

(Translation)

# Annual Securities Report

for the 75th business term (April 1, 2020, to March 31, 2021)

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.**

This document has been extracted and translated from the Japanese original report (Yukashoken-Hokokusho) issued on June 28, 2021 for reference purposes only. In the event of any discrepancy between this translated document and Japanese original, the original shall prevail

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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		71st	72nd	73rd	74th	75th
Year ended		Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021
Net sales	million yen	47,866	52,241	59,389	70,627	80,991
Ordinary income	"	9,202	11,199	8,014	8,898	13,819
Profit attributable to owners of parent	"	6,398	4,856	4,396	3,749	9,529
Comprehensive income	"	6,151	5,014	3,869	2,499	12,012
Net assets	"	71,846	73,023	70,520	69,523	76,497
Total assets	"	92,386	111,490	105,666	142,192	179,001
Net assets per share	yen	2,468.99	2,520.68	2,475.36	2,434.23	2,696.84
Basic earnings per share	"	266.46	168.55	152.71	131.99	334.97
Diluted earnings per share	"	–	–	–	–	–
Equity ratio	%	76.9	65.2	66.4	48.7	42.5
Return on equity	"	11.2	6.8	6.2	5.4	13.1
Price earnings ratio	times	18.3	27.1	23.9	30.8	18.0
Cash flows from operating activities	million yen	9,042	8,100	5,907	13,739	16,312
Cash flows from investing activities	"	(1,063)	(24,161)	(5,487)	(45,912)	(11,603)
Cash flows from financing activities	"	20,342	11,319	(12,001)	31,593	19,755
Cash and cash equivalents at end of period	"	46,661	41,816	30,101	29,115	54,309
Number of employees (not including average number of non-fulltime)	persons	1,249	1,268	1,614	1,988	2,067
Average number of non-fulltime (excluded)		[–]	[–]	[–]	[–]	[–]

(Note) 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 there was no dilutive stock.

4. We have omitted the average number of employees who are non-regular or temporary because such employees account for less than 10% of total employees.

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

Business term		71st	72nd	73rd	74th	75th
Year ended		Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021
Operating revenue	million	10,251	8,108	12,403	12,899	7,830
Ordinary income	"	7,247	4,832	8,318	8,261	2,510
Profit	"	5,827	262	6,771	4,935	4,116
Share capital	"	9,171	9,232	9,331	9,428	9,499
Total issued shares	shares	28,841,100	28,865,194	28,910,436	28,969,647	28,998,502
Net assets	million	54,987	51,938	52,115	53,545	52,853
Total assets	"	64,415	77,258	73,080	110,546	134,874
Net assets per share	yen	1,910.44	1,801.83	1,838.13	1,882.97	1,872.07
Dividend per share	"	120.10	160.20	130.20	130.20	160.20
(Interim dividend per share)	(yen)	(55.00)	(65.10)	(65.10)	(65.10)	(65.10)
Basic earnings per share	"	242.65	9.12	235.20	173.70	144.69
Diluted earnings per share	"	–	–	–	–	–
Equity ratio	%	85.4	67.2	71.3	48.4	39.2
Return on equity	"	14.3	0.5	13.0	9.3	7.7
Price earnings ratio	times	20.1	501.0	15.5	23.4	41.7
Dividend payout ratio	%	49.5	1,756.2	55.4	75.0	110.7
Number of employees (not including average number of non-fulltime)	persons	85	81	107	112	133
Average number of non-fulltime (excluded)		[-]	[-]	[-]	[-]	[-]
Total shareholder return	%	130.8	127.3	106.4	121.0	176.7
(Relative to dividend-included TOPIX data)	%	(114.7)	(132.9)	(126.2)	(114.2)	(162.3)
Highest share price	yen	5,200	5,790	4,925	5,220	6,690
Lowest share price	yen	2,951	4,315	2,847	3,015	3,690

- (Note) 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 there was no dilutive stock.
4. We have omitted the average number of employees who are non-regular or temporary employees because such employees account 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. The dividend per share for the 75th business term included a ¥30 portion commemorating 20 years of being listed on the TSE.
8. 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 manufacturing and sales 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 manufacturing and sales 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 solar 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 a sales company in Thailand—Taiyo Trading (Thailand) Co., Ltd.
April 2018	Acquired Japanese company Micro Network Technologies Corp. (now Funlead 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., whose core business is contract manufacturing of pharmaceuticals
November 2019	Micro Network Technologies Corp. (now Funlead corp.) subsumed Thou-Management Corporation
June 2020	Established a manufacturing and sales subsidiary in Vietnam—Taiyo Ink Vietnam Co., Ltd.

### 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), 27 subsidiaries, one affiliated company, and one other associate. We primarily engage in the electronics materials business. In this business, we develop, manufacture, purchase, and sell chemicals for PWBs and other electronic components. We also engage in the medical and pharmaceuticals business. In this business, we develop, manufacture, sell, and provide contracted manufacturing services for pharmaceutical products and “quasi” (over-the-counter) drugs.

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, Taiyo Pharma acquired the same rights/authorizations for an additional product. The transfer of assets pertaining to four additional pharmaceutical products was completed in April 2020. Also in October 2019, our subsidiary Taiyo Pharma Tech started contracted pharmaceuticals manufacturing after inheriting a spun-off drug-making business.

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.

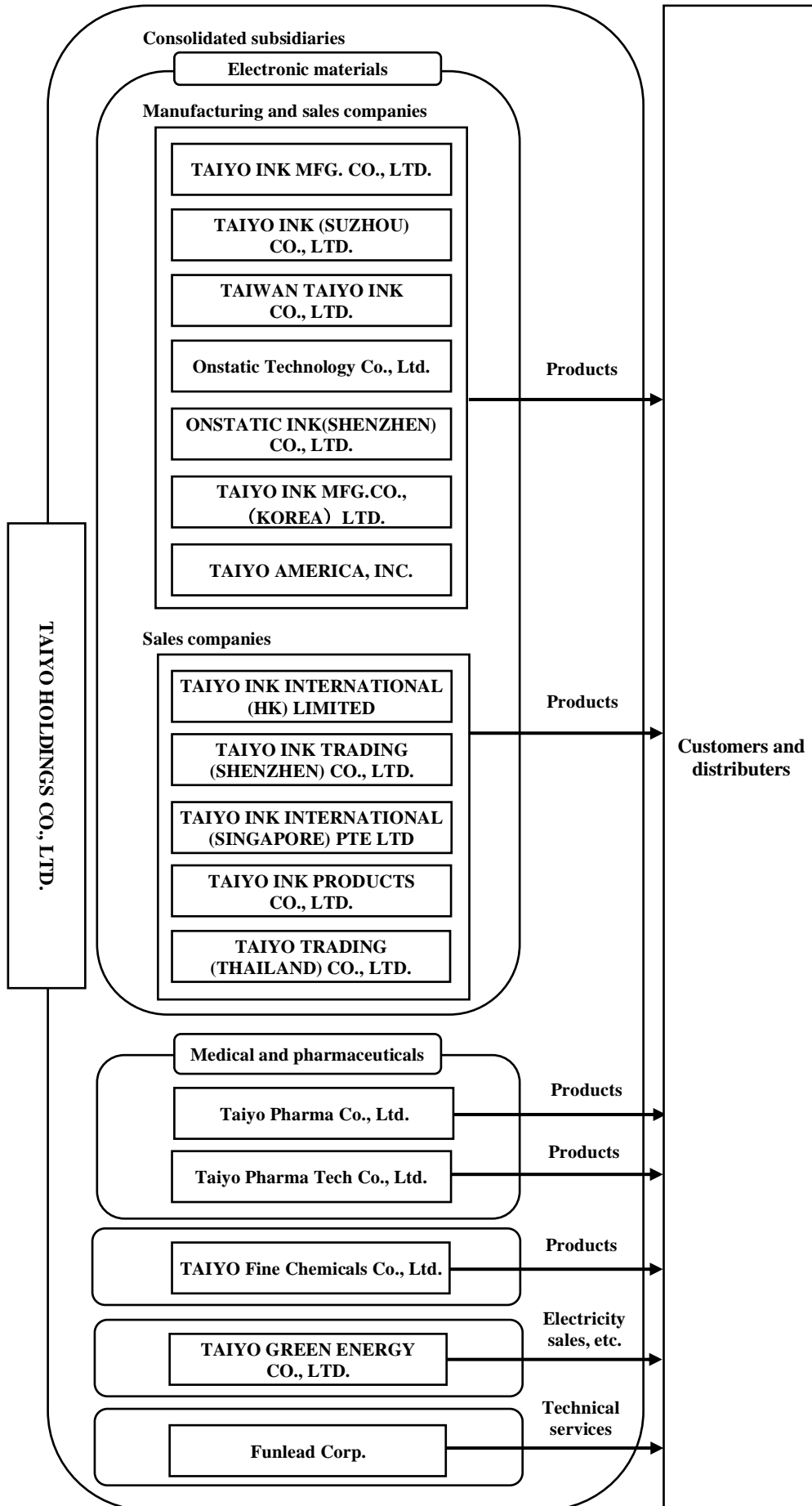
We are a listed company as defined in Article 49-2 of the Cabinet Office Ordinance on Restrictions on Securities Transactions. When determining “minor criteria” facts (facts that could potentially influence an investment decision), we use consolidated rather than non-consolidated figures.

Segment	Business operations	Main company/ies	
– (Note)	<ul style="list-style-type: none"> <li>• Sets the group’s broad strategic direction</li> <li>• Manages subsidiaries</li> <li>• Researches and develops chemicals for electronic components</li> </ul>	Japan	Filing company
Electronics materials	<ul style="list-style-type: none"> <li>• Manufactures, stocks, and markets chemicals for PWBs and other electronic components</li> </ul>	Japan	Taiyo Ink Mfg. Co., Ltd.
		Other	Taiyo Ink (Suzhou) Co., Ltd. Taiwan Taiyo Ink Co., Ltd. Onstatic Technology Co., Ltd. Onstatic Ink (Shenzhen) Co., Ltd. Taiyo Ink Co., (Korea) Ltd. Taiyo America, Inc.
	<ul style="list-style-type: none"> <li>• Stocks and markets associates’ chemicals for PWBs and other electronic components</li> </ul>	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	<ul style="list-style-type: none"> <li>• Develops, manufactures, and markets pharmaceuticals and quasi drugs</li> </ul>	Japan	Taiyo Pharma Co., Ltd.
	<ul style="list-style-type: none"> <li>• Conducts contracted manufacturing of pharmaceuticals and quasi drugs</li> </ul>	Japan	Taiyo Pharma Tech Co., Ltd.
Other	<ul style="list-style-type: none"> <li>• Manufactures and markets dyes, pigments, and other chemical products</li> </ul>	Japan	Taiyo Fine Chemicals Co., Ltd.
	<ul style="list-style-type: none"> <li>• Supplies renewable energy, etc.</li> </ul>	Japan	Taiyo Green Energy Co., Ltd.
	<ul style="list-style-type: none"> <li>• Provides systems engineering services</li> <li>• Develops systems</li> </ul>	Japan	Funlead 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	Equity (amount invested in company)	Main business	Ownership ratio (%)	Nature of relationship
Taiyo Ink Mfg. Co., Ltd. (see Note 3)	Ranzan-machi, Hiki-gun, Saitama Prefecture, Japan	450 million yen	Manufactures and markets solder resists for PWBs	100.0	<ul style="list-style-type: none"> <li>• We license the company to use our trademarks</li> <li>• We have interlocking directorates with the company</li> <li>• We lease real estate to the company</li> <li>• We lend to the company</li> </ul>
Taiyo Ink (Suzhou) Co., Ltd. (see Note 1)	Suzhou, Jiangsu Province, China	20 million USD	Manufactures and markets solder resists for PWBs	100.0	<ul style="list-style-type: none"> <li>• We license the company to use our trademarks</li> <li>• We have interlocking directorates with the company</li> </ul>
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	<ul style="list-style-type: none"> <li>• We license the company to use our trademarks</li> <li>• We have interlocking directorates with the company</li> </ul>
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	<ul style="list-style-type: none"> <li>• We have interlocking directorates with the company</li> </ul>
Onstatic Ink (Shenzhen) Co., Ltd. (see Note 1)	Shenzhen, Guangdong Province, China	56 million CNY	Manufactures and markets solder resists for PWBs	100.0 (100.0)	<ul style="list-style-type: none"> <li>• We have interlocking directorates with the company</li> </ul>
Onstatic New Material (Jianxi) Co., Ltd.	Xinyu, Jiangxi province, China	47 million CNY	Manufactures and markets solder resists for PWBs	100.0 (100.0)	
Taiyo Ink Mfg. Co., (Korea) Ltd	Ansan-si, Gyeonggi Province, South Korea	2,698 million KRW	Manufactures and markets solder resists for PWBs	90.4	<ul style="list-style-type: none"> <li>• We license the company to use our trademarks</li> <li>• We have interlocking directorates with the company</li> <li>• We lend to the company</li> </ul>
Taiyo America, Inc.	Carson City, Nevada, United States	2 million USD	Manufactures and markets solder resists for PWBs	100.0	<ul style="list-style-type: none"> <li>• We license the company to use our trademarks</li> <li>• We have interlocking directorates with the company</li> </ul>
Taiyo Ink Vietnam Co., Ltd.	Hanoi, Vietnam	2,309 VDN	Manufactures and markets solder resists for PWBs	100.0	<ul style="list-style-type: none"> <li>• We have interlocking directorates with the company</li> <li>• We lend to the company</li> </ul>
Taiyo Ink International (HK) Limited (see Note 4)	Hunghom, Kowloon, Hong Kong	10 million HKD	Markets solder resists for PWBs	100.0	
Taiyo Ink Trading (Shenzhen) Co., Ltd.	Shenzhen, Guangdong Province, China	0.8 million USD	Markets solder resists for PWBs	100.0	

Name	Address	Equity (amount invested in company)	Main business	Ownership ratio (%)	Nature of relationship
Taiyo Ink International (Singapore) Pte Ltd	Singapore	2 million SGD	Markets solder resists for PWBs	100.0	<ul style="list-style-type: none"> <li>• We have interlocking directorates with the company</li> </ul>
Taiyo Ink Products Co., Ltd. (see Note 2)	Ansan-si, Gyeonggi Province, South Korea	100 million KRW	Markets solder resists for PWBs	100.0 (100.0)	<ul style="list-style-type: none"> <li>• We have interlocking directorates with the company</li> </ul>
Taiyo Trading (Thailand) Co., Ltd..	Bangkok, Thailand	11 million THB	Markets solder resists for PWBs	100.0	<ul style="list-style-type: none"> <li>• We lend to the company</li> <li>• We have interlocking directorates with the company</li> </ul>
Taiyo Pharma Co., Ltd. (See Note 5)	Marunouchi, Chiyoda-ku, Tokyo, Japan	450 million yen	Develops, manufactures, and markets pharmaceuticals and quasi drugs	100.0	<ul style="list-style-type: none"> <li>• We have interlocking directorates with the company</li> <li>• We lend to the company</li> </ul>
Taiyo Pharma Tech Co., Ltd. (See Notes 1 and 6)	Takatsuki-shi, Osaka, Japan	300 million yen	Conducts contracted manufacturing of pharmaceuticals and quasi drugs	100.0	<ul style="list-style-type: none"> <li>• We have interlocking directorates with the company</li> </ul>
Taiyo Fine Chemicals Co., Ltd.	Nihonmatsu-shi, Fukushima Prefecture, Japan	49 million yen	Manufactures and markets dyes, pigments, and other chemical products	100.0	<ul style="list-style-type: none"> <li>• We lend to the company</li> </ul>
Taiyo Green Energy Co., Ltd.	Ranzan-machi, Hiki-gun, Saitama Prefecture, Japan	10 million yen	Supplies renewable energy	100.0	<ul style="list-style-type: none"> <li>• We have interlocking directorates with the company</li> <li>• We lend to the company</li> </ul>
Funlead Corp. (see Note 7)	Nishi-Ikebukuro, Toshima-ku, Tokyo, Japan	80 million yen	<ul style="list-style-type: none"> <li>• Provides systems engineering services</li> <li>• Develops systems</li> </ul>	100.0	
Peace Sea Investment Limited (See Note 1)	Apia, Samoa	13 million USD	Investment	100.0 (100.0)	
Good Advance Group Limited (See Note 1)	Apia, Samoa	13 million USD	Investment	100.0 (100.0)	
Pegasus Tech Ventures Company IV, L.P.	California, USA	151,000 USD	Investment	99.0 (49.5)	
The two remaining companies are not shown here					

- (Note) 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: ¥22,914 million

Ordinary income: ¥5,586 million

Profit: ¥4,155 million

Net assets: ¥7,852 million

Total assets: ¥21,715 million

4. Taiyo Ink International (HK) Limited's sales account for more than 10% of the group's consolidated sales (excluding inter-company sales).

Taiyo Ink International (HK) Limited's financial data

Sales: ¥9,392 million

Ordinary income: ¥702 million

Profit: ¥591 million

Net assets: ¥2,079 million

Total assets: ¥4,421 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: ¥10,485 million

Ordinary income: ¥2,063 million

Profit: ¥1,510 million

Net assets: ¥23 million

Total assets: ¥30,230 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: ¥14,068 million

Ordinary income: ¥2,655 million

Profit: ¥1,681 million

Net assets: ¥17,822 million

Total assets: ¥21,009 million

7. On April 1, 2020, Micro Network Technologies Corp. changed its name to Funlead Corp.

(2) Other associates

Company name	Address	Capital	Main business	Equity stake (%)	Nature of relationship
DIC Corporation	Itabashi-ku, Tokyo, Japan	96,557 million yen	Manufactures and markets organic pigments and synthetic resins	19.8%	<ul style="list-style-type: none"> <li>We procure raw materials from the company</li> <li>We have interlocking directorates with the company</li> </ul>

## 5. Our employees

### (1) Consolidated (group wide)

As of March 31, 2021

Segment	Number of employees
Electronics Materials	1,108
Medical and pharmaceuticals	397
Other	429
Trans-segment i.e., employees of Taiyo Holdings Co., Ltd. (the holding and filing company)	133
Total	2,067

- (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.

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

As of March 31, 2021

Number of employees	Average age	Average years of service	Average annual remuneration (¥)
133	40.3	8.9	8,144,120

- (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 omitted the average number of employees who are non-regular or temporary 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, business 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 consolidated year under review. 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 management philosophy” below). With this objective in mind, we will continue to grow while adapting to changes in the business environment.

##### *Our management philosophy*

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

##### *Our 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 “Beyond Imagination 2030”, our long-term management plan that runs from FYE March 2022 to FYE March 2031.

KPI	Target
Return on equity ratio (ROE)	18% or higher
Dividend on equity ratio (DOE)	5% or higher

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

##### *Business climate*

In the period under review (April 1, 2020, to March 31, 2021), the business climate remained tough 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 2020 onward by the spread of the COVID-19 pandemic.

1) Electronics materials

This segment is sensitive to trends in the electronics sector as a whole. Demand for data gathering and analytics is mounting amid the rollout of IoT and AI-driven technologies, which should drive technological innovation in electronics and encourage active R&D and capital expenditure. Most crucially, the 5G rollout and shift to remote work are driving demand for semiconductors and other electronics.

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, with mounting financial pressure on its health insurance system, 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 focus our Group's strengths in "chemistry" to propel ourselves towards becoming a comprehensive chemical company. Especially, we are working on various actions in line with our long-term management plan, with particular emphasis on the following actions.

Group-wide actions

1) Develop and utilize self-sufficient personnel capable of acting independently, who respond to diversifying organizations and societies

A key challenge is to build a workforce that can adapt to organizational and social diversity and 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) Transform and evolve through digital transformation

To ensure global competitiveness in a rapidly changing business landscape, we must commit to continually improving workflows, processes, and business model. We will digitize workflows and processes, including ordering, production management, R&D, and new product development, to generate new customer value.

3) Create new businesses

To ensure business success in the medium to long term, we need to launch new businesses, rather than relying only on our existing businesses. We need to expand and develop new core revenue sources to complement our existing ones (electronic materials, medical and pharmaceuticals, energy, and food).

4) Execute strategic M&As

To accelerate efforts to strengthen existing businesses and launch new ones, we will actively explore potential business and capital tie-ups, M&As, and strategic collaboration projects in which we can leverage external assets, instead of relying only on our own.

5) Strengthen efforts for SDGs (Sustainable Development Goals)

Even before the SDG agenda garnered worldwide interest, we were integrating sustainability into our business activities, believing that sustainability is crucial to continued business success. Our mainstay product, solder resists, has a crucial role to play in this agenda, in that it underpins technological and industrial innovation. Aside from this, we are switching to eco-friendly renewable energy sources across the group, and running programs for farming vegetables, fruits, and insects to offset the risk of future food crises. Additionally, we provide medical and pharmaceutical products.

We also contribute to sustainability outside of our business activities. For example, we participate in local events and charitable causes, and our canteens use local produce. To promote diversity and inclusion, we have installed all-gender restrooms and actively nominate women for the Board of Directors.

#### Electronics materials segment

The segment's mainstay is solder resists. We hold a global top share in the solder resists market, and over 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 aggressively 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 it will generate 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) Expanding contracted pharmaceuticals manufacturing

Taiyo Pharma Tech Co., Ltd., became our subsidiary after it inherited Daiichi Sankyo Propharma Co., Ltd.'s spun-off Takatsuki Plant. The subsidiary conducted contracted manufacturing of pharmaceuticals. Taiyo Pharma Tech aims to continue its rapid growth with the following strategy: While maintaining a stable supply to existing customers, Taiyo Pharma Tech will explore partnerships and joint development projects with firms in Japan and other countries, bid for new contracts, and start developing, as well as manufacturing, drugs to transition from a contract manufacturing organization (CMO) to contract development and manufacturing organization (CDMO). Additionally, while strengthening its production sites in Japan, the subsidiary will build an international supply chain network and expand into global business sectors as a CDMO, including regenerative medicine and genetic medicine.

2) Steady progress in manufacture and sale of pharmaceuticals

In April 2020, Taiyo Pharma finished the process for inheriting rights for long-listed drugs and added them to its lineup. 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) Side-effects of pharmaceuticals

As a manufacturer of pharmaceuticals, the subsidiary faces the risk of product liability—the risk that it will be held liable for damages caused by product recalls, production stoppages, or injury resulting from the use of the product. To manage this risk, we comply with the Pharma-Med Act\* and all applicable standards. We also have product liability insurance to minimize the financial damage from any product liability claims.

\* The Pharma-Med Act's full title is “Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices.”

## 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 consolidated year under review.

Types of financial risk	Description of risk	Key actions for managing the risk
Impairment risk	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The Board of Directors regularly reviews assets to check whether they are still worth holding.</li> <li>We use follow-up surveys to measure the asset's contribution to synergy, and we monitor the asset's macroeconomic context.</li> </ul>
Technological innovation risk	<ul style="list-style-type: none"> <li>Technological innovation might yield manufacturing techniques that do not rely on our products (such as techniques for making electronic parts without PWBs).</li> <li>Manufacturing techniques that do not rely on solder resists.</li> </ul>	<ul style="list-style-type: none"> <li>We develop new manufacturing techniques.</li> </ul>
Patent risk	<ul style="list-style-type: none"> <li>We may fail to protect our patents.</li> <li>We might violate an organization's intellectual property rights.</li> </ul>	<ul style="list-style-type: none"> <li>We manage risks related to intellectual property rights.</li> </ul>
Client bankruptcy	<ul style="list-style-type: none"> <li>Clients in Japan or overseas might unexpectedly go bust.</li> </ul>	<ul style="list-style-type: none"> <li>We monitor clients' performance and creditworthiness to protect the recoverability of our receivables.</li> </ul>
Exchange rate risk	<ul style="list-style-type: none"> <li>Exchange rate fluctuations may force us to suspend overseas business.</li> <li>Due to fluctuations in exchange or interest rates, we may incur losses when converting foreign-denominated assets of overseas subsidiaries into yen.</li> </ul>	<ul style="list-style-type: none"> <li>We use forward exchange contracts and fixed-for-floating interest rate swaps.</li> <li>For financing, group companies (and the holding company, too) use lenders based in countries where exchange rate risk is minimal.</li> </ul>
Country-specific risks	<ul style="list-style-type: none"> <li>There may be unfavorable changes in local regulatory requirements (including legal and tax requirements).</li> <li>The country might experience military conflict or civil disorder.</li> </ul>	<ul style="list-style-type: none"> <li>We aim for an appropriately dispersed network of global operations.</li> </ul>
Procurement risk	<ul style="list-style-type: none"> <li>Our supply chain might get disrupted if suppliers suffer damage or shortages.</li> <li>Oil prices might lead to higher materials costs.</li> </ul>	<ul style="list-style-type: none"> <li>We have dispersed supply chains.</li> </ul>
Price war risk	<ul style="list-style-type: none"> <li>We might need to repeatedly lower sales prices below those of competitors.</li> </ul>	<ul style="list-style-type: none"> <li>We offer low-end goods.</li> <li>We monitor the competition.</li> </ul>
Side-effects of pharmaceuticals	<ul style="list-style-type: none"> <li>Users might experience unanticipated side-effects or other incidents</li> </ul>	<ul style="list-style-type: none"> <li>We comply with the Pharma-Med Act and applicable standards, and subscribe to liability insurance.</li> </ul>
Pharmaceutical regulation	<ul style="list-style-type: none"> <li>There may be unfavorable changes in drug pricing or other relevant aspects of the national health system or the government's health policy.</li> </ul>	<ul style="list-style-type: none"> <li>We have a robust system of procedures with effective oversight.</li> </ul>
Infection risk	<ul style="list-style-type: none"> <li>We might need to suspend business if executives or employees get infected.</li> </ul>	<ul style="list-style-type: none"> <li>We have introduced work-from-home programs.</li> <li>We run temperature checks and provide hand sanitizer.</li> <li>We minimize business trips.</li> </ul>
Transfer pricing taxation and other cross-border tax risks	<ul style="list-style-type: none"> <li>Differences of opinion between tax authorities might incur additional or double taxation.</li> </ul>	<ul style="list-style-type: none"> <li>We comply with each tax regime.</li> <li>We consult external experts.</li> </ul>

### 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 consolidated year under review.

#### 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 consolidated fiscal year (million yen)	Current consolidated fiscal year (million yen)	Change (million yen)	Main factors (YoY change)
Current assets	62,380	92,937	30,556	Cash and deposits up ¥25,514 million, notes and accounts receivable - trade up ¥3,014 million, merchandise and finished goods up 1,708 million
Non-current assets	79,811	86,063	6,252	CIP up ¥1,702 million, sales rights up ¥4,291 million Machinery, equipment and vehicles, net down ¥925 million, goodwill down ¥442 million, customer-related assets down ¥476 million
Total assets	142,192	179,001	36,809	
Total liabilities	72,668	102,504	29,835	Long-term borrowings down ¥14,515 million
Total net assets	69,523	76,497	6,973	Profit attributable to owners of parent ¥9,529 million, dividends of surplus down ¥3,724 million, foreign currency translation adjustment up ¥2,196 million
Total liabilities and net assets	142,192	179,001	36,809	

#### 2) Operating results

##### Electronics materials:

The segment posted net sales of ¥53,096 million (up 8.6% year on year) and segment profit of ¥11,208 million (up 20.3%). Rigid board materials sold well because, despite a COVID-19 pandemic-related slump in auto sales, auto demand recovered in China in Q3. Sales volume grew year on year with strong sales of components for B2C applications, server components, and smartphone components.

PKG board materials sold better than they did last year thanks to a burgeoning semiconductor market. This market was buoyed by brisk demand for servers, data centers, and digital devices amid the 5G rollout and global shift to remote work.

##### Medical and pharmaceuticals:

The segment posted net sales of ¥24,553 million (up 34.8% year on year) and segment profit of ¥3,837 million (up 200.5%). Taiyo Pharma generally met its targets for the 14 long-term listed products for which it had gained approval as of the previous year, although some of these products sold less well than they did last year because of fewer prescriptions, a result of COVID-19 pandemic-related factors such as restricted access to medical facilities and changing health-visit behavior. Sales were similarly strong for the four long-listed products for which AstraZeneca transferred authorization in April 2020. Taiyo Pharma Tech (the CDMO spinoff we acquired from Daiichi Sankyo in October

2019) generally met its targets, though orders for some products were lower than expected because of the pandemic.

The consolidated results were as follows:

Net sales:	¥80,991 million (up 14.7% year on year)
Operating income:	¥13,943 million (up 52.6%)
Ordinary profit:	¥13,819 million (up 55.3%)
Profit attributable to owners of parent:	¥9,529 million (up 154.1%)

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

### 3) Cash flows

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

	Previous consolidated fiscal year (million yen)	Current consolidated fiscal year (million yen)	Main factors
Net cash provided by (used in) operating activities	13,739	16,312	Cash inflows included ¥13,374 million in profit before income taxes, ¥6,994 million in depreciation. Outflows included ¥1,679 million in increase in inventories and ¥1,650 million in increase in trade receivables.
Net cash provided by (used in) investing activities	(45,912)	(11,603)	Cash outflows included ¥4,080 million for acquisition of property, plant and equipment, and ¥6,994 million for acquisition of intangible assets.
Net cash provided by (used in) financing activities	31,593	19,755	Cash inflows included ¥28,795 million in proceeds from long-term borrowings. Outflows included ¥8,658 million in repayments of long-term borrowings and ¥3,724 million in dividend paid.
Net increase (decrease) in cash and cash equivalents	(985)	25,194	
Cash and cash equivalents at end of period	29,115	54,309	

### 4) Production, sales contracts, sales results

#### a. Production volume

The following table shows segment specific production volume in the consolidated year under review.

Segment	Current consolidated fiscal year (April 1, 2020, to March 31, 2021) (million yen)	Year-on-year (%)
Electronics materials	38,480	108.2
Medical and pharmaceuticals	14,068	205.5
Segments combined	52,548	123.9
Other	1,490	95.8
Total	54,038	122.9

(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 consolidated year under review.

(million)

Segment	Year under review (April 1, 2020, to March 31, 2021) (million yen)	Year-on-year (%)
Electronics materials	53,096	108.6
Medical and pharmaceuticals	24,553	134.8
Segments combined	77,650	115.7
Other	3,340	94.7
Total	80,991	114.7

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

(2) How we appraise consolidated performance

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

The forward-looking statements are based on information available to us as of the end of the consolidated year under review.

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 rely on the accounting estimates and assumptions described in two of the "notes on consolidated financial statements" in V. Financial Information, specifically, "basic factors underlying our consolidated financial statement" and "key accounting estimates."

In our accounting, we have assumed that the COVID-19 pandemic 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

See the "operating results" section in 3. Financial position, operating results, cash flows: (1) Performance overview.

b. Factors that significantly affect consolidated results

See "2. Business risks."

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 consolidated year under review, our short-term and long-term borrowings amount to ¥81,219 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 ¥54,309 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 8.0 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 ¥22,855 million. In June 2020, we borrowed ¥27,600 million from the bank to fund our growth-oriented investing and to provide spare liquidity for the case that the 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 the key performance indices and whether we met these targets.

KPI	Target	FYE March 2018	FYE March 2019	FYE March 2020	FYE March 2021 (reference)
Operating margin	20% or higher	21.7% (achieved)	13.6% (not achieved)	12.9% (not achieved)	17.2% (-)
Electronics materials	-	24.3% (-)	21.7% (-)	21.4% (-)	21.1% (-)
Medical and pharmaceuticals	-	1.0% (-)	(4.6%) (-)	7.1% (-)	15.6% (-)
Return on equity ratio (ROE)	11% or higher	6.8% (not achieved)	6.2% (not achieved)	5.4% (not achieved)	13.1% (-)
Dividend on equity ratio (DOE)	5% or higher	6.5% (achieved)	5.3% (achieved)	5.4% (achieved)	6.3% (-)
Operating income	New record high (FY2016: ¥10,964 million)	¥11,337 million (achieved)	¥8,099 million (-)	¥9,136 million (-)	¥13,943 million (-)

As of the end of the period, we had failed to achieve two of our KPIs for the three years of the medium-term business plan: operating margin of 20% or higher, and ROE of 11% or higher. However, for FYE March 2021, we have achieved ROE of 11% or higher. 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. In FYE March 2021, we set another record for operating income, at ¥13,943 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

See the “operating results” section in II. Trends and Outlooks 3. Financial position, operating results, cash flows: (1) Performance overview.

#### 4. Key agreements

The key agreements signed in the year under review were as follows.

##### (1) Asset transfer agreement

Taiyo Pharma concluded an agreement with AstraZeneca PLC in which AstraZeneca PLC transfers to Taiyo Pharma its approval and rights to manufacture and market four long-listed products in Japan, along with other assets. These rights had been used by the transferor's subsidiary, AstraZeneca K.K.

Company in Taiyo Group	Counterparty	Country	Agreement	Date signed
Taiyo Pharma Co., Ltd.	AstraZeneca PLC	UK	AstraZeneca PLC agrees to transfer to Taiyo Pharma its approval and rights to manufacture and market four long-listed products in Japan, along with other assets.	April 27, 2020

##### (2) Loan agreements

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

1. Purpose of loan  
To fund growth-oriented investments and provide liquidity for the case of 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  
June 30, 2020
6. Repayment period  
May 2025 to May 2027
7. Collateral  
Nothing to disclose.



## 5. Research & development

Guided by our management philosophy, 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, conductive materials, and display materials.

In the consolidated year under review, we spent a total of ¥3,321 million on research & development—¥9 million more than in the previous year. The R&D spend in each segment was as follows:

Electronics materials: ¥3,078 million

Medical and pharmaceuticals: ¥102 million

Other: ¥140 million

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.

#### Rigid boards

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

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

#### Solder resist for HDI substrates

Manufacturers have recently adopted the 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.

#### Solder resist for vehicle installation substrates

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 for next-generation vehicle installation substrates. We managed to get this solder resist approved by the end customer.

#### Solder resists for package substrates

Package substrates are crucial for protecting semiconductor chips and ensuring the solid connections with the semiconductors and performance. The package substrate market has grown, particularly for PCs, smartphones and tablets, amid the rising demand for online services. Package substrates need solder resists that can both insulate the circuit pattern and ensure the reliability of the package substrate. Our solder resists are widely used in package substrates for major semiconductor devices. These include central processing units, graphics processing units, application processors that control smartphones, and 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 interlayer insulating materials with low-dielectric properties. We are also working on photosensitive DF solutions for next-generation micro wiring. Additionally, we are developing encapsulant film by leveraging our knowhow in interlayer insulation materials. Such efforts are increasing the uptake rate among customers. 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 healthcare 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 environmental impact. We will continue to develop applications for flexible boards, 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

Manufacturers are using micro LED and mini LED displays to meet the demand for high resolution and energy-efficient displays. Our group has developed reflective material for backlight units in LED displays. We are supplying to the market LED reflectors (for enhancing or sustaining the display's brightness) that can be produced by liquid or dry films or by the inkjet coating process. We are also 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. Our stretchable conductive materials have garnered interest for their potential application in foldable displays.

### III. Our Facilities

#### 1. Capital investment overview

In the current fiscal year, we invested a total of ¥7,141 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	Year under review (million yen)
Electronics materials	3,415
Medical and pharmaceuticals	2,139
Other	417
Trans-segment (primarily Taiyo Holdings Co., Ltd., —i.e., the holding and filing company)	1,168
Total	7,141

#### 2. Key facilities

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

As of March 31, 2021

Facility (address)	Segment	Facility description	Carrying amount (million yen)					Employees
			Buildings and structures	Machinery, equipment, and vehicles	Land (m <sup>2</sup> )	Other *Note 4	Total	
Ranzan-Kitayama Facility (Ranzan-machi, Hiki- gun, Saitama) *Note 3	— *Note 2	Rented office, factory	2,753	—	2,025 (33,410)	24	4,803	18
Ranzan Facility (Ranzan-machi, Hiki- gun, Saitama)	— *Note 2	R&D facility	1,757	1	296 (12,528)	127	2,183	43
Head Office (Toshima-ku, Tokyo)	— *Note 2	General headquarters	148	—	—	17	166	72
Marunouchi Kitaguchi Building (Chiyoda-ku, Tokyo) *Note 3	— *Note 2	Office	173	—	—	5	178	—
Former Head Office Building (Nerima-ku, Tokyo)	— *Note 2	Office	146	—	370 (801)	0	516	—
Other	— *Note 2	Land, etc.	22	—	4 (1,322)	22	49	—

- (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, 2021

Company name	Facility (address)	Segment	Facility description	Carrying amount (million yen)					Employees
				Buildings and structure	Machinery, equipment, and vehicles	Land (m <sup>2</sup> )	Other *Note 2	Total	
Taiyo Ink Mfg. Co., Ltd.	Head Office (Ranzan-machi, Hiki-gun, Saitama)	Elec.	Office, factory, R&D facility	283	475	–	331	1,090	252
	Kitakyushu Plant (Kitakyushu-shi, Fukuoka)	Elec.	Factory	2,759	535	–	84	3,378	54
	Ranzan Facility (Ranzan-machi, Hiki-gun, Saitama)	Elec.	R&D facility, etc.	–	11	–	0	11	27
Taiyo Fine Chemicals Co., Ltd.	Head Office (Nihonmatsu-shi, Fukushima)	Other	Office, factory, R&D facility	509	145	306 (62,260)	24	985	44
	Urawa Plant (Saitama-shi, Saitama)	Other	Factory	44	70	50 (989)	4	170	12
	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	7	7	–	1	16	31
	Ranzan Hydro-Solar Plant (Ranzan machi, Hiki gun, Saitama)	Other	Power generation facility	0	349	–	–	349	–
	Ranzan Onuma Hydro-Solar Plant (Ranzan-machi, Hiki-gun, Saitama)	Other	Power generation facility	0	77	–	–	77	–
	Anazawaike Hydro-Solar Plant (Inami-cho, Kako-gun, Hyogo)	Other	Power generation facility	–	228	–	–	228	–
	Uozumiike-Kusatani Hydro-Solar Plant (Inami-cho, Kako-gun, Hyogo)	Other	Power generation facility	–	369	–	–	369	–
	Kobayashiike Hydro-Solar Plant (Yamatokoriyama-shi, Nara)	Other	Power generation facility	–	129	–	–	129	–
	Hosoike Hydro-Solar Plant (Yoro-cho, Yoro-gun, Gifu)	Other	Power generation facility	–	523	–	–	523	–

	Hayashiike Hydro-Solar Plant (Nissin-shi, Aichi)	Other	Power generation facility	-	168	-	-	168	-
	Hiraike Hydro-Solar Plant (Yoro-cho, Yoro-gun, Gifu)	Other	Power generation facility	-	248	-	-	248	-
	Sijukusinnike Hydro-Solar Plant (Iga-shi, Mie)	Other	Power generation facility	-	285	-	0	285	-
	Shirainuma Reservoir Hydro-Solar Plant (Kawajima, Hiki-gun, Saitama)	Other	Power generation facility	-	131	-	-	131	-
	Asama Reservoir Hydro-Solar Plant (Kawajima, Hiki-gun, Saitama)	Other	Power generation facility	-	131	-	-	131	-
Taiyo Pharma Co., Ltd.	Head Office (Chiyoda-ku, Tokyo)	Med / pharm	Office	0	-	-	13	13	61
Taiyo Pharma Tech Co., Ltd.	Head Office (Takatsuki-shi, Osaka)	Med / pharm	Office, factory	5,654	3,788	7,781 (52,584)	346	17,570	336
Mega Solar 23	Odaike Hydro-Solar Plant (Takamatsu-shi, Kagawa)	Other	Power generation facility	-	835	-	-	835	-
Mega Solar 28	Miyamaike Hydro-Solar Plant (Takamatsu-shi, Kagawa)	Other	Power generation facility	-	851	-	-	851	-

- (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, 2021

Company name	Facility (address)	Segment Name	Facility description	Carrying amount (million yen)					Employees
				Buildings and structures	Machinery, equipment, and vehicles	Land (m <sup>2</sup> )	Other *Note 2	Total	
Taiyo Ink (Suzhou) Co., Ltd.	Suzhou, Jiangsu Province, China	Elec.	Office, factory, R&D facility	439	1,131	–	99	1,670	239
Taiwan Taiyo Ink Co., Ltd.	Guanyin District, Taoyuan City, Taiwan	Elec.	Office, factory, R&D facility	332	316	675 (11,846)	26	1,350	133
Onstatic Technology Co., Ltd.	Yingge District, New Taipei City, Taiwan	Elec.	Office, factory, R&D facility	23	15	35 (170)	7	81	98
Onstatic Ink (Shenzhen) Co., Ltd.	Shenzhen, Guangdong Province, China	Elec.	Office, factory, R&D facility	16	116	–	35	168	117
Taiyo Ink Mfg. Co., (Korea) Ltd	Ansan-si, Gyeonggi Province, South Korea	Elec.	Office, factory, R&D facility	1,142	106	200 (10,185)	140	1,589	117
Taiyo America, Inc.	Carson City, Nevada, United States	Elec.	Office, factory, R&D facility	65	46	40 (17,038)	3	155	40

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

## 3. Capital investment plans

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

For the one-year period following the consolidated year under review, we plan property, plant and equipment, as well as in software (building new facilities or developing existing ones) totaling ¥9,330 million. The following table shows the segment breakdown.

Segment	Planned investments (fiscal year ended March 31, 2021) (million yen)	Main purposes	Source of funds
Electronics materials	2,340	Acquire facilities and other physical assets, introduce control systems	Self-funded, borrowings
Medical and pharmaceuticals	4,530	Acquire facilities and other physical assets	Self-funded, borrowings
Other	80	Acquire facilities and other physical assets	Self-funded, borrowings
Trans-segment (primarily Taiyo Holdings Co., Ltd., —i.e., the holding and filing company)	2,380	Acquire facilities and other physical assets, introduce control systems	Self-funded, borrowings
Total	9,330		

#### 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 of shares held	50,200,000

(Note) The 75th AGM, held on June 19, 2021, approved a revision to the Articles of Incorporation that changed the total number of authorized shares, taking effect on the same day. Consequently, the number of Series I Class A shares and Series II Class A shares has been reduced from 100,000 to 0, respectively, bringing the number of common shares to 50,000,000.

###### 2) Issued shares

Class of shares	Issued shares (as of March 31, 2021)	Shares outstanding as of filing date (June 21, 2021)	Stock exchanges where the shares are listed (or authorized financial instruments associations)	Description
Common shares	28,998,502	28,998,502	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 of shares held	28,998,502	28,998,502	–	–

(Notes) 1. As resolved by the Board of Directors on July 1, 2020, we issued 28,855 new shares on July 16, 2020, to provide for the stock compensation system (comprising transfer-restricted stock compensation and performance-linked stock compensation). The details are follows.

(1)	Pay-in date	July 16, 2020
(2)	Number and class of shares	28,855 shares of common stock
(3)	Issued price of shares	¥4,970 per share
(4)	Amount of funds raised	¥143,409,350
(5)	Solicitation / allotment method	16,755 shares for the transfer-restricted stock compensation will be allotted with specified transfer restrictions 12,100 shares for the performance-linked stock compensation will be allotted in third party allotment.
(6)	Contribution method	Allotment with specified transfer restrictions: Allottees exchange monetary claims for the shares Third party allotment: Allottees purchase the shares by cash_



(7)	Allottees	<p>Allotment with specified transfer restrictions: Three executive directors of Taiyo Holdings to receive total of 16,755 shares</p> <p>Third-party allotment: Three incumbent executive directors of Taiyo Holdings to receive total of :9,800 shares Two former executive directors of Taiyo Holdings to receive: 2,300 shares</p> <p>Note: The two former executive directors were incumbent between the 73rd AGM and the day before the 74th AGM (June 22, 2019, to June 20, 2020) and left their office between the 74th AGM and July 1, 2020.</p>
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2. 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 cancelled upon reacquisition.

(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	Balance of outstanding 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)
June 27, 2016 *Note 1	42,900	27,528,500	76	6,265	76	7,232
February 10, 2017 *Note 2	1,312,600	28,841,100	2,906	9,171	2,906	10,138
July 14, 2017 *Note 3	24,094	28,865,194	60	9,232	60	10,199
July 20, 2018 *Note 4	45,242	28,910,436	99	9,331	99	10,299
July 16, 2019 *Note 5	59,211	28,969,647	96	9,428	96	10,395
July 16, 2020 *Note 6	28,855	28,998,502	71	9,499	71	10,467

(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): Eiji 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 stock compensation  
Specified transfer restricted stock 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 stock compensation and performance linked remuneration.  
Specified transfer restricted stock 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 stock compensation and performance linked remuneration.  
Specified transfer restricted stock 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
6. Share capital and capital surplus both increased by ¥71 million after we offered additional shares as part of specified transfer restricted stock compensation and performance linked remuneration.  
Specified transfer restricted stock compensation, third party allotment method  
Issue price: ¥4,970  
Paid in capital: ¥2,485  
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 2: The recipient resigned as director on June 20, 2020.

(5) Share ownership

1) Common shares

As of March 31, 2021

	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	–	42	32	61	168	8	4,561	4,872	–
Total share units held	–	76,132	1,588	111,793	46,702	25	53,475	289,715	27,002
Ownership ratio (%)	–	26.27	0.55	38.59	16.12	0.01	18.46	100.00	–

- (Notes)
1. Of the 631,889 treasury shares, 6,318 share units are under “individuals, other,” and 89 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, 2021

	Number of shareholders (100 share units)								Fractional shares
	National or local public organizations	Financial institutions	Financial instruments operators	Other organizations	Overseas		Individuals, other	Total of shares held	
					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, 2021

	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, 2021

Name of individual or organization	Address	Shares held (1,000 share units)	% of outstanding shares (excluding treasury shares)
DIC Corporation	35-58 Sakashita 3-chome, Itabashi-ku, Tokyo, Japan	5,617	19.80
Kowa Co., Ltd.	4-8 Nakamura-kita 3-chome, Nerima-ku, Tokyo, Japan	3,636	12.82
Custody Bank of Japan, Ltd. (manages our trust account)	8-12 Harumi 1-chome, Chuo-ku, Tokyo, Japan	2,041	7.20
Misaki Engagement Master Fund (Standing proxy: HSBC)	190 Elgin Avenue, George Town, Grand Cayman, KY 1 9005, Cayman Islands (HSBC Building, 11-1, Nihombashi 3-chome, Chuo-ku, Tokyo, Japan)	1,817	6.41
The Master Trust Bank of Japan, Ltd. (manages our trust account)	MTBJ Building, 2-11-3 Hamamatsucho, Minato-ku, Tokyo, Japan	1,679	5.92
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	3.93
Shikoku Chemicals Corporation	8-537-1 Doki-cho-higashi, Marugame- shi, Kagawa, Japan	745	2.63
Toshin Yushi Co., Ltd.	5-14-11 Umeda, Adachi-ku, Tokyo, Japan	538	1.90
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)	422	1.49
Takato Kawahara	Nerima-ku, Tokyo, Japan	402	1.42
Total of shares held	–	18,017	63.52

- (Notes) 1. Of the 2,041 shares held by Custody Bank of Japan, Ltd., 2,016 pertain to the trust account we keep with this bank.
2. Of the 1,679 shares held by The Master Trust Bank of Japan, Ltd., 1,578 pertain to the trust account we keep with this bank.

## (7) Voting rights

## 1) Issued shares

As of March 31, 2021

Class of shares	Number	Voting rights	Description
Non-voting shares	–	–	–
Voting shares: treasury	–	–	–
Voting shares: other	–	–	–
Full-voting shares: treasury	Common shares 765,600	1,338	*Note 1
Full-voting shares: other	Common shares 28,205,900	282,059	*Note 2 *Note 3
	Series I Class A shares –	–	
	Series II Class A shares –	–	
Fractional shares	Common shares 27,002	–	*Note 4
Total issued shares	28,998,502	–	–
Total voting rights	–	283,397	–

- (Notes)
1. We hold 631,800 of these shares directly. The remaining 133,800 are held by The Master Trust Bank of Japan, Ltd. (in the ESOP trust).
  2. Of the 28,205,900 shares, 100 are held in the name of Japan Securities Depository Center, Inc. The center holds 1 of the 282,059 voting rights.
  3. See “Issued shares” for more information on the Series I and II Class A shares.
  4. Of the 27,002 shares, we hold 89 and The Master Trust Bank of Japan, Ltd. holds 30 (in the ESOP trust).

## 2) Treasury shares

As of March 31, 2021

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 355-0222, Japan	631,800	133,800	765,600	2.64
Total of shares held	–	631,800	133,800	765,600	2.64

- (Notes)
1. The above amounts exclude 119 fractional shares (30 of which are treasury shares that we have entrusted to The Master Trust Bank of Japan, Ltd. for the ESOP trust)
  2. Reason for holding shares in trust: The shares are held in trust 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

	Number	Total purchase price (yen)
Purchase plan approved on March 23, 2020 (Purchase period: March 23, 2020 to March 22, 2021)	375,000	1,500,000,000
Treasury stock purchased before the current fiscal year	—	—
Treasury stock purchased during the current fiscal year	256,400	1,499,972,992
Outstanding approved purchases	118,600	27,008
Unexercised portion as of end of the current fiscal year (%)	31.6	0.0
Treasury stock purchased during purchase period	—	—
Unexercised portion as of filing date (%)	31.6	0.0

Class of shares	Number	Total purchase price (yen)
Purchase plan approved on March 22, 2021 (Purchase period: March 23, 2021 to March 17, 2022)	275,000	1,500,000,000
Treasury stock purchased before the current fiscal year	–	–
Treasury stock purchased during the current fiscal year	–	–
Outstanding approved purchases	275,000	1,500,000,000
Unexercised portion as of end of the current fiscal year (%)	100.0	100.0
Treasury stock purchased during purchase period	–	–
Unexercised portion as of filing date (%)	100.0	100.0

(3) Purchases approved by neither of the above

	Number	Total purchase price (yen)
Treasury stock purchased during the current fiscal year	80	408,100
Treasury stock purchased during purchase period	–	–

(Notes) 1. Treasury purchased during purchase period excludes fractional share purchases occurring between June 1, 2021, 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)	Number	Total disposition value (yen)
Treasury stock for which we solicited subscriptions	–	–	–	–
Treasury stock we disposed of	–	–	–	–
Treasury stock we transferred as part of a merger, stock swap, or split	–	–	–	–
Other: Treasury stock we purchased for ESOP trust	23,410	85,225,974	–	–
Treasury shares we continue to hold *Note 1	765,719	–	765,719	–

(Notes) 1. “Treasury shares we continue to hold” includes shares in our ESOP trust, which we purchased as follows:  
Year under review: 133,830 Purchase period: 133,830

The amount of treasury shares held in the ESOP trust during the current fiscal year includes those shares that we transferred from the trust to employees between June 1, 2021, 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, 2021, 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 dividend for the fiscal year under review at ¥160.20 per share. The breakdown is as follows:

Mid-term (end of Q2) dividend: ¥65.10

End-of-term dividend: ¥95.10—this includes the normal end-of-year dividend of ¥65 combined with a commemorative dividend of ¥30 (to commemorate 20th anniversary of being listed on the First Section of the Tokyo Stock Exchange)

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 44.3%.

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

Date resolved	Total dividend (million yen)	Dividend per share (yen)
November 6, 2020 (resolved by Board of Directors)	1,863	65.10
June 19, 2021 (resolved at AGM)	2,697	95.10

#### 4. Corporate governance

##### (1) Outline of corporate governance system

###### 1) Our basic approach to corporate governance

- Our management philosophy and basic management policies describe the kind of group we strive to be, and they underlie everything we do as a group.
- These texts clarify our management philosophy, which is to keep improving the quality of our technologies in an effort to make a better, more pleasant world. They also clarify our basic approach to achieving this management philosophy, which is to continually refine every technology of the group so that we can deliver innovative products as well as existing/established ones. 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.
- 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 management philosophy 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 Audit and Supervisory Board 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 important business matters
- Supervises the CEO's execution of business

###### 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:

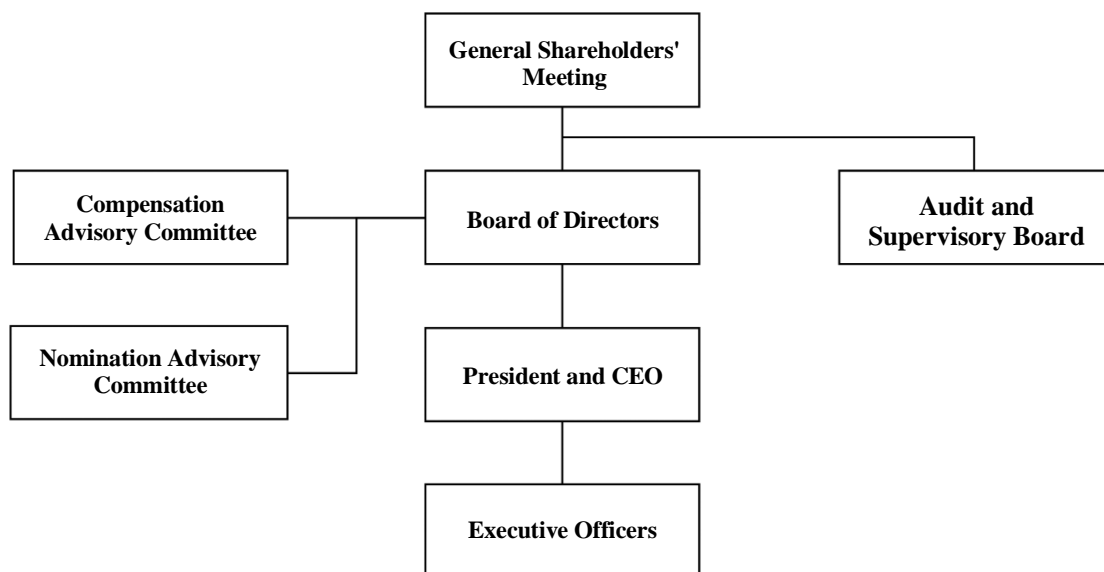
###### Compensation Advisory Committee

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 and 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 Takehara (director)
	Toshifumi Tamaki (director)		Toshifumi Tamaki (director)
	Keiko Tsuchiya (outside director)		Keiko Tsuchiya (outside director)
	Asako Aoyama (outside director)		Asako Aoyama (outside director)
	Yumiko Kamada (outside director)		Yumiko Kamada (outside director)
	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 and 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

- We have established the CSR Philosophy and Code of Conduct, and we make sure that our directors and employees fully understand the contents.
- To delineate the duties and authority of directors and employees and enhance mutual checks and balances, we have stipulated rules for the Board of Directors, segregation of duties, delegation of authority, and for decision-making processes.
- 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 Audit and Supervisory Board, and, if necessary, to our accounting auditors.

- d. We provide a whistleblowing system through which employees can contact an internal officer or external attorney.
- e. We designate one of our directors as compliance officer. An ethics committee (consisting of directors, Audit and Supervisory Board members, and employees) reviews important matters involving ethical and legal compliance. We also elect ethics officers from among employees.
- f. The compliance officer regularly reports to the Board of Directors about the state of ethical and legal compliance.

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 and 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. Where it pertains to routine workflows, the risk is evaluated and managed by the business division specified in the risk management guidelines. If necessary, a risk management committee will be formed to manage (mitigate and prevent) risks across the group.
- c. During an emergency, information is reported and action taken according to the risk management guidelines and risk escalation procedures. If necessary for minimizing damage and loss, we will establish an emergency taskforce to coordinate emergency responses.

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 as our organization-specific missions and medium and 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 and 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 Audit and Supervisory Board) if it requests such assistants and rules and measures for ensuring that such employees are independent of directors

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

Rules and measures concerning reports that directors and employees provide to the Audit and Supervisory Board; other rules and measures concerning reports to the Audit and Supervisory Board

- a. Directors, in addition to their mandatory reporting, report to the Audit and Supervisory Board 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 Audit and Supervisory Board 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 Audit and Supervisory Board audits/supervises effectively

- a. Audit and 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 and 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 and 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 and Supervisory Board members incur in their duties. We also spend formidable amounts on emergency Audit and 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 these controls to check they are working effectively and take corrective action as necessary.

Basic policy on eschewing all dealings with “anti-social forces” (organized crime syndicates) and 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 and 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			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) 162
			1995 July	Eiji Sato Certified Public Accountancy	(Founded)		
			1999 October	es Networks Co., Ltd.	(Founded) CEO		
			2001 May	Taiwan Taiyo Ink Co., Ltd.	Auditor		
			2008 June	Taiyo Holdings Co., Ltd.	Director		
			2009 October	Taiyo Holdings Co., Ltd.	Executive Officer Group CFO		
			2010 April	Taiyo Holdings Co., Ltd.	Executive Vice President		
			2010 May	Taiyo Ink Co., (Korea) Ltd.	Director		
			2010 July	Taiyo Ink International (HK) Limited	Director		
				Taiyo Ink International (Singapore) Pet Ltd	Director		
			2010 October	Taiyo Ink Mfg. Co., Ltd.	Director		
			2011 March	es Holdings Co., Ltd. (now es Networks Co., Ltd.)	Director		
			2011 April	Taiyo Holdings Co., Ltd.	President (ongoing) Group CEO (ongoing) Officer in charge of R&D Div.		
			2011 June	Taiyo Ink Trading (Shenzhen) Co., Ltd.	Director		
			2012 April	Taiyo Ink (Suzhou) Co., Ltd.	Director (ongoing)		
			2012 June	Taiyo Holdings Co., Ltd.	Officer in charge of risk management (ongoing)		
			2012 December	Onstatic Technology Co., Ltd.	Director (ongoing)		
2014 April	Taiyo Ink Mfg. Co., Ltd.	President and Representative Director					
2017 August	Taiyo Pharma Co., Ltd.	Chairman of the Board Representative Director (ongoing)					
2018 June	Taiyo Ink Mfg. Co., Ltd.	Director (ongoing)					
2019 April	Taiyo Pharma Tech Co., Ltd.	Director					
2019 October	Taiyo Pharma Tech Co., Ltd.	President and Representative Director (ongoing)					
Director	Eiji Takehara (male)	September 7, 1963	1986 April	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)	(Joined)	*Note 5	(Common) 34
			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 (ongoing) Compliance Officer (ongoing)		
			2014 July	Taiyo Holdings Co., Ltd.	Senior Executive Officer (ongoing)		
			2016 May	Onstatic Technology Co., Ltd.	Director (ongoing)		
			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 (ongoing)		
			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. (ongoing)		
			2018 July	Taiwan Taiyo Ink Co., Ltd.	Chair of the Board		
2019 April	Taiyo Holdings Co., Ltd.	Officer in charge of R&D Div. (ongoing)					

Title	Name	Date of birth	Career history		Term of office	Shares held (thousand)	
Director	Hitoshi Saito (male)	April 21, 1965	1995 November	Win System Inc. (Win System Europe)	Marketing Manager (Joined)	*Note 5	(Common) 24
			1996 September	Taiyo Ink Mfg. Co., Ltd. (now Taiyo Holdings Co., Ltd.)			
			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 (ongoing)		
			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 (ongoing)		
			2016 July	Taiyo Holdings Co., Ltd.	Senior Executive Officer (ongoing)		
			2019 April	Taiyo Holdings Co., Ltd.	Officer in charge of Taiyo America, Inc. (ongoing)		
			2019 October	Taiyo Ink International (Singapore) Pte Ltd	Director (ongoing)		
			2020 February	Taiyo Trading (Thailand) Co., Ltd.	Director (ongoing)		
			2020 April	Taiyo Ink Mfg. Co., (Korea) Ltd.	Chairman and CEO (ongoing)		
			2020 April	Taiyo Ink Products Co., Ltd.	Chairman and CEO (ongoing)		
			2020 May	Taiwan Taiyo Ink Co., Ltd.	Chairman of the Board (ongoing)		
2020 May	Taiyo America, Inc.	Director (ongoing)					
2020 June	Onstatic Ink (Shenzhen) Co., Ltd.	Director (ongoing)					
2020 June	Taiyo Ink Vietnam Co., Ltd.	Chairman (ongoing)					
2020 November	Taiyo Advanced Materials Co., Ltd. Taiyo Holdings Co., Ltd.	Director Officer in charge of Display business development office					
2020 December	Onstatic Technology Co., Ltd.	Director (ongoing)					
2021 April	Taiyo Holdings Co., Ltd.	Officer in charge of Display business project (ongoing)					
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 (ongoing)		
			2021 January	DIC Corporation	Executive Vice President (ongoing)		
Director	Masayuki Hizume (male)	March 2, 1963	1988 October	Tohatsu 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 and Supervisory Board Member		
			2001 January	Masayuki Hizume Certified Public Accounting Office	Head		
			2003 January	Taiyo Ink Mfg. Co., (Korea) Ltd.	Auditor		



Title	Name	Date of birth	Career history			Term of office	Shares held (thousand)
			2012 June	Taiyo Holdings Co., Ltd.	Outside Director (ongoing)		
			2012 July	Taiyo Ink Mfg. Co., (Korea) Ltd.	Director		
			2020 April	Hizume Tax Accounting Office	Representative Partner (ongoing)		

Title	Name	Date of birth	Career history		Term of office	Shares held (thousand)	
Director	Keiko Tsuchiya (female)	May 13, 1960	1981 April 1989 April 1991 April 1994 January  2004 July  2005 October 2009 January 2011 February  2015 August  2016 January  2017 June 2019 June 2020 June	Dentsu Inc. Ferag Japan Co., Ltd. Australian Trade Commission, Tokyo Becton Dickinson Co., Ltd.  Human Value Co., Ltd.  GE Toshiba Silicones Co., Ltd. (now Momentive Performance Materials Japan LLC) Cisco Systems LLC Johnson & Johnson Medical Company  Adecco Ltd.  Adecco Ltd.  Taiyo Holdings Co., Ltd. Teachers Initiative Nippon Light Metal Holdings Co., Ltd.	(Joined) Executive Secretary Executive Secretary HR Planning & Organizational Effectiveness Director Chief Researcher & Producer General Manager of Human Resources for Pacific Region Senior HR Manager Director Vice President (Human Resources) Director General Manager of Human Resources, Japan General Manager of People Value, Japan (ongoing) Outside Director (ongoing) Director (ongoing) Outside Director (ongoing)	*Note 5	(Common) 0
Director	Asako Aoyama (female)	March 14, 1972	1994 April  2001 September 2004 October 2008 August  2010 October  2011 March  2013 July  2016 January 2017 May  2018 June  2019 February  2020 January 2020 June 2021 February	Tohmatsu & Co. (now Deloitte Touche Tohmatsu LLC)  Merrill Lynch Japan Securities Co., Ltd. Coca Cola (Japan) Company, Limited Coca Cola (Japan) Company, Limited  Coca Cola (Japan) Company, Limited  Tokyo Coca Cola Bottling Co., Ltd.  Coca Cola East Japan Co., Ltd.  Coca Cola East Japan Co., Ltd. Coca Cola Bottlers Japan Inc.  Taiyo Holdings Co., Ltd.  Coca Cola Bottlers Japan Holdings Inc.  NEC Corporation Taiyo Holdings Co., Ltd. Business Accounting Council	(Joined)  (Joined) (Joined) General Manager of Business Strategy Promotion Manager of Commercial Finance CCL & Franchise Finance Headquarters Director Chief Financial Officer Executive Officer Finance and Accounting General Manager Executive Officer Commercial Finance General Manager Executive Officer Transformation Project Leader Audit and Supervisory Board Member Executive Officer Head of Business Development Global Finance Division General Manager (ongoing) Resigned as Audit and Supervisory Board Member Outside Director (ongoing) Temporary member (ongoing)	*Note 5	—
Director	Yumiko Kamada (female)	February 23, 1966	1989 April 2005 June  2008 November  2013 May  2015 February 2015 February  2015 March 2015 June 2018 December  2020 June 2021 June	East Japan Railway Company JR East Station Retailing Co., Ltd.  East Japan Railway Company  East Japan Railway Company  Calbee, Inc. LUMINE CO., LTD.  POLA ORBIS HOLDINGS INC. The Michinoku Bank, Ltd. ONE GLOCAL  Taiyo Holdings Co., Ltd. Public Private Partnership / Private Finance Initiative Promotion Office	(Joined) President and Representative Director General Manager, Life-style Business Development Headquarters Deputy Director, Frontier Service Research Laboratory, Research & Development Center Senior Executive Officer Part-time Director (ongoing) Outside Director Outside Director (ongoing) Representative Director (ongoing) Outside Director (ongoing) Outside Director (ongoing)	*Note 5	—

Title	Name	Date of birth	Career history		Term of office	Shares held (thousand)	
Full-time Audit and 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 and Supervisory Board Member (ongoing)		
			2012 May	Taiyo Ink Mfg. Co., (Korea) Ltd.	Auditor		
Full-time Audit and 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 and Supervisory Board Member (ongoing)		
Audit and 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.	Executive Officer Managing Director		
			2018 June	Taiyo Ink International (Singapore) Pte Ltd Taiyo Holdings Co., Ltd.	Managing Director Audit and Supervisory Board Member (ongoing)		
Total of shares held						(Common) 248	

- (Notes)
- Masayuki Hizume, Keiko Tsuchiya, Asako Aoyama, and Yumiko Kamada are outside directors.
  - Akihito Sakai and Hidenori Sugiura are outside members of the Audit and Supervisory Board.
  - Four years from the close of the 73rd Ordinary General Shareholders' Meeting (June 22, 2019)
  - Four years from the close of the 72nd Ordinary General Shareholders' Meeting (June 23, 2018)
  - Two years from the close of the 74th Ordinary General Shareholders' Meeting (June 20, 2020)
  - 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 and General Manager, Taiwan Taiyo Ink Co., Ltd. Chairman and CEO, Taiyo Ink Co., (Korea) Ltd. Chairman and CEO, Taiyo Ink Products Co., Ltd. Chairman, Taiyo Ink Vietnam Co., Ltd.
	Senior Executive Officer	Takayuki Morita	Chairman of the Board, General Manager, Taiyo Ink (Suzhou) Co., Ltd. Chairman of the Board, Onstatic Technology Co., Ltd. Chairman of the Board, Onstatic Ink (Shenzhen) Co., Ltd. Chairman of the Board, Onstatic New Material (Jianxi) Co., Ltd.
	Senior Executive Officer	Shoji Minegishi	Global Chief of Electronics, Taiyo Holdings Co., Ltd. President and Representative Director, Taiyo Ink Mfg. Co., Ltd. Chairman of the Board, Taiyo Ink Trading (Shenzhen) Co., Ltd.
	Managing Executive Officer	Masao Arima	Representative Director, Taiyo Pharma Co., Ltd.
	Managing Executive Officer	Taiyen Tsai	Director, General Manager, Onstatic Technology Co., Ltd. Director, General Manager, Taiyo Ink Trading (Shenzhen) Co., Ltd. Director and President, , Taiwan Taiyo Ink Co., Ltd.
	Managing Executive Officer	Daisuke Mishima	Managing Director, Taiyo Ink International (HK) Ltd. 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	Representative Director, Executive Vice President, Taiyo Pharma Tech Co., Ltd.
	Managing Executive Officer	Keiichi Kobayashi	CEO, Funlead Corp Supervisor/auditor, Taiyo Pharma Co., Ltd.
	Managing Executive Officer	Hidekazu Miyabe	President and Representative Director, Taiyo Fine Chemicals Co., Ltd.
	Executive Officer	Fumihiko Kojin	President and Representative Director, Taiyo Green Energy Co., Ltd.
	Executive Officer	Sayaka Tomioka	General Manager, Corporate Planning Department, Taiyo Holdings Co., Ltd.
	Executive Officer	Kazuyuki Nishikawa	Director and President, Taiwan Taiyo Ink Co., Ltd. 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 Hyunki	President and COO, Taiyo Ink Mfg. Co., (Korea) Ltd.
	Executive Officer	Cho Kyunsu	President and COO, Taiyo Ink Products Co., Ltd.
	Executive Officer	Yukiko Yoshino	Chief Branding Officer and General Manager, President Office, Taiyo Holdings Co., Ltd.
	Executive Officer	Koji Kurihara	General Director, Taiyo Ink Vietnam Co., Ltd.

- We have appointed one standby Audit and Supervisory Board member, pursuant to Article 329-3 of the Companies Act, who will serve as an Audit and 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	April 1997 Registered as an attorney at law (Daini Tokyo Bar Association) Ushijima & Associates (now Ushijima & Partners, Attorneys-at-Law) (Joined) January 2005 Ushijima & Partners, Attorneys-at-Law Partner	—

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

## 2) Outside board members

We have four outside directors and two Audit and 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., an outside director of Nippon Light Metal Holdings, and a director of Teachers Initiative. We have no special relationship with any of those organizations.
- Asako Aoyama (outside director)  
Asako Aoyama heads the Global Finance Division of NEC Corporation and serves as a temporary member of the Business Accounting Council. We have no special relationship with either organization.
- Yumiko Kamada  
Yumiko Kamada serves as representative director of One Global, as a part-time director of Lumine Co., Ltd., and as an outside director of The Michinoku Bank, Ltd.. We have no special relationship with any of those organizations.
- Hidenori Sugiura (outside Audit and Supervisory Board member)  
Hidenori Sugiura serves on the Audit and Supervisory Board of Taiyo Pharma Tech Co., Ltd.

We have no codified standards or policies for determining whether outside directors and outside Audit and 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 and 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 and 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

- Audit and Supervisory Board

Audit and 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 and 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 Audit and Supervisory Board 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 Audit and Supervisory Board has three members, two 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.

- During the period under review, the Audit and Supervisory Board met 10 times. The attendance of each member is reported below.

	Name	Total meetings held	Number of meetings attended
Full-time Audit and Supervisory Board Member (outside)	Akihito Sakai	10	10
Full-time Audit and Supervisory Board Member (outside)	Hidenori Sugiura	10	10
Audit and Supervisory Board Member	Masaru Oki	10	10

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 Audit and Supervisory Board.

3) Accounting auditor

a. Name of accounting auditor

PricewaterhouseCoopers Aarata LLC

b. Period of continuous auditing

2 years

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, nine persons who have passed the certified public accountant exam, and seven 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 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 board 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 consolidated fiscal year / reporting period before last: Deloitte Touche Tohmatsu LLC

Accounting auditor in previous consolidated 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 and 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 consolidated fiscal year (million yen)		Current consolidated 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)	96	–	94	–
Consolidated subsidiaries	20	–	32	–
Total	116	–	126	–



- 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 consolidated fiscal year (million yen)		Current consolidated 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	32	5	28	5
Total	32	5	28	5

The non-audit services for which consolidated subsidiaries paid ¥5 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.

Year under review

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 and 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

Upon the advice of the Compensation Advisory Committee, the Board of Directors, at a meeting held on February 5, 2021, determined the remuneration for each director as follows.

At a meeting held on June 19, 2021, the Board of Directors resolved to amend the policy for determining directors' remuneration. This resolution followed shareholder approval, at the 75th Ordinary General Shareholders Meeting (held on the same date), of a proposal to revise the system of share compensation as necessary to comply with the 2021 Amended Companies Act (this revision came into effect on March 1, 2021, and is formally known in English as the Act Partially Amending the Companies Act). The amended policy is described on in the section titled "amended allotment terms."

The purpose of the stock compensation package is to further motivate executive directors (meaning directors specified in Article 363-1 of the Companies Act) to contribute toward Taiyo Holdings' corporate value and to identify more closely with the interests of shareholders

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 stock compensation, and transfer-restricted stock compensation) as well as the methods and timing of payment, and how to allocate the compensation. 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. Additionally, 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.

The following table shows the classes of compensation for executive directors and how the compensation is calculated.

	Basic salary	Performance-linked cash compensation	Performance-linked stock compensation	Transfer-restricted stock compensation
Purpose	–	Short term incentive	Medium-term incentive	Long-term incentive
Class of compensation	Monetary	Monetary	Share-based	Share-based
Recipients	Executive directors (see Note 1) Non-executive directors Audit and Supervisory Board members	Executive directors (see Note 1)	Executive directors (see Note 1)	Executive directors (see Note 1)

Description	Monthly salaries are paid in cash	We determine the total amount based on profit attributable to owners of parent as of the relevant fiscal year. We then determine the amounts for each recipient according to their officer status and pay these amounts in cash.	We determine the total amount of performance-linked stock compensation based on profit attributable to owners of parent as of the relevant fiscal year. We then determine the amounts for each recipient according to their officer status and pay these amounts in cash as paid-in capital for their allotted common shares.	Recipients receive monetary claims commensurate with the rank they served during the eligibility period. They undertake to exchange these monetary claims for their allotted shares of common stock.
Date approved by shareholders	Director salary: Jun 29, 2010 (64th AGM) A&SB member salary: Jun 28, 2011 (65th AGM)	Jun 20, 2014 (68th AGM)	Jun 21, 2017 (71st AGM)	Jun 21, 2017 (71st AGM)
Resolution	Director salary: Total monthly salary capped at ¥300 million. A&SB member salary: Total monthly salary capped at ¥5 million.	Executive directors receive performance-linked cash compensation capped at 1.6 percent of profit (see Note 2) for the relevant fiscal year.	Executive directors receive “performance-linked stock compensation” (monetary claims) capped at 3.4 percent of profit attributable to owners of parent for the relevant business term. The recipients are expected to exchange the entirety of their compensation for their allotted shares (provided by issuing additional stock or by reselling treasury stock).	Executive directors receive “restricted stock compensation” (monetary claims) capped at ¥300 million and exchange the claims for restricted stock.
Number of recipients (at close of AGM)	Directors: 6 A&SB members: 4 (3 of whom are outside members)	5	5	5
Amount, calculation of compensation other than performance-linked or nonmonetary compensation	Directors: Directors receive a monthly salary commensurate with their rank. A&SB members: The members negotiate a salary.	–	–	–
Performance metric or formula used for performance-linked compensation	–	See Note 3	See Note 4	–

Form/amount of, formula used for nonmonetary compensation	–	–	See Note 4	See Note 5
Reason for using profit attributable to owners of parent as metric	–	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). We consider this metric reasonable in that it encourages executive directors to identify with the interests of shareholders. The amounts of both performance-linked cash compensation and performance-linked stock 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.		–
Formula for determining breakdown of recipient's 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. Stock compensation: For the restricted stock component, the amount of shares allocated is fixed according to the recipient's rank, ensuring that the level of compensation paid remains stable and thus provides a long-term incentive. The performance-linked component is variable and could, depending on performance, come to zero. The system is designed so that the ratio of performance-linked shares to restricted stock increases as the company grows. The idea is that higher-ranked directors will receive a relatively larger portion of stock based compensation.			
When compensation is paid, payment terms	Paid monthly	Paid within 1 month from AGM	Paid within 1 month from AGM	Paid within 2 months from AGM in previous fiscal year (payment period)
How each recipient's amount is determined	Respecting the findings of the Compensation Advisory Committee, the Board of Directors determines the compensation, within the scope approved by shareholders and in accordance with the committee's findings. The board considers the Compensation Advisory Committee advice with regard to the formulas for calculating the performance-linked cash compensation and performance-linked stock compensation. The compensation is designed to encourage executive directors to identify more closely with the interests of shareholders and to motivate them to contribute toward Taiyo Holdings' corporate value.			

- Notes
1. "Executive directors" refers to directors who are *gyōmu shikkō yakuin* as defined in Article 69-9:1 of the Order for Enforcement of the Corporation Tax Act.
  2. In the 70th business term, we renamed "profit" (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.
  3. Performance-linked cash compensation
    - i) Overview

In determining the formula for calculating the amounts, we aim for a formula that encourages executive directors to identify more closely with the interests of shareholders and to motivate them to contribute toward Taiyo Holdings' corporate value. On this basis, 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.

ii) Calculation method

The total amount is 1.6% of profit attributable to owners of parent.

- This amount must be within what the Board of Directors determines to be the cap, or “defined amount” (as used in this document, “defined amount” is as defined in Article 34-1-3-a(1) of the Corporation Tax Act).
- 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.

iii) Eligible officers

The compensation is only for executive directors (and not, therefore, for non-executive directors or Audit and Supervisory Board members).

iv) Allocating among the recipients

We assign points to each executive director according to their officer status. We multiply the total performance-linked stock 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 points to be allocated for each officer status is determined annually by the Board of Directors based on the advice of the Compensation Advisory Committee, which considers the number of persons in and the duties associated with each officer status. 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 (the period beginning on the day of the Ordinary Shareholders’ Meeting pertaining to the fiscal year two fiscal years prior to the one in which the payment occurs, and ending on the day before the Ordinary Shareholders’ Meeting pertaining to the fiscal year preceding said year). 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.

4. Performance-linked stock compensation

i) Overview

In determining the formula for calculating the amounts, we aim for a formula that encourages executive directors to identify more closely with the interests of shareholders and to motivate them to contribute toward Taiyo Holdings’ corporate value. On this basis, we determine the total amount of performance-linked stock 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 cash, which the recipients exchange for their allotted shares of common stock. 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, excluded from performance cash are all income tax, resident tax, and other taxes levied on the performance cash, all social security premiums connected with the performance cash, all payment handling fees, and any fractional portion (the rounded off portion).

Performance cash is contingent on the following: (1) The executive directors undertake to exchange the entirety of their performance cash for their allotted shares, and (2) the executive directors sign an agreement with Taiyo Holdings concerning the performance-linked stock (the Performance-linked Stock Agreement).

However, it is possible that a law or judicial judgment prevents Taiyo Holdings from allotting the common shares to the executive directors in accordance with their performance-linked stock compensation. In such case, the recipients will receive their performance-linked stock compensation in cash only (without exchanging this cash for common shares). Taiyo Holdings will also pay cash, as opposed to shares, for any portion of the compensation that exceeds the Performance Share Cap or the Holdings Cap (these caps are defined in Note 6: Allotment terms).

Furthermore, if an executive director transfers his/her right to receive performance-linked stock compensation to his/her heir as part of an inheritance process, the heir will receive the compensation in cash only.

#### Performance-linked Stock Agreement

- a) The common shares we allot pursuant to this agreement (the “Allotted Shares”) are subject to “Transfer Restrictions”—meaning that recipients cannot transfer, hypothecate, or otherwise dispose of them for 3 years following the date they purchased them (the “Transfer-restricted Period”).
- 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.

#### ii) Calculation method

The total amount is 3.4% of profit attributable to owners of parent.

- This amount must be within the defined amount determined by the Board of Directors
- 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.

#### iii) Eligible officers

The compensation is only for executive directors (and not, therefore, for non-executive/outside directors or Audit and Supervisory Board members.

#### iv) Allocating among the recipients

We assign points to each executive director according to their officer status. We multiply the total performance-linked stock 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 points to be allocated for each officer status is determined annually by the Board of Directors based on the advice of the Compensation Advisory Committee, which considers the number of persons in and the duties associated with each officer status. 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 (the period beginning on the day of the Ordinary Shareholders’ Meeting pertaining to the fiscal year two fiscal years prior to the one in which the payment occurs, and ending on the day before the Ordinary Shareholders’ Meeting pertaining to the fiscal year preceding said year). 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.

#### 5. Transfer-restricted stock compensation

The maximum amount of the compensation is ¥300 million. In determining the formula for calculating the amounts, we aim for a formula that encourages recipients to identify with the interests of shareholders and incentivizes them to contribute toward the company’s success over the medium to long term. On this basis, 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 pertaining to the year preceding the year of payment, and before the day before the Ordinary General Shareholders’ Meeting pertaining to 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.

- (1) The executive directors undertake to exchange the entirety of the monetary claims they receive for the allotted common shares.
- (2) The executive directors sign an agreement with Taiyo Holdings concerning the allotment of transfer-restricted stock (the Transfer-restricted Stock Allotment Agreement).
- (3) Executive directors remain incumbent as of the time immediately before the date they purchase the transfer-restricted stock.
- (4) There are no grounds for Taiyo Holdings to cancel the allotment (such as an order to revoke or cease).

#### Transfer-restricted Stock Compensation Agreement

- a) The common shares we allot pursuant to this agreement (the “Allotted Shares”) are subject to “Transfer Restrictions”—meaning that recipients cannot transfer, hypothecate, or otherwise dispose of them for 10 years following the date they purchased them (the “Transfer-restricted Period”).
- b) We will lift the Transfer Restrictions on the entirety of the Allotted Shares after the Transfer-restricted Period, provided that the recipients remained incumbent as an executive director throughout the Transfer-restricted Period (if they die during this period, we will adjust the period accordingly). However, if they leave office (leave the company or lose their status as executive officer) during the Transfer-restricted Period, we will acquire a portion of their Allotted Shares. In such case, we will define the number of their Allotted Shares whose Transfer Restrictions would be lifted in the future. This number will be based on the days they remained in office following the date they 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 they 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 if
    - Taiyo Holdings’ controlling shareholders change.

If any of the above events occur, we will acquire a portion of the recipients’ 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 the recipients 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.

#### 6. Allotment terms for transfer-restricted and performance-linked stock compensation

We have adopted the following four allotment terms for both transfer-restricted and performance-linked stock compensation. However, please note the following differences between the two plans:

Transfer-restricted stock 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 stock 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 pertaining to the year occurring two years prior to the year of payment, and ending the day before the Ordinary General Shareholders’ Meeting pertaining to the year preceding the year of payment

Allotment terms

- a) 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 total amount of shares we allot to eligible directors 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 stock compensation plan before we determine the amount for performance-linked stock 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.
7. At a meeting held on June 19, 2021, the Board of Directors resolved to amend the policy for determining directors' remuneration as shown below. This resolution followed shareholder approval, at the 75th Ordinary General Shareholders Meeting (held on the same date), of a proposal to revise the system of share compensation as necessary to comply with the 2019 Amended Companies Act.

#### Amended policy

The amounts of compensation remain unchanged; what has changed is the cap on the number of shares that can be allotted under the share compensation system (this change is necessary to comply with the 2019 Amended Companies Act). Most crucially, the cap on shares to be allotted for transfer-restricted stock compensation is now 40,000, while the cap on shares to be allotted for performance-linked stock compensation is now 100,000. Following this amendment, the allotment terms are amended as follows.

#### Amended allotment terms

- a) The maximum number of transfer-restricted shares that can be allotted in any fiscal year (Restricted Share Cap”) is 40,000.
- b) The maximum number of performance-linked shares that can be allotted in any fiscal year (“Performance Share Cap”) is 100,000.
- c) However, the sum of (1) the total number of shares allotted for transfer-restricted and performance-linked compensation in a given fiscal year and (2) the total shares of common stock held by all executive directors eligible for the allotment (meaning persons who are executive officers at the time of the allotment) must be within 1,420,000 (“Holdings Cap”).
- d) The Restricted Share Cap, Performance Share Cap, and Holdings Cap may be adjusted proportionally, within reason, if Taiyo Holdings decides to undertake a stock split or reverse stock whose effective date is scheduled to fall after the date on which the cap will be adjusted, or if it otherwise becomes necessary to adjust the cap.
- e) Order of priority in determining the allocation amount  
We determine the amount of common shares to allocate for transfer-restricted stock compensation plan before we determine the amount for performance-linked stock compensation.
- f) The Board of Directors determines the amount that executive directors pay in for each common share allotted to them under the transfer-restricted or performance-linked stock compensation plan. Generally, the amount will be the closing price that the common stock fetches on the TSE as of the business day preceding the resolution date (the date on which the Board of Directors resolves the terms and conditions for applying to receive the common shares) or, if no trading is reported on that day, the day before that. The amount must always



remain within a range that gives no artificial advantage to the executive directors receiving the common shares.

It remains the case that we will also pay cash, as opposed to shares, for any portion of the performance-linked stock compensation that exceeds the cap (defined amount of common stock that may be allotted under either component of the share compensation system). The only difference is in wording: The caps for the performance-linked stock component, insofar as this component is paid in cash, are now expressed (in English) as the Performance Share Cap or the Holdings Cap.

For the reasons stated below, the Board of Directors is satisfied that the directors' compensation for the 75th fiscal year (the most recent) is consistent with the above policy on directors' compensation.

#### Basic salary

- The salary for each rank is as determined by the Board of Directors.

#### Performance-linked cash and stock compensation

- This compensation has been calculated according to the Board's approved formula and rank-specific point system, from the ¥9,529 million in profit attributable to owners of parent in the most recent fiscal year.

#### Transfer-restricted stock compensation

- The monetary claims for each rank are as determined by the Board of Directors.

#### Performance-linked Stock Agreement and Transfer-restricted Stock Compensation Agreement

- The directors have signed an agreement with the Company concerning both components. This agreement stipulates, among other things, the amount of compensation for each director.

#### Allotment terms

- The amount of common shares issued under both components exceed neither the Performance Share Cap, Restricted Share Cap, nor Holdings Cap.
- The price paid for each share, ¥4,970, is the closing price of the common stock on TSE as of June 30, 2020, the day preceding the date on which the Board resolved to issue additional stock for the two compensation components.

For FYE March 2022 (the 76th fiscal term), the defined amounts (see Note 4: ii) and rank-specific points (see Note 4: iv) for performance-linked cash and stock compensation (see Notes 3 and 4) will be as shown in the table below. These calculations are accurate as of June 19, 2021, the same date when they were approved by the Board of Directors.

	Performance-linked cash compensation	Performance-linked stock compensation																												
Defined amount (cap)	265,600,000 million yen	564,400,000 million yen																												
Rank-specific points	<table border="1"> <thead> <tr> <th>Officer status</th> <th>Points</th> </tr> </thead> <tbody> <tr> <td>Chairman of the Board</td> <td>101</td> </tr> <tr> <td>President and CEO</td> <td>169</td> </tr> <tr> <td>Deputy President</td> <td>108</td> </tr> <tr> <td>Senior Managing Director</td> <td>101</td> </tr> <tr> <td>Managing Director</td> <td>78</td> </tr> <tr> <td>Director</td> <td>66</td> </tr> </tbody> </table>	Officer status	Points	Chairman of the Board	101	President and CEO	169	Deputy President	108	Senior Managing Director	101	Managing Director	78	Director	66	<table border="1"> <thead> <tr> <th>Officer status</th> <th>Points</th> </tr> </thead> <tbody> <tr> <td>Chairman of the Board</td> <td>36</td> </tr> <tr> <td>President and CEO</td> <td>120</td> </tr> <tr> <td>Deputy President</td> <td>48</td> </tr> <tr> <td>Senior Managing Director</td> <td>36</td> </tr> <tr> <td>Managing Director</td> <td>24</td> </tr> <tr> <td>Director</td> <td>12</td> </tr> </tbody> </table>	Officer status	Points	Chairman of the Board	36	President and CEO	120	Deputy President	48	Senior Managing Director	36	Managing Director	24	Director	12
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(Note) amounts are rounded down to the nearest yen, with the difference added to the President and CEO's compensation.

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 stock compensation	Transfer-restricted stock compensation	Retirement bonus	
Director (excluding outside directors)	660	90	152	323	92	–	6
Audit and Supervisory Board members (excluding outside members)	6	6	–	–	–	–	1
Outside officer	80	80	–	–	–	–	8

- (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 stock 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 Officer compensation	Performance-linked cash compensation	Performance-linked stock compensation	Transfer-restricted stock compensation	Retirement bonus
Eiji Sato	445	Director	Filing company (Taiyo Holdings Co., Ltd.)	43	85	269	44	–
		Director	Taiyo Ink Mfg. Co., Ltd.	1	–	–	–	–

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

4) Targeted and actual performance-linked compensation and form of nonmonetary compensation in most recent fiscal year

	Target	Actual
Profit attributable to owners of parent (million)	6,400 million yen	9,529 million yen

(Note) The targeted figure represents the forecast for profit attributable to owners of parent made at the time of the consolidated forecasts for FYE March 2021 (75th fiscal term), which were disclosed in the financial results digest for FYE March 2020, released on May 18, 2020. The forecast was subsequently revised as shown below.

Release date	Title of released statement	Revised forecast for profit attributable to owners of parent
September 28, 2020	Notice regarding revision of the first half and full year earnings forecast for the fiscal year ending March 2021	7,500 million yen
February 5, 2021	Notice regarding revision of full year earnings forecast for the fiscal year ending March 2021	9,000 million yen

The forecast for FYE March 2022 (76th fiscal term) is ¥8,300 million (as disclosed in the financial results digest for FYE March 2021, released April 30, 2021). The following table shows amounts we would provide in performance-linked cash compensation and performance-linked stock compensation for the 76th fiscal term under five hypothetical scenarios.

Profit attributable to owners of parent (million yen)		0	4,150	8,300	12,450	16,600
Performance-linked cash compensation	President and CEO	–	37	74	111	149
	Director (2)	–	29	58	87	116
	Total	–	66	132	199	265
Performance-linked stock compensation	President and CEO	–	117	235	352	470
	Director (2)	–	23	47	70	94
	Total	–	141	282	423	564

The nonmonetary compensation paid in FYE March 2021 (75th fiscal term) consists of performance-linked stocks and transfer-restricted stocks (pay-in date: July 16, 2020; amount paid in per share: ¥4,970) as described below. This compensation was approved by the Board of Directors at a meeting on July 1, 2020.

#### Performance-linked stock compensation

Recipients, amount:

Three incumbent executive directors: 9,800 shares

Two former executive directors: 2,300 shares

Performance-linked Stock Agreement

a) Period of agreement: July 16, 2020, to July 15, 2023

b) Time when restrictions are lifted

Restrictions on the allotted shares (as used in this section, “allotted shares” means the common shares allotted pursuant to this agreement) will be lifted in their entirety once the restriction period elapses (the period may be adjusted at the shareholder’s request if an inheritance process concerning the shareholder has commenced).

c) Share custody

To prevent the allotted shares from being transferred, hypothecated, or otherwise disposed of during the restriction period, the allotted shares will be held in trust in a brokerage account. To ensure the effectiveness of the restrictions on the allotted shares, Taiyo Holdings will sign a memorandum of understanding with the executive directors concerning the brokerage account for the allotted shares they hold.

d) Provision for corporate reorganization or change in corporate control

Taiyo Holdings reserves the right to lift the restrictions on the entirety of the allotted shares by resolution of the Board of Directors if (1) the shareholders approve a corporate reorganization (or the Board of Directors does so, if shareholder approval is unnecessary), such as a merger in which Taiyo Holdings becomes a non-surviving company or a share exchange agreement or a share transfer plan under which Taiyo Holdings becomes a wholly-owned subsidiary of another company, or (2) a change in corporate control over Taiyo Holdings occurs. For (1), the restrictions will be canceled immediately before the business day preceding the effective date of the corporate reorganization. For (2), they will be canceled on the day on which the change in corporate control occurs.

#### Transfer-restricted stock compensation

Recipients, amount:

Three executive directors: 16,755 shares

Transfer-restricted Stock Allotment Agreement

a) Period of agreement: July 16, 2020, to July 15, 2030

b) Condition for lifting restrictions

The stock is no longer restricted and is fully transferable once the following condition is met: The restriction period for the executive director’s allotted shares (as used in this section, “allotted shares” means the entirety the shares of Taiyo Holdings’ common stock to be allotted to the executive director under the Transfer-restricted Stock Compensation Agreement) has elapsed (the restriction period may be adjusted if the executive director dies in office) and the executive director remained incumbent throughout the eligibility period (as used in this section, “eligibility period” means the period in which the executive directors are eligible for transfer-restricted stock compensation, the period lasting from the day of the 74th Ordinary General Shareholders Meeting to the day before the 75th Ordinary General Shareholders Meeting).

c) Provision for cases where executive directors retire during the eligibility period

If an executive director leaves office (or otherwise loses his/her status as executive officer), Taiyo Holdings will immediately reacquire, as a matter of course and for no consideration, the portion of the allotted shares for which restrictions still apply as per the previous paragraph. This portion is the number of allotted shares that remains after subtracting the number of allotted shares that have become fully transferable. The latter number is the product (rounding down to the nearest whole number) of (1) the number of allotted shares the executive director holds at the time

he/she retired and (2) one twelfth of the number of elapsed months starting from the month following the month in which the 74th Ordinary General Shareholders Meeting was held and lasting until the month in which the executive director retires.

d) Reacquisition for no consideration

Notwithstanding the previous paragraph, after the restriction period has elapsed, Taiyo Holdings reserves the right to reacquire, as a matter of course and for no consideration, allotted shares that remain restricted.

e) Share custody

To prevent the allotted shares from being transferred, hypothecated, or otherwise disposed of during the restriction period, the allotted shares will be held in trust during the period. Nomura Securities will act as custodian of the allotted shares and hold the shares in a dedicated account for the benefit of the executive directors. To ensure the effectiveness of the restrictions on the allotted shares, Taiyo Holdings will sign an agreement with Nomura Securities concerning the brokerage account for the allotted shares. The executive directors must agree to have their allotted shares held in the account.

f) Provision for corporate reorganization or change in corporate control

Taiyo Holdings reserves the right to cancel the restrictions on the allotted shares by resolution of the Board of Directors if (1) the Ordinary General Shareholders Meeting approves a corporate reorganization (or the Board of Directors does so, if shareholder approval is unnecessary), such as a merger in which Taiyo Holdings becomes a non-surviving company or a share exchange agreement or a share transfer plan under which Taiyo Holdings becomes a wholly-owned subsidiary of another company, or (2) a change in corporate control over Taiyo Holdings occurs. For (1), the restrictions will be canceled immediately before the business day preceding the effective date of the corporate reorganization. For (2), they will be canceled on the day on which the change in corporate control occurs. If either event occurs during the eligibility period, Taiyo Holdings will immediately reacquire, as a matter of course and for no consideration, the portion of the allotted shares for which restrictions still apply. This portion is the number of allotted shares that remains after subtracting the number of allotted shares that have become fully transferable. The latter number is the product (rounding down to the nearest whole number) of (1) the number of allotted shares the executive director holds at the time and (2) one twelfth of the number of elapsed months starting from the month following the month in which the 74th Ordinary General Shareholders Meeting was held and lasting until the month in which the event occurs.

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 (total/individual 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).

More specifically, each year, the committee members check compensation benchmarks among companies similar to ours (in terms of scale and categories of business) using market data on executive compensation. 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 stock 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 five times during the period under review. During these meetings, the members reviewed director compensation, including the formulas for calculating performance-linked cash compensation and performance-linked stock compensation, for which they referred to the market data. The committee also considered how the compensation system should be updated to comply with the 2019 Amended Companies Act. It 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 stock compensation.
- In view of the committee's findings, the Board of Directors is satisfied that the directors' compensation for the most recent fiscal year is consistent with the company's policy on directors' compensation.
- Guided by the committee's findings, the board resolved to update the director compensation system as necessary to comply with the 2019 Amended Companies Act.

(5) Shareholdings

1) Criteria for categorizing investments

We classify equity securities in which we invest as “held purely for the purpose of investment” 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 “other purposes” 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 / securities held purely for the purpose of investment

	Year under review		Previous fiscal year	
	Number of company stocks in which shares are held	Total carrying value (million yen)	Number of company stocks in which shares are held	Total carrying value (million yen)
Unlisted shares	6	599	6	599
Other shares	8	1,256	8	959

	Year under review		
	Total dividend income (million yen)	Gain (loss) on sale (million yen)	Appraisal gain (loss) (million yen)
Unlisted shares	–	–	–
Other shares	22	–	272

(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 “held purely for the purpose of investment” that became those held for “other purposes” during the current fiscal term

None.

- 5) Equity securities held for “other purposes” that became those “held purely for the purpose of investment” 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 Non-Consolidated Financial Statements, etc.

### 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, other consolidated financial information

(1) Consolidated financial statements

1) Consolidated balance sheet [Unaudited]

(million yen)

	As of March 31, 2020	As of March 31, 2021
<b>Assets</b>		
Current assets		
Cash and deposits	29,191	54,705
Notes and accounts receivable-trade	19,513	22,527
Merchandise and finished goods	4,912	6,621
Work in process	1,839	1,530
Raw materials and supplies	4,656	5,297
Other	2,353	2,332
Allowance for doubtful accounts	(86)	(77)
Total current assets	62,380	92,937
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	* <sub>1</sub> 16,555	* <sub>1</sub> 16,458
Machinery, equipment and vehicles, net	12,057	11,131
Tools, furniture and fixtures, net	* <sub>1</sub> 1,274	* <sub>1</sub> 1,332
Land	11,814	11,827
Construction in progress	2,762	4,464
Other	296	1,134
Total property, plant and equipment	* <sub>2</sub> 44,761	* <sub>2</sub> 46,348
Intangible assets		
Goodwill	6,846	6,404
Sales rights	15,216	19,508
Customer-related assets	6,904	6,428
Other	1,801	2,608
Total intangible assets	30,769	34,949
Investments and other assets		
Investment securities	2,420	2,766
Shares of subsidiaries and associates	281	166
Deferred tax assets	196	272
Retirement benefit asset	314	305
Other	1,218	1,427
Allowance for doubtful accounts	(150)	(171)
Total investments and other assets	4,280	4,765
Total non-current assets	79,811	86,063
Total assets	142,192	179,001

(million yen)

	As of March 31, 2020	As of March 31, 2021
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	7,231	7,907
Short-term borrowings	* <sub>3</sub> 5,168	* <sub>3</sub> 10,494
Current portion of long-term borrowings	5,725	11,391
Accounts payable - other	3,596	3,936
Income taxes payable	874	1,434
Provision for bonuses	801	907
Other provisions	72	139
Other	1,270	1,894
<b>Total current liabilities</b>	<b>24,740</b>	<b>38,107</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	1,959	2,862
Long-term borrowings	44,818	59,333
Retirement benefit liability	193	150
Other provisions	67	87
Asset retirement obligations	715	853
Other	174	1,110
<b>Total non-current liabilities</b>	<b>47,928</b>	<b>64,397</b>
<b>Total liabilities</b>	<b>72,668</b>	<b>102,504</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	9,428	9,499
Capital surplus	14,913	14,985
Retained earnings	47,260	53,065
Treasury shares	(1,950)	(3,365)
<b>Total shareholders' equity</b>	<b>69,651</b>	<b>74,184</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	8	203
Foreign currency translation adjustment	(444)	1,751
Remeasurements of defined benefit plans	7	(0)
<b>Total accumulated other comprehensive income</b>	<b>(429)</b>	<b>1,954</b>
<b>Non-controlling interests</b>	<b>301</b>	<b>357</b>
<b>Total net assets</b>	<b>69,523</b>	<b>76,497</b>
<b>Total liabilities and net assets</b>	<b>142,192</b>	<b>179,001</b>

2) Consolidated statement of income and consolidated statement of comprehensive income  
Consolidated statement of income [Unaudited]

(million yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net sales	70,627	80,991
Cost of sales	* <sub>2</sub> 41,574	* <sub>2</sub> 46,125
Gross profit	29,053	34,865
Selling, general and administrative expenses	* <sub>1</sub> , * <sub>2</sub> 19,917	* <sub>1</sub> , * <sub>2</sub> 20,922
Operating income	9,136	13,943
Non-operating income		
Interest income	57	47
Dividend income	25	25
Subsidy income	44	74
Outsourcing service income	7	41
Gain on investments in investment partnerships	–	43
Other	106	160
Total non-operating income	240	393
Non-operating expenses		
Interest expenses	226	228
Commission expenses	32	10
Loss on retirement of non-current assets	75	90
Foreign exchange losses	108	118
Loss on investments in investment partnerships	7	–
Other	29	70
Total non-operating expenses	478	517
Ordinary profit	8,898	13,819
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	14	246
Impairment loss	* <sub>3</sub> 3,540	* <sub>3</sub> 199
Other	82	–
Total extraordinary losses	3,636	445
Profit before income taxes	5,261	13,374
Income taxes - current	2,425	3,031
Income taxes - deferred	(970)	745
Total income taxes	1,455	3,777
Profit	3,806	9,597
Profit attributable to non-controlling interests	56	67
Profit attributable to owners of parent	3,749	9,529

## Consolidated statement of comprehensive income [Unaudited]

(million yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit	3,806	9,597
Other comprehensive income		
Valuation difference on available-for-sale securities	(86)	195
Foreign currency translation adjustment	(1,205)	2,227
Remeasurements of defined benefit plans, net of tax	(14)	(7)
Total other comprehensive income	(1,306)	2,414
Comprehensive income	2,499	12,012
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,474	11,913
Comprehensive income attributable to non-controlling interests	25	98

3) Consolidated statement of changes in equity [Unaudited]

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 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 in items other than shareholders' equity					
Total changes 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 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 in items other than shareholders' equity	(86)	(1,175)	(14)	(1,275)	(36)	(1,312)
Total changes during period	(86)	(1,175)	(14)	(1,275)	(36)	(996)
Balance at end of period	8	(444)	7	(429)	301	69,523

Fiscal year ended March 31, 2021

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	9,428	14,913	47,260	(1,950)	69,651
Changes during period					
Dividends of surplus			(3,724)		(3,724)
Profit attributable to owners of parent			9,529		9,529
Issuance of new shares	71	71			143
Purchase of treasury shares				(1,500)	(1,500)
Disposal of treasury shares				85	85
Net changes in items other than shareholders' equity					
Total changes during period	71	71	5,804	(1,415)	4,533
Balance at end of period	9,499	14,985	53,065	(3,365)	74,184

	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	8	(444)	7	(429)	301	69,523
Changes during period						
Dividends of surplus						(3,724)
Profit attributable to owners of parent						9,529
Issuance of new shares						143
Purchase of treasury shares						(1,500)
Disposal of treasury shares						85
Net changes in items other than shareholders' equity	195	2,196	(7)	2,384	56	2,440
Total changes during period	195	2,196	(7)	2,384	56	6,973
Balance at end of period	203	1,751	(0)	1,954	357	76,497

## 4) Consolidated statement of cash flows [Unaudited]

(million yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities		
Profit before income taxes	5,261	13,374
Depreciation	5,283	6,994
Impairment loss	3,540	199
Amortization of goodwill	355	483
Commission expenses	32	10
Loss on valuation of shares of subsidiaries and associates	14	246
Loss (gain) on investments in investment partnerships	7	(43)
Loss on retirement of non-current assets	75	90
Subsidy income	–	(45)
Decrease (increase) in retirement benefit asset	(8)	1
Increase (decrease) in retirement benefit liability	75	(45)
Increase (decrease) in allowance for doubtful accounts	(33)	0
Increase (decrease) in provision for bonuses	303	100
Interest and dividend income	(83)	(72)
Interest expenses	226	228
Decrease (increase) in consumption taxes refund receivable	(409)	(764)
Decrease (increase) in trade receivables	(3,571)	(1,650)
Decrease (increase) in inventories	3,930	(1,679)
Increase (decrease) in trade payables	562	(67)
Other, net	670	856
Subtotal	16,231	18,211
Interest and dividends received	80	72
Interest paid	(222)	(229)
Income taxes paid	(2,349)	(1,742)
Net cash provided by (used in) operating activities	13,739	16,312
Cash flows from investing activities		
Payments into time deposits	(843)	(673)
Proceeds from withdrawal of time deposits	1,941	372
Purchase of property, plant and equipment	(7,571)	(4,080)
Purchase of intangible assets	(1,133)	(6,994)
Purchase of investment securities	(557)	(304)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	*2 (37,658)	–
Other, net	(88)	77
Net cash provided by (used in) investing activities	(45,912)	(11,603)



(million yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,269	5,030
Proceeds from long-term borrowings	40,117	28,795
Repayments of long-term borrowings	(5,902)	(8,658)
Purchase of treasury shares	(0)	(1,510)
Dividends paid	(3,718)	(3,724)
Dividends paid to non-controlling interests	(61)	(41)
Proceeds from issuance of shares	70	60
Other, net	(181)	(195)
Net cash provided by (used in) financing activities	31,593	19,755
Effect of exchange rate change on cash and cash equivalents	(406)	730
Net increase (decrease) in cash and cash equivalents	(985)	25,194
Cash and cash equivalents at beginning of period	30,101	29,115
Cash and cash equivalents at end of period	*1 29,115	*1 54,309

## Notes on consolidated financial statements

### Basic factors underlying our consolidated financial statement

#### 1. Scope of consolidation

##### (1) Major consolidated subsidiaries

We have 24 consolidated subsidiaries.

The names of these subsidiaries are shown in “Our associates.”

In the period under review, three companies were added to the scope of consolidation: Onstatic New Material (Jianxi) Co., Ltd., Taiyo Advanced Materials Co., Ltd., and Taiyo Ink Vietnam Co., Ltd. All three companies were newly established. Taiyo Advanced Materials was later liquidated and removed from the scope of consolidation.

##### (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 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., Onstatic Ink (Shenzhen) Co., Ltd., Onstatic New Material (Jianxi) Co., Ltd., and Pegasus Tech Ventures Company IV, L.P. have December 31 as their settlement date. In our consolidated financial statements, the financial information for the first four of these subsidiaries is based on a provisional settlement as of the consolidated settlement date. The financial information for Pegasus Tech Ventures Company IV, L.P. is based on the subsidiary's non-consolidated financial information.

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 is, at five years, shorter than the employees' average remaining service period.

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) Method and period for amortizing goodwill

Goodwill is amortized by the straight line method within a period of 20 years.

(7) 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.

(8) 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).

## Key accounting estimates

We disclosed in “Basic factors underlying our consolidated financial statement” the information that we use to determine whether to apply an accounting policy that could affect the amounts stated for accounting entries in the consolidated statements for the year under review. Disclosed below are the assumptions and sources of estimation uncertainty that could potentially incur major revisions in the next consolidated fiscal year.

### 1. Allowance for doubtful accounts

#### (1) Amounts reported on consolidated statements in year under review

	Year under review
Allowance for doubtful accounts: Current	(77 million yen)
Allowance for doubtful accounts: Non-current	(171 million yen)

#### (2) Basis for accounting estimate for recognized item

##### 1) Formula used to calculate book value for year under review

For general claims, we estimate the uncollectible amount based on historical uncollectible rate. For doubtful accounts and claims in bankruptcy, we do so on a case by case basis.

##### 2) Key assumptions underpinning amounts reported on consolidated balance sheet for year under review

For doubtful accounts and claims in bankruptcy, we assume that 50 to 100% of the amount is uncollectible.

##### 3) Impact on consolidated statements for next consolidated fiscal year

We might increase the reserve if we think that debtors will struggle to make repayments in view of financial difficulties they may be experiencing.

### 2. Loss on valuation of shares of subsidiaries and associates

#### (1) Amounts reported on consolidated statements in year under review

	Year under review
Loss on valuation of shares of subsidiaries and associates	246 million yen

#### (2) Basis for accounting estimate for recognized item

##### 1) Formula used to calculate book value in year under review

For non-available-for-sale securities, we will write the asset down to the extent of its recoverability if its value has declined by more than 50% of the acquisition price.

##### 2) Key assumptions underpinning amounts reported on consolidated balance sheet for year under review

We rely on the subsidiary/associate's performance forecasts.

##### 3) Impact on consolidated statements for next consolidated fiscal year

We may write the asset 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.

### 3. Deferred tax assets/liabilities

#### (1) Amounts reported on consolidated statements in year under review

	Year under review
Deferred tax assets	272 million yen
Deferred tax liabilities	2,862 million yen

#### (2) Basis for accounting estimate for recognized item

##### 1) Formula used to calculate book value in year under review

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.”

- 2) Key assumptions underpinning amounts reported on consolidated balance sheet for year under review  
Collectability is estimated based on future tax liability estimates and feasible tax planning.
- 3) Impact on consolidated statements for next consolidated fiscal year  
The amount of “income taxes – deferred” is liable to change if we need to revise the amount of deferred tax assets. Such a revision may occur if actual performance necessitates a revision in tax liability estimates (since these estimates depend on actual performance).

#### 4. Retirement benefit assets/liabilities

- (1) Amounts reported on consolidated statements in year under review

	Year under review
Retirement benefit asset	305 million yen
Retirement benefit liability	150 million yen

- (2) Basis for accounting estimate for recognized item

- 1) Formula used to calculate book value in year under review

We report net-defined benefit assets/liabilities and retirement benefit costs at their actuarial value.

- 2) Key assumptions underpinning amounts reported on consolidated balance sheet for year under review

Actuarial valuations are based on discount rate, expected long term rate of return, rate of salary increase, and employee turnover rate.

- 3) Impact on consolidated statements for next consolidated fiscal year

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.

#### 5. Impairment of non-current assets

- (1) Amounts reported on consolidated statements in year under review

	Year under review
Impairment loss	199 million yen

- (2) Basis for accounting estimate for recognized item

See Consolidated statement of income: \*3 Impairment loss.

#### 6. Sales rights

In accordance with the Pharma-Med Act, Taiyo Pharma holds sales rights for long-listed drugs.

- (1) Basis for accounting estimate for recognized item

	Year under review
Sales rights	19,508 million yen

- (2) Other referential information

- 1) Formula used to calculate book value in year under review

The appraisal of the sales rights during the year under review does not entail any impairment of the book value of the sales rights. There were no indications of impairment in the year under review. The sales rights are grouped separately and evaluated for indications of impairment according to the Revised Guidance on Accounting Standard for Impairment of Fixed Assets (ASBJ Guidance No.6). Several internal and external factors are considered when evaluating impairment, including the following:

- whether the sales activities associated with the sales right have consistently produced losses,
- whether the demand for the long-listed item has slumped; e.g., sales forecasts for the long-listed item have markedly declined, or there is a spate of returns
- whether there is a marked decline in the point value assigned to the item in the annual drug price ranges announced by the Ministry of Health, Labor and Welfare, and
- whether efforts to reduce sales costs are on track.

- 2) Key assumptions underpinning amounts reported on consolidated balance sheet for year under review
- Estimated sales volume  
The sales rights pertain to long-listed items, and the sales volume for these items depends on, among other things, the market for long-listed items and the emergence of generics.
  - Sales price  
Sales prices, including those for the future fiscal years, will be affected by any changes to the official drug price ranges announced by the Ministry of Health, Labor and Welfare.
  - Sales costs  
Sales costs depend on the outsourcing contract terms with the CMO and on the progress of the company's strategy for reducing the sales costs.
- 3) Impact on consolidated statements for next consolidated fiscal year
- Impairment could potentially be recognized in the future if it becomes necessary to change the assumptions in view of emerging economic trends.

## Changes in Accounting policies

Nothing to disclose.

## 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 26, 2021)

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

Accounting Standard for Revenue Recognition:

For our buy/sell transactions, we will now deem a sold product to have been consumed if there is no obligation to repurchase the sold product, and to not have been consumed if there is one.

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.

## Changes in presentation

### Statements of income

For the fiscal year under review, we created two new separate entries: “Outsourcing service income” and “Loss on valuation of shares of subsidiaries and associates.” We did so because these items had become more financially material. In the previous fiscal year, the former item was included in “Non-operating income: Other” while the latter was included in “Extraordinary losses: Other.” The consolidated statements for the previous year have been retroactively adjusted accordingly.

Specifically, the pre-adjusted consolidated statements for the previous fiscal year stated ¥113 million in “Non-operating income: Other”; this is now state ¥7 million in “Outsourcing service income” and ¥106 million in “Non-operating income: Other.” Additionally, the pre-adjusted version stated ¥96 million in “Extraordinary losses: Other”; this is now ¥14 million in “Loss on valuation of shares of subsidiaries and associates” and ¥82 million in “Extraordinary losses: Other.”

### Consolidated statement of cash flows

For the fiscal year under review, we created two new separate entries: “Loss on valuation of shares of subsidiaries and associates” and “Loss on retirement of non-current assets.” We did so because these items had become more financially material. In the previous fiscal year, both items were included in “Cash flows from operating activities: Other.” The consolidated statements for the previous year have been retroactively adjusted accordingly.

Specifically, the pre-adjusted consolidated statements for the previous fiscal year stated ¥760 million in “Cash flows from operating activities: Other”; this is now ¥14 million in “Loss on valuation of shares of subsidiaries and associates,” ¥75 million in “Loss on retirement of non-current assets,” and ¥670 million in “Cash flows from operating activities: Other.”

### Application of accounting standards for disclosing accounting estimates

Accounting Standard for Disclosure of Accounting Estimates (ASBJ 31, March 31, 2020) has been applied to consolidated financial statements from the close of the year under review. See the notes for the section on key accounting estimates.

However, these notes omit the previous fiscal year. This omission is allowed under the transitional measures stipulated in the ASBJ statement (in the proviso for paragraph 11).

## 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 medium to 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 advance. 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 previous year, said stock consisted of 157,240 shares, with a carrying value of ¥571 million. In the year under review, it consists of 133,830 shares, with a carrying value of ¥487 million.

COVID-19 pandemic impact

In our accounting, we have assumed that the COVID-19 pandemic 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 Reduction entries

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

	Previous consolidated fiscal year (March 31, 2020) (million yen)	Current consolidated balance sheet (March 31, 2021) (million yen)
Buildings and structures:	2	1
Tools, furniture, and fixtures	0	0

\*2 Accumulated amortization

	Previous consolidated balance sheet (March 31, 2020) (million yen)	Current consolidated balance sheet (March 31, 2021) (million yen)
Accumulated amortization for property, plant and equipment	31,591	36,139

\*3 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, 2020) (million yen)	Current consolidated balance sheet (March 31, 2021) (million yen)
Overdraft limit	21,050	22,855
Used portion of overdraft	–	1,637
Overdraft remaining	21,050	¥21,218

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, 2019, to March 31, 2020) (million yen)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021) (million yen)
Salary	2,946	3,371
Provision for bonuses	349	401
Commissions paid	1,694	1,588
Depreciation	2,034	2,280
Exploratory R&D	3,223	3,152
Retirement allowance obligations	189	218
Outsourcing expenses	1,552	1,089

\*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, 2019, to March 31, 2020) (million yen)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021) (million yen)
	3,312	3,321

\*3 Impairment loss

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

Taiyo Group recorded impairment loss in the following asset.

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

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. The recoverable amounts for buildings and structures and for other assets were 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. (now Funlead 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.

Current fiscal year (April 1, 2020, to March 31, 2021)

We recorded impairment loss in the following assets.

Location	Purpose	Asset group	Impairment loss (million yen)
Taiyo Pharma Tech Co., Ltd. (Takatsuki-shi, Osaka)	Business use	Machinery, equipment, and other assets	199

Generally, assets are grouped by business unit.

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. The entire impairment loss, ¥199 million, pertained to machinery, equipment,

and other assets. The recoverable amount was defined as the net realizable value, which was equated with the disposal value.

Consolidated statement of comprehensive income

\* Reclassification adjustments and tax effects of other comprehensive income

(million yen)

	Previous consolidated fiscal year (April 1, 2019, to March 31, 2020)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021)
Valuation difference on available- for-sale securities:		
Occurring in current period	(125)	280
Reclassification adjustment	—	—
Before tax effect	(125)	280
Tax effect	39	(85)
Valuation difference on available-for-sale securities	(86)	195
Foreign currency translation adjustment:		
Occurring in current period	(1,205)	2,337
Reclassification adjustment	—	(110)
Foreign currency translation adjustment	(1,205)	2,227
Remeasurements of defined benefit plans, net of tax		
Occurring in current period	(6)	(4)
Reclassification adjustment	(13)	(5)
Before tax effect	(19)	(10)
Tax effect	4	2
Remeasurements of defined benefit plans, net of tax	(14)	(7)
Total other comprehensive income	(1,306)	2,414

Consolidated statement of changes in equity

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

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

Class	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 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
June 22, 2019 Ordinary General Shareholders' Meeting	Common shares	1,854	65.1	March 31, 2019	June 24, 2019
	Series II Class A shares	2	65.1	March 31, 2019	June 24, 2019
November 1, 2019 Board of Directors	Common shares	1,861	65.1	September 30, 2019	December 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 consolidated year under review 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
June 20, 2020 Ordinary General Shareholders' Meeting	Common shares	1,861	Capital surplus	65.1	March 31, 2020	June 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



Current consolidated fiscal year (April 1, 2020, to March 31, 2021)

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

	Beginning of fiscal year	Increase	Decrease	End of fiscal year
Outstanding shares				
Common shares *Note 1	28,969,647	28,855	–	28,998,502
Treasury shares				
Common shares *Notes 2, 3, 4	532,649	256,480	23,410	765,719

- (Notes)
1. The 28,855 increase in common shares occurred after we issued 28,855 additional shares in a third party allotment.
  2. The amounts for common treasury shares include the portion that we have entrusted to The Master Trust Bank of Japan, Ltd. for our ESOP (there were 157,240 such shares at the beginning of the fiscal year and 133,830 at the end).
  3. The 256,480 increase occurred after the Board of Directors authorized the reacquisition of 256,400 shares (as treasury stock) with fractional shares amounting to 80 shares.
  4. Common treasury shares decreased by 23,410 after we delivered 22,200 shares from the ESOP trust and disposed of 1,210 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
June 20, 2020 Ordinary General Shareholders' Meeting	Common shares	1,861	65.1	March 31, 2020	June 22, 2020
November 6, 2020 Board of Directors	Common shares	1,863	65.1	September 30, 2020	December 1, 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. Of the total dividend resolved at the meeting of the Board of Directors on November 6, 2020, ¥8 million pertains to such shares.

(2) Dividends with a reference date in the consolidated year under review 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
June 19, 2021 Ordinary General Shareholders' Meeting	Common shares	2,697	Capital surplus	95.1	March 31, 2021	June 21, 2021

- (Note) Of the total dividend resolved at the Ordinary General Shareholders' Meeting on June 19, 2021, ¥12 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, 2019, to March 31, 2020) (million yen)	Current fiscal year (April 1, 2020, to March 31, 2021) (million yen)
Cash and deposits	29,191	54,705
Time deposits exceeding 3 months	(75)	(395)
Cash and cash equivalents	29,115	54,309

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

Previous 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 yen)
Non-current assets	29,940	
Goodwill	6,447	
Current liabilities	(1,316)	
Non-current liabilities	(4,585)	
Share price	37,955	
Cash and cash equivalents	(297)	
Net expenditure on acquisition	37,657	

Lease transaction

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.

	Previous fiscal year (March 31, 2020) (million yen)	Current fiscal year (March 31, 2021) (million yen)
Due within one year	15	15
Due after one year	367	351
Total	383	367

## 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 to “Important methods of hedge accounting” 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 monitors 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 have the liquidity to 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 consolidated year under reviews. We have omitted financial instruments whose fair value we could not determine (see Note 2).

Previous 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 Allowance for doubtful accounts (*Note 1)	19,513 (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.

Current consolidated fiscal year (ended March 31, 2021)

	Consolidated carrying value (*Note 3) (million yen)	Fair value (*Note 3) (million yen)	Difference (million yen)
(1) Cash and deposits	54,705	54,705	–
(2) Notes and accounts receivable-trade Allowance for doubtful accounts (*Note 1)	22,527 (77)		
	22,450	22,450	–
(3) Investment securities Other securities	1,371	1,371	–
(4) Notes and accounts payable-trade	(7,907)	(7,907)	–
(5) Accounts payable-other	(3,936)	(3,936)	–
(6) Income taxes payable	(1,434)	(1,434)	–
(7) Short-term borrowings	(10,494)	(10,494)	–
(8) Long-term borrowings (including current portion of long-term borrowings)	(70,725)	(70,725)	0
Derivative transactions			
Transactions that do not qualify for hedge accounting	(31)	(31)	–
Transactions that qualify for hedge accounting	–	–	–
Total derivative transactions (*Note 2)	(31)	(31)	–

- (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.

## 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.

### 2. Financial instruments whose fair value we could not determine

(million yen)

	Previous consolidated fiscal year (ended March 31, 2020)	Current consolidated fiscal year (ended March 31, 2021)
Unlisted shares	599	599
Associate shares	281	166
Contributions to investment partnerships	768	795

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, 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	–

Current consolidated fiscal year (ended March 31, 2021)

	Due within one year (million yen)	Due between one and five years (million yen)
Cash and deposits	54,705	–
Notes and accounts receivable-trade	22,527	–

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

Previous 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

Current consolidated fiscal year (ended March 31, 2021)

	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	10,494	–	–	–	–	–
Long-term borrowings	11,391	15,393	7,864	25,680	5,470	4,925
Total	21,885	15,393	7,864	25,680	5,470	4,925

Securities

1. Other securities

Previous 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.

Current consolidated fiscal year (ended March 31, 2021)

	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	1,369	1,084	285
	(2) Other	–	–	–
	Subtotal	1,369	1,084	285
Securities whose consolidated carrying value does not exceed their acquisition price	(1) Shares	1	2	(1)
	(2) Other	–	–	–
	Subtotal	1	2	(1)
Total		1,371	1,087	283

(Note) The above data excludes the unlisted shares (consolidated carrying value: ¥599 million) and contributions to investment partnerships (consolidated carrying value: ¥795 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, 2019, to March 31, 2020)

Nothing to disclose.

Current consolidated fiscal year April 1, 2020, to March 31, 2021)

Nothing to disclose.



Derivative transactions

1. Transactions that do not qualify for hedge accounting

Currency-related

Previous 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)
	Yen 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.

Current consolidated fiscal year (ended March 31, 2021)

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	1,259	–	(29)	(27)
	Yen denominated purchases	8,208	–	(1)	(1)

(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, 2020)

Nothing to disclose.

Current consolidated fiscal year (ended March 31, 2021)

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, 2019, to March 31, 2020) (million yen)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021) (million yen)
Opening balance of retirement benefit obligations	2,146	2,246
Service cost	161	289
Interest cost	15	14
Actuarial differences	20	18
Retirement benefit payments	(98)	(111)
Increase associated with changing from simplified to principle method	–	61
Exchange differences	0	15
Closing balance of retirement benefit obligations	2,246	2,535

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

	Previous consolidated fiscal year (April 1, 2019, to March 31, 2020) (million yen)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021) (million yen)
Opening balance of pension assets	2,440	2,525
Expected rate of return	29	26
Actuarial differences	(2)	8
Employer's contribution	156	341
Retirement benefit payments	(98)	(111)
Exchange differences	0	13
Closing balance of pension assets	2,525	2,803

#### (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, 2020) (million yen)	Current consolidated fiscal year (ended March 31, 2021) (million yen)
Funded retirement benefit obligations	2,246	2,535
Pension assets	(2,525)	(2,803)
Asset (liability) reported on the consolidated balance sheet	(279)	(268)
Net defined benefit liability	34	37
Net-defined benefit asset	(314)	(305)

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Asset (liability) reported on the consolidated balance sheet	(279)	(268)
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(4) Breakdown of retirement benefit costs

	Previous consolidated fiscal year (April 1, 2019, to March 31, 2020) (million yen)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021) (million yen)
Service cost	161	289
Interest cost	15	14
Expected rate of return	(29)	(26)
Adjustment for actuarial differences	(25)	(9)
Retirement benefit cost for defined-benefit systems	121	268

(5) Remeasurements of defined benefit plans

The following table shows the breakdown of “remeasurements of defined benefit plans” (before tax effects).

	Previous consolidated fiscal year (April 1, 2019, to March 31, 2020) (million yen)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021) (million yen)
Actuarial differences	(19)	(10)
Total	(19)	(10)

(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, 2020) (million yen)	Current consolidated fiscal year (ended March 31, 2021) (million yen)
Unrecognized actuarial gain or loss	9	0
Total	9	0

(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, 2020)	Current consolidated fiscal year (ended March 31, 2021)
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, 2020)	Current consolidated fiscal year (ended March 31, 2021)
Discount rate	0.645%	0.603%

Expected long-term rate of return	1.0%	1.1%
Expected salary increase rate	11.68%	6.85%

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, 2019, to March 31, 2020) (million yen)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021) (million yen)
Opening balance of net defined benefit liability	91	158
Retirement benefit costs	8	16
Retirement benefit payments	–	(3)
Increase from new consolidations	58	–
Decrease associated with changing from simplified to principle method	–	(58)
Exchange differences	–	0
Closing balance of net defined benefit liability	158	113

(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, 2020)	Current consolidated fiscal year (ended March 31, 2021)
Non-funded retirement benefit obligations	158	113
Asset (liability) reported on the consolidated balance sheet	158	113
Net defined benefit liability	158	113
Asset (liability) reported on the consolidated balance sheet	158	113

(3) Retirement benefit costs

Retirement benefit costs determined using simplified accounting method

Previous consolidated fiscal year: ¥8 million

Current consolidated fiscal year: ¥16 million

4. Defined contribution plans

The contribution that we and some of our consolidated subsidiaries has made amounted to ¥174 million in the previous consolidated fiscal year, and ¥186 million in the consolidated year under review.

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, 2020) (million yen)	Current consolidated fiscal year (ended March 31, 2021) (million yen)
Deferred tax assets		
Net defined benefit liability	58	56
Deferred tax assets for unrealized gains	226	225
Denial of accrued employees' bonuses	234	263
Denial of accrued enterprise tax	130	112
Loss carried forward *3	328	442
Over depreciation	1,105	1,254
Asset adjustment account	2,481	1,930
Asset retirement obligations	214	260
Impairment loss	532	503
Other	378	651
Deferred tax assets subtotal	5,690	5,700
Valuation allowance for tax loss carried forward *3	(328)	(442)
Valuation allowance for total future tax consequences of temporary differences	(3,440)	(3,459)
Valuation allowance subtotal *2	(3,769)	(3,901)
Deferred tax assets total	1,920	1,799
Deferred tax liabilities		
Deferred tax liabilities for subsidiaries' retained earnings	1,187	1,630
Valuation difference on available-for-sale securities	12	96
Assets related to retirement benefit payments	95	101
Customer-related assets	2,155	2,006
Other	233	553
Deferred tax liabilities total	3,684	4,388
Net deferred tax liabilities *1	1,763	2,589

(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, 2020)	Current consolidated fiscal year (ended March 31, 2021)
Non-current assets - Deferred tax assets	196	272
Non-current liabilities - Deferred tax liabilities	1,959	2,862

2. There is no significant change in the valuation allowance.

3. Tax loss carried forward and deferred tax assets by carry-forward period

Previous 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)

\*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, 2021)

	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)	4	5	–	1	8
Valuation allowance	(4)	(5)	–	(1)	(8)
Deferred tax assets	–	–	–	–	–

	Between 5 and 6 years (million yen)	Between 6 and 8 years (million yen)	Between 8 and 9 years (million yen)	Between 9 and 10 years (million yen)	Total (million yen)
Tax loss carried forward (*1)	20	124	123	153	442
Valuation allowance	(20)	(124)	(123)	(153)	(442)
Deferred tax assets	–	–	–	–	(*2) –

\*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, 2020)	Current consolidated fiscal year (ended March 31, 2021)
Legally effective tax rate	30.62%	30.62%
(Adjusting entries)		
Tax rate differences with overseas subsidiaries	(14.85%)	(6.85%)
Tax rate differences associated with offset of dividend income	1.37%	0.30%
Tax adjustments for overseas subsidiaries' retained earnings	(1.64%)	3.29%
Tax rate differences associated with permanent differences such as social expenses	1.06%	0.50%
Differences on withholding tax on dividends not included in expenses	7.93%	1.49%
Tax adjustments for amortization of goodwill	1.62%	1.07%
Tax deductions for testing and research expenses	(4.83%)	(1.55%)
Valuation allowance	15.02%	(3.48%)
Other	(8.64%)	2.85%
Actual effective tax rate after applying tax effect accounting	<u>27.66%</u>	<u>28.24%</u>

Changes in presentation

“Corporation tax related to amended/updated returns,” an independent entry in the previous fiscal year, is included in “Other” in the fiscal year under review, as it is no longer financially material. The consolidated statements for the previous year have been retroactively adjusted accordingly.

Specifically, the pre-adjusted consolidated statements for the previous fiscal year stated “(4.15%)” for “Corporation tax related to amended/updated returns” and “(4.50%)” for “Other”; this is now “(8.64%)” for “Other.”

Asset retirement obligations

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

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

Current consolidated fiscal year (April 1, 2020, to March 31, 2021)

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, 2019, to March 31, 2020)

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

Current consolidated fiscal year (April 1, 2020, to March 31, 2021)

We have omitted to disclose the obligations 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 develop, 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, the two items wages and testing and research expenses were expensed at a company-wide level. Starting in the period under review, we now expense them 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, 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)	9,320	1,277	10,598	(263)	10,334
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.

Current consolidated fiscal year (April 1, 2020, to March 31, 2021)

(million yen)

	Reportable segment			Other (Note 1)	Total
	Electronics materials	Medical and pharmaceuticals	Total		
Net sales					
External sales	53,096	24,553	77,650	3,340	80,991
Inter-segment sales or transfers	–	–	–	147	147
Total	53,096	24,553	77,650	3,487	81,138
Segment	11,208	3,837	15,046	32	15,079
Segment assets	62,180	62,058	124,239	7,788	132,027
Other items					
Depreciation (Note 2)	1,718	4,402	6,120	380	6,501
Increase in property, plant and equipment, and intangible assets	3,415	8,122	11,537	417	11,955

- (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	67,100	77,650
“Other” net sales	3,637	3,487
Inter-segment eliminations	(110)	(147)
Net sales reported in consolidated statement of income	70,627	80,991

(million yen)

Profit	Previous consolidated fiscal year	Current consolidated fiscal year
Reportable segment total	10,598	15,046
“Other” profit (loss)	(263)	32
Inter-segment eliminations	(21)	(5)
Profit/loss not allocated to business segments (Note)	(1,176)	(1,130)
Operating income reported in consolidated statement of income	9,136	13,943

(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	109,401	124,239
“Other” net sales	8,149	7,788
Inter-segment eliminations	(101)	(121)
Assets not allocated to business segment (Note)	24,883	47,206
Tax effect conversion	(140)	(111)
Total assets reported in consolidated balance sheet	142,192	179,001

(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	4,475	6,120	337	380	470	492	5,283	6,994
Increase in property, plant and equipment, and intangible assets	17,156	11,537	2,727	417	667	1,168	20,552	13,124

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

## Related information

## I Previous 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., which belongs to the corporate group of Daiichi Sankyo Company, Limited.

## II Current consolidated fiscal year (April 1, 2020, to March 31, 2021)

## 1. Products and services

(million yen)

	Electronics Materials	Medical and Pharmaceuticals	Other	Total
Sales to external customers	53,096	24,553	3,340	80,991

## 2. Regional breakdowns

### (1) Net sales

(million yen)

Japan	China	Taiwan	Korea	Other	Total
32,877	26,259	6,863	10,443	4,546	80,991

(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
36,852	2,519	3,801	1,667	1,508	46,348

## 3. Major customers

(million yen)

Name	Net sales	Corresponding segment
Daiichi Sankyo Company, Limited (Note)	13,985	Medical and pharmaceuticals

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

## Impairment loss of non-current assets in each reportable segment

Previous 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.

Current consolidated fiscal year (April 1, 2020, to March 31, 2021)

(million yen)

	Reportable segment			Other	Corporate and elimination	Total
	Electronics materials	Medical and pharmaceuticals	Total			
Impairment loss	–	199	199	–	–	199

## Amortization of goodwill and unamortized balance in each reportable segment

Previous 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.

Current consolidated fiscal year (April 1, 2020, to March 31, 2021)

(million yen)

	Reportable segment			Other	Corporate and elimination	Total
	Electronics materials	Medical and pharmaceuticals	Total			
Opening balance	42	429	472	10	–	483
Closing balance	556	5,803	6,359	45	–	6,404

(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, 2019, to March 31, 2020)

Nothing to disclose.

Current consolidated fiscal year (April 1, 2020, to March 31, 2021)

Nothing to disclose.

## 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, 2019, to March 31, 2020)

Party	Name	Address	Equity (amount invested in company) (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 stock 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.

### Current consolidated fiscal year (April 1, 2020, to March 31, 2021)

Party	Name	Address	Equity (amount invested in company) (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) 0.57	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	84	-	-
	Eiji Takehara	-	-	Director (Taiyo Holdings Co., Ltd.)	(Directly held by the party) 0.12	We issued shares to the party in a third-party allotment	We issued shares to the party in a third-party allotment	23	-	-
	Hitoshi Saito	-	-	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	23	-	-

(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 stock compensation for the 74th 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, 2019, to March 31, 2020)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021)
Net assets per share (yen)	2,434.23	2,696.84
Basic earnings per share (yen)	131.99	334.97

- (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 157,240 such shares in the previous and 133,830 in the consolidated year under review).
  3. Basis for calculating basic earnings per share is shown below.

	Previous consolidated fiscal year (April 1, 2019, to March 31, 2020)	Current consolidated fiscal year (April 1, 2020, to March 31, 2021)
Profit attributable to owners of parent (million yen)	3,749	9,529
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)	3,749	9,529
Average amount of common shares (or the equivalent thereof) outstanding during term (Common shares) (Series II Class A shares)	28,410,957 (28,401,057) (9,900)	28,449,105 (28,449,105) (–)

- (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 165,137 such shares in the previous and 141,135 in the consolidated year under review).
  2. In calculating per share information, we included Series 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 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 cancelled upon reacquisition.



Material subsequent events

Nothing to disclose.

5) Consolidated supplementary schedules

Schedule of bonds payable

Nothing to disclose.

Schedule of loans payable

Debt of loan	Balance at beginning of current period (million yen)	Balance at end of current period (million yen)	Average interest rate (%)	Repayment period
Short-term borrowings	5,168	10,494	0.47%	–
Current portion of long-term borrowings	5,725	11,391	0.28%	–
Long-term borrowings other than those we expect to repay within one year	44,818	59,333	0.26%	2022-2027
Total	55,711	81,219	–	–

- (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	15,393	7,864	25,680	5,470	4,925

Schedule of asset retirement obligations

As of the beginning and end of the consolidated year under review, 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 consolidated year under review

(Cumulative period)	Q1	Q2	Q3	Current consolidated fiscal year
Net sales (million yen)	19,275	39,436	60,460	80,991
Profit before income taxes (million yen)	3,325	6,982	10,816	13,374
Profit attributable to owners of parent (million yen)	2,328	4,803	7,706	9,529
Basic earnings per share (yen)	81.88	168.77	270.71	334.97

(Accounting period)	Q1	Q2	Q3	Q4
Basic earnings per share (yen)	81.88	86.90	101.92	64.16

2. Financial statements, other financial information

(1) Financial statements

1) Balance sheet [Unaudited]

(million yen)

	As of March 31, 2020	As of March 31, 2021
<b>Assets</b>		
Current assets		
Cash and deposits	8,261	31,429
Accounts receivable - trade	*1 543	*1 637
Short-term loans receivable from subsidiaries and associates	6,040	36,204
Income taxes receivable	704	–
Other	*1 1,725	*1 2,308
Total current assets	17,276	70,579
Non-current assets		
Property, plant and equipment		
Buildings	4,451	4,667
Land	2,696	2,696
Other	546	534
Total property, plant and equipment	7,694	7,898
Intangible assets		
Software	368	437
Other	4	352
Total intangible assets	373	790
Investments and other assets		
Investment securities	2,328	2,667
Shares of subsidiaries and associates	51,315	45,119
Investments in capital of subsidiaries and associates	2,482	2,493
Prepaid pension costs	304	303
Deferred tax assets	2	–
Long-term loans receivable from subsidiaries and associates	30,339	5,226
Other	371	490
Allowance for doubtful accounts	(1,941)	(694)
Total investments and other assets	85,201	55,605
Total non-current assets	93,270	64,295
Total assets	110,546	134,874

(million yen)

	As of March 31, 2020	As of March 31, 2021
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short-term borrowings	*1, *2 5,908	*1, *2 10,351
Current portion of long-term borrowings	5,504	10,923
Accounts payable - other	*1 668	*1 1,478
Income taxes payable	14	313
Provision for bonuses	119	155
Other	60	73
<b>Total current liabilities</b>	<b>12,275</b>	<b>23,296</b>
<b>Non-current liabilities</b>		
Long-term borrowings	44,446	58,373
Asset retirement obligations	167	198
Deferred tax liabilities	–	3
Other	111	149
<b>Total non-current liabilities</b>	<b>44,724</b>	<b>58,725</b>
<b>Total liabilities</b>	<b>57,000</b>	<b>82,021</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	9,428	9,499
<b>Capital surplus</b>		
Legal capital surplus	10,395	10,467
Other capital surplus	5,294	5,294
<b>Total capital surplus</b>	<b>15,690</b>	<b>15,762</b>
<b>Retained earnings</b>		
Legal retained earnings	620	620
Other retained earnings		
General reserve	12,700	12,700
Retained earnings brought forward	17,027	17,419
<b>Total retained earnings</b>	<b>30,348</b>	<b>30,740</b>
Treasury shares	(1,950)	(3,365)
<b>Total shareholders' equity</b>	<b>53,516</b>	<b>52,636</b>
<b>Valuation and translation adjustments</b>		
Valuation difference on available-for-sale securities	29	217
<b>Total valuation and translation adjustments</b>	<b>29</b>	<b>217</b>
<b>Total net assets</b>	<b>53,545</b>	<b>52,853</b>
<b>Total liabilities and net assets</b>	<b>110,546</b>	<b>134,874</b>

## 2) Statement of income [Unaudited]

(million yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Operating revenue		
Dividends from subsidiaries and associates	10,244	5,018
Royalty income	2,220	2,343
Information system fee revenue	–	36
Real estate lease revenue	433	433
Total operating revenue	* <sub>1</sub> 12,899	* <sub>1</sub> 7,830
Operating expenses	* <sub>1, *2</sub> 4,616	* <sub>1, *2</sub> 5,307
Operating profit	8,283	2,523
Non-operating income		
Interest income	199	143
Dividend income	22	22
Commission income	33	42
Subsidy income	10	–
Gains from investment partnerships	–	43
Other	35	46
Total non-operating income	* <sub>1</sub> 301	* <sub>1</sub> 298
Non-operating expenses		
Interest expenses	210	207
Commission fee	32	10
Loss on investments in investment partnerships	7	–
Foreign exchange losses	33	4
Other	40	89
Total non-operating expenses	323	311
Ordinary profit	8,261	2,510
Extraordinary income		
Gain on reversal of allowance for doubtful accounts	–	1,486
Total extraordinary losses	–	1,486
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	1,735	246
Provision of allowance for doubtful accounts	1,941	240
Total extraordinary losses	3,676	486
Profit before income taxes	4,584	3,510
Income taxes - current	(316)	(527)
Income taxes - deferred	(34)	(77)
Total income taxes	(350)	(605)
Profit	4,935	4,116

3) Statement of changes in equity [Unaudited]

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 surpluses	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 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 in items other than shareholders' equity										
Total changes 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 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 in items other than shareholders' equity	(69)	(69)	(69)
Total changes during period	(69)	(69)	1,430
Balance at end of period	29	29	53,545

Fiscal year ended March 31, 2021

(million yen)

	Shareholders' equity									
	Share capital	Capital surplus			Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings		Total retained earnings		
						General reserve	Retained earnings brought forward			
Balance at beginning of period	9,428	10,395	5,294	15,690	620	12,700	17,027	30,348	(1,950)	53,516
Changes during period										
Dividends of surplus							(3,724)	(3,724)		(3,724)
Profit							4,116	4,116		4,116
Issuance of new shares	71	71		71						143
Purchase of treasury shares									(1,500)	(1,500)
Disposal of treasury shares									85	85
Net changes in items other than shareholders' equity										
Total changes during period	71	71	—	71	—	—	391	391	(1,415)	(880)
Balance at end of period	9,499	10,467	5,294	15,762	620	12,700	17,419	30,740	(3,365)	52,636

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	29	29	53,545
Changes during period			
Dividends of surplus			(3,724)
Profit			4,116
Issuance of new shares			143
Purchase of treasury shares			(1,500)
Disposal of treasury shares			85
Net changes in items other than shareholders' equity	188	188	188
Total changes during period	188	188	(692)
Balance at end of period	217	217	52,853

## 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

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, 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).

## Key accounting estimates

We have disclosed in “Main accounting policies” the information we relied on in applying accounting methods that significantly influenced stated amounts in the consolidated statements for the fiscal year under review. Stated below are the assumptions and sources of estimation uncertainty that could potentially incur significant accounting changes in the next fiscal year.

### 1. Valuation of loans to negative-equity subsidiaries

We have established a policy for groupwide asset management with a view to ensuring the effective use of assets held by the parent company. Loans are provided to subsidiaries pursuant to this policy. Some subsidiaries have negative shareholder equity, having received intragroup finance; for business reasons, these subsidiaries required sizeable upfront investment whose returns extend over a long timespan.

Before providing finance to a subsidiary, we perform due diligence by confirming whether the subsidiary has reasonable prospects of repaying the loan according to its business strategy. After providing the loan, we evaluate the subsidiary’s capacity to meet its obligations in view of its strategic position, the scale of negative equity, duration of any payment delinquency, the subsidiary’s business activities, and the outlooks for revenue and cash flow. Based on this evaluation, we determine the payment periods and recoverability.

#### (1) Amounts stated in financial statements for year under review

	Year under review
Balance of loans to negative-equity subsidiaries	6,280 million yen
Allowance for doubtful accounts pertaining to such subsidiaries	(694 million yen)

#### (2) Basis for accounting estimate for recognized item

##### 1) Formula used to calculate book value for year under review

Loans to negative-equity subsidiaries are treated as potentially doubtful accounts. That is, we estimate the amount based on the doubtful accounts rate, and 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) Key assumptions underpinning amounts reported on balance sheet for year under review

We refer to the business plan when evaluating the debtor’s future business plan. It provides the basis for the repayment plan, including the debtor’s financial and strategic position, cash flows, and performance forecasts.

##### 3) Impact on statements for next fiscal year

We may potentially add to the allowance if the business plan becomes unachievable as a result of uncertain economic variables occurring in the future. We may potentially reverse the account if the debtor manages to clear its liabilities.

### 2. Loss on valuation of shares of subsidiaries and associates

#### (1) Amounts stated in financial statements for year under review

	Year under review
Loss on valuation of shares of subsidiaries and associates	246 million yen

#### (2) Basis for accounting estimate for recognized item

##### 1) Formula used to calculate book value for year under review

For non-available-for-sale securities, we will write the asset down to the extent of its recoverability if its value has declined by more than 50% of the acquisition price.

##### 2) Key assumptions underpinning amounts reported on balance sheet for year under review

Recoverability is determined based on the investee’s business plan.

3) Impact on statements for next fiscal year

We may write the asset 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.

3. Deferred tax assets

	Year under review
Deferred tax assets	–
Deferred tax liabilities	3 million yen

(2) Basis for accounting estimate for recognized item

1) Formula used to calculate book value for year under review

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.”

2) Key assumptions underpinning amounts reported on balance sheet for year under review

Recoverability is estimated based on future tax liability estimates and feasible tax planning.

3) Impact on statements for next fiscal year

Future taxable income depends on performance; if a performance-related factor influences taxable income estimates, it would lead to a change in deferred tax assets and thus affect the amount stated for “Income taxes – deferred.”

4. Provision for retirement benefits

(1) Amounts stated in financial statements for year under review

	Year under review
Prepaid pension costs	303 million yen

(2) Basis for accounting estimate for recognized item

1) Formula used to calculate book value for year under review

We report provision for retirement benefits, prepaid pension cost, and retirement benefit costs at their actuarial value.

2) Key assumptions underpinning amounts reported on balance sheet for year under review

Actuarial valuations are based on discount rate, expected long term rate of return, rate of salary increase, and employee turnover rate.

3) Impact on statements for next fiscal year

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.

Changes in presentation

Application of accounting standards for disclosing accounting estimates

Accounting Standard for Disclosure of Accounting Estimates (ASBJ 31, March 31, 2020) has been applied to financial statements from the close of the year under review. See the notes for the section on key accounting policies and accounting estimates.

However, these notes omit the previous fiscal year. This omission is allowed under the transitional measures stipulated in the ASBJ statement (in the proviso for paragraph 11).

Additional information

Delivering treasury shares to employs through a trust

For details, see the “Additional information” section.

Balance sheets

\*1 Monetary claims and obligations with associates

	Previous fiscal year March 31, 2020 (million yen)	Current fiscal year March 31, 2021 (million yen)
Short-term monetary claims	1,953	2,658
Short-term monetary obligations	187	1,598

\*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, 2020) (million yen)	Current fiscal year (ended March 31, 2021) (million yen)
Overdraft limit	21,000	21,000
Used portion of overdraft	—	—
Overdraft remaining	21,000	21,000

Statements of income

\*1 The following table shows our transactions with associates.

	Previous fiscal year (April 1, 2019, to March 31, 2020) (million yen)	Current fiscal year (April 1, 2020, to March 31, 2021) (million yen)
Volume of operating transactions		
Operating revenue	12,875	7,824
Operating expenses	651	585
Volume of non-operating transactions		
Non-operating revenue	248	182

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

	Previous fiscal year (April 1, 2019, to March 31, 2020) (million yen)	Current fiscal year (April 1, 2020, to March 31, 2021) (million yen)
Lease costs	245	238
Wages	455	513
Officer compensation	478	738
Accrued employees' bonuses	76	104
Commission fee	908	1,055
Depreciation	103	169
Testing and research expenses	926	904

Securities

Previous 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.

Current fiscal year (ended March 31, 2021)

We have omitted our shares in subsidiaries (¥45,119 million). This item lacks a readily determinable fair value because it has 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, 2020) (million yen)	Current fiscal year (ended March 31, 2021) (million yen)
Deferred tax assets		
Denial of accrued employees' bonuses	36	47
Asset retirement obligations	51	60
Loss on valuation of shares of subsidiaries and associates	2,666	2,536
Impairment loss	298	295
Loss carried forward	197	341
Deemed distribution	112	112
Other	784	518
Deferred tax assets subtotal	<u>4,147</u>	<u>3,911</u>
Valuation allowance for tax loss carried forward	(197)	(341)
Valuation allowance for total future tax consequences of temporary differences	(3,806)	(3,342)
Valuation allowance subtotal	<u>(4,003)</u>	<u>(3,683)</u>
Deferred tax assets total	143	228
Deferred tax liabilities		
Valuation difference on available-for-sale securities	12	95
Prepaid pension costs	93	92
Other	35	43
Deferred tax liabilities total	<u>141</u>	<u>231</u>
Net deferred tax assets	2	-
Net deferred tax liabilities	-	3

### 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, 2020)	Current fiscal year (ended March 31, 2021)
Legally effective tax rate	30.62%	30.62%
(Adjusting entries)		
Items such as withholding tax on dividends that are permanently excluded from deductible expenses	8.77%	5.23%
Items such as dividend income that are permanently excluded from earnings	(67.00%)	(43.54%)
Inhabitant tax on per capita basis	0.17%	0.23%
Tax deductions for testing and research expenses	(1.20%)	(1.61%)
Valuation allowance	28.16%	(8.17%)
Other	(7.16%)	0.08%
Actual effective tax rate after applying tax effect accounting	<u>(7.64%)</u>	<u>(17.17%)</u>

## Changes in presentation

“Corporation tax related to amended/updated returns,” an independent entry in the previous fiscal year, is included in “Other” in the fiscal year under review, as it is no longer financially material. The statements for the previous year have been retroactively adjusted accordingly.

Specifically, the pre-adjusted statements for the previous fiscal year stated “(4.76%)” for “Corporation tax related to amended/updated returns” and “(2.40%)” for “Other”; this is now “(7.16%)” for “Other.”

## Material subsequent events

Nothing to disclose.

4) Supplementary schedules

Schedules of property, plant and equipment

(million yen)

	Type of asset	Balance at beginning of current period	Increase	Decrease	Amortization	Balance at end of current period	Accumulated amortization
Property, plant and equipment	Buildings	4,451	580	59	304	4,667	7,691
	Land	2,696	0	–	–	2,696	–
	Other	546	538	433	117	534	1,910
	Total	7,694	1,118	493	421	7,898	9,601
Intangible assets	Software	368	161	–	92	437	206
	Other	4	439	91	0	352	144
	Total	373	600	91	92	790	351

- (Notes)
1. The main components of the increase in buildings were ¥355 million from renovation work at Ranzan Facility and ¥115 million from renovation work at Kitayama Facility (the office and plant).
  2. The main components of the increase in software were ¥64 million from upgrading the workflow system and ¥44 million from installing an HR system.

Schedule of provisions

(million yen)

	Balance at beginning of current period	Increase	Decrease	Balance at end of current period
Allowance for doubtful accounts	1,941	694	1,941	694
Provision for bonuses	119	155	119	155

(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	March 31 September 30
Number of shares constituting one unit	100
Purchase and sale of fractional shares	
Transfer agent	(Special account) 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo Stock Transfer Agency Department, Mitsubishi UFJ Trust and Banking Corporation
Shareholder registrar	(Special account) 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation
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: <a href="http://www.taiyo-hd.co.jp">http://www.taiyo-hd.co.jp</a>
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 74th business term (April 1, 2019, to March 31, 2020): Filed with the director-general of the Kanto Local Finance Bureau on June 22, 2020

#### (2) Internal control report with accompanying documents

Filed with the director-general of the Kanto Local Finance Bureau on June 22, 2020

#### (3) Quarterly report with certificate

The 1st quarter of the 75th business term (April 1, 2020, to June 30, 2020): Filed with the director-general of the Kanto Local Finance Bureau on August 6, 2020

The 2nd quarter of the 75th business term (July 1, 2020, to September 30, 2020): Filed with the director-general of the Kanto Local Finance Bureau on November 6, 2020

The 3rd quarter of the 75th business term (October 1, 2020, to December 31, 2020): Filed with the director-general of the Kanto Local Finance Bureau on February 5, 2021

#### (4) Extraordinary report

Filed with the director-general of the Kanto Local Finance Bureau on June 22, 2020

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.

#### (5) Share buyback report

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

Reporting period (July 1-31, 2020): Filed with the director-general of the Kanto Local Finance Bureau on August 7, 2020

Reporting period (August 1-31, 2020): Filed with the director-general of the Kanto Local Finance Bureau on September 10, 2020

Reporting period (September 1-30, 2020): Filed with the director-general of the Kanto Local Finance Bureau on October 9, 2020

Reporting period (October 1-31, 2020): Filed with the director-general of the Kanto Local Finance Bureau on November 10, 2020

Reporting period (November 1-30, 2020): Filed with the director-general of the Kanto Local Finance Bureau on December 10, 2020

Reporting period (December 1-31, 2020): Filed with the director-general of the Kanto Local Finance Bureau on January 8, 2021

Reporting period (January 1-31, 2021): Filed with the director-general of the Kanto Local Finance Bureau on February 10, 2021

Reporting period (February 1-28, 2021): Filed with the director-general of the Kanto Local Finance Bureau on March 10, 2021

Reporting period (March 1-31, 2021): Filed with the director-general of the Kanto Local Finance Bureau on April 9, 2021

Reporting period (April 1-30, 2021): Filed with the director-general of the Kanto Local Finance Bureau on May 10, 2021

Reporting period (May 1-31, 2021): Filed with the director-general of the Kanto Local Finance Bureau on June 10, 2021

(6) Securities registration statement

Filed with the director general of the Kanto Local Finance Bureau on July 1, 2020

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

Nothing to disclose.



## 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 21, 2021
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 75th business term (April 1, 2020 to March 31, 2021) 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 21, 2021
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, 2021, 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.

Before determining the business processes to evaluate, we evaluated, on a consolidated basis, those organization-wide internal controls that significantly influence financial reporting as a whole. We then selected the processes to evaluate based on the results. 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 13 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.

We determined the scope of business processes to evaluate 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.