

 Satoru Takashima President	Toyo Ink SC Holdings, Co., Ltd. (4634)
	

Company Information

Market	TSE 1st Section
Industry	Chemical (Manufacturing)
President	Satoru Takashima
HQ Address	2-2-1 Kyobashi, Chuo-ku, Tokyo
Year-end	End of December
Homepage	https://schr.toyoinkgroup.com/en/index.html

Stock Information

Share Price	Shares Outstanding		Total Market Cap	ROE Act.	Trading Unit
¥2,000	60,621,744 shares		¥121,243 million	2.8%	100 shares
DPS Est.	Dividend Yield Est.	EPS Est.	PER Est.	BPS Act.	PBR (x)
¥90.00	4.5%	¥151.65	13.2 x	¥3,589.24	0.6 x

* Share price as of closing on August 27. Number of shares outstanding, DPS and EPS are taken from the financial statements for the second quarter of FY 12/21. ROE and BPS are taken from the financial statements for the previous term.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
December 2017 (Act.)	240,344	16,774	17,473	10,376	35.55	16.00
December 2018 (Act.)	290,208	15,276	15,429	11,847	202.93	85.00
December 2019 (Act.)	279,892	13,174	13,847	8,509	145.72	90.00
December 2020 (Act.)	257,675	12,909	12,543	6,019	103.06	90.00
December 2021 (Est.)	280,000	14,500	15,000	8,500	151.65	90.00

*Unit: million yen, yen. Estimates are those of the Company. Net income is net income attributable to the shareholders of the parent company. Hereinafter the same shall apply. The values of December 2017 are for 9 months.

A 1-for-5 reverse split was conducted on July 1, 2018. No retroactive adjustment has been implemented.

This Bridge Report provides Toyo Ink SC Holdings, Co., Ltd.'s earnings results for the second quarter of Fiscal Year ending December 2021, and more.

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Key Points

- **In the first half of the term ending Dec. 2021, sales increased 13.0% year on year to 139.3 billion yen. Sales increased in all segments as the company has been recovering from the impact of the novel coronavirus in the previous term. Sales of electronics-related materials such as materials for display and 5G grew. Operating income rose 30.3% year on year to 7.2 billion yen. The improvement in sales made up for the increase in raw material prices, the rise in expenses due to the augmenting sales volume and distribution costs. Price revisions implemented overseas also contributed. Ordinary income and net income, too, increased significantly by 75.6% and 138.8%, year on year respectively, because there was no longer foreign exchange loss, which was posted in the same period of the previous year, a foreign exchange gain was posted, and there were no longer operation suspension costs, which were recorded in the same period of the previous year.**
- **The company revised the earnings forecast upwardly in light of the favorable circumstances. Sales are expected to increase 8.7% year on year to 280 billion yen, and operating income is forecasted to increase 12.3% year on year to 14.5 billion yen. Although there are concerns, such as the rise in raw material prices, the company will promote various initiatives in all segments to increase sales and profit. There is no change in the dividend schedule. The dividend amount will be the same as that in the previous term, that is, 90.00 yen/share. The expected dividend payout ratio is 59.3%.**
- **Sales and profit increased in the first half due to strong sales of electronics-related materials, leading to the upward revision to the earnings forecast. In particular, sales of materials for display exceeded the initial estimate. The profit forecast for the colorants and functional materials related business has been changed to be twice the figures of the initial forecast. Expectations are high as the company aims to expand its market share in the huge Chinese market.**
- **However, the company-wide forecast for the second half is about the same level of sales and profits in the first half. We are worried about the impact of soaring raw material prices related to polymers, coatings, and packaging. Thus, we would like to pay attention to how much the price revisions would cover the impact of this increase and it would exceed the forecast. In addition, we will keep an eye on the continuous efforts and achievements to "improve the profitability of businesses."**

1. Company Overview

Toyo Ink SC Holdings is Japan's top manufacturer of printing inks. Using the processing technologies of pigments and polymers that are the raw materials of inks, the Company manufactures various products such as LCD color filter materials and electromagnetic shielding films. The Toyo Ink Group is comprised of Toyo Ink SC Holdings, 62 consolidated subsidiaries in and outside Japan, and 7 equity method affiliate companies. They are operating business in 24 countries around the world (The end of June 2021).

Under the long-term scheme "Scientific Innovation Chain 2027 (SIC 27)," whose concept is to contribute to the improvement of sustainability of ordinary citizens, life, and the global environment by innovatively thinking, scientifically executing, and connecting each activity by each and every employee, it is aiming for a transformation to have a corporate structure that enables sustainable growth towards 2027.

1-1 Corporate History

The origin of Toyo Ink dates back to 1896, when founder Kamataro Kobayashi opened *Kobayashi's Ink Shop* as sole proprietorship in Nihonbashi, Tokyo. In 1907, it was reorganized and renamed as *Toyo Ink Manufacturing Co., Ltd.* During the Meiji period, many newspapers and magazines, including the Yomiuri Shimbun (founded in 1874) and the Asahi Shimbun (founded in 1879), were launched. The government also printed an increasing number of materials including textbooks to enhance educational levels under the policy of increasing wealth and military power. Under these circumstances, the demand for printing inks expanded rapidly.

Initially, inks in the Japanese market were mostly imported products; however, as the national policy favored high quality domestically produced inks, the Company, with its advanced technological skills, successfully expanded its business with clients such as the Printing Bureau of the Ministry of Finance and other government bodies, in addition to private printing companies. Exports also grew during the same time. The Company's rapid growth was also due in part to the early introduction of integrated manufacturing system from raw materials (pigments, polymers) to finished products (printing inks). Another contributing factor may be that the Company, since its inception, had strong ties with Toppa Printing Co., Ltd., which, by then, was among Japan's largest printing companies. The Company survived the difficult times of the Great Kanto Earthquake and the World War II and experienced rapid growth again during the period of high economic growth after the war. The Company was listed on the Second Section of the Tokyo Stock Exchange in 1961 and moved to the First Section of the Tokyo Stock Exchange in 1967.

The Company is expanding its businesses from manufacturing of printing inks to other fields such as LCD color filters, using its wide range of technologies and know-how cultivated through manufacturing and processing of raw materials such as pigments and polymers. In 2011, the Company adopted a holding company system for further expansion and growth of the Group, and changed its name to Toyo Ink SC Holdings, Co., Ltd.

1-2 Management Philosophy etc.

"The Toyo Ink Group's Corporate Philosophy System" was established in April 1993. It consists of three parts, namely, corporate philosophy, corporate policies, and guiding principles. The Philosophy embodies the original roots of the brand of the corporate group and serves as guidelines that each employee of the Group should always keep in mind and act on as a business professional. In April 2014, "improving shareholder satisfaction" was added to its guiding principles. With this revision, the Company is aiming to improve satisfaction of all stakeholders.

<Toyo Ink Management Philosophy>

Management philosophy	People-oriented management
Corporate policies	<p>We, the Toyo Ink Group, endeavor to be a company that contributes to the enrichment of life and culture throughout the world.</p> <ul style="list-style-type: none"> *Contribute to the affluence and culture of people worldwide. *Create lifestyle value for the new age. *Provide advanced technology and quality products and services.
Guiding principles	<ul style="list-style-type: none"> *Provide knowledge that enhances customer trust and satisfaction. *Respect the materialization of all employees' dreams. *Act as a responsible citizen in harmony with society and the environment *Respect shareholders' rights, improve shareholder value and enhance market valuation.

All employees must always carry this philosophy system printed on a credo card, read it out in the 5-minute meeting every week at each division, and repeatedly confirm its meaning through discussion. This way, the employees are expected to have deeper understanding and implement the philosophy.

Furthermore, the "Toyo Ink Group Management Philosophy" is printed on the first page of every single issue of the Company's in-house magazine, which is published for the Group's unity and circulated to the entire Group including the overseas locations. Also, the above-mentioned credo has "Japanese/English" version as well as "Chinese/English" version to share and spread the management philosophy globally.

1-3 Market Environment

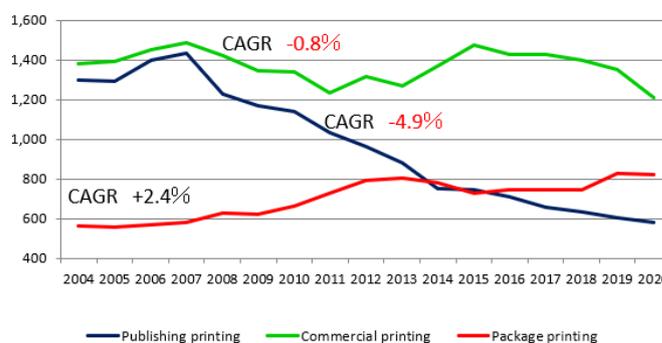
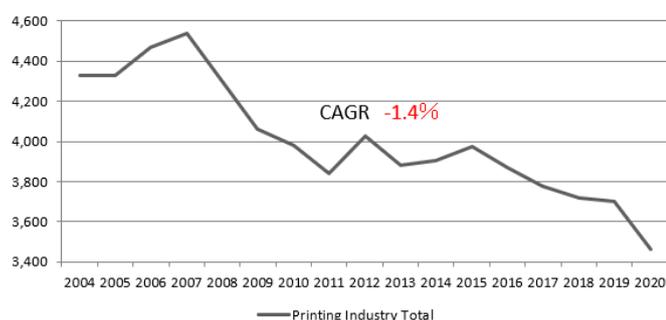
◎ Overview

(Market trend)

The production value of the Japanese printing industry is declining especially in the realm of publication printing of newspapers and magazines as a result of increasing digitization and aliteracy. Specifically, it fell sharply in 2020 due to the impact of the novel coronavirus etc.

In the realm of commercial printing, on the other hand, of posters, catalogues, fliers, POP, etc. demand is fairly steady. Furthermore, printing on food and pharmaceutical packages and plastic containers is steadily increasing at the compound annual growth rate (CAGR) of 2.4% for 15 years from 2004 to 2019.

Transition of Production Value in the Printing Industry



*Created by Investment Bridge based on Ministry of Economy, Trade and Industry, "Yearbook of Current Production Statistics – Paper, Printing, Plastics Products and Rubber Products Statistics"

CAGR: Compound Annual Growth Rate

Meanwhile, overseas, especially in newly emerging countries, both printing on papers (offset printing) and printing on film of food packages (gravure printing, flexographic printing) are expected to grow, and the Company is focusing on responding to the demand. As innovation of printing machine is progressing, quality of printing is enhancing. Overseas local inks, in many cases, cannot respond to such demand for high quality, which may lead to more demand of excellent Japanese ink.

Also, with the growing global awareness of the environment, the needs for environmentally friendly products such as biomass inks are expanding, and ink companies are working on the development of new products that utilize their unique technologies.

◎ Other companies in the industry

There are six major listed companies including Toyo Ink in the ink industry in Japan.

While (4631) DIC is the number one company in the world, (4634) Toyo Ink SC Holdings, Co., Ltd. is the top runner in Japanese printing ink industry, and ranks first or second in most product categories. Globally, the Company is ranked fifth. (4633) SAKATA INX is the second largest shareholder of the Company. The Company and SAKATA INX complement each other mainly in logistical aspects. The two companies concluded a capital and business alliance agreement in 2000.

After the release of the previous report, (4631) DIC, (4633) Sakata Inx, (4634) Toyo Ink SCHD, and (4636) T&K TOKA have revised their earnings forecasts for the current fiscal year upwardly.

		Sales	Sales growth rate	Operating income	Profit growth rate	Operating margin	Total market value	PER	PBR	ROE
4116	Dainichiseika Color & Chemicals Mfg. Co., Ltd.	120,000	-	5,400	+9.8%	4.5%	46,030	10.4	0.4	6.5
4631	DIC	840,000	+19.8%	48,000	+21.0%	5.7%	288,801	13.1	0.9	4.2
4633	SAKATA INX	179,000	+10.8%	9,000	+24.8%	5.0%	69,174	8.8	0.8	6.9
4634	Toyo Ink SCHD	280,000	+8.7%	14,500	+12.3%	5.2%	121,243	13.2	0.6	2.8

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4635	Tokyo Printing Ink Mfg. Co., Ltd.	42,510	+11.4%	800	+211.6%	1.9%	6,119	9.8	0.2	2.5
4636	T&K TOKA	44,100	+4.5%	370	+86.0%	0.8%	18,326	12.3	0.4	3.1

*Sales and operating income are based on forecasts of each company for this FY. ROE and PBR are based on actual results of the previous term end.

*Unit: million Yen, Times. Total market value is as of closing on August 27, 2021.

1-4 Business Description

◎ Concerning “printing inks”

Followings are the summary of printing inks, one of the major product categories of the Company, categorized by “raw materials” and “types and purposes of use.”

<Composing elements of printing inks>

Pigments (organic pigments, inorganic pigments, etc.)	Pigments are powders that are used to provide color and are insolvent to water and oil.
Varnish (synthetic polymers, lipids, fluxing materials, etc.)	Varnish is a combination of lipids, natural polymers, synthetic polymers, etc. in a solvent. It diffuses pigments, transfers and fixes them to printing materials.
Additives (lubricant, hardening agent, etc.)	Additives used to adjust so-called printability such as drying performance and fluidity, as well as printing effect.

High-level dispersion technologies are required when various inks are produced by combining the above three raw materials.

Since its foundation, the Company has also been expanding its business categories by exploring application of these raw materials in the process of manufacturing them.

<Types and intended use of major printing inks>

Types	Characteristics and Intended Use
Planographic inks	Typical printing ink on paper. They are used for printing magazines, posters, fliers, etc.
Gravure inks	Because of their capacity to express detailed gradation, it is suitable for printing photo images. Currently, they are mainly used for printing films such as food wrapping materials.
Screen inks	They are mainly used for printing on materials that are difficult to be printed with other methods, including industrial products such as meters and gauges of cars, circuit board formation, and CDs/DVDs.
Flexographic inks	They are used to print on the surface of cardboard boxes, films and clothes.
UV curing inks	Because they dry instantly without using a heat drier in the drying process, they are used for UV curing printing that does not directly generate CO ₂ . They are environmentally friendly inks that do not generate Volatile Organic Compounds (VOC).

◎ Business segments

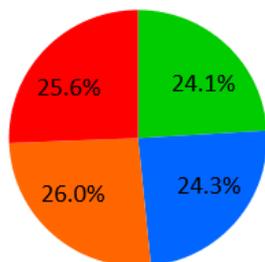
The business activities of the Company are classified into four segments: the “Colorants & Functional Materials Related Business,” “Polymers & Coatings Related Business,” “Printing & Information Related Business”, and “Packaging Materials Related Business”.

The “Printing & Information Related Business” mainly deals with planographic inks that are used for printing on papers (offset inks, etc.). The “Packaging Materials Related Business” deals with gravure inks and flexographic inks that are used for printing on films of food packages. The “Colorants & Functional Materials Related Business” deals with products related to pigments that are also the raw materials of printing inks as core materials. The “Polymers & Coatings Related Business” began with polymers that are the main raw materials of inks and their design technologies.

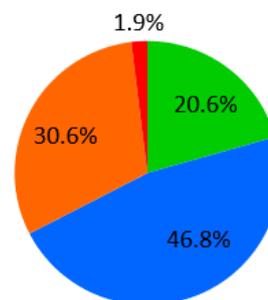
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Sales composition ratio
(FY December 2020)



Operating income composition ratio
(FY December 2020)



■ Colorants and Functional Materials ■ Polymers/Coatings
■ Packaging Materials ■ Printing/Information

■ Colorants and Functional Materials ■ Polymers/Coatings
■ Packaging Materials ■ Printing/Information

* "Other" segment is excluded. The inter-segment elimination is not taken into consideration for both sales and operating income.

★Colorants and Functional Materials Related Business

	FY Dec.20
Sales	61,642
Operating Income	2,610
Operating Margin	4.2%

*Units: million yen

Sub segment	Major products
General-purpose chemicals	Pigments and pigment dispersions
High-performance chemical products	High performance pigments, CF (color filter) paste
Display materials	Resist inks for LCD color filter
Plastic colorants	Plastic colorants, functional plastic colorants
Other Colorants/Functional Materials	Recording material coatings, functional dispersions, inkjet inks, developed products



Based on the organic pigments that are the main raw materials for printing inks, and by integrating their color material technologies, organic chemical synthetic technologies and high-level dispersion technologies, the Company offers materials that are used in various fields. Especially, it created higher functional LCD color filter materials using their nano-level dispersion technologies through integration of technologies that have been accumulated from their ink and painting materials production experiences. Furthermore, the Company's dispersion processing technologies are used not only for organic pigments but also for inorganic materials such as carbon nanotube (CNT), which leads to expansion of its business in the new energy field such as secondary battery materials.

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★Polymers & Coatings Related Business

	FY Dec.20
Sales	62,328
Operating Income	5,937
Operating Margin	9.5%

*Units: million yen

Sub segment	Major products
Functional films and tapes	Adhesive tapes, marking films, electromagnetic shielding films
Adhesives	Pressure sensitive adhesives, Adhesives, laminating adhesives, hot-melts
Can coatings and polymers	Can coatings, polymers, functional hard coatings
Other Polymers/Coatings	Medical products, natural extracts, developed products



For this segment, the Company develops functional polymers as the core materials with different functional features. Using unique technologies that have been developed for many years, the Company creates new functions to cultivate new demand and open new markets in electronics, energy, health care and other fields.

★Packaging Materials Related Business

	FY Dec.20
Sales	66,589
Operating Income	3,885
Operating Margin	5.8%

*Units: million yen

Sub segment	Major products
Liquid inks	Gravure inks, flexographic inks, gravure solvent
Gravure equipment, plate making	Gravure equipment/plate making, gravure and flexographic platemaking



For this segment, the Company deals with printing inks and equipment used in packages such as gravure printing and flexographic printing.

In the field of food packaging materials, etc., the Company is dedicated to developing environmentally friendly products using water-based ink to assure their safety to the consumers.

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★Printing & Information Related Business

	FY Dec.20
Sales	65,595
Operating Income	247
Operating Margin	0.4%

*Units: million yen

Sub segment	Major products
Offset inks	Offset inks, newspaper inks, UV curable inks, metal decorating inks
Printing materials and equipment	Printing inspection devices, printing materials
Printing and information, others	Screen inks, other developed products



This segment is the base segment of the Company since its establishment. For this segment, the Company deals mainly with printing inks used for printing on paper.

The Company offers not only printing inks but also sales of machinery/equipment, support for streamlining customers' printing process, and support and tools for color management and color universal design.

◎ Overseas expansion

While the Company is improving profitability by offering high-value-added products in the Japanese market, where a rapid growth is not expected, it is aggressively expanding its business from both production and sales perspectives in the overseas market where future growth is expected.

Development of its overseas manufacturing structures was almost completed during the previous Midterm Business Plan, and the Company is carrying out both raw material procurement and production at local sites.

As of the end of December 2020, the Company has about 45 overseas consolidated subsidiaries in a wide range of countries around the world.

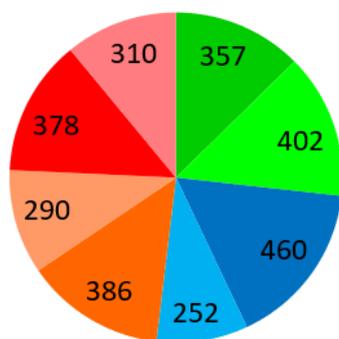
	Sales	YoY	Operating Income	YoY
Japan	1,618	-7.8%	64	-17.3%
Asia	945	-6.6%	59	+3.5%
Europe	180	-9.5%	5	-
The Americas	127	-9.2%	-1	-
Adjustment	-293	-	1	-
Consolidated total	2,577	-7.9%	129	-2.0%

*Units: 100 million yen

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Domestic and Overseas Sales by Segment
(FY December 2020, Unit:100 million yen)



- Colorants and Functional Materials (Japan)
- Colorants and Functional Materials (Overseas)
- Polymers/Coatings (Japan)
- Polymers/Coatings (Overseas)
- Packaging Materials (Japan)
- Packaging Materials (Overseas)
- Printing/Information (Japan)
- Printing & Information (Overseas)

※ Elimination among regions is not taken into consideration.

1-5 ROE Analysis

	FY 3/13	FY 3/14	FY 3/15	FY 3/16	FY 3/17	FY 12/17	FY 12/18	FY 12/19	FY 12/20
ROE (%)	5.8	7.3	6.9	5.8	6.1	4.8	5.4	3.9	2.8
Net income margin (%)	3.50	4.39	4.64	4.17	4.73	4.32	4.08	3.04	2.34
Total asset turnover [times]	0.85	0.88	0.82	0.78	0.74	0.65	0.77	0.75	0.68
Leverage [times] (x)	1.94	1.88	1.81	1.75	1.74	1.72	1.72	1.72	1.76

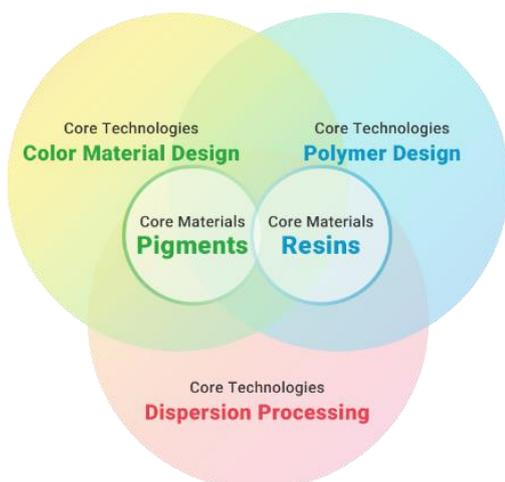
*The 12-months conversion value for the term ended December 2017 is 6.8%.

In general, it is desirable to continue to boost profitability and efficiency to achieve a ROE of 8%, which is said to be the value that should be pursued by Japanese companies.

1-6 Characteristics and Strengths

(1) Strong technological edge

As described above, the Company has been manufacturing in-house its core materials, pigments and polymers, which are the raw materials of printing inks. Its technological capacities form the basis of high-quality printing ink production and lead to expansion of business areas and product range such as, LCD color filter materials, adhesive bonds and adhesive compounds.



(From the Company's HP)

(2) Excellent problem-solving skills

One of the reasons for the Company to be at the top of the Japanese printing inks industry is its excellent problem-solving capability in all aspects of printing.

The Company not only produces and supplies printing inks but also studies elements related to “printing” as a whole including plate making and images. Such efforts enable the Company to make technological proposals, demonstrate advanced service skills, and obtain high customer satisfaction.

(3) Environmental concerns

The Company is a forerunner in CO₂ emission reduction as well as production of eco-friendly inks such as non-VOC inks, water-based inks, and UV inks. In the newly developed countries, too, the environmental regulations are becoming tighter, and the needs for environmentally friendly products are increasing. The Company is also working on assuring safety such as chemical substances control and manufacturing a line of products that meet the Swiss Ordinance, ahead of other companies.

(4) Uniqueness of management strategies

The Company considers M&A as one of the options for exploring new markets with its technological edge, if M&A is expected to bring synergy effects to the Company. However, it is not intending to implement M&A just to increase the size of businesses. It is also taking an initiative in the printing ink industry to establish “local production for local consumption” policy in the overseas market for enhancing efficiency (e.g., reduction in transport mileage) and social contribution (e.g., utilization of local products) purposes.

2. The second quarter of Fiscal Year ending December 2021 Earnings Results

(1) Business Results

	FY 12/ 20 2Q	Ratio to sales	FY 12/ 21 2Q	Ratio to sales	YoY
Sales	123,290	100.0%	139,356	100.0%	+13.0%
Gross profit	27,388	22.2%	29,918	21.5%	+9.2%
SG&A	21,838	17.7%	22,688	16.3%	+3.9%
Operating Income	5,549	4.5%	7,230	5.2%	+30.3%
Ordinary Income	4,933	4.0%	8,662	6.2%	+75.6%
Quarterly Net Income	2,646	2.1%	6,319	4.5%	+138.8%

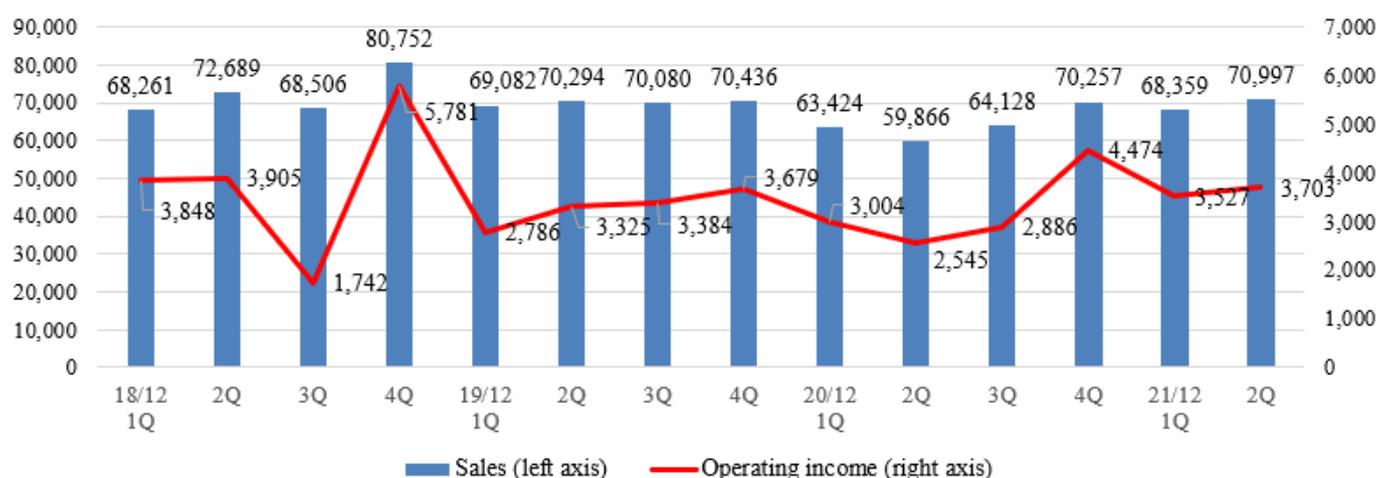
*Units: million yen.

Sales and Profit increased.

Sales increased 13.0% year on year to 139.3 billion yen. Sales increased in all segments as the company has been recovering from the impact of the novel coronavirus in the previous term. Sales of electronics-related materials such as materials for display and 5G grew. Operating income rose 30.3% year on year to 7.2 billion yen. The improvement in sales (+5.1 billion yen) made up for the increase in raw material (-2 billion yen), the rise in expenses due to the augmenting sales volume and distribution costs (-1.9 billion yen). Price revisions implemented overseas (+700 million yen) also contributed.

Ordinary income and net income, too, increased significantly by 75.6% and 138.8%, year on year respectively, because there was no longer foreign exchange loss, which was posted in the same period of the previous year, a foreign exchange gain was posted, and there were no longer operation suspension costs, which were recorded in the same period of the previous year.

Trends of quarterly sales and operating income (units: million yen)



Quarterly sales and profit increased year on year and quarter on quarter.

(Raw Material Prices)

Raw material prices are soaring due to the rapid increase of demand for various raw materials resulting from the recovery of economic activity, the suspension of operations and supply restrictions because of accidents at raw material manufacturers, and the increase in countermeasure costs due to continued tightening of global environmental regulations.

Concerning the company, naphtha price increased by about 20% year on year, and rosin price (natural resin obtained from pine) rose by 90%.

The company expects that the impact of soaring prices will intensify in the second half of the term. This will lead to a decrease in operating income by 6.8 billion yen year on year for the full term.

In response to this, prices for a wide range of products, including adhesives, paints and resins, UV inks, gravure inks, and pigments are to be revised, and as a result expect an increase of ¥3.9 billion.

In addition, to cope with soaring raw material prices, we will improve our supply chain management and review raw materials on the premise of securing the necessary volume.

(2) Trends by Segment

	FY 12/ 20 2Q	Ratio to sales	FY 12/ 21 2Q	Ratio to sales	YoY
Sales					
Colorant/Functional materials	30,272	24.6%	36,796	26.4%	+21.6%
Polymers/Coatings	29,931	24.3%	33,614	24.1%	+12.3%
Packaging materials	32,910	26.7%	35,406	25.4%	+7.6%
Printing/Information	29,298	23.8%	32,633	23.4%	+11.4%
Others/Adjustments	877	0.7%	904	0.6%	-
Total	123,290	100.0%	139,356	100.0%	+13.0%
Operating Income					
Colorant/Functional materials	1,007	3.3%	2,723	7.4%	+170.3%
Polymers/Coatings	2,449	8.2%	1,989	5.9%	-18.8%
Packaging materials	1,916	5.8%	1,271	3.6%	-33.7%
Printing/Information	37	0.1%	858	2.6%	-
Others/Adjustments	139	15.8%	388	42.9%	-
Total	5,549	4.5%	7,230	5.2%	+30.3%

*Unit: million yen

★Colorants and Functional Materials Related Business

Sales and profit increased.

The favorable business environment of the materials for display continued, and overseas sales of colorants increased. Profit increased significantly due to the growth of sales of materials for display, plastic colorants, and inkjet inks.

(Pigments)

Sales grew 12%. The decrease in demand for offset pigments was covered by the sales of packaging and digital printing.

(Materials for display)

Sales grew 23%. Strengthening the sale of resist inks in China and Taiwan led to significant growth.

(Plastic colorants)

Sales grew 22%. Overseas, sales of colorants for OA equipment, automobiles, and solar cell industries grew, while sales of colorants for containers were robust in Japan.

(Inkjet)

Sales grew 56%. Demand is expanding globally, mainly in China and Europe. Investment in new production equipment was also successful.

★Polymers & Coatings Related Business

Sales increased while profit decreased.

Sales of adhesives for packaging were strong overseas, and sales of functional films for 5G and panels grew significantly. Although sales of high value-added products grew, profit was limited due to soaring prices of raw materials.

(Packaging and industrial materials)

Sales grew 7%. Sales of adhesives and pressure-sensitive adhesives for food packaging and labels were strong, especially in Asia.

(Electronics)

Sales grew 34%. The sales of functional films rose significantly. Sales of pressure-sensitive adhesives and coating agents for panels also performed well.

(Medical/Health Care)

Sales were unchanged from the previous year. Sales of pressure-sensitive adhesives for the healthcare industry in China have been expanding, but demand for patches has decreased due to the novel coronavirus crisis.

★Packaging Materials Related Business

Sales increased while profit decreased.

The overseas demand in the food packaging field grew steadily, and sales of environmentally friendly products were strong in Japan. However, profit was constrained due to soaring prices of raw materials and the time lag resulting from the price revisions.

(Domestic liquid ink)

Sales grew 4%. Sales of flexible food packaging and refill pouches were strong, and sales of environmentally friendly products such as biomass ink improved.

(Overseas liquid ink)

Sales grew 14%. Sales of water-based flexible packaging inks increased in South Korea, India, and Taiwan. Sales recovered significantly, especially in China and Southeast Asia.

★Printing & Information Related Business

Sales and profit increased.

Sales of functional inks for packaging are growing, and overseas demand is on a recovery trend. The profit structure is improving due to the growth of sales of functional inks and structural reform.

(Offset inks)

Sales grew 14%. Overseas demand is on a recovery trend from the novel coronavirus crisis, but the long-term market shrinkage continues. The company will promote structural reform such as production alliances.

(Functional inks)

Sales grew 15%. Sales of environmentally friendly products such as biomass-type UV inks for packaging augmented.

(3) Capital Investments

The amount of capital investment in the first half of this year was 11.2 billion yen. It was steadily carried out despite the novel coronavirus crisis.

The main projects were factory construction in Jiangmen (China), Turkey, and India in the packaging segment and EV-related material production equipment in the United States and Hungary in the colorants and functional materials related segment. As for the polymers and coatings related segment, the company constructed and expanded adhesives and pressure-sensitive adhesives equipment in the United States, China, India, and South Korea. Also, it built a medical factory in Moriyama (Japan).

(4) Financial standing and cash flows

◎Main Balance Sheet

	End of December 2020	End of June 2021	Increase /decrease		End of December 2020	End of June 2021	Increase /decrease
Current Assets	214,097	214,253	+156	Current liabilities	91,411	97,139	+5,728
Cash	76,469	66,732	-9,737	Payables	54,608	57,473	+2,865
Receivables	87,126	89,177	+2,051	ST Interest Bearing Liabilities	19,379	18,758	-621
Inventories	46,188	54,168	+7,980	Noncurrent liabilities	71,491	72,636	+1,145
Noncurrent Assets	166,130	178,061	+11,931	LT Interest Bearing Liabilities	60,492	61,211	+719
Tangible Assets	102,616	111,353	+8,737	Total Liabilities	162,902	169,776	+6,874
Intangible Assets	3,113	2,698	-415	Net Assets	217,325	222,538	+5,213
Investment, Others	60,399	64,009	+3,610	Retained Earnings	147,390	151,080	+3,690
Total assets	380,227	392,314	+12,087	Total liabilities and net assets	380,227	392,314	+12,087
				Interest Bearing Liabilities Balance	79,871	79,969	+98

*Unit: million yen

Total assets increased 12.0 billion yen from the end of the previous fiscal year to 392.3 billion yen due to an increase in tangible assets such as construction in progress.

Total liabilities rose 6.8 billion yen from the end of the previous fiscal year to 169.7 billion yen due to an increase in payables. Net assets grew 5.2 billion yen from the end of the previous fiscal year to 222.5 billion yen due to an increase in retained earnings and valuation difference on available-for-sale securities and a reduction in the deficit of the foreign exchange translation adjustment account.

As a result, equity ratio fell 0.6 points from 55.2% at the end of the previous fiscal year to 54.6%.

◎Cash Flow

	FY 12/20 2Q	FY 12/21 2Q	Increase/decrease
Operating Cash Flow	4,612	7,311	+2,699
Investing Cash Flow	-5,567	-10,053	-4,486
Free Cash Flow	-955	-2,742	-1,787
Financing Cash Flow	12,829	-8,472	-21,301
Term End Cash and Equivalents	65,023	63,075	-1,948

*Unit: million yen

Operating CF increased due to a rise in income before income taxes. On the other hand, the increase in expenditures due to the acquisition of tangible assets augmented the deficits of investing CF and free CF. Financing CF turned negative due to an increase in purchase of treasury stock.

The cash position has deteriorated.

(5) Topics

(1) SKI in South Korea adopted LiB (lithium-ion battery) materials and started supplying their products to Volkswagen and Ford.

SK Innovation (SKI), a Korean LiB manufacturer, has decided to use LIOACCUM®, a conductive carbon nanotube (CNT) dispersion for positive electrode materials for lithium-ion batteries in North America and Europe. The company began to provide Volkswagen Group and Ford Motor Company electric vehicles (EVs) with their products.

The technological capabilities and supply system of the company, the only CNT (carbon nanotube) dispersion manufacturer with its original dispersion technology and 4-pole production system, were highly evaluated.

The CNT dispersion for LiB positive electrode materials the company developed using its original dispersion technology contribute to the extension of the EV cruising range by increasing the capacity of LiB and enhance battery as well as safety/miniaturation/charging speed/durability.

The company has a significant advantage since it has a stable local supply system in Europe, the United States, China, and Japan, which are the four major EV markets, as it has established four production bases in North America (Georgia, USA), Europe (Hungary), Japan (Shizuoka), and China (Guangdong Province).

It also plans to invest 10 billion yen by 2026 to increase its production capacity.

Furthermore, the company will expand sales from 740 million yen in 2020 to 10 billion yen in 2023 and 20 billion yen in 2026.

(2) Staying ahead of the market changes amid favorable LCD panel market conditions

LCD panel sales in the first half of this year exceeded the initial estimate. Market conditions are expected to continue to be favorable. However, the shift to China will inevitably accelerate, and competition will intensify, so the company will respond to these changes and promote market share expansion measures.

For large panels that are becoming more commoditized, the company will expand its market share in the Chinese market, the largest market.

The key is "improving cost competitiveness" through an innovative manufacturing method based on an integrated production system ranging from pigments to resist inks and an "alliance with local companies in China." The company is also considering various forms to achieve this, including technical tie-ups and production consignments. Furthermore, the company aims to strengthen the local sales system.

The company will develop thoroughly differentiated and functional products in the high-end market, such as thin-film high-definition small and medium-sized panels, sensors equipped with CMOS and wavelength control, and environmental load reduction by low-temperature curing.

The company intends to increase its Chinese market share of resist inks, which is 10% as of 2020, to 15% by 2023.

(3) Accelerating global business expansion in the field of adhesives and pressure-sensitive adhesives

The company will expand its share in the market of adhesives and pressure-sensitive adhesives focusing on packaging, industrial materials, and electronics.

For adhesives, the company will strive to sell environmentally friendly products to global brand owners. It will also capture the growing global demand for optical products.

For laminating adhesives, the company will strengthen overseas bases and promote cooperation with the gravure ink business for packaging.

The company will construct a new polymer synthesis building to develop an original polymer integrating the adhesive technology.

To achieve these goals, the company is making global investments in the United States, India, Turkey, South Korea, and China and plans to start operations from 2021 to 2022.

The company aims to increase overseas sales of adhesives in 2023 by 37% from 2020.

(4) New products

◎ Collaborative development of the "Mug Beer Can" by Asahi Breweries, Ltd.

Asahi Breweries' "Mug Beer Can (A can that produces the foam of craft beer in a jug)," which became a great hit product, resulted from the commercialization of the company's original paint technology together with Asahi Breweries and contributed to the product differentiation among customers.

◎ Contributing to improving the accuracy of millimeter-wave radar with millimeter-wave radio wave absorption compound

The company developed products that contribute to safe driving support for automobiles.

(5) ESG

◎ Published integrated report

In August 2021, the first integrated report, "Toyo Ink Group Integrated Report 2021," was released.

https://sacd.toyoinkgroup.com/ja/ir/archives/pdflib/2021/integrated_report2021ja.pdf

*The English version is planned to be released in September.

The report's purpose is to comprehensively state the Toyo Ink Group's management plans, business strategies, CSR, value provision, and other activities so that all stakeholders can deepen their understanding of the Toyo Ink Group.

Because 2021 is the first year of the medium-term management plan "SIC-II," the second stage of the long-term scheme of Scientific Innovation Chain 2027 (SIC27), the company summarizes various businesses and CSR activities focusing on the value creation story of the Toyo Ink Group.

◎ Formulating a long-term environmental vision

Toyo Ink Group has formulated a long-term environmental vision to become carbon neutral by 2050.

The environmental load reduction KPIs for 2030 were set as follows.

Reduction Target	2030 Target (Japan)
CO ₂ emissions	50% reduction from fiscal 2013
Chemical emissions	30% reduction from fiscal 2020
Waste emissions	50% reduction from fiscal 2020

3. Fiscal Year ending December 2021 Earnings Forecasts

(1) Business forecasts

	FY 12/ 20	Ratio to sales	FY 12/ 21 Est.	Ratio to sales	YoY	Revision rate	Progression rate
Sales	257,675	100.0%	280,000	100.0%	+8.7%	+3.7%	49.8%
Operating Income	12,909	5.0%	14,500	5.2%	+12.3%	+3.6%	49.9%
Ordinary Income	12,543	4.9%	15,000	5.4%	+19.6%	+7.1%	57.7%
Net Income	6,019	2.3%	8,500	3.0%	+41.2%	+13.3%	74.3%

* Unit: million yen. Forecasts are the figures announced by the Company.

Upwardly revised earnings forecast

In light of the strong performance, the company has revised its earnings forecast upward.

Sales are projected to rise 8.7% year on year to 280.0 billion yen and operating income is estimated to increase 12.3% year on year to 14.5 billion yen.

While forecasting that the business environment will remain harsh due to the rise in material prices, etc., the company will implement measures in each segment and aim to increase sales and profit.

There is no change in the dividend estimate. The dividend is to be 90.00 yen/share, unchanged from the previous term. The estimated payout ratio is 59.3%.

(2) Trends by Segment

Sales	FY 12/ 20	FY 12/ 21 Est.	YoY	Revision rate
Colorant/Functional materials	616	740	+20.1%	+9.6%
Polymers/Coatings	623	685	+10.0%	+3.0%
Packaging materials	666	720	+8.1%	+0.7%
Printing/Information	656	655	-0.2%	+1.6%
Others/Adjustment	15	0	-	-
Total	2,577	2,800	+8.7%	+3.7%
Operating Income				
Colorant/Functional materials	26	60	+130.8%	+100.0%
Polymers/Coatings	59	42	-28.8%	-35.4%
Packaging materials	39	27	-30.8%	-32.5%
Printing/Information	2	20	+900.0%	+100.0%
Others/Adjustment	2	-4	-	-
Total	129	145	+12.4%	+3.6%

* Unit: 100 million yen.

(Priority measures in each segment)

★Colorants and Functional Materials Related Business

Increase in sales and profit.

Priority measure: To set an aggressive foothold for establishing a pillar of revenues

For EV-related materials, the company will accelerate business expansion inside and outside Japan.

As for sensor-related materials, the company will promote the business of resist inks and peripheral materials.

As for inkjet inks, the company will differentiate its products by fusing technologies through the business integration of inks and pigments.

BRIDGE REPORT



★Polymers & Coatings Related Business

Increase in sales and decrease in profit

Priority measure: To promote environmentally friendly products and make inroads into the 5G market

As for packaging and industrial materials, the company will enrich the lineup of environmentally-friendly, highly-functional products through the fusion of adhesion technologies.

In the electronics field, the company aims to solve issues in the market by enriching the lineup of 5G and semiconductor-related products.

★Packaging Materials Related Business

Increase in sales and decrease in profit

Priority measure: To promote environmentally friendly solutions

For flexible packaging materials, the company will develop new environmentally friendly products for package recycling.

The company will accelerate overseas business expansion.

★Printing & Information Related Business

Decrease in sales and increase in profit.

Priority measure: To accelerate the transformation into a profitable business

As for offset inks, the company will conduct thoroughgoing rationalization of manufacturing, distribution, and selling processes.

As for functional inks, the company will globally distribute environmentally friendly products of UV curable inks for packages, such as paper containers.

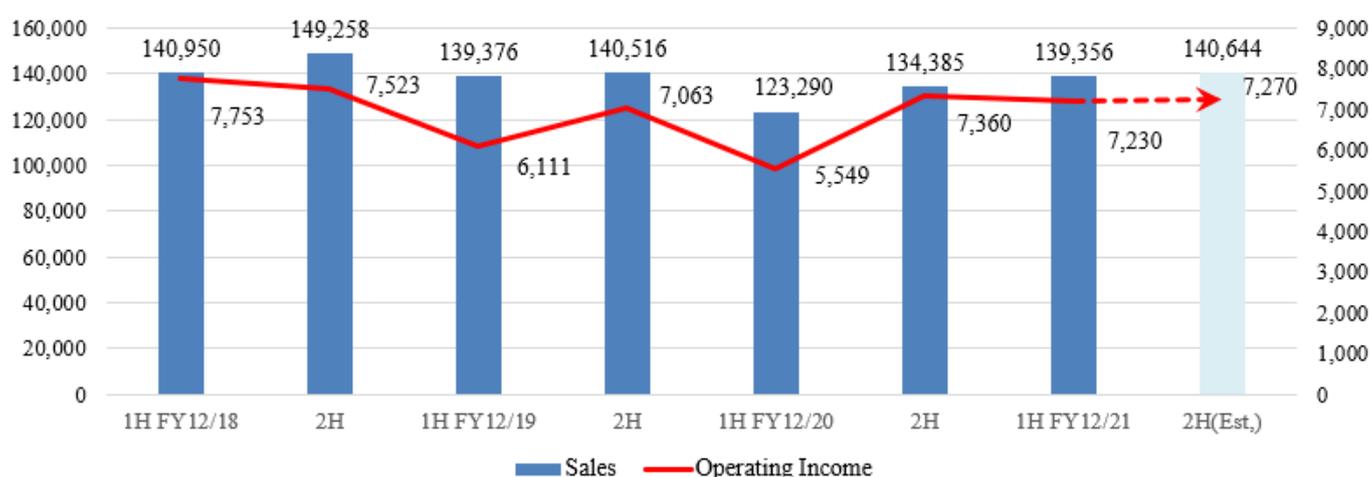
4. Conclusions

Sales and profit increased in the first half due to strong sales of electronics-related materials, leading to the upward revision to the earnings forecast. In particular, sales of materials for display exceeded the initial estimate. The profit forecast for the colorants and functional materials related business has been changed to be twice the figures of the initial forecast. Expectations are high as the company aims to expand its market share in the huge Chinese market.

However, the company-wide forecast for the second half is about the same level of sales and profits in the first half. We are worried about the impact of soaring raw material prices related to polymers, coatings, and packaging.

Thus, we would like to pay attention to how much the price revisions would cover the impact of this increase and it would exceed the forecast. In addition, we will keep an eye on the continuous efforts and achievements to "improve the profitability of businesses."

Trends of sales and operating income (units: million yen)



<Reference 1: Mid-Term Management Plan SIC-II (2021-2023)>

Under the 10-year long-term scheme, Scientific Innovation Chain 2027 (SIC27), aimed at achieving sustainable growth by 2027, the company breaks down the scheme into three 3-year mid-term management plans. They hope to clarify problems and roles in each stage, and to act steadily to realize an ideal future. Following the first stage of the scheme, Mid-Term Management Plan SIC-I (FY 2018-FY 2020), the second stage, Mid-Term Management Plan SIC-II (2021-2023) began in Jan. 2021.

<Summary of the Previous Mid-Term Management Plan SIC-I (2018-2020)>

Due to the significant changes in the external environment, including the skyrocketing of material prices, the changes in the market structure, and the coronavirus pandemic, the company failed to achieve its goals, but it was able to shift revenue sources to the polymers/coating and packaging material businesses, which are the prioritized area, and allocated resources to new businesses. In addition, the company was able to proceed with the priority measure of promoting environmentally friendly products and distributed them in overseas areas too. With this, the company thinks they were able to produce results to some extent.

On the other hand, it was clarified that the company needs to further accelerate structural reform mainly in the Printing & Information Related Business, create pillars of new products and businesses, and respond to rapid changes in the market structure amid the coronavirus crisis.

<Recognition of the External Environment>

As for the novel coronavirus, the situation is improving gradually in FY 2021, but we must wait for the economic recovery to the pre-pandemic level until FY 2022 or later. The overseas market is expected to recover earlier than the domestic market.

The future outlook remains uncertain and the business and market environments will remain harsh, but the company recognizes this adverse condition as a chance to change.

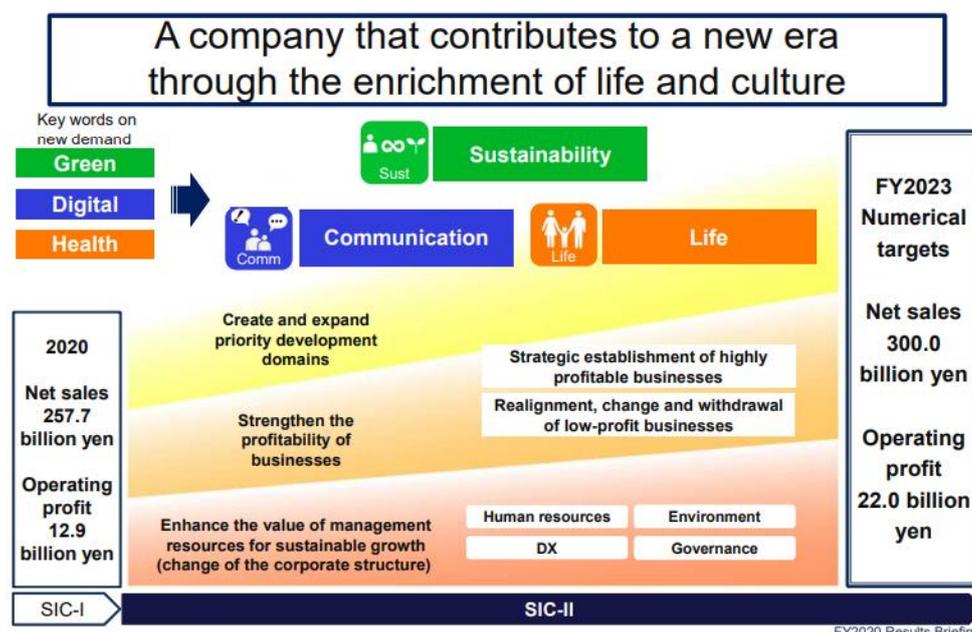
They set the keywords of the growing markets as “Green”, “Digital”, and “Health”.

<Ideal State>

The company aims to become “a company that contributes to a new era through the enrichment of life and culture.”

As mentioned above, the company defined the keywords of the growing markets as “Green”, “Digital”, and “Health”, and set their priority development areas as “sustainability”, “communication”, and “life”.

The company aims to realize an ideal state under the three policies: (1) Strengthen the profitability of businesses (2) Create more priority areas of development, and (3) Enhance the value of management resources for sustainable growth.



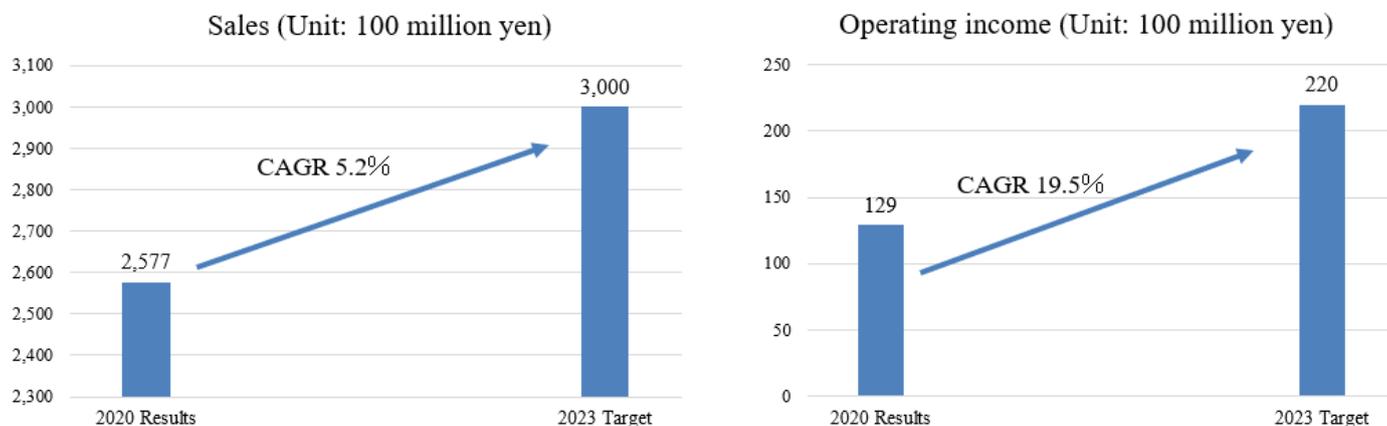
(Taken from the Company’s material)

BRIDGE REPORT



<Numerical Goals>

The company aims to achieve sales of 300.0 billion yen, an operating income of 22.0 billion yen, an operating income margin of 7% or higher, and a ROE of 7% or higher in the term ending Dec. 2023.



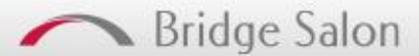
<Basic Policy 1: Measures to Strengthen Segments' Profitability>

⊙ Measures for increasing revenues in each segment

Colorant/Functional materials	<p>◆ Establish an earning pillar in growing markets</p> <ul style="list-style-type: none"> -EV: To handle materials related to lithium-ion batteries -Digital: To expand the market share of resist inks for flat panel display (FPD) in China, and handle resist inks for image sensors and inkjet inks -Plastic colorants: To reorganize facilities and promote products with high added value
Polymers/Coatings	<p>◆ Overseas expansion of the adhesives business and the entry to growing markets with new polymers</p> <ul style="list-style-type: none"> -Packaging/industrial materials: To expand business outside Japan, by enhancing its production capacity and enriching the lineup of environmentally friendly products -5G and IoT: To establish a position in the 5G market and enter the semiconductor market -Medical/healthcare: To expand and develop the lineup of related products
Packaging materials	<p>◆ Make products environmentally friendly and expand its business mainly in the Asian market</p> <ul style="list-style-type: none"> -To commercialize the recycling of packages -To intensively invest in overseas growing markets in China, India, Turkey, Southeast Asia, etc.
Printing/Information	<p>◆ Evolution into a profitable business that has adapted to the market environment</p> <ul style="list-style-type: none"> -To promote functional inks for packages, such as paper containers, and the industrial field -To launch the color/communication business

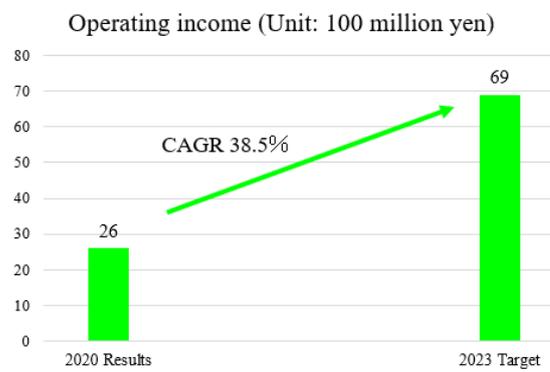
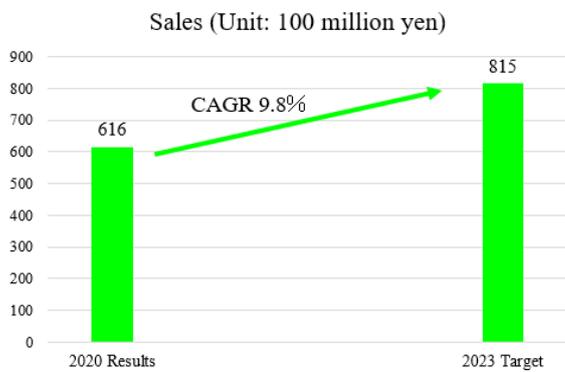
*From FY 2021, inkjet inks are included in the business of colorants/functional materials business rather than the printing/information business.

BRIDGE REPORT

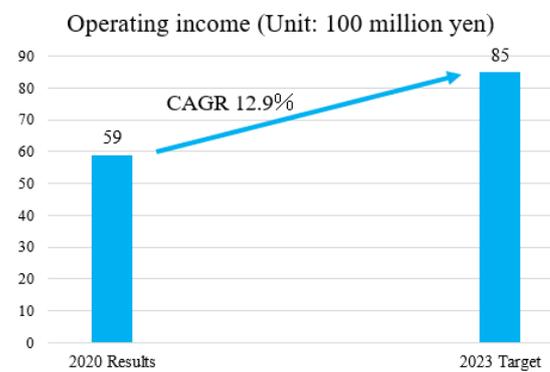
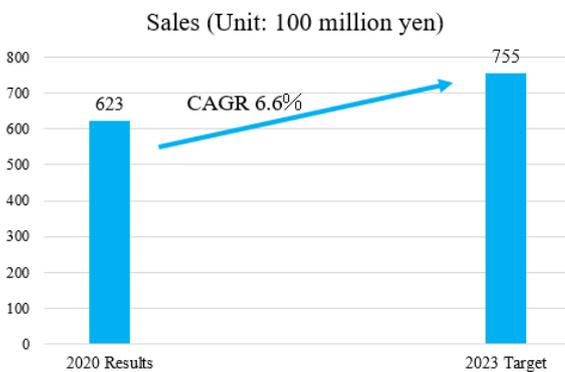


The target sales and operating income in each segment are as follows.

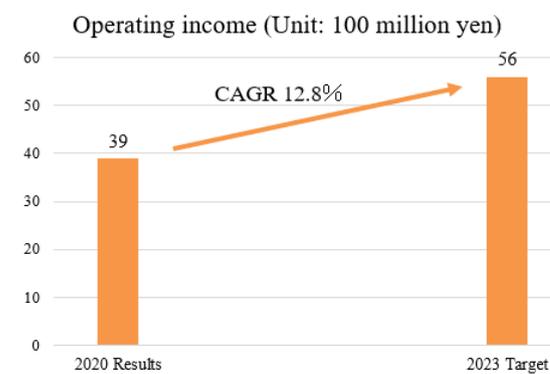
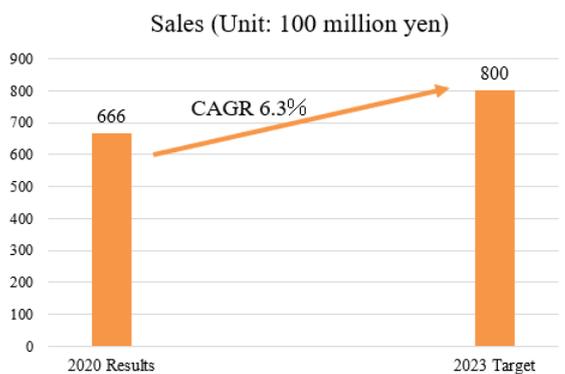
Colorant/Functional materials



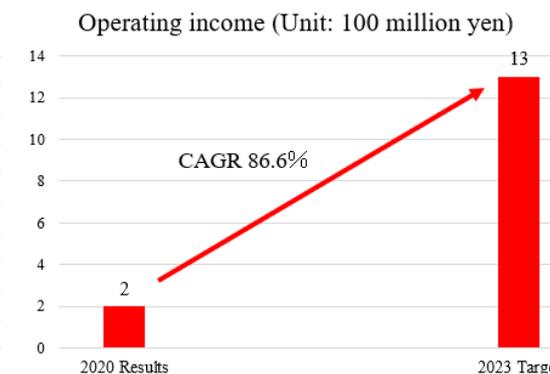
Polymers/Coatings



Packaging materials



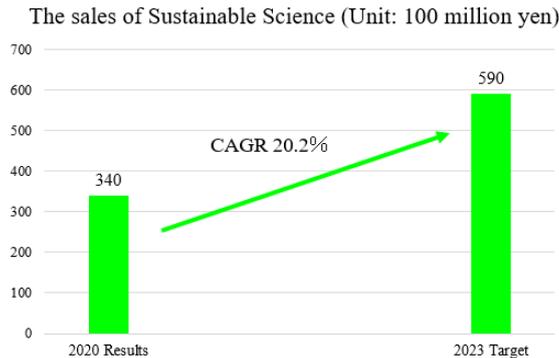
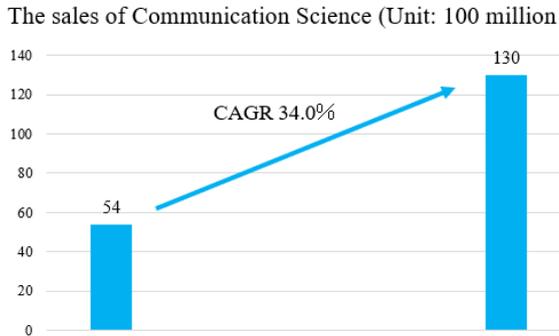
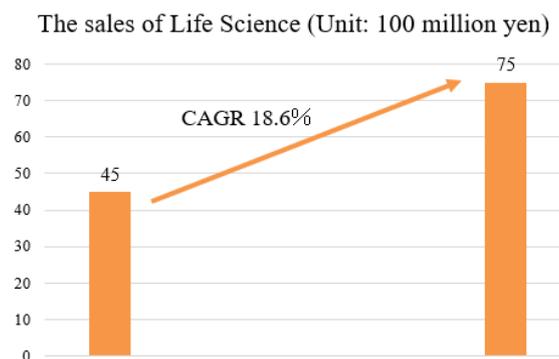
Printing/Information



<Basic Policy 2: Create and Expand Priority Development Domains>

◎ Three priority development domains

In the three priority development domains, the company will focus on the following points.

<p>Sustainable Science</p>	<p>◆ Realization of a sustainable society</p> <p>(Major items to be developed) -Environmentally friendly packages made from biomass and recycled materials -Materials of lithium-ion batteries for EVs and new energy</p> <p>The sales of Sustainable Science (Unit: 100 million yen)</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Sales (Unit: 100 million yen)</th> </tr> </thead> <tbody> <tr> <td>2020 Results</td> <td>340</td> </tr> <tr> <td>2023 Target</td> <td>590</td> </tr> </tbody> </table>	Year	Sales (Unit: 100 million yen)	2020 Results	340	2023 Target	590
Year	Sales (Unit: 100 million yen)						
2020 Results	340						
2023 Target	590						
<p>Communication Science</p>	<p>◆ Contribute to 5G and IoT societies with key materials</p> <p>(Major items to be developed) -Optical control materials for IoT and sensors -Low-dielectric materials, functional films, etc. for 5G and semiconductors</p> <p>The sales of Communication Science (Unit: 100 million yen)</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Sales (Unit: 100 million yen)</th> </tr> </thead> <tbody> <tr> <td>2020 Results</td> <td>54</td> </tr> <tr> <td>2023 Target</td> <td>130</td> </tr> </tbody> </table>	Year	Sales (Unit: 100 million yen)	2020 Results	54	2023 Target	130
Year	Sales (Unit: 100 million yen)						
2020 Results	54						
2023 Target	130						
<p>Life Science</p>	<p>◆ Make the lives of people affluent and healthy</p> <p>(Major items to be developed) -Patch-type medicines -Inkjet inks for digital printing</p> <p>The sales of Life Science (Unit: 100 million yen)</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Sales (Unit: 100 million yen)</th> </tr> </thead> <tbody> <tr> <td>2020 Results</td> <td>45</td> </tr> <tr> <td>2023 Target</td> <td>75</td> </tr> </tbody> </table>	Year	Sales (Unit: 100 million yen)	2020 Results	45	2023 Target	75
Year	Sales (Unit: 100 million yen)						
2020 Results	45						
2023 Target	75						

◎ Reform of the development structure

The company will strengthen the R&D structure in the priority development domains.

Research institutes will be established in the main company of each segment. These institutes will act as the specialized department for mid-term development strategies, dealing with them in a span of two to five years, and accelerate the creation of new products and businesses.

Colorants/Functional materials	Advanced Material Development Laboratory
Polymers/Coatings	Polymer Material Development Laboratory
Packaging materials	Functional Material Development Laboratory
Printing/Information	

For longer-term development, Holdings R&D laboratories and Production Technology Research Laboratory will be in charge, and proceed with R&D in cooperation with other institutes.

◎ Investment plan

The company will concentrate investments in growing markets.

For SIC-II, it plans to invest a total of 40 billion yen. In detail, 29% will be invested in colorants/functionals materials, 31% in polymers/coatings, 25% in packaging materials, and 11% in printing/information.

In six years, with the focus on the next three years (SIC-III), the company plans to invest about 20 billion yen in colorants/functional materials, about 30 billion yen in polymers/coatings, and about 40 billion yen in packaging materials.

The company plans to construct/upgrade factories for each segment as follows: (1) For colorants/functional materials, factories for EV-related materials in Japan, China, the U.S., and Europe, (2) for polymers/coating, factories for pharmaceuticals (Moriyama Factory), new polymer synthesis (Kawagoe Plant), and adhesives (the U.S., China, and India) and (3) for packaging materials, factories in Turkey, India, China, and Indonesia.

<Basic Policy 3: Enhance the Value of Management Resources for Sustainable Growth>

For reforming the corporate culture, the company will implement the following measures.

◎ Reform of workstyles and HR systems

The company will strengthen a performance-based evaluation system.

Based on the declaration of empowerment of women, the company will raise the ratio of female managers in Japan from 4% to 8%.

It will recruit not only new graduates, but also various workers throughout the year.

It will discern the optimal scale of workforce, and conduct appropriate staffing.

As remote work has become common, the company will reform its offices for innovation.

◎ Promotion of Digital Transformation (DX)

The company recognizes DX as an important management mission for achieving sustainable growth, and will promote it in each department.

Department	Measures
Sales	-Digital marketing -Development of new business models
Production	-Smart factories -Improvement of processes by IoT
Technology development	-Materials informatics -Acceleration of development
Management	-Promotion of Robotic Process Automation (RPA) -Education for promoting DX

◎ Transformation of the governance structure

In particular, the company will improve the independence of directors and auditors, secure transparency, adopt a performance-based remuneration system, strengthen risk management, and reduce strategically held shares.

◎ Promotion of environment-conscious management

As the company is deeply aware of environmental issues, it will focus on the development and promotion of environmentally friendly products, and contribute to the development of a sustainable society.

Social issues	Products/services
Energy saving	-High-sensitive UV curing -EB (electron beam) curing
Measures for VOC	-To make them water-base -To make them solvent-free
Reduction of CO ₂ emissions	-Biomass products
Reduction of food loss	-To retain freshness -To supply of materials for retort pouches
Recycling of waste plastics	-Biodegradation -Recycling system

In addition, the company will actively address the problem of climate change, by reducing CO₂ emissions and saving energy, to realize the Carbon Neutrality 2050 vision, which is promoted by the government. In 2020, Kawagoe Plant received the Chairperson Award of The Energy Conservation Grand Prize, Japan.

◎ Cash flow policy

The company puts importance on the balance between financial soundness and investment/return to shareholders.

For financial soundness, the company will keep capital-to-asset ratio at the appropriate level and secure liquidity on hand.

It will actively conduct the investment in equipment, technologies, and human resources, and M&As.

It will also continue to pay dividends stably. In Feb. 2021, the company purchased treasury shares at a price of 5 billion yen, and will plan to purchase more treasury shares depending on the situation.

<Reference 2: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with auditors
Directors	10 directors, including 5 external ones
Auditors	5 auditors, including 3 external ones

(As of March 24, 2021)

◎ Corporate Governance Report

The latest update: April 7, 2021.

<Basic policy>

Our corporate group shifted to the holding company structure on April 1, 2011. Under the holding company structure, our company aims to improve the value of the entire corporate group by strengthening its strategic function, promoting speedy business administration, and achieve a good balance between the optimization of the entire group and the optimization of each business.

Our group's framework for business administration is constituted by the "ethos of the Toyo Ink Group," which is composed of management philosophy and ethos, which summarize the basic policies for group management, and the course of action, and the "CSR value system," which is composed of the CSR charter and course of action, which clearly describe the stance toward social responsibility. Our group aims to contribute to the improvement of sustainability of residents, life, and the earth environment and become "an enterprise that can create lifestyles and cultures that would spread around the world" as set in the management ethos, through science-based manufacturing, by putting the "ethos of the Toyo Ink Group" and the "CSR value system" into practice.

In order to create tangible and intangible values as an enterprise and fulfill social responsibility, it is indispensable to self-evaluate corporate activities from the viewpoint of stakeholders and carry out well-balanced business administration for economic, social, personnel, and environmental affairs.

To do so, our company will:

*transfer the business execution function to each business company, and appropriately enforce the regulations for internal memos and affiliate management, which are adapted to each group company, in order to fortify corporate governance, develop its internal control system,

*improve the instruction and monitoring functions by enhancing the legal functions and systems, such as general meetings of shareholders, the board of directors, the board of auditors, comptrollers, etc.,

*improve the transparency of business administration by disclosing information swiftly, accurately, and broadly,

*strengthen and enrich its compliance system,

*promote environmental conservation on a global scale, and so on,

and foster good relationships with stakeholders, including shareholders, business partners, local communities, and employees, and enhance corporate governance.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code>

Our company implements all the principles of the corporate governance code.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principle	Disclosure contents
Principle 1-4.	<p>The economic rationality of strategically held shares is discussed annually at the board of directors' meeting. The company will examine the benefits and transaction status associated with the cross-holding as compared to the cost of capital for each individual stock, and if the cross-holding of the stock is determined not to be appropriate, the company will proceed with reduction based on the status of the issuing company and market trends. In the previous fiscal year, all strategically held shares of two companies and part of strategically held shares of five companies were sold.</p> <p>The voting rights of strategically held shares are exercised appropriately for each bill, after considering qualitatively and comprehensively whether the bill would contribute to the mid/long-term improvement in the value of the share issuing company, whether the bill would contribute to the common interests of shareholders, including Toyo Ink SC Holdings, and the effects on the corporate group and business, etc.</p> <p>Furthermore, if there are special circumstances such as significant loss of corporate value or occurrence of a serious compliance violation at the issuing company, or if there is concern that our corporate value as a shareholder will be impaired, based on adequate amount of information collected through dialogue with the issuing company, etc., we will carefully determine the pros and cons of exercising the voting rights of strategically held shares.</p>
Principle 5-1.	<p>Toyo Ink SC Holdings considers shareholders and investors as important stakeholders, respects shareholders' rights, and strives to improve shareholder value, with the aim of "enhancing the satisfaction level of shareholders" as a course of action. Especially, the constructive dialogue with shareholders and investors is recognized as an important factor. The company appoints directors in charge of financial affairs, general affairs, and IR, realizes the</p>

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information sharing among related sections through organic cooperation, promotes the dialogue with shareholders through the general affairs section and the dialogue with investors through the publicity section, and reports their opinions that are considered important to directors in charge, when necessary.

As for the management of insider information, the company produced the regulations for the prevention of insider transactions, the regulations for protecting and managing information, etc. The management of insider information is included in the standards for business activities as a concrete course of action. A guidebook is distributed to all employees of the corporate group, and the employees are educated regularly to diffuse the rules for managing insider information.

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