(Translation)

Annual Securities Report

for the 74th business term (April 1, 2019 to March 31, 2020)

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.

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Filing Notes

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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 Holdings and the Taiyo Group

1. Key financial data

(1) Consolidated financial data

Business term		70th	71st	72nd	73rd	74th
Year ended		Mar 31, 2016	Mar 31, 2017	Mar 31, 2018	Mar 31, 2019	Mar 31, 2020
Net sales	million yen	49,843	47,866	52,241	59,389	70,627
Ordinary profit	" "	11,129	9,202	11,199	8,014	8,898
Profit attributable to owners of parent	" "	7,796	6,398	4,856	4,396	3,749
Comprehensive income	" "	5,891	6,151	5,014	3,869	2,499
Net assets	" "	45,250	71,846	73,023	70,520	69,523
Total assets	" "	65,464	92,386	111,490	105,666	142,192
Net assets per share	yen	1,865.94	2,468.99	2,520.68	2,475.36	2,434.23
Basic earnings per share	" "	337.99	266.46	168.55	152.71	131.99
Diluted earnings per share	" "	–	–	–	–	–
Equity ratio	%	65.9	76.9	65.2	66.4	48.7
Return on equity	" "	19.0	11.2	6.8	6.2	5.4
Price earnings ratio	times	11.3	18.3	27.1	23.9	30.8
Net cash provided by (used in) operating activities	million yen	10,546	9,042	8,100	5,907	13,739
Net cash provided by (used in) investing activities	" "	(6,750)	(1,063)	(24,161)	(5,487)	(45,912)
Net cash provided by (used in) financing activities	" "	(2,740)	20,342	11,319	(12,001)	31,593
Cash and cash equivalents at the end of period	" "	18,385	46,661	41,816	30,101	29,115
Number of employees (not including average number of non-fulltime)	persons	1,202	1,249	1,268	1,614	1,988
Average number of non-fulltime (excluded)		[–]	[–]	[–]	[–]	[–]

(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		70th	71st	72nd	73rd	74th
Year ended		Mar 31, 2016	Mar 31, 2017	Mar 31, 2018	Mar 31, 2019	Mar 31, 2020
Operating revenue	million yen	8,844	10,251	8,108	12,403	12,899
Ordinary profit	" "	6,125	7,247	4,832	8,318	8,261
Profit	" "	5,468	5,827	262	6,771	4,935
Share capital	" "	6,188	9,171	9,232	9,331	9,428
Total issued shares	shares	27,485,600	28,841,100	28,865,194	28,910,436	28,969,647
Net assets	million yen	26,539	54,987	51,938	52,115	53,545
Total assets	" "	35,658	64,415	77,258	73,080	110,546
Net assets per share	yen	1,148.56	1,910.44	1,801.83	1,838.13	1,882.97
Dividend per share	" "	110.00	120.10	160.20	130.20	130.20
(Interim dividend per share)	(" ")	(55.00)	(55.00)	(65.10)	(65.10)	(65.10)
Basic earnings per share	" "	237.06	242.65	9.12	235.20	173.70
Diluted earnings per share	" "	–	–	–	–	–
Equity ratio	%	74.4	85.4	67.2	71.3	48.4
Return on equity	" "	22.2	14.3	0.5	13.0	9.3
Price earnings ratio	times	16.1	20.1	501.0	15.5	23.4
Dividend payout ratio	%	46.4	49.5	1,756.2	55.4	75.0
Number of employees (not including average number of non-fulltime)	persons	80	85	81	107	112
Average number of non-fulltime (excluded)		[–]	[–]	[–]	[–]	[–]
Total shareholder return	%	92.8	120.6	117.4	98.6	111.7
(Relative to dividend-included TOPIX data)	%	(89.2)	(102.3)	(118.5)	(112.5)	(101.8)
Highest share price	yen	5,360	5,200	5,790	4,925	5,220
Lowest share price	yen	3,380	2,951	4,315	2,847	3,015

(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

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 ink
March, 1982	Established Ranzan Plant (now Ranzan Facility) in Ranzan-machi, Hiki-gun, Saitama
June, 1984	Exhibited a liquid photoimageable 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 in 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 China—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-machi, Hiki-gun, Saitama (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.
September, 2010	Established a sales subsidiary in China—Taiyo Ink Trading (Shenzhen) Co., Ltd.
October, 2010	Adopted holding company structure, changing name to Taiyo Holdings Co., Ltd. Transferred rights and responsibilities over domestic businesses to Taiyo Japan Co., Ltd., renaming the subsidiary Taiyo Ink Mfg. 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. (now Taiyo Fine Chemicals 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
August, 2019	Acquired Mega Solar 23, a special-purpose subsidiary that operates Odaike Hydro-Solar Plant
August, 2019	Acquired Mega Solar 28, a special-purpose subsidiary that operates Miyamaike Hydro-Solar Plant
October, 2019	Acquired Taiyo Pharma Tech Co., Ltd., a pharmaceutical maker (among other things).
November, 2019	Micro Network Technologies Corp. subsumed Thou-Management Corporation

3. Our businesses

(Glossary)

This document uses the following abbreviations.

Abbreviation	Meaning
PWB	Printed wiring board
SR	Solder resist
PKG	Semiconductor package
DF	Dry film

Our group comprises Taiyo Holdings (the filing company), 25 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 personal computers, smartphones, 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. In October 2019, the drug maker acquired the same rights/authorizations for an additional product. In the same month, Taiyo Pharma Tech became our subsidiary after inheriting a spun-off drug-making plant. As our subsidiary, it started manufacturing pharmaceuticals on consignment.

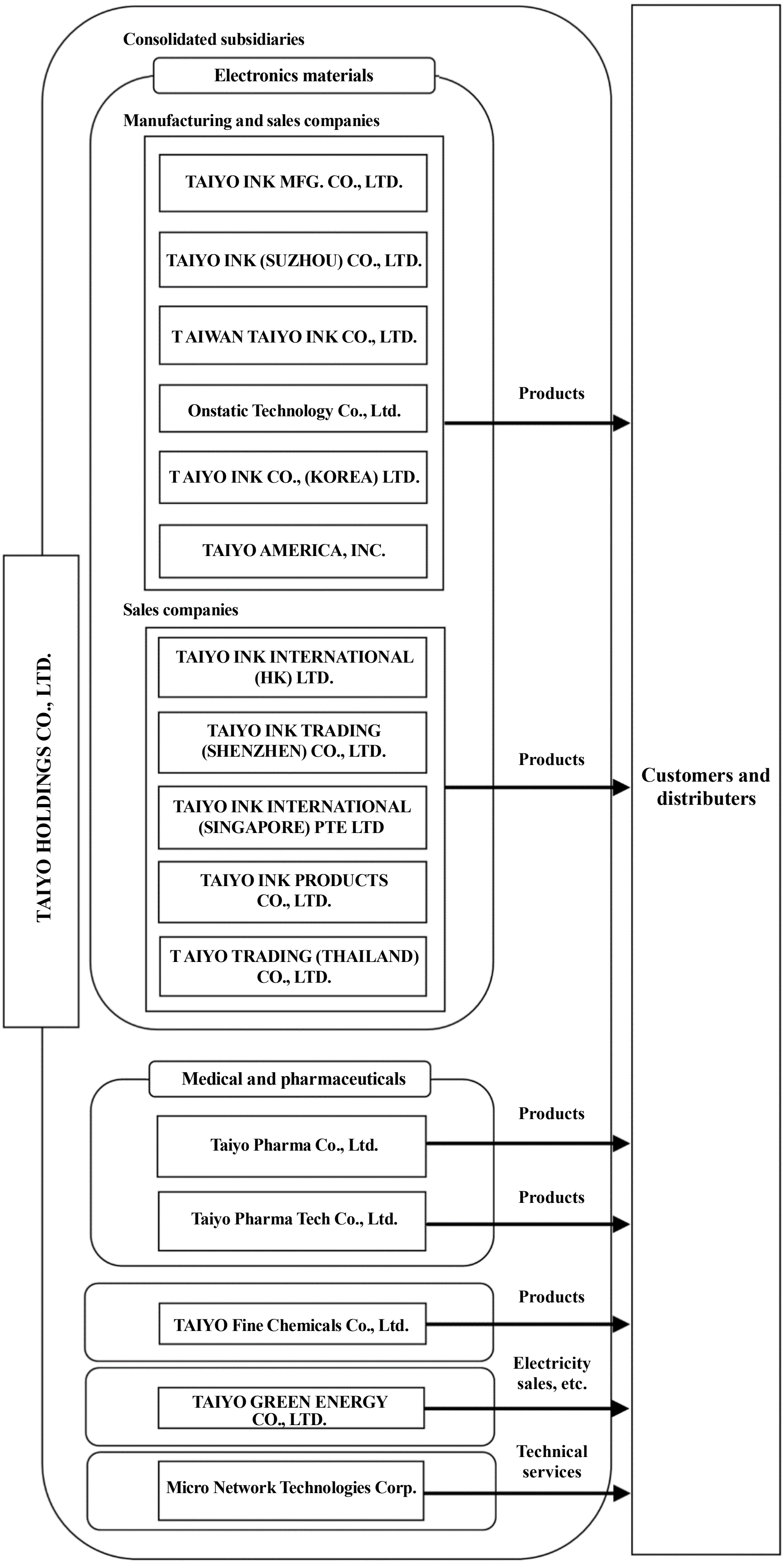
The table below lists our business segments and the relevant subsidiaries / other associate. The segment titles “electronics materials” and “medical and pharmaceuticals” match the titles in the consolidated statements (see page 65).

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.
	• Develops, and manufactures pharmaceuticals and quasi drugs	Japan	Taiyo Pharma Tech Co., Ltd.
Other	• Manufactures and markets dyes, pigments, and other chemical products	Japan	Taiyo Fine Chemicals Co., Ltd.
	• Supplies renewable energy	Japan	Taiyo Green Energy Co., Ltd.
	• Provides systems engineering services • Develops systems	Japan	Micro Network Technologies Corp.

(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
TAIYO Fine Chemicals Co., Ltd. (See Note 7)	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 Note 1)	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
Onstatic Ink (Shenzhen) Co., Ltd. (See Note 1)	Shenzhen, Guangdong Province, China	56 million CNY	Manufactures and markets solder resists for PWBs	100.0	• We have interlocking directorates with the company
Peace Sea Investment Limited (See Note 1)	Apia, Samoa	13 million USD	Investment	100.0	
Good Advance Group Limited (See Note 1)	Apia, Samoa	13 million USD	Investment	100.0	
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	Hunghom, Kowloon, Hong Kong	10 million HKD	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 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) Pte Ltd	Singapore	2 million SGD	Markets solder resists for PWBs	100.0	• We have interlocking directorates with the company
Taiyo Ink Products Co., Ltd. (See Notes 2 and 4)	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..	Bangkok, Thailand	10 million THB	Markets solder resists for PWBs	100.0	• We lend to the company • We have interlocking directorates with the company
Taiyo Pharma Co., Ltd. (See Note 5)	Marunouchi, Chiyoda-ku, Tokyo, Japan	450 million JPY	Markets pharmaceuticals and quasi drugs	100.0	• We have interlocking directorates with the company • We lend to the company
Taiyo Pharma Tech Co., Ltd. (See Notes 1 and 6)	Takatsuki-shi, Osaka, Japan	300 million JPY	Manufactures pharmaceuticals and quasi drugs	100.0	• We have interlocking directorates with 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
Micro Network Technologies Corp. (See Notes 8 and 9)	Otemachi, Chiyoda-ku, Tokyo, Japan	50 million JPY	Provides systems engineering services and develops systems	100.0	• We lend to the company
(The six remaining companies are not shown here)					

(Notes)
1. The indicated company is a specified subsidiary 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:	¥21,542 million
Ordinary profit:	¥4,587 million
Profit:	¥3,451 million
Net assets:	¥6,711 million
Total assets:	¥18,665 million

4. 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 financial data

Sales:	¥7,203 million
Ordinary profit:	¥526 million
Profit:	¥412 million
Net assets:	¥1,521 million
Total assets:	¥3,266 million

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

   Taiyo Pharma Co., Ltd.'s financial data

Sales:	¥9,985 million
Ordinary profit:	¥330 million
Net income (loss):	(¥2,055 million)
Net assets (liabilities):	(¥1,486 million)
Total assets:	¥25,387 million

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

   Taiyo Pharma Tech Co., Ltd.'s financial data

Sales:	¥ 8,229 million
Ordinary profit:	¥1,337 million
Profit:	¥740 million
Net assets:	¥22,141 million
Total assets:	¥24,589 million

7. On July 1, 2019, Chugai Kasei Co., Ltd., changed its name to Taiyo Fine Chemicals Co., Ltd.
8. On November 1, 2019, Thou-Management Corporation was subsumed by Micro Network Technologies Corp.
9. On April 1, 2020, Micro Network Technologies Corp. changed its name to Funlead Corp.

(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	19.6%	• 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, 2020

Segment	Number of employees
Electronics Materials	1,148
Medical and Pharmaceuticals	384
Other	344
Trans-segment i.e., employees of Taiyo Holdings Co., Ltd. (the holding and filing company)	112
Total	1,988

(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 374 more employees compared to the end of the previous consolidated fiscal year. This increase is mainly because we acquired Taiyo Pharma Tech Co., Ltd. in the current consolidated fiscal year and incorporated the company, in the scope of consolidation. Another reason is that the number of employees in the Medical and Pharmaceuticals segment increased by 330.

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

As of March 31, 2020

Number of employees	Average age	Average years of service	Average annual remuneration (¥)
112	40.1	10.1	8,068,955

(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 Taiyo Pharma Tech Co., Ltd., Taiyo Ink (Suzhou) Co., Ltd. and Taiyo Ink Trading (Shenzhen) Co., Ltd., 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

Business climate

In the period under review (April 1, 2019, to March 31, 2020), the business climate remained tough. Japan and other economies around the world experienced slowdown amid an increasingly gloomy economic and fiscal outlook. Continuing from the second half of FY2018, the US-China trade war contributed to the malaise. The situation was then compounded in January onward by the spread of COVID-19.

1) Electronics materials

Semiconductors sold well thanks to growing 5G-related demand, a higher volume of PC sales, and growing demand for servers. On the other hand, the segment suffered to some extent from falling Chinese demand for auto parts, which reflected a downturn in sales of new vehicles.

2) Medical and pharmaceuticals

Mounting pressure on Japan's healthcare system has prompted a revision of drug pricing, leading to structural changes in the drug industry and increasingly diverse healthcare needs. Pharmaceutical drug discovery will likely be transformed by technological innovation and collaboration between industry, academia, and government. Meanwhile, however, as its healthcare system continues to flounder, Japan is eyeing further cost-control measures, such as introducing price controls on original drugs and encouraging the use of generics.

Our strategies

Amid the present business climate, we remain committed to our long-term vision of channeling our chemical assets in order to become a comprehensive chemical company.

<u>Group-wide actions</u>

1) Recruiting and training staff

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

2) Building a global and diversified portfolio

To achieve further growth, we are working to become more globally competitive while staying abreast of rapid changes in the market. Rather than using only our own assets, we will actively explore potential business and capital tie-ups, M&As, and other opportunities for external collaboration that can add value to our business.

3) Contributing to the sustainable development agenda

To fulfill our CSR, we comply with the law, protect the environment, ensure quality management, and contribute to society. We also undertake a range of ESG initiatives aimed at achieving sustainable business growth.

Environmental: We are switching to eco-friendly renewable energy sources across the group. We also run programs for farming vegetables, fruits, and insects to offset the risk of future food crises.

Social: To contribute to the local social fabric, we participate in local events and charitable causes, and our canteens use local produce.

Governance: To promote transparent and sound business practices, we have bolstered our internal controls and increased the share of outsiders on the board. We have separated business execution from monitoring, enabling dynamic executive decision-making and effective monitoring of the same.

We continue fulfilling our CSR and raising our ESG standards so that we will always resonate with and command the trust of our stakeholders.

<u>Electronics materials segment</u>

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. To further increase our SR share, we are pursuing a threefold strategy: 1. strengthen our existing assets (existing clientele + existing tech), 2. accelerate the process of launching new products (existing clientele + new tech), and 3. promote new applications (new clientele + existing tech). We are also working to swiftly establish other growth-driving electronics businesses to complement SR, believing that this will lead to sustained growth. Described below are the key actions taken in this segment.

1) Strengthening R&D

We understand that if we are to keep generating new business ideas, 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) 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.

Medical and pharmaceuticals segment

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 a system 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) Launching manufacture of pharmaceuticals on consignment

Taiyo Pharma Tech Co., Ltd., became our subsidiary after it inherited Daiichi Sankyo Propharma Co., Ltd.'s spun-off Takatsuki Plant. The subsidiary then launched a new business: manufacture of pharmaceuticals on consignment. This business will help us expand the segment and strengthen our portfolio.

2) Putting the new business on a steady footing

In October 2019, Taiyo Pharma got approval for the manufacture and sale of long-listed drugs. These drugs continue to see steady sales among medical institutions. To expand our lineup, we will aggressively seek approvals for other long-listed products.

3) Product liability

When you manufacture pharmaceuticals and quasi-drugs, you run the risk of being held responsible for any injuries the products may cause. To manage this risk, we comply with the Pharma-Med Act (full title: Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices) and all applicable standards. We also have product liability insurance to minimize the financial damage from any product liability claims.

COVID-19 impact

In the period under review, COVID-19 had only a limited impact on our business performance. We have gathered data from Japan and overseas regarding the situation and lookout since April, when COVID-19 became a global crisis. The data suggests a range of potential impacts, which are described below.

Sales

Electronics materials: The corona slowdown has led to a slump in electronics and auto sales. On the other hand, the global trend toward remote working has driven investment in data centers and other digital infrastructure. Sales could suffer if the slump persists or worsens, or if exchange rates fluctuate widely.

Medical and pharmaceuticals: In Japan, the requests to stay at home led to a decline in outpatient visits. Sales could suffer if the situation persists or worsens. Specifically, the number of new prescriptions might fall if restrictions are imposed on hospital/clinic visits, or if we are urged to restrain direct-to-consumer advertising. Additionally, doctors may also prescribe fewer treatments that require a clinic/hospital visit (e.g. injections).

Production

Production might be suspended or delayed if infections spread among our suppliers or group companies.

There are no concerns about liquidity; we have ample cash and credit to weather a business crisis.

2. Business risks

The following are the main risks that may influence the business development of the Group. The forward-looking statements are based on information available to us as of the end of the current consolidated fiscal year.

Types of financial risk	Description of risk	Key actions for managing the risk
Impairment risk	• 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.	• The Board of Directors regularly reviews assets to check whether they are still worth holding. • We use follow-up surveys to measure the asset's contribution to synergy, and we monitor the asset's macroeconomic context.
Technological innovation risk	• Technological innovation might yield manufacturing techniques that do not rely on our products (such as techniques for making electronic parts without PWBs). • Manufacturing techniques that do not rely on solder resists.	• We develop new manufacturing techniques.
Patent risk	• We may fail to protect our patents. • We might violate an organization's intellectual property rights.	• We manage risks related to intellectual property rights.
Client bankruptcy	• Clients in Japan or overseas might unexpectedly go bust.	• We monitor clients' performance and creditworthiness to protect the recoverability of our receivables.
Exchange rate risk	• Exchange rate fluctuations may force us to suspend overseas business. • Due to fluctuations in exchange or interest rates, we may incur losses when converting foreign-denominated assets of overseas subsidiaries into JPY.	• We use forward exchange contracts and fixed-for-floating interest rate swaps. • For financing, group companies (and the holding company, too) use lenders based in countries where exchange rate risk is minimal.
Country-specific risks	• There may be unfavorable changes in local regulatory requirements (including legal and tax requirements). • The country might experience military conflict or civil disorder.	• We aim for an appropriately dispersed network of global operations.
Procurement risk	• Our supply chain might get disrupted if suppliers suffer damage or shortages. • Oil prices might lead to higher materials costs.	• We have dispersed supply chains.
Price war risk	• We might need to repeatedly lower sales prices below those of competitors.	• We offer low-end goods. • We monitor the competition.
Side-effects of pharmaceuticals	• Users might experience unanticipated side-effects or other incidents.	• We comply with the Pharma-Med Act and applicable standards, and subscribe to liability insurance.
Pharmaceutical regulation	• There may be unfavorable changes in drug pricing or other relevant aspects of the national health system or the government's health policy.	• We have a robust system of procedures with effective oversight.
Infection risk	• We might need to suspend business if executives or employees get infected.	• We have introduced work-from-home programs. • We run temperature checks and provide hand sanitizer. • We prohibit international business trips, and staff limit their use of public transport.

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	58,136	62,380	4,244	Notes and accounts receivable - trade up ¥2,902 million, work in process up ¥1,344 million, raw materials and supplies up ¥1,380 million Cash and deposits down ¥2,149 million
Non-current assets	47,529	79,811	32,281	Buildings and structures up ¥5,664 million, machinery, equipment and vehicles, net up ¥8,052 million, land up ¥7,791 million, goodwill up ¥6,155 million, advisory assets up ¥6,904 million
Total assets	105,666	142,192	36,525	
Total liabilities	35,146	72,668	37,522	Long term loans payable up ¥32,374 million
Total net assets	70,520	69,523	(996)	Profit attributable to owners of parent down ¥3,749 million, dividends of surplus down ¥3,719 million, foreign currency translation adjustment down ¥1,175 million
Total liabilities and net assets	105,666	142,192	36,525	

2) Operating results

Electronics materials:

The segment posted net sales of ¥48,884 million (up 1.7% year on year) and segment profit of ¥10,441 million (down 0.2%). Rigid board materials sold well in Chinese B2C applications, partially offsetting by poor demand for vehicle installation parts, which reflected a global downturn in new vehicle sales. PKG board materials sold better than they did last year thanks to a recovery in semiconductor demand, which reflected a higher volume of PC sales and demand for servers.

Medical and pharmaceuticals:

The segment posted net sales of ¥18,215 million (up 137.8% year on year) and segment profit of ¥1,286 million (compared to a loss of ¥351 million last year). In October 2019, Taiyo Pharma Co., Ltd., gained approval for one long-term listed product, bringing the total number of manufacture/sale approvals to 14. In the same month, we incorporated into the group Taiyo Pharma Tech Co., Ltd., which manufactures pharmaceuticals on consignment.

The consolidated results were as follows:

Net sales:	¥70,627 million (up 18.9%)
Operating income:	¥9,136 million (up 12.8%)
Ordinary profit:	¥8,898 million (up 11.0%)
Profit attributable to owners of parent:	¥3,749 million (down 14.7%)

The decline in profit attributable to owners of parent was the result of the recording of ¥3,037 million in special loss. This loss occurred when we wrote down Taiyo Pharma's sales rights for Bactrim and Tigason. The write-down was necessary because the assets' earning capacity had declined below their carrying amount.

The COVID-19 crisis had no significant impact on the results for the period under review.

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	5,907	13,739	Cash inflows included ¥5,261 million in profit before income taxes, and ¥5,283 million in depreciation. Impairment loss of ¥ 3,540 million
Net cash provided by (used in) investing activities	(5,487)	(45,912)	Cash outflows included ¥7,571 million for acquisition of property, plant and equipment, ¥1,133 million for acquisition of intangible assets, and ¥37,658 million for purchase of shares of subsidiaries.
Net cash provided by (used in) financing activities	(12,001)	31,593	¥40,117 million in proceeds from long-term loans payable, cash outflows included ¥5,902 million repayments of long-term loans payable, and ¥3,718 million in payment of dividends.
Net increase (decrease) in cash and cash equivalents	(11,715)	(985)	
Cash and cash equivalents at end of period	30,101	29,115	

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, 2019, to March 31, 2020)	Year-on-year (%)
Electronics materials	35,576	98.5
Medical and pharmaceuticals	6,847	–
Segments combined	42,424	117.4
Other	1,556	83.4
Total	43,980	115.8

(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. The figure for the medical and pharmaceuticals segment excludes consigned production.

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, 2019, to March 31, 2020)	Year-on-year (%)
Electronics materials	48,884	101.7
Medical and pharmaceuticals	18,215	237.8
Segments combined	67,100	120.4
Other	3,527	96.8
Total	70,627	118.9

(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 forward-looking statements are based on information available to us as of the end of the current consolidated fiscal year.

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 recover 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 recoverability 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.

In our accounting, we have assumed that the COVID-19 impact will persist for some time. We assume that there will be no significant impact at present. However, given the plethora of uncertainties, the pandemic may potentially impact our financial position and business performance in the next consolidated fiscal period.

2) Consolidated results and outlook

a. Consolidated results

This is reported in “2) Operating results”, on page 19.

b. Factors that significantly affect consolidated results

This is reported in “2. Business risks”, on page 18.

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 ¥55,711 million. There is no significant seasonal change in the amount of loans that Our group requires.

As of the end of the period under review, we have retained a sum of ¥29,115 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 4.9 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 ¥21,050 million. In June 2020, we arranged an additional overdraft of ¥27,600 million to fund our growth-oriented investing and to provide spare liquidity for the case that the COVID-19 recession persists long term.

d. 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	FYE Mar 2018	FYE Mar 2019	FYE Mar 2020
Operating margin	20% or more	21.7% (met)	13.6% (missed)	12.9% (missed)
Return on equity (ROE)	11% or more	6.8% (missed)	6.2% (missed)	5.4% (missed)
Dividend on equity ratio (DOE)	5% or more	6.5% (met)	5.3% (met)	5.4% (met)
Operating income	New record high (FYE Mar 2016: ¥10,964 million)	¥11,337 million (met)	¥8,099 million (-)	¥9,136 million (-)

By the end of the period, we had achieved two of our KPIs for the three years of the medium-term business plan: DOE at 5% or more, and a new record in operating income target. We missed the other two KPIs: operating margin of 20% or more, and ROE of 11% or more.
Regarding the two KPIs we missed, one factor concerned our expansion into the medical and pharmaceuticals business, which itself was one of our medium-term strategies. Specifically, in entering this sector, we undertook major M&A actions, which ultimately entailed amortization of sales rights and goodwill. Another factor was that we aggressively invested in human capital and M&As to expand into other sectors beside medical and pharmaceuticals, such as food and energy, as part of our vision to be a comprehensive chemical company. If these new ventures are discounted, we hit the 20% target for operating margin.
Regarding the two KPIs we hit, we achieved the target for operating income in FYE March 2018, setting a new record of ¥11,337 million. We achieved the target for DOE by keeping the KPI above 5% across the three years, despite investing in the new business ventures.
Our efforts to build enterprise value will continue. We will make our SR business more profitable, expand in non-SR PWB sectors, and accomplish our strategic objectives for the medical and pharmaceuticals business. We will also manage our capital dynamically, balancing generous shareholder returns with the need to maintain the reserves necessary for adapting to market changes.

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

This is reported in “2) Operating results”, on page 19.

4. Key agreements

Mergers between consolidated subsidiaries

On September 24, 2019, the boards of Micro Network Technologies Corp. and Thou-Management Corporation agreed to a merger in which the former company would subsume the latter. The merger agreement was signed on the same day.

For more details, see the section on business combinations on page 102.

5 Research & development

Guided by our core values (see page 14), 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 ¥3,312 million on research & development—¥196 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.

<u>Solder resists for package substrates</u>

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 enhance thickness accuracy, surface flatness, and compatibility with the latest chips, and thus ensure that the package substrate has a high degree of dimensional accuracy and connection reliability. 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. Additionally, we are developing encapsulant film by leveraging our knowhow in interlayer insulation materials. 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 flexible 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 plating 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. Our group is 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 ¥6,916 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	2,938
Medical and pharmaceuticals	644
Other	2,665
Trans segment (primarily Taiyo Holdings Co., Ltd., —i.e., the holding and filing company)	667
Total	6,916

2. Key facilities

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

As of March 31, 2020

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	– *Note 2	Rented office, factory	2,781	–	2,025 (33,410 m^2)	3	4,810	19
Ranzan Facility (Ranzan-machi, Hiki-gun, Saitama)	– *Note 2	R&D facility	1,563	4	296 (12,528 m^2)	163	2,027	36
Head Office (Toshima-ku, Tokyo)	– *Note 2	General headquarters	159	–	–	12	171	57
Marunouchi Kitaguchi Building (Chiyoda-ku, Tokyo) *Note 3	– *Note 2	Office	89	–	–	6	95	–
Former Head Office Building (Nerima-ku, Tokyo)	– *Note 2	Office	155	–	370 (801 m^2)	0	526	–
Other	– *Note 2	Land, etc.	23	–	4 (1,322 m^2)	36	64	–

(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, 2020

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	308	471	–	222	1,002	270
	Kitakyushu Plant (Kitakyushu-shi, Fukuoka)	Elec.	Factory	2,965	708	–	107	3,780	43
	Ranzan Facility (Ranzan-machi, Hiki-gun, Saitama)	Elec.	R&D facility	–	3	–	0	3	9
Taiyo Fine Chemicals Co., Ltd.	Head Office (Nihonmatsu-shi, Fukushima)	Other	Office, factory, R&D facility	513	178	306 (62,260 m^2)	20	1,018	43
	Urawa Plant (Saitama-shi, Saitama)	Other	Factory	44	65	50 (989 m^2)	7	167	13
	Tokyo Sales Office (Toshima-ku, Tokyo)	Other	Office	–	–	–	0	0	8
Taiyo Green Energy Co., Ltd.	Head Office (Ranzan-machi, Hiki-gun, Saitama)	Other	Office, factory, Power generation facility	148	30	–	1	180	27
	Ranzan Hydro-Solar Plant (Ranzan machi, Hiki gun, Saitama)	Other	Power generation facility	0	396	–	–	396	–
	Ranzan Onuma Hydro-Solar Plant (Ranzan-machi, Hiki-gun, Saitama)	Other	Power generation facility	0	85	–	0	86	–
	Anazawaike Hydro-Solar Plant (Inami-cho, Kako-gun, Hyougo)	Other	Power generation facility	–	240	–	–	240	–
	Uozumiike-Kusatani Hydro-Solar Plant (Inami-cho, Kako-gun, Hyougo)	Other	Power generation facility	–	389	–	–	389	–
	Kobayashiike Hydro-Solar Plant (Yamatokoriyama-shi, Nara)	Other	Power generation facility	–	137	–	–	137	–
	Hosoike Hydro-Solar Plant (Yoro-cho, Yoro-gun, Gifu)	Other	Power generation facility	–	551	–	–	551	–
	Hayashiike Hydro-Solar Plant (Nissin-shi, Aichi)	Other	Power generation facility	–	177	–	–	177	–

	Hiraike Hydro-Solar Plant (Yoro-cho, Yoro-gun, Gifu)	Other	Power generation facility	–	264	–	–	264	–
Taiyo Green Energy Co., Ltd.	Sijukusinnike Hydro-Solar Plant (Iga-shi, Mie)	Other	Power generation facility	–	299	–	–	299	–
Taiyo Pharma Co., Ltd.	Head Office (Chiyoda-ku, Tokyo)	Med / pharm	Office	0	–	–	6	6	54
Taiyo Pharma Tech Co., Ltd.	Head Office (Takatsuki-shi, Osaka)	Med / pharm	Office, factory	5,884	4,832	7,845 (52,584 m^2)	406	18,968	330
Mega Solar 23	Odaike Hydro-Solar Plant (Takamatsu-shi, Kagawa)	Other	Power generation facility		831				–
Mega Solar 28	Miyamaike Hydro-Solar Plant (Takamatsu-shi, Kagawa)	Other	Power generation facility		848				–

(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, 2020

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	448	1,075	–	83	1,607	229
Taiwan Taiyo Ink Co., Ltd.	Guanyin District, Taoyuan City, Taiwan	Elec.	Office, factory, R&D facility	351	233	626 (11,846 m^2)	27	1,238	130
Onstatic Technolog y Co., Ltd.	Yingge District, New Taipei City, Taiwan	Elec.	Office, factory, R&D facility	38	17	33 (170 m^2)	10	99	108
Onstatic Ink (Shenzhen) Co., Ltd.	Shenzhen, Guangdong Province, China	Elec.	Office, factory, R&D facility	19	106	–	33	159	114
Taiyo Ink Mfg. Co., (Korea) Ltd.	Ansan-si, Gyeonggi Province, South Korea	Elec.	Office, factory, R&D facility	932	91	175 (10,185 m^2)	106	1,306	109
Taiyo America, Inc.	Carson City, Nevada, United States	Elec.	Office, factory, R&D facility	69	29	39 (17,038 m^2)	5	143	41

(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 ¥7,244 million.

The following table shows the segment breakdown.

Segment	Planned investments (fiscal year ended March 31, 2020) (million yen)	Main purposes	Source of funds
Electronics materials	2,303	Construct facilities, introduce control systems	Self-funded, borrowings
Medical and pharmaceuticals	325	Introduce control systems	Self-funded, borrowings
Other	220	Acquire physical assets	Self-funded, borrowings
Trans segment (primarily Taiyo Holdings Co., Ltd.—i.e., the holding and filing company)	4,396	Construct facilities, renew existing facilities	Self-funded, borrowings
Total	7,244		

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 states 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, 2020)	Shares outstanding as of filing date (June 22, 2020)	Stock exchanges where the shares are listed (or authorized financial instruments associations)	Description
Common shares	28,969,647	28,969,647	First Section of Tokyo Stock Exchange	Number of shares per unit: 100 *Note 1
Series I Class A shares	–	–	Unlisted	Number of shares per unit: 100
Series II Class A shares	–	–	Unlisted	Number of shares per unit: 100 *Note 2
Total	28,969,647	28,969,647	–	–

(Notes) 1. As resolved by the Board of Directors on July 1, 2019, we issued 59,211 new shares on July 16, 2019, to provide for the restricted stock system and performance linked remuneration. The details are follows.

(1)	Pay in date	July 16, 2019
(2)	Number and class of shares	59,211 shares of common stock
(3)	Issue price	¥3,250 per share
(4)	Total value of issued shares	¥192,453,750
(5)	Solicitation / allotment method	The 37,511 shares for the restricted stock system will be allotted as specified transfer restricted shares. The 21,700 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), 37,511 shares Third party allotment: Executive directors (5), 21,700 shares

2. Pursuant to Article 12-2 of our Articles of Incorporation, we acquired all the Series II Class A shares on June 27, 2019, 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.

(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 share capital

Date	Increase (decrease) in total outstanding shares (shares)	Balance of outstanding shares (shares)	Increase (decrease) in share capital (million yen)	Balance of share capital (million yen)	Increase (decrease) in capital surplus (million yen)	Balance of capital surplus (million yen)
Jun 27, 2016 *Note 1	42,900	27,528,500	76	6,265	76	7,232
Feb 10, 2017 *Note 2	1,312,600	28,841,100	2,906	9,171	2,906	10,138
Jul 14, 2017 *Note 3	24,094	28,865,194	60	9,232	60	10,199
Jul 20, 2018 *Note 4	45,242	28,910,436	99	9,331	99	10,299
Jul 16, 2019 *Note 5	59,211	28,969,647	96	9,428	96	10,395

(Notes) 1. Share capital 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): Eji Sato (President and CEO), Seiki Kashima *Note 1, Takayuki Morita *Note 2, Eiji Takehara (Director), Masahisa Kakinuma *Note 1

2. Share capital 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

3. Share capital 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 *Note 2, Eiji Takehara (Director), Hitoshi Saito (Director), Takao Miwa *Note 2
4. Share capital 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 *Note 2, Eiji Takehara (Director), Hitoshi Saito (Director), Takao Miwa *Note 2
5. Share capital and capital surplus both increased by ¥96 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: ¥3,250
   Paid-in capital: ¥1,625
   Recipient (title): Eiji Sato (President and CEO), Takayuki Morita *Note 2, Eiji Takehara (Director), Hitoshi Saito (Director), Takao Miwa *Note 2

* Note 1: The recipient resigned as director on June 21, 2016.

* Note 1: The recipient resigned as director on June 20, 2022.

(5) Share ownership

1) Common shares

As of March 31, 2020

	Number of shareholders (100 share units)								Fractional shares
	National or local public organizations	Financial institutions	Financial instruments operators	Other organizations	Overseas		Individuals, other	Total	
					Organizations	Individuals			
Number of shareholders	–	35	26	66	147	5	5,058	5,337	–
Total share units held	–	68,326	1,071	112,106	53,129	21	54,751	289,404	29,247
Ownership ratio (%)	–	23.61	0.37	38.74	18.36	0.01	18.91	100.00	–

(Notes) 1. Of the 375,409 treasury shares, 3,754 share units are under "individuals, other," and 9 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, 2020

	Number of shareholders (100 share units)								Fractional shares
	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 II Class A shares

As of March 31, 2020

	Number of shareholders (100 share units)								Fractional shares
	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 II Class A shares on June 27, 2019. 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.

(6) Major shareholders

As of March 31, 2020

Name of individual or organization	Address	Shares held	% of outstanding shares (excluding treasury shares)
DIC Corporation	35-58 Sakashita 3-chome, Itabashi-ku, Tokyo, Japan	5,617,000	19.64
Kowa Co., Ltd.	4-8 Nakamura-kita 3-chome, Nerima-ku, Tokyo, Japan	3,636,000	12.72
Japan Trustee Services Bank, Ltd. (manages our trust account)	8-11 Harumi 1-chome, Chuo-ku, Tokyo, Japan	2,075,000	7.26
Misaki Engagement Master Fund HSBC (proxy)	190 Elgin Avenue, George Town, Grand Cayman, KY 1 9005, Cayman Islands HSBC Building, 11-1, Nihombashi 3-chome, Chuo-ku, Tokyo, Japan	1,861,000	6.51
The Master Trust Bank of Japan, Ltd. (manages our trust account)	MTBJ Building, 2-11-3 Hamamatsucho, Minato-ku, Tokyo, Japan	1,383,000	4.84
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	3.90
SHIKOKU CHEMICALS CORPORATION	8-537-1 Doki-cho-higashi, Marugame-shi, Kagawa, Japan	745,000	2.61
Toshin Yushi Co., Ltd.	5-14-11 Umeda, Adachi-ku, Tokyo, Japan	538,000	1.88
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)	451,000	1.58
Takato Kawahara	Nerima-ku, Tokyo, Japan	402,000	1.41
Total	–	17,827,000	62.35

(Notes)
1. Of the 2,075,000 held by Japan Trustee Services Bank, Ltd., 2,043,000 pertain to the trust account we keep with this bank.
2. Of the 1,383,000 held by The Master Trust Bank of Japan, Ltd., 1,248,000 pertain to the trust account we keep with this bank.

(7) Voting rights

1) Outstanding shares

As of March 31, 2020

Class of shares	Number		Voting rights	Description
Non-voting shares		–	–	–
Voting shares: treasury		–	–	–
Voting shares: other		–	–	–
Full-voting shares: treasury	Common shares	532,600	1,572	*Note 1
Full-voting shares: other	Common shares	28,407,800	284,078	*Note 2 *Note 3
	Series I Class A shares	–	–	
	Series II Class A shares	–	–	
Fractional shares	Common shares	29,247	–	*Note 4
Total outstanding shares		28,969,647	–	–
Total voting rights		–	285,650	–

(Notes) 1. We hold 375,400 of these shares directly. The remaining 157,200 are held by The Master Trust Bank of Japan, Ltd. (in the ESOP trust).
2. Of the 28,407,800 shares, 100 are held in the name of Japan Securities Depository Center, Inc. The center holds 1 of the 284,078 voting rights.
3. See page 31 ("Outstanding shares") for more information on the Series I and II Class A shares.
4. Of the 29,247 shares, we hold 9 and The Master Trust Bank of Japan, Ltd. holds 40 (in the ESOP trust).

2) Treasury shares

As of March 31, 2020

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,	375,400	157,200	532,600	1.84
Total	–	375,400	157,200	532,600	1.84

(Notes) 1. The above amounts exclude 49 factional shares (40 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 157,200 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 for no consideration, 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 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

	Shares purchased	Total purchase price (yen)
Purchase plan approved on Mar 23, 2020 Purchase period: Mar 23, 2020 to Mar 22, 2021	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	131	508,030
Treasury shares purchased during purchase period	–	–

(Notes) 1. Treasury purchased during purchase period excludes factional share purchases occurring between June 1, 2020, 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	25,440	92,616,351	–	–
Treasury shares we continue to hold *Note 1	532,649	–	532,649	–

(Notes) 1. "Treasury shares we continue to hold" includes shares in our ESOP trust, which we purchased as follows:
Current fiscal year: 157,240 Purchase period: 157,240
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, 2020, 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, 2020, 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 1, 2019 (resolved by Board of Directors)	1,861	65.10
June 20, 2020 (resolved at Ordinary General Meeting of Shareholders)	1,861	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 14) 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:

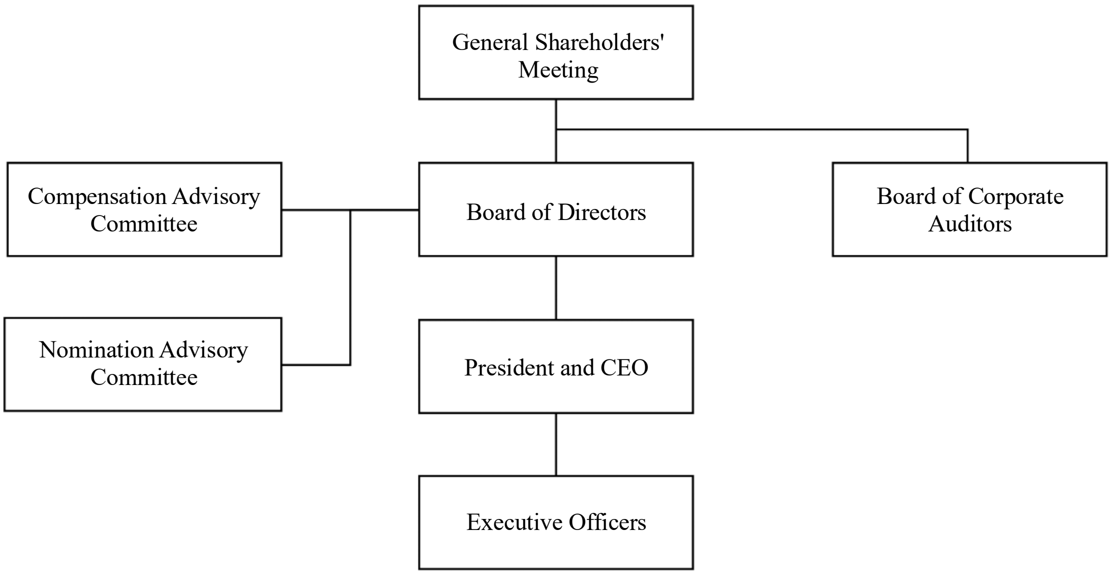
Compensation Advisory Committee

Advises the Board of Directors on how much compensation to pay to directors and executive officers.

Nomination Advisory Committee

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)		Toshifumi Tamaki (director)
	Keiko Tsuchiya (outside director)		Keiko Tsuchiya (outside director)
	Asako Aoyama (outside director)		Asako Aoyama (outside director)
	Akihito Sakai (outside director)		Akihito Sakai (outside director)
	Hidenori Sugiura (outside Audit & Supervisory Board member)		Hidenori Sugiura (outside Audit & Supervisory Board member)
	Masahiko Todo (attorney)		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 threaten 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 8 male and 3 female corporate officers (percentage of corporate officers who are female: 27.3%).

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)	*Note 5	(Common) 145
			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 Ink Mfg. Co., Ltd. (now 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 Taiyo Ink International (Singapore) Pet Ltd	Director 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		
			2019 October	Taiyo Pharma Tech Co., Ltd.	President and Representative Director		
Director	Eiji Takehara (male)	September 7, 1963	1986 April	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	(Joined)	*Note 5	(Common) 29
			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. Taiwan Taiyo Ink Co., Ltd. Taiyo Green Energy Co., Ltd.	Director Chairman of the Board President and Representative Director		
			2017 April	Taiyo Green Energy Co., Ltd.	Director		
			2017 May	Onstatic Ink (Shenzhen) 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.		

Title	Name	Date of birth	Career history (Bold font indicates ongoing positions)			Term of office	Shares held (thousand)
Director	Hitoshi Saito (male)	April 21, 1965	1995 November	Win System Inc. (Win System Europe)	Marketing Manager	*Note 5	(Common) 19
			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.		
			2019 October	Taiyo Ink International (Singapore) Pte Ltd	Director		
			2020 February	Taiyo Trading (Thailand) Co., Ltd.	Director		
			2020 April	Taiyo Ink Mfg. Co., (Korea) Ltd.	Chairman and CEO		
			2020 April	Taiyo Ink Products Co., Ltd.	Chairman and CEO		
			2020 May	Taiwan Taiyo Ink Co., Ltd.	Chairman of the Board		
			2020 June	Onstatic Ink (Shenzhen) Co., Ltd.	Director		
Director	Toshifumi Tamaki (male)	January 30, 1956	1980 April	Dainippon Ink and Chemicals, Incorporated (now DIC Corporation)	(Joined)	*Note 5	(Common) 0
			2010 October	DIC Corporation	General Manager of Polymer Technical Division 2		
			2012 April	DIC Corporation	Executive Officer General Manager of R&D Management Unit, Color Science Laboratories, and Central Research Laboratories		
			2016 January	DIC Corporation	Managing Executive Officer Officer in charge of Technical Segment General Manager of Technical Management Unit		
			2018 January	DIC Corporation	Managing Executive Officer Head of Corporate Strategy Unit Officer in charge of Kawamura Memorial DIC Museum of Art		
			2018 March	DIC Corporation	Director Managing Executive Officer Head of Corporate Strategy Unit Officer in charge of Kawamura Memorial DIC Museum of Art		
			2018 June	Taiyo Holdings Co., Ltd.	Director		
Director	Masayuki Hizume (male)	March 2, 1963	1988 October	Tohmatsu Awoki & Sanwa (now Deloitte Touche Tohmatsu LLC)	(Joined)	*Note 5	(Common) 0
			1994 January	Hizume Certified Public Accounting Office	(Joined)		
			1994 June	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	Audit & Supervisory Board Member		
			2001 January	Masayuki Hizume Certified Public Accounting Office	Head		
			2003 January	Taiyo Ink Mfg. Co., (Korea) Ltd.	Auditor		
			2012 June	Taiyo Holdings Co., Ltd.	Outside Director		
			2012 July	Taiyo Ink Mfg. Co., (Korea) Ltd.	Director		
			2020 April	Hizume Tax Accounting Office	Representative Partner		

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)	*Note 5	(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		
			2019 June	Teachers Initiative	Director		
Director	Asako Aoyama (female)	March 14, 1972	1994 April	Tohmatsu & Co. (now Deloitte Touche Tohmatsu LLC)	(Joined)	*Note 5	–
			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.	Executive Officer Head of Business Development		
			2020 January	NEC Corporation	Global Finance Division General Manager		
			2020 June	Taiyo Holdings Co., Ltd.	Resigned as Audit & Supervisory Board Member Outside Director		

Title	Name	Date of birth	Career history (Bold font indicates ongoing positions)			Term of office	Shares held (thousand)
Director	Yumiko Kamada (female)	February 23, 1966	1989 April	East Japan Railway Company	(Joined)	*Note 5	–
			2005 June	JR East Station Retailing Co., Ltd. (Current JR East Retail Net Co., Ltd.)	President and Representative Director		
			2008 November	East Japan Railway Company	General Manager, Life-style Business Development Headquarters		
			2013 May	East Japan Railway Company	Deputy Director, Frontier Service Research Laboratory, Research & Development Center		
			2015 February	Calbee, Inc.	Senior Executive Officer		
			2015 February	LUMINE CO., LTD.	Part-time Director		
			2015 March	POLA ORBIS HOLDINGS INC.	Outside Director		
			2015 June	The Michinoku Bank, Ltd.	Outside Director		
			2018 December	ONE GLOCAL	Representative Director		
			2020 June	Taiyo Holdings Co., Ltd.	Outside Director		
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)	*Note 3	–
			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		
Full-time Audit & Supervisory Board Member (outside)	Hidenori Sugiura (male)	March 20, 1961	1984 April	The Long-Term Credit Bank of Japan, Ltd.	(Joined)	*Note 4	–
			1998 July	UBS Trust & Banking (Japan) Ltd.	(Joined)		
			2000 July	IBJ Securities Co., Ltd. (now Mizuho Securities Co., Ltd.)	(Joined)		
			2003 October	Mizuho Securities Co., Ltd.	General Manager of Investment Banking Division No. 4 (Investment Banking Group)		
			2004 April	Mizuho Securities Co., Ltd.	General Manager of Corporate Finance Division No. 1 (Capital Markets Group)		
			2005 April	Mizuho Securities Co., Ltd.	Senior Fellow of Strategic Research Department (now Markets Strategic Intelligence Department) (Management Planning Group)		
			2006 April	Graduate School of Management, Kyoto University	Associate Professor		
			2007 October	Graduate School of Commerce and Management, Hitotsubashi University	Part time Lecturer		
			2008 April	Graduate School of Management, Kyoto University	Distinguished Professor		
			2018 June	Taiyo Holdings Co., Ltd.	Full time Audit & Supervisory Board Member		
			2019 April	Taiyo Pharma Tech Co., Ltd	Audit & Supervisory Board Member		
Audit & Supervisory Board Member (internal)	Masaru Oki (male)	February 18, 1958	1980 April	Sharp Corporation	(Joined)	*Note 4	(Common) 25
			1982 August	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	(Joined)		
			1998 April	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	Manager of Marketing Division		
			2010 April	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	General Manager of Corporate Planning Department		
			2011 April	Taiyo Holdings Co., Ltd.	General Manager of Accounting and Finance Department		
			2012 April	Taiyo Holdings Co., Ltd. Taiyo Ink (Thailand) Co., Ltd. Taiyo Ink International (Singapore) Pte Ltd	Executive Officer Managing Director Managing Director		
			2018 June	Taiyo Holdings Co., Ltd.	Audit & Supervisory Board Member		
Total of shares held							(Common) 221

(Notes)

1. Masayuki Hizume, Keiko Tsuchiya, Asako Aoyama, and Yumiko Kamada are outside directors.
2. Akihito Sakai and Hidenori Sugiura are outside members of the Audit & Supervisory Board.
3. Four years from the close of the 73rd Ordinary General Shareholders' Meeting (June 22, 2019)
4. Four years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)
5. Two years from the close of the 74th Ordinary General Shareholders' Meeting (June 20, 2020)
6. We introduced an executive officer system to energize the Board of Directors and streamline work processes. The executive officers are as follows. Two of the executive officers are directors mentioned above.

Director	Senior Executive Officer	Eiji Takehara	Officer in charge of R&D Div.
Director	Senior Executive Officer	Hitoshi Saito	Chairman of the Directors Board, Taiwan Taiyo Ink Co., Ltd. Chairman and CEO, Taiyo Ink Co., (Korea) Ltd., and Chairman and CEO, Taiyo Ink Products Co., Ltd.
	Senior Executive Officer	Takayuki Morita	Chairman of the Board, General Manager, Taiyo Ink (Suzhou) Co., Ltd., Managing Director, Taiyo Ink International (HK) Limited, and Chairman of the Board, Onstatic Technology Co., Ltd., and Chairman of the Board, Onstatic Ink (Shenzhen) Co., Ltd.
	Senior Executive Officer	Shoji Minegishi	Global Chief of Electronics, President and Representative Director, Taiyo Ink Mfg. Co., Ltd., and Chairman of the Board, Taiyo Ink Trading (Shenzhen) Co., Ltd.
	Managing Executive Officer	Taiyen Tsai	Director, General Manager, Onstatic Technology Co., Ltd., and Director, General Manager, Taiyo Ink Trading (Shenzhen) Co., Ltd.
	Managing Executive Officer	Harutomo Kaiho	Chairman and Representative Director, funlead corp.
	Managing Executive Officer	Atsushi Miura	Director, General Manager, Taiwan Taiyo Ink Co., Ltd.
	Managing Executive Officer	Daisuke Mishima	Director, General Manager, Taiyo Ink Trading (Shenzhen) Co., Ltd.
	Managing Executive Officer	Naohiro Arata	Director, Taiyo Ink Mfg. Co., Ltd.
	Managing Executive Officer	Terumichi Tawara	Chief Digital Officer, Taiyo Holdings Co., Ltd.
	Managing Executive Officer	Hideyuki Goto	General Manager of R&D Division, Taiyo Holdings Co., Ltd. Chairman of the Board and Representative Director, Taiyo Fine Chemicals Co., Ltd.
	Managing Executive Officer	Suguru Ominato	Director, Taiyo Pharma Tech Co., Ltd.
	Executive Officer	Fumihiko Kojin	President and Representative Director, Taiyo Green Energy Co., Ltd.
	Executive Officer	Sayaka Tomioka	General Manager, Pharmaceuticals Division, Taiyo Holdings Co., Ltd.
	Executive Officer	Kazuyuki Nishikawa	Managing Director, Taiyo Ink International (Singapore) Pte Ltd, and Managing Director, Taiyo Trading (Thailand) Co., Ltd.
	Executive Officer	Takuji Maekawa	President and Director, Taiyo America, Inc.
	Executive Officer	Masato Mori	Director, Taiyo Pharma Tech Co., Ltd.
	Executive Officer	Bae Hyung-ki	President and CEO, Taiyo Ink Mfg. Co., (Korea) Ltd.
	Executive Officer	Cho Kyungsu	President and CEO, Taiyo Ink Products Co., Ltd.

7. We have appointed one standby Audit & Supervisory Board member, pursuant to Article 329-3 of the Companies Act, who will serve as an Audit & Supervisory Board member if the membership of said board falls below the statutory minimum. The person's career history is as follows.

Name	Date of birth	Career history (Bold font indicates ongoing positions)			Shares held (thousand)
Masahiko Todo (male)	July 17, 1968	Apr. 1997	Registered as an attorney at law (Daini Tokyo Bar Association)		–
			Ushijima & Associates (now Ushijima & Partners, Attorneys-at-Law)	(Joined)	
		Jan. 2005	Ushijima & Partners, Attorneys-at-Law	Partner	

(Note) Masahiko Todo satisfies the requirements for an outside Audit & Supervisory Board member.

2) Outside board members

We have four outside directors and two Audit & Supervisory Board members.

- Masayuki Hizume (outside director)
  Masayuki Hizume is a representative partner of Hizume Tax Accounting Office. We have no special relationship with this tax accounting office.
- Keiko Tsuchiya (outside director)
  Keiko Tsuchiya serves as a director of Adecco Ltd. We have no special relationship with this company.
- Asako Aoyama (outside director)
  Asako Aoyama heads the Global Finance Division of NEC Corporation. We have no special relationship with this company. Additionally, during the period under review, Aoyama concurrently served at Coca Cola Bottlers Japan Holdings Inc. We buy beverages from said company to provide to visitors.
- Yumiko Kamada
  Yumiko Kamada serves as a part-time director of Lumine Co., Ltd., as an outside director of The Michinoku Bank, Ltd., and as representative director of One Glocal. We have no special relationship with either Lumine Co., Ltd., or The Michinoku Bank, Ltd. As regards One Glocal, we have previously provided the company with, among other things, services related to general business coaching/advice and seminars. However, such transactions have been discontinued, and we have no special relationship with the company as of the filing date.
- Hidenori Sugiura (outside Audit & Supervisory Board member)
  Hidenori Sugiura serves on the Audit & Supervisory Board of Taiyo Pharma Tech Co., Ltd.

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
  As of the period under review, 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.
- During the period under review, the Audit & Supervisory Board met 11 times. The attendance of each member is reported below.

	Name	Total meetings held	Number of meetings attended
Full time Audit & Supervisory Board Member	Akihito Sakai	11	11
Full time Audit & Supervisory Board Member	Hidenori Sugiura	11	11
Audit & Supervisory Board Member	Masaru Oki	11	11
Audit & Supervisory Board Member	Asako Aoyama	11	11

The main topics discussed at meetings include the general audit/supervisory plan, the actions members take under this plan, how effectively internal controls are functioning, the accounting auditor's approach, and whether the accounting auditor's results are valid.

Full-time members undertake the following actions: They liaise with directors, attend meetings of the Board of Directors and other important meetings, review documents concerning important business decisions, and audit/supervise operations and finances at head office and key workplaces. At subsidiaries, they liaise with the subsidiary's directors and with their audit/supervisory counterparts and review the subsidiary's business report. Additionally, the full-time members review the accounting auditor's actions and its report.

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

PricewaterhouseCoopers Aarata LLC

b. Period of continuous auditing

1 year

c. Certified accountants who conduct the accounting audits

Tsuyoshi Saito

Yoshihiro Shiribiki

d. Accounting auditor's assistants

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

e. Why we chose this firm as our accounting auditor

In selecting PricewaterhouseCoopers Aarata LLC as our accounting auditor, we followed the Criteria for Selecting the Accounting Auditor. We selected this accounting auditor following a comprehensive consideration, in which we noted that this auditor, in addition to offering fresh perspectives, offered the necessary expertise, independence, and quality controls, along with an integrated global framework.

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.

f. 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 PricewaterhouseCoopers Aarata 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.

g. Change of accounting auditor

We changed our accounting auditor as follows:

Accounting auditor in previous consolidated fiscal year / reporting period:
Deloitte Touche Tohmatsu LLC

Accounting auditor in current consolidated fiscal year / reporting period:
PricewaterhouseCoopers Aarata LLC

The extraordinary report includes the following information:

(1) Name of outgoing and new accounting auditors
   1) New accounting auditor:
      PricewaterhouseCoopers Aarata LLC
   2) Outgoing accounting auditor:
      Deloitte Touche Tohmatsu LLC

(2) Date of change
   June 22, 2019 (date of the 73rd Ordinary General Shareholders' Meeting)

(3) Most recent date on which the outgoing accounting auditor was hired
   June 23, 2018

(4) Information concerning comments made by the outgoing accounting auditor in the past three years
   Nothing to disclose.

(5) Information about the decision to change accounting auditors; reasons for decision / decision process

   The term of the current accounting auditor, Deloitte Touche Tohmatsu LLC, expired upon the close of the 73rd Ordinary General Shareholders' Meeting, on June 22, 2019. The Audit & Supervisory Board, noting that the Company has retained Deloitte Touche Tohmatsu LLC as its accounting auditor for a long time, discussed a replacement that would be suitable in view of the Company's future business portfolio. In doing so, the members applied the Criteria for Selecting the Accounting Auditor.

   The members ultimately selected PricewaterhouseCoopers Aarata LLC following a comprehensive consideration, in which they noted that this auditor, in addition to offering fresh perspectives, offered the necessary expertise, independence, and quality controls, along with an integrated global framework.

(6) Opinion of public accountant concerning the reasons for decision / decision process stated in (5)
   The public accountant had nothing significant to add.

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)	48	–	96	–
Consolidated subsidiaries	20	–	20	–
Total	68	–	116	–

(Note) In the above table, the remuneration reported under "current fiscal year" indicates the remuneration paid to the current accounting auditor, PricewaterhouseCoopers Aarata LLC. The remuneration reported under "previous fiscal year" indicates the remuneration paid to the previous accounting auditor, Deloitte Touche Tohmatsu LLC.

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, PricewaterhouseCoopers)

	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	67	11	32	5
Total	67	11	32	5

(Note) In the above table, the remuneration reported under "current fiscal year" indicates the remuneration paid to the current accounting auditor, PricewaterhouseCoopers Aarata LLC. The remuneration reported under "previous fiscal year" indicates the remuneration paid to the previous accounting auditor, Deloitte Touche Tohmatsu LLC.

The non-audit services for which consolidated subsidiaries paid ¥11 million 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 Board 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 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¥.

(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, and in consideration of the findings of the Compensation Advisory Committee, 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 Board 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¥ to be paid to Audit and Supervisory Board members. The Audit and Supervisory Board 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 be 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 20, 2020, the Board of Directors resolved to calculate the compensation according to the four points below.

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 ¥204,800,000.

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 75th business term (fiscal year ending March 31, 2021), we will prepare performance-linked cash compensation for the following executive directors incumbent as of June 20, 2020.

Officer status	Persons
President and CEO	1
Director	2

(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 59).

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 20, 2020, the Board of Directors resolved to calculate the compensation according to the four points below.

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 ¥435,200,000.

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 75th business term (fiscal year ending March 31, 2021), we will prepare performance-linked share compensation for the following executive directors incumbent as of June 20, 2020.

Officer status	Persons
President and CEO	1
Director	2

(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) 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.

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)	407	98	59	127	121	–	6
Audit & Supervisory Board members (excluding outside members)	6	6	–	–	–	–	1
Outside officer	68	68	–	–	–	–	6

(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	197	Director	Filing company (Taiyo Holdings Co., Ltd.)	38	23	91	44	–
		Director	Taiyo Ink Mfg. Co., Ltd.	3	–	–	–	–

(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 current fiscal year

In the Consolidated Financial Results for the Fiscal Year Ended March 31, 2019, released on May 10, 2019, we forecasted ¥5,900 million in profit attributable to owners of parent for the 74th business term (year ended March 31, 2020). This forecast was upwardly revised to ¥6,400 million, as announced in Notice of Revision to Performance Forecasts, released on November 1, 2019. It was then downwardly revised to ¥3,749 million, as announced in Notice of the Recording of Extraordinary Losses and Revision to the Consolidated Performance Forecasts for the Year Ended March 31, 2020, released on May 8, 2020. The actual result for profit attributable to owners of parent was ¥3,749 million.

In the Consolidated Financial Results for the Fiscal Year Ended March 31, 2020, released on May 18, 2020, we forecasted ¥6,400 million in profit attributable to owners of parent for the 75th business term (year ending March 31, 2021). The following table shows amounts we would provide in performance-linked cash compensation and performance-linked share compensation for the 75th business term under five hypothetical scenarios.

Profit attributable to owners of parent (million yen)		¥0	3,200	6,400	9,600	12,800
Performance-linked cash compensation	President and CEO	–	28	57	86	114
	Director (2)	–	22	44	67	89
	Total	–	51	102	153	204
Performance-linked share compensation	President and CEO	–	90	181	272	362
	Director (2)	–	18	36	54	72
	Total	–	108	217	326	435

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 independent outside director, and the majority of its members are independent outsiders (as defined in Article 69-18 of the Order for Enforcement of the Corporation Tax Act). 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 (however, only the independent members are entitled to vote in decisions about performance-linked cash compensation or performance-linked share compensation). 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 four times during the period under review. During these meetings, the members reviewed director compensation (the approach for and level of such compensation) , 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, 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.

(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	6	599	4	249
Other shares	8	959	8	1,095

	Current fiscal year (million yen)		
	Total dividend income	Gain (loss) on sale	Appraisal gain (loss)
Unlisted shares	–	–	–
Other shares	22	–	(24)

(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. PricewaterhouseCoopers Aarata LLC has certified our consolidated financial statements for the current consolidated fiscal year (April 1, 2019, to March 31, 2020) and our non-consolidated financial statements for the current fiscal year (April 1, 2019 to March 31, 2020).

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

(million yen)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	31,340	29,191
Notes and accounts receivable - trade	*1 16,610	*1 19,513
Merchandise and finished goods	4,676	4,912
Work in process	495	1,839
Raw materials and supplies	3,275	4,656
Other	1,825	2,353
Allowance for doubtful accounts	(87)	(86)
Total current assets	58,136	62,380
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	*2 10,891	*2 16,555
Machinery, equipment and vehicles, net	4,005	12,057
Tools, furniture and fixtures, net	*2 900	*2 1,274
Land	4,022	11,814
Construction in progress	2,489	2,762
Other	3	296
Total property, plant and equipment	*3 22,313	*3 44,761
Intangible assets		
Goodwill	691	6,846
Sales rights	19,732	15,216
Customer-related assets	–	6,904
Other	1,013	1,801
Total intangible assets	21,436	30,769
Investments and other assets		
Investment securities	2,125	2,420
Shares of subsidiaries and associates	295	281
Deferred tax assets	225	196
Retirement benefit asset	319	314
Other	1,006	1,218
Allowance for doubtful accounts	(193)	(150)
Total investments and other assets	3,779	4,280
Total non-current assets	47,529	79,811
Total assets	105,666	142,192

(million yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,285	7,231
Short-term borrowings	*4 4,011	*4 5,168
Current portion of long-term borrowings	3,852	5,725
Accounts payable - other	4,100	3,596
Income taxes payable	610	874
Provision for bonuses	499	801
Other	1,353	1,342
Total current liabilities	20,714	24,740
Non-current liabilities		
Deferred tax liabilities	1,190	1,959
Long-term borrowings	12,443	44,818
Retirement benefit liability	117	193
Asset retirement obligations	570	715
Other	109	242
Total non-current liabilities	14,431	47,928
Total liabilities	35,146	72,668
Net assets		
Shareholders' equity		
Share capital	9,331	9,428
Capital surplus	14,817	14,913
Retained earnings	47,229	47,260
Treasury shares	(2,042)	(1,950)
Total shareholders' equity	69,336	69,651
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	94	8
Foreign currency translation adjustment	730	(444)
Remeasurements of defined benefit plans	22	7
Total accumulated other comprehensive income	846	(429)
Non-controlling interests	337	301
Total net assets	70,520	69,523
Total liabilities and net assets	105,666	142,192

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

Consolidated statement of income

(million yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	59,389	70,627
Cost of sales	*2 33,043	*2 41,574
Gross profit	26,346	29,053
Selling, general and administrative expenses	*1, *2 18,247	*1, *2 19,917
Operating income	8,099	9,136
Non-operating income		
Interest income	81	57
Dividend income	23	25
Subsidy income	40	44
Other	70	113
Total non-operating income	215	240
Non-operating expenses		
Interest expenses	196	226
Commission expenses	23	32
Loss on retirement of non-current assets	–	75
Foreign exchange losses	21	108
Loss on investments in investment partnerships	32	7
Other	25	29
Total non-operating expenses	300	478
Ordinary income	8,014	8,898
Extraordinary losses		
Impairment loss	*3 1,311	*3 3,540
Other	–	96
Total extraordinary losses	1,311	3,636
Profit before income taxes	6,703	5,261
Income taxes - current	2,387	2,425
Income taxes - deferred	(127)	(970)
Total income taxes	2,259	1,455
Profit	4,443	3,806
Profit attributable to non-controlling interests	46	56
Profit attributable to owners of parent	4,396	3,749

Consolidated statement of comprehensive income

(million yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit	4,443	3,806
Other comprehensive income		
Valuation difference on available-for-sale securities	(227)	(86)
Foreign currency translation adjustment	(358)	(1,205)
Remeasurements of defined benefit plans, net of tax	12	(14)
Total other comprehensive income	(573)	(1,306)
Comprehensive income	3,869	2,499
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,827	2,474
Comprehensive income attributable to non-controlling interests	42	25

3) Consolidated statement of changes in equity

Fiscal year ended March 31, 2019

(million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of 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 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 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 period	94	730	22	846	337	70,520

Fiscal year ended March 31, 2020

(million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	9,331	14,817	47,229	(2,042)	69,336
Changes of items during period					
Dividends of surplus			(3,719)		(3,719)
Profit attributable to owners of parent			3,749		3,749
Issuance of new shares	96	96			192
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				92	92
Net changes of items other than shareholders' equity					
Total changes of items during period	96	96	30	92	315
Balance at end of period¥	9,428	14,913	47,260	(1,950)	69,651

	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 period	94	730	22	846	337	70,520
Changes of items during period						
Dividends of surplus						(3,719)
Profit attributable to owners of parent						3,749
Issuance of new shares						192
Purchase of treasury shares						(0)
Disposal of treasury shares						92
Net changes of items other than shareholders' equity	(86)	(1,175)	(14)	(1,275)	(36)	(1,312)
Total changes of items during period	(86)	(1,175)	(14)	(1,275)	(36)	(996)
Balance at end of period	8	(444)	7	(429)	301	69,523

4) Consolidated statement of cash flows

(million yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before income taxes	6,703	5,261
Depreciation	3,357	5,283
Impairment loss	1,311	3,540
Amortization of goodwill	350	355
Commission expenses	23	32
Loss (gain) on investments in investment partnerships	32	7
Decrease (increase) in retirement benefit asset	18	(8)
Increase (decrease) in retirement benefit liability	1	75
Increase (decrease) in allowance for doubtful accounts	(72)	(33)
Increase (decrease) in provision for bonuses	18	303
Interest and dividend income	(105)	(83)
Interest expenses	196	226
Decrease (increase) in consumption taxes refund receivable	1,571	(409)
Decrease (increase) in trade receivables	(1,205)	(3,571)
Decrease (increase) in inventories	(2,478)	3,930
Increase (decrease) in trade payables	(1,341)	562
Other, net	1,396	760
Subtotal	9,778	16,231
Interest and dividends received	106	80
Interest paid	(219)	(222)
Income taxes paid	(3,757)	(2,349)
Net cash provided by (used in) operating activities	5,907	13,739
Cash flows from investing activities		
Payments into time deposits	(2,103)	(843)
Proceeds from withdrawal of time deposits	3,536	1,941
Purchase of property, plant and equipment	(4,183)	(7,571)
Purchase of intangible assets	(1,227)	(1,133)
Purchase of investment securities	(597)	(557)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	*2 (844)	*2 (37,658)
Other, net	(66)	(88)
Net cash provided by (used in) investing activities	(5,487)	(45,912)

(million yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,254	1,269
Proceeds from long-term borrowings	–	40,117
Repayments of long-term borrowings	(6,622)	(5,902)
Purchase of treasury shares	(2,016)	(0)
Dividends paid	(4,625)	(3,718)
Dividends paid to non-controlling interests	(68)	(61)
Proceeds from issuance of shares	77	70
Other, net	(1)	(181)
Net cash provided by (used in) financing activities	(12,001)	31,593
Effect of exchange rate change on cash and cash equivalents	(134)	(406)
Net increase (decrease) in cash and cash equivalents	(11,715)	(985)
Cash and cash equivalents at beginning of period	41,816	30,101
Cash and cash equivalents at end of period	*1 30,101	*1 29,115

Notes on consolidated financial statements

Basic factors underlying our consolidated financial statement

1. Scope of consolidation

(1) Major consolidated subsidiaries

We have 22 consolidated subsidiaries.

The names of these subsidiaries are shown on page 10 (“Our associates”).

In the period under review, Taiyo Pharma Tech Co., Ltd., was added to the scope of consolidation following a buy-out, while Thou-Management Corporation was removed from the scope of consolidation after it was subsumed into Micro Network Technologies Corp.

(2) Major 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. 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).

3. Consolidated subsidiaries

Taiyo Ink (Suzhou) Co., Ltd., Taiyo Ink Trading (Shenzhen) Co., and Onstatic Ink (Shenzhen) Co., Ltd., have December 31 as their settlement date. Mega Solar 23 and Mega Solar 28 have August 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.

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

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

…with readily discernible value

We state at fair value, referring to the asset’s market value on the year-end date (we process valuation discrepancies by the total direct capitalization method, and determine cost of sales by the moving average method)

…with no readily discernible 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. Some consolidated subsidiaries use the straight line 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
Customer-related assets	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 (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 (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 borrowings (including current portion of long-term borrowings)

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 within a period of 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.

3) Application of tax-effect accounting following shift from consolidated tax system to group relief system

The Company and some consolidated subsidiaries in Japan are shifting to the group tax-sharing system, established by the Act for the Revision of the Income Tax Act and Other Relevant Acts (Act 8 of 2020). Stated below are the disclosable matters concerning this transition and how this transition effects non-consolidated tax return practices: Pursuant to Paragraph 3 of the Practical Expedients on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ PITF 39, March 31, 2020), deferred tax assets / liabilities will be treated as they were before the legal revision, without applying Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance 28, February 16, 2018).

Changes in Accounting policies

As of the period under review, all consolidated subsidiaries based overseas have adopted the lease standards IFRS 16 and ASU 2016-02. Accordingly, right-of-use assets and lease liabilities are now, as a rule, recognized on the consolidated balance sheet. Of the IFRS 16 transition options, we chose to recognize the cumulative effect of applying the standard at the date of initial application.

This change has no significant effects on the consolidated financial results for the period under review.

Accounting standards not yet applied

Accounting standard for revenue recognition

Accounting Standard for Revenue Recognition (ASBJ 29, March 31, 2020)
Guidance on Implementing Accounting Standard for Revenue Recognition (ASBJ 30, March 31, 2020)
Revised Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ 19, March 31, 2020)

(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 March 31, 2022.

(3) Impact

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

Accounting standards for determining fair value

Accounting Standard for Fair Value Measurement (ASBJ 30, July 4, 2019)
Accounting Standard for Measurement of Inventories (ASBJ 9, July 4, 2019)
Accounting Standard for Financial Instruments (ASBJ 10, July 4, 2019)
Implementation Guidance on Accounting Standard for Fair Value Measurement. (ASBJ Guidance 31, July 4, 2019)
Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance 19, March 31, 2020)

(1) Outline

The ASBJ, noting that the FASB's guidance for determining fair value (ASC 820) is largely consistent with that of the IASB (IFRS 13), released the above standards to improve consistency between the Japanese standards and the international standards for determining the fair value of financial instruments and other assets.

The standards promote a uniform system of calculation to facilitate financial comparisons between different companies across the globe. To this end, the standards echo the provisions of IFRS 13 in their entirety. However, because some companies may struggle to transition from longstanding Japanese accounting practices, the standards allow some exceptional treatments where the treatments would not compromise the comparability of the financial statements.

(2) Effective date

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

(3) Impact

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

Accounting standards for disclosing accounting estimates

Accounting Standard for Disclosure of Accounting Estimates (ASBJ 31, March 31, 2020)

(1) Outline

The IASB released the above standard in response to demand for a Japanese standard that requires filers to provide, in their annotated financial reports, information that will help users understand the sources of estimation uncertainty disclosable under Paragraph 125 of the IAS 1 – Presentation of Financial Statements (released by the IASB in 2003).

Rather than increasing the amount of annotated information that filers must provide, the standard gives general guidelines for disclosures (“disclosure goals”), leaving each filer to determine exactly what information it should disclose in line with these guidelines. Paragraph 125 of the IAS 1 was used as a template for the standard.

(2) Effective date

The standard will apply to our financial statements starting in the fiscal year ending March 31, 2021.

Accounting standards for disclosures of accounting policies; accounting standards concerning accounting changes and error correction

Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ 24, March 31, 2020)

(1) Outline

The ASBJ released the above standard after revising the previous version of the standard. The revision reflected a recommendation to improve the quality of disclosures on the rules and procedures that filers apply when there are no established standards for the matter in question.

To fulfill this purpose without disrupting the filer’s existing practices for matters lacking clear stipulation, the standard incorporates Explanatory Note 1-2 in the Financial Accounting Standards for Business Enterprises.

(2) Effective date

The standard will apply to our financial statements starting in the fiscal year ending March 31, 2021.

Additional information

Delivering treasury shares to employees 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. Under this ESOP, shares of the Company’s stock are held in a trust, the beneficiaries of which are eligible employees of the Company. The trust purchases shares of the Company’s stock, either from the Company or on the stock market, in an amount equivalent to the amount expected to be delivered to the eligible employees. All purchases will comply with stock delivery rules established in advanced. Pursuant to said rules, the trust then delivers the shares to eligible employees during their service for no consideration, in an amount commensurate with the employee's rank during the period in which the shares were held in the trust. The trust's purchases of shares are funded entirely by the Company; employees bear none of the cost. 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 157,240 shares, with a carrying value of ¥571 million.

COVID-19 impact

In our accounting, we have assumed that the COVID-19 impact will persist for some time. We assume that there will be no significant impact at present. However, given the plethora of uncertainties, the pandemic may potentially impact our financial position and business performance in the next consolidated fiscal period.

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 previous 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 previous consolidated balance sheet.

	Previous consolidated balance sheet (March 31, 2019)	Current consolidated balance sheet (March 31, 2020)
Notes receivable - trade	¥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, 2019)	Current consolidated balance sheet (March 31, 2020)
Buildings and structures	¥3 million	¥2 million
Tools, furniture, and fixtures	¥0 million	¥0 million

*3 Accumulated amortization

	Previous consolidated balance sheet (March 31, 2019)	Current consolidated balance sheet (March 31, 2020)
Accumulated amortization for property, plant and equipment	¥29,329 million	¥31,591 million

*4 Overdraft facility

Taiyo Group 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, 2019)	Current consolidated balance sheet (March 31, 2020)
Used portion of overdraft	¥7,550 million	¥21,050 million
Unused portion of overdraft	¥50 million	—
Balance due	¥7,500 million	¥21,050 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, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
Salary	¥2,498 million	¥2,946 million
Provision for bonuses	¥241 million	¥349 million
Commissions paid	¥1,194 million	¥1,694 million
Depreciation	¥1,807 million	¥2,034 million
Exploratory R&D	¥3,037 million	¥3,223 million
Retirement allowance obligations	¥164 million	¥189 million
Outsourcing expenses	¥1,913 million	¥1,552 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, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
	¥3,116 million	¥3,312 million

*3 Impairment loss

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

Taiyo Group recorded impairment loss in the following asset.

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 previous fiscal year, we recorded this sum as an impairment loss under extraordinary losses. In estimating recoverability, we assumed a value-in-use of zero.

Current fiscal year (April 1, 2019, to March 31, 2020)

We recorded impairment loss in the following assets.

Location	Purpose	Asset group	Impairment loss
Taiyo Pharma Co., Ltd. (Chiyoda-ku, Tokyo)	Right to sell pharmaceuticals	Sales rights	¥3,037 million
Taiyo Pharma Tech Co., Ltd. (Takatsuki-shi, Osaka)	Business use	Machinery, equipment, and other assets.	¥109 million
Taiyo Green Energy Co., Ltd. (Ranzan-machi, Hiki-gun, Saitama Prefecture)	Business use	Buildings, structures, land, and other assets.	¥365 million
Micro Network Technologies Corp. (Chiyoda-ku, Tokyo)	Business use	Software	¥28 million

Generally, assets are grouped by business unit.

Taiyo Pharma Co., Ltd.

For impairment tests, assets are grouped as "sales rights." In the period under review, sales rights whose earning potential had declined were written down to the recoverable amount, with the difference recorded as impairment loss under extraordinary losses. The recoverable amount was defined as the value-in-use, with future cash flows discounted at 5.6%.

Taiyo Pharma Tech Co., Ltd.

For impairment tests, assets earmarked for disposal are grouped separately. In the period under review, such assets were written down to the recoverable amount, with the difference recorded as impairment loss under extraordinary losses. Of the ¥109 million impairment loss, ¥106 million pertained to machinery and equipment, while the remaining ¥3 million pertained to other assets. The recoverable amount was defined as the net realizable value, which was equated with the disposal value.

Taiyo Green Energy Co., Ltd.

For impairment tests, assets are grouped by business unit. In the period under review, business assets whose earning potential had declined were written down to the recoverable amount, with the difference recorded as impairment loss under extraordinary losses. Of the ¥365 million impairment loss, ¥146 million pertained to buildings and structures, ¥195 million pertained to land, and the remaining ¥24 million pertained to other assets. For buildings, structures, and other assets (but not land), the recoverable amount was defined as the value-in-use, which was reckoned to be zero. For land, the recoverable amount was defined as the net realizable value, which was equated with the expected sales price.

Micro Network Technologies Corp.

For impairment tests, assets are grouped by business unit. In the period under review, business assets whose earning potential had declined were written down to the recoverable amount, with the difference recorded as impairment loss under extraordinary losses. The recoverable amount was defined as the value-in-use, which was reckoned to be zero.

Consolidated statement of comprehensive income

* Reclassification adjustments and tax effects of other comprehensive income

	Previous consolidated fiscal year (April 1, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
Valuation difference on available-for-sale securities:		
Occurring in current period	(¥327 million)	(¥125 million)
Reclassification adjustment	¥0	–
Before tax effect	(¥327 million)	(¥125 million)
Tax effect	¥100 million	¥39 million
Valuation difference on available-for-sale securities	(¥227 million)	(¥86 million)
Foreign currency translation adjustment:		
Occurring in current period	(¥358 million)	(¥1,205 million)
Remeasurements of defined benefit plans, net of tax		
Occurring in current period	¥12 million	(¥6 million)
Reclassification adjustment	¥4 million	(¥13 million)
Before tax effect	¥16 million	(¥19 million)
Tax effect	(¥4 million)	¥4 million
Remeasurements of defined benefit plans, net of tax	¥12 million	(¥14 million)
Total other comprehensive income	(¥573 million)	(¥1,306 million)

Consolidated statement of changes in equity

Previous 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 2	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 occurred after 21,600 shares were converted from Series I Class A shares and 45,242 shares were issued by third party allotment.

2. The 21,600 decrease occurred when the shares were converted 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. The 541,623 increase occurred after the Board of Directors authorized the reacquisition of shares (as treasury stock) with fractional shares.
5. The 23,480 decrease occurred 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 consolidated fiscal year

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.

Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

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	28,867,536	102,111	–	28,969,647
Series I Class A shares	–	–	–	–
Series II Class A shares *Notes 1, 2	42,900	–	42,900	–
Treasury shares				
Common shares *Notes 3, 4, 5	557,958	131	25,440	532,649

(Notes) 1. The 102,111 increase in common shares occurred after we converted 42,900 Series II Class A shares and issued 59,211 shares in a third party allotment.
2. The 42,900 decrease in Series II 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 182,680 such shares at the beginning of the fiscal year and 157,240 at the end).
4. Common treasury shares increased by 131 after we acquired fractional shares.
5. Common treasury shares decreased by 25,440 after we delivered 24,800 shares from the ESOP trust and disposed of 640 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 22, 2019	Common shares	1,854	65.1	Mar 31, 2019	Jun 24, 2019
	Series II Class A shares	2	65.1	Mar 31, 2019	Jun 24, 2019
Meeting of Board of Directors November 1, 2019	Common shares	1,861	65.1	Sep 30, 2019	Dec 2, 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.
Of the total dividend resolved at the meeting of the Board of Directors on November 1, 2019, ¥10 million pertains to such shares.

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

Resolution	Class of shares	Total dividend (million yen)	Source of dividend	Dividend per share (yen)	Reference date	Effective date
Ordinary General Shareholders' Meeting June 20, 2020	Common shares	1,861	Retained earnings	65.1	Mar 31, 2020	Jun 22, 2020

(Note) Of the total dividend resolved at the Ordinary General Shareholders' Meeting on June 20, 2020, ¥10 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, 2018, to March 31, 2019)	Current fiscal year (April 1, 2019, to March 31, 2020)
Cash and deposits	¥31,340 million	¥29,191 million
Time deposits exceeding 3 months	(¥1,239 million)	(¥75 million)
Cash and cash equivalents	¥30,101 million	¥29,115 million

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

Previous 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

Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

The following table shows Taiyo Pharma Tech Co., Ltd.'s assets, liabilities, and share price upon consolidation, as well as the net amount we spent on the acquisition.

Current assets	¥7,467 million
Non-current assets	¥29,940 million
Goodwill	¥6,447 million
Current liabilities	(¥1,316 million)
Non-current liabilities	(¥4,585 million)
Share price	¥37,955 million
Cash and cash equivalents	(¥297 million)
Net expenditure on acquisition	¥37,657 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, 2019)	Current fiscal year (March 31, 2020)
Due within one year	15	15
Due after one year	383	367
Total	398	383

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 75 "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, Taiyo Group 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 borrowings: 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, 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 borrowings	(4,011)	(4,011)	–
(8) Long-term borrowings (including current portion of long-term borrowings)	(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.

Current consolidated fiscal year (ended March 31, 2020)

	Consolidated carrying value (*Note 3) (million yen)	Fair value (*Note 3) (million yen)	Difference (million yen)
(1) Cash and deposits	29,191	29,191	–
(2) Notes and accounts receivable-trade	19,513		
Allowance for doubtful accounts (*Note 1)	(86)		
	19,427	19,427	–
(3) Investment securities			
Other securities	1,051	1,051	–
(4) Notes and accounts payable-trade	(7,231)	(7,231)	–
(5) Accounts payable-other	(3,596)	(3,596)	–
(6) Income taxes payable	(874)	(874)	–
(7) Short-term borrowings	(5,168)	(5,168)	–
(8) Long-term borrowings (including current portion of long-term borrowings)	(50,543)	(50,543)	0
Derivative transactions			
Transactions that do not qualify for hedge accounting	(14)	(14)	–
Transactions that qualify for hedge accounting	–	–	–
Total derivative transactions (*Note 2)	(14)	(14)	–

(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 borrowings

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 borrowings (including current portion of long-term borrowings)

Long-term borrowings 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 borrowings 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 borrowings 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 91.

2. Financial instruments whose fair value we could not determine

(million yen)

	Previous consolidated fiscal year (ended March 31, 2019)	Current consolidated fiscal year (ended March 31, 2020)
Unlisted shares	249	599
Associate shares	295	281
Contributions to investment partnerships	671	768

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, 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	–

Current consolidated fiscal year (ended March 31, 2020)

	Due within one year (million yen)	Due between one and five years (million yen)
Cash and deposits	29,191	–
Notes and accounts receivable-trade	19,513	–

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

Previous consolidated fiscal year (ended March 31, 2019)

	Due within 1 year (million yen)	Due between 1 and 2 years (million yen)	Due between 2 and 3 years (million yen)	Due between 3 and 4 years (million yen)	Due between 4 and 5 years (million yen)	Due after 5 years (million yen)
Short-term borrowings	4,011	–	–	–	–	–
Long-term borrowings	3,852	1,709	3,367	7,366	–	–
Total	7,864	1,709	3,367	7,366	–	–

Current consolidated fiscal year (ended March 31, 2020)

	Due within 1 year (million yen)	Due between 1 and 2 years (million yen)	Due between 2 and 3 years (million yen)	Due between 3 and 4 years (million yen)	Due between 4 and 5 years (million yen)	Due after 5 years (million yen)
Short-term borrowings	5,168	–	–	–	–	–
Long-term borrowings	5,725	7,387	11,188	4,030	4,212	18,000
Total	10,893	7,387	11,188	4,030	4,212	18,000

Securities

1. Other securities

Previous consolidated fiscal year (ended March 31, 2019)

	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.

Current consolidated fiscal year (ended March 31, 2020)

	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	309	181	127
	(2) Other	—	—	—
	Subtotal	309	181	127
Securities whose consolidated carrying value does not exceed their acquisition price	(1) Shares	741	896	(154)
	(2) Other	—	—	—
	Subtotal	741	896	(154)
Total		1,051	1,078	(26)

(Note) The above data excludes the unlisted shares (consolidated carrying value: ¥599 million) and contributions to investment partnerships (consolidated carrying value: ¥768 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, 2018, to March 31, 2019)

Nothing to disclose.

Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

Nothing to disclose.

Derivative transactions

1. Transactions that do not qualify for hedge accounting

Currency-related

Previous 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.

Current consolidated fiscal year (ended March 31, 2020)

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	859	–	(14)	(14)
	JPY denominated purchases	5,131	–	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, 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 borrowings	2,040	–	(Note)

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

Current consolidated fiscal year (ended March 31, 2020)

Nothing to disclose.

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, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
Opening balance of retirement benefit obligations	¥2,089 million	¥2,146 million
Service cost	¥160 million	¥161 million
Interest cost	¥15 million	¥15 million
Actuarial differences	(¥0 million)	¥20 million
Retirement benefit payments	(¥115 million)	(¥98 million)
Exchange differences	(¥2 million)	¥0 million
Closing balance of retirement benefit obligations	¥2,146 million	¥2,246 million

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

	Previous consolidated fiscal year (April 1, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
Opening balance of pension assets	¥2,386 million	¥2,440 million
Expected rate of return	¥29 million	¥29 million
Actuarial differences	¥6 million	(¥2 million)
Employer’s contribution	¥135 million	¥156 million
Retirement benefit payments	(¥115 million)	(¥98 million)
Exchange differences	(¥2 million)	¥0 million
Closing balance of pension assets	¥2,440 million	¥2,525 million

   (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 (ended March 31, 2019)	Current consolidated fiscal year (ended March 31, 2020)
Funded retirement benefit obligations	¥2,146 million	¥2,246 million
Pension assets	(¥2,440 million)	(¥2,525 million)
Asset (liability) reported on the consolidated balance sheet	(¥293 million)	(¥279 million)
Net-defined benefit liability	¥26 million	¥34 million
Net-defined benefit asset	(¥319 million)	(¥314 million)
Asset (liability) reported on the consolidated balance sheet	(¥293 million)	(¥279 million)

(4) Breakdown of retirement benefit costs

	Previous consolidated fiscal year (April 1, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
Service cost	¥160 million	¥161 million
Interest cost	¥15 million	¥15 million
Expected rate of return	(¥29 million)	(¥29 million)
Adjustment for actuarial differences	(¥6 million)	(¥25 million)
Adjustment for past service cost	¥10 million	– million
Retirement benefit cost for defined-benefit systems	¥149 million	¥121 million

(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, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
Past service cost	¥10 million	– million
Actuarial differences	¥6 million	(¥19 million)
Total	¥16 million	(¥19 million)

(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, 2019)	Current consolidated fiscal year (ended March 31, 2020)
Unrecognized past service cost	–	–
Unrecognized actuarial gain or loss	¥29 million	¥9 million
Total	¥29 million	¥9 million

(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, 2019)	Current consolidated fiscal year (ended March 31, 2020)
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, 2019)	Current consolidated fiscal year (ended March 31, 2020)
Discount rate	0.645 %	0.645 %
Expected long-term rate of return	1.0 %	1.0 %
Expected salary increase rate	14.12 %	11.68 %

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, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
Opening balance of net defined benefit liability	¥87 million	¥91 million
Retirement benefit costs	¥6 million	¥8 million
Retirement benefit payments	(¥2 million)	–
Increase from new consolidations	–	¥58 million
Closing balance of net defined benefit liability	¥91 million	¥158 million

(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 (ended March 31, 2019)	Current consolidated fiscal year (ended March 31, 2020)
Non-funded retirement benefit obligations	¥91 million	¥158 million
Asset (liability) reported on the consolidated balance sheet	¥91 million	¥158 million
Net defined benefit liability	¥91 million	¥158 million
Asset (liability) reported on the consolidated balance sheet	¥91 million	¥158 million

(3) Retirement benefit costs

Retirement benefit costs determined using simplified accounting method

Previous consolidated fiscal year: ¥6 million

Current consolidated fiscal year: ¥8 million

4. Defined contribution plans

The contribution that we and some of our consolidated subsidiaries has made amounted to ¥167 million in the previous consolidated fiscal year, and ¥174 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, 2019)	Current consolidated fiscal year (ended March 31, 2020)
Deferred tax assets		
Net defined benefit liability	¥35 million	¥58 million
Deferred tax assets for unrealized gains	¥123 million	¥226 million
Denial of accrued employees' bonuses	¥130 million	¥234 million
Denial of accrued enterprise tax	¥38 million	¥130 million
Loss carried forward *3	¥209 million	¥328 million
Over depreciation	¥84 million	¥1,105 million
Asset adjustment account	–	¥2,481 million
Asset retirement obligations	¥179 million	¥214 million
Impairment loss	¥318 million	¥532 million
Other	¥349 million	¥378 million
Deferred tax assets subtotal	¥1,468 million	¥5,690 million
Valuation allowance for tax loss carried forward *3	(¥209 million)	(¥328 million)
Valuation allowance for total future tax consequences of temporary differences	(¥585 million)	(¥3,440 million)
Valuation allowance subtotal *2	(¥795 million)	(¥3,769 million)
Deferred tax assets total	¥673 million	¥1,920 million
Deferred tax liabilities		
Deferred tax liabilities for subsidiaries' retained earnings	¥1,287 million	¥1,187 million
Valuation difference on available-for-sale securities	¥50 million	¥12 million
Assets related to retirement benefit payments	¥105 million	¥95 million
Customer-related assets	–	¥2,155 million
Other	¥194 million	¥233 million
Deferred tax liabilities total	¥1,637 million	¥3,684 million
Net deferred tax liabilities *1	¥964 million	¥1,763 million

(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, 2019)	Current consolidated fiscal year (ended March 31, 2020)
Non-current assets - Deferred tax assets	¥225 million	¥196 million
Non-current liabilities - Deferred tax liabilities	¥1,190 million	¥1,959 million

2. Valuation allowance was increased to reflect the land assets that were incorporated at fair value following the acquisition of Taiyo Pharma Tech Co., Ltd., in the period under review.
3. Tax loss carried forward and deferred tax assets by carry-forward period

Previous 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.

Current consolidated fiscal year (ended March 31, 2020)

	Within 1 year (million yen)	Between 1 and 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	–	1
Valuation allowance	(0)	(4)	(5)	–	(1)
Deferred tax assets	–	–	–	–	–

	Between 5 and 6 years (million yen)	Between 6 and 7 years (million yen)	Between 7 and 9 years (million yen)	Between 9 and 10 years (million yen)	Total (million yen)
Tax loss carried forward (*1)	8	18	167	122	328
Valuation allowance	(8)	(18)	(167)	(122)	(328)
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, 2019)	Current consolidated fiscal year (ended March 31, 2020)
Legally effective tax rate	30.62%	30.62%
(Adjusting entries)		
Tax rate differences with overseas subsidiaries	(13.40%)	(14.85%)
Tax rate differences associated with offset of dividend income	1.57%	1.37%
Tax adjustments for overseas subsidiaries' retained earnings	(1.73%)	(1.64%)
Tax rate differences associated with permanent differences such as social expenses	0.47%	1.06%
Differences on withholding tax on dividends not included in expenses	8.33%	7.93%
Tax adjustments for amortization of goodwill	1.43%	1.62%
Tax deductions for testing and research expenses	(2.35%)	(4.83%)
Valuation allowance	10.28%	15.02%
Corporation tax related to amended/updated returns	(0.06%)	(4.15%)
Other	(1.44%)	(4.50%)
Actual effective tax rate after applying tax effect accounting	33.71%	27.66%

Asset retirement obligations

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

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

Closing date of previous consolidated fiscal year (March 31, 2020)

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, 2018, to March 31, 2019)

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

Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

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.

Changes in the calculation of reportable segments' income

Previously, amortization of goodwill (including actuarial differences) was expensed at a company-wide level. Starting in the period under review, we now expense it for each reportable segment in order to monitor and manage segment performance more precisely.

This change has been retroactively applied to the segment income data for the previous consolidated fiscal year.

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

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

(million yen)

	Reportable segment			Other (Note) 1	Total
	Electronics materials	Medical and pharmaceuticals	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)	10,459	(351)	10,107	(484)	9,623
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.

Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

(million yen)

	Reportable segment			Other (Note) 1	Total
	Electronics materials	Medical and pharmaceuticals	Total		
Net sales					
External sales	48,884	18,215	67,100	3,527	70,627
Inter-segment sales or transfers	–	–	–	110	110
Total	48,884	18,215	67,100	3,637	70,738
Segment income (loss)	10,441	1,286	11,727	(178)	11,549
Segment assets	48,373	61,028	109,401	8,149	117,551
Other items					
Depreciation (Note) 2	1,661	2,813	4,475	337	4,812
Increase in property, plant and equipment and intangible assets	2,939	14,217	17,156	2,727	19,884

(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	55,747	67,100
"Other" net sales	3,748	3,637
Inter-segment eliminations	(106)	(110)
Net sales reported in consolidated statement of income	59,389	70,627

(million yen)

Profit	Previous consolidated fiscal year	Current consolidated fiscal year
Reportable segment total	10,107	11,727
"Other" profit	(484)	(178)
Inter-segment eliminations	(65)	(21)
Profit/loss not allocated to business segments (Note)	(1,458)	(2,391)
Operating income reported in consolidated statement of income	8,099	9,136

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

(million yen)

Assets	Previous consolidated fiscal year	Current consolidated fiscal year
Reportable segment total	79,061	109,401
"Other" assets	5,539	8,149
Inter-segment eliminations	(74)	(101)
Assets not allocated to business segment (Note)	21,227	24,883
Tax effect conversion	(86)	(140)
Total assets reported in consolidated balance sheet	105,666	142,192

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

(million 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	2,731	4,475	179	337	418	470	3,329	5,283
Increase in property, plant and equipment, and intangible assets	5,440	17,156	1,484	2,727	535	667	7,460	20,552

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

Related information

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

1. Products and services

(million 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

(million 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

(million 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.

II Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

1. Products and services

(million yen)

	Electronics Materials	Medical and Pharmaceuticals	Other	Total
Sales to external customers	48,884	18,215	3,527	70,627

2. Regional breakdowns

(1) Net sales

(million yen)

Japan	China	Taiwan	Korea	Other	Total
26,919	22,680	6,634	9,843	4,549	70,627

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

(2) Property, plant and equipment

(million yen)

Japan	China	Taiwan	Korea	Other	Total
37,559	2,008	3,573	1,459	159	44,761

3. Major customers

(million yen)

Name	Net sales	Corresponding segment
Daiichi Sankyo Company, Limited (Note)	8,166	Medical and pharmaceuticals

(Note) The figure for net sales incorporates all sales to Daiichi Sankyo Espha Co., Ltd., the corporate group to which Daiichi Sankyo Company, Limited, belongs.

Impairment loss of non-current assets in each reportable segment

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

(million yen)

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

(Note) The figure for “Other” indicates impairment loss in business segments not included among the reportable segments.

Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

(million yen)

	Reportable segment			Other	Corporate and elimination	Total
	Electronics materials	Medical and pharmaceuticals	Total			
Impairment loss	–	3,146	3,146	393	–	3,540

((Note) The figure for “Other” indicates impairment loss in business segments not included among the reportable segments.

Amortization of goodwill and unamortized balance in each reportable segment

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

(million yen)

	Reportable segment			Other	Corporate and elimination	Total
	Electronics materials	Medical and pharmaceuticals	Total			
Opening balance	42	–	42	308	–	350
Closing balance	600	–	600	91	–	691

(Note) The figures for “Other” indicate the amounts pertaining to software development.

Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

(million yen)

	Reportable segment			Other	Corporate and elimination	Total
	Electronics materials	Medical and pharmaceuticals	Total			
Opening balance	41	214	256	98	–	355
Closing balance	557	6,232	6,790	55	–	6,846

(Note) The figures for “Other” indicate the amounts pertaining to software development.

Gains on negative goodwill in each reportable segment

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

Nothing to disclose.

Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

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: Taiyo Pharma Tech Co., Ltd.

Business description: Manufacture and sale of pharmaceuticals

(2) Main reason for business combination

To begin the manufacture of pharmaceuticals on consignment and further solidify the foundation of our medical and pharmaceutical business

(3) Date of business combination

October 1, 2019

(4) Legal form of business combination

Acquisition of equity for a cash consideration

(5) Name of combined entity after combination

Taiyo Pharma Tech Co., Ltd.

(6) Voting interest from acquisition

Voting interest immediately preceding acquisition	0%
Voting interest obtained on date of combination	100%
Voting interest after 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 consolidated statements of income

October 1, 2019 to March 31, 2020.

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

Consideration for acquisition	Cash	¥37,955 million
Acquisition price		¥37,955 million

4. Breakdown of costs associated with acquisition

Advisory fees ¥297 million

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

(1) Amount

¥6,447 million

(2) Reason

The goodwill primarily covers the excess earnings we expect to generate by leveraging Taiyo Pharma Tech Co., Ltd.'s technological prowess and productive capacity.

(3) Method and period for amortizing goodwill

Straight line method over 15 years

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

Current assets	¥7,458 million
Non-current assets	¥29,741 million
Total assets	¥37,199 million
Current liabilities	¥1,316 million
Non-current liabilities	¥4,376 million
Total liabilities	¥5,692 million

7. Contingent considerations in business combinations and how they are accounted for from the period under review

(1) Contingent considerations

The acquisition price will reflect the difference between the target and actual performance in gross margin over 5.5 years from the acquisition.

(2) Accounting method applied from period under review

For the redeemable portion of the consideration, when the portion is confirmed as redeemable, and when its monetary value is reasonably determinable, said amount will be deducted from the acquisition cost, and goodwill will be reduced accordingly. For the payable portion of the consideration, when the portion is confirmed as payable and transferrable, and when its fair value is reasonably determinable, the amount will be added to the acquisition cost, and goodwill will be increased accordingly.

8. Monetary amounts pertaining to intangible assets other than goodwill and their breakdown by key asset group; weighted-average life (overall and for each asset group)

(1) Monetary amounts pertaining to intangible assets and their breakdown by key asset group

Customer-related assets	¥7,143 million

(2) Weighted-average life (overall and for each asset group)

Client assets	15 years

9. 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	¥8,229 million
Operating income	¥895 million

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.

Transactions, etc. under common control

1. Overview of transactions

(1) Names of companies in business combination and description of businesses

Name of surviving company	Micro Network Technologies Corp. (wholly owned subsidiary of Taiyo Holdings Co., Ltd.)
Business description	Software development, network design and configuration, and systems engineering services
Name of non-surviving company	Thou-Management Corporation (wholly owned subsidiary of Taiyo Holdings Co., Ltd.)
Business description	Systems engineering and integration, network configuration and operation, and various system-related services

(2) Date of business combination

November 1, 2019

(3) Legal form of business combination

An absorption-type merger in which Micro Network Technologies Corp. is the surviving company and Thou-Management Corporation is the non-surviving company

(4) Company name after combination

Micro Network Technologies Corp.

(5) Matters concerning other transactions

Micro Network Technologies Corp., which operates a systems business, acquired Thou-Management Corporation, which operates the same type of systems business, in an absorption-type merger. The purpose of the resulting integration of the areas of IT that the two companies specialize in is to effectively utilize the business resources of the Taiyo Group.

2. Summary of accounting standards implemented

The Company accounts for transactions under common control according to the Accounting Standard for Business Combinations (ASBJ Statement No. 21) and Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10).

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, 2018, to March 31, 2019)

Party	Name	Address	Share capital 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.

Current consolidated fiscal year (April 1, 2019, to March 31, 2020)

Party	Name	Address	Share capital 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) 0.50	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	91	–	–
	Takayuki Morita	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.09	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	27	–	–
	Eiji Takehara	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.10	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	24	–	–
	Hitoshi Saito	–	–	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.06	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	24	–	–
	Takao Miwa	–	–	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	24	–	–

(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 73rd 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, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
Net assets per share	¥2,475.36	¥2,434.23
Basic earnings per share	¥152.71	¥131.99

(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 182,680 such shares in the previous and 157,240 in the current consolidated fiscal year).

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

	Previous consolidated fiscal year (April 1, 2018, to March 31, 2019)	Current consolidated fiscal year (April 1, 2019, to March 31, 2020)
Profit attributable to owners of parent (million yen)	4,396	3,749
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)	4,396	3,749
Average number of common shares (or the equivalent thereof) outstanding during term	28,789,526	28,410,957
(Common shares)	(28,741,641)	(28,401,057)
(Series I Class A shares)	(4,985)	(–)
(Series II Class A shares)	(42,900)	(9,900)

(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 49,106 such shares in the previous and 165,137 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.

3. Pursuant to Article 12-2 of the Articles of Incorporation, we reacquired all Series I Class A shares on June 26, 2018, the third anniversary of their initial issuance. As consideration, we issued the holders with common shares at a rate of one common share for every Series I Class A shares. The Series I Class A shares were all extinguished upon reacquisition.

4. Pursuant to Article 12-2 of the Articles of Incorporation, we reacquired all Series II Class A shares on June 27, 2019, the third anniversary of their initial issuance. As consideration, we issued the holders with common shares at a rate of one common share for every Series II Class A shares. The Series II Class A shares were all extinguished upon reacquisition.

Material subsequent events

Material inheritances

On April 27, 2020, AstraZeneca PLC agreed to transfer to the Company its rights to manufacture and sell four long-listed products in Japan. These rights had been used by the transferor's subsidiary, AstraZeneca K.K. The transfer was completed on the same day.

1. Transferor

   AstraZeneca PLC

2. Asset transferred

   The asset consisted of the right to manufacture and sell the following four long-listed products (eight items altogether) in Japan.

	Brand name	Efficacy
1	Inderal® 10 mg tablets Inderal® 2 mg for infusion	Beta-blocker for irregular pulse and angina. Also treats hypertension, angina, and migraines.
2	Omepral® 10 mg tablets Omepral® 20 mg tablets (Excludes Omepral® 20 mg for infusion)	Proton-pump inhibitor
3	Seloken® 20 mg tablets SelokenL® 120 mg tablets	Controlled-release drug for hypertension. Also treats hypertension, angina, and irregular pulse.
4	Tenormin® 25 mg tablets Tenormin® 50 mg tablets	Cardio-selective beta-blocker

3. Date of transfer

   April 27, 2020

   Rights for specific drugs will be transferred in the second half of FYE March 31, 2020.

4. Value of transfer

   The transfer agreement includes confidentiality obligations that prevent us from disclosing the transfer price, the types of consideration, and the breakdowns thereof.

Large borrowings

Described below are loan agreements we concluded with our banking partners.

1. Purpose of loan

   To fund growth-oriented investments

   To ensure liquidity in the case of a prolonged recession

2. Lenders

   Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd., MUFG Bank, Ltd., Resona Bank, Limited, The Norinchukin Bank, Sumitomo Mitsui Trust Bank, Limited, The Bank of Kyoto, Ltd.

3. Size of loan

   ¥27,600 million

4. Interest

   Based on market interest rates.

5. Loan date

   June 1, 2020 (passed as of filing date)

   June 30, 2020 (upcoming as of filing date)

6. Repayment period

May 2025 to May 2027

7. Collateral

None

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 borrowings	4,011	5,168	1.27	–
Current portion of long-term borrowings	3,852	5,725	0.25	–
Long-term borrowings other than those we expect to repay within one year	12,443	44,818	1.24	2021-2025
Total	20,307	55,711	–	–

(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 borrowings, we receive interest subsidies.

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

	Due between 1 and 2 years(million yen)	Due between 2 and 3 years (million yen)	Due between 3 and 4 years (million yen)	Due between 4 and 5 years (million yen)	Due after 5 years (million yen)
Long-term borrowings	7,387	11,188	4,030	4,212	18,000

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)	15,420	31,202	52,312	70,627
Profit before income taxes (million yen)	1,694	3,928	6,704	5,261
Profit attributable to owners of parent (million yen)	1,313	3,137	4,964	3,749
Basic earnings per share (yen)	46.33	110.52	174.79	131.99

(Accounting period)	Q1	Q2	Q3	Q4
Basic earnings per share / (net loss per share) (yen)	46.33	64.18	64.25	(42.71)

2 Financial statements, other

(1) Financial statements

1) Balance sheet

(million yen)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	10,789	8,261
Accounts receivable - trade	*1 494	*1 543
Short-term loans receivable from subsidiaries and associates	4,796	6,040
Income taxes receivable	667	704
Other	*1 1,225	*1 1,725
Total current assets	17,973	17,276
Non-current assets		
Property, plant and equipment		
Buildings	4,267	4,451
Land	2,690	2,696
Construction in progress	294	–
Other	484	546
Total property, plant and equipment	7,737	7,694
Intangible assets		
Software	58	368
Other	21	4
Total intangible assets	80	373
Investments and other assets		
Investment securities	2,016	2,328
Shares of subsidiaries and associates	13,903	51,315
Investments in capital of subsidiaries and associates	2,482	2,482
Prepaid pension costs	290	304
Deferred tax assets	–	2
Long-term loans receivable from subsidiaries and associates	28,625	30,339
Other	320	371
Allowance for doubtful accounts	(351)	(1,941)
Total investments and other assets	47,289	85,201
Total non-current assets	55,106	93,270
Total assets	73,080	110,546

(million yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Short-term borrowings	*2 3,940	*2 5,908
Current portion of long-term borrowings	3,586	5,504
Accounts payable - other	*1 957	*1 668
Income taxes payable	46	14
Provision for bonuses	108	119
Other	112	60
Total current liabilities	8,751	12,275
Non-current liabilities		
Long-term borrowings	11,950	44,446
Asset retirement obligations	118	167
Deferred tax liabilities	62	–
Other	82	111
Total non-current liabilities	12,213	44,724
Total liabilities	20,965	57,000
Net assets		
Shareholders' equity		
Share capital	9,331	9,428
Capital surplus		
Legal capital surplus	10,299	10,395
Other capital surplus	5,294	5,294
Total capital surpluses	15,594	15,690
Retained earnings		
Legal retained earnings	620	620
Other retained earnings		
General reserve	12,700	12,700
Retained earnings brought forward	15,811	17,027
Total retained earnings	29,132	30,348
Treasury shares	(2,042)	(1,950)
Total shareholders' equity	52,016	53,516
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	99	29
Total valuation and translation adjustments	99	29
Total net assets	52,115	53,545
Total liabilities and net assets	73,080	110,546

2) Statement of income

(million yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Operating revenue		
Dividends from subsidiaries and associates	9,843	10,244
Royalty income	2,126	2,220
Real estate lease revenue	433	433
Total operating revenue	*1 12,403	*1 12,899
Operating expenses	*1, *2 4,046	*1, *2 4,616
Operating income	8,356	8,283
Non-operating income		
Interest income	180	199
Dividend income	21	22
Commission income	54	33
Subsidy income	15	10
Other	27	35
Total non-operating income	300	301
Non-operating expenses		
Interest expenses	179	210
Commission expenses	23	32
Loss on investments in investment partnerships	32	7
Foreign exchange losses	89	33
Other	12	40
Total non-operating expenses	338	323
Ordinary income	8,318	8,261
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	1,013	1,735
Provision of allowance for doubtful accounts for subsidiaries and associates	351	1,941
Total extraordinary losses	1,364	3,676
Profit before income taxes	6,954	4,584
Income taxes - current	199	(316)
Income taxes - deferred	(15)	(34)
Total income taxes	183	(350)
Profit	6,771	4,935

3) Statement of changes in equity

Fiscal year ended March 31, 2019

(million yen)

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Share capital	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of 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 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	Total valuation and translation adjustments	
Balance at beginning of 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 period	99	99	52,115

Fiscal year ended March 31, 2020

(million yen)

	Shareholders' equity									
	Share capital	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 period	9,331	10,299	5,294	15,594	620	12,700	15,811	29,132	(2,042)	52,016
Changes of items during period										
Dividends of surplus							(3,719)	(3,719)		(3,719)
Profit							4,935	4,935		4,935
Issuance of new shares	96	96		96						192
Purchase of treasury shares									(0)	(0)
Disposal of treasury shares									92	92
Net changes of items other than shareholders' equity										
Total changes of items during period	96	96	–	96	–	–	1,215	1,215	92	1,500
Balance at end of period	9,428	10,395	5,294	15,690	620	12,700	17,027	30,348	(1,950)	53,516

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	99	99	52,115
Changes of items during period			
Dividends of surplus			(3,719)
Profit			4,935
Issuance of new shares			192
Purchase of treasury shares			(0)
Disposal of treasury shares			92
Net changes of items other than shareholders' equity	(69)	(69)	(69)
Total changes of items during period	(69)	(69)	1,430
Balance at end of period	29	29	53,545

Notes

Main accounting policies

1. How we state major assets, and how we determine the stated value
   (1) Securities
      1) Shares in subsidiaries and associates
         We state at cost, as determined by the moving average method
      2) Other securities
         …with fair value
            We state at fair value, as determined by the market price on the year-end date (we process valuation discrepancies by the total direct capitalization method, and determine cost of sales by the moving average method)
         …with no 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
      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

These are accounted for 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 borrowings (including current portion of long-term borrowings)

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.

(6) Application of tax-effect accounting following shift from consolidated tax system to group relief system

The Company is shifting to the group tax-sharing system, established by the Act for the Revision of the Income Tax Act and Other Relevant Acts (Act 8 of 2020). Stated below are the disclosable matters concerning this transition and how this transition effects non-consolidated tax return practices:

Pursuant to Paragraph 3 of the Practical Expedients on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ PITF 39, March 31, 2020), deferred tax assets/liabilities will be treated as they were before the legal revision, without applying Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance 28, February 16, 2018).

Additional information

Delivering treasury shares to employs through a trust

For details, see the "Additional information" section on page 77.

Balance sheets

*1 Monetary claims and obligations with associates

	Previous fiscal year (ended March 31, 2019)	Current fiscal year (ended March 31, 2020)
Short-term monetary claims	¥1,509 million	¥1,953 million
Short-term monetary obligations	¥404 million	¥187 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, 2019)	Current fiscal year (ended March 31, 2020)
Used portion of overdraft	¥7,500 million	¥21,000 million
Unused portion of overdraft	–	–
Balance due	¥7,500 million	¥21,000 million

Statements of income

*1 The following table shows our transactions with associates.

	Previous fiscal year (April 1, 2018, to March 31, 2019)	Current fiscal year (April 1, 2019, to March 31, 2020)
Volume of operating transactions		
Operating revenue	¥12,395 million	¥12,875 million
Operating expenses	¥315 million	¥651 million
Volume of non-operating transactions		
Non-operating revenue	¥234 million	¥248 million

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

	Previous fiscal year (April 1, 2018, to March 31, 2019)	Current fiscal year (April 1, 2019, to March 31, 2020)
Lease costs	¥233 million	¥245 million
Wages	¥367 million	¥455 million
Officer compensation	¥511 million	¥478 million
Accrued employees' bonuses	¥72 million	¥76 million
Commission fee	¥736 million	¥908 million
Depreciation	¥32 million	¥103 million
Testing and research expenses	¥858 million	¥926 million

Securities

Previous 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.

Current fiscal year (ended March 31, 2020)

We have omitted our shares in subsidiaries and the affiliated companies (shares in subsidiaries: ¥51,069 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, 2019)	Current fiscal year (ended March 31, 2020)
Deferred tax assets		
Denial of accrued employees' bonuses	¥33 million	¥36 million
Asset retirement obligations	¥36 million	¥51 million
Loss on valuation of shares of subsidiaries and associates	¥2,028 million	¥2,666 million
Impairment loss	¥302 million	¥298 million
Loss carried forward	¥98 million	¥197 million
Deemed distribution	¥112 million	¥112 million
Other	¥238 million	¥784 million
Deferred tax assets subtotal	¥2,848 million	¥4,147 million
Valuation allowance for tax loss carried forward	(¥98 million)	(¥197 million)
Valuation allowance for total future tax consequences of temporary differences	(¥2,649 million)	(¥3,806 million)
Valuation allowance subtotal	(¥2,748 million)	(¥4,003 million)
Deferred tax assets total	¥100 million	¥143 million
Deferred tax liabilities		
Valuation difference on available-for-sale securities	¥43 million	¥12 million
Prepaid pension cost	¥97 million	¥93 million
Other	¥21 million	¥35 million
Deferred tax liabilities total	¥163 million	¥141 million
Net deferred tax assets	–	¥2 million
Net deferred tax liabilities	¥62 million	–

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, 2019)	Current fiscal year (ended March 31, 2020)
Legally effective tax rate	30.62%	30.62%
(Adjusting entries)		
Items such as withholding tax on dividends that are permanently excluded from deductible expenses	8.00%	8.77%
Items such as dividend income that are permanently excluded from earnings	(41.87%)	(67.00%)
Inhabitant tax on per capita basis	0.12%	0.17%
Tax deductions for testing and research expenses	(0.35%)	(1.20%)
Corporation tax related to amended/updated returns	–	(4.76%)
Valuation allowance	6.95%	28.16%
Other	(0.84%)	(2.40%)
Actual effective tax rate after applying tax effect accounting	2.63%	(7.64%)

Business combinations

Business combinations resulting from acquisition

We have disclosed this information on page 102 (in the special notes section on business combinations).

Material subsequent events

Loan to subsidiary

We lent to Taiyo Pharma Tech Co., Ltd., under a revolving loan agreement dated April 1, 2020.

1. Purpose of loan — To acquire manufacturing and sale rights
2. Size of loan — The transfer agreement between Taiyo Pharma Tech Co., Ltd., and AstraZeneca PLC includes confidentiality obligations that prevent us from disclosing this.
3. Loan date — April 1, 2020
4. Repayment date — March 31, 2022
5. Interest — 0.296%

Large borrowings

This is disclosed on page 107.

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	4,267	520	27	309	4,451	7,690
	Land	2,690	6	–	–	2,696	–
	Construction in progress	294	161	455	–	–	–
	Other	484	187	2	122	546	1,812
	Total	7,737	875	485	432	7,694	9,503
Intangible assets	Software	58	348	—	38	368	117
	Other	21	246	263	0	4	72
	Total	80	594	263	38	373	190

(Notes) 1. The main components of the increase in buildings were ¥191 million from extra office space on the 15th and 16th floors of Ikebukuro Head Office, ¥52 million from a driveway outside Ranzan Facility, and ¥77 million from Head Office's Ranzan dining hall.

2. The main components of the increase in software were ¥113 million from newly installed a workflow system and ¥72 million from upgraded accounting system.

Schedule of provisions

(million yen)

	Balance at beginning of current period	Increase	Decrease	Balance at end of current period
Allowance for doubtful accounts	351	1,941	351	1,941
Provision for bonuses	108	119	108	119

(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 73rd business term (April 1, 2018 to March 31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on June 24, 2019

(2) Amended annual securities report with accompanying documents and certificate

The 73rd business term (April 1, 2018 to March 31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on June 28, 2019

(3) Internal control report with accompanying documents

Filed with the director-general of the Kanto Local Finance Bureau on June 24, 2019

(4) Quarterly report with certificate

The 1st quarter of the 74th business term (April 1, 2019 to June 30, 2019): Filed with the director-general of the Kanto Local Finance Bureau on August 1, 2019
The 2nd quarter of the 74th business term (July 1, 2019, to September 30, 2019): Filed with the director-general of the Kanto Local Finance Bureau on November 1, 2019
The 3rd quarter of the 74th business term (October 1, 2019, to December 31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on February 6, 2020

(5) Extraordinary report

Filed with the director-general of the Kanto Local Finance Bureau on June 24, 2019
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.

(6) Share buyback report

Reporting period (June 1-30, 2019): Filed with the director-general of the Kanto Local Finance Bureau on July 10, 2019
Reporting period (July 1-31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on August 9, 2019
Reporting period (August 1-31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on September 10, 2019
Reporting period (September 1-30, 2019): Filed with the director-general of the Kanto Local Finance Bureau on October 10, 2019
Reporting period (October 1-31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on November 8, 2019
Reporting period (November 1-30, 2019): Filed with the director-general of the Kanto Local Finance Bureau on December 10, 2019
Reporting period (December 1-31, 2019): Filed with the director-general of the Kanto Local Finance Bureau on January 10, 2020
Reporting period (January 1-31, 2020): Filed with the director-general of the Kanto Local Finance Bureau on February 7, 2020
Reporting period (February 1-28, 2020): Filed with the director-general of the Kanto Local Finance Bureau on March 10, 2020
Reporting period (March 1-31, 2020): Filed with the director-general of the Kanto Local Finance Bureau on April 10, 2020

Reporting period (April 1-30, 2020): Filed with the director-general of the Kanto Local Finance Bureau on May 8, 2020
Reporting period (May 1-31, 2020): Filed with the director-general of the Kanto Local Finance Bureau on June 10, 2020

(7) Securities registration statement

Filed with the director general of the Kanto Local Finance Bureau on July 1, 2019

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

Nothing to disclose.

[English Translation of the Independent Auditor's Report Originally Issued in the Japanese Language]

Independent Auditor's Audit Report and Internal Control Audit Report

June 19, 2020

Taiyo Holdings Co., Ltd.

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

PricewaterhouseCoopers Aarata LLC

Main Office (Tokyo)

Designated Partner Engagement Partner	Certified Public Accountant	Tsuyoshi Saito	[Seal]
Designated Partner Engagement Partner	Certified Public Accountant	Yoshihiro Shiribiki	[Seal]

<Audit of financial statements>

Audit opinion

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, 2019 to March 31, 2020, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taiyo Holdings Co., Ltd., and its subsidiaries as of March 31, 2020, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in Japan (J-GAAP).

Basis for audit opinion

We have conducted our audit in accordance with J-GAAP. Our responsibilities under J-GAAP are stated in "Auditor's responsibilities regarding the consolidated financial statements" (page 126). We have remained independent of the Company and its consolidated subsidiaries in compliance with the provisions related to professional ethics in Japan, and have fulfilled all other ethical obligations required of an auditor. In our judgment, we have obtained sufficient competent evidence to form our audit opinion.

Additional notes

The Company's consolidated financial statements for the year ended March 31, 2019, were audited by the previous auditor. That auditor expressed an unqualified opinion on said statements on June 24, 2019.

Responsibilities of management and its supervisory body (Board of Corporate Auditors)

The management is responsible for preparing and fairly presenting the entity's consolidated financial statements in accordance with J-GAAP. It is also responsible for designing and operating the internal controls it deems necessary for ensuring that the consolidated financial statements it prepares and fairly presents are free from any material misstatement made deliberately or inadvertently.

The management is responsible for determining whether to prepare the consolidated financial statements on a going concern basis, and for disclosing any going-concern issues that require disclosure under J-GAAP.

The entity's supervisory body (Board of Corporate Auditors), and the body's members individually, are responsible for monitoring directors' performance related to the design and operational effectiveness of procedures for financial reporting.

Auditor’s responsibilities regarding the consolidated financial statements

Our responsibility is to verify, to a reasonable degree, whether the consolidated financial statements are free on the whole from any material misstatement made deliberately or inadvertently, and then to express in the audit report an independent opinion on the statements. Misstatements may be deliberate or inadvertent; we would deem a misstatement material if the misstatement, either on its own or in combination with other misstatements, would likely influence a decision of a user of the consolidated financial statements.

In the process of auditing, we make expert decisions in accordance with J-GAAP and maintain professional skepticism. The audit processes we perform are described below.

- We identify, assess, and address risks of material misstatements made deliberately or inadvertently, using procedures that we selected at our own discretion. We obtain sufficient competent evidence to form an audit opinion.
- In assessing the risks, we consider internal controls that are relevant to the audit. We do so for the purpose of designing audit procedures that are appropriate to the circumstances, not for the purpose of determining whether the controls are effective.
- We assess the appropriateness of the management’s accounting policies and their implementation. We also assess the reasonableness of the management’s accounting estimates and the presentation of the notes to the financial statements.
- We determine whether the management’s going-concern assumption is appropriate, and whether the audit evidence implies the presence of any uncertain events or circumstances that significantly undermine the going-concern assumption. If we identify any such uncertainties, we are required to add a note in the audit report advising caution regarding the consolidated financial statements. If such a cautionary note would be inadequate in view of the uncertainties, we are required to express a qualified opinion on the consolidated financial statements. Any audit opinion we express rests upon the audit evidence we had obtained at the time; the possibility remains that subsequent events or circumstances could prevent the entity from continuing as a going concern.
- In addition to assessing whether the consolidated financial statements are presented and annotated in accordance with J-GAAP, we assess the relevant notes to the statements, both in terms of their content and presentation. We also assess whether the consolidated financial statements fairly communicate the transactions and accounting events upon which the statements are based.
- We obtain sufficient competent evidence on the consolidated financial statements of the entity and its subsidiaries to form an opinion on the statements. We are responsible for conducting the audit, as well as for directing and supervising it. We bear sole responsibility for our audit opinion.

We liaise with the entity’s supervisory body (including with the body’s individual members) to discuss the scope and timing of an upcoming audit, significant issues revealed in the audit (such as significant deficiencies in the entity’s internal controls), and any other matter requiring notice under J-GAAP.

We inform the supervisory body that we satisfy the J-GAAP independence standards. We also report to the supervisory body any circumstances that could reasonably be deemed to affect our independence, and any safeguards we may take to eliminate or mitigate impediments to independence.

<Internal control audit>

Audit opinion

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, 2020.

The management’s internal control report, which attests that the Company has effective internal control over financial reporting as of March 31, 2020, presents fairly, in all material respects, the management’s evaluation of said internal controls, in accordance with J-GAAP.

Basis for audit opinion

We audited the Company’s internal control over financial reporting in accordance with J-GAAP. Our responsibility concerning said audit is stated in “Auditor’s responsibilities for the internal control audit” (page 127). We have remained independent of the Company and its consolidated subsidiaries in compliance with the provisions related to professional ethics in Japan, and have fulfilled all other ethical obligations required of an auditor. In our judgment, we have obtained sufficient competent evidence to form our audit opinion.

Management's responsibilities for the internal control audit

The management is responsible for assessing, and then preparing and fairly presenting a report on, the entity's internal control over financial reporting, in accordance with J-GAAP.

The supervisory body is responsible for monitoring and verifying the design and operational effectiveness of internal control over financial reporting.

Even if the above responsibilities are discharged, the possibility remains that the internal control over financial reporting may fail to prevent or identify all misstatements in financial reports.

Auditor's responsibilities for the internal control audit

Our responsibility is to conduct an internal control audit so as to verify, to a reasonable degree, whether the management's report on internal control is free from any material misstatement, and then to express, in the internal control audit report, an independent opinion on the same.

In the process of auditing internal control over financial reporting, we make expert decisions in accordance with J-GAAP and maintain professional skepticism. The audit processes we perform are described below.

- We seek to verify the management's report on internal control over financial reporting, using procedures that we selected at our own discretion and in consideration of the materiality of impacts on the trustworthiness of financial reporting.
- We assess the overall presentation of the internal control report, including the management's statements about the coverage, method, and outcomes of its assessment of internal control over financial reporting.
- We obtain sufficient competent evidence to form an opinion on the management's report on internal control over financial reporting. We are responsible for conducting the audit and producing the internal control report, as well as for directing and supervising such tasks. We bear sole responsibility for our audit opinion.

We liaise with the entity's supervisory body (including with the body's individual members) to discuss the scope and timing of an upcoming internal control audit, significant issues revealed in the audit (such as significant deficiencies in the entity's internal controls, or the outcomes of corrective action), and any other matter requiring notice under J-GAAP.

We inform the supervisory body that we satisfy the J-GAAP independence standards. We also report to the supervisory body any circumstances that could reasonably be deemed to affect our independence, and any safeguards we may take to eliminate or mitigate impediments to independence.

Conflict of interest

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

Notes: 1. The above is a digital copy of the original auditor's report. The Company (the filer) retain the original copy separately.

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

Notes to the Readers of Independent Auditor's Report:
The Independent Auditor's Report on the Financial Statements and Internal Control Over Financial Reporting herein is the English translation of the Independent Auditor's Report on the Financial Statements and Internal Control Over Financial Reporting as required by the Financial Instruments and Exchange Act of Japan.

[English Translation of the Independent Auditor's Report Originally Issued in the Japanese Language]

Independent Auditor's Audit Report

June 19, 2020

Taiyo Holdings Co., Ltd.

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

PricewaterhouseCoopers Aarata LLC

Main Office (Tokyo)

Designated Partner Engagement Partner	Certified Public Accountant	Tsuyoshi Saito	[Seal]
Designated Partner Engagement Partner	Certified Public Accountant	Yoshihiro Shiribiki	[Seal]

Audit opinion

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 74th business term (April 1, 2019 to March 31, 2020), 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.

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, 2020, as well as the company's performance for the fiscal year ended March 31, 2020.

Basis for audit opinion

We have conducted our audit in accordance with accounting principles generally accepted in Japan (J-GAAP). Our responsibilities under J-GAAP are stated in "Auditor's responsibilities regarding the financial statements" (page 128). We have remained independent of the Company in compliance with the provisions related to professional ethics in Japan, and have fulfilled all other ethical obligations required of an auditor. In our judgment, we have obtained sufficient competent evidence to form our audit opinion.

Additional notes

The Company's financial statements for the year ended March 31, 2019, were audited by the previous auditor. That auditor expressed an unqualified opinion on said statements on June 24, 2019.

Responsibilities of management and its supervisory body (in the Company's case, the Board of Corporate Auditors)

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.

The management is responsible for preparing and fairly presenting the entity's financial statements in accordance with J-GAAP. It is also responsible for designing and operating the internal controls it deems necessary for ensuring that the financial statements it prepares and fairly presents are free from any material misstatement made deliberately or inadvertently.

The entity's supervisory body (Board of Corporate Auditors) and each member thereof are responsible for monitoring directors' performance related to the design and operational effectiveness of procedures for financial reporting.

Auditor's responsibilities regarding the financial statements

Our responsibility is to verify, to a reasonable degree, whether the financial statements are free on the whole from any material misstatement made deliberately or inadvertently, and then to express in the audit report an independent opinion on the statements. Misstatements may be deliberate or inadvertent; we would deem a misstatement material if the misstatement, either on its own or in combination with other misstatements, would likely influence a decision of a user of the financial statements.

In the process of auditing, we make expert decisions in accordance with J-GAAP and maintain professional skepticism. The audit processes we perform are described below.

- We identify, assess, and address risks of material misstatements made deliberately or inadvertently, using procedures that we selected at our own discretion. Additionally, we obtain sufficient competent evidence to form an audit opinion.
- In assessing the risks, we consider internal controls that are relevant to the audit. We do so for the purpose of designing audit procedures that are appropriate to the circumstances, not for the purpose of determining whether the controls are effective.
- We assess the appropriateness of the management' accounting policies and their operational effectiveness. We also assess the reasonableness of the management's accounting estimates and the presentation of the notes to the financial statements.
- We determine whether the management's going-concern assumption is appropriate, and whether the audit evidence implies the presence of any uncertain events or circumstances that significantly undermine the going-concern assumption. If we identify any such uncertainties, we are required to add a note in the audit report advising caution regarding the financial statements. If such a cautionary note would be inadequate in view of the uncertainties, we are required to express a qualified opinion on the financial statements. Any audit opinion we express rests upon the audit evidence we had obtained at the time; the possibility remains that subsequent events or circumstances could prevent the entity from continuing as a going concern.
- In addition to assessing whether the financial statements are presented and annotated in accordance with J-GAAP, we assess the relevant notes to the statements, both in terms of their content and presentation. We also assess whether the financial statements fairly communicate the transactions and accounting events underlying upon which they are based.

We liaise with the entity's supervisory body (including with the body's individual members) to discuss the scope and timing of an upcoming audit, significant issues revealed in the audit (such as significant deficiencies in the entity's internal controls), and any other matter requiring notice under J-GAAP.

We inform the supervisory body that we satisfy the J-GAAP independence standards. We also report to the supervisory body any circumstances that could reasonably be deemed to affect our independence, and any safeguards we may take to eliminate or mitigate impediments to independence.

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. The Company (the filer) retain the original copy separately.
2. The audit does not cover extensible Business Reporting Language.

Notes to the Readers of Independent Auditor's Report:

The Independent Auditor's Report on the Financial Statements and Internal Control Over Financial Reporting herein is the English translation of the Independent Auditor's Report on the Financial Statements and Internal Control Over Financial Reporting as required by the Financial Instruments and Exchange Act of Japan.

Filing Notes

Document filed:	Certificate
Applicable law:	Article 24-4(2)-1 of the Financial Instruments and Exchange Act of Japan [Kinyū shōhin torihiki hō]
Filed to:	The director-general of the Kanto Local Finance Bureau
Date filed:	June 22, 2020
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 355-0222, Japan
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 74th business term (April 1, 2019 to March 31, 2020) fulfil the integrity requirements of the Financial Instruments and Exchange Act.

2. [Special notes]

    There are no special notes to disclose.

Filing Notes

Document filed:	Internal control report
Applicable law:	Article 24-4(4)-1 of the Financial Instruments and Exchange Act of Japan [Kinyū shōhin torihiki hō]
Filed to:	The director-general of the Kanto Local Finance Bureau
Date filed:	June 22, 2020
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 355-0222, Japan
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, 2020, 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 14 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.

The financial reporting processes we targeted were as follows. First, we ranked all business entities in descending order of their forecasted net sales for the current consolidated fiscal year (discounting inter-company transactions), which we forecasted in view of their actual net sales for the previous consolidated fiscal year (again, discounting inter-company transactions). Next, we extracted the entities in order of rank (working from the top-ranking entity downward) until we had extracted a group of entities collectively representing two thirds of the consolidated net sales. We defined this group as "monetarily/quantitatively and qualitatively relevant business entities." There were eight such entities (Taiyo Holdings and seven consolidated subsidiaries) in this group. Focusing on these eight entities, 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.