Current consolidated fiscal year (April 1, 2018 to March 31, 2019)
Profit attributable to owners of parent (million yen)	4,856	4,396
Amount not attributable to common shareholders (or the equivalent thereof) (million yen)	–	–
Profit attributable to owners of parent pertaining to common shareholders (or the equivalent thereof) (million yen)	4,856	4,396
Average number of common shares (or the equivalent thereof) outstanding during term (Common shares) (Series I Class A shares) (Series II Class A shares)	28,812,060 (28,747,560) (21,600) (42,900)	28,789,526 (28,741,641) (4,985) (42,900)

(Notes) 1. In calculating the average number of common shares outstanding during term, we subtracted treasury shares. The treasury shares we subtracted include shares held in the ESOP trust (there were 45,635 such shares in the previous and 49,106 in the current consolidated fiscal year).

2. In calculating per share information, we included Series I and II Class A shares with common shares. We did so because these shares possess the same rights as common shares in regard to the right to receive dividends of surplus and the right to receive distribution of residual assets.

Material events that occurred after issuing the shares

Nothing to disclose.

5) Consolidated supplementary schedules

Schedule of bonds payable

Nothing to disclose.

Schedule of loans payable

Debt of loan	Balance at beginning of current period (million yen)	Balance at end of current period (million yen)	Average interest rate (%)	Repayment period
Short-term loans payable	2,145	4,011	2.67	–
Current portion of long-term loans payable	6,116	3,852	0.55	–
Long-term loans payable other than those we expect to repay within one year	15,923	12,443	0.36	2020-2023
Total	24,184	20,307	–	–

(Notes) 1. Average interest rate indicates the weighted average interest rate for the closing balance.

2. For some of the current portion of long-term loans payable, we receive interest subsidies.

3. The following table shows the scheduled repayments for long-term loans payable that we do not expect to repay within one year. The repayments are scheduled for the five years following the consolidated settlement date.

	Year 2 (end of year 1 to end of year 2) (million yen)	Year 3 (million yen)	Year 4 (million yen)	Year 5 (million yen)
Long-term loans payable	1,709	3,367	7,366	—

Schedule of asset retirement obligations

As of the beginning and end of the current consolidated fiscal year, our asset retirement obligations were less than one-hundredth of the balance of our liabilities and net assets. Accordingly, we have omitted these obligations as permitted under Article 92-2 of the Ordinance on Terminology, Forms, and Preparation Methods for Consolidated Financial Statements.

(2) Other consolidated financial information

Quarterly consolidated information for the current consolidated fiscal year

Cumulative period	Q1	Cumulative Q2	Cumulative Q3	Current consolidated fiscal year
Net sales (million yen)	14,852	30,257	45,737	59,389
Profit before income taxes (million yen)	2,675	5,230	7,533	6,703
Profit attributable to owners of parent (million yen)	1,869	3,747	5,444	4,396
Basic earnings per share (yen)	64.85	129.88	188.62	152.71

(Accounting period)	Q1	Q2	Q3	Q4
Basic earnings per share / (net loss per share) (yen)	64.85	65.04	58.74	(36.63)

2 Financial statements, other

(1) Financial statements

1) Balance sheet

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	20,297	10,789
Accounts receivable - trade	*1 537	*1 494
Short-term loans receivable from subsidiaries and associates	5,117	4,796
Income taxes receivable	–	667
Other	*1 1,026	*1 1,225
Total current assets	26,979	17,973
Non-current assets		
Property, plant and equipment		
Buildings	4,429	4,267
Land	2,690	2,690
Construction in progress	–	294
Other	536	484
Total property, plant and equipment	7,656	7,737
Intangible assets		
Software	18	58
Other	11	21
Total intangible assets	30	80
Investments and other assets		
Investment securities	2,133	2,016
Shares of subsidiaries and associates	13,580	13,903
Investments in capital of subsidiaries and associates	2,482	2,482
Prepaid pension cost	313	290
Long-term loans receivable from subsidiaries and associates, net	23,900	28,625
Other	182	320
Allowance for doubtful accounts	–	(351)
Total investments and other assets	42,592	47,289
Total non-current assets	50,278	55,106
Total assets	77,258	73,080

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Short-term loans payable	2,125	3,940
Current portion of long-term loans payable	5,934	3,586
Accounts payable - other	*1 649	*1 957
Income taxes payable	540	46
Provision for bonuses	77	108
Other	120	112
Total current liabilities	9,447	8,751
Non-current liabilities		
Long-term loans payable	15,536	11,950
Asset retirement obligations	96	118
Deferred tax liabilities	186	62
Other	53	82
Total non-current liabilities	15,871	12,213
Total liabilities	25,319	20,965
Net assets		
Shareholders' equity		
Capital stock	9,232	9,331
Capital surplus		
Legal capital surplus	10,199	10,299
Other capital surplus	5,294	5,294
Total capital surpluses	15,494	15,594
Retained earnings		
Legal retained earnings	620	620
Other retained earnings		
General reserve	12,700	12,700
Retained earnings brought forward	13,667	15,811
Total retained earnings	26,988	29,132
Treasury shares	(121)	(2,042)
Total shareholders' equity	51,593	52,016
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	344	99
Total valuation and translation adjustments	344	99
Total net assets	51,938	52,115
Total liabilities and net assets	77,258	73,080

2) Statement of income

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Operating revenue		
Dividends from subsidiaries and associates	5,500	9,843
Royalty income	2,173	2,126
Rent income of real estate	434	433
Total operating revenue	*1 8,108	*1 12,403
Operating expenses	*1, *2 3,273	*1, *2 4,046
Operating profit	4,835	8,356
Non-operating income		
Interest income	89	180
Dividend income	15	21
Commission income	67	54
Subsidy income	17	15
Gain on investments in partnership	4	—
Other	30	27
Total non-operating income	224	300
Non-operating expenses		
Interest expenses	119	179
Loss on investments in partnership	–	32
Foreign exchange losses	101	89
Other	6	36
Total non-operating expenses	227	338
Ordinary profit	4,832	8,318
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	4,174	1,013
Provision of allowance for doubtful accounts for subsidiaries and associates	–	351
Total extraordinary losses	4,174	1,364
Profit before income taxes	657	6,954
Income taxes - current	403	199
Income taxes - deferred	(9)	(15)
Total income taxes	394	183
Profit	262	6,771

3) Statement of changes in equity

Fiscal year ended March 31, 2018

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings		
						General reserve	Retained earnings brought forward			
Balance at beginning of current period	9,171	10,138	5,294	15,433	620	12,700	17,153	30,474	(178)	54,900
Changes of items during period										
Dividends of surplus							(3,748)	(3,748)		(3,748)
Profit							262	262		262
Issuance of new shares	60	60		60						121
Purchase of treasury shares									(0)	(0)
Disposal of treasury shares									57	57
Net changes of items other than shareholders' equity										
Total changes of items during period	60	60	–	60	–	–	(3,485)	(3,485)	56	(3,307)
Balance at end of current period	9,232	10,199	5,294	15,494	620	12,700	13,667	26,988	(121)	51,593

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	197	(111)	86	54,987
Changes of items during period				
Dividends of surplus				(3,748)
Profit				262
Issuance of new shares				121
Purchase of treasury shares				(0)
Disposal of treasury shares				57
Net changes of items other than shareholders' equity	146	111	258	258
Total changes of items during period	146	111	258	(3,048)
Balance at end of current period	344	–	344	51,938

Fiscal year ended March 31, 2019

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings		
						General reserve	Retained earnings brought forward			
Balance at beginning of current period	9,232	10,199	5,294	15,494	620	12,700	13,667	26,988	(121)	51,593
Changes of items during period										
Dividends of surplus							(4,627)	(4,627)		(4,627)
Profit							6,771	6,771		6,771
Issuance of new shares	99	99		99						199
Purchase of treasury shares									(1,992)	(1,992)
Disposal of treasury shares									71	71
Net changes of items other than shareholders' equity										
Total changes of items during period	99	99	–	99	–	–	2,144	2,144	(1,921)	422
Balance at end of current period	9,331	10,299	5,294	15,594	620	12,700	15,811	29,132	(2,042)	52,016

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	344	—	344	51,938
Changes of items during period				
Dividends of surplus				(4,627)
Profit				6,771
Issuance of new shares				199
Purchase of treasury shares				(1,992)
Disposal of treasury shares				71
Net changes of items other than shareholders' equity	(245)	–	(245)	(245)
Total changes of items during period	(245)	–	(245)	176
Balance at end of current period	99	–	99	52,115

Notes

Main accounting policies

1. How we state major assets, and how we determine the stated value
   (1) Securities
      1) Shares in subsidiaries
         We state at cost, as determined by the moving average method
      2) Other securities
         Securities with fair market value
            We state at fair value, as determined by the market price on the last day of the fiscal period (we process valuation discrepancies by the total direct capitalization method, and determine cost of sales by the moving average method)
         Securities with no fair market value
            We state at cost, as determined by the moving average method
            For our contributions to investment partnerships (only those defined as securities under Article 2-2 of the Financial Instruments and Exchange Act), we state the net value of our equity interest (as gleaned from available financial statements) according to the partnership's settlement date.
   (2) Derivatives
      We state at fair value
   (3) Inventories
      Supplies
         We state at cost, as determined by the last purchase price method (we reduce the carrying value when the contribution to profits declines).

2. How we depreciate non-current assets
   (1) Property, plant and equipment
      We use the declining-balance method. However, we use the straight-line method for buildings (excluding accompanying facilities) that we acquired after April 1, 1998, and for accompanying facilities and structures that we acquired after April 1, 2016.
      Useful lives of major property, plant and equipment are as follows.
      Buildings 15–50 years
   (2) Intangible assets
      We use the straight-line method. For software (for internal use), we use this method based on the period for which we expect to use the software (namely, five years).

3. How we account for reserves
   (1) Allowance for doubtful accounts
      We provide a bad debt reserve to cover the bad debt we expect to arise from our accounts receivable as a whole. We estimate the amount based on the doubtful accounts rate. If we have concerns with particular debtors, we will consider how much we are likely to recover from the debtor in question and then add the unrecoverable portion to the bad debt reserve.
   (2) Provision for bonuses
      We provide a reserve to cover bonuses by accruing an amount that we expect to pay in the relevant consolidated fiscal year.
   (3) Provision for retirement benefits and prepaid pension cost
      We provide for retirement benefits and prepaid pension cost based on the estimated amount of retirement benefit obligations and pension assets as of the end of the fiscal year.
      1) Method of attributing the projected retirement benefits to periods of service
         In calculating our retirement benefit obligations, we record the amount we expect to pay until the end of the consolidated fiscal year based on the estimated amount of retirement benefit obligations and pension assets as of the end of the fiscal year.

2) Method of amortization of actuarial gains or losses and prior service cost

To recognize prior service costs, we amortize the amount using the straight-line method. The amortization period will always be shorter than the employees' average remaining service period (which is five years).

We amortize actuarial gains/losses starting from the fiscal year following that in which we recognized the gain/loss. The amortization period will always be shorter than the employees' average remaining service period (which is five years).

4. Other key matters underlying our financial statements

(1) Accounting treatments for retirement benefits

When processing unsettled amounts for retirement benefit-related unrecognized actuarial gain or loss and unrecognized prior service cost, we use a method that differs from that which we use for the consolidated financial statements.

(2) Treatment of consumption taxes

We account for consumption taxes using the tax excluded method.

(3) Application of consolidated tax system

We apply this system.

(4) How we redenominate major foreign assets/liabilities

Foreign currency-denominated monetary claims and liabilities are translated to yen with the spot exchange rate of the balance sheet date with translation differences charged to profit and loss in the corresponding fiscal year.

(5) Important methods of hedge accounting

1) Methods of hedge accounting

Interest rate swaps qualify for special accounting treatment, so we treat them accordingly.

2) Hedging instruments and hedged items

Hedging instrument	Hedged item
Interest rate swaps	Long-term loans payable (including current portion of long-term loans payable)

3) Hedging policy

We use hedging instruments to hedge against adverse interest rate movements for loans payable to the extent appropriate for the hedged item.

4) Methods to evaluate hedging effectiveness

We do not evaluate the performance of interest rate swaps because they are subject to special accounting treatments.

Additional information

Delivering treasury shares to employs through a trust

For details, see the "Additional information" section on page 73.

Balance sheets

*1 Monetary claims and obligations with associates

	Previous fiscal year (ended March 31, 2018)	Current fiscal year (ended March 31, 2019)
Short-term monetary claims	¥1,455 million	¥1,509 million
Short-term monetary obligations	¥28 million	¥404 million

2 Overdraft facility

We concluded an overdraft agreement with a bank to help ensure efficient cash flow management. The unused portion of the overdraft as of the closing date was as follows.

	Previous fiscal year (ended March 31, 2018)	Current fiscal year (ended March 31, 2019)
Used portion of overdraft	¥7,500 million	¥7,500 million
Unused portion of overdraft	–	–
Balance due	¥7,500 million	¥7,500 million

Statements of income

*1 The following table shows our transactions with associates.

	Previous fiscal year (April 1, 2017 to March 31, 2018)	Current fiscal year (April 1, 2018 to March 31, 2019)
Volume of operating transactions		
Operating revenue	¥8,108 million	¥12,395 million
Operating expenses	¥191 million	¥315 million
Volume of non-operating transactions		
Non-operating revenue	¥154 million	¥234 million

*2 The following table shows the main operating expense items and the amounts.

	Previous fiscal year (April 1, 2017 to March 31, 2018)	Current fiscal year (April 1, 2018 to March 31, 2019)
Lease costs	¥262 million	¥233 million
Wages	¥266 million	¥367 million
Officer compensation	¥488 million	¥511 million
Accrued employees' bonuses	¥45 million	¥72 million
Commission fee	¥381 million	¥736 million
Depreciation	¥27 million	¥32 million
Testing and research expenses	¥884 million	¥858 million

Securities

Previous fiscal year (ended March 31, 2018)

We have omitted our shares in subsidiaries (carrying value: ¥13,580 million). This item lacks a readily determinable fair value because it has no market price.

Current fiscal year (ended March 31, 2019)

We have omitted our shares in subsidiaries and the affiliated companies (shares in subsidiaries: ¥13,657 million; shares in the affiliated company: ¥246 million). These items lack a readily determinable fair value because they have no market price.

Tax effect accounting

1. Breakdown of the main factors that generate deferred tax assets and deferred tax liabilities

	Previous fiscal year (ended March 31, 2018)	Current fiscal year (ended March 31, 2019)
Deferred tax assets		
Denial of accrued employees' bonuses	23 million yen	33 million yen
Asset retirement obligations	29	36
Loss on valuation of shares of subsidiaries and associates	1,712	2,028
Impairment loss	305	302
Loss carried forward	34	98
Deemed distribution	112	112
Other	124	238
Deferred tax assets subtotal	2,341	2,848
Valuation allowance for tax loss carried forward	(34)	(98)
Valuation allowance for total future tax consequences of temporary differences	(2,230)	(2,649)
Valuation allowance	(2,265)	(2,748)
Deferred tax assets total	76	100
Deferred tax liabilities		
Valuation difference on available-for-sale securities	151	43
Prepaid pension cost	95	97
Other	15	21
Deferred tax liabilities total	262	163
Net deferred tax liabilities	186	62

2. Breakdown of the main factors underlying any differences between the legally effective tax rate and the actual effective tax rate after applying tax effect accounting

	Previous fiscal year (ended March 31, 2018)	Current fiscal year (ended March 31, 2019)
Legally effective tax rate	30.75%	30.62%
(Adjusting entries)		
Items such as withholding tax on dividends that are permanently excluded from deductible expenses	88.00	8.00
Items such as dividend income that are permanently excluded from earnings	(308.49)	(41.87)
Inhabitant tax on per capita basis	0.78	0.12
Tax deductions for testing and research expenses	(9.88)	(0.35)
Valuation allowance	267.09	6.95
Other	(8.24)	(0.84)
Actual effective tax rate after applying tax effect accounting	60.00	2.63

Business combinations

Business combinations resulting from acquisition

We have disclosed this information on page 73 (in the special notes section on business combinations).

Material events that occurred after the business combination

Nothing to disclose.

4) Supplementary schedules

Schedules of property, plant and equipment

(million yen)

	Type of asset	Balance at beginning of current period	Increase	Decrease	Amortization	Balance at end of current period	Accumulated amortization
Property, plant and equipment	Buildings	4,429	133	1	294	4,267	7,533
	Land	2,690	–	–	–	2,690	–
	Construction in progress	–	294	–	–	294	–
	Other	536	60	0	110	484	1,709
	Total	7,656	488	1	405	7,737	9,242
Intangible assets	Software	18	46	–	5	58	80
	Other	11	16	–	6	21	72
	Total	30	63	–	12	80	153

(Note) The main increases for buildings were ¥123 million for renovating the approach area of Ranzan office and ¥115 million for renovating the Ikebukuro head office.

Schedule of provisions

(million yen)

	Balance at beginning of current period	Increase	Decrease	Balance at end of current period
Allowance for doubtful accounts	–	351	–	351
Provision for bonuses	77	108	77	108

(2) Main assets and liabilities

We have omitted this information because we prepare consolidated financial statements.

(3) Other

Nothing to disclose.

VI. How Taiyo Holdings' (the filing company's) Stocks are Administered

Fiscal year	April 1 to March 31
Ordinary General Shareholders' Meeting	June
Record date	March 31
Record date for dividends of surplus	Last day of fiscal year (March 31) September 30
Number of shares constituting one unit	100
Purchase and sale of fractional shares	
Transfer agent	(Special account) Stock Transfer Agency Department, Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo
Shareholder registrar	(Special account) Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo
Purchasing and selling fee	None
Method of public notice	We issue public notices electronically. However, if we are unable to use this method due to an accident or other unavoidable reason, we will issue public notice through Nihon Keizai Shimbun instead. URL for public notices: http://www.taiyo-hd.co.jp
Special privileges for shareholders	Not applicable

(Note) Our Articles of Incorporation provide that shareholders' rights regarding fractional shares are limited to: (1) the rights listed in Article 189-2 of the Companies Act, (2) the right to exercise any put option pursuant to Article 166-1 of said Act, (3) the right to be allotted shares for subscription and share options for subscription commensurate with the number of shares they hold, and (4) the right to exercise any call option attached to the fractional shares.

VII. Referential Information about Taiyo Holdings (the filing company)

1. Parent company

We have no parent company as defined in Article 24-7(1) of the Financial Instruments and Exchange Act.

2. Other referential information

We filed the following disclosure documents between the start of the current fiscal year and the date we filed the present report.

(1) Annual securities report with accompanying documents and certificate

The 72nd business term (April 1, 2017 to March 31, 2018): Filed with the director-general of the Kanto Local Finance Bureau on June 25, 2018

(2) Internal control report with accompanying documents

Filed with the director-general of the Kanto Local Finance Bureau on June 25, 2018

(3) Quarterly report with certificate

The 1st quarter of the 73rd business term (April 1, 2018 to June 30, 2018): Filed with the director-general of the Kanto Local Finance Bureau on August 3, 2018

The 2nd quarter of the 73rd business term (July 1, 2018, to September 30, 2018): Filed with the director-general of the Kanto Local Finance Bureau on November 2, 2018

The 3rd quarter of the 73rd business term (October 1, 2018, to December 31, 2018): Filed with the director-general of the Kanto Local Finance Bureau on February 1, 2019

(4) Extraordinary report

Filed with the director-general of the Kanto Local Finance Bureau on June 25, 2018
Filed pursuant to Article 24-5(4) of the Financial Instruments and Exchange Act and Article 19-2(9)-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs.

Filed with the director-general of the Kanto Local Finance Bureau on January 31, 2019
Filed pursuant to Article 24-5(4) of the Financial Instruments and Exchange Act and Article 19-2(8) -2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs.

Filed with the director-general of the Kanto Local Finance Bureau on May 20, 2019
Filed pursuant to Article 24-5(4) of the Financial Instruments and Exchange Act and Article 19-2(9)-4 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs.

(5) Share buyback report

Reporting period (June 1–30, 2018): Filed with the director-general of the Kanto Local Finance Bureau on July 17, 2018
Reporting period (July 1–31, 2018): Filed with the director-general of the Kanto Local Finance Bureau on August 10, 2018
Reporting period (August 1–31, 2018): Filed with the director-general of the Kanto Local Finance Bureau on September 10, 2018
Reporting period (September 1–30, 2018): Filed with the director-general of the Kanto Local Finance Bureau on October 10, 2018
Reporting period (October 1–31, 2018): Filed with the director-general of the Kanto Local Finance Bureau on November 9, 2018
Reporting period (November 1–30, 2018): Filed with the director-general of the Kanto Local Finance Bureau on December 10, 2018
Reporting period (December 1–31, 2018): Filed with the director-general of the Kanto Local Finance Bureau on January 10, 2019

Reporting period (January 1–31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on February 8, 2019
Reporting period (February 1–28, 2019): Filed with the director-general of the Kanto Local Finance Bureau on March 8, 2019
Reporting period (March 1–31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on April 10, 2019
Reporting period (April 1–30, 2019): Filed with the director-general of the Kanto Local Finance Bureau on May 10, 2019
Reporting period (May 1–31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on June 10, 2019

(6) Securities registration statement

Filed with the director-general of the Kanto Local Finance Bureau on July 5, 2018

Part II Taiyo Holdings' (filing company's) guarantors

Nothing to disclose.

Independent Auditor's Audit Report and Internal Control Audit Report

June 24, 2019

Taiyo Holdings Co., Ltd.

To the Board of Directors of Taiyo Holdings Co., Ltd.

Deloitte Touche Tohmatsu LLC

Designated Partner Engagement Partner	Certified Public Accountant	Toru Nakatsuka	[Seal]
Designated Partner Engagement Partner	Certified Public Accountant	Hiroshi Waseda	[Seal]

<Audit of financial statements>

To issue this audit certificate pursuant to Article 193-2(1) of the Financial Instruments and Exchange Act, we audited the consolidated financial statements of Taiyo Holdings Co., Ltd. for the consolidated fiscal year from April 1, 2018 to March 31, 2019, which are disclosed in Chapter V: Financial Information. These statements consist of the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, basic factors underlying our consolidated financial statements, and other notes and consolidated supplementary schedules.

The management's responsibility for the consolidated financial statements

The management is responsible for the preparing and fairly disclosing these consolidated financial statements in accordance with accounting principles that are generally accepted in Japan as fair and valid. As part of this responsibility, the management must develop and operate such internal controls as it deems necessary for ensuring that the consolidated financial statements it prepares and discloses are free from material misstatements caused by fraud or error.

Auditor's responsibility

Our responsibility is to audit the consolidated financial statements and then state our independent/unprejudiced view based on the outcome of said audit. We audited the consolidated financial statements in accordance with audit principles that are generally accepted in Japan as fair and valid. These auditing principles require that we formulate an audit plan and then audit the consolidated financial statements accordingly so that we can be reasonably sure that the consolidated financial statements are free of material misstatements.

During our audits, we take steps to corroborate the numerical data and other data disclosed in the consolidated financial statements. We decide on the exact steps to take after assessing the level of risk that the consolidated financial statements contain misstatements due to fraud or error. As part of this risk assessment, we may examine the company's internal control procedures related to preparing and fairly disclosing consolidated financial statements. We do so not because we want to pass judgment on how effective the company's internal controls are per se, but because we want to ensure that our audit procedures are appropriate for the circumstances. Something else we do during these audits is form an all-round impression of how the company presents its consolidated financial statements. We form this impression based on the management's accounting policies, how it applies them, and how accurate its estimates are.

We believe that the evidence we have obtained provides a sufficient basis for the opinion we have stated below.

Audit opinion

In accordance with accounting principles generally accepted in Japan as fair and valid, the consolidated financial statements in this report present fairly, in all material respects, the financial position of Taiyo Holdings Co., Ltd. and its consolidated subsidiaries as of March 31, 2019, as well as the company and consolidated subsidiaries' consolidated performance and cash flows for the consolidated fiscal year ended March 31, 2019.

Emphasis of matter

We draw attention to the “Additional information” section on page 73, which states the following:

In the Board of Directors meeting held on January 31, 2019, the Taiyo Group approved the acquisition of all shares in a new company created by the spin-off of Takatsuki Plant owned by Daiichi Sankyo Propharma Co., Ltd., a subsidiary of Daiichi Sankyo Company, Limited, in a company split. A basic agreement concerning share transfer was concluded with Daiichi Sankyo Company, the same day.

Our opinion is not modified in respect of this matter.

Internal control audit

To issue this internal control audit certificate pursuant to Article 193-2(2) of the Financial Instruments and Exchange Act, we audited Taiyo Holdings Co., Ltd.’s internal control report, which is accurate as of March 31, 2019.

The management’s responsibility for the internal control report

The management is responsible for developing and operating internal controls related to financial reporting. It is also responsible for preparing and fairly disclosing a report concerning said internal controls in accordance with financial reporting-related internal control principles that are generally accepted in Japan as fair and valid.

It should be understood, however, that the financial reporting-related internal controls cannot absolutely guarantee success in preventing or detecting misstatements in financial reporting.

Auditor’s responsibility

Our responsibility is to audit the internal controls and then state our independent/unprejudiced view based on the outcome of said audit. We audited the financial reporting-related internal controls in accordance with audit principles that are generally accepted in Japan as fair and valid. These auditing principles require that we formulate an audit plan and then audit the internal controls accordingly so that we can be reasonably sure that the internal control report is free of material misstatements.

During our internal control audits, we take steps to corroborate the internal control report’s statements on financial reporting-related internal controls. We decide on the exact steps to take after assessing factors relevant to the integrity of the financial reporting. Something else we do during these audits is form an all-round impression of how the company presents its internal control report. We form this impression based on the management’s statements about the scope, procedures, and outcomes of their evaluations of the relevant internal controls.

We believe that the evidence we have obtained provides a sufficient basis for the opinion we have stated below.

Audit opinion

In accordance with financial reporting-related internal control principles that are generally accepted in Japan as fair and valid, the management’s internal control report—which states that Taiyo Holdings Co., Ltd. has effective financial reporting-related internal controls as of March 31, 2019—presents fairly, in all material respects, the management’s evaluations of said internal controls.

Conflict of interest

Our firm and the engagement partners have no interest relationship with Taiyo Holdings Co., Ltd. that would warrant disclosure under the Certified Public Accountants Act.

Notes: 1. The above is a digital copy of the original auditor’s report. We retain the original copy separately.

2. The audit does not cover extensible Business Reporting Language.

Independent Auditor's Audit Report

June 24, 2019

Taiyo Holdings Co., Ltd.

To the Board of Directors of Taiyo Holdings Co., Ltd.

Deloitte Touche Tohmatsu LLC

Designated Partner Engagement Partner	Certified Public Accountant	Toru Nakatsuka	[Seal]
Designated Partner Engagement Partner	Certified Public Accountant	Hiroshi Waseda	[Seal]

To issue this audit certificate pursuant to Article 193-2(1) of the Financial Instruments and Exchange Act, we audited the financial statements of Taiyo Holdings Co., Ltd. for the 73rd business term (April 1, 2018 to March 31, 2019), which are disclosed in Chapter V: Financial Information. These statements consist of the balance sheet, statement of income, statement of changes in equity, main accounting policies, and other notes and supplementary schedules.

The management's responsibility for financial statements

The management is responsible for preparing and fairly disclosing these financial statements in accordance with accounting principles that are generally accepted in Japan as fair and valid. As part of this responsibility, the management must develop and operate such internal controls as it deems necessary for ensuring that the financial statements it prepares and discloses are free from material misstatements caused by fraud or error.

Auditor's responsibility

Our responsibility is to audit the financial statements and then state our independent/unprejudiced view based on the outcome of said audit. We audited the financial statements in accordance with audit principles that are generally accepted in Japan as fair and valid. These auditing principles require that we formulate an audit plan and then audit the financial statements accordingly so that we can be reasonably sure that the financial statements are free of material misstatements.

During our audits, we take steps to corroborate the numerical data and other data disclosed in the financial statements. We decide on the exact steps to take after assessing the level of risk that the financial statements contain misstatements due to fraud or error. As part of this risk assessment, we may examine the company's internal control procedures related to preparing and fairly disclosing financial statements. We do so not because we want to pass judgment on how effective the company's internal controls are per se, but because we want to ensure that our audit procedures are appropriate for the circumstances. Something else we do during these audits is form an all-round impression of how the company presents its financial statements. We form this impression based on the management's accounting policies, how it applies them, and how accurate its estimates are.

We believe that the evidence we have obtained provides a sufficient basis for the opinion we have stated below.

Audit opinion

In accordance with accounting principles generally accepted in Japan as fair and valid, the financial statements in this report present fairly, in all material respects, the financial position of Taiyo Holdings Co., Ltd. as of March 31, 2019, as well as the company's performance for the fiscal year ended March 31, 2019.

Conflict of interest

Our firm and the engagement partners have no interest relationship with Taiyo Holdings Co., Ltd. that would warrant disclosure under the Certified Public Accountants Act.

Notes: 1. The above is a digital copy of the original auditor's report. We retain the original copy separately.
2. The audit does not cover eXtensible Business Reporting Language.

Cover

[Document filed]	Certificate
[Applicable law:]	Article 24-4(2.1) of the Financial Instruments and Exchange Act
[Filed with:]	The director-general of the Kanto Local Finance Bureau
[Date filed:]	June 24, 2019
[Company name in Japanese:]	太陽ホールディングス株式会社 Taiyō hōrudingusu kabushiki-gaisha
[Company name in English:]	TAIYO HOLDINGS CO., LTD.
[Representative (title):]	Eiji Sato (President and CEO)
[Name (title) of CFO]	Nothing to disclose.
[Address of head office:]	388 Ohkura, Ranzan-machi, Hiki-gun, Saitama
[Document available at:]	Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabuto-cho, Chuo-ku, Tokyo 103-8220 Japan)

1. Integrity of the statements in this annual securities report

   Eiji Sato, President & CEO of Taiyo Holdings, Co., Ltd., has confirmed that the statements in the Annual Securities Report for the 73rd business term (April 1, 2018 to March 31, 2019) fulfil the integrity requirements of the Financial Instruments and Exchange Act.

2. Special notes

   There are no special notes to disclose.

Cover

Document filed:	Internal control report
Applicable law:	Article 24-4(4.1) of the Financial Instruments and Exchange Act
Filed with:	The director-general of the Kanto Local Finance Bureau
Date filed:	June 24, 2019
Company name in Japanese:	太陽ホールディングス株式会社 Taiyō hōrudingusu kabushiki-gaisha
Company name in English:	TAIYO HOLDINGS CO., LTD.
Representative (title):	Eiji Sato (President and CEO)
Name (title) of CFO	Nothing to disclose.
Address of head office:	388 Ohkura, Ranzan-machi, Hiki-gun, Saitama
Document available at:	Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabuto-cho, Chuo-ku, Tokyo 103-8220 Japan)

1. Basic framework for financial reporting-related internal controls

Eiji Sato, President & CEO of Taiyo Holdings, Co., Ltd., is responsible for developing and operating financial reporting-related internal controls. He does so according to the basic framework for financial reporting-related internal controls set forth in the Business Accounting Council's opinions titled *On the Setting of the Standards and Practice Standards for Management Assessment and Audit Concerning Internal Control Over Financial Reporting*.

Internal controls are supposed to work as part of an integrated whole to achieve, as far as is reasonably practical, the objectives for which they were designed. As such, the financial reporting-related internal controls cannot absolutely guarantee success in preventing or detecting misstatements in financial reporting.

2. Evaluation scope, date, and procedures

We evaluated our financial reporting-related internal controls on March 31, 2019, the last day of the current business year. We based this evaluation on standards for such evaluations that are accepted in Japan as fair and valid.

In this evaluation, we aimed to determine whether we have the necessary internal controls in place and whether they operate effectively. First, we conducted an "organization-wide evaluation," in which we clarified the internal controls that are materially relevant to the integrity of our consolidated financial reporting as a whole. This step gave us an idea of which business processes we should evaluate. Having selected the business processes to evaluate, we analyzed these processes to identify the key controls relevant to the integrity of our financial reporting. We then evaluated the adequacy and operational effectiveness of these key controls. From this evaluation, we concluded that the internal controls are effective.

In determining the scope of our evaluation of financial reporting-related internal controls, we sought to cover all matters that are materially relevant to the integrity of our (Taiyo Holdings and our consolidated subsidiaries') consolidated financial reporting, considering both monetary/quantitative and qualitative relevance. After considering the results of our organization-wide evaluation, which covered Taiyo Holdings and 12 consolidated subsidiaries, we determined a reasonable scope of financial reporting processes to target in the evaluation. In this organization-wide evaluation, we did not consider those business sites that we deemed to have negligible monetary/quantitative and qualitative relevance.

Regarding the financial reporting processes we targeted, we identified nine companies (Taiyo Holdings and eight consolidated subsidiaries) that constitute monetarily/quantitatively and qualitatively relevant business sites. We identified them as such on the basis that they fell in the upper two tertiles when we ranked all business sites in descending order of their contribution to consolidated net sales for the previous consolidated fiscal year (discounting inter-company transactions) combined with the projected consolidated net sales for the current consolidated fiscal year (discounting inter-company transactions). Focusing on these nine business sites, we evaluated the business processes therein related to accounting categories that constitute significant indicators of our corporate objectives—namely, net sales, accounts receivables, and inventories. We also evaluated some other business and workflow processes that we deemed materially relevant to financial reporting in that they constitute significant risk factors of material misstatements. These additional processes included those that pertain to the key accounting categories underlying estimates and projections, and that involve high-risk transactions.

3. Evaluation outcome

Having conducted the above evaluation, we concluded that our financial reporting-related internal controls are effective as of the last day of the current business year.

4. Supplementary notes

There are no supplementary notes to disclose.

5. Special notes

There are no special notes to disclose.