

Consolidated Financial Results (Japanese Accounting Standards) for the Fiscal Year Ended December 31, 2019

February 17, 2020

Name of Listed Company: TOYO INK SC HOLDINGS CO., LTD.

Listings: Tokyo Stock Exchange

Code: 4634

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Scheduled date of ordinary shareholders' meeting: March 26, 2020

Scheduled date of commencement of dividend payments: March 27, 2020

Scheduled date of submission of financial report: March 26, 2020

Supplementary documents for financial results: Yes

Financial results briefing: Yes (for institutional investors and securities analysts)

(Amounts of less than million yen are omitted.)

1. Consolidated business results for the year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(1) Business results (cumulative totals)

(Figures in percentages denote the year-on-year change.)

Year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 2019	279,892	-3.6	13,174	-13.8	13,847	-10.3	8,509	-28.2
December 2018	290,208	—	15,276	—	15,429	—	11,847	—

(Note) Comprehensive income:

December 2019 -10,675 million yen (—%)

December 2018 -2,441 million yen (—%)

Year ended	Profit per share (Basic)	Profit per share (Diluted)	Return on equity	Ordinary profit/ Total assets	Operating profit/ Net sales
	Yen	Yen	%	%	%
December 2019	145.72	145.44	3.9	3.7	4.7
December 2018	202.93	202.60	5.4	4.1	5.3

(Note) Equity in earnings of associated companies:

December 2019 -37 million yen

December 2018 65 million yen

* The Company conducted a consolidation of common stock at the ratio of five to one (5:1) effective as of July 1, 2018. In this regard, the basic profit per share, the diluted profit per share and net assets per share in (2) Financial position are calculated on the assumption that the said stock consolidation was implemented at the beginning of the previous fiscal year.

The Company changed its fiscal year-end from March 31 to December 31 as of the fiscal year ended December 31, 2017. Because of this change, the increase-decrease rates from the previous fiscal year were not presented because the period covered by the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018) and the period covered by the fiscal year ended December 31, 2017 (from April 1, 2017 to December 31, 2017), which would be used for comparison, are different.

(2) Financial position

Year ended	Total assets	Net assets	Net worth/Total assets	Net assets per share
	Million yen	Million yen	%	Yen
December 2019	376,130	226,892	58.3	3,757.35
December 2018	371,610	221,091	57.6	3,668.36

(Note) Net worth:

December 2019 219,439 million yen

December 2018 214,170 million yen

* The Company adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28 issued on February 16, 2018) at the beginning of the fiscal year under review, and the values for the fiscal year ended December 31, 2018 are those after the said Standard, etc. is applied retrospectively.

(3) Consolidated cash flow condition

Year ended	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Balance of cash and cash equivalents
	Million yen	Million yen	Million yen	Million yen
December 2019	19,673	-10,404	-6,247	53,765
December 2018	19,197	-10,828	-5,695	50,958

2. Dividends

	Dividends per share					Dividends total (annual)	Dividend payout ratio (consolidated)	Dividends/ Net assets (consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
December 2018	—	8.00	—	45.00	—	4,962	41.9	2.3
December 2019	—	45.00	—	45.00	90.00	5,255	61.8	2.4
December 2020 (Forecast)	—	45.00	—	45.00	90.00		52.6	

* For the year-end dividend per share for the fiscal year ended December 31, 2018, the amount considering the impact of the said stock consolidation is stated, and the specific total annual dividends are not stated, with only "—" stated. The annual dividend per share recalculated based on standards after the stock consolidation is 85 yen for the fiscal year ended December 31, 2018.

3. Forecasts for the year ending December 31, 2020 (from January 1, 2020 to December 31, 2020)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	290,000	3.6	15,000	13.9	15,500	11.9	10,000	17.5	171.22

* Notes:

- (1) Important changes of subsidiaries during the term (changes in specific subsidiaries accompanied by a change in the scope of consolidation): No
- (2) Changes in accounting policies and changes or restatement of accounting estimates
 - (i) Changes in accounting policies due to the modification in accounting methods: Yes
 - (ii) Changes in accounting policies other than (i): Yes
 - (iii) Changes in accounting estimates: Yes
 - (iv) Restatement: No
- (3) Number of shares issued (ordinary shares)
 - (i) Numbers of shares issued (including treasury shares):

December 2019:	60,621,744 shares
December 2018:	60,621,744 shares
 - (ii) Numbers of treasury shares at the end of the terms:

December 2019:	2,218,965 shares
December 2018:	2,238,409 shares
 - (iii) Average numbers of shares issued during the terms (consolidated accumulation periods):

December 2019:	58,394,607 shares
December 2018:	58,384,130 shares

* The Company conducted a consolidation of common stock at the ratio of five to one (5:1) effective as of July 1, 2018. In this regard, the average numbers of shares issued during the terms are calculated on the assumption that the said stock consolidation was implemented at the beginning of the previous fiscal year.

Reference: Financial summary (non-consolidated)

(Amounts of less than million yen are omitted.)

Non-consolidated business results for the year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(1) Results of operations

(Percentages show year-on-year rates.)

Year ended	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 2019	17,514	-14.5	6,881	-34.7	8,005	-31.9	8,722	6.5
December 2018	20,473	—	10,543	—	11,751	—	8,188	—

Year ended	Profit per share (Basic)		Profit per share (Diluted)	
	Yen		Yen	
December 2019	149.37		149.09	
December 2018	140.24		140.02	

* The Company conducted a consolidation of common stock at the ratio of five to one (5:1) effective as of July 1, 2018. In this regard, the basic profit per share, the diluted profit per share and net assets per share in (2) Financial position (non-consolidated) are calculated on the assumption that the said stock consolidation was implemented at the beginning of the previous fiscal year.

The Company changed its fiscal year-end from March 31 to December 31 as of the fiscal year ended December 31, 2017. Because of this change, the increase-decrease rates from the previous fiscal year were not presented because the period covered by the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018) and the period covered by the fiscal year ended December 31, 2017 (from April 1, 2017 to December 31, 2017), which would be used for comparison, are different.

(2) Financial position

Year ended	Total assets	Net assets	Net worth/Total assets	Net assets per share
	Million yen	Million yen	%	Yen
December 2019	253,642	179,278	70.6	3,065.15
December 2018	247,859	173,110	69.7	2,960.81

(Note) Net worth: December 2019 179,013 million yen December 2018 172,861 million yen

* The Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28 issued on February 16, 2018) at the beginning of the fiscal year under review, and the values for the fiscal year ended December 31, 2018 are those after the said Standard, etc. is applied retrospectively.

* These financial results are not subject to audits by certified public accountants or audit corporations.

* Explanations about the proper use of financial forecasts and other important notes

1. The above forecasts are based on the information available on the date these materials are released and incorporate assumptions about uncertainties that may affect future earnings. The forecasts do not constitute an assurance that the Company promises to achieve the earnings. Actual earnings could differ materially from these forecasts due to various factors in the future. For notes about assumptions of earnings forecasts and the use of earnings forecasts, refer to “(4) Future prospects” of “1. Overview of Operating Results, etc.” on page 5 of the accompanying materials.
2. Supplementary documents for financial results will be posted on the Company’s website on February 17, 2020 (Monday).
3. The Company will hold a financial results briefing for investors as follows. Reference materials for financial results and forecasts used in the briefing will be posted on the Company’s website after the close of the briefing.
- February 20, 2020 (Thursday): Briefing for institutional investors and security analysts.

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1. Overview of Operating Results, etc.

(1) Overview of operating results for the fiscal year ended December 31, 2019

(Million yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
December 2019	279,892	13,174	13,847	8,509
Growth rate (%)	-3.6	-13.8	-10.3	-28.2
December 2018	290,208	15,276	15,429	11,847

During the fiscal year under review, the global economy showed a further slowdown in China, among other countries, associated with trade friction between the United States and China and the increasing political risk, although growth continued mainly in the United States. Japan also experienced growing deterioration in business confidence, reflecting the impact of the global economy, the consumption tax hike and poor weather conditions.

Despite this business environment, the Toyo Ink Group operated its business activities in line with the following three policies of the fiscal year under review.

Under the first policy of “developing new businesses and providing value that captures changes in the market and customer needs,” the Group viewed changes in the market and environment as opportunities, stepped up the development of new products and new businesses, and took on many challenges to provide new value.

In the Colorants and Functional Materials Related Business, the Group achieved both high grade technology and price competitiveness in the materials for LCD color filters segment, and grew sales to China, its largest market. Similarly, in the functional materials segment, the Group expanded its track record in areas such as high-performance dispersants in materials for lithium-ion batteries and pigment dispersants for inkjet inks. In the Polymers and Coatings Related Business, sales of adhesives for use in displays and lithium ion batteries and coating materials for use in 5G high-speed communication systems grew and the Group also made progress developing and expanding sales of eco-friendly can coatings and biomass adhesives. In addition, the Group conducted various demonstration experiments with an eye to commercializing sensor systems as a solution proposal business in the future. In the Packaging Materials Related Business, the Group sought improved performance and increased sales of ecofriendly inks such as biomass and water-based inks in Japan and overseas countries. Meanwhile, the Group also pushed ahead with the development of deinking and delaminating technologies and products aiming to establish groundbreaking recycling systems for plastic containers and packaging. In the Printing and Information Related Business, the Group launched new products such as ink for web rotary offset presses that improves printing performance and UV biomass ink for labels and also pursued improved performance and global sales expansion of inkjet inks for digital printing.

Under the second policy of “leading the market with leading-edge technology by fundamentally reviewing the supply chains, the product structure, and manufacturing processes and procedures at bases in Japan and overseas as a manufacturing company,” the Group expanded manufacturing facilities in Japan for products with growth potential such as adhesives and dispersants and manufacturing facilities in Europe and China for inkjet inks. The Group’s first factory in Myanmar was also completed and started running. In addition, the Group set up a sales company in Morocco and also stepped up marketing activities in anticipation of Africa’s economic growth. Meanwhile, in the offset printing inks and newspaper ink business in Japan where the market is shrinking as a result of the progress of digitalization, the Group made a start on improving the efficiency of its business structure to withstand the decline in demand and forming alliances with other companies in the same industry. Furthermore, in response to persistently high prices for raw materials, the Group switched to formulations using alternative raw materials and also conducted research to innovate manufacturing methods.

Under the third policy of “reforming the culture, personnel system and operations so as to be willing to change and encourage challenges,” the Group focused on the establishment of an efficient production structure utilizing sensors and data science and on the improvement of productivity of operations utilizing RPA (Robotic Process Automation). The Group also made revisions to its personnel system as a result of reviewing its evaluation system and working styles and lay the foundations for a climate that encourages challenges.

However, the market for high-performance products such as smartphones remained weak, associated with the prolonged trade friction between the United States and China, and raw materials prices remained high. As a result, net sales for the fiscal year under review declined to 279,892 million yen (down 3.6% year on year), and profit also fell with operating profit of 13,174 million yen (down 13.8% year on year), ordinary profit of 13,847 million yen (down 10.3% year on year), and profit attributable to owners of parent of 8,509 million yen (down 28.2% year on year).

Results by segment are as follows.

(Million yen)

	Net sales			Operating profit		
	Previous term	Term under review	Change (%)	Previous term	Term under review	Change (%)
Colorants and Functional Materials Related Business	74,660	67,400	-9.7	5,329	3,386	-36.4
Polymers and Coatings Related Business	66,099	65,887	-0.3	6,035	6,013	-0.4
Packaging Materials Related Business	68,047	68,071	0.0	1,491	3,058	105.0
Printing and Information Related Business	79,378	76,680	-3.4	931	314	-66.3
Other	7,228	7,291	0.9	1,481	424	-71.4
Subtotal	295,413	285,332	-3.4	15,269	13,197	-13.6
Adjustment	-5,205	-5,439	—	6	-23	—
Total consolidated	290,208	279,892	-3.6	15,276	13,174	-13.8

(i) Colorants and Functional Materials Related Business

Sales of high-performance pigments and materials for LCD color filters did not grow much because utilization shrank, particularly among customers in Japan and South Korea that deal with high-definition products in particular, due to continued weak demand for smartphones and TV sets. Profits were also squeezed, with demand for the reduction of costs for parts and materials becoming stronger in China and Taiwan.

Sales of commodity-type pigments, particularly those for printing inks for publications, continued to be weak, and those for automobile coatings also grew at a sluggish pace. The prices of raw materials, mainly caused by the supply shortage associated with environmental regulations, continued to rise, and an effort to offset such rises with higher sales prices was not enough to make up for the decline in profits.

While sales of plastic colorants for containers continued to grow in Japan, sales of high-performance products such as plastic colorants for automobiles, construction materials and solar cells remained weak. In addition, sales of office equipment were sluggish in Southeast Asia.

As a result, net sales in the overall Colorants and Functional Materials Related Business decreased to 67,400 million yen (down 9.7% year on year), and operating profit fell to 3,386 million yen (down 36.4% year on year).

(ii) Polymers and Coatings Related Business

In the functional films and tapes segment, both sales and operating profit grew at a sluggish pace in general due to the weak smartphone market and intensifying price competition in China and South Korea, although the Group advanced the development and sales of electromagnetic shielding films for high-speed communication and other products.

In the adhesives segment, domestic sales of those for use in packaging remained firm, and sales of adhesives for use in lithium-ion batteries, particularly those for automobiles, expanded. In the overseas business, sales expansion advanced in China, Southeast Asia and Turkey. In the adhesive compounds segment, demand for those for labels remained strong, and sales of those for LCD polarization plates expanded.

In the can coatings (finishes) segment, sales continued to be weak in Japan due to poor weather conditions from summer to autumn, although eco-friendly products expanded.

As a result, net sales in the overall Polymers and Coatings Related Business slipped to 65,887 million yen (down 0.3% year on year), and operating profit fell to 6,013 million yen (down 0.4% year on year).

(iii) Packaging Materials Related Business

Although domestic sales of gravure inks for construction materials remained flat from the previous year, in addition to a continued fall in domestic demand for gravure inks for publication, sales of those for the packaging of food and drinks, mainly for private brands and convenience stores, remained firm. Above all, sales of biomass inks grew strongly. Overseas, sales of eco-friendly type products expanded in Southeast Asia and India, while sales did not grow much in China.

Following a sharp rise in raw material prices from the previous fiscal year in Japan and overseas, the Group systematically promoted cost reductions and shifted some of the higher costs onto sales prices.

In the gravure cylinder platemaking segment, sales were sluggish for packaging, but sales from precision plate-making related to electronics expanded.

As a result, net sales of the overall Packaging Materials Related Business were mostly unchanged year on year, amounting to 68,071 million yen (up 0.0% year on year), and operating profit rose to 3,058 million yen (up 105.0% year on year).

(iv) Printing and Information Related Business

Given the shrinking domestic information-related print market associated with the progress of digitization, the Group strongly sought to optimize its business scale by product, facilitate collaboration with other companies in the same trade, and reduce costs in Japan, while bolstering sales overseas by expanding its global bases, which resulted in the advancement of sales expansion in

India and South America. In addition, the Group promoted sales expansion in the growing African market by establishing a sales company in Morocco. The development and sales expansion of highly sensitive UV ink using leading-edge technology and other products such as inkjet ink for on-demand printing also made progress.

However, domestic demand for offset inks for the commercial printing of circulars and other materials, as well as existing information publications including newspapers and magazines, declined more than expected partly due to shortage of printing paper. In addition, the rising prices of raw materials, mainly due to the supply shortage associated with environmental regulations, also put a squeeze on profits. In this environment, the Group undertook revisions of sales prices.

As a result, both net sales and operating profit in the overall Printing and Information Related Business decreased. Net sales amounted to 76,680 million yen (down 3.4% year on year) and operating profit was 314 million yen (down 66.3% year on year).

(v) Other

This segment covers businesses not included in the above segments and services provided mainly by TOYO INK SC HOLDINGS CO., LTD. Net sales increased to 7,291 million yen (up 0.9% year on year), but operating profit fell to 424 million yen (down 71.4% year on year) due to an increase in expenses for global system integration and retirement benefit expenses.

(2) Overview of financial position during the fiscal year ended December 31, 2019

(Million yen)

	End of previous fiscal year	End of fiscal year under review	Change
Total assets	371,610	376,130	4,520
Liabilities	150,518	149,237	-1,281
Net assets	221,091	226,892	5,801

The Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 issued on February 16, 2018), etc. at the beginning of the fiscal year under review, and in the details of financial position, a comparison with the previous consolidated fiscal year and an analysis are carried out using the values after the said Standard, etc. are applied retrospectively.

Total assets at the end of the fiscal year under review stood at 376,130 million yen, up 4,520 million yen from the end of the previous consolidated fiscal year. Liabilities were 149,237 million yen, down 1,281 million yen from the end of the previous consolidated fiscal year. Net assets came to 226,892 million yen, up 5,801 million yen from the end of the previous consolidated fiscal year.

On the last day of the fiscal year under review, the exchange value of the yen rose above its level on the last day of the previous consolidated fiscal year. As a result, assets and liabilities held by overseas subsidiaries and foreign currency translation adjustments fell. In the meantime, investment securities and net defined benefit asset each increased, reflecting rising stock prices. As a result, deferred tax liabilities, valuation difference on available-for-sale securities and remeasurements of defined benefit plans also increased respectively.

(3) Overview of cash flow during the fiscal year ended December 31, 2019

(Million yen)

	Previous term	Term under review	Change
Cash flows from operating activities	19,197	19,673	476
Cash flows from investing activities	-10,828	-10,404	424
Cash flows from financing activities	-5,695	-6,247	-551
Cash and cash equivalents at end of period	50,958	53,765	2,806

Cash and cash equivalents (“cash”) at the end of the fiscal year under review stood at 53,765 million yen, up 2,806 million yen from the end of the previous fiscal year.

Cash provided by operating activities stood at 19,673 million yen, up 476 million yen from the end of the previous fiscal year, mainly reflecting an increase in cash flows due to the posting of profit before income taxes and a decrease in cash flows due to income taxes paid.

Cash used in investment activities was 10,404 million yen, down 424 million yen from the end of the previous fiscal year, which mainly reflects the purchase of property, plant, and equipment.

Cash used in financing activities stood at 6,247 million yen, up 551 million yen from the end of the previous fiscal year, primarily reflecting repayments of loans payable and cash dividends paid.

Trends in Group cash flows are as follows:

	Term ended March 2017	Term ended December 2017	Term ended December 2018	Term ended December 2019
Capital adequacy ratio (%)	57.9	58.5	57.6	58.3
Market value-based capital adequacy ratio (%)	43.0	51.4	38.4	41.4
Ratio of interest-bearing debt to cash flows (years)	2.8	3.3	3.1	3.0
Interest coverage ratio (times)	25.7	23.6	25.8	30.7

Capital adequacy ratio: Shareholders' equity / total assets

Market value-based capital adequacy ratio: Market capitalization / total assets

Ratio of interest-bearing debt to cash flows: Interest-bearing debt / cash flows

Interest coverage ratio: Cash flows / interest payments

(Notes) 1. Each indicator is calculated using consolidated financial data.

2. Market capitalization is computed based on the number of shares issued excluding treasury shares.

3. Cash flows denote cash flows from operating activities.

4. Interest-bearing debt denotes all debts recorded in consolidated balance sheets that pay interest.

(4) Future prospects

(Million yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Term ending December 2020 (forecast)	290,000	15,000	15,500	10,000
Term ended December 2019	279,892	13,174	13,847	8,509
Growth rate (%)	3.6	13.9	11.9	17.5

While a moderate recovery is expected to continue globally in the economic environment of the next fiscal year, fear of an economic slowdown is gradually growing, partly due to the impact of a novel coronavirus pneumonia.

The Toyo Ink Group also expects that the harsh business environment with challenges such as the stubbornly high cost of raw materials, and forecasts that net sales will be 290.0 billion yen (growth rate of 3.6%), operating profit will be 15.0 billion yen (growth rate of 13.9%), ordinary profit will be 15.5 billion yen (growth rate of 11.9%), and profit attributable to owners of parent will be 10.0 billion yen (growth rate of 17.5%) as a result of taking measures to address the issues described on pages 8 and 9.

2. Group Overview

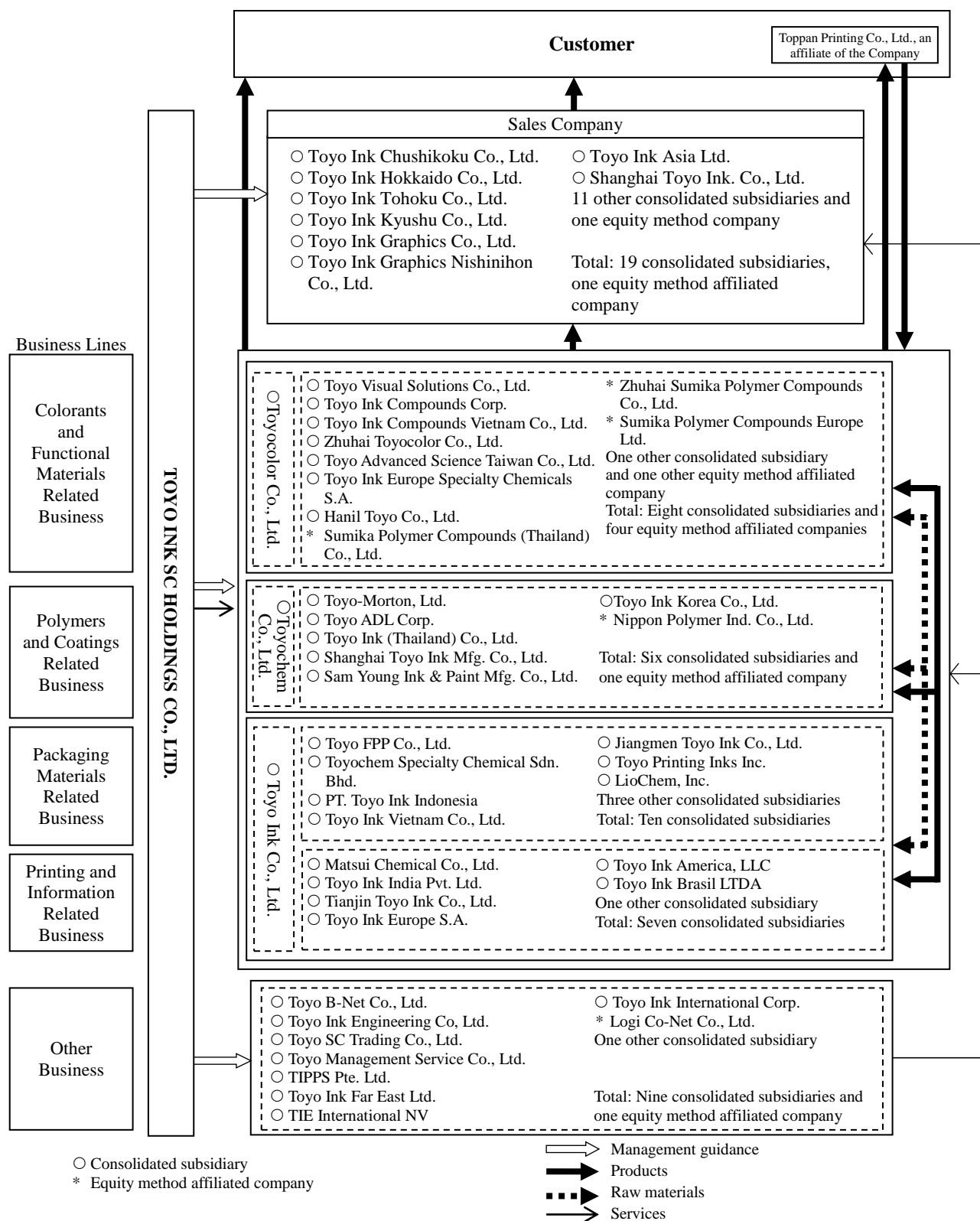
The Group is constituted of the Company, 62 consolidated subsidiaries and 7 equity method affiliate companies.

Business lines of the Group are as follows:

Business line	Major Business	Major Company	
Colorants and Functional Materials Related Business	Organic pigments, processed pigments, plastic colorants, color filter materials and others	Domestic	Toyocolor Co., Ltd., Toyo Visual Solutions Co., Ltd., and others
		Overseas	Toyo Ink Compounds Corp., Toyo Ink Compounds Vietnam Co., Ltd., Zhuhai Toyocolor Co., Ltd., Toyo Advanced Science Taiwan Co., Ltd., Toyo Ink Europe Specialty Chemicals S.A., Hanil Toyo Co., Ltd., and others
Polymers and Coatings Related Business	Can coatings, resins, adhesives, adhesive compounds, coating materials, natural materials, medical products and others	Domestic	Toyochem Co., Ltd., Toyo-Morton, Ltd., Toyo ADL Corp., and others
		Overseas	Toyo Ink (Thailand) Co., Ltd., Shanghai Toyo Ink Mfg. Co., Ltd., Sam Young Ink & Paint Mfg. Co., Ltd., and others
Packaging Materials Related Business	Gravure inks, flexographic inks, gravure cylinders and others	Domestic	Toyo Ink Co., Ltd., and others
		Overseas	Toyochem Specialty Chemical Sdn. Bhd., PT. Toyo Ink Indonesia, Jiangmen Toyo Ink Co., Ltd., Toyo Printing Inks Inc., LioChem, Inc., and others
Printing and Information Related Business	Offset inks, metal printing inks, printing machines, printing equipment, prepress systems, printing supplies ink-jet materials and others	Domestic	Toyo Ink Co., Ltd., Matsui Chemical Co., Ltd., and others
		Overseas	Toyo Ink India Pvt. Ltd., Tianjin Toyo Ink Co., Ltd., Toyo Ink Europe S.A., Toyo Ink America, LLC, and others
Other Business	Sale of raw materials, service provision, real estate rental business management, holding company for subsidiaries and others	Domestic	Toyo Ink SC Holdings Co., Ltd., Toyo B-Net Co., Ltd., and others
		Overseas	TIPPS Pte. Ltd., Toyo Ink Far East Ltd., Toyo Ink International Corp., and others
Sales Business	Sales of products handled by the Group companies	Domestic	Toyo Ink Chushikoku Co., Ltd., Toyo Ink Hokkaido Co., Ltd., Toyo Ink Tohoku Co., Ltd., Toyo Ink Kyushu Co., Ltd., Toyo Ink Graphics Co., Ltd., and others
		Overseas	Toyo Ink Asia Ltd. and others

The Toyo Ink Group deals with Toppan Printing Co., Ltd., an affiliate of the Group, in finished goods and merchandise.

The organization chart is as follows:
(Organization Chart)



3. Management Policy

(1) Basic management policy

All corporate activities of the Group are guided by a corporate philosophy of “People-oriented management,” a corporate policy of “Aiming to be a company creating new values for human culture throughout the world,” and guiding principles that call for customer satisfaction, employee satisfaction, society satisfaction, and shareholder satisfaction.

While maintaining the corporate philosophy, corporate policy and guiding principles described above as unchangeable throughout the ages, the Group will undertake the necessary adaptation in line with the times, aiming for sustainable growth toward the 200th anniversary of its foundation.

Specifically, the Group will expand the scope of our contribution as a company creating new value for human culture from consumers to life and the global environment and work on solving such issues, thereby contributing to the realization of a world where everyone and everything can live together in harmony.

In addition, the Group will endeavor to reform its corporate character to enable it to achieve sustainable growth and increase satisfaction from a long-term perspective to ensure the sustainability of all stakeholders, including the pursuit of value innovation and the enhancement of risk management.

(2) Medium- to long-term management strategy

The Toyo Ink Group establishes its long-term vision every 10 years. The Group decided that the value it would provide in the next 10 years until 2027 would be “For a Vibrant World,” and is striving to reform itself to build a corporate structure capable of achieving century-long sustainable growth and become a corporate group that contributes to the development of a world where all consumers, lives, and the global environment coexist vibrantly.

The concept for corporate activities in this new long-term vision is “Scientific Innovation Chain 2027 (SIC27),” which has five core themes: “technology and product,” “business model,” “network,” “manufacturing,” and “management foundation.” Under this concept, the Group is aiming to reform its corporate system to one that is capable of achieving sustainable growth through a chain of actions of implementing innovative thinking and scientific execution. In addition, the Group will focus not only on growth markets, but also on business domains that will contribute to the resolution of social issues and potential for the sustainable growth of life and the global environment by strategically improving and expanding the framework of its business domains.

The Group has positioned the medium-term management plan “SIC-I (FY2018 through FY2020),” which is the first step of this long-term vision, as the period of building the foundation for sustainable growth based on the long-term vision SIC27. The Group will reform its existing businesses to proposal-based businesses based on the potential needs of the market, develop them in new regions and markets, and create new businesses using the Group’s core technologies to expand its business domains and increase sales.

In addition to reforming its production process, the Group will achieve manufacturing innovation by adopting technologies such as IoT, AI, and robotics, improve and revitalize its establishments in Japan and abroad, and aim to enable timely product supply and globally stable quality and low cost, thereby attaining the further growth of its earnings.

Furthermore, the Group will enhance its management resources that are necessary for business domain expansion and manufacturing innovation, establish its management basis by promoting CSR, strengthening its risk management system, etc., and fulfill more responsibilities as a member of society.

(3) Our challenges

In the fiscal year under review, which is the second year of the medium-term management plan, the financial results grew at a sluggish pace because the business environment deteriorated, and the Group was slow in responding to this deterioration. However, in the following fiscal year, which is the final year of the medium-term management plan, the Group will learn from past trial-and-error experiences and work on the structural reforms of its businesses in line with a strategy of selection and concentration and the strengthening of its corporate character.

The Group will operate its businesses as described below based on the following three policies: “Steadily producing results by strengthening cooperation both within and beyond the Group and prioritizing investment in businesses to be actively expanded,” “Reliably implementing structural reforms in businesses and areas by reducing costs and generating profits through concerted action across production, sales and engineering,” and “Making bold changes by ceaselessly taking on challenges for business transformation.”

In the Colorants and Functional Materials Related Business, the Group will seek to further expand sales of materials for LCD color filters to the Chinese market and will also expand the business of materials used in sensors by speeding up technology development capacity and strengthening the quality assurance structure. In the segment of materials used in lithium ion batteries, the Group will expand business for the big four auto markets of the United States, Europe, China and Japan. Furthermore, in the colorant segment, the Group will proceed to enter to new growing markets such as the eco-friendly colorant market and will focus on business structure reforms for optimization of global SCM in the pigment segment.

In the Polymers and Coatings Related Business, the Group will expand eco-friendly products that meet core environmental, safety and energy-saving needs on a global scale in the packaging and industrial materials segment. Meanwhile, in the electronics segment, the Group will respond to changes in technology such as 5G and the IoT by expanding products that reduce noise and are easy to use. At the same time, the Group will seek global expansion of its production bases and will also strengthen its technology, marketing and network capabilities.

In the Packaging Materials Related Business, the Group will concentrate even more on the expansion of eco-friendly gravure inks and flexographic inks that meet the needs of each market, including biomass inks and water-based inks. It will also establish new factories that employ new manufacturing methods and automation to improve productivity in China, Southeast Asia, India and

Turkey, and will put in place a supply structure in response to market growth and global sales expansion.

In the Printing and Information Related Business, the Group will implement further structural reforms in the domestic offset ink business through measures such as the consolidation of production and alliances with other companies and will establish a profit generating structure. As for UV inks, which will continue to grow, the Group will seek to achieve both cost reductions and quality improvements and will pursue sales expansion on a global scale. In the inkjet ink segment, the Group will also seek to expand applications to include flexible packaging, for example.

Furthermore, the Group deeply regrets the occurrence of improper accounting in the Philippines and will focus on improving its global governance structure as the basis for conducting business activities and will also seek to strengthen its quality assurance structure in response to expansion in the Group's business areas. While dealing appropriately with changes in economic trends associated with the United States presidential election, trade tensions between the United States and China and other factors as well as with fluctuations in demand associated with the hosting of the Tokyo Olympics and Paralympics, the Group will work towards achievement of its long-term corporate vision "Scientific Innovation Chain 2027."

4. Basic Position on the Selection of Accounting Standards

The Group utilizes the Japanese accounting standards due to the possibility of comparing the terms of financial statements and performance between the companies.

We are moving ahead with the necessary preparations for the future adoption of International Financial Reporting Standards (IFRS). We intend to make a decision on suitable timing for its implementation, factoring in the situations in Japan and abroad.

5. Consolidated Financial Statements and Primary Notes

(1) Consolidated balance sheet

(Million yen)

	As of December 31, 2018	As of December 31, 2019
(Assets)		
Current assets		
Cash and deposits	52,706	56,691
Notes and accounts receivable – trade	*5 95,553	*5 90,173
Securities	43	29
Merchandise and finished goods	29,873	30,535
Work in process	1,034	1,319
Raw materials and supplies	17,872	16,654
Other	6,744	5,350
Allowance for doubtful accounts	-765	-786
Total current assets	203,063	199,969
Non-current assets		
Property, plant and equipment		
Buildings and structures	*2, *6 98,588	*2, *6 99,260
Accumulated depreciation	-61,760	-63,319
Buildings and structures, net	36,828	35,940
Machinery, equipment and vehicles	*2 149,386	151,688
Accumulated depreciation	-127,551	-129,921
Machinery, equipment and vehicles, net	21,834	21,767
Tools, furniture and fixtures	24,249	24,798
Accumulated depreciation	-21,527	-21,925
Tools, furniture and fixtures, net	2,722	2,873
Land	*2, *6 30,272	*2, *6 30,669
Leased assets	678	5,006
Accumulated depreciation	-542	-962
Leased assets, net	136	4,043
Construction in progress	2,219	4,282
Total property, plant and equipment	94,013	99,577
Intangible assets	4,649	4,202
Investments and other assets		
Investment securities	*1 58,302	*1 61,071
Net defined benefit asset	6,423	7,964
Deferred tax assets	2,163	2,333
Other	3,228	1,194
Allowance for doubtful accounts	-234	-182
Total investments and other assets	69,883	72,381
Total non-current assets	168,547	176,161
Total assets	371,610	376,130

(Million yen)

	As of December 31, 2018	As of December 31, 2019
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	*2, *5 62,460	*2, *5 59,543
Short-term loans payable	*2 20,593	*2 30,315
Income taxes payable	1,470	1,279
Provision for environmental measures	884	—
Other	15,429	15,608
Total current liabilities	100,839	106,747
Non-current liabilities		
Long-term loans payable	38,845	27,460
Deferred tax liabilities	7,847	9,584
Provision for environmental measures	538	2,348
Net defined benefit liability	1,784	1,885
Asset retirement obligations	30	31
Other	632	1,179
Total non-current liabilities	49,679	42,490
Total liabilities	150,518	149,237
(Net assets)		
Shareholders' equity		
Capital stock	31,733	31,733
Capital surplus	32,500	32,500
Retained earnings	143,379	146,627
Treasury shares	-5,012	-4,969
Total shareholders' equity	202,600	205,891
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,888	14,273
Foreign currency translation adjustment	-1,513	-2,843
Remeasurements of defined benefit plans	1,195	2,118
Total accumulated other comprehensive income	11,570	13,548
Subscription rights to shares	248	265
Non-controlling interests	6,671	7,187
Total net assets	221,091	226,892
Total liabilities and net assets	371,610	376,130

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

(Million yen)

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Net sales	290,208	279,892
Cost of sales	*1 227,914	*1 219,559
Gross profit	62,293	60,333
Selling, general and administrative expenses		
Packing and transportation expenses	6,802	7,181
Salaries and allowance	11,691	11,698
Bonuses	2,760	2,651
Welfare expenses	3,062	3,030
Depreciation	1,805	1,879
Research and development expenses	*1 3,372	*1 3,438
Other	17,524	17,279
Total selling, general and administrative expenses	47,017	47,159
Operating profit	15,276	13,174
Non-operating income		
Interest income	244	214
Dividend income	1,126	1,137
Share of profit of entities accounted for using equity method	65	—
Other	802	611
Total non-operating income	2,238	1,964
Non-operating expenses		
Interest expenses	745	644
Foreign exchange losses	904	130
Share of loss of entities accounted for using equity method	—	37
Other	434	478
Total non-operating expenses	2,085	1,290
Ordinary profit	15,429	13,847
Extraordinary income		
Gain on sales of non-current assets	*2 866	*2 30
Gain on sales of investment securities	489	2,057
Total extraordinary income	1,355	2,088
Extraordinary losses		
Loss on sales and retirement of non-current assets	*3 290	*3 284
Impairment loss	*4 437	*4 364
Fire loss	98	—
Provision for environmental measures	—	2,688
Special investigation expenses	—	*5 283
Other	41	8
Total extraordinary losses	867	3,629
Profit before income taxes	15,917	12,306
Income taxes - current	3,249	3,313
Income taxes - deferred	367	90
Total income taxes	3,617	3,404
Profit	12,299	8,901
Profit attributable to non-controlling interests	451	392
Profit attributable to owners of parent	11,847	8,509

Consolidated statements of comprehensive income

(Million yen)

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Profit	12,299	8,901
Other comprehensive income		
Valuation difference on available-for-sale securities	-7,394	2,381
Foreign currency translation adjustment	-5,108	-1,493
Remeasurements of defined benefit plans, net of tax	-2,027	922
Share of other comprehensive income of entities accounted for using equity method	-210	-36
Total other comprehensive income	*1 -14,740	*1 1,773
Comprehensive income	-2,441	10,675
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	-2,389	10,486
Comprehensive income attributable to non-controlling interests	-51	188

(3) Consolidated statements of changes in equity

From January 1, 2018 to December 31, 2018

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	31,733	32,710	136,202	-5,002	195,642
Changes of items during period					
Dividends of surplus			-4,670		-4,670
Profit attributable to owners of parent			11,847		11,847
Purchase of treasury shares				-16	-16
Disposal of treasury shares			-0	6	5
Change in ownership interest of parent due to transactions with non-controlling interests		-209			-209
Net changes of items other than shareholders' equity					
Total changes of items during period	—	-209	7,176	-9	6,957
Balance at end of current period	31,733	32,500	143,379	-5,012	202,600

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	19,284	3,299	3,223	25,807	164	6,768	228,384
Changes of items during period							
Dividends of surplus							-4,670
Profit attributable to owners of parent							11,847
Purchase of treasury shares							-16
Disposal of treasury shares							5
Change in ownership interest of parent due to transactions with non-controlling interests						209	—
Net changes of items other than shareholders' equity	-7,396	-4,813	-2,027	-14,237	84	-306	-14,459
Total changes of items during period	-7,396	-4,813	-2,027	-14,237	84	-96	-7,292
Balance at end of current period	11,888	-1,513	1,195	11,570	248	6,671	221,091

From January 1, 2019 to December 31, 2019

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	31,733	32,500	143,379	-5,012	202,600
Changes of items during period					
Dividends of surplus			-5,254		-5,254
Profit attributable to owners of parent			8,509		8,509
Purchase of treasury shares				-4	-4
Disposal of treasury shares			-6	47	41
Change in ownership interest of parent due to transactions with non-controlling interests					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	3,247	43	3,290
Balance at end of current period	31,733	32,500	146,627	-4,969	205,891

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	11,888	-1,513	1,195	11,570	248	6,671	221,091
Changes of items during period							
Dividends of surplus							-5,254
Profit attributable to owners of parent							8,509
Purchase of treasury shares							-4
Disposal of treasury shares							41
Change in ownership interest of parent due to transactions with non-controlling interests							—
Net changes of items other than shareholders' equity	2,384	-1,329	922	1,977	16	516	2,510
Total changes of items during period	2,384	-1,329	922	1,977	16	516	5,801
Balance at end of current period	14,273	-2,843	2,118	13,548	265	7,187	226,892

(4) Consolidated statements of cash flows

(Million yen)

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Cash flows from operating activities		
Profit before income taxes	15,917	12,306
Depreciation	9,939	9,087
Impairment loss	437	364
Interest and dividend income	-1,371	-1,352
Interest expenses	745	644
Share of (profit) loss of entities accounted for using equity method	-65	37
Loss (gain) on sales of property, plant and equipment	-844	-17
Loss on retirement of property, plant and equipment	116	76
Fire loss	98	—
Loss (gain) on sales of investment securities	-487	-2,057
Special investigation expenses	—	283
Decrease (increase) in notes and accounts receivable - trade	-3,627	4,773
Decrease (increase) in inventories	-3,983	-273
Increase (decrease) in notes and accounts payable - trade	8,147	-4,972
Other	-2,828	3,453
Subtotal	22,194	22,353
Interest and dividend income received	1,444	1,383
Interest expenses paid	-744	-640
Special investigation expenses paid	—	-191
Income taxes paid	-3,696	-3,231
Net cash provided by (used in) operating activities	19,197	19,673
Cash flows from investing activities		
Payments into time deposits	-4,152	-10,789
Proceeds from withdrawal of time deposits	3,356	9,623
Purchase of property, plant and equipment	-10,195	-10,326
Proceeds from sales of property, plant and equipment	972	105
Purchase of intangible assets	-899	-774
Purchase of short-term and long-term investment securities	-801	-231
Proceeds from sales and redemption of short-term and long-term investment securities	1,292	2,748
Purchase of shares of subsidiaries	—	-775
Other	-402	16
Net cash provided by (used in) investing activities	-10,828	-10,404
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-969	-2,167
Proceeds from long-term loans payable	716	1,035
Repayments of long-term loans payable	-401	-183
Repayments of lease obligations	-95	-364
Cash dividends paid	-4,675	-5,254
Proceeds from share issuance to non-controlling shareholders	—	780
Other	-270	-92
Net cash provided by (used in) financing activities	-5,695	-6,247
Effect of exchange rate change on cash and cash equivalents	-976	-214
Net increase (decrease) in cash and cash equivalents	1,695	2,806
Cash and cash equivalents at beginning of period	49,262	50,958
Cash and cash equivalents at end of period	*1 50,958	*1 53,765

(5) Explanatory notes to consolidated financial statements

(Notes on assumption of going business)

Not applicable

(Basic and important matters in preparing the consolidated financial statements)

1. Scope of consolidation

The Company had 62 consolidated subsidiaries; all of the subsidiaries were consolidated.

Names of major consolidated subsidiaries:

Toyocolor Co., Ltd.;
Toyochem Co., Ltd.;
Toyo Ink Co., Ltd.;
Toyo Visual Solutions Co., Ltd.;
Matsui Chemical Co., Ltd.;
Toyo-Morton, Ltd.;
Toyo Ink Chushikoku Co., Ltd.;
Toyo B-Net Co., Ltd.;
Tianjin Toyo Ink Co., Ltd.;
Toyo Ink (Thailand) Co., Ltd.;
Toyo Advanced Science Taiwan Co., Ltd.;
TIPPS Pte. Ltd.;
Toyo Ink India Pvt. Ltd.;
Shanghai Toyo Ink Mfg. Co., Ltd.;
Toyochem Specialty Chemical Sdn. Bhd.;
Zhuhai Toyocolor Co., Ltd.;
Toyo Ink Europe Specialty Chemicals S.A.;
Sam Young Ink & Paint Mfg. Co., Ltd.;
Toyo Ink Europe S.A.;
Toyo Ink America, LLC;
Jiangmen Toyo Ink Co.

During the consolidated fiscal year under review, the Company consolidated one subsidiary and deconsolidated three subsidiaries.

- In the fiscal year under review, Toyo Ink North Africa S.A.R.L. was established and became a consolidated subsidiary.
- Toyo Adhesive Sheet Processing (Tianjin) Co., Ltd., Arets Asia Pacific Co., Ltd. and Toyo Ink Arets Canada Inc., which were consolidated subsidiaries during the previous fiscal year, were liquidated in the fiscal year under review and have been excluded from the scope of consolidation.

2. Application of the equity method

The equity method is applied to investments in seven affiliates.

Names of major subsidiaries:

NIPPON POLYMER IND. CO., LTD.;
Zhuhai Sumika Polymer Compounds Co., Ltd.

In the fiscal year under review, two companies were excluded from the affiliates accounted for using the equity method.

- Ga-city CORP, which was an affiliate accounted for using the equity method during the previous fiscal year, was liquidated in the fiscal year under review and has been excluded from the scope of application of the equity method.
- Sumika Polymer Compounds America Inc. which was an affiliate accounted for using the equity method during the previous fiscal year, has been excluded from the scope of application of the equity method due to the sale of its shares during the fiscal year under review.

3. Fiscal year-end of consolidated subsidiaries

The fiscal year-end date of consolidated subsidiaries is the same as the consolidated closing date.

4. Accounting standards

(1) Important appraisal standards and appraisal method for assets

1) Securities

For those with market value

Stated at market value based on market prices, etc., as of the period-end

(Unrealized valuation gains or losses are reported in the shareholders' equity, and sales costs are determined by the moving average method.)

For those without market value

Stated at cost as determined by the moving average method.

2) Derivatives

Market value method

3) Inventories

Finished goods, work-in-process and raw material

In principle, the cost method based on the gross average method is applied.

(The value in the balance sheet is calculated by the method of book value devaluation based on lowering of profitability)

Overseas consolidated subsidiaries mainly use the gross average method or the lower-of-cost-or-market method according to the first-in, first-out method.

Merchandise and supplies

In principle, the last cost method is applied.

(The value in the balance sheet is calculated by the method of book value devaluation based on lowering of profitability)

Overseas consolidated subsidiaries mainly use the gross average method or the lower-of-cost-or-market method according to the first-in, first-out method.

(2) Depreciation method of important depreciable fixed assets

1) Property, plant and equipment (excluding leased assets)

Straight-line method

Major useful lives:

Buildings and structures	Eight to 50 years
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Machinery, equipment and vehicles	Five to 15 years
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Tools, furniture and fixtures	Three to 15 years
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2) Leased assets

Financing lease transactions that do not involve a transfer of ownership

Calculation method for the equivalent of depreciation cost

The depreciation method for assets is to use the lease period as useful lives, calculating the residual value of such assets as zero.

Of financing lease transactions that do not involve a transfer of ownership, lease transactions that started on or before March 31, 2008 use the accounting method for normal lease transactions.

(3) Important standards for appropriation of allowances

1) Allowance for doubtful receivables

We record an allowance based on historical percentage for ordinary receivables and an estimated amount for specific uncollectible receivables.

2) Provision for environmental measures

To prepare for spending on environmental measures, we recorded the estimated amount of spending at the end of the consolidated fiscal year under review.

(4) Accounting treatment for retirement benefits

1) Attribution of estimated retirement benefits

To calculate benefit liabilities, the estimated amount of retirement benefits is attributed to the period until the end of the consolidated fiscal year under review based on the benefit formula.

2) Treatment of unrecognized actuarial differences and past service costs

Past service costs are posted in expenses based on the straight-line method for a fixed period of years (13 years) within the average remaining service years of employees when costs accrue from their service.

Actuarial differences are posted in expenses from the consolidated fiscal year following their accruals based on proportional division through the straight-line method for a fixed period of years (13 years) within the average remaining service years of employees.

(5) Standards for translating significant foreign currency-denominated assets or liabilities into Japanese yen

Foreign currency-denominated monetary receivables and payables are translated into Japanese yen at the spot exchange rates on the consolidated settlement day. The effect of exchange rate changes is posted as a translation gain or loss. In connection with this, assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen at the spot exchange rates on their settlement day. Revenues and expenses are translated into Japanese yen at the average rate during the year. The effect of exchange rate changes is posted in foreign currency translation adjustments and non-controlling interests in the section of net assets.

(6) Significant hedge accounting

1) Hedge accounting

Among interest swap transactions, those that satisfy special transaction requirements are processed.

2) Hedging method and hedging target

Hedging method: Interest swap transactions

Hedging target: Long-term loans payable

3) Hedging policy

The Company engages in interest swap transactions to prevent the risk of payable interest rate fluctuations and to fix payable interest cash flow.

4) Assessing hedging effectiveness

Assessing hedging effectiveness is omitted because interest swap transactions have satisfied requirements for special transactions.

(7) Amortization of goodwill and amortization period

Goodwill is amortized individually and equally over a reasonable period of up to 20 years.

(8) Cash and cash equivalents in the consolidated cash flow statements

In preparing the consolidated cash flow statements, cash on hand, readily available deposits, and short-term liquid investments with maturities not exceeding three months at the time of purchase and little risk of changing value are considered to be cash and cash equivalents.

(9) Other important matters for production of the consolidated financial statements

1) Accounting treatment of consumption tax, etc.

Amounts shown are exclusive of consumption tax and local consumption tax.

2) Application of a consolidated taxation system

The Company uses the consolidated taxation system.

(Changes in accounting policies)

(Adoption of IFRS 16 Leases)

Overseas consolidated subsidiaries other than those in the United States have adopted IFRS 16 Leases from the current fiscal year, and the Company has adopted a method of recognizing the cumulative effect of applying the Standard on the day of the initial application, which is permitted as a transitional measure.

As a result, lease assets, “Other” of current liabilities, and “Other” of non-current liabilities increased 3,945 million yen, 283 million yen, and 723 million yen, respectively, while “Other” of investments and other assets decreased 3,016 million yen at the end of the current fiscal year. The impact on profit and loss and per-share information in the fiscal year under review is minor.

(Changes in accounting policies that are difficult to differentiate from changes in accounting-based estimates)

(Changes in the depreciation method of property, plant and equipment)

While the Company and its consolidated subsidiaries in Japan previously used the declining-balance method (however, the straight-line method for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016) as the depreciation method of property, plant and equipment (excluding lease assets), the Company has changed to the straight-line method from the current fiscal year.

The Group conducts business activities by positioning the medium-term management plan “SIC-I” starting from fiscal 2018 as a period when the Group will build its foundation for sustainable growth, and closely examines the actual utilization and operational status of the production facilities it owns once again in the process of strengthening the global production system amid the rising overseas sales ratio.

As a result, it has been discovered that the long-term stable operation of the domestic production facilities of the Group is expected in general, given that investments are made primarily for their renewal and higher efficiency associated with the shift to the global production and sales systems by changing the focus on Japan in its effort to promote the review and revitalization of domestic and overseas bases and build the global manufacturing network. For this reason, the Group has decided that it is more appropriate to change the depreciation method of property, plant and equipment in Japan to the straight-line method.

As a result of this change, operating profit, ordinary profit and profit before income taxes each increased 987 million yen in the fiscal year under review in comparison with the previous method.

The impact of this change on the segments is stated in (Segment information, etc.).

(Changes in presentation methods)

(Changes associated with adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 issued on February 16, 2018) at the beginning of the fiscal year under review, and deferred tax assets are presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.

As a result, in the consolidated balance sheet for the previous consolidated fiscal year, 254 million yen out of 2,179 million yen in “Deferred tax assets” under “Current assets” is included in 2,163 million yen of “Deferred tax assets” under “Investments and other assets” and 1,924 million yen out of 2,179 million yen in “Deferred tax assets” under “Current assets” is included in 7,847 million yen of “Deferred tax liabilities” under “Noncurrent liabilities.”

(Consolidated statements of cash flows)

“Repayments of lease obligations,” which were included in “Other” under “Cash flows from financing activities” in the previous

consolidated fiscal year are presented separately from the consolidated fiscal year under review due to increased financial materiality. Meanwhile, “Dividends paid to non-controlling interests” under “Cash flows from financing activities,” which were presented separately in the previous consolidated fiscal year, are included in “Other” from the consolidated fiscal year under review due to decreased financial materiality. The consolidated financial statements for the previous consolidated fiscal year have been restated to reflect these changes in presentation.

As a result, in the consolidated statements of cash flows for the previous consolidated fiscal year, “Dividends paid to noncontrolling interests” of -223 million yen and “Other” of -142 million yen presented under “Cash flows from financing activities” are restated as “Repayments of lease obligations” of -95 million yen and “Other” of -270 million yen.

(Notes to consolidated balance sheet)

***1. Shares of affiliates (Million yen)**

	As of December 31, 2018	As of December 31, 2019
Investment securities (shares)	4,361	4,136

***2. Assets pledged as collateral and secured debt**

Assets pledged as collateral (Million yen)

	As of December 31, 2018	As of December 31, 2019
Buildings and structures	1,242	1,128
Machinery, equipment and vehicles	151	—
Land	548	522
Total	1,943	1,651

Secured debt is as follows. (Million yen)

	As of December 31, 2018	As of December 31, 2019
Notes and accounts payable - trade	186	222
Short-term loans payable	118	141
Total	305	364

3. Liabilities on guarantee

The Company extends a guarantee over borrowings from financial institutions, etc. The foreign currency-denominated conversion amount of the yen is based on the exchange rate on the consolidated settlement date. (Million yen)

As of December 31, 2018		As of December 31, 2019	
ZHUHAI SUMIKA POLYMER COMPOUNDS Co., Ltd. (US\$4,230,000)	469	ZHUHAI SUMIKA POLYMER COMPOUNDS Co., Ltd. (US\$6,003,000)	657
Sumika Polymer Compounds (UK) Ltd. (GBP 1,794,000, etc.)	282	Sumika Polymer Compounds (UK) Ltd. (GBP 2,037,000, etc.)	309
Sumika Polymer Compounds Thailand Ltd. (BT 63,000,000, etc.)	214	Sumika Polymer Compounds Thailand Ltd. (BT 63,000,000, etc.)	228
Other: four companies	484	Other: three companies	363
Employees (housing loans)	70	Employees (housing loans)	47
Total	1,521	Total	1,607

4. Discounts on notes and accounts receivable and endorsement of notes and accounts receivable (Million yen)

	As of December 31, 2018	As of December 31, 2019
Discounts on notes and accounts receivable	9	13

***5. Treatment of notes maturing on the last day of the fiscal year**

Although the last day of the fiscal year under review fell on a bank holiday, notes that matured on the last day of the fiscal year are treated in accounting as having settled on the maturity date. The values of notes that matured on the last day of the fiscal year under review are as follows: (Million yen)

	As of December 31, 2018	As of December 31, 2019
Notes receivable - trade	1,645	1,549

Notes payable - trade

96

581

*6. Reduction entry

Reduction entry reflecting direct write-down of cost of property, plant and equipment in connection with exchange of rights accompanying execution of Type I Urban Redevelopment Project pursuant to Urban Renewal Act is as follows: (Million yen)

	As of December 31, 2018	As of December 31, 2019
Buildings and structures	1,924	1,924
Land	6,763	6,763
Total	8,687	8,687

(Notes to consolidated statements of income)

*1. Research and development expenses included in selling, general and administrative expenses and manufacturing cost

(Million yen)

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
	8,104	8,077

*2. Details of gain on sale of non-current assets

(Million yen)

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Machinery, equipment and vehicles	22	15
Land	831	—
Other	12	15
Total	866	30

*3. Details of loss on sales and retirement of non-current assets

(Million yen)

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Buildings and structures	120	133
Machinery, equipment and vehicles	154	135
Other	16	15
Total	290	284

*4. Impairment loss

The Group recorded an impairment loss for the following asset group.

From January 1, 2018 to December 31, 2018

Location	Use	Type
Kawagoe, Saitama, etc.	Factory assets, etc.	Machinery, equipment, and vehicles, etc.

The Group classifies its assets based on the categories of management accounting and classifies idle assets and assets for lease by individual property.

The book value of the above asset group has been reduced to its recoverable amount due to a delay in the improvement of earnings, partly caused by the rising prices of raw materials amid the structural recession associated with the digitization of the domestic printing market, despite our efforts to optimize the business size by product and reduce costs, and the amount of the reduction is recorded as an impairment loss (437 million yen) in extraordinary losses. The breakdown of the impairment loss is machinery, equipment, and vehicles of 361 million yen, and other of 75 million yen.

The recoverable amount of the asset group is measured by the value in use and calculated by discounting future cash flow at 5.1%.

From January 1, 2019 to December 31, 2019

Location	Use	Type
Kawagoe, Saitama, etc.	Factory assets, etc.	Machinery, equipment and vehicles, tools, furniture and fixtures, etc.

The Group classifies its assets based on the categories of management accounting and classifies idle assets and assets for lease by individual property.

The book value of the above asset group has been reduced to its recoverable amount due to a delay in the improvement of earnings, partly caused by the rising prices of raw materials amid the structural recession associated with the digitization of the domestic printing market, despite our efforts to optimize the business size by product and reduce costs, and the amount of the reduction is

recorded as an impairment loss (364 million yen) in extraordinary losses. The breakdown of the impairment loss is machinery, equipment, and vehicles of 216 million yen, tools, furniture and fixtures of 102 million yen and other of 45 million yen. The recoverable amount of the asset group is measured by the value in use and calculated by discounting future cash flow at 5.6%.

*5. Special investigation expenses

From January 1, 2018 to December 31, 2018

Not applicable

From January 1, 2019 to December 31, 2019

Following the discovery of inappropriate accounting at a consolidated subsidiary in the Philippines, Toyo Ink Compounds Corp., a special investigation committee, including outside specialists, was established to conduct an investigation, and financial results for past periods have since been corrected. As a result, the Group has recorded investigation expenses and additional audit fees.

(Notes to consolidated statements of comprehensive income)

*1 The amount of recycling and the amount of tax effect associated with other comprehensive income

(Million yen)

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Valuation difference on available-for-sale securities		
Amount arisen in the fiscal year under review	-9,912	5,166
Amount of recycling	-502	-1,752
Before tax adjustment	-10,415	3,414
Amount of the tax effect equivalent	3,021	-1,032
Valuation difference on available-for-sale securities	-7,394	2,381
Foreign currency translation adjustments		
Amount arisen in the fiscal year under review	-5,535	-1,493
Amount of recycling	427	-
Before tax adjustment	-5,108	-1,493
Foreign currency translation adjustments	-5,108	-1,493
Remeasurements of defined benefit plans, net of tax		
Amount arisen in the fiscal year under review	-2,644	1,033
Amount of recycling	-278	296
Before tax adjustment	-2,922	1,329
Amount of the tax effect equivalent	895	-407
Remeasurements of defined benefit plans, net of tax	-2,027	922
Share of other comprehensive income of entities accounted for using equity method		
Amount arisen in the fiscal year under review	-163	-23
Amount of recycling	-46	-12
Share of other comprehensive income of entities accounted for using equity method	-210	-36
Total other comprehensive income	-14,740	1,773

(Notes to consolidated statements of changes in equity)

From January 1, 2018 to December 31, 2018

1. Matters concerning the type and the number of shares issued and treasury shares

(Thousand shares)

	At the beginning of this period	Increase	Decrease	At the end of this period
Shares issued				
Ordinary shares (Notes 1, 2)	303,108	—	242,486	60,621
Total	303,108	—	242,486	60,621
Treasury shares				
Ordinary shares (Notes 1, 3, 4)	11,179	14	8,955	2,238
Total	11,179	14	8,955	2,238

(Notes) 1. The Company conducted a consolidation of ordinary stock at the ratio of five to one effective as of July 1, 2018.

2. The decrease of 242,486 thousand shares in the number of shares issued of ordinary stock is due to the stock consolidation.

3. The increase of 14 thousand shares in the number of shares of treasury ordinary stock is due to the increase of 13 thousand shares due to the purchase of odd-lot shares (11 thousand shares before the stock consolidation and 2 thousand shares after the stock consolidation) and the increase of 0 thousand shares due to the purchase of fractional shares associated with the stock consolidation.

4. The decrease of 8,955 thousand shares in the number of shares of treasury ordinary stock is attributed to the decrease of 8,947 thousand shares due to the stock consolidation, the decrease of 7 thousand shares due to the exercise of stock options (6 thousand shares before the stock consolidation and 1 thousand shares after the stock consolidation) and the decrease of 0 thousand shares (after the stock consolidation) due to requests for the purchase of odd-lot shares.

2. Matters concerning subscription rights to shares

Company	Breakdown	Type of stock purchased	Number of applicable shares (in thousands)				Balance at the end of this period (million yen)
			At the beginning of this period	Increase	Decrease	At the end of this period	
Reporting company	Subscription rights to shares as stock option	—	—	—	—	—	248
Total			—	—	—	—	248

3. Matters concerning dividend

(1) Cash dividends paid

Resolution	Type of stock	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Ordinary meeting of shareholders on March 27, 2018	Ordinary shares	2,335	8.00	December 31, 2017	March 28, 2018
Board of directors' meeting on August 10, 2018	Ordinary shares	2,335	8.00	June 30, 2018	September 3, 2018

(Note) Dividend per share is the amount before the stock consolidation effective July 1, 2018.

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year.

Resolution	Type of stock	Total amount of dividends (million yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Ordinary meeting of shareholders on March 26, 2019	Ordinary shares	2,627	Retained earnings	45.00	December 31, 2018	March 27, 2019

From January 1, 2019 to December 31, 2019

1. Matters concerning the type and the number of shares issued and treasury shares (Thousand shares)

	At the beginning of this period	Increase	Decrease	At the end of this period
Shares issued				
Ordinary shares	60,621	—	—	60,621
Total	60,621	—	—	60,621
Treasury shares				
Ordinary shares (Notes 1, 2)	2,238	1	21	2,218
Total	2,238	1	21	2,218

(Notes) 1. The increase of one thousand share in the number of shares of treasury ordinary stock is due to the purchase of odd-lot shares.

2. The decrease of 21 thousand shares in the number of shares of treasury ordinary stock is due to a result of the exercise of stock options.

2. Matters concerning subscription rights to shares

Company	Breakdown	Type of stock purchased	Number of applicable shares (in thousands)				Balance at the end of this period (million yen)
			At the beginning of this period	Increase	Decrease	At the end of this period	
Reporting company	Subscription rights to shares as stock option	—	—	—	—	—	265
Total			—	—	—	—	265

3. Matters concerning dividend

(1) Cash dividends paid

Resolution	Type of stock	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Ordinary meeting of shareholders on March 26, 2019	Ordinary shares	2,627	45.00	December 31, 2018	March 27, 2019
Board of directors' meeting on August 9, 2019	Ordinary shares	2,627	45.00	June 30, 2019	September 2, 2019

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year.

Resolution	Type of stock	Total amount of dividends (million yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Ordinary meeting of shareholders on March 26, 2020	Ordinary shares	2,628	Retained earnings	45.00	December 31, 2019	March 27, 2020

(Notes to consolidated statements of cash flows)

*1. Reconciliation of the consolidated balance sheet items to cash and cash equivalents in the consolidated cash flows statements (Million yen)

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Cash and time deposits	52,706	56,691
Securities	43	29
Total	52,750	56,721
Time deposits with maturity of more than 3 months	-1,787	-2,954
Investments in investment limited partnerships, etc.	-4	-1
Cash and cash equivalents	50,958	53,765

(Segment information, etc.)

a. Segment information

1. Overview of reportable segments

The reportable segments of the Company are those units for which separate financial statements can be obtained among the constituent units of the Company and which are regularly examined by the Board of Directors for decisions on the allocation of management resources and for assessing business performance.

Based on factors such as the type and similarity of operations, the Company has categorized its operations into four groups, which are the reportable segments. They are the Colorants and Functional Materials Related Business, the Polymers and Coatings Related Business, the Packaging Materials Related Business, the Printing and Information Related Business and. Each business unit operates by establishing comprehensive domestic and overseas strategies for each product and service.

The Colorants and Functional Materials Related Business mainly manufactures and sells organic pigments, processed pigments, plastic colorants and color filter materials. The Polymers and Coatings Related Business mainly manufactures and sells can coatings, resins, adhesives, adhesive compounds, coating materials natural materials and medical products. The Packaging Materials Related Business mainly manufactures and sells gravure inks, flexographic inks and gravure cylinders. The Printing and Information Related Business mainly manufactures and sells offset inks, metal printing inks, printing presses, printing equipment, prepress systems, printing supplies, and ink-jet materials.

2. Method of calculation for net sales, profits or losses by reportable segment

Accounting procedures for reported business segments are generally the same as those stated in “Basic and important matters in preparing the consolidated financial statements.”

Intersegment earnings and transfer are based on current market prices.

(Changes in the depreciation method of property, plant and equipment)

As stated in (Changes in accounting policies that are difficult to differentiate from changes in accounting-based estimates), while the Company and its consolidated subsidiaries in Japan previously used the declining-balance method (the straight-line method for buildings [excluding facilities attached to buildings] acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016) as the depreciation method of property, plant and equipment (excluding lease assets), the Company has changed to the straight-line method from the consolidated fiscal year under review.

As a result of this change, segment profits in the consolidated fiscal year under review increased 328 million yen in the Colorants and Functional Materials Business, 215 million yen in the Polymers and Coatings Related Business, 199 million yen in the Packaging Materials Business, 145 million yen in the Printing and Information Business and 97 million yen in Other Business in comparison with profits based on the previous method.

3. Information on net sales, profits or losses by reportable segment

From January 1, 2018 to December 31, 2018

(Million yen)

	Reported segments					Other (Note) 1	Adjustment (Note) 2	Amounts recorded in Consolidated Financial Statements (Note) 3
	Colorants and Functional Materials Related Business	Polymers and Coatings Related Business	Packaging Materials Related Business	Printing and Information Related Business	Total			
Net sales								
Sales to customers	72,367	65,984	67,239	79,335	284,927	5,280	—	290,208
Intersegment sales	2,292	114	807	42	3,257	1,947	-5,205	—
Total	74,660	66,099	68,047	79,378	288,185	7,228	-5,205	290,208
Segment profits	5,390	6,035	1,491	931	13,788	1,481	6	15,276

(Notes) 1. The “Other” segment comprises business segments that are not included in the reportable segments, which include sales of raw materials, other profit-earning business activities carried out by the Company as a parent, and delivery of services.

2. An adjustment of 6 million yen in segment profits mainly represents the deduction of intersegment transactions.

3. Segment profits have been adjusted with operating profit recorded in the consolidated financial statements.

From January 1, 2019 to December 31, 2019

(Million yen)

	Reported segments					Other (Note) 1	Adjustment (Note) 2	Amounts recorded in Consolidated Financial Statements (Note) 3
	Colorants and Functional Materials Related Business	Polymers and Coatings Related Business	Packaging Materials Related Business	Printing and Information Related Business	Total			
Net sales								
Sales to customers	65,100	65,623	67,328	76,641	274,693	5,198	—	279,892
Intersegment sales	2,300	264	743	38	3,347	2,092	-5,439	—
Total	67,400	65,887	68,071	76,680	278,040	7,291	-5,439	279,892
Segment profits	3,386	6,013	3,058	314	12,773	424	-23	13,174

(Notes) 1. The “Other” segment comprises business segments that are not included in the reportable segments, which include sales of raw materials, other profit-earning business activities carried out by the Company as a parent, and delivery of services.

2. An adjustment of -23 million yen in segment profits mainly represents the deduction of intersegment transactions.

3. Segment profits have been adjusted with operating profit recorded in the consolidated financial statements.

b. Relevant information

Information by region

Net sales

From January 1, 2018 to December 31, 2018

(Million yen)

Japan	China	Other	Total
155,568	34,918	99,720	290,208

(Note) Net sales are based on the geographical area of the customers and categorized by country or region.

From January 1, 2019 to December 31, 2019

(Million yen)

Japan	China	Other	Total
151,174	34,843	93,874	279,892

(Note) Net sales are based on the geographical area of the customers and categorized by country or region.

(Per share information)

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Net assets per share	3,668.36 yen	3,757.35 yen
Profit per share	202.93 yen	145.72 yen
Fully diluted profit per share	202.60 yen	145.44 yen

(Notes) 1. The Company conducted a consolidation of ordinary stock at the ratio of five to one effective as of July 1, 2018. In this regard, net assets per share, profit per share and fully diluted profit per share are calculated on the assumption that the said stock consolidation was implemented at the beginning of the previous fiscal year.

2. The basis of calculating profit per share and fully diluted profit per share is as follows:

	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Profit per share		
Profit attributable to owners of parent (million yen)	11,847	8,509
Amount not belonging to common shareholders (million yen)	—	—
Profit attributable to owners of parent concerning ordinary shares (million yen)	11,847	8,509
Weighted average number of shares issued and outstanding during the period (thousand shares)	58,384	58,394
Fully diluted profit per share		
Profit attributable to owners of parent (million yen)	—	—
Increase in the number of ordinary shares (thousand shares)	95	110
(Subscription rights to shares included (thousand shares))	95	110
Overview of dilutive shares not included in the calculation of the amount of fully diluted profit per share due to absence of dilutive effect	—	—

3. The grounds for the calculation of net assets per share

	As of December 31, 2018	As of December 31, 2019
Net assets on the consolidated balance sheet (million yen)	221,091	226,892
Amount deducted from total net assets (million yen)	6,920	7,453
(Subscription rights to shares included (million yen))	(248)	(265)
(Non-controlling interests included (million yen))	(6,671)	(7,187)
Year-end net assets concerning ordinary shares (million yen)	214,170	219,439
Ordinary shares used for calculation of net assets per share (thousand shares)	58,383	58,402

(Important subsequent events)

Not applicable

6. Other**(1) Management turnover**

With respect to the transfer of directors, please refer to the “Announcement of Changes to Officer Personnel,” announced separately today.